

Lisbon strategy as a effective tool for increasing
competitiveness in Europe

Performance of the European economies and the “Lisbon programme”

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*The views expressed in this presentation are those of the author
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Two key messages

1. The Lisbon target of making Europe the most competitive and dynamic economy in the world by 2010 is out of reach, because of the persistence weakness of the euro area.
2. Nevertheless, the Lisbon strategy is not a failure; it is based on a sound a helpful framework; targets are however too numerous and sometimes unrealistic.

1.

The Lisbon target of making
Europe the most competitive and
dynamic economy in the world
by 2010 is out of reach

What is the Lisbon strategy?

- Turn the European economy into “*the most competitive and dynamic knowledge-based economy in the world, capable of sustainable growth with more and better jobs and greater social cohesion*”.
- Achieve real GDP growth rate of 3% p.a.
- 70% of those at working age to be employed (from 64%).
- 50% of older workers to be employed (from 38.5%)
- Double R&D spending to 3% of GDP.

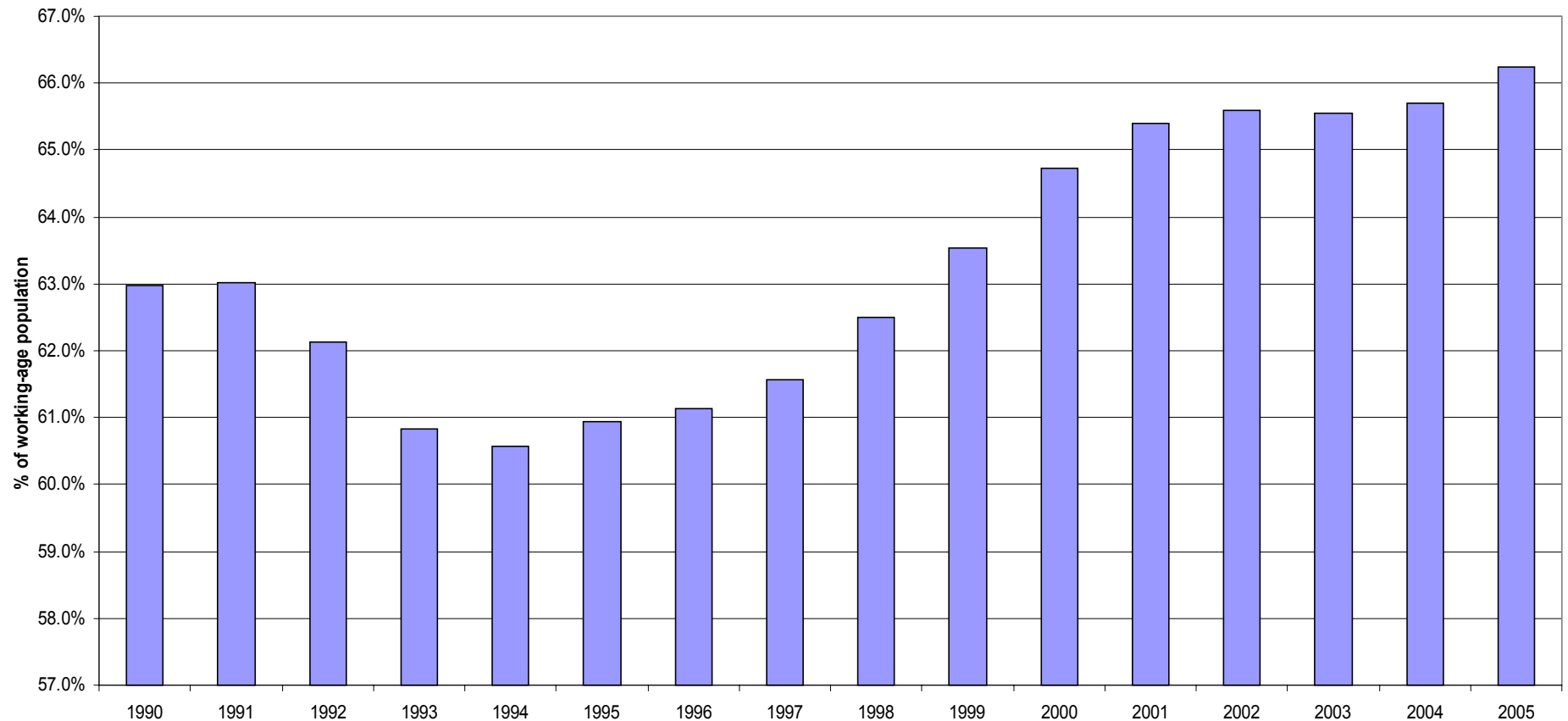
Reaching Lisbon targets is unlikely, reflecting weakness in three areas

- More than one-third of persons at working-age do not work. Although employment growth has improved, participation of older workers and youth still low, and unemployment high. More needs to be done to help inactive people get a job.
- Productivity growth is sluggish, and Europe's lead is gradually eroding fading. This reflects the lack of competition in product markets. Also, Europe is a follower, rather than a leader, in the area of innovation.
- Europe lacks resilience: it is vulnerable to shocks, notably adverse news, and recovers only sluggishly. This seems to come from its structural rigidities, notably product market regulation and employment protection legislation. More needs to be done to liberalise these markets.

