NATIONAL REFORM PROGRAMS

Key to Successful Future of the European Project ?

THE GDAŃSK INSTITUTE FOR MARKET ECONOMICS
Polish Lisbon Strategy Forum PFSL

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Preface

Jan Szomburg

In the national and European debates about the problem of competitiveness and how to speed up economic growth, the conversation is often directed to questions of economic (structural) reforms. If we limit social spending, introduce more competition and better incentives, and spend more on R&D, we will stimulate sustainable growth. All we need is the political will to make these changes.

In reality, the question of European competitiveness and growth reaches much deeper – it also raises questions about political systems, and also value systems. In the field of economics, we more or less know what changes we need; the question is how to implement them, and whether they will bring the desired effects. In parliamentary elections parties tend to be punished, not rewarded, for pro–reform manifestos (most recently in Germany and Poland). So a real dilemma arises: before the elections, should they hide their intentions and risk losing credibility later, or speak openly about reforms and reduce their chances of winning?

One of the solutions to this dilemma may be a question of leadership. It is obvious that in Europe today, there is a need for strong leadership, grounded on clear principles and values. Credible leaders must set a good example, characterized by a strong moral backbone. And in practice, here we have a serious deficit. Gerhard Schroeder came to be a visible symbol of this, when immediately after his term – during which he called for reforms and belt–tightening – he accepted a 1 million euro annual salary for heading the supervisory board of an international company which he had de facto created. What persuasive power can an elite have when it sets a bad example for its citizens?

But the quality of the political elite is not the only barrier keeping Europe from adapting to the challenges of globalization, the ageing of society and the need for innovation. The biggest problem is the spiritual condition of society, the sphere of values and mentalities. In this sphere, one must be very afraid for competitiveness. The European value system has become dysfunctional when it comes to the challenges of the future. What are the results of contemporary Europe's lost, degraded spiritual condition? We see them clearly in socio–economic life: the high priority placed on leisure time; the lack of appetite for rivalry, risk and entrepreneurship; the reluctance to take responsibility for one's own fate; the rise of group egoism; living from day to day; the low level of optimism; and the neglect of great social projects in favor of handling the problems of the day. In the politics of many states we see a defensive orientation, existential fears, which are rejection of Schumpeter's idea of creative destruction.

A poor spiritual condition is the basis for the appearance of a false consciousness, both among ordinary citizens and among the political elite. Often, broad groups of society and the elite support policies that actually harm them, and oppose those that would benefit them. Against this background, the tendencies have emerged of looking for 'national ways' of dealing with contemporary challenges, and dismissing the opportunities afforded by policies such as the European single market for services.

The phenomenon of 'false consciousness' is also a result of the weakness of public debate and the market of ideas (broadly understood). This raises questions about the quality of democracy and the strength of civic society. It is difficult to think of a revival of democracy without a revival of the idea of freedom in society.

Thus the roots of the problems of competitiveness, growth and adaptation to the challenges of the future lay in particular societies, in their value systems and behavioral norms. Without revitalization in this sphere, it is difficult to imagine strong acceptance of the economic reforms that politicians undertake. So the politicians' task is to support broader civic activity, the creation of coalitions built on values and beliefs. Dialogue with the traditional social partners, selected on the basis of group interests, either is no longer sufficient or has actually become counterproductive.

But values are fundamentally significant – not merely because they can be a barrier to the introduction of the institutional–regulatory reforms that economists dream of. In situations that are seen as crises – particularly in smaller countries – there is a continual chance of changing the rules of the game. Iain Begg writes of this in his report. In such times, the question is: how will society react? Will a new incentive structure really guarantee new behaviors – greater activity, entrepreneurship and creativity, greater responsibility for oneself and long–term thinking?

There is no doubt that this will happen at least partially. But will behaviors change enough to cope with the long–term challenges of the future? There is reason for doubt. New economic incentives are necessary, but most likely – in the long term – not sufficient. For its revitalization, Europe also needs a rebuilding of the spiritual and moral capital that once supported its dynamism, openness and Promethean nature.

The intention of this discussion is not to deprecate efforts at economic reform, at either the Union or the national level. They must be made. The external pressure of the European Commission, competition among systems and nations' learning from each others' reform experiences are all necessary. But there must also be a consciousness of the broader social and political conditions of reforms, and of the reasons for Europe's tendency towards stagnation.

The European debate should cover all of the factors that affect competitiveness, growth and employment, and thus it must be much more interdisciplinary. It is not a debate only for economists, bureaucrats and politicians, but also for sociologists, ethicists, businesspeople, historians of ideas, and specialists in social communication. And we are not talking about an individual discussion, which is already going on, but about a combined discussion, with the participation of these various perspectives. This debate requires the development of a new, common view of reality and a new language. A language which would both meet the needs of an integrated approach to growth and facilitate the inclusion in the debate of the broad mass of citizens.

Introduction

Mariusz–Jan Radło

The underlying principle for this report is that because we believe that economic reforms of the national economies of the EU Member States, including at least those mentioned in the Lisbon strategy, are crucial for the successful future of the European project. We are more and more convinced that without implementation of acknowledged reforms the European integration project will fail. Diminishing competitiveness and European national phobias based on protectionism and xenophobia threaten to undo all that the European project has currently achieved. Now is an exceptionally critical time for countries, like Poland, which have recently joined the EU. They must not only conform their national economic models to that of the EU, but they also have the opportunity to play an active role in making the 'European economic way' truly effective and sustainable. Given the recent difficulties some Member States have ratifying the EU Constitution and the troubles to satisfactory address the EU's budget, confronting the above described challenges is more important than ever before. Thus we want the report to be a step forward towards making the 'European economic way' competitive and sustainable in a globalizing world.

The midterm review of the Lisbon strategy took place after an opportunity to look back and recommit the Member States to the process. In March 2005, all EU Member States were called upon to take ownership of the Lisbon process paying special attention to fostering growth and employment in their countries. In June 2005, European Council, accepted Integrated Guidelines for Growth and Rmployment – a more concrete instruction on how to transmit above mentioned 'ownership' into national economic strategies. Being based on two existing Treaty–based instruments of economic policy coordination – the Broad Economic Policy Guidelines and the Employment Guidelines – the Integrated Guidelines created a Treaty–based detailed roadmap of macroeconomic, microeconomic and employment policies for growth and jobs in Europe. These guiding principles created a common course of action for the 3–year national reform programs (NRPs). The programs were expected to be prepared by national governments and delivered to the Commission by October 15, 2005.

Although some Member States had delays, till the end of 2005 all 25 Member States finally prepared and sent their national reform programs to the Commission. As it was stipulated in the Integrated Guidelines, the programs consist of 3–year action plans on reforms in three dimensions including macroeconomic policy, microeconomic policy and employment policy, and all three aim to create an environment for both increase in growth and employment opportunities.

Thus, the national reform programs have become the key instruments in the new economic reform governance system within the EU, established after the midterm review of the Lisbon strategy. These programs are to hasten reforms at the national level in all Member States and make national governments responsible for the Lisbon process more than ever before.

But the question of the possible effectiveness of such a renewed Lisbon process and streamlined economic policy coordination system in the EU is still open. The Lisbon strategy is still based on the open method of coordination, with all its advantages and disadvantages.

Because of these things mentioned above, the aim of this report is twofold. The first one is to discuss and assess whether changes in economic policy coordination within the EU can strengthen implementation of the Lisbon reforms. The second one is to analyze the credibility of the national reform programs and their role in reforming the economies of the EU members.

The major attention in this report is paid not to the question on what economic reforms have to be pursued in the EU Member States in order to foster economic growth and job creation. It focuses rather on explaining whether the new economic reform policy coordination framework creates possibility to influence forces that govern policy–making enough to perform structural reforms. Moreover it argues that economic reformer in the EU have to put more emphasis on political–economic processes that can help to make economic reform programs implemented.

To assist in helping to create the final version of this report its preliminary edition was presented during the conference having the same title as the title of the report, on December 1, 2005, at the Radisson SAS Hotel in Warsaw, Poland. The aim of the conference was to provide a venue were the co–authors of the report could discuss their findings in a public setting where they could hear comments and criticisms from the many conference participants who themselves were eminent economists and policy experts dealing with this important topic.

The report is organized into four principal sections. The first one – introductory – explores new economic reform governance system in the European Union, established after the mid–term review of the Lisbon strategy. It starts with presenting the premises that compelled the EU to accept the new system, and then it describes it. Finally it presents some preliminary assessments of the new system's effectiveness. The second section focuses on limits of economic governance in the EU. It presents a rationale for such a coordination, modes of governance as well as conditions necessary to start reforms. This section examines some of the causes for inefficiencies within the Lisbon process, that can be seen before and after the mid–term review. The third section consists of five chapters each of which concerns selected National Reform Program. In these chapters national reform programs are evaluated and their credibility is assessed. The final – fourth – section of the report is devoted to the general assessment of national reform programs. It tests the hypotheses presented in the first two sections and is based on several interviews, consultations and other sources as well as on the analyses of selected NRPs presented in section three. The report ends with general conclusions concerning possible effectiveness of the renewed Lisbon process based on the NRPs as well as suggestions on how to better ensure the successful implementation of the necessary reforms.

New Economic Governance for Reforms in the EU

Mariusz–Jan Radło

Introduction

In autumn 2004, the outgoing European Commission president Romano Prodi, has labeled Europe's efforts to become more competitive than the US "a big failure". This comment was Prodi's response to the Wim Kok's report on economic reforms in Europe.

The Kok's report took a depressing view on the economic reform progress in the EU made up to the end of 2004. It indicated that the disappointing delivery of the Lisbon reforms was due to an overloaded agenda, poor coordination, conflicting priorities and, last but not least, the lack of political will by the Member States to implement reforms (Kok, 2004). Also Economic Policy Committee (EPC, 2004) in its Progress Report prepared before the mid–term review of the Lisbon strategy, was pessimistic, when indicating that after four years of implementation the overall achievement of the Lisbon process was clearly insufficient.

Thus, in March 2005, five years after adoption, the Lisbon strategy was not seen to be successful. Many weaknesses in the strategy were identified by economists and policy–makers early on. They argued that the plan had too wide a range of inconsistent priorities, which resulted in inability to formulate clear priorities. If you then add to this the inefficiencies of the soft method of implementation, it resulted in the inability to implement many needed reforms.

The strategy's shortcomings caused EU leaders to launch a mid–term review. The process started after March 2004 and was finalized in 2005, when the strategy was renewed.

Identifying weaknesses and finding remedies

The mid–term review of the Lisbon strategy premised its outcomes on several arguments and assumptions concerning weaknesses of the economic reform process in the EU till 2005.

The EPC in example augmented that there were several factors that contributed to Lisbon implementation gap. It pointed out a lack of clarity and prioritization of the objectives of the Lisbon strategy. After 2000, the Lisbon agenda, was widened including many additional – and sometimes competing – goals and assumptions. This lead to inconsistencies between targets. Especially with confusion between core and instrumental targets (i.e., between the need for increased public spending in certain areas and the need for fiscal sustainability). Also insufficient communication within Member States about the necessity and benefits of reform was blamed for many of the failures to reach the goals set by the Lisbon strategy. As a result at the national level many key reforms were successfully blocked by domestic political pressure and the influence of vested interests. Moreover the lack of effective peer pressure and monitoring, ineffective benchmarking, the limited exchange of best practices, and a lack of rigorous performance evaluation resulted inefficiencies in the open method of coordination (OMC), crucial tool of implementing the Lisbon strategy.

Given all these problems, various important political actors within the Member States were not willing to spend political capital by taking ownership of what was perceived to have been a sinking ship, and thus were unwilling to back Lisbon strategy based reforms if such support would have only been seen as a political liability.

As a remedy for above weaknesses the EPC proposed on the one hand an improved prioritization of the Lisbon strategy's objectives and targets (more clarity about the targets which underpin it, and how progress in reaching those targets will be assessed and measured) and on the other hand the improved governance of the process (based on rationalized OMC, putting the Broad Economic Policy Guidelines into the center of the economic reform policy coordination).

Also Wim Kok in his report enumerated several weaknesses of the Lisbon agenda. He stated that much needs to be done in order to prevent Lisbon from becoming a synonym for missed objectives and failed promises. For the lack of success he blamed not only external events since 2000 but also the EU and its Members States which failed to implement Lisbon strategy with sufficient urgency. This in turn – according to the report – was due to an 'overloaded agenda, poor coordination and conflicting priorities' and 'the lack of determined political action'.

Kok's remedy included policy recommendations in five areas[1] as well as eight further general recommendations. This remedy was expected to make Lisbon work. The most important of Kok's recommendations regarding economic reform governance in the EU were:

— Focus on growth and employment.

— Creating partnerships for reform in order to gather citizens, social partners, stakeholders and public authorities around the key priorities of growth and employment.

— Preparation of the national action programs before the end of 2005 by national governments (to be subject to debate with national parliaments and social partners in order to gather support for those key objectives).

— Adopting the BEPGs and employment guidelines – reflecting the focused objectives of growth and employment – for a period of four years, covering two cycles of national programs.

Almost all the above mentioned Kok recommendations became part of the European Commission (2005) communication to the Spring European Council published at the beginning of 2005. The Commission proposed to launch the idea of a Partnership for Growth and Jobs, supported by a Union Action Program and National Action Programs containing firm commitments. In such a partnership at the EU level, the Commission plays its central role of initiating policy and ensuring implementation. At the national level, Member States were expected to deliver the agreed backlog of Lisbon reforms, backed up by National Lisbon Programs. The Commission proposed that Member States would appoint a Mr. or Ms. Lisbon at government level charged with coordinating the different elements of the strategy and representing the Lisbon program. Moreover it proposed that the national Lisbon programs would become the major reporting tool on economic and employment measures in the context of the Lisbon strategy, so as to simplify the OMC. A similar simplification was proposed at a community level by integrating into a single package the existing Treaty based economic and employment coordination mechanisms (Broad Economic Policy Guidelines and Employment Guidelines).

The mid–term review and its outcomes

The review of the Lisbon strategy took place during the European Council's Brussels summit on March 22–23, 2005 (European Council, 2005a). While this was not a turning point in the EU's socioeconomic policy–making, it produced some positive effects.

During the summit – in line with most of the Kok's proposals – support for growth and employment was defined as a crucial priority for the next five years of economic reform in the EU. While not questioning the three dimensions of the strategy the economic dimension was prioritized. Moreover an improved method of Lisbon strategy's implementation was proposed.

One of the most important novelties in the renewed Lisbon strategy, approved by the Council – was the fact that all EU Member States agreed to formulate their own Lisbon strategies – national reform programs specifying their reform intentions for the 3–year coordination cycle – taking into account their specific economic problems. The national reform

[1] (1) Realizing the knowledge society; (2) Keeping our commitments to the internal market; (3) Creating the right climate for entrepreneurs; (4) Building an inclusive labor market for stronger social cohesion; and (5) Working towards an environmentally sustainable future.

programs were to be a part of broader reconstruction of economic policy coordination system. The new economic policy coordination system – for reforms – was accepted and based on a three–year cycle. It started in 2005 and will have to be renewed in 2008.

The new economic reform governance started with preparation of the Integrated Guidelines for Growth and Jobs in accordance with the procedures laid down in Articles 99 and 128 of the EC Treaty and on the basis of the European Council conclusions. This means that implementation of revised Lisbon strategy is anchored in two existing Treaty–based instruments of economic policy coordination.

The guidelines were prepared by the Commission in April 2005 and accepted by the Council in June. There are 24 guidelines six of which (No. 1 to 6) are devoted to macroeconomic policy, ten of which (No. 7 to 16) to microeconomic policy and eight of which (No. 17 to 24) to employment policy. These three areas were to provide a framework for the establishment of national reform programs. Macroeconomic guidelines focus on growth – supporting reforms of public spending supported by structural reforms. Microeconomic guidelines include product market reforms and some actions based on facilitating ICT diffusion and investments in research and development. Employment guidelines focus not only on investments in human capital and active labor policy, but also on promoting flexibility of labor markets and reform of social security so as to support job creation.

Member States were expected to draw up their own national reform programs in line with both the Integrated Guidelines and their own needs and specific situation. The programs were expected to include three core chapters (macroeconomic policy, microeconomic policy and employment policy). The deadline for submission of these programs was October 15, 2005. Countries were also expected to conduct consultations on these programs with all stakeholders at regional and national level, including parliamentary bodies in accordance with each Member State's specific procedures. Moreover Council encouraged Member Countries to appoint their national Lisbon coordinators – so called Mr. or Ms. Lisbon.

National dimension of the renewed Lisbon process is accompanied by a supranational one. It is based on the Community Lisbon Program prepared by the Commission and devoted to all actions to be taken at Community level.

Within renewed Lisbon process a new monitoring system was launched, within which, every year starting from autumn 2006, Member States will have to prepare reports on follow–up to the Lisbon strategy. After submission of the reports, the Council and Commission will analyze the implementation reports and the European Commission will then issue an annual progress report assessing the national reform programs issued by the Member States. This may contain country specific recommendations. The progress first report is to be issued in January 2006. On the basis of the Commission's assessment, the European Council will review progress every spring and decide on any necessary adjustments to the Integrated Guidelines.

The starting–point of the whole cycle will be the Commission's synoptic document ("strategic report"). This report will be examined in the relevant Council configurations and discussed at the spring European Council meeting, which will establish political guidelines for the economic, social and environmental strands of the strategy.

At the end of the third year of each cycle (2008 in current cycle), the Integrated Guidelines, the national reform programs and the Community Lisbon Program will be renewed in accordance with above mentioned procedure.

Preliminary assessments of the new method of coordination

Changes in the Lisbon strategy's method of implementation can produce mixed outcomes, influencing the effectiveness of the Lisbon process. On the one hand it can strengthen the process, by prioritizing of targets setting, more effective peer pressure and monitoring as well as strengthening national ownership of the strategy. On the other hand the OMC is still the most important method of implementation of the Lisbon strategy with almost all its weaknesses, that revealed before 2005.

As indicated by Borrás and Greve (2004) there are several OMC modes (see Fig. 1) corresponding to the differences between several policy areas. There are policies characterized by stronger OMC as well as policies in which OMC is weak. An assessment of the degree of the OMC coordination is based on three criteria: (1) The level of determinacy of the common guidelines, derived from how precise and demanding are qualitative and quantitative guidelines; (2) Possibility of sanctions (but, this OMC mode is used only in the EMU and is totally non–existent in other OMC areas);
(3) And the degree of clarity regarding the roles of different actors envisaged by the procedure, in particular in the peer review step of the process. In the above perspective, the strongest coordination based on the OMC embraces the Broad Economic Policy Guidelines, whereas a weaker coordination exists on Employment Guidelines and even weaker on research and innovation, whereas guidelines on pensions are the weakest of all. Till the midterm review the implementation of the Lisbon strategy was based on several OMC modes. Both the diversity of modes and inefficiencies of the weak modes resulted in the problems of delivery within the Lisbon process.

