

1. CLOSE TO TEN YEARS OF THE LISBON STRATEGY

The Lisbon Agenda aims to turn Europe into the most competitive economy in the world by 2010 and to do this on the basis of innovation and knowledge while maintaining or defending social cohesion. In other words, Lisbon is about choosing the 'high road': globalisation and competition with low-wage, emerging economies, such as China, should not be addressed by cutting wages and intensifying situations of work-related stress. The alternative is to opt for 'smart' solutions: new products

and services to keep ahead of low-cost competitors and new production techniques to raise productivity and improve cost positions.

Eight years after the start of the Lisbon Agenda, and two years before its (provisional?) deadline, it is time to take stock. Has the Lisbon Strategy worked? And if it has not, can it still be repaired or is it doomed to fail and do we need a totally different agenda?

Themes

- 1.1. Employment results
- 1.2. Has the knowledge economy been built?
- 1.3. Has social cohesion been maintained?
- 1.4. The Lisbon Agenda and casino capitalism
- 1.5. Conclusions: can Lisbon be made to work?

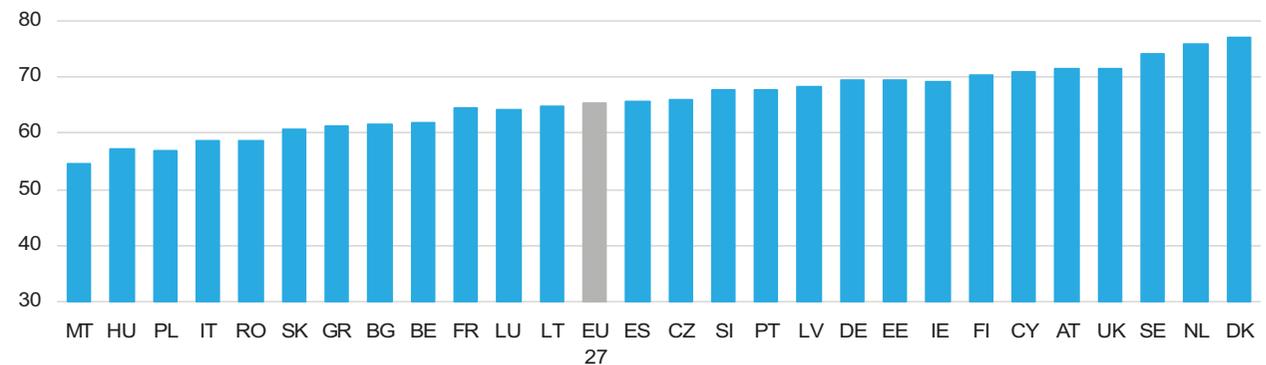
1.1. Employment results

Employment objectives

One ‘innovation’ of the 2000 Lisbon Council was to set employment targets for Europe as a whole: by 2010 employment rates were to be raised to 70% for the population of working age taken as a whole, to 60% for female workers and to 50% for older workers. This can be regarded as something of a revolution. At the time, strong opposition was exerted by the finance ministers who claimed – under the influence of beliefs stemming from financial market practices and the associated prevailing ideological stance – that the objective of ‘full employment’ was outdated and that, in any case, government policy was impotent to exert influence in this respect. When the European Council nevertheless decided to introduce these employment objectives, this represented a political victory for the employment ministers.

What has happened in reality over these past eight years? On the one hand, the overall employment rate in Europe became stranded at 65.4% in 2007, making it rather unlikely that the overall target of 70% will be attained by 2010, particularly in the light of the ongoing carnage in jobs resulting from the financial turmoil.