One-third of working-age
Europeans
are outside the labour market

The employment rate has increased, but one-third of working-age Europeans still do not work

European Union -- Employment rate (OECD definition)

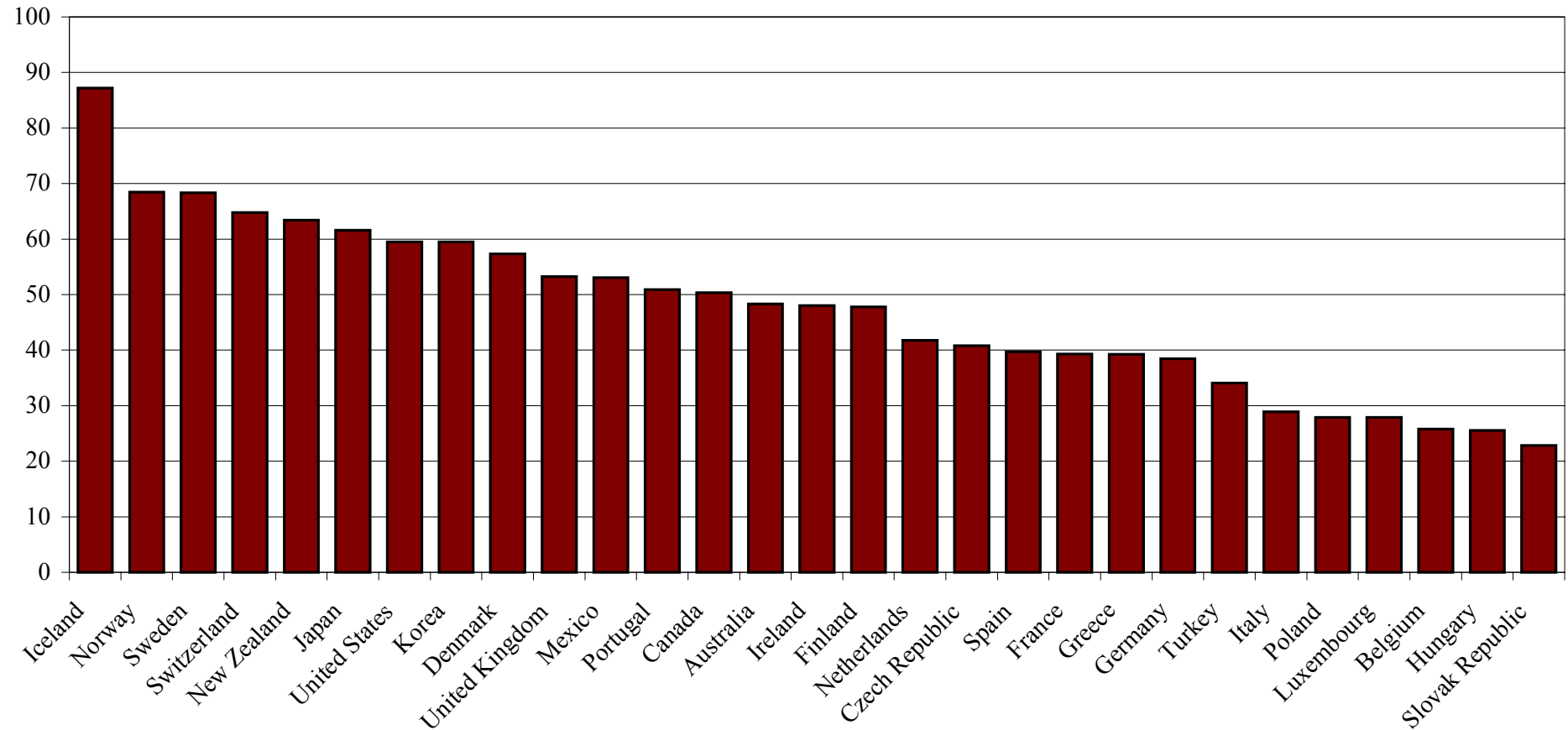


Source: OECD (E075)

For example, older workers retire early in the euro area

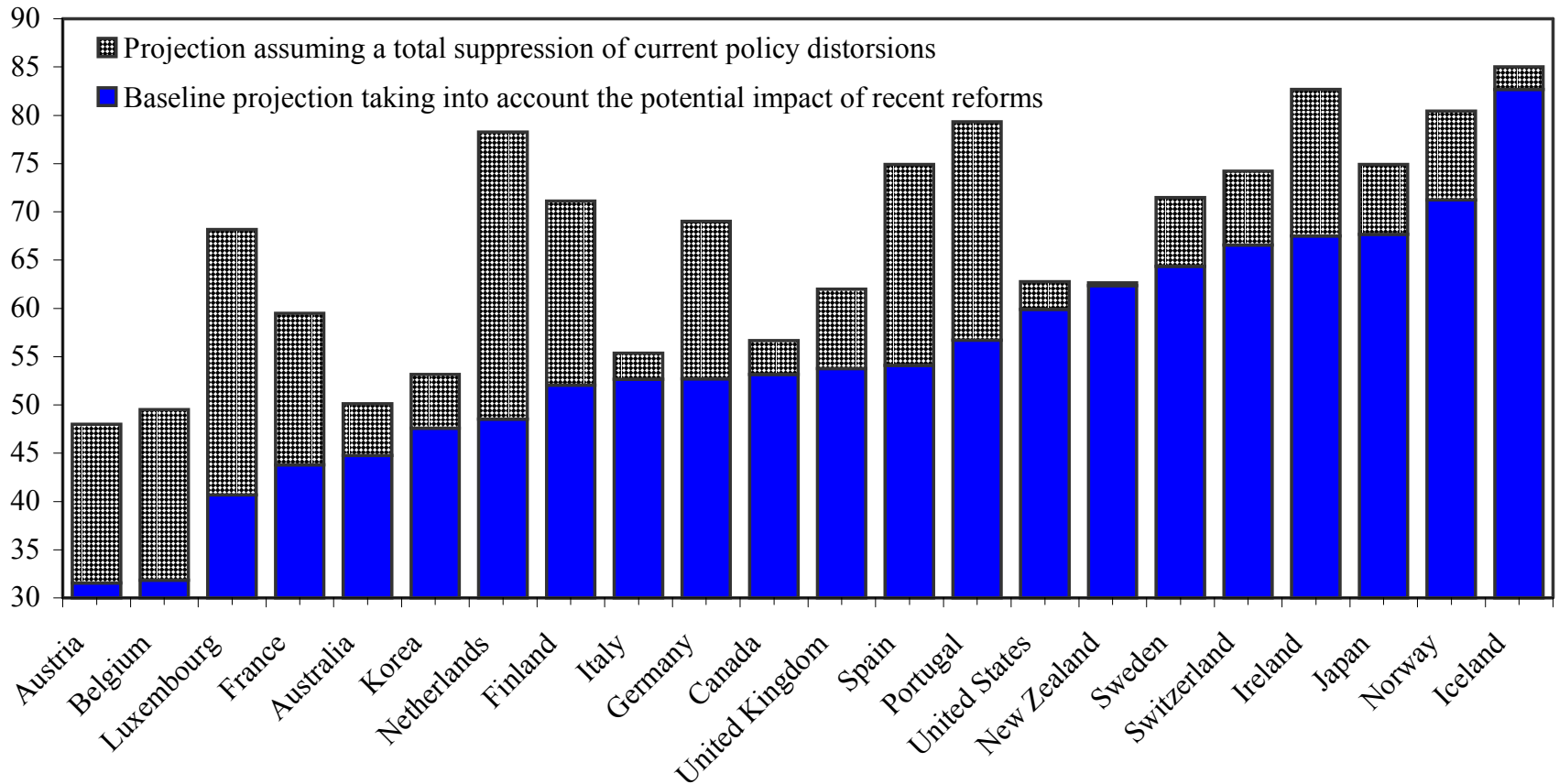
Employment of men and women age 55-64 as a percentage of the population age 55-64, 2002

