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Lisbonizing versus financializing Europe? The Lisbon Agenda and the (un)making of the European knowledge-based economy

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Abstract. The Lisbon Agenda was meant to make the European Union 'the most dynamic and competitive knowledge-based economy (KBE) in the world' by 2010. As that date has now come and gone, it is apt to ask whether the Lisbon Agenda achieved its objective. We engage with this very question by analyzing new empirical material on the supposed transition to a KBE. Theoretically, we problematize the very notion that EU policies promoted the emergence of a KBE by highlighting how the Lisbon Agenda was tied to the financialization of the European economy. Our findings illustrate the abject failure of the EU's decade-long strategy to foster a new economy and better employment opportunities. We show that the main winners of the EU's economic strategy have been the finance sector and those who work in it. In summary, we argue that, despite the earlier assurances of Bell and Drucker, it is not the scientist or engineer but the banker who has been empowered to command a higher price in the new world of the KBE.

Keywords: Lisbon Agenda, European Union, knowledge-based economy, financialization

Introduction

By the year 2010, Europe was supposed to "become the most competitive and dynamic knowledge-based economy in the world capable of sustainable economic growth with more and better jobs and greater social cohesion" (CEU, 2000), according to the Lisbon Agenda laid out in 2000 by the European Council gathering in the Portuguese capital. This strategic goal has undergone several revamps and one official relaunch in 2005, but has driven European economic, employment, and social cohesion policies during this ten-year period. A major consultation was implemented in 2009 to decide the future of the post-Lisbon European Union (EU) titled EU 2020 (CEC, 2009). This consultation has led to a new strategy promoting "smart, sustainable and inclusive growth" (CEC, 2010a, page 1); the new strategy contains something for everyone and is strongly influenced by the two crises of our time—one financial and the other environmental. However, before Europe pushes this new agenda any further, it is perhaps pertinent to ask some searching questions about the old agenda. For example, did the Lisbon Agenda turn Europe into a knowledge-based economy (KBE)? As we show in this paper, this did not happen. Which then leads to a subsequent question: if not, how did Lisbon—by itself and in relation to other policies—shape Europe's political economy? The objectives of this paper are to address these questions by illustrating the relationship between the Lisbon Agenda and the financialization of Europe's economy.

Although our paper builds on existing work on the Lisbon Agenda, both during and after its tenure as the overarching EU policy strategy, we go beyond this literature by exploring the linkages between the KBE and financialization. The reason for this is that there is already a range of scholarly research that takes a critical approach to understanding Lisbon within broader concerns around EU governance and legitimacy (eg, Cafruny and Ryner, 2007; Hansen and Hager, 2012; van Apeldoorn and Hager, 2010) as well as EU policy-making processes and objectives (eg, Jessop, 2006; Panic, 2006; Raveaud, 2007). There is also a more general empirical and theoretical critique of the KBE thesis itself (eg, Pagano and Rossi, 2009; Palma, 2009), which we do not want to engage with here as we have touched on it elsewhere (eg, Birch and Mykhnenko, 2009). Finally, we do not want simply to repeat more orthodox approaches to evaluating Lisbon (eg, Cleeton, 2012), including those carried out by the European Commission itself (eg, CEC, 2010b). However, it is interesting to note that the Commission's evaluation highlights the lack of "robust supervision" in the failure to address "systemic risk in financial markets, speculative bubbles (eg, in housing markets), and credit-driven consumerism" (pages 4–7). It is here that we wish to position our paper; our objective is to analyze the Lisbon Agenda as part of the financialization of the European economy during the 2000s. Not only is this particularly relevant in light of the ongoing financial crisis, but also it has not yet been addressed in this journal and, to our knowledge at least, it has only been addressed in a limited way by scholars working in other fields (eg, Deeg, 2012; EuroMemo Group, 2010/11; Grahl, 2011; Nousios and Tsolakis, 2011; Vernengo and Pérez-Caldentey, 2012). Empirically, we focus on how Lisbon and the financialization of the European economy have shaped employment changes and employment policies in the EU, largely because we are interested in the implications of Lisbon to sociospatial inequalities and social cohesion (and we have limited room).

From this starting point, we consider whether the Lisbon objectives have been achieved, what the achievements of Lisbon have meant for Europe's political economy, and how we can characterize the wider effects of the Agenda. We deliberately focus on changes in Europe's political economy up to the year 2008—rather than 2010—because the impact of the ongoing 2007+ financial crisis has not only derailed the Agenda, but we argue that it has also resulted from the very financialization of the European economy that Lisbon has promoted. We start by outlining the theoretical arguments about the KBE and financialization before detailing the objectives and strategies that underpin the Lisbon Agenda when it comes to employment policy. Following this, we provide a detailed empirical and comparative analysis of the changing political economy of Europe's core fifteen member states during the Lisbon years, before discussing the effects of Lisbon. We then conclude by reflecting on what our argument means for any post-Lisbon pan-European economic strategy.

