



The Centre for European Policy Studies
Thinking Ahead for Europe

Will the Lisbon Strategy fail?

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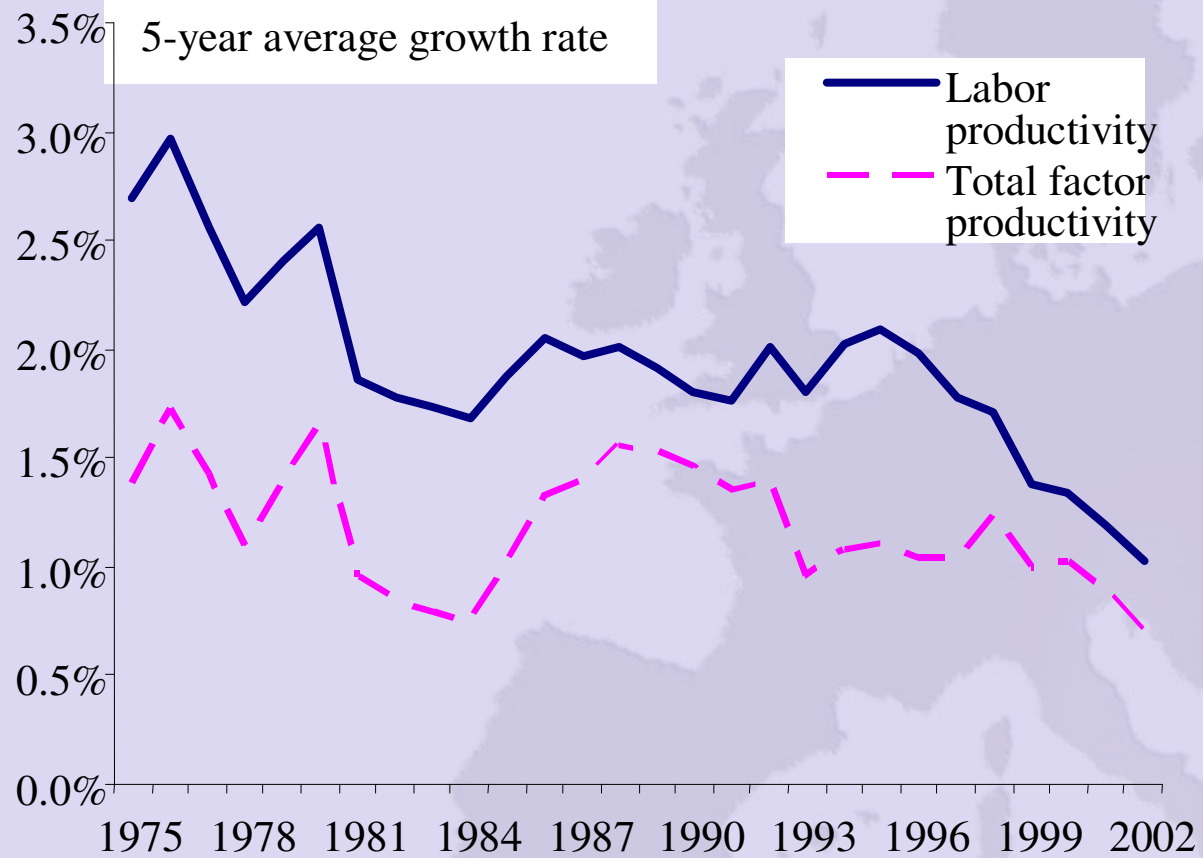
What Strategy?

- **Lisbon is not a strategy, just a set of ambitious goals (higher growth, more employment, more investment in R&D).**
- **What instruments exist at EU level?**
- **Peer pressure does not work on big countries (for evidence see below).**

Has Lisbon already failed? Can the goals be attained?

- **Employment has increased somewhat, but headline goal unlikely to be reached.**
- **The rest is a disaster area:**
 - Productivity growth has declined (labour productivity a lot, TFP a bit less, but the level attained is a a historical low).
 - R&D spending is stagnating.

Productivity slowdown in the euro area



Source: Own calculations based on AMECO data.

