

The Lisbon Strategy, Structural Funds and convergence in the European Union: who decides what?

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1. Introduction

Although European integration has been, since its conception, a political project, it has nevertheless always had a strong economic flavour. Until the Maastricht Treaty of 1991 the method and the intermediate, explicit objective of the integration process have been almost entirely economic in nature. Later on the economic aspect kept on playing an important role.

In that light the enlargement of the European Union from 15 to 25 member states in 2004 must be considered to be a political project, a logical next step towards the reintegration of a number of countries from Central and Eastern Europe into the European family, after a secession of 40 years ended by the fall of the Iron Curtain at the end of the eighties.

As well this enlargement can be looked upon from the wish of the acceding countries to bridge the gap in living standards with the existing member states.

Furthermore the point can be made that the enlargement takes place at a moment in time when the opinion reigns that the old continent is caught economically short of breath. Europe has difficulty in keeping up with the United States and goes through a lot of trouble to make the Lisbon Strategy, especially designed to

tackle that problem, a success. In this context the accession of a number of countries experiencing high growth is welcomed.

One can put it in this way that the two aspects of impeded growth on the one hand and convergence within Europe on the other hand are interrelated. In this paper we shall analyze how these two problem issues can be tracked down in the various policy domains covered by the European Union. More specifically we shall focus on the Lisbon Strategy, convergence policy and budgetary policy, taking thereby the view of decision making powers.

We start though with some stylized facts.

2. The stylized facts about convergence and lagging growth

To get an idea about the problems at hand some basic facts are given in table 1.

Table 1: The gap in living standards

<i>GDP/capita PP (US = 100)</i>	<i>1995</i>	<i>2004</i>
EU15	72,2	68,3
EU25	65,2	62,8
Czech Republic	45,6	44,0
Estonia	23,1	31,7
Latvia	19,4	27,4
Lithuania	22,2	30,2
Hungary	32,3	38,8
Poland	26,5	29,8
Slovenia	44,6	49,1
Slovakia	29,0	33,9
US	100,0	100,0

Source: Eurostat

The figures in the table show the following trends:

- ✚ The old member states lose ground compared to the US: EU GDP/capita relative to US GDP/capita shows a decrease from 72.2 to 68.3 over the period 1995-2004.
- ✚ The new member states grow faster than the old ones and at the same time partly catch up with the US.
- ✚ The result of both movements is that, given the smaller economic size of the new member states, the EU-25 sees a growing gap with the US: in 1995 the relative GDP/capita was 65.2, in 2004 it was 62.8.

The problem stated in these terms is especially clear for the older member states. The new member states can compensate only partly the widening gap between the US and the EU.

These facts are basic for the pretended need for the Lisbon Strategy. Some observers however, including Robert Gordon, put the question forward whether the gap in living standards is really so dramatic, implying that the relevance of the Lisbon Strategy is questioned.

According to Gordon (2002) the gap between Europe and the US is, due to several reasons, smaller than the figures seem to indicate.

By definition, real output (Y), population (N), hours of work (H), employment (E) and working age population (WAP), are related as:

$$Y/N = Y/H * H/E * E/WAP * WAP/N$$

which states that output per capita equals labour productivity times annual hours per employee, times employment per member of the working age population times working age population as a percentage of total population.

The gap can then be traced down to a lower H/E and a lower E/WAP.

H/E reflects the number of hours worked per employee, which is significantly lower in Europe than in the US (see table 2).

Table 2: Working time

<i>Working hours in 2003</i>	
US	1904
EU-8 (new member states)	1801
EU-15	1700

Source: EEAG 2005

As far as these figures reflect a desired situation following a choice (be it a political choice: 35 hours working week in France, or an individual choice: mothers working part time), part of the gap can be reasoned away by putting that Europeans value the surplus in leisure time more than the lost income resulting from fewer working hours. Part of the gap can then be seen as a non-monetary income.

Concerning E/WAP the impacts of unemployment and of participation are important. Unemployment must be related to higher unemployment benefits, longer holidays and shorter working weeks in Europe. The welfare effect cannot so easily be discerned. Participation has to do with the length of working careers (late entry, early retirement) and the choice to enter the labour market or not (f.i. relevant for women). It is not always clear whether a free or forced choice is involved here.

The ratio WAP/N is a demographic relationship that is i.a. influenced by migration policies.

Gordon estimates the voluntary component in H/E and E/WAP at a third, narrowing the gap between EU and US to 16 %. And the gap narrows even more when accounting for the part of US GDP that has to be used to face the more severe American climate (higher heating and air conditioning costs) and to cover the longer distances.