% of population age 55-64



Removing implicit taxes on older workers would raise participation

Potential impact of pension reforms on labour force participation of older workers
(projected labour force participation rates of the 55-64 age group in 2025 under different scenarios)

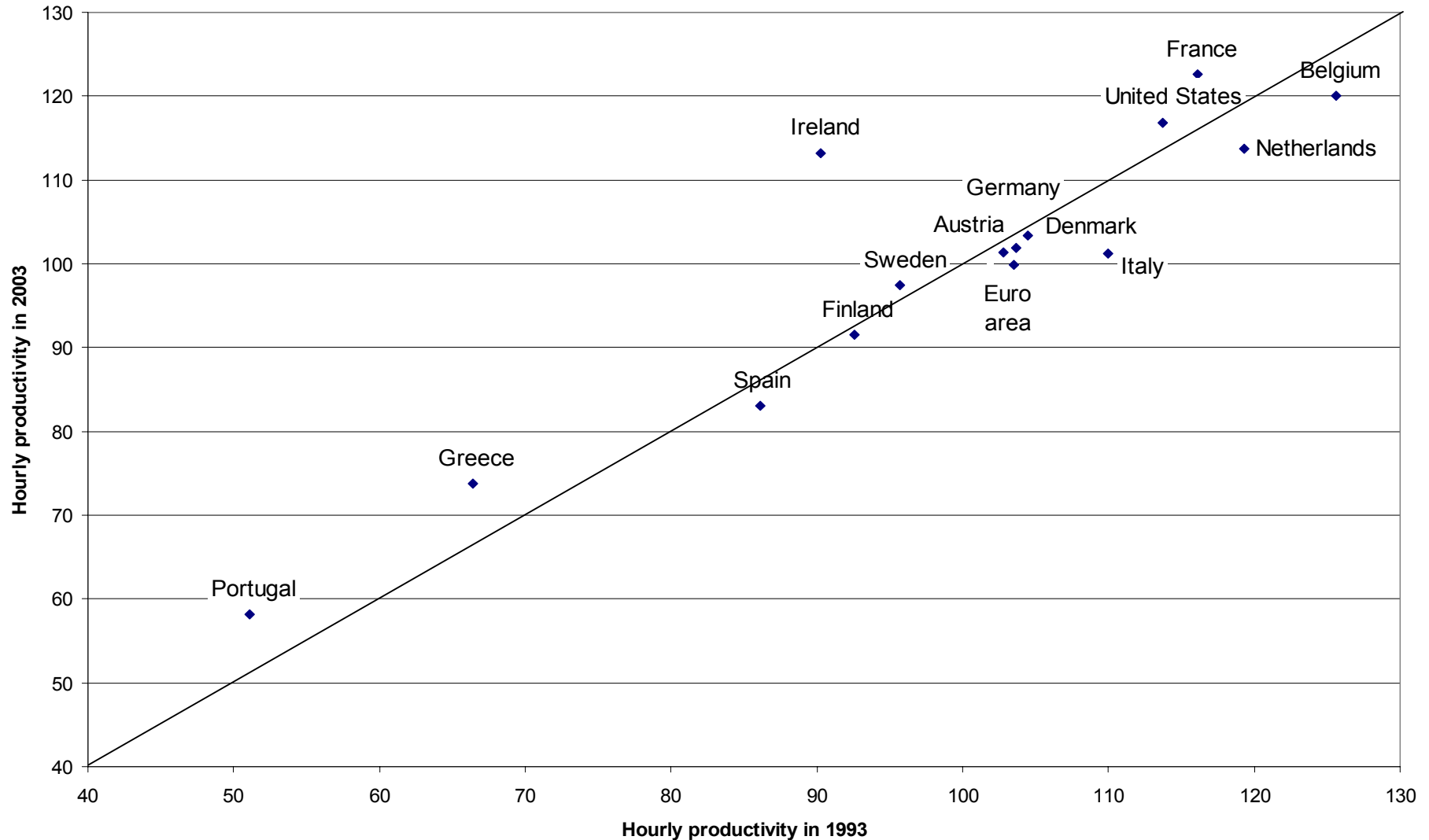


Source : OECD.

