Evaluating the Lisbon Strategy
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The Lisbon Strategy (hereafter LiS) was formally introduced by the special European Council in Lisbon in March 2000. European leaders adopted this strategy with the objective of turning the EU into “…the most dynamic and competitive knowledge economy in the world capable of sustainable economic growth with more and better jobs and greater social cohesion and respect for the environment”\(^1\). This strategy constituted the blueprint for European economic policymaking from 2000 to 2010.

Since its inception the LiS has been the subject of numerous publications and debates. Yet, surprisingly it has never been subjected to a detailed evaluation. Most publications merely evaluate selected aspects or annual progress, ultimately remaining inconclusive.

The immediate added value of this paper is the provision of a more consistent and convincing answer to the question “Was the Lisbon Strategy successful?”\(^2\). It will be demonstrated that vital questions have remained unanswered and that many potential lessons have never been learned. Consequently, the successor strategy of the LiS, the so-called “Europe 2020” strategy\(^3\), is condemned to repeat past mistakes. Contemporary discussions, such as “Europe 2020 a promising strategy?” (Intereconomics, Volume 45, Number 3, May/June 2010), exhibit an untoward optimism regarding Europe 2020. Documenting the failure of the LiS, this paper illustrates the need to critically reassess the merit of Europe 2020.

The first section presents a concise analysis of the most popular evaluations - identifying the main caveats. Addressing these caveats, the second section outlines a new assessment framework for evaluating the success of the LiS. In the third section the framework is applied. The fourth section concludes by discussing unanswered questions.

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\(^2\) A comprehensive evaluation of the LiS is beyond the scope of this paper. Such an evaluation would have to account for the Community dimension (the so-called “Community Lisbon Programme” (CLP)) as well as the implementation mechanism (the so-called “open method of coordination” (OMC)). A comprehensive evaluation is the focal point the doctoral thesis of Oliver Treidler (forthcoming in 2012).


\(^3\) The content of Europe 2020 is largely identical to the LiS. However, its objective is defined as realizing the vision of Europe’s social market economy by “turning the EU into a smart, sustainable and inclusive economy delivering high levels of employment, productivity and social cohesion” European Commission (2010): Europe 2020 – A strategy for smart, sustainable and inclusive growth. Commission Staff Working Document COM (2010) 2020, Brussels 3.3.2010, p. 8.
1. **Review of existing evaluations**

Hypothesis: *A consistent and convincing evaluation of the Lisbon Strategy has not yet been conducted.*

Before reviewing individual evaluations, it is important to examine the objective of the LiS. It is here, at the very outset of the strategy, that we encounter the first and foremost obstacle in evaluating the LiS – its poorly defined objective. Its wording suggests that ensuring a highly competitive economy was perceived as the precondition for sustainable economic growth, improved employment and social cohesion. According to this interpretation, enhancing competitiveness was the ultimate goal of the LiS. Interpreting competitiveness as the heart of the strategy is supported by the fact that it was primarily designed as a direct response to the economic underperformance relative to the USA.\(^4\)

While it is undisputed that enhancing competitiveness was a crucial element of the LiS, it is not clear whether the Commission would readily subscribe to the above interpretation.\(^5\) In view of the unclear objective, it is not surprising that a measuring-rod for evaluating the success of the LiS was never specified.

The Commission’s conception of competitiveness is arguably most accurately reflected by the so-called “14 key indicators”. These indicators were applied by the Commission in annual progress reports to monitor the performance of EU Member States. It is striking, and illustrative of the poor target-setting, that only for about half of the indicators quantitative targets were stipulated.\(^6\) Further inconsistencies are evidenced by the fact that the 14 key indicators were never aligned with integrated guidelines (“IGs”, which were stipulated in 2005 as the key tool for implementing the LiS by providing “a clear roadmap for the design of national reforms”).\(^7\) The following table depicts the 14 key indicators, the corresponding targets as well as the policy areas into which the indicators are grouped.

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\(^4\) The strong focus on improving the competitiveness of the EU vis-a-vis the USA is illustrated by several benchmarks highlighting the inferior competitive position of the EU. European Commission (2000): Preparation of the special European Council in Lisbon on 23 and 24 March 2000, Commission Contribution 6602/00, Brussels 1.3.2000, pp. 7-12.

\(^5\) The Commission repeatedly emphasized that the LiS was conceived as a fully integrated approach “linking economic, social and political objectives” European Commission (2000), op. cit., p. 13.

\(^6\) The poor target-setting process is characteristic for the LiS. The poor quality of the indicators was vehemently criticized and even the most basic terminology was never clearly defined. “In the Lisbon strategy (even) the meaning of ‘target’ has remained blurred” Codogno, L., et al.: The Use of Targets in the Lisbon Strategy. Rivista di Politica Economica – Invited Policy Paper, January-March 2009, p. 4.

On the basis of the indicators it was assessed whether the performance of a Member State improved or deteriorated. However, even in cases were a target was stipulated, “success” was never defined. Attaining the stipulated target could arguably be interpreted as an implicit definition of success. Such a crude definition, however, is insufficient. A meaningful evaluation requires translation of the quantitative targets to a qualification of the respective performance. In other words, it should be defined ex-ante whether attainment of the target (e.g. EMPL of 70%) is considered “satisfactory”, “good” or even “excellent”. The LiS targets do not allow for such a differentiated assessment.

While utilizing an extremely wide range of additional indicators, the reviewed evaluations generally acknowledge the 14 key indicators. More importantly, the policy areas are (almost) universally adopted as “key-targets”\(^{11}\). The emphasis (weighting) allocated to the key-targets varies among the evaluations, reflecting slightly different conceptions of competitiveness.

The unclear objective, hazy concept of competitiveness and the poor target-setting necessitate establishing the relevant definitions.

While the reviewed evaluations cannot be criticized for subscribing to the concepts put forth by the Commission, their neglect to establish a clear cut measuring-rod ultimately renders their results to be largely unsatisfactory and inconclusive.

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\(^{8}\) Note: The brackets contain abbreviations of the indicators, which will be applied below.

\(^{9}\) Note: The table includes 15 indicators. An explanation for this inconsistency could not be obtained (other publications do not list GDP). It appears reasonable to assume that the Commission considered GDP as reflecting the aggregate result.

\(^{10}\) Kok, W. et al., op. cit., pp. 48ff. Note: Indicators are accessible on the Eurostat homepage.

\(^{11}\) Merely the applied terminology differs slightly (see below).
Having identified this substantial limitation applying to all reviewed evaluations, the following synopsis provides a concise overview of the different methodologies.

Following evaluations are included in the review:\(^\text{12}\):

- ‘The Lisbon Scorecard’ (hereafter “LSC”)\(^{13}\)
- ‘The Lisbon Review’ (hereafter “LREV”)\(^{14}\)
- ‘Benchmarking The Lisbon Strategy’ (hereafter “BLS”)\(^{15}\)
- The ‘LIME assessment framework’ (hereafter “LAF”)\(^{16}\)
- The official “Lisbon Strategy Evaluation Document” (hereafter “COM”)\(^{17}\)

<table>
<thead>
<tr>
<th>Method</th>
<th>LSC</th>
<th>LREV</th>
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<tr>
<td>Scorecard</td>
<td>Identifying ‘heroes’ and ‘villains’. Evaluation of policy areas (focus on entrepreneurship) and overall LiS process. Ranking (separate)</td>
<td>Ranking as well as multiple (external) Benchmarks. Evaluation according to eight policy areas (focus on entrepreneurship) and overall LiS process.</td>
<td>Rankings according to composite indicator. Separate evaluation of the absolute level and relative progress, accounting for different starting levels of Member States. Applying “Benefit of doubt approach”</td>
<td>GDP accounting. Quantitative assessment supplemented by country-specific evidence and qualifications. No aggregation of policy areas (wider scope). No ranking possible. Benchmark possible but not applied.</td>
<td>No consistent methodology applied. No ranking or benchmark. No naming and shameing of individual Member States. Mere stocktaking of specific measures within the policy areas.</td>
</tr>
<tr>
<td>Indicators</td>
<td>Quantitative indicators. Based on 14 key indicators, applying various modifications and additions (29 total). Ranking based solely on 14 key indicators.</td>
<td>Wide range of Quantitative and Qualitative indicators (55 from survey data alone) – Distinct perspective of the Business Community.</td>
<td>Limited range of Quantitative indicators 8 of the 14 key indicators (excluding the policy areas social cohesion and environment)</td>
<td>Based on an extremely wide range of indicators and sub-indicators (128 indicators on narrow list). No composite indicator.</td>
<td>References are only made to a few selected indicators and targets. No composite indicator or aggregate evaluation of policy areas.</td>
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\(^{12}\) While other evaluations exist, the selection includes the most prominent publications. The rationale for selection was that the evaluations should explicitly focus on the LiS and (ideally) cover the relevant timeframe.

