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# The Lisbon Agenda in the European Union: Implications for Development and Innovations

## The Point of Departure of a European Strategy

The main question during the preparations for the Lisbon Summit (23-24 March 2000) was whether it was possible to update Europe's development strategy to meet the new challenges resulting from globalisation, technological change and population ageing, while preserving European values. With the new emerging paradigm, knowledge and innovation have become the main source of both wealth and divergences between nations, companies and individuals. Europe is losing ground to the United States, but this does not mean we have to copy them. Thus, the goal was to define a European way to evolve towards a new innovation-and knowledge-based economy, making use of distinctive attributes, ranging from the preservation of social cohesion and cultural diversity to highly technological options. A critical step would be to set up a competitive platform able to sustain the European social model, which also had to be renewed.

Institutional innovations were required to answer the question above, so as to tap into the potential offer by the new paradigm whilst avoiding the risks of social division. This means changing norms regulating international trade and competition, social mod-

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els, or education systems. Moreover, in each and every Member State of the European Union, institutional innovation must internalise the level of integration accomplished through the Single Market and the Single Currency. This means that some level of European coordination is required to carry out institutional reforms, while respecting national specificity. A multilevel governance system is necessary that enables interaction between its various levels (*i.e.* European, national and local).

In order to answer the initial question it was necessary to undertake an extensive intellectual and political review of Europe's political agenda and the main Community policy documents in the light of recent social science. European intellectuals with experience in these fields were involved in this task (Rodrigues, 2002), the purpose of which was to ascertain what institutional reforms could change the way in which European societies are currently regulated, so as to pave the way for a new development path toward a knowledge-based economy. It was necessary for key ideas to lead to political decision-making and action. The entire Portuguese Presidency was tailored to achieve this goal, throughout its two European Councils, the fourteen Councils of Ministers, the seven Ministerial Conferences, several sessions of the European Parliament, and a high-level Forum grouping the major stakeholders in Europe and the Member States.

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As the main objective was to define a global strategy, the key role had to be played by the European Council – in synergy with the initiatives of the European Commission. The meeting of the European Council had to focus only on this goal. It had to be held sufficiently early on to provide subsequent Councils of Ministers with guidance, and sufficiently late to make room for the hard work of persuasion required to reach agreement. This action relied on a series of initiatives formally proposed by the Portuguese Presidency, at its own risk, resulting in multiple contacts with all Community bodies and national governments. Ultimately, it resulted in the visit of the Prime Minister to all EU capitals. Public debate also made it possible to collect a diverse set of contributions from civil society, from all EU governments and all Community bodies.

Decisions made at the Lisbon Summit helped to define the final shape of the high-level consensus and mobilisation achieved until then, by establishing more precise objectives, calendars and methods, and by defining the mandates of all the formations of the Council of Ministers involved. This enabled the last meeting of the European Council at Feira in June 2000 to produce a set of concrete results, which began to be transposed at the national level and developed during the following Presidencies.

## The Lisbon Strategy

A new strategic goal and an overall strategy were defined by Lisbon European Council on 23-24 March 2000. To quote its conclusions: "The Union has today set itself a ***new strategic goal*** for the next decade: *to become the most competitive and dynamic knowledge-based economy in the world capable of sustainable economic growth with more and better jobs and greater social cohesion. Achieving this goal requires an* ***overall strategy*** *aimed at: preparing the transition to a knowledge-based economy and society by better policies for the information society and R&D, as well as by stepping up the process of structural reform for competitiveness and innovation and by completing the internal market; modernising the European social model, investing in people and combating social exclusion;* [*and*] *sustaining the healthy economic outlook and favourable growth prospects by applying an appropriate macroeconomic policy mix."* This is cited at length to clarify that, contrary to some popularly held perceptions, the strategic goal defined in Lisbon was not "to become the most competitive" but to achieve a combination of strong competitiveness with the other specific European features.