Knowledge-based economies versus financialization: analytical perspectives

Theories of knowledge-based economies

Since the middle of the 20th century, knowledge has been characterized as the main factor of production leading to epithets such as knowledge economy, knowledge-driven economy, and postindustrial society (eg, Bell, 1973; Drucker, 1989; Machlup, 1962). Knowledge is now characterized as a key political–economic resource (eg, ideas, skills) as well as an important driver of productivity (eg, new technologies, new processes). Another side to these so-called knowledge economies is the creation of intangible products and services (eg, business services, intellectual property). Mainstream academic debate on the knowledge economy reiterates these characterizations. In their review of the literature, for example, Powell and Snellman (2004) highlight three main aspects of the knowledge economy: (a) the growing role of science in innovation and the creation of new commodities; (b) the expansion of knowledge intensity as it replaces other inputs into production; and (c) the organizational changes necessary to promote learning and capture knowledge in new forms of commodity (eg, intellectual property). In conclusion, they "define the knowledge economy as production and services based on knowledge-intensive activities that contribute to an accelerated pace of technical and scientific advance, as well as rapid obsolescence" (page 199).

The OECD (1996) has been widely credited with promoting this vision of a KBE through its emphasis on "science, technology and industry policies" (page 7) that should "maximise performance and well-being in 'knowledge-based economies'" (page 7), which they define as "economies which are directly based on the production, distribution and use of knowledge and information" (page 7). In a European context, the Lisbon Agenda was based on this idea of a 'knowledge-*based* economy', as opposed to the more US-specific knowledge economy. According to Robertson (2008), European scholars and policy makers (eg, Rodrigues, 2002; 2004) placed greater weight on learning and the 'social embeddedness' of knowledge production than was evident in earlier American concepts. As a result, human capital became a central focus in debates around European competitiveness, highlighting the importance of employment, labour markets, and training (Bernhard, 2010; Rosamond, 2002). Consequently, and as Godin (2006) points out, the idea of the KBE as it emerged in the 1990s and was then promoted by the Commission had a much more European character to it than the earlier concept of the 'knowledge economy' (eg, Machlup, 1962) or the 'new economy' in the USA (cf Herzenberg et al, 1998). From the European perspective it is not enough to simply create new knowledge, production processes, or commodities; it is vital to expand the skills base (eg, to stimulate knowledge-based employment) *as well as* promote training and learning (eg, to stimulate high-tech employment).

Despite the more 'socially embedded' vision of the KBE present in the Lisbon Agenda, scholars have highlighted several contradictions and inconsistencies in the KBE concept. First, it is unclear whether we can actually empirically identify the KBE using particular indicators such as research and development (R&D) expenditure, patenting activity, or high-technology exports. Some scholars have even argued that the KBE can be seen as yet another 'buzzword' (Godin, 2006; 2008), 'economic imaginary' (Jessop, 2005), or rhetorical device (Rosamond, 2002) to legitimate certain political–economic agendas and strategies (eg, flexible labour markets) (see Hansen and Hager, 2012). Second, it is unclear whether the KBE exists (or can exist) as an empirical object of study in its own right (Sokol, 2004). This is because of the contradictions between treating knowledge as a freely available resource (ie, nonrivalrous and nonexcludable) that contributes to production and productivity, *and* as a new (largely fictitious) commodity form that encloses knowledge in a new intellectual property regime (Birch, 2012; Carlaw et al, 2006; Drahos and Braithewaite, 2002; Jessop, 2000). More specifically in relation to Lisbon, it is unclear whether the KBE represents a single supranational political–economic project (van Apeldoorn, 2009) or whether it is necessary to consider the variations in capitalist development across Europe when analyzing Lisbon (Birch and Mykhnenko, 2009). Finally, whether or not the KBE can represent a policy objective, a number of serious questions have been raised with regard to it stimulating income inequality and regional economic disparities with the establishment of the first-mover advantage through increasing returns and the creation of geographical lock-in to particular development pathways (J Hudson, 2006; R Hudson, 2011). Indeed, as highlighted by Crescenzi et al (2007), the Lisbon Agenda's goal of making Europe the most competitive KBE in the world'renders virtually meaningless the promotion of 'territorial cohesion' in the EU, given the contrasting structural outcomes of the two policies.

