



This study was requested by the European Parliament's Economic and Monetary Affairs Committee (ECON).

Only published in English.

Author: **Professor Iain Begg, London School of Economics**  
Centre for European Policy Studies (CEPS)  
1, place du Congrès  
B-1000 Brussels,  
Belgium

Administrator: **BAHR, Christine**  
Policy Department Economy and Science  
DG Internal Policies  
European Parliament  
Rue Wiertz 60 - ATR 00L042  
B-1047 Brussels  
Tel: +32 (0)2 284 07 22  
Fax: +32 (0)2 284 69 29  
E-mail: [christine.bahr@europarl.europa.eu](mailto:christine.bahr@europarl.europa.eu)

Manuscript completed in March 2007.

The opinions expressed in this document do not necessarily represent the official position of the European Parliament.

Reproduction and translation for non-commercial purposes are authorised provided the source is acknowledged and the publisher is given prior notice and receives a copy.

E-mail: [poldep-esc@europarl.europa.eu](mailto:poldep-esc@europarl.europa.eu).

# The Implementation of the Integrated Guidelines During the 2006/2007 Policy Cycle

## Contents

Summary with key recommendations and conclusions.....	ii
The economy.....	iv
The Partnership for Growth and Jobs as a procedure.....	v
Assessment of the implementation reports.....	vi
The political dimension and the ‘ownership’ issue.....	vii
Conclusions and recommendations.....	vii
Messages for the European Parliament.....	viii
1 Background and main developments during 2006/7.....	1
1.1 Ownership and visibility of the strategy.....	4
1.2 Commentary.....	6
2 Economic developments.....	9
2.1 Short-term outlook.....	11
2.2 Longer term outlook for the economy.....	13
2.3 Assessment and commentary.....	14
3 Progress of programmes.....	17
3.1 Timetable.....	17
3.2 The Community Lisbon Programme.....	18
3.3 Implementation of the National Reform Programmes.....	23
3.4 National recommendations.....	29
3.5 Other assessments.....	30
3.6 Problems identified and commentary.....	31
4 New demands and priorities for reform.....	34
4.1 Council priorities.....	35
4.2 Procedural changes.....	36
4.3 Possible new priorities.....	37
4.4 Institutional change.....	38
4.5 The 2007 Spring European Council.....	40
5 Conclusions and recommendations.....	42
References.....	46
Appendix 1: Assessment of the 2006 National Reform Programmes Implementation Reports.....	48
Appendix 2: World Economic Forum tables.....	99

## **List of acronyms**

APR	Annual Progress Report [of the European Commission]
BEPG	Broad Economic Policy Guidelines
CLP	Community Lisbon Programme
ECB	European Central Bank
EG	Employment Guidelines
EMCO	Employment Committee
EPC	Economic Policy Committee
EIT	European Institute of Technology
IG	Integrated Guidelines
NRP	National Reform Programme
NSR	National Strategy Reports covering Social Protection and Social Inclusion
OMC	Open method of co-ordination
PGJ	Partnership for Growth and Jobs
SDS	Sustainable Development Strategy
SGP	Stability and Growth Pact
SME	Small and medium sized enterprises
WEF	World Economic Forum



1. In 2005, the Lisbon strategy was re-launched and placed at the heart of the EU's economic governance system. It plainly also became the core project of the current Commission.
2. The purpose of this study is to examine the implementation of the Lisbon strategy in the 2006/07 cycle. It offers an assessment of economic trends, assesses the procedures and the progress of the programmes at Community and Member State levels, considers options for development of the strategy and puts forward a series of recommendations.
3. As it enters its third year, the Partnership for Growth and Jobs as the Lisbon strategy has become known since it was re-launched in 2005 has settled into a pattern. Member States report on their progress in economic reform based on National Reform Programmes (NRPs), their performance is scrutinised by the Commission and other bodies, the European Council reviews the overall direction of the strategy and the Member States then revise their reform programmes.
4. The implementation reports produced by Member States are intended to provide information on the progress of economic reform. They show that NRPs vary in quality and ambition, and that evidence of progress is also mixed, but also reveal that Member States generally recognise the scale and significance of the challenges they need to confront.
5. In parallel, the EU level has developed its own programme of actions and reforms, and continues to implement them. Although a proportion of the measures in the Community Lisbon Programme represents routine activities of the EU level of governance, many of the measures within it appear to have been given greater priority within Commission business, enabling them to advance more rapidly.
6. Economic governance is also addressed in a number of other strategic domains, notably the Sustainable Development Strategy (re-launched at the June 2006 European Council) and the Energy Policy for Europe (agreed at the March 2007 European Council), as well as the Stability and Growth Pact.
7. Following the decision to integrate the open method of co-ordination of social protection and social inclusion, Member States were, in addition, obliged to produce integrated National Strategy Reports covering Social Protection and Social Inclusion a month ahead of the Autumn 2006 deadline for Lisbon Implementation Reports.



8. Economic growth improved to a greater extent than forecast during 2006, potentially facilitating implementation of economic and social reforms, and making some inroads into unemployment. However, it is important not to be too sanguine about growth rates which, by historical and comparative standards, remain moderate. There are also specific cases to consider:
  - f* Germany is an example of improvement that has been considerably better than foreseen, building partly on its success in export markets, but partly also on reforms undertaken in the period 2001-05
  - f* Italy is still problematic and faces challenges in relation to competitiveness
  - f* Portugal and Spain have to confront growing macroeconomic imbalances
  - f* Other countries exhibit a very varied picture, according to the Commission autumn forecasts, with most of the recently acceded members a strong point.

9. Recent indicators suggest that the out-turn for 2007 will be more favourable than was being forecast even late in 2006, with the implication that the EU will continue to benefit from a favourable economic environment.
10. Possible risks to growth arise from: the effects on the global economy of weaknesses in the US; intra-EU imbalances; the latent threat of inflation and the ECB reaction to it; geopolitical instability; and energy supply and price uncertainties
11. It is an open question whether Lisbon can take credit for the economic improvements observed over the last year. Certainly, in some Member States, reforms undertaken in earlier years are now bearing fruit. But although the upturn in the economy appears to be macroeconomically sustainable, partly because of these earlier reforms, the improvement in economic performance arguably reflects cyclical factors more than any underlying transformation based on the most recent structural reforms.
12. Clear progress on some of the most high profile structural indicators associated with the re-launched Lisbon strategy remains hard to discern. This is partly because of lags in the data, but partly also because policies only recently implemented cannot be expected to show much impact so soon. It has to be stressed that structural reforms are slow, follow a sequence and may give rise to initial dislocations that manifest themselves in apparently disappointing initial trends in relevant indicators, even if they subsequently improve performances.



13. Procedurally, the partnership has functioned as intended and appears to have become well entrenched in national calendars
14. The Community Lisbon Programme (CLP) has made considerable progress, at least as measured by a check-list of measures analysed by the Commission, with some three quarters of its measures adopted by the end of July 2006. However, other institutions also need to approve some of the measures, and pressure can be expected to build on the Council and the European Parliament to accelerate the implementation of measures adopted by the Commission
15. Progress is, however, still stalled on some of the more intractable issues such as the Community patent.
16. National reporting was meant to be light this year, and many progress reports are. Some Member States appear to have made a real effort to respond to the comments made last year, but others have taken little account of the criticisms. Following the submission of these reports in the autumn, the various forms of scrutiny have functioned as intended.
17. Most Member States submitted implementation reports more or less on time, but in some cases elections particularly when they resulted in a change of government ideology have led to minor delays and, especially where a new government seeks more radical shifts of direction, less thorough reports.
18. The Commission's Annual Progress Report (APR) appeared on schedule, earlier in the annual cycle than in the previous year, and fiches for each Member State were produced, although for those where recent changes of government took place or coalition negotiations were inconclusive (notably the Czech Republic and Sweden) the fiches were reportedly very rushed.

19. Further formal scrutiny processes were conducted by the Employment Committee (EMCO) and the Economic Policy Committee (EPC), both of which resulted in positive overall verdicts about progress in the last year, but also identified a variety of shortcomings.
20. However, the European Parliament appears to lack much influence on the whole process, perhaps because its Committee configurations do not map easily into the scope of the Integrated Guidelines, while the inevitable differences of political focus and priorities between parliamentary groups complicate the articulation of strong positions.
21. It is also far from clear whether civil society interests (including the social partners) exert as much influence as they might. The European Economic and Social Committee (EESC) review, submitted to the Spring 2006 European Council following a referral from the same body a year earlier, did introduce a new channel of communication, but it has not been repeated in the current cycle. However, a further EESC exercise is foreseen for 2008.

¶

22. Analysis of the implementation reports by the research team responsible for this study shows that some Member States continue to report on reforms already undertaken, rather than to relate their actions to the Integrated Guidelines or the criticisms articulated by the different scrutiny bodies. Equally, others provide comprehensive accounts in which the Integrated Guidelines are central to the presentation of the strategy.
23. Overall there are signs of improvement in Member States' commitment to reforms, noted by the Commission, as well as by the EPC and EMCO, tempered by a fairly extensive list of areas warranting further attention.
24. Thus, bearing in mind that countries have different starting points, the Commission APR notes that there is considerable variation in the pace, intensity and commitment towards reforms. It may, though, be unhelpful to ask how strictly a Member State's reform agenda conforms to the Integrated Guidelines: instead, the focus should be more on whether reform is happening, than whether it is happening according to the Lisbon agenda.
25. There is also a tendency to favour the 'sexy' measures – such as those bearing on research – and to pay less attention to awkward or low-profile ones. A problem in this regard is that coherence in economic reform often requires action across disparate policy domains and appropriate sequencing of reform measures.
26. Consequently, a major question is whether, despite the Integrated Guidelines, there is sufficient policy integration and attention to cross-effects of different policies. For example, innovation policy features prominently in all NRPs, but a key spur to innovation is the intensity of competition – with a need to define optimal competitive conditions, rather than unbridled competition – and it is far less clear that this connection is made in the policy mix.
27. Sustainable development initiatives remain patchy and any urgency of boosting renewable energy sources is not all that evident. However, the launch of the Energy Policy for Europe will manifestly raise the salience of this issue.
28. The euro area has been the subject of greater attention this year, although there remains the governance problem that it is not obvious to which body the 'fiche' for the euro area is addressed. In particular, the Eurogroup, as an entity composed of finance ministers, is not the optimal recipient of comments relating to many microeconomic issues or employment matters.

iv

29. In the 2005/6 cycle, the Commission deliberately adopted a low key approach to the Member States, and also faced criticism for ill-judged and, as regards certain Member States, analytically weak observations. The Commission now seems to have moved towards a more constructive dialogue with the Council, and also shows encouraging signs of being more firm in highlighting weaknesses in Member State NRPs.
30. In this vein, the revival this year of recommendations to Member States, despite some reservations from the latter, can be regarded as a positive development.
31. Ownership of the strategy nevertheless remains limited at national level and several countries continue not to have a political M. or Mme. Lisbon, despite Commission entreaties to nominate a minister for this purpose. Lisbon co-ordinators meet only twice a year and have no tangible role in peer review.
32. The Commission, especially, has been influential in promoting engagement with the social partners and other interests, but there is great diversity among the Member States in the degree to which these interests are formally consulted and to which, even where there is such consultation, their perspectives feed-in to Member State reform strategies.
33. However, ownership remains limited in the wider sense of engaging national political actors. There may even be a risk that once the initial NRP has been produced, interest wanes rather than being sustained – a form of Lisbon fatigue .
34. Again, however, it should be stressed that it is results that matter, and it could be argued that a lack of consultation of social partners or media interest in Lisbon per se does not matter if, first, consultation does take place around particular reform initiatives and, second, the right reform is successfully achieved.

v

35. The governance of Lisbon now seems fairly settled, but the next annual cycle will provide the acid test of whether the PGJ is succeeding in promoting reform and whether reform, in turn, is improving economic performance and well-being.
36. The balance between delivery on existing commitments and new orientations for the strategy is not easy to strike. Many of the lower-key policy reforms are essential components of an overall strategy, yet they can easily be neglected when attention shifts to more visible and politically appealing new initiatives. It is, therefore, important not to lose sight of the original reform agenda.
37. The more favourable economic performance offers Member States a genuine opportunity to accelerate reform, and they need to avoid relaxing their efforts as has happened in the past.
38. The quality of official forecasting (both Commission and European Central Bank) may warrant some scrutiny by the European Parliament's ECON committee, since it has rather consistently been wrong. Alternatively other means of monitoring progress may be needed.
39. The lack of visibility and embedding of the Lisbon strategy in national political discourse is a continuing source of concern. All actors should take responsibility for better communication of the aims of economic reform with the objective of raising its political salience and fostering a sense of national ownership .



40. Peer review and exchange of experience can be valuable mechanisms for policy improvement, so that it is in Member States interests to be constructive and open about these processes.
  41. Arrangements for national Lisbon co-ordinators are unsatisfactory and what could be a potentially important channel for raising the effectiveness and visibility of the PGJ is not being adequately exploited.
  42. Although explicit naming and shaming is still politically unacceptable, the setting of national targets should be more extensive as a means of putting pressure on governments.
  43. The strength of the recommendations to Member States and the intensity of the surveillance in following-up can be useful tools for motivating Member States, although they have to be employed with sensitivity.
  44. Although the Commission has made good progress in advancing the Community Lisbon Programme, it is also important that the Council and the European Parliament ensure that they advance relevant actions in a timely manner.
  45. Tough questions should be asked about whether the Globalisation Adjustment Fund and the European Institute of Technology are proposals that deserve the high priority they are given for the Community Lisbon Programme in 2007.
  46. The importance of the 2008/9 budget review and its connections with the next round of Lisbon programmes at both Community and Member State levels deserves to be emphasised. These new programmes will be developed from the end of 2007 onwards.
  47. How the different strategic programmes at EU level are brought together and their aims reconciled is worthy of thought. Energy policy for instance has risen to the top of the political agenda, yet its relationship with Lisbon aims and sustainable development could be better specified.
  48. Competition as a driver of change is a concept that needs fresh impetus, not so much in the narrow sense of anti-trust and so on, but in the sense of a creating a market environment that can be a major stimulant to growth.
  49. A thorough debate is needed on flexicurity and it will be important for the European Parliament in particular to react imaginatively to a Commission communication on flexicurity is due by the summer of 2007.
  50. Institutional development is needed to improve policy co-ordination within the euro area. The time may have come to achieve this by differentiated integration.
- 51**
51. The European Parliament has only a limited role in the development and scrutiny of the Lisbon strategy, partly because its committee structure is not aligned with the widened scope of the re-launched strategy. Enhancing the standing of the Lisbon Co-ordination Group may offer a way forward.
  52. It will be important for the European Parliament to articulate its priorities for the next set of Integrated Guidelines early and to engage in dialogue not only with the other institutions, but also with wider interests.
  53. In addition, the Parliament is encouraged to seize the opportunity to lead the debate on how the Lisbon Agenda should be linked to other major strategies and imperatives at European level, including sustainable development, energy policy and coping with ageing.

The Partnership for Growth and Jobs (PGJ), through which the Lisbon strategy has been taken forward since its re-launch in March 2005, is now at the start of its third year. The term partnership refers to the fact that the strategy comprises action at EU level through a Community Lisbon Programme (CLP), largely implemented by the European Commission, and at Member State level through the individual National Reform Programmes (NRP).

The aims of both programmes are set out in the twenty-four Integrated Guidelines (IGs) agreed in the summer of 2005 and re-endorsed by the 2006 spring European Council<sup>1</sup>. As shown in figure 1.1, these guidelines bring together previously separate sets of guidelines covering broad economic matters and employment. This consolidation is designed to instil greater coherence in the policy-making process and to ensure that the different agencies and levels of governance act in a more united way in pursuing reform.

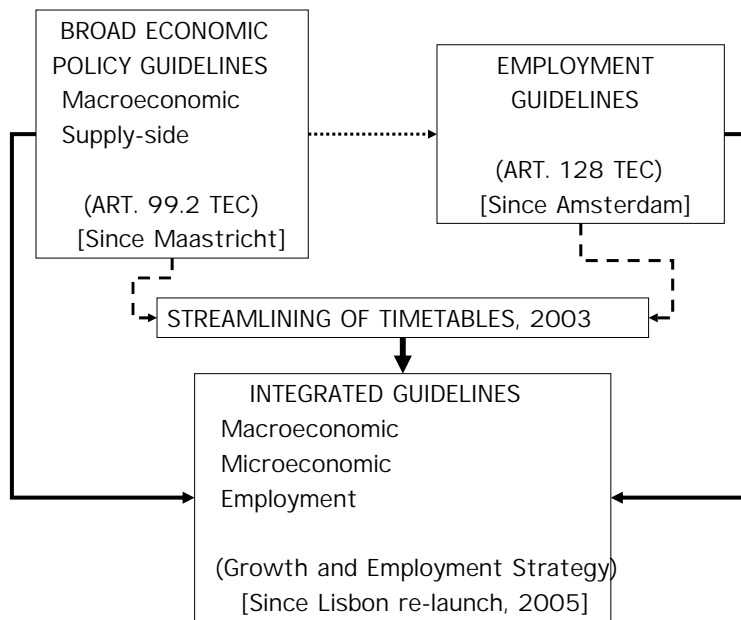


Figure 1.1 The evolution of guidelines in economic governance

Complementing the core strategy is a newly integrated approach to social cohesion, agreed in July 2006, that brings together the different approaches that had been developed under the open method of co-ordination (OMC) since the Nice European Council of 2000. A re-launch of the Sustainable Development Strategy was also formally agreed at the June 2006 European Council and it should be recalled that the Stability and Growth Pact was reformed in 2005. In addition, the hotly contested Multi-Annual Financial Framework for the period 2007-13 is now in force, so that all the main arrangements for the co-ordination and governance of EU economic and social policies have now been revamped over the last two years. Collectively, these changes can be regarded both as significant and challenging institutionally, potentially requiring a rethinking of how policy is made, implemented and monitored.

<sup>1</sup> For a more extended discussion of the guidelines, see the 2005/6 CEPS study submitted to the European Parliament in 2006.

Table 1.1 presents the different components of this new governance structure and their cycles. While the division of powers, responsibilities and obligations is reasonably clear, it is scarcely surprising that there are also some respects in which uncertainty remains about how the processes are led and – as former US President Truman famously put it – where the buck stops. For the European Parliament in particular, but also for the other institutions as well as scrutiny processes within Member States, the new governance framework raises a variety of questions about how they exercise their roles.

**Table 1.1 Governance processes and their cycles**

Process	Key aims	Cycle	
		Length	Current
Lisbon strategy	Growth and employment	3 years	2005-08
Energy strategy	Climate change and energy	3 years	2007-09
EU budget	Financing of EU policies	7 years	2007-13
Sustainable development strategy	Competitiveness social cohesion & environmental protection	Indefinite	Relaunched 2006
Strategies for social protection and social inclusion	Advancing social cohesion	3 years	2006-08
Convergence or stability programmes	Macroeconomic stability	Annual	2006-07

There has also been a sea-change inside the Commission in how it approaches economic reform. Primary responsibility for The Broad Economic Policy Guidelines (in force from 1991-2004) lay with DG Economic and Financial Affairs on the basis of Art. 99 TEC, while DG Employment, Social Affairs and Equal Opportunities oversaw both the Employment Guidelines (Art. 128 TEC) and the various social OMCs. Now, there is a much stronger co-ordination of Lisbon from the Secretariat General, DG Enterprise has a substantial role in the strategy, not least leading the Community Lisbon Programme, and the strategy as a whole has taken centre-stage in the Commission's work programme. Although not easy to confirm, it is suggested that over 400 Commission staff now work on the re-vamped Lisbon strategy and that the primary duty of Catherine Day (recently appointed to the post of Secretary-General) is to make sure that the PGJ delivers. However, DG Ecfm continues to be responsible for the SGP and macroeconomic analysis. In addition, some of the emerging priorities bring-in other Directorates-General that have, hitherto, been less involved in Lisbon, notably DG Transport and Energy which has a remit to lead the development of the EU's energy strategy, as well as DG Health and Consumer Protection and DG Education, Training, Culture and Youth.

The Commission's Annual Progress Report published in January 2006 was sub-titled Time to Move up a Gear and its message chimed with those coming from many other sources that the 2006-7 cycle should see a shift from strategy to delivery. An implication of this stance is that the policy agenda should remain fairly stable. Yet shifts in emphasis within the PGJ also occurred. In particular, the spring 2006 European Council agreed a focus on three priorities that transcend the twenty four Integrated Guidelines and that Member States were invited to implement by the end of 2007 in the context of the renewed Partnership for growth and employment – see box 1.1 which presents these priorities.

While the employment element the spring 2006 Presidency conclusions covers many areas, including attracting people into work and increasing labour supply, while also emphasising adaptability and skills upgrading, it has little to say on gender. Indeed, the gender dimension of employment policy is only mentioned in relation to equal opportunities and child-care. An important message, though is that Member States are asked to explore how they can reform labour market and social policies along flexicurity lines. An additional decision was to invite the institutions to take appropriate measures to establish and make operational by the beginning of 2007 a Globalisation Adjustment Fund.

Much more attention at the spring Council was, however, devoted to what had been a fourth priority emerging from the October 2005 informal Council held at Hampton Court, a common Energy Policy for Europe (EPE). It is clear from the balance of the spring 2006 conclusions, as well as the considerable effort that has subsequently gone-in to the development of the EPE that it has become the issue of the moment<sup>2</sup>. The conclusions (para 51) set out a long and comprehensive list of actions to be started during 2006 by the Commission.

#### **Box 1.1 Three areas for priority action**

Following the informal European Council held at Hampton Court in October 2005, Member States were asked by the European Council at its spring 2006 meeting to focus on three priorities within the Partnership for growth and jobs. As described in the Presidency conclusions, these are:

- f* **Investing more in knowledge and innovation** which included a re-statement of the established Lisbon goal of reaching an overall (that is for the EU in aggregate) target of spending 3% of GDP on R&D, and enjoined Member States to refocus public expenditure on innovation and growth while promoting private sector R&D by improving their mix of support instruments .
- f* **Unlocking business potential, especially of SMEs** in which the Member States are called upon to develop national strategies and implement measures to foster competitiveness, innovation and productivity . The importance of creating a more favourable business environment was stressed, above all for SMEs, and a key message was that there should be a concerted effort to ease administrative burdens on companies - captured in the injunction think small first - and better regulation. Interestingly, though, there is also a statement about addressing the social dimension and the needs of individuals in the process of internationalisation and structural change . In addition, this heading is used to call on Member States to complete the internal market as rapidly as possible.
- f* **Increasing employment opportunities for priority categories** is aimed at target groups within the labour force, identified as the young, women, older workers, persons with disabilities and migrants and ethnic minorities . Active co-operation with social partners is encouraged. The conclusions also recall the three objectives of the European Employment Strategy: full employment; quality and productivity at work and cohesion and an inclusive labour market

Paragraph 55 of the conclusions raises a matter that can be argued to be one of the governance gaps at EU level, namely that of policy spillover within the euro area. While pointing out that structural reform in a range of areas will facilitate dealing with shocks and adjusting to shifts in competitiveness, the conclusions also note that there is a particular premium on effective policy coordination . An inference to draw from this statement is that means of formulating and implementing policy at euro area level may be needed as well as co-ordination, although there is no discussion in the document of the distinction between co-ordination of fiscal policies and structural policies.

---

<sup>2</sup> Indeed, the sub-title of a commentary on the spring 2006 European Council, written with his customary flair by Peter Ludlow, is instructive: The Lisbon Agenda and an Energy Policy for Europe

Other issues highlighted included better regulation and the need for a pro-active competition policy, and perhaps inevitably, the ritual call for trans-European infrastructure networks to be enhanced.

It is important to stress that the PGJ differs in many ways, some of them quite profound, from the Lisbon strategy of 2000. The breathless prose about becoming the most dynamic economy in the world by 2010 has been replaced by a reform strategy with three year cycles. Indeed, 2010 has quietly been shelved as a target date. There are also indications that the underlying aim is no longer one of catching-up with the US but the more sensible (and plausible) one of responding to the challenges of globalisation. Even so, important elements of Lisbon I have been retained following the re-launch, notably the use of key targets.