Thus the above mentioned changes can strengthen reforms in the EU. From this perspective the European Council's decision of March 2005 requiring that the Lisbon process be based on the BEPG and the EG, the Lisbon strategy moves from excessive and multiple modes (that made implementation extremely difficult) to two firmly agreed to and established modes (the BEPG and the EG) and from rather weak OMC modes to stronger modes. It can result strengthening of the degree of its coordination, which better facilitates the implementation of the Strategy.

Another positive feature of the renewed Lisbon strategy stems from the fact that before 2005 its implementation was based mainly on European Council's conclusions which always tend to be written in a very general way to avoid political controversy. Thus such guides were full of many unclear terms that obscured the understanding of guidelines. This was another reason why the OMC during the period of 2000–2005 failed to help spur many of the essential reforms in the Member States of the EU. In comparison to that the current Integrated Guidelines are much more precise and hopefully will be more effective in helping Member States achieve such reforms.

Figure 1 OMC modes

Source: Borrás and Greve, 2004

But, as argued by Ederveen, Van der Horst and Tang (2005) the most important OMC's weakness – which is the lack of sanction mechanism – still exist. Therefore even the improved method of Lisbon strategy implementation, in their view, is destined to fail. Without a sanction mechanism politicians will not pursue painful reforms. Even if the benefits greatly outweigh the costs, the forces opposing reform, are too well positioned and are very organized (i.e., having many interests groups and lobbyists ready for action) to oppose all plans for reform. However the improved OMC may serve the function of helping politicians to commit themselves to reforms, through the threat of external sanctions and the use of peer pressure that comes from the above mentioned improvement of the OMC. Peer pressure can strengthen the political will to implement reforms. It can also support convergence at the level of ideas in some policy areas. One can observe apart from what Ederveen, Van der Horst and Tang have argued the adoption of a national reform programs and the appointment of Mr. or Ms. Lisbon can help create a new source of informal sanctions too. All these proposals should help to assist creating a desire of ownership on the part of national political actors and thus giving a greater legitimacy to this process on the national level, by helping to persuade national politicians to reform. Nonetheless still, above authors argue that the OMC is not capable of generating the necessary commitment from national government. Although a greater involvement, thanks to proposed changes in economic policy coordination is a step forward towards greater commitment for the process of reform.

Thus political economy's side of policy reforms in Europe seems to be a crucial and lasting weakness of the renewed Lisbon process. After five years of 'Lisbon failures' it is clear that formulating successive policies requires not only a strategy on 'what to do?', but it also has to be built on an understanding of the forces that govern policy making and has to address the question of 'how to do it?' In this perspective the preparing of economic reform guidelines is at the most the beginning of a successful economic reform strategy. A more difficult part of the strategy which has to accompany the above mentioned one, and which is even more important, is making politicians to implement reform. But doing this would require that voters will not punish reformers for the pain of reforms that voters can not see or believe in the long term benefit that arises from those reforms. This part of the story seems to be still the weakest one in the Lisbon process and looks to be hardly addressed by this relaunching of the of the Lisbon strategy.

Conclusions

In reviewing what we have said above, it is obvious that renewed Lisbon process has fewer weaknesses in comparison to the older one. Moreover, some of the recent changes made to this process can make it, in the forthcoming years, more effective than it was in the last five. But final outcomes of the relaunched Lisbon strategy are still unknown and difficult to be perceived. Moreover political economy's perspective suggests that there are several unsolved problems that have to be faced or at least taken into account by Lisbon reformers.

Therefore when trying to evaluate expected effectiveness of the relaunched Lisbon process it is necessary to look deeply into the political economy of policy reforms. Such an analysis enables us to understand the forces that make reforms possible (or not) at the national level. It also prepares us to assess the real strength of the supporting measures of reforms, proposed by the Commission and accepted by the Council. These considerations can be supported by empirical studies of the process of preparation and delivery of national reform programs. An analysis of this process could enable to offer a tentative answer whether the renewed reform strategy became a real part of national reform strategies.

At this stage of the analysis we can also identify at lest three dilemmas diminishing effectiveness of the national reform programs, being a core of the relaunched Lisbon strategy. The NRPs can be an outcome of bureaucratic or policy centered approach to the new economic governance system based on national reform programs. In bureaucratic approach governments can just tend to present their current national economic policies in a new way. In such a situation, there will be no value added created by the Integrated Guidelines. The NRPs can be used as a part of a Member State's national economic strategy, however the lack of interest in or the power of existing interests can prevent these programs from becoming the core of any Member States' national strategies. Many governments may tend to treat the NRPs as just another report or document that they have to send to Brussels, without paying any attention to either the implementation of the program or to its quality. And last but not least there may arise inconsistencies between the economic policy coordination cycle in the EU and political cycles within a given Member State. Such inconsistencies can create a situation in which national reform programs will always be amended but never implemented. Moreover re–election all too often depends on achieving immediate results that they can immediately deliver to voters as evidence why they should be kept in power. Whereas laying the groundwork for future benefits that have no immediate reward yet may produce fruits that ones political opponents may benefit from after voters kick the reformers out of office for not doing enough HERE and NOW. Thus there is a tendency that outgoing governments will do nothing but writing ambitious NRPs and then leave the reforms to be implemented by the next government, hoping that that political party has to pay the political price for carrying out such reforms. Because of this incoming governments tend to pay little attention to the reform commitments made by the previous governments, seeing them as booby traps that will cost them at the next election. Such political antics tend to lead to postponements and disrespect for reforms as such.

Analysis addressing above mentioned problems is a topic of the next chapters of this report devoted to the limits of economic governance in the EU as well as credibility of the national reform programs.

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Economic Reform Governance in the EU and its Limits

Iain Begg

Introduction

Slow growth in the EU in recent years has highlighted the challenges of structural reform and has prompted a search for new means of stimulating national governments to increase the pace of reform. The Lisbon strategy, launched in March 2000 at the peak of the last economic cycle in EU–15, was intended to be a comprehensive attempt to transform the supply–side of the European economy and to boost European competitiveness, especially in the knowledge–based sectors of economic activity. However, the strategy also emphasized the preservation of core elements of the European social model and was subsequently complemented, at the Gothenburg European Council in 2001, by the articulation of the sustainable development strategy in which environmental objectives were added to the economic and social.

Five years on, it is evident that the Lisbon strategy has had, at best, only piecemeal successes. The annual scorecards produced by the Centre for European Reform (Murray and Wanlin, 2005) show that in some areas there has been progress, but that some Member States have made only limited advances. Moreover, the laggards include three of the largest EU economies – Germany, France and, especially, Italy – the arithmetic consequence of which is that the record of the EU as a whole is disappointing. The Kok report (European Commission, 2004) was also critical of a number of aspects of Lisbon, especially the lack of focus and the lack of embedding in national policy–making procedures. Though there is little dispute about the broad aims of the Lisbon strategy, these criticisms suggest that there are shortcomings in economic governance that weaken the impact of the strategy and may even cast doubt on the value of having such strategies (Begg, 2005).

Economic governance and the Lisbon strategy

Economic governance is an expression that can be interpreted in so many ways that it risks becoming meaningless, so that it is worth trying to narrow down its definition. It is more than the direct effects of economic policies conducted by governments at different levels (Member State, region and locality, as well as the quasi–governmental policy decisions of the EU level), as it also comprises the philosophy of economic policy–making and the balancing of interests and inputs that shape policy. In the EU context, three main forms of economic governance can be distinguished. The first is by far the most significant in its impact: the regulatory activity (in the broadest sense) of EU institutions and agencies, following the traditional *méthode communautaire*. These activities shape the economic environment and are most evident in underpinning the single market. Second, the EU level has a direct impact through public finances, although the small size of the Community budget means that this channel of governance is severely constrained. The third form of governance is coordination, principally of national policies, so as to achieve common aims without compromising Member State independence in decision–making.

The Lisbon strategy was, initially, largely intended to be a coordinated response to the challenges of intensifying global competition and of re–calibrating the European social model. It was also seen as an attempt to revitalize economic policy–making by reforming areas of governance that exhibit shortcomings. Indeed, one of the innovations to come out of the Lisbon European Council was the open method of coordination (OMC) as a new approach to European integration[2], implying that the Lisbon strategy was predominantly the third mode of governance. However, over time, the term ‘Lisbon’ has progressively expanded its coverage and some of what is now included under the Lisbon umbrella

[2] In reality, the approach used for the European Employment Strategy, launched in 1997, embraced much of what is now encompassed in the OMC.

– good examples are the Financial Services Action Plan and the hotly contested services directive – are regulatory activities. Similarly, the Community guidelines for one of the EU's flagship expenditure policies – the Structural and Cohesion Funds – have been written to take much greater account of Lisbon aims. The upshot is that the strategy is now a much more comprehensive one of supply–side reform, and although the 2005 relaunch has instilled a new focus on growth and employment, the thrust of the Lisbon strategy is primarily on supply–side reforms, rather than the demand–side.

Why coordinate?

The economies of the EU Member States manifestly face different reform challenges and consequently require different policy approaches. Yet part of the point of adopting a common strategy is that there are benefits from a coordinated approach. For some policy areas, the rationale can readily be established. For example, if countries have very divergent budgetary positions, spillover effects from one country to another or from fiscal to monetary policy can readily be identified. In these cases, a convincing argument can be made for some form of coordination designed to curb negative spillovers and to avoid policy conflicts, the more so with a single currency in place. A solid conceptual case for the supply–side coordination encompassed in the Lisbon strategy is not so easy to make, nor has there yet been a coherently argued rationale for it in the development of the Lisbon strategy.

It is generally the case that rapid growth in one country should lead to increased demand for the output of others and that faster growth across the EU is in the common interest, although a retort might be that as one country becomes more competitive, it threatens the position of others.[3] But beyond that over–arching objective, it is less easy to find a rationale for why the approach to boosting growth should be a common one, or, indeed, what should be coordinated. Subsidiarity also raises some intriguing arguments from a political economy perspective. Traditional fiscal federalism seeks to assign responsibility to the level at which a policy can be carried out most efficiently, but generally assumes that all the territorial units are part of a single polity. The EU is some way short of having such political coherence and, as Sinn (2004) points out, Member States can be tempted to engage in various forms of 'system competition', seeking to manipulate the regulatory environment to boost competitive advantage. Resort to low corporate taxes can have an equivalent effect.

To the extent that it can prevent or diminish any resulting distortions, coordination could allow more efficient allocation of resources, although in the presence of persistent unemployment the benefits may be harder to demonstrate. Coordination, in practice, can occur in a variety of ways, encompassing several aspects of economic governance. In the EU governance framework these could include:

— Whether a common policy agenda is adopted, with each country expected to conform to similar models of policy–making or decision rules.

— Articulation of frameworks for policy–making, either through over–arching legislation or the promulgation of guidelines.

— The setting of similar targets (usually for a fixed time horizon) or orientations for the longer–term.

— Establishment of procedures for the conduct of policy, such as a common annual timetable for the public finances.

— Subjection to monitoring by the EU level, review by other Member States and evaluation of policy performance.

Into this mix also has to be added the vexed question of what role the EU level plays. The logic underpinning many recent policy initiatives is that the EU has to transform itself in response to intensifying global competition, coupled with a sense that the policy machinery – as is often said of the military – was designed for fighting the last war, not confronting current challenges. Yet in most cases the coordination mechanisms are so 'soft' in character that it is hard to see how they can prove to be effective. Can these forms of coordination

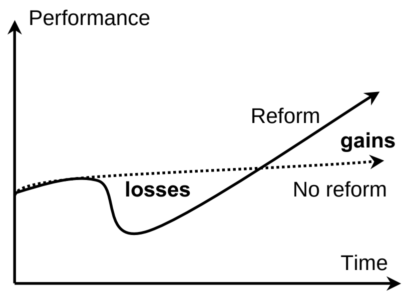
[3] Many of the fears about China's growth exemplify this essentially mercantilist viewpoint.

plausibly substitute for a single decision–making authority? How robust should coordination be and can sanctions (or incentives) ever be effective? Is there a way to convince governments, primarily, but also other actors to fulfill their commitments under coordination procedures?

The governance of supply–side reform

It is widely accepted that supply–side policies are a vital part of the policy armoury and that their primary function is to enhance longer term performance by acting on productivity and the employment rate. But even in the shorter term, supply–side policies can help to meet the challenges of economic adjustment in two ways. First, they can help to create conditions under which either demand or supply shocks are less likely. Second, there may be scope for changes on the supply–side to ease the adjustment process. In particular, labor market measures are not confined to the microeconomic functions of boosting employment levels and assisting the reform of the labor market, as they also have a vital contribution to make to overall macroeconomic policy coordination.

Figure 2 The Structural Reform 'J'–curve (trajectory of the economy)



Supply–side reform takes time. A tool used in the analysis of devaluations – the J–curve – can also be employed in thinking about structural reform. The initial impact is depressing to growth or employment, but provides a platform for subsequent improvement. Figure 2 portrays a possible trajectory. Without reform, the economy would be locked into a trajectory of sluggish performance and might even see a tailing–off as weaknesses on the supply–side became progressively more debilitating. It is only when the medium– to longer–term benefits of the reform start to outweigh the short–term costs that the reform shows its value. From a policy perspective, the trick is to find means of flattening the curve or to make the dip as brief as possible. Some EU Member States have been through the worst, while for others, the pain continues. In understanding why countries like Germany or Italy are where they are at present, a key point is that slow or hesitant initial steps risk prolonging the agony, thereby fanning the flames of opposition, whereas more decisive measures might pay off sooner.

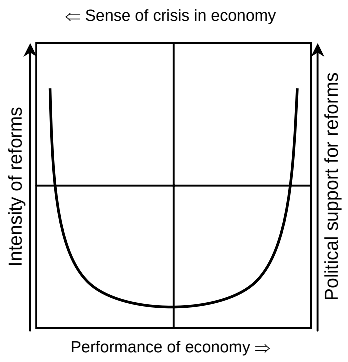
In addition, structural reform tends to be cumulative, with the prospect of individual reforms reinforcing one another, though equally of piecemeal changes having less impact than a concerted program. Timing and sequencing are also of the essence. Finding the best way to navigate these waters is partly about identification of the technical solutions that minimize the losses (understood as counterfactual, rather than necessarily absolute) shown in the dip in the J–curve and the time that elapses before a superior position is attained (again, as a counterfactual). But it is also to do with governance and the capacity of institutions to convince different interests of the virtues of the case, in other words a political economy challenge.

The political economy of structural reform

The timing and pace of structural reform have varied very substantially across the EU, with some countries generally praised for their track–record, while others attract persistent criticism. It is often asserted that change is easiest when an economy is performing well, typically with sustained growth and a buoyant labor market, while in countries that have lacklustre growth, reform occurs more slowly (Debrun and Annett, 2004). Moreover, as Robinson (2005) points out, European countries have been striking for their slow pace of labor market reforms, in contrast to other parts of the world. An intuitive explanation for the conjunction of fast growth and rapid reform is that the more rapid renewal of capital stock that is engendered by growth raises productivity and provides a cushion of extra resources with which to buy–off interests that might lose from reform. In addition, in a growing economy more opportunities are open for redeployment of labor. Both factors will make it easier to attract popular support for reform.

The reverse is true when the economy is stagnating. There is an obvious risk in these circumstances of slow growth and lack of reform becoming a vicious cycle of declining performance and persistent unemployment. The economy might well be in equilibrium, but it will be one that, politically, becomes increasingly uncomfortable and there may be a point at which there is a collective recognition that the status quo has become untenable. An extreme variant of 'enough–is–enough' is the transition from central planning to market economies that occurred throughout central and eastern Europe after 1990.

Figure 3 Structural reforms: A U–shaped distribution of their intensity



What these observations suggest is that structural reforms will be most intense either when there is a sense of severe crisis in the economy or when it is performing well. This notion can be captured schematically by relating the intensity of structural reform to the overall performance of the economy and the perception of crisis (Figure 3): in this conceptualization, reform intensity is a u–shaped curve. In the early 1990s, the choice for the (then) transition economies of central and eastern Europe was stark: reform or wither; and although several different paths of reform were followed, the transformations were profound. Spain, Ireland and Denmark are, arguably, countries which in recent years have been at the other end of the reform U–curve, as they build on earlier phases of structural change on a virtuous path.

By contrast, Italy and Germany can be portrayed as countries where the pressure to reform, though undoubtedly present, is not (yet?) strong enough to motivate more decisive action. They can, therefore, be located lower down the U–curve. Their cases, point to another facet of reform which is that it requires the support of the electorate and of interests that may be at risk from structural change. Hence the political economy element is one which is central to the diversity of reform trajectories in the EU. The indecisive election result in Germany arguably illustrates the point and the perception in Italy that there is no obvious champion of reform among the larger political parties reinforces it.

Lisbon relaunched 2005

The relaunch of the Lisbon strategy in March 2005, by bringing together the Broad Economic Policy Guidelines and the Employment Guidelines into a single set of Integrated Guidelines, was supposed to go further than the changes introduced in 2003 to streamline the different EU policy coordination processes. It was also an attempt to confront the criticisms of governance articulated, notably, in the 2004 Kok report which was pretty trenchant in its criticism of Lisbon, stating that 'disappointing delivery is due to an overloaded agenda, poor coordination and conflicting priorities. Still, a key issue has been the lack of determined political action'.

While the diagnoses of Kok, the Commission and other contributors identify many of the problems, it is by no means obvious that the new approach in which there are both national and community components can be expected to resolve the challenges. An evident tension in the original Lisbon strategy was that despite common goals, Member States could define more or less what they wanted to be consistent with Lisbon (Begg, 2005), yet were not really accountable for what they did. Action plans (financial services, e–Europe, environmental technologies and so on) and other initiatives proliferated, but with so many targets – and these not always mutually consistent: higher employment in the EU, for example, has coincided with a drop in labor productivity growth – electorates or national parliaments did not really have the means to monitor government performance. At the same time, a lack of budgetary resources meant that the Community level could neither undertake complementary activity on a relevant scale (for example by contributing towards the faster development of trans–European networks), nor offer incentives to those Member States that follow 'virtuous' policies, other than marginally. For example, one of the headline goals of the Lisbon strategy is to increase expenditure on R&D to 3% of GDP (from a current level of around 2% for the EU as a whole, but with intensities of under 1% in several Member States), yet the aggregate spending on research in the EU budget amounted to less than 0.1% of EU GDP.

A core aim of the relaunched Lisbon strategy is to improve governance by making Member States more accountable to their various stakeholders, yet the mix of national and Community measures looks eerily familiar. The relaunch is also intended to make the open method of coordination more robust by taking it more to national actors. Can these ambitions be realized?

The Community Lisbon Program

A statement of the Community program was published in July 2005 (European Commission, 2005). In its proposals for Community Action, the Commission has set out a list of measures under eight main headings (see Box 1). In an annex to the document, the Commission makes clear that the detailed measures can be grouped into three headings of 'regulatory actions, 'financial actions', and 'policy developments'. Under these three groups, a list of detailed measures has been presented with a description of what is entailed and dates for realization of the objective.

