

The Broad Economic Policy Guidelines: Before and After the Re-launch of the Lisbon Strategy*

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Abstract

This article explores the evolution of the European Union's Broad Economic Policy Guidelines (BEPGs) since their introduction in 1993. It argues that the BEPGs have demonstrated value-added as an overarching instrument of policy co-ordination and as a catalyst for co-operation between European and national policy-makers. Notwithstanding this, the effectiveness of the BEPGs appears to have been hindered by the progressive accumulation of guidelines and by the failure of peer pressure to bite as a sanction mechanism. The re-launch of the Lisbon Strategy in March 2005 simplified and streamlined the BEPGs, embedding them within a new set of Integrated Guidelines for Growth and Jobs. Key issues surrounding the future of the BEPGs concern their potential as a trigger for 'home grown' peer pressure, their attention to euro area specific issues and the involvement of the European Parliament in multilateral surveillance.

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Introduction

The ebbs and flows experienced by the EU economy during the first decade of the new millennium have fuelled debate among academics and practitioners about whether the EU's provisions for economic policy co-ordination are fit for purpose. Two key policy instruments have preoccupied this debate: the Stability and Growth Pact (see, for example, Buitier and Grafe, 2004; and Buti *et al.*, 2003) and the Open Method of Co-ordination (see, for example, Borrás and Jacobsson, 2004; and Tabellini and Wyplosz, 2006).

Comparatively little attention has been given to the Broad Economic Policy Guidelines (BEPGs), an instrument which, in the words of the Council, is central to the co-ordination process (ECOFIN, 1999, p. 5).¹ The BEPGs, which are legally enshrined in Article 99 of the Treaty, offer general orientations to Member States and the Community on macroeconomic and structural issues, ranging from budgetary policy and wage developments to labour-market reform and financial-market integration. The BEPGs take the form of guidelines to Member States and the Community, which are adopted by the Council of Ministers for Economic and Financial Affairs (ECOFIN) and monitored through a system of multilateral surveillance involving the Commission and ECOFIN. In the event of non-compliance ECOFIN can issue a non-binding recommendation for corrective action under Article 99(4) of the Treaty.

To reduce the BEPGs to either an addendum to the Stability and Growth Pact or an illustration of the Open Method would be inaccurate.² Firstly, the BEPGs cover a broader range of budgetary issues than the Pact, including pension reform, redirecting expenditure towards growth-enhancing categories and reinforcing fiscal incentives to work and invest. Secondly, the BEPGs constitute a less soft mode of co-ordination than the Open Method. While both have similarities of form, insofar as they ultimately rely on soft sanctions and non-coercive methods, they differ with respect to their institutional dynamics. More specifically, the BEPGs are underpinned by a well-developed, Treaty-based system of enforcement that assigns clearly defined roles to the Commission and ECOFIN. In comparison, the Open Method represents a more voluntaristic form of co-ordination, which with the European Council at its centre, employs ad hoc working methods such as information exchange, benchmarking and league tables.

¹ Alesina *et al.* (2001) and Hodson and Maher (2001, pp. 736–37) look at Ireland's breach of the BEPGs in 2001. Begg (2003) and Jacquet and Pisani-Ferry (2001) discuss the BEPGs and the reform of the Pact.

² As Zeitlin (2005, p. 2) notes, there is no single template for the Open Method, but rather a collection of processes that 'vary considerably in their modalities and procedures, depending on the specific characteristics of the policy field'.

Taking these differences as its point of departure, the remainder of this article critically examines the past, present and future of the BEPGs as an instrument of economic policy co-ordination. Section I looks at the pre-history of the BEPGs from the Treaty of Rome in 1957 to the Delors Report in 1989, before highlighting the key stages in their evolution from the Maastricht Treaty to the Mid-Term Review of the Lisbon Strategy. Section II assesses the value-added of the BEPGs as an instrument of EU economic governance over the period 1993–2005. Section III asks how the re-launch of the Lisbon Strategy in 2005 has impacted upon the BEPGs. Section IV discusses a number of key issues surrounding the future of the BEPGs as an instrument of EU economic governance.

I. The Origins and Evolution of the BEPGs 1993–2005

The pre-history of the BEPGs began with the pioneering work of the Monetary Committee of the European Economic Community (EEC) in the late 1950s. This committee, which was established under Article 105 of the Rome Treaty, published annual reports from 1959 onwards including an overview of the economic situation and offering policy guidance to the Member States. The parallels between these reports and the BEPGs can be seen, for example, in the advice given to Italy in 1968 to ‘intensify its endeavours to introduce an incomes policy which would be “neutral” as regards prices’ (Monetary Committee, 1968, p. 18).