\(^{13}\) The LSC was published annually by the Centre for European Reform (hereafter “CER”). CER (2006): The Lisbon Scorecard VI – Will Europe’s economy rise again? and CER (2010): The Lisbon Scorecard X – The road to 2020. Both reports are accessible at www.cer.org.uk


\(^{15}\) The BLS was published by the ECB in 2008. The analysis presented by the ECB is limited to the period of 2000-2006. Consequently, the ECB emphasizes that the evaluation may not suffice to present a complete assessment of the LiS. However, as important lessons are to be learned from the applied methods, it is included in the review. ECB: Benchmarking the Lisbon Strategy, by Ioannou, D. et al., in European Central Bank – Occasional Paper Series No. 85/ June 2008, Frankfurt am Main.

\(^{16}\) Despite considerable effort to establish the LAF as the official evaluation framework, it was never established as such. Consequently, no rankings based on the LAF were published. However, due to its instructive methodology and prominence (as evidenced by Member States advocating improvement and utilization of the LAF for Europe 2020) it is included in the review. DG ECFIN: The LIME assessment framework (LAF) – A methodological tool to compare, in the context of the Lisbon Strategy, the performance of EU Member States in terms of GDP and in twenty policy areas affecting growth. DG for Economic and Financial Affairs and the Economic Policy Committee, European Economy, Occasional Papers 41, October 2008, Brussels. The LAF is complemented by the ‘Report on Structural Indicators’. EPC: Report on Structural Indicators, prepared by the SITF – mandated by the European Policy Committee ECFIN/EPC (2006) REP/55713final. Brussels 14.11.2006.

The fundamentally different approaches illustrate that a consensus regarding an evaluation framework for the LiS does not exist. Analyzing selected aspects in more detail reveals substantial caveats.

The LSC identifies the best performing Member States (“heroes”) and the worst ones (“villains”). Each indicator is evaluated by a cumulative score, while (strangely) the Member States do not receive individual scores. Not assigning individual scores diminishes transparency, as the basis for assigning hero or villain status is not defined\(^1\). It is further not clear to which extent progress is factored into the evaluation\(^2\).

The LREV is more transparent. Every Member State receives a score for each dimension; the unweighted average constitutes the overall LiS score for the Member State\(^3\).

The LREV features rankings for each dimension as well as a ranking for the overall score (“final index”). Individual scores as well as aggregate scores of specific subgroups (EU27, EU15 and EU12) are benchmarked against the USA as well as East Asian countries. The benchmark against the USA is considered as the “key benchmark”, while the comparison against East Asian economies is designed to “provide a sense of how Europe measures up to a highly dynamic and competitive region...”\(^4\).

The LREV explicitly refrains from taking different starting positions (relative progress) of Member States into account. Not factoring the relative progress into the evaluation effectively renders it impossible for new Member States to attain a top rank\(^5\). While all evaluations (except the WEF) explicitly recognize the need to account for different starting positions\(^6\), only the BLS actually calculates a score for progress. Instead of calculating an aggregate score for level and progress, the BLS combines the separate scores utilizing an illustration\(^7\).

\(^1\) In absence of individual scores, the identification of heroes and villains for the overall performance is highly arbitrary – a case in point is Greece, which was identified as a villain for more than half of the indicators (7 out of 13) in 2006, yet it was inexplicably not classified as villain for overall performance. Poland (the only country classified as “overall villain”) was a villain in 8 indicators. No other country (except Italy) was classified as villain more than twice. CER (2006), op. cit., pp. 90-91. When comparing the 2006 LSC to the 2010 LSC, inter-temporal inconsistencies are evident – in contrast to the virtual absence of new Member States in 2010, the 2006 LSC classified a new Member State as either hero or villain for every (!) indicator.

\(^2\) Note: In this context the CER merely states that „...those countries that already meet many or most of the Lisbon targets are awarded ‘hero’ status, as are those that are catching-up at a fast pace. Those that lag seriously behind or made slow progress are designated as ‘villains’“. CER (2010), op. cit., p. 5.

\(^3\) WEF (2004), op. cit., p. 3. The score for each dimension (“policy area”) is based on a composite of quantitative and qualitative sub-indicators. By allocation equal weight to the dimensions, the LREV displays a distinct focus on entrepreneurship, as 4 out of the 8 dimensions (“Liberalization”, “Network Industries”, “Financial Services” and “Enterprise”) directly relate to the LiS policy area “economic reform”.

\(^4\) WEF (2006), op. cit., p. 4. The benchmark against the USA is consistent with the LiS goal to transform Europe into the most competitive economy in the world. The East Asian countries contained in the benchmark are – Japan, Hong Kong, Republic of Korea, Singapore and Taiwan.

\(^5\) Estonia, the best performing new Member State, is ranked 12th by LREV. The imbalance of an evaluation based solely the actual level of performance, is illustrated by the fact that all new Member States combined exhibit only six top ten ranks across all eight dimensions. WEF (2010), op. cit., p. 9.

\(^6\) The LAF also recognizes the need to account for the different starting position. However, progress is not directly factored into the score, but is merely utilized to ‘qualify’ the level-based assessment. DG ECFIN, op. cit., pp.14, 15, 18 and 26. The LSC recognized that new Member States were “considerably poorer and have had much less time to take action to address their weakness”. CER (2010), op. cit., p. 9.

\(^7\) ECB, op. cit., p. 29. Interpreting such an illustration is difficult and highly subjective, which renders it insufficient for determining the overall performance of a Member State.
Arguably, the most unorthodox ranking method is applied by the BLS. In order to calculate the composite indicator, the scores for each indicator are normalized by dividing each country’s score by the score of the best performing country. In order to aggregate these scores, the BLS applies country-specific weights according to the so-called “benefit of the doubt method”. The defining characteristic of this method is that those indicators on which a country performs strongly (relative to the best performing countries) are allocated higher weight, resulting in the best composite indicator for each country. Hence, “put simply, each country is depicted from its best possible angle”\textsuperscript{25}. The benefit of the doubt method has a substantial impact on the scores and corresponding the ranking. In 2000 Czech Republic received a score of 0.984 ranking 7th (outranking Finland and the UK), while based on equal weighting the score would have been merely 0.714 (ranked 18th). Such fluctuations infringe transparency and acceptability.

Among the reviewed evaluations, the LAF devoted by far the most attention to the suitability of indicators, basing its choice on an extensive literature survey on the effects and channels of transmission of structural reforms\textsuperscript{26}. While the approach is comparatively transparent and consistent, the scope of reviewed and selected indicators is, plainly, overwhelming. The LAF considers over 270 different indicators, and despite applying a variety of qualitative criteria for exclusion, selects more than 120\textsuperscript{27}. The SITF points out that an overly comprehensive (or scientific) selection may not be beneficial, as “using a more complex process to define the indicators might undermine the simplicity, transparency and clarity of the exercise needed in order to be useful for policymakers and the general public”\textsuperscript{28}.

The BLS regarded the quality of the social protection and environment indicators as inferior and excluded these policy areas from the evaluation\textsuperscript{29}. Such a minimalistic scope does not capture the Commissions concept of the LiS. Hence, it cannot be regarded as a comprehensive

\textsuperscript{25} For technical details see ECB, op. cit., pp. 24-26 and pp. 41ff. As all indicators are to be taken into account the BLS applies “weight restrictions” in order to limit the impact of a single indicator. Hence, the minimum total weight for each indicator is 5% (maximum 30%). The ECB prefers this procedure over arbitrarily choosing weights (e.g. equal weighting) on the ground that this approach “helps to take into consideration the performance environment of each country”. This argument is not convincing, as the weight restrictions are determined in a political process – that is they are subject to political choice, which by default is also arbitrary.

\textsuperscript{26} DG ECFIN, op. cit., pp. 49-217. For each policy area the survey provides an overview of relevant literature on the economic effects of reforms from both theoretical and empirical perspective. The survey includes references to the IGs as well as the geographical coverage available for each indicator. The SITF provides a more concise analysis. EPC, op. cit., pp. 15-32.

\textsuperscript{27} The „narrow list“, comprising 128 indicators is applied for calculating an aggregate score for each policy area (allocating different weight to each indicator). In seven policy areas, eight or more indicators are on the narrow list (some in multiple categories). The 14 key indicators are included on the narrow list.

\textsuperscript{28} EPC, op. cit., pp. 4-5. Akin to the LAF, the SITF applied qualitative criteria for the selection of indicators. The first criterion applied was “parsimony in the use of indicators – limiting the number of indicators proposed for each guideline” (p.2.).

