

The Reform of the Lisbon Strategy's Governance Framework – Is 'New Governance' the Way Forward?

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Introduction

The Lisbon Strategy was launched in 2000 with a view to achieving the ten-year goal for the Union to 'become 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' (European Council, 2000: par.5). This ambition was justified by the enthusiasm at the time for the booming high-tech market and a good EU economic performance. The resulting strategy was a wide-ranging programme combining policies in different domains (economic, social and environmental), to be adopted and implemented at different governance levels (European, national, regional) through a variety of policy tools (legislation, policy coordination, budgetary credits) (European Central Bank, 2005a). In breadth, scope and method the strategy does not compare to any programme of action launched by the EU in the past, like the single market project or the Maastricht process, which had a clearer focus and 'harder' tools at their disposal.

Since 2000, however, the economic climate in Europe has considerably changed. Amidst increasing criticisms of confusion and ineffectiveness (Kok, 2004; European Commission, 2005a; European Central Bank, 2005a), the Lisbon Strategy underwent its mid-term review in 2005. The existing coordination procedures were streamlined, while the content of the strategy was re-focused but essentially left untouched. In other words, the revamped Lisbon Strategy hardly amounts to a revolution: it aims to do less and better, but essentially it aims to do the same.

This work focuses on the governance of the strategy and builds a conceptual framework aimed at evaluating and interpreting the novelties introduced in 2005. In order to do so, it reviews the literature on the subject, trying to draw from it a number of hypotheses on the potential effectiveness of Lisbon's 'new' governance framework and on the way forward. Section 2 reviews the origins and objectives of the strategy and outlines the outcome of the mid-term review. Section 3 embarks on an assessment of the main governance-related issues it addressed: communication and discourse; national ownership; incentives and sanctions. It argues that, while the recently streamlined framework attempts to improve the strategy's agenda-setting capabilities and to commit member governments more deeply and publicly to its implementation, it fails to tackle the fundamental issue of incentives. This, in turn, reveals a fundamental discrepancy between what

the strategy is expected to deliver and the instruments at its disposal. Section 4, finally, reviews arguments in favour of a clearer break with the past and ventures a few hypotheses on how to push the structural agenda forward.

The governance of the Lisbon Strategy: objectives and reform

The Lisbon Strategy was inspired by the widespread perception that the Union was not fulfilling its economic potential. The Lisbon European Council conclusions acknowledged that unemployment was too high and employment too low, that the EU lagged behind in the transition to a knowledge-based economy and that, as a result, the gap in economic growth and productivity with its main competitor – the US – was increasing. Thus, a wide-ranging agenda of structural reform was set with a view to improving the EU's economic performance. In addition to the overall goal mentioned above, a number of specific objectives were defined in various policy domains, some of them corresponding to quantified targets. The Lisbon 'package' was then gradually enriched as subsequent Council presidencies tried to 'upload' their own preferences and priorities, and currently consists of as many as 28 objectives and 120 sub-objectives.

In essence, the strategy boils down to five main 'chapters': (i) investment in the knowledge-based economy (education and training, Research and Development – R&D – production and use of Information and Communication Technologies – ICT), with the aim of catching up with the 'new economy' and increase productivity; (ii) reform of product and capital markets; (iii) an 'optimal' macroeconomic policy mix so as to ensure that the higher output potential would be absorbed by effective demand without triggering inflationary tensions (Collignon, 2005); (iv) employment and social policy reform, essentially aimed at 'activating' welfare policies and increasing employment rates; (v) an environmental 'pillar' added by the Göteborg European Council in 2001 in order to deal with issues of sustainable development. Enormous gains were anticipated for those who would put in place Lisbon-type reforms in terms of improved welfare, greater market efficiency and lower unemployment (European Commission, 2005b).

Lisbon is not only a 'strategy', but also a governance 'process' through which its instructions are meant to be put into practice. The perceived existence of positive policy externalities arising from a coordinated approach to Lisbon-type reforms created incentives for member states to cooperate on the matter. The Kok report (Kok, 2004: p.8) put this most clearly: 'actions by any one member state [...] would be all the more effective if all other member states acted in concert; a jointly created economic tide would be even more powerful in its capacity to lift every European boat. The more the EU could develop its knowledge and market opening initiatives in tandem, the stronger and more competitive each member state's economy would be'. Since the strategy touches upon a host of different issues and policy sectors – not all of which are within the Union's competence – a multi-pronged approach was chosen relying on a variety of policy tools. New EU legislation was to be adopted (especially product and capital market regulation) and EU research and structural fund spending was to be harnessed in pursuit of the Lisbon R&D and employment objectives. Furthermore, a new 'Open Method of Coordination' (OMC) was launched with a view to dealing with sectors where the legal basis for EU-level action is limited or non-existent.