The Lisbon Strategy set the following main political orientations: first, to implement a policy for the information society aimed at improving citizens' standards of living, with concrete applications in the fields of education, public services, electronic commerce, health and urban management; to quicken the spread of information technologies in companies, namely e-commerce and knowledge management tools; an ambition to deploy advanced telecommunications networks, and to democratise Internet access, on the one hand, and produce contents that add value to Europe's cultural and scientific heritage, on the other. Second, the goal was to implement an R&D policy whereby the existing community programme and national policies would converge to form a European research area by networking R&D programmes and institutions. Other key priorities were innovation policies and the creation of a Community patent. Third, the goal was to establish an entrepreneurial policy going beyond the existing Community programme, and combining it with the coordination of national policies in order to create better conditions for entrepreneurship – namely administrative simplification, access to venture capital or manager training. Fourth, the goal was to implement economic reforms that target the creation of growth and innovation potential, improve financial markets to support new investments, and complete Europe's internal market by liberalising the basic sectors while respecting the public service inherent to the European model. The fifth goal was to implement macro-economic policies which, in addition to maintaining existing macro-economic stability, would vitalise growth, employment and structural change, using budgetary and tax policies to foster education, training, research and innovation. Sixth, the goal was to establish a renewed European social model relying on three key drivers (more investment in people, activating social policies, and strengthening action against old and new forms of social exclusion). Seventh, to set new priorities in national education policies (turning schools into open learning centres, providing support to each and every population group, using the Internet and multimedia. In addition, Europe was to adopt a framework of new basic skills and create a European diploma to embattle computer illiteracy). Eighth, the goal was to intensify active employment policies with the aim of making lifelong training generally available, and expanding employment in services as a significant source of job creation, improved standards of living and equal opportunities for women and men. Raising Europe's employment rate was adopted as a key target in order to reduce the unemployment rate and to consolidate the sustainability of the social protection systems. Ninth, the goal was to have an organised process of cooperation between the Member States to modernise social protection, identifying reforms to respond to shared problems such as matching pension systems with population ageing. Tenth, the aim was to establish national plans to take action against all dimensions of the problem of social exclusion (including education, health, and housing), and meeting the requirements of target groups specific to each national situation. Lastly, the goal was to establish an improved social dialogue to manage change and set up various forms of partnership with civil society, including the dissemination of best practices of companies evincing greater social responsibility.

## Strategy and Governance

Implementing a strategy requires a political engine (a governance centre at the European level with the power to coordinate policies and adapt them to the interest of each state). The decisions adopted in Lisbon strengthened this kind of governance in three ways: first, by giving the European Council a stronger role as coordinator of economic and social policies, which would henceforth devote its Spring Council to the monitoring of this strategy, based on a synthesis report presented by the European Commission; secondly, by improving the synergy between macroeconomic policies, structural policies and employment policy, through broad economic policy guidelines; and thirdly, in order to complement the legislative instruments, by allowing the Union to adopt an open method for inter-Member State coordination, applied thenceforth in various policy fields, and thus stepping up the translation of European priorities into national policies.

## The Lisbon Agenda after the Mid-Term Review

Over the next five years, the Strategy was translated into an agenda of common goals and concrete measures, using traditional instruments such as directives and the community programmes as well as the new open coordination already been tested with employment policy and then extended to the information society, research, enterprise, innovation, education, social protection and social inclusion policy arenas (Rodrigues, 2003). The results as of 2004 were clearly very unequal across policy areas and countries. Progress was evident in Internet connections, research networks for excellence, the one-stop shops for small businesses, the integration of financial markets, and the modernisation of employment services and of some social inclusion plans. But some important bottlenecks were evident in fostering innovation, the Community patent, service market liberalisation, the development of lifelong learning or the reform of social protection. Equally, some northern countries performed better than some southern ones, and some smaller countries seem to perform better than most of the large ones. Further, the implementation gap was worsened due to the absence of a communication policy able to connect existing progress on the ground with the European agenda. In light of these shortcomings, the mid-term review of 2004-05 undertaken by the Luxembourg Presidency put forward suggestions on how to deal with the main problems identified, namely: blurred strategic objectives; inflation of priorities and measures; lack of implementation, coordination and participation mechanisms; and the absence of financial incentives (Kok, 2004, Sapir 2004).[1]