\textsuperscript{29} ECB, op. cit., pp. 22-23. The ECB also identified shortcomings for other indicators (e.g. for ‘CPrLv’). Generally, there is no shortage of criticism regarding the quality of indicators. The CER criticized the LiS for an “obsessive focus on numerical R&D targets” strongly advocating to “embrace a broader conception of innovation” arguing that R&D spending a poor proxy for innovation. CER (2010), op. cit., p. 96. Similar arguments are advanced by Codogno, L. et al., op. cit.
evaluation – as acknowledged by the ECB\textsuperscript{30}.

In other words, to conduct a relevant analysis of the LiS, the assessment needs to be highly contextualized – even if this implies undesirable tradeoffs, such as utilizing indicators of limited quality.

As mentioned above, the reviewed evaluations most notably failed to establish a measuring-rod for success. Consequently, their ultimate result is a mere ranking of Member States\textsuperscript{31}. While these rankings allow comparing relative performances (e.g. the rankings unanimously rank Sweden as one of the best and Italy as one of the worst performing countries), it is impossible to deduce whether a particular Member State (let alone the entire strategy) was successful or not.

It is not worthwhile to highlight specific caveats of the official “Lisbon Strategy Evaluation Document”. The COM did not apply a consistent methodology (e.g. applying only two indicators GERD and EMPL). Despite acknowledging that the main targets would be missed, the Commission claimed the LiS had a positive impact\textsuperscript{32}. According to the Commission the LiS “focused on the right structural reforms”\textsuperscript{33} and any shortcomings were attributed to weak ownership and implementation. The disproportionally brief document contains only few and inconclusive insights - hardly meriting its title. Overall, the COM unintentionally documents the impotence to address well-known shortcomings. The Kok Report identified the most important shortcomings, pointing out that the agenda was overloaded, competitiveness not clearly defined and the implementation mechanism not consistently applied.\textsuperscript{34} These problems turned out to be persistent.

\textsuperscript{30} ECB, op. cit., p. 22. The ECB recognizes that the reduced scope does not convey a complete picture of the LiS and advocates extension once specific preconditions (quality of indicators) are met.

\textsuperscript{31} Rankings were compiled by CER, WEF and ECB (LAF and COM did not compile a ranking). The rankings of CER and WEF are highly correlated - The Pearson’s correlation coefficient for the rankings is 0,89 for LSC/LREV; 0,71 for LSC/BLS and 0,68 for LREV/BLS. The lower correlations to the BLS are most likely rooted in the application of the benefit of the doubt method.

\textsuperscript{32} European Commission (2010b), op. cit, p. 3. The arguments presented by the Commission to support this claim are unconvincing. According to the Commission, it would be “too simplistic to conclude that the strategy has failed because (these) targets were not met” it should rather be considered as positive that “the Strategy has broken new ground by promoting common actions to address the EU’s key long-term challenges”.

\textsuperscript{33} European Commission (2010b), op. cit, p. 4.

\textsuperscript{34} Kok, W. et al., op. cit. Regarding the overloaded agenda, the Kok Report concluded that “Lisbon is about everything and thus about nothing” (p.16). In regards to competitiveness the Kok Report mainly criticized inadequate communications “Competitiveness is not just some dry economic indicator that is often unintelligible to the man in the streets; rather, it provides a diagnosis of the state of economic health of a country or a region. In the present circumstances, the clear message must be: if we want to preserve and improve our social model we have to adapt.” (p. 44). The Kok Report further criticized that the LiS failed to efficiently utilize the two core instruments of the OMC – peer pressure and benchmarking (p. 44).
The following synopsis summarizes the main results and conclusions presented by the reviewed evaluations:

<table>
<thead>
<tr>
<th>Evaluation of Member States Performance</th>
<th>LSC</th>
<th>LREV</th>
<th>BLS</th>
<th>LAF</th>
<th>COM</th>
</tr>
</thead>
<tbody>
<tr>
<td>Heroes: Austria, Denmark, Sweden and The Netherlands</td>
<td>Best: Finland, Sweden and Denmark</td>
<td>Best: Sweden, Ireland, Latvia, Estonia</td>
<td>No published ranking.</td>
<td>No published ranking.</td>
<td></td>
</tr>
<tr>
<td>Villains: Italy, Greece, Portugal and Spain</td>
<td>Worst: Greece, Italy and Poland</td>
<td>Worst: Portugal, Poland, Malta</td>
<td></td>
<td></td>
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**Main Conclusions**

| LSC | Overall assessment of LiS success = C | Progress has unquestionably been made, BUT level of progress was underwhelming | EU 27 on average outperformed by the US and East Asia in 7 of 8 policy areas, But, slight (?) improvement was achieved | No assessment of overall outcome | No assessment of overall outcome | Main targets have not been reached. |

Despite its extremely concise nature, the review presented in this section is clearly sufficient for confirming the hypothesis stated above – no convincing evaluation of the LiS exists.

2. **Creating a new assessment framework**

Hypotheses: *By making transparent assumptions and establishing clear definitions, the obstacles of an unclear objective, a hazy concept of competitiveness and the poor target-setting can be mitigated.*

The new assessment framework is based on the following core tenets:

- Enhancing competitiveness is regarded as the heart of the LiS. The success of the strategy is based on an assessment of the development of the competitive position of the EU2535.
- Competitiveness is a complex concept and needs to be operationalized. In order to account for the Commission’s conception, the operationalization needs to be highly contextualized. Hence, the aim is not to develop an “ideal” definition of competitiveness.
- In order to measure performance, a limited number of quantitative indicators are selected.
- The performance is evaluated by a scoring model. A central feature of the model is to account for different starting positions by calibrating the balance between the level of performance and relative progress.
- The applied scoring scale is designed with the objective to provide a clear and differentiated definition of “success”.

*Operationalizing competitiveness in the context of the LiS*

Competitiveness is an extremely complex and difficult concept36. While the concept of the

35 Bulgaria and Romania are not included, due to their recent accession. The timeframe for the evaluation is 2000-2010. For the new Member States the same timeframe applies, as most pursued structural reforms akin to the LiS in order to improve integration maturity prior to accession – for corresponding analysis see Palankai, T: Economics of Enlarging the European Union – Series on Transition, Competitiveness and Economic Growth, Vol. 61, Budapest 2004.

36 In this context Palankai emphasizes that “Competitiveness is a complex indicator, therefore interpreting it and expressing it in figures is extremely problematic” Palankai, T., op. cit., p. 303. Keeping this notion in mind and adopting a cautious approach to interpreting respective results is of the essence.
Commission does not constitute a “good” or “ideal” solution, it must be adopted in order to ensure that the evaluation is conducted on a level playing-field. The reviewed evaluations unanimously agree that some of the policy areas of the LiS are more important to enhance competitiveness than others. However, they fail to provide a transparent explanation for allocating specific weights.

Following key-targets (policy areas) define the LiS: “Knowledge”; “Internal Market”; “Employment”; “Social Cohesion”; “Environment” and “Macroeconomic Stability”.

In the following, the potential of each key-target to enhance competitiveness is briefly reviewed. The relative importance of each dimension is estimated and corresponding weights are assigned. The estimate is guided by a review of empirical studies, which were initiated by the Commission and reflect the Commissions concept of competitiveness.

**Knowledge:** The Commission conceived mastering the transition to a knowledge-based economy as an absolute core challenge - enhancing Knowledge received a high priority throughout the decade. There are compelling arguments for regarding Knowledge as a crucial component of competitiveness - especially if education is included.

**Internal Market:** Internal Market reforms (e.g. reducing administrative burdens, single market for services) also received high priority. The positive potential for improving competitiveness is widely acknowledged (e.g. focus of LREV and LSC). The impact of individual reforms is smaller compared to Knowledge, the cumulative impact, however, can reasonably be assumed to compare to that of Knowledge (at least to lower bound estimates).

**Employment:** Employment was arguably the most prominent policy area on the LiS agenda (particularly post 2005). Aside from the quantitative targets, many labor market reforms

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37 The evaluations emphasize different policy areas, illustrating that no consensus on the priorities exists. LSC and LREV focus on “economic reform”, with the LREV allocating a weight of 50% to this dimension. The LAF is heavily focused on the labor market. The BLS excluded the policy areas environment and social cohesion.

38 The terminology differs slightly from section 1. However, it is the more common terminology and will be applied throughout the following analysis.

39 Gelauff, G. and Lejour, A.: Five Lisbon Highlights – The economic impact of reaching these targets. CPB Document, No. 104, January 2006. Utilizing a general equilibrium model, simulations were used to quantify the consequences of reaching the LiS targets. The project was initiated by the Commission as background material for the Competitiveness Reports and provides ample references to the empirical evidence underlying the simulations. Similar studies are Arpaia, A. et al.: Quantitative assessment of structural reforms: Modelling the Lisbon strategy. In European Economy – Economic Papers No. 282, June 2007. As well as Barell, R. and Kirby, S.: Notes on the Lisbon process – An analysis of the impacts of reaching the Lisbon targets for skills, R&D and the administrative burden in the European Union. Industrial Policy and Economic Reform Papers No. 7, 2007.

