

## The Use of Targets in the Lisbon Strategy

**Lorenzo Codogno - Guillaume Odinet - Flavio Padrini\***

Ministry of Economy and Finance, Rome

*Targets can be very useful in policymaking within the context of the Lisbon Strategy, but they need to be used in accordance with certain criteria. In particular, there should be intermediate targets in place that directly affect final policy goals, and are easy to measure and monitor. Moreover, in order to be more effective, targets should be complemented by structural indicators. Reliable quantitative tools should be used to assess intended and unintended implications of policies implemented to meet targets. Finally, a transparent and widely-accepted mechanism should be in place to transpose EU-wide targets into realistic, but still challenging, national targets. [JEL Classification: E61, 011]*

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*L'individuazione di obiettivi numerici può essere molto utile per migliorare l'efficacia della Strategia di Lisbona; tuttavia gli obiettivi devono essere usati seguendo alcuni criteri. In particolare, dovrebbero essere individuati alcuni obiettivi intermedi che siano facili da misurare e monitorare e che influenzino direttamente i fini ultimi delle politiche. Dovrebbero essere utilizzati strumenti quantitativi affidabili per valutare le conseguenze volute o accidentali delle politiche introdotte per raggiungere gli obiettivi numerici. Infine, dovrebbe essere formulato un meccanismo trasparente e ampiamente condiviso per trasporre gli obiettivi numerici europei in obiettivi nazionali che siano allo stesso tempo realistici e ambiziosi.*

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\* <lorenzo.codogno@tesoro.it>, <guillaume.odinet@economie.fr>, <flavio.padrini@tesoro.it>. The Authors thank Simone Guglielmi, Francesco Felici, Jules Leichter and Francesco Nucci for useful comments and discussions. The ideas expressed in this paper are those of the Authors and not necessarily those of the institutions they belong to. As this article goes to press, the debate on the re-launch of the Lisbon Strategy has advanced further. Some ideas flagged in this paper are gaining ground, others are not. The Authors perceive the ideas and critiques of this paper are still very much valid.

## 1. - Introduction and Main Findings

This note provides a contribution to the ongoing debate about the future of the Lisbon Strategy and focuses on one specific aspect, namely, the definition and use of targets. Since the launch of the Strategy in 2000, targets were meant to be a key element of the so-called open method of coordination, *i.e.* the governance system putting emphasis on the principle of subsidiarity in policy areas prerogative of Member States, although in the context of stronger cooperation at EU level.

Targets were defined by the Commission as quantifiable commitments on policy objectives/outcomes. However, the way in which these targets have been chosen and used implies some important shortcomings. Moreover, their number, as well as the nature of the variables involved, have changed significantly over time. Despite the 2005 attempt to streamline them, targets are still numerous and cover many aspects of reform that are heterogeneous in nature. According to some critics, notably Alesina and Perotti (2005), this extensive use of targets is the result of the *dirigiste* and regulatory approach characterising many EU countries. Moreover, the somewhat loose and unclear definition given to the term “targets” has probably contributed to the above-mentioned shortcomings. For example, central banks always refer to the “inflation target” as the final objective whereas in the Lisbon strategy the meaning of “target” has remained blurred.

Following a review of the experience in the use of targets in the Lisbon Strategy and a comparison with the use of targets in monetary policy, the main conclusions of this note are as follows:

- Many targets of the Lisbon Strategy have at best an uncertain impact on the Strategy’s ultimate goals, *i.e.* making the EU «the most competitive and dynamic knowledge-based economy in the world capable of sustainable growth with more and better jobs and greater social cohesion».

- In many cases, the targets have been conceived as complementary rather than intermediate objectives. Instead, intermediate targets need to be in place and, in order to be effective, should directly affect the final policy goals, while also being easy to measure and monitor.

– Within the Lisbon process, some useful quantitative methodologies have been developed. Nevertheless, the results obtained by applying these methodologies have been used almost independently from the targets. Instead, targets need to be combined with structural indicators and quantitative tools so as to identify and measure, *inter alia*, intended or unintended implications of implemented policies.

– Targets in the Lisbon process have failed to deal with the structural differences between the Member States' economies. Though initially planned, the transposition of EU-wide targets into national targets has never taken place, with the result that the same targets have been set for all countries. Instead, significant differences in starting positions, priorities and national preferences among countries require different targets.