Along with the coordination processes already in existence – the Broad Economic Policy Guidelines (BEPGs), the European Employment Strategy (EES), the Cardiff process on product and capital market reform and the so-called macroeconomic dialogue – the OMC is meant to support the achievement of the Union's strategic goal and to promote policy change by organising a 'learning process at the European level [...] to help member states improve their own national policies' (Council, 2000: par.1). Open coordination was applied in such diverse areas as social inclusion, pensions, health care, education, research and development, each of them involving different actors, timetables and reporting obligations (Hodson and Maher, 2001; De La Porte, 2002; De

La Porte and Pochet, 2002; Radaelli, 2003). It was designed as a new mode of EU governance, an alternative to the traditional 'Community method' based on legislation, implementation and enforcement. 'New governance' relies not on formal rules and 'hard' law, but on open-ended standards, flexible and revisable guidelines and other forms of 'soft' law. Continuing national diversity is accepted and stakeholders (social partners, local authorities, NGOs) are encouraged to participate and share power. The aim is to facilitate experimentation and learning through extensive deliberation, multilateral surveillance, benchmarking of performance and the exchange of experience and information.

Five years after the strategy was launched, however, the results achieved were mixed. Although jobs have been created, boosting the total employment rate up to 64.3% of the working age population, Lisbon's 70% target seems way out of reach. Considerable strides have been made on the completion of the Internal Market, where almost all the legislation announced in 2000 has been adopted. Yet most member states have proved to be relatively slow in implementing the new legislation and have failed to reach the 98.5% transposition target agreed in Lisbon. Also, as regards innovation and research, although there has been clear progress in the diffusion and accessibility of ICT, the ratio of R&D expenditure has increased only slightly and is still substantially below the 3% Barcelona target.

What this cursory survey of the evidence shows is that, at the EU level at least, the Lisbon strategy has actually been quite a success (Zgajewski and Hajjar, 2005). By contrast, the results achieved by the coordination of national policies have been far less impressive. Pisani-Ferry (2005) has shown that there is little evidence of convergence of national employment policies. For instance, he demonstrates that the dispersion of employment protection for permanent workers among the EU-15 member states remains as wide in 2003 as it was ten years before. The same can also be said about implicit taxation on work after 60, which is generally considered a major obstacle to old-age employment (Pisani-Ferry, *ibidem*). It can be argued, therefore, that the strategy's patchy results are largely explained by the 'softness' of the method chosen to achieve some of its goals.

The mid-term review of the Lisbon Strategy went some way toward acknowledging the paucity of success. The conclusions of the 2005 Spring European Council (European Council, 2005) officially completed the review, which had been opened by the publication in November 2004 of the report of the High Level Group chaired by Wim Kok (Kok, 2004) and the release of the Commission's Spring Report in February (European Commission, 2005a). Both the reports and the European Council conclusions point to a clear implementation 'gap' on the part of the member governments, but insist on the need to continue the Lisbon process. Accordingly, even though a re-launch of the strategy is attempted around four 'vital strands' – knowledge and innovation; making Europe an attractive area in which to invest and work; growth and employment to foster social cohesion; promoting sustainable development – its content was basically left untouched. Thus, although the Lisbon objectives were subject to considerable criticism in the academic literature, the mid-term review put the entire blame for the strategy's perceived failure on its governance framework, especially on the OMC.

The strategy's governance has been overhauled with a view to facilitating the identification of priorities, increasing member states' commitment and streamlining the monitoring procedures. To this end, a simplified arrangement has been agreed which unfolds over a three-year cycle, with the first one starting in 2005. The cycle is to be initiated by a 'strategic report' produced by the Commission and discussed by the Spring European Council, which sets the main lines for the three strands of the strategy (economic, social, and environmental). The Council is then asked to adopt, in accordance with Articles 99 and 128 TEC, a set of 'integrated guidelines' incorporating both the BEPGs and the Employment Guidelines (EGs). On this basis, the member states will draw up 'national reform programmes' (NRPs) and the Commission a 'Community Lisbon programme', covering all appropriate action to be undertaken at the national and

European levels respectively. National reports on the follow-up to the Lisbon Strategy, exhausting in a single document previous reporting obligations, will be sent to the Commission every year for it to report on and the European Council to discuss. At the end of each three-year cycle the integrated guidelines, the national reform programmes and the Community Lisbon programme will be reviewed in accordance with the above procedures and on the basis of a new strategic report. Finally, parallel new social cohesion objectives were formulated in 2006 across the three 'pillars' of social inclusion, pension and healthcare/care for the elderly. Progress toward these objectives will be monitored through an integrated set of OMC processes and combined reports whose results will 'feed into' the NRPs and will be subject to a yearly review at the Spring European Council (Sabel and Zeitlin, 2006).