Several of the headings in the Box 1 cannot sensibly be regarded as anything other than business as usual. Others, such as the 'support of knowledge and innovation' or dealing with the consequences of economic restructuring sound appealing, but will be constrained by a paucity of resources at the Community level which, now that a much reduced budget to support such measures has been agreed as part of the *Financial Perspective* for 2007–13, cannot be expected to improve. There has been some attempt since March 2005 to clamp down on legislation that might be damaging to competitiveness[4], with the withdrawal of around a third (68 out of 183) of proposals on the table on the grounds that they are inconsistent with the 'better regulation' initiative, making no progress or outdated. Curiously, one withdrawn proposal was about making public a recommendation of an early warning to Italy under the Excessive deficit procedure, and the overall impression is of a largely cosmetic exercise.

Box 1 The main headings for the Community Lisbon Program

- The support of knowledge and innovation in Europe,
- The reform of the state aid policy,
- The improvement and simplification of the regulatory framework in which business operates,
- The completion of the Internal Market for services,
- The completion of an ambitious agreement in the Doha round,
- The removal of obstacles to physical, labor and academic mobility,
- The development of a common approach to economic migration,
- The support of efforts to deal with the social consequences of economic restructuring.

Source: Commission Communication COM(2005) 330 final

National reform programs

The relaunched Lisbon strategy called for Member States to produce comprehensive National Reform Programs by the middle of October 2005. Because of the emphasis to be placed on 'ownership' of the process as part of the overall commitment to improved governance in Lisbon II, it was expected that these programs should be extensively debated in the Member States

[4] Commission (2005) Outcome of the screening of legislative proposals pending before the Legislator COM(2005) 462 final Brussels, 27.9.2005

and that they should reflect the priorities of a range of stakeholders (including the social partners, national parliaments and sub–national government) In assessing the first round of NRPs, it should be recognised that most coordination processes take time to bed–in[5] and that these initial program documents were produced to a relatively tight timetable. On the other hand, the Lisbon strategy was launched five years ago and the Integrated Guidelines bring together – and in many cases, simply reiterate – objectives that were in the BEPGs and the EGs, both of which have been in place for even longer. Consequently, Member States cannot convincingly claim that the compilation of the NRPs was something unprecedented.

A general observation about the NRPs is how much they differ, as can be seen from the summary assessment of four broad attributes (Table 1). In some countries, consultation procedures were extensive and the plans reflect these disparate inputs, while in others the programs seem to have been decided largely by the central government, often with the perspective of a lead ministry most apparent, and few signs that wider interests have been involved. This may be entirely consistent with the national setting: in Austria and Belgium, for example, it would have been expected that the various sub–national government strata would be influential and also that the social partners would be prominently involved. Yet if an aim of Lisbon–style coordination is to reinforce the 'ownership' of plural interests in the conduct of the strategy in a way that holds decision–makers to account, broader consultation should be a feature of those Member States in which it is not the norm.

The Integrated Guidelines are central to the programs of certain Member States, but effectively invisible in others, and most have laid out distinctive national priorities. It could be argued that this is not only unsurprising – after all, it is to be expected that there will be pronounced differences in what needs to be done – but also entirely consistent with the spirit of the 2005 relaunch of the Lisbon strategy. Yet it can equally be argued that, if countries differ so much that the IGs have limited resonance, it is hard to see what the point of coordination is, beyond the rather banal observation that, so long as the chosen path delivers better economic performance, it is in the common interest.

Big differences can also be seen in the degree to which the NRPs concentrate on analysis of what needs to be done, reporting of initiatives already underway and announcement of new proposals. Here, the UK program stands out at one extreme, since it is largely a report on all the 'inspired' policies that the government already has in place, but has little new to offer on recognised lacunae such as the R&D gap. France, too, focuses more on what is already in the pipeline than on new solutions. In contrast, the Greek Program is a very ambitious shopping–list of areas (and it is hard to find any omissions) in which new measures will be introduced to complement recent initiatives. In many of the NRPs, there are signs that domestic political issues are to the fore – again, why would they not be? – but one has to ask what, then, is being coordinated.

On the whole, the NRPs seem to be better in explaining how macroeconomic objectives will be pursued than either the microeconomic or employment dimensions. In particular, for several Member States – Greece stands out here, and there might be questions about Italy – there is little discussion of implementation challenges and thus of the feasibility of the programs. Italy, for example, has proposed twelve new laboratories for the South as part of its strategy to raise R&D spending, but says little about what they can or could deliver, bearing in mind, especially, the public finance constraints on the country. All of this suggests that doubts have to be expressed about the realism of the proposals in a number of cases. Further analysis of the NRPs is presented in the next chapters of this report.

[5] The second round of National Action Plans for social inclusion is generally considered to have been a marked improvement over the first in most respects.

Table 1 Summary assessment of selected National Reform Programs

	Consultation	Use of Integrated Guidelines	Exposition of new policies	Realism
Austria	Lengthy, extensive & included regions	Planned reforms organised around guidelines	Judicious mix of new & continuing policies	High
Belgium	Big roles for sub–national government and social partners	Made explicit; two mentioned but not directly addressed	Sensible balance of continuity and policy development	Most credible on macro; other areas long on assertion
Czech Republic	Apparently quite extensive; also to be in implementation	Implicit, rather, but evident that they have an influence	Yes, though in the form of incremental change	Plausible focus for reforms, appropriate stress on macro
Estonia	Very broad, guided by a cross–interest working group	Used to orientate plans; explicit cross referencing annex	Mainly about extending current approaches	Strategic outlook, short on detail, but refers to indicators
Finland	Took place at various stages; influential	Used as framework and full report on current position	Mix of old and new seems well–judged	Mostly credible
France	Not much in plan; but promises more in implementation	Not directly mentioned at all	Less than many others; mainly a progress report	Strategic nature of document makes it hard to judge
Greece	Covers main sets of actors; seems to have mattered	Mentioned, but only implicit in text	Comprehensive list of proposed initiatives	Has to be doubted given breadth of ambitions
Italy	Stated to have been extensive with social partners	Regrouped; steered towards national priorities	Some; but much is what is already in the pipeline	Will need plenty of optimism
Latvia	Main governmental, but consulted social partners, parliament	Regrouped into five main priorities	Incremental, but good on adding to current approach	Assumes rapid GDP growth; credible institutionally
Netherlands	Clearly explained at outset and extensive	Used throughout to structure proposed actions	Much is about current approach, but some new ideas	Pretty balanced and plausible
UK	Little evidence of much outside government	Mentioned only in description of process; not used	Not obvious that much has changed from earlier plans	Changes little, very slender on boosting, for example, R&D

Conclusions

The Lisbon strategy has, so far, conspicuously failed to deliver much and has been criticised for this in official assessments (such as the Kok report) and elsewhere. Although progress has been made towards attaining some of its targets, there is still a long way to go on others, and there is also a risk that a sharp focus on some targets (such as the employment rate) will divert attention away from other, more complex aims such as boosting productivity. A further problem is that some of the underlying challenges confronting the EU are becoming more acute. Thus, ageing of the population is already affecting productive potential, especially for Germany and Italy (Gros, 2005), while the seemingly inexorable rise of China is intensifying global competition.

The problem is not so much to identify the priorities for reform – if anything, what needs to be reformed has been analysed so extensively that the priorities have become part of the conventional wisdom –

as to find a way of advancing reform. It has constantly to be repeated that the principal difficulty is not one of diagnosis or analysis, but of implementation. Part of the problem is that structural reform takes time, can often impose short–term costs that inhibit consistent policy and is politically unpopular. Nevertheless, the solution is almost inevitably going to be found within a country, rather than outside it, as the following quotation from *the Economist's* Charlemagne column of July 9, 2005 suggests:

> No EU member is going to accept the pain of reform just because Mr. Blair makes a good speech in the European Parliament, or because an EU summit passes a stirring resolution. Economic reforms in France or Germany will be carried through by French of German politicians or not at all.

Against this background, it is not easy to be optimistic about the prospects for the relaunched Lisbon strategy. It has been argued in this paper that the rationale for Lisbon as a coordination process is poorly articulated and that until the conditions in a Member State are conducive to reform, the likelihood of rapid progress will be slim. Moreover, the Community contribution to the strategy will remain limited so long as Member States restrict the EU level's resources and continue to thwart progress on EU–wide developments such as the services directive. Some comfort can be taken from the very fact that there is such diverse experience across Europe in trajectories of structural change, as it shows that good strategic policy choices can make a difference, with the smaller countries generally in the lead. Moreover diversity affords the opportunity for one country to learn from another and thus to develop new solutions.

But the question that keeps re–surfacing is whether all the paraphernalia of reform programs, action plans, guidelines, peer review and Commission scrutiny ultimately offers Member States anything beyond what they could obtain from informal contacts with their partners or meetings at the OECD. So far, there is little evidence that these EU processes percolate down to national debates, let alone have an effective influence on decision–makers.

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Evaluation of Selected National Reform Programs

The aim of the case studies presented in this chapter is to answer the question whether the National Reform Program speeds up economic reforms in a given EU Member State so as to strengthen its economic growth and job creation.

In order to answer above question authors of the following subchapters were asked to analyze given National Reform Program and try to address several questions. Most important of these questions are presented in Box 2.

By addressing all these questions in the case studies presented here the authors have also tried to find answers to dilemmas and challenges presented in the first two chapters of this report.

When analyzing each National Reform Program one has to note that each Member State's economy is a unique part of the whole European economy. Thus, especially after last enlargement, there are substantial differences in the scope and the nature of economic challenges faced by the governments of the Member States. Therefore each subchapter is accompanied by a table describing key structural indicators for a certain economy.

Box 2 Questions addressed in co–reports on selected national reform programs:

- Does the NRP address all crucial challenges faced by your country's economy?
- Are the measures prescribed in the NRP effective?
- Are there any problems omitted in the NRP?
- What is the political credibility of the NRP?
- How does the national political cycle affect the NRP?
- Is it possible that all reforms, stipulated in the NRP, will be implemented during the current political cycle?
- What are the social attitudes toward the reforms stipulated in the NRP? And how can those attitudes influence applicability of the NRP?
- How would you describe approach of the government to the NRP?
- Who will be personally responsible for the implementation of the NRP? What is the position and political rank of Mr./Ms. Lisbon?
- How is NRP related to other national economic strategies/programs?
- How does the NRP correspond to economic program of current government?
- Will the NRP be an effective tool in reforming your country's economy and why?

National Reform Program of the Czech Republic

Petr Barton

The Czech Republic: Key structural economic indicators

Indicator	2000	2004	2005	2005 EU15	2005 EU25
General economic indicators					
GDP per capita in PPS	63.8	70.4	72.7 (f)	107.9 (f)	100
Labor productivity per person employed	58.5	64.4	66.7 (f)	105.6 (f)	
Employment					
Employment rate (total)	65.0	64.2		64.7*	63.3*
females	56.9	56.0		56.8*	55.7*
males	73.2	72.3		72.7*	70.9*
Employment rate of older workers (total)	36.3	42.7		42.5*	41.0*
females	22.4	29.4		33.2*	31.7*
males	51.7	57.2		52.2*	50.7*
Innovation and Research					
Youth educational attainment (20-24) (total)	91.1	90.9	90.3	74.5 (p)	77.3 (p)
females	91.3	91.2	89.8	77.5 (p)	80.0 (p)
males	90.8	90.5	90.8	71.6 (p)	74.6 (p)
Gross domestic expenditure on R&D	1.23	1.28		1.95 (ps) *	1.9 (ps)*

Notes: s) Eurostat estimate; (f) Forecast; (e) Estimated value; (p) Provisional value; * 2004.
Source: Eurostat (2005) Structural indicators.

Introduction

In the 1990s, the Czech Republic was a darling of world's economists. Mr. Keynes once held that the stock market resembled a 'beauty contest' – beauty is always difficult to define and the most beautiful stock is that which everybody else considers beautiful. In a similar way, the Czech Republic was, for a long time, considered 'Miss Transition'. Its voucher privatization was lauded as a model for others, its low inflation (always single digits save for one year) was absent from most other transition countries.

To the Western eye, one of the chief indicators of a good reform strategy was the almost incredibly low level of unemployment that held up throughout the 1990s. A new 'tiger' was being born. Beauty being in the eye of the beholder, few ears were lent to the handful of economists who warned that the low unemployment was not an indicator of a 'job well done' but of a 'job not done'. And so, some 5 years into the new century and official unemployment rate right at the door of double digits (and many people having actually left the labor force altogether), unemployment has, paradoxically for the first time since the end of communism, become a political issue.

National Reform Programs (NRP) could not have been therefore come at a more opportune moment. The evergreen maxim of modern European domestic politics, 'our hands are tied, we are forced to do it by Europe' could serve a good purpose and help in the credibility of dismantling labor market obstacles, a policy which 'ain't helping if it ain't hurting' in the short run. If the NRP is well written, that is.

Evaluation of challenges and reforms

Macroeconomic policy

The problem in the Czech Republic now is that unemployment is not the only problem. Budget deficits are considerable, and debt (though still below the 60% threshold) is most unsustainable of all transition countries . The macroeconomic part of the NRP has very little to do with the labor market – only to the extent that everything is connected with everything else in an economy… One cannot be surprised, however, since by the authors' own admission (p. 4) it has been lifted, almost verbatim, from the Economic Growth Program.

And so the macroeconomic plan obsesses here about the size of the deficits. Even so, they cannot be removed in a healthy way if the plan is hoodwinked into proclaiming that they are caused by 'expenditures on transformation and modernization of the economy … and by increase in expenditures at times when fiscal policy was used for stimulating demand' (p. 6). The former is simply not true and the second, while true, conveniently omits the fact recent fiscal policy has been inefficiently pro–cyclical. Similarly outrageous is the statement that 'public finances reform is under way since 2003'. There was a small reduction in the corporate tax rate then, compensated by further increased complexity of its calculation, and the current idea of a public finance reform is materialized in the reduction of the 20% income tax bracket to 19%. Large section of the macroeconomic part is spent on sharing the blame for this sorry state onto local authorities which, incidentally, have the least fiscal autonomy of the Visegrad countries. However, in relation to labor markets, the NRP's mania with tax rates completely misses the point.

In Czech public finances, the King of a problem, whose nakedness is obvious to every child and entrepreneur yet which no courtier dare speak of, are social security and health contributions, not the tax rate as such. Most employees pay more on these than they pay in taxes, and often their collective burden exceeds 50% of gross income. Any labor–market oriented macroeconomic reform must start from these huge costs of employment if it is even to get off the ground in the right direction.

Sadly, the NRP is almost silent on this. Where it does starts hinting at a pension reform (on the penultimate page of the macro section), it does so only by arguing that without it, the Czech economy would have problems in the long–run because of the ageing population.

Failure to grasp that the system needs reforming not because of some potential problems in the long run but because its crippling effect on the current state of the labor market means, that even in the one paragraph where the NRP comes close to the nail, it completely fails to hit it on the head. An employer reading this must be gnawing his own nails in desperation that he will not be able to expand employment, probably until the long–run comes.

Importantly, a proposal to cap the social security contributions (currently uncapped, proportional to gross wage no matter how large) is present in the NRP, but only towards its end, in the Employment section. There this gradually lowering cap on the maximum absolute amount of contribution over a year is heralded as a solver of the aforementioned problems. Even if it does help, it will only create further macroeconomic imbalance because the receipts will thus be cut but outlays on the unreformed pension system (see below) will continue to increase! It is utterly devious to propose this measure in the Employment section, removed from any consideration of its macroeconomic consequences. We shall develop this point further in the 'credibility' section below.

The macroeconomic section as a whole, then, contains virtually no specific steps which the government would commit itself to executing until 2008, the NRP's term, making it a vision of ideas rather than a plan for action. The one exception is that a pension reform is to be 'prepared and adopted' – but only after it has been 'defined', and that it will take place sometime '[i]n the next election term' (p. 12). Sometime before 2010, that is…

An 'executive committee' for pension reform has been 'working' full time for the last 2 years, with absolutely no output, not even a proposal on the table.

Microeconomic policy

Essentially the only issue at stake in any labor market reform is the general cost of employment. That includes not only wages, but also all taxes, difficulties with hiring and firing, human capital deficiencies, standardization requirements, etc. People naturally gravitate away from costly goods and activities. Reduction in costs restores the gravitational pull of the object and restores its attractiveness.

One might argue that microeconomic reform is more important for the improvement of European labor markets and so the sub–par Czech NRP macroeconomic part does not matter. This suggestion assumes two things. First, that the largest part of the costs of employment in the Czech Republic is not macroeconomic in nature, and second, that the microeconomic part does better job in addressing the relevant microeconomic costs of employment.

As for the first proposition, Czech Republic's labor market is not hugely distorted microeconomically, at least by E–15 standards. Employers have a lot more freedom in hiring and especially firing than in Germany, unofficial employment and shadow labor market is not as large as in Spain, labor unions are not as strong as in France, the agribusiness was relatively competitive with minimal subsidies until EU entry, and for example IT expertise human capital is renowned and sought by foreign firms inland to save its programmers the commute to Ireland. Relatively speaking, therefore, as long as the macroeconomic elephant still roams through the China–shop, any micro glue on fragments will only partly solve the problem. So how does the much larger microeconomic section of the Czech NRP fare? Bizarrely, most of its suggested measures are activist in nature, costing extra resources (exacerbating the macro fiscal problems), rather than passive, removing those costs of employment (broadly defined) which still remain in the country. We will merely note in passing that creating a set of programs to 'compensate' for inefficiencies elsewhere is economically much more inefficient than removing those inefficiencies, and turn our attention to testing our second assumption above by examining individual subsections of the micro part.

Business environment

The plan is very vague here. There are 7 current promotion programs for support of small and medium–sized enterprises (SMEs) and they 'will be continued' (p. 14). Or it promises to work on increasing competitiveness of SMEs on foreign markets – without specifying a single specific step how throughout the two paragraphs devoted to it.

Occasionally though, some specifics are listed. For example, the 'administrative burden on the regulated entity and public administration [sic!]' (emphasis added, p15) will be evaluated by the end of 2005 and a proposal how to reduce the burden by 20% submitted by 2007.

As regards the micro–execution of the taxation system, the main action step is so baffling that it deserves being listed in full:

> Another measure aimed at improving the business environment is creation of modern tax administration with high effectiveness and productivity, which would support voluntary payment of taxes, e.g., by providing taxpayers with high–quality services. (p. 17)

If what is being proposed is what I think, the creation of a completely novel form of a being by 2008 is a wonderful specific action plan. Alas, it is still pretty much the only one, unless one counts the bombshell dropped into the last sentence of the whole Business section: 'In 2007 a new institution will also be set up – a Czech Tax Administration' (p. 17). Since this is not elaborated upon, its effectiveness (or purpose, there of course already is a Tax Authority) is completely unknowable.