One of the headline targets was to raise EU spending on R&D to 3% of GDP, while another key one was to boost the employment rate to 70%. However, a list of country-specific targets for R&D spending, appended to the spring 2006 Presidency Conclusions makes it clear that the overall target the EU set itself of attaining the target by 2010 is well beyond reach. Two smaller Member States have targets of 4% (Sweden and Finland); a further eight have set 3% as a target, though for four of them the required increase is ambitious; twelve see little prospect of exceeding 2%; the Italian target would mean more than doubling the 2004 ratio to 2.5%; and the remaining two (Ireland and the UK) are also targeting 2.5%, but only by 2013 and 2014, respectively.

In addition to targets, the approach to policy co-ordination adopted in Lisbon I was an innovation. The conclusions of the European Council held in Lisbon in March 2000 added a new expression to the lexicon of European integration by defining a new open method of co-ordination for the strategy, stating that:

Implementing this strategy will be achieved by improving the existing processes, introducing a new open method of coordination at all levels, coupled with a stronger guiding and coordinating role for the European Council to ensure more coherent strategic direction and effective monitoring of progress. A meeting of the European Council to be held every Spring will define the relevant mandates and ensure that they are followed up (Lisbon European Council Presidency Conclusions, 2000: para 7).

Can the re-launched Lisbon strategy still be regarded as a variant on the open method? While Lisbon I was a loose wish-list, there is now a much clearer strategy for reform and a commitment to it, so that it is probably better to regard the partnership as being the mode of governance, rather than a form of OMC.

## 1

Much has been written about the importance of Member States taking ownership of the re-launched Lisbon strategy, but it was obvious as soon as the PGJ was launched, and has continued to be obvious, that the ownership principle raises many questions and that few of them have yet been convincingly answered. They include:

- f* How to engage national actors, including national parliaments, the media and civil society as a whole
- f* The role of different forms of scrutiny in fostering national engagement
- f* The political and administrative commitment in Member States, in particular the degree to which different levels and agencies of government in the Member States regard Lisbon as the appropriate framework for reform

Furthermore, it must be recognized that in the national policy debates there is considerable disagreement concerning the means to boost jobs and growth and where responsibility should lie. One perspective that has been articulated by the French Prime Minister, De Villepin<sup>3</sup>, in his demands for a bouclier monétaire to restrict the rise in the euro vis-à-vis the US dollar, is that monetary policy has been too restrictive. Others blame a lack of commitment to reform (Alesina and Giavazzi, 2006).

One issue that has been not yet been satisfactorily resolved is that of the designation of Lisbon co-ordinators within Member States. The idea behind it is that a named individual should act as the fulcrum for reform policies within government, while also representing the Member State in inter-governmental fora and vis-à-vis the Commission. The Commission, especially, has tried to push Member States to appoint a minister for this purpose, not least to raise the political visibility of the role. Some Member States have complied, although the appointee is most often a state secretary or equivalent second tier minister and in some cases, a senior minister is designated (examples are Germany, where the minister for the economy is the designated co-ordinator and a prominent, well-regarded state secretary is his alternate, and Slovakia where the Lisbon co-ordinator is the deputy prime minister). In other Member States, by contrast, the appointee is a fairly senior civil servant with limited visibility in government (the UK<sup>4</sup>, for example), let alone in national political discourse. Plainly, therefore, the Commission aspiration to have a full complement of ministerial co-ordinators is not happening.

The advantages of a political co-ordinator can be summed up as being, as suggested by one national expert consulted, that a ministerial level co-ordinator, because of the nature of his or her position, is better placed than a civil servant to make public statements in support of relevant measures, thereby raising awareness of the necessity of reforms. Given that the policy areas in NRPs are quite heterogeneous, it is difficult for any single minister to have overall responsibility for implementation, but having a designated minister able to keep the question on the agenda can help to motivate colleagues to implement reforms.

It might be argued that having a competent and effective civil servant as the co-ordinator can work well if that individual takes the time to brief ministers and if ministers bother to listen. But even if such an arrangement works within government in pushing forward reform, it is less likely to achieve higher public awareness of the aims of the reform. In this regard, it should be recalled that a key element of the Kok report's analysis of what was wrong with Lisbon I was its lack of engagement of civil society and, generally, the fact that there was limited ownership of the strategy. In the words of one interlocutor 'Lisbon up to now lacks communication and marketing - here politicians could step in'.

The visibility of the PGJ can also be advanced by various forms of communication, events and media-friendly initiatives. Much is made on the Commission web-site of a seminar held in Lisbon in October 2006, chaired by Barroso and involving all the Lisbon co-ordinators. The seminar included specific presentations on innovation policy which can be portrayed as a mechanism for exchange of experience. Yet there are also continuing and evident sensitivities. Barroso, in a speech at that Lisbon co-ordinators meeting, made a statement that reveals the caution with which the Commission has to proceed in commenting on Member State policies. He stated that 'if we judge necessary, the Commission will make constructive recommendations to the Member States. Recommendations are not reprimands.'

---

<sup>3</sup> In a talk to the 5<sup>th</sup> Forum du financement de l'innovation Toulouse, 14<sup>th</sup> November 2006

<sup>4</sup> In an interesting twist, the devolved Scottish administration does have a senior minister (the deputy First Minister) charged with being the Lisbon co-ordinator for Scotland.

They will be aimed at helping with the implementation of National Reform Programmes . This could be interpreted to mean that Commission has to be soft in what it says and circumspect in the manner in which it says it.

Barroso s speech nevertheless highlighted some examples of how exchange of experience can function, illustrating how the Lisbon strategy could work to promote policy learning if it lives up to its promises:

- f* The Netherlands has adopted elements of the French model of "poles de competitivité".
- f* In turn, the Dutch scheme for innovation vouchers is being taken up in other Member States.
- f* The importance of improving the business environment is being recognised. Here in Portugal, the "Empresa na hora" project (a company in one hour) had by mid-2006 led to eight thousand companies being set up in an average time of 55 minutes.
- f* Ireland, for example, has adopted a detailed Science, Technology and Innovation Strategy for 2006-13.
- f* In the Czech Republic, an amended act on energy management came into effect in 2006, aimed at maximising energy efficiency.

## 2

Looking at the emerging governance structures, a first observation is that it looks reasonably coherent. However, insofar as a key aim was to achieve much greater visibility for reform, there are as yet few signs that the PGJ is seen as a mainstream policy area outside a rather closed elite. If, as some Member State representatives suggest, what matters is that reform takes place rather than whether due process is followed, the lack of visibility may be a second order concern. Yet, as table 1.1 shows, there are several processes that bear on reform and economic governance, the boundaries between them remain somewhat blurred, and the timetables are not as well aligned as they could be.

It also has to be stressed that there are heated disputes amongst economists about whether or not policy co-ordination is useful. Some take the view that while governments should be fiscally restrained (keeping their houses in order), and concede that there are potential gains from co-ordination of structural policies, there is little merit in co-ordination of budgetary policies (for example, Tanzi, 1988; see also, Issing, 2002). Others take the opposite view and go so far as to call for European-level economic government (Collignon, 2003), a limited version of which was canvassed early in the trajectory towards monetary union, in the Werner report. There is also disagreement about whether fiscal restraint hampers or facilitates structural reform - see, for example, a recent paper by Buti et al. (2007) who show that the time perspective adopted by governments is critical. What these debates underline is that there is far from being a settled view amongst economists about the policy agenda that underlies the Lisbon strategy.

The role of the Commission is pivotal in the Partnership in three respects: setting the agenda for reform and its evolution, monitoring and surveillance of Member State efforts, and delivering the Community dimension of the partnership. It can be considered to have fulfilled the third role well enough, but questions remain about the first and second.

In the 2005/6 cycle, the Commission deliberately adopted a low key approach to the Member States<sup>5</sup>, and also faced criticism for ill-judged and, as regards certain Member States, analytically weak observations. The Commission implicitly concedes that the political embedding of the PGJ is stuttering, noting in its annual report that ownership and knowledge about this structure must clearly still be improved .

More detailed aspects of the procedures also warrant comment. The issue of Lisbon co-ordinators is an example. Nominally, the list includes some very high profile political figures, but the indications are that it is not high on the agenda of these ministers, implying that their civil servants are the de facto co-ordinators. In other countries, Austria and Denmark being good examples, the political appointment is at the level of state secretary and the impression given is that these co-ordinators are much more closely engaged with Lisbon . In a third group of countries, there is no directly nominated political figure, although (as in the UK, with the Chancellor of the Exchequer) a senior minister will assume political responsibility.

Does the ambivalent status of Lisbon co-ordinators matter? As Ludlow (2006) put it: in many if not most EU Member States, a heavyweight bureaucrat who knows his dossiers and carries real clout within the government machine is better placed to perform this function than junior ministers, who are upwardly mobile if they are any good, and stationary (or ephemeral) if they are not . On the other hand, if political ownership is accepted as a vital factor, the lack of such visibility has the potential to undermine commitment and to make it easier for the political leadership to distance itself from the strategy.

However, with such a diverse group it becomes difficult to see how it can gell politically and thus contribute to the visibility of Lisbon. The Commission solution of pressing those Member States who have not done so to name a political co-ordinator does not seem likely to succeed, and the danger then is that it will put off other politicians from other countries. This is, therefore, an aspect of the governance of Lisbon that needs more thought.

An open question is how the European Parliament can be more engaged in the whole approach, as its institutional input into the annual Lisbon cycle is somewhat limited. The Bullmann report on the Broad Economic Policy guidelines 2007<sup>6</sup> provides a useful commentary and reasonable suggestions, but it concludes as follows in paragraph 32:

Regrets once again that no clear plan and code of practice has, to date, been agreed between Parliament, the Council and the Commission, which would guarantee appropriate cooperation and the full involvement of the three EU institutions concerned in the appropriate further handling of the Integrated Guidelines as a key instrument of the Lisbon Strategy; calls in this connection on the Council and the Commission to submit forthwith proposals for the close cooperation of the three EU institutions concerned with a view to the impending revision of the integrated guidelines .

This observation highlights the difficulty the Parliament faces that its institutional role in Lisbon is poorly defined. The EP dialogue with national parliaments is welcomed by the Commission and the Council. However, one problem is that no single parliamentary committee now covers the whole gamut of Lisbon strategy policies. Consequently, the Parliament s role in the strategy appears to be unsatisfactory, raising questions about whether it should review its internal procedures and how it engages with the other actors in the whole process.

---

<sup>5</sup> See the first CEPS study (covering 2005/6) on the implementation of the integrated guidelines for a much more extensive discussion of this choice.

<sup>6</sup> ECON Committee, 26<sup>th</sup> January 2007; document number A6-0012/2007



Overall, Lisbon I can be characterised as being broad goals set by the European Council, with governments and sectoral DGs of the Commission left to develop their own policy orientations. With hindsight, this was too loose and incoherent. The Partnership for Growth and Jobs embodies a more strategic and, potentially at least, joined-up approach to economic governance. However, there may also be costs insofar as having a common approach for all Member States leads to a more mechanistic approach to policy goals, with the corollary that governments overlook some of the wider policy issues.

The year 2006 was encouraging economically for the EU and the euro area alike, with a relatively more rapid rate of growth compared with the period 2001-05. The rate of job creation in the Union as a whole has picked-up, allowing some reduction in the unemployment rate, although the progress in the latter remains slow. The gradual tightening of monetary policy over the last twelve months, both in the euro area and the rest of the Union, testifies to the underlying strengthening of the EU economy. Although the central banks' action suggest some concern about inflationary pressures, neither current data nor forecasts point to much of a risk in this regard. However, there are imbalances within the EU, for example in asset price trends or the positions on the current account of the balance of payments that could become problematic.

It is tempting to ascribe the improved economic performance, at least in part, to the beneficial impact of economic reform, but the fact remains that many of the relevant indicators are no more up to date than 2005. Consequently, for much of the Lisbon strategy, any assessment can only plausibly comment on the effects of the original Lisbon strategy, rather than its re-launch. The improvement in economic performance also needs to be kept in perspective, given that the conjunction of 2.8% growth and 8.0% unemployment estimated for the EU as a whole in 2006 (2.6% and 8.0% for the euro area) is hardly breath-taking, even if it is above what is now recognised to be trend. Almost despairingly, the Commission autumn forecasts note that the economic recovery has at last reached the labour market .

Although fiscal positions have generally improved as a result of the combination of the upturn in the economy and actions by governments to consolidate public finances, fiscal sustainability in the euro area is still at risk. In 2006, seven of the 12 euro area members had public debt over the 60% of GDP Maastricht limit (Belgium, Germany, Greece, France, Italy, Austria and Portugal), and the collective debt for the euro area stood at 69.5%.

According to the European Commission commentary on its forecasts, the structural unemployment rate as measured by the euro-area NAIRU is set to fall from 8% in 2005 to 7.5% in 2008. One cause for continuing concern is that the latter figure is the forecast unemployment rate for 2008, implying that the euro area is close to a sustainable, non-inflationary unemployment rate and that any attempt to reduce the figure by additional demand without supporting supply side policies will be inflationary. The validity of the NAIRU figure is open to doubt in both empirical and conceptual terms, but the clear message is that only further structural reforms that alter the NAIRU will make lower unemployment sustainable.

In explaining why employment rates differ so much among the Member States (there is a difference of some twenty percentage points between Denmark, the best performer, and Poland, the worst), one of the most significant factors is the differences between different segments of the labour market, especially older workers and youths. Figure 2.1 shows, this is an OECD-wide problem, even if non-EU OECD members tend to do better in this regard.

**Figure 2.1 Employment rates for different population groups, OECD average %, 2004**



The Commission's November forecasts were for slightly lower growth in 2007 and 2008, with a slowdown in the growth of German domestic demand – long a drag on the euro area – a noteworthy factor. Given the track-record of these forecasts in recent years (including the fact that the spring 2006 forecasts for GDP growth in 2006 were half a point lower than in the November one), these somewhat pessimistic forecasts need to be treated with caution and, unless some of the risk factors turn out worse than expected, the chances are that the forecasts understate the likely buoyancy of the economy. Indeed, more recent forecasts, such as the latest one from the six German economics institutes, already point to a more positive outcome for 2007.

After 2003, oil prices increased rapidly, peaking in the summer of 2006 at the time of the confrontation in the Lebanon. Although they have since eased considerably, falling from a peak of nearly US\$80 to around US\$50 by January 2007, before creeping up again in the first quarter of 2007, the extent of the rise has had an impact on inflation. However, labour market actors appear to have responded with circumspection over the last four years, with the result that there has not been any inflationary spiral such as occurred after the 1970s oil price shocks. Higher energy prices have, however, fed into consumer price indices and have been one factor behind rising interest rates in the euro area and other Member States.

The outlook for oil is, as always, hard to judge, above all because the geo-political tensions that are so influential are hard to predict. A best guess, taking account of likely flashpoints, is that disruption to oil supply will be limited in the coming year, allowing the present price level to hold. If, however, the stand-off over Iran's nuclear programme deteriorates, leading to supplies being blocked, or another major producer faces disruption, a much higher price could emerge, taking oil back up to the US\$80 level or beyond.

The pick-up in investment that had already been apparent in 2005 in some Member States has been maintained and it is encouraging to note that Germany, especially, had a very good year in 2006, with investment up by 4.2% year on year, helping to boost the performance of the euro area which is now enjoying an investment boom. Italy, too, confounded the pessimistic forecasts published in November 2005, leaving only Portugal as a disappointment. Higher rates of investment growth were recorded in most other Member States 2006 and the Commission forecast for 2007-8, though anticipating some moderation of investment growth, nevertheless suggests continuing high rates, especially among the EU-10.

Nominal long-term interest rates edged upwards during 2006, having reached their lowest levels for many years in 2005 in the euro area. Given the differences in inflation rates, real interest rates are, inevitably, more dispersed and may have contributed to the emergence of imbalances. Public finances have been on an improving trend in many countries, despite the number of Member States formally in a position of excessive deficit, although Hungary clearly presents particular problems.

The external deficits in the EU-10 (and indeed in Bulgaria and Romania) are consistent with their rapid growth and high levels of investment, and have been financed partly by substantial inward investment flows. However, in some cases the magnitude of the deficit should be ringing alarm bells. Within the euro area, it is tempting to assert that the imbalance between the large surpluses recorded in the Netherlands and Germany and the big deficits in the Iberian countries is of limited consequence, because what matters is the figure for the monetary union as a whole. But the respective positions signal that savings and investment patterns may be out of kilter and, with so many of the policy mechanisms retained at Member State level, suggest a need for some adjustment.

According to calculations by the ECB (2007), the cumulative current account deficit of Portugal over the period 1999-2006 is 56% of GDP, with Greece registering 45% and Spain 28%. Over the same period the Netherlands has had a cumulative surplus of 38%, Finland 44% and Luxembourg 57%. These are very large numbers. The ECB also calculates that Portugal's unit labour costs have risen cumulatively over the period 1999 to 2006 by 16.5% relative to the euro area, while on the same measure, Germany's have fallen by 9.7%. Shifts of this magnitude in competitiveness are bound to have repercussions.

## 2

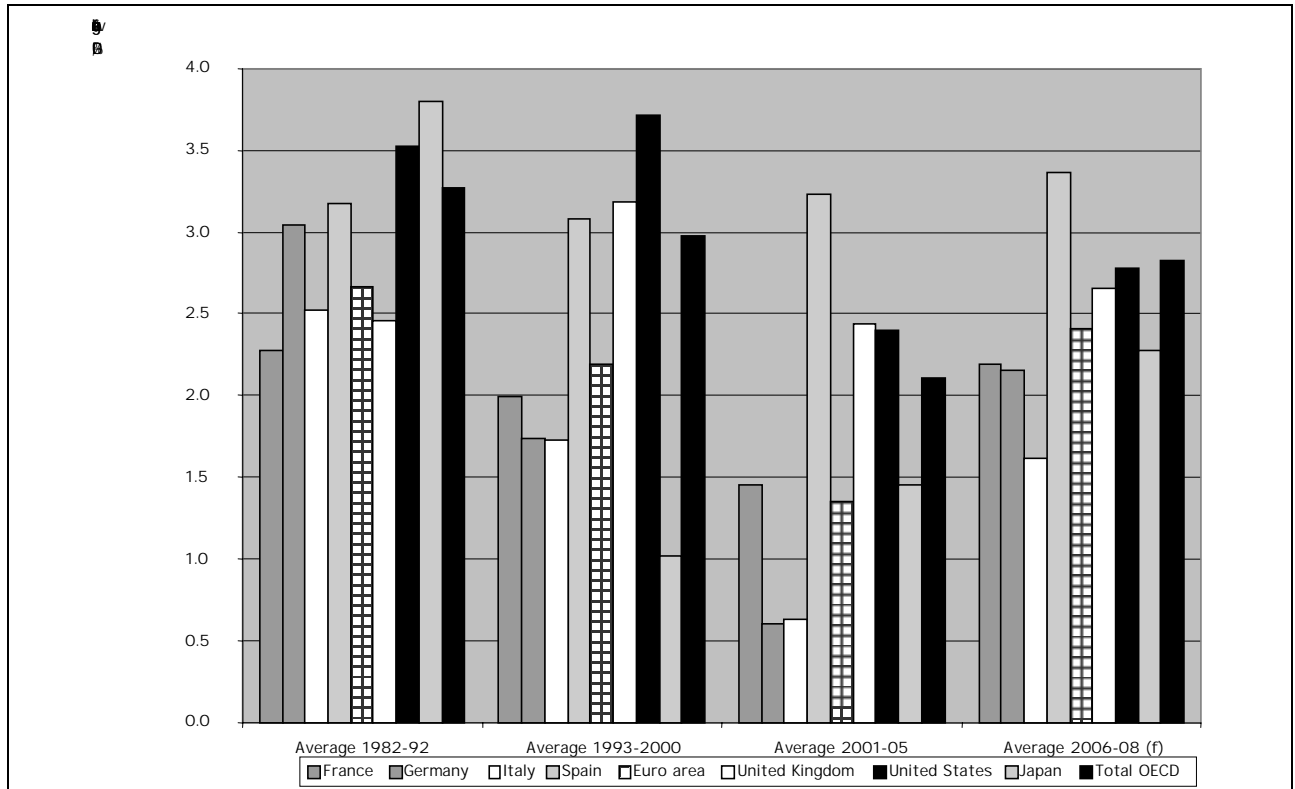
Many commentators now argue that there is a rebalancing going on among the major economies. Moderation of growth in Japan and a possible slowdown in the US is being offset by what the OECD's Chief Economist Jean-Philippe Cotis (2006) describes as 'an unwinding of cyclical differences', with activity having gathered speed in Europe. Looking ahead, and given what is seemingly a mild degree of initial excess demand in the United States and, possibly, Japan, the slowdown in these countries should remain well-contained. In the euro area, recent hard data as well as business and consumer confidence suggest that a solid upswing may be underway. In addition, growth should remain buoyant in China, India, Russia and other emerging economies. All in all, Japan and the euro area would grow slightly above trend over the next two years while US growth would return progressively to potential in the course of 2007, following the recent steep deceleration in activity. Box 2.1 lists some of the factors that could have a negative impact.

### **Box 2.1 Factors that could result in a bleaker economic outlook include:**

- f* A possible resurgence of energy prices
- f* Unwinding of high house prices, not just in the US, but in other countries where, according to the OECD, they have become unsustainably high, notably in Denmark, France and Spain.
- f* Fiscal corrections already in the pipeline in Italy and Germany, and in the case of the latter, the particular effect of the recent VAT increase having more of an effect than it appeared to initially.
- f* Imbalances in current accounts, with the high US one especially sensitive to the oil price.
- f* Rising interest rates associated with more buoyant economic activity and some concern about inflation

Some sense of the imbalances can be gleaned by examining recent developments, which can be interpreted in more than one way. As can be seen from figure 2.2, growth rates in major economies are more closely aligned at present than they have been for many years, implying balance being restored.

**Figure 2.2 Trends in GDP growth in OECD countries: towards global re-balancing?**

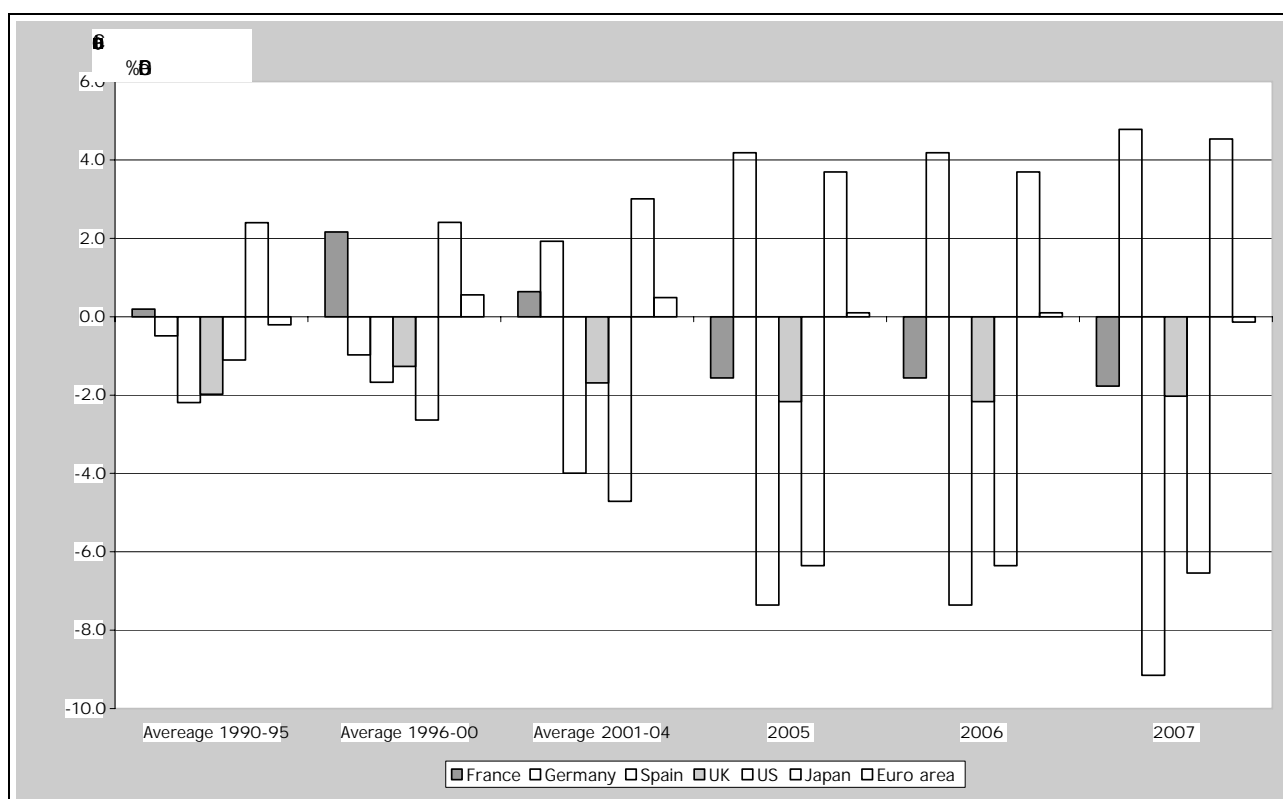


Source: OECD

In the period 1982-92, annual average growth rates of major economies were reasonably close to one another, but in the rest of 1990s, Japan's prolonged recession is striking, while in the first half of the present decade, Japan is joined in low growth by the three largest euro area economies. It is only after 2005 (if the forecasts for 2007 and 2008 are taken at face value) that growth rates appear to converge again.