Productivity is lagging behind

Productivity generally below US level

(Hourly productivity, EU 15=100, based on PPS)

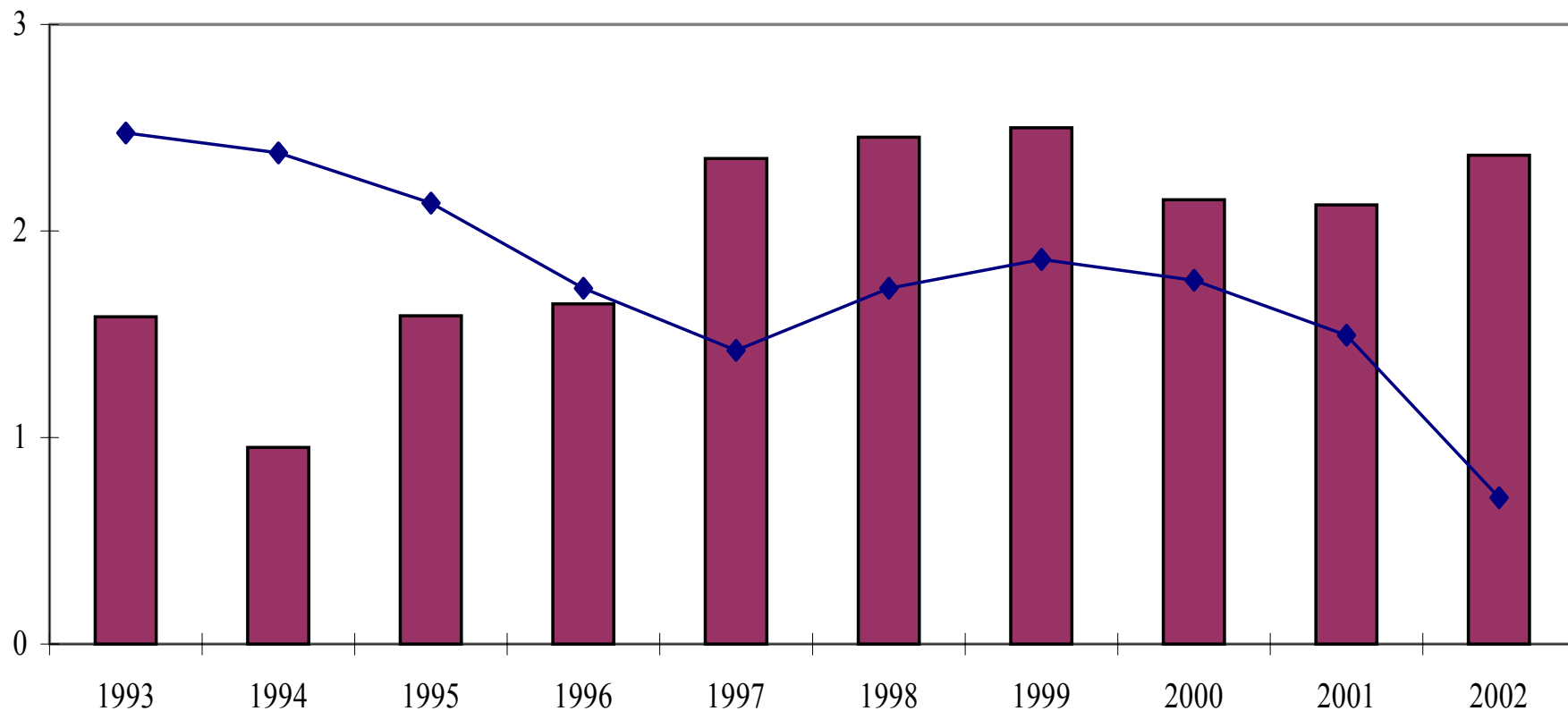


And productivity growth is falling behind

Labour productivity per hour

Real GDP divided by total hours worked, annual growth, moving average (centered, over 3 years)