These conclusions somehow throw another light on the backgrounds of the Lisbon Strategy, as far as the older member states are concerned. The least one can say is that the problem is not accurately defined, in so far that this is done in terms of growth and welfare per capita. In so far that it is formulated in terms of unemployment and longer term effects of aging populations we get another problem which we will not address here.

Since the new member states have to deal with a much larger gap, this background of the Lisbon Strategy is very relevant to them.

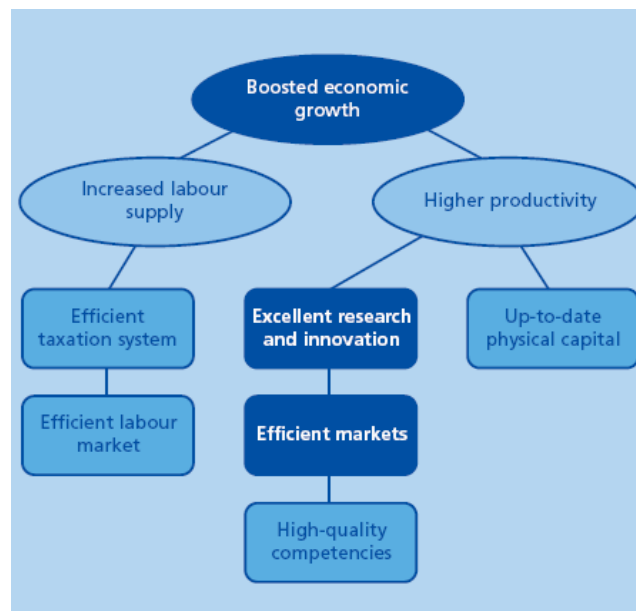
3. Policy instruments

Facing the thus defined problem the governments concerned have to line out policies. In figure 1 a further elaboration is given. The components of the figure can be linked to the various policy levels. The objective of an efficient tax system and a efficiently operating labour market clearly belong to the powers of the member states. Research and innovation are being promoted on the level of the member states as well as on the European level (6th Framework

Programme). Promoting efficient markets (European and national competition policies, liberalising network industries, ...) is also done on both levels.

Education and training (human capital) is a domain reserved to the national governments, while investing in physical capital is done by the member states and by the European Union.

Figure 1: Competition in the framework of the Lisbon Strategy



Source: Danish Ministry of Economic and Business Affairs Danish Ministry of Science, Technology and Development (2004)

Where the Union has competences it can use its policy instruments. These include regulation on the one hand and budgetary measures on the other hand.

Where competences are not on the European level the EU has to take recourse to, inter alia, the new instrument of the 'Open method of coordination'.

This brings us, in so far as our problem is concerned, to

- ✚ the Lisbon Strategy
- ✚ the Structural Funds

We now go on to discuss these two policy domains.

4. The Lisbon Strategy

Slightly exaggerated one can put it this way that the problem of the Lisbon Strategy, as far as it coincides with a need for growth, is mainly one of the new member states.

From the viewpoint of decision making the question then is: how effective is the Lisbon Strategy in curing the growth problem.

One cannot go around the fact that the Lisbon Strategy, which was designed at the Lisbon Council of 2000 to change Europe into the most competitive economy by 2010, suffers from several failures:

- ✚ the focus is too broad;
- ✚ the process is not to be overseen (interference between Lisbon, Cardiff, Broad Economic Policy Guidelines, Luxemburg Process,... (see Pelkmans & Casey 2004));
- ✚ the objectives are sometimes fixed, sometimes undetermined;
- ✚ the powers are shattered across various government levels, there is no real 'ownership';
- ✚ the deadlines are unrealistic.

These failures were observed at an early stage in the Lisbon process already, more specifically when the economy went into a slowdown in 2001.

The Midterm review of 2005 (Commission of the European Communities (2005b), Economic Policy Committee (2004)) and the Kok report (Kok 2004) some months earlier, clearly showed what went wrong.

Three recommendations in the Kok report are of key importance:

- ✚ the European Union should not only persuade member states to implement the Lisbon Agenda, it should back up its words as far as possible with "financial incentives" from the Union budget.
- ✚ The lack of "ownership" of the Lisbon process in the member states requires the establishment of partnerships for growth and employment.
- ✚ the report called on each member state to adopt a strategic approach involving "a national action plan" setting out how it is going to achieve the Lisbon targets.

This puts the finger at the sore spot: the European Union can make analyses, put forward diagnoses and remedies, in the end the distribution of competences is such that the member states have to take action and this is exactly where they are failing. There is, in other words, a governance problem.