Part of the economic background is that the cyclical upswing that has apparently come to an end in the US and is still occurring in the EU has been characterised by a much better balance between supply and demand than in the cycle that peaked in 2000. However, the picture for external balance has become more alarming. The high US deficit has become so familiar that it is almost taken for granted, but at over 6% of GDP (its current figure) and rising, it is manifestly closer to being unsustainable than it was earlier in the decade. At global level, much of the counterpart is the surpluses in China and Japan, with the EU (and the euro area) close to balance. But the imbalances in the euro area cannot be overlooked as part of the story see figure 2.3.

**Figure 2.3 Trends in current accounts – ballooning imbalances?**



Source: OECD

## 2.5

The trend in the advanced economies remains encouraging and there are good reasons to discount possible problems, such as in the US housing market, although oil prices are bound to cast a shadow, whatever happens to them. In a feature in the January 2007 issue of the *National Institute Economic Review*, several articles explore possible causes of the slower economic growth in the euro area since the late 1980s. Not surprisingly, no single explanation is put forward and the various authors offer different accounts which help to flesh out the often vague term, structural problems. Barrell (2007) summarises some of the most persuasive ones, citing first the fact that the core euro area economies have lagged behind the better performing Nordic economies and the UK because of insufficient productivity growth in business and retail services; being less receptive (through reluctance to liberalise markets) to key new technologies in telecommunications; and, possibly the fact that rising energy prices may have slowed potential (or trend) growth. Labour market factors that may have been important include stagnant or declining labour supply (notably in Germany): Barrell notes that hourly labour input in Germany fell by almost 1% per cent a year between 1993 and 2005, whilst it rose by almost 3/4 per cent a year in the UK over the same period, a gap that can be ascribed to reforms in Germany (and in France), lagging those in the UK by ten years.

McMorrow and Röger (2007) are pessimistic about the prospects for a significant improvement in the euro area's underlying economic performance, largely because they see limited evidence that productivity is likely to rise. They show that the potential growth rate of the euro area to be expected in the period 2007-11 is probably around 2% per annum, much the same as in the period 2001-5. They nevertheless argue that successful implementation of Lisbon would greatly improve matters. They observe that the Euro Area as a whole can take comfort from the fact that the gains from a successful refocusing of its overall reform agenda could be considerable.

For example, the progressive introduction of the five key measures linked to the Lisbon strategy (i.e. the services directive; reduction of the administrative burden; improving human capital; 3 per cent R&D target; and increases in the employment rate) could boost the Euro Area's economic and employment growth rates by more than 1 percentage point annually for more than a decade. Such an outturn would give the Euro Area a potential growth rate of around 2% per cent, a rate of growth which in per capita terms would be broadly comparable to that of the US over the 2007-15 time period.

## 2.4

The economic outlook today is much more favourable than it was in March 2005 and this ought to augur well for reform strategies. However, governments have shown before that they find it easy to relax their efforts. As Jacob Frenkel explained in a presentation to the 2007 Davos Forum, 2006 was a story of the things that did not happen: the dollar did not collapse, the yen did not soar, oil did not surge to US\$ 100, protectionist sentiment has abated, and so on. He argued, sensibly, that many of the dire predictions have not taken place and attributes this partly to the nature of global capital markets which smooth adjustment. This Goldilocks (neither too hot nor too cold) interpretation is broadly shared, although risks are evident, not least from imbalances. However the risks of US recession are probably overstated. Profitability is high. Financial market balance sheets are sound and hence less vulnerable to an accentuation of housing problems. In any case, the significance of a US slowdown for the global economy is now reduced, because the EU, emerging markets, possibly also Japan if fears of a slowdown prove to be exaggerated, are taking up the slack.

Even so, as figure 2.4 shows, many of the richer EU Member States have made little progress in catching up with the US in the last decade and the analyses quoted in section 2.3 do not show much sign that this is changing. Given that the Lisbon strategy was, at least in part, aimed at restoring the catch-up with the US that had characterised earlier decades, the lack of a momentum towards convergence is a cause for concern. The EU has a relatively ageing population and arguably is not investing sufficiently in boosting future productivity (witness the low R&D ratio) or in information and communications technologies (ICT)<sup>7</sup>.

The great unknown for the EU's policy-makers is whether the EU economy today (especially the core of the euro area) is suffering from the dislocations of structural reforms that are already engaged, or whether the magnitude of the problems is imply greater than has been recognised, as the analysis in the Sapir report (2004) suggests. Gordon (2004) while conceding that there are institutional flaws on both sides of the Atlantic, argues that the US has benefited from competitive forces that have facilitated a more dynamic economic system. He produces a long list of advantages that the US has over the EU: an openly competitive system of private and public universities, government subsidies to universities through peer-reviewed research grants rather than unconditional subsidies for free undergraduate tuition, the world dominance of United States business schools and management consulting firms, strong United States patent protection, a flexible financial infrastructure making available venture capital finance to promising innovations, the benefits of a common language and free internal migration, and a welcoming environment for highly-skilled immigrants.

---

<sup>7</sup> The Commission's annual report on the digital economy contains the claim that ICT contributed half of the productivity growth in the EU between 2000 and 2004 (Commission, 2007).



Source: Cotis and Elmeskov (2006), based on OECD National Accounts data

By contrast, Blanchard (2004) has been one prominent advocate of the more sanguine view, arguing that reform will eventually take place, but not overnight and not without political tensions. These tensions have dominated and will continue to dominate the news; but they are a symptom of change, not a reflection of immobility. In trying to answer this question, only a country-by-country assessment makes sense. While such an exercise is well beyond the scope of the present study, recent trends suggest that Germany may be turning the corner, whereas Italy is still struggling to make headway with France hesitating somewhere between the two.

The reliability and volatility of economic forecasts in recent years may warrant examination. Even in 2006, there was a substantial change between the Commission's spring and autumn forecasts. Growth in EU25 in 2006 was forecast to be 2.3% in the spring, but revised up to 2.8% in the autumn; in the same comparison, unemployment was revised down from 8.5% to 8%, while government deficits were trimmed from 2.3% to 2.0%. For the euro area, the differences were comparable. Similar forecasting errors, though on the over-optimistic side, had been a feature of the period 2002-05. It might be argued that the margins are fairly small and that forecasting is always an inexact science, but it should be recalled that recommendations and more formal proceedings under the Stability and Growth Pact, as well as national decision-making, may be influenced by forecasts.

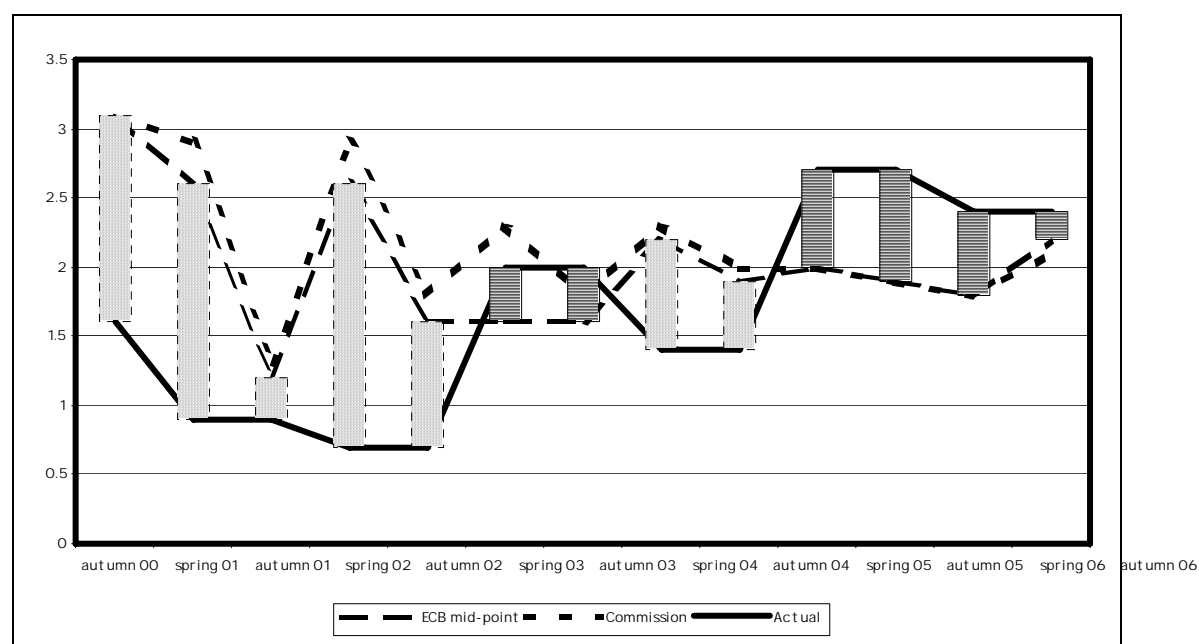
Other forecasting organisations have also been wrong-footed in recent years, but that only means the problem is more pervasive. The European Central Bank does not, strictly speaking, publish forecasts, opting instead to publish what are described as staff macroeconomic projections. These appear quarterly in the ECB's Monthly Bulletin and are stated to reflect information available until a date close to that of the publication of the Bulletin. However, the projections are shown only with a very broad range of outcomes.



Thus, in the March 2007 Bulletin, GDP growth in 2007 is projected to be between 2.1% and 2.9%, followed by growth in 2008 of between 1.9% and 2.9%. The published projections do not give a clear signal of where within the range, the ECB believes the most likely value for growth will be, making it harder to judge whether the ECB is conducting policy on the basis of accurate forecasts. Certainly, in the projections published six months earlier, the ECB staff were less optimistic, expecting growth in the range 1.6% to 2.6% for 2007, while in March 2006, the range was one tenth of a percentage point lower.

Figure 2.5 shows that if the mid-point of the range in the ECB staff projections is taken as the best estimate, the projections broadly follow those of the Commission. The chart also shows how the Commission forecasts and ECB staff projections compare with out-turns. Commission forecasts are typically published in April and late October/early November. For comparison, ECB staff projections as published in the June and December issues of the Bulletin are shown. In all cases, the forecasts or projections for the following year are compared with the out-turn. The vertical bars in the chart compare the ECB projections with the out-turn, and make clear that the ECB staff were overly optimistic (dotted bars) throughout the early years of the present decade, but have been too pessimistic (striped bars) in the last couple of years. It is striking that the margins are quite substantial, at least raising the possibility that policy decisions were taken on the basis of flawed projections for growth and its likely impact on price stability.

**Figure 2.5 Commission forecasts, ECB staff projections and out-turns**



Note: For each point, the chart compares the forecast/projection for the following year with the out-turn for that year. Thus, autumn 04 shows the forecast/projection for 2005 and the out-turn for 2005. For the two 2006 entries, the estimated out-turn is derived the latest estimated projections.

Source: ECB Monthly Bulletin(various) and Commission forecasts (various)

A related issue is whether data revisions lead to unwarranted policy conclusions, not least around macroeconomic stability where decisions in the context of the Stability and Growth Pact have to be taken on the basis of preliminary data. Gordo Moura and Nogueira Martins (2007) show that the reliability of estimates for GDP growth is systematically greater in some Member States than in others. They point in particular to a tendency for revisions to show higher deficits than initially estimated in Italy and Portugal. They also find that in several Member States, deficit data are subject to more revision than debt data.

### 3

It was generally accepted that the first year of the PGJ was for the development of strategy and for putting in place the main elements of reform programmes, a corollary of which is that not much could be said about implementation. In the 2006/7 cycle, Member States could reasonably have been expected to make progress in putting in place some of the reforms and new policies promised in the NRPs submitted in October 2005, while the Commission made progress with the CLP. However, there are two reasons why it is unrealistic to expect measurable improvement in the structural indicators: first, the great bulk of these indicators are published only with a lag; and, second, few of the reforms initiated since March 2005 can yet be expected to have led to tangible results, especially where implementation takes time.

### 3

The whole process does now seem to have settled into its anticipated pattern, with three phases (see box 3.1) comprising:

- f* **Reporting** by the Commission and the Member States on the implementation of their respective Programmes. The Commission presented a report in late October 2006 on the CLP, while Member States were asked to present Implementation Reports by the middle of October 2006, which several did, with the others gradually dribbling in over the next few weeks. The principal reason for delays were elections and their aftermath (especially where radical change in government - as in Sweden - coalition negotiations Austria, the Czech Republic - or internal turmoil Hungary - within the government led to a hiatus in decision-making), highlighting the fact that in a union of 27 members with four year electoral cycles, there will be an election in seven countries in a typical year.
- f* **Scrutiny** by the Commission, the Economic Policy Committee (EPC), The Employment Committee (EMCO) and other bodies, carried out somewhat earlier this year so as to meet a tighter timetable for the spring European Council. The Commission produced its annual report on the 12th of December 2006, together with national fiches for each Member State and draft recommendations for further reform.
- f* **Revision** in which new elements are added. In 2007, this revision was limited, but it is important to note, and to plan for, the much more extensive revisions that are likely to occur when the current three year Integrated Guidelines come up for renewal in 2008.

#### **Box 3.1 Stages of the re-launched Lisbon cycle**

Member States report to the Commission on the implementation of their National Reform Programmes and the Commission reports on the progress made on the Community Lisbon Programme

- x The national reports are then scrutinised by the Commission, EMCO and the EPC, with the EPC also examining the Community Programme

The Commission, EMCO and the EPC, in turn, present scrutiny reports on the implementation of the strategy

- x These reports are considered by the European Council at its spring meeting
- x Any revisions to the Integrated Guidelines are agreed and priorities to which Member States are asked to pay particular attention are identified

These are then adopted by the Council. On the basis of these Integrated Guidelines:

- x Member States amend their National Reform Programmes
- x The Commission develops the Community Lisbon Programme

The Community Lisbon Programme was originally set out in the summer of 2005 under eight main headings (see box 3.2). There is a temptation to regard segments of the CLP as Community tasks that would have happened anyway. For example, the successful adoption of Structural Fund regulations would have been expected to happen irrespective of the PGJ. A point made by a senior official consulted in the course of this study is salient, namely that once a task is incorporated into the Lisbon agenda, it tends to be given greater priority and may therefore happen sooner (or at all) and be more emphatic, instead of subject to compromise. In addition, some of the central elements of the CLP can be considered to be important advances that can be influential. In this regard, better regulation is a good illustration. The regulatory framework is an arena in which the Community level has the incentives, the powers and the political capacity to make a big difference.

In October 2006, the Commission published its own assessment of progress in which it presents quite a rosy picture, noting in particular that 75 out of 102 measures have been adopted.

**Box 3.2 The main headings for the Community Lisbon Programme**

- x The support of knowledge and innovation in Europe,
- x The reform of the state aid policy,
- x The improvement and simplification of the regulatory framework in which business operates,
- x The completion of the Internal Market for services,
- x The completion of an ambitious agreement in the Doha round,
- x The removal of obstacles to physical, labour and academic mobility,
- x The development of a common approach to economic migration,
- x The support of efforts to deal with the social consequences of economic restructuring.

Source: Commission Communication COM(2005) 330 final

Figure 3.1, taken from the Commission's report on the progress of the CLP, shows the progress in different classes of actions. A critical message that comes over in places in the Commission's assessment of the progress of the CLP is that it is other institutions which are now slowing the process, especially where legislation has to move to the next stage. While true, it does mean that the claim of 75% adopted may exaggerate the true rate of progress, and it is certainly possible that some of the measures will be stalled for some time. The history of projects such as the Community Patent gives reason for caution about over-claiming. Moreover, they may be substantially modified (as happened with the Services Directive) or, in some cases, abandoned.

Some of the statements in the report could be seen as somewhat disingenuous. An example is the assertion (in section 4.1.3, which tries to sum up progress on measures bearing on knowledge and innovation) that good progress has been made in setting up a **governance structure at European level for meeting the 3% GDP target of investment in research**. Encouraged by the 2006 Spring European Council, **all 25 Member States have now R&D investment targets** [emphasis in original]. In practice, all this means is that each Member State has a target, in most case for 2010. However, a quick cross-check reveals that the targets are not compatible with reaching 3% for the EU by 2010, if ever. Similarly, there is a statement about improving the **framework conditions for knowledge and innovation**, which refers to guidance and communications for Member States. While there is nothing intrinsically wrong with what is proposed, it is legitimate to wonder whether these are actions that will ultimately have a noticeable effect.

### Figure 3.1 CLP Actions

Source: COM(2006)

While the progress on the CLP is good, there are also elements that have not advanced as much as hoped, many of which (unsurprisingly) include more contentious dossiers. Examples of unfinished business in the CLP cited in the APR include:

- f* The portability of pensions
- f* Measures to improve the functioning of transport and energy markets
- f* Establishing an effective and affordable intellectual property system, which largely seems to be code for sorting-out the Community patent, but also covers copyrights on software and music
- f* Modernisation of tax and customs rules

#### Development of the Community Lisbon Programme

The Commission states that there should only be a light update of the CLP in 2007 and that a major revision should wait until the end of the current 3-year cycle. In its APR, the Commission sets out what it sees as important new proposals for economic reform that seek to complement and strengthen actions at Member State level and goes on to cite:

- f* The creation of the European Institute of Technology (EIT)
- f* The European Globalisation Adjustment Fund (which has been agreed).
- f* A rather more amorphous statement about implementing its external competitiveness agenda encompassing trade and other external policies in order to create opportunities in a globalised economy.
- f* Further steps towards better regulation, noting that one of the problems in this regard is that the Council and the European Parliament need to speed up decisions on pending simplification proposals, for example, the Commission's proposals for a VAT one-stop-shop and for a modernised customs environment to simplify procedures.

All of these warrant comment. The EIT and the Globalisation Adjustment Fund can be seen as gimmicky initiatives and there is manifestly a problem of scale associated with them, not least because the overall budget available during the 2007-13 MFF for growth and competitiveness is small, casting doubt on the potential impact of the new policy initiatives.

Thus, the Globalisation Adjustment Fund has an annual budget of 500 million, but to put that figure in perspective, the 2006 Community budget assigned 501 million to distillation of surplus wine production.

Similarly, the launch budget for the proposed European Institute of Technology – seen as a flagship policy of the Commission, and championed by Barroso – is expected to cost the Community 308 million, which will be taken from the unallocated reserve of the Competitiveness for Growth and Employment component of the Financial Framework and might, therefore, have been available to support other research in any case. In 2005, the annual expenditure of the Massachusetts Institute of Technology (MIT) was just over US \$2 billion (1.55 billion). That of the University of Cambridge, often ranked as the EU's leading university, was around 760 million. Even the projected 2.4 billion funding from all sources for the EIT over the six year period 2008-13 will amount to barely a quarter of that available to MIT or half what Cambridge will have to spend.

A study of the proposed EIT by Tindemans and Soete (2007) reaches pessimistic conclusions about its potential impact and viability. The study draws attention to the diversity of research success in Europe and the fact that much of European science is comparable in quality to that of the US, seen as the major competitor. The Tindemans and Soete study suggests there is not a clear rationale for the EIT as a European (as opposed to national) institution, pointing out that while there is manifestly a US university system in which there are strong research universities, there is no Federal-level institution. Instead, universities such as MIT or Stanford compete for federal funding of research. The parallel here is with the new European Research Council and, given that some of the best universities in the EU are comparable in quality to those in the US (albeit too few), the potential for research will depend on how successful the new Council is in fostering competitive improvements in quality.

#### Better regulation

Improving the quality of regulation and reducing burdens on business has manifestly become a theme the Commission regards as valuable and politically astute. The Commission communication *A strategic review of Better Regulation in the European Union*<sup>8</sup> set the tone for what is required by setting out who should do what (see box 3.2). A draft *Action Programme for Reducing Administrative Burdens in the European Union* was published by the Commission on 24<sup>th</sup> January 2007<sup>9</sup> gives flesh to these aims and complements existing initiatives on simplification. The Commission claims that half the measures envisaged in the 3-year rolling programme launched in October 2005 have already been attained. In a statement that not all parties would subscribe to, the Commission observes that European legislation in itself represents simplification (one in, 25 out), but it nevertheless sees the need for simplification and reduction of rules, including existing ones.

The underlying aim of the Action Plan is to reduce the burden of regulation by 25% by 2012, although the Commission makes clear that the intention is not, necessarily, to deregulate so much as to simplify. In the communication, the Commission states that the overall 25% reduction target is a joint objective, which can only be attained on the basis of a shared responsibility and a common endeavour by the Member States and the European Institutions. It is important that all parties involved in this process take appropriate and quick action, so that the political objective can be translated into operational measures, to the benefit of the business community, in particular of the small and medium sized enterprises, and of the consumers.

---

<sup>8</sup> COM(2006)689 final

<sup>9</sup> COM(2007) 23

### **Box 3.2 The demands on different institution to promote better regulation**

According to the communication published in November 2006, there is a shared responsibility for arriving at better regulation. The communication assigns responsibilities as follows:

European Commission:

- x An updated simplification programme, aimed at generating tangible economic benefits, particularly through reducing administrative burdens and integrated in the Commission's legislative and work programme. For 2007, 47 initiatives are planned
- x Reinforced scrutiny of impact assessments through the creation of an independent Impact Assessment Board under the authority of the President
- x Strengthening the enforcement of Community law

Council and European Parliament:

- x More systematic impact assessments of major amendments to Commission proposals;
- x High priority to pending simplification proposals, to codification and to repeal of obsolete legislation.

Member States:

- x Development and enforcement of consultation mechanisms, where missing;
- x More systematic assessment of economic, social and environmental impacts through adequate guidelines and resources, and more transparency on the results;
- x Development of simplification programmes, where missing;
- x Improved application of Community law.

EU and Member States:

- x The Commission proposes the launch of an ambitious strategy for reducing administrative burdens. Given that administrative burdens originate both in European and national legislation, the Commission proposed that the Spring 2007 European Council fix a joint reduction target for administrative burdens of 25%, to be achieved by 2012, a proposal which the European Council adopted
- x Member States should, in the meantime, take similar actions at national level and should deliver on clear commitments to administrative burden reduction during the same period. Progress in such efforts should be reported in the National Reform Programmes and will be evaluated in the context of the Annual Progress Reports to the Spring European Council.

Source: Com(2006)689 final

### **Energy policy**

Consistent with the mandate from the 2006 spring European Council, EU policy on energy has been advancing over the last year, with the launch in January 2007 of the Commission's proposals for an Energy Policy for Europe and the approval of the strategy at the spring 2007 European Council. As expected the topic dominated the agenda of the 2007 spring European Council and the proposed new policy was duly endorsed (see section 4.5). Significant legislation is expected to follow during 2007.

The Commission notes that, despite Kyoto commitments, the EU is forecast to increase its emissions of greenhouse gases by about 5% by 2030. A headline goal for the new EPE is, therefore to counter this trend by aiming for a 20% reduction of emissions by 2020. Concern is also expressed about the projected rise in import dependency, a rise that is seen as potentially risky for Europe given geo-political considerations, not the least of which is the assertiveness of Russia.

As in so many other policy domains, a three pillar approach to energy policy is proposed. Box 3.3 summarises these pillars.

