

**Comment on Guido Tabellini and Charles Wyplosz:
Supply-side policy coordination in the
European Union**

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The authors discuss the possibilities and limitations of the Lisbon Strategy and the so-called “open method of coordination” (OMC), through which the strategy is implemented. The Lisbon Strategy was adopted by the European Council in the year 2000, and is intended to contribute to remedy the weak economic performance of the EU compared to the United States.

The implementation itself, and at which political decision level the implementation of different parts of the strategy would be most efficiently carried out, are the two main topics of the paper. However, the contents of the strategy are also discussed. The authors’ point of departure is that the weak (“*depressing*” in their terms) economic performance in Europe has its origin in the supply-side of the economy.

The main conclusions presented are:

- Centralization to the EU level of decision-making and implementation has an important role in order to take advantage of externalities and increasing returns in the policy areas included. However, where neither important externalities nor increasing returns exist, there is no (*my addendum: economic*) case for centralization of power.
- Centralization should be strengthened in the area of the Single Market, for example by increasing the powers of the Commission or, preferably, by setting up (*my addendum: politically*) independent EU agencies with powers to enforce existing rules.
- Decisions should not be centralized at all in the area of labour markets. Higher national political pressure for reforms is needed, but should be stimulated through increased use of EU peer pressure, which would serve as an input to national political processes.
- Research and scientific innovation need to be improved in the EU. However, this should not be done through gradual reform, but rather through the creation of new institutions. These new institu-

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tions should be funded through grants allocated by an independent jury at the EU level.

1. Appraisal of the paper

In this interesting, and partly very controversial, political-economy paper the authors apply insights from economic theory to political science. This is very challenging, and even more so in an EU context. In such a case, the complexity of political decision making does not only depend on the nature of national political processes. It also lies in EU-specific processes, not least in the interplay of the EU-specific and nation-state level processes. The obvious risk for economists is that the analysis of the political processes becomes too simplified and the assumptions too narrow. Economists run the risk of missing essential features of political processes. The authors of this paper, however, seem to avoid falling into this trap. They manage to detect important political legitimacy problems and, to a large extent, also take them into account when drawing conclusions.

The authors are highly critical to the Lisbon strategy as it is designed today, and they state that it is a clear failure. They are disappointed with the outcome and the possibilities of evaluating the strategy. Nevertheless, judging by the proposals for improvement of the strategy and the positive view of the OMC, the authors can be interpreted as having a belief in the Lisbon process.

The authors signal that the EU level has the potential of providing political “value added” for some areas; also for areas where they conclude that economic arguments cannot motivate centralization. However, the nature of their proposals implies that, for example, the OMC is not to be used in the area of the Single Market.

The subsidiarity principle is interpreted in economic terms in the paper. Where important externalities and increasing returns exist, the EU level is the appropriate decision-making level. The paper would benefit from a discussion of different interpretations of the subsidiarity principle.

Governments are sensitive to peer pressure within the EU and such pressure can also shift national debates. There are examples of difficult areas of cooperation, which started with peer pressure and later became regulated with directives, such as the tax on capital income. Experience shows that peer pressure is a valid and important tool in international cooperation and also a method for more eco-

conomic integration in the European Union. The authors are, however, quite pessimistic about peer pressure efficiency.

I agree with the authors that the great number of objectives and their quantification in the Lisbon Strategy have partly eroded the credibility of the process. The great number of goals, and the lack of clear priorities among them, is potentially the larger problem of the two. The risk of inefficiency of the strategy is apparent. At the same time, there is a national political need for every country and government to be able to show that they have influenced the strategy. However, restrictiveness by political leaders in the process of setting goals would have contributed to increased transparency and efficiency of the strategy.

Quantifying the objectives may be a problem. Being far from reaching specific and quantified goals indeed erodes credibility. But quantification can also be viewed as a strength of the strategy: without numbers and deadlines for when they need to be reached, deviations could not have been assessed and peer pressure increased.

