The Euro Crisis and the Failure of the Lisbon Strategy

Bengt-Åke Lundvall, Aalborg University and Edward Lorenz, University of Nice and CNRS

1. Introduction

When the Lisbon Strategy was launched during the Portuguese presidency it was in an era of optimism. The major problem to be tackled by the strategy was that Europe seemed to be less dynamic than the US in terms of economic growth and job creation. When ten years later the European Commission published the new 10-year strategy for Europe, ‘EUROPE2020’ the world looks quite different and Europe is in deep trouble.¹

The financial crisis has demonstrated that the common currency that should offer stability to the countries that joined the euro-zone has become a major burden especially for the countries in the South of Europe. In this paper we demonstrate that the gap between how people work and learn between different parts of the Euro-zone is great and constitutes a fundamental weakness of the Euro-zone. We argue that the original version of the Lisbon Strategy with its emphasis on the quality of jobs and on social cohesion could have helped to close this gap. But we show that those elements were given less weight half-way through the strategy period when the perspective became narrowly focused upon employment and economic growth.

In the wake of the financial crisis and the Euro-crisis the factual governance of the European Union has changed. Germany has taken on a clear position as leader and set a new agenda for Europe where the road back to economic growth for each of the single member states goes via a stronger ‘international competitiveness’. With Spain, Portugal, Italy and Greece as members of the Euro-zone this has meant mass unemployment, ‘internal devaluation’ in the form of lower real wages and a much less ambitious welfare state.

In this paper we shows how the crisis and the crisis strategy together has increased inequality within the Euro-zone both at the country level and between the North and the South of Europe. All that is left of the original Lisbon strategy is a neoliberal consensus on ‘structural reform’. The long term

result is a deterioration in the quality of jobs all over Europe and long term mass unemployment in the South of Europe. The predominance of supply economics and the fear of what ‘the market’ may do to the European rate(s) of interest has hindered the European Community from engaging in an active and cohesive response to the crisis.

It should be obvious that there is a need for a more ambitious and coordinated response to the crisis where the focus is upon strengthening knowledge creation and learning in the South. Education systems that mix and give equal weight to practical training and theoretical education and labour markets that combine flexibility with security are elements that would contribute to the ‘structural competitiveness’ of these countries. This could be stimulated by a kind of Marshall-plan for Europe where the transfer of funds from the North to the South was combined with a different kind of structural reforms than normally envisaged by IMF and the European Commission.

In section 2 we discuss the new context for Europe in terms of a globalising learning economy, we give a mapping of how Europe’s economies work and learn, and we illustrate how income equality and inequality in access to learning relate to the uneven development of building competitiveness in the South and the North of Europe. In section 3 we analyse how the Lisbon strategy contributed to objectives such as employment, social cohesion and knowledge based economic growth. We present data showing how inequality has been growing and the quality of work has been deteriorating in Europe during the crisis. Section 4 considers the relation between the European employment strategy and the monetary union, section 5 concludes by discussing why Europe needs a different vision than what is offered by EU2020 and why the 2011 ‘competitiveness strategy’ is counter-productive and does not address the underlying structural problems of the euro-zone.

2. Europe in the globalising learning economy – how Europeans work and learn

Introducing the globalising learning economy

In the Lisbon Strategy the references to the knowledge based economy played an important role in signalling a new era where competitiveness requires investments in education and in research. Here as elsewhere we propose that it is more adequate to define the current era as a globalising learning economy (Archibugi and Lundvall, 2001).

The concept ‘the learning economy’ refers to a specific phase of capitalist development where a combination of factors such as globalisation, deregulation of finance and the wide spread use of
information and communication technologies *speeds up the rate of change* in different dimensions. This is reflected in more rapid communication of information, shorter life cycles for new products and not least in a rapid change in the demand for skills and knowledge (Lundvall and Johnson 1994).

While the term ‘knowledge-based economy’ refers to the growing importance of investment in knowledge the learning economy-concept signals that knowledge becomes obsolete more rapidly than before. Therefore it is imperative for firms to engage in organizational learning and for workers to constantly engage in attaining new competencies.2

The learning economy is characterized by cumulative circular causation. The selection by employers of more learning-prone employees and the market selection in favour of change-oriented firms accelerate further innovation and change. In this context the key to economic success for a national or regional economy is its capacity to renew competences in order to be able to move into activities that are less exposed to global competition based on low wages or cost cutting measures. In the next section we show that the opportunities employees have for learning in their daily work activity are unevenly distributed across the member states of the European Monetary Union.

*International competitiveness in the learning economy*

International competitiveness has become a key concept in the current European strategy. This is reflected in the ‘competitiveness pact’ that Merkel has imposed upon European Union. It is a devious concept. It applies a perspective used to understand how business enterprises compete with each other to the national economy. When a business enterprise has a strong competitiveness it earns more money and grows more quickly than its competitors. A strong competitiveness may be the outcome of successful management strategy.

At the national level competitiveness has been linked mainly to export and import market shares and to the balance of payment. When export market shares of domestic firms increase and exports grow more than imports it is said that the competitiveness of the whole economy has become stronger. Different processes may lead to a stronger export performance.