### **Box 3.3 The three pillars of the Energy Policy for Europe**

Pillar 1 is the creation of a fully integrated internal market for energy. The present fragmentation has long been stressed as an area for reform, but has also proved to be highly contentious for those Member States that regard such basic infrastructure as a matter of national economic security. The proposals include separation of production and distribution, better inter-connection across borders and stronger application of competition rules. All of these proposals are in the spirit of the internal market and echo what has already been put in place for industries such as telecommunications.

Pillar 2 is about a coherent strategy for diminishing the carbon intensity of energy supply. It encompasses targets for use of renewables (20% by 2020), and research to position the EU as a global market leader in low carbon emission energy production.

Pillar 3 concerns proposals for increasing energy efficiency, with a target of reducing demand in 2020 by 20% compared with its projected level. Compared with current energy use, this would represent a reduction of 13% in energy emissions.

The EPE also emphasises the international dimension of energy policy and enjoins Member States to agree a common approach to international energy policy.

There is some risk of contradictions within the three pillars. Thus, the logic of an integrated market for energy would, other things being equal, imply lower prices which might stimulate rather than curb demand. Similarly, increased energy efficiency that lowers demand might reduce the incentives for producers of alternative forms of energy supply. These contradictions do not pose insuperable problems, but they deserve to be recognised and, where appropriate, dealt with by regulatory interventions that ensure that offer ways to reconcile the three aims. The concept of lead markets, for instance, could be used to guarantee demand for renewables, even if they are initially commercially dubious.

The Commission's impact assessment that accompanies the policy proposals is positive about the aim of achieving a 20% renewables share by 2020, but suggests that a bigger share (such as the 25% target proposed by the European Parliament) would incur rising net costs and would be less attractive. It is a matter for conjecture just how useful such assessments are when they arrive at conclusions that support the figure the Commission has adopted, although a statement in the assessment that should be noted is that while non-regulatory measures such as voluntary codes will help, they cannot be expected on their own to ensure that the target is met.

#### **Commentary on the CLP and other possible priorities**

Although the CLP has made good progress, there does not seem to have been any disposition to add substantially to it in the current cycle. Given that a new programme will be required in 2008, this standpoint can be defended on the grounds that it is better to see through what is currently on the table than to overload the agenda. However, there are other areas that might have been included.

Certainly, some of what is on the table for the CLP could be considered less pressing compared with the much more extensive issues raised by the newly published inquiry into retail banking in the Union. This inquiry<sup>10</sup> reveals symptoms suggesting that competition may not function properly in certain areas of retail banking and points to the continuing fragmentation along national lines of retail banking services, and of payment systems and credit registers. The Commission Communication reminds readers that the inquiry forms part of the wider political context of the Lisbon Agenda and will help to deliver the objectives set out in the White Paper Financial services policy 2005-2010, where the Commission stressed the importance of the close interaction of internal market policy and competition policy .

However, in the proposals for the CLP set out in the APR, there is no mention of new initiatives in this key area. Given that one of the four priority areas is unlocking business potential, especially of small and medium sized enterprises (SMEs), it might have been expected that the list of follow-up actions or the updating of the CLP would refer to the costs and efficacy of retail financial services as a priority. In particular, given the inquiry's finding that there is inadequate competition in retail banking services, proposals for improving matters might have been expected. It is worth recalling in this regard that one of the major studies behind the Cecchini report, carried out more than two decades ago, identified many of the same problems of disparities in charges or restrictions on market entry.

Insofar as financial services, above all for SMEs, are part of the basic infrastructure of an economy, the CLP could be more forceful. Indeed, many of the compelling arguments put forward to justify an EU energy policy in the context of economic reform and competitiveness, can also be applied to financial services. Another theme to which the Commission inquiry draws attention is the tricky boundary between co-operation that provides benefits to users of financial services (for example in areas such as standards and the administration of payment systems) and collusion which becomes an-competitive and has a detrimental effect on users.

### 3 En

### En

National Reporting was meant to be light this year and many progress reports are. Some Member States appear to have made a real effort to respond to the comments made last year, but others have taken only limited account of the criticisms, although one praiseworthy aspect of the reports this year is that some of the Member States that did little to engage with stakeholders when preparing their NRPs in 2005 have made more of an effort to consult on their 2006 implementation reports. Even so, some Member States continue to report on the reform they have in progress, rather than to relate their actions to the Integrated Guidelines or the criticisms articulated by the Commission, EMCO or the EPC. There also remains a tendency to favour the sexy measures (such as research and development) and to pay less attention to awkward or low-profile ones. Sustainable development initiatives remain patchy and any urgency of boosting renewable energy sources is not all that evident. However, the launch of the energy strategy will manifestly raise the salience of this issue.

The euro area as an entity has been the subject of greater attention this year, both in the Commission reports and in its draft recommendations. However, there remains the governance problem that it is not obvious to which body the fiche for the euro area is

---

<sup>10</sup> Communication from the Commission Sector Inquiry under Art 17 of Regulation 1/2003 on retail banking (Final Report) COM(2007)33 final



addressed, let alone the recommendations. In particular, the Eurogroup, as a body composed of finance ministers, is not necessarily the optimal recipient of comments relating to many microeconomic issues or employment matters.

One specific development in 2006 was an attempt to reinforce the connection between growth and jobs, on the one hand, and the social cohesion dimension of the original Lisbon approach on the other. Following the decision to integrate the open method of co-ordination of social protection and social inclusion, Member States produced integrated National Strategy Reports covering Social Protection and Social Inclusion (NSR) a month ahead of the NRP Implementation Report deadline. To ensure that the social dimension remains prominent in Lisbon, there was supposed to be feeding-in of social policy initiatives that could be expected to promote growth and jobs from NSRs to NRPs and feeding-out from NRPs in reforms that address social protection and social inclusion objectives. Examination of this aspect of Lisbon suggests that it has not been very extensive in either direction for the majority of Member States.

#### Overviews of progress of NRPs

The implementation reports delivered in the autumn of 2006 provide an opportunity for Member States to describe progress on their NRPs, to respond to criticisms of their reform strategies from the various scrutiny processes in the first cycle of the PGJ, and to report on the introduction of additional measures. Due to the limited scope of the present study, only a limited examination of the progress individual Member States have made was possible. The overview presented in this section draws on the reports produced by the Commission, the Employment Committee (EMCO) in its Cambridge Review and the Economic Policy Committee (EPC), as well as on a separate exercise carried out by the study team.

In this exercise, the implementation reports were analysed with the aim of ascertaining how well the Member State has responded to last year's criticisms. This work, which is presented in an appendix to the main study, used qualitative scores for how well the Member State has adapted whether what is now proposed represents an improvement. While there is an inevitable element of subjectiveness in these assessments, they do nevertheless provide insights into where continuing problems lie and it is instructive that the assessments often coincide with others.

The EPC conducts a peer review in which each Member State is asked to present its report and is subjected to examination by the representatives of others. Although these reviews are relatively brief (EPC meetings are spread over three days), they are reported to be quite demanding and do subject the Member State to genuine scrutiny. It is a light-touch form of scrutiny in which the emphasis is on The EMCO review focused particularly on three topics: people at the margins of the labour market; flexicurity; and lifelong learning for older workers. The review is stated to have concentrated on implementation.

Here, a synthesis of the findings is presented. Bearing in mind that countries have different starting points, the Commission APR published in December 2006 notes that there is considerable variation in the pace, intensity and commitment towards reforms. The tone and intensity of the Commission scrutiny gives some clues to which Member States the Commission believes are the *bons élèves* and which continue to try the teacher's patience. On a country by country basis, the thrust of the Commission critique of the reports is reflected in the draft recommendations from the Commission addressed to Member States, presented in section 3.4 below.

There remains a division between those Member States (such as the UK or France) that appear to treat their NRPs as reports to the Commission on what is already happening, and those that see both the NRP and the implementation reports as statements of strategy.

There appears to have been more effort in engaging stakeholders by some of the Member States that were shown last year to have been remiss in this regard in the preparation of their NRPs. France, in particular, arranged a series of meetings and appears to have heeded the criticisms from the 2005/6 cycle. Elsewhere, however, the extent of consultation has been less impressive. Election periods may have been a factor in diminishing such consultation, but a further defence from Member States might be that an implementation report has less need for consultation than the initial formulation of a strategy.

In some key areas, such as R&D and innovation, most Member States have launched comprehensive reform strategies that can be expected to move their economies in the right direction. There is considerable diversity in approaches that offers opportunities for mutual learning, but may also signal that some Member States could go further. A substantial majority of Member States now have additional tax incentives for R&D, but the EPC notes that rather fewer have new co-ordinating structures. However, a concern expressed notably by the EPC is that more effort is needed in many Member States to improve the access to finance for SMEs. Moreover, too few countries have made the connections between the wider business environment (including competition policy) and innovation.

Raising the employment rate is one of the highest profile Lisbon objectives. Recent Eurostat data show that although the EU-25 increased its employment rate by 1.5 percentage point between 2000 and 2005 to reach 63.8% and should continue to rise so long as the current improvement in GDP growth is maintained, the rate has fallen in seven Member States and has barely moved in three others. The seven EU-25 countries which saw a fall in the employment rate between 2000 and 2005 are the Czech Republic, Denmark, Germany, Malta, Poland, Portugal and Sweden, although for Denmark and Sweden, the dip was slight and from a level comfortably above the 70% target<sup>11</sup>. Indeed a sizeable proportion of the overall gain in the EU is attributable to the very strong growth of employment in Spain. The large disparities among the Member States in employment rates are largely explained by the differences in one of the target groups, older workers. While the laggards in this regard (such as Belgium) are taking steps to improve matters, it will be a long-haul. Most Member States are, however, raising pensionable ages which will have repercussions not only for the employment rate of older workers, but also for the sustainability of public finances.

Although employment is generally prominent in the reports, the diversity among countries remains considerable, especially in the use of targets and the degree to which the three strands of the employment strategy are integrated. Nevertheless a general finding is that employment policy is achieving results and a particular trend is towards more individualised and tailor made support from modernised public employment services. However, there is criticism that not enough is being done to improve the quality of jobs or to enhance lifelong learning and other forms of human capital development. Policies aimed at improving adaptability are also criticised. Other key findings include:

- f* Considerable efforts to make work pay are noted as part of attempts to reach those most distant from the labour market: key words are activation and rehabilitation
- f* There is evidence of a wide-ranging search for means of implementing flexicurity, characterised by a wealth of specific initiatives
- f* Innovative approaches to life-long learning and imaginative schemes targeted at older workers are noted, but the scope of such policies appears to be wanting and there is insufficient focus on a life-cycle approach

---

<sup>11</sup> A fall was also recorded in Romania which has one of the lowest rates in the EU-27, although it is likely that there is under-recording of undeclared work

- f Increased attention is being paid to the integration of immigrants into the labour market and addressing their higher rates of unemployment
- f More Member States are implementing policies to improve the employability of the disabled

Immigration policies that target highly qualified researchers from outside the EU are being introduced in a number of Member States. One proposal that is likely to make progress in the coming months is to establish a green card system for qualified immigrants from the rest of the world. However, to limit the brain drain on home countries, a further proposal is to encourage circular movements between home and host. This will require unanimity in the Council for it to become an EU policy.

Initiatives aimed at better regulation and at easing administrative burdens do seem to have struck a chord with Member States and the scrutiny reports show a disposition to make progress in this area. It is, therefore, no surprise that this will feature prominently in the work programme for the coming year at both Commission and Member State levels, and was a central theme of the spring 2007 European Council.

Can 'Lisbon' take credit for the economic improvements?

Data relating to many of the structural indicators that are meant to be used to monitor the strategy, even today, do not go beyond 2005 and thus do not lend themselves readily to monitoring of a three year-strategy that started in 2005. Not surprisingly, therefore, clear progress on some of the most high profile structural indicators associated with the Lisbon strategy remains hard to discern. It has to be stressed that structural reforms are slow, follow a sequence and may give rise to initial dislocations that manifest themselves in apparently disappointing initial trends in relevant indicators. This j-curve path of reform can mean that genuine progress is not visible.

Even where the data are more up to date, such as for GDP or the employment rate, it is important to look beyond single indicators. Consider, for example, the gap in GDP per head vis-à-vis most prosperous countries (the US often being used as the benchmark). For several of the members that acceded to the Union in 2004, the gap in GDP per capita is mainly due to labour productivity. This is unsurprising given the magnitude of the gap and the dislocation effects of transition for the central and eastern European Member States. For the EU-15 the results are mixed: in some countries the key explanatory factor is labour utilisation while for others it is labour productivity. Overall both play a role in explaining sluggish growth and bad performance in comparison with US (figure 3.1)

### **Figure 3.1 Differentials in GDP per capita and their decomposition**

Percentage point differences in PPP-based GDP per capita relative to the United States, 2005.

Between 2000 and 2005 the employment rate in the EU increased most for target groups - female and older workers - but the recovery in labour productivity still appears to be slow, implying a possible trade-off where countries have pursued one Lisbon target at the expense of another (see figure 3.2).

### **Figure 3.2: Labour productivity growth, actual and trend line, EU 25**

Source: Commission Services

The Commission acknowledges the possible existence of a negative short-term trade-off between employment and productivity due to the inclusion of low skilled workers in the labour market, while in the long term there is more scope for a positive link between the two. From figure 3.3, it can be seen that only Ireland succeeded in achieving a combination of strong productivity gains and a rapid increase in the employment rate over the period, whereas in other Member States rapid productivity growth has been associated only with moderate employment rate improvements.

### **Figure 3.3 Employment and productivity development among Member States**

Source: DG ECFIN, 2006

There is more encouraging news on issues such as labour taxation, with the effective tax rate on labour having been reduced, especially for the low-skilled and for older workers in most EU Member States for which comparable data are available (see figure 3.4).

#### **Figure 3.4 Labour taxation**

Note 1 Social charges as a proportion of labour costs  
Source: OECD, online database

Despite the difficulty in finding hard evidence, the direction of change looks positive. There are, moreover, signs of improvement in Member States' commitment to reforms, noted by the Commission and the EPC, tempered by a fairly extensive list from both bodies of areas warranting further attention. EMCO has also highlighted areas where more effort is needed. A major question is whether, despite the Integrated Guidelines, there is sufficient policy integration and attention to cross-effects of different policies. Innovation policy features prominently in all NRPs, but a key spur to innovation is the intensity of competition - with a need to define optimal competitive conditions, rather than unbridled competition - and it is far less clear that this connection is made in the policy mix.

Overall, it is quite difficult to attribute changes directly to the strategy, although using the metaphor of turning round an ocean liner, there are signs that a (positive) change of direction is evident in many Member States. It may, though, be unhelpful to ask how strictly a Member State's reform agenda conforms to the aims of the PGJ and fits the Integrated Guidelines. Several interlocutors consulted in the course of this study have stressed that what matters is that the correct reforms should take place. Hence, it can be argued, the focus should be more on whether reform is happening, than whether it is happening according to the Lisbon agenda.

### 3.4

Having eschewed national recommendations in 2006, the Commission has now decided to reinstate them. It does so on the basis of a request from the Council to rely more on Treaty-based instruments in dealing with Member States. Specifically, it relies on Articles 99(2) and 128(4) of the Treaty and has adopted and put to the Council recommendations in which the integrated structure of the National Reform Programmes is taken into account.

A topic that, somewhat curiously given the attention paid to energy and climate change over the last year, receives comparatively little attention in the recommendations is implementation of Integrated Guideline number 11 concerning the sustainable use of resources. Nor is the advice consistent across Member States. For example, the Commission calls for measures aimed at reducing CO<sub>2</sub> emissions for countries like Spain, Denmark and Austria which are in the worst position to meet the Kyoto's targets, yet does not make a similar recommendation to countries like Italy, Malta and Cyprus.

The new national recommendations comprise either four or five paragraphs for each Member State. Table 3.5 provides an overview.

**Table 3.5 Overview of national recommendations**

Country	Score	Assessment	Recommendations
BE	5	Fairly positive	Quite extensive list of recommendations
CZ	5	Critical	Comprehensive list
DK	4	Strongly positive	Continue with what they are already doing
DE	5	Fairly positive	Focused suggestions, plus longer, more general suggestions
EE	4	Strongly positive	General, overly broad
GR	5	Critical, except for macro	Extensive and demanding
ES	5	Positive, stressing key areas	Useful specific proposals; vaguer general ones
FR	5	Neutral, but unflattering	Far-reaching specific elements; challenging agenda
IE	4	Strongly positive	Continue current efforts in selected areas
IT	5	Praised compared with 2005, but 2005 was strongly criticised	Focus on implementation, very demanding
CY	5	Positive; noting NRP on track	Mainly on social and employment policies
LV	5	Neutral, but express worries	Macro and micro measures sought, quite extensive
LT	5	Positive, but queries delivery	Two explicit ones; vaguer general orientations
LU	4	Strongly positive	Various labour market measures stressed
HU	5	Critical, but notes new NRP	So comprehensive as to equate to a full NRP!
MT	5	Positive	Limited specific ones; obvious, but demanding general points
NL	5	Positive, with some caveats	Mainly about labour supply
AT	5	Positive across the board	Older workers stressed otherwise very general
PL	5	Critical; implementation queried	Very far-reaching
PT	5	Positive; but reservations	Labour market stressed; other broad concerns
SI	5	Positive; some areas not good	Labour market and welfare reforms; long general list
SK	5	Neutral	Research and labour market stressed; other vaguer ones
FI	4	Strongly positive	Odd mix of detailed suggestions
SE	4	Strongly positive	General, more of same suggestions
UK	5	Positive	Skills upgrading; setting R&D target; otherwise very general
Euro area	5	Neutral; notes coordination flaws	Comprehensive list of measures needed and longer term aims

### 5.6

The Centre for European Reform (CER), based in London, has been publishing annual assessments of the Lisbon strategy since 2002, and its 6<sup>th</sup> scorecard was launched in February 2007. By comparing the assessments over time, an interesting picture emerges of which aspects of Lisbon are making genuine progress and which remain problematic. Overall, the CER gives what it calls the Lisbon process a mark of C+ in the last year, a slight improvement on a run of C grades in the previous three years.

But it is the ratings for different areas that are most instructive (see table 3.6). These suggest that in some key areas, such as R&D or telecoms and utilities, the verdict is that the efforts are worse than in previous years. By contrast, the grades are improving for the three categories of Enterprise, for information society and for the two labour market variables.

**Table 3.6 Centre for European Reform ‘grades’ for Lisbon aims**

Facet of Lisbon	Grade 2007	Trend
<b>INNOVATION</b>		
Information society	B+	Steady improvement
R&D	D+	Going backwards
<b>LIBERALISATION</b>		
Telecoms & utilities	C	Slight worsening
Transport	C-	Slipping behind
Financial and general services	B-	Steady grade
<b>ENTERPRISE</b>		
Business start-up environment	B	Continued good progress
Regulatory burden	B	Has maintained improvements
State aids; competition policy	B-	Slight improvement
<b>EMPLOYMENT &amp; SOCIAL INCLUSION</b>		
Labour supply & reintegration	C+	Very slight improvement visible
Upgrading skill	B-	On a gently improving trend
Modernising social protection	C	Not progressing after initial gains
<b>CLIMATE CHANGE</b>	B-	Better than in previous years

Source: Barysch et al. (2007)

Among the Member States, the CER scorecard is most negative overall about Greece and Poland, while praising Denmark and the Netherlands, the latter for having made extra efforts in 2006. Progress in Germany and in the Czech Republic is highlighted, whereas France and Hungary both fall in the ranking, by three and four places respectively. As a broad brush exercise that relies in many elements on past data rather than projections, the CER ranking is bound to be open to criticism, but its value is that it is systematic and comprehensive. Especially for the countries that attract the most criticism, the verdicts should sound alarm bells.

### 3.5

One of the most encouraging features of the PGJ is that there continues to be a strong desire, especially in the Commission, to make it work. Although the current three year partnership has shifted from strategy to implementation, the sub-title of the latest Commission Annual report *A year of delivery* can appear optimistic. The Commission now seems to be moving towards a more constructive dialogue with the Council, but also shows encouraging signs of being more firm in highlighting weaknesses in Member State NRPs. In this respect, the revival of recommendations to Member States, despite some reservations from the latter, can be regarded as a positive development.



Based on developments during the 2006/7 cycle, a first, straightforward observation to make about the Partnership for Growth and Jobs as a governance process is that it has done what was expected of it, at least in procedural terms. The value added of these procedures in terms of accelerating economic reform is far from established, but a reasonable verdict on Lisbon II, so far, is that it seems to have succeeded in engaging the various actors to a considerably greater extent than Lisbon I.

But the question that then arises is whether these more effective procedures are delivering result. As regards the Community Lisbon Programme, it is clear that real advances have been made and that the Programme overall is likely to be completed. However, for many of the measures within it, the Council and/or the European Parliament now have to take the next steps and that could engender delay.

The National Reform Programmes, as ever, are more mixed. Some Member States have clearly gone a long way towards achieving the sorts of reforms envisaged, but others are barely out of the starting-blocks. This conjunction does prompt doubts about whether a common format is appropriate. Manifestly, countries that were already well-advanced in their reform programmes by 2005 find it easier than the likes of Italy which has not only struggled to achieve consensus on what is needed, but has also faced political difficulties in implementing reform.

The Draft Recommendations presented by the Commission to the Council generally reflect the weaknesses in the National Reforms Programmes identified in the present study and in other assessments. But examination of the content of the recommendations reveals big differences. The impression given is that, though less so than in 2005/6, the Commission is reluctant to be too critical publicly of Member States. Two questions arise. The first is whether there is much to be gained from recommendations that are very bland or that, in effect, ask for a country to continue with what it is already doing, just so that something is said about every Member State. To the outside observer, the recommendations to Denmark, for example, do not seem that useful. Second, even where the recommendations highlight a range of shortcomings, does it actually help to compress these recommendations into a couple of sweeping paragraphs? Perhaps, by limiting the recommendations to countries that are plainly not performing well (such as Hungary, Portugal, Italy or Greece), they could be given greater edge, even if resort to overt naming and shaming remains taboo.

A continuing concern about the evolution of the Lisbon strategy is whether the aspiration to improve ownership can be realised and whether the political impetus behind it is sufficient. Ownership remains limited in the wider sense of engaging national political actors. There may even be a risk that once the initial NRP has been produced, interest wanes rather than being sustained – a form of Lisbon fatigue. On the other hand, it is results that matter, and it could be argued that a lack of consultation of social partners or media interest in Lisbon *per se* does not matter if, first, consultation does take place around particular reform initiatives and, second, the right reform is successfully achieved.

More generally, communication is a facet of the PGJ that probably needs more attention. If the public at large are ignorant of the strategy (and the stark reality is that this is the case) that same public is not likely to articulate demands on governments to do better. Media scrutiny is also hampered. There are no easy answers, but it is equally true that basic measures of communication are likely to help. Austria, for example, has a dedicated web-site for the Lisbon strategy ([www.lissabon-strategie.at](http://www.lissabon-strategie.at)) on which it not only presents information on the NRP and its progress, but also provides links and information on events. An online newsletter is also planned.

That structural reform is difficult to sell politically is undeniable and it also has to be recognised that it creates losers as well as winners, even if the overall effect is ultimately

positive. Moreover, as Cotis and Elmeskov (2006) put it: the losers tend to be easy to identify, to suffer significant losses and to do so in the early phases of structural reform. By contrast, the gains from structural reform usually emerge only after some time and are usually spread thinly over broad groups, who are often not very well organised. Yet if such reforms are to bear fruit they need to be applied with consistency and determination.

Changes to the reform agenda need to be made with circumspection and there is a case for delivering, or at least providing a platform for delivery, on what is already in the pipeline, rather than adding to the shopping-list. That said, the plans for the evolution of the CLP, in particular, look slender, possibly because the Commission now sees the Energy Policy for Europe as its principal ambition for 2007<sup>12</sup>. An obvious risk is that the energy policy issue though vital could crowd-out the reform agenda in the deliberations of the European Council and, by extension, other institutions. If the result is to blur the focus of the PGJ in a way that tempts Member States to diminish the political weight they attach to reform, the outcome could be unfortunate. The next section assesses the various demands for revision.

---

<sup>12</sup> It is a moot point whether the EPE is a distinct initiative or a new element in the PGJ.