These critical takes on the KBE illustrate that it cannot be considered as a phenomenon 'out there' to be empirically studied; instead, it is our contention that the KBE represents a *political–economic project* rather than a new set of economic imperatives to which nations and their regions have to adjust. In making this claim, we draw on van Apeldoorn and Hager (2010, page 215) who describe the EU as an "'embedded neoliberal' hegemonic project" (page 215). They argue that 'embedded neoliberalism' was the "outcome of struggles between the discursive mediations of three rival projects for Europe's relaunching" (page 215) in the 1980s and 1990s; the three rival projects are 'neomercantilism', 'embedded neoliberalism', and 'social democracy'. In this paper we prefer to use 'political–economic project' as an abstract term to refer to politically and socially mediated policy objectives and processes like Lisbon since these policy objectives and processes are developed and promoted by specific (supranational, national, and regional) state and nonstate actors in order to reorient Europe's political economy, whether successfully or not. In this sense, the concept of the KBE employed in Lisbon tells us more about what is seen to be needed by particular social actors; it is not an objective analysis of the global economy. For example, the KBE is frequently presented as the driving force behind global competitiveness and, as a consequence, the rationale for major structural policy reforms (see Hall, 2003). According to the OECD (1996, page 19), these reforms need to encourage 'knowledge diffusion', the 'upgrading' of human capital, and 'organizational change'. According to the Lisbon Agenda (CEU, 2000), Europe needs reforms that reduce labour market costs, remove the remaining barriers to market entry, stimulate innovation and technological change, and integrate financial markets, regulations, and services, or the European social model will not survive for much longer.

Theories of financialization

Although Lisbon is most commonly analyzed in relation to the idea of a KBE, it is evident from the discussion above that financial policy and integration are important elements in the Lisbon Agenda. As a political–economic project, Lisbon was premised on the idea that knowledge-driven economic growth would ensure sustainable employment growth, better jobs, social cohesion, and stability. Accordingly, the European social model (ESM) would need to be 'adapted' to new technoscientific and, just as importantly, financial imperatives precisely because the ESM was threatened by declining European competitiveness (van Apeldoorn and Hager, 2010). In the words of the European Commission's *An Agenda for a Growing Europe: The Sapir Report*,

> "the situation demanded less vertically integrated firms, greater mobility within and across firms, greater flexibility of labour markets, greater reliance on market finance, and higher investment in both R&D and higher education" (Sapir et al, 2004, page 149).

Failure to adjust would mean that Europe would confirm its "ongoing decline as a global economic power", and fall (further) behind in both competitiveness and productivity gains, not only to the United States but also to the emerging economic powers of China and India (Denis et al, 2005, page 66). This narrative of lagging or falling behind the rest of the world has ended up conflating societal progress with very specific forms of technological *and* economic change characterized by product innovation and competition as well as the liberalization of financial and securities markets.

One argument made by Watson (2001) is that the KBE is not compatible with the ESM; this is because innovation and the development of new products and services necessitate flexible labour markets since firms need to "respond quickly to downturns in product demand" (page 509). This implies that Lisbon necessarily entails a reorientation of labour markets and education systems towards the demands of new, high-technology sectors, although it also involves shifting responsibility for training and skills development onto the individual worker and the state (Bernhard, 2010; Hermann, 2007; Krieger, 2007). Another argument, made by the Commission itself (CEC, 2005a; see also Sapir et al, 2004), is that innovation—and by extension the success of Lisbon—is also dependent upon integrated financial markets, regulations, and services. This is clearly outlined in the opening lines of the 2005 *Financial Services Policy* white paper (CEC, 2005a, page 5):

> "Financial markets are pivotal for the functioning of modern economies. The more they are integrated, the more efficient the allocation of economic resources and long-run economic performance will be. Completing the single market in financial services is thus a crucial part of the Lisbon economic reform process; and essential for the EU's global competitiveness."

Here, innovation is directly associated with particular forms of finance, like venture capital and unlisted stock markets (eg, OECD, 1987, page 39). Thus the needs of particular financial investors has led to the acceleration of financial market integration through radical institutional reform. Following the Sapir report, for example, company law and corporate governance were 'modernized' to increase the attractiveness of securities investment through greater shareholder control and rights, alongside easing takeover regulations (Deeg, 2012, pages 80–81). Moreover, 'self-regulation' was promoted within the European banking and financial services sector "as a partial or complete substitute for statutory regulation" (Sapir et al, 2004, page 159).