The idea of economic guidelines was also taken up by the Commission in its 1962 Action Programme for the second stage of the EEC, which called for efforts to define ‘desirable and possible developments in economic activity’ (Maes, 2004, p. 16). This led to the creation in 1964 of a Medium-Term Economic Policy Committee to promote a co-ordinated approach to medium-term economic planning (Maes, 2004, p. 19). The Werner Report in 1970 and the Delors Report in 1989 both linked economic guidelines to plans for Economic and Monetary Union (EMU). The former called for guidelines to be used as a transitional co-ordinating device in the preparatory stages of EMU (Werner, 1970, p. 16), while the latter recommended that guidelines be used to co-ordinate economic policies once EMU was underway (Delors, 1989, p. 20).

The Maastricht Treaty stuck closely to the Delors Report’s conception of economic guidelines. Article 99(2) instructs ECOFIN to formulate ‘a draft for the broad guidelines of the economic policies of the Member States and of the Community’ on the basis of a qualified majority vote on a Commission recommendation. Following a discussion of conclusions on the BEPGs by the

European Council, ECOFIN formally adopts its recommendation on these guidelines on the basis of a qualified majority vote and duly informs the European Parliament.

The Treaty assigns the BEPGs two general objectives. Firstly, Article 98 calls on Member States to co-ordinate their economic policies 'within the context of the broad guidelines' with a view to achieving the objectives of the Community, as set out in Article 2. Secondly, Article 99(4) links the BEPGs to EMU by stating that a recommendation for corrective action can be issued when economic policies 'risk jeopardizing the proper functioning of economic and monetary union'.

The implementation of these guidelines is monitored through a system of multilateral surveillance, which is established by Article 99(3). This article confers responsibility on ECOFIN for assessing the consistency of Member States' economic policies with the BEPGs on the basis of Commission reports. Member States are obliged to 'forward information to the Commission about important measures taken by them in the field of their economic policy and such other information as they deem necessary'. In the event of a breach, the BEPGs are enforced through political rather than pecuniary sanctions in the form of a non-binding recommendation that ECOFIN can adopt under Article 99(4).

The Commission's first recommendation on the BEPGs, which was adopted in November 1993, was just four pages in length and identified redressing 'the failure to significantly reduce an already alarming unemployment total' as the Community's core economic challenge (Commission, 1993a, p. 1). To this end, the BEPGs presented general guidelines (although not country-specific ones) calling for price stability, sound public finances and measures to create more employment.

The stated purpose of the original guidelines was three-fold (Commission, 1993b, pp. 1–4). Firstly, they provided 'the central core of all future multilateral surveillance exercises'. Secondly, they established the 'broad framework' for the preparation and assessment of Member States' convergence programmes. Thirdly, the follow up to the BEPGs was foreseen as a symbolic test of Member States' commitment to EU economic policy. Barber (1993) argues that the inaugural BEPGs also reflected European policy-makers' belief that closer economic policy co-ordination was necessary after the *de facto* suspension of the Exchange Rate Mechanism in August 1993. For its part, the Commission recognized that the BEPGs signalled an attempt 'to allow the Community to get back to the convergence path needed to achieve EMU' (Commission, 1993a, p. 1).

Looking back, it is clear that the first BEPGs articulated the essential features of the EU's economic policy strategy over the next decade. The

Table 1: Key Steps in the Evolution of the BEPGs 1993–2005

1993	Adoption of the first BEPGs
1998	Adoption of the first country-specific guidelines
2000	European Commission presents the first BEPGs Implementation Report European Council at Lisbon assigns the BEPGs a key role in structural reform
2001	ECOFIN triggers an Article 99(4) recommendation for the first time against Ireland
2002	Commission presents proposals on the Streamlining Agreement
2003	BEPGs adopted for a period of three years
2004	Adoption of the first country-specific guidelines for new Member States

Source: Authors' own data.

guideline on price stability, which called for an average inflation rate of 'no more than two to three per cent' (Commission, 1993a, p. 5), foreshadowed the European Central Bank's future definition of price stability (ECB, 2004, p. 50). The guideline on sound public finances called for lower budget deficits 'perhaps close to balance' by 2000, thereby pre-empting the Stability and Growth Pact's medium-term objective (Commission, 1993b, p. 4). The guideline on structural measures to improve 'competitiveness and the Community's underlying capacity to create jobs' was echoed by the European Council at Lisbon in March 2000 (Commission, 1993b, p. 4).

While the BEPGs retained their core focus following their launch in 1993, they also developed in a number of other ways. Table 1 records the principal steps in the BEPGs' evolution.

