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THE LISBON REVIEW

2004

AN ASSESSMENT OF POLICIES AND REFORMS IN EUROPE

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The Lisbon Review 2004: An Assessment of Policies and Reforms in Europe

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Introduction

In March 2000, Europe's heads of state and government met in Lisbon, Portugal, and declared their intention to make the European Union (EU) "the most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion."[2] To achieve this goal by 2010 they adopted what is now called the Lisbon Strategy of economic and structural reforms.

The present *Lisbon Review* aims to assess progress made in the implementation of the far-reaching goals for the EU-15 contained in the Strategy, using as a reference point the very criteria for competitiveness articulated by Europe's leaders on that occasion. This is the second edition of a study carried out by the Global Competitiveness Programme of the World Economic Forum.

In addition to assessing the performance of the 15 existing EU members, this *Lisbon Review* pays particular attention to the competitive performance of those countries that join the EU this year, as well as those scheduled to join in 2007. We endeavour to assess how well prepared these countries are for assuming the responsibilities of EU membership in the context of the Lisbon goals, and to shed light on where attention should be focused to ensure that they contribute effectively to the competitiveness of an expanded EU.

As with the Forum's first *Lisbon Review*, for the purposes of this research the United States will remain the principal benchmark economy, helping to gauge Europe's progress towards the achievement of the goals contained in the Lisbon Strategy. Where useful, further comparisons are made with the average performance of the OECD member countries.

The Lisbon Strategy: Defining a Reform Agenda

As defined by Europe's leaders, the Lisbon Strategy can be usefully broken down into eight distinct dimensions, considered to be critical for national competitiveness:

1. Creating an information society for all
2. Developing a European area for innovation, research and development
3. Liberalization
   - Completing the single market
   - State aid and competition policy
4. Building network industries
   - In telecommunications
   - In utilities and transportation
5. Creating efficient and integrated financial services
6. Improving the enterprise environment
   - For business start-ups
   - In the regulatory framework
7. Increasing social inclusion
   - Returning people to the workforce
   - Upgrading skills
   - Modernizing social protection
8. Enhancing sustainable development

It will be useful to review briefly the thinking behind the above priorities, and the background against which the Lisbon Strategy was initially established. Formulated in March of 2000, at the peak of the high technology stock market boom, and with ample evidence that the EU was "experiencing its best macroeconomic outlook for a generation," European heads of state and government felt that the time had come to formulate a strategy for dealing with some of Europe's most important lingering problems. To be sure, several decades of economic integration had already led to many important achievements, including the establishment of a stable macroeconomic framework, characterized by low inflation and interest rates, and the creation of a largely unified internal market of 380 million consumers, having some of the highest per capita incomes in the world.[3] An extensive network of reasonably well-functioning public institutions, both national and community-wide, provided the EU with solid institutional underpinnings to sustain a renewed reform effort.

Key among the outstanding economic challenges was the need to tackle labour market reforms, against the backdrop of persistently high rates of unemployment – particularly in some of the larger EU states – low participation rates by women and a widening skills gap which threatened to undermine European competitiveness, at a time when technological and scientific innovation had come to acquire a prominent role in enhancing countries' long-term growth capacity. The dimensions identified above were seen as key components of a comprehensive programme of economic reforms. The focus was, appropriately, less on issues of macroeconomic stabilization or short-term growth, and more on structural reforms, aimed at redressing perceived rigidities in the EU economies, across a broad range of sectors.

Reflecting the euphoria then prevailing in global markets about the prospects for the growth of the "knowledge economy," the leaders assembled in Lisbon gave appropriate weight to information society elements in the formulation of the reform agenda. Hence, the emphasis on improving the legal framework for e-commerce and e-money, on reviewing the regulations underlying the operation of the telecommunications sector and on recognizing the need to enhance greater competition in local access networks and ensuring that all schools in the EU had access to the Internet. The Lisbon Strategy also acknowledged the desirability of improving the environment for R&D partnerships and high-tech start-ups, and removing obstacles to the mobility of scientists and researchers across the EU.

More generally, it put considerable emphasis on the removal of bureaucratic barriers to business activity, and in creating a hassle-free environment for private sector activity. It called for the speeding up of liberalization of the gas, electricity, postal services and transport markets. In the area of financial markets, it called for the quick implementation of the Financial Services Action Plan, which includes, *inter alia*, commitments to eliminate cross border barriers to the investment of pension funds – and, more broadly, the sale of financial services – to better integrate the operations of government bond markets, and to adopt measures to ease the comparability of company financial statements.

Concern about the long-term fiscal implications of Europe's ageing populations led to the inclusion of a special chapter on social issues, with particular emphasis on the modernization and streamlining of the mechanisms of social protection, as well as giving higher priority to poverty eradication. Thus, it would be quite accurate to characterize the

Lisbon Strategy as being both comprehensive and ambitious, appropriately focused on the implementation of structural measures and on the underlying institutional reforms.

The fact that the Strategy was announced on the eve of a substantial weakening in the pace of global economic activity, and that this, in turn, would lead to a marked deterioration in the fiscal position of several of the larger EU members and impose on policy-makers a revised set of short-term priorities, does not, in any sense, diminish the relevance of the goals set in Lisbon. The criteria were formulated to address perceived weaknesses that still remain fixtures of the European landscape. The reform agenda thus remains relevant, and it is entirely appropriate to carry out a review of the progress made in addressing the challenges which it identified.

Country Coverage

This study covers a large number of European countries, spanning almost the entire continent and accounting for 455 million people. At the core of our analysis are the 15 EU member countries whose governments endorsed the Lisbon goals: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, the Netherlands, Portugal, Spain, Sweden and the United Kingdom. We will compare the competitive performances of these countries, according to the Lisbon criteria, with a view to assessing which countries are in the lead, and which are lagging behind.