– The shortcomings are evident in the case of the target for research and development (R&D): the link between the target and the ultimate goals is uncertain. Moreover, the target fails to consider that the need for R&D and innovation differs from country to country due to differing economic specialisation.

These considerations suggest a number of proposals about the way in which targets should be used in the renewed Lisbon Strategy:

– The final goals for the EU as a whole should be defined more precisely, so that intermediate targets can be more easily chosen. Moreover, the number of intermediate targets should be reduced.

– A transparent mechanism for transposing EU-wide targets into national targets needs to be put in place. This should lead to realistic, albeit still challenging, medium-term targets for all countries. Short-term, incremental steps towards medium-term targets could be set by the Member States themselves.

– Assessment methodologies and structural indicators should be used to complement targets, in order to measure both the quality of reforms aimed at achieving targets and the progress made towards the final goals.

## 2. - Targets in the Lisbon Strategy

In 2000, the Lisbon European Council committed to the ambitious strategic goal of making the European economy «the most competitive and dynamic knowledge-based economy in the world capable of sustainable growth with more and better jobs and greater social cohesion». This took the name of “Lisbon Strategy”. Given the broad scope of this strategic goal, the Conclusions of the European Council reordered it into three main objectives:

1) «preparing the transition to a knowledge-based economy and society by better policies for the information society and R&D, as well as by stepping up the process of structural reform for competitiveness and innovation and by completing the internal market;

2) modernising the European social model, investing in people and combating social exclusion;

3) sustaining the healthy economic outlook and favourable growth prospects by applying an appropriate policy-mix».

The Strategy also implied a governance system, namely, the open method of coordination (OMC). This new approach was meant to combine (i) the principle of subsidiarity, according to which Member States are best positioned to deal with some policy areas<sup>1</sup>, and (ii) the recognised benefits of cooperation at EU level. In the Commission’s definition, the Lisbon process entails «commitments to achieve policy objectives/outcomes which are broadly quantifiable», thus excluding non-quantifiable commitments inasmuch as they can hardly be considered as economic-policy instruments.

The use of targets has been a central element of the Strategy,

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<sup>1</sup> An important strand of literature analyses the division of responsibilities between a union of independent countries and individual countries themselves, see for example ALESINA A. - ANGELONI I. - SCHUKNECHT L. (2005). A trade-off is recognised between the benefits of centralisation, *e.g.* economies of scale or positive externalities, and the costs of harmonising policies in the presence of heterogeneity in countries’ preferences. According to this paper policies where economies of scale or externalities are prevalent should be allocated at the union level whereas policy areas where heterogeneity of preferences are relatively high should be allocated to the national (or even subnational) level. Moreover, according to ALESINA A. - PEROTTI R. (2005), many EU objectives of the Strategy can be attained only with policy instruments that are prerogative of Member States. This creates some doubts on the effectiveness of the Strategy itself.

since this tool is supposed to give policymakers a clear orientation and priorities, and also provide simple benchmarks against which the performance and progress of the individual Member States can be measured and monitored. As defined by the Conclusions of the European Council, defining targets involves:

- 1) «fixing guidelines for the Union combined with specific timetables for achieving the goals which they set in the short, medium and long terms;
- 2) establishing, where appropriate, quantitative and qualitative indicators and benchmarks against the best in the world and tailored to the needs of different Member States and sectors as a means of comparing best practices;
- 3) translating these European guidelines into national and regional policies by setting special targets and adopting measures, taking into account national and regional differences;
- 4) periodic monitoring, evaluation and peer review organised as mutual learning process».