United States — Euro area

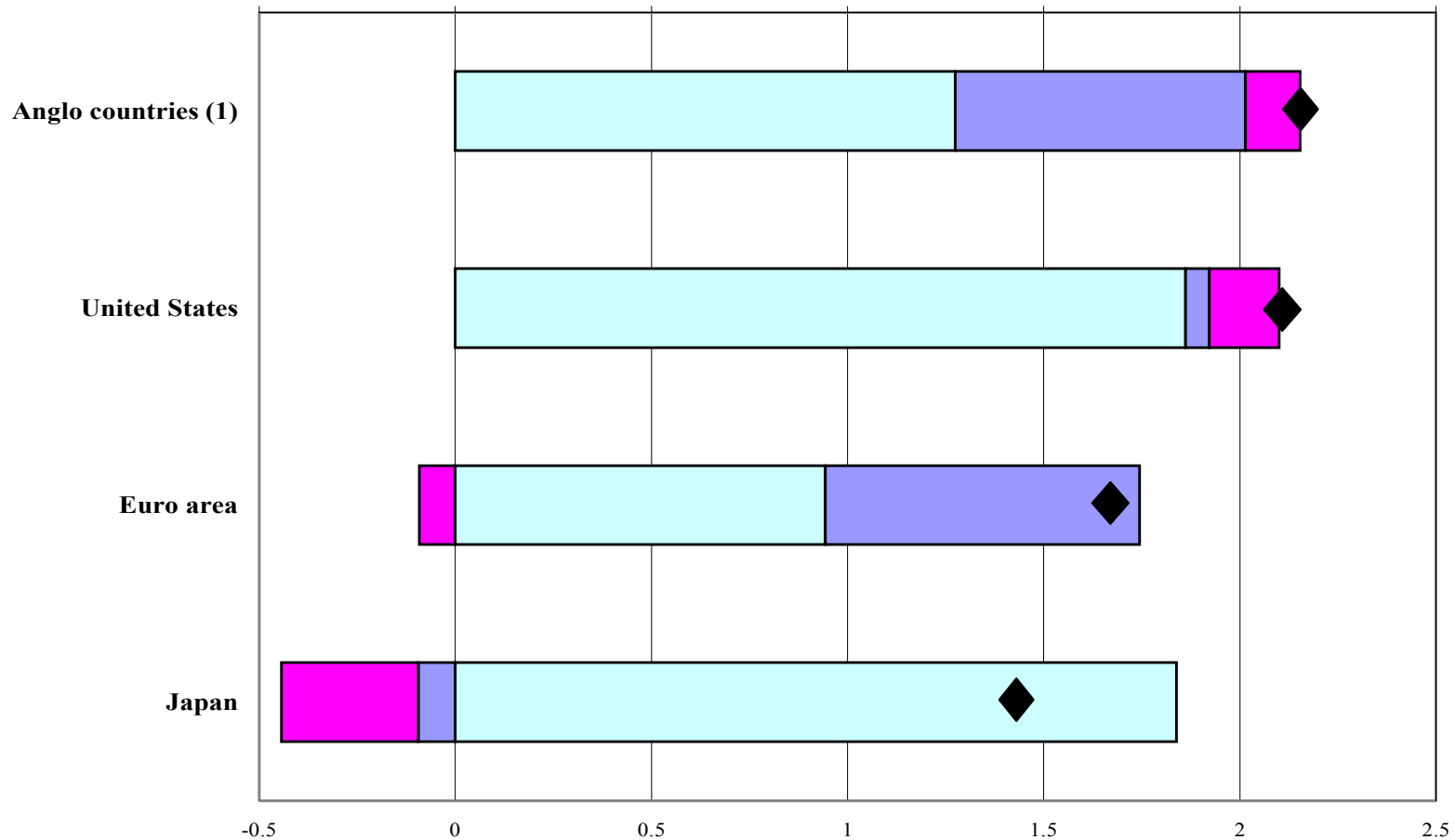


The euro area does not combine employment and productivity growth

Components of GDP growth per capita

Trend real GDP, average annual percentage change, 1993-2003

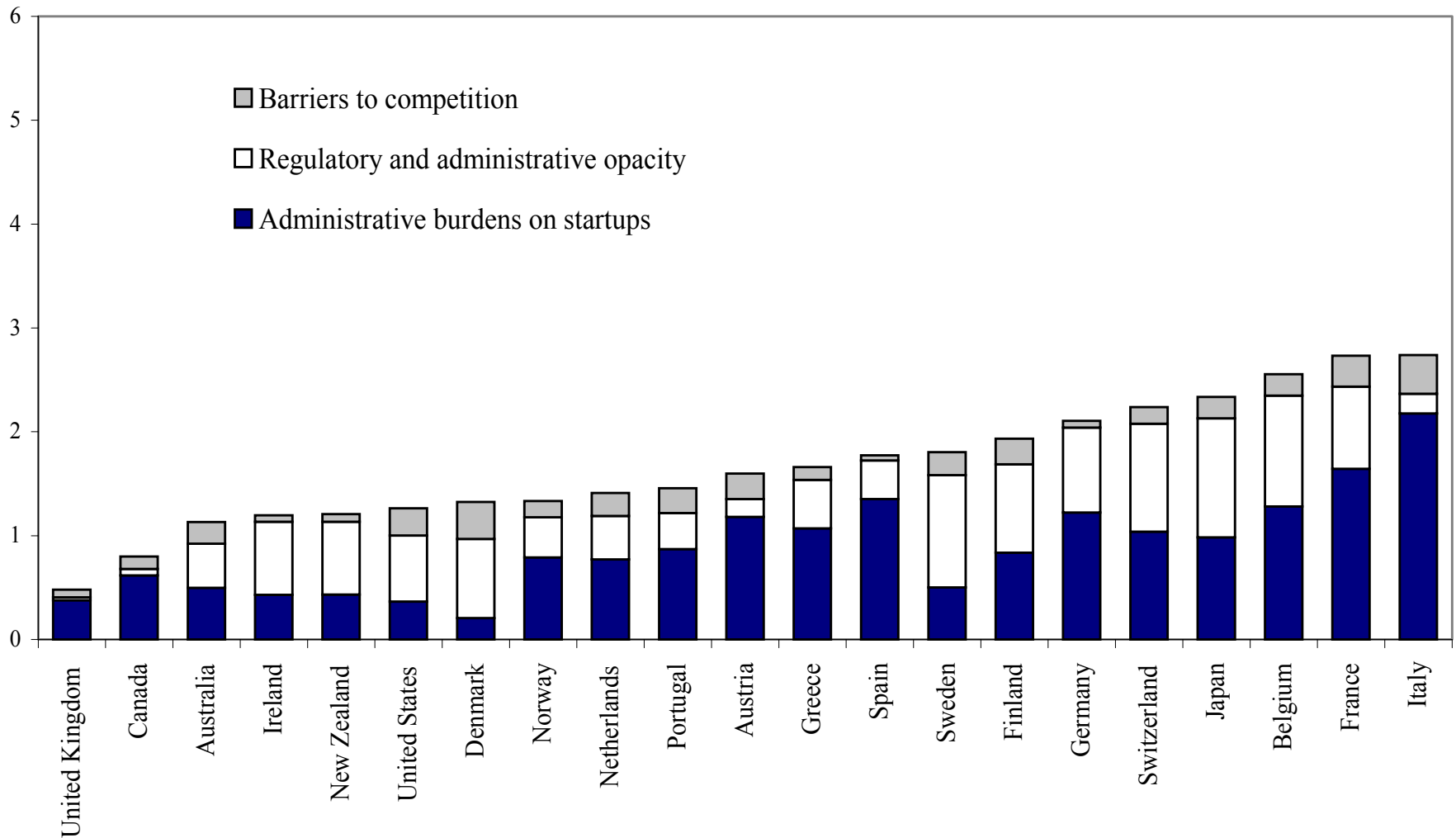
◆ GDP per capita □ GDP per person employed □ Employment / Working age population □ Working age population / Total population



1. Australia, Canada, New Zealand and United Kingdom.

Source: OECD.