What is implied by this is that European competitiveness and, by extension, the ESM depended on greater financial integration, deregulation, and liberalization. We argue that this represents the financialization of the European economy. As a concept, financialization has been defined in fairly similar ways: (a) Krippner (2005, page 174) refers to "a pattern of accumulation in which profits accrue primarily through financial channels rather than through trade and commodity production"; (b) Palley (2007) writes about the influence of financial markets, motives, institutions, and actors on the economy; (c) similarly, Leyshon and Thrift (2007, page 102) talk about the "growing power of money and finance within economic life"; and (d) Pike and Pollard (2010, page 30) define it as "the growing influence of capital markets, their intermediaries, and processes in contemporary economic and political life." In this sense, the financialization of the European economy depended on greater integration of capital and securities markets, something which began in the late 1990s and was then extended alongside and as part of the Lisbon Agenda in the 2000s.

It started with the introduction by the European Commission of the Investment Services Directive in 1996. This was followed by the Financial Services Action Plan (FSAP), which ran from 1999 until 2004, and was then superseded by the Markets in Financial Instruments Directive in 2007 (see Wójcik, 2011, pages 126–150). In this period the Commission introduced the Company Law Action Plan (2003) and Takeover Directive (2004) as part of its 'marketization' of corporate governance and extension of securities markets (Horn, 2012). The goal of these directives and plans was to encourage policy convergence across European countries by harmonizing financial standards and regulations (Dixon, 2011) as well as forms of shareholder-dominated corporate governance (Horn, 2012). Such convergence would make it increasingly easy for banks and other financial institutions to operate across national borders, stimulating new forms of lending, borrowing, and arbitrage by governments, companies, and individuals (eg, lending in the euro to—and in—countries whose currencies were outside the Eurozone). It was also meant to stimulate the right kind of financial markets necessary to promote innovation and the emergence and growth of new high-technology firms (Deeg, 2012).

The connection between Lisbon and financialization is that the former was seen as dependent on the latter (see CEC, 2005a). For example, Grahl (2011) argues that European leaders and bureaucrats were panicked by lagging international competitiveness and therefore sought to 'Americanize' the European economy by liberalizing financial standards (also see Crescenzi et al, 2007; Kitson, 2005). In this goal, the European Commission was ably assisted by private sector interests (Macartney, 2011). Moreover, according to Engelen and others (Engelen et al, 2011), the everyday practice, complexity, and culture of policy making in

Brussels (eg, the Commission's 'comitology') have been set fundamentally in favour of the main corporate interests from banking, insurance, and securities. So, as Grahl (2011, page 33) goes on to point out, the Lisbon Agenda "had the integration and liberalization of European finance as a key theme." The perceived advantages of the US financial system led European policy makers to support (and advocate) far-reaching financial liberalization in order to promote Europe-wide capital mobility, changes to securities markets, and the restructuring of corporate governance. Most pertinent to our argument are the linkages between the Lisbon Agenda and the growth of financial employment rather than (other) knowledge-based employment opportunities, especially those in scientific and engineering fields. It is our aim to illustrate this disjuncture between the Lisbon Agenda's stated objectives and the resulting financialization of the European economy.

The Lisbon Agenda and European Employment Strategy: from 'more jobs' to 'more and better jobs', and back again ...

The idea of a KBE, or one of its many variants (eg, knowledge economy, knowledge-driven economy, and knowledge-intensive economy), has been around in one form or another for several decades stretching back at least to the 1960s (eg, Machlup, 1962). In subsequent decades the likes of Bell (1973) and Drucker (1989) promoted the notion that (a) technoscientific research will drive economic growth; (b) technical knowledge and skill will constitute a new social order; (c) knowledge is the most important form of capital; and so forth (cf Castells, 1989). Consequently, it was not a new idea that European policy makers hit upon in 2000 at the Lisbon meeting of the European Council. According to Godin (2006), this agenda can be traced to work done at the OECD (eg, OECD, 1996) several years earlier which drew on two distinct analytical strands: first, on the idea of the knowledge economy espoused in the USA and, second, on the more 'European' concept of the learning economy. In this academic and policy discourse knowledge was often equated with skills, training, and human capital, meaning that it is important to focus our attention on the transformation of jobs, employment, and labour markets (see OECD, 1987).

