

The Lombard Model and the Future of the Lisbon Agenda: The Importance of Identifying the Optimal Policy Areas and Actors for Effective Policy-Design

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Abstract

The original “Lisbon Agenda” conflated two fundamentally different themes: a number of outstanding *Single Market issues*, which could only be addressed in dialogue by the central governments of the Member States and the main institutions of the Union, and a drive for greater *competitiveness*: this second theme has also, by default, been colonized by the same actors. In reality, while market competition does have an impact on economic performance, a number of the key drivers of competitiveness (and indeed, of the emerging priority of sustainability) are properly defined, and efficiently acted upon, only at the regional level. The Lombard Model provides a powerful piece of evidence for the need to regionalize not just the Open Method of Co-ordination – effectively, the management of the existing Lisbon targets – but also, and crucially, the emerging debate on the post-Lisbon co-ordination of supply-side policies within the European Union. In particular, this paper highlights the relevance of Lombardy’s experiments in the reform of public administration and welfare provision at a time when scholars in the field have begun arguing for the inclusion of public administration performance targets in a post-Lisbon agenda. In the European debate, however, Lombardy’s experience of governance still often lies in the shadow of (generally critical) perceptions of Italy’s Lisbon performance. Working towards a more differentiated understanding of governance realities within Italy, and for a higher profile of the “Lombard Model” within the Lisbon debate, emerges as an important condition for improving the processes of policy design and implementation at both the regional and the Union level.

Since the agreement at the eponymous Spring European Council in 2000, the Lisbon Strategy has engaged member states and Community institutions in a formalized network of supply-side policy interactions. Its inaugural triptych of “(better) jobs, competitiveness, and cohesion” became one of “jobs, jobs, (any) jobs” in its 2005 re-launch as a “European Partnership for Jobs”, after the original optimism about the Union’s macroeconomic performance, borne out of the benign cyclical conditions of the end of the 1990’s, were confounded by slower growth in the wake of the dotcom bust and post-9-11 slowdown. At the same time, the original benchmarking of the USA and Japan became diluted into a more general concern that China and India in particular will soon be in a position to provide a “dynamic, knowledge-based” challenge of unprecedented proportions. Finally, the sustainability – both environmental and social – of economic growth emerged as an important concern, and as a potential source of conflict with other economic policy priorities.

The Limits of National Competitiveness Strategies

In rankings of international competitiveness such as those provided by the World Economic Forum, and in various Lisbon Scorecards, Italy’s position has consistently been disappointing, typically representing a system capable of talking the Lisbon talk, but stumbling badly at the Lisbon walk. One particularly awkward statistic is R&D investment, still significantly below 1% of GDP against a Lisbon target of 3%.

It is striking how this and other headline figures typically bring to an end the consideration of Italy’s performance in the international debates on the Lisbon Strategy: a disappointing national average effectively prevents participants from acknowledging, and engaging with, individual regional experiences hidden within that average. This premature dismissal of all Italian competitiveness strategies represent a serious loss to the debate in at least two respects: firstly, because it deprives it of the knowledge of original reform experiments, notably those which have become known as the Lombard Model; secondly, specifically from an Italian perspective, because the lack of recognition of what has been attempted and achieved in the competitiveness arena contributes to an overall underestimation of Italy’s role and potential within the European integration process, resulting in a country that intellectually, as well as financially, “punches below its weight”.

There is, in any case, a fundamental analytical misconception in the national perspective, which has dominated the European debate on competitiveness: namely, the assumption that the determinants or “drivers” of competitiveness are best measured and most effectively influenced at the national level.

Single Market and Competitiveness

The misconception just referred to arose out of a political subterfuge, the conflation of the latest round of single market initiatives (notably in services and networks) with the themes of labour market, education, research and welfare reform. In reality, the policy instruments and the optimal policy areas relevant in each case are fundamentally different:

Single market legislation and enforcement follow the traditional “regulatory model” of EU policy-making, which has been solidly established both in practice and in Community jurisprudence at least since the Single European Act, and are properly conducted between Brussels, the Hague, and the national capitals;

in contrast, policies affecting human capital, research (or more specifically, innovation), and social cohesion remain rooted at the national and sub-national level. In fact, it is likely that even some single market issues fall to a significant extent within the sub-national level, for example in the provision of local services: it is significant, in this respect, that the new Services Directive applies in some parts directly to regional legislation.