It was inevitable in the run-up to the spring European Council that took place in March 2007 that possible changes in the policy approach would be advocated. These can be classified under three main headings of procedural changes, shifts in priorities and institutional developments. The three most substantive topics now set to dominate the reform agenda in the coming year are:

- f* The energy review which has leapt to the top of the policy agenda following the surge in oil prices in the last three years and the concerns about security of supply, aggravated by Russia's assertiveness with its neighbours and the flexing of Gazprom's commercial muscles.
- f* Flexicurity as the preferred model for reform of work arrangements, active labour market and inclusion policies, lifelong learning, and social protection systems
- f* The elaboration of the better regulation programme that the Commission announced in November 2006

Calls for change emanated from a range of sources, including lobby groups, think-tanks, the various EU institutions and NGOs. This section presents an overview and assessment of the conflicting demands.

Taking one step back from possible immediate reconfigurations of the PGJ, there have been several recent publications by heavyweight academic figures with messages of varying degrees of alarm about the outlook for the EU. The interest in such analyses is not so much whether detailed elements in the PGJ should change as whether the overall approach is well-conceived. Alesina and Giavazzi (2006: 3), for example, write that without serious, deep, and comprehensive reforms Europe will inexorably decline, both economically and politically, and their work implies above all that there has been too great a reluctance within the EU to acknowledge that a half-hearted approach to genuine market-oriented reforms will not suffice.

One line of argumentation is that there is a systemic problem to address, rather than just a need for ad hoc reforms, an example being the statement from Eichengreen (2006) that the same institutions of coordinated capitalism that had worked to Europe's advantage in the age of extensive growth now posed obstacles to successful economic performance. In this sense, the continent's very success at exploiting the opportunities for catch-up and convergence after World War II doomed it to difficulties thereafter. And the durability and persistence of institutions, which had worked to Europe's advantage after World War II, were now less positive attributes than impediments to growth. De la Dehesa (2006) also analyses the challenges the EU has to confront, arguing that ageing especially needs to be confronted. Since the Lisbon strategy only tangentially deals with such longer term issues, his analysis could be construed as a criticism. However, he is less pessimistic than other contributors about the EU's scope for reform.

On the other hand, as the tables from the World Economic Forum (WEF) reproduced in appendix 2 show, the EU Member States continue to feature high on rankings of competitiveness in general (table A1). All the EU 25 are in the top fifty of the WEF list of most competitive economies and the leading Nordic countries top the list.

The WEF Gender Gap index (composed of sub-indices covering economic participation and opportunity, educational attainment, political empowerment and health and survival)<sup>13</sup> also ranks most EU countries very favourably compared with other parts of the world (Table A.2).

#### 4.6

The Various Council configurations, as is customary, set out key messages that they wished the European Council to take into account in reviewing the PGJ during its March 2007 meeting.

For the Employment, Social Policy, Health and Consumer Affairs Council, delivery was highlighted as the priority and, although the Council praises the progress in the PGJ, it underlines the need for more rapid job creation (Council, 2007a). The Council also argues that the common social objectives of the Member States should be better taken into account within the Lisbon agenda in order to make a decisive impact on social exclusion and poverty. Not surprisingly, a number of the key messages concern social cohesion, with the Council calling for action to integrate and make more visible the social protection and social inclusion processes under the open method of co-ordination. Better functioning labour markets are canvassed, embracing:

- f* Flexicurity, which the Council mentions in connection with adjustment and labour market transitions, emphasising the security element in relation to precariousness
- f* The life-cycle approach to work
- f* Greater attention on those furthest from the labour market
- f* Enhancement of human capital
- f* Economic migration is also mentioned

The Competitiveness Council's key issues paper (Council, 2007b) is orientated around five main areas:

- f* The internal market in which it draws attention to the aim of further reducing the transposition deficit – the proportion of directives waiting to be transposed into national law
- f* The better regulation agenda, with a focus on reducing administrative burdens and enhancing impact assessment of the effects of regulatory and legislative actions
- f* Various technology and innovation initiatives, including the European Institute of Technology and energy technology
- f* Industrial policy measures, such as for the automotive industry
- f* Moving forward the Doha Round and other trade-related actions

The Transport, Telecommunications and Energy Council's priorities (Council, 2007c) are, not surprisingly, to advance the EPE. Elements of the policy that the Council stresses include the need to bolster the internal market for energy and to invest more extensively in new technologies. The Council also calls for a speeding-up of a common approach to external energy policy, highlighting a number of relevant prospective ways forward that include partnerships with neighbouring producer countries, on the one hand, and the main consuming nations, on the other.

---

<sup>13</sup> Details on the construction of these indices are provide on the WEF web-site at: [www.weforum.org](http://www.weforum.org)

For the Education, Youth and Culture Council the key messages sent to the European Council included a call for more intensive efforts on different levels of education (Council, 2007d). The Council calls specifically for more effort to reform education and to ensure that the Education and Training 2010 work programme is fully implemented and integrated with other facets of the Lisbon strategy. Emphasis is given to life-long learning.

The Economic and Financial Affairs Council (Ecofin) identifies as a first priority the need for Member States to take advantage of the favourable growth trend to consolidate their public finances (Council, 2007e). It also regrets the continuing high level of long-term unemployment. Much of the commentary on the PGJ in the key issues paper centres on how budgetary conditions can be improved, including by exchange of experience in the reform of tax systems. Integration of financial markets is given prominence in the context of a general exhortation to continue to advance the single market. Ecofin concludes its paper by advocating an examination of the scope for further streamlining the present planning and reporting system – a plea which could be construed as one for simplification of the governance of Lisbon.

## 2.5

With the reporting/scrutiny cycle now reasonably established, there may not be much point in exploring changes in the inter-actions between the Commission and the Member States. However, one risk that deserves to be mentioned is that the annual cycles becomes little more than a ritual in which all sides play their parts but then take little heed of what others say. The test here should be whether the procedures add value and what can reasonably be expected of them. In this regard, the elements of peer review and exchange of experience that were (or were intended to be) core features of the governance arrangement for the different OMCs warrant a fresh look.

In practice, it is really only in the Economic Policy and Employment Committees that peer review takes place, while exchange of experience does not seem to be at all systematic. Occasional meetings, such as that of the Lisbon co-ordinators held in October in Lisbon provide a channel, but probably do not reach out far enough. The inference to draw is that fresh initiatives should be countenanced. Links from the social to the economic ought also to be strengthened.

Among the different actors involved in the partnership, a number of changes might be explored:

- f* It is evident that the Lisbon co-ordinators are a body that would benefit from new ideas, with an obvious change being to find a genuine solution to the very varied status of those involved. Alternatively, the fact that meetings are infrequent and the role uncertain could even be seen as a justification for scrapping the idea of having such co-ordinators.
- f* Both the European Parliament and the Council of Ministers (and, indeed, the European Economic and Social Committee) are organised along sectoral policy lines (that is, economic and monetary, employment, education industry/competitiveness etc.) that do not correspond very well to the integrated agenda of the PGJ. The Parliament has its Lisbon Co-ordination Group that cuts across these sectoral policy areas, but the group has limited status. A possible procedural innovation (subject to rules of procedure) would be to match scrutiny more closely to the re-vamped Lisbon mix.
- f* The EESC in its capacity as a voice of civil society has been less involved in the PGJ during the last year, although it has a request outstanding from the European Council to report again in 2008 as it did in 2006. But is this voice of civil society sufficient?

Explanations abound for why the EU generally and most Member States have had slow growth and these, in turn, point to possible new substantive directions for policy. The OECD has carried out extensive analyses of labour market factors that it argues impede higher productivity growth in the EU, and while the organisation now tends to be less hard-line in its prescriptions than it was in the days of the 1994 Jobs Study, it still maintains that there are many areas in which reform would be beneficial. Areas emphasised include reform of employment protection legislation, especially where it has led to a dual labour market; more flexibility in wages; and reductions in administrative obstacles to mobility and flexibility.

The OECD, which has long pedigree in promoting microeconomic reforms, also emphasises the need for product market reform, especially the advantages of more competitive markets in stimulating innovation that leads to higher productivity. This perspective is echoed by Aghion (2006) who asserts that the approach to innovation is unsatisfactory. To get back on a high growth path, Europe needs a comprehensive and coherent strategy which also involves:

1. More competition and entry on the product markets;
2. More investment in higher education;
3. More developed financial sectors and markets and more flexible labour markets;
4. A more proactive macroeconomic policy over the business cycle.

Finally, there should be a clearer recognition that structural reforms may entail winners and losers; hence the importance of complementary policies aimed at correcting the inequalities caused by these reforms .

There is also the long-term outlook to consider: the EU has a relatively ageing population and arguably is not investing sufficiently in boosting future productivity (witness the low R&D ratio and the shortcomings, in many Member States, in the capacity for translating basic research into effect innovation). Most of the efforts detailed in NRPs are on improving the supply-side of innovation policy such as by raising the amount of investment in R&D, especially business investment. The role of the demand side in pulling innovation forwards also warrants discussion. Georghiou (2006) suggests that fragmented markets for innovative products and services can, themselves, be an obstacle to innovation and need to be nurtured. Public procurement can be one means of fostering innovation, while another is regulatory decisions or frameworks that give a boost to demand for innovative products. In this approach, demand side policies can be presented in three main groupings:

1. systemic policies which provide an environment which may amplify other innovation policy measures by optimising relationships between actors promotion of clusters being an example;
2. regulation which in many markets such as environmental technologies defines the competitive space and can be used to extend it; and
3. procurement where the purchaser can specify goods and services in terms of a function which offers higher performance than what is currently available off-the-shelf and hence requires an innovative step to achieve it.

The second of these hints at an orientation for better regulation making it better regulation with a purpose.

When the Partnership for Growth and Jobs was launched in March 2005, there was some concern that the social dimension that had been at the heart of the original Lisbon agenda had been marginalised. Although various developments since March 2005 have made it clear that the concern was exaggerated, social interests continue to call for better integration of the social and economic dimensions. A good example of this is the joint submission to the European Council from the European Trade Union Confederation, Social Platform (representing various social NGOs) and the European Environmental Bureau (2007) which calls for the PGJ to become more than a business-friendly agenda of internal market and simplified regulation. The submission argues for a race-to the-top in areas such as the environment, social cohesion and life long learning and champions an enhanced social dialogue. It notes that precarious work is inimical to social cohesion and advocates a greater focus on quality of work, and calls for a shift towards environmental taxes, couple with greater investment in eco-innovation as a potential source of employment and output.

Similarly, the political mood over the last year has swung behind demands for much more effective action to counter climate change. Yet although environmental objectives are encapsulated in Integrated Guideline 11 which is about encouraging sustainable use of resources, it is less obvious how environmental concerns fit into the shorter time-frame of Lisbon NRPs. Another longer term policy priorities that could highlighted is how to respond to the health and labour supply implications of population ageing.

#### 4 b

In some respect, the arrangements for the governance of the PGJ are sufficient and, some Member States might argue, already too heavy. Yet there remains an ambivalence about how Lisbon should connect to other major economic governance strategies such as the Sustainable Development Strategy (SDS) or the new Energy Policy for Europe. The Stability and Growth Pact also continues to be a relevant instrument of governance and, formally, there is still a need for decisions about the Broad Economic Policy Guidelines and the Employment Guidelines, despite their being superseded by the Integrated Guidelines. Euro area members are still obliged to submit annual stability plans, while non-members have to submit convergence plans, and the relationship of these plans to the macroeconomic component of the National Reform Programmes at the heart of the re-launched Lisbon strategy is not obvious. All of this is institutionally messy, though of limited consequence in practice.

More worrying is that the boundaries between the various mechanisms of governance and the linkages between them are not without ambiguity, although it is clear that Lisbon II is, in many respects, the big umbrella under which all the other processes shelter and is manifestly also the core political project of the current Commission. The Structural and Cohesion Funds have been Lisbonised in the sense that at least 60% of their expenditure (more in richer Member States) has to be on Lisbon objectives. Significant regulatory initiatives under the single market programme are identified as part of the Community Lisbon Programme.

Nevertheless, to take one example, the relationship between the PGJ and the SDS, both of which articulate key objectives of economic policy, is uncertain: the former stresses growth of output and employment, while the latter targets three pillars of competitiveness, social cohesion and environmental sustainability, as well as referring to the EU's international obligations. In agreeing the SDS in 2006, the European Council noted the risk that it could overlap with, and possibly be seen as in competition with, the PGJ, but argued that the two differed, implicitly assigning the PGJ the role of creating prosperity and employment, while the SDS is about quality of life.

It could be argued that the PGJ is more about short- to medium-term goals, whereas the SDS establishes a longer-term vision of the form of capitalist development that the EU wants to pursue. But what is not clearly spelt-out is how possible inconsistencies in aims are to be reconciled.

#### The euro area

There is, however, something of an institutional vacuum in relation to the euro area. Specifically, how the euro area as an entity should be dealt with as part of the PGJ is an issue that is coming to the fore. The obvious problem is that virtually the only two bodies with euro area mandates are the European Central Bank, which is not directly implicated in the Lisbon strategy, and the Eurogroup which, it should be recalled, is a forum comprising only Finance Ministers and their officials. Because it covers policies that are the responsibility of labour, industry and economic ministries (and possibly also those responsible for education, energy and transport), as well as their finance ministry colleagues, the PGJ manifestly has a wider reach than would routinely be covered by Eurogroup members.

The Spring 2006 European Council's call for better co-ordination of policies within the euro area sets the agenda, but offers no clues about means or possible institutional reforms. As discussed above in section 1.1, there are diverging perspectives on the value of co-ordination, but if an intensification of co-ordination is to be countenanced, it is worth speculating on how it might be achieved and what it might imply. In particular, who should be expected to receive and act upon the fiche addressed to the euro area prepared by the Commission services?

The simple if not very illuminating - answer is that the euro area fiche goes, in the first instance, to the governments of euro area who are expected to act upon the messages in it. They are invited in the 2006 fiche to consider structural reforms that will ensure the smooth functioning of the euro area. Here the question is whether euro area members need to think differently because they are part of the euro area or whether the same policies work regardless. One area which the Commission highlights is financial market integration, while another is integration of services markets. The Commission, in a carefully crafted phrase, states that the closer economic and financial interdependence generated by having a single currency makes it necessary for its Member States to be more ambitious and for the euro area as a whole to go beyond what is specifically required at the level of Member States. But where the fiche stops short is in canvassing possible institutional developments that would accelerate these aims, other than alluding to strengthening governance in the context of the Eurogroup.

The major problem in discussing euro area co-ordination is whether or not to contemplate forms of integration that exclude non members of the area. Possible options might include:

- f* Pan-euro area regulatory bodies to oversee, for example, financial markets
- f* A more extensive form of economic government than the present Eurogroup
- f* Cross-border taxation agreements

All of these options would encounter resistance both within the euro area and from outsiders. Moreover, differentiated integration is always a politically delicate and problematic answer. Yet if there is to be deepening of euro area governance, such changes may offer a way forward. Plainly this is a constitutional dilemma, as well as a challenge to economic governance.





At its spring 2007 meeting, the European Council (2007) notes in the Presidency conclusions that the Lisbon strategy is contributing to the favourable overall economic upturn and suggests that the EU employment rate can be expected to increase from the 64% recorded in 2005 to 66% in 2008. The conclusions also draw attention to the mutually reinforcing economic, employment and social developments.

The European Council calls on the Commission to prepare an interim report in autumn 2007 as a first contribution to the next set of Integrated Guidelines that will apply from 2008-11.

There is a standard plea for a stronger sense of ownership by civil society, social partners, regions and local authorities, which are all key elements in the achievement of the objectives of the Strategy. In this context further efforts should be made in order to improve communication .

The sections of the conclusions covering innovation and research are dominated by exhortations to Member States to spend more on R&D, to use available instruments such as lead markets and standards to good effect, and to invest more in human capital. The new European Research Council is highlighted and the conclusions go on to mention two initiatives that are given particular prominence in the Presidency conclusions: first, the European Institute of Technology which the Parliament is called on to move forward; and, second, a proposed strategy for eco-innovations.

The broad assessment of the PGJ is limited to six pages, containing twenty paragraphs, and contains little that can genuinely be described as novel. The conclusions then focus on two specific policy priorities: better regulation and, especially, the integrated climate change and energy policy. The latter is given as much space as the Lisbon strategy as a whole.

The Energy Policy for Europe (EPE) endorses the Commission proposals and will mean a focus three main objectives of increasing the security of supply of energy; underpinning European competitiveness and keeping energy affordable; and contributing to the reduction of harmful emissions in the interests of combating climate change. The key commitment on climate change is a conditional one in which the European Council undertakes to reduce EU greenhouse gas emissions by 30% by 2020 (compared with 1990), provided that other developed countries commit themselves to comparable emission reduction and economically more advanced developing countries to contributing adequately according to their responsibilities and respective capabilities [emphasis added]. If other countries do not agree, the European Council makes a firm commitment to reduce emissions by 20% by 2020, though because the starting point is 1990, this is less ambitious than it appears insofar as a reductions by 2012 had already been agreed as Kyoto targets. An immediate concern about this statement is that it raises questions about how to interpret what are manifestly ambiguous conditions and what happens if the conditions are not met. For China and India, as an illustration, would simply slowing the growth of their emissions constitute contributing adequately ? If the US balks at a target close to 30%, can the EU be content with the much softer 20% target?

The language used in the text on the emission targets is revealing: it refers to burden-sharing , rather than stressing the opportunities for the EU economy. A review of the emissions trading system is called for as part of the strategy, but the conclusions do not put forward explicit guidelines for, for instance, the degree of tightening in the system that should be attained. The conclusions are similarly vague about how transport systems should be improved to increase their environmental performance .

In endorsing the Commission's proposal for comprehensive energy action plan for the period 2007-09, the European Council does pave the way for tangible improvements in several areas, notably by quantified targets in a number of key areas. It is envisaged that a renewed action plan will be implemented from 2010 and, as a further measure, the Commission is invited to conduct a Strategic Energy Review in 2009. The upshot is that another economic governance cycle, with a different time period has been added to the existing mix. While there are good reasons for having each of the processes and for their periodicity, there is also some risk that their proliferation and the lack of overlap in timing can undermine policy coherence.

The better regulation decisions largely reflect the Commission proposals, with the commitment in particular to achieve a 25% reduction in the burden attributable to EU legislation by 2012. In earlier communications, the Commission had pushed for the 25% target to be one for both the EU level and the Member States<sup>14</sup>. The Presidency Conclusions recognise that there are different starting points and traditions and, in recognition of this, Member States are invited to set their own national targets of comparable ambition within their spheres of competence by 2008. It is difficult to interpret what this will mean in practice and in particular how collective progress is to be assured. In this respect, the new target is similar to the 3% R&D target in offering no guarantee that the individually set targets will add up to the aggregate aim, and as the experience of the R&D target shows (see above), when several Member States set targets below the collective one, it is an arithmetic certainty that the average will be below the objective. An additional complication is that a quantitative target for what is, essentially, a qualitative concept – administrative burdens – is open to different definitions, if not outright manipulation. The Commission has agreed to undertake an exercise to identify and measure administrative costs, yet also acknowledges that such costs are often necessary, for example to ensure consumer or worker safety. It may be that the Commission exercise can provide an empirically-founded basis for monitoring the burdens, but there must also be a risk of spurious precision.

---

<sup>14</sup> Commission working document COM(2006) 691: Measuring administrative costs and reducing administrative burdens in the European Union ; Communication from the Commission to the Council, the European Parliament, the European Economic and Social Committee and the Committee of the Regions COM(2006) 689 : A strategic review of Better Regulation in the European Union

In the second annual cycle of the Partnership for Growth and Jobs, the strong expectation was that there would be a major shift from the strategising that took place in 2005/6 to implementation. After the successive governance reforms in 2005, the system was expected to settle down and show whether it was capable of delivering progress. There is a measure of agreement that progress has, indeed, been made and that a momentum for reform has been building, and, to this extent, **a first conclusion of this study is that the re-launched Lisbon strategy appears to be more successful than ‘Lisbon I’.**

The strategy no longer has the deadline of 2010 set by the European Council when it met in March 2000. Instead, it is orientated around three year reform programmes, the second of which will need to be developed over the next eighteen months. This new timetable has advantages in terms of focus, but there is a danger that it will mean that less attention is paid to the priorities and trade-offs in the longer term (notably, climate change and demographic challenges). **How to reconcile the timetables and orientations of the different EU ‘mega-strategies’ requires thought.**

In particular, with climate change having risen up the policy agenda and the parallel concerns about energy supply, it would be valuable if the PGJ could be more directly linked to the re-launched sustainable development strategy. The danger of having too many over-lapping (and, sometimes, contradictory) governance processes is evident. **But there is also a compelling case for bringing together the different elements of the emerging economic model into a coherent whole that does more than pay lip-service to the environmental and social dimensions.**

The balance between evolution and consistency in the reform agenda is never going to be easy to strike. By setting four priorities in 2006 and asking Member States to achieve substantial progress on these by the end of 2007, the European Council could have distracted governments from other facets of the twenty four Integrated Guidelines. Today, one of these four priorities, energy policy, seems to be especially prominent on the policy agenda and proved to be the main focus of the spring 2007 European Council. **It will be important not to lose sight of the original reform agenda.**

An encouraging sign is that the extent of imbalances between the EU economies may be attenuating, although there are still striking disparities in growth rates. Germany's recovery, especially, has been important in this respect, although the continuing travails of Italy are a cause for concern. These differences can be attributed to either structural factors or to catch-up (in the case of the EU10) rather than significant cyclical divergence., and the report also notes that the relative performance of different Member States has broadly been maintained. But, as the contrasting pictures on imbalances in growth and in external accounts presented in section 2 show (figures 2.2 and 2.3), the immediate economic prospects may not improve greatly. **The relatively favourable economic position at present can facilitate the pushing through of reforms in a context of reasonable growth and low inflation and Member States should beware of missing this opportunity as happened in 2000.**

Structural reform is a slow process, even if it has to move on and confront new challenges, so that extensive shifts in the policy especially if they represent changes of tack or new approaches can often result in confusion and may leave behind unfinished business in areas that are out of the spotlight. Some Member States have recognised that their NRPs were unsatisfactory and have taken steps to improve them, a development that is to be welcomed. Implementation is, however, also about learning by doing and **Member States should be encouraged to be constructive, rather than defensive, about peer review and exchange of experience.**

The Community institutions (the Commission in the first instance, but also the Parliament, the Council in its different configurations and through the Economic Policy Committee and the Employment Committee and the European Economic and Social Committee, especially in its role as the voice of civil society) have to be as explicit as possible in their assessments and recommendations. Traditional Committee structures and formations may, however, not always provide the best way of conducting such scrutiny, precisely because the reform agenda integrates previously disparate sectoral policies. **All the Community Institutions have a part to play in the scrutiny of the Partnership for Growth and Jobs and should review their internal configurations in the light of the PGJ focus to ensure that they enhance the effectiveness of their oversight.**

The PGJ is not just a technocratic exercise in identifying detailed policy changes, but is also a political strategy to place reform at the heart of economic governance. As such it can only work if there are corresponding commitments at all levels. It is for this reason that ownership is seen as a vital element in making the strategy work. The Commission, in its latest annual report, acknowledges that there is still some way to go in this regard, and a number of the experts interviewed in the course of this study have been markedly less sanguine. It is hard, though, to find much evidence in many Member States that the Lisbon strategy is seen as anything other than a remote, if well-meaning, set of procedures, understood only by Brussels officials and a small number of their national counterparts. Some efforts to alter this have been undertaken and have made a difference; for example the dialogue between the European Parliament and National Parliaments is seen as a positive development. But much more needs to be done. The obvious conclusion to draw is that, to make it more effective **all actors engaged in the Lisbon strategy have to rise to the political challenge of making it relevant in national debates about economic policy.**

A particular concern is that the PGJ has acquired a negative image in some countries which call into question the merits of economic reform. **This implies greater efforts to communicate what the strategy is, why it matters and the scope for it to create the jobs and economic activity of the future.**

The Partnership for Growth and Jobs has achieved the bulk of what was expected of it in procedural terms, and it is reasonable to say that as an approach to economic reform it is more coherent than the original Lisbon strategy and can become a better system for economic governance. Moreover, the fact the various forms of co-ordination of social policy are also now better integrated promises to make the social dimension more relevant than it appeared it might be in March 2005. But the whole package now faces the acid test of whether it is genuinely making a difference to outcomes and on this question the jury is still out. **In the next year, a much greater emphasis is needed on demonstrating that the effort devoted to the Lisbon strategy is being translated into reforms, and that these reforms, in turn, are improving well-being in a manner that will be understood and recognised by citizens.**

One aspect of the procedures that has not proceeded as planned and which therefore remains unsatisfactory is the Lisbon co-ordinators that each Member State is supposed to nominate. Although progress has been made to the extent that there is a named co-ordinator, the list is very diverse, with some countries naming high-ranking politicians while in others the post is filled by a civil servant. Nor is it that clear what the core purpose of these co-ordinators is, not helped by the fact that they only meet as a group twice a year. Their meetings offer a channel for exchange of experience, but they do not seem to contribute to peer review. The conclusion drawn is that **arrangements for national Lisbon co-ordinators are unsatisfactory and what could be a potentially important channel for raising the visibility of the PGJ is not being adequately exploited.**

In terms of the list of actions taken, the Community Lisbon Programme appears to be well on course. For a number of its elements, the baton has been passed from the Commission to the Council and the European Parliament for the next stages of implementation. **Since the Community Lisbon Programme contains agreed actions at Community level, it is incumbent on all the Community institutions to expedite the completion of its measures.**

Two initiatives that the Commission highlights in its Annual Progress Report as major additions to the CLP are the Globalisation Adjustment Fund and the European Institute of Technology (EIT). The former will have an annual budget of 500 million, but the criteria for allocating even this limited amount of money are not very transparent. The EIT proposal has progressively been watered down from the original concept of emulating the Massachusetts model, and has now been recast as a virtual institution. Informed insiders now speculate that it might quietly be killed-off. **Tough questions should be asked about whether these two proposals are really the best way of showing that the CLP remains dynamic.**

The restoration of recommendations to Member States is to be welcomed. However, the nature of these recommendations can be improved. Member States have resisted explicit naming and shaming and this seems to have meant that the phrasing of recommendations has had to be cautious on the part of the Commission. While not advocating the public pillorying Member States that fall short of their reform ambitions, it would be better if the recommendations could be more specific and pointed in character. **One means of achieving this would be for Member States to be invited to set their own targets for a range of key objectives, enabling their progress to be monitored in a way that is more subtle than crude naming and shaming based on collective targets.** It is also questionable whether there have to be recommendations to all Member States, despite the attractions of appearing to be even-handed. On the contrary, it could be argued that if part of the aim of the national recommendations is to give momentum to reform, then external pressure can be useful, if embarrassing at times. **A further proposal from this study is that recommendations under the Integrated Guidelines should be limited to those Member States for which the advice can be expected to result in specific changes.**

From many sides there is now a greater willingness to acknowledge that the euro area in its entirety, as well as the individual states that are full participants in it has to be seen as a player in the Lisbon strategy. Although the impact of higher energy prices has made it difficult for some of the booming EU-10 countries to achieve inflation rates consistent with euro area membership, this effect will unwind as oil prices stabilise. It will not, therefore, be long before other Member States queue up to join Slovenia in acceding to the euro area. This prospect reinforces the urgency of finding ways of improving the co-ordination of the euro area economies and, by doing so, creating the tools needed to achieve an optimal policy mix. **A recommendation is, therefore, to search for ways of developing better co-ordination of economic policies across the euro area as a whole.** Institutionally, this means going beyond the remit of the Eurogroup to encompass economic policy actors other than finance ministers, and possibly also countenancing differentiated solutions.