The number and characteristics of the targets used in the Strategy have repeatedly changed since 2000<sup>2</sup>. While the Lisbon European Council of March 2000 initially set 6 targets, their number had grown to 20 after the Barcelona European Council in 2002 and to 28 in 2005. While the focus was initially on employment, skills, Internet and e-government, by 2005 targets had been set regarding research and development, retirement, childcare, the transposition of directives, renewable energy, bio-fuels, and even the level of electricity interconnections. The 2005 mid-term review of the Strategy ended with a decision to refocus the process on growth and jobs and add a new instrument, the National Reform Programme, to the open method of coordination, so as to allow the Member States to set their short-term objectives. At EU level, only two targets were officially retained, namely, R&D expenditure equivalent to 3% of GDP and a 70% employment rate, both to be achieved by 2010; the other targets, it was decided, would only be complementary (see Table 1). However, this new

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<sup>2</sup> See EU COMMISSION, *Improving Incentives to Implement Structural Reforms: The Role of Targets and Indicators*, March 2009.

approach produced few results, whereas many new targets or modified targets were established by the European Council, with their scope continuing to be rather broad.

Meanwhile, methodologies were developed to measure and evaluate the economic performance and progress of the Member States. The LIME-EPC working group<sup>3</sup> was created in October 2006 to «drive forward the development of methodological approaches to track, analyse and model structural reforms carried out in the context of the Lisbon Strategy».

The monitoring of the Strategy is currently addressed to both targets and, to some extent, structural indicators, although the two elements are not linked. At EU level, there are presently 19 quantitative targets, as illustrated in Table 1. The Commission distinguishes between performance and policy targets: while performance targets refer to economic outcomes, policy targets refer to government measures.

As shown by Table 1, the targets are significantly diverse in nature and content. Even though they are all intended to be intermediate targets, only some of them are indeed intermediate (*e.g.*, employment rate of workers aged 55-64 to reach 50%), while some are a mere quantitative transposition of ultimate goals (*e.g.* 70% employment rate), and others focus on inputs (*e.g.* R&D spending to reach 3% of GDP).

The methodologies developed by the LIME-EPC working group cover the classification of reforms into different policy areas linked to specific growth components, the measurement of Member States' relative performance in these various areas, and an assessment of the impact of reforms. In principle, the results of this analysis should help the Commission to propose and the Council to make specific recommendations to Member States and to highlight points to watch according to a refined assessment of national economic situations. However, though clearly related to Lisbon final goals, this analysis developed within the LIME-EPC

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<sup>3</sup> Working Group on methodology to assess Lisbon-related structural reforms (LIME) attached to the Economic Policy Committee (EPC) and the European Commission services (DG ECFIN). The indicators working group of the Employment Committee (EMCO) has also made an important contribution.

TABLE 1

**KEY QUANTIFIABLE TARGETS AGREED IN THE CONTEXT  
OF THE LISBON STRATEGY**

Priority areas	Quantifiable targets	Year of Endorsement	Policy /Performance indicator
Head-line targets	Employment Overall employment rate as close as possible to 70% by 2010	2000, 2005	Performance
	R&D R&D spending to reach 3 per cent of GDP by 2010	2002, 2006	Performance
Investing in people and modernising labour markets	Employment Female employment rate to reach more than 60% by 2010	2000	Performance
	Employment Employment rate for workers aged 55-64 to reach 50% by 2010	2001	Performance
	Childcare Available childcare for children between age 3 and the mandatory schooling age to reach 90% by 2010	2002, 2006	Policy
		Available childcare for children under age 3 to reach 33% by 2005	2002, 2006
	An EU average of no more than 10% early school leavers by 2010	2003, 2006	Performance
	At least 85% of 22 year olds in the EU should have completed upper secondary or a higher level of education by 2010	2003, 2006	Policy
	Skills The EU average level of participation in Lifelong Learning should be at least 12.5% of the adult working age population (25-64 age group)	2003, 2006	Policy
		By the end of 2007, every young person who has left school and is unemployed should be offered a job, apprenticeship, additional training or other employability measure within six months, with the period decreased to four months by 2010	2006
Unlocking business potential, especially for SMEs	Transposition of EU directives As from the 2007 Spring European Council, reduce the internal market transposition deficit progressively, achieving a 1% level by 2009 at the latest	2007	Policy
	Admin burdens Administrative burdens arising from EU legislation should be reduced by 25% by 2012. Taking into account the different starting points and traditions, the European Council has requested that Member States set their own comparable national targets	2007	Policy
	Setting up a business Member States should take adequate measures to considerably reduce the average time for setting up a business, especially an SME, with the objective of being able to do this within one week anywhere in the EU by the end of 2007. Start-up fees should be as low as possible and the recruitment of a first employee should not involve more than one public administration point	2006	Policy
Investing in knowledge and innovation	R&D R&D expenditure by businesses to amount to 67% of total R&D by 2010	2002	Performance
	Internet Member States should aim to make high-speed Internet available to all schools by 2010	2008	Policy
Energy and climate change	Greenhouse gas emissions Until a global and comprehensive post-2012 agreement is finalised, and without prejudice to its position in international negotiations, the EU makes a firm independent commitment to achieve at least a 20% reduction of greenhouse gas emissions by 2020	2007	Policy
	Renewable energy A binding target that renewable energies will account for 20% of overall EU energy consumption by 2020	2007	Policy
	Energy efficiency Increase energy efficiency in the EU so as to achieve 20% saving in the EU's energy consumption by 2020 when compared to current projections	2007	Policy
	Biofuels All Member States bound by a minimum target so that biofuels, <i>via</i> cost-efficient introduction, account for at least 10% of overall EU transport petrol and diesel consumption by 2020	2007	Policy