40 Gelauff and Lejour identify GERD and EMPL as the most important targets. Their simulations indicate that reaching the 3% GERD target potentially increases GDP between 3.5% to 11.6% (by 2020, if sustained). Gelauff, G. and Lejour, A., op. cit., p. 9. R&D is regarded as a key factor for technological change and enhancing labour productivity. The potential is amplified by sectoral and international spillovers (see pp. 19-21 and 77ff.). See also Arpaia, A. et al., op. cit., pp. 34 and 37-39, as well as Barrell, R. and Kirby, S., op. cit., pp. 11ff.

41 Education reforms could also be regarded as part of Employment. A positive effect on GDP growth (0.5%) can be assumed. Gelauff, G. and Lejour, A., op. cit., pp. 16-17.

42 The internal market for services was estimated to lead to an incremental increase of 0.2% of GDP. Reducing the administrative burden (by 25%) was estimated to yield an increase of 1.4%. Gelauff, G. and Lejour, A., op. cit., p. 10. This result is in line with the findings of Apaia, A. et al., op. cit., p. 32. – here an additional 1.3% GDP is estimated (gains range up to 2.6%). See also Barrell, R. and Kirby, S., op. cit., pp. 16-17.
featured prominently among the IGs (explaining the pronounced focus of the LAF). The
effect of reaching the main quantitative employment target alone (70% EMPL) is estimated to
be as significant as reaching the Knowledge target\textsuperscript{43}. The importance of realizing
improvements in Employment, is underlined by the fact that persistent structural rigidities and
low labor market efficiency are often identified as the most important competitive
disadvantage of EU Member States\textsuperscript{44}.

**Social Cohesion:** The impact of Social Cohesion on competitiveness is widely regarded as
limited and indirect. Neither the reviewed evaluations, nor the Commissions regarded Social
Cohesion as a key determinant of competitiveness\textsuperscript{45}.

**Environment:** While not featuring prominently among the IGs, Environment formed an
integral part the CLP and the COM. However, similar to Social Cohesion, Environment is
generally not regarded as a key determinant of competitiveness\textsuperscript{46}. Moreover, in contrast to the
other key-targets, it potentially implies a tradeoff with competitiveness\textsuperscript{47}.

**Macroeconomic Stability:** Initially Macroeconomic Stability was not explicitly included on
the LiS agenda, however, sound public finances were perceived as a crucial precondition for
success. After the 2005 the importance of Macroeconomic stability increased – evidenced by
the fact that no fewer than six IGs were targeted at the sustainability of public finances. The
LAF, emphasized the importance of sustainable public finances as a framework condition for
ensuring competitiveness\textsuperscript{48}.

\textsuperscript{43} According to Gelauff and Lejour, which focused solely on the 70% target, the effect on GDP was estimated to
fall in the range of 6.3% to 9.2%.

\textsuperscript{44} Note: This argument is supported by the 2010 Global Competitiveness Report. No fewer than eight countries
have their lowest rank in the ‘labor market efficiency’ pillar, namely Belgium, France, Germany, Slovenia, Spain, Portugal, Italy and Greece – the last four being among the worst performing countries in the world. WEF (2010b): Global Competitiveness Report 2010-2011, Geneva. For a detailed analysis of the negative impacts of
the persistent structural rigidities see Berthold, N. and Fehn, R.: Unemployment in Germany:

\textsuperscript{45} Neither BLS nor LAF include a Social Cohesion Dimension. The bulk of Social Cohesion targets are related to
the labour market and can be conceived as part of Employment (LREV). The WEF emphasized that the priority
of Social Cohesion was lowered after the mid-term and that the corresponding targets were only kept in the
evaluation for the sake methodological continuity. WEF (2006), op. cit., p. 3. See also CER (2006), op. cit., p. 2.
Arpaia et al. analyzed the impact of increasing the effective retirement age from 60 to 65 and found substantial
potential benefits (+8.7% GDP by 2030). Apaia, A. et al., op. cit., pp. 22-23. Again, the related reforms (e.g.
increasing employment of older workers) should be regarded as part Employment.

\textsuperscript{46} Note: Akin to Social Cohesion, the Environment received low priority by LSC and LREV and was sustained
mainly to ensure methodological continuity.

\textsuperscript{47} In this context the Commission stated that it is its ambition to reduce greenhouse gas emissions and increase
the “share of renewable energy in the EU’s overall energy consumption to 20% by 2020, without compromising

\textsuperscript{48} Sustainable public finances foster competitiveness by reducing risk premiums and by a lower degree of
crowding-out private investment. DG ECFIN, op. cit., pp. 204-205. See also WEF (2010b), op. cit.
The following figure illustrates how competitiveness can be operationalized in the context of the LiS. The weights allocated to the key-targets summarize the preceding analysis. While the specific weights are debatable, the resulting hierarchical order should be rather uncontested. A transparent and context specific definition of competitiveness is crucial for a consistent evaluation and subsequent discussion.

**Selection of indicators**

While selecting appropriate indicators is important and technically challenging, it is of secondary importance in designing the assessment framework. Section one highlighted the most important caveats, namely that the quality of indicators is heterogeneous. A more detailed analysis is not required, as the aim is not to select an “ideal” set of indicators, but rather to identify indicators which are suitable in the context of the LiS.

In view of their vital role in the LiS and their “political legitimacy”, the 14 key indicators will serve as a basic frame of reference. In order to apply the operationalized concept of competitiveness, additional indicators are utilized – the guiding principle being parsimony. In addition to the 14 key indicators\(^{49}\), the following indicators are selected\(^{50}\):

- **Broadband penetration rate** \((\text{BroadB})\) => Key target *Knowledge*. Reflecting the development of the ICT sector, contributing to competitiveness by increasing TFP\(^{51}\).
- **Doing Business Rank** \((\text{DBR})\) => Key target *Internal Market*. \(\text{DBR}\), compiled by the World Bank, is an aggregate ranking on the ease of doing business. The ranking is based on a variety of sub-indicators that measure a comprehensive range of

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\(^{49}\) ‘Volume of freight transport relative to GDP’ is excluded. *GreenHgas* and *EnerInt* are of higher relevance to the LiS and more straightforward to interpret.

\(^{50}\) For the rationale, quality profile and data of the 14 key indicators please refer to the Eurostat homepage.

\(^{51}\) *BroadB* is measured by the number of broadband access lines per 100 inhabitants; broadband lines defined as a capacity equal or higher than 144 Kbits/s. The importance of ICT is emphasized by the LAF, which identifies it as a key driver of differences in EU-US productivity patterns. DG ECFIN, op. cit, p.189. *BroadB* is included in order to reflect a broader conception of Knowledge. It was selected due to good data availability and the fact that LSC, LREV and LAF utilize similar indicators.
regulations affecting companies throughout their life-cycle. *DBR* measures market integration as well as of framework conditions for entrepreneurship.\(^{52}\)

- General Government gross debt (*GDebt*) \(\Rightarrow\) Key target *Macroeconomic Stability*. *GDebt* is a measure of fiscal sustainability and flexibility. A low level of debt indicates conductive framework conditions for enhancing competitiveness and economic growth.\(^{53}\)

**Scoring scale and calibration of indicators**

In order to evaluate the success of the LiS, the scoring scale needs to translate the quantitative targets to a qualification of the respective performance – in other words, an unambiguous and differentiated definition of success must be established. This approach will not only yield a ranking based on relative performance, but allows assessing the absolute performance. Applying one scoring scale to all indicators ensures transparent and consistent aggregation across the key objectives. The scoring scale is not only applied to evaluate the level of performance, but also the realized progress. By calculating a cumulative score for level and progress, one of the most important caveats is addressed.

The scoring scale for evaluating the performance of Member States according to each indicator ranges from 5.0 (hero) to -5.0 (villain). When a score of above 5 (below -5) is calculated, the score is ‘capped’ in order to ensure that exceptionally strong (weak) performance in one area exerts no undue impact. The scale defines success according to categories (e.g. a Member State scoring between 3.0 and 5.0 is considered a “hero” for the respective indicator). Achieving a target is considered a “positive” performance and equates to a score of 1.0. Depending on the extent by which the target is exceeded (missed) a higher (lower) score is assigned. The aggregate score, representing to the overall success of a Member State, is calculated as the weighted average of the key-target scores (the weights allocated in operationalizing competitiveness apply). As aggregate scores are more compressed, the scale is refined. Member States achieving an aggregate score of 1.5 (or higher) are categorized as “heroes”.\(^{54}\) The unweighted average of the Member States is regarded as reflecting the overall success of the LiS. An aggregate score of 1 (or higher) indicates that the LiS targets were fully achieved – justifying a classification of “very successful”. A score of 0.6 indicates broad achievement and is classified as “success”.