- In 1998, the BEPGs included country-specific guidelines for the first time (Commission, 1998). Whereas the first vintage focused principally on budgetary issues, the country-specific guidelines widened their focus over the years to include structural reforms in labour, capital and product markets and ultimately the Lisbon Strategy.
- In 1999, the Commission presented the first BEPGs Implementation Report, with the aim of 'scrupulously identifying which recommendations have been adopted and which have not and [...] re-evaluating the state of play' (Commission, 2000, vii).
- In March 2000, the European Council (2000, para. 35) at Lisbon decided that the BEPGs should thereafter focus 'increasingly on the medium- and long-term implications of structural policies and on reforms aimed at promoting economic growth potential, employment and social cohesion, as well as on the transition towards a knowledge-based economy'.
- In 2001, the BEPGs came to prominence when ECOFIN (2001) adopted its first Article 99(4) recommendation against Ireland, following a budget in December 2000 in which the Irish government adopted tax

cuts and allowance increases in spite of calls in the BEPGs 2000 to show fiscal restraint in the face of rapid economic growth (Commission, 2001).

- In 2002, the Commission proposed a new three-year, streamlined cycle for the BEPGs and Employment Guidelines, with a view to, *inter alia*, increasing transparency and efficiency in the co-ordination process, avoiding overlap and repetitions in the formulation of guidelines, and increasing the focus of the BEPGs on implementation (Commission, 2002). The first multi-annual BEPGs were launched in 2003 covering the period 2003–05 (Commission, 2003).
- The BEPGs package for 2003–05 also included guidelines specifically addressed to euro area Member States for the first time (Commission, 2003). It reflected issues that were considered to be particularly salient for euro area members, including the need for a balanced macroeconomic policy mix and the importance of enacting structural reforms to address unwarranted inflation differentials.

II. Assessing the BEPGs 1993–2005

Having described the genesis and evolution of the BEPGs, this article now moves on to assess their value-added. Focusing on the period before the re-launch of the Lisbon Strategy in 2005, it begins by highlighting areas where the BEPGs made a positive contribution to EU economic governance, before discussing factors that may have limited their effectiveness.

An Overarching Instrument of Co-ordination

During the 1990s, the EU developed a wide array of ‘sectoral’ policy instruments, covering fiscal discipline (the Stability and Growth Pact), employment co-ordination (the Luxembourg Process) and structural reforms in product and capital markets (the Cardiff Process). In spite (and perhaps even because) of these innovations, the BEPGs emerged as the one policy instrument that offers a global view of EU economic co-ordination. This can be seen in three ways:

- i. Firstly, the BEPGs linked the avoidance of excessive deficits to a broader debate on the stability of budgetary policies over the medium-term and the sustainability of public finances over the long-term. The BEPGs also fostered debate on the quality of public finances, encouraging Member States to redirect expenditure towards growth-enhancing categories like R&D and to establish ‘mechanisms to assess the relationship between public funds and policy objectives and to help control spending’ (Commission, 2003, p. 10).

- ii. Secondly, the BEPGs linked these budgetary guidelines to broader macroeconomic concerns. In the BEPGs 2003–05, for example, there was a detailed guideline on wage developments that called for increases ‘that are consistent with price stability and productivity gains [...] [and] moderate in the context of a possible cyclical recovery in productivity or oil-price-hike-induced increases in inflation’ (Commission, 2003, p. 5)
- iii. Thirdly, the BEPGs emphasized the link between macroeconomic policies and structural reforms. The BEPGs 2003–05, for example, called on macroeconomic policies to help orient investment ‘towards knowledge and innovation to position the economy on a sustained, higher, non-inflationary, growth and employment path’, while recognizing that structural reforms could also contribute to macroeconomic stability by promoting more flexible labour, product and capital markets (Commission, 2003, pp. 4–6).

The academic literature, which is sharply critical of the ‘narrow focus’ of EU economic governance, largely ignores the overarching character of the BEPGs. Allsopp and Artis (2003), for example, criticize EU economic policy for failing to take account of the need for supply-side reform when assessing the monetary and fiscal policy mix even though these issues are, as noted above, a central preoccupation of the BEPGs. Similarly, Eichengreen (2003) criticizes what he perceives as a pro-cyclical tendency in EU economic governance and calls for greater attention to be given to prevailing economic conditions, in spite of the fact that these issues are dealt with explicitly in the macroeconomic part of the BEPGs.

A Catalyst for Closer Co-operation Between Policy-Makers

The preparation of the BEPGs entails frequent interactions between policy-makers at the EU and Member State level. By the time that ECOFIN finally adopts the BEPGs (or an update thereof) the guidelines will have gone through an intense process of review, consultation and discussion involving, *inter alia*, the Commission, the Economic and Financial Committee, the Economic Policy Committee, the Employment Committee, the European Economic and Social Committee, the European Parliament, COREPER, ECOFIN, the Employment, Social Policy, Health and Consumer Affairs Council, the Competitiveness Council and the European Council. Although this approach to policy-making is labour-intensive, it also ensures that the BEPGs stimulate debate among, and reflect the views of, a wide range of policy actors.