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2 This can be illustrated by an extreme case referred to in a report from the Danish Ministry for Education. Here it is claimed that, on average, half the skills a computer engineer has obtained during his training will have become obsolete one year after the exam has been passed, while the ‘halving period’ for other categories of educated wage earners is estimated to be eight years (Ministry of Education 1997, p. 56).
Often the focus is upon the costs of production and especially on how the national wage level develops in international comparisons. It is assumed, on the basis of a ceteris paribus argument, that a stronger growth in wages will raise costs and thereby lead to difficulties to sell commodities and services in international competition. Employers’ organisations often use such a narrow definition of competitiveness as argument for wage restraint.

But it is obvious that some of the countries that have been most successful in terms of export led growth have been characterised by rapid growth in real wages. In Kaldor (1978) the relationship between wage increases and export growth was shown to move in parallel. This so-called Kaldor’s paradox reflects that the value of export in the long run will reflect more effective production and more attractive products. To develop and make use of new products and processes will require high and increasing quality of research, education, organisational learning and management.

In the learning economy the institutional setting and the organisation of the economy at different levels are crucial for economic performance. The most important institutions are those that shape and motivate people and those that shape their relationships with each other. In a primitive factory-like organisation where workers pursue trivial tasks management may be based upon simple economic incentives such as payment per piece produced combined with detailed control of workers time and with negative sanctions for those who do not give their best.

As we are going to see below most workplaces in Europe do not correspond to such a model of simple work. Therefore it is highly problematic that the current strategy with focus upon competitiveness operates with the narrow definition and that the macroeconomic strategy regards the workforce as a homogenous mass. ‘The quality of jobs’ is fundamental for productivity of work and for international competitiveness but it is neglected by the macroeconomists who are in charge of the design national competitiveness strategies.

*Mapping forms of work organisation in Europe*

Before the crisis it was widely accepted that competition is knowledge-based and that governments need to invest in knowledge through formal education and research efforts. Differences in national efforts in these respects are well documented and attempts are made to use lead countries as benchmarks. But there is no corresponding attention to workplace learning. This is problematic since in the learning economy the skill formation that takes place at the workplace is crucial for economic performance. And as we shall see international differences are huge even within Europe.
Lorenz and Valeyre (2005) and Arundel et al (2007) develop an EU-wide mapping of the adoption of different types of work organisation. Drawing on the results of the Third European Survey on Working Conditions,\(^3\) cluster analysis is used to identify four different systems of work organisation:

- discretionary learning (DL)
- lean production
- taylorist organisation
- traditional/simple organisation.

The two most important dimensions used to distinguish between them are respectively problem-solving and learning on the job, on the one hand, and the degree of freedom that the worker has to organize his work activities, on the other. Discretionary learning involves complex problem-solving and freedom to choose or change one’s work methods and pace of work. A typical example would be managers, experts or skilled workers with great autonomy.

The principal difference between the discretionary learning and the lean clusters is the high levels of discretion or autonomy in work exercised by employees grouped in the former. Over 85 percent of the employees grouped in the DL cluster affirm that they have control over their work pace and work methods whereas in the lean cluster only slightly over the population average of about 60 percent of employees affirm this. This difference can also be seen in the fact that about 70 percent of workers in the lean cluster state that their work pace is determined by quantitative production targets whereas only about 35 percent of employees in the DL cluster state this. Another difference is that such core ‘lean’ or ‘high performance’ work practices as team work, job rotation, and the use of quality norms are at average, or below average, levels in the DL cluster, whereas they are considerably above average in the lean cluster. Workers in automobile factories where modern management techniques are applied would typically fall in the lean category.

\(^3\) The Third European Survey of Working Conditions on which the mapping is based was directed to approximately 1500 active persons in each country with the exception of Luxembourg with only 500 respondents. The total survey population is 21703 persons, of which 17910 are salaried employees. The analysis presented here is based on the responses of the 8081 salaried employees working in establishments with at least 10 persons in both industry and services, but excluding agriculture and fishing; public administration and social security; education; health and social work; and private domestic employees.
Discretionary learning thus refers to work settings where a lot of responsibility is allocated to the employee who is expected to solve problems on his or her own. Business service jobs are typical examples where employees continuously are confronted with new and complex problems. Although some of the tasks take place in a team, teamwork is not seen as imposing narrow constraints on the work. Rather, team-work may involve brainstorming by professional experts as much as collectively solving narrowly defined problems.

Lean production also involves problem solving and learning but here the problems appear to be more narrowly defined and the space of possible solutions less wide. The pace of work is more constrained, notably by constraints linked to the use of numerical production targets or performance targets. This points to a more structured or bureaucratic style of organisational learning that corresponds rather closely to the characteristics of the Japanese or ‘lean production’ model.

The other two clusters are both characterised by lower levels of learning and problem-solving. Taylorism offers the employee very limited access to learning and little autonomy when it comes to organise daily work. This is a kind of work widely used in textile factories in the south of Europe. In the traditional cluster task complexity is the lowest among the four types of work organisation, while at the same time constraints on the pace of work are relatively low. This category groups traditional forms of work organisation where methods are for the most part informal and non-codified. This kind of work may be found in small shops and in paid domestic work.