The following figure illustrates the measure of success attributed to the corresponding score on indicator-level, Member State-level and for the LiS as a whole:

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\(^{52}\) *DBR* is similar to the GCR. Its scope however is strictly focused on regulation. World Bank: Doing Business in 2011 – Making a Difference for Entrepreneurs, Washington 2010, p. 13. Similar to the GCR, the *DBR* relies on extensive survey data, administered by 8.200 local experts. *DBR* was selected on the ground that it is by far the most comprehensive indicator for *Internal Market*. This is consistent with the approaches by LSC, LREV and LAF all of which rely on the *DBR* for evaluating *Internal Market*.

\(^{53}\) The assumption of an ‘optimal level of government debt’ is dependent on several country specific factors and is thus a somewhat vague and notion. Palankai, op. cit., p. 313ff. Despite this limitation, which applies to all one-size-fits-all targets, *GDebt* arguably enjoys greater political legitimacy than possible alternatives.

\(^{54}\) The high aggregate score highlights a significant overachievement of the LiS targets – meriting “hero” status. Member States exhibiting an aggregate score of -1.5 (or lower) fall significantly short of the LiS target (again, accounting for level as well as progress) and are hence identified as “villains”.
The calibration of indicators is based on following guidelines:

- For indicators with a stipulated LiS target, attainment of the target equates to a score of 1. Allocating a score of 1 appears sensible (opposed to zero), as the LiS targets are unanimously regarded as rather ambitious. The calibration can be interpreted as magnanimous. Deliberately adopting this cautious approach should demonstrate that the following evaluation can in no way be regarded as ‘harsh’ or ‘unfair’.

- For indicators with stipulated Europe 2020 targets, those targets equate to a score of 5, as attainment by 2010 constitutes a significant overachievement meriting hero status.

- For indicators without a LiS target, the performance of the USA and Japan is utilized as an anchor. Performance en par with this benchmark equates to a score of (at least) 15. Performance en par with this benchmark equates to a score of zero (or close to zero). Competitiveness is a relative concept, it is important to evaluate progress that translates into a deterioration of the competitive position as negative (even if the performance may have improved in absolute terms). In line with the cautious approach, the calibration of indicators ensures that only performance that is clearly inferior to the benchmark is allocated a negative score.

- Progress is evaluated relative to the aggregate progress of either the USA and Japan or of the three EU Member States exhibiting the highest level in 2000 – whichever is higher. Performance en par with this benchmark equates to a score of zero (or close to zero).

- The level is calculated as the average of 2008 and 2009. The progress is calculated as the difference between the average of 2008 and 2009 and the average of 2000 and 2001. Data for 2010 was not available on Eurostat as of February 2011. For some indicators the available data does not cover the stated years – here alternative dates were applied (identified below). The (timely and geographical) availability of data on Eurostat is far from perfect, constituting a significant obstacle to a consistent evaluation.

- In calculating the indicator score, the Level Score is weighted with 60% and the Progress Score with 40%. Considering that the ultimate objective of the LiS was to transform Europe into the most competitive economy, it appears inevitable to allocate higher weight to the Level Score (that is the actual attainment of the LiS key-targets).

55 The calibration can be interpreted as magnanimous. Deliberately adopting this cautious approach should demonstrate that the following evaluation can in no way be regarded as ‘harsh’ or ‘unfair’.
56 Data availability (Eurostat) for USA and Japan is limited; hence application of the guideline is limited.
57 Competitiveness is a relative concept, it is important to evaluate progress that translates into a deterioration of the competitive position as negative (even if the performance may have improved in absolute terms). In line with the cautious approach, the calibration of indicators ensures that only performance that is clearly inferior to the benchmark is allocated a negative score.
58 Data for 2010 was not available on Eurostat as of February 2011. For some indicators the available data does not cover the stated years – here alternative dates were applied (identified below). The (timely and geographical) availability of data on Eurostat is far from perfect, constituting a significant obstacle to a consistent evaluation.
59 Any balance between Level Score and Progress Score will be arbitrary. A balance of 50% to 50% would put undue emphasis on progress. As the conception of the LiS is strongly focused on attaining specific levels of absolute performance, it could even be argued that allocating 40% to the Progress Score is too high. Overall, not too much importance should be put on specific weights. The problems in finding an appropriate balance should rather illustrate the insufficient target-setting process adopted by the Commission.
In addition to these rough guidelines the calibration is based on following premises. First, the calculations are based on simple algebra in order to increase transparency and to counteract a false sense of accuracy. Second, the calibration is designed to translate the performance as adequately as possible to the scoring scale. While the calculations are based on one core formula, (slight) modifications are applied for each indicator. This approach is required in order to cope with the heterogeneous nature of the targets and to meet the above guidelines.

Applying a standardized method of calculation akin to prominent indices (e.g. the HDI), is not feasible. The fundamental difference between the HDI and the LiS is that the former is neither designed nor suitable for evaluating specific targets or translating performance to a corresponding definition of success (or scoring scale).

The supplementary assumptions and detailed calculation scheme are provided in the annex.

Overall, the hypothesis of this section can be confirmed. While the new assessment framework mitigates many of the obstacles, it is evident that overcoming all obstacles ex-post is not possible. Further, the section illustrates the importance of a consistent target-setting process and outlines definitions and assumptions that should be addressed ex-ante.

3. Applying the new assessment framework

Hypotheses: The Lisbon Strategy was far less successful than propagated by previous evaluations.

The following example illustrates how the score for a Member State (Germany) is calculated, applying the formulae and weights stipulated in the previous section (plus Annex):

**Indicator-Level:**

- EMPLeo = (Level Score * 0.6) + (Progress Score * 0.4) = (1.6 * 0.6) + (3.8 * 0.4) = 2.5
  - where: Level Score = ((Level – Target) +1) * 0.8 + 0.2 = ((70.8 – 70) +1) * 0.8 + 0.2 = 1.6
  - Progress Score= (Progress – Benchmark) = 5.1 – 1.3 = 3.8

- EmplFem = (562 * 0.6) + (5 * 0.4) = 5
- EmplOld = (5 * 0.6) + (5 * 0.4) = 5
- LTunempl = (-5 * 0.6) + (-0.05 * 0.4) = -3
- LPRODhr = (3 * 0.6) + (-0.2 * 0.4) = 1.7

**Key-target Level:**

- Employment = EMPLeo*0.33 + (EmplFem + EmplOld + LTunempl)* 0.33 + LPRODhr *0.33
  = 2.5 * 0.33 + (5 + 5 – 3) * 0.33 + 1.7 * 0.33 = 2.17

- Knowledge = GERD*0.4 + YouthEdu* 0.3 + BroadB*0.3 = 0.97 * 0.4 – 2.91 * 0.3 + 2.3 *0.33 = 0.19

- Internal Market = CPrLv*0.25 + BlnEV*0.25 + DBR*0.5 = 3.18 * 0.25 + 0.7 * 0.5 = 0.75

- Macroeconomic Stability = GDebt * 1 = -1.35

- Social Cohesion = PovRisk*0.5 + RegEmpl*0.5 = -2.5 * 0.5 + 0.7 * 0.5 = -0.9

- Environment = GreenHgas*0.5 + EnerInt*0.5 = 1.26 * 0.5 + 0.2 * 0.5 = 0.73

**Aggregate Score (Member State performance):**

= Employment*0.325 + Knowledge*0.25 + Internal Market*0.25 + Macroeconomic Stability*0.075 +
Social Cohesion*0.05 + Environment*0.05
= 2.17*0.325 + 0.19*0.25 + 0.75*0.25 + -1.35*0.075 + -0.9*0.05 + 0.73*0.05 = 0.83

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60 As shown above, the quality of indicators is limited. An excessively technical method (e.g. BLS) is likely to obscure the fact that the scores are based on imperfect data and indicators

61 The character of LiS targets differs from the “goalposts” defined by the HDI insofar as they do not constitute maximum and minimum values. For the calculation of the HDI, see UN homepage.