The outlook is not encouraging either

- **Long term growth expectations are down in Europe**
- **But up in the US!**

2 Long-term growth expectations (%)

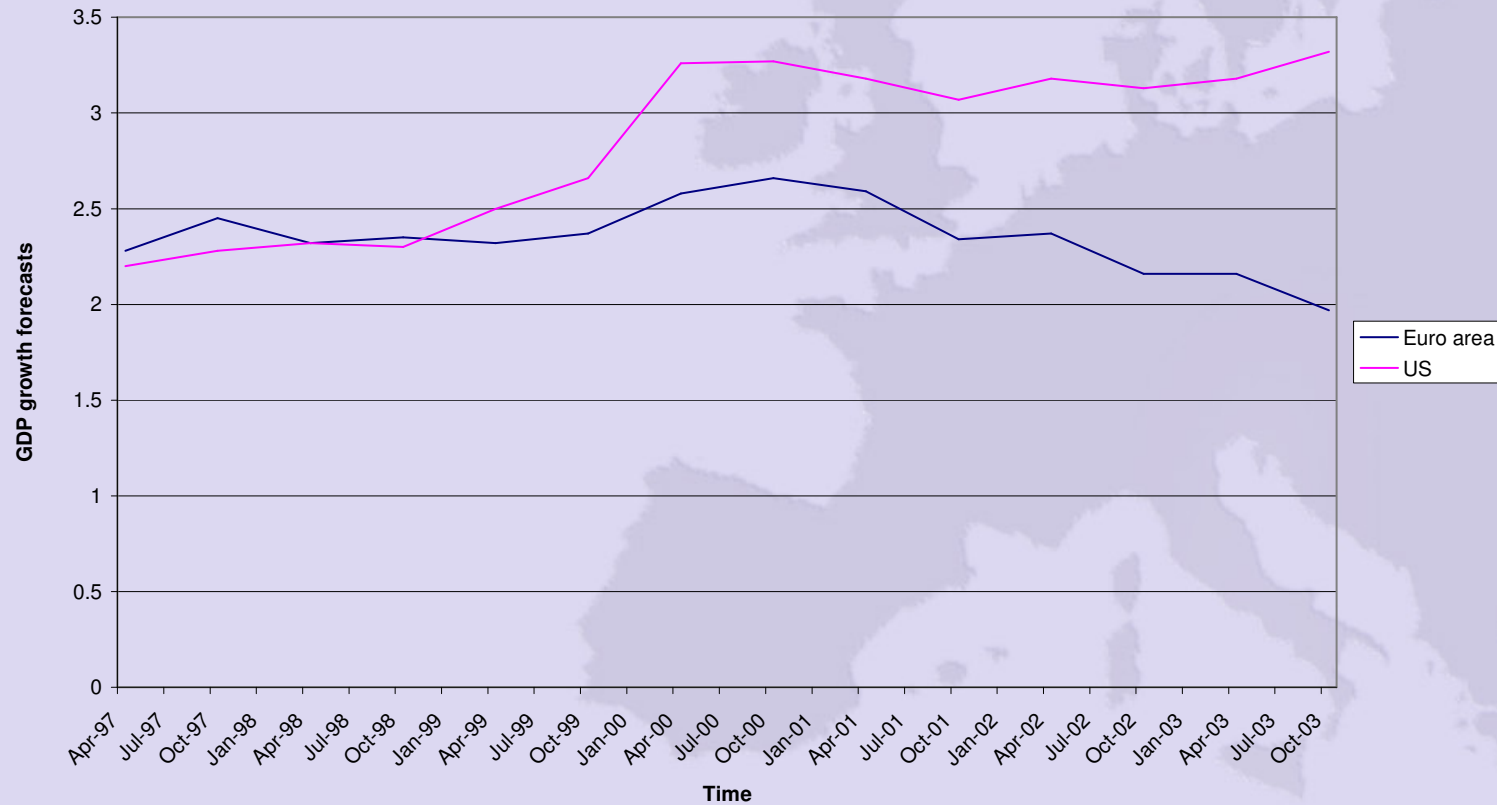
	Euro area*	US
2000	2.66	3.27
2003 (2 nd half)	1.97	3.32

* *The euro area refers to the weighted average of its three largest members (Germany, France and Italy).*

Source: Deutsche Bank London.

Long-term growth prospects for the euro area and the US

Long-term growth prospects for the euro area and the US



The big euro-3 have the big problems:

	Big euro-3	Small euro-8	UK	Spain
Growth	1.93	3.95	2.57	3.55
Fiscal balance	-2.06	0.13	0.46	-1.29
Labour productivity	0.92	1.75	1.39	0.55
Share of industry	20.3	14.7	15.3	14.7

Note: Source European Commission

Big euro=D+F+IT, Small euro=euro12 minus (D+F+IT+ES)

All variables average 1997-2002.