There is, however, one positive 'simplification' suggested, which reduces the costs of employment rather than compensating enterprises for these them. Centralization of different authorities needed for registering a new business under one roof is something long overdue, Romania implemented this 5 years ago, for example. Unfortunately, this started already before writing the NRP, and is listed in it merely as a boon for the undiscerning reader.

R&D, innovations

In addition to avowed increased spending on public support of R&D in various forms (and the promise to start a big patent–promoting campaign in 2007), all perhaps laudable in principle but still indefinite, worth noting here is the treatment of 'incubators' because it contains what seems the only new (as opposed to already existing) program mentioned. KAPITAL will provide funds for implementing results of R&D, and the pilot phase will take until 2008. Again, a worthwhile effort, if it can be done in an uncorrupted way.

Sustainable utilization of resources

This section seems to be inspired by point 14 of the Integrated Guidelines for growth and jobs. In trying to reduce the high energy need of the Czech Republic, the plan proposes the 'development of production with low raw material intensity and high value added'. Despite its vagueness and effective truism, as written this additionally sounds like a nationalized industry. If true, this would be definitely wrong.

The only step which does not involve some 'program to support …' is the promise to 'elaborate the concept of environmental tax reform' by the end of the year. While it is praiseworthy to involve externalities in some direct economic decision–making of their creators, a Pigouvian environmental tax is only a second–best solution. The fledgling system of tradable pollution permits suffers from insufficient depth of the market, and therefore no trades are currently being effected. As such, the system just uses the allocated quotas and does not do what it supposed to. This is the most advanced way of reducing environmental externalities in a most cost–effective way, yet the program does not mention this market at any point.

The basic principle that the polluter knows better than the government how and where (s)he can decrease the pollution therefore is currently barred from promoting a truly sustainable (all costs included) development and growth in the Czech Republic.

Transport and information technologies

The transport section seems to completely miss the main problem in the Czech Republic, concentrating instead on elaborating on how many new motorways and bypasses will be built. Government support for integrated road–rail cargo terminals, mentioned only in passing, may be at least hinting at the main problem – the sheer lack of capacity on the existing motorways. Making them longer would only exacerbate, not alleviate the problem by making them even more attractive for trans–European lorry cargo, the main culprit. Czech Republic is in the geographic centre of European trade, and surrounding countries' more sensible policy of mileage–based toll for trucks instead of the Czech flat annual fee is only the final straw that is breaking the motorways' back. The main East–West connector of two largest cities has earned the nickname 'cemetery' due to the sheer volume of (mostly foreign) lorries. A swift adoption fee–for–mile system is absolutely crucial if the country is to start moving its resources (people and goods) optimally again, yet the adoption is deadlocked in technical deliberations. It would solve the majority of transport problems, and the opportunity to commit to its introduction by including it in the Plan has been missed.

As for IT and the governmental activist 'support' for broadband in the countryside etc. – making the telephony industry competitive by removing the effects of previous protectionist policies will do the trick, for free.

Employment

As mentioned in the Macroeconomic section, a short paragraph seems to propose get at the heart of the problem, but with the already discussed macro–problems. Even if we disregard these for the moment, this cannot boost employment even microeconomically.

A cap on the total contributions over the year will influence the high–income laborers who will effectively stop paying social security, say, in October. The low–income wages will be unaffected, continuing to pay the proportional contributions all the way till December. Yet it is these jobs that all statistics reveal to be most lacking in the economy! So this proposal is going to remove obstacles to employment of the already rich (and by assumption already flexible), and does absolutely nothing for the poorer who are the ones lacking jobs, and who will continue lacking them because the high cost of their employment has not been reduced by this proposal!

As regards the allocation of social security payments, the proposal to lower the subsistence minimum (separate from unemployment benefit) is aimed at 'pushing' the unemployed into seeking employment (to the extent that the claimants of the subsistence money are actually the unemployed!). However, the (poor) unemployed are always deciding on the margin – additional money earned versus social money lost; and here the Czech Republic suffers from a classic poverty trap: most social contributions are means–tested and come in bulk, being removed upon reaching a certain threshold. In this system the poor face effective tax rates higher than 100%, and this proposal does nothing to solve this issue. Various social payments need to be phased out gradually as one goes up the income scale, to retain the motivation to seek employment and upward mobility.

One problem is identified correctly – that the continuation of rent control makes living in large cities (with the control) completely unaffordable and therefore free labor cannot migrate to where vacant jobs are – in large cities. The plan here reaffirms its commitment to removing the rent control over a period of six years, something the government has been talking about for the last six years.

In terms of retraining the plan proposes the continuation in plethora of costly retraining programs whose efficiency is difficult to establish from their vague description. As for school curricula, they are to be 'reformed' from the top, rather than by allowing competition among schools, where especially the university system will only be producing employable laborers once the school is rewarded for providing a employment–usable training. There many proposals how this could be achieved efficiently, yet the Plan does not propose even considering them.

Credibility

The main point to note is that the vast majority of steps mentioned in the Czech NRP (to the extent that they are at all specified into concrete action) are processes that have already started (before its writing) and are now in the process of being executed. It is difficult to identify any proposals that are set down in view of the NRP process itself and were not already an integral part of other programs, partial or general, national or EU–mandated. It seems as if the only criterion for the programs' inclusion was the question 'is it even remotely relevant to the topic?'. The 'value added' of the Czech NRP seems therefore very low, and the whole plan reads like an apologetics or an advertisement of how much the government is already doing, itself or as part of other plans.

Given this, the political feasibility of the plan as a whole is paradoxically quite high, especially as most of the plan is rather vague anyway. Social feasibility (acceptance by the populace), however, is most problematic precisely in the most important large problems (pension reform, health care reform, rent control removal) with arguably the greatest effect on employment. That is precisely why they have all been talked about for years – but nothing happened (with the exception of the pension reform – that has not even been suggested). Of course, these things will always be difficult to set forth, and as a result they are easiest to do at the beginning of the political cycle.

Here lies a hope for the plan, because elections are due in spring 2006, and the campaign had already effectively started at the time of writing the NRP. Paradoxically, however, it seems that it will be the opposition (conservative) party which will be executing the program – and may go even deeper and implement some more structural reforms rather than the suggested tinkering of the current (socialist) government. Indeed, as of writing these lines, the official opposition election program has been introduced and unemployment (along with flat tax) is to be the headline theme of the campaign.

Change of government was almost certain at the time of the NRP's drafting, and so the high level of security with which the assertions as to future government's plans action are somewhat surprising (though understand–able). The coming election could, of course, be partly responsible for the plan's staying within rather vague identification of priorities and problems rather than specific remedies.

Now, however, a few months later, the election result is no longer so certain. The worst possible outcome for the feasibility of any reform plan – a hung parliament – is unfortunately beginning to seem like a realistic option, especially given the skilful anti–flat–tax rhetoric of the socialist party. And even if the conservatives were to win a reasonable proportion of representatives, reforms other than the flat tax are uncertain and very much dependent on the actual numbers won. The post–communist Czech parliament has the strange quirk that for almost any law change, however insignificant, a constitutional majority is needed (2/3) because a quarter of parliamentarians are communists with whom nobody speaks (until the open arms inclusive policy by the socialists in the last several months) and who automatically vote against virtually anything. It is realistic that they get even more votes at the next election, and socialists could form an 'in your face' government with them, in which case any Plan's reforms even remotely resembling market solution will automatically be struck out, and full employment sought through completely different means. Perhaps also in light of the forthcoming election, no Mr. Lisbon has been appointed, other than specifying that the relevant ministers should coordinate the steps.

Whatever the political and social feasibilities are, however, a document like this should not include measures which are economically unfeasible. The most unfeasible of them is the already mentioned proposal to start capping social security contributions without a pension policy proposal being even on the table. The cap's inclusion in the program (in a place pages removed from the pension considerations) then seems like an extremely cheap gesture 'our government is committed', which appears to solve the main problem and silence the critics, before quickly moving on. That the authors did not learn from the ongoing crisis in the health sector strains credulity, especially as it is the joint social security and health contributions that make labor unaffordable. In the state health insurance (and there is no other), the state mandates the funds to pay set rates to doctors – yet it fails to supply them with enough money to cover these mandates. The most unbelievable thing in the Czech Republic now is that the funds are then blamed for this shortfall. Now it covers one sector, which is 'only' 7% of the economy. Were something similar to happen in the pensions (roughly 20%), last person to leave the country will have to switch off the lights.

Conclusions

The Plan itself admits that it sees its main role as 'the opportunity to clarify economic and employment policy priorities to general public and to explain the necessity of taking those reform steps to which the Czech Republic commits by submitting this document' (p. 3, emphasis added). So it may be true, after all, that the Plan sees itself as a political rather than economic document in terms of its purpose of selling itself to the public. As such it serves the opportunity to collect the various partial reform plans under one roof and think about to which of the 23 guidelines they can be attached, rather than a concerted effort to create a plan (informed of course by current programs) of how to actually achieve the 23 guidelines. Even so, 5 of these were explicitly disregarded in the drafting process since they were viewed as too long–term: 6 (EMU contribution), 10 (entrepreneurial culture(!)), 12 (increase R&D), 13 (ICT), and, most importantly, 21 (to ensure employment–friendly wage and other labor cost developments).

Of course, once the document states so explicitly on page 5 that it will disregard what is arguably the main problem in the Czech Republic, one becomes skeptical. We have tried above to be fair – but have to attest to the fact that the crucial guideline number 21 was indeed disregarded. There may be some bathwater left, but we have unfortunately lost the baby.

If that is so, however, it is not clear how the submission of this vague priority list that mostly identifies problems could be in any form construed as a commitment to a reform program, especially when everybody who reads the document will be struck by the use of the 'we will do this' a few weeks before the election.

The vagueness of the Plan may be precisely the point. Perhaps it would have been unrealistic to expect the Czech National Reform Program to include many actual new as opposed to current reforms – since that would have given fodder to the opposition cannons. Be that as it may, one would at least expect that the government would grasp 'the opportunity to clarify … and to explain the necessity of …'. This has not happened in the least. It does have the potential, as so much of the document is taken up by describing recent trends, projecting them into the future, and identifying the obvious, that something needs to be done about it. While some selective use of statistics is employed to throw a rosier light on recent government activities than is justified, overall it does get the analysis of the numbers right, even if it sometimes fails to pin down the main culprit. The intelligent reader can have lots to ponder on, and to the extent that the realization by the general public of a problem's existence is a necessary (though not sufficient) condition for the problem's removal, the document could at least serve as a communication strategy.

However, no discussion was held during its incubation period, its birth passed virtually unnoticed, and any hope of more attention closer to the forthcoming election is pure vanity.

So to the first baby poured out with the bathwater – the opportunity to nail the crucial cost of employment, we also have to add a second, one which was yearning for communication, but was sadly silenced.

To lose one baby may be regarded as a misfortune. To lose both seems like carelessness.

National Reform Program of Hungary

Tamás Szemlér

Hungary: Key structural economic indicators

Indicator	2000	2004	2005	2005 EU15	2005 EU25
General economic indicators					
GDP per capita in PPS	53.0	60.2	61.8 (f)	107.9 (f)	100
Labor productivity per person employed	60.6	68.2	70.0 (f)	105.6 (f)	
Employment					
Employment rate (total)	56.3	56.8		64.7*	63.3*
females	49.7	50.7		56.8*	55.7*
males	63.1	63.1		72.7*	70.9*
Employment rate of older workers (total)	22.2	31.1		42.5*	41.0*
females	13.3	25.0		33.2*	31.7*
males	33.2	38.4		52.2*	50.7*
Innovation and Research					
Youth educational attainment (20-24) (total)	83.6	83.4	83.3	74.5 (p)	77.3 (p)
females	84.0	84.9	85.4	77.5 (p)	80.0 (p)
males	83.1	81.9	81.3	71.6 (p)	74.6 (p)
Gross domestic expenditure on R&D	0.8	0.89 (i)		1.95 (ps) *	1.9 (ps)*

Notes: s) Eurostat estimate; (f) Forecast; (e) Estimated value; (p) Provisional value; * 2004.
Source: Eurostat (2005) Structural indicators.

Introduction

In line with the relaunch of the Lisbon strategy, Hungary – as all the Member States of the European Union (EU) – has prepared a National Reform Program (NRP) in order to summarize the main challenges and reform needs in the following mid–term period (2005–2008). In line with the Lisbon process, the main fields analyzed are macroeconomic, microeconomic and employment challenges and reforms. The document was prepared with the involvement of three ministries (Finance, Economy and Transport, Employment and Labor); the overall coordinator was the National Development Office (NDO). The NRP also contains proposals for concrete steps in the above period. The NDO is also responsible for the preparation of the National Strategic Reference Framework (NSRF) for the period 2007–2013; the close link between the NSRF and the NRP enhances the credibility of both documents. This co–report presents the main elements of the Hungarian NRP (they are discussed following the structure of the NRP), as well as an evaluation of its credibility both in economic and political terms.

Evaluation of challenges and reforms

Macroeconomic stability and financial balance are fundamental for the achievement of the objectives set in the NRP. Economic growth is expected to remain dynamic (4–4.5% annual real GDP growth) until 2008. Consumption is also expected to grow dynamically, but at a slower pace (3–3.5% per year) than GDP; this means a positive change on the demand side structure of Hungarian GDP. An important underlying factor of this dynamism is the continuously increasing presence of foreign capital; the attractiveness of the country for foreign investors has to be further increased. Firms with foreign capital play a very important role in the Hungarian exports, as well. Exports are crucial for growth, and the optimism of the NRP in this respect can be justified by the experiences of the previous years (Hungarian exports grew 3–4 percentage points higher than external demand even in recession). Inflation is expected to decelerate gradually, and to be around 2–3% in 2008.

Priorities and measures in the macroeconomic field are related to different aspects. Structural changes are foreseen in order to secure economic stability (a pre–condition for sustainable growth). In order to reach long–term sustainability of the general government, inter–related reforms are necessary: pension reform, reform of healthcare, measures targeted at the increase of employment, and budgetary balance ensuring the appropriate rate of decrease of government debt. Decentralization of income is a fundamental objective of fiscal policy, reform of the tax regime and of the contribution system being important instruments. Increasing price stability creates a more predictable economic environment; in 2005 the government has proposed to contribute to greater predictability by launching a debate on a more predictable wage policy. This can also contribute to the objective of making macroeconomic, structural and employment policies more coherent.

The microeconomic situation and its development is also crucial for Lisbon–related reforms. In Hungary, productivity is relatively lower than in the EU. This is due to a number of structural characteristics, the availability of capital (both physical and human), the competitiveness of the business sector and the efficiency of public services. Innovation expenditure in the business sector is low, as innovation capabilities, as well as demand for innovation are limited. R&D expenditure approximates only 1% of GDP (instead of 3% defined among the Lisbon objectives), and the share of the business sector is only about 30%. Concerning information society, despite recent dynamic development, Hungary lags far behind the EU average.

In order to induce positive changes leading to improve competitiveness, the NRP 'puts emphasis on the spread of new (production) technologies, the training of flexible and adaptive labor, the development of intense R&D and innovation activities as well as operations creating ICT (information and communication technology) assets, and on the modern physical infrastructure serving the economy' (NRP, p. 5). There are different measures foreseen, including direct market developing steps (in order to extend competitiveness) encouraging the private sector to participate more actively in the R&D activity, and to facilitate the spread and utilization of ICT. In Hungary, the quality of physical capital is a crucial question; especially, the development of infrastructure is an important pre–condition of improving competitiveness. This relates most importantly to transport infrastructure, but other infrastructure development (R&D, innovation infrastructure, broadband etc.), as well as the improvement of the business environment and the intensification of competition is also important.

The Hungarian labor market is characterized by a relatively low level of employment (56.8% in 2004), coupled with a low rate of unemployment (6.1% in 2004, slightly over 7% in 2005). The main challenge for labor market policy is the high rate of inactivity in the working–age population. This is especially the case of for the elderly and men, who both have low employment rates. While for high–skilled people, labor market prospects are better, whereas for low–skilled people, such prospects are poorer than in other EU Member States. A specific feature of the labor market is the clear disadvantage faced by the Roma population. Also, the disabled face serious disadvantages on the labor market. Finally, territorial disparities regarding employment and unemployment are significant (with employment rates about 62% and unemployment rates under 5% in Central Hungary and Western Transdanubia, and employment rates about 50% and unemployment rates above 7% in the poorer Southern and Eastern regions; regarding smaller units, disparities are much more important).

In order to improve this situation, the NRP (in line with the Hungarian employment strategy re–drafted and adjusted to the period 2005–2008 in 2005):

— Supports the elaboration and introduction of programs furthering the acquisition of basic skills and key competences in school education and training.

— Ensures rapid adaptation to the ever changing labor market demands in professional training both from the aspect of content and organization.

— Strengthens the role of education and training systems in the fight against discrimination, in the creation of equal social opportunities and regional realignment.

— Helps the general introduction of practice oriented courses reacting better to economic demands in higher education – as part of the Bologna Process – and improves the physical, personal and organizational conditions for an enhanced innovative participation of the sector (NRP, pp. 5–6).

The NRP tackles in all the three fields the major problems and challenges. The description of the situation is realistic, the reform needs – from the point of view of the Lisbon Agenda, but also in line with the development needs of the country – are well identified and have good chance to be effective.

Credibility of the National Reform Program

The NRP has an important place in the economic strategy of the government. However, this role is not stemming alone from the NRP itself, but also from its connection with the NSRF. Consensus on the NSRF can make the NRP also successful, while political debates around the NSRF can also question the effectiveness of the NRP.

The time span of the NRP (2005–2008) does not correspond to the national political cycle. The next elections in Hungary will be held by spring 2006, so a tough campaign can result in a slowdown of the processes initiated in the first year of the NRP. However, if the delay caused is not exceptionally big, there is real chance to implement (or at least initiate) most reforms described in the Program. Political consensus on strategic issues can be crucial for this, because the time span of the NRP goes beyond the current phase of the political cycle.

The government has taken the task of preparing the NRP seriously, and has produced a valuable document. However, the document is not a genuine 'final product', but part of the process of developing economic policy instruments for the economic development of Hungary. The close and organic connection to the NSRF (the first one having a time span 2004–2006, the second one having a time span 2007–2013) is very clear (especially with the second one), and it also makes the NRP more credible.

The person responsible for the implementation of the NRP ('Mr. Lisbon') is *Etele Baráth*, Minister for European Affairs. As he is also responsible for the coordination of the NSRF, his position in EU–related planning is important. As documents like the NRP or the NSRF are a result of cooperation of different ministries, the balance of power between the contributors (and the coordinator) influences to a great extent the effectiveness of the programs described in them. A major change from today's situation can be caused by next years elections (if the current opposition wins them), as they can also influence the positions (result in the change of the person).

Concerning the content of the NRP, political changes as a result of next year's elections probably would not lead to major changes. Despite intensive political debate between government and opposition in general, development strategy is not a 'topic'. On the one hand, it is not very positive, because questions of highest importance are not part of everyday political debate; it can also mean that there is no real strategic thinking, just fulfilling the tasks received as a result of EU membership. On the other hand, this situation can imply that no significant changes (regarding the NRP and its realization) can be expected, even if next year's elections result in major political changes.