The Discursive Nature of the Lisbon Strategy

It is the contention of this paper that the necessary starting point for any assessment of the strategy's governance framework must be the recognition of its essentially discursive nature. Beyond all its rhetoric, in fact, the Lisbon Strategy amounts to something very different from previous European projects like the Single Market and the Maastricht process, which had clearer goals and focus and 'harder' tools at their disposal. The strategy is best understood as an advisory process whose aim is to provide a single, overarching framework for understanding the problems of the European economies and working out the appropriate solutions. Policy coordination under Lisbon entails a comprehensive 'legitimising discourse' (Radaelli, 2003), providing policy-makers with a common vocabulary and a legitimising project. Its success in reaching its targets and delivering reform, therefore, will depend on the extent to which domestic policy-makers will accept it as an accurate definition of reality. At least in the sectors where the Union does not have the power to legislate, the strategy closely resembles mechanisms of 'framing integration', whereby EU policies do not abolish existing national arrangements or create new ones, but are meant to alter domestic actors' beliefs and expectations and, ultimately, their preferences and strategies for action (Knill and Lehmkuhl, 2002).

Based on recent work on agenda-setting (Kingdon, 1995; Zahariadis, 2003), policy learning and transfer (Rose, 1991; Hall, 1993; Levy, 1994; Dolowitz and Marsh, 1996 and 2000; Radaelli, 2000; Hemerijck and Visser, 2003) and on the role of discourse in policy change (Schmidt, 2002; Schmidt and Radaelli, 2002 and 2004), I outline here three necessary conditions that must be met in order for the Lisbon Strategy's discourse to have transformative effects on domestic policies. I do not claim that policy change will necessarily proceed from these conditions, rather that under these conditions domestic policy-makers will be most likely to accept that the Lisbon Strategy's discourse is appropriate as a definition of reality, thereby magnifying its influence on domestic policies. These hypotheses will then be confronted with the strategy's streamlined governance framework so as to assess the extent to which it satisfies them and, thus, its potential effectiveness.

First of all, the strategy must be effective in making domestic policy-makers aware of its interpretation of problems and policy failures. Policy-makers will be willing to look for new solutions if they are dissatisfied with the present state of affairs or if they are faced with problems that have never been on the agenda before. Failures, though, are not self-evident. They are brought to the attention of policy-makers by poor performance according to accepted benchmarks and indicators, or by comparison with the performance of others. The literature on economic policy reform has shown that resistance to change is strongest in conditions of uncertainty about the identity of winners and losers (Rodrik, 1996). Thus, the strategy's effectiveness can be greatly enhanced by improving communication and streamlining and sharpening the focus of its discourse. Public awareness of the benefits to be reaped is likely to be crucial in convincing those affected of the necessity of structural reforms and winning their support.

The second condition, which is very closely linked to the first one, is that the strategy's proposed solutions must be perceived as sound and convincing. The strategy's discourse must be perceived to put forth sound cognitive and normative arguments. In other words, the story the discourse tells and the information it provides must appear to be trustworthy, the solutions it recommends feasible and the overall outcomes appropriate. Perceptions regarding the soundness of a discourse depend crucially on the legitimacy and authority of its source, which, in the case of the Lisbon agenda, is likely to be enhanced by the involvement of a large number of domestic actors as well as, again, by widespread awareness of it among policy-makers and the wider public.

Third and finally, in order for the strategy to be implemented, it will have to be supported by resourceful domestic actors and/or coalitions. Entrepreneurial actors need to mobilise to persuade others to accept new concepts and discourse and to push the Lisbon agenda through the domestic arena. In this context, the use of sanctions and the distribution of incentives can change the strategic environment in which actors' choices are made, redistribute resources and opportunities for action and, eventually, influence causal beliefs and goals. Thus, the strategy's ability or inability to provide incentives and sanctions will make it more or less likely for it to gain political support on the part of domestic actors and eventually be implemented.

Based on the above conditions, the following sub-sections discuss the main governance-related issues that were addressed by the reform of the Lisbon Strategy, i.e. agenda-setting, national ownership and incentives and sanctions.

Discourse, Communication and Agenda-Setting

Communication and discourse, as indicated above, are likely to play a crucial role in determining the success of the Lisbon Strategy, as they affect its ability to set the agenda of structural reform in the EU and to mobilise public opinion around it. However, there is a widespread perception that the strategy's discourse has so far been cumbersome and ineffective. The high number of objectives and targets and the large number of coordination processes has proved almost impossible to manage and made it difficult to identify priorities (Kok, 2004; European Central Bank, 2005a). The ensuing lack of focus was, in turn, linked to the blurring of competences and responsibilities of the various national and European actors involved. This made the strategy exceedingly difficult to understand for the general public and hampered public awareness: the existing research on media coverage of EU-level macroeconomic and employment policy coordination, for instance, shows that, although it received a good deal of attention in the first few years of its operation, it then gradually disappeared from the main media and is now essentially lost on all but those directly or indirectly involved (Meyer, 2005).

Against this background, the strategy's mid-term review has taken some welcome steps in the direction of streamlining its discourse. Although the whole Lisbon 'package' still consists of as many as 28 main objectives, 120 sub-objectives and 117 indicators, the adoption by the European Council in December 2003 of a shortlist of 14 headline indicators 'that should be conveyed to the public opinion through the mass media in order to monitor the progress made' (European Council, 2003: p.2) has the potential to improve the strategy's clarity and facilitate the assessment of performance and progress. The re-focusing of the strategy around four 'chapters' and the streamlining of guidelines and reporting obligations are an improvement in terms of presentation. Furthermore, the new Barroso Commission is placing greater emphasis on communication, with one of the Vice-Presidents put in charge of communication and institutional relations. Pushing through the Lisbon Strategy has been publicly confirmed on a number of occasions by President Barroso as one of his priorities. Although proposals to establish a 'super-Commissioner' for economic reform were not accepted, President Barroso vowed to lead personally the reform

agenda and announced he will chair an ad hoc group of Commissioners. Another group of Commissioners chaired by the Commissioner for Enterprise and Industry has been established to deal with competitiveness-related issues.

