The Lisbon process and bench-learning

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1. The Polityness of European Economic Cooperation

The existence of Europe-wide reform discourses that underpin the construction of European institutions and policies are key features in the polityzation of European Economic Cooperation.[1]

One such European reform discourse can be referred to as the stabilization discourse promoting the European stabilization state (Dyson, 2002: 251ff). A key element of the stabilization discourse is a perceived division of function between the market and the state. By engaging in excessive or misdirected intervention, so the argument goes, state actors risk destabilizing fundamental market balances. Therefore, measures should be taken to shelter markets from what is seen to be short-termish and narrow-minded politicians. This can be done by de-politicizing key policy-areas and –functions by way of establishing autonomous regulatory agencies (Christensen and Lægreid, 2006). Autonomous regulatory agencies help to ensure long-term stability; they foster credibility on the financial markets; and guarantee regularity in the private sector's planning environment. Indeed, certain policy-areas and –functions are entirely privatized. As to the policy content, stability-oriented macro-economic policies are being pursued involving sound money (low inflation and stable exchange rates), sound finances (budget surplus and low external debt) and sound institutions (independent central banks). Clearly, the German-inspired, ECB-centric EMU project, with its convergence criteria, Stability and Growth Pact, and inbuilt asymmetry between monetary and economic policy-making can be seen as fitting well with the overall thrust of the stabilization discourse (see Dyson on Germany, and Umbach and Wessels on the ECB in this volume).

Another European reform discourse is the redistribution discourse promoting the European welfare state. Again, the market and the state are seen as two fundamental different spheres of governance. Contrary to the stabilization discourse, however, the overall idea is that markets on their own will not help to ensure a desirable level of prosperity and equality in society. Thus, markets need to be regulated in order to minimize the potential negative consequences of unrestricted competition as a result of which key policy-areas and –functions are politicized with a view to rebalancing the imbalances resulting from market competition. By providing protection, distribution and growth, policy-makers insulate some areas of activity from market forces. In other areas, however, the market is being promoted by way of business regulation (competition rules), by co-opting labor movements into corporatist processes, by reducing barriers to international trade, and by imposing controls on "speculative" international movements (embedded-liberalism). At the level of European integration, some degree of fiscal federalism in the form of regional and sectoral redistribution through European structural fund policies resonates well with the redistribution discourse.

Finally, a third European reform discourse focuses on competition, innovation and flexibility. It will be referred to as the innovation discourse which promotes an idea of a European competition state (Cerny, 1997; Cerny and Evans, 2004). The clear distinction between the state and the market makes less sense in this optic because the state is seen as the engine and steering mechanism of political globalization and global markets. Markets are nothing without the state. The state can be seen as a complex set of institutions which can be optimized through planning and innovation. State and market institutions must be complementary to foster innovation, adaptability and knowledge creation. International competitiveness goes together with and is conditioned by institutional competitiveness, which can be achieved through ongoing optimization of society-wide institutions with a view to delivering public purpose in the broadest sense. Thus, enterprise, innovation and profitability is promoted through active political entrepreneurship and institutional maintenance work (Crouch, 2005). A central feature of the innovation discourse is that key policy-areas and –functions are being a-politicized. Through a process of rationalization scientized knowledge elites are being empowered in policy-making. The Lisbon project with its ambition of making the EU the most competitive region in the world by 2010 and its inbuilt soft governance mechanisms including bench-marking, persuasion, and learning goes well with the idea of a European competition state.

Reform discourses such as these constitute meta-frames which encapsulate and direct institution-building in and further polityzation of Europe (Radaelli, 2003: 19). They help political elites to make sense of problems, potentials and priorities in the European economic field. In doing so, success economies are being promoted as models within the framework of each reform discourse; models from which others should learn. Thus, the stabilization discourse has promoted the German stabilization state (the German anchor) as the key point of reference, the redistribution discourse has the Swedish welfare state (the Northern Light) at the centre, and the innovation discourse seems to promote various forms of liberal and coordinated competition states such as Ireland (the Celtic Tiger), the Netherlands (the Dutch Miracle) and Denmark (the Great Danes). These different meta-frames and their favorite models may co-exist, and sometimes be in contradiction with each other, or they may, as fashions change, follow each other continuously.

This chapter is particularly interested in studying the innovation discourse and the reform processes and mechanisms enshrined in the innovation discourse and the way in which the Lisbon process unfolds in Europe. It attempts at identifying the innovation strategy enshrined in the Lisbon process, it distills some of the tensions built into the kind of bench-marking exercise employed in the Lisbon Process, and it hints at an alternative route of fostering innovation, one that emphasizes de-central innovation processes and regulated self-regulation.

Another feature of the polityness of European economic cooperation concerns the number and type of governance mechanisms applied in the field. The span of regulatory instruments in EU economic governance is broad-ranging including supranational/hierarchical modes of governance (unilateral imposition by supranational actors such as the ECB, see Umbach and Wessels in this volume), the intergovernmental mode of governance (implying consensus among EU member states' governments for instance in the formulation of the Stability and Growth Pact, see Hallerberg in this volume), the joint decision-mode of governance (typically involving some kind of qualified majority voting in the Council of Ministers as in area of banking legislation, see Moran in this volume), regulatory competition (implying mutual adjustment by individual governments for instance in the area of taxation, see Wincott in this volume) and various sorts of EU induced learning (Scharpf, 2001). Here, attention will be directed at the last category of European governance mechanisms in the form of the Open Method of Coordination (OMC). More specifically, in the following section the crucial role of bench-marking in the Lisbon process will be spelled out with particular attention to some of its problems and inbuilt tensions that may have contributed to the limited success of the Lisbon process. In a following section a more general critique is made of a particular variant of bench-marking, the top-down approach to bench-marking, which emphasizes institutional emulation between countries. This leads to a last and concluding section in which a possible alternative approach to bench-marking, bottom-up bench-learning, is sketched out.

2. Bench-Marking and the Lisbon Process

Benchmarking was first applied in the private sector at the company level or at the level of an industrial sector to induce innovative change processes (Kyrö, 2003). With the diffusion of NPM world wide, private sector management and organizational techniques were transferred to the public sector and bench-marking gained a footing in all levels of public governance (Auluck, 2002). As the innovation discourse took hold among political elites it seemed logical that comparison and identification of best practices were systematically introduced in the public sector as governance mechanisms in their own right (Lodge, 2005). Today, bench-marking as an instrument of governance has gained ground in all sorts of areas within the European economic polity. But bench-marking takes many different forms. As regards the operation of the *internal market*, for instance, the Commission has kept a running tally of the record of member states concerning their transposition of the various internal market directives, and it has published the results annually as a league table. It comes out clearly, according to this simple implementation score, which country has been insufficiently efficient in its implementation activity, and which country stands out as the most eager transposer. With regard to *Economic and Monetary Union*, member states aspiring to adopt the Euro will have to fulfill a set of nominal convergence criteria. Having become part of the Euro-area, member states will, on a continuous basis, be evaluated on their ability to respect the criteria enshrined in the Stability and Growth Pact.