Table 1

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<td>Traditional organisation</td>
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The first four columns of Table 1 show the frequency of the four forms of work organisation for the EU-15. The figures show that the DL forms are most widely diffused in the Nordic countries and Netherlands, and to a lesser extent in Germany, Belgium and Austria, while they are little diffused in Ireland and in the southern European nations. The lean model is most in evidence in the UK and Ireland. The taylorist forms are more present in Spain, and Italy, while the traditional forms are more in evidence in Portugal and Greece as well as in Germany, Belgium and Luxembourg.

Globalisation, transformation of work and international competitiveness

In a globalising learning economy it constitutes a competitive advantage if most jobs in the national economy are skill intensive and not directly exposed to competition from the rapidly growing Asian

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4 See Lorenz and Valeyre (2005) for a description of the variables used in carrying out the cluster analysis. Unlike Lorenz and Valeyre (2005) for the purposes of this paper we have carried out the cluster analysis on the pooled data for the 2000, 2005 and 2010 waves of the EWCS. The pooled cluster solution thus provides an average characterisation of national differences in forms of work organisation over the period of the three waves. By comparing the national frequencies of the four forms of work organisation of each of the individual waves, it is possible to show how the forms of work organisation evolved over the period of the Lisbon agenda in relation to the average (see table 4 below). The results presented in Table 1 above show the national frequencies for the 2000 wave.

5 In Lorenz and Valeyre (2005) logit regression analysis is used in order to control for differences in sector, occupation and establishment size when estimating the impact of nation on the likelihood of employees being grouped in the various forms of work organisation. The results show statistically significant 'national effect' also when controlling for the structural variables, thus pointing to considerable latitude in how work is organised for the same occupation or within the same industrial sector.
economies including China and India. Having a big proportion of workers in jobs where they continuously learn new skills while they work makes it possible to retain such an advantage.

It is in this light that the ‘exposure index’ presented in the last column in Table 1 should be seen. The basic idea is that different types of jobs are more or less exposed to global competition - highly exposed jobs might be outsourced or disappear when confronted with competition from low cost countries. We assume that exposure increases with the degree of standardisation of the job and with the intensity of use of low-skilled labour.

Therefore we assume that the least exposed jobs are jobs involving discretionary learning while Taylorist jobs and Traditional Organisation are most exposed with Lean Production in a middle position. We have calculated the index using the following formula:

\[
\text{Exposure Index} = 1.0 \times DL + 1.5 \times LP + 2.0 \times (TAY + TRAD)
\]

The index has been normalised so that the un-weighted average for the EU-15 equals 100. A high value for the index indicates that the economy is highly exposed to low wage competition from outside Europe. Greece, Portugal, Spain and Ireland are most exposed while the the Nordic countries and the Netherlands are the least exposed.\(^6\) We would argue that the inverse of the exposure index provides an indicator of the quality of working life and of how capable nations are of sustaining their competitiveness in the longer term.

The differences captured by the index help us understand the background for the euro-crisis. The fact that the economic structure is so uneven across member countries explains why they were affected differently by the crisis. In the wake of the crisis political leaders from the North of Europe have developed a moral discourse pointing to ‘lack of responsibility’ and political inefficiency in the South as background for their specific problems with unsustainable public finance. This discourse neglects that the euro-zone from the beginning was heterogeneous in terms the strength of the economic structure and the exposure to global competition.

\(^6\) While a low value on the exposure index indicates that the economy is less vulnerable to ‘globalisation’ it also may be seen as explaining difficulties with absorbing low-skilled labour and not least labour with a different ethncial background. Workplaces with Taylorist and traditional work organisation may be seen as ‘entrance points’ for immigrants with low skills since they offer jobs where workers with limited communication skills can operate efficiently. It means that the integration effort in order to be successful needs to be massive and focused upon upgrading skills, including communication skills, in the Nordic countries. The current high rates of unemployment among certain ethncial groups in these countries illustrates that this has not yet been fully understood among policy makers.
Public policies and learning organizations

The learning economy needs the support from an active welfare state. A fundamental inherent contradiction in the learning economy is that while it thrives on the basis of social cohesion, if left to operate on its own, social cohesion is undermined. For example, the speed up of change makes it increasingly difficult for low skilled workers to find employment while the demand for skilled workers tends to outgrow supply. Such processes were reflected in the outcome of the OECD (1994) Job’s Study demonstrating a tendency toward polarisation of labour markets operating in all OECD-member countries between 1985 and 1995.

In such a context public programs that continuously upgrade the skills of workers, and especially low skilled workers, are especially important. Expanding youth education and reforming initial education programs to stay up-to-date in relation to changes in technology and skill demands is important but it cannot stand alone. In the learning economy the renewal of skills that comes from absorbing new generations of workers works too slowly (the annual inflow of new entrants coming from youth education and with the most updated competences constitute only 2-3% of the total labour force). This implies a need to increase investments in lifelong learning, including continuous vocational training provided by employers.

This is a necessary policy to cope with the learning economy at the national level. But it is equally necessary at the European level. If the Lisbon strategy had succeeded in transforming education, organisation and work and labour market institutions in the South of Europe it could have upgraded the quality of work and economic structure the Euro-crisis could have been avoided. As we shall see in the next section this would have required a focus on building ‘social cohesion’ and trust. In reality this dimension of the Lisbon strategy became gradually weakened and what was left was ‘structural reform’ of labour markets aiming only at more flexibility.

The social conditions for success in the learning economy: the role of equality and trust

The data referred to above on organizational models of learning in different European countries makes it possible also to develop a more dynamic and adequate indicator of inequality than the ones based upon income distribution.