In the course of the coming year, preparatory work towards the review of the EU budget due in 2008/9 can be expected to accelerate. It is generally recognised that the paucity of Lisbon-related budgetary allocations is a weakness and the coming review will provide scope for fresh thinking on how EU spending can contribute more extensively to the goals of the PGJ. **A recommendation of this study is that the European Parliament should focus on what sorts of Community spending will boost the prospects of advancing economic reform.**

Finally, the European Parliament, as a key actor, should be aware that the first steps towards new Integrated Guidelines for the period 2008-11 will be taken over the coming year.

In the light of the criticism, expressed in colourful terms by one official consulted in the course of this study that the present IGs are the former Broad Economic Policy Guidelines and the Employment Guidelines simply stapled together, this will be an opportunity to ensure genuine integration of reform frameworks. **It will be important for the European Parliament to articulate its priorities for the next set of Integrated Guidelines early and to engage in dialogue not only with the other institutions, but also with wider interests.** In addition, the Parliament has the opportunity to lead the debate on **how the Lisbon Agenda should be linked to other major strategies and imperatives at European level, including sustainable development and coping with ageing.**

## B

- Aghion P. (2006) A primer on innovation and growth Bruegel Policy Brief 2006/06, Brussels: Bruegel
- Alesina, A. and Giavazzi, F. (2006) The Future of Europe: Reform or Decline Cambridge, Mass: MIT Press
- Barrell, R. (2007) Economic growth in Europe: introduction National Institute Economic Review 199, 65-68
- Buti, M., Röger, W. and Turrini, A. (2007) Is Lisbon far from Maastricht: trade-offs and complementarities between fiscal discipline and structural reforms Brussels: DG Ecfm, European Commission
- Collignon, S. (2003) The European Republic: policy proposals for a future constitution Munich: CAP Working Paper
- Commission (2007) i2010 - Annual Information Society Report 2007 COM(2007) 146 final
- Cotis, J-P (2006) Editorial: smooth rebalancing? Economic Outlook No. 80, Paris: OECD
- Cotis, J-P. and Elmeskov, J. (2006) Competitiveness and structural policies: where does the EU stand? Helsinki: Economic Council of Finland
- Council (2007a) Document number 6226/07 (Presse 23)
- Council (2007b) Key issues paper Doc. 6560/07
- Council (2007c) Document 6271/07 (Presse 24)
- Council (2007d) Document 6095/07 (Presse 20)
- Council (2005e) Document 6610/07 (Presse 35)
- De la Dehesa, G. (2006) Europe at the Crossroads London: McGraw Hill
- Eichengreen, B. (2006) The European Economy since 1945 Coordinated Capitalism and Beyond Princeton: Princeton University Press
- ETU, Social Platform and the Environmental Bureau European (2007)
- European Council (2007) Presidency conclusions of the Brussels European Council (8/9 March 2007) Doc. 7224/07
- Gordo Moura, L. and Nogueira Martins, J. (2007) How reliable are the statistics for the Stability and Growth Pact? European Economy Economic Papers 273
- Gordon, R.J. (2004) Why was Europe left at the station when America's productivity locomotive departed? NBER Working Paper no. 10661
- Issing, O. (2002) On macroeconomic policy co-ordination in EMU Journal of Common Market Studies 40, 345-68
- McMorrow, K. and Röger, W. (2007) An analysis of EU growth trends, with a particular focus on Germany, France, Italy and the UK National Institute Economic Review 199, 82-98
- Sapir, A. et al. (2004) An agenda for a growing Europe: the Sapir report Oxford: Oxford University Press
- Tanzi V. (1988) International co-ordination of fiscal policies: a review of some major issues IMF Working Paper no. 88/70

Tindemans, P. and Soete, L., with Vergouwen, D. Wigzell, H. and Zehndr, A. (2007)  
Assessment of the feasibility and possible impact of the establishment of a European  
Institute of Technology Study for DG Internal policies of the Union, European Parliament,  
Brussels and Strasbourg: European Parliament



## **Appendix 1: Assessment of the 2006 National Reform Programmes Implementation Reports<sup>15</sup>**

In the fiches for each Member State published along with the Annual Report in January 2006, the Commission made a number of observations about that Member States programme. These observations were as close as the Commission came to making recommendations and can be used as a means of exploring how Member States have responded to the critiques of their NRPs. This appendix presents the results of an exercise conducted by CEPS for this purpose.

A compliance score has been built to assess whether countries, in the updated 2006 reports of the national reform programmes, have been following up the remarks and the shortcomings that the Commission pointed out last year.

The score assesses to what extent the country is operating in order to meet the commission s recommendations.

The scores are on a five point scale from 0 to 4, as follows:

- 0 means that the Commission s comment does not appear to have been dealt with.
- 1 means that only small steps have been taken towards dealing with the criticism.
- 2 means that the issue has been partially addressed but details are missing
- 3 means that a range of new measures have been undertaken.
- 4 means that the issue has been comprehensively addressed.

---

<sup>15</sup> This appendix was prepared by Raffaele Fagnoli with the support of Juraj Draxler

AUSTRIA	Score
General Remarks: None	
<b>Macroeconomic Policies:</b> General Remarks: More clarifications about the fiscal commitment to reach budget balance between 2008.	2
<b>Microeconomic Policies</b> General Remarks: No clear commitment in the implementation of internal market directives Specific Remarks Need for liberalisation in the service sector. Increasing private R&D spending. Further initiatives to foster entrepreneurship	4    1  3
<b>Employment Policies:</b> General Remarks: Increase the employment rate of older worker and implementing a life-long learning strategy Specific Remarks Increase the number of child-care facilities Foster the inclusion of immigrants in the labour market	2   3  2

## Comments and explanations of scores

### **More clarifications about the fiscal commitment to reach budget balance between 2008 - Score: 2**

The report stresses the commitment to achieve budget balance within 2008, nevertheless further measure to accelerate the path of reduction in budget deficit have not been implemented. However, the long term sustainability of public finance is not a matter of concern because of the positive trend in debt reduction and the productive spending on infrastructure which is contributing to GDP growth.

### **No clear commitment in the implementation of internal market directives - Score: 4**

Progress is evident in the implementation of internal market directives. The implementation rate is consistent with the goal set by the European Council in Stockholm (1.4% vs target rate of 1.5%).

### **Need for liberalisation in the service sector - Score: 1**

The service sector appears to be over-regulated and measures to address this issue are not likely to be implemented since the government stresses the importance of regulation for some kinds of liberal professions.

### **Increasing private R&D spending - Score: 3**

Positive actions have been undertaken to foster private expenditure on R&D, including through government subsidies for R%D initiatives. Particular attention has been dedicated to the optimisation of the leverage effect of public spending.

### **Further initiatives to foster entrepreneurship - Score: 2**

More concrete initiatives are needed to address this issue even though actions aimed at enhancing the entrepreneurship culture have been launched.

### **Increase the employment rate of older worker and implementing a life-long learning strategy - Score: 2**

Increasing the employment rate of older worker is the main challenge faced by the Austrian government. Even though some progress has been made in increasing their participation in the labour force, additional effort is still needed especially concerning the lifelong learning strategy, where the implementation of a comprehensive strategy is still in a phase of consultation.

### **Increase the number of child-care facilities - Score: 3**

The report envisages the construction of 18000 new places for childcare. Positive contribution can also come from the fund allocated for testing innovative projects relating to flexible care hours and inter-generational care. In the compulsory school sector the introduction of the five-day week provides additional care for children from 6 to 14 years old.

### **Foster the inclusion of immigrants in the labour market - Score: 2**

Although the government acknowledges the need for major integration of migrants into the labour market and target group-specific programmes have been proposed, additional effort to achieve the effective implementation of these measures is required.

BELGIUM	Score
General Remarks:	
<p>Macroeconomic Policies:</p> <p>General Remarks:</p> <p>Need for an assessment of the budgetary impact of the reduction in the tax wedge on labour.</p> <p>Specific Remarks</p> <p>More clarifications on the measures envisaged to reduce health care expenditures.</p> <p>Doubts about the possibility of achieving wage moderation through the existing system of wage negotiations.</p>	<p>2</p> <p>3</p> <p>2</p>
<p>Microeconomic Policies</p> <p>Specific Remarks</p> <p>Doubts about the effectiveness of the state international cooperation network</p>	<p>1</p>
<p>Employment Policies:</p> <p>General Remarks:</p> <p>More information about budgetary allocation and time implementation of measures concerning language training and interregional mobility.</p> <p>Specific Remarks:</p> <p>Need for tackling regional employment disparities through a more centralised approach.</p>	<p>3</p> <p>2</p>

Comments:

**Lack of assessment on the budgetary impact of the reduction in the tax wedge on labour - Score: 2**

The report explains that part of the reduction in the tax wedge will be financed by the introduction of new taxes on non-labour income and by expenditures restraints. Nevertheless since the recourse to one-off measures is still large and further effort to reduce the tax wedge is required, the policy is not totally consistent with the necessity of achieving a substantial debt reduction in the next years.

**More clarifications on the measures envisaged to reduce health care expenditures - Score: 3**

There has been genuine progress in containing the raise of health care expenditures. In 2005 they grew in nominal term by about 2.9% of GDP, below the annual maximum rate of growth allowed of 4.5%.

The report underlines that these results has been achieved thanks to structural measures aimed at making players and institutions more responsible in their spending policies. More details on the measures are not provided.

**Doubts about the possibility of achieving wage moderation through the existing system of wage negotiations - Score: 2**

The negotiation of a new inter-sectoral agreement only started in 2006, so that an appraisal of the scope for achieving wage moderation is not yet possible. However the report mentions a joint statement by the social partners stressing their commitment to a more competitive economy and more job creation.

**Doubts about the effectiveness of the strategy in international cooperation network - Score: 1**

The report mentions that the strategy to develop competitive and competence poles has been strengthened. Nevertheless the international and cross-border dimension is not well specified.

**More information about budgetary allocation and time implementation of measures concerning language training and employment services - Score: 3**

The annex of the updated report provides details about the expenses related to employment measures both at regional and federal level.

**Need for tackling regional employment disparities through a more centralised approach - Score: 2**

Some measures have been undertaken to address this issue. Cooperation between employment agencies has been enhanced in the last year by setting up an automatic exchange of vacancies between regions and by increasing the exchange of job seekers taking training courses in other Regions. Nevertheless given the magnitude of regional disparities further effort by the federal government is needed to achieve meaningful results.

CYPRUS	Score
General Remarks: None	
Macroeconomic Policies: General Remarks: Need for more details and budgetary impact reforms such as the ones in the health care and in the social security system, regarded as crucial to ensure long term fiscal sustainability.	
Microeconomic Policies General Remarks: More attention to promote cross-border knowledge transfer.	3
Employment Policies: Specific Remarks: Need for a more comprehensive strategy for lifelong learning. Reducing early school leaving.	2  3

Comments:

**Need for more details and budgetary impact of reforms such as the ones in the health care and in the social security system, regarded as crucial to ensure long term fiscal sustainability - Score: 2**

The government is still having consultations with the social partners about reforms in the social security system. Some measures proposed are mentioned and their implementation should occur by the end of the year.

With respect to health care reform the report provides new details and it states that a clear timetable for the introduction of a National Health Insurance System will be defined in the next months. The budgetary impact of the two reforms is still missing.

**More attention to promote cross-border knowledge transfer - Score: 3**

New actions reflecting an increasing international cooperation have been undertaken. These include the provision of additional support for participation in the research activities of the European Science Foundation, participation of researchers in the Framework Programme of the EU for RTD and promoting researcher commitment in the bilateral agreement conducted by the government in the field of research.

**Need for a more comprehensive strategy for lifelong learning - Score: 2**

A first draft of the strategy was completed in September 2006 and was expected to be finalised by December 2006. In addition it has been decided to establish a Lifelong Learning Committee.

**Reducing early school leaving - Score: 3**

The government does not share the Commission's concern on early school leaving rates, since it argues that the high value reported by Eurostat reflects factors not allowed for in the statistics. Specifically it points out that a large number of Cypriots study abroad and persons aged 18 to 24 years have to undertake compulsory military service. Furthermore it stresses that the statistic includes foreign workers living in Cyprus provisionally.

Nevertheless several programmes have been implemented to further reduce this phenomenon.

CZECH REPUBLIC	Score
<p>General Remarks:</p> <p>The Czech update provides very detailed and well-structured background information and information on continuing progress. The updated NRP addresses some of the issues raised by the Commission in its assessment but still shies away from setting clear targets and milestones. The progress reported, however, seems to be steady, except for fiscal policy, where the election year 2006 has left the country with a large deficit and official confirmation that 2010 no longer remains likely as the year for euro adoption.</p>	
<p>Macroeconomic Policies:</p> <p>The update to the NRP includes a candid assessment of the fiscal situation which has shown signs of deterioration in 2006. In fact, since the report the Czech government has officially declared that the country is not likely to adopt the euro by 2010, as envisaged in the original NRP.</p> <p>The update contains no details on concrete restructuring measures, apart from the description of the ongoing process of merging off-budget public agencies with government ministries to bring public finances under tighter control.</p> <p>The Commission's call for a clearer picture on healthcare and pension reforms is largely unaddressed in the update.</p>	
<p>Microeconomic Policies</p> <p>The list of measures in micro-economic policies is very long in the update by the Czech government. Some are more at the level of initiatives. For example, the government wants to prepare an audit of administrative burdens for business in 2007 and then create concrete measures to decrease it.</p> <p>A more concrete measure is the start of the implementation of central registry points for registering new businesses.</p> <p>The update again fails to include clear targets on R&amp;D intensity but besides keeping targets for spending it also provides updated measures to restructure the financing of the R&amp;D, and strengthening project financing. There are no new measures included on tax incentives for innovation and R&amp;D.</p> <p>The update outlines new developments in the health care area, where a 10% bonus has been introduced and effective personal income tax level continues to decrease.</p>	
<p>Employment Policies:</p> <p>The section on employment policy is extremely detailed, reflecting the wealth of measures in the Czech Republic to deal with challenges in the labour market. It includes an update on the Labour Code, which was amended in May 2006 and provides for several new ways of flexible employment. From January 2007, new measures are in place for providing means-tested assistance to active job seekers.</p> <p>The report includes updates on initiatives on the use of ICT, or re-training schemes and life-long learning policies.</p> <p>Despite the Commission's recommendation, there is no specific plan to provide for the inclusion of the Roma through labour market policies.</p>	



DENMARK	Score
<p>General Remarks:</p> <p>None</p>	
<p>Macroeconomic Policies:</p> <p>General Remarks:</p> <p>More concrete measure to ensure long-term fiscal sustainability.</p>	3
<p>Microeconomic Policies</p> <p>General Remarks:</p> <p>Lack of details about the effort made to enhance competition in some sectors (professional services, utilities, construction).</p> <p>Specific Remarks:</p> <p>Lack of details about mechanisms to foster knowledge transmission between research institutions and private sector.</p>	4
<p>Employment Policies:</p> <p>General Remarks:</p> <p>Doubts about the suitability of the plan aimed to attain a permanent increase in labour supply.</p>	2

Comments:

**More concrete measure to ensure long-term fiscal sustainability - Score: 3**

The sustainability of public finances is strictly related to the main goal of achieving a permanent increase in labour supply, the key focus of current employment policy. Nevertheless since Denmark has sound finances and the issue of raising labour supply is acknowledged by the government the long term sustainability should not be matter of particular concern.

**Lack of details about the effort made to enhance competition in some sectors (professional services, utilities, construction) Score: 3**

The annex lists a wide range of initiatives aimed at boosting competition in different areas; however some sectors, such as the utilities market, are still neglected.

**Lack of details about mechanisms to foster knowledge transmission between research institutions and private sector - Score: 4**

More details were sought about the mechanism to disseminate knowledge from research institutions to private enterprises. The new report deals with the Commission s request by providing a broad description of several initiatives on such issues.

**Doubts about the suitability of the plan aimed to attain a permanent increase in labour supply - Score: 2**

The sustainability of public finances is strictly related to the main goal of achieving a permanent increase in labour supply, key focus of current employment policy. Last year the Commission raised doubts about the effectiveness of some of the measures envisaged to reach the aim of increasing labour supply by 50000 units within 2010. The new Welfare Agreement reached in June 2006 contains new positive measures, including the rise in the age thresholds for voluntary early retirement, however the medium-term goal has been cut off and the actual figures foresee a rise of just 13000 persons by 2010, while the overall effect of the agreement should entail an increase of 125000 persons by 2040.

ESTONIA	Score
<p>General Remarks:</p> <p>Further measures are required to develop a comprehensive active labour market policy.</p> <p>Additional details about the use of structural funds are required.</p>	<p>3</p> <p>2</p>
<p>Macroeconomic Policies:</p> <p>General Remarks:</p> <p>None.</p>	
<p>Microeconomic Policies</p> <p>General Remarks:</p> <p>More emphasis about achieving higher private R&amp;D spending.</p> <p>Specific Remarks</p> <p>Needs for more explicit budget commitment on the R&amp;D spending issue.</p>	<p>2</p> <p>3</p>
<p>Employment Policies:</p> <p>General Remarks:</p> <p>Lacks of clear details on the policies aimed at increasing overall employment rate and disabled people employment rate.</p> <p>Specific Remarks:</p> <p>Major focus on the rise in the female participation rate by implemented measures regarding gender equality and on the ethnic minorities' unemployment rate.</p>	<p>3</p> <p>1</p>

## Comments:

### **Further measures to develop a comprehensive active labour market policy – Score: 3**

There have been several changes in the provision of labour market services. First of all six new employment services have been added; furthermore active job-seeking in order to be eligible for unemployment benefits is now required and there has been the implementation of the principle of case management.

Overall government expenditures on active labour market policies have increased by 28% since 2004 and they account for the 75% of total labour policies expenditures.

### **Additional details about the use of structural funds are required - Score: 3**

The report contains a section dedicated to the structural funds contribution in financing the actions undertaken. Nevertheless a more detailed approach included the allocation of every single fund following the example of some country practice (i.e. Spain) could have been envisaged.

### **More emphasis on the rise in private R&D spending and the role of structural funds in this context - Score: 2**

The Estonian government acknowledges the crucial importance of boosting private R & D spending and it underlines that despite the small scale of enterprises and of the difficulties they face in obtaining access to credit, their expenditures have sharply increased during the years 2001-2004.

In order to achieve significant progress the on-going actions have been reinforced. This is reflected in the Government approval of the Development Fund Act aimed at facilitating the access to capital for firms and in the creation of a new Centre of Competence to foster cooperation between universities researchers and enterprises.

Further efforts are required in order to achieve the ambitious target of 45% in private R%D expenditures in total spending (the current level is 39%).

### **Needs for more explicit budget commitment on the R&D spending issue - Score: 4**

The government budget commitment appears impressive (50% increase in total R&D spending by 2006 and planned increase in the R&D infrastructure and human resource development during the years 2006-2007 of roughly 100%).

### **Lack of clear details on the policies aimed at increasing overall and disabled people employment rate - Score: 3**

The measures focused on disabled people have been clarified as well as the broad series of actions included in the labour strategy.

### **Major focus on the rise in the female participation rate by implemented measures regarding gender equality and on the ethnic minorities' unemployment rate - Score: 1**

The report mentions the big differences in unemployment rate between Estonians and non Estonians (5.3% vs 12.9%) but does not explain how to address the issue. With respect to female participation efforts are still concentrated on improving childcare facilities while the question of gender equality is neglected.

FINLAND	Score
General Remarks: Enhancing competition in the service sector.	1
Macroeconomic Policies: General Remarks: None	
Microeconomic Policies General Remarks: Doubts about the effectiveness of the initiatives proposed to boost competition.           Specific Remarks: More details on Finnish competition authority's ability to foster competition.	1  2
Employment Policies: General Remarks: Further measures are required to reach the 75% employment rate target by 2011.           Specific Remarks: Major attention to be paid to employment-based immigration.	1.3  4

Comments:

**Enhancing competition in the service sector - Score: 1**

The report acknowledges that a lack of competition in service markets is

causing higher prices compared to the rest of Europe, but concrete specific measures are still lagging because of the sector heterogeneity, highlighted in a study undertaken by the Prime Minister's Office.

**Doubts about the effectiveness of the initiatives proposed to boost competition – Score: 1**

The Commission expressed doubts about the current strategy to cope with competition issues. The report does not fully address this uncertainty because it just focuses on a major commitment to apply the existing competition policy more rigorously, while other actions regarding regulatory mechanisms and state subsidies are still under examination.

**More details on Finnish competition authority's ability to foster competition – Score: 2**

The report clarifies the means by which the authority addresses competition issues and the various initiatives it takes to fight cartels in the markets, nevertheless further concrete measure would be needed.