Thus, benchmarking as a tool of regulation in the European economic polity is not new or unprecedented. Following the Amsterdam IGC in 1997, however, it came to the fore in the area of employment policy under article 118 subsequently involving the Luxembourg process concerning the development and implementation of national action plans for employment; the Cardiff process regarding the regional and structural funds; and the Cologne process referring to consultation on macro-economic policy between the European Central Bank, the social partners and the European Commission (Arrowsmidt *et al*., 2004: 318).

Common for these previous cases of bench-marking is that the European Union has regulatory competence in the concerned areas of economic governance and that different degrees of financial and/or legal sanctions are attached to the bench-marking exercise. In that regard bench-marking in the area of the Lisbon process is quite different.

It was at the Lisbon European Summit, March 2000 that the overall objective of making the EU "the most competitive and dynamic knowledge-based economy in the world, capable of sustaining economic growth with more and better jobs and greater social cohesion" was formulated in the Presidency conclusions. This ambitious objective was to be achieved by way of a new form of policy coordination among the member states, the so-called "open method of coordination" (OMC), which involves policy guidelines for the EU as a whole, with short, medium and long term goals; quantitative and qualitative indicators for benchmarking national performance against the best in the world; and periodic monitoring, evaluation and peer review of member states. There is now a rolling program of yearly planning, monitoring, examination and re-adjustment based on a list of well over hundred indicators in numerous areas of priority action such as improving employability; developing entrepreneurship; encouraging adaptability in businesses and their employees; and strengthening the policies for equal opportunities (Arrowsmidt *et al*., 2004: 319).

The dominant discourse on the OMC presents bench-marking as the ideal application of the principle of subsidiarity, in the framework of which the European level plays a minor role. However, the summit conclusions are ambiguous. On one hand, they emphasized that OMC should be conceived as a learning process for all, which should respect national diversity. On the other hand, however, the conclusions stipulated that the open method of coordination is a means of spreading best practice and of achieving greater convergence (de la Porte *et al*., 2001: 6). In other words, there seems to be an endemic tension or contradiction in the set-up itself (Radaelli, 2003: 27). The question is whether this “tension between the recognition of the co-existence of specific national innovation systems and the frequent reference to the need to diffuse ‘best practice’ among member countries” can be reconciled (Lundvall and Thomlinson, 2002: 227)?

At the Spring 2004 Brussels Summit, EU governments and the European Commission painted a dire picture of results regarding economic growth, employment and social cohesion. Not much had been achieved over the preceding four years, but the presidency conclusions reaffirmed that the process and goals of the Lisbon program indeed remained valid. However, “the pace of reform needs to be significantly stepped up.”[2] Consequently, governments appointed the former Dutch Prime Minister, Wim Kok, to head a high-level expert group to come up with suggestions giving new impetus to the Lisbon strategy.

The Kok Report, *Facing the Challenge*,[3] was presented to the European Commission and the European Council at the beginning of November 2004. The report held that “there are no grounds for complacency. Too many targets will be seriously missed. Europe has lost ground to both the US and Asia and its societies are under strain” (Kok, 2004: 11). These disappointing results from the Lisbon process can be explained by an overloaded agenda, poor coordination and conflicting priorities.

As regards the *overloaded agenda*, “the Lisbon strategy has become too broad to be understood as an interconnected narrative. Lisbon is about everything and thus about nothing. Everybody is responsible and thus no one. The end result of the strategy has sometimes been lost” (Kok, 2004: 16). Thus, several factors simply impede lesson-drawing (Rose, 1993). The complexity of the issues at stake seems to be insurmountable. To be achieved, the Lisbon ambitions imply action on many different, interdependent levels, involving coordinated action by a variety of actors. In addition, the scale of change needed is enormous. To become the most competitive society in the world by 2010 requires large scale transformation in Europe on many dimensions and in many sectors.

As regards, the *conflicting priorities*, the report made a direct reference to the operation of the Stability and Growth Pact, which did “not sufficiently support growth enhancing macroeconomic policies” (Kok, 2004: 10). The Kok report directly supported the flexibilization of the SGP (Kok, 2004: 16). In other words, member states had been busy complying with stability-oriented macro-economic policy requirements within the EMU-framework (the stabilization discourse) rather than actively dealing with growth and competitiveness (the innovation discourse) making it harder to implement the Lisbon strategy.

Finally, concerning *poor coordination*, the interdependency between countries, between levels of administration, and between sectors simply requires that an immense effort is being put into top-down management of the innovation process. This has a direct bearing on the use and form of the open method of coordination which, according to the High Level Group headed by Kok, “has fallen far short of expectations” (Kok, 2004: 42). The Kok-report proposes a radical reformulation of the OMC, simplifying the process of measuring success by replacing the more than a hundred indicators that have been associated with the Lisbon process with a more limited framework of 14 targets and indicators. Such a simplification would offer the opportunity for the European Commission to improve the working of the instrument of peer pressure. On an annual level, the European Commission, it is being proposed, should publicly provide updates on these key 14 Lisbon indicators in the format of league tables with rankings “praising good performance and castigating bad performance — naming, shaming and faming” (Kok, 2004: 43).

In short, on the midway towards the objective of creating the most competitive region in the world by 2010, the Kok-report concluded that so far the Lisbon process has been disappointing as regards the willingness and ability of the member states to realize the overall objective; that there may be observed a potential clash between two parallel reform discourses: the stabilization discourse and the innovation discourse; and that the criteria applied in the soft bench-marking exercises should be tightened up. In line with the practice in the EMU process, the report recommends fewer and clearer criteria with harder and more explicit sanctions tied to them.

Whereas monetary union and the internal market contain clear top-down benchmarking exercises, the Lisbon process was originally conceived to constitute an alternative bench-marking philosophy including bottom-up initiated processes of innovation as well as imposing a uniform model of innovation on the EU-member states. The Kok report attempts to resolve this endemic tension between the two types of bench-marking in favor of the top-down version.

The preceding discussion about the formulation, use, and midterm evaluation of the Open Method of Coordination illustrates the central point that it is possible to distinguish between two kinds of bench-marking, one focused on the measurement of output and performance, and another more interested in comparing learning processes. According to the first output-oriented form of bench-marking, this particular governance mechanism is first and foremost a tool for improvement, achieved through comparison with other organizations recognized as the best within the area. A model is being selected and other systems of innovation simply partly or entirely copy elements from this model with a view to catching up. The result of such an exercise will almost inevitable be increased levels of *institutional convergence* across countries and sectors.

On the other hand, the learning-oriented version of bench-marking - bench-learning - holds that the central essence of bench-marking is to learn how to improve activities, processes and management. According to this approach, the overall objective of the bench-marking exercise is not that organizations and countries should mirror each other. Rather, the purpose is that each sector- and country-specific production and innovation system is supposed to exploit and develop its unique potentials through transformative processes of learning. Bench-learning may underpin and even accentuate *institutional divergence* (Kyrö, 2003: 210).