## *Clarifying the Strategic Objectives*

The first problem was to decide whether in light of new challenges, the Lisbon Strategy was still relevant. The global landscape is changing. The emergence of new competitive players coupled with clearer ageing trends had to be more fully addressed. However, it was decided that the approach was valid but action more urgent. Thus, according to the Spring European Council under the Luxembourg Presidency: "Europe must renew the basis of its competitiveness, increase its growth potential and its productivity and strengthen social cohesion, placing the main emphasis on knowledge, innovation and the optimisation of the human capital" (Council 7619/05, § 5). The central goal was still to

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[1] This very rough summary can be refined with a reading of the Commission Progress Reports on the Lisbon Scoreboards presented by the Centre for European Reform.

step up the transition to a knowledge-intensive society. The need to improve the synergies between the three dimensions of the strategy – economic, social an environmental – was also underlined in the debate about sustainable development principles (Council 7619/05). Still, it was considered that the strategy should be re-focused on growth and employment, with some implications for the definition of political priorities (as outlined below).

## *Defining the Political Priorities*

After the mid-term review, the major priorities of the Lisbon Strategy for growth and jobs were fourfold: promoting knowledge and innovation as engines of sustainable growth; making Europe a more attractive place to invest and work; creating more and better jobs; implementing macroeconomic policies to promote growth and jobs. These priorities were subdivided into 24 guidelines using the Treaty-based "broad economic policy guidelines" and "employment guidelines" (see table below and Council 10667/05 and 10205/05).

LISBON STRATEGY

THE INTEGRATED GUIDELINES FOR GROWTH AND JOBS

**Macroeconomic policies for growth and jobs**

1. To secure economic stability for sustainable growth;
2. To safeguard economic and fiscal sustainability as a basis for increased mployment;
3. To promote a growth-and employment-orientated and efficient allocation of resources;
4. To ensure that wage developments contribute to macroeconomic stability and growth;
5. To promote greater coherence between macroeconomic, structural and employment policies;
6. To contribute to a dynamic and well-functioning EMU.

**Knowledge and innovation – engines of sustainable growth**

7. To increase and improve investment in R&D, in particular by private business;
8. To facilitate all forms of innovation;
9. To facilitate the spread and effective use of ICT and build a fully inclusive information society;
10. To strengthen the competitive advantages of its industrial base;

11. To encourage the sustainable use of resources and strengthen the synergies between environmental protection and growth.

**Making Europe a more attractive place to invest and work**

12. To extend and deepen the Internal Market;
13. To ensure open and competitive markets inside and outside Europe and to reap the benefits of globalisation;
14. To create a more competitive business environment and encourage private initiative through better regulation;
15. To promote a more entrepreneurial culture and create a supportive environment for SMEs;
16. To expand and improve European infrastructure and complete priority cross-border projects;

**More and better jobs**

17. To implement employment policies aimed at achieving full employment, improving quality and productivity at work, and strengthening social and territorial cohesion;
18. To promote a lifecycle approach to work;
19. To ensure inclusive labour markets, enhance work attractiveness and make work pay for job-seekers, including disadvantaged people, and the inactive;
20. To improve matching of labour market needs;
21. To promote flexibility combined with employment security and reduce labour market segmentation, having due regard to the role of the social partners;
22. To ensure employment-friendly labour cost developments and wage-setting mechanisms
23. To expand and improve investment in human capital;
24. To adapt education and training systems in response to new competence requirements.

Source: Council of the European Union, 10667/05 and 10205/05.

For the first time, the EU was equipped with an integrated package of guidelines for economic and social policy on the basis of Treaty-based instruments. This major political development was the result of a long process of maturation that had occurred, and of the need to enhance implementation.