**Further measures are required to reach the 75% employment rate target by 2011 - Score: 3**

The Finnish government largely relies on the plans already implemented to increase the employment rate, however it mentions other actions to be undertaken in order to extend work careers such as supports for employers who hire older people and various training and rehabilitation programmes. Further efforts to strengthen incentives in the tax and benefit system and to improve the balance between labour demand and supply are considered in the report.

**Major attention to be paid to employment-based immigration - Score: 4**

A new immigration policy to increase employment-based immigration has been launched in 2006. No limitations have been imposed to immigration from Romania and Bulgaria while those for EU10 citizens have been lifted.

FRANCE	Score
General Remarks: Lack of reference to Lisbon strategy	2
Macroeconomic Policies: General Remarks: Achieving a sustained reduction in public deficit.	2
Microeconomic Policies General Remarks: Adopting measures aimed to open the market in network industries and regulated professions.	0
Employment Policies: General Remarks: Strengthening the integrated employment strategies. Specific Remarks: Deeper focus on human capital investment. Lack of assessment over the general impact of the policies implemented on unemployment and productivity.	3    2  0

## Comments:

### **Lack of reference to Lisbon strategy - Score: 2**

The government is attempting to increase the linkage between the N.R.P. and the Lisbon strategy by involving stakeholders in owning Lisbon's targets. The organisation of seminars to engage stakeholders in the Lisbon strategy can also be regarded as a positive measure, but among the specific policies contained in the program clear references to Lisbon Integrated Guidelines are still missing.

### **Achieving a sustained improvement in public finances - Score: 2**

The report emphasizes the successes observed in public deficit reduction and in controlling public expenditures. It also clarifies the savings expected by healthcare reform. In its last year assessment the Commission was asking for further reforms to ensure the fully France's social model long term sustainability and to attain a permanent correction in public finances. Commission's opinion was that current policies may be proved insufficient to address the challenge of an ageing population; nevertheless the government did not develop yet a structural long term strategy.

### **Adopting measures aimed to open the market in network industries and regulated professions - Score: 0**

The Commission stressed the need for reforms aimed at opening the market in network industries and regulated professions; but the Report does not mention any new comprehensive policy to increase competition in such sectors.

### **Strengthening the integrated employment strategies - Score: 3**

Some new measures have been implemented to strengthen the employment strategy, which nevertheless is still focused on reducing non-wage labour cost.

More effort has been concentrated on improving the match between unemployed and labour demand, through the spread of the so-called *Maisons de l'emploi* which aim to foster entrepreneurship and to develop information and job opportunities by bringing together public and private competences.

A new approach to long-term unemployment has been adopted, as has the goal of raising the employment rate for workers between ages 55-64 to 50% by 2010.

### **Deeper focus on human capital investments – Score: 1**

A major focus on human capital investments seems to arise from the plans aimed at diminishing school drop-out rates and from the debate over the reforms needed in university education and labour market, but concrete new measure have not been implemented yet.

### **Lack of assessment over the general impact of the policies implemented on unemployment and productivity - Score: 1**

The assessment about the overall impact of employment policies is still largely missing as well as clear targets to approach the Lisbon's objectives on employment issues.



GERMANY	Score
<p>General Remarks:</p> <p>Major focus on competition in services and in public procurement.</p> <p>Lack of details about goals, funding and timetables.</p> <p>Lack of consultation in building the NPR with Bundestag and Bundesrat.</p>	<p>0</p> <p>3</p> <p>4</p>
<p>Macroeconomic Policies:</p> <p>General Remarks:</p> <p>More details on the Lander consolidation effort to cut budget deficit.</p> <p>More details on health care reform.</p> <p>Specific Remarks:</p> <p>Doubts about the scope for paying for reductions in unemployment insurance contributions just by enhancing their administrative efficiency.</p> <p>Higher effectiveness required in the use of transfers to the eastern Lander.</p>	<p>1</p> <p>3</p> <p>3</p> <p>1</p>
<p>Microeconomic Policies</p> <p>General Remarks:</p> <p>More details on the involvement of Lander and Municipalities concerning the improvement in regulation and education.</p>	<p>3</p>
<p>Employment Policies:</p> <p>General Remarks:</p> <p>Need for a more comprehensive approach to improve integration of low-skilled workers including immigrants.</p> <p>Specific Remarks:</p> <p>Further measures required to raise women's participation in labour force focusing particularly on the gender pay gap.</p> <p>Lack of monitoring on the ongoing plan to increase child care facilities and need for more concrete plan to achieve such goal.</p>	<p>3</p> <p>1</p> <p>2</p>

Comments:

**Major focus on competition in services and in public procurement - Score: 0**

The Commission pointed out the exigency of speeding up competition in services sector and public procurement. On the latter issue, full implementation of the public procurement Directives approved in 2004, would be necessary. Regarding service sector competition the issue is still largely neglected in the report.

**Lack of details about goals, funding and timetables - Score: 3**

The second part of the report provides a broad series of tables aimed at describing in details the specific action undertaken and their implementation status.

A clear target on the employment rate is still missing.

**Lack of consultation in building the NPR with Bundestag and Bundesrat - Score: 4**

Both chambers discussed the report before it was submitted to European Commission.

**More details on the Lander consolidation effort to cut budget deficit - Score: 1**

The reduction in expenditures attained by Lander and local government are just mentioned.

**More details on the health care reform - Score: 3**

The health care reform is described in some detail, both in the general sections and in the tables.

**Doubts about the scope for paying for reductions in unemployment insurance contributions by just enhancing their administration efficiency - Score: 3**

The report clarifies that 1 out of 2 percentage point in the reduction of unemployment contributions will be financed by a rise of 1 percentage point of the value-added tax rate.

**Major effectiveness required in the use of transfers to the eastern Länder - Score: 1**

The Commission called for more efficient transfers to the eastern Länder would be necessary. The report does not address directly the issue, but the shift towards more targeted support, in response to differing trends among the Länder in development goes in the right direction.

**More details on the involvement of Länder and Municipalities concerning the improvement in regulation and education - Score: 3**

The tables provide a wide description of the measures put forward by Länder regarding education and regulation issues, while the more specific role of municipalities is not totally clear.

**Need for a more comprehensive approach to improve integration of low-skilled workers including immigrants - Score: 3**

A new special programme for training low skilled-workers and older employees has been launched this year. According to calculations by the Federal Labour Agency roughly 50000 persons will be supported by a budget of Euro 200 millions.

**Further measures required to raise women's participation in labour force and to reduce the gender pay gap - Score: 1**

The federal government has not launched new programmes to address this issue, probably because the Lisbon target on female employment has almost been reached. A new report focusing on the number of women in management position was published last February, but full assessments are not provided.

**Lack of monitoring on the ongoing plan to increase child care facilities and need for more concrete plan to achieve such goal - Score: 2**

The report over the Day-Care Expansion Act shows that the number of facilities has doubled in West Germany since 2002 but it is likely that more than 10% of Länder will fall short of the target. New programmes will not be discussed as long as further reports about the progress made will not be available.

GREECE	Score
<p>General Remarks:</p> <p>Additional measures are needed to <del>sure</del> permanent fiscal consolidation</p> <p>Consistent strategy for R%D spending</p> <p>Need for activation in the <del>moderati</del>on of public administration</p>	<p>2</p> <p>3</p> <p>2</p>
<p>Macroeconomic Policies:</p> <p>Specific Remarks:</p> <p>Higher use of one-off measures and lack of structural reform in pension system.1</p>	
<p>Microeconomic Policies</p> <p>General Remarks:</p> <p>No new measures undertaken to speed <del>the</del> implementation of internal market directives.</p>	<p>2</p>
<p>Employment Policies:</p> <p>General Remarks:</p> <p>Need for clarifications from the <del>polies</del> implemented to reduce unemployment <del>for</del> young, women and older workers.</p> <p>Specific Remarks:</p> <p>Limited policies regarding non-wage labour <del>costs</del>, undeclared work, health and safety at work.</p>	<p>2</p>

Comments:

**Additional measures are needed to ensure permanent fiscal consolidation - Score: 2**

New measures to raise the level of revenues, including excise duties on fuel, cigarettes and mobile telephony bills, have been put forward. A positive impact on public expenditures is expected from the new law regarding Public Enterprises and Entities aimed to enhance management efficiency and improve corporate governance and from the modernization of the National Health System. Probably, further measures will be necessary.

**Consistent strategy for R&D spending - Score: 3**

A broad range of new actions has been undertaken to increase R&D spending and to boost the adsorption capacity of the economy, but as the report points out, their effects are difficult to evaluate in the short term.

**Need for activation in the modernization of public administration - Score: 2**

Many actions have been proposed and partially adopted to modernize public administration. The activation process seems to be started.

**Higher use of one-off measures and lack of structural reform in pension system - Score: 1**

There is not a clear timetable for the implementation of a pension reform even though public consultations on this issue have started.

**No new measures undertaken to speed-up the implementation of internal market directives - Score: 2**

The General Secretariat of the Government is now entitled to cope with the transposition of E.U. directives. An increasing commitment on this issue has been noticed, but the transposition rate in the last year did not decrease in comparison with the figures mentioned in the NRP programme.

**Need for clarifications of policies implemented to reduce unemployment for youths, women and older workers - Score: 3**

The plan targeted at unemployment of women and young people is presented in more detail. With respect to female unemployment several measures are under implementation, while for young people the report mentions a comprehensive programme to be activated in the next future while it does not provide many details on the ongoing programme. Regarding older workers and ageing population the attainment in terms of flexible retirement arrangement meets the Commission's remark.

**Limited policies about non-wage labour costs, undeclared work, health and safety at work - Score: 2**

Positive initiatives have been carried out to confront undeclared work, while on health and safety at work new initiatives are required, even though positive steps forward have been made, mainly in harmonizing national legislation with community directives.

IRELAND	Score
General Remarks: None	
Macroeconomic Policies: General Remarks: More specific measures to address pension coverage.	2
Microeconomic Policies General Remarks: Need for more details and time schedule in order to assess the effectiveness of the policies aimed at achieving R & D target. Specific Remarks: No specific commitment to reform regulated professional services.	1
Employment Policies: General Remarks: Not enough attention is paid to quality of work and poverty among employed people. Specific Remarks: How to ensure the provision of affordable high quality childcare. More details on the measures set up to improve the position of low-skilled workers.	2  4  1

Comments:

**More specific measures to address pension coverage - Score: 2**

The report mentions the government's intention to publish a Green Paper on pensions followed by consultation with the social partners in order to set up a comprehensive framework to address the pension agenda.

**Need for more details and a time schedule to assess the effectiveness of the policies aimed at achieving the R & D target - Score: 4**

The report better explains the objectives and the key challenges of the Strategy for Science Technology and Innovation 2006-2013.

It provides for a rise in public expenditure on R&D compared to the previous period and in Annex 2 the initiatives to reach the government's target are described with the provision of many details.

**No specific commitment to open the market in the professional services sector - Score: 1**

The Competition Authority is analysing the market for professional services in order to set up initial proposals to enhance competition. The Authority has no legal basis to require the implementation of its recommendations and a time schedule has not been fixed yet, hence further government commitment will be crucial to achieve such goal.

**Not enough attention is paid to quality of work and poverty among employed people - Score: 2**

Positive action has been undertaken to ensure that low paid workers are outside the tax net and to provide additional support to low earnings families, though it is likely that the Commission will ask for additional measures.

**How to ensure the provision of affordable high quality childcare - Score: 4**

The report describes a broad range of measures to address the childcare issue. The 2006 budget envisages a five years Investment Programme, agreed with the social partners, to develop new infrastructure. Higher child benefits and a new early childcare supplement have also been introduced.

**More details on the measures set up to improve the position of low-skilled workers - Score: 1**

The report states that current policies focus on increasing investment in training for low skilled/older worker, but full details on the measures implemented are missing. Furthermore it asserts that the forthcoming NDP will contain a strong focus on upskilling, retraining and lifelong learning but targets and timetable are not included.

HUNGARY	Score
General Remarks: Need for more details and clear timeline on the policy envisaged.	3
Macroeconomic Policies: General Remarks: Strengthening the strategy to reduce budget deficit.	2
Microeconomic Policies Specific Remarks: More concrete measures to enhance competition in network industries. Need for improving the business environment and facilitate the access to financing for SMEs. More attention to bankruptcy procedures and company restructuring.	3 3 1
Employment Policies: General Remarks: A comprehensive review of social security system would be needed. Specific Remarks: More attention to the overall education system and lifelong learning strategy.	3 2



## Comments:

### **Need for more details and clear timeline on the policy envisaged - Score: 3**

The report is regarded as a redefined national reform programme in order to cope with the sharp deterioration in Hungary's public deficit which requires a new overall strategy for reform, taking into account the urgent need for restructuring as soon as possible to achieve sound public finances. The report acknowledges this challenge and proposes new and more detailed policies.

### **Strengthening the strategy to reduce budget deficit - Score: 2**

The measures envisaged in the 2005 NRP are insufficient to reduce the budget deficit, set to reach 10.6% of GDP this year after the 6.5% expected last year. This circumstance has forced the government to develop a new strategy for restructuring public finances. It relies, from the expenditure side, on reforms in the institutional system which would reduce public spending by 3% within 2009. Further reforms will be implemented in the healthcare and pension system. Additional support will come by the revenue side. The government announced its aim to get additional revenues by raising the minimum contribution base, Vat rate, interest and capital gain tax and corporate tax rate.

These measures may be proved effective to reduce budget deficit, but the risk is that their impact on growth rate and on general personal income may affect the performance of the economy beyond the two years of sluggish growth forecast by the government.

### **More concrete measures to enhance competition in network industries - Score: 3**

The government has speed up the implementation of European directives aimed at enhancing competition in network industries and positive steps for the fully liberalisation of gas and electricity markets by 2007 have been taken place.

### **Need for improving the business environment and facilitate the access to financing for SMEs - Score: 3**

The provision of additional funds to be allocated for facilitating the access of financing for SMEs has been announced by the governments. Such funds involve micro-credit programmes and favourable interest loans.

### **More attention to bankruptcy procedures and company restructuring - Score: 1**

The report mentions that discussions are currently in preparation to set up a new Bankruptcy act, but details and timetables are not provided.

### **A comprehensive review of social security system would be needed - Score: 3**

To raise the participation rate, the government has already reformed the unemployment benefit system and it has implemented a reform of the social benefit system. Further revision of the disability benefit system has been also announced.

### **More attention to the overall education system and lifelong learning strategy - Score: 2**

Progress has been made on these issues. The life-long learning strategy was adopted in October 2005, as well as a series of other measures to improve the efficiency of the education system. Nevertheless further details on their practical implementation should be provided to evaluate the effectiveness of the whole strategy.

ITALY	Score
General Remarks: None	
Macroeconomic Policies: General Remarks: Further effort is needed to ensure fiscal sustainability.	3
Specific Remarks: Reaching a level of primary surplus of 4% and cutting off health expenditures.	3
Microeconomic Policies General Remarks: No target is provided for R&D spending.	4
Specific Remarks: No details on policies to open the market and increase competition.	2
Need for strengthening the railway system especially in the south.	2
No match between environmental target and budgetary allocation.	3
Employment Policies: General Remarks: Increasing labour supply, employment and tackling regional disparities.	2
Specific Remarks: Very limited funds are provided for education and training.	2

## Comments:

### **Further effort is needed to ensure fiscal sustainability - Score: 3**

The 2007 budget includes policies aimed at reducing the fiscal deficit to 2.8% in one year. This will be done by cutting expenditure and increases in revenues which will be partially attained by fighting tax evasion.

### **Reaching a primary surplus of 4% and cutting health expenditures - Score: 3**

The planned budget for the years 2007-2011 put forward actions to reach a primary surplus of 4% by 2010 and 4.8 by 2011. The 2007 budget provide for a cut in health expenditures of 3.1 billion of euro.

### **No target is provided for R&D spending - Score: 4**

The government seems to dedicate major concern to R&D spending, fixing an ambitious target of 2.5% of GDP to be attained by 2010.

### **No details on policies to open the market and increase competition - Score: 2**

The first programme of liberalisation regarding medicaments, taxis, banks, notaries and other services has been set out. The government must keep on working to launch new programmes. In the energy sector the full liberalisation of the market is scheduled for the year 2007 but clear details about how it will be shaped in order to reduce the highest European tariffs in the sector and a timetable to boost the energy transmission network are still missing.

### **Need for strengthening the railway system especially in the south - Score: 2**

The Commission pointed out the need for new railways infrastructures beyond the ones included in the European TEN-T plan. The report mentions many initiatives included in the plan for infrastructures 2000-2006 but a clear pattern describing the progress made is missing.

### **No match between environmental target and budgetary allocation - Score: 3**

According to the report the budgetary allocation for environmental issues has increased from 2.1 billions to 6 billions and a new fund aimed at financing action to meet the requirements of the Kyoto protocol has been created.

### **Increasing labour supply, employment rate and tackling regional disparities - Score: 2**

The government acknowledges the need for a comprehensive employment strategy to address the many weaknesses affecting the Italian labour market.

The policy already implemented is focused on the reduction in labour tax wedge. Proposed further measures are to increase the employment rate, tackle regional disparities, enhance job quality and create a safety net for temporary workers are expected in the next years.

### **Very limited funds are provided for education and training - Score: 2**

In the NRP, the funds allocated to manage the issue have slightly increased. The report underlines some positive progress but given the high need of vocational training especially for older workers, additional actions have to be taken.

LATVIA	Score
<p>General Remarks: None.</p>	
<p><b>Macroeconomic Policies:</b></p> <p>General Remarks: Dealing with the high current account deficit.</p> <p>Specific Remarks: Focusing more on medium-term sustainability of public finances.</p>	<p>2</p> <p>3</p>
<p><b>Microeconomic Policies</b></p> <p>General Remarks: Need for a broader R&amp;D strategy.</p> <p>Specific Remarks Limited measures on environmental technology.</p>	<p>3</p> <p>1</p>
<p><b>Employment Policies:</b></p> <p>General Remarks: Implementing a comprehensive life-long learning strategy.</p> <p>Specific Remarks: Addressing the problem of the sharp rural-urban divisions. Reducing poverty and the unemployment trap.</p>	<p>2</p> <p>2</p> <p>2</p>

Comments:

**Dealing with the high current account deficit - Score: 2**

The Government did not set specific measures to address this issue since the current account deficit was not growing due to booming demand associated with EU accession.

**Focusing more on medium-term sustainability of public finances - Score: 3**

The Medium Term Budget Planning has been improved by a draft concept approved by the Cabinet of Minister which prescribes the development of a budget law for one year and envisages the implementation of the medium-term three year budget planning from 2007.

**Need for a broader R&D strategy - Score: 3**

In 2006 several new programmes have been envisaged, most due to start in 2007. Although these policies hold the key to attaining the target set for R&D spending (1.5% of GDP by 2010) the effort put by the government into this issue is noteworthy.

**Limited measures on environmental technology - Score: 1**

The report mentions that in the planning period of 2007-2013 the implementation of a programme for supporting environment-friendly technology is foreseen, but additional details on the programme are not provided.

**Strengthening the educational system and implementing a comprehensive life-long learning strategy - Score: 2**

There are explicit measures to increase funding for people acquiring higher education, while the progress made in implementing the life-long learning strategy is less well explained.

**Addressing the problem of the sharp rural-urban divisions - Score: 2**

This issue will be mainly addressed by the measures envisaged in the programming period of 2007-2013 aimed at supporting the establishment of enterprises in rural area and promotion of tourism activities. Information on its budgetary allocation is not provided. The study on the Geographical mobility of labour force could have a positive impact if it will result in actions.

**Reducing poverty and the unemployment trap - Score: 2**

The increase of the tax free threshold and the rise in the minimum wage are likely to have a positive impact on poverty and reducing the unemployment trap. Nevertheless the high rate of inflation could erode individuals purchasing power.

LITHUANIA	Score
General Remarks: None	
Macroeconomic Policies: General Remarks: None	
Microeconomic Policies General Remarks: Need for increasing R&D spending	3
Additional is effort required to strengthen the innovation system	2
Employment Policies: General Remarks: Improve active labour market policy measures.	3
Specific Remarks: Major labour mobility is required	1

Comments:

**Need for increasing R&D spending - Score: 3**

A broad series of measures has been planned to reach the national target on R&D. The funding will come mainly from the structural funds while a major involvement of the state finances and especially of private spending would be crucial to meet the ambitious target of 1% of GDP by 2010.

**Additional effort is required to strengthen the innovation system - Score: 2**

Positive progress has been made in this area, but additional measures are likely to be necessary especially in relation to the issue of intellectual property rights which has not been well addressed.

**Improve active labour market policy measures - Score: 3**

The report shows a sharper focus on active market policies especially regarding the increasing allocation of resources to improve the competencies of the unemployed.

**Major labour mobility is required - Score: 1**

Because of the high regional disparities the issue of labour mobility deserves more attention. Specific measures to foster such processes are not directly mentioned in the report.

LUXEMBOURG	Score
<p>General Remarks:</p> <p>Lack of details, timetable and targets in many areas.</p> <p>More information about the utilisation of European Structural Funds.</p>	<p>2</p> <p>3</p>
<p>Macroeconomic Policies:</p> <p>General Remarks:</p> <p>Need for clarifications about policies aimed at reducing the budget deficit.</p> <p>Further measures required to ensure the sustainability of the social security system.</p>	<p>3</p> <p>1</p>
<p>Microeconomic Policies</p> <p>General Remarks:</p> <p>Call for implementation of the policies forward to achieve the R%D targets.</p> <p>Specific Remarks:</p> <p>Need for speeding up European directives in respect to competition issues in several markets.</p>	<p>3</p> <p>1</p>
<p>Employment Policies:</p> <p>Specific Remarks:</p> <p>More emphasis on the issue of older and handicapped workers.</p> <p>More focus on several topics such as school drop-out rates and the overall training strategy.</p>	<p>1</p> <p>1</p>



## Comments:

### **Lack of details, timetable and targets in many areas - Score: 2**

The report provides additional details with respect to the NRP especially regarding macroeconomic and microeconomic policies and overall it meets the call of the commission for including tables describing the whole set of measures as well as their status of implementation. Nevertheless concerning employment policies the actions put forward seems still too generic and clear timetables as well as specific targets are not provided.

### **More information about the utilisation of European Structural Funds - Score: 3**

The report includes a section describing the coordination of the policies envisaged in the NRP with the use of European Structural Funds. The precise budget contribution from the different funds is largely provided.

### **Need for clarifications about policies aimed at reducing the budget deficit - Score: 3**

The government underlines its commitment to restore budget equilibrium by 2009. The strategy will focus on reducing public spending by improving its effectiveness and by fixing maximum spending margins for the coming years.

### **Further measures required to ensure the sustainability of the social security system - Score: 1**

The government acknowledge the need for reform given the foreseen unsustainability of the system after 2020. Nevertheless a precise strategy has not been defined, even though the report mentions the intention to create a task force dealing with the issue.

### **Call for implementation of the policies put forward to achieve the R&D targets - Score: 3**

Progress has been made towards a comprehensive strategy to boost R&D spending in the economy. The report defines the budgetary allocation of resources to finance measures aimed at providing credits for R&D activity and financing the research projects of the University of Luxembourg. Nevertheless further effort to boost innovation in the economy is required.

### **Need for speeding up European directives with respect to competition issues in several markets - Score: 1**

The government states its aim to achieve the objective of cutting the transposition deficit about 1.5 in line with the European Council's recommendation. It also mentioned the ongoing analyses in the telecommunication and service sector. Nevertheless concrete measures and particular commitments in the field of finance and energy are still missing.

### **More emphasis on the issue of older and handicapped workers - Score: 1**

These two topics seem to be rather neglected except through the establishment of the right to lifelong learning which may be useful in raising the employment rate of older workers.

### **More focus on several topics such as school drop-out rates and the overall training strategy - Score: 1**

The report mentions the necessity of remodelling the education and training system to meet the new skills requirements but does not elaborate. The school drop-out rate may benefit from the elimination of the support mechanism for young people abandoning school. The aim is to shift the provision of such benefits to participation in active labour programmes.