At the European Council of 22nd and 23rd March 2005 an attempt was made to tackle this problem. Alongside the governments, all the other players concerned – parliaments, regional and local bodies, social partners and civil society – were invited to act as stakeholders in the Strategy and to take an active part in attaining its objectives.

In the field of governance the Council decided to simplify things and to adopt a set of "integrated guidelines" consisting of two

elements: broad economic policy guidelines (BEPGs) and employment guidelines (EGs).

These should be at the basis of the national action plans. On its side, the Commission will present, as a counterpart to the national programmes, a "Community Lisbon programme" covering all action to be undertaken at Community level in the interests of growth and employment, taking account of the need for policy convergence.

The reports on follow-up to the Lisbon Strategy sent to the Commission by member states each year – including the application of the open method of coordination – will be grouped in a single document clearly distinguishing between the different areas of action and setting out all measures taken during the previous twelve months to implement the national programmes.

At the end of the third year of each cycle, the integrated guidelines, the national reform programmes and the Community Lisbon programme will be renewed in accordance with the procedure described above, taking as the starting-point a strategic report by the Commission, based on an overall assessment of progress during the previous three years (Council of the European Union 2005).

In this way the fixation with the 2010 deadline can at least be avoided and some streamlining is done for the tangle of programmes and processes. Something that logically cannot as easily be mended is the lack of ownership of the Lisbon programme by the governments.

5. Structural Funds

The governance problem and the lack of ownership is less important when structural funds are concerned since there the European Union is at the steering wheel.

Most new member states have developed as transition economies over the last fifteen years and, though growing fast, are still relatively poor and short of capital. European Union investment in these countries, used properly, is bound to yield a high return. In helping these states to grow more quickly, cohesion policy should be generating a faster rate of economic growth in the Union as a whole than would otherwise be possible.

EU regional policy and the Lisbon agenda are both working to a growth, employment and competitiveness agenda.

The Structural and Cohesion Funds are the main instrument the EU has for increasing growth-enhancing investment. It should not be a simple transfer of money from richer regions to poorer ones, which would reduce income disparities only in the short run. Transfers for income equalisation remain entirely a matter for national governments in the Member States. EU regional and cohesion policy should have a different logic, seeking to invest in human and physical capital formation so as to raise the long-run growth potential of the weakest regions and to improve competitiveness across the regions as whole.

In the new member states, the money coming from the Structural Funds represents in most cases a stimulus of 4% of GDP and a

much higher proportion of national public investment budgets. This is higher than the rate applied historically to any of the former fifteen members states, and has the potential to make a real and long-run difference to the level of development. An independent evaluation has suggested that this alone should raise total GDP in the new member states by over 10% over the period (Hübner 2005).

6. Financial perspectives 2007-2013

Although limited in relative terms (a little above 1 % of EU GDP) the European Union budget can thus act as an important lever to pursue the objectives of growth and convergence.

At present more than 36 % of expenditure goes to structural and cohesion policies and this figure should increase with the financial perspectives 2007-2013.

The distinction between the Structural Funds and the Cohesion policy is important. The Structural Funds are targeted at regions within member states, whereas the Cohesion Fund is targeted at member states.

Working with regions is very attractive for the member states. Sometimes member states taken as a whole do not belong to the category of low income countries and should not be eligible to this kind of help. Since regions within member states sometimes have relatively low incomes, this allows member states nevertheless to make use of structural support. To be eligible for structural support is an important element in the political battle over the distribution of contributions to and spending from the European budget.

It does not seem very likely that the new financial perspectives will bring much change into this situation. There is however a point to be made in favour of the recommendations on convergence policy put forward in the Sapir report (Sapir 2003). According to Sapir a.o. the focus should be on convergence between member states and not on convergence between regions. This last kind of convergence should be left, according to the subsidiarity principle, to the member states.

7. Conclusions

The following points should be recalled from this analysis:

- ✚ The growth problem put forward by the Lisbon Agenda can, as far as the former member states are concerned, be called overdrawn. It is however very relevant for the new member states.
- ✚ The EU is bouncing against the borders of its decision making procedures. There is a need for a *sui generis* model of European governance that allows to combine the various elements (community method, open method of coordination, name and shame, the various 'processes',...) in a way that an efficient decision making can be organised in which the member states can recognize themselves.
- ✚ The efforts undertaken in the field of structural and convergence policy are not efficient as far as they are directed at regional welfare differences instead of national welfare differences.

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