Source: EU COMMISSION, *Improving Incentives to Implement Structural Reforms: The Role of Targets and Indicators*, March 2009.

This table presents the key targets agreed (or confirmed) by the European Council since the relaunch of the Lisbon Strategy in 2005. This list is taken from a letter of the Secretary General to Dr. Uwe Cosepius on 4<sup>th</sup> March 2008 in reply to a German query. This letter had an annex with the key targets agreed in the context of the Lisbon Strategy.

working group does not explicitly refer to the targets set by the European Council.

### **3. - Lisbon Strategy: Lessons to be Learned from Monetary Policy**

Monetary policy has a long tradition of setting and using targets. Thus, while acknowledging that structural policies are quite different from monetary policy, which is essentially a fine-tuning process, the Lisbon Strategy could still draw on the experience of monetary policy, especially regarding intermediate targets. It is generally agreed that good intermediate targets in monetary policy need to be easy to measure, set and monitor (possibly without any side effects), and must directly affect the achievement of the ultimate policy goals<sup>4</sup>.

In the case of monetary policy, the ultimate goal is price stability (sometimes with stable growth and full employment), and intermediate targets can be monetary aggregates or interest rates. Since monetary policy requires flexibility, a fixed quantitative target is usually not set once and for all, but the target instead refers to a desired level of interest rates or growth rate for monetary aggregates that can evolve according to economic developments or the effectiveness of the transmission channels. Still, since the final goals are not directly influenced by various available instruments (*i.e.* short-term interest rates, open-market operations or reserve requirements), intermediate targets are necessary. However, in order to be effective, intermediate targets must be impacted by those instruments to a certain extent, and linked to the ultimate objectives. Accordingly, the achievement of intermediate targets should guarantee the attainment of the final objectives.

This line of reasoning can be extended to the Lisbon Strategy.

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<sup>4</sup> In particular, see SAVING T.R. (1967) or GAMBS C.R. (1980), referring to the report by the Board of Governors of the Federal Reserve System, «Improving the Monetary Aggregates», *Report of the Advisory Committee on Monetary Statistics*, June 1976.

The Lisbon Strategy's ultimate goals are sustainable and sustained growth and full employment. Since governments do not have instruments that directly influence these goals, they have chosen to set certain intermediate targets that can be controlled more easily and that are theoretically in line with the final objectives. Unlike the case of monetary policy, intermediate targets with respect to the Lisbon Strategy entail fixed values to be reached, and this fact can probably be explained by structural policies being oriented towards longer-term goals. Thus, intermediate targets with respect to the Lisbon Strategy do not need the same kind of continual adjustment that is necessary in the setting of monetary policy. Still, the same criteria applied in the case of monetary-policy targets should also be applied here so that intermediate targets are efficient. These targets should thus be easily measurable, directly affected by policies, and strongly correlated to final goals.

However, not all of the targets set within the context of the Lisbon Strategy are able to fulfil these conditions. Specifically, the needed correlation between intermediate targets and final objectives has often not been considered. As the scope of the Lisbon Strategy has widened, the number of targets has been increased, and this has prompted an even broader Strategy and a weaker link between new targets and the final goals. The new targets address issues that are not at the core of the Strategy, implicitly referring to new goals or, in any case, adding new conditions to the already detailed strategic goals. This is the case for most policy targets (*e.g.* targets focused on the Internet, the transposition of directives, as well as e-government or electricity interconnections), which can hardly be considered as having a direct, strong link with growth and employment.