Figure 1.1: Employment rates, 2007



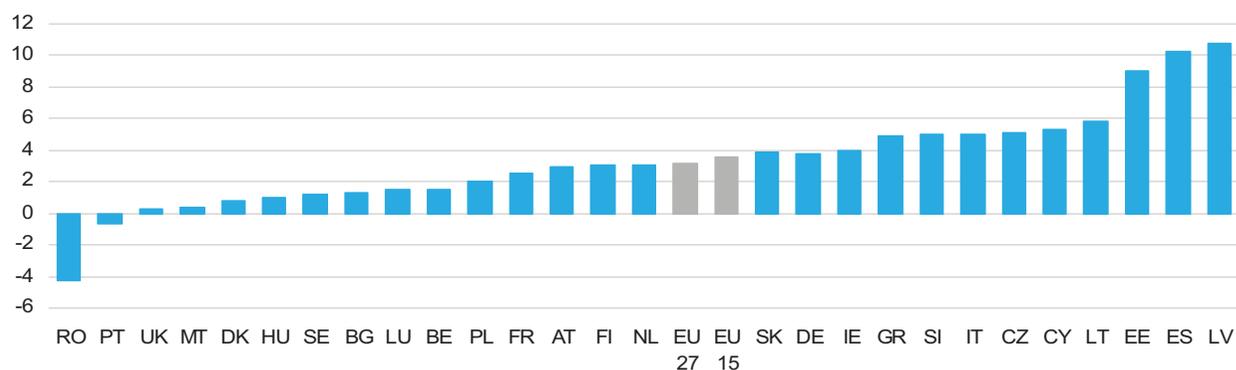
Data source: Eurostat, web site consulted on 16/12/2008.

1.1. Employment results

Employment objectives

On the other hand, the overall employment rate *has* been raised substantially, from 62.2% in 2000 to 65.4% in 2007 for Europe as a whole. In no country has the employment rate fallen over this period, while some countries have outperformed and staged a stunning increase in employment rates. In Spain, to give one example, the employment rate soared from 56% in 2000 (and as low as 50% in 1998) to 65.6% in 2007. At the same time, a number of countries that were already performing well (Scandinavian countries plus Austria and the Netherlands) further increased their employment rates, achieving levels well above 70%. All in all, millions of new jobs have indeed been created in Europe (see also Chapter 3 in this volume).

Figure 1.2: Evolution of employment rates, 2000 to 2007



Data source: Eurostat, web site consulted on 16/12/2008.

1.1. Employment results

Quality of jobs

One year after the Lisbon Council, it was felt – under the Belgian presidency of the European Union – that the Lisbon Agenda displayed a bias towards the quantity of jobs at the possible expense of their quality and that this required some correction. The Laeken Council therefore decided to define a number of job quality indicators, with a request to the Commission to develop them further.

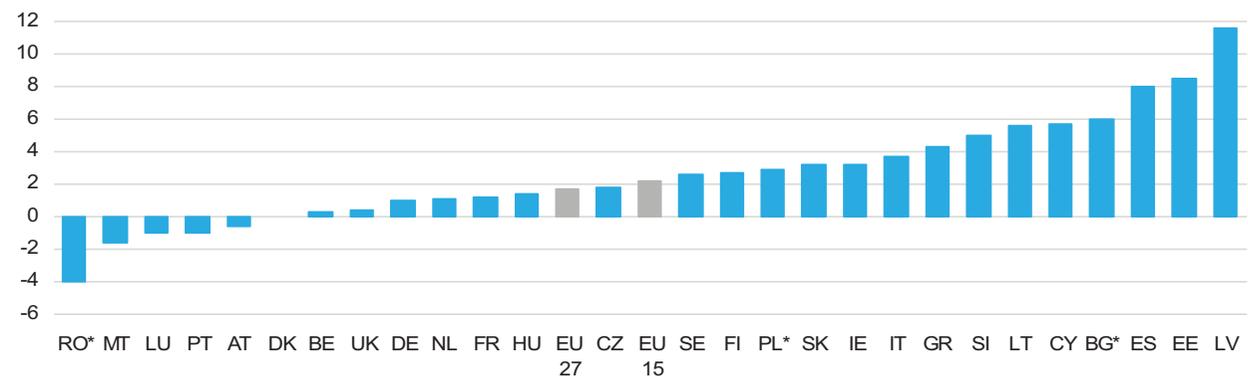
Looking back over close on ten years of massive job creation in Europe, what have been the practical experiences with job quality?