MALTA	Score
<p>General Remarks:</p> <p>More emphasis is required on competition issues.</p>	1
<p><b>Macroeconomic Policies:</b></p> <p>General Remarks:</p> <p>Lack of time schedule and budget impact of the policies proposed.</p>	2
<p><b>Microeconomic Policies</b></p> <p>General Remarks:</p> <p>More focus on the R &amp; D strategy.</p> <p>Specific Remarks:</p> <p>Lack of particulars to proceed with a full evaluation of the initiatives proposed to enhance efficiency in public administration and in the regulation framework</p>	2    3
<p><b>Employment Policies:</b></p> <p>General Remarks:</p> <p>Need for a comprehensive review of the incentives provided in labour market by the tax and benefits system.</p>	2

Comments:

**More emphasis is required on competition issues - Score: 1**

The report does not pay much attention to competition issues, although appendix 1 mentions the government's intention to liberalize the gas sector and to explore the scope for liberalising the water and energy sectors.

**Lack of time schedule and budget impact of the policies proposed - Score: 2**

The government is seeking to address this issue by providing additional details regarding, for instance, the time schedule for tax reform and the next stages of pension reform. The appendix also provides some figures about the budget impact.

**More focus on the R & D strategy - Score: 2**

The National Strategic Plan for Research and Innovation includes more comprehensive actions to promote R & D. Beyond the tax credit scheme some further details about the other strategic challenge and the provision of some intermediate target would have been helpful.

**Lack of particulars in order to proceed with a full evaluation of the initiatives proposed to boost efficiency in the public administration and in the regulation framework - Score: 2**

The government puts forward several initiatives aimed at improving the quality of regulation and to reduce the regulatory/administrative burden on industry. The appendix provides detailed explanations and in many cases the budget impact is also included.

**Need for a comprehensive review of the incentives provided in the labour market by tax and benefits systems - Score: 2**

Positive steps in this direction have been undertaken by reshaping the income tax band in order to provide incentives for entering the labour market and by creating a linkage between the provision of unemployment benefits and the attendance of training courses.

NETHERLANDS	Score
General Remarks: None	
Macroeconomic Policies: General Remarks: None	
Microeconomic Policies General Remarks: Doubts about the effectiveness of the measures set to boost R % D spending.	3
Specific Remarks: More emphasis on policies aimed at enhancing competition.	2
Limited measures to enhance infrastructure.	1
Employment Policies: General Remarks: Further measures required to increase hours worked for women.	2
Additional effort to facilitate the integration of ethnic minorities into employment.	3

Comments:

**Doubts about the effectiveness of the measures set to boost R % D spending - Score: 3**

From the report an increasing concern on R & D issue seems to appear from the rise in the overall funds for research and innovation and from the provision of a specific target for R&D spending to be reached by 2010.

Given the relatively low level of current R & D spending, over the next years further efforts and a clear monitoring of the progress would be expected.

**More emphasis on policies aimed at enhancing competition - Score: 2**

With respect to this issue the main action undertaken has been the reform of the health insurance market.

Other measures aimed at boosting competition have been put forward but they are subject to the approval of the parliament.

**Limited measures to enhance infrastructure - Score: 1**

The commission stressed the need for a strategy to improve transport system, especially regarding high-speed railways. The report does not provide details about transport policies and does not mention the railways system.

**Further measures required to increase hours worked for women - Score: 2**

The Dutch government acknowledges the importance of increasing the number of hours worked by women. It also acknowledges that the high employment rate for women is due to the preponderance of part-time jobs. The commission asked for further measures tailored to this specific group. The report states that the government does not use target specific groups in its national policies and the increase in hours worked by women will be managed by general policy, such as the reform in unemployment insurance, and by measures regarding Equal Pay, Childcare and Tax Burden, already implemented in the NRP.

**Additional effort to facilitate the integration of ethnic minorities into employment - Score: 3**

The report underlines the government's concern to increase the participation rate of ethnic minorities. Several actions are described but it is not clear if they will be enough to tackle the decline in the participation rate seen in the last few years.

POLAND	Score
General Remarks: Lack of timetable, budgetary impact and monitoring the evaluation process	3
Macroeconomic Policies: General Remarks: Need for establishing targets on general government deficit.	1
Microeconomic Policies General Remarks: Need for reform of the regulation of professional services Specific Remarks Issues such as transparency in tax procedures and implementation of internal market directives are not addressed. More details on the initiatives to open market in network industries	2    3  1
Employment Policies: Specific Remarks: Additional measure to tackle youth unemployment The issues of undeclared work, regional disparities and reconciliation of work and family life are not addressed.	2  2

Comments:

**Lack of timetable, budgetary impact and monitoring the evaluation process - Score: 3**

The updated report presents a table giving information about the implementation status of the different policies and their budgetary allocation

**Need for establishing targets in general government deficit - Score: 1**

Projections of the overall public sector deficit are provided, but the four year budgetary anchor still only for the central government's budget. A broad strategy to cut public spending in other units of the sectors of government and self government institutions is mentioned, but timetable and target are still missing.

**Need for reforming the regulation of professional services - Score: 2**

Good progress has been made in reforming the regulation for some categories of the so-called professions of public trust, such as barristers, legal advisers and notaries public. Several programmes aimed at achieving a further liberalisation of professional services are in progress.

**Issues of transparency in tax procedures and implementation of internal market directives are not addressed - Score: 3**

Poland put substantial effort into improving the transposition of internal market directives in the second half of 2006 with 13 out of 27 directives transposed. Concerning the issue of tax procedure a draft act, due to be implemented from 2007, has been set out. Its aim is to improve efficiency and simplify the tax system.

**More details on the initiatives to open market in network industries - Score: 1**

On this issue the progress has been limited, especially in electricity. The Programme for the Power Sector envisages actions to change the organisation of the electricity industry, but such key issues as unbundling the distribution system do not have a clear timetable.

**Additional measures to tackle youth unemployment - Score: 2**

The report acknowledges the need for additional actions to increase youth unemployment, nevertheless the implementation of further labour market programmes even if envisaged in the 2006 NAPE has not started yet.

**The issues of undeclared work, regional disparities and reconciliation of work and family need are not addressed - Score: 2**

The report shows a growing concern in relation to all three issues. Even so, the strategies to tackle these problems need to be reinforced especially concerning the need for more territorial cohesion and alternative jobs in rural areas, issues where programmes remain to be set out.

PORTUGAL	Score
General Remarks: Addressing sustainability in public finances.	3
Macroeconomic Policies: Specific Remarks: More details about the reform in the public administration	3
Microeconomic Policies General Remarks: Need for bigger competition in network industries. Specific Remarks Doubts about the policy aimed at increasing R&D spending. Few measures to foster environmental technologies.	2  3 2
Employment Policies: General Remarks: A more comprehensive strategy required for many issues as segmentation, gender pay gap, fighting poverty and ALMP. Specific Remarks: Need for more measures to promote a flexicurity approach.	2  1



## Comments:

### **Addressing sustainability in public finances - Score: 3**

The plan envisaged a reduction of the budget deficit to 2.6 by 2008. This will be achieved mainly by a reduction of the expenses in the public administration and health care sector.

The plan acknowledges the issue of long term sustainability related to the ageing problem. Consultations with the social partner have been successful in paving the way for the next reform in the Social Security System based on life expectation and the link between contributions and benefits.

### **More details about the reform in the public administration - Score: 3**

The reform in the public sector is presented in more detail. It focuses on increasing efficiency by a reduction in the number of employees and a more effective approach in the organisation of human resources.

### **Need for bigger competition in network industries - Score: 2**

The goal to increase competition in the telecommunication sector is not mentioned, but in the electricity and natural gas markets there has been progress. The timetable to open the latter was fixed for 1 January 2007.

### **Doubts about the policy aimed at increasing R&D spending - Score: 3**

The programme shows an increasing focus on R&D issues. Many plans have been launched, such as the reform of State Laboratories, the creation of the Portugal-Spain R&D Institute and the International Partnership in Science and Technology.

### **Few measures to foster environmental technologies - Score: 2**

The report shows increasing effort in developing renewable energies. Public bidding began to increase the use of wind energy and of other energies such as unexploited hydro potential. Further concrete measures are required to put the strategy into practice.

### **A more comprehensive strategy required for many issues such as segmentation, gender pay gap, fighting poverty and ALMP - Score: 2**

These issues deserve additional and more concrete measures to increase salaries and opportunities especially for target groups like the long-term unemployed and women. Enhanced efforts to fight undeclared work and to reform the education system are mentioned.

### **Need for more measures to promote a flexicurity approach - Score: 1**

On the issue the only progress achieved was drawing up a Green Paper on Labour Relations to discuss the revision of the Labour code; however a clear strategy is still missing.

SLOVAK REPUBLIC	Score
<p>The Commission concurred with the Slovak government on the list of key policy areas to be addressed. The Commission noted that while a few national targets have been set (general deficit, employment growth and unemployment rate), this is not true for all areas. The Commission acknowledged that the consultation efforts have been significant.</p> <p>In its October 2006 implementation report, the Slovak government provided comprehensive information on the progress achieved in the meantime and addressed many issues pointed out by the Commission. The government in power following the June general elections has committed itself strongly to keeping the public deficit at under 3% of GDP in the run up to the envisaged adoption of the euro in 2009, but most of the measures proposed in the update to the NRP do not contain assessments of budgetary implications.</p> <p>Specific targets still remain sparse and most measures are proposed as parts of new general programmes or policy initiatives, rather than target-driven. Overall, however, the effort to address key challenges and to respond to Commission's remarks is fairly impressive.</p>	
<p>Macroeconomic Policies:</p> <p>The Commission agreed with most of NRP. One major objection was the lack of specific new proposals on monetary and fiscal policy.</p> <p>The progress document contains new data on developments but does not specifically address the needs outlined in the Commission's remarks. Given, however, that the Commission has been quite satisfied with progress (high levels of GDP growth, public finances under control) on this front, no drastic measures were called for in the first place.</p>	
<p>Microeconomic Policies</p> <p>Since the publication of the NRP, many legal measures have been put in place to improve business conditions. The government mentions measures aimed at swifter bankruptcy proceedings.</p> <p>The progress report also mentions that a major impact assessment framework is in the pipeline but does not specify when it should be debated by the government.</p> <p>The updated document outlines a range of new developments. The government has started the process, in April 2006, of putting in place a single-contact-point network for registering new businesses. It has taken wide-ranging measures for improving public e-services, particularly when it comes to putting court case results, commercial register on the internet. The government has taken a first step towards the creation of a regional stock exchange in order to improve access to capital for domestic businesses by integrating existing trading and registry systems.</p> <p>The document does not address the issue of taking concrete measures to improve links between indigenous and foreign-owned companies, which the Commission said was wanting. Also, no new measures were taken to improve innovation in SMEs. Some measures have been taken to improve overall R&amp;D performance, for example the creation of a central R&amp;D grants agency in 2006. The progress report, however, lacks clear targets again.</p>	
<p>Employment Policies:</p> <p>During 2006, the government put in place a project to help overcome gender stereotypes as part of the drive to reduce the gender pay-gap. The government has continued to develop its active labour market policies, which contain some aspects</p>	

<p>of dealing with regional disparities, as demanded by the Commission. Re-training is the key here, with differential contributions towards retraining costs being paid based on the skills. The issue of specific focus on marginalized groups (especially the Roma), has been addressed at an initiative level.</p> <p>In January 2006 the government put in place a programme for making it easier for people to get self-employed by giving them an activation cash contribution on a universal basis. Other measures put in place at the same time are aimed at helping groups with difficult access to the labour market to reintegrate (for example women after maternity leave), also by paying them contributions. Disabled people are being helped by the government paying contributions to employers for creating disabled-friendly jobs.</p> <p>The government has also started an initiative aimed at active ageing, although no concrete measures have been taken so far.</p> <p>No concrete measures have been proposed to decrease the tax wedge and reform the social contribution system.</p>	
---	--

SLOVENIA	Score
General Remarks: None	
Macroeconomic Policies: General Remarks: Need for additional details on the policies aimed at ensuring long term fiscal sustainability.	2
Microeconomic Policies General Remarks: More concrete measures for the R&D spending strategy.	2
Specific Remarks: A precise time-schedule for the privatisation policies is missing.	3
No reform of regulation in service sector is mentioned.	0
Employment Policies: Specific Remarks: Need for a more comprehensive strategy for lifelong learning.	2
Major focus on gender discrimination.	3

Comments:

**Need for additional details on the policies aimed at ensuring long term fiscal sustainability - Score: 2.**

The Commission called for specific measures to address the issue of long term sustainability of public finances. The report shares this concern but it seems that a comprehensive strategy has not been put forward yet. The government relies on active ageing and on the reform of the pension system introduced in 2000 which has been gradually implemented, but it is not clear whether further adjustment will take place.

**More concrete measures for the R%D spending strategy - Score: 2**

The overall R&D strategy is described in the National Research and Development Programme containing 60 measures on this topic. The Commission pointed out that a sharp focus on crucial actions would be desirable, especially regarding the promotion of expenditures in the private sector.

Good progress has been made through the initiatives aimed at encouraging co-operation between public research and business sector to be attained by widening the sources of financing for private firms. Further details would make it easier to assess the overall potential of the actions undertaken.

**A precise time-schedule for the privatisation policies is missing - Score: 3**

The report clarifies the time-schedule set for the privatisation policy. The non-profit enterprises will be privatised in 30 months, while for the enterprises listed in the stock exchange the state's withdrawal should occur in 24 months. For the major companies, providing a specific time limit is regarded as inappropriate.

**No reform of regulation in service sector is mentioned - Score: 0**

The commission, as it did for many other countries, stressed the scope for reforming the service sector nevertheless the issue has not been taken into account in the Report.

**Need for a more comprehensive strategy for lifelong learning - Score: 2**

The report underlines that a complete Lifelong strategy will be carried out by the end of 2006. It will include also actions for promoting active ageing regarded as crucial to ensure long term fiscal sustainability.

**Major focus on gender discrimination - Score: 3**

The report shows an increasing concern on gender discrimination. A programme aimed at boosting female employment through women's participation in active labour market policies and facing gender pay gap will be implemented by the end of 2007.

SPAIN	Score
<p>General Remarks:</p> <p>Lack of details about the implementation of policies and the use of structural funds. Little information about the extent of involvement and consultations of stakeholders.</p>	<p>4</p>
<p>Macroeconomic Policies:</p> <p>General Remarks:</p> <p>None</p>	
<p>Microeconomic Policies</p> <p>General Remarks:</p> <p>Further measures required to increase competition in the electricity and retail sectors</p> <p>Specific Remarks:</p> <p>Greater attention to SME's needs in particular the ones related to R&amp;D spending capacity.</p>	<p>3</p>
<p>Employment Policies:</p> <p>General Remarks:</p> <p>Need to address labour market segmentation and to increase female employment.</p>	<p>3</p>

Comments:

**Lack of details about the implementation of policies and the use of structural funds - Score: 4**

The issue has been fully addressed by providing detailed tables on the current status of the whole range of measures presented in the reports and by a specific section on the use of structural funds.

**Little information about the extent of involvement and consultations of stakeholders - Score: 4**

The government underlines the attention paid to consultations with regional authorities and social partners. Two annexes describing the results of the discussions made with trade unions are included.

**Further measures required to increase competition in the electricity and retail sector - Score: 3**

Progress towards higher competition have been made especially in the electricity sector where some initiatives have been already undertaken and the timetable for full liberalisation of the market by 2011 has been fixed.

Also, in the retail sector, a new plan to improve competitiveness, efficiency and transparency in the market has been launched even though some new action focusing on further liberalisation would be positive.

**Greater attention to the SMEs needs in particular the ones related to R&D spending capacity - Score: 3**

Specific funds intended to help SMEs in obtaining adequate access to information technology are included in the 2006 budget of the plan called Avanza . Further initiatives to increase the participation of SMEs in big industrial project have been made.

**Need to address labour market segmentation and to increase female employment - Score: 3**

To cope with labour segmentation problems, the government has focused on reducing the high rate of temporary jobs, mainly by fostering the use of long-term contracts. To do that, measures aimed at decreasing employers contributions for this kind of contract are used. The government emphasizes the improvements made in the female employment rate and it stressed its concern for gender equality.

SWEDEN	Score
Macroeconomic Policies: General Remarks: None	
Microeconomic Policies General Remarks More measures to enhance competition in services are required. Specific Remarks: Major focus on research-driven SMEs on the link with larger firms. The timetable for the implementation of e-government proposal is missing.	   1   2
Employment Policies: General Remarks: Need for increasing labour supply by eliminating unemployment traps. Specific Remarks: Need for strengthening the strategy focusing on low-skilled workers.	   3   1



Comments:

**More measures to enhance competition in services are required - Score: 1**

The report just mentions that the government has already started discussions about a constitutional review to be included in the implementation of the service directives, but additional details are not provided.

**Major focus on research-driven SMEs and on the link with larger firms - Score: 2**

The programme stresses the success of the 2006 programme for research and development in SMEs. However it is not clear how to foster a process of cooperation between SMEs and larger firms.

**The timetable for the implementation of e-government proposal is missing - Score: 2**

Even though a clear timetable for the implementation of the e-government in the public sector is not available, the programme underlines the significance of the issue.

**Need for increasing labour supply by eliminating unemployment traps - Score: 3**

In this context the government has proposed an income tax reform for improving work incentives for low and middle-income earners. At the same time a revision in the unemployment benefits will take place in order to make work pay better than unemployment.

**Need for strengthening the strategy focusing on low-skilled workers - Score: 1**

Sweden has very high educational attainment and also the participation in life-long learning is very high. Nevertheless more direct measures to enhance the skills of the low-skilled workers and to address labour segmentation would be important.

UNITED KINGDOM	Score
<p>General Remarks:</p> <p>Further budget consolidation to upgrade transport and infrastructures and to deal with pension reform.</p> <p>Effort to address skill challenges and to improve employment prospects for the more disadvantaged.</p> <p>Limited consultations with stakeholders in developing the document.</p>	<p>2</p> <p>3</p> <p>4</p>
<p>Macroeconomic Policies:</p> <p>General Remarks:</p> <p>More emphasis on the monitoring mechanism to improve public spending efficiency.</p> <p>Specific Remarks:</p> <p>The current pension reform is likely to create imbalance between people at work and retired people.</p>	<p>3</p> <p>2</p>
<p>Microeconomic Policies</p> <p>General Remarks:</p> <p>Further initiatives to reach the Lisbon target on R &amp; D.</p> <p>Specific Remarks:</p> <p>Additional measures are needed to reduce regulations, to boost entrepreneurship among women and ethnic minorities.</p>	<p>2</p> <p>3</p>
<p>Employment Policies:</p> <p>Specific Remarks:</p> <p>Further progress to ensure the affordability and availability of childcare</p>	<p>2</p>

Comments:

**Further budget consolidation to upgrade transport and infrastructures and to deal with pension reform - Score: 2**

Long term fiscal sustainability does not really depend on public spending savings, but some additional measures might have been expected to cope with the issues of financing improvements of the transport system and pension reform.

**Effort to address skill challenges and to improve employment prospects for the more disadvantaged - Score: 3**

The report focuses on the many obstacles to labour market participation especially those linked to disability and incapacity. The Pathways to work scheme for incapacity benefit customers, the Welfare Reform Green Paper and the creation of an advisory body on disability equality are some of the policies implemented to support such groups.

**Limited consultation with stakeholder in developing the document - Score: 4**

The government has taken into account the call for consultations, and a broad series of meeting had with stakeholders on specific issues is described.

**More emphasis on the monitoring mechanism to improve public spending efficiency - Score: 3.**

To achieve the target of saving over £20 billion by 2007-2008 through efficiency gains in the public sector, the government is conducting a comprehensive spending review that will be concluded in 2007. Efficiency gains have already been accomplished in such key areas as procurement and job effectiveness of public servants.

**The current pension reform is likely to create imbalance between people at work and retired people - Score: 2**

In 2006 the government published a White Paper containing its proposals for reforms. They include the creation of a new scheme for low cost personal accounts and the provision of more generous pension benefits. These planned actions constitute a first step to address the likely income gap between working people and the retired..

**Further initiatives to reach the Lisbon target on R&D - Score: 2**

The government has only partially addressed the topic. A new plan called R&D strategy for U.K. Trade and Investment has been set out. Its aims are to attract more business R&D and to promote innovative British firm abroad but there is not much advance on previous policies.

**Additional measures are needed to reduce regulations, to boost entrepreneurship among women and ethnic minorities - Score: 3**

The government's aim is to deliver regulatory reforms in full by 2009. Regarding the issue of improving entrepreneurship among women and ethnic minorities, various initiatives have been launched.

**Further progress to ensure the affordability and availability of childcare - Score: 2**

The Childcare Act is aimed at reinforcing the commitment to the Ten Year Strategy Action Plan Choice for parents; but details are sparse and many of the measures will only be implemented in 2008.



**Table A1 Global Competitiveness Index 2006 and 2005 comparisons**

Country/Economy	2006 Rank	2006 Score	2005 Rank	Changes 2005-2006	
Switzerland	1	5.81	4		3
Finland	2	5.76	2	=	0
Sweden	3	5.74	7		4
Denmark	4	5.70	3	Ô	-1
Singapore	5	5.63	5	=	0
United States	6	5.61	1	Ô	-5
Japan	7	5.60	10		3
Germany	8	5.58	6	Ô	-2
Netherlands	9	5.56	11		2
United Kingdom	10	5.54	9	Ô	-1
Hong Kong SAR	11	5.46	14		3
Norway	12	5.42	17		5
Taiwan, China	13	5.41	8	Ô	-5
Iceland	14	5.40	16		2
Israel	15	5.38	23		8
Canada	16	5.37	13	Ô	-3
Austria	17	5.32	15	Ô	-2
France	18	5.31	12	Ô	-6
Australia	19	5.29	18	Ô	-1
Belgium	20	5.27	20	=	0
Ireland	21	5.21	21	=	0
Luxembourg	22	5.16	24		2
New Zealand	23	5.15	22	Ô	-1
Korea, Rep.	24	5.13	19	Ô	-5
Estonia	25	5.12	26		1
Malaysia	26	5.11	25	Ô	-1
Chile	27	4.85	27	=	0
Spain	28	4.77	28	=	0
Czech Republic	29	4.74	29	=	0
Tunisia	30	4.71	37		7
Barbados	31	4.70		new	
United Arab Emirates	32	4.66	32	=	0
Slovenia	33	4.64	30	Ô	-3
Portugal	34	4.60	31	Ô	-3
Thailand	35	4.58	33	Ô	-2
Latvia	36	4.57	39		3
Slovak Republic	37	4.55	36	Ô	-1
Qatar	38	4.55	46		8
Malta	39	4.54	44		5
Lithuania	40	4.53	34	Ô	-6
Hungary	41	4.52	35	Ô	-6
Italy	42	4.46	38	Ô	-4
India	43	4.44	45		2
Kuwait	44	4.41	49		5
South Africa	45	4.36	40		-5
Cyprus	46	4.36	41		-5
Greece	47	4.33	47	=	0
Poland	48	4.30	43	Ô	-5

Source: Global Competitiveness Report , World Economic Forum

**Table A2 Gender Gaps**

Country	Global Gender Gap Index 2006 Rank	Global Gender Gap Index 2006 Score	Economic Participation and Opportunity Rank	Educational Attainment Rank	Political Empowerment Subindex Rank	Health and Survival Subindex Rank
Sweden	1	0.8133	9	23	1	70
Norway	2	0.7994	11	15	2	61
Finland	3	0.7958	8	18	3	1
Iceland	4	0.7813	17	50	4	92
Germany	5	0.7524	32	31	6	36
Philippines	6	0.7516	4	1	16	1
New Zealand	7	0.7509	14	17	11	69
Denmark	8	0.7462	19	1	13	76
United Kingdom	9	0.7365	37	1	12	63
Ireland	10	0.7335	47	1	9	81
Spain	11	0.7319	85	38	5	71
Netherlands	12	0.7250	51	73	10	67
Sri Lanka	13	0.7199	84	52	7	1
Canada	14	0.7165	10	21	33	51
Australia	15	0.7163	12	1	32	57
Croatia	16	0.7145	42	51	18	36
Moldova	17	0.7128	2	37	50	1
South Africa	18	0.7125	79	42	8	59
Latvia	19	0.7091	20	85	21	1
Belgium	20	0.7078	54	1	19	1

Source: The Global Gender Gap Report, 2006 World Economic Forum