Table 1: Two Basic Approaches to Bench-Marking

The purpose of the *top-down bench-marking approach* is to impose and/or diffuse a single predefined definition of best practice among the European Union member states thereby fostering increasing levels of institutional convergence. A central organizational level defines a set of rather narrow and often quantifiable criteria for distinguishing between success and failure and it coordinates reform measures undertaken in member states. Benchmarking is first and foremost a tool for improvement, achieved through comparison with other organizations recognized as the best within an area (Bhutta and Huq, 1999: 255). This practice of learning from others by copying others is also referred to as performance benchmarking, the leading question being: what ought to be copied from a well-performing sector/country/company in order to be as efficient as this particular sector/country/company? These copying practices normally lead to adaptive, incremental learning.	The purpose of *bottom-up bench-marking* is to initiate processes of reflection and innovation by enhancing collaborative and networked learning benefiting from the diversity of practices and institutional structures in European Union member-states. No fixed perception of how innovation can be enhanced exists. Rather, innovative capacity can be developed in multiple ways as a result of country-, sector- and time-specific contexts and circumstances. The central essence of benchmarking is to learn how to improve activities, processes and management, also referred to as process bench-marking (Ahmed and Rafiq, 1998). Attention is directed at the issue of learning with others rather than copying from others. Thus, the leading question becomes whether a sector/country/company has learning qualities? Are we talking about a learning organization skilled at creating, acquiring and transferring knowledge, and at modifying its behavior to reflect new knowledge and insights? It becomes relevant to talk about bench-learning that fosters generative learning, which rather than copying antiquated practices is preparing for the future.

3. The Uses and Misuses of Bench-Marking

Top-down bench-marking of the type associated with the Kok-report is more often than not evaluated in skeptical terms. A main point of criticism is that when we are talking about many, interrelated criteria involving micro-actors and their learning capability we cannot take much inspiration from previous bench-marking exercises known from the EMU and internal market contexts: “A few simple indicators, imposed top-down as a set of goals to which all are committed, may be appropriate in the monetary field, or for the removal of the remaining barriers to the single market. They are less applicable elsewhere, if policy learning is the goal” (Room, 2005: 128). Rather bottom-up bench-learning seems to be a more intelligent, but also potentially slower, way of progressing in this field allowing for diversity and flexibility. In the same vein, others make a call for “context-sensitive lesson drawing” (Radaelli, 2003: 42, see also Radaelli, 2004: 726).

Within the area of innovation system research (Lundvall and Tomlison, 2002), it has long been recognized that top-down bench-marking is associated with a number of very concrete problems. Firstly, the idea that there is *one single practice* that can be referred to as *the* benchmark is valid only under some very specific circumstance. For instance, in recent years the OECD has praised the Danish model:

“The Danish economy is performing very well, reaping the benefits of 25 years of well-managed economic reform that have produced sound macroeconomic policies, a flexible labour market and a competition-friendly regulatory environment” (OECD, 2006a: 3).

In a similar vein, a recent Lisbon Scorecard concludes that Denmark is the “Hero” in the Lisbon process and that:

“Denmark’s winning combination of fast growth, high employment and high standards of social security has attracted so much attention that economists across the EU are now debating how to copy ‘the Danish model’” (Wanlin, 2006: 7).

It is not only in Europe, that Danish institutional competitiveness is ranking high. Over the last couple of years, the World Economic Forum *Growth Competitiveness Index*, the UNCTAD *Innovation Capability Index*, the World Bank *Ease of Doing Business Ranking*, The Economist Intelligence Unit’s *Business Environment Ranking*, and many others praise the Danish model. Adding up the rankings of these five indexes in a so-called meta-ranking we find that, on a global level, Demark performs only second to the United States.

Table 2: Meta-ranking - The Ultimate Beauty Contest[iv]

Country	The Lisbon league table, 2006	The WEF *Growth Competitiveness Index*, 2006	The UNCTAD *Innovation Capability Index*, 2001	The World Bank *Ease of Doing Business Ranking*, 2006	EIU's *Business Environment Ranking*, 2005	Average ranking
1. USA	-	6	3	3	3	**4**
2. Denmark	1	4	4	8	1	**4**
3. Finland	6	2	2	13	7	**6**
4. Sweden	2	3	1	14	11	**6**
5. United Kingdom	4	10	8	9	8	**8**
6. Norway	-	12	5	5	17	**10**
7. Switzerland	-	1	13	17	9	**10**
8. Netherlands	5	9	10	24	6	**11**
9. Japan	-	7	11	10	28	**14**
10. Ireland	7	21	21	11	10	**14**
11. Germany	10	8	18	19	14	**14**
12. Belgium	13	20	9	18	12	**14**
13. Luxembourg	9	22	-	-	-	**16**
14. Austria	3	17	17	32	20	**18**
15. France	8	18	16	44	13	**20**
16. Estonia	16	25	25	16	-	**21**
17. Spain	21	28	20	30	21	**24**
18. Lithuania	20	40	29	15		**26**
19. Czech Republic	12	29	36	41	24	**28**
20. Portugal	18	34	28	42	23	**29**
21. Latvia	19	36	34	26	-	**29**
22. Malta	27	39	-	-	-	**33**
23. Hungary	15	41	32	52	25	**33**
24. Slovak Rep.	22	37	39	37	30	**33**
25. Slovenia	11	33	23	63	-	**33**
26. Cyprus	14	46	43	-	-	**34**
27. Poland	26	48	31	54	29	**38**

Although a series of independent league tables place Denmark as *the* success model in Europe as regards the performance measures listed in the Lisbon strategy, it seems, however, to be problematic to draw direct lessons from such a bench-marking exercise.

If we look at the top of this world ranking which is constituted by both large and small countries it comes out clearly that there is more than one way to success (see Table 2). For instance, to be a role model neither EU nor EMU membership seem to be a sufficient or a necessary requirement. The top-ten is constituted by several countries that take part in none of these forms of cooperation (USA, Norway, Switzerland, Japan) and among those EU-members who are actually doing quite well in terms of institutional competitiveness are the North-European Euro-outsiders (Denmark, Sweden, United Kingdom). Only three Euro-insiders make it among the top-ten countries (Finland, the Netherlands and Ireland).

In addition, both so-called coordinated (Japan, Germany), negotiated (Denmark, Norway Sweden, the Netherlands, Switzerland) and liberal (USA, Great Britain, Ireland) market economies have established an optimal constellation of institutions that fosters competitiveness, innovation and growth. Also, there are no clear-cut messages to be told when it comes to the kind of state-models that are conducive to success. Both federal and unitary, centralized and fragmented, corporatist and pluralist state structures can overcome decision-making traps and institutional grid-locks, make reforms and enhance their institutional competitiveness. In short, the narrow focus on the top of the ranking simply misses the important lesson that success can be achieved in many different ways.