Job quality, of course, has many dimensions. Nevertheless, even if statistical attempts to summarise these different dimensions into one single indicator (Leschke and Watt 2008; European Commission 2008h) allow the conclusion to be drawn that average job quality in the European Union has not actually fallen, the same work also shows that, with regard to one dimension in particular, there has been a substantial regression: precarious work has spread like a plague throughout Europe. With the rise of non-voluntary or forced part-time jobs, agency work, fixed-term employment and low-wage jobs, labour and employment relationships have become less stable and increasingly insecure (see also Chapter 3 in this report).

To illustrate the magnitude of this trend towards increasing numbers of atypical jobs, Figure 1.3 shows the rise in employment rates expressed in full-time equivalents. Employment performance is heavily influenced by the proliferation of part-time work and, except in a handful of member states, the expansion in employment levels, when expressed in full-time equivalents, is not particularly impressive. This observation sheds a different light on the overall rise in employment rates. Employment performance has, to a major degree, been boosted by having more workers in jobs that did not absorb their total working time availability.

While part-time work may indeed be a deliberate choice for a certain proportion of the workforce, it nonetheless represents a significant waste of human resources from the standpoint of the economy as a whole, for example when well educated workers are forced to take up part-time and lower-productivity jobs in the effort to reconcile work and family life.

Figure 1.3: Evolution of full-time-equivalent employment rates, 2000-2007



Source: European Commission (2008). Note: * = 2001-2007.

1.2. Has the knowledge economy been built?

Has anyone seen an increase in R&D budgets?

Transforming the economy into a 'knowledge' economy implies, for a start, investment in research and development (R&D), education, lifelong learning. At the start of the Lisbon Agenda, Europe laid down some common targets which member states should seek to achieve, or in relation to which they should at least try to improve their performance: the share of investment in R&D was to increase to 3% of GDP; the share of persons aged 25 to 64 involved in lifelong learning should reach 12.5% by 2010; the percentage of early school-leavers was to be reduced to below 10%.

The statistics on R&D are sobering, at least when overall European figures are examined. Irrespective of the European average that is taken (EU27, EU15, or euro area), some eight years after the start of the Lisbon Agenda, the share of R&D in GDP has barely moved. This lack of progress is similarly reflected in patent applications to the European Patent Office, which have stagnated at around 105 applications a year per million inhabitants.

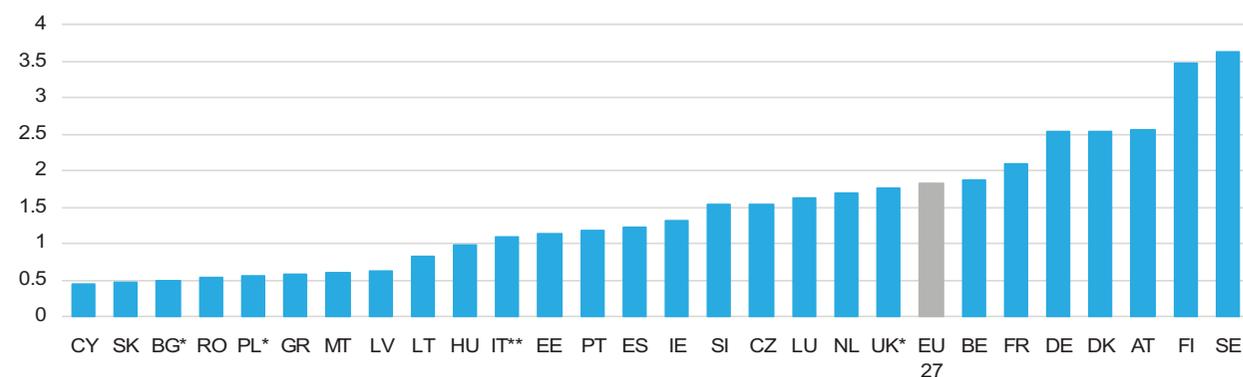
Of course, this European average does conceal some successful efforts at national level. Austria, Denmark, Ireland, Spain and Portugal have taken this target seriously and have increased their R&D share in GDP, as have several

eastern and central European member states, whose effort nonetheless still remains at a very low level. Finland and Sweden, which were already investing over 3% of GDP before the start of the Lisbon strategy, continued to outperform other countries.