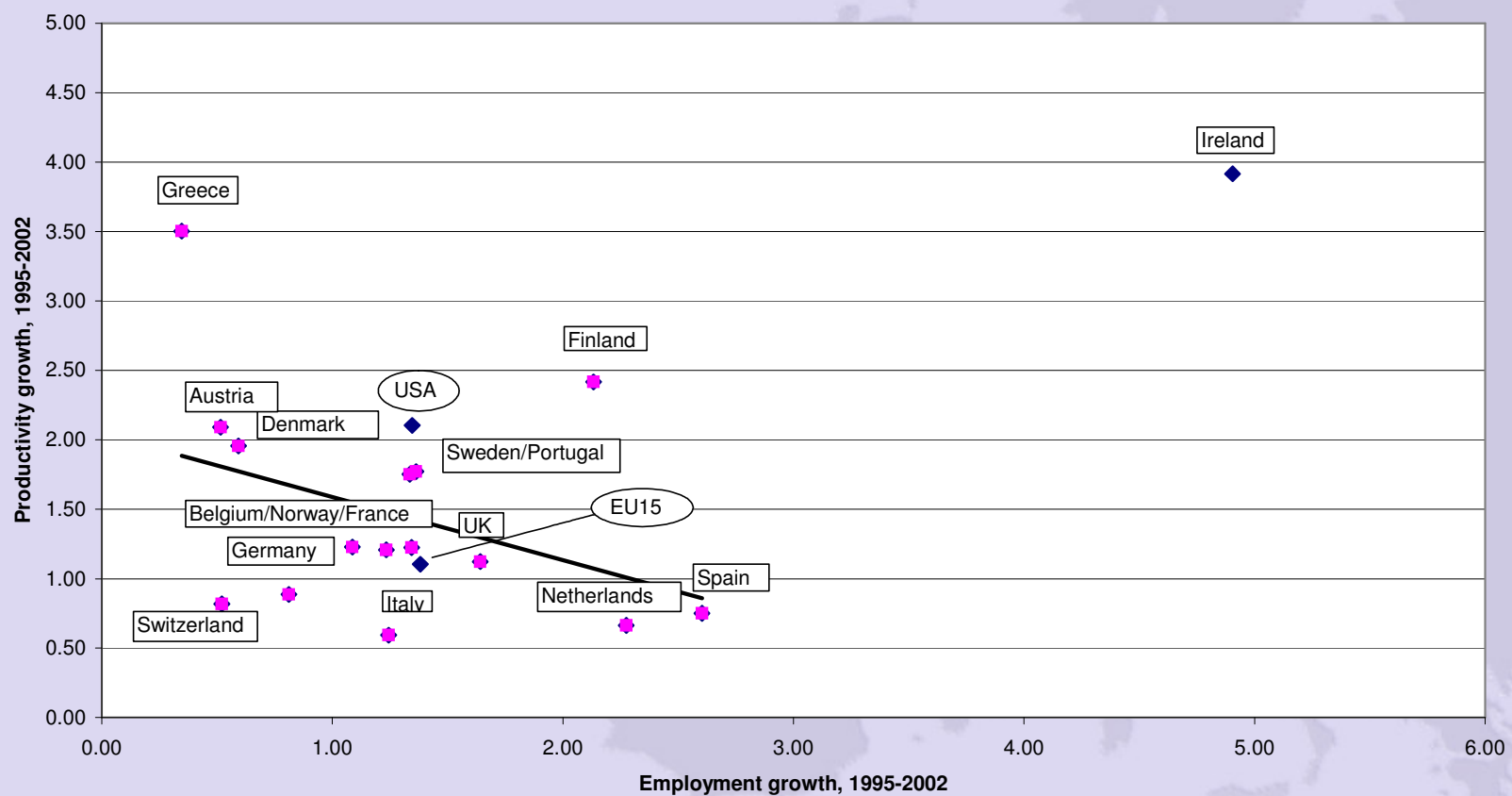
Employment versus productivity

- **Could there be a trade off?**
- **Likely, because marginal groups are those with lowest employment ratios.**