62 This score constitutes an example of a “cap”: Germanys EmplFem level was 65.8; thus the Level Score is calculated as ((65.8 – 60) +1) * 0.8 +0.2 = 5.64. The result falls outside the scoring scale and is capped at the upper end of the scale. The significant overachievement qualifies Germany as “hero” for this indicator.
According to the scoring scale and the inherent definition of success, Germany’s aggregate score of 0.83 constitutes a “very good” overall performance. Germany performed particularly strong on the Employment key-target, achieving an aggregate score of 2.17 – indicating overachievement of the LiS targets as well as a highly dynamic progress (in the indicators EmplFem and EmplOld Germany is even identified as “hero”)

The following table provides a ranking of the EU25 Member States according to their aggregate LiS scores, as well as an evaluation of their performance (success). The aggregated performance of the Member States constitutes the success of the LiS:

<table>
<thead>
<tr>
<th>Rank</th>
<th>Country</th>
<th>Performance</th>
<th>Overall</th>
<th>Employment</th>
<th>Intern Market</th>
<th>Knowledge</th>
<th>Macro Stab</th>
<th>Social Coh</th>
<th>Environment</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Sweden</td>
<td>Excellent</td>
<td>1.44</td>
<td>1.24</td>
<td>1.56</td>
<td>1.18</td>
<td>0.19</td>
<td>0.09</td>
<td>0.41</td>
</tr>
<tr>
<td>2</td>
<td>Finland</td>
<td>Excellent</td>
<td>1.24</td>
<td>1.20</td>
<td>0.96</td>
<td>2.13</td>
<td>2.91</td>
<td>-0.36</td>
<td>-0.65</td>
</tr>
<tr>
<td>3</td>
<td>Denmark</td>
<td>Excellent</td>
<td>1.10</td>
<td>1.48</td>
<td>0.61</td>
<td>1.03</td>
<td>3.02</td>
<td>-0.30</td>
<td>0.21</td>
</tr>
<tr>
<td>4</td>
<td>Netherlands</td>
<td>Very Good</td>
<td>0.89</td>
<td>3.41</td>
<td>-0.75</td>
<td>-0.24</td>
<td>-0.08</td>
<td>1.05</td>
<td>-0.26</td>
</tr>
<tr>
<td>5</td>
<td>Germany</td>
<td>Very Good</td>
<td>0.83</td>
<td>2.17</td>
<td>0.75</td>
<td>0.19</td>
<td>-1.25</td>
<td>-0.90</td>
<td>0.73</td>
</tr>
<tr>
<td>6</td>
<td>UK</td>
<td>Good</td>
<td>0.84</td>
<td>1.94</td>
<td>2.33</td>
<td>0.39</td>
<td>0.53</td>
<td>-0.21</td>
<td>1.72</td>
</tr>
<tr>
<td>7</td>
<td>Austria</td>
<td>Positive</td>
<td>0.87</td>
<td>0.94</td>
<td>0.47</td>
<td>0.47</td>
<td>2.91</td>
<td>-1.30</td>
<td>0.69</td>
</tr>
<tr>
<td>8</td>
<td>Estonia</td>
<td>Neutral</td>
<td>0.88</td>
<td>0.90</td>
<td>0.82</td>
<td>0.40</td>
<td>2.79</td>
<td>0.29</td>
<td>-2.36</td>
</tr>
<tr>
<td>9</td>
<td>Slovakia</td>
<td>Neutral</td>
<td>0.97</td>
<td>1.21</td>
<td>0.19</td>
<td>-1.10</td>
<td>0.94</td>
<td>-1.86</td>
<td>2.50</td>
</tr>
<tr>
<td>10</td>
<td>Cyprus</td>
<td>Neutral</td>
<td>0.91</td>
<td>-0.47</td>
<td>0.87</td>
<td>-0.18</td>
<td>-2.12</td>
<td>-0.08</td>
<td>0.80</td>
</tr>
<tr>
<td>11</td>
<td>France</td>
<td>Neutral</td>
<td>0.95</td>
<td>-0.20</td>
<td>0.50</td>
<td>-0.12</td>
<td>1.50</td>
<td>-0.06</td>
<td>2.14</td>
</tr>
<tr>
<td>12</td>
<td>Ireland</td>
<td>Neutral</td>
<td>0.98</td>
<td>0.41</td>
<td>0.06</td>
<td>-2.18</td>
<td>1.50</td>
<td>-0.06</td>
<td>2.14</td>
</tr>
<tr>
<td>13</td>
<td>Latvia</td>
<td>Poor</td>
<td>0.98</td>
<td>-0.20</td>
<td>-0.74</td>
<td>-1.22</td>
<td>0.39</td>
<td>-4.28</td>
<td>1.25</td>
</tr>
<tr>
<td>14</td>
<td>Lithuania</td>
<td>Poor</td>
<td>0.98</td>
<td>0.83</td>
<td>-2.77</td>
<td>-0.89</td>
<td>2.22</td>
<td>-1.27</td>
<td>-1.89</td>
</tr>
<tr>
<td>15</td>
<td>Luxembourg</td>
<td>Poor</td>
<td>0.97</td>
<td>-0.08</td>
<td>-1.08</td>
<td>-0.04</td>
<td>-1.93</td>
<td>-1.77</td>
<td>0.07</td>
</tr>
<tr>
<td>16</td>
<td>Belgium</td>
<td>Very Poor</td>
<td>0.98</td>
<td>1.69</td>
<td>-1.63</td>
<td>-2.54</td>
<td>2.30</td>
<td>0.48</td>
<td>-0.91</td>
</tr>
<tr>
<td>17</td>
<td>Slovak Republic</td>
<td>Very Poor</td>
<td>1.01</td>
<td>-1.08</td>
<td>-1.66</td>
<td>-1.04</td>
<td>1.91</td>
<td>3.33</td>
<td>1.14</td>
</tr>
<tr>
<td>18</td>
<td>Spain</td>
<td>Poor</td>
<td>1.07</td>
<td>-1.08</td>
<td>-1.02</td>
<td>-1.15</td>
<td>0.39</td>
<td>-1.44</td>
<td>-0.43</td>
</tr>
<tr>
<td>19</td>
<td>Portugal</td>
<td>Poor</td>
<td>1.07</td>
<td>-1.08</td>
<td>-1.02</td>
<td>-1.15</td>
<td>0.39</td>
<td>-1.44</td>
<td>-0.43</td>
</tr>
<tr>
<td>20</td>
<td>Czech Republic</td>
<td>Terrible</td>
<td>1.24</td>
<td>-1.01</td>
<td>-1.66</td>
<td>-1.04</td>
<td>1.91</td>
<td>3.33</td>
<td>1.14</td>
</tr>
<tr>
<td>21</td>
<td>Poland</td>
<td>Terrible</td>
<td>1.95</td>
<td>-1.08</td>
<td>-3.36</td>
<td>-2.30</td>
<td>0.41</td>
<td>-0.52</td>
<td>1.28</td>
</tr>
<tr>
<td>22</td>
<td>Hungary</td>
<td>Terrible</td>
<td>1.96</td>
<td>-1.08</td>
<td>-3.36</td>
<td>-2.30</td>
<td>0.41</td>
<td>-0.52</td>
<td>1.28</td>
</tr>
<tr>
<td>23</td>
<td>Malta</td>
<td>Terrible</td>
<td>2.03</td>
<td>-3.17</td>
<td>-2.12</td>
<td>-0.96</td>
<td>-0.61</td>
<td>-0.85</td>
<td>-2.85</td>
</tr>
<tr>
<td>24</td>
<td>Greece</td>
<td>Terrible</td>
<td>2.14</td>
<td>-1.75</td>
<td>-2.35</td>
<td>-2.65</td>
<td>4.50</td>
<td>-0.59</td>
<td>1.21</td>
</tr>
<tr>
<td>25</td>
<td>Italy</td>
<td>Terrible</td>
<td>2.14</td>
<td>-2.08</td>
<td>-1.96</td>
<td>-2.18</td>
<td>-3.22</td>
<td>-3.13</td>
<td>-0.65</td>
</tr>
</tbody>
</table>

Regarding relative performance of Member States, the ranking largely confirms the results of the reviewed evaluations.63 Sweden, which was unanimously ranked first by the reviewed evaluations, is identified as the best performing Member State. Sweden’s aggregate score of 1.44 qualifies as “excellent”. The strong relative performance of the Netherlands is confirmed by the 4th rank, slightly ahead of Germany.64 Similar to the reviewed evaluations, Slovakia and Portugal are placed in the second half of the ranking, well ahead of Poland, Hungary and Italy. Despite some (minor) variations, the ranking of the Member States relative performance can be regarded as being robust. As such, the ranking could be utilized as a sensible starting point for further comparative analysis (e.g. analyzing country-specific strength weaknesses).

A more differentiated and meaningful analysis, however, is only possible on the basis of the

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63 The respective rank correlations are 0.88 (LSC), 0.84 (LREV) and 0.66 (BLS). The weaker correlation to the BLS is likely attributable to the benefit of the doubt method. In particular the BLS ranking for Spain (5th), Greece (16th) and Ireland (4th) exhibit a distinct positive bias, whereas Finland (10th) and Denmark (8th) are ranked comparatively low.

64 LSC, LREV and BLS rank the Netherlands two places ahead of Germany.
absolute performance. The LSC ranking of Spain, Portugal, Greece and Italy is largely identical with the above ranking, however the conclusion drawn by the LSC, categorizing all four countries equally (as “villain”) must be refuted on the ground of their significantly differing aggregate scores. Spain (-1.05) and Portugal (-1.07), while performing “terrible”, do not quite merit to be categorized together with Greece (-2.14) and Italy (-2.14) which performed significantly worse.