In order to place the competitive performance of these EU countries in an international context, we use the United States as the principal reference point. The comparison with the United States allows us to place the bar quite high, as it is one of the most competitive nations in the world by a variety of measures.[4] The level of performance in the US thus provides a benchmark for the level of competitiveness that the EU will need to achieve if it is to become the most competitive economy in the world, as articulated by the Lisbon Declaration.

We also provide a second, less stringent, benchmark: that of the average performance of the 30 OECD member countries, a set with a fairly high level of annual per capita income (approximately 25,000 USD in 2003).[5] Since the performance of these countries shows considerable variation, the average performance is necessarily lower than that to which the EU must aspire, if it is to reach its goal by 2010. However, given that it does regroup what are perhaps seen as the most economically developed countries in the world, it provides a useful second benchmark.

Also covered in our study are twelve countries presently scheduled to join the EU or, in the case of Turkey, expected at some point to start accession negotiations. The countries included are Bulgaria, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Romania, the Slovak Republic, Slovenia and Turkey.[6] It is of primary interest to see how these countries fare within the different Lisbon dimensions, as compared with the existing 15 EU member economies, and what this might tell us about the overall competitiveness of a soon-to-be expanded EU.

Calculating the Lisbon Scores: Data and Methodology

The overall Lisbon scores for each country are calculated as an unweighted average of the individual scores in the eight dimensions described in the section above. Within the various categories, the assessment of Europe's competitive environment is based on both publicly available hard data, as well as data from the Executive Opinion Survey.

The World Economic Forum conducts its annual Executive Opinion Survey of business leaders in more than 100 countries. The Survey is fundamental to the analysis, as it provides information on issues for which no hard data sources exist. The Survey also captures the critical perspective of the business community within each country – those people making the investment decisions, creating jobs and wealth and thus driving their economies forward. These factors range from the overall macroeconomic environment, to the legal and regulatory framework, to many others that pertain to the quality of the country's infrastructure, the tax regime, the excellence of educational institutions and the efficiency – and honesty – of civil servants and politicians, to name only a few. This wealth of data thus becomes a unique vehicle to measure changes over time in the quality of these factors. It also permits us to assess the progress made in the achievement of the goals set by a group of countries, such as the EU, for a decade-long reform strategy, centred on structural and institutional improvements.

The model we use to calculate the Lisbon scores is similar to the one used in the preceding *Lisbon Review*. However, this year we have refined it by including two types of new data. First, we added a number of relevant new questions to the most recent Executive Opinion Survey, in a specific effort to better measure the dimensions of the Lisbon Strategy. The resulting survey data has been integrated into the model.

Further, in some of the dimensions, particularly in the areas of technology, innovation and network industries, we have also added a number of "hard data" variables to the model. This includes data from public sources on a variety of issues, such as the number of Internet users in a given country, educational enrolment rates and unemployment rates. While the Survey data is excellent for capturing essential qualitative measures of the competitive environment, we decided to include this quantitative hard data because in a number of areas, such measures, where available, are highly informative.

Thus, some of the data used last year has been replaced with what we consider to be better data proxies, improving our measurement of where Europe stands on the Lisbon goals. For example, in the area of completing the single market, we have added information from the Executive Opinion Survey on the prevalence of mergers and acquisitions, and foreign ownership. In the area of social inclusion, we have added questions aimed at gauging how women fare in the workforce, such as the opportunity for women with small children to re-enter the workforce. The specific hard and Survey data, as well as the relative weights used in the calculations of the Lisbon scores, are available upon request.[7]

The Lisbon Review Rankings 2004

Performance of the EU-15

Table 1 presents the scores for each of the 15 EU countries, as well as their overall ranking. The scores are on a scale from 1 to 7, with larger values representing stronger performance. Important to note in Table 1 is the extent to which EU country performance is mixed. Some countries, particularly the Nordic countries, receive high scores in all areas, while others, particularly those in Southern Europe, trail behind.

Finland comes first in the overall ranking, followed by Denmark and Sweden. Indeed, Finland ranks first in five of the eight categories being assessed and is either second, third or fourth in the other three. The three Nordic member countries are thus seen as being the most competitive as measured by the Lisbon criteria. All three of these countries score high across the board, particularly in such areas as the readiness of network industries and measures of sustainable development.

Within the middle rankings, countries show more mixed performances, with strengths in some areas, balanced by weaknesses in others. For example, the United Kingdom ranks second in the dimension of financial services – indeed the country has the lowest interest rate differential between borrowing and lending rates in the world, a proxy for the efficiency of financial intermediation. It also ranks first in terms of the quality of the business and regulatory environment for the enterprise sector; however, its overall score is brought down somewhat by weaknesses in the areas of social inclusion, innovation and R&D. Nevertheless, the United Kingdom has the highest rank outside the Nordic countries and among the four EU members of the G-7. Germany scores well in several dimensions, such as the readiness of its network industries and in aspects of sustainable development, but does less well in areas such as the enterprise environment and liberalization. It may surprise some to see that Germany performs quite poorly in the dimension of social inclusion, giving credence to the notion that the country's traditional environment of collective bargaining is no longer providing the intended benefits.