Table 2:

<table>
<thead>
<tr>
<th></th>
<th>Discretionary learning</th>
<th>Share of managers in discretionary learning</th>
<th>Share of workers in discretionary learning</th>
<th>Learning Inequality index*</th>
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<table>
<thead>
<tr>
<th>Country</th>
<th>Workers</th>
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<td>26.4</td>
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* The index is constructed by dividing the share of ‘workers’ engaged in discretionary learning by the share of ‘managers’ engaged in discretionary learning and subtracting the resulting percentage from 100. If the share of workers and managers were the same, the index would equal 0, and if the share of workers was 0 the index would equal 100. The analysis follows closely that developed in Lundvall, Rasmussen and Lorenz (2008).

In table 1 we present an indicator for the social distribution of workplace learning opportunities. We distinguish between ‘workers’ and ‘managers’ and we compare their access to discretionary learning in different national systems. Table 1 shows that everywhere employees at the high end of the professional hierarchy have more easy access to jobs involving discretionary learning. But it is noteworthy that the data indicate that the inequality in access to learning is quite different in

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7 The class of managers includes not only top and middle management but also professionals and technicians (ISCO major groups 1, 2 and 3). The worker category includes clerks, service and sales workers as well as craft, plant and machine operators and unskilled occupations (ISCO major groups 4 through 9).
different countries. In the Nordic countries and Netherlands the inequality in the distribution of learning opportunities is relatively moderate compared to the countries in the south of Europe or those in the centre with the exception of Austria and to a lesser extent Germany. Italy provides a striking example of this difference. The proportion of the management category engaged in discretionary learning in Italy is almost as high as in Netherlands (75% in Finland and 69% in Italy), but the proportion of workers engaged in discretionary learning is much lower in Italy (29% versus 45%).

**Inequality in learning and income**

Sen has argued against using income distribution as indicator when it comes to assessing well-being and the degree of inequality, and his capability perspective makes access to organisational learning an interesting candidate for an alternative indicator. On the other hand, a high degree of skewness in income distribution may have an impact upon the ‘social cohesion’ on which interactive learning depends.

It is therefore of interest to see to what degree international differences in access to learning are mirrored in corresponding international differences in income inequality. In table 3 we have compared the two forms of inequality for the EU 15. The data on income inequality emanate from a paper by Brandolini and Smeeding (2007) on inequality patterns and refer to the Gini coefficient with respect to disposable income. Both data sets cover the year 2000.

The most striking result is that the countries with the highest degree of income inequality (UK, Portugal and Spain) are amongst those that are most unequal in terms of access to discretionary learning and that those countries (Denmark, Finland and Netherlands) that have the most equal income distribution also offer the most egalitarian access to jobs with discretionary learning.

**Table 3: Comparing Income Inequality with Organisational Learning Inequality: EU-15**

<table>
<thead>
<tr>
<th></th>
<th>Income inequality</th>
<th>Ranking Income inequality</th>
<th>Inequality in Organisational learning</th>
<th>Ranking Inequality in Organisational learning</th>
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<tr>
<td>Spain</td>
<td>0.336</td>
<td>3</td>
<td>70.8</td>
<td>1</td>
</tr>
<tr>
<td>Sweden</td>
<td>0.252</td>
<td>12</td>
<td>47.6</td>
<td>11</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>0.343</td>
<td>2</td>
<td>65.2</td>
<td>2</td>
</tr>
</tbody>
</table>

Sources: Brandolini and Schmeeding 2007 p. 31 and the last column of Table 3.

This pattern shows that income distribution tends to be more equal in countries where workers are given and take on more responsibility at the workplace. While income distribution may be of less relevance for individual welfare there seems to be a major ‘system effect’ from income distribution on the degree of participation in processes of work. In an era with growing income inequality in the US and in most European countries this raises important questions about how increased inequality impact upon participatory learning. One fundamental cause of the weakening of the competitiveness of nations may be ‘below the radar’ and reflect that growing income inequality reduces the willingness of workers to take an active part in processes of organisational learning.

When bosses get better off while workers experience more work for less pay it should come as no surprise if workers get less engaged in contributing to organisational and technical change. Perception of injustice linked to not receiving a fair share of the returns from economic activity breeds mistrust between workers and employers and reinforces more hierarchical forms of work organisation based upon high levels of control and characterised by less autonomy. In what follows we raise the more general issue of the relation between social capital or trust and the development of learning organisations.

How and with whom people interact will reflect the society they live in and the education system that shaped them. We argue that in the Nordic countries social capital and trust are fundamental resources that make national systems strong in terms of incremental innovation, absorption of knowledge produced elsewhere and rapid adaptation (Lundvall 2002). Both the level of trust and the level of income equality are high in the Nordic countries. We also find that a fundamental and dynamic indicator of equality – equality in access to learning at the workplace – shows high values in the Nordic countries and Netherlands.
In the US-dominated literature social capital has been presented as rooted in civil society and the frequency of participation in civic activities has been used as indicator of ‘social capital’ (Woolcock 1998). It has been argued that big government undermines civil society and thereby also social capital. From the Scandinavian experience it is not clear that the growth in the welfare state has reduced the participation in civic organizations. In fact, the levels of trust are higher in the Scandinavian countries than in countries with small government. Especially there seems to be correlation between general (rather than selective) social welfare programs and generalized trust. According to the European Social Survey, trust among agents seems to be consistently higher in the Nordic countries than in most other countries and combined with the small size of the system it results in dense interaction among agents both within and across organizations.