Nevertheless, the heavyweight countries (UK, France, Italy and Germany) did not really move on this indicator, explaining why the overall European investment effort in R&D has remained exactly where it already stood in 2000 and well below the 3% Lisbon benchmark.

Some limited progress can be reported in the field of early school-leavers. For the EU27, the share of the population aged 18-24 with at most lower secondary education and not in training fell from 17.6% in 2000 to 15.2% in 2007. This trend of a falling share of youngsters with a low educational level is also apparent in virtually all countries. Nevertheless, for Europe as a whole and for many individual countries, there is still a long way to go to achieve the Lisbon target of a maximum level of 10%.

Figure 1.4: Research and Development (R&D) as % of GDP, 2007



Data source: Eurostat, web site consulted on 16/12/2008. Note: * = 2006, ** = 2005.

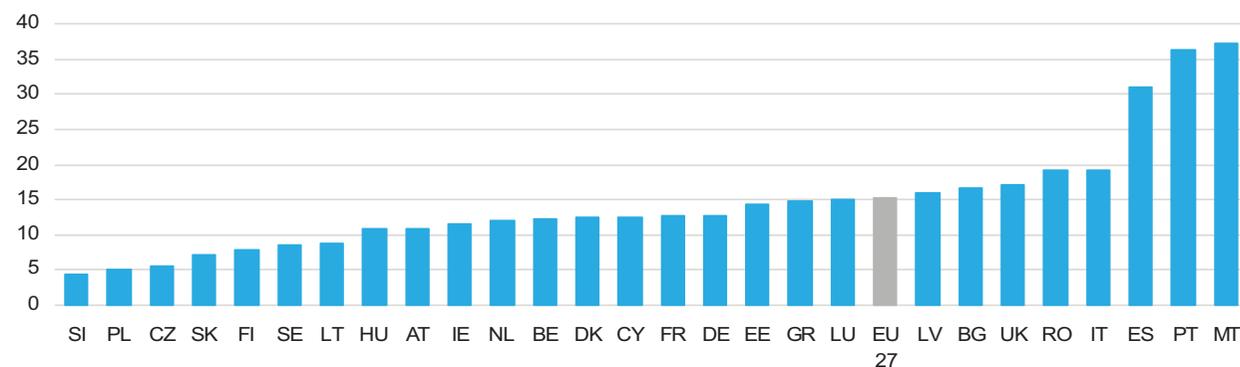
1.2. Has the knowledge economy been built?

Lifelong learning: progress thanks to statistical trend breaks?

Moreover, in a few countries the situation gives rise to concern. Spain and Portugal record a share of early school-leavers over 30%. Though this trend is decreasing in Portugal, Spain has actually seen a (limited) rise in early school-leavers. Nor is the UK result of a reduction of early school leavers from 18.4 to 17% particularly impressive insofar as it leaves the UK at almost the double the 10% benchmark.