However, yet more radical attempts to sharpen the focus of the discourse were unsuccessful. The 2006 assessment of the national reform programmes (European Commission, 2006) noted that media coverage of the strategy is still limited and called for the adoption of specific national communication strategies. Moreover, the Commission's 2005 Spring Report proposed to narrow the strategy's focus to 'growth and jobs' (European Commission, 2005a), but, following a successful public campaign promoted by social NGOs and supported by some key governments and the European Parliament, the European Council reaffirmed the social cohesion objectives and stated that the OMC on social protection and inclusion will be continued (European Council, 2005). Finally, the Commission itself has insisted on proposing new OMC processes whenever it identified the need for common action in sensitive areas, from better regulation to the reduction of administrative burdens and the promotion of local and regional clusters (Sabel and Zeitlin, 2006).

National Ownership, Participation and Learning

One of the main features of Lisbon's new governance framework is its emphasis on stronger national 'ownership' of the strategy. There is a sense that, in order to gain momentum, the Lisbon agenda needs to increase its legitimacy and political support and that, in order to do so, efforts should concentrate on where the ultimate responsibility for the design and implementation of structural reforms really lies, that is, the member states. The available empirical studies show that the requirement of EU-level coordination processes, like national programmes or 'action plans', have so far been insufficiently integrated into national decision-making procedures and budgetary allocations and that the participation of non-governmental actors like social partners and regional and local authorities has proved to be uneven, depending, in particular, on the presence or absence of previous corporatist traditions at the national level (European Commission, 2002; Jacobsson and Schmid, 2002; Jacobsson and Vifell, 2003 and 2005; De La Porte and Nanz, 2004; Govecor, 2004). Therefore, in order to improve implementation and foster policy learning, the new governance framework encourages member states to step up their commitment to Lisbon-type reforms – their 'ownership' thereof, in the strategy's parlance – and to consult all the relevant stakeholders, especially parliaments and social partners.

The main change introduced in the strategy's governance framework with the aim to increase national ownership is the adoption of NRPs. The adoption of a single document incorporating both the old national reports on economic, employment, product and capital market reform (Cardiff reports) and 'feed-ins' from the OMC reports on selected areas (e.g. social inclusion, R&D and so on) obliges member states to be consistent across sectors and spell out their policy commitments for the following three years. Consultations on the programmes are to be held with all stakeholders at the national as well as the local level, including parliamentary bodies in accordance with each member state's own procedures. Furthermore, following a recommendation made by the Kok report (Kok, 2004), member governments are invited to appoint a Lisbon national coordinator – dubbed 'Mr' or 'Mrs' Lisbon – further to enhance internal coordination and the consistency of the actions related to the strategy.

The new arrangements are meant to raise national awareness of the strategy and improve its legitimacy and implementation record by creating a broad consensus around the reform agenda and involving a larger number of actors with real influence at home. Yet the Commission's 2006 assessment of the NRPs explicitly laments the uneven quality of the reports, even though it identifies 'a large convergence of views on the diagnosis and on which key challenges need to be addressed as a matter of priority' (European Commission, 2006: p.6). Also, the extent to

which social partners and other stakeholders were involved varied widely. The Italian NRP, for instance, was wholly written within the Prime Minister's Office under the supervision of a junior Minister and with little input from other branches of the government (except the Treasury), the social partners and local authorities. The report, which was not discussed in parliament and was barely mentioned in the main newspapers, focuses entirely on a large number of liberalising and growth-enhancing measures, while the part on employment is almost completely missing. So much so, in fact, that the Italian government was asked to provide an addendum on employment policy, which was swiftly drafted by the Ministry of Labour without consulting the social partners and sent to Brussels at the end of 2005 (Chiattelli, 2006).

More generally, however, the relevant literature identifies a fundamental tension between the participation of a broad number of actors and policy learning that bodes ill for the potential of national ownership as a tool to enhance domestic implementation of the strategy. In particular, Zeitlin (2005a) has argued that the involvement of parliamentary assemblies is hardly a solution to the strategy's implementation and legitimacy problems, since legislatures have long experienced serious difficulties in exercising detailed control over policy-making in complex, technical fields. This is especially the case in sectors such as pensions, where policy-making has traditionally been driven by networks of experts and technocrats (Ney, 2003). Moreover, broader participation and more public exposure also imply greater politicisation of the issues at stake. Yet the literature on policy learning and socialisation is sceptical about the effects of politicisation and tends to assume that learning is most likely to occur in smaller, less politicised settings where policy-makers can discuss issues at length without outside pressures (Risse, 2000; Checkel, 2001 and 2003; Niemann, 2004).