This gives rise not only to low transaction costs. More importantly, it facilitates processes of interactive learning where new insights about technologies and good organizational practices are diffused rapidly both within organizations and across organizational borders. The most important impact of high degrees of trust is high learning benefits. Low social distance between managers and workers and willingness to trust partners are key elements behind the relative success of the Nordic countries.

**Summing up**

Our results indicate that social cohesion as reflected in egalitarian income distribution goes hand in hand with broad and democratic participation in organisational learning. Increasing income inequality may undermine the learning economy.

### 3. Three key relationships in the Lisbon Strategy

*The mid-term review of the Lisbon strategy weakened the social dimension*

A shift in priorities took place already a few years into the Lisbon strategy period with a weakening of the social dimension of the strategy and more narrow focus upon growth and employment. This came out of a mid-term evaluation 2004-05 that argued that the strategy was ‘too complex’ with too many targets. Therefore it should focus all attention upon employment and economic growth. This change also reflected a change in the political landscape where social democratic governments had been substituted for by more right-wing regimes.

The shift narrowed the goal of ‘more and better jobs’ to ‘more jobs’, it gave emphasis to ‘flexicurity’ but with almost exclusive focus upon flexibility. While the general direction of the Lisbon Strategy,
and especially the focus upon social cohesion and the knowledge-based society pointed in the right direction, those in charge of implementing the policy saw ‘social cohesion’ as a burden for Europe rather than as the necessary foundation for the learning economy. Therefore the implementation became increasingly lop-sided and dominated by the neoliberal interpretation of ‘structural reform’ as imposing more flexibility upon workers and their wages.

The Lisbon Strategy involved many dimensions and it is necessary to focus upon some key relationships. In this section we will discuss three themes central in the Lisbon Strategy: the creation of more and better jobs, competitiveness with more social cohesion, and the transformation to a knowledge-based economy. In each of these areas we try to assess the success of the Lisbon Strategy to reach its own targets and to make the euro-zone more sustainable.

More and better jobs? Or just more jobs?

The Lisbon Strategy may in several respects be seen as a follow-up as well as a broadening and revitalisation of the European Employment Strategy (EES) that was established already 1996. A new element was the increased emphasis upon the role of knowledge and innovation. But increasing the employment rate through labour market reform has remained a central objective over the period 2000-10 and the wide spread use of the Open Method of Coordination (OMC) was inspired by procedures already practised within the EES.8

The employment strategy was in its turn inspired by the OECD Job’s Study that emphasized the lack of flexibility in Europe’s labour markets as the major reason for unsatisfactory job creation and economic growth. The specific design of the strategy reflected a mixture of neo-liberal and social democratic ideas. The Commissioner in charge, Allan Larson, former Minister of Finance in Sweden, played an important role in designing and implementing the EES.

Perhaps the most consistent aim of the Lisbon Strategy has been to increase the employment rate in member countries. This objective has wide support across the political spectrum. This reflects that high employment rates can be the outcome both of a Nordic welfare strategy and of a neo-liberal strategy. This is also an area where there was some positive development in terms of approaching the target of an average employment rate of 70%. The EU-employment rate was thus increased

8 Maria Rodrigues who played the role of Sherpa in the formation of the Lisbon Strategy served as Portuguese Minister of Labour and was as such heavily involved in the EES.
from 62% in 2000 to 66% in 2008 before it dropped back again to less than 65% as a result of the crisis.

In the Lisbon Strategy the objective was originally ‘to create more and better’ jobs. But while the quantitative dimension was easy to measure it was not possible to agree upon an indicator for better jobs (Raveaud, 2007). One option that was considered but rejected was to define good jobs as ‘standard jobs’ and bad jobs as part time or ‘fixed term’ jobs. This proposal was vetoed by the UK and Netherlands on the grounds that non-standard jobs should be seen as stepping stones to standard jobs.

We propose that the international comparisons of the frequency of jobs offering employees access to learning with high levels of discretion and scope for exploring new knowledge developed in section 2 above may be regarded as a more adequate indicator of quality of jobs. A major advantage of this indicator is that it links quality of jobs to the knowledge-based economy perspective. In Table 4 below we extend the analysis presented in Table 1 and show how the different forms of work organisation evolved over the period of the Lisbon Agenda.

