

# DOES THE OPEN METHOD OF COORDINATION HELP DELIVERING LISBON?

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*The EU's economic ambition can be summarised by the main goal of the Lisbon Strategy (2000) and its' initiators agreed upon the necessity of a plan, to solve some issues that were left behind in the process of European integration (education, R&D, innovation, labour markets, welfare of consumers) at a time, when the depth of the integration process and the economic growth had the first lead. EU's problems were related to an increased number of participants on the EU Labour Market and a slowdown in productivity (not necessarily implying a lower rate on investment in ITC). Therefore, new policies were needed, in areas like employment and competitiveness and also a requirement for an efficient Open Method of Coordination (OMC) between the member states and the European Commission, economic growth and jobs being vital for obtaining a sustainable development.*

*Key-words: Growth, jobs, OMC*

## **General Aspects**

The EU economic ambition could be summarised by the main objective stated in the Lisbon Agenda (2000): EU should improve its competitiveness, without damaging the social and economic cohesion, or the environment.

The European Commission, as initiator of legal projects and "guard" of the Treaties, has little power to sustain the needed reforms, that lead to reaching EU's ambitions. The instrument of the Lisbon Agenda (LA), the Open Method of Coordination (OMC) should ensure a collaboration and interdependence between the European Commission and the member states, but also to maintain the political enthusiasm<sup>176</sup> that initiated the Lisbon Strategy (LS).

In the opinion of Mr. Kok and Mr. Barroso, the OMC did not achieve its goals yet (did not deliver): a high degree of collaboration on both national and supranational level of the member states.

Looking back on the progresses the member states and candidates achieved in reaching the main LS objective and also based on the "Mid-term Review", the President of the European Commission, Jose Manuel Barroso concluded that the EU should focus more on its economy (he named it the EU's "sick child"<sup>177</sup>). The concentration on the EU economy, mainly creating growth and jobs, should not, however, leave on a secondary level the other areas that were mentioned in the LS: social cohesion and environment. On the top of the EU policy agenda was the economic performance (even though, the LS was considered to be overly ambitious or/and ineffective) and the need to reform various markets and government policies. Without these reforms, made to "boost" the economic performance, the EU might face collapse. The LS took into consideration areas that were somewhat left behind on a community level, at a time when the ITC peaked: education, research, innovation, the labour market or welfare of consumers. Learning on the experience of the previous decades of integration of the community institutions – that worked at a national and supranational level and provided the efforts to sustain the necessity of reform, the heads of state and government of the member states focused on needed reform of the labour market.

The fact that the EU economy (basically growth and jobs) needs more attention on short term base could have negative influences for the social cohesion and environment on the long term. The economic expansion contributes to maintaining a social cohesion and environment, but the structural trade-offs among the central elements of the LS cannot be avoided, unless policy changes are made (such as pricing pollution). Higher productivity doesn't make room for the governmental manoeuvres and this could lead to

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<sup>176</sup> Wim Kok Report

<sup>177</sup> S. Everdeen, A. van der Horst, P. Tang (2005)

higher taxes and public expenditures (the public sector wages and the social security benefits are linked to productivity). To engineer the increase in employment, changes in welfare-state arrangements are needed.

The main issue is the fact that, even though there is an increased participation on the labour market (during the last 18 years) and the productivity per hour is high in many EU member states, the rate of productivity growth, has fallen since the '70 and especially the '90. However, this slowdown does not necessarily mean that the investments in knowledge have been decreasing, but the high level of productivity of the past decades (starting from the '60) was also generated by imitating and implementing state-of-art-technologies.

Compared to the EU, the USA faces a growing rate of productivity, due to an intense use of information and communication technology (ITC) in services. In present, in order for the EU to overcome this slowdown, more investment in knowledge is needed (R&D, education, ITC, innovation).