Table 1: Ranking and Scores of EU Countries

Country/Group	Final Index		Subindexes							
EU 15	Rank	Score	Information Society	Innovation and R&D	Liberalization	Network Industries	Financial Services	Enterprise	Social Inclusion	Sustainable Development
Finland	1	5.80	5.78	5.87	5.36	6.33	6.13	5.48	5.46	5.97
Denmark	2	5.63	5.68	4.87	5.14	6.51	5.96	5.60	5.52	5.78
Sweden	3	5.62	5.71	5.57	4.91	6.37	5.80	5.29	5.46	5.89
United Kingdom	4	5.30	4.96	4.67	5.11	5.78	6.10	5.62	4.86	5.30
Netherlands	5	5.21	4.99	4.46	4.94	6.04	5.67	4.71	5.29	5.57
Germany	6	5.18	4.95	4.90	4.64	6.36	5.62	4.64	4.37	5.96
Luxembourg	7	5.14	4.98	3.57	4.96	6.22	5.72	5.17	5.19	5.28
France	8	5.03	4.52	4.68	4.65	6.10	5.68	4.68	4.72	5.20
Austria	9	4.94	4.69	4.27	4.54	5.76	5.48	4.28	4.88	5.64
Belgium	10	4.88	4.08	4.45	4.63	5.74	5.39	4.69	5.12	4.91
Ireland	11	4.69	4.14	4.18	4.47	4.89	5.59	5.30	4.62	4.35
Spain	12	4.47	3.71	3.93	4.50	5.34	5.14	4.32	4.38	4.48
Italy	13	4.38	3.94	3.87	4.40	5.30	4.92	3.64	4.24	4.74
Portugal	14	4.25	3.88	3.44	4.10	5.35	4.90	3.89	4.15	4.29
Greece	15	4.00	3.16	3.44	3.96	4.99	4.74	3.78	3.90	4.00
United States		5.55	5.86	6.08	5.11	5.85	5.82	5.71	5.04	4.96

Finally, it is clear from the scores in the bottom rankings that much has yet to be done within a number of EU countries, across all dimensions, in order to bring them to the level of competitiveness intended by the Lisbon Declaration. This is particularly true of the four southern European countries, which perform comparatively poorly across all eight dimensions. Contrary to what one might expect, Spain outperforms Italy (a member of the G-7) in six of the eight categories assessed.

Comparing the EU to the US

For comparison, at the bottom of Table 1, we have also included the Lisbon scores for the US. Comparing these scores with those of the EU countries we see that, based on the Lisbon criteria, the US does not score as well as the three Nordic countries, but has a higher score than all other 12 EU members, both overall, and across almost all dimensions. And in the areas of innovation and the enterprise environment, both areas widely recognized as critical for economic growth and competitiveness, the US has higher scores than all countries, including the Nordics.

Table 2: Lisbon Scores: Comparing the EU to the US

	US Score	EU Average	EU Average relative to the US
An Information Society for All	**5.86**	**4.61**	**-1.25**
Innovation, Research and Development	**6.08**	**4.41**	**-1.67**
Liberalization	**5.11**	**4.69**	**-0.42**
Completing the single market	5.70	5.13	-0.57
State aid and competition policy	4.52	4.25	-0.27
Network Industries	**5.85**	**5.81**	**-0.04**
Telecommunications	5.60	5.96	0.36
Utilities and transportation	6.10	5.65	-0.45
Efficient and Integrated Financial Services	**5.82**	**5.52**	**-0.29**
Enterprise Environment	**5.71**	**4.74**	**-0.97**
Business start-up environment	5.83	4.52	-1.32
Regulatory environment	5.58	4.96	-0.62
Social Inclusion	**5.04**	**4.81**	**-0.23**
Returning people to the workforce	5.60	5.06	-0.54
Upgrading skills	5.31	4.96	-0.35
Modernizing social protection	4.20	4.40	0.21
Sustainable Development	**4.96**	**5.16**	**0.20**
Overall Lisbon Score	**5.55**	**4.97**	**-0.58**

To better summarize the relative performance of the EU and the US, Table 2 compares the average scores of the 15 EU countries to that of the US. Here we see more clearly what was implied by Table 1. As a whole, the EU performs less well than the US, often much less well, in almost all dimensions. However, there are three areas in which the EU as a whole outperforms the US: in modernizing social protection, in implementing policies and practices that are supportive of an environment for sustainable development, and in the area of telecommunications, where the EU has better scores for such indicators as cellular telephone use and subscriber numbers.

Figures 1 through 17 provide a visual representation of the numbers in Tables 1 and 2. These are the so-called *Lisbon Diamonds* that were coined in the previous *Lisbon Review*. They provide a simple way of comparing the performance of the EU as a whole, and that of individual member countries, to the US benchmark. A country with perfect performance in any of the eight dimensions would have a score of 7, so that the shading would reach all the way to the tip of the figure. An ideal country would have a diamond covering the entire area, so that the smaller a country's diamond, the less competitive it is, as measured by the Lisbon criteria. The US performance is represented by the dark blue shading, while the EU-country performances are shaded in grey. Dimensions in which the US diamond covers a larger area indicate areas where the EU countries lag behind the US.