Sanctions and Incentives

The lack of incentives for member states to behave in accordance with its prescriptions is, arguably, the real problem behind the strategy's implementation gap (Pisani-Ferry, 2005). The open method, to be sure, is not completely unable to apply sanctions and/or provide incentives for compliance. Open coordination differs in some key respects from soft law measures such as codes of conduct, recommendations or resolutions, as it is not only a provision, but also a process with its own method of sanctioning – based on peer pressure, benchmarking, 'naming and shaming' and multilateral surveillance – and a follow-up system that limits the scope for circumvention (Regent, 2003). The available empirical studies have provided some evidence that peer pressure and associated practices do have an influence on the behaviour of national governments (Jacobsson and Vifell, 2003; Zeitlin, 2005b). National representatives in EU committee and Council meetings feel the pressure to reach common targets and carry out mutually agreed commitments, or at least to be seen to be doing so by the other participants, while member state governments want to avoid EU recommendations or reprimands as a potential source of embarrassment in domestic politics.

Yet there are a number of reasons to expect these mechanisms to be ineffective. Peer pressure and multilateral surveillance, to start with, can work as a stimulus for policy competition but can also provide negative incentives for laggards to sit back and cover each other's lack of action. Also, benchmarking at the EU level is inherently weak as the Union lacks the capacity for enforcement and control over its members that private companies have over their sub-units (Arrowsmith et al., 2004). Finally, 'naming and shaming' is hampered by the low level of national awareness of the strategy and the fact that voters tend to compare the overall performance of EU countries – GDP growth or unemployment rates, for instance – rather than single policies and reforms whose impact is far less clear and depends on a host of different factors, from the macroeconomic environment to the impact of other policies (Pisani-Ferry, 2005).

Notwithstanding the recommendations of the Kok report (Kok, 2004), which called for greater efforts to be made to 'name and shame' member states into complying with the terms of the

strategy, after the mid-term review the emphasis seems to be shifting further away from multilateral surveillance and peer pressure. For instance, the 2005 Spring European Council conclusions mention neither the Lisbon overall 2010 goal nor more specific goals like the employment rate targets (European Council, 2005). More importantly, the 2005 Commission Spring Report openly called for a shift in focus from multilateral surveillance involving all member state governments and the Commission to bilateral discussions between the Commission itself and single member states on the structure of the national programmes (European Commission, 2005a). For this purpose, bilateral IMF-like meetings have taken place in June/July 2005 between Commission and national officials. In addition to this, the national reform programmes submitted by the member states in 2005 contain only a forward-looking section specifying the measures they are planning to adopt in the next three years and no backward-looking section reporting on what has already been done. Accordingly, the Commission has decided not to propose country-specific recommendations on the national reform programmes in 2006 (European Commission, 2006).

As far as financial incentives are concerned, some EU R&D and structural funds have been made available to pursue the Lisbon objectives. For instance, 195 billion of Community structural funding is available over the 2000-2006 period to support employment objectives, of which 70 billion is devoted to human resources development through the European Social Fund (ESF) (Goetschy, 2001). More recently, the 2005 Spring European Council called for the 2007-2013 financial perspective 'to provide the Union with adequate funds to carry through the Union's policies in general, including the policies that contribute to the achievement of the Lisbon priorities' (European Council, 2005: par.7). To this end, the Commission's communication on the strategic guidelines for cohesion policy for the programming period 2007-2013 called for greater concentration and targeting of EU financial support on areas of common interest and for an alignment of the priorities pursued by programmes co-financed by the structural funds with those of the Lisbon Strategy (European Commission, 2005c). Nevertheless, the new structural fund regulations have not yet been adopted and the communication is still far too vague to give any clues about future developments. On top of this, while member states are encouraged to use the EU funds allocated to them to finance some of the initiatives included in their national programmes, the cohesion policy budget is determined and distributed independently of the strategy.

Having said this, it is worth pointing out that the issue of sanctions and incentives begs some fundamental questions about the nature of the Lisbon Strategy and the kinds of results it is expected to deliver. The emphasis the reports by the Commission and the Kok group put on results and the lack of implementation seem to reveal a top-down, 'old governance' approach that is unlikely to be matched by 'new governance' mechanisms like the OMC, based as they are on 'soft' processes of mutual learning, problem-identification and solution-seeking whose outcomes are likely to be seen in the medium to long-term and not necessarily within the deadlines set in Lisbon. This underlying ambiguity of approach, in turn, begs questions as to whether the reform of the strategy's existing governance framework is sufficient or whether an entirely different course of action should be taken instead. The final section of this article investigates this issue more fully.

Is 'New Governance' Appropriate for the Task at Hand?