Two examples illustrate this point vividly. Denmark's "flexicurity", which is still often touted as an exportable solution to labour market sclerosis, appears on closer analysis to be inextricably linked with a number of key local characteristics which are, to say the least, heavily path-dependent and therefore not amenable to policy replication elsewhere: a culture of negotiation between organized interests, the small size of the political unit, and exceptionally high levels of trust. The second example is provided by the strong empirical link between levels of educational attainment (years spent in education, qualifications gained) and the activity and employment rates of the corresponding group. It turns out that when comparing equivalent educational attainment groups, there is relatively little difference between EU countries, and between them and the USA: the fundamental difference – again, one not easily acted upon in the short run, and not necessarily at the national level – is in the proportion of the population with different standards of educational attainment.

Regional economics and regional policies

The founders of the discipline of economics were certainly very interested in where market activity and income would concentrate (e.g., in explaining the economic origins of cities), and how such activity may shift location over time. During the nineteenth century, however, this question was reduced to one particular case - the (absolute and relative) economic destiny of nations: here, the geographical dimension of economic analysis was reduced to the consideration of state boundaries, and the geographical distribution of economic activity was equivalent to the relative economic power of nations. Even in these reductive terms, two themes of universal relevance emerged - the role of trade, and that of the public hand (typically, the central government as a "developmental state"). While these two perspectives have universal relevance to the issue of geographical distribution, discussions of *national* economic performance have typically been conducted under fairly restrictive assumptions about the mobility of the main factors of production - national borders have been interpreted as the main frictions in the operation of the market, while other factors (such as distance, and-more recently-differences in social capital) have often been assumed away. In practice, of course, central governments always exerted significant influence on the economic situation and prospects of different regions; it is, however, significant that as late as the 1930's, and in connection with one of the sharpest asymmetric regional shocks experienced by the American economy, such redistribution was to a large extent automatic, and when discretionary (as in President Roosevelt's New Deal) experimental and unsystematic.

The post-war state, in contrast, practiced both "growthmanship" and cohesion: regional policies adapted international macroeconomic analysis to the management of systems characterized by especially high factor mobility and financial integration, as well as identical macroeconomic framework.

It is therefore not surprising that since the 1970's, regional policies should have been challenged by the broad shift of academic and practitioner opinion away from activist or Keynesian economic management: in the opinion of many, just as the management of aggregate demand and the "old" industrial policy had failed-or at least become obsolete-at the national level, so the redistribution of income, targeted infrastructure building, and investment incentives to depressed regions had had little impact on regional disparities.

The basic questions include:

what extra-economic reasons can justify long-term interventions in the geographical distribution of economic activity – the attention to “place prosperity” as distinct from “people prosperity”?

what market failures could be responsible for regional economic disparities?

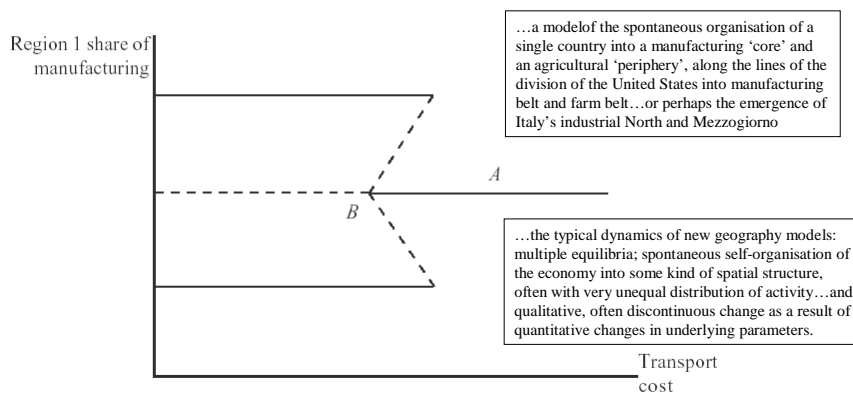
what is the value added of a European regional policy, defined as “the economic and non-economic benefit derived from conducting interventions at the Community level rather than at the regional and/or national level”?

At the level of economic analysis, the major recent development has been the “new economic geography”: its central message, captured by Paul Krugman in the diagram reproduced below, is the likelihood of path dependency (and therefore, implicitly, the potential for altering the distribution of economic activity *in the long run* through policy).

Table 1
Forces Affecting Geographical Concentration

Centripetal forces	Centrifugal forces
Market-size effects (linkages)	Immobile factors
Thick labour markets	Land rents
Pure external economies	Pure external diseconomies

Figure 1



Source: Krugman, Paul (1998) "What's New About the New Economic Geography?" *Oxford Review of Economic Policy* Vol. 14 no. 2, p. 8, 12.