Figure 1: Country Performance: Austria

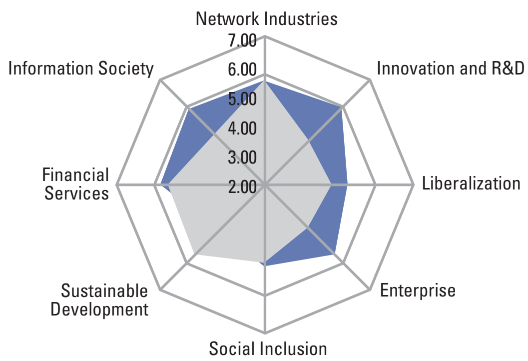


Figure 2: Country Performance: Belgium

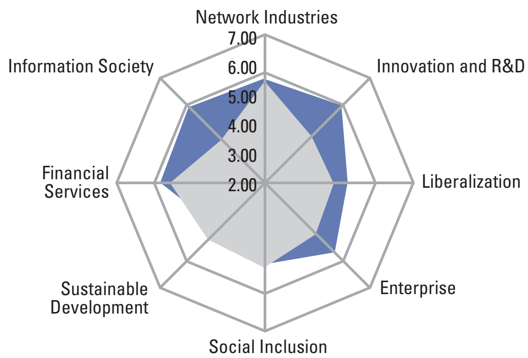


Figure 3: Country Performance: Denmark

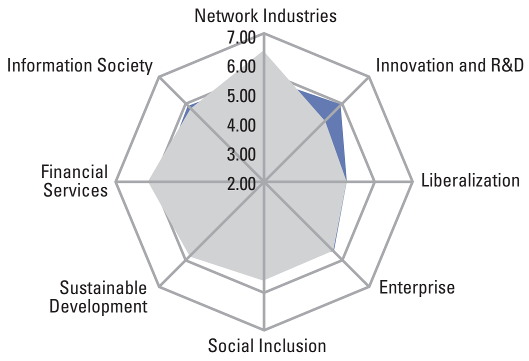


Figure 4: Country Performance: Finland

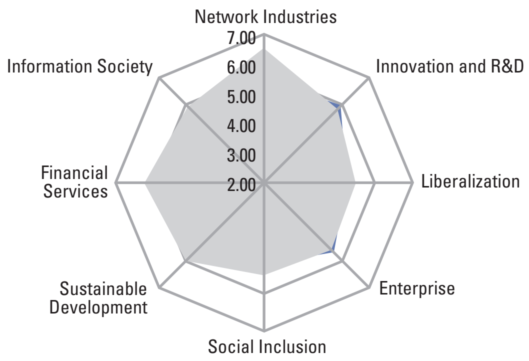


Figure 5: Country Performance: France

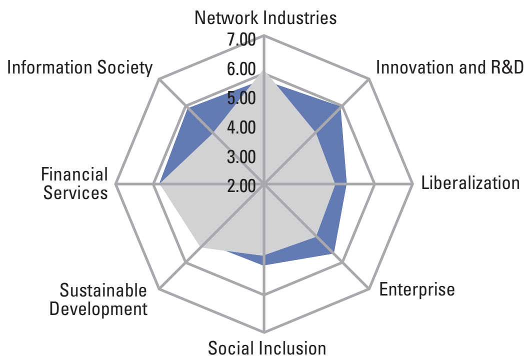


Figure 6: Country Performance: Germany

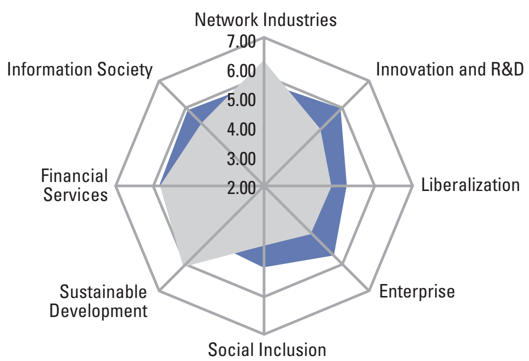


Figure 7: Country Performance: Greece

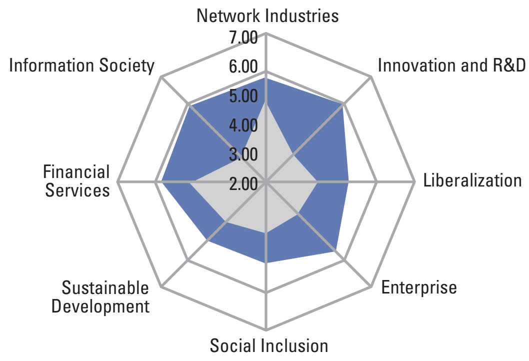


Figure 8: Country Performance: Ireland

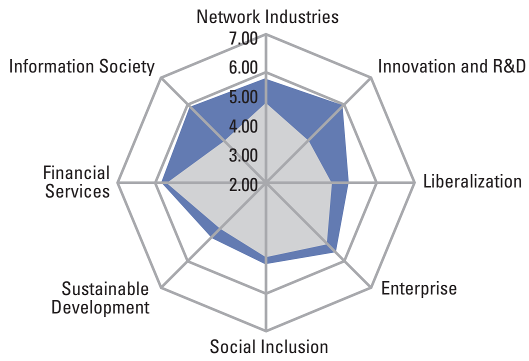


Figure 9: Country Performance: Italy

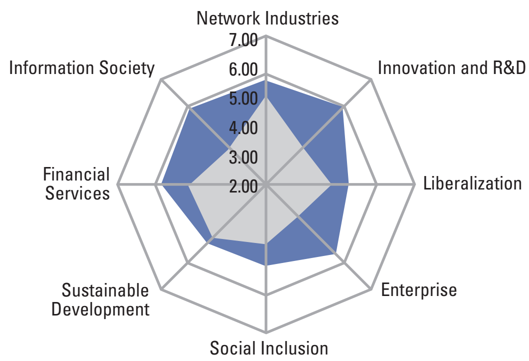


Figure 10: Country Performance: Luxembourg

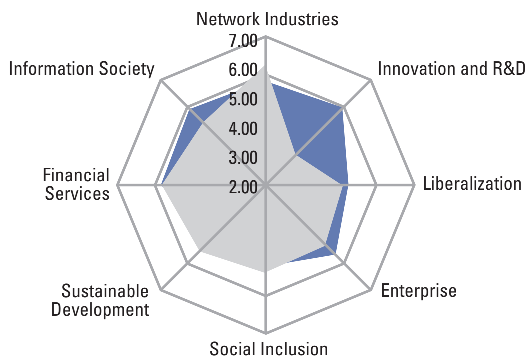


Figure 11: Country Performance: Netherlands

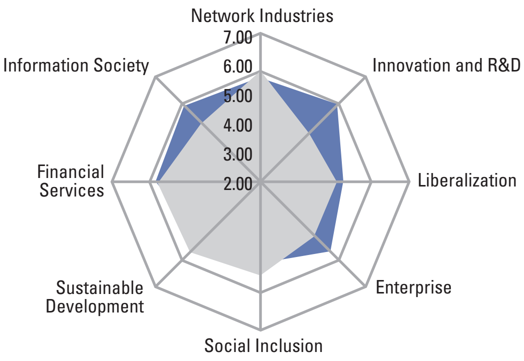


Figure 12: Country Performance: Portugal

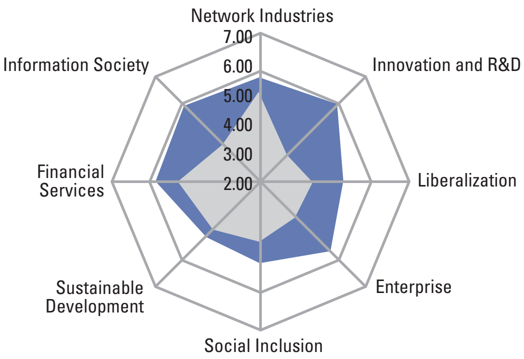


Figure 13: Country Performance: Spain

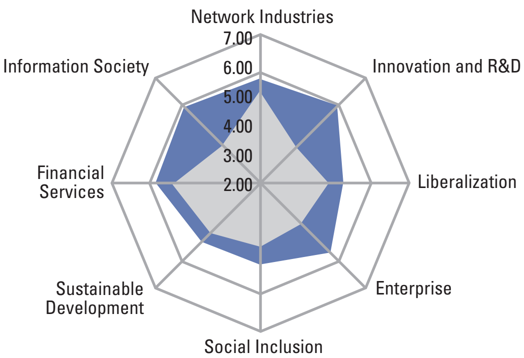


Figure 14: Country Performance: Sweden

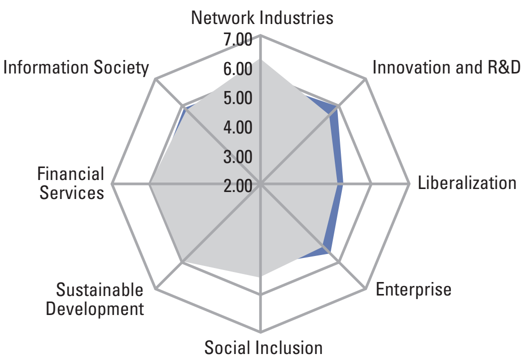


Figure 15: Country Performance: United Kingdom

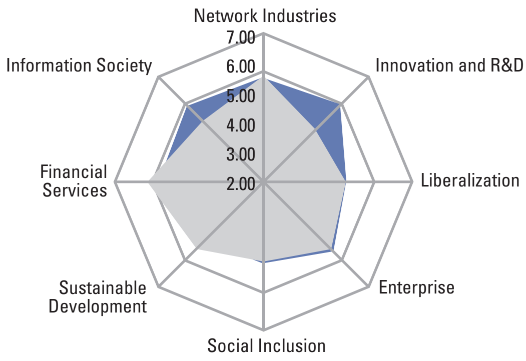


Figure 16: Country Performance: EU Average

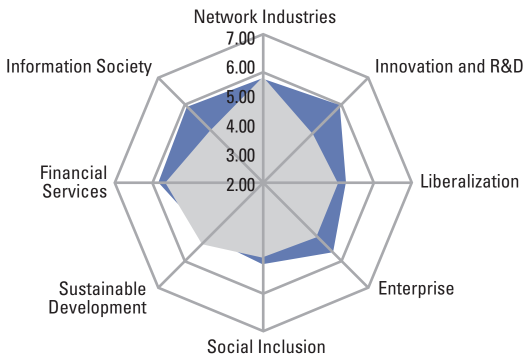
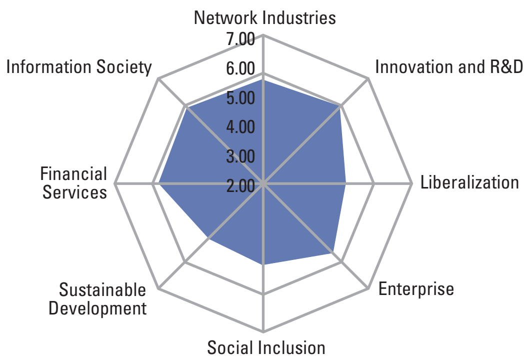


Figure 17: Country Performance: United States



Based on the comparison with the US benchmark, it would seem that in order to get closer to the Lisbon goal of becoming "the most competitive and dynamic knowledge-based economy in the world", much attention should be focused within the EU on three particular areas: improving the environment for innovation and R&D, developing a stronger information society and creating an enterprise environment that is more conducive for private sector economic activity.

Comparing the EU to the OECD

It is also instructive to compare the EU's performance to the OECD average. Since the OECD includes a broader range of higher income countries, the average performance of its members provides an alternative, less stringent benchmark, to the US. Table 3 provides this comparison. It becomes immediately apparent from Table 3 that although the EU's scores are higher than the OECD average scores for all eight categories under consideration, the margin is not very large. Specifically, there are three areas in which the EU average is particularly close to the OECD average: in creating an information society for all, in innovation and R&D, and in fostering the emergence of a healthy enterprise environment. Again, the overall message of Table 3 is that in order to be the most competitive economy in the world, with particular emphasis on "knowledge-based", substantial progress will have to be made.