In a nutshell, Lisbon was about improving the economic performance of the EU (an increased level of growth and raise productivity), but after the release of the "Mid-term Review" (2005) it concluded that the relative position of the EU in the world economy was not changed, hence several proposals to rejuvenate the LS were made, by Mr. Wim Kok in his Report and was supported by Mr. Jose Manuel Barroso. First, the LS 2 should focus on growth and jobs, in order to achieve sustainable development and for financing the EU member states a long run. Second, the reform is needed, because the lack of progress in reaching for the LS goals, resides in the lack of political will to reform of the member states. To fulfil the goals of the Lisbon Agenda (also its main objective: reaching the most competitive and dynamic knowledge based economy of the world, by 2010) a large variety of political and economic measures were taken: the community law system faced changes, new goals and benchmarks were established, in order to realise a monitory and evaluation of the member states (old and new) and of the candidates, including Turkey. The necessity of reform was pointed out, in order to intensify the EU competition, to restructure the labour market, to consolidate the social cohesion and to assure a compatibility of the economic and environmental policy.

But, after the Wim Kok Report and a thorough analysis of all the member states and candidates, according to the eight Lisbon Criteria, the results were less than expected, also compared to the USA (which reached high scores in most of the dimensions). Compared to the USA, the EU faced a disadvantage because the US sustained the development of knowledge, mainly in the technological area, compared to EU that registered a slower rate of development.

The LA was considered to be ambitious, yet comprehensive and in a constant need of sustained efforts, for many years, in order to realise its goals. Therefore, the initial political enthusiasm should be brought back. The proposed reforms should be fulfilled as soon as possible and the new member states are not to be left out. This way, together with the enlargement, also the economic growth and competitiveness can be realised.

The member states have to adopt National Action Plans (NAP), responsible for increasing the rate of growth and the number of jobs, alongside with measures that provide the implementation of the much needed reforms at the same time in all member states, making the process less painful. The OMC would prove its necessity and effectiveness in bringing commitment, changing the national perspectives into an overall EU viewpoint and maintaining the initial political enthusiasm that characterised the LS.

### **Action-taking, after 5 years**

After the release of the Mid-term Review, in 2006, the European Commission proposed 10 priorities for action, at a communitarian level<sup>178</sup>:

- Establishing an innovation- friendly education systems
- Establishing an European Institute of Technology
- Working toward a single and attractive labour market for researchers
- Strengthening research-industry links
- Fostering regional innovation through new cohesion policy programmes

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<sup>178</sup> Proposals based on the European Commission's Vice-president, Günther Verheugen presentation "Putting Knowledge into Practice: a Broad-based Innovation Strategy for the EU" (12940/06)

- Reforming R&D and innovation state aid rules and providing a better guidance for R&D tax incentives
- Enhancing intellectual property rights protection
- Digital products and services-initiative on copyright levies
- Developing a strategy for innovation friendly “lead Markets”
- Stimulating innovation through procurement

The LA is considered to be, alongside the European Commission’s budget and the Euro, a part of the EU economic architecture, so its structural reforms should be seen in the context of the economic governance of the Union, which faces three simultaneous challenges:

1. the financial perspective: 2007-2013
2. the future of the Stability and Growth Pact
3. the implementation of the LA

According to Mario Monti, the main problem the LS had to face was the “disconnection from the other two pillars of the EU economic governance”.

The LA suffered from a lack of effectiveness in the implementation and delivery, caused by wrong OMC: it would be more appropriate to set some EU-wide objectives and allow national autonomies to translate them into actual measures and to implement them, than using a hybrid combination of the intergovernmental and supranational Community Method.

The implementation gap can be explained by a partially misguided approach, caused by the fact that, in spite of the existence of a long list of reforms, the productivity rates have changed little over time.

Compared to the USA, the EU has a more open economy, concentrated on external stability and savings, while the USA focused on domestic growth via consumption. This situation could cause tension between the national and EU economic objectives which the LA needs to address and it points to the necessity of reinforcing and maintaining a macroeconomic dialogue and coordination among the member states, including social partners.