A transparent aggregate score significantly enhances the ranking by allowing for a more qualified interpretation65. It is worthwhile to emphasize that when interpreting the above results, one must keep in mind that the evaluation is strictly context specific66.

While the relative performance of a country is of great interest, it is the absolute performance which is crucial for evaluating the success of the LiS. Here the new assessment framework contributes a distinct added value by linking the performance of a Member State to a clearly defined measure of success. Strikingly, no Member State is identified as “hero”. Sweden, Finland and Denmark exhibit an “excellent” overall performance, balanced across all key-targets (without a single “negative” score). The success of the Netherlands and Germany is evaluated as “very good”. While performing “negative” on some key-targets, both countries outperform the relevant benchmark - the USA67. However, the bulk of Member States fell far short of reaching the benchmark.

The United Kingdom, Austria and Estonia are the only other EU25 Member States for which the success can (at least) be regarded as “positive”. No fewer than ten Member States performed “very poor” or worse. In comparison to the reviewed evaluations, Belgium and the Czech Republic are particular noteworthy68. Five Member States are identified as “villains”: Poland, Hungary, Malta, Greece and Italy. Excluding the key-target “Environment”, only Poland received a positive score for at least one key-target. For most key-targets the performance of the five countries qualifies as “very poor”.

65 While the difference between Estonia (8th) and the UK (6th) is merely 0.08 points and should be interpreted with corresponding care, the significant gap (0.71 points) between the Czech Republic (20th) and Poland (21st) allows for a much more confident interpretation of the relative performance of these countries.

66 When applying more orthodox measures of competitiveness some results might appear counter-intuitive. A case in point is Ireland (ranked 12th), which based on GDP level or average GDP growth is ranked significantly higher (3rd and 7th respectively). However, the correlation to a GDP based ranking is positive. The ranking for the Level Score is correlated to a GDP ranking with 0.64 and the Progress Score ranking is correlated to a ranking based on average GDP growth rates with 0.53.

67 Japan is identified as the most successful country – LiS score (1.53). This indicates that the USA (0.79) may not have been the most ambitious benchmark – confirming the finding of deteriorating competitiveness of the USA (LREV). Due to limited data availability, no scores for the key-targets Macroeconomic Stability and Social Cohesion were calculated. However, due to the limited weight of these key-targets none of the respective conclusions are invalidated. Even if both countries were to receive a score of -5 for both targets, they would rank among the top performing countries (Japan 4th). Neither the USA or Japan were subject to the LiS, hence their scores are to be regarded only as a proximate benchmark.

68 Belgium which was never ranked below 13th by the reviewed evaluations performed “very poor”. As shown above, Belgium did not realize a single “positive” performance and exhibits a distinctly negative overall score. It can be doubted whether the rankings of the LSC (13th) and the LREV (10th) constitute an adequate evaluation of Belgium’s absolute performance. The Czech Republic is another case in point; the rankings of the LSC (10th) and the LREV (15th) suggest an average performance, while the aggregate score of -1.24 qualifies as “terrible”.
poor” or even “villain”. The gap to other Member States appears to be of such an extent, that the performance of the “villains” must be recognized as problematic.

Further refinement of the above qualifications is possible by differentiating between Level Score and Progress Score. Progress Scores (EU25 = 0.44) are significantly higher than Level Scores (EU25 = -0.95). Taking progress into account thus translates into a markedly more positive evaluation of the LiS (see Annex for details).

The Level Scores are highly dispersed, illustrating the heterogeneous composition of the EU25. The Progress Scores are much less dispersed. The majority of Member States realized little progress (“neutral”). However, ten countries performed at least “positive” among which two countries (Estonia and Slovenia) can be identified as “heroes”.

The aggregate score for the LiS is -0.4, qualifying its success as distinctly “negative” (almost “poor”). While confirming a high degree of heterogeneity between the Member States, the conclusion advanced by the European Commission, the CER and LREV, namely that the success of the LiS was about average (resembling a ‘mixed-picture’), must be refuted as being far too positive. Overall, the (ambitious) ultimate goal of the LiS (transforming the EU into the most competitive economy in the world), has been missed in spectacular fashion. The European Commission readily acknowledged that the LiS targets will not be reached, but did not (attempt to) quantify (and qualify) the gap between actual performance and targets. The dismal Level Score (-0.95) illustrates that the gap to the targets is of such significance, that the LiS could be conclusively evaluated as “failure”. The positive Progress Score (0.44) mitigates the negative result. Quantification of the realized progress largely confirms the respective (vague) notions of the Commission, LREV and LSC, namely that some progress was made. However, the cautioning conclusions of the LREV and LSC, namely that the level of progress has been “underwhelming” and uneven (LSC) and that “progress has not been sufficiently strong to realize the full vision of Lisbon” (LREV) are also confirmed.

On key-target level, the application of the assessment framework largely confirms the respective conclusions of the LREV. For the key-target Knowledge the aggregate performance of EU25 (-0.86) qualifies as “failure”. Considering the aggregate is not distorting, as only five Member States achieved a score above zero. Taking into account the high priority allocated to transforming the EU to a ‘knowledge-based economy’, this failure

69 The seven top ranked Member States may be identified as a sub-group (the “elite”). The countries ranked 8th to 14th may be identified as a second sub-group. A third sub-group (the “laggards”) is formed by the countries ranked 15th to 25th, which exhibits a substantial gap (0.84) to the second sub-group. Were the evaluation solely based on Level Scores, all eleven countries comprising the “laggard” sub-group would have to be identified as villains – illustrating that many Member States fell drastically short of reaching the LiS targets.

70 The argument that the targets were ambitious and that evaluating the LiS as “failure” is unjustified must be strongly refuted. The assessment exhibits a very cautious calibration, accounting for the ambitiousness of the targets. Furthermore, inadequate target-setting diminishes the quality of a strategy, but it cannot be used as an ex-post excuse for failure.

71 CER (2010), op. cit, p. 3. The CER emphasizes that „the gap between the best and worst performing countries is arguably wider in 2010 than it was in 2000”. See also WEF (2010), op. cit. p.12.
must be evaluated as particularly devastating. While not being equally bleak, the performance in Employment (-0.14) and Internal Market (-0.55) are clearly negative and exhibit a significant gap to the benchmark. Regarding the key-target Environment, the comparatively good performance identified by the LREV is confirmed, albeit on a (surprisingly) low level (0.17). The asymmetry in competitiveness between the key-targets is broadly confirmed.

Overall, the obtained results suffice to confidently confirm the hypotheses of this section. The success of the LiS was distinctly negative. While some aspects of the earlier conclusions can be (partially) confirmed, the commonly propagated evaluation of the overall success resembling a “mixed-picture” cannot be sustained.

4. Concluding remarks - Europe 2020 and unanswered questions

The immediate aim of this paper was to provide a consistent and convincing answer to the question “was the Lisbon Strategy successful?” Answer: No, it was distinctly negative.

So far, all evaluations failed to adequately cope with the unclear objective, hazy concept of competitiveness and the poor target-setting inherent to the LiS. By providing a transparent and context-specific definition of competitiveness as well as a clear-cut measuring rod, this paper outlined a more consistent and systematic approach. Whether this approach is acceptable, depends on its various underlying assumptions - which are not exclusive. The most important feature of the assumptions is transparency, ensuring that they constitute a sound basis for future discussions.

One vital lesson to be learned is that unclear objectives and a poor target-setting process inevitably diminish the quality of a strategy and constitute severe obstacles in its implementation and evaluation. The architecture of Europe 2020, suggests that this lesson has not been learned. Those agreeing with the assumptions made in this paper should be alarmed, as Europe 2020 appears likely to repeat past mistakes. Considering the objective of Europe 2020, namely realizing the vision of Europe’s social market economy, it is inconceivable how this vague objective is to be operationalized. Regarding competitiveness, there may be some hope for achieving consensus. The failure to adopt the LAF, due to a lack of support and acceptance by the Member States, demonstrates that such hope is most likely in vain. Reaching a consensus on a common EU social model appears utopian. The first step would have to be an intense in-depth discussion – something the so-called “consultation process” of Europe 2020 did not embody72.

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72 Prior (!) to the publication of the evaluation document, the Commission published its initial proposal for the successor strategy of the LiS and invited interested parties to submit comments. European Commission (2009): Consultation on the Future EU 2020 Strategy, Commission Staff Working Document COM (2009) 647final, Brussels 21.11.2009. Subsequently the Commission published an overview illustrating the essence of the feedback, highlighting that generally “there is full support among Member States for the continuation of a
Having illustrated various shortcomings as well as having demonstrated that the overall impact of the LiS was negative; this paper may serve as a starting point for a more critical debate on Europe 2020.