The government has put emphasis on launching a public debate on the NRP[6]. This debate enhances the chances of the NRP being effective. On the other hand, the lack of a broad (and real) debate on development strategy is also the case for the NRP.

Conclusions

The NRP is a very important document for Hungary's economic development in the next years. It is linked to other key documents of the development of the economy (the most important of them being the NSRF), therefore it is part of a well–structured and continuous planning process. Such a planning process is exactly what has been missing in Hungary during the first decade after the systemic change. Now, this process is supported by the mandated requirements arising from Hungary's membership in the EU.

It is also very important that the key documents of Hungarian economic development refer to different (partly overlapping) time periods. This makes the structure more flexible: corrections, reactions on unexpected events, changes can be done on the short–run and incorporated into mid– and long–term programs. The NRP (due to its relatively short time period) can be an important element of this process.

The time span of the NRP coincides with the period when the development effects of EU (Structural Funds and Cohesion Fund) transfers begin to intensify. This is a clearly positive condition. From the internal political point of view, the situation is not so clear, as elections will be held in Hungary by Spring 2006. We do not know by now, how far (and how long) the elections campaign will disable cooperation between government and opposition. However, we can say, that recently, in development–related ('strategic') issues, political parties tend to put more emphasis on reaching a consensus. If this tendency is continued,

[6] The comments of a large number of very different organizations, associations, as well as individual experts can be found at the website of the NDO: http://www.nfh.hu.

the NRP has good chance to be a real key document in the next years; its importance is reinforced by the large number of comments from organizations and individuals from various segments of the economy (and also science), and incorporated into the finalized document.

The NRP contains a realistic evaluation of the situations in all the three fields – macroeconomic development, microeconomic development, employment – analyzed, and the proposed reform steps are based on this evaluation. One can always have doubts (remembering missing/failing reforms from the past), but the continuous planning referred to above (as a positive result of EU membership) makes the chances of its realization much higher than that of earlier reforms. In the case of a realistic program – like the NRP – it can also mean good chances to be effective.

National Reform Program of the Netherlands

Roland Zwiers and Ton van der Wijst[7]

The Netherlands: Key structural economic indicators

Indicator	2000	2004	2005	2005 EU15	2005 EU25
General economic indicators					
GDP per capita in PPS	119,8	124.6	123.3 (f)	107.9 (f)	100
Labor productivity per person employed	101.0	108.1	108.5 (f)	105.6 (f)	100
Employment					
Employment rate (total)	72.9	73.1		64.7*	63.3*
females	63.5	65.8		56.8*	55.7*
males	82.1	80.2		72.7*	70.9*
Employment rate of older workers (total)	38.2	45.2		42.5*	41.0*
females	26.1	33.4		33.2*	31.7*
males	50.2	56.9		52.2*	50.7*
Innovation and Research					
Youth educational attainment (20-24) (total)	71.7	74.2	74.7	74.5 (p)	77.3 (p)
females	75.3	77.4	78.9	77.5 (p)	80.0 (p)
males	68.1	71.0	70.6	71.6 (p)	74.6 (p)
Gross domestic expenditure on R&D	1.9	1.77 (p)		1.95 (ps) *	1.9 (ps)*

Notes: s) Eurostat estimate; (f) Forecast; (e) Estimated value; (p) Provisional value; * 2004.
Source: Eurostat (2005) Structural indicators.

Introduction

In the second half of the 1990's the Dutch economy faced high economic growth rates (3.7% per year in 1996–2000). In this period the world looked with admiration at the Dutch polder model that made these achievements possible. Shortly after, the economy dived from above trend growth into recession; it has still not resumed potential growth levels. On the contrary, the growth rate over the period 2001–2005 has averaged only half a percentage a year, approximately one percentage point lower than in other Member States. As a result, public finances suffered as well. In 2003 the budget deficit exceeded 3 percent, necessitating pro–cyclical spending cuts and tax increases. The 2003 coalition agreement from the Balkenende II government complemented the necessary fiscal consolidation with structural reforms mainly aimed at increasing labor supply.

To a large extent the Dutch National Reform Program (NRP) mirrors the 2003 government agreement. This agreement also bears on core parts of the Lisbon agenda. However, the Dutch government has not really produced an integral Lisbon strategy. Nor has it seriously tried to reach agreement with the Dutch social partners on the implementation of the Lisbon agenda, although the Netherlands has a long tradition of consultation. These three items – major reforms, no commitment from the social partners, the lack of an integral approach – will be the subject of this paper.

Section 2 regards the challenges ahead and the extent in which they are dealt with in the current NRP. Section 3 looks at the credibility of the Dutch NRP in view of the lack of agreement with the Dutch social partners. Paragraph 4 presents our concluding remarks.

Evaluation of challenges and reforms

General overview

The present Balkenende II government succeeded in realizing some long overdue reforms. The most urgent reforms had to do with the generous disability scheme and the inadequate foundations of the current health care system. For both these reform projects, a previous government (Kok II) had asked for SER advisory reports. And in spite of the political sensitivity of the subjects involved, the social partners and independent council members unanimously managed to deliver far ranging recommendations.

However, the Balkenende II government wanted to pursue no–nonsense policies and it decided not to follow up some sensitive parts of the advisory report on the reform of the disability scheme. Moreover, the government decided to tear up a previous agreement with social partners with regard to the labor market participation of older workers, even though this agreement had been quite successful: the participation rate of persons in the age group 55–64 went up from 31.2% in 1999 to 39.8% in 2004. Consequently, the existing consensus on how to implement core parts of the Dutch Lisbon agenda broke down and was replaced by open conflict between government and trade unions. And since

[7] The opinions expressed in this paper are the authors' opinions and should not be attributed to the Dutch Social and Economic Council.

employer associations tacitly supported the government agenda, relations between the Dutch social partners suffered as well.

The November 2004 Social Agreement restored consensus to some extent. Government agreed to follow up the earlier SER advisory report on the reform of the disability scheme after all. But the social partners had to accept the government's tougher line against early retirement. This continues to be a big sore for the traditional rank and file of trade unions.

All in all, the political climate in 2005 was not favorable for a tripartite NRP. The current document is a government document only. Within the framework of the Labor Foundation the social partners took their responsibility, however, by producing a document, containing their contribution to the Lisbon agenda. This document was sent to the European Commission as an appendix to the government document.

Macroeconomic policy

Strong cyclical volatility

In its 2004 Economic Survey of the Netherlands (p. 11), the OECD presents a clear picture of some structural macro–economic imbalances of the Dutch economy:

> Economic growth has fallen more sharply in the Netherlands since 2001 than in most other European countries. Domestic factors that boosted growth in the late 1990's – wealth effects from housing and stock markets and pension fund developments – have since turned around, accentuating the effects of the international business cycle. A number of institutional arrangements – residential zoning laws and tax subsidies for owner occupiers, plus weaknesses in pension fund regulation – have contributed to these developments as well as undermining economic efficiency.

Stabilization measures in the Dutch NRP

The Dutch NRP deals with some of the structural imbalances mentioned above.

— The fiscal deficit is being reduced so as to comply with the Stability and Growth Pact. Unfortunately, this has had a pro–cyclical effect.

— In order to guarantee the solvency of pension funds , a new financial assessment framework has been set up. This has typically led to (pro–cyclical) above cost–covering contribution rates.

— The Dutch government has tried to link deficit reducing measures with cost–saving employment policies so as to increase labor participation.

— In order to restore price competitiveness, the government has had to call on the social partners for wage moderation. After some serious conflicts between the government and the trade unions, this ultimately led to the November 2004 social agreement.

— The NRP does not follow up OECD recommendations to reduce volatility in real house prices by phasing out high tax subsidies for owner occupiers.

All in all, the Dutch NRP contains some tough measures to reduce the fiscal deficit and to stabilize the economy. Many measures have a pro–cyclical effect. Because of the conflicts between the government and the social partners the government could not build on earlier consensus with the social partners on some crucial policy issues.

Micro–economic policy

To promote sustainable economic growth and employment, the Dutch economy must have an attractive business and investment climate in which businesses have the space and the ability to undertake economic activities and create added value and employment (Dutch NRP, p. 17).

Hence, the NRP–chapter on micro–economic policy lists dozens of policy measures that have some relationship with improvements in the field of knowledge, innovation, deregulation and competitiveness.

R&D spending

The Dutch R&D intensity is relatively low (1.8%), especially compared to the Barcelona–target (3% of GDP in 2010). The NRP states that the Netherlands aims to raise private R&D towards the European average by 2007. After 2007, the Netherlands wants to become one of the Top 5 in the EU. Although private R&D is the responsibility of the private sector, the government has formulated this goal without having secured the prior commitment of the social partners.

As regards public spending on R&D, the NRP is much less ambitious. Although the public R&D spending is below the EU–average, the government does not draw the conclusion that public R&D must be increased as well. Instead, the NRP stresses the limitations of R&D spending as an input indicator: there is no guarantee that the R&D investments result in more efficient work methods or innovative products and services. The government also states that in comparison with other countries, the Netherlands has an efficient knowledge system that performs excellently despite relatively limited public spending.

While this may be true, it is really unlikely that the Dutch ambitions in the field of knowledge and innovation can be met without higher public and private R&D spending. This can also be inferred from present weaknesses in the Dutch education system, such as the relatively high number of premature school leavers, the average educational level of the Dutch workforce, the relatively small number of graduates in science and technology and the high burn–out risk of Dutch teachers in general.

Sustainable development

The Netherlands wants to sever the link between economic growth and pressure on the environment, so that a high level of protection and improvement in the quality of the environment can go hand in hand with economic growth and the creation of jobs. Elements on which policy focuses include the stimulation of ecologically efficient innovation that benefits the environment and the economy, the sustainability of energy management, and the balanced and sustainable use of the available land'. (Dutch NRP, p. 24)

The opening statement under guideline 11 indicates that the Dutch government uses a broad definition of prosperity that includes economic growth, social cohesion and ecological sustainability. However, the government also states (p. 4) that 'the focus of the current NRP is on economic growth and employment. The program indicates how the Netherlands wants to expand in these two areas in the coming years'. This underpins our conclusion that the current NRP is not an integral reform agenda and therefore suboptimal.

It would be unfair to the current NRP to imply that environmental issues do not play a role at all. They do, but that is nothing new. The NRP lists several objectives from existing government programs, for example in the field of energy, climate change and green government procurement. In our view the NRP could be more agenda setting when it comes to reconciling economic growth with a good quality of the living environment.

A good example concerns the persistent problems with respect to the local air quality. The government is taking some welcome measures to contain the problem, like speed limits (80 km/h in some built–up areas) and speeding up the fitting of soot filters to exhaust pipes of diesel–engined vehicles. But the government makes no progress with an ecologically much more efficient innovation, namely the introduction of a system of variable payments (road pricing) with a variable tariff per kilometer, depending on time, place and environmental impact. Both the SER and a specially established national platform have advised positively on the introduction of variable payments.

Employment policy

> On a par with the Lisbon strategy, the Netherlands aims at creating a society in which maximum participation in social and economic life is a key priority. (…) Core elements include a dynamic labor market, an activating social security system ─ which facilitates working over the life course ─ and both quality and tailor–made solutions in implementing social arrangements. Equally important are good training and well–balanced working conditions. The national government is just one of the parties responsible for achieving all these elements to function properly. Social partners, provinces and municipalities, implementation offices, and individual employees and benefit recipients share joint responsibility for ensuring that the labor market and social security system function properly. (Dutch NRP, p. 37)

The underlying aim of the present government is to bring labor participation in line with our Lisbon targets. Although the devil is in the detail, most government policies could build on the support of the Dutch social partners. It goes too far to comment on all the government policies mentioned under the heading of employment policies. Therefore, we will focus on two important subjects: the relative neglect of the position of working mothers and the disregard of social cohesion.

The position of working mothers

In view of the government's stated ambition to increase the overall labor participation, one would expect more priority for the position of (potential) working mothers. Dutch female labor participation is overwhelmingly in part–time work; about two thirds of working women have a working week of less than 32 hours. Increasing the labor participation therefore implies stimulating these women to work longer hours.

However, comparative analysis by the OECD has shown that the high costs of childcare and the unreliability of school–hours in the Netherlands really discourage mothers from seeking full–time work. Although the current NRP describes some recent policy initiatives (including a new Child Care Act) it does on balance very little in terms of availability (reconciling school hours and working hours) and costs.

Social cohesion

Another important observation is that the Dutch NRP has chosen to deal with social cohesion in a stand alone process parallel to the Lisbon process. Although this choice was made at a European level, we feel that the Dutch government was still free to present an integral approach in its national policy document, in order to reconcile economic and social aspects. This would demonstrate that the Dutch approach encompasses more than the economic pillars of prosperity.

The difference is more than a cosmetic one. The current NRP contains many unpopular and pro–cyclical measures to improve the budget deficit and to increase labor participation. In our view, the 'stick–approach' is not really balanced with positive policy measures to help (potential) losers (formerly disabled persons losing their disability benefit, older workers losing unemployment benefits etc.) to reintegrate in society. Although the government may be considering such measures in a parallel process, it is much more convincing to present carrot and stick policies as one integral package.

Credibility of the National Reform Program

No good climate for a common strategy

In June 2004, well ahead of the Kok–report Facing the Challenge, the SER issued its advice on the midterm review of the national and European Lisbon strategy. One crucial recommendation was the formulation of national action plans for the implementation of the Lisbon–strategy, more or less in line with the present national reform programs. A national action plan should make the Lisbon strategy more transparent and coherent. To make it effective, it should preferably be based on shared views among the government, social partners and other stakeholders. The plan should also indicate which stakeholder would be responsible for achieving what Lisbon–target.

Unfortunately, the newly elected government was not willing to discuss national priorities with social partners; it wanted to impose its own policy agenda instead. As a result many consensus driven policy recommendations with relevance for the Dutch Lisbon agenda were put at risk.

In this socio–political environment it was not possible to follow up the SER recommendation of formulating a broadly supported National Reform Program. As a result, the current document is the sole responsibility of the Dutch government.

Role of the program in creating government's economic strategy

The observation that the Dutch NRP does not add much to the government's socio–economic strategy is underlined by the distribution of responsibilities vis–à–vis the organization and implementation of the national Lisbon–agenda and the way the document was prepared.

Responsibilities

The Dutch government decided against recommendations by the Kok–report and the European Commission of appointing a member of government as Mr. or Ms. Lisbon. This member of government would be charged with coordinating the different elements of the strategy and presenting the Lisbon program (European Commission) and/or with carrying forward the day–to–day implementation of Lisbon (Kok–report).

In effect, in the Netherlands the function of Mr. Lisbon is fulfilled by a high ranked senior civil servant, the Secretary General of the Department of Economic Affairs. Although he holds a strategic bureaucratic position, he has not the authority to force a rethink of the Dutch Lisbon strategy over the heads of other departments. And – being a civil servant – he is ill suited to be the public face of the Dutch Lisbon agenda.

In our view, it would have been preferable to make the Prime Minister the Dutch Mr. Lisbon. The Prime Minister is the Dutch representative in the European Council. What he agrees on in European Council meetings concerning the Lisbon agenda, he should also take responsibility for at home. Also, the Prime Minister's direct involvement would be a powerful political signal that the Dutch government is really aiming at an integral approach.

Preparation of the document

That a fundamental rethink has not taken place also follows from the way the Dutch NRP has been prepared. During the summer of 2005 three departments have taken the responsibility for 'their' NRP–chapters. The Finance department took care of the chapter on macro–policies; the Economic Affairs department looked after the micro–economic issues, whereas the chapter on employment policies was the responsibility of the department of Social Affairs and Employment. The 'overall strategy' was added at a much later stage.

The lack of an overall Lisbon strategy also hindered the involvement of the Dutch social partners. There was no overall strategy up for discussion. Initially, consultations with the social partners were limited to a draft chapter on employment policies. Other draft chapters of the NRP were included at a later stage. Government representatives held the view that the Dutch NRP could not differ from current government policies anyhow.

As a result, the Dutch NRP can be considered as an incomplete exercise. It contains Lisbon–relevant policies, but mainly those that were already included in the 2003 coalition agreement. The focus on current policy measures also implies that the real time horizon of the Dutch NRP is not 2008, but the 2007 national elections.

Prospects for the implementation of the program

Since the NRP largely contains the implementation of the 2003 coalition agreement, the government can pursue its policies as long as it has a parliamentary majority. The commitment from social partners is limited, especially to wage moderation in line with the 2004 Social Agreement.

One can wonder why parliament didn't insist on a more fundamental rethink. Why wasn't the proposed NRP discussed in plenary session in the presence of the prime minister? And why wasn't there sufficient time to allow for modifications? As it happened, discussion about the Dutch NRP was left to a joint meeting of four parliamentary committees in the presence of the four responsible ministers. The prime minister could not attend. Surprisingly, only handful members of parliament were present. Clearly, Dutch parliament doesn't put the Lisbon–strategy at the top of the national policy agenda.

In our view, the Dutch NRP promises more than it can secure:

— It claims to deal with welfare in its broad sense. But there is no analysis of strategic trade offs between employment, social inclusion, economic growth and environmental progress. There is no search for win–win solutions.

— It claims to be serious about improving mobility without further damaging the environment or public health. But the introduction of the most efficient approach – the introduction of a national form of road pricing – is handed over to the next government. At the same time there is a broad consensus that the time is right to make a beginning with such a new system.

— Furthermore, it does not show how the ‘stick–approach’ in employment policy (painful social security and labor market reforms) fits in with helping the losers to qualify for the needs of the knowledge economy and how to stimulate women (especially mothers) to work longer hours.

— Finally, it does not indicate how private or public R&D investments will be increased.

Conclusions

Major reforms but not an integral agenda

The Netherlands has been pursuing Lisbon–like policies since the early 1990s. This relates especially to fiscal consolidation, labor market reform, social security reform and product market reform. However, two major bottlenecks proved difficult to solve: the high number of not–working people receiving a disability benefit and the patchy structure of the health insurance system. These latter areas are finally tackled by the present government and included in the NRP.

However, the Dutch NRP focuses almost exclusively on labor market participation and labor productivity. This is necessary, but not sufficient. In an integral agenda social cohesion (what to do for potential losers) and environmental progress should also receive strategic attention. It is insufficient to say that these policy areas will be dealt with in separate policy documents. Only an all including NRP can deal with the dilemma’s that will be faced if the broad interpretation of welfare is taken seriously. And it will only be possible to overcome policy dilemma’s if the scope of the NRP is wide enough to accommodate the various trade–offs between the economic, social and environmental aspects of prosperity.

No commitment from the Dutch social partners

The Netherlands has a long tradition of consultation between the national government and social partners on social and economic issues. And since the early 1990s there has been a growing national consensus as to the direction of the Dutch socio–economic agenda. Against this background it would have made sense to include the implementation of the national Lisbon agenda in the periodical consultations between the government and the Dutch social partners. This would also have been in line with the advisory report of the Social and Economic Council regarding the midterm review of the Lisbon strategy and the recommendations of the European Commission.