Productivity hampered by lack of competition, reflecting high barriers to entrepreneurship¹

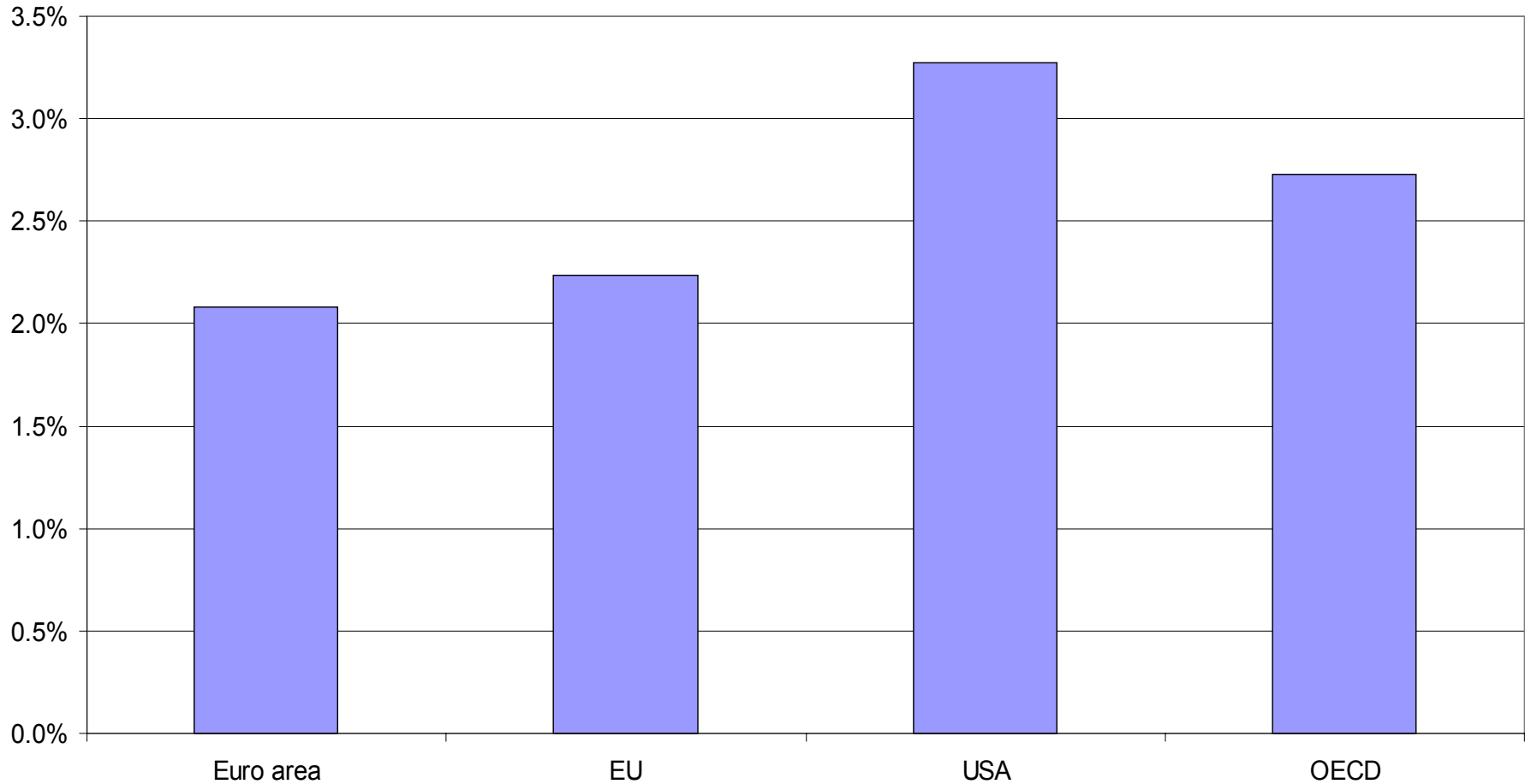


1. The scale of indicators is 0-6, from least to most restrictive.

Source: Nicoletti, et al (1999), "Summary indicators of product market regulation with an extension to employment protection legislation,"
 OECD Economic Working Papers no. 226.