<table>
<thead>
<tr>
<th>Wave</th>
<th>Discretionary learning</th>
<th>Lean Production</th>
<th>Taylorism</th>
<th>Traditional</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>35.1</td>
<td>28.2</td>
<td>17.4</td>
<td>19.3</td>
<td>100.0</td>
</tr>
<tr>
<td>2005</td>
<td>36.8</td>
<td>28.6</td>
<td>17.8</td>
<td>16.8</td>
<td>100.0</td>
</tr>
<tr>
<td>2010</td>
<td>31.8</td>
<td>31.3</td>
<td>18.6</td>
<td>18.3</td>
<td>100.0</td>
</tr>
<tr>
<td>Pooled</td>
<td>34.1</td>
<td>29.6</td>
<td>18.0</td>
<td>18.3</td>
<td>100.0</td>
</tr>
</tbody>
</table>

Source: Third, Fourth and Fifth Working Conditions surveys, European

The results show an increase in the DL forms of slightly less than 2 percent during the first half of the Lisbon period counterbalanced by a fall in the traditional forms. The results for 2010, however, show that there was a sharp fall in the frequency of the DL forms after the 2008 financial crisis and the considerable decline in output and employment which accompanied it. This decline was compensated by an increase in the more bureaucratic lean forms and to a lesser extent by an increase in the taylorist forms of work organisation. Although an analysis of the causes for these changes goes beyond the scope of this paper, the data is consistent with the idea of a positive
relation between the quantity and quality of jobs rather than a trade off. The share of the DL forms increased during period up to 2005 characterised by an increase in the average employment rate for the EU-15, while it declined during the latter part of the Lisbon period characterised by a decline in the employment rate. Moreover, from the cross section perspective it is interesting to observe that only the Netherlands, Denmark, Sweden, Austria and Germany reached the target rate of employment (70%). These are also the economies where the share of workers engaged in jobs that offer discretionary learning is amongst the highest (see Table 2 above).9

Flexicurity with little security

The Lisbon Strategy documents have increasingly made references to the concept of ‘flexicurity’ as an objective for the labour market institutional set-up. In the Commission documents this concept has substituted for the less popular requests for ‘more flexibility’ in labour markets. This seems to go against the tendency to narrow down the agenda toward a neo-liberal strategy. But a closer look at the use of the concept indicates that the definition used differs from its original meaning.

Flexicurity has been associated especially with the Danish and Dutch labour market institutional set ups. It combines few restrictions on employers hiring and firing of workers with tax-financed unemployment insurance that is quite generous both in terms of replacement rate and especially in terms of the length of the period of support for the unemployed. The Commission’s evaluation document refers to the endorsement of the principles of flexicurity by the European Council in December 2007 and argues that, “a majority of Member States have now developed or are developing comprehensive flexicurity approaches” (European Commission, 2010, p. 16).

Providing the empirical evidence to evaluate this claim is problematic given the lack of consensus on relevant indicators for measuring levels of flexicurity. Here we simply provide data on changes in two key dimensions of flexicurity: the generosity of unemployment protection expenditures and changes in legal restrictions on firing employees. For the former dimension we use the data available on Eurostat’s electronic database on national expenditures on unemployment protection. The figures include both ‘passive’ expenditures providing income maintenance and ‘active’

9 Seen from a different perspective the data indicate that the welfare loss of high unemployment is more important than normally considered. Higher rates of unemployment go hand in hand with lower quality workplaces. The traditional welfare perspective with a one sided focus upon consumptions and neglect of the quality of work misses out this indirect but important negative consequence of the economic crisis.
expenditures for training the unemployed in order to improve their chances of finding employment. The measure we present in Figure 1 below is the level of expenditures per unemployed person as a share of per capita GDP. The results show that in the majority of nations the generosity of unemployment protection declined or remained unchanged. The two exceptions to this trend occurred in Italy, which in 2000 had the lowest level of expenditures amongst the EU-15, and in Finland. The largest declines in the level of expenditures occurred in Denmark (over 50%) and Sweden (over 60%).

Figure 1

Active and Passive Expenditures on Unemployment Protection


In order to measure changes in the flexibility of labour market we use the OECD overall employment protection legislation (EPL) index, which measures how difficult or costly it is for employers to lay off employees. At the time of the mid-term review of the Lisbon Strategy, the OECD’s Employment Outlook (2004, Ch. 2, p. 63) characterised the trend from the late 1980s as convergence, “driven largely by an easing of regulation in the countries where EPL was relatively strict”. The figures presented in Figure 2 below show that this provides an accurate portrayal of the
The general trend for the period up 2008. The level of the EPL decline in 9 out of the 14 nations represented and remained unchanged in 3. The only case of an increase the level of the EPL occurred in Ireland, which in 2008 following the slight increase had one of the least restrictive labour markets in Europe.

Given the evidence presented above, it is perhaps not surprising that in the Commission’s 2010 evaluation report there is not one single specific reference to success in terms of increased security for workers and definitely none to increased income security for unemployed workers. All the progress referred to is in terms of increased flexibility. This bias is fundamental in a situation where some of the new member countries offer almost no income security for those ending in unemployment. This gradual erosion of the concept of flexicurity is problematic since in its original form it bolsters the learning economy (Holm et al., 2010).

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Data on the EPL is unavailable for Luxembourg prior to 2008.
Weak Competitiveness with less Social Cohesion

The analysis and prescription in the Lisbon Agenda referring to ‘structural reform’ was a follow up of neo-liberal ideas regarding the fundamental importance of flexible labour markets supported by the OECD and other international organisations. What was new with the Lisbon Strategy was to combine this approach with EU’s historical commitment to ‘social cohesion’ and with a new strong emphasis upon the importance of innovation and the ‘knowledge-base’. Competitiveness was linked to investments in knowledge and to the upgrading of competences.

The original Lisbon Strategy recognised that the legitimacy of social policy and active state intervention in social affairs is different in Europe than in the US. The two key concepts in the Lisbon Strategy were competitiveness and social cohesion. While ‘structural reforms’ should ‘modernise’ the European welfare states and make them more competitive this should be combined with ‘more social cohesion’.