Another lesson to be learned from monetary policy regards the distinction between targets and indicators. Policy indicators are used to measure the policy stance thus making it easier to evaluate the impact of government action on the intermediate target variable. Since it is difficult to assess the different reasons why performance with respect to a specific target either improves or worsens, the use of policy indicators makes it possible to

separate the consequences of the policy implemented from the effects of other external variables.

Moreover, the use of non-policy indicators could reduce the quantitative bias induced by the use of targets: if the objective comes down to a simple figure, policymakers will tend to opt for policies that guarantee the best progress towards the target, even if those policies produce many unintended side effects. For instance, a boost in the employment rate can be associated with a sharp increase in involuntary part-time employment: in such case, the target is attained, but full employment is not reached, and the policy has produced a result that is likely to be suboptimal. Therefore, the use of indicators in this particular case would underscore both the increase in involuntary part-time employment and the downside of the policies implemented.

As mentioned beforehand, many indicators have been developed in the context of the Lisbon Strategy, especially through the LIME-EPC working group. However, this effort has highlighted underperforming areas in each country and the quality of policy responses adopted, although there has been no explicit reference to the targets set by the European Council. More could be done towards achieving an integrated approach, with the combination of targets and indicators in a more effective governance system.

#### **4. - Facing Structural Heterogeneity**

The targets set and used in the context of the Lisbon Strategy have another major shortcoming: they fail to take into account the structural heterogeneities that exist among EU countries. This heterogeneity has become even bigger since the 2004-2007 EU enlargement, but it already existed when the EU consisted of only 15 countries<sup>5</sup>. First of all, the deadline for reaching the targets set by the European Council is the same for all countries, but the achievement of the targets requires very different efforts depending

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<sup>5</sup> Belgium, France, Germany, Italy, Luxembourg, Netherlands, Denmark, Ireland, United Kingdom, Greece, Portugal, Spain, Austria, Finland, Sweden.

on the initial situation. While this differentiation (which implies greater efforts on the part of low-performing countries) is justified in order to obtain greater convergence, unique targets and unique deadlines might, in some cases, not only be unrealistic for some countries, but also be counterproductive, as they might turn these countries away from the Strategy. More to the point, EU-wide targets had to be relevant for all types of economies, independent of economic specialisation, labour market institutions, and other specific national situations that might induce different needs and different policy priorities.

In principle, a solution was suggested in the first Lisbon Strategy document. According to the Lisbon European Council Conclusions the targets set by the European Council were EU-wide targets, which had to be translated «into national and regional policies by setting specific targets and adopting measures, taking into account national and regional differences». This was a key element of the Strategy. Indeed, if the existence of spill-over effects suggests that reforms should be coordinated, it does not imply that the effort should be evenly distributed, nor that all countries should have the same targets, precisely because there is a need to take into account the wide diversity of national situations, needs and capabilities.

In reality, the transposition of the Lisbon targets into national targets has not been undertaken. As a consequence, the Lisbon targets have been interpreted as uniform objectives for all countries, in spite of national and regional specificities. This has created a situation in which some countries have no problem meeting the shared targets, whereas other countries find it impossible to meet the targets by 2010.

## **5. - The Inadequacy of Input Targets: the Example of R&D**

These shortcomings mentioned above are more evident in the case of R&D, which is an example of the inadequacy of input targets. According to the Barcelona European Council in 2002, EU-wide spending on R&D is expected to be equal to 3% of EU GDP by 2010.

There are some critical issues related to the choice of this target. First, the target focuses on inputs: higher spending on R&D is supposed to stimulate innovation, which is a determinant of GDP growth. In reality, the relation between R&D and GDP is too indirect to ensure that an increase in the former will induce growth of the latter. Existing literature has emphasised that reaching this target will probably have only limited effects if no attention is paid to «the broad institutional context in which innovation and technological development take place»<sup>6</sup>. In other words, the extent of the productivity of R&D spending depends on the structure of the economy. A target focused only on aggregate spending in R&D fails to address the quality of the spending itself. Such an approach places too much emphasis on a tool, considering it as an end while it is only a means. A comparative analysis between OECD findings and the Commission recommendations made by Pisani-Ferry and Sapir (2006) shows that the Commission views an increase in R&D spending as a priority in 10 of 19 nations tracked by both organisations, whereas the OECD (whose focus is on innovation rather than R&D) does not view spending as a priority.