Altogether, euro area growth lacks dynamism

Real GDP growth, 1993-2003, average p.a

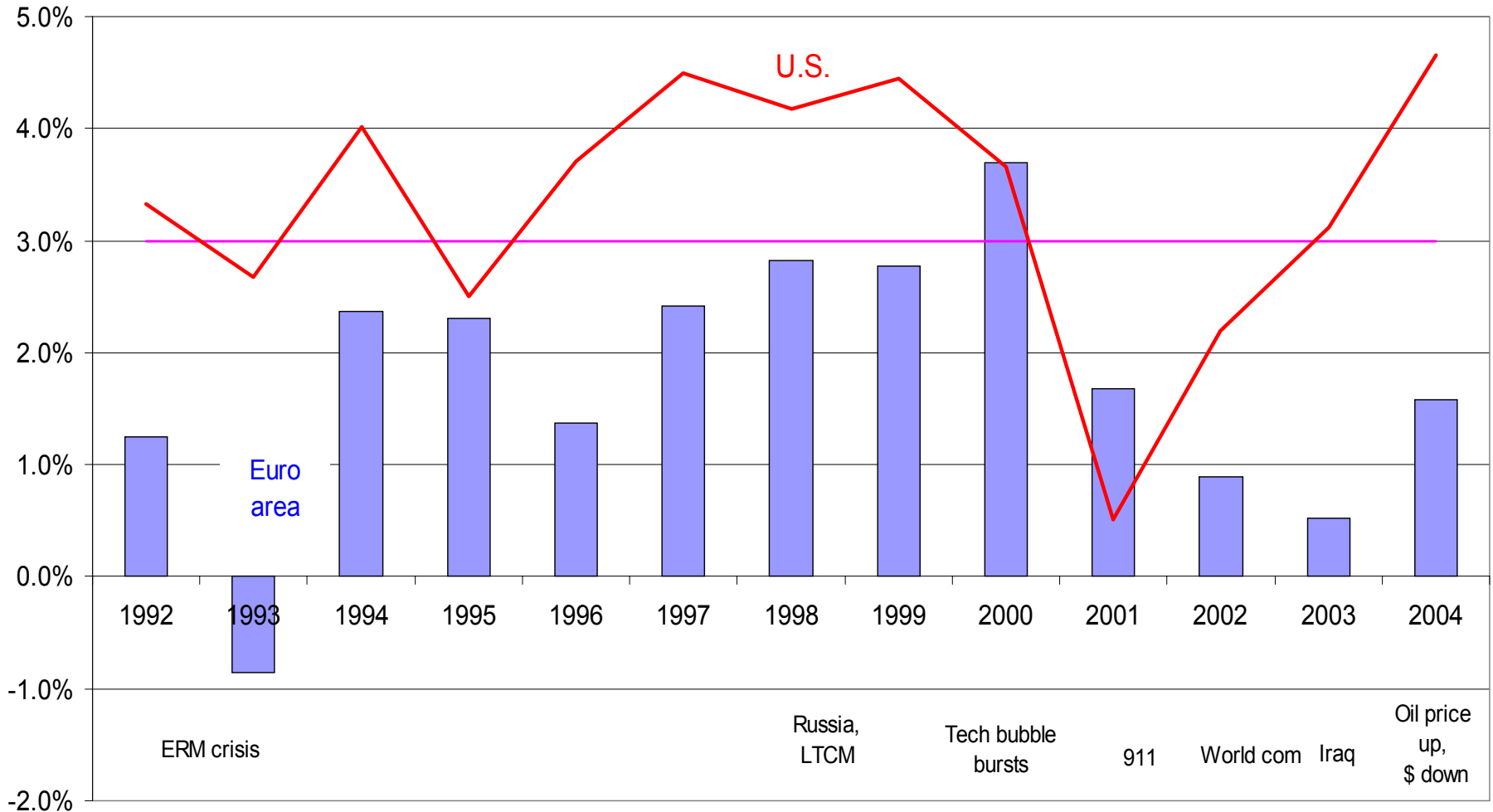


Source: OECD (EO75)

The euro area lacks resilience to shocks,
hampering long-run growth

The euro area lacks resilience to shocks

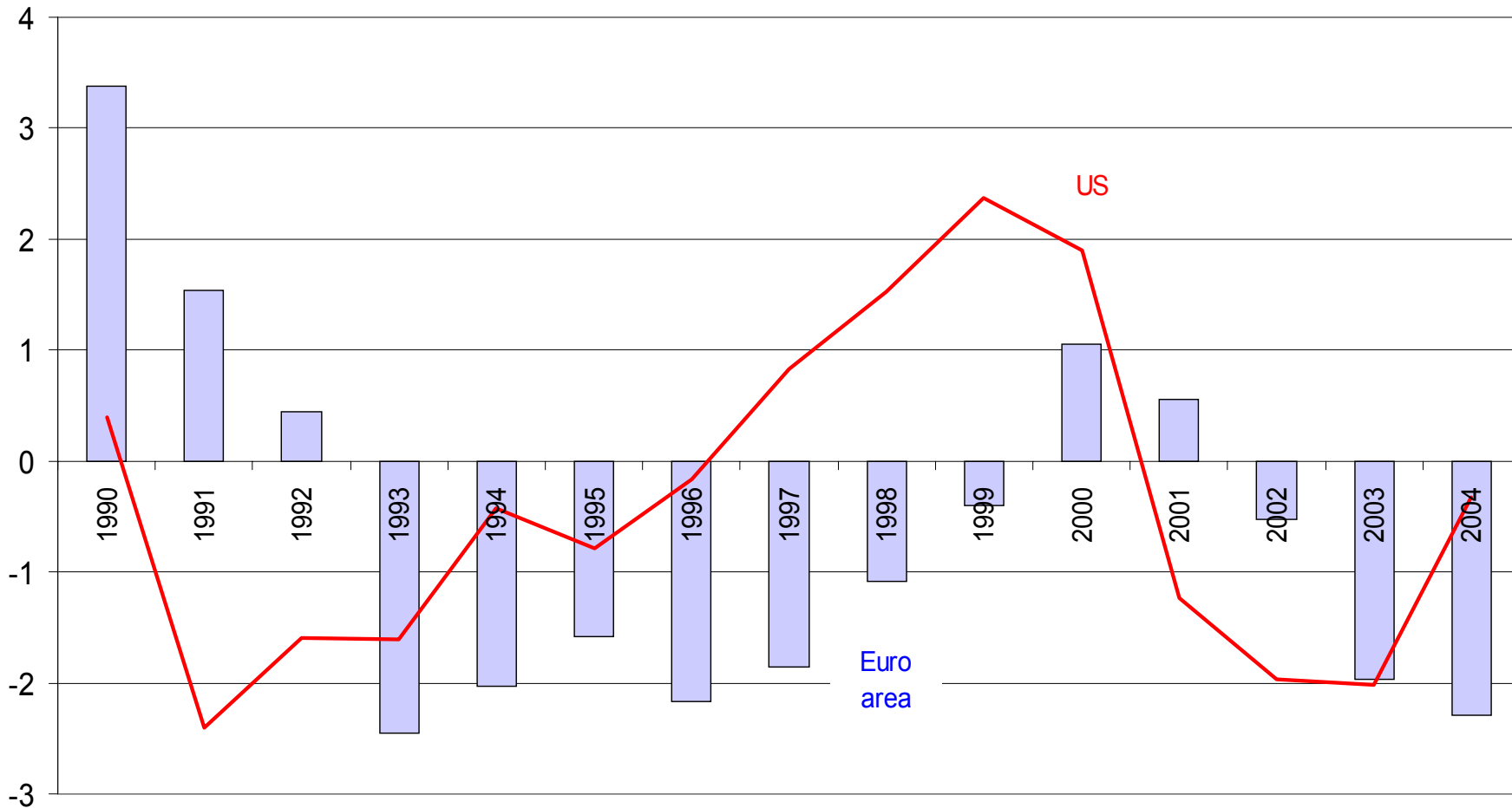
Annual real GDP growth rate



Source: OECD (EO75)