Table 3: Lisbon Scores: Comparing the EU to the OECD

	OECD Average	EU Average	EU Average relative to the OECD
An Information Society for All	**4.53**	**4.61**	**0.08**
Innovation, Research and Development	**4.31**	**4.41**	**0.10**
Liberalization	**4.52**	**4.69**	**0.16**
Completing the single market	4.98	5.13	0.14
State aid and competition policy	4.06	4.25	0.19
Network Industries	**5.52**	**5.81**	**0.29**
Telecommunications	5.62	5.96	0.35
Utilities and transportation	5.42	5.65	0.23
Efficient and Integrated Financial Services	**5.30**	**5.52**	**0.22**
Enterprise Environment	**4.66**	**4.74**	**0.07**
Business start-up environment	4.55	4.52	-0.03
Regulatory environment	4.78	4.96	0.18
Social Inclusion	**4.68**	**4.81**	**0.13**
Returning people to the workforce	4.98	5.06	0.09
Upgrading skills	4.81	4.96	0.15
Modernizing social protection	4.24	4.40	0.17
Sustainable Development	**4.96**	**5.16**	**0.19**
Overall Lisbon Score	**4.81**	**4.97**	**0.16**

Note: The OECD average includes data on the 30 member countries. Included are the 15 EU members plus the following countries: Australia, Canada, the Czech Republic, Hungary, Iceland, Japan, Korea, Mexico, New Zealand, Norway, Poland, the Slovak Republic, Switzerland, Turkey and the United States.

Comparing the Lisbon Review Rankings with the EU's own assessment

It is useful to contrast the above results with the European Commission's own assessment, as noted in its report to the Spring 2004 European Council on "Delivering Lisbon: Reforms for the Enlarged Union."[8] The report highlights some of the key achievements since 2000, in particular: the creation of over six million jobs, the complete or partial opening to competition of several key markets (telecommunications, rail freight, electricity and gas) and the adoption of "some one hundred regulations, directives and programmes in different fields but all pursuing the Lisbon goals." This progress notwithstanding, the report highlights the considerable agenda of unfinished business for coming years, noting some areas where progress has been particularly sluggish. Among them: weaknesses in the internal market, including a slowing down of product market integration, fragmentation of the internal market for the services sector (and for financial services in particular), elimination of fiscal distortions aimed at improving firm-level competitiveness, insufficient progress in laying down a firmer foundation for the financial sustainability of pension and social protection systems, and inadequate levels of investment in R&D, calling into question the 3% of GDP target for 2010. Moreover, the EU will also have to confront the additional challenge – not envisaged as a problem when the Lisbon Strategy was formulated – of ensuring a return to viable fiscal policies, consistent with the Stability and Growth Pact and with stable levels of public indebtedness.

Our country-level assessment is also broadly consistent with the one carried out by the EU. The same Commission study places Denmark, the Netherlands, Sweden and the United Kingdom among the top performers, a group that captures four of the top five performers in Table 1. The Commission also identifies Greece, Spain, Italy and Portugal as "performing relatively poorly" in terms of Lisbon goal implementation; this group matches exactly the four countries with the lowest scores in Table 1. In other words, *The Lisbon Review*, which directly captures the perspective of the business community in the various countries, comes to similar overall conclusions on Europe's strengths and weaknesses with regard to the Lisbon criteria.

The Accession Countries

While the EU-15's Lisbon scores provide insight as to how well placed the existing EU is to reach the Lisbon goals, the accession of many new countries, mainly from Central and Eastern Europe, will affect the competitive potential of the EU. Thus, the Lisbon goal of creating the conditions for the EU to become the most competitive economy in the world should now be seen against the background of an enlarged Europe, with 25 member countries. Achievement of the Lisbon goals will, therefore, require attention on two fronts: getting the laggards within the existing EU up to speed, while also making sure that the accession countries quickly catch up.

Table 4 presents the scores as well as the overall ranking for nine of the 10 accession countries (other than Cyprus), as well as for Bulgaria, Romania and Turkey, which are actual or potential future accession countries. We have also included the EU average scores at the bottom of the table for comparison. As with the comparison among the existing 15 member countries, we see considerable variance in performance among the accession countries in the different dimensions measured.

Estonia is ranked first among accession countries by the Lisbon criteria. Among Estonia's specific strengths are the quality of its enterprise environment, and the level of sophistication of information society elements present in the economy, both areas in which it scores above the EU average. Estonia's financial services are modern enough to allow a score close to the EU average. Slovenia is ranked second, with relative strengths in the dimensions of network industries and sustainable development, both areas in which it gets top scores among the 12 countries considered.

For most other countries in the top to middle of these relative rankings, there are some notable areas of particular strength, such as the Czech Republic in network industries and Malta in financial services, although, for the most part, it must be said that the numbers show relative weaknesses as compared with the EU average. It is particularly worrisome that Poland, the largest of the accession countries, performs poorly across all dimensions, especially in the areas of information society, social inclusion and the enterprise environment.