We have thus significant support from state of the art economic (and human-geographical) analysis for the proposition that policy can make a difference, but rather little demonstrable empirical success in achieving this, as the next section makes clear: this may well not be unconnected to that “disconnect between policy and analysis”ⁱ which has been identified as a persisting weakness in the literature. It is within this wider context that the issue of *European* regional policy should be addressed.

The European Dimension of Regional Policy

The establishment of the European Regional Development Fund in 1975, therefore, marked a rather inauspicious start to the EEC's involvement in regional policy: it is well understood that its immediate political genesis was in the horse-trading of the renegotiations of Britain's entry, but what is not always appreciated is that the intellectual framework itself was in crisis, and therefore unable to provide a coherent counter-logic to the pressures which dominated the allocation of the EEC's financial resources until the late 1980's, and resulted in the twin pathologies of disproportionate spending on agriculture, and recurrent fiscal crisis. The Single European Act (1985) enshrined "economic and social cohesion" as an explicit objective – and, by implication, not as a necessary consequence – of the completion of the single market; this is currently included as Art . 158 of the amended Treaty establishing the European Community, which states

"... the Community shall aim at reducing disparities between the levels of development of the various regions and the backwardness of the least favoured regions or islands, including rural areas

The Commission seized the opportunity for a fundamental reassessment of the Community's regional policy, and two successive reforms (the “Delors I” and “Delors II” packages) greatly increased and reformed the activities of the Community in this area. Specifically, Delors I (1988) grouped together the three instruments already in existence in 1988,

The European Regional Development Fund (ERDF)

The European Social Fund (ESF)

The Guidance Section of the European Agricultural Guidance and Guarantee Fund (EAGGF)

To these were later added two additional instruments,

The Cohesion Fund (1992)

The Financial Instrument for Fisheries Guidance (1993)

In 2000-2006 (the planning period of the current Financial Perspective agreed at the Berlin Council), the Structural Fund (195bn Euro) and the Cohesion Fund (18bn Euro) together accounted for a third of the EU's budget – and the proportion has been rising over time.

The rationale for, as well as the practice of, European regional policy-making has changed over time, reflecting the broader circumstances of the European integration process. During "1992", and to a lesser extent in the extended convergence period leading to EMU, the existence of an "integration dividend" was largely taken for granted - it is significant, for example, that the big research project on *The Costs of Non Europe* was only undertaken after political decision to complete the single market had been taken and the corresponding treaty modifications ratified. The Structural Funds, therefore, would redistribute that dividend fairly, as much as making sure that otherwise disadvantaged regions would spontaneously participate in the economic revival.ⁱⁱ Throughout the 1990's, two factors gradually weakened that easy rationale for the EEC's promotion of

regional policies: firstly, Germany's deteriorating financial position - and progressive unwillingness to remain the largest net contributor - led to a revival in the principle and practice of *juste retour*.

Secondly, Europe's economy continued to stagnate, in spite of the more integrated internal market, and in spite of the remarkable improvement in the credibility of macroeconomic policy brought about by the prospect of monetary union. Stagnation was interpreted as an across-the-board supply failure, rather than as a regional problem (in spite of the fact, shown in the table below and more widely documented in recent literature, that it has been accompanied by a reversal of previous trends towards greater intra-EU income convergence.)

Table 4: The most and least prosperous regions in the Union, 1990-2000 *

GDP per head (PPS) as % of EU average

Regions	EU-15		EU-25	EU-27
	1990	2000	2000	2000
10 % +	154.9	157.9	171.8	178.6
10 % -	55.2	61.0	38.7	29.8
ratio	2.8	2.6	4.4	6.0
25 % +	133.8	138.2	147.1	153.1
25 % -	66.4	68.4	53.9	45.1
ratio	2.0	2.0	2.7	3.4

Source: Eurostat, calculations DG REGIO

* 10% + and 25% + : the regions with the highest GDP per head (PPS), accounting for 10% and 25% respectively of total population in the Union

* 10% - and 25% - : the regions with the lowest GDP per head (PPS), accounting for 10% and 25% respectively of total population in the Union

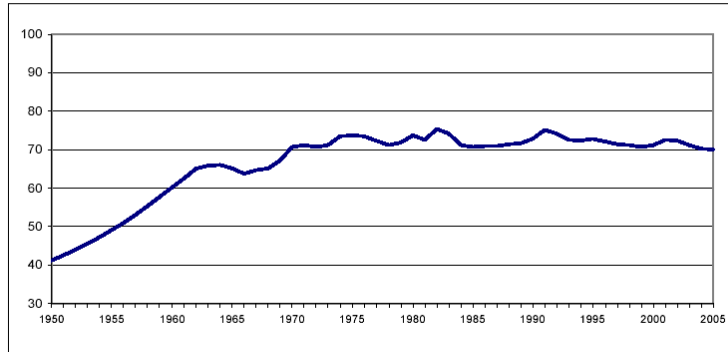
Source: Commission of the European Union (2003) *Second Progress Report on Economic and Social Cohesion. Communication from the Commission, Brussels, Commission of the European Union: COMM (2003) 34 Final*..