Moreover, this EU-wide target has never been translated into national targets. As a consequence, it has been interpreted – and largely used in communication – as a unique, *one-size-fits-all* target, which had to be reached by every single country. Thus, the target was not adapted to the structural characteristics of Member States' economies. The different technological specialisations among countries imply very different needs for innovation, and thus, for R&D. For instance, given its specialisation in high-tech products, a 3% ratio of R&D over GDP may not be enough for Finland to ensure sustained GDP growth, while it would be far too high for Luxembourg, which specialises in financial products (as spending for financial innovation is not counted as R&D). Moreover, not all countries are at the leading edge of the technological frontier; a sudden boost in R&D spending might remain without effect in some countries, as their development is

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<sup>6</sup> See MEISTER C. - VERSPAGEN B. (2006).

still based on catching-up and not yet on innovation. That is why spending on R&D, as well as on other inputs, should not be decided *ex nihilo* but according to its marginal return, and national efforts should be decided in order to equalise this marginal return among States and maximise the EU's innovation capability overall<sup>7</sup>.

A single target could thus be justified only if the intention is to change the industrial structures of Member States so that they are all oriented towards high technology. Such a change is not only unrealistic in a short period of time (eight years, from 2002 to 2010), but it also fails to take into consideration the structural characteristics of the economies. Trying to equalise innovation among Member States makes policies suboptimal. R&D spending should be higher in those countries where it is most effective, instead of being evenly shared out. For example, in the United States, the ratio of R&D intensity is above 5% in Maryland and Massachusetts, while it is under 0.5% in Louisiana<sup>8</sup>.

Moreover, it should be recalled that governments can exert influence on aggregate R&D either directly by spending more on R&D or indirectly *via* subsidies/tax credits for private R&D<sup>9</sup>. Although there is some evidence that these policies could produce positive externalities, increasing spending to raise R&D should be seen in the wider context of the need to keep taxes and spending on check.

As final goals are outcomes, there is the risk that trying to predict the level of input necessary to reach the desired outcomes will cause suboptimal policies. Targets on inputs, as well as equal targets for all countries, should thus probably be abandoned in the future design of the Strategy.

## **6. - Outlook: the Use of Targets *Post-2010***

It is hoped that the Lisbon Strategy will get a new *impetus*

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<sup>7</sup> See PISANI-FERRY J. - SAPIR A. (2006).

<sup>8</sup> *Source*: National Science Foundation, National Patterns of R&D Resources, 2003, quoted by PISANI-FERRY J. - SAPIR A. (2006).

<sup>9</sup> See EPC-EUROPEAN COMMISSION (2009).

after 2010, and provide an opportunity for streamlining targets. To this end, it would be desirable to overcome the above-mentioned shortcomings.

First, EU-wide targets are needed only if EU-wide outcomes are desired, and clearly identified. If the intention is only to monitor reforms, EU-wide targets are probably not needed. An efficient system of benchmarking and peer pressure at EU-level (including annual recommendations by the Commission) could be much more useful, while national targets could be set by Member States themselves. This approach would be similar to the OECD's *Going for Growth* exercise, consisting of a country-by-country assessment that includes priorities and recommendations. Such targets could be merely incremental, and entail a one- or two-year commitment to reach certain objectives by implementing structural reforms. Methodologies to evaluate the progress achieved with reforms, measure the outcomes of policies, and assess the result against the set targets, as developed in the LIME-EPC working group, could also be used.