For Thygesen (2002, p. 1) the involvement of high-level representatives in EU surveillance efforts ensures that the BEPGs ‘go well beyond’ similar

efforts by the OECD and the IMF. Schäfer (2004, p. 10) argues, furthermore, that the BEPGs have an added advantage over the surveillance efforts of the OECD insofar as the BEPGs Implementation Report 'monitors more closely whether and how states follow the recommendations given'. Indeed, the OECD (2005) has arguably moved closer to the BEPGs/Implementation Report model with its publication, *Economic Policy Reforms*, which provides a cross-country analysis of the implementation of economic reforms, using a wide range of structural indicators.

An Excessive Accumulation of Guidelines

As noted above, the first BEPGs contained just three guidelines. The BEPGs for the period 2003–05 contained 23 general guidelines and four euro area-specific ones, not to mention 94 country-specific recommendations. Several factors can potentially explain the rapid growth of the BEPGs. Firstly, they widened their focus as the EU's economic policy agenda expanded. The key driving factor in this respect was the European Council at Lisbon in March 2000, which decreed that the BEPGs should focus more on structural reform issues. Secondly, the number of guidelines increased as policy-makers' understanding of economic policy and reform deepened. For example, a growing awareness of the incentive effects of tax and benefit systems and the impact of employment protection legislation led to new guidelines on these issues. Finally, the BEPGs were influenced by the EU's broader political concerns. A case in point is the call in the BEPGs 2003–05 for Member States 'to facilitate the development of the Union's satellite navigation system Galileo'.

This rapid expansion of the BEPGs may have limited their effectiveness in several important respects. In the first instance, it made it difficult to establish a set of core priorities for the EU economy and to understand the trade-offs between different objectives. As noted by Sapir *et al.* (2004, p. 21), '[o]nly a clear understanding of the relevant trade-offs can lead to adequate policies'. In a survey of economic policy co-ordination following the Amsterdam Treaty, Meyer (2005) finds a positive correlation between the clarity of defined objectives and the extent of media coverage. This implies that the accumulation of guidelines also hindered the communication of the BEPGs to a wider audience.

The Limited Effectiveness of Peer Pressure

In theory, the BEPGs are designed to trigger peer pressure through three main channels. The process of preparing the BEPGs should allow for the application of 'moral force' at the committee level (through the Economic and

Financial Committee, and Economic Policy Committee), at the ministerial level (through ECOFIN and the Eurogroup) and at the level of the Heads of State or Government (through the Spring European Council). The publication of the BEPGs should also help to fuel the public debate on economic policy, particularly by highlighting key challenges, faming leaders and shaming laggards. In extreme cases, an Article 99(4) recommendation for corrective action against a Member State is designed to trigger a more intense debate on domestic economic priorities.

In practice, the BEPGs encountered mixed results as a catalyst for peer pressure during the period 1993–2005. Senior officials and Member States showed a willingness to discuss pressing economic policy challenges but a reluctance to allow criticism of their policies to reach the public arena (Collignon, 2001).³ Over time, the Commission's Communications on the BEPGs Implementation Report also shifted towards a more general analysis of compliance and away from the practice of including detailed tables on the follow-up to country-specific guidelines. The Spring European Council meanwhile helped to sustain media interest in the Lisbon Strategy, but it found it difficult to get to grips with the minutiae of economic reform, particularly when geo-political concerns like the situation in Iraq loomed large at summits.

The impact of the BEPGs on the wider public debate was disappointing. While the European Parliament held annual discussions on the Commission's recommendation on the BEPGs with the Troika of past, present and incoming EU Presidencies (ECON, 2004, p. 20), its efforts lacked the public profile of its Monetary Dialogue with the ECB. There was even less concern in the BEPGs at the Member State level with national parliaments showing little interest in the workings of EU economic governance (GOVECOR, 2004).

Article 99(4) proved less useful as an instrument of peer pressure than had originally been foreseen. Indeed, ECOFIN's recommendation against Ireland in February 2001 was the sole occasion that Article 99(4) was invoked. This may be due in part to the political reaction that followed ECOFIN's recommendation against Ireland and because it triggered a debate about the legitimacy of EU economic governance (Hodson and Maher, 2001). The situation was not helped by the fact that ECOFIN censured Ireland at a time of economic boom and budgetary surplus, creating public confusion over the

³ A lack of ownership over peer pressure is also suggested in the Economic Policy Committee's presentation of its own Annual Report on structural reforms instead of focusing its surveillance on the BEPGs' Implementation Report.

EU's deficit rules, even though budgetary adjustment was necessary in view of Ireland's deteriorating cyclically-adjusted fiscal position.

III. The BEPGs and the 2005 Re-launch of the Lisbon Strategy

In March 2005, the European Council acknowledged 'the shortcomings and obvious delays' in the implementation of the Lisbon Strategy and called for 'urgent action' to boost the EU's economic performance relative to that of its partners (European Council, 2005, para. 4). This assessment followed the Commission's February 2005 Communication 'Working Together for Growth and Jobs: A New Start for the Lisbon Strategy', which linked Lisbon's deficiencies to a 'policy agenda which has become overloaded, failing co-ordination and sometimes conflicting priorities' (Commission, 2005, p. 3) and the November 2004 Kok Report, which warned that the EU's structural-reform agenda was in danger of becoming 'a synonym for missed objectives and failed promises' (Kok, 2004, p. 10).