Yet despite large regional policy expenditures, regional convergence within Europe has stalled since the 1980's, even as income differences across states have fallen. European states have developed increasingly different production structures and European regions have also become increasingly polarised in terms of their unemployment rates.

If the whole Union is in need of a strategy to improve its supply side ("supply side reforms"), a new strategy was obviously needed, not necessarily limited to particular regions; it is also interesting to note that the New Economic Geography, by stressing the spatial implications of many economic and social policy measures not conventionally considered "regional", also blurred the distinction between "regional" and "structural", suggesting instead the need to include a consideration of the spatial or regional effects of all policies. This shift from regional to structural concerns in the last few years is captured in the growing realisation that neither the completion of the single market, nor monetary union, have significantly altered the long-term income per head differential between Europe and the United States, which –as the chart below shows – reached a plateau of about 70% by the time of the first oil shock.

INCOMPLETE CONVERGENCE?

Figure 1: EU GDP per capita in PPS (at constant 1995 prices)
(US = 100)



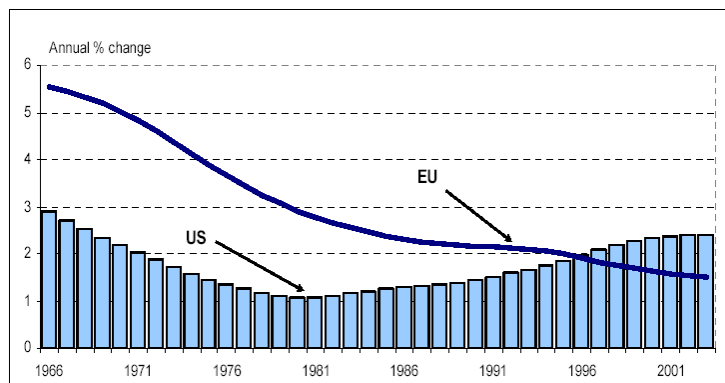
Source: Commission services, 2004–05: forecasts.

Source: Kok Report (2004)

The Sapir and Kok Reports make this point forcefully: the graph below, for example, shows that the global productivity slowdown, which heralded the end of the Golden Age, had been reversed by the early 1980's, as far as the United States were concerned; in contrast, it has worsened further in Europe, leading to actual divergence since the 1990's (the US, with a higher level of hourly productivity, is also raising that productivity faster than Europe).

PRODUCTIVITY SLOWDOWN AND RECOVERY

Figure 2: Labour productivity per hour growth (moving average)



Source : EU Commission, AMECO database.

Source: The Kok Report (2004)

When the trend in hourly productivity growth is placed within the wider picture of relative US/EU economic performance, as in the table below, two points emerge. Firstly, over a thirteen year period comparable hourly productivity growth have combined with sharply diverging trends in hours worked (i.e. total employment) to

deliver much higher GDP growth; secondly, for the latest period covered by the data – and the first period of the Lisbon strategy – these trends have deepened, with hourly productivity growing three times as fast in the US.