Since the '80, a better economic performance was needed for the EU policy-making on a long term, in order to fight the negative effects caused by the “euro-sclerosis” (the Single Market Programme and the “Padoa-Schioppa Report”<sup>179</sup> -1987- both were created to help fighting these effects). For the LA a similar perception was used, despite some differences that can be spotted.

**Fig. 1 Compared Analysis between the Single Market and the LS**

	<b>Single Market</b>	<b>Lisbon Strategy</b>
Final Scope	- integration and economic growth	- economic growth, social cohesion and employment
Intermediate Objectives	-reducing the purchasing costs for goods and services at a communitarian level	- advance in the innovation and education processes - higher investment for R&D - higher degree of employment - liberalisation of the industrial services
Means	-elimination of all existing barriers - legal harmonisation	-the definition of common tasks - monitoring each other - the evaluation of the successes by achieving the proposed goals
Instruments	-directives, based on the decisions of the national	- national measures (tax-paying,

<sup>179</sup> „The Padoa-Schioppa Report” was based on a three pillars theory and started at a theoretical level, a sustained economic growth. (The pillars were: the Single Market- for a better economic efficiency, an efficient monetary system -to achieve a monetary stability, a common, enlarged budget- to sustain an economic cohesion.

	Courts	legal or budgetary)
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Source: G. Drăgan (2005)

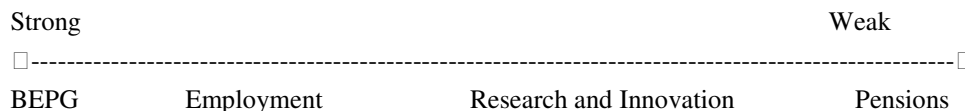
## The OMC

The OMC is the logical approach to achieve the common EU ambition, initiated by the main objective of the LS. Even though it does not impose a single, European vision of the ideal welfare state design or other policy areas, it is considered to be a “mean of spreading best practices and achieving greater convergence towards the main EU goals” (EC, 2000).

Regarding the OMC, the opinions are divided, because it is considered to be a new governance architecture (Radaelli, 2003)<sup>180</sup>, or whether it is even a policy instrument (even though it is part of the EU arrangements, the ways to enforce compliance are limited at the best). At a EU level, no competences are being delegated; the European Commission and European Parliament play only a small part.

There is another problem: the OMC seems to exist in every policy area, but is not harmonised: in some it is a weak, while in other areas, there is a strong coordination, balancing from clear guidelines (like the BEPG case) to broad objectives (the pension’s situation)

*Fig.2: The Relative Degree of Coordination of the OMC in Different Policy Areas*



Source: S. Everdeen, A. van der Horst, P. Tang (2005)

The fact that the OMC has developed so differently, fits well with the principle of subsidiarity at EU level, but the question arises as to whether EU interference with national policies in some areas (for instance the two areas that are central in the renewed LA: growth and jobs) is even necessary. Once a member state finds itself in the position of full employment (or cannot lower the structural unemployment further) it cannot benefit from more jobs in another state, by raising exports and production; so the EU Labour Markets are hardly interdependent because it has only a marginal structural effect on production in one country and relative prices in other countries.

The idea behind the OMC states that if in one country exists economic performance, it has a positive influence on the other performances of other countries. So, the OMC can help policies by stimulating knowledge investments, or to support innovation, or the environment. Even though it is not harmonised (meaning same guidelines or objectives) and the existence of a decentralisation of the targets at a national level, the introduction of NAP’s might lead to a better coordination. These NAP’s and the existence of Mr/Ms Lisbon should improve the informal sanctions when a member state’s contribution to growth and jobs is below par.

Even though it might work better if harmonised, the fact that the OMC exists in a wide range of policies (from BEPG to pensions) helps the member states to achieve the LS main goal. But it is not possible to apply to growth and jobs the same governance method, because in areas with strong spillovers (like growth) the OMC failed, while in areas of weak spillovers (jobs), it contributes by fostering mutual learning.

<sup>180</sup> S. Everdeen, A. van der Horst, P. Tang (2005)

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