Table 4: Ranking and Scores of Potential Accession Countries

Country	Final Index		Subindexes							
	Rank	Score	Information Society	Innovation and R&D	Liberalization	Network Industries	Financial Services	Enterprise	Social Inclusion	Sustainable Development
Estonia	1	4.64	4.92	3.82	4.40	4.98	5.43	4.90	4.20	4.44
Slovenia	2	4.36	4.38	3.92	4.06	5.21	4.69	3.76	4.24	4.60
Latvia	3	4.34	3.62	3.86	4.44	4.35	4.84	4.87	4.47	4.29
Malta	4	4.20	4.42	2.99	4.03	4.81	5.27	4.00	4.83	3.24
Czech Republic	5	4.16	3.62	3.34	4.01	5.19	4.03	4.18	4.40	4.48
Hungary	6	4.12	3.24	3.47	4.10	4.57	4.87	4.41	4.19	4.09
Lithuania	7	4.05	3.36	3.57	4.10	4.51	4.67	4.38	3.69	4.17
Slovak Republic	8	3.89	3.29	3.34	3.84	4.50	4.39	3.43	3.83	4.53
Poland	9	3.68	2.95	3.53	3.75	4.00	4.26	3.56	3.42	3.99
Turkey	10	3.45	2.61	2.72	3.68	4.01	3.99	3.84	3.45	3.33
Romania	11	3.35	2.91	2.88	3.04	3.48	3.77	3.65	3.74	3.33
Bulgaria	12	3.25	2.66	2.94	3.26	3.54	3.64	3.81	3.07	3.08
EU Average		4.97	4.61	4.41	4.69	5.81	5.52	4.74	4.81	5.16

The First Accession Wave

Table 4 shows the countries from the first accession wave holding the top nine places in the relative ranking. These nine countries are those that are measured as being the most prepared to compete – on a relative basis – based on the Lisbon dimensions.

Table 5 compares the performance of the nine countries entering the EU in 2004 with the EU's performance. The table makes four distinct comparisons: (1) the average score of all nine accession countries to the average of all 15 EU members; (2) the three best accession countries relative to the EU; (3) the accession country average to the four worst-performing EU countries; and (4) the three best accession countries relative to the four worst-performing EU countries.

A first observation to be drawn from Table 5 is that, on average, the nine accession countries score lower than the EU average in all Lisbon dimensions measured. However, this overall average masks quite marked differences both among EU countries, and among accession countries. Looking at the second column of the table, which compares the performance of the three best accession country performers to the EU average, the difference becomes somewhat less stark. In particular, in the areas of the information society and the enterprise environment, the three best-performing countries come close to the EU average performance. In fact, they score even higher in the area of the business start-up environment.

Taking this type of comparison a step further, the third column of Table 5 shows how well the average of the nine accession countries compares to the average of the four worst performers among the existing EU members. Here we see that the nine accession countries do better on average than these four EU member countries, in the dimensions of the information society and the enterprise environment. Moreover, they do comparatively better in the areas of the quality of the business start-up environment and one key element of social inclusion, outperforming the worst-performing EU countries in the area of upgrading skills.

Table 5: Lisbon Scores:
Comparing the EU and the Accession Countries

	3 best accession performers	4 worst EU performers	9 country average* relative to the EU Average	3 best accession performers relative to the EU Average	9 country average* relative to 4 worst EU performers	3 best accession performers relative to 4 worst EU performers
An Information Society for All	Estonia, Malta, Slovenia	Greece, Spain, Portugal, Italy	**-0.86**	**-0.04**	**0.08**	**0.90**
Innovation, Research and Development	Slovenia, Latvia, Estonia	Portugal, Greece, Luxembourg, Italy	**-0.88**	**-0.54**	**-0.04**	**0.29**
Liberalization	Latvia, Estonia, Lithuania	Greece, Portugal, Italy, Ireland	**-0.61**	**-0.37**	**-0.15**	**0.08**
Completing the single market			-0.67	-0.49	-0.28	-0.10
State aid and competition policy			-0.54	-0.26	-0.02	0.26
Network Industries	Slovenia, Czech Rep., Estonia	Ireland, Greece, Italy, Spain	**-1.12**	**-0.67**	**-0.45**	**0.00**
Telecommunications			-1.10	-0.61	-0.78	-0.28
Utilities and transportation			-1.15	-0.74	-0.12	0.29
Efficient and Integrated Financial Services	Estonia, Malta, Hungary	Greece, Portugal, Italy, Spain	**-0.81**	**-0.33**	**-0.21**	**0.26**
Enterprise Environment	Estonia, Latvia, Hungary	Italy, Greece, Portugal, Austria	**-0.57**	**-0.01**	**0.27**	**0.83**
Business start-up environment			-0.36	0.11	0.75	1.22
Regulatory environment			-0.79	-0.14	-0.21	0.44
Social Inclusion	Malta, Latvia, Czech Rep.	Greece, Portugal, Italy, Germany	**-0.67**	**-0.24**	**-0.02**	**0.40**
Returning people to the workforce			-0.76	-0.18	-0.26	0.32
Upgrading skills			-0.54	-0.41	0.27	0.40
Modernizing social protection			-0.70	-0.14	-0.08	0.49
Sustainable Development	Slovenia, Slovak Rep., Czech Rep.	Greece, Portugal, Ireland, Spain	**-0.95**	**-0.62**	**-0.08**	**0.26**

* The nine country average refers to the average performance of the nine countries entering the EU in May 2004 included in this study: the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, the Slovak Republic and Slovenia.

Finally, comparing the three best-performing accession countries to the four worst-performing EU countries, the accession countries do better than the EU countries virtually across the board, with the exception of completing the single market, and telecommunications, where the differences are quite small. In other words, taken by issue-area, the strongest of the accession countries are better prepared to compete along the lines of the Lisbon dimensions than the weakest of the existing EU member countries.

