

### [“Lisbon meets Lisbon”: can the Treaty solve the troubles of the Agenda?](#)

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It is well documented that the GDP (and the GDP per capita) gap between the United States and Europe has been increasing in the last decade. This was not always the case: the gap was decreasing up to the 1960s, remained stable during the seventies, and is now widening faster and faster. An article by Alesina and Tabellini on [www.voxeu.org](http://www.voxeu.org) shows that GDP differences on the two sides of the Atlantic cannot be accounted for by poor measurement. To the contrary: if GDP were measured correctly by including home production and intangible investments, they argue, Europe's relative decline might be even more pronounced.

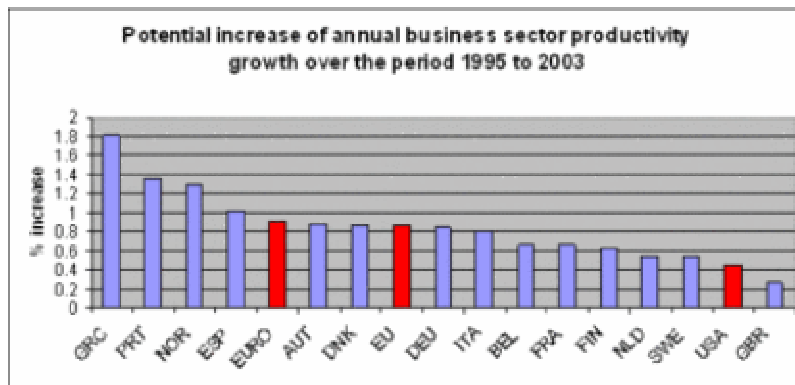
It is at this point well recognized by economists that the low economic performance of Europe, and the euro area in particular, has to be imputed to low productivity growth associated with lack of structural reforms. These economic difficulties are even more painful when considering two new challenges facing Europe: first, the increased competitive pressures from Asian economies, and second the weakness of the dollar that lowers the competitiveness of euro area firms.

One cannot argue that European leaders are unaware of the link between structural reforms and growth. Already in March 2000, the Lisbon European Council set out an agenda of reforms to increase competitiveness and foster growth. Five years later, the Commission's mid-term review of the Lisbon strategy (European Commission, 2005) pointed out that slow pace of policy reforms hold back economic growth in Europe and proposed a new process. The renewed Lisbon strategy (or Lisbon 2) recommends a stronger focus on growth and employment: simplification and national ownership were seen as the key elements to re-launch the Lisbon reforms agenda.

After almost ten years, however, the Lisbon Agenda is largely viewed as a failure. Some reforms have been undertaken in the labour market to allow for more flexible labour utilization, but the picture is still far from the one envisaged as the optimal one (see Faia on Europe EconoMonitor of October 27, 2007). More importantly, product market regulation is still high in several key non-manufacturing sectors in Europe such as gas, postal services, rail transport, professional services, finance, electricity and communications. The effect of anti-competitive regulation on growth is revealed in a recent study by the OECD (Conway et al., 2006) which evaluates the annual productivity growth in the business sector if the stance of regulation were lowered to the least restrictive of competition in OECD countries. Figure 1 shows that

productivity growth in the EU15 in 1995-2003 could have been 0.87 percent per year higher had regulation in non-manufacturing sectors been lower. This number is even higher for the euro area (0.92%, also in the picture).

**Figure 1**



Source: Conway et al. (2006)

What can explain such inactivity in reforming? The answer is in the political economy of structural reforms. More precisely, there are two interrelated dimension of this problem. First, national governments acting independently fail to internalize the positive spillovers stemming from reforms, contrary to the situation in which a single union government would maximize the welfare of all union members. Second, national governments do not simply act as benevolent planners maximizing the welfare of their citizens, but can be induced by vested interests to choose inefficient policies.

In all countries lobbies representing the interests of various sectors of the economy or of professional categories exert strong pressures to maintain the current high level of protectionism. A recent article by Ruta (2007) shows that, when there are important cross-border policy spillovers (as one can expect in an economic union), national governments are more easily captured by vested interests, as they fail to internalize the benefits of reforms on the rest of the Union. This suggests that the weak political governance of the Lisbon Agenda, which is centered on the peer pressure of national governments, is an important determinant of the Lisbon failure.

Will the newly agreed (Lisbon) Reform Treaty help achieving the goals of the Lisbon Agenda? The true effects of institutional reforms are extremely difficult to predict. However, we give it a try. Attacking the political economy problem at its origin requires an increased strength of the Union. A more effective centralized decision-making would allow to better internalize the negative externalities coming from the lack of reforms and would weaken special interests. The Lisbon Treaty will affect the Lisbon strategy in three ways. First, decision-making in the EU will be improved through several measures such as a permanent, elected presidency for the European Council and a new voting mechanism based on majorities of countries and population. Second, the

Reform Treaty clearly classifies the policy areas of the EU, giving to it exclusive competence on competition rules for the internal market, and shared competence in important areas such as energy, trans-European networks, transport and social cohesion. Lastly, and perhaps more importantly, allowing the EU to escape the political deadlock of the past few years and reinforcing the integration process (we hazard) the Lisbon Treaty will give new strength to the Lisbon Agenda.

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