## *Fostering Implementation*

The aim of defining coordinated guidelines for economic and social policies in the EU emerged in the 1990s with the preparation for Economic and Monetary Union. During the Lisbon European Council in 2000, the political conditions were still not ripe for the adoption of an economic and social strategy using more compulsory instruments such as Treaty-based guidelines. Thus, a new method was chosen, the so-called "open method of coordination" based on: identifying common objectives or guidelines; translating them into the national policies, and adapting to national specificities; organising a monitoring process based on common indicators, identifying best practices and peer review (Council SN 100/00 and Presidency 9088/00). Despite some shortcomings (bureaucratisation and simplistic benchmarking), the use of this method in eleven policy fields since 2000 was instrumental in building the necessary consensus about the strategic challenges and the key reforms to be implemented. In 2005, agreement about the implementation and the coordination gap was sufficient to permit a transformation of some of the most important of these "soft" guidelines into "harder" ones, leading to the formulation of Treaty-based guidelines (Council, 10667/05 and 10205/05). The open method of coordination undoubtedly played a role in building a European dimension, organising a learning process and promoting some convergence with respect for national differences. Does this mean that this method has now served its purpose? This is not the case (see Council 7619/05 § 39 d/ and Commission, SEC 28.04.2005). It can still be used when necessary, so that the policy-making process works at two levels – one more formal and precise than the other, ensuring the necessary political re-focusing at the implementation phase.

A second important development regarding implementation instruments concerns national reform programmes for the next three years, prepared by all the Member States in the autumn of 2005 (Commission, SEC 28.04.2005). These programmes are meant to be forward-looking political documents setting out a comprehensive strategy to implement the integrated guidelines, and adapting them to each national situation. In addition to establishing political priorities and measures, they are meant to determine the role to be played by the different stakeholders, and the budgetary resources to be mobilized, including structural funds linked with stability and convergence programmes. The preparation, implementation and monitoring of the national programmes should involve all key national political institutions as well as civil society and, when appropriate, a national coordinator should be appointed. All Member States are meant to present an annual follow-up report, providing the basis for a general report presented by the European Commission to each Spring European Council.

The recently adopted Community Lisbon Programme also fosters implementation, as for the first time it unites all the regulatory and financing actions and policy developments to be launched at the European level, and organising them according to the three abovementioned priorities (Commission, COM (2005) 330). Some of its key actions are the support of knowledge and innovation in Europe; the reform of state aid policy; better regulation of business operations; the completion of the internal market for services; the completion of an ambitious agreement at Doha; the removal of obstacles to physical, labour and academic mobility; the development of a common approach to economic migration; and support to manage the social consequences of economic restructuring. In addition to stronger coordination within governments to implement national programmes for growth and jobs, the Community Lisbon Programme similarly require coordination between the European Commission and the Council of Ministers in its relevant formations: Ecofin, Employment and Social Affairs, Competitiveness, Education and Environment. As for the European Parliament, an internal coordination procedure is already underway between different EP commissions, and national parliaments should consider following suit where some of the relevant commissions are concerned.

## *Developing Financial Incentives*

Various reforms of financial instruments are underway in order to align them with the political priorities of the Lisbon Strategy for growth and jobs. Thus, the Community framework for the State aids is being reviewed in order to turn them into a more horizontal approach, focusing R&D, innovation and human capital. The European Investment Bank and the European Investment Fund are also deploying new instruments in support of the strategy for growth and jobs, and were asked to focus particularly on the needs of innovative SMEs in Europe. Community Programmes can also play an important role, notably if they can become a catalyst of national programmes for growth and jobs. Three very relevant cases are the 7th Framework Programme for Research and Technological Development, the Community Programme for Competitiveness and Innovation and the Community Programme for Lifelong Learning. The Community Strategic Guidelines for the Cohesion policy are now strongly aligned with the integrated guidelines for the Lisbon Strategy, covering its three main strands: making Europe and its regions more attractive places to invest and work; knowledge and innovation for growth; and more and better jobs (Commission, SEC (2005) 0299).