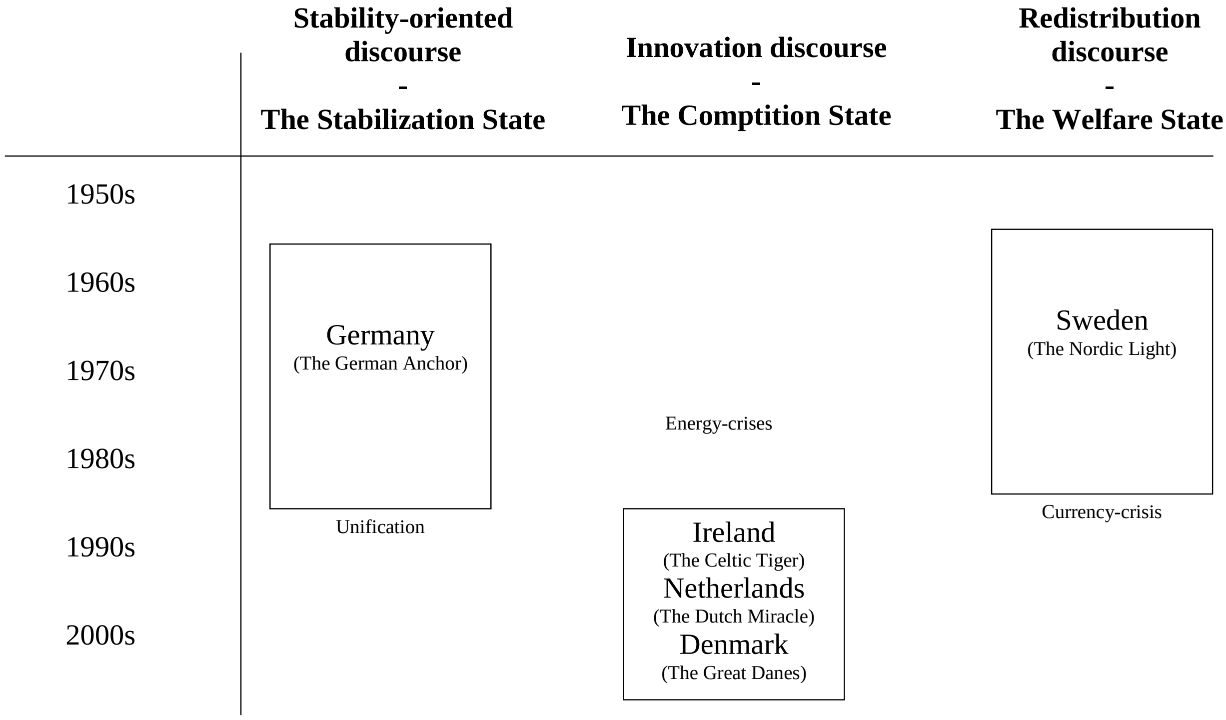
This should speak against an overly naïve application of bench-marking. More generally, it points to the danger of applying top-down bench-marking in a *de-contextualized* fashion. It would be highly problematic to neglect the local, regional and national contexts when selecting and introducing new ways of doing things (Lundvall and Tomlinson, 2002: 209). By only focusing on the top of the mark and trying to export exactly that model to other places and contexts, there is a danger that the whole socioeconomic system of institutions and values that define and precondition success is being ignored.

A second reason why top-down bench-marking is a doubtful endeavor when it comes to fostering innovation is that *lesson-drawing cannot be politically neutral* (Rose, 1993: 22). The political nature of bench-marking is reflected in the fact that the very criteria and standards of success tend to alter as a result of the reigning world view of the time. As discussed in the introduction to this chapter, European reform discourses are meta-narratives that first of all are expressions of ideas whose time have come. The problem is that studied over a longer period of time the fashionability of bench-mark criteria and targets tend to be a product of the most dominant reform discourses (see Figure 1). As a consequence, “some of the [states] characterized as parading “excellence” one year may be treated with disdain the next” (Lundvall and Tomlinson, 2002: 208). Thus, over time, it should not be forgotten that various countries have been stressed as models for others to emulate, and then entirely forgotten (Rose, 1993: 107-108).

Indeed, EMU can be said to be directly inspired from the German stability ethos and it used to be common practice amongst European policy-makers to refer to the “German Anchor” (see Dyson in this volume). In a similar vein, but within the framework of a completely different reform discourse, Sweden, the so-called “Nordic Light”, seems to have played a large role over a number of decades exemplifying a particularly interesting welfare state model (Olson, 1990). For decades, the Scandinavian model (read: the Swedish model), played a central role in the study of corporatism (Katzenstein, 1985, 2006; Schmitter, 1979). In that regard, no mention was made of Denmark. For obvious reasons this is: Denmark did simply not deliver.

During the 1990s, however, a new set of states competed for attention In Europe. Ireland was referred to as the “Celtic Tiger” (see xxx in this volume) due to amazing rates of growth and the Netherlands as the “Dutch miracle” (see Verdun in this volume) referring to the successful turn-around of the economy by the end of the 1980s and beginning of the 1990s (Becker and Schwartz, 2005; McMahon, 2000). References were also found outside Europe. It appears to have been the concern with global competitiveness that has been an important driver behind initiatives for further market integration in Europe (Room, 2005: 117). Negative integration during the 1980s led to the creation of the internal market in an attempt to measure up with the USA and Japan. During the 1990s, positive integration and the establishment of an economic and monetary union with a world currency also contained a large measure of competition with the US. Towards the latter part of the same decade, with the USA enjoying sustained economic expansion in the new economy, competitive anxieties in Europe focused increasingly on technological innovation and human investment. These concerns were at the top of the agenda in the Lisbon European Summit, March 2000.

Figure 1: European Reform Discourses



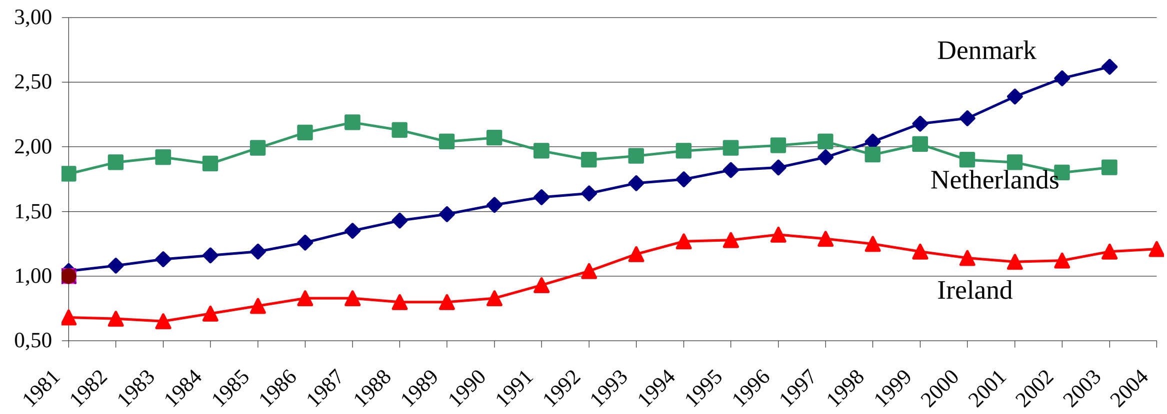
Thus, model status in a bench-mark exercise is fundamentally politically defined depending on the meta-narratives of the time. However, bench-marking is also political in another sense. When establishing criteria and targets used in bench-marking exercises, it will inevitably be the case that some criteria are being highlighted, whereas others are being suppressed. Concerning the Danish case, the evaluation of Danish institutional competitiveness within the framework of the Lisbon process concerns “innovation” (internet access, new technologies, patents, R&D spending); “liberalisation” (competition in telecom, gas and electricity markets, transport sectors, and financial services); “legal and financial conditions for SMEs” (start-up environment, regulatory burden, subsidies and state aid); “employment and social inclusion” (workforce participation, upgrading skills, social protection); and “sustainable development” (greenhouse gas emission, renewable energy sources, public transportation, ozone emissions, natural resource management). This is already a quite ambitious set of indicators. Nevertheless, a more complete picture of the relative successes and failures of the Danish model of innovation would probably include at least mentioning of the fact that Denmark has registered high levels of social unrest measured as lost working days as a result of labour disputes (*The Economist*, 30 April 2005: 92; *The Economist*, 29 April 2006: 96). In addition, it would be relevant to mention that Denmark is not performing outstandingly with regard to life-expectancy rates (Juel *et al*., 2000), the quality of its primary education (Andersen *et al*., 2001), the comparatively modest amount of foreign direct investment (UNCTAD, 2005: 22), and the number of citizens on early retirement schemes (*Børsen*, 16 March 2006). All these issues could reasonably well be said to have either direct or indirect consequences for the innovative capacity of the Danish model, and consequently for an overall evaluation of Danish institutional competitiveness.