But there was little agreement on how to see the relationship between the two concepts. Social cohesion and inequality may in the context of the Lisbon Strategy be analysed at least at three different levels. First, it signals a historical commitment to promote economic growth in the least developed regions of Europe, second, it refers to personal income distribution within nations and third it may refer to the reduction of poverty at the regional, national or European level.

The patterns of ‘social cohesion’ have certainly changed within the EU over the last decade and to some degree this has been influenced by politics. More than a third of the EU-budget is allocated to the regional funds. And until the beginning of the crisis there was a certain convergence of GNP/capita across nation states and regions within Europe. Most studies of the impact from the use of structural funds indicate that they did contribute to a reduction in interregional inequality (Bouvet 2010).

But within most EU-15 countries and for the EU-15 as a whole the income distribution became more unequal. Figure 3 shows that the gini coefficient increased in 12 of the 15 member nations between 2000 and 2010. The largest increase occurred in Denmark which started out in 2000 with the least unequal income distribution amongst the EU-15.

11 It is one of the main objectives of the European Union (EU) to enhance economic and social cohesion both between and within member countries (Article 2 of the Treaty on European Union).
Public policies arguably may well have contributed to this weakening of social cohesion. One factor is the competition among EU member states to make the income tax system less burdensome for those with the highest incomes and for business enterprises. The argument for these changes may be seen as linked to ‘competitiveness’. It is assumed that the member state that offers the lowest taxes will attract skilled workers and business activities from abroad. As a result the effective corporate tax rate for major European countries was reduced from 29% to 21% between 1987 and 2005. The marginal tax rate on personal income was reduced from 48.4% to 42.1% between 2000 and 2008. The single country going furthest in this direction is Ireland offering a corporate tax only half of the average in the EU (12.5%) (Fitoussi and Saraceno, 2010). The financial sustainability of this competition toward the bottom was not seriously addressed in connection with the Commission’s evaluation of the Lisbon Strategy.

One reason why the EU has not restricted tax competition among member states may be that it is seen as positive by the Commission. Reading carefully the document that evaluates the Lisbon Strategy gives the impression that the Commission assumes that ‘what makes life easier for business is always good for competitiveness and economic growth’. For instance there are several references to a few problematic countries where real wages have increased more rapidly than productivity while there is no reference to countries where wages have fallen behind increases in productivity (Evaluation 2010). This is remarkable since the wage share of GNP for EU15 has fallen from 70% in 1975 to less than 60% in 2006 (Fitoussi and Laurent, 2009, p.9).

The idea that wage restraint at the national level is always for the better that dominates the evaluation report is especially contestable in the current situation where the uneven levels of ‘competitiveness’ both at the global and the European level are increasingly recognized as an obstacle to re-establishing economic growth. To rebalance the uneven competitiveness between for instance Germany and the peripheral countries through reducing wages in the weaker economies will result in more inequality adding to the numbers of the working poor and thus be at odds with the EU2020 goal of reducing poverty in these nations and increasing regional cohesion.

The current implementation of austerity programs in the peripheral economies has brought the process of convergence of national income per capita within the union to an end and for the first time in the history of European integration the gap between rich and poor EU-countries is increasing.

The most important change in the focus for the Lisbon Strategy was thus the weakening of its social dimension that took place in the middle of the first decade in the new millennium. This was reflected in the fact that flexicurity became reduced to more flexibility and that more and better jobs were reduced to more jobs. Competitiveness became a goal in itself and social cohesion was neglected as a commitment. These changes were fundamental and below we will argue that they weakened the capacity of the strategy to contribute to a sustainable euro-zone.

4. The Lisbon Strategy as a scaffolding for the euro-zone

Already when the European Employment Strategy was designed, the strategy was presented by one of its architects, Allan Larsson (1998), as a necessary complement to the EMU and later on scholars have analysed the Lisbon Strategy in this light (Begg, 2003). This perspective is especially pertinent in the light of the euro-crisis. Could and should the Lisbon Strategy have helped to avoid the current
crisis where several peripheral countries have been at the brink of state bankruptcies and now remain in economic crisis?

When the EMU was established bringing together countries at very different levels of economic development there were warning voices that a monetary union without a common fiscal policy would be vulnerable to external shocks. In the US, member states receive compensation through the federal budget in periods of slow-down and unemployment and this works as an important automatic stabiliser. The total budget of the EU is only a few percent of GNP as compared to about 20% in the USA and it cannot play this role. The Lisbon Strategy may be seen as an attempt to compensate for this flaw. There are two possible interpretations of what the Lisbon Strategy could have done to make the monetary union robust.

The first referred to by Begg (2003) is the neo-liberal strategy of ‘structural reform’ based on introducing more flexibility in the labour markets of the peripheral countries through, for instance, non-standard labour contracts, less protection and increased wage flexibility based upon weakening trade unions. With very high degrees of wage flexibility external shocks could be absorbed by changes in the labour market.

A different possible interpretation in resonance with the call for ‘more social cohesion’ is that the Lisbon Strategy could have served to reduce regional inequality by upgrading the knowledge base and the industrial structure in the peripheral countries - aiming at better jobs less exposed to global competition in these parts of Europe. It is no accident that the countries now most exposed to financial speculation are the ones that have the weakest industrial structure with the biggest proportion of workplaces exposed to direct competition with emerging economies (see Table 1 above).