However, the Lisbon Strategy is important for its multilateral approach characterised by the aim of producing outcomes that are desirable at EU-level while being translated into national objectives and strategies. This goes beyond the mere coordination of reforms. The desired common outcomes should thus be clearly identified, not in long and complex 'strategic goals', but in a few precise objectives. For instance, the UK contribution to the reflection on the future of the Strategy proposed to set three clear final goals, which would be: (1) strong growth, (2) opportunity for all and social cohesion, and (3) sustainable low-carbon, resource-efficient growth<sup>10</sup>. Such goals can be discussed and adapted – for instance, a stronger emphasis should probably be placed on employment – but they do fulfil the condition of being clear, focused, and measurable, which is also necessary to make them an effective communication tool.

Once the desired EU-wide outcomes are identified, EU-level intermediate targets can be established. As the impact of policy

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<sup>10</sup> See UK contribution on *A successor to the Lisbon Strategy*, 2008.

instruments on final objectives is uncertain, intermediate targets can be useful to “draw a path” to the final outcomes. Moreover, input targets should be dropped, as well as all targets which were more complementary than intermediate (e.g. targets on the Internet, e-government or the transposition of EU directives) or too operative (such targets do not comply with the principle of subsidiarity, and are too input-oriented to be strictly correlated to the final outcomes). The set of targets should thus be reduced, and this will have the additional advantage that the Strategy would be more focused. At the same time, Member States will not be able to choose at their convenience the targets that best comply with their priorities, but will be given incentives to adopt policies aimed at meeting the intermediate targets, and thus make progress towards the ultimate goals.

That is why the target-setting process requires much attention. The process will have to ensure that all targets comply with all needs, and they are true intermediate targets, which implies a hierarchical link between the intermediate targets and final goals. The success of the governance system in producing concrete results will depend on the quality of the targets.

Furthermore, it will be important and necessary to translate EU-wide targets into national targets. There are different ways to do this:

1) The EU-wide target can be used for every country. This is basically the current approach. However, because of the differences in initial situations, the deadline has to be set in relation to the weakest performers, or the target will be unrealistic for them (considering it is not possible to adopt different deadlines for each country). This means that the target will be a minimum standard, and so it will not be particularly challenging for the best performing countries. Such a procedure is probably well suited only for long-term goals, and thus not for the Strategy, which has a relatively short time horizon (ten years).

2) A specific target can be set for each country<sup>11</sup> according to

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<sup>11</sup> EU-wide targets can also be used for long-term goals for every country, and thus not for the Strategy. See also the considerations expressed in the previous point.

its initial situation. There are two different options for bringing this difficult process to a successful conclusion:

*a.* each country can set its own target; in this case, there is a risk that the targets may not be very ambitious, but ownership would probably be higher;

*b.* all country-specific targets are agreed at EU-level according to a specific procedure; given the risks of blocking, such a procedure would have to be fast and efficient, and thus excludes unanimity;

3) Member States can be grouped depending on their economic performance (such as GDP *per capita* level), and a target is set that covers the whole group<sup>12</sup>. Here again, there are different possible target-setting procedures, which are however facilitated by the fact that there are fewer targets to set.

Alongside setting these medium-term targets, short-term incremental targets could be identified by Member States in their National Reform Programmes, or on a two-year basis. They would constitute the intermediate steps towards the medium-term targets. Such an approach would leave greater responsibility to Member States, and probably boost ownership and accountability. Management science<sup>13</sup> has long demonstrated the importance of leaving the responsibility of setting targets to those who are responsible for reaching the targets. Moreover, a commitment to a reduced set of targets could provide a strong incentive for implementing reforms and political backing for those reforms that are not popular. This bottom-up process would thus be a useful complement to the top-down approach used to set the medium-term targets (as they are set at EU-level before they are translated).

Finally, targets have to be combined with a battery of indicators, benchmarks and quantitative methodologies to assess outcomes. This is needed to prevent governments – as well as other stakeholders – from considering only one purely quantitative result, leaving aside other important aspects. Indicators, models and methods that have been developed in the LIME-EPC working

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<sup>12</sup> This is one of the solutions proposed by the UK non-paper.

<sup>13</sup> See DRUCKER P.F. (1954).

group should thus be linked to the targets that will be identified. While targets are useful because they give clear, unconditional and transparent objectives, they induce a quantitative bias that needs to be overcome. To this end, the complete effects of reforms aimed at meeting targets have to be analysed and evaluated in order to produce an all-round assessment and enable the European Commission and the Council to make appropriate recommendations.

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