The previous sections have argued that the mid-term review of the Lisbon Strategy identified a 'commitment-implementation gap' on the part of the member states and essentially blamed the existing governance framework for it. As a result, attempts have been made to streamline and re-focus the strategy's communication and discourse. A new emphasis has been put on national ownership and the participation of all stakeholders as a means to raise national awareness of the strategy, improve its legitimacy and gather political support. Yet as greater importance is attached to ownership and participation, less emphasis is being put on 'soft' sanctioning mechanisms like peer pressure and 'naming and shaming'. Also, apart from some utterly vague statements of intent, calls for the EU budget to be used as an incentive device to support the member states' structural reform efforts have so far come to nought.

Accordingly, it is the contention of this article that Lisbon's 'new' governance framework is not substantially different from what was already in existence. The attempts made to improve the strategy's agenda-setting capabilities and to commit member governments more deeply and publicly to its implementation have so far been unsuccessful, as the Lisbon agenda is still extremely broad and levels of national awareness are generally low. What 'national ownership' will be able to deliver in the future remains to be seen. Meanwhile, the relevant literature does not offer conclusive answers as to whether wider participation on the part of stakeholders and greater 'politicisation' of the structural reforms agenda will improve its effectiveness and facilitate implementation. Finally, Lisbon's 'new' governance framework does not provide member states with a different structure of sanctions and incentives to encourage implementation. Thus, one is led to conclude that, since, as argued above, the reason for the strategy's mixed implementation record essentially lies with the 'softness' of the method chosen, one should not expect its results to be substantially different in the future.

Arguments have, thus, been put forth in support of a clearer break with the past, focusing on the desirability of further integration or, at least, of a more pro-active role on the part of the EU in achieving the Lisbon goals. Two main arguments are generally used to explain the need for common action at the European level (Tabellini and Wyplosz, 2004; Begg, 2003; Begg et al., 2003; Collignon, 2003): the existence of externalities (i.e. the fact that one country's actions affect others) and the necessity to prevent or reduce the likelihood of free-rider behaviour by member states, which may impose considerable costs on their partners. In cases where externalities are sizeable and the potential costs of uncoordinated behaviour are high, common action would help in internalising the benefits and minimising the costs of policy, thereby increasing overall efficiency. On this basis, the case for integrating redistributive, demand-side policies such as social inclusion, pensions and healthcare is rather weak, as they do not entail significant cross-border externalities. In the case of social policies, then, 'light' versions of the OMC, providing regular contacts between policy-makers, exchange of information and best practices, seem to be appropriate. The case for coordinating supply-side policies, however, is more controversial. Tabellini and Wyplosz (2004), in particular, have argued that the externalities arising from supply-side policies tend to be pecuniary, that is, they generally result in relative price changes without generating any market failure. For example, if a member state manages to improve its productivity performance and therefore boosts its growth, then its neighbours will likely benefit from increased demand and relative price cuts, but this effect will essentially result from the move to a new price equilibrium and will not reduce incentives to improve productivity (Pisani-Ferry, 2005). Hence, decentralisation or, at most, 'soft' coordination will be most beneficial in the case of supply-side policies, involving incentives for member states to engage in healthy policy competition and experimentation. Closer forms of cooperation, by contrast, are warranted in areas that involve sizeable non-pecuniary externalities, such as single market legislation and enforcement, where member states face strong incentives to restrict market access, and spending on research and education.

A stronger argument for supply-side policy coordination, however, can be made regarding the euro zone members, where the externalities are entirely attributable to the fact that the countries involved share the same currency. Within a monetary union, for instance, if country A puts in place structural reforms thereby increasing its employment rate and improving its productivity and growth performance while country B does not, then it will be difficult for the central bank to set the interest rate at a level that is appropriate for both (Pisani-Ferry, 2005). Hence, some form of 'closer' or 'enhanced' cooperation in the field of supply-side policies among EMU members would be warranted. What form such 'closer cooperation' should take, however, is something the relevant literature is unclear about.

A number of commentators (Collignon, 2005; Mabbett and Schelkle, 2005; Pisani-Ferry, 2005; Gros et al., 2004) have spoken of the need to use macroeconomic policies to support the structural reforms agenda. As Lisbon-type reforms are likely to be painful in the short term, governments should have some fiscal room for manoeuvre to compensate the losers. The March

2005 agreement on the reform of the SGP goes some way toward responding to these concerns, as it includes a commitment to take structural reforms into account when considering a country's medium term budgetary position (European Central Bank, 2005b). Nevertheless, it has recently been suggested that a more coherent arrangement would take into account the aggregate fiscal position of the Euro area as a whole rather than that of the single member states. Accordingly, it has been proposed that the BEPGs be turned into a kind of 'DPEF europeo' (Collignon, 2005; Amato, 2002), with the aim of defining the optimal aggregate fiscal stance and breaking it down into national deficit quotas. If one member country does not use its full quota, it will then be allowed to sell it to another one that wishes to borrow more. This system, inspired by Coase's theorem on the management of private externalities, would allow the overall fiscal position of EMU to remain stable while making room for single members to spend more based on their own business cycle as well as their willingness to undertake structural reforms.