Thus output remains below potential for prolonged periods after adverse shocks

Output gap (% of potential GDP)

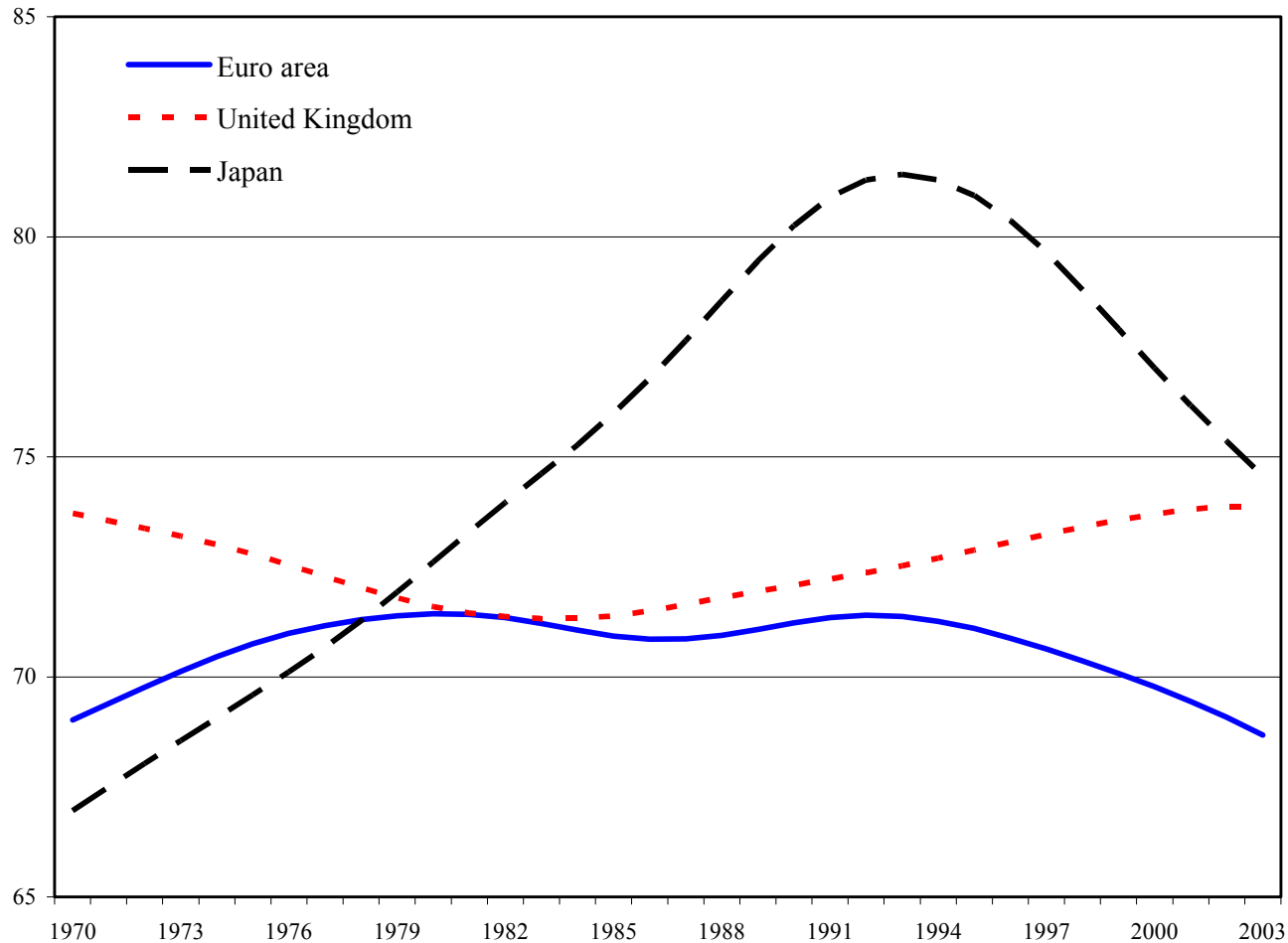


Source: OECD (EO75)

Real per capita GDP lags behind in the euro area

Trend indices, based on 2000 PPPs and 2000 prices ¹

Index US GDP per capita
= 100



1. The trend is calculated using a Hodrick-Prescott filter (smoothing parameter set to 100) over a period which includes projections through 2010.

Source: OECD Annual National Accounts.

2.

Lisbon strategy not a failure,
but the targets are too
numerous and often
unrealistic

A broad reform agenda is needed

- Good macroeconomic policies are essential
- Strengthen incentives to work
- Stemming the flow into early retirement
- Increase labour force skills
- Nurturing an entrepreneurial climate
- Enhancing the creation and diffusion of technological know-how
- Improving the functioning of financial markets

The Lisbon strategy is sound and helpful

- It rightly focuses on raising real growth, through higher employment, increased productivity and further innovation.
- It has helped to focus the debate on a agreed policy agenda.
- It provides benchmarks against which progress can be monitored.

But there are too many objectives

- The 14 EU indicators cover growth, labour market, productivity, education, R&D, business climate, poverty, regional cohesion and environment.
- The Lisbon Strategy should focus on policy areas where Europe has a comparative advantage: macroeconomic stability, internal market, competition, business climate, innovation, financial services, etc.

The major targets are wildly unrealistic

- Some targets clearly look out of reach (3% growth employment targets, 70% employment rate).
- The yawning gap between actual performance and wildly ambitious objectives may be counterproductive.
- Not all countries should be treated on same footing. Recognise national differences

To summarise

- Lisbon targets out of reach because of weak performance in euro area, not flawed strategy
- Action is needed on a broad policy agenda
- The strategy should focus on areas where the EU has a comparative advantage
- The targets should be less numerous and realistic, although still ambitious.

Thank you!

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