Complementary to questioning obvious shortcomings such as the vague objective and the overloaded agenda, more fundamental questions regarding the future scope of European economic policymaking should be asked. Questions meriting further discussion include:

- Does a common European vision of a social market economy exist?³³
- What is the potential value-added of Europe 2020? Is the scope of Europe 2020 justified?
- How will Europe 2020 be evaluated? Will the performance of the EU institutions be included in the evaluation? What could be a suitable measuring rod?
- Is a further centralization of European economic policymaking desirable? Is it required to delegate more competencies to the EU institutions in order to ensure implementation?
- Does Europe 2020 constitute an infringement of the principle of subsidiarity?

Stakeholders subscribing to liberal core tenets such as an aversion to central planning should strive to put these questions on the agenda. Complacency could be costly. Recurring proposals for linking economic indicators to sanctions (or budgetary incentives) herald a potentially worrisome direction of European economic policymaking.³⁴ Should these (or similar) proposals gain influence, the EU would assume features of a command economy.

Disregarding the lack of consensus and the heterogeneous nature of EU economies, Member States could be forced to implement top-down, one-size-fits-all, type of economic reforms. Admittedly, the dangers sketched above are somewhat dramatized. Still, a more critical stance regarding Europe 2020 is required. At the very least, its objective should be more clearly defined and a measuring rod should be established. In case these basic preconditions are not met, an unambiguous evaluation of Europe 2020 will be elusive. Whether it is worthwhile for Europe to follow a strategy which cannot be evaluated is questionable.

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³³ The persistent lack of consensus among European policymakers is most obvious when analyzing publications on the OMC. Most publications are heavily influenced by an ideological debate, which is best described as “social Europe versus the economic logic of competitiveness”. Radaelli, C.: The Open Method of Coordination – A new governance architecture for the European Union? Swedish Institute for European Policy Studies, Report Nr.1, March 2003, Stockholm, p.10. The inception of the OMC is closely connected to the attempt to overcome the core obstacle to the formation of a common EU strategy for enhancing competitiveness, namely “the lack of shared beliefs on what the European model of capitalism should be” (p.19).
³⁴ Kok, W. et al., op. cit., p. 42. See also European Commission (2005), op. cit., p. 32. Europe 2020 allocates additional power to the Commission. Thus, In case a Member States fails to adopt an adequate and timely response to a recommendation, the Commission may issue a “policy warning”. European Commission (2010), op. cit., p. 26.
### Annex

#### Calculation Scheme:

<table>
<thead>
<tr>
<th>Key Target (weight)</th>
<th>Indicator (weight)</th>
<th>Level Score (weight 60%)</th>
<th>Progress Score (weight 40%)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Employment (32.5%)</strong></td>
<td><strong>EMPL (33%)</strong></td>
<td>Target =70% ((Level – Target) +1) *0.8+0.2</td>
<td>Benchmark = Aggregate progress of Sweden, Denmark and the Netherlands = +1.3% (Progress – Benchmark)</td>
</tr>
<tr>
<td></td>
<td><strong>EmplFem (11%)</strong></td>
<td>Target = 60% ((Level – Target) +1) *0.8+0.2</td>
<td>Benchmark = Aggregate progress of Denmark, Sweden and UK = +0.62%. (Progress – Benchmark)*0.75</td>
</tr>
<tr>
<td></td>
<td><strong>EmplOld (11%)</strong></td>
<td>Target = 50% ((Level – Target) +1) *0.8+0.2</td>
<td>Benchmark = Aggregate progress of Denmark, Sweden and UK = +3.65% (Progress – Benchmark)*0.75</td>
</tr>
<tr>
<td></td>
<td><strong>LTunempl (11%)</strong></td>
<td>Target = 1,2% (Japan in 2000) ((Level – Target)*-1+0.3) * 4</td>
<td>Benchmark = Aggregate progress of Denmark, Luxembourg and the Netherlands = +0.25% (Progress + Benchmark) * -1</td>
</tr>
<tr>
<td></td>
<td><strong>LPRODhr (33%)</strong></td>
<td>No formula was applied, as the level of performance is too heterogeneous⁷⁶</td>
<td>Benchmark = USA = +3.65 index points (Progress – Benchmark) * 0.5</td>
</tr>
<tr>
<td><strong>Knowledge (25%)</strong></td>
<td><strong>GERD (40%)</strong></td>
<td>Target = 3% (Level – Target) *4 + 2</td>
<td>Benchmark = Aggregate progress of USA and Japan = 0.21%. (Progress – Benchmark)*10</td>
</tr>
<tr>
<td></td>
<td><strong>YouthEdu (30%)</strong></td>
<td>Target = 88% (4³ best EU 25 in 2000) (Level – Target) *0.4 + 1</td>
<td>Benchmark = Aggregate progress of Slovakia, Poland and the Czech Republic = +0.37% (Progress – Benchmark) * 0.5</td>
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<tr>
<td></td>
<td><strong>BroadB ($) (30%)</strong></td>
<td>Target = 27.1% (USA in 2010) (Level – Target) *0.5 + 1</td>
<td>Benchmark = Aggregate progress of Belgium, Denmark and the Netherlands = +19.6% since 2004 (Progress – Benchmark) * 0.5 + 1</td>
</tr>
<tr>
<td><strong>Internal Market (25%)</strong></td>
<td><strong>CPrLv (25%)</strong></td>
<td>Target = 100 (EU27) 6 – ((Difference between Level and Target) * 0.4)</td>
<td>((Change*4 / Gap to Target) +0.5)</td>
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<tr>
<td></td>
<td><strong>BInv (25%)</strong></td>
<td>Target = 22.5% (6⁴ best EU25 in 2000) (Level – Target) *0.75 + 1</td>
<td>Benchmark = Aggregate progress of the six best performing EU25 in 2000 = -3.5% (Benchmark – Progress) * -1</td>
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<tr>
<td></td>
<td><strong>DBR ($) (50%)</strong></td>
<td>Target = 30⁰ rank (in 2011) (Level – Target) *0.2</td>
<td>Benchmark = Change in ranking (Change) * 0.25</td>
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<tr>
<td><strong>Macroeconomic Stability (7.5%)</strong></td>
<td><strong>GDebt (100%)</strong></td>
<td>Target = 60% (Level – Target) * -0.15 + 1</td>
<td>Benchmark = Change in debt level (Change) * -0.25</td>
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<tr>
<td><strong>Social Cohesion (5%)</strong></td>
<td><strong>PovRisk ($) (50%)</strong></td>
<td>Target = 13% (Level – Target) *0.8 +1</td>
<td>Target = Reduction of 25% (Europe 2020) (Change – Target) * 10 + 1</td>
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<tr>
<td></td>
<td><strong>Regempl (5%) (50%)</strong></td>
<td>Target = 4.5% (4⁴ best EU 25 in 2000) (Level – Target) *0.8 +1</td>
<td>Target = Reduction of 25% (Change – Target) * 10 + 1</td>
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<tr>
<td><strong>Environment (5%)</strong></td>
<td><strong>GreenHgas ($) (50%)</strong></td>
<td>Target = Existing country-specific targets (Level – Target) *0.2 +1</td>
<td>Not applicable</td>
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<tr>
<td></td>
<td><strong>EnerInt ($) (50%)</strong></td>
<td>Target = 144.54 (4³ best EU 25 in 2000) (Level – Target) *0.075 + 2</td>
<td>Target = Reduction of 20% (Europe 2020) (Change – Target) * 25 + 1</td>
</tr>
</tbody>
</table>

Note: “$” Identifies indicators for which data availability (Eurostat) was limited – Alternative base years were applied (for some countries no score could be calculated).

⁷⁵ Note: Allocating different weights to individual indicators based on their perceived importance (relevance) is common practice (e.g. LAF and LREV) – e.g. EmplFem, EmplOld and LTunempl are of a more supplementary nature, not impacting competitiveness to the same extent asEMPL and LPRODhr. In the case of Internal Market, DBR is considered to be of higher quality and relevance to the LiS. The LAF, including a multitude of DBR sub-indicators, allocates significant weight to the DBR while adopting a critical stance to CPprLv and BInv. See DG ECFIN (2008), pp. 143ff. and pp. 151-175.

⁷⁶ Note: In lieu of applying a formula, the score was allocated as follows: A performance of 50 received a score of -5, 60 (-4), 70 (-3), 80 (-2), 90 (-1), 95 (0), 100 (1), 105 (2), 110 (3), 115 (4), 120 (5). The scores were rounded to the nearest midpoint – e.g. a performance of 53.2 was rounded up to 55 and allocated -4.5 points.
<table>
<thead>
<tr>
<th>Rank</th>
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**LIS 0.44**

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**LIS -0.95**