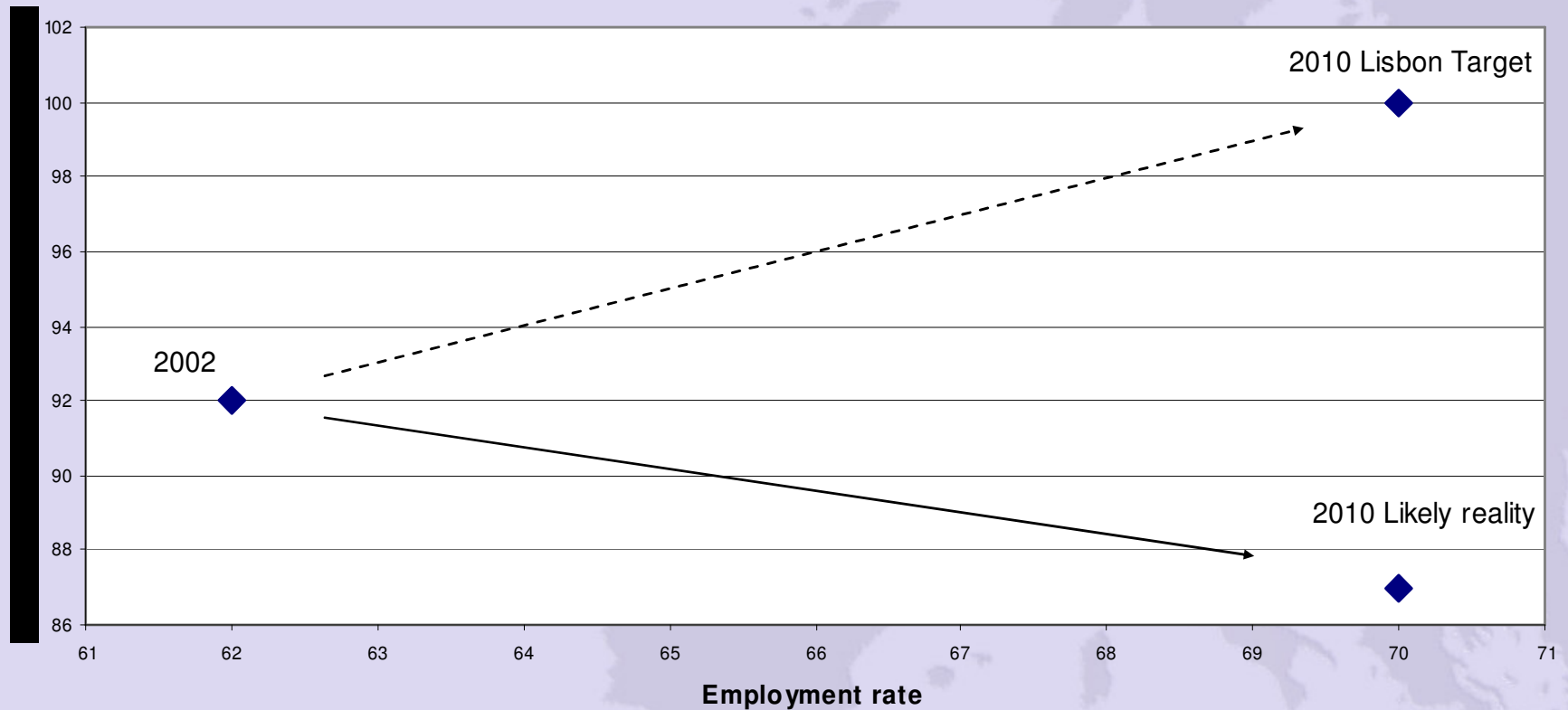
Employment rates in the EU and in the US, 2001

		EU	US
Young workers (15-24)	Males	44.2	59.4
	Females	37.1	56.2
Prime-aged workers (25-54)	Males	87.3	87.9
	Females	66.8	73.5
Older workers (55-64)	Males	48.6	65.8
	Females	28.8	51.6