A one-sided application of bench-marking criteria can make almost all countries look favourable in international comparison. Therefore, the point is also valid with regard to other contemporary competition states that have attracted considerable attention in recent years: Ireland and the Netherlands.

In recent years, Ireland has topped A.T.Kearny's and Foreign Policy's globalization index (www.foreignpolicy.com) as the most globalized country in the world and Kenichi Ohmae, an ardent proponent of globalization, held that: 'If I had to pick one country as a harbinger of the coming shift in national economies, it would be Ireland' (cited in Kirby, 2004: 208). During the 1990s, Ireland went through a veritable process of transformation meriting world wide attention. The country earned its nick-name "Celtic Tiger" as a result of its average GDP growth rates of 7.6 per cent between 1990 and 2001 which was only equaled by countries such as Singapore and China. Over the same period, more than half a million new workers entered the work force resulting in a remarkable increase in employment. In addition, unemployment fell from about 15 per cent of the workforce in the beginning of the 1990s to about 4 per cent around 2000. Living standards and private consumption increased and they now equal the EU average. At first glance, therefore, Ireland has done what a decade ago seemed to be impossible: it has turned an underdeveloped, peripheral, and poor European developmental state into a modern, high-growth, globalized, competition state. However, a closer analysis that goes beyond narrow top-down bench-marking reveals that there seems to be a 'sharp contrast between economic success and social failure' (Kirby, 2004: 219).[v]

Whereas Denmark is an example of a coordinated competition state, Ireland is an example of a neo-liberal competition state which in many ways has managed to keep down wage developments while cutting personal taxation and decreasing public expenditures. As regards, Ireland's future capacity to innovate, one issue concerns investment in research and education. Figure 2 illustrates that Ireland seem to be lacking far behind the other two model competition states in Europe, Denmark and the Netherlands, and that the Lisbon target of 3 per cent of GDP concerning public and private investment in R&D is far off.

Figure 2: Gross Domestic Expenditures on R&D (as a percentage of GDP)



Data retrieved from OECD (2006b).

With regard to the continued expansion and development of the human resources needed to foster innovation, Ireland, being ahead of the Netherlands in relative terms in 1995 as regards overall spending on education, seems to have been overtaken by the two other model economies by 2002 and even lacks behind its own 1995 level (see Table 3).

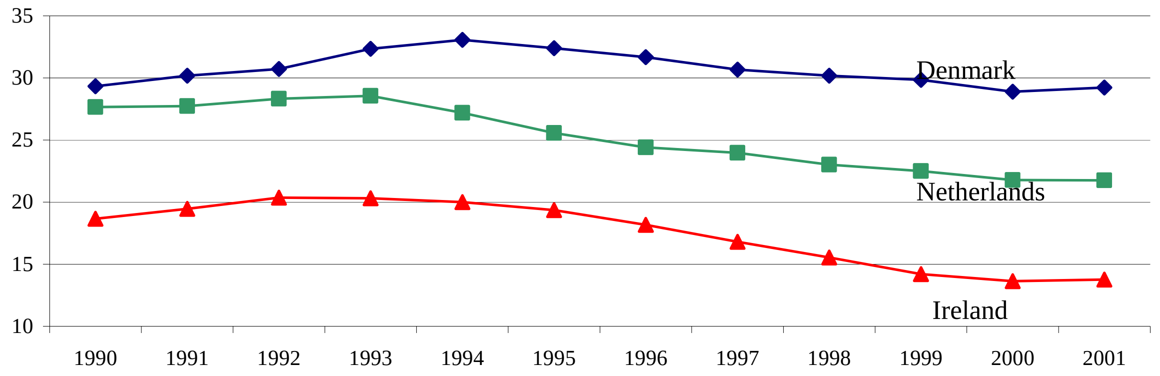
Table 3: Expenditure on Educational Institutions for All Levels of Education (as a percentage of GDP)

	1995			2002		
	Public	Private	Total	Public	Private	Total
Denmark	6,1	0,2	6,3	6,8	0,3	7,1
Ireland	4,7	0,5	**5,3**	4,1	0,3	**4,4**
Netherlands	4,5	0,4	4,9	4,6	0,5	5,1

Data retrieved from OECD (2006b).

Finally, the OECD points to the need to upgrade the level of social services in Ireland with a view to creating social cohesion and health (Figure 3). In all three model economies the amount relative to GDP spend on social services seem to be dropping, partly as a result of the higher employment levels and the lower levels of spending on unemployment benefits. But the OECD holds that in Ireland, the level of social services has reached a level that does not enable the country to supply the most basic services needed in any comparable welfare state (OECD, 2005a).[vi]

Figure 3:Public Social Expenditure (as a percentage of GDP)



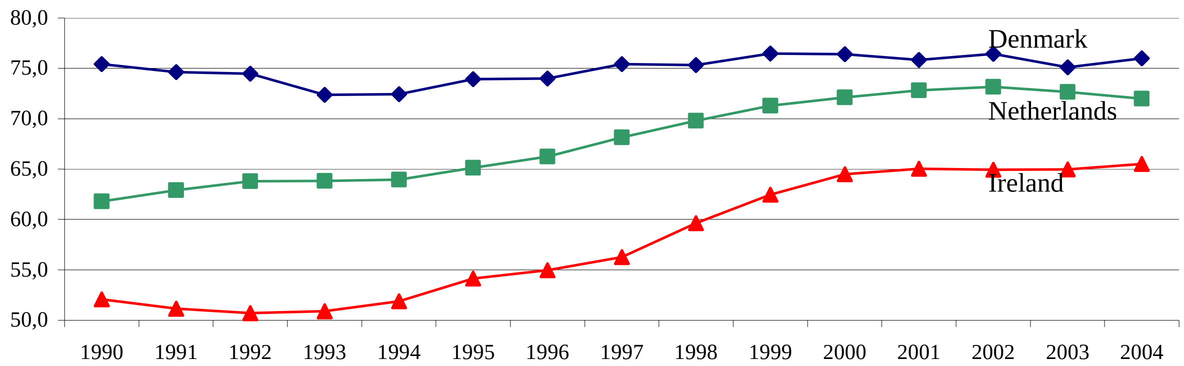
Data retrieved from OECD (2006b).