In spite of these criticisms, the consensus among the European Council, the European Commission and the Kok Group was that Lisbon should be salvaged rather than scrapped in view of the need to boost the EU's competitiveness on global markets and to meet long-term challenges such as the economic consequences of ageing populations. EU leaders duly responded by unveiling a high-profile re-launch of the Lisbon Strategy at the Spring European Council in March 2005. This re-launch refocused the EU's economic reform priorities rather than radically changing them. In the first place, the European Council adopted 'growth and jobs' as the EU's new unofficial economic mantra, with references to creating the world's most competitive economy by 2010 fading into the background. Alongside this, the European Council called for greater 'political ownership' over Lisbon from EU and national policy-makers and for parliaments, regional and local bodies, social partners and civil society to be stakeholders in the reform process. This refocusing was accompanied by a new three-year cycle of economic and employment policy co-ordination covering the period 2005–2008 and consisting of three key elements:

- Firstly, the Council of Ministers adopted a new set of Integrated Guidelines for Growth and Jobs, combining the BEPGs and the Employment Guidelines in a single document for the first time. The inaugural Integrated Guidelines, which were adopted in March 2005, cover the full three-year co-ordination cycle, although the Council can make interim adjustments, as occurred in March 2007 when it adopted a set of country-specific recommendations (ECOFIN, 2007).

- Secondly, the Member States adopted a set of National Action Programmes in Autumn 2005, which set out completed or planned reforms in response to the Integrated Guidelines. In parallel, the Commission prepared a Community Lisbon Programme which summarizes EU-level initiatives for boosting growth and jobs. The first generation of the National Action Programmes and the Lisbon Community Programme was presented in Autumn 2005 and they are updated on an annual basis.
- Thirdly, the Commission launched a new Annual Progress Report for Growth and Jobs, which provides a detailed evaluation of the National Action Programmes and the Community Lisbon Programmes. The report, which was first published in December 2005 and is updated on an annual basis, forms an important part of the Commission's input to the Spring European Council, which continues to set the political direction for the Lisbon Strategy.

From a governance perspective, what impact has the re-launch of Lisbon had on the BEPGs? Perhaps the most discernable effect, thus far, has been to reduce the number of guidelines. The BEPGs for 2005–08 contained 16 general guidelines as compared with 27 for the period 2003–05. This reduction has been achieved, in part, through a further streamlining of economic and employment policy co-ordination with detailed guidelines on labour-market reforms being left to the Employment Guidelines. Although some commentators have called for a further pruning of the BEPGs (Pisani-Ferry and Sapir, 2006), the re-launch of Lisbon has, at least, curtailed the EU's tendency to issue new guidelines rather than concentrate on existing ones. As evidence of this fact, the country-specific recommendations issued by the Council in March 2007 were restricted, for the first time, to a subset of Member States that were deemed to be facing the most acute reform challenges. Similarly, in December 2007, the Commission announced that the Integrated Guidelines for 2005–08 remained valid and that they would, therefore, be carried over into the 2008–10 co-ordination cycle (Commission, 2007).

As EU policy-makers have become more selective about issuing new guidelines, their interest in providing a more rigorous assessment of the implementation of existing guidelines has increased.⁴ In December 2005, the European Commission's DG for Economic and Financial Affairs launched LABREF, an annually-updated database of labour-market reforms in EU Member States, which records changes to labour taxation, unemployment and

⁴ In this respect, the re-launch of Lisbon has followed the advice of the Sapir Group (2004, p. 86), which called for 'a more sustained investment in developing effective methodologies' so as to allow policy-makers to get a better grip on what is required to make EU economic governance work.

welfare-related benefits, active-labour-market programmes and employment-protection legislation. The Commission has also financed the development of the EUKLEMS database, which was officially unveiled in March 2007. This resource presents an unprecedented amount of information on growth and productivity developments at the industry level for all EU Member States from the 1970s until the present day (Koszerek *et al.*, 2007, p. 55). Commission officials have also worked with their national counterparts on the Economic Policy Committee's Lisbon Methodology (LIME) Working Group to develop more economically robust methods for measuring structural-reform progress. Thus far, the LIME Working Group has focused on three main areas of activity: (1) improving methods for tracking structural reforms, (2) analysing the impact of specific reforms on growth and employment and (3) improving modelling techniques for understanding structural reform (see DG Economic and Financial Affairs, 2007).