GDP, employment and labour productivity growth

Employment & European Social Fund

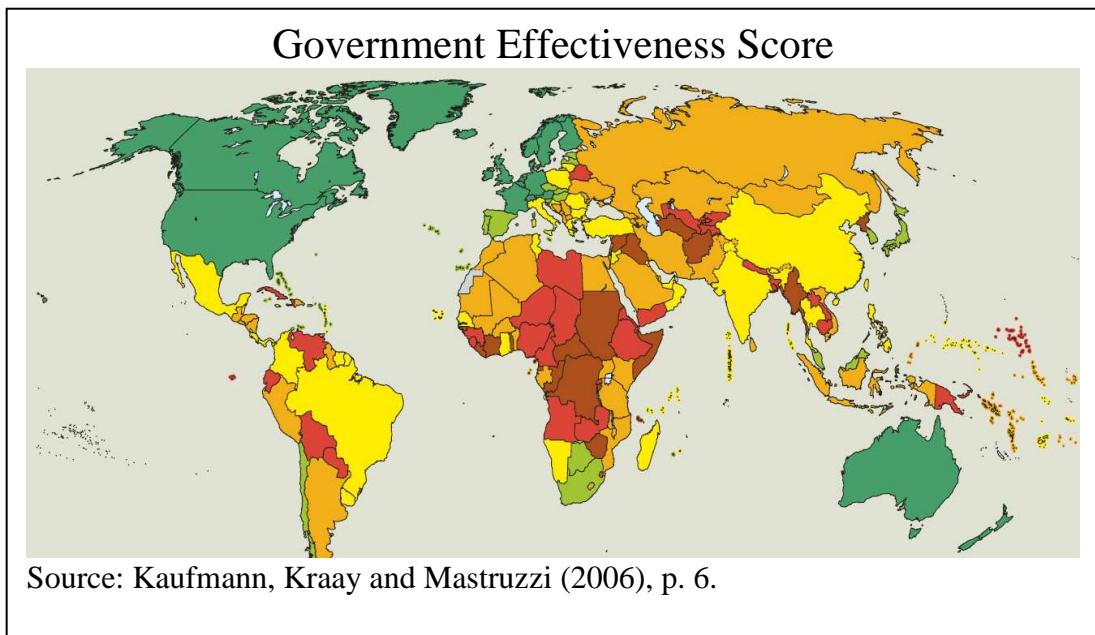
	1991-1996		1997-2000		2001-2003		1991-2003	
	EU15	US	EU15	US	EU15	US	EU15	US
1. GDP	1.5	3.3	3.2	4.1	1.0	2.5	2.0	3.2
2. Employment	-0.4	1.6	1.9	2.1	0.4	-0.5	0.6	1.2
3. Labour productivity (3≈1-2)	1.9	1.7	1.3	2.0	0.6	2.9	1.4	2.0
4. Hours worked per employed (a)	-0.3	0.3	-0.6	0.5	-0.5	-0.4	-0.4	0.3
5. Hourly labour productivity (5≈3-4)	2.2	1.3	1.9	1.4	1.1	3.3	1.8	1.7

Sources: DG-ECFIN's Ameco database and the Groningen Growth and Development Centre (GGDC).
a) GGDC data are used to calculate average annual hours worked per employee.



Public Governance and Administration in International Perspective

It is generally accepted that governance is a crucial dimension of competitiveness, and that in turn «government effectiveness» is a key component of it. Governance is one of the dimensions of the World Economic Forum's *Competitiveness Index*; it has also been the subject of a major World Bank research program, which explicitly identifies and attempts to measure government effectiveness. The latest



results from this latter study are not flattering to Italy : as the graph shows, Italy's governance is especially poor in a European and OECD context.

In presenting this survey of recent British experience to IRER's Ruling Class Research Programme, it seems relevant to stress two points of mutual interest. Firstly, while the standards of competence and probity of the British Civil Service have been widely admired abroad, and still command a premium in the staffing of international organizations, they could be argued to be the result of a structure which has been revolutionized by successive waves of fundamental change since the mid-1990's: specifically, significant difficulties have accompanied the «double devolution» of public administration from the central to the local level, and from fully owned, vertically integrated delivery process to the regulatory and partnership mode of operation of the newly created public service structures. Conversely, an outside observer looking at the World Bank rankings would not naturally think of Italy as a source of inspiration for good governance; yet in a nation with significant devolution of competencies and resources to the local level, the aggregated national governance ranking can hide «regional models» of significant interest. At the central government level, the Civil Service is aware of the benefit from benchmarking ideas and working practices with foreign counterparts; a possible development of this contribution would promote equivalent contacts at the regional level.

Conclusions

There are different “optimum policy areas” for different drivers of competitiveness: while increased competition in product markets is most effectively addressed by Single Market and commercial policies undertaken at the Community level, many other key drivers of competitiveness – most notably human capital formation, the liberalisation of local services, better business regulation, and a number of public welfare systems – are directly susceptible to regional policy-making. The Lisbon Agenda recognized this only imperfectly, partly through its “contamination” with Single Market issues included in it for political and presentational, rather than analytical, reasons. Broader international awareness of the Lombard Model would ameliorate the situation in two important respects: firstly, it would enrich the debate on the Lisbon strategy itself, by providing a further benchmark and analytical point of reference in the debate on the 2010 targets; secondly, and even more crucially, some dimensions of the Model (notably the centrality of the person and of the family in the socio-economic policy-making process, from design to performance monitoring; and the on-going process of public administration reform) will provide elements of originality in the genesis of a post-Lisbon agenda of sustainable competitiveness.

ⁱ Ottaviano (2003), p. 666.

ⁱⁱ See Gil a.o. (2002) for an attempt at modelling the efficiency/equity trade-off in regional policy.