If we turn to the Netherlands, the 1970s was the era of the "Dutch disease" characterized by inflation, public budget deficits and unemployment. However, the 1980s and the beginning of the 1990s saw a reinvigorated "Dutch miracle". By the end of the 1990s, the then Prime Minister Wim Kok reaped the harvest of the 1982 Wassenaar agreement where the unions, chaired by Wim Kok himself, agreed with the government to moderate their wage claims in exchange for a reduction in working hours. The Netherlands attracted attention from all over Europe with its currency firmly linked to the D-mark, wage moderation, inflation under control, reduced budget deficits, falling taxes and high social contributions, and huge trade surpluses (Becker and Schwartz, 2005; McMahon, 2000) and the country was hailed as a prime example of the so-called Third Way by US president Bill Clinton and UK Prime Minister Tony Blair. Wim Kok, for his part, travelled the world to spread the word on the so-called Polder model, referring to policy-making by consensus between the government, unions and employers. The IMF declared that the Netherlands used "textbook policies" and broad public support to sustain economic growth and to create jobs. The Netherlands had entered a virtuous circle (IMF, 2000: 4-6).

By 2001, however, economic growth suddenly came to a halt, unemployment rapidly increased to 5 per cent, inflation reappeared and the volume of exports fell for the first time since 1982. Among the reasons mentioned for the sudden, and for many analysts unpredicted, hard landing of the Dutch economy are an overheated labour market leading to large wage increases and a tumultuous political climate rocking the very basis of consensual decision-making.

However, even during the 1990s when the Polder Model was characterized as a “miracle” in various league tables a closer look at a larger and more varied number of indicators would present a more nuanced picture of the vices and virtues of that model (Becker and Schwartz, 2005). One example concerns the Dutch employment rate that kept going up doing the 1990s (Figure 4). By only focusing on that single indicator one cannot avoid to be positively surprised about the capacity of the Dutch economy to integrate newcomers.

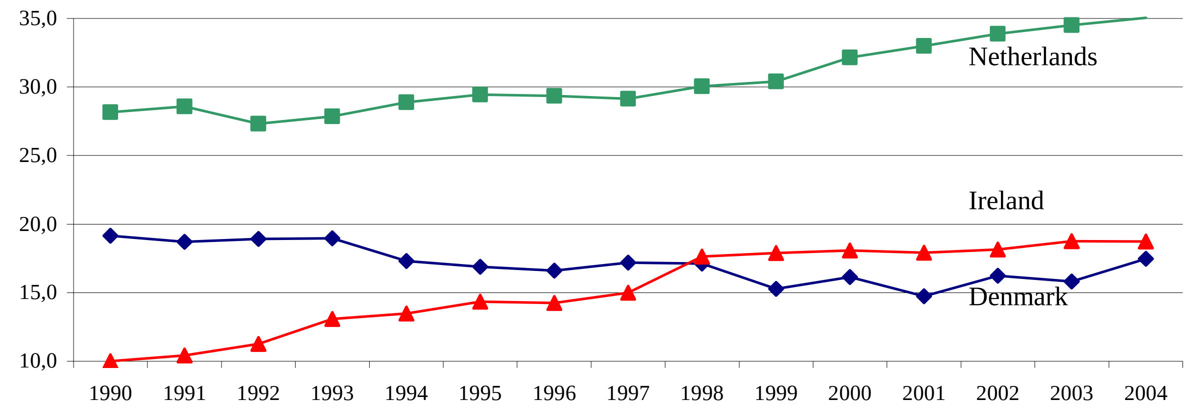
Figure 4: Employment Rate (share of persons of working age (15 to 64 years) in employment)



Data retrieved from OECD (2006b).

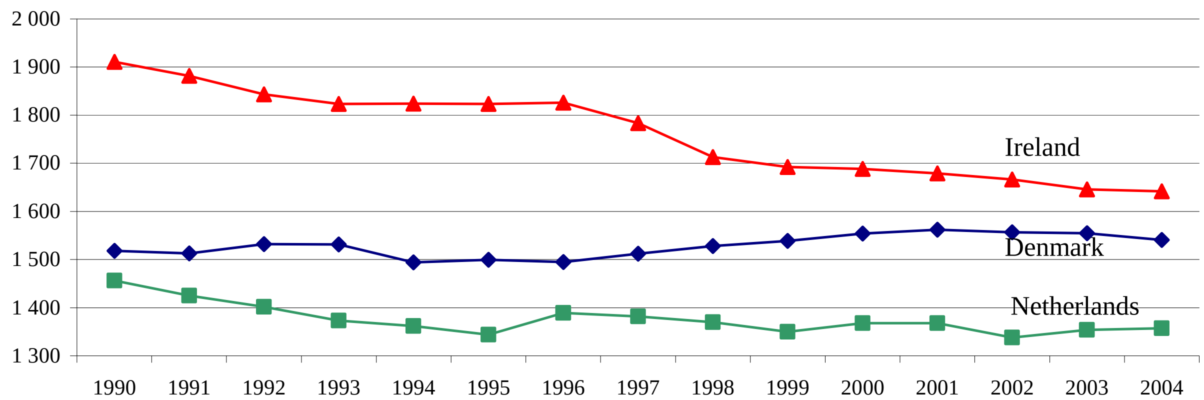
However, going into the reality behind the steep increase in the employment rate we will get another picture, which probably would not contribute to placing the Netherlands among the model economies (OECD, 2005b; Salverda, 1998). It turns out that employment rates have been boosted by primarily employing people in part-time jobs (Figure 5) and that, overall, the Netherlands comes close to an OECD record as regards the low number of hours actually worked by persons on the labor market (Figure 6).

Figure 5: Part-time Employment Rates (as a percentage of total employment)



Data retrieved from OECD (2006b).

Figure 6: Actual Hours Worked (hours per year per person in employment)



Data retrieved from OECD (2006b).

In summary, the discussion of the three European competition states, Denmark, Ireland and the Netherlands, indicates that the identification of a model through bench-marking is based on politically selected criteria that resonate well with the most dominant reform discourse of the time and that ignore, even within the given meta-frame, a whole set of alternative, potentially relevant indicators. In addition, top-down bench-marking also suffers from the fact that it is *a-historical*. League-tables take a picture of the status of the economy right here and now. It tends to be blind to performance over a longer period of time. The sustainability of a model does not appear clearly from top-down bench-marking.

Finally, seen from an innovation system perspective, top-down bench-marking has been criticized for not promoting learning since attempts of imposing convergence on national innovation systems ignore that *innovation processes always require diversity*! Thus, it could be argued that too much top-down induced copying may be considered to be problematic for the workings of a system of innovation. If all innovation takes the form of borrowing from other organizations, sectors and countries (external inspiration), then the innovating entity has no incentive to develop processes that cultivate reflection, analysis and research which challenge established wisdom or practices (internal inspiration). The process of copying may itself undermine the dynamic capabilities of the industry, sector or country as such by simply rendering truly innovative learning processes irrelevant (Lundvall and Tomlinson, 2002). Copying will either lead to emulation of best practices abroad or, in the best of cases, lead to hybrid structures and processes in the copying country, i.e. institutional bricolage (Campbell, 2004). But it will never lead to anything entirely new.

In addition, copying seems to be backward-oriented rather than oriented towards the future. When a process of copying is initiated attention is directed towards the practices and structures of a country which has cultivated its institutional competitiveness under certain conditions. If copying these practices, the model country may already consider these to be antiquated and out of touch with up-coming challenges. In both Denmark and Finland, for instance, systematic analysis has been undertaken in recent years to embark on so-called second generation reforms in which various dimensions of globalization play a central role. This happens as a result of a general perception in these countries that existing institutions are ill-adapted to a truly globalized world. The paradox is that while Denmark and Finland are fundamentally transforming their own institutions to maintain a high level of institutional competitiveness, their old institutions are being subject for emulation in the rest of Europe.