A third and final observation about the re-launched Lisbon Strategy is that EU policy-makers have become more circumspect about using peer pressure to enforce the BEPGs. This caution is evident from the temperate language of the Spring European Council which avoids harsh criticism of reform laggards in its conclusions. It is also suggested by the Commission's Annual Progress Report on Growth and Jobs, which excludes reform 'league tables' and employs neutral language when describing the policy challenges facing individual Member States. Pisani-Ferry and Sapir (2006) criticize this approach, arguing that it is a repudiation of the Kok Group's calls for a more active use of naming, shaming and blaming to enforce the BEPGs.

An alternative reading of EU policy-makers' conciliatory approach to Lisbon laggards is that it is a logical course of action given efforts to encourage Member States to assume greater responsibility over the EU's structural-reform agenda. From this perspective, the Kok Report's calls to enhance the coercive and consensual strands of the Lisbon Strategy were inconsistent. As Ireland's reaction to the Article 99(4) recommendation in 2001 demonstrates, peer pressure that is, rightly or wrongly, perceived as being 'made in Brussels' can rebound on the sanctioning institution and fuel debates over the sovereignty of national economic authorities. In this respect, the re-launch of Lisbon can be seen as an attempt to foster a more legitimate 'home grown' debate on economic reform by inviting parliaments, regional and local bodies, social partners and civil society to monitor the preparation of, and follow-up to, National Reform Programmes.

According to evidence presented by Pisani-Ferry and Sapir (2006), nine out of 25 national governments failed to involve parliamentary committees in the discussion of the inaugural National Reform Programmes while 18 out of 25 governments gave no indication of follow-up. On a similar note, all

Member States have honoured their March 2005 commitment to appoint a Lisbon Co-ordinator but, as Begg (2007) noted, the seniority and political influence of these office-holders vary from one Member State to another. Overall, these findings suggest that even if a 'home grown' debate on national economic policy is preferable to one that (appears to be) made 'in Brussels', the EU's participative vision of the Lisbon Strategy has yet to be realized.

IV. The Future of the BEPGs

In March 2008, the ECOFIN Council submitted a report to the Spring European Council on the Broad Economic Policy Guidelines reflecting on progress achieved during the first cycle of the renewed Lisbon Strategy (ECOFIN, 2008). The key message of the report was three-fold. Firstly, although the EU's improved growth performance over the period 2005–08 was partly the result of a cyclical upturn, Lisbon-type reforms can claim some credit for helping to boost Member States growth potential.⁵ Secondly, in spite of this apparent progress, Member States need to step up the pace of structural reforms to meet medium- and longer-term challenges such as increased competition in global markets and the effects of ageing populations. Thirdly, the second cycle of the renewed Lisbon Strategy should focus on implementing existing guidelines rather than on identifying new priorities for structural reform. To this end, the ECOFIN Council endorsed a set of Integrated Guidelines for the period 2008–10 which were virtually identical to their predecessors (see Table 2). Even if the substantive focus of the Lisbon Strategy remains appropriate, however, it follows from the preceding section that additional steps can be taken to strengthen the governance aspects of the EU's structural reform agenda. The final section of this article looks at three key issues surrounding the future of the BEPGs: the first concerns the fate of peer pressure as an enforcement mechanism; the second relates to the involvement of the European Parliament; and the third focuses on the evolution of euro area specific guidelines.

The analysis presented in this article suggests that the BEPGs will come to rely exclusively on the effectiveness of non-coercive working methods, such as peer review, information exchange and consensus building unless a way can be found to make peer pressure bite. Perhaps the most obvious way to do this would be for EU policy-makers to engage in a more active use of naming, shaming and blaming against errant Member States along the lines suggested by the Kok Report. In fact, this approach would be slightly more feasible

⁵ For an in-depth discussion of how the EU's revamped reform agenda has impacted upon the EU's economic performance, see Allianz Dresdner Economic Research (2008) and Barysch *et al.* (2008).

Table 2: The Integrated Guidelines 2008–10

The Broad Economic Policy Guidelines

Macroeconomic Guidelines

1. Secure economic stability for sustainable growth.
2. Safeguard economic and fiscal sustainability.
3. Promote a growth- and employment-orientated and efficient allocation of resources.
4. Ensure that wage developments contribute to macroeconomic stability and growth.
5. Promote greater coherence between macroeconomic, structural and employment policies.
6. Contribute to a dynamic and well-functioning EMU.

Microeconomic Guidelines

7. Increase and improve investment in R&D, in particular by private business.
8. Facilitate all forms of innovation.
9. Facilitate the spread and effective use of ICT and build a fully inclusive information society.
10. Strengthen the competitive advantages of its industrial base.
11. Encourage the sustainable use of resources and strengthen the synergies between environmental protection and growth.
12. Extend and deepen the internal market.
13. Ensure open and competitive markets inside and outside Europe and reap the benefits of globalization.
14. Create a more competitive business environment and encourage private initiative through better regulation.
15. Promote a more entrepreneurial culture and create a supportive environment for SMEs.
16. Expand, improve and link up European infrastructure and complete priority cross-border projects.