Mainly because of the political climate the government has not made serious efforts to achieve consensus on the implementation of Lisbon agenda. However, this does not mean that the government and social partners are no longer on speaking terms. Many issues from the Lisbon strategy are dealt with in an advisory report to the government regarding the social and economic policy for the medium term, which the Social and Economic Council is preparing. The three main themes of this report will be:

— The knowledge based economy.

— Social innovation within labor organizations.

— The characteristics of a sustainable welfare state, more particularly the consequences with respect to the respective responsibilities of the state, the social partners and individuals.

In addition, within the framework of the Labor Foundation the social partners and the government are negotiating about more facilities and jobs for people with a weak labor market position.

National Reform Program of Poland

Maciej H. Grabowski

Background and description of process

The initial impulse to prepare on the National Reform Program 2005–2008 was sent by the European Council in March 2005. The re–lunch of the Lisbon strategy was agreed during that summit. The National Reform Programs 2005–2008 were pointed out as the main tools of the revised Lisbon strategy. There were to be based on the partnership between Commission and the Member State and between Member State authorities and the domestic stakeholders.

The European Commission formally proposed the new start of the Lisbon strategy on the 2nd of February. The process of debate and approving the revised Lisbon strategy was completed by the European Council conclusions in June 2005. During that summit the Integrated Guidelines for Growth and Jobs were accepted. The timetable of the economic governance or roadmap of the new Lisbon strategy was also established. The Integrated Guidelines replaced the previous documents: the broad economic policy guidelines and the guidelines for employment policies. Both of them are rooted in the EC Treaty (art. 99 and 128 respectively).

The idea was that the Member State would prepare comprehensive reform program according to the Integrated Guidelines in order to enhance the Lisbon process. This was an important modification. The new Integrated Guidelines foresee the 3–year period of reforms, which will be revised annually.

The Member states were to send their reform programs to the European Commission by the 15th of October 2005. This was rather short deadline for such a demanding and important document. Moreover the reviewed Lisbon strategy put an emphasis on the consultation and on the participation of the stakeholders in the process of preparation. In order to fulfill such recommendation one needs time and efforts.

Poland: Key structural economic indicators

Indicator	2000	2004	2005	2005 EU15	2005 EU25
General economic indicators					
GDP per capita in PPS	46.9	48.9	50.0 (f)	107.9 (f)	100
Labor productivity per person employed	51.3	62.2	63.2 (f)	105.6 (f)	
Employment					
Employment rate (total)	55.0	51.7		64.7*	63.3*
females	48.9	46.2		56.8*	55.7*
males	61.2	57.2		72.7*	70.9*
Employment rate of older workers (total)	28.4	26.2		42.5*	41.0*
females	21.4	19.4		33.2*	31.7*
males	36.7	34.1		52.2*	50.7*
Innovation and Research					
Youth educational attainment (20-24) (total)	87.8	89.5	90.0	74.5 (p)	77.3 (p)
females	91.0	91.6	91.7	77.5 (p)	80.0 (p)
males	84.5	87.4	88.4	71.6 (p)	74.6 (p)
Gross domestic expenditure on R&D	0.66	0.58		1.95 (ps)*	1.9 (ps)*

Notes: s) Eurostat estimate; (f) Forecast; (e) Estimated value; (p) Provisional value; * 2004.
Source: Eurostat (2005) Structural indicators.

The leading authority in the Polish government for the new Lisbon strategy is the Ministry of Economy (previous name: Ministry of Economy and Labor). The Minister of Economy is also responsible for the Lisbon process in Poland, and will report on progress of it to the Council of Ministers every year. The initial proposal of the National Reform Program 2005–2008 (NRP) was publicly available on the 20th of June, and two days later the national conference on 'Growth and jobs – challenges for Poland in light of Lisbon strategy 2005–2008' was organized in order to discuss this initial document. This suggested that the work on the reform program was launched BEFORE the final conclusions on Integrated Guidelines by the Council. In July the initial program was consulted with the Commission. The genuine consultation process with the national stakeholders was not curried out. This was for two main reasons. First there was very limited time span for consultation, and holiday season made this time even shorter. Secondly, the parliamentary and presidential elections which took place in September and October would hampered or overshadowed any consultation process.

The next version of proposal of the NRP 2005–2008 was approved by the Council of Ministers on the 5th of October. This version is much longer than the version presented in June. In early October it was already clear that a new government would be created, and such an important document was supposed to be accepted (if not entirely prepared) by the new government. Therefore the document, which was tentatively approved by the government was not sent to the European Commission, as a formal national reform program. And it is still considered by the newly established government. The following remarks are based on the National Reform Program 2005–2008, as it was initially accepted on the 5th of October by the previous government.

Political ownership of National Reform Program 2005–2008

The attribute of many Polish strategies and plans was weak implementation and enforcement. This is why a place and political power of the National Reform Program should be assessed. The NRP states in the introduction that (I quote) '...National Reform Program is (...) synthesis of governmental activities derived from the National Development Plan 2007–2013' (end of quote). Proposal of National Development Plan 2007–2013 (later NPR) was accepted by the Council of Ministers on the 6th of September 2005 after long, formal consultations. It is still a proposal and not an approved national strategy. This document focused on the vision of development, public expenditures for the next 7 years (including the EU structural funds) and absorption capacity. And it has nothing to do with the regulatory and institutional reforms. The NRP 2005–2008 is referring to the NDP in many instances. The NDP is not required by the community, but it was very much promoted by the previous government. It could be of some use for the preparation of the national document for the next financial perspective, i.e., National Strategic Reference Framework 2007–2013. But its main tools are different to instruments of the NRP, however some objectives are similar. It is currently very unclear, where the NRP starts and where the NDP ends. From the political point of view the NDP reached a lot of attention, and was widely promoted by politicians. It is very unlikely that similar attention may be gained by the NRP 2005–2008. This may be harmful for promoting the NRP in future.

The change of government didn't lead to a smooth NRP process. In contrary, the change of policies and reforms are at the nucleus of any political campaign. So one may expect that the one prepared by the previous government would have to be adjusted after the election. From the other side the document was supposed to be sent to Commission by the 15th of October, after the election, but before the creation of the new government. There has been very limited period of time for a new government to work out a new NRP, not to mention to consult it with the stakeholders.

This process suggests that the final NRP 2005–2008 (approved eventually by the new government) will be a product of high level civil servants, politicians and to less extend experts. The voice of the stakeholders will probably not be heard. The role of the document for the domestic policy will be therefore rather limited, if it doesn't attract the attention of the politicians of the highest rank, who might be likely to promote it in future.

Review of proposed reforms

The first reflection after the analysis of the NRP 2005–2008 is that the vast majority of proposed instruments were already put in other government strategies, plan and papers. In my opinion they are not the problem. The problem is not the lack of innovative instruments (however one may expect some of them). The main issue is that the NRP 2005–2008 brings together rather eclectic set of instruments. They reflect the Integrated Guidelines. We already have the instruments and they either have already been implemented or are about to be implemented under current law. However those instruments tend to be sometimes vague and unclear, or inconsistent with the current government programs.

There are numerous examples of unclear and/or vague language. For instance, instruments 1.9 and 1.10 (spread of information technologies in the public finance sector) are to (quote): 'secure legal framework necessary for functioning system' (end of quote). The similar phrases are used in 2.1, 2.2, 2.7, 4.5, 4.8 etc. The standard instrument is called '…to pass the proper legal regulations, or …to amend the appropriate legal acts'. In 5.5 the instrument calls for '…continuing preparatory work on new act' (I hope it will not take next three years to prepare that act).

All theses examples proved that it is not easy to assess some of the instruments, because they are not specific.

The other problem is that some proposed instruments have already been promoted and implemented by the current laws. For instance multi–annual fiscal plan (instrument 1.8) was prepared by the Ministry of Finance and is discussed together with the next year budget. Instrument 2.3 – easy access for legal professions – was solved by the new law passed in July. Some of the instruments call for implementation of the existing law, for instance instrument 1.11.

Some of the instrument of the NRP 2005–2008 is contradicted with the current government policies and program. For instance the instruments 1.2 and 1.6 suggest a new real estate tax. The current government is against it.

The main objective and the priorities of the NRP reflect the main challenges of the country development. The objective is (I quote): 'to maintain the high economic growth supportive for new jobs creation'. One may ask if the current growth is high enough for the Poland's process of convergence, or if the country is able to develop faster. In other words the question is, if 'maintaining' should be replaced by 'enhance' or 'expanding' growth. But growth and jobs are and will be the main issues for economic and social policies in Poland.

The main problem with the approach of the NRP is not recognizing the main cause of weakness of the institutional framework within the country. This is the weakness of governance, such as quality of regulation, the state of law, corruption, and effectiveness of government. The processes which lead to such outcomes are to be changed, not only the policies and regulations themselves. The processes I am referring to are the regulatory impact assessment for new regulation, assessment of the public services, regulatory reports, transparent public finances rules, etc. Fixing this should be the first challenge

The economic and social problems as they are defined and described in the NRP 2005–2008 are well known and are not questioned. In macroeconomic policy the main challenges are the fiscal deficit and public debt. According to the GUS (the Polish statistic office), the fiscal deficit of the public sector reached 3.9% of the GDP in 2004, but other sources indicated that it was higher (due to dispute over the definition). The public debt level was equal to 43.6% of the GDP at the end of 2004. In 2000 it was only 36.9%. The level and structure of the public aid is wrong: it was 1.1% of GDP and too much devoted to the sectoral goals.

The microeconomic guidelines were put into three priorities: development of entrepreneurship, innovativeness of enterprises, development and modernization of infrastructure and conditions for competition in the networking sector. The employment policies in the NRP include two priorities: (1) preserving existing and creating new jobs so by reducing unemployment; (2) increase of adaptability of employees and firms through investing in human capital. These priorities have explanations that can be found in national statistics, data and analysis and they reflect the Integrated Guidelines. Poland has the highest unemployment rate in the EU, a very low employment rate and numerous barriers for entrepreneurship development (i.e., weak contract enforcement, slow and expensive juridical system).

Most of the proposed instruments to deal with these problems are well–defined, but as it was mentioned above, they are sometimes not specific, or are already in the Polish legal system.

Conclusions

The first process of drafting and approving the National Reform Program revealed some weaknesses. First, the political cycle was very unfortunate for the NRP. The election campaign overlapped the process of approving the NRP. This has had significant repercussions. The consultation were hampered and reduced. The new government is unable to carry out genuine consultation due to lack of time. The previous administration probably didn't pay much attention to this document, because the change of ruling party was very probable outcome of the election.

Thus the NRP didn't gain strong political ownership and leadership. This was mostly due to the political energy spent on the National Development Plan before the

NRP and change of government. These two documents couldn't reach similar attention, both from the stakeholders, experts, and administration.

The final draft of the NRP has priorities adequate to the national challenges. The proposed instruments are very mixed. Some of them are not specific, but very general. Some of these instruments are already implemented, because the legal basis for them has already been adopted. Up to now the NRP has been rather an administrative exercise and not something that required political action that had to be implemented. If this is not changed, its role and real significance will remain limited.

National Reform Program of the Slovak Republic

Peter Bachratý

Introduction

The main vision headline of Slovak National Reform Program (SNRP) is: 'SLOVAKIA must become, both at home and abroad, a synonym for a country with outstanding science and technology, where exceptionally educated and creative people produce high–quality innovative goods and services.'

The approved strategy paper aims to present the economic strategy for Slovakia until 2010, which is the main basis for forming further government policy during this period. The primary objective of the SNRP is clear: to attain the standard of living of the most prosperous EU countries as soon as possible. The main focus is given on policies, which will support rapid and long–term economic growth of Slovakia and enhancing the competitiveness of the Slovak economy.

Due to successful realization of structural economic reforms (i.e., tax system, pension and social system and healthcare) in the previous period, Slovakia had better position in comparison to many other EU member countries, where the strategy is more oriented on creating and development of knowledge based society and structured in two main parts:

— Successful completion of structural reforms and maintaining their results.

— Systematic focus on the fulfillment of the development part of the Lisbon strategy.

Evaluation of challenges and reforms

Macroeconomic challenges and reforms

The Slovak Government has realized most of necessary structural reforms, before creating SNRP. Thanks to this, Slovakia has almost completed this most difficult part of the Lisbon strategy. The most significant implemented structural reforms including the tax reform, healthcare system reform, social system reform, labor market reform, pension reform and the general government (public finances) reform.

The Slovak Republic: Key structural economic indicators

Indicator	2000	2004	2005	2005 EU15	EU25
General economic indicators					
GDP per capita in PPS (	47.2	51.9	53.9 (f)	107.9 (f)	100
Labor productivity per person employed	54.1	59.1	60.6 (f)	105.6 (f)	
Employment					
Employment rate (total)	56.8	57.0		64.7*	63.3*
females	51.5	50.9		56.8*	55.7*
males	62.2	63.2		72.7*	70.9*
Employment rate of older workers (total)	21.3	26.8		42.5*	41.0*
females	9.8	12.6		33.2*	31.7*
males	35.4	43.8		52.2*	50.7*
Innovation and Research					
Youth educational attainment (20-24) (total)	94.5	91.3	91.5	74.5 (p)	77.3 (p)
females	94.4	91.5	92.1	77.5 (p)	80.0 (p)
males	93.3	91.1	90.9	71.6 (p)	74.6 (p)
Gross domestic expenditure on R&D	0.65	0.53		1.95 (ps)*	1.9 (ps)*

Notes: s) Eurostat estimate; (f) Forecast; (e) Estimated value; (p) Provisional value; * 2004.
Source: Eurostat (2005) Structural indicators.

The most crucial point of the future economy improvement will be government focus on completion and particularly quality implementation of adopted reforms. Some of the reforms have to be improved, for example by removing defects which have been materialized during their implementation in practice.

The main basis of SNRP part is dedicated to macroeconomic and fiscal policies are the foundation for further economic and social development. The key parameters and principles of these policies by 2010 were specified clearly and in detail in the Convergence Program of the Slovak Republic by 2010, approved by the Government of the Slovak Republic and subsequently by the European Council.

The most important goals and principles in the macroeconomic and fiscal area are as follows:

— To improve the functioning of the market economy and to minimize market interventions. The free market is the key instrument of SNRP for ensuring economic growth and welfare. The state aims interfere with the free market only in the areas where the market fails and where public services could be provided more effectively or fairly by the government.

— To reduce the public finance deficit. Government understood also long–term negative impacts of the public finance deficit towards future generations. The government is focused on achieving an approximately balanced budget, meaning that budget deficit or surplus should not exceed 1% of GDP.

— To refrain from increasing the level of redistribution in the economy. Maintaining public redistribution of economic resources at a relatively low rate are seen as one of the basic prerequisites for fast economic growth. As a result, public expenditures – along with public revenues received from taxes and contributions – should not be increased.

— To maintain transparent and neutral tax policy. The simple and transparent tax system is one of the main competitive advantages of the Slovak Republic. Tax incentives are a generally inefficient and easily misused instrument which tends to result in wastage of public resources, without the accomplishment of the desired objectives. Hence the government will not pursue any public objectives using tax incentives, but only by means of targeted public expenditures.

Microeconomic and Employment challenges and reforms

The realized structural reforms in Slovakia create the necessary prerequisites for the achievement of rapid growth of employment and labor productivity and hence also wages and living standards. However, these are only solid foundations on which further development needs to take place.

However, Slovakia will only be able to capitalize on this advantage for a limited period. Among other things this is because the gradual catching up with the most developed European countries will tend to reduce this advantage. Within the horizon of ten years or so, many investors focused exclusively on cheap large–scale production with a low value added will probably begin to move further east.

Long–term competitiveness of Slovakia is guaranteed by creating favorable conditions for the development of the so–called knowledge economy. In other words, Slovak economic strategy be based on so called Soft Revolution and transformation of existing human resources to human capital which will be able continually absorb new information, producing know–how and using it in practice.

Therefore, in the timeframe up to 2010, government focused on those areas that will support the growth of the creative potential of the Slovak economy.

The development part of NSRP is essentially focused on four areas which we consider to be the most important in this respect:

— Information society.

— Science, R&D and innovations.

— Business environment.

— Education and employment.

Information Society

The introduction of information technologies into society is aiming transforming of Slovakia into a dynamic, knowledge–based economy. Within the next few years, is projecting ensuring that most citizens are IT literate, have access to the Internet and are able to enjoy the benefits of the information society. The benefits of this approach are expected to be utilized in increased overall level of education, productivity and employment; greater social inclusion of disadvantaged groups of citizens; improvement in the quality of services; faster growth of innovations and more effective use of public funds. The main priorities in the development of an information society in Slovakia are as follows:

— Information literacy.

— Effective e–government and modern on–line public services.

— Wide access to the internet.

Insufficient development in the building of an information society in Slovakia thus far is largely attributable to the absence of ‘centralized command’ in this area. That is why the strategy strengthens institutional capacity in this area: in the short–run by increasing the competencies of the representative of the Government of the Slovak Republic for the introduction of information technologies, and in the medium–run, for example, by transforming the Ministry of Transport, Post and Telecommunications, shifting emphasis on the introduction of information technologies.

Science, R&D, and Innovations

Innovation policy effectively combining promotion of science, research and innovations, has become one of the principal long–term priorities of the Slovak Government. Approved public policy is aiming to ensure long–term development of quality scientific potential. The principal objectives in this area are as follows:

— Raising and supporting highly qualified scientists.

— Research of international quality, adequately interconnected with the business sector.

— Effective public support of business activities in the areas of R&D and innovations.

The most critical point in achieving of above mentioned policy will be the capability of government to deal with institutional, management and effectivity changes which are necessary to be done in Slovak R&D sector, before creating sufficient financial sources.

Business Environment

A sound business environment which motivates people to be entrepreneurial is one of the key instruments of the government in providing for the long–term competitiveness of the economy. The business environment policy is aiming to enable effective competition among businesses and enterprises, which are the basic motor of the Slovak economy. The biggest current burden are the Public institutions, which have to serve to strengthen and simplify this competition, rather than making the entrepreneurial activities more difficult. The central and regional government will, therefore, strive to create, throughout Slovakia, a business environment which will promote new investment, productivity growth, innovations and the creation of new jobs.

As to the instruments affecting public finances, the government will prefer reducing the tax burden for all enterprises. Individual support to firms by means of subsidy will only be provided in exceptional and clearly justified cases and according to clearly stated and known rules.

The main priorities with respect to the business environment are the following:

— High degree of enforcement of laws and contracts.

— Public institutions as a partner and not as a burden.

— Effective access to capital market for all firms.

— High–quality physical infrastructure and services in network industries.