Finally, copying induced by top-down bench-marking may result in a damaging lemming behavior among prospective innovators! By blindly following a lodestar the trend-followers run the risk of being led into an entirely wrong track. As we have seen, very few if any model economy has lasted for more than a couple of decades. At some point, model economies have topped their performance curve and have difficulties in maintaining success rates, either because these economies simply do not deliver the expected output anymore or because the criteria established to measure success have changed. This has happened before, and it will happen again. If all European economies go in one direction, gradually eradicating their institutional diversity, then there will be no distinct European alternative way to go if, at some point, the selected European model goes down. Therefore, in Europe institutional diversity should be seen as an innovative potential rather than something which should be eradicated (Lundvall and Tomlinson, 2002: 208). In the final section, attention is directed at the alternative form of bench-marking, bottom-up bench-learning, which cultivates diversity and regulated self-regulation.

4. Self-Regulation and Meta-Governance – A Way Forward?

In previous sections a distinction has been made between top-down bench-marking, so far the most prevalent form of soft-governance included in the Lisbon Process, and bottom-up bench-marking, which still primarily exists in rhetorical and symbolic form in various back-ground reports describing and evaluating the Lisbon process.

A further distinction could be made concerning the type of challenges handled through soft-low: are we talking about societal problems that a relatively easy to understand, identify and diagnose or are we talking about more composite phenomena involving a large set of interconnected dimensions that influence one another in multiple ways (van der Meer et al., 2005: 354)? Such a distinction gives rise to a discussion about how concrete and narrow the bench-mark criteria can be formulated. The question: “what counts as a success story?” is much more difficult to answer if the problems faced by the EU are complex and badly understood. Under circumstances like these clear quantitative criteria for bench-marking cannot be formulated. If, on the other hand, there is broad consensus about what the problem is and how we would recognize success when we see one, it is much easier to formulate quantitative criteria to be fulfilled in order to achieve a measure of success.

A distinction could also be made regarding the level on which reforms need to be implemented with a view to achieving success. Some reform processes require that a number of wide-ranging decisions need to be made at the central level of government. The classical decision-making structures are activated in the bench-marking exercise, and central authorities interact following prescribed procedures. Other reform processes, however, are dependent on the voluntary contributions of multiple change entrepreneurs. Whereas the first form of reform processes relies on existing bureaucratic structures and procedures, the second kind of reform relies on self-governance and initiatives at the level of society. Combined, these two distinctions give rise to four types of bench-marking (Table 4).

Table 4: Bench-Marking in European Economic Governance

	Straightforward problems and solutions and clear criteria for success *Eg. High inflation is the problem, and low inflation is an indication of success*	**Complex problems and solutions and unclear criteria for success** *Eg. The problem is that the EU is lacking behind USA. If the EU can become the most competitive region in the world by 2010 it will be a seen as a success story*
Central decision-makers with will and legitimacy to make decisions need to be involved *Eg. Central bankers, ministers and parliamentarians*	**Simple dirigisme** Top-down bench-marking by setting quantitative targets and imposing sanctions *Eg. Stability and Growth Pact*	**Complex dirigisme** Top-down bench-marking by enthusing convergence around politically selected success models *Eg. Kok recommendations*
Independent, society-level actors with skills and capacity to engage in self-governance need to be involved *Eg. Scientists, SMEs, trade unions and finance*	**Simple voluntarism** Bottom-up bench-marking by providing criteria for receiving public goods *Eg. Applying for structural funds, research funds etc.*	**Complex voluntarism** Bottom-up bench-marking by providing a framework for learning, and by acting as facilitator and idea-generator (meta-governance) *Eg. An alternative route for the Lisbon process*?

In the first quadrant, the procedures related to the Stability and Growth Pact exemplify a certain kind of top-down bench-marking premised on the idea that it is easy to distinguish success from failure, and that it is easy to make a limited group of individuals accountable for the reform processes. As Hallerberg notes in his contribution to this book, these premises may be fraudulent. It is, however, similar kinds of premises that Wim Kok recommends being applied in the Lisbon process. This takes us to the second quadrant, where it is recognized that the problems faced and the goals established by EU-decision-makers are very impressive. The progress achieved as regards growth, jobs and social cohesion has so far been modest and much too slow, as a result of which the recommendation to overcome that complexity and to speed up reform processes is to inject more coordination, more simplification and more control into the Lisbon process. Both of these top-down processes induce institutional convergence. An explicit success criterion for the European

Economic and Monetary Union is that inflation rates have come down to the same low level all over the Euro-area. Although the inflation level among Euro-insiders cannot be said to be lower than among a large number of Euro-outsiders, the Euro has been a success to the extent that Euro-area inflation levels have been stabilized around the same low point. Some extent of institutional convergence will also result from a Lisbon process more explicitly constructed to foster institutional emulation across borders.

In the third quadrant, we are again faced with problems that are well understood. The new thing is, however, that to successfully implement a program in an area pertaining to this quadrant an active and continuous contribution from civil society is needed. To exemplify, the EU would have no structural policy to talk off if nobody cared to apply for structural fund money. To make a successful application for structural fund money a certain set of criteria (partnership and additionality, for instance) needs to be observed by the applicants. This does not mean, however, that all structural fund projects respecting these criteria are similar in shape, form and purpose. On the contrary, the criteria allow for a very large extent of institutional divergence, although the procedural requirements are the same for all parties involved.

This leads us to the last quadrant in which the challenges faced by the EU are enormous involving a very large and diverse set of actors to be successfully met. The preceding discussion of this chapter has argued that innovation to a large extent requires complexity, diversity and uncertainty. It has also been argued that the management of complexity, diversity and uncertainty cannot be imposed from above. Innovation requires the involvement and participation of change agents such as the social partners, private entrepreneurs and scientists as well as national governments (Arrowsmidt *et al*., 2004: 323). Finally, it could be argued that the lacking success of the Lisbon process so far can be understood in terms of government failure resulting from the ungovernability of European micro-processes of innovation (Mayntz, 1993). This gives rise to the question of *whether an alternative route for the Lisbon process could be considered*, a route that recognizes that complex voluntarism cannot possibly be governed hierarchically from above. Rather what is needed is maybe recognition of the fact that top-down management of innovation is neither desirable nor possible. Rather, we would expect that governance networks would emerge because they help to enhance the governability of society by facilitating negative and positive coordination between change entrepreneurs (Scharpf, 1994). The movement from hierarchical government to network governance does not mean that the EU abdicates its role; rather it means that a move has been taken towards what have been called, in a different context, a mode of "self-regulation in the shadow of hierarchy" (Scharpf, 1994), "meta-governed reflexive self-organization" (Jessop, 1998, 2003), "organized decentralization" (Traxler, 1995) and "space sharing" (Crouch, 1993).