The Employment Guidelines

17. Implement employment policies aimed at achieving full employment, improving quality and productivity at work, and strengthening social and territorial cohesion.
18. Promote a life-cycle approach to work.
19. Ensure inclusive labour markets, enhance work attractiveness and make work pay for job-seekers, including disadvantaged people, and the inactive.
20. Improve matching of labour market needs.
22. Promote flexibility combined with employment security and reduce labour market segmentation, having due regard to the role of the social partners.
23. Ensure employment-friendly labour cost developments and wage-setting mechanisms.
24. Expand and improve investment in human capital.
25. Adapt education and training systems in response to new competence requirements.

Source: ECOFIN (2008).

under the Lisbon Treaty, which would allow the Commission to issue a direct warning against Member States that breach the BEPGs without requiring the endorsement of the Council. Direct warnings of this kind may have a role to play in the enforcement of the BEPGs but past experience

suggests that care must be taken to avoid triggering a negative political backlash.

Alternatively, EU policy-makers could take a more proactive role in fostering a 'home grown' debate on the Lisbon Strategy. The Spring European Council in March 2005 left it to the individual Member States to decide whether, and how, to consult stakeholders in the preparation of the National Reform Programmes. Government-led consultation on the Lisbon reforms remains essential but there may also be scope for EU policy-makers to strengthen their dialogue with European business representatives, the social partners and other reform-minded interested groups. Dialogue of this kind formed an essential part of the 1992 project and the creation of EMU (see Jabko, 2006), but its importance seems to have been neglected in discussions of how to enforce the BEPGs and the Lisbon Strategy.

A second key issue surrounding the future of the BEPGs concerns the European Parliament. Article 99 of the Treaty Establishing the European Community requires the Council to inform the Parliament of its recommendations setting out the BEPGs and invites the President of the Council and the Commission to report to the Parliament on the results of its multilateral surveillance. In the event of an Article 99(4) recommendation that is made public, the President of ECOFIN can also be invited to appear before the competent committee of the Parliament. In spite of these Treaty provisions, the overall impact of the Parliament on the BEPGs has been minimal.

One reason for this situation is timetabling.⁶ Each year, the Parliament presents its views on the BEPGs in the form of an own-opinion report prepared by a member of the ECON Committee. The procedure for adopting this report is a lengthy one; it can take several months from the appointment of the Rapporteur to the adoption of the final report in plenary. This delay results, in part, from the ECON Committee's practice of holding several meetings, with a break of several weeks between each one, before it finally approves the report. Although this process helps to build consensus among MEPs, the resulting report sometimes arrives too late to have a meaningful impact on the BEPGs. This was the case in 2006 when the report of MEP García-Margallo was finally adopted in plenary on 23 March, one week after the ECOFIN Council forwarded a draft of the guidelines to the Heads of State or Government and just 48 hours before the Spring European Council began. MEPs' sense of frustration at this state of affairs is suggested by the European Parliament's perennial calls for a 'code of practice' to be adopted to ensure its

⁶ Another reason is that there is no one committee within the Parliament that has overall responsibility for monitoring the Lisbon Strategy (Begg, 2007).

full and active involvement in the BEPGs (Goebbels, 2005; García-Margallo y Marfil, 2006; Bullmann, 2007).

One possibility for giving the European Parliament a more active role in the BEPGs would be to establish an Economic Dialogue to which the Commissioner for Economic and Monetary Affairs and the President of the ECOFIN Council would be invited at regular intervals to discuss the preparation of, and follow up to, the BEPGs. In the event of an Article 99(4) recommendation, the Finance Minister of the Member State in question could also be invited to an extraordinary meeting of the Economic Dialogue to discuss his or her country's economic situation.

The working methods of the Economic Dialogue would be akin to those of the European Parliament's Monetary Dialogue, with invitees being asked to present an opening statement on the BEPGs, followed by a question and answer session with the committee members. In view of the technical subject matter and given that the analytic resources of the European Parliament are already stretched, it would be useful to invite outside academics and other experts to contribute to the preparation of the meetings. In the interests of transparency, these contributions would be published on the European Parliament's website along with a full transcript of the Economic Dialogue itself.

The proposed Economic Dialogue would help to strengthen the BEPGs in a number of respects. Firstly, it would improve the democratic accountability of economic governance in the EU by giving a more visible role to the European Parliament. Secondly, it would turn the presentation of the BEPGs into a strategic event for communicating the BEPGs to a wider audience. At present, ECOFIN's adoption of the final text of the BEPGs is a low-key and largely formalistic affair. Thirdly, it would build on existing practices. The Commissioner for Economic and Monetary Affairs is frequently invited by ECON for an exchange of views on topical issues and to present the Commission's Annual Report on the euro area, while the ECOFIN President generally attends to discuss the Presidency's work programme.⁷ The Economic Dialogue would add to these arrangements by ensuring that the BEPGs are discussed in their own right and not just as part of a more general debate on EU economic policies.