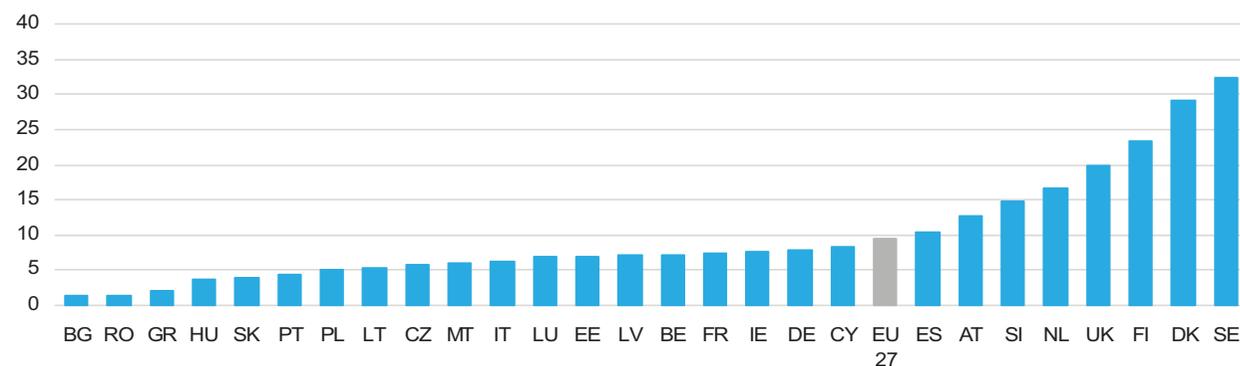
Progress in the area of lifelong learning is also somewhat limited. The incidence of lifelong learning in the EU27 has increased from 7.1% in 2000 to 9.5% in 2007. It should be added that, as a result of a statistical trend break in 2003, the observed increase is actually an overestimation. One star performer here is Denmark which, even taking into account this statistical trend break, managed to increase the share of people in lifelong learning from an already high level of 25.5% in 2003 to 29.2%. The overall conclusion for the European Lisbon Agenda is that much still remains to be done if the benchmark of 12.5% is to be reached by 2010.

Figure 1.5: Early school-leavers, 2007



Data source: Eurostat, web site consulted on 16/12/2008. Note: Percentage of the population aged 18-24 with at most lower secondary education and not in further education or training.

Figure 1.6: Lifelong learning, 2007



Data source: Eurostat, web site consulted on 16/12/2008. Note: Percentage of the population aged 25-64 participating in education and training over the four weeks prior to the survey.

1.3. Has social cohesion been maintained?

Inequality: the forgotten dimension

Apart from a reference to an annual decrease in the gender pay gap of at least 1% and an intention to set objectives to reduce the incidence of low wages and the number of working poor, the Lisbon Agenda never really did provide a definition or indicators of social cohesion.

However, one important way – albeit not the only way – to measure social cohesion is to look at inequalities in income distribution (compare also Chapter 4 in this volume). Here, we use the ratio of total income received by the 20% of the population with the highest income (top quintile) to that received by the 20% of the population with the lowest income (bottom quintile).

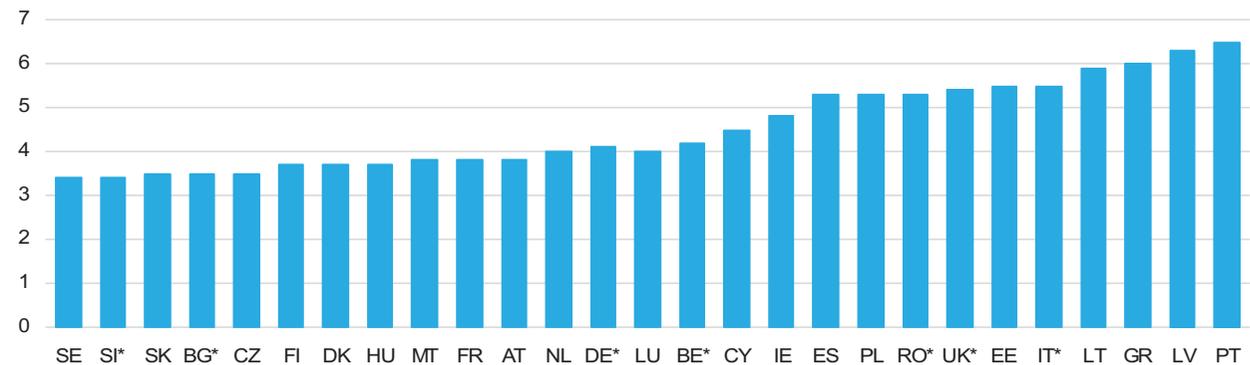
The finding is that, for EU25, income inequalities have widened since 2000. Whereas the top quintile at that time received 4.5 times as much income as the bottom quintile, this ratio had increased to 4.8 in 2007.