These results are perhaps not surprising. The economies of Central and Eastern Europe have been engaged in a comprehensive process of reforms for over a decade now. Initially, these reforms were launched as part of a process in these countries aimed at replacing the inefficiencies of central planning with the institutions and the mechanisms of a modern market economy. Subsequently, they were set in the broader political context of EU membership negotiations. The top performers in this group have tended to manage this process with consistency and admirable zeal. Estonia early on amended its constitution to mandate a balanced budget. Having thus disposed of the yearly political ritual seen in other countries – most notably in the EU itself – of determining the size of the deficit and dealing with the intricacies of financing it, successive governments have instead tended to focus on structural reforms of the kind identified in the Lisbon Strategy. Having done away with all taxes on international trade, Estonia actually had to introduce import duties to the EU's common external tariff as part of its accession negotiations. It was also forced to introduce agricultural subsidies, having long disposed of its own.

By the late 1990s, Slovenia had all the elements of a functioning market economy, a stable macroeconomic environment, with sustainable growth and "the highest standard of living and investment rating among transition countries, having made significant progress towards convergence with the EU", according to a 1999 IMF Article IV staff report. Latvia has had as many as 10 governments since independence in 1991, but the consensus for reform has been so broadly shared across the political spectrum that this has not prevented the country from making major progress in implementing all the key elements of the *acquis communautaire*, and introducing the kind of reforms that are part of the Lisbon Strategy. Partly reflecting this improved policy environment, but also the presence of low labour costs, well-educated and skilled labour forces and more flexible labour markets, these countries in Central and Eastern Europe have attracted large foreign direct investment inflows which have been a major engine of growth.

Romania, Bulgaria and Turkey

Romania and Bulgaria are currently expected to join the EU by 2007, while Turkey could begin accession negotiations at some point in the coming years. Table 4 shows that these three countries receive the lowest Lisbon scores among the 12 potential future members. It is difficult to point out specific areas of strength or weakness among these three countries, as they score fairly low across the board, when compared with both the EU average, as well as the other accession countries.

One point worth noting from Table 4 is that Turkey, the only country with no foreseen entry date, does better in many of the different dimensions, and in the overall ranking, than Bulgaria and Romania, two countries for which future membership is largely a foregone conclusion. Thus, at least according to this measurement of the EU's own competitive criteria, Turkey would seem better prepared than some of the countries towards which the EU has already promised entry. Having said this, it is only fair to highlight that the Lisbon criteria are overwhelmingly focused on structural economic issues. Turkey, having made important progress in these areas in recent years, faces a number of other challenges, on which it will have to make sustained efforts in coming years, including on the macroeconomic stabilization front. In particular, it continues to have rates of inflation significantly above the EU average and, because of poor fiscal management in years past, remains under strict IMF supervision, being that organization's second largest debtor in absolute terms and, by a significant margin, its largest debtor in relative terms (in percent of its membership quota). As part of its on-going dialogue with the EU, Turkey is also expected to make further progress in the implementation of Copenhagen criteria, particularly the "stability of institutions guaranteeing democracy, the rule of law, human rights and respect for and protection of minorities."[9]

Conclusions

Our findings on where the EU stands vis-à-vis the Lisbon criteria are similar to those of the previous *Lisbon Review*. The performance among EU countries is quite mixed, with some countries, particularly the Nordic ones, scoring well in all of the Lisbon dimensions, and other countries, particularly those in southern Europe, doing much less well across all areas measured.

The EU as a whole receives lower scores than the US in seven out of eight Lisbon dimensions, including social cohesion. The one dimension in which the EU outperforms the US is sustainable development, although here it must be said that the margin is quite small. Individual EU member countries outperform the US in specific areas of the Lisbon criteria, although only the Nordic countries have comparatively higher scores across the board.

Compared with the OECD average, the EU scores higher overall in almost all areas. However, the margin by which they do so is quite small – much smaller than the margin by which the US outperforms the EU in these areas. So while this comparison shows that the EU does comparatively well by this less stringent benchmark, this should not lead to complacency, if the intention is to become the most competitive economy in the world by the end of the decade.

As regards the accession countries, we see that, as a block, the countries in the first accession group perform less well than the EU average in all Lisbon dimensions. However, a more detailed analysis among the specific countries provides a more nuanced picture. For example, we see that the average accession country performs almost as well, and in some cases better, in the different dimensions than the four worst performers among the existing EU members. Further, the three best-performing accession countries outperform the four worst-performing EU members in all eight dimensions measured.

Overall, our analysis suggests that reaching the Lisbon goal will, indeed, require continued efforts to improve the competitive environments of the accession countries, as well as that of the present member countries that are lagging behind.

Notes

1 The authors would like to thank Saadia Zahidi for her excellent research assistance.

2 See "Presidency Conclusions", Lisbon European Council, 23 and 24 March 2000, Press Release Library, European Commission.

3 Eleven of the nineteen countries with the highest per capita income in the world are members of the European Union.

4 See, for example, the Growth Competitiveness Index and the Business Competitiveness Index in *The Global Competitiveness Report 2003-2004.*

5 Note that the OECD includes the 15 members of the EU, so that the comparison with this group may be seen as "double-counting". Of course, it is also possible to create a comparison group of "other OECD" countries, after removing the EU countries. However, we chose to retain the entire group of OECD countries, since this is a concrete and well-understood concept. Moreover, we carried out the analysis using the "other OECD" group, and this did not fundamentally change our results.

6 Cyprus is expected to be covered in the World Economic Forum's Executive Opinion Survey beginning in 2004, and is thus not part of this review.

7 Please send requests to: gcp@weforum.org

8 See the Report from the Commission to the Spring European Council, "Delivering Lisbon: Reforms for the Enlarged Union". Available online at: http://europa.eu.int/comm/lisbon_strategy/pdf/COM2004_029_en.pdf

9 The decision to start accession negotiations with Turkey is expected to be taken at the EU summit in Brussels in December of 2004. While at the moment there appears to be broad political support for starting this process – which could take as much as a decade – it will require approval by all 25 members.

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