A third issue surrounding the future of the BEPGs concerns their focus on the euro area dimension of economic policy. As noted in Section I, the BEPGs have, since 2003, included guidelines specifically addressed to euro area members. The Integrated Guidelines for 2008–10 continue this

⁷ The European Parliament has called for a 'regular and structured dialogue' on euro area related issues (García-Margallo y Marfil, 2006, p. 29). It would seem logical for such a dialogue to pay close attention to the follow-up of the euro area specific guidelines.

practice, *inter alia*, calling on euro area countries to safeguard fiscal discipline, to enhance adjustment capacity to economic shocks through structural reform and to improve the external representation of the euro area. Uncertainty remains over the ownership of these guidelines since they are, firstly, adopted by a Council comprised of representatives from euro area and non-euro area Member States and, secondly, barely addressed in the National Reform Programmes (Pisani-Ferry and Sapir, 2006; Begg, 2007).

The Commission and the Eurogroup have, to a certain extent, filled this governance gap. The Commission's Annual Progress Report on Growth and Jobs includes a separate *fiche* that provides a short assessment of macroeconomic, microeconomic and employment policies in euro area members and reviews the institutional aspects of the euro area's external representation. The Eurogroup has, under the guidance of its President Jean-Claude Juncker, structured its discussion of structural-reform issues around the 'operational conclusions' of the euro area *fiche* (Eurogroup, 2007). Although this shows that the euro area dimension of the BEPGs is heeded, the informality and confidentiality of the Eurogroup reduces the scope for a practical follow-up to these discussions.

The Lisbon Treaty would help to address this situation. In particular, Article 136 of the Treaty on the Functioning of the European Union would allow the Council to address economic policy guidelines specifically to the Member States whose currency is the euro on the basis of a qualified majority vote. This vote would be restricted to Member States that share the single currency, which means that the Eurogroup would take on *de facto* responsibility for adopting the euro area dimension of the BEPG.

A challenge for the future concerns how to ensure a more thorough follow up to the euro area specific dimension of the BEPGs. One possibility, which has been suggested by Pisani-Ferry and Sapir (2006), would be for the Eurogroup to adopt a euro area reform programme which would set out economic policies that have been, or will be taken, in response to the euro area specific dimension of the BEPGs. An alternative course of action would be to ask euro area members to include a new EMU chapter in their National Reform Programmes.

A related question that warrants further discussion is whether there may be advantages to asking the Heads of State or Government of euro area countries to meet with the Commission and the Eurogroup President in the margins of the Spring European Council to discuss those aspects of the BEPGs that are of specific relevance to EMU. An advantage of such a forum is that it could deepen political support for structural reforms in the euro area, not least because the Economic and Finance Ministers that attend the Eurogroup do

not necessarily have primary responsibility for the design and implementation of structural reform in their respective Member States. A potential pitfall is that the Heads of State or Government could use such a meeting as an opportunity to exert political pressure on euro area monetary authorities, thus deflecting attention from national economic policies.

Conclusion

Although economic guidelines have existed in various guises since the pioneering work of the Monetary Committee in the late 1950s, the Maastricht Treaty of 1992 gave them a more prominent role in the EU's system of economic governance. Since their launch in 1993, the BEPGs have gradually developed into an expansive instrument of economic policy co-ordination, covering macroeconomic issues like budgetary and wage developments and structural issues like labour-market reform and enhancing the knowledge-based economy.

The BEPGs revealed their strengths and limitations over the period 1993 to 2005. On the plus side, they demonstrated value-added as an overarching instrument of macroeconomic and structural policy co-ordination and as a catalyst for closer co-operation between economic policy-makers at the EU and Member State level. On the minus side, the effectiveness of the BEPGs has been limited by the progressive accumulation of guidelines and because peer pressure has failed to bite as a deterrent against non-compliance.

The re-launch of the Lisbon Strategy in 2005 addressed some of the BEPGs' limitations as an instrument of EU governance by simplifying and streamlining EU economic and employment co-ordination and encouraging a more rigorous implementation assessment of economic reforms at the EU and Member State level. Efforts under the re-launched Lisbon Strategy to involve parliaments, regional and local bodies, social partners and civil society in the EU's structural-reform agenda have achieved less than had been anticipated.

Looking to the future, this article has discussed a number of ideas for strengthening the BEPGs. Firstly, EU policy-makers could bolster the conditions for effective 'home grown' peer pressure by forging closer ties with reform-minded interest groups at the national level. Secondly, setting up an Economic Dialogue in the European Parliament to discuss the BEPGs with the ECOFIN President and Commissioner for Economic and Monetary Affairs could help to promote greater accountability, transparency and public debate over EU economic governance. Finally, encouraging Member States to pay closer attention to EMU-related issues, either in a separate euro area

Lisbon Programme or within National Reform Programmes, could encourage a more thorough follow up to the euro area specific dimension of the BEPGs.

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