Other commentators, however, have maintained that not only the economic governance of EMU, but also the very distribution of competences between the EU and national governments should be adjusted so as to cater for the needs of the structural reforms agenda. Based on Olson's theory of collective action, Collignon (2003, 2005) argued that market liberalisation and macroeconomic stability in EMU are exclusive collective goods, insofar as they provide benefits from whose enjoyment it is impossible to exclude any member of the group. For instance, if one member state undertakes structural reforms which boost its productivity and growth potential, then the others will benefit from increased demand of their goods and services without having to make any potentially painful choices of their own. This creates significant distorted incentives for member governments to free-ride and will ultimately make it unlikely for such collective goods to be produced at all. The presence of distorted incentives, thus, suggests the need for further delegation of responsibilities to the EU level, but further integration would not be accepted by European electorates without increasing the democratic accountability of European policy-makers. The only way out of this dilemma, the argument goes, is the creation of a directly elected 'Government of Europe'.

Collignon's argument shows that, if taken to their extreme consequences, the externalities arising from monetary union can be used to uphold the case for further integration in the field of macroeconomic and employment policies. However, the presence of widespread uncertainty about the optimal economic policy framework for EMU and the direction to be taken by welfare state reforms in member states suggests that policy harmonisation in these fields would be unwarranted. Uncertainty surrounds both the problems that reforms are meant to address and the scope and depth of the required changes (Schelkle, 2005). The issues that arise are, variously: do the problems of European welfare states originate from market integration, technological innovation, or demographic change? Should member states find reforms that suit their own welfare models or is there one Third Way to go for the whole Union? If so, is there a single model that could be successfully applied to all? Economies admired for their employment record in the 1990s, such as the UK and Ireland, have persistently had high rates of poverty. By contrast, the Scandinavian systems – the ones that have reached the best results both in terms of employment rates and coverage of benefits – rely on levels of taxation that would be unacceptable in the rest of the continent. Finally, as regards economic policies, does Monetary Union require a full-fledged fiscal federation or would more effective forms of policy coordination be sufficient? There is no agreement on these matters among experts and policy-makers. It is, in other words, a situation of policy-making in conditions of 'deep uncertainty' (Schelkle, 2005: p.158).

The presence of widespread uncertainty prompts a flexible approach to integration in this field, one that is able to couple the incentives for compliance provided by 'old governance' mechanisms based on legislation with the potential of 'new governance' for mutual learning and experimentation. An interesting proposal in this direction has been put forth by Scharpf (2002), who proposed to link OMC processes to framework directives in order to give them real bite and anchor their potential for flexibility and experimentation in the sanction of law and the courts. Accordingly, the integrated guidelines for growth and jobs could be incorporated in framework directives that would set a number of legally binding principles that all member states should follow

while respecting their different institutional set-ups and policy legacies. These directives would be complemented by Council guidelines concerning their implementation and national action plans and reports on progress which would be periodically assessed by peer review. The Commission could then propose recommendations regarding specific implementation deficits in individual countries and, if necessary, initiate infringement proceedings. A sanctioning mechanism such as this, patterned after the excessive deficit procedure governed by Article 104 EC, would enhance the monitoring role of the Commission with respect to the existing OMC processes while keeping the Council in charge of the most politically sensitive decisions. This proposal, thus, shows that there is still room for regulatory innovation in the EU and for 'cross-fertilisation' between different modes of governance and, if followed, it might help to rescue the Lisbon strategy from ultimate irrelevance (Rhodes, 2005).

Conclusion

Will Lisbon's 'new' governance framework work? This paper has argued that the strategy's partial lack of results is explained by the 'softness' of the method chosen to achieve its stated goals. Consequently, the mid-term review undertaken in 2005 set out thoroughly to overhaul the strategy's governance. It has been contended, however, that the attempts made to improve the strategy's agenda-setting capabilities and to commit member governments more deeply and publicly to its implementation have been unsuccessful and the relevant academic literature does not provide conclusive answers as to whether 'national ownership' and greater politicisation of the structural reforms agenda will provide the right incentives for governments to implement it. Moreover, the strategy's objectives are still largely unsupported by EU financial resources and, going forward, less importance seems to be attached to peer pressure and multilateral surveillance. Thus, the conclusion of this article is that Lisbon's 'new' governance is not different from what was already in existence as it does not provide for a substantially different structure of sanctions and incentives. As a consequence, it is unlikely to produce essentially different results.

The emphasis put on implementation and results reveals a fundamental ambiguity on the nature of the Lisbon Strategy and the kinds of results it is expected to deliver. Key reports reviewed in this work (Kok, 2004; European Commission, 2005a) show a top-down, 'old governance' approach that is unlikely to be matched by 'new governance' mechanisms like the OMC, whose outcomes are likely to be seen in the medium to long-term. The last section discussed arguments in support of a clearer break with the past, focusing on the desirability of further integration or, at least, of a more pro-active role on the part of the EU in achieving the Lisbon goals. These beg fundamental questions about the role that European integration should play in the field of supply-side policies – decentralisation/soft coordination as opposed to close cooperation or further integration – and what kind of incentive structures would be appropriate for the task in hand – 'soft' incentives as opposed to the 'hard' sanction of law and the courts. The case for coordination in the field of supply-side policies appears to be stronger for the euro area than for the EU at large, which would justify some form of 'closer' or 'enhanced' cooperation among EMU members. A number of commentators, thus, have spoken of the necessity to use macroeconomic policies to support the structural reform agenda, while others have proposed to buttress OMC processes with EU legislation in the form of framework directives.