Our analysis of the globalising learning economy in sections 2 and 3 above strongly implies that in order to be effective this second strategy would have required a much stronger focus upon regional and social cohesion, reforms of labour markets and education systems, as well as massive investment in knowledge and learning.

The Lisbon agenda became increasingly oriented toward the first strategy, and while the euro-crisis demonstrates that this orientation did not make the euro-cooperation robust, the current crisis-solutions based on calls for austerity nevertheless look very much as attempts to reinforce a neo-liberal model of structural reform based on increases in labour market flexibility. Despite the historical record and the severity of the current crisis facing Europe there is little in EU2020 to
indicate insight into the limitations of the first and the potential of the second to tackle the underlying structural problems of the relatively weak member nations including Greece, Portugal and Italy.  

5. On the insufficiency of the current national competitiveness strategies

Our conclusion is that while the general direction of the Lisbon Strategy, and especially the focus upon social cohesion and the knowledge-based society pointed in the right direction, those in charge of implementing the policy saw ‘social cohesion’ as a burden for Europe rather than as the necessary foundation for the learning economy. Therefore the implementation became increasingly lop-sided and dominated by the traditional economic focus upon ‘structural reform’ and flexibilisation. As a result we got a focus upon more jobs but not better jobs, upon flexicurity with little security and upon competitiveness with less, rather than more, social cohesion (as reflected first in increased income inequality within most the member countries and now also in increased income gaps across countries).

Second, we conclude that, even with a more balanced political approach, the combination of a hard-core monetary union and soft coordination of the policies aiming at social cohesion and innovation was preparing the ground for the current crisis. The EU2020 reproduces these problems and we are therefore not optimistic about the future of the project of European integration. The EU 2020 puts forward important objectives for economic growth as well as for social and environmental sustainability. But the social dimension that in 2000 was ‘more social cohesion’ has now been reduced to ‘poverty reduction’, i.e. narrowed down into what is typical of a (neo-)liberal view of the welfare state and there are no indications in the new strategy of an understanding of the wider policy implications of the learning economy perspective.

The Lisbon Strategy may be seen as an attempt to establish regional and political convergence in Europe with the ultimate aim to build a strong and cohesive union. But the Lisbon Strategy approach, with its emphasis on ‘best-practice’ and benchmarking in specific policy areas was technocratic and there are few signs that the strategy has been successful in stimulating popular participation in the project. It might have been easier to go forward with an idea of what could

12 For an interesting and original analysis of the negative impact of inequality and flexibilisation strategies upon economic growth in Europe see Galbraith (2006).
constitute the basis for forming a European identity corresponding to what historically constituted
the basis for nation building. In a seminal paper written at the occasion of the conference on “The
European Identity in a Global Economy” in preparation of the Lisbon Summit under the Portuguese
Presidency, Manuel Castells argued that there is a need of ‘a common European identity on whose
behalf citizens around Europe could be ready to share problems and build common solutions’
(Castells, 2002: 234).

After rejecting common religion and culture he pointed to a constellation of values that relate to
welfare state and social protection as a promising candidate. It consists of ‘shared feelings
concerning the need for universal social protection of living conditions, social solidarity, stable
employment, workers rights, universal human rights, concern about poor people around the world,
extension of democracy to regional and local levels…’. He proposed that if European institutions
promoted these values probably the ‘project identity’ would grow (Castells, 2002: 234-235).

What can be done in the current situation where Europe as a whole remains in stagnation and the
South of Europe suffers from mass unemployment and growing poverty? One way forward within
the existing framework would be to redefine the use of the Structural Funds and vastly increase the
amounts explicitly targeted to modernising education and labour markets and with the objective to
further develop the organisational and technological capabilities of the weaker member states.

A more radical reform would be the redefinition of the Economic and Monetary Union (EMU) so
that it recognizes the ‘social dimension’; transforming it into an Economic and Social Union (ESU).
This should be linked to reforms of the decision-making process that combine democratic
participation with efficiency.

There is hence a need for a paradigmatic shift where the fear of state intervention and the belief in
markets is changed into a pragmatic perspective where governments are allowed to take on the tasks
necessary to promote stable economic growth. This includes establishing a much stricter regulation
of financial markets. But most importantly it involves a redesign of all institutions and sector
policies so that they take seriously that we are in a new phase where knowledge is the most
important resource and learning the most important process.

Success would actually require a radical step ahead in the process of European integration. An
obvious step now debated among macro-economists would be to move toward a fiscal union as a
necessary complement to the monetary union. But this is far from sufficient to bolster the economic
and monetary union and to make it stable and sustainable. There is a need to develop common
policies at the European level that contribute to the kind of solidarity that was the historical foundation for the building of the nation states and this includes social policy, education policy, labour market as well as industrial policy. Such a radical shift looks unrealistic in a situation where Germany insists upon a strengthening of nationalist strategies aiming at short term ‘cost competitiveness’. But without it the euro-zone will remain unstable and crisis-ridden because the tension between the low-income countries in the South and the high income countries in the North will undermine its stability sustainability.
Literature


van Pottelsbergh B. (2008), Europe’s R&D : missing the wrong targets ?, Bruegel Policy Brief, 2008/03.


Documents