Education and employment

Securing a high employment rate and the preconditions for high labor productivity are the key parts of NSRP contributing to the growing employment in Slovakia. Public policy in the area of human capital creates, for all citizens, opportunities and abilities to study and absorb new information as well as smoothly change from one employment to another. A special emphasis is given to education policy as an important tool for fighting the intergenerational reproduction of poverty. Each child must have the opportunity to obtain good quality education that corresponds to his or her potential. Implementation of projected policies supporting Leadership and Talents across the society are expected in long–term future to bring one of the most competitive advantages of Slovakia.

Following are the main priorities in the area of human capital:

— Modern educational policy.

— Achieving a high employment rate.

— Coping with aging population.

This part of strategy dedicated to education and employment is seen as the most critical, because government did not succeed in reforming current Educational System as well as the unemployment rate in Slovakia is one of the highest among EU member countries.

Credibility of the National Reform Program

Role of the Program in creating government's economic strategy

The strategy presented in NSRP became the basic overall strategy of economic development of the Slovak Republic until 2010, all other government initiatives and documents for this period are obliged to be fully compatible with it and contribute to its implementation. This concerns especially the strategy for the use of European Union structural funds in the subsequent period (2007 – 2013). This strategy is the main point of departure for the National strategic reference framework, which is designed to contribute to its fulfillment.

Effective fulfillment of this strategy will require adequate funds, including public financing. However, funding must not threaten the stability of public finances, or any of the fiscal objectives defined in Slovak Convergence Program until 2010. This is projected to be achieved in three ways:

Firstly, by transferring public expenditure from those areas that do not correspond to the basic philosophy and the objectives presented in this strategy. Preparation of public administration budgets for this period will, therefore, have to involve sufficient increases in general government financing for the priority areas and at the same time expenditure cuts in other areas.

Secondly, EU resources provide are expected to provide an enormous space for financing. These include the aforementioned resources from structural funds. Furthermore, there are also other EU expenditure program, aimed at improving competitiveness and innovation, which are only minimally used by Slovakia. It will, therefore, be necessary for the government to create adequate tools and institutions to allow their utilization on a larger scale than has been the case so far. At the same time, when negotiating the future EU budget for the period 2007–2013, the government must ensure that Slovak institutions have guaranteed access to these funds in practice.

Thirdly, even if these resources are efficiently used, a substantially greater extent of private sector involvement is crucial if the presented strategy is to receive sufficient funding.

Prospects for the implementation of the Program

Following the endorsement of the strategy by the Slovak government, action plans will be prepared for the timeframe up to the middle of 2006, that is up to the end of the current parliament. They will define the main tasks for the respective areas up to 2006, deadlines for their implementation, as well as persons and institutions responsible for their fulfillment. The creation of a broad social consensus on this strategy is important not least in order to ensure that it will be fully taken into account in the program of the government that will be formed after the next general election.

Conclusions

The SNRP was initiated and leaded by Vice Prime Minister and Minister of Finance, Mr. Ivan Mikloš, which is perceived as the Leader of most of Slovak economic reforms realized in recent years.

The main goal of Slovak Government in gathering such a strategy paper was to gains broad public support, including that of the expert public. Thus, prior to official endorsement by the Slovak government, it was open for public discussion. This culminated in a national conference attended by the Prime Minister of the Slovak Republic, several government ministers, leaders of the parliamentary opposition, leading scientists and professors, managers of leading firms, representatives of trade unions and non–government organizations. All participants declared their support for the central vision and strategic direction defined in this document. The main conclusions of the public discussion were taken into account in preparing the final version of the document. This approach is aiming to respect this document as the main strategy paper also for next political cycle, where there is expected more public support for left oriented parties, what could create some resist in continuing strategy implementation of next Government in case of left parties will win the forthcoming elections. It is hard to predict in Slovakia next political leadership, but current Government did very effective strategy in getting support for this strategy by opposition as well as strong support of business community in Slovakia.

The most crucial part of this strategy will be in further governance, management and implementation of the adopted strategy. Therefore should current government ensure further public and opposition involvement in formulating concrete implementation of NSRP goals?

As the most critical points of this strategy we see achieving its objectives in area of Employment, where the government should put more stress on raising work productivity together with creation of new jobs in SME sector.

National Reform Programs and Their Credibility

Mariusz–Jan Radło

Introduction

The new economic reform governance system in the EU, based on the national reform programs, was launched with some delay. All Member States were expected to develop their national reform programs, and deliver them to the European Commission by October 15, 2005. In fact, less than half of them did it. Nonetheless, according to Euractiv Internet news portal, before this deadline, the Commission received the national reform programs from nine countries including the United Kingdom, Finland, the Czech Republic, Hungary, Italy, Slovakia, Spain, the Netherlands and Estonia.[8]

Above delays seems justified if we take into account that Member States had less than four months, for the adoption of the NRPs, two of which were consumed by the summer break. Thus, taking into account the tight agenda given by the Commission and the Council for the countries to prepare, publicly consult and deliver the national reform programs to the Commission, the outcome of the delivery process seems satisfactory. At the end of November 2005, most of the Member States delivered their NRPs to the Commission, and there were only two countries – Poland and Germany – that did it in December. Which was due to recently held parliamentary elections in these countries and the time needed to form new governments.

The programs were expected to be relatively short political documents having up to 30–40 pages, plus annexes. Nonetheless most of them exceed this page limit which on average is close to 50–60 pages. They should have been identifying and describing the key priorities for action, taking into account Integrated Guidelines or at least justifying why no action is needed, as a certain guideline has been concerned. It was also expected that the programs would consist of description of the roles of the NRPs play in the domestic context including contributions and responsibilities of the main stakeholders involved (especially public authorities and social partners).

The main body of the NRPs should have consisted of the policy actions related to the identified domestic challenges, as well as addressing the Integrated Guidelines. It was suggested that the report should have consisted three major parts related to three kinds of the guidelines: macroeconomic policy, microeconomic policy (replacing the earlier Cardiff reports) and employment policy (replacing the existing national employment action plan). Thus the national reform programs were expected to be national reform strategies to be implemented by governments. These strategies are in most cases of structural nature and therefore all observations concerning this issue made in section two concerning the limits of economic reform governance in the EU are to be taken into account here.

Thus in this section of the report we will try to address theses presented in the first two chapters. We start with review of European political cycles and compare them with the policy making cycle of the EU. Then we will analyze how the programs were prepared by the Member States, what was the role of various ministries and departments in this process, as well as the role played by the social partners. We will also pay attention to parliamentary procedures related to approval of the NRPs, and describing indirectly the political rank of the documents in the various Member States. Then we will review management solutions chosen in several administrations so as to asses strengths and the role of the program as the national reform strategy. Above mentioned considerations will be done, basing on NRPs' case studies presented in the previous chapter, as well as on number of interview, consultations and other sources used in order to gather information necessary to conduct this research.

[8] Euractiv (2005) National action plans: nine down, sixteen to go, Published: Wednesday 12 October 2005, Internet: www.euractiv.com.

National political cycle vs. the EU economic policy cycle

As indicated in the conclusions of the section one, inconsistencies between the economic policy coordination cycle of the EU and the political cycles within the several Member States is one source for the inefficiency of the NRP. Only few of the governments of the Member States have had possibility to prepare and to monitor the implementation the National Reform Program from the beginning till the end of the economic policy governance cycle.

As mentioned in section two, structural reforms take time and are usually accompanied by short term costs that inhibit reforms and which are well described by the structural reform 'J–curve' (see Figure 2 at page 12). In the short term, the number of those who loose exceeds the number of those who gains. And thus the costs and benefits of reforms as well as their dynamics, distribution and timing play a role in making reform politically possible. From the perspective of the political cycle, the length of period when there are a greater number of beneficiaries from the reform process is crucial for the willingness of political actors (i.e., the key political parties or lawmakers within parliaments) to implement such reforms.

Measures that can influence political processes at the national level proposed in the new economic reform coordination system are linked to the preparation and reviews of the 3–year national reform programs. These measures, (i.e., peer pressure or fostering society's awareness about the negative the consequences of 'no reform scenario') can influence readiness of politicians to implement reforms (by informal sanctions linked to peer pressure) as well influence societies perception of trajectories of the economy. Thus it can both smooth the 'J–curve' as well as lower the attractiveness of the 'no reform scenario'. But, if we now take into account that these measures are of cyclical nature, linked to 3–year economic policy coordination cycle, then synchronization of this cycle with political cycles in Member States seems to be of crucial importance for possibility to gain any benefits from measures offered by the Community. Thus the best use of Lisbon reform supporting measures can be done in a situation when both cycles start almost at the same time. Even a brief look at national political cycles in the EU presented in Table 2 enables to realize that above mentioned synchronization in most cases does not exist.

Only in Luxembourg, Denmark, Portugal and United Kingdom the current political cycle contains the whole period of NRP preparation (summer – autumn 2005) and its implementation (2005–2008). Also in Lithuania and Slovenia, where the elections will be held in fall of 2008, the current governments are expected to implement the NRPs. There is also possibility to synchronize these cycles in Germany and Poland where the parliamentary elections were held in September 2005 and first drafts of the programs were prepared by the former governments, but then they have been revised and then sent to the Commission. So in both these cases we have new governments having new NPRs at the beginning of their political cycles.

Nonetheless in Austria, Cyprus, Czech Republic, Hungary, Italy, Latvia and Sweden, due to upcoming elections in 2006 the current NRPs will have to be corrected by such incoming governments (that may happen) and therefore the existing programs will most likely not be implemented. And most probably no reforms from the current NPRs will be implemented due to the political campaign in the pre–election periods. The same can be applicable for countries having their elections in the first half of 2007, i.e., for Belgium, Estonia, Finland, France, Ireland and Malta.

Thus, in the most of EU Member States, the political cycle and economic policy governance cycle strongly differ from each other. All too often the government which prepared the NRP will most likely not be in a position to implement it, because many of their terms of office will expire before 2008 and this could result in the depreciation of the political credibility of the of the proposed programs. Thus measures overcoming resynchronization of cycles have to be considered. Maybe the Commission should try to become more engaged in national policy making when it is really done. And ask new governments to prepare reform programs for the whole political cycle period.

Table 2 National political cycles and governing parties in the EU

	Elections					NRP cycle					Government coalition	Political ideology
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010		
Greece				Mar.				Mar.			New Democracy	(liberal–) conservative
Lithuania				Oct.				Oct.			Labor Party Lithuanian Social Democratic Party New Union – Social Liberals Peasants' and New Democracy Union	centrist social–democratic (social–) liberal (conservative–) agrarian
Luxem-bourg				Jun.					Jun.		Christian Social Party Socialist Workers' Party	Christian–democratic social democratic
Slovenia				Oct.				Oct.			Slovenian Democratic Party New Slovenia – Christian People's Party Slovenian People's Party Democratic Pensioners' Party of Slovenia	(liberal–) conservative Christian–democratic (conservative–) agrarian
Spain				Mar.				Mar.			Spanish Socialist Workers' Party	social–democratic
Denmark					Feb.				Feb.		Left – Denmark's Liberal Party Conservative People's Party	(agrarian–) liberal conservative
Germany					Sep.				Sep.		CDU/CSU SPD	Christian–democratic social–democratic
Poland					Sep.				Sep.		Law and Justice	(social–) conservative
Portugal					Feb.				Feb.		Socialist Party	social–democratic
UK					May					May	Labor Party	(liberal–) social–democratic
Austria		Nov.				Fall					Austrian People's Party (ÖVP), Freedom Party of Austria (FPÖ)	Christian–democratic nationalist
Cyprus	May					May					Progressive Party of Working People Democratic Party Social Democratic Movement	socialist centrist social–democratic
Czech Republic		Jun.				Jun.					Czech Social Democratic Party Christian and Democratic Union Freedom Union – Democratic Union	social–democratic Christian–democratic (conservative–) liberal
Hungary		Apr.				Apr.					Hungarian Socialist Party Union of Free Democrats	social–democratic liberal
Italy	May					May					Forza Italia National Alliance Union of Christian and Center Democrats League North Socialist Party	conservative nationalist Christian–democratic (nationalist–) separatist social–democratic
Latvia		Oct.				Oct.					Union of Greens and Farmers ZZS People's Party Latvia's First Party	conservative conservative Christian–democratic
Slovakia		Sep.				Sep.					Slovak Democratic and Christian Union Hungarian Coalition Party Christian Democratic Movement Alliance of New Citizen	Christian–democratic (Christian–dem.–) ethnic/Hung. Christian–democratic liberal
Sweden		Sep.				Sep.					Social Democratic Workers' Party	social democratic
Belgium			May				May				Flemish Liberals and Democrats Socialist Party Spirit – The Flemish Left Liberals Socialist Party Reform Movement	liberal social–democratic (social–liberal–) regionalist social–democratic liberal
Estonia			Mar.				Mar.				Estonian Reform Party Estonian People's Union Estonian Center Party	liberal (conservative–) agrarian liberal
Finland			Mar.				Mar.				Finnish Center Finnish Social Democratic Party Swedish People's Party in Finland	(agrarian–) liberal social–democratic (liberal–) ethnic/Swedish
France		Jun.					Jun.				Union for a Popular Movement (UMP)	conservative
Ireland		May					May				Fianna Fail Progressive Democrats	conservative liberal
Netherlands			Jan.				May				Christian Democratic Appeal People's Party for Freedom and Democracy Democrats 66	Christian–democratic (conservative–) liberal (social–) liberal
Malta			Apr.					Apr.			The Nationalist Party	Christian–democratic

Notes: "social–democratic" – center–left parties based on a socialist ideology usually with close relations to the trade–unions, adhere to moderate socialist and democratic values and a social–market ideology; "socialist" similar to 'social–democratic' but more radical; "Christian–democratic" – combine Christian, democratic and traditional values with a moderate free–market ideology; "conservative" similar to "Christian–democratic" but they do not base on a specific Christian foundations; "liberal" – based on the tradition of political liberalism, the principles of liberalism include individual rights, equal rights for all citizens under the law and a free–market economy; 'centrist" – in the center of the political spectrum without adhering liberal values; 'green" – ecological parties based on values as peace, feminism, radical democracy, civic rights and social justice; 'nationalist" – collection label for nationalist, xenophobic, populist and authoritarian parties, these parties are strongly emphasizing national values; other (one–issue–) parties are defined as "ethnic", "agrarian", "regionalist" or "separatist"; parties adhering to more than one of above ideology are listed with the dominant ideology factor without brackets and additional ideology factor in brackets.
Source: Internet: Elections around the world http://www.electionworld.org/; Parties and Elections in Europe http://www.parties–and–elections.de/index.html; Wikipedia http://www.wikipedia.org; Embassies.

All what was written above relates to the effectiveness of supranational measures supporting reforms at a national level – through the national reform programs. This can influence credibility of such programs, but the credibility depends also on he will of governments to use these measures. Thus another way to assess credibility is to look at the processes through which the programs were created and institutional arrangements concerning their implementation.

Preparation of the programs and its management

In the most of the Member States, the national reform programs were prepared by special committees or working groups composed of representatives of various ministries and governmental institutions. The preparation process was coordinated by various institutions. Usually the most important role was played by departments or ministries responsible for economic policy or finance. Nonetheless there were some cases were either the offices responsible for European integration or the offices of the prime ministers played that role.

In Latvia and Lithuania, the Ministry of Economy played a central role in the process. Then in Slovakia it was the Ministry of Finance. In Finland and Italy it was the Ministry of European Affairs. In Belgium and Ireland, the Prime Minister Office coordinated the process. In Hungary the process was coordinated by the National Development Office (a part of Prime Minister Office, responsible also for the National Development Plan) in cooperation with several ministries. In France the draft of a project prepared by the General Secretariat for European Affairs, a part of the Prime Minister's Office and then it was reviewed by the Committee composed of representatives of the Ministry of Economy and Finance and the Ministry of Labor and Social Solidarity. In Slovenia, the Governmental Institute for Macroeconomic Analysis and Development was responsible for the coordination of the final document.

Most of reviewed persons, when asked about procedures applied to prepare the programs replied that it were dealt in a very straightforward way (where they merely had to file a report utilizing information that could be found in previous reports of domestic government programs), enabling governments to prepare the NRPs before the deadline given by the EU. It partly can be due to tough preparatory agenda given by the Commission.

How the Member States chose to manage the process varied from government to government. In several cases member States decided not to appoint any formal Mr. or Ms. Lisbon. Moreover political ranks of those appointed – both formally and informally – are very different. As shown in Table 3 in several cases Mr. or Ms. Lisbon are just senior civil servants. But there are also a lot of cases in which they hold position of Ministers, their deputies or even Deputy Prime Ministers. Thus there is no single pattern applicable for all countries in this dimension nonetheless in too many cases it the position of national Lisbon coordinators seems to be too politically unimportant in comparison to challenges of reform they face.

The role of social partners

Beside the Ministry's representatives, the works on the NRP of some Member States involved also members of Trade Unions, Employers Associations, NGOs and other social partners. For instance, in Lithuania they belonged to the group that prepared the document. In Denmark, besides the narrow working group composed of representatives of relevant ministries, there was also a broader group which included representatives of some civil society organizations. They have written the comments which were taken into account before preparing the final version of the document.

Although the participation of social partners in working groups did not uniformly occur in the drafting of all the NRPs, in the most of analyzed Member States some form of the brief general public consultations took place so the deadline could be met.

The Programs were being discussed with employers and trade unions, usually carried out using existing frameworks. The partners made comments on the NRP, which could have been taken into account by the government prior to its submission to the European Commission. Generally the approval of the social partners was not held to be a requirement, but they participation in the process was desired.

In some countries, like Finland, Lithuania and Poland, there were also some conferences and seminars organized with participation of social partners. High level officials attended to these events, including vice–ministers (in Lithuania and Poland) and Prime Minister and relevant Ministers (in Ireland).

But the overall role of the social partners in this debate has been limited in time and scope, thereby reducing the perceived legitimacy of the various NRPs.