The EU model of political integration is through economic integration, as pointed out by political scientists. The introduction of the Single Market is a clear example of this. The authors' proposal of increased centralized power in the Single Market Area is a step towards more political integration. In this sense, it is in line with the traditional EU model for integration. At the same time, the EU suffers from a democratic deficit, which, of course, complicates the matter and it would have been appropriate to briefly discuss this in the paper.

To improve the Lisbon Strategy implementation, the European Council decided during the spring 2005 to require each member state to present national three-year action plans, now called national reform plans. The authors suggest as a desirable process that such plans be discussed in national parliaments, but only for labour market issues. However, the EU cannot decide which themes or documents national parliaments should, or could, debate. It would, according to my view, be of use for parliaments to debate a wider range of issues related to strategy.

The growth and employment performance of the EU countries during the past two decades is, without doubt, disappointing. The EU member states have, however, become less homogeneous after the two enlargements of the 1990s and 2000s, respectively, which has made it more complicated to speak generally on the matter of lagging economic development of the union. It would have benefited the pa-

per if the authors had more clearly taken this into account, when evaluating the progress of the Lisbon strategy.

Not least is the strategy a tool for focusing governments on objectives that are necessary to reach for demographic reasons. Current demographic forecasts clearly show that the EU will have great problems in a couple of decades. Labour supply reductions and increased dependency ratios are then likely to affect economic growth in many of the countries, unless a wise policy is decided upon now.

It can, in fact, be discussed whether the failure of reforms related to demographic developments in one country might have negative effects for other countries in the Union – spill-over effects. This motivates increased cooperation, through means compatible with national sovereignty in the social and labour market areas. The Lisbon strategy encompasses such tools. The Lisbon process should, according to my view, be viewed more as an agenda for gradual improvement, than as specific targets “failing” in 2010.

I agree with the main conclusion of the authors that the centralisation cannot and should not be strengthened in the area of labour markets. The arguments are that the only level with political legitimacy is the national one. Inefficient regulation contributing to lower employment rates in one country would also not necessarily spill-over to other EU economies.

However, the authors signal that there is one single well known solution—reform package—for European labour markets that nation-states could apply. In fact, solutions would differ and what proves efficient in terms of, e.g., high employment rates, would vary.

There are for example, according to recent OECD analysis, at least two different “models” that can generate employment rates in line with, or higher than, the Lisbon targets—the “Scandinavian model” and the “Anglo-Saxon” model. They have, however, completely different income distributional effects. National political processes will determine which reform orientation EU countries choose.

Employment rates and labour supply issues are in need of more emphasis in the Lisbon process, not least because of the lack of tradition in some EU countries of policies aimed at expanding the labour force.

When it comes to centralisation of all policies regarding the Single Market, it is difficult to fully agree with the authors’ view. They here argue for more centralisation of decision making powers to the EU, without discussing some key concerns inherent in the effects of de-

regulation. There might, for example, be highly valid social reasons for regulation of public utilities. Distributional considerations need to be built into such policy decisions and the legitimate political level is, hence, national. The task for politicians is to develop the most efficient regulation, balancing equity and efficiency concerns, based on views in their electorate.

The dividing line between reforms in the labour market area and the single market of services is not clear. The Posting of Workers Directive is one example of the interface between services and labour market regulation. There is a clash in the EU of models of minimum wage setting by legal means, versus collective bargaining systems as in Sweden. Another example of the interplay between liberalisation of trade in services and labour market regulation is reflected in the country of origin principle discussed in the proposed Services Directive. Hence, the implementation of the single market goes into the price-setting on the labour market and therefore, there is not a clear-cut case for more centralization of power to the EU level. It would have been interesting with a more explicit discussion of these problems in the paper.

2. Concluding remark

The paper analyses some very important aspects that need to be reflected upon in the reform of the Lisbon Strategy. The paper is a useful contribution to the on-going reform discussion in the EU. Both economic and other arguments should be brought to the forefront in the discussion of the future of the strategy. Creative and constructive analysis of the type provided in this paper is definitely useful.

My view is that the Lisbon Strategy is a political and economic process that has a role in the EU and should be further reformed in order to provide more efficiency. One of its advantages is that it brings together macroeconomic and structural policies. Another is that it gives member states an arena for economic policy and reform comparison in a democratic process.