Productivity and employment, US and Europe



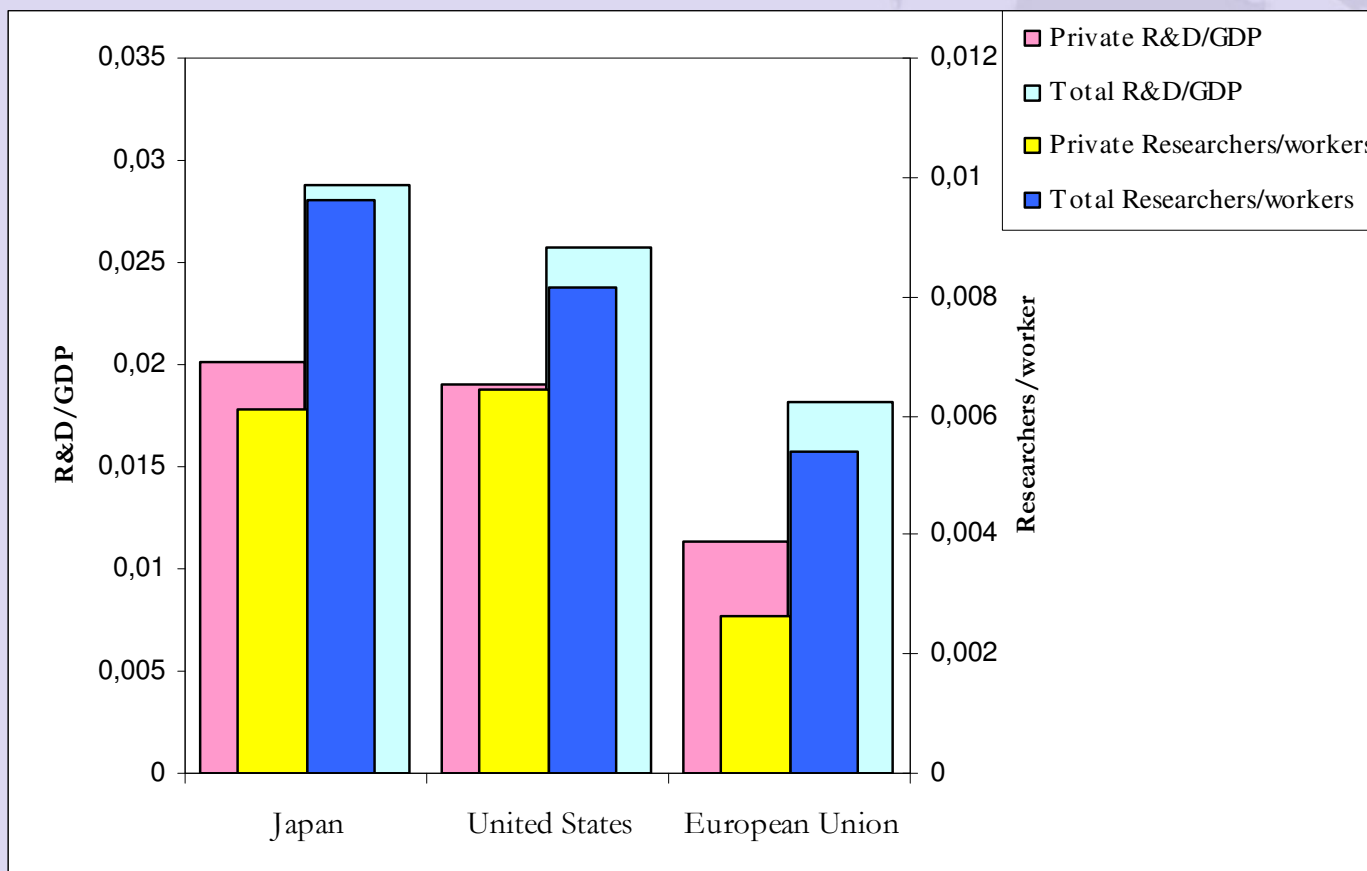
Lisbon: Employment versus productivity?



Could it (loss of productivity growth) be due to lack of innovation?

- **Maintained hypothesis: technological progress has accelerated over the last decade and has changed nature, less ‘incremental’, but more ‘revolutionary’.**
- **This change, combined with Europe’s continuing backwardness in innovation could explain the opening of the productivity and growth “scissors” US- EU.**

Innovation intensity, the G-3 compared



Innovation intensity

- **The conclusion is simply:**
- **Europe lags on all accounts ...**

Quantity and quality: R&D intensity and productivity

Country	Research Intensity % of workers in R&D	Research productivity: patents per thousand		
		EPO	USPTO	Average EPO and USPTO
U.K.	0.32	0.19	0.14	0.16
EU	0.28	0.29	0.17	0.23
U.S.A.	0.69	0.19	0.63	0.41
Japan	0.65	0.26	0.47	0.37

Own calculations based on CEPS (2003).

Lagging especially in high tech sector ...

	EPO (1996-98)		USPTO (1993-98)	
	<i>All</i>	<i>High-tech</i>	<i>all</i>	<i>high-tech</i>
EU-15	46%	35%	16%	12%
US	28%	41%	56%	57%
Japan	19%	27%	21%	28%

Source: European Commission (2000) and author calculations

Quantity problem has no quick fix

- **Attaining the Lisbon (EU investment in R&D of 3% of GDP) means an increase of 70 %.**
- **This requires about 70 % more highly qualified researchers, which need to be trained.**
- **Cohorts ready for University declining....**
- **It takes a decade to become effective.**

Quality Problem?

- **Low rate of commercially exploitable ideas per worker cannot be solved by governments.**
- **But a bit of competition should help:**
- **Open all national R&D funding (95 % of EU total) to EU wide competition. Should help concentration and avoid duplication.**

Conclusion

- **There is no Lisbon strategy on which the EU could act, but ...**
- **Europe could help addressing the problems concerning the insufficient quantity and quality of R&D spending:**
- **Increase part of EU budget**
- **Open national funding for EU competition.**