Table 3 National coordinators of the Lisbon process in various EU Member States

	'Mr./ Ms. Lisbon'	Coordinator's 'rank'
Austria	Director General for Coordination at the Federal Chancellery (Department IV).	Director at the Federal Chancellery
Belgium	Belgium has chosen the option not to appoint a Mr. or Ms. Lisbon. Belgium is a federal country in which coordination with all competent entities, both Federal and Regional, and the civil society are very important and a constitutional obligation. That why they say that they opted for a 'Comité d'Accompagnement', which supposedly includes all official stakeholders, chaired by the Chancellery of the Prime Minister, to ensure the coordination of Belgium's Lisbon strategy.	–
Denmark	Denmark does not have a Mr. or Ms. Lisbon. It has instead been the aim of the Government to let the Lisbon contact group play a central role in the process, which in turn is coordinated by the Ministry of Foreign Affairs.	–
Estonia	Director of the EU Secretariat in the State Chancellery.	Director in the State Chancellery
Finland	Director General, Economic Department – Ministry of Finance.	Director in the ministry
France	Deputy Head of EUROPE2 in Directorate–General of Treasure and Economic Policy in Ministry of Economy, Finance and Industry.	Deputy Head of Unit in the Ministry
Germany	Officially: Minister of Foreign Affairs The subject is directly coordinated by deputy head of the Department of Europe.	Minister Deputy head of the Department
Hungary	Minister of European Affairs	Minister
Ireland	Senior civil servant from the Department of Taoiseach.	Senior civil servant
Italy	Minister for European Union Affairs.	Minister
Latvia	Minister for Economics.	Minister
Lithuania	There is no Mr. or Ms. Lisbon. process is coordinated by inter–ministerial committee. Nonetheless Minister of the Economy is responsible for the implementing of the National Reform Program.	Minister
Luxembourg	Minister for Economics.	Minister
Malta	Minister for Competitiveness and Communications.	Minister
Netherlands	Secretary General of the Department of Economic Affairs.	senior civil servant
Poland	Minister of Economy.	Minister
Portugal	The status and office equivalent to an Under Secretary of State (under the direct responsibility of the Prime–Minister).	Under Secretary of State
Slovakia	Deputy Prime Minister, Minister of Finance.	Minister
Slovenia	The head of the government Institute for Macroeconomic Analysis and Development.	Head of the governmental Institute
Spain	Secretary of State and Director of the Prime Minister Economic Office.	Secretary of State
Sweden	Sweden has not appointed a special Mr. or Ms. Lisbon as a national coordinator for the Lisbon Strategy. Nonetheless Vice Prime Minister has the main responsibility for the question. On a political level the process is coordinated by adviser to the Prime Minister. Director at the Prime Minister's Office is responsible for the coordinator on a civil servant level.	

Source: Internet, NRPs, Embassies.

The role of parliaments

National reform programs were expected to be rigorously discussed by the national parliaments. Moreover national legislators were expected to agree to the national reform programs prior to their submission to the European Commission. Yet despite this expectation, in most cases the role of the parliaments in this consultation process was rater limited.

In none of the analyzed Member States, was there a parliamentary vote on the national reform program. Only in Ireland, where in a plenary session of both houses of the Parliament a statement about the NRP was made, but no vote on it took place, however, the draft of the Irish NRP was amended, where appropriate, to reflect the various comments made in response to the statement.

In most of the countries, the national reform programs were only sent to the parliaments for either general information or to be discussed at a future time in a relevant committees or subcommittees (e.g., the Committees of Economy, the Committees of Finance and the Committees of European Affairs or Foreign Affairs). The overall trend was to treat the NRPs as just another EU related document that the parliaments had to be subjected to.

The members of parliament in some countries (e.g., Lithuania) also took a role in the drafting NRPs. In some other countries, like France, the relevant committees have not already discussed the Program but they such discussion was promised.

But the overall trends of the participation of parliaments throughout the reviewed NRP process does not bode well for the political ownership of reform by the parliaments. Why? Because although they are the body which will in fact be doing the real work of creating the necessary legislation that will enable the reform process to be realized, the fact that only few parliaments had any role suggests that legislative actors, looking at their constituencies who they depend on for their election/reelection have no real interest in nor ownership of the reform process.

Value added from Integrated Guidelines?

The relations between the national reform programs and Integrated Guidelines for growth and employment vary across the Member States. From a very close relation in the case of Lithuania in which the NRP was strictly based on the guidelines to France where the NRP was little more than a reformulation of existing national economic strategies and confirmation of existing governmental policy. In the most of countries the NRPs are consistent with other previously existing national programs and are rarely characterized as a unique document.

Most of the experts when asked whether any value added benefit occurred due to the Integrated Guidelines to the national reform agendas, they answered that almost all the reform agendas were merely rewritten from the previous government economic programs. The experts held that there were only a few cases where the Integrated Guidelines added something new to the existing economic reform programs.

Thus, at the most the Integrated Guidelines can play the role of a constant nagging reminder to a government of a Member State concerning certain fundamental and important economic problems that should be addressed by their economic agenda.

Conclusions

Let us once again return to the conclusions in the first chapter and the problems as well as dilemmas that the economic governance was forced to deal with. Taking that into account as well as the data presented in this chapter we are able to say that:

— Existing inconsistencies between the economic policy coordination cycle in the EU and political cycles in within Member States, create a gap where all to often the governments creating the NRPs are not the parties who have to implement them. In the most of EU Member States, the political cycle and economic policy governance cycle strongly differ from each other and thus measures overcoming resynchronization of cycles have to be considered. Maybe the Commission should try to become more engaged in national policy making when it is really done. And ask new governments to prepare reform programs for the whole political cycle period.

— In most cases, NPRs seem to be more bureaucratic than policy centered documents, based on existing programs, presented to merely satisfy the Commission. The Integrated Guidelines in this perspective offered little in adding value to economic agendas.

— Consequently, it seems that in most cases there was little interest in making the NRPs a real tool that would be taken politically serious by political actors in a Member States.

Once again it is clear that there exists a special role for the European Commission's national economic recommendation in assisting the governments of a Member State in tackling important economic reforms. In this manner the Commission can act as a reminder to a Member State's government and thereby keeping these issues on the government's table. Also the Commission might have an important role in helping to define the debate on needed reforms within a given Member State's political cycle.

Summary and conclusions

Mariusz–Jan Radło, Iain Begg

Summarizing what was written above we have to confirm that renewed Lisbon process is equipped with new tools and features that can possibly improve its implementation. Thus, encouragement can be taken from some of the governance changes, especially in responding to the criticism that the strategy had been too diffuse. The new approach reduces the number of targets and focuses the strategy on the two strategic goals of growth and employment, and should therefore diminish inconsistencies between the goals of Lisbon.

The issue also improved the open method of coordination by bringing together the Broad Economic Policy Guidelines and Employment Guidelines in a single package. However, there is a danger that they will remain separated in implementation if the different sections of the Integrated Guidelines (macroeconomic, microeconomic and employment) are seen as 'belonging' to different ministries and sectoral interests. It also strengthened the national ownership of the Lisbon strategy, by making Member States to prepare their own national reform programs.

Moreover, while nationalizing the Lisbon strategy, it drew Member States in a reform coordination system in which the Commission plays a role of independent monitoring agency, with the ability to assess progress of reforms as well as is entitled to present detailed national recommendations on what and/or how to reform. The monitoring system was equipped with an informal sanction system based on peer pressure created by set of short listed comparable economic indicators playing a role of official scoreboard, national reporting system and Commissions recommendations as well as on an official review of the implementation process to be done by the March European Councils. All above mechanisms are aimed at strengthening national ownership of the Lisbon process and forcing national governments to implement necessary reforms.

All the same, economic reform governance in the EU has still quite clear limits. Especially, if we take into account its ability to foster structural reforms. These usually take time, and often cause short–term costs that inhibit consistent policy and are politically unpopular. In such a perspective a crucial question is whether new supranational reform coordination measures are able to influence governments more than their internal political, social and economic environment. From this perspective, the prospects for the relaunched Lisbon strategy are not optimistic.

As it was argued in the second section the rationale for Lisbon as a coordination process is still poorly articulated and until the conditions in a Member State are conducive to reform, the likelihood of rapid progress will be very limited. Moreover, the Community contribution to the strategy will remain limited so long as Member States restrict the EU level's resources and continue to thwart progress on EU–wide developments such as the services directive. Some comfort can be taken from the very fact that there is such diverse experience across Europe in trajectories of structural change, as it shows that good strategic policy choices can make a difference, with the smaller countries generally in the lead. Moreover diversity affords the opportunity for one country to learn from another and thus to develop new solutions. In such a situation one can argue – and sometimes can be correct in such an argumentation – that the Community's reform supporting instruments offers all what the Member States can obtain from informal contacts with their partners or meetings at the OECD. And this judgment can become truth when national reform programs and the whole renewed economic reform coordination system will not influence national debates and political processes.

Above scepticism was partially confirmed when national reform programs' case studies were analysed. These show considerable diversity in a number of respects, as can be seen from some examples covered in this report.

It was in example argued that the Czech NRP is just a collection of the various existing partial reform plans organized in line with 24 Integrated Guidelines. What is more, important weaknesses concerning employment fostering measures in the program were indicated. Another reason weakening credibility of the Czech NRP, pointed out, was political cycle and upcoming parliamentary elections, which make the program just a vague description of problems accompanied by general statements like ‘something needs to be done about it’. Moreover, it was argued that no discussion was held during NRP’s incubation period and its birth passed virtually unnoticed.

On the contrary the Hungarian NRP was assessed as a very important document for Hungary’s economic development. It was stressed that the document is closely linked to other key documents of the development of the economy (especially the national Strategic Reference Framework for the period 2007–2013). Nonetheless even in Hungarian case it was pointed out that upcoming parliamentary election in spring 2006 creates some uncertainty about the future of the current document. However, at the same time, it was noted that recently, in development–related (‘strategic’) issues, Hungarian political parties tend to put more emphasis on reaching a consensus. Thus general assessment of this NRP was optimistic and the author of this case study believes that the chances for implementation of this program are much higher than that of earlier reforms.

The Dutch experts in their analysis stated that the Netherlands has been pursuing Lisbon–like policies since the early 1990s. And now, after addressing problems with fiscal consolidation, labor market, and social security reform as well as product market reform the two major challenges addressed by the NRP are the high number of not–working people receiving a disability benefit and the patchy structure of the health insurance system. A crucial critique of the Dutch focused on dominant role of the economic dimension of the NRP and the lack of detailed agenda in social and environmental ones. Moreover, lack of commitment from the Dutch social partners was indicated as a real problem, because due to the political climate the government has not made serious efforts to achieve consensus on the implementation of Lisbon agenda.

In the assessment of the Polish NRP an extremely critical role of political cycle in creating the NRP was shown because the parliamentary election campaign overlapped the process of preparing and approving this program. The consultation of the program were hampered and reduced. The old government prepared the draft NRP, but did not send it to the Commission. The new government, established after the election, was unable to carry out genuine consultation due to lack of time. Moreover the previous administration did not pay much attention to this document, because the change of ruling party was very probable outcome of the election. Thus the NRP did not gain strong political ownership and leadership. This was mostly due to the political energy spent on the National Development Plan before the NRP and change of government. These two documents couldn’t reach similar attention, both from the stakeholders, experts, and administration. Nonetheless it was noted that the priorities of the final draft of the NRP were adequate to the national challenges, however proposed instruments were very mixed and some of them were not specific, but very general. It was also assessed that the NRP has been rather an administrative exercise and not something that required political action that had to be implemented.

Finally, the Slovak case starts with positive evaluation of structural reforms implemented in last years. Moreover, it is noted there, that most of necessary structural reforms, which were at the same time the most difficult ones, were implemented before creating the NRP. These reforms include: the tax reform, healthcare system reform, social system reform, labor market reform, pension reform and the general government (public finances) reform. Thus the NRP focuses mainly on further governance, management and implementation of the reform strategy that has already been adopted. Despite above, the NRP attracted quite strong political attention, as it was initiated and leaded by Ivan Mikloš, Vice Prime Minister and Minister of Finance, which was perceived as the leader of most of Slovak economic reforms realized in recent years. The rationale for such an attention paid to the NRP by the Slovak government was to preserve all what was achieved in the last years. Thus a crucial goal of the NRP's consultation process was to gain broad public support, including that of the expert and political opposition for this strategy. This goal was achieved, in view of the author of the case study.

On general, case studies provided us with very mixed observations. However, one observation seems to be common for all analyzed cases. Credibility of NRPs depends heavily on political situation in each country and on the institutional framework. If a certain NRP is credible, it is rather due to the fact that political circumstances are mature enough to support reforms. But, the NRP as such does not seem to influence the maturity. Thus it helps only those who help themselves.

More general observations concerning credibility of the national reform programs were presented in the last section of the report. It was argued there that in too many cases, the national reform programs seemed to be more bureaucratic than policy centered documents, based on existing programs that had been presented to merely satisfy the Commission. Moreover, it was noted that usually there had been little interest in making the NRPs a real tool that would have been taken seriously by political actors in Member States. These views were supported by observation that public debates on the NRPs involving social partners were limited and thereby reducing perceived legitimacy of these programs. Moreover there were almost no parliamentary debates on the NRPs, as it should be in case when these programs were strategic economic documents. It was also pointed out that in most cases appointed Mr. or Ms. Lisbon were usually civil servants with no significant political positions. This suggested that the NRPs had not been treated as a real political instrument supporting reforms but rather bureaucratic obligation to be done by civil servants. Finally it was argued that economic policy coordination cycle, based on the national reform programs, was not consistent with political cycles in member states and such a situation created a gap where all too often the governments creating the NRPs are not the parties who have to implement them. This, again, weakens ability of the new supranational reform coordination measures to influence governments, because crucial and usually painful structural reforms are almost never implemented at the end of political cycle.

What all these observations suggest is that it will be difficult to raise the salience of the Lisbon strategy in national political debate. As a consequence, the expectation that national accountability mechanisms will provide an incentive to governments to pursue hard choices may prove to be exaggerated.

All of what we have just suggested leads us to the conclusions of this report, in which we argue that we should not be too overly optimistic regarding the ability of the new economic reform coordination system to produce the results it promises. Again it becomes obvious that forcing governments to implement painful reforms can be very difficult. Moreover the first warning signs describing attitude of several Member States' governments towards their NRPs shows that national reform programs as sent to the Commission are not credible reform strategies. At least eight of twenty five of them were prepared by governments that due to upcoming elections will not be able to implement it.

What has to be stressed repeatedly is that it is not the writing of the plans that matters, but rather the consistency and coherence of what they in fact implement. In the first five years of the Lisbon strategy, it was delivery failures rather than lack of ambitions or carefully drafted documents that undermined its success. It can be argued that in carrying through and not nearly the promising is where the major political and administrative push is needed if the relaunched strategy is to be an improvement. In this regard, there exists a special role for the European Commission's national economic recommendation in assisting the governments of a Member States in tackling important economic reforms. In this manner the Commission can act as a reminder to a Member State's government and thereby keeping these issues on the government's table. Nonetheless, effectiveness of such activities should not be overestimated, because economic reforms at national level will be carried out by those in power in national governments or not at all.

About the team

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Maciej Grabowski (Poland): Vice President of the Polish Lisbon strategy Forum since 2003. He also is a member of Steering Committee of Central Eastern European University Network and a member of the Committee for Economic Education at the Polish Radio. In 1996 he received his Ph.D. in economics from Gdańsk University. He is an author or co–author of numerous papers and books, published both at the professional and popular series and titles. He gained an extensive experience in conducting various research and applied projects related to labor markets, taxation and small business development. In 2002/2003 he was Team Leader for the project on costs and benefits of Poland's accession to the UE for SME. And then in 2005 he curried out similar research after accession. He led a team work on "Support areas of the European Social Fund and challenges for employment and human development policy" – a project for Ministry of Labor and Social Policy. He conducted a project on Regional Labor Market Forecasts for Ministry of Labor and Social Policy, a project co–financed by the World Bank. In 2004 he wrote a special study on tax reform in 27 transition countries, which was presented during Economic Forum in Krynica.

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Jan Szomburg (Poland): President of The Gdańsk Institute for Market Economics, the first independent research institute and think–tank in post–communist countries and Director of the Polish Lisbon strategy Forum – long term program of non–governmental organization (NGOs), represented by the GIME – and governmental organization represented by the Office of the Committee for European Integration with the participation of representatives of business and scientific communities. Since 2004 Vice–Chairman of the Council for Polish Forum – Values and Development – a cross–cultural and cross–generation venture aimed at reflection and mutual communication on non–material fundamentals of Poland's development. In 1988 co–author of the first mass privatization program (voucher scheme), implemented or referred to throughout the Central and Eastern Europe. In the years 1974–1990 lecturer at the University of Gdańsk, where he earned his Ph.D. in economics. He is the author of numerous papers and press articles on economic, social and political aspects of transformation and privatization, published nationally and internationally.

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Roland Zwiers (Netherlands): He graduated in economics at the University of Amsterdam (1989). During and after graduation he was a lecturer at the Macro Economics Department in the field of International Finance. This resulted in co–authorship of the book: International Finance: theory and practice in the Netherlands. From 1990 to 1992 he worked for the Dutch Finance ministry. This coincided with the Dutch presidency of the European Union and with the intergovernmental conference on EMU. So in this position he was actively involved with the preparations for and the conclusion of the Maastricht Treaty. Between 1992 and 1998 journalism helped him to broaden his interests to socio–economic subjects. From 1992 to 1994 he was an editor for the Dutch economic weekly ESB. From 1994 to 1998 he was a political journalist for the Dutch press agency ANP. His principal subjects were the budgetary and social policy reforms of the first Kok government. Since 1998 he is a senior economist at the Economic Affairs Department of the Social and Economic Council of the Netherlands (SER).

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About the Polish Lisbon Strategy Forum

Building understanding,
trust and courage
in future–oriented policies

The PLFS

The Polish Lisbon Strategy Forum (PLFS) is a multisectoral coalition based on beliefs. It is both a think–tank – delivering ideas, concepts and policy recommendations – as well as a platform for public debates – organizing public discussion and dialog for a common understanding of policy issues. The PLSF aims at building advocacy coalition promoting economic reforms in Poland and other EU Member States. The Polish Lisbon strategy Forum, as an inter–sector effort – encompassing the government, non–government and business sectors – will work to build such a multifaceted, integrated way of thinking about the future growth of Europe and its role in the world.

The PLFS has been established in 2003 as a joint, long term program of non–governmental organizations, represented by the Gdańsk Institute for Market Economics implemented in cooperation with Poland's Office of the Committee for the European Integration as well as business and scientific communities. In 2006, the Ministry of the Economy, will become a key strategic partner of the project, as the Minister of the Economy became responsible for coordination of the Lisbon process in Poland, therefore he will soon take a post of PLFS's Program Board.

Each year the Forum prepares a White Paper of about 200 pages, which is usually dedicated to the evaluation of the Lisbon process in Poland and the EU. In 2005 the White Paper was devoted to recommendations to the Polish National Reform Program 2005-2008.

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Tomasz Sielicki, President of ComputerLand Group
Sławomir Sikora, CEO, Bank Handlowy w Warszawie
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During the course of the year the Forum publishes a number of Blue Papers. These booklets touch selected components of the Lisbon strategy and serve as a platform for discussion and debate during regularly scheduled seminars. Then there are Green Paper which are more general volumes devoted to a broader issues related to the Lisbon strategy along with Polish and the EU economic policies. Green Papers are published once or twice a year and are usually a result of large conferences devoted to these issues.

The White Papers are presented during the PLFS Congresses. The Congresses gather usually about 400 high ranking officials from the government, business, politics, the media and renowned academics. All congresses are also attended by guests of honor – top European Leaders. Up to date the PLFS Congresses were attend by the Prime Minister of the United Kingdom, Tony Blair (in 2003), the Chancellor of the Federal Republic of Germany, Gerhard Schöders (in 2004) and the Prime Minister of the Republic of Finland, Matti Vanhanen (in 2005). The upcoming PLFS Congress, the Fourth, will be devoted to answering the question of the links between values and the possibilities of long–term growth. The problem of renewal in the sphere of spiritual and moral capital is a challenge for all the Member States, and for the Union as a whole.

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