Germany and Italy are two countries where the labour market was ‘modernised’ by deregulating workers’ rights to unemployment benefits (Hartz reform in Germany) and to stable contracts (Biagi labour law reform in Italy). In Germany, inequality rose from 3.5 to 4.1. In Italy, the top quintile earned 5.5 times as much as the bottom quintile in 2007, a figure that had risen from 4.5 in 2000.

Poland, Portugal, Romania, Ireland, as well as the UK, are also characterised by rising inequalities. Inequalities rose in Denmark too. However, this increase occurred from a rather low level.

In France, Spain, the Netherlands and Belgium, inequalities remained stable, although at relatively high levels for the former two countries. The only exceptions to the general trend are Estonia and Malta where inequalities have fallen somewhat since 2000.

Figure 1.7: Inequality of income distribution, top quintile divided by lowest quintile, 2007



Data source: Eurostat, web site consulted on 16/12/2008. Note: * = 2006.

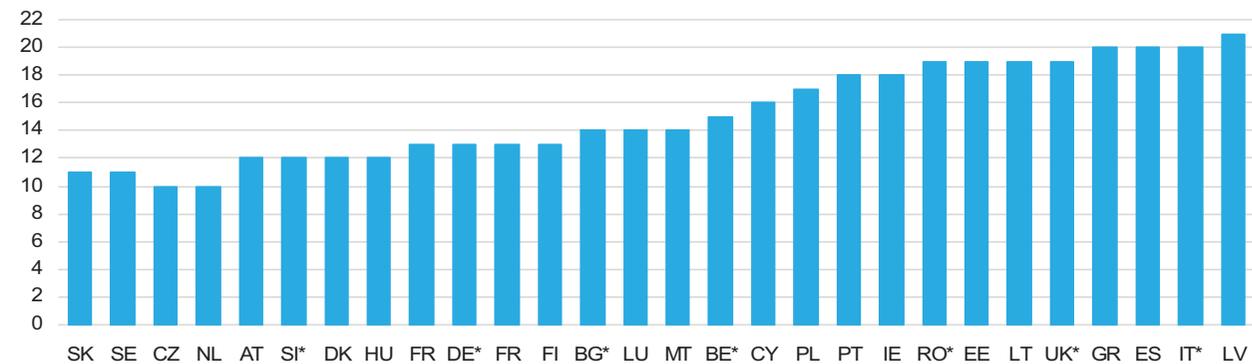
1.3. Has social cohesion been maintained?

Trickle-down strategies do not work

The 2005 relaunch transformed the Lisbon Agenda into an agenda for 'growth and jobs'. The claim of Lisbon, vintage 2005, was that a job was the best guarantee for social cohesion.

The results obtained above already refute this (ideological) claim since, although Europe did indeed create more jobs, the quality of the jobs created was too often problematic and income inequalities were increasing. Moreover, despite falling unemployment and rising employment, poverty did not fall. In 2007, in the EU25, 16% of Europeans are at risk of poverty after receipt of social transfers (see Figure 1.8). Poverty is highest in the southern European, Baltic and Anglo-Saxon countries. The Nordic countries, the Netherlands, and the Czech Republic have poverty rates below the European average.

Figure 1.8: At-risk-of-poverty rate after social transfers, 2007



Data source: Eurostat, web site consulted on 16/12/2008. Note: * = 2006.

1.4. The Lisbon Agenda and casino capitalism

Financial innovation: excessive borrowing to speculate

Despite the fact that the Lisbon Agenda of investing in innovation and knowledge has seen only very modest implementation, millions of new jobs have been created in the European economy. This raises the question of what other forces have been driving employment dynamics.