The reform of the strategy's governance framework, however, went exactly in the opposite direction, as national ownership amounts to a partial 're-nationalisation' of the Lisbon agenda. Thus, 'instead of seeking ways to improve the effectiveness of the institutional framework at the EU level, the mid-term review has largely sought to employ the legitimacy of national actors in order to implement the necessary structural reforms' (Ioannou and Heipertz, 2005: p.22). Although it will take some time to appreciate the outcome of this choice, it seems fair to say that more innovative solutions are needed in order to give European solutions to Europe-wide problems.

Notes

1) In a similar vein, Collignon (2005: p.3) observes that the new Strategy essentially boils down to 'less, but the same'.

2) In Lisbon the option of defining a 3% growth rate target was discussed, but it was not taken in the end (Collignon, 2005).

3) Not everybody agrees on the existence and sheer size of cross-border externalities from structural reforms. I will elaborate on this point below.

4) The Kok report will be discussed more fully below.

5) As defined by the Lisbon conclusions (European Council, 2000: par.37), the OMC consists of four essential elements: (i) the fixing of guidelines for the Union combined with specific timetables for achieving the goals which they set in the short, medium and long terms; (ii) the establishment, where appropriate, of quantitative and qualitative indicators and benchmarks tailored to the needs of different member states and sectors as a means of comparing best practice; (iii) the translation of the European guidelines into national and regional policies by setting specific targets and adopting measures, taking into account national and regional differences; (iv) periodic monitoring, evaluation and peer review organised as mutual learning processes.

6) On 'new governance' in the EU see Scott and Trubek (2002) and Mosher (2000).

7) A notable exception is the draft directive on the liberalisation of services, which has been approved by the Council after several revisions and is now being discussed by the European Parliament.

8) For a fulsome discussion of the strategy's achievements so far see European Central Bank (2005a).

9) The content of the strategy has, in fact, been harshly criticised in the literature: (1) some scholars have argued that there was never a realistic prospect of many of the Lisbon objectives being met. For instance, if the Lisbon employment goals – 70% for the labour force as a whole and 60% for women by 2010 – are taken seriously, then labour productivity will most likely decrease in the short term as the additional employment will have to be taken up by those who are presently unemployed, i.e. the low-skilled (Daly, 2005; Gros, 2005); (2) as far as investment in the knowledge-based economy is concerned, it has been pointed out that the problem lies not so much in the level, but rather in the efficiency of R&D expenditure in Europe (Bottazzi, 2004). Hence, policy efforts should concentrate on improving the level of knowledge of workers as well as the entrepreneurs' ability to translate scientific excellence into commercial gains, rather than just on increasing expenditure as the 3% Barcelona target suggests (European Council, 2002: par.47); (3) doubts have been raised on the compatibility between Lisbon-type reforms and the macroeconomic policy model underpinning EMU. The structural reform agenda emphasises the desirability of increasing the flexibility of labour markets and improving incentives for job creation through lower tax rates, which would lower the weight and responsiveness of automatic stabilisers in a context in which Euro area members have little scope for discretionary fiscal policy (Mabbett and Schelkle, 2005); (4) finally, Visser (2002) has maintained that the evidence on the effectiveness of 'activating' welfare policies is mixed. The Dutch case, in particular, suggests that the improvement of labour market performance is primarily the result of positive developments in the macroeconomic environment, such as high GDP growth.

10) Alesina and Perotti (2004: p.35), for instance, argue that the strategy's rhetoric flows 'from high-sounding declarations on the "knowledge-based society" to a myriad of meaningless pompous statements'.

11) The headline indicators are: (1) GDP per capita in PPS; (2) labour productivity; (3) employment rate; (4) employment rate for older workers; (5) educational attainment (20-24); (6) R&D expenditure; (7) relative price level; (8) business investment; (9) at-risk-of-poverty rate; (10) dispersion of regional employment rates; (11) long-term unemployment; (12) greenhouse gases emissions; (13) energy intensity of the economy; (14) volume of transport (European Council, 2003).

12) It must be noted, though, that the national reports on the follow-up to the Lisbon strategy to be submitted as of next year will include both a forward- and a backward-looking section.

13) More specifically, see Govecor (2004) on the lack of functional integration between the EES and the ESF.

14) The DPEF (Documento di programmazione economica e finanziaria) is a document adopted by the Italian government in June every year with the aim to trace the main lines of its economic and fiscal policy over the short and medium term.

15) The sanctioning mechanism outlined here is partially different from that proposed by Scharpf, whereby the Commission would need a Council authorisation to initiate infringement proceedings in this area (Scharpf, 2002: pp.664-65).

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