The scope of the latter two last instruments depends, of course, on the financial resources available with the next Financial Perspectives (2007-2013) to promote two central objectives: investing in the Lisbon priorities and maintaining regional cohesion. Beyond this, a reform was introduced in the Stability and Growth Pact which may have significant implications for the Lisbon Strategy (Council 7619/05). According to this reform, macroeconomic stability remains a central concern, the limits on the public deficit and public debt remain at 3 per cent (and at 60% as ratio of GDP), and pro-cyclical fiscal policies should be avoided. Nevertheless, there is a new emphasis on fostering economic growth and on the sustainability of the public debt in order to cope with demographic trends. Against this background, Lisbon goals such as reforming social protection systems and redirecting public expenditure toward key investments for growth potential (in R&D, innovation, human capital) are among the relevant factors to be taken into account when assessing public deficits (either below or above 3%), or when defining adjustment trajectory in the case of the excessive deficit procedure.

## Building a European Innovation Policy

Innovation policy underwent relevant changes with the mid-term review of the Lisbon Strategy (2005), with a stronger focus on the central role of innovation within the Strategy as a whole. Thus: the Lisbon Community Programme, which encompasses all the actions taken at European level, includes not only a more ambitious Framework Programme for RTD but also a Community Programme for Competitiveness and Innovation; second, the European Investment Bank and the European Investment Fund were invited to deploy new instruments to support innovation within the framework of their Initiative *Innovation 2010*; third, the Community Strategic Guidelines for the Cohesion Policy, on regional policy and the next generation of structural funds, also prioritise innovation policy; fourth, the reform of the Stability and Growth Pact evinces greater concern with the quality of public expenditure and encourages Member States to redirect their public budgets in order to foster public and private investment in key priorities such as R&D, innovation, education and training; fifth, the Community framework for State aid is being reviewed in order to promote a more horizontal approach, focusing on R&D, innovation and human capital; last but not least, a similar trend is shaping the integrated guidelines for the Lisbon Strategy, which were discussed by various Councils of Ministers and finally endorsed by the European Council of June 2005 as the framework for the national reform programmes to be implemented over the next three years. The need to strengthen this process was confirmed by the common approach on innovation adopted by the European Commission (COM (2005)488), and by the Spring European Council of March 2006 (calling for the development of a comprehensive approach toward innovation policy).

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Innovation turns knowledge into added value, leads to the emergence of new products and services, and should become the main engine for smarter growth with more and better jobs. Innovation policy has undergone important changes but a renewed impetus is necessary to strengthen it as an engine of development. A stronger focus on market opportunities and more effective links between innovation, research, education and job creation could help to generate the necessary momentum. As the Aho Report suggests and the European Council of March 2006 has pointed out, we need a more comprehensive approach to innovation.

There are new market opportunities that can be better explored and exploited. Regarding the European internal market, there are the health services, pharmaceuticals, tourism, cultural industries, urban renovation, environmental technologies, food safety, fashion, transports, telecommunications, software, and manufacturing systems, all of which can benefit. As regards external markets, the opportunities are even more diversified, although with the comparative advantages of the European economy in mind, the most relevant areas are transport, telecommunications, manufacturing systems, pharmaceuticals, environmental technologies, tourism, cultural activities, and education and health. It is up to the private sector to identify and grasp these opportunities, but these initiatives can be supported through improved coordination of trade, cooperation, public procurement and standardisation policies, which can create market opportunities through research, innovation and education.

At the 2006 Spring Summit meeting, European Heads of State and Government called on the Commission to present "a broad based innovation strategy for Europe that translates investments in knowledge into products and services." The Commission's response to this call is based on the following ten high priority actions to: establish innovation-friendly education systems; establish a European institute of Technology; work towards a single labour market for researchers; strengthen research-industry links; foster regional innovation through the new cohesion policy programmes; reform R&D and innovation state aid rules and provide better guidance for R&D tax incentives; enhance intellectual property rights protection (IPR); promote digital products and services (initiative on copyright levies); develop a strategy for innovation friendly "lead-markets"; and stimulate innovation through procurement. This comprehensive agenda for innovation should be at the heart of the new cycle of the Lisbon Agenda.