Network governance, or reflexive self-organization, can be defined as an ongoing negotiation, dialogue and resource-sharing between relatively autonomous change entrepreneurs with a view to producing innovation in the broad sense of coming to an agreement of what the problem is, developing shared ideas and world views, and even sometimes helping to propose concrete solutions, action plans and regulatory frameworks (Jessop, 2003; Torfing and Sørensen, 2006). The good thing about network governance is that it overcomes the complexity of the social world by simplifying and categorizing models and practices. By establishing a common world view key players' orientations, expectations, and rules of conduct are stabilized. Furthermore, and important in relation to the Lisbon Process, network governance fosters dynamic, interactive, generative social learning. It does so by emphasizing continuous experimentation and feedback in an ongoing examination of the very way organizations go about defining and solving problems. Generative learning, unlike adaptive learning through blind copying, requires new ways of looking at the world. Finally, network governance fosters coordinated action across time and space by transcending the frontiers between national and international, private and public. Complex voluntarism needs not, therefore, be anarchic. On the contrary, network governance may contribute to reducing complexity and enhancing governance effectiveness (Torfing and Sørensen, 2006).

Just as government as well as market failure may occur, we would expect that governance failure will occur (Jessop, 2003). This leaves an open space to be filled by the EU. Since bottom-up bench-marking consists in providing a framework for learning, and in acting as facilitator and idea-generator promoting true innovation, the role of the EU will not, as suggested by Wim Kok and his expert group, be substantial coordination and control. Rather it will consist of "meta–governance" (regulated self-regulation) that uphold the conditions under which change entrepreneurs can interact with relative autonomy (Sørensen, forthcoming). For instance, the EU might provide and guarantee the legal framework for self regulation. It can provide the ground rules for network governance and a regulatory order in and through which change entrepreneurs can pursue their aims. In this sense, the EU keeps de-central innovation processes on track by providing a "shadow of hierarchy" (Scharpf, 1994: 40). The EU can establish criteria for whom can take part in network governance and it can re-balance power asymmetries in governance networks by strengthening weaker forces in the interests of social cohesion. The EU can also provide the framework and physical infrastructure for ongoing dialogue and coordination between change entrepreneurs and between sector- and country-specific innovation systems. It is also possible that the EU can act as a meta-governor by injecting knowledge and information into innovation processes in governance networks; and the EU can handle disputes arising in the process of innovating.

In this way, meta-governance is all about seeking to embedding self-regulation thereby conferring on the EU an entirely new role in the area of European innovation. However, the EU is just one participant among others in a pluralistic system of European economic governance and it has to find its own ways in which it can contribute its own resources to decentralized innovation in a complex world. As the range of governance networks, public-private partnerships, and other modes of soft governance expands, the EU possibly remains the first among equals. Public money and law will remain important in underpinning the operation of self-regulation. The EU's involvement, however, will become less hierarchical, less centralized, and less directive in character (Jessop, 2003: 6). The EU will be taking the form of an *organizing state* which is less keen on running things "from above" through top-down bench-marking and more interested in enabling and monitoring self-regulation. This it does because it realizes that in a complex world it is dependent on mobilizing all kinds of resources among private change entrepreneurs and because it needs to keep de-central innovation processes on track with a view to serving the larger public.

In conclusion, economic reforms are undertaken everywhere in Europe, and at all levels of governance. Some of these reforms are induced by the EMU process, particularly in the run-up to EMU membership, others result from member-states trying to upgrade their institutional competitiveness in the wake of globalization. But hitherto quite few of these reforms directly emanate from the Lisbon process. As a result of this flawed relationship between the Lisbon process and European innovation Summit conclusions and Commission white papers and programs have in recent years put new impetus on economic growth, employment and social cohesion. This chapter has argued that contrary to the structural reforms that were undertaken as part of the EMU process, the micro-processes needed to invigorate true innovation may have as a consequence that the EU should take on an additional role in the governance of the European Economic polity, one as a metagovernor. This implies that when it comes to fostering innovation classical hands-on, top-down governance is being replaced by encouraging hand-shakes. Emphasis is put on the provision of a framework that supports, consolidates and coordinates interaction between autonomous change entrepreneurs in self-regulating governance networks that transcend sectors and borders. Metagovernance also implies that a large measure of institutional diversity is not only accepted but even encouraged in the European economic polity. Bottom-up processes of innovation will thrive on the border between order and anarchy, and they will lead in all sorts of directions exploiting existing institutional capabilities as well as developing entirely new institutions. This does not mean that European innovation processes cannot and should not be kept on track. Self-regulation may fail to occur or fail to deliver. Self-regulation may also have normative implications as a result of exclusion and inclusion of concerned parties. Therefore, the role of a meta-governor is also one of monitoring and embedding de-central innovation processes.

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Endnotes

[1] A definition of the degree of polityness could include (i) whether common institutions are being founded, (ii) whether common regulation is being produced, and (iii) whether common discourses are being constructed (Ougaard and Higgott, 2002: 2-3). The last two elements of the European economic polity – different types of regulation and shared reform discourses - are of particular concern for this paper.

[2] The European Council met in Brussels on 25 and 26 March 2004 for its annual meeting on the Lisbon strategy and the economic, social and environmental situation in the Union: europa.eu.int/abc/doc/off/bull/en/200403/i1005.htm

[3] europa.eu.int/growthandjobs/pdf/kok_report_en.pdf

[iv] The five indexes that are listed and compared in this table are directly, and on an aggregate level, targeting the question of institutional competitiveness. Other indexes could have been chosen, such as the Transparency International

Corruption Perception Index 2005 (www.transparency.org/policy_research/surveys_indices/cpi/2005); The *Economic Freedom of the World Index, 2005* (www.freetheworld.com/2005/2005_Full_Report.pdf); The Global Business Policy Council *FDI Confidence Index 2005* (www.atkearney.com/shared_res/pdf/FDICI_2005.pdf), the A.T. Kearney/Foreign Policy *Globalization Index* (www.foreignpolicy.com), the EIU *2006 e-readiness ranking* (a330.g.akamai.net/7/330/2540/20060424215053/graphics.eiu.com/files/ad_pdfs/2006Ereadiness_Ranking_WP.pdf), and the Hans Böckler Stiftung's *Social Quality* Index (www.boeckler.de/pdf_fof/S-2006-808-4-1.pdf). Adding these supplementary indexes to the five applied in this meta-ranking exercise confirms the overall ranking of institutionally competitive states of the world.

[v] In somewhat more diplomatic language, OECD spells out the central problem in the following way: "Ireland has continued its exemplary economic performance, attaining some of the highest growth rates in the OECD. After a remarkable decade, per-capita income has caught up with and overtaken the EU average. … But it also faces some issues that are less common: it is going through a transition phase in upgrading its social services; infrastructure levels need to catch up with the boom in activity and population that has occurred over this period; and it has to manage some sizeable macroeconomic risks [housing prizes]" (OECD, 2005a).

[vi] The concern about social matters in Ireland is not shared by a recent multiple criteria bench-mark developed by the German Hans Böckler Stiftung (Jörgensen and Wiesch, 2006). Under the headline "Wie Sozial ist Europa?", the report compares the 25 EU member-states on 35 criteria concerning income distribution, social security, inclusion on labor markets, coverage and quality of educational system, health care systems and social mobilization. The ten countries with the highest scores are: (1) Denmark, (1) Sweden, (3) Ireland, (4) the Netherlands, (5) Finland, (6) Latvia, (6) Slovenia, (8) Lithuania, (9) United Kingdom and (10) Cyprus (www.boeckler.de/pdf_fof/S-2006-808-4-1.pdf).