In the era of globalisation in which emerging economies like China are bound to profit from their low-wage competitive advantage and increased market shares in international trade, OECD economies basically have two other options in trying to get back to full employment.

One option is to use techniques of financial market 'innovation' which, basically, push economic agents to take on more, even excessive, debt so that spending can continue. The aim is to over-compensate for import leakages to emerging economies by boosting total spending, in that way keeping the economy in full employment. Put simply, industrial jobs disappearing into China are replaced by jobs in the sectors of distribution, personal services, construction and finance. Excessive debt dynamics are then accompanied by asset price bubbles and rising current account deficits.

The other option for OECD countries to resist the impact of globalisation on full employment is to go for a 'beggar-thy-neighbour' strategy of competitive wage moderation. The aim is of course not to try to compete with low-wage countries as such. Instead, the objective is to ensure that a larger share of the volume of industrial activity remains localised in Europe and this takes place at the expense of neighbouring countries.

In Europe, both strategies have been implemented. The UK, Ireland and Spain are countries that have been using the technique of 'casino capitalism'. This goes a considerable way towards explaining, for example, the enormous hike in employment rates in Spain over the past years. Germany and Austria, on the other hand, have opted unequivocally for wage moderation, with real wage increases practically absent over the past seven years or so.

Ultimately, both models run into a brick wall. Household debt burdens cannot rise indefinitely, nor can banks keep on increasing their balance sheets without adequate capital to back this. The credit squeeze which is dragging Europe and the world economy down into a major depression

basically means that the limits of 'casino capitalism' as a means of surviving and promoting full employment on 'borrowed' money have been reached. The model of 'export-led growth' does not, however, perform any better. From the moment that 'casino capitalism' countries run into difficulties, the 'export' countries immediately fall into depression too, since internal demand dynamics have been undermined by years of wage moderation.

Accordingly, looking back over eight years of Lisbon, much of the employment performance appears to be a 'mirage' with one part of Europe having lived on 'borrowed money' and the other part on 'beggar-thy-neighbour' policies. Given the only modest investment in innovation and knowledge, the rise in employment rates is not actually attributable predominantly to 'Lisbon'.

1.5. Conclusions: can Lisbon be made to work?

Limits to competition on the internal market are necessary

The question remains as to *why* member states have not wholeheartedly implemented the Lisbon agenda, despite the European pressure on them?

Part of the answer lies in the fact that the Lisbon Agenda is not a European but rather a national agenda. Basically, it is up to member states to implement Lisbon and invest in innovation and knowledge. Member states do not, however, operate in a vacuum but in a European internal market. And this internal market is putting constant competitive pressure on them: to 'seduce' the international investment that is heading for Europe into choosing to locate in their particular country, member states continuously feel the need to control wages, to cut social spending and non-wage labour costs, to make labour relations increasingly flexible. Faced with this short-term 'reform' pressure, not much political capital remains to pursue the long-run agenda of improving competitiveness on the basis of innovation.

Moreover, cost competition between member states also takes place on the basis of tax competition. In Europe, taxes on corporate profits have been slashed, zero-tax or flat-tax regimes have been introduced, capital gains and

wealth taxes have been abolished. Investing in innovation, however, costs money, so the drive to compete on the basis of taxes actually represents a major deterrent for member states in relation to implementation of the Lisbon Agenda.

Another part of the answer is that member states may indeed have good reason to believe that 'innovation and knowledge', while necessary, are not sufficient to reach the objective of full employment. In the end, even in those countries that invest massively in innovation, the share of knowledge workers in total employment is relatively small and insufficient to exert a major impact on total employment performance (see Figure 1.9).

Figure 1.9: Share of information technology in total employment

Spain	2.7
Italy	2.8
Germany	3
United Kingdom	3.1
France	3.1
United States	3.7
Netherlands	4.2

Source: Natixis (2008).