The notion that Europe needs to adjust to new economic imperatives (eg, innovation, technological competitiveness) goes back at least to the European Commission's 1993 *White Paper* on *Growth, Competitiveness and Employment* (CEC, 1993; Rosamond, 2002). It placed a strong emphasis on the need to "exploit the competitive advantages associated with the gradual shift to a knowledge-based economy" (CEC, 1993, page 58), which largely meant that Europe would need to strengthen its competitiveness because global market pressures meant that firms must "increase productivity and efficiency" (page 93). In highlighting the particular weaknesses of European firms and the threat posed by high unemployment, the white paper identified the worsening trade performance of these firms in high-tech sectors and the low levels of R&D investment relative to major competitors (the USA and Japan) as the cause (Rosamond, 2002). Furthermore, the white paper highlighted a number of key industrial sectors "offering the greatest potential for innovation and a particularly rich source of growth" (CEC, 1993, page 89), thereby naturalizing technological change as the solution to high unemployment, stagnating economic growth, and the future of European society. What the white paper highlighted was the fragmented response of different European states to changing pressures on macroeconomic, employment, innovation, social, and other policies; and what it offered was a pan-European response to growing concerns facing the different states at that time.

It is unclear how influential the 1993 white paper was across different European states, but it did pave the way for later EU employment strategies such as those developed at the Essen European Council Summit in 1994 and the more important Luxembourg Summit in 1997. According to Jessop (2006), the conclusions of the Essen Summit highlighted the tension between integration and globalization and the national coordination of employment policies. Consequently, the subsequent Luxembourg Summit focused on the creation of a European Employment Strategy (EES) and the institutionalization of an 'open method of coordination' (OMC)—a peer-pressure mechanism—to pursue this strategy (Raveaud, 2007). Early on, the EES had been linked to the promotion of the ESM (see Hooghe, 1998); this link was most obvious in the policy idea of 'flexicurity', which sought to combine the deregulation of employment laws with active labour market policies as pursued in Denmark and other Scandinavian countries (see Wilthagen and Tros, 2004). Later on, however, scholars have argued that the EES came to reflect a stronger emphasis on job creation and less on job quality in that the EES ended up stressing the pursuit of 'employability' in whatever sector in order to make work and labour markets more 'flexible' (van Apeldoorn, 2002; 2009). In the meantime, the OMC meant that the pursuit of these employment reforms was largely implemented by national governments and, despite being overseen by European-wide institutions and benchmarking, it meant that employment reforms reflected distinct national priorities rather than an integrated supranational strategy. It would be impossible to go into these national differences here, but we and others have discussed them in more detail elsewhere (Birch and Mykhnenko, 2009; Hermann, 2007).

Although the EES contributed to both the Lisbon Summit in 2000 and the outlined Lisbon Agenda that came from this summit (CEU, 2000), there was a notable shift in emphasis towards higher quality jobs which is illustrated in the 2002 Barcelona Council's adoption of the phrase 'more and better jobs' as the motto of the EES (CEU, 2002). This reflected a growing concern with the impact (and threats) of globalization on the European economy and the need to develop the KBE as a response to global competitiveness (van Apeldoorn, 2009). In so doing, the Lisbon Agenda explicitly addressed the future of the ESM and the difficulties it might pose to the restructuring of European labour markets in light of these global pressures and the need to adjust to the KBE (Watson, 2001). The major concerns outlined in the Lisbon Agenda, however, did not always tally with the emphasis on particular types of reform (eg, the adjustment of the ESM, labour markets, and product markets). For example, Rodrigues (2002)—a major actor at the Lisbon Summit—emphasizes the need to "speed the transition towards a knowledge-based economy with more jobs and more social cohesion" (page 4), at the same time that she highlights the need for Europe to become "a more competitive and dynamic economy, able to create more and better jobs and greater social cohesion" (page 4). As a result, the Lisbon Council Presidency Conclusions claimed that:

> "The European Union is confronted with a quantum shift resulting from globalisation and the challenges of a new knowledge-driven economy .... The Union has today set itself a new strategic goal for the next decade: to become the most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion .... The shift to a digital, knowledge-based economy, prompted by new goods and services, will be a powerful engine for growth, competitiveness and jobs. In addition, it will be capable of improving citizens' quality of life and the environment" (CEU, 2000; paragraphs 1, 5, and 8).

The objectives of regaining full employment, achieving an economic growth rate of 3% per year, strengthening regional cohesion, 'modernizing' the social model, and expanding R&D investment appear overambitious (not only in hindsight but also at the time) and contradictory in light of the tensions between, for example, creating flexible labour markets and ensuring social cohesion. Whilst the Lisbon Agenda established the goal for Europe to become the world's leading KBE by 2010, it was driven by a strategy based on:

"• preparing the transition to a knowledge-based economy and society by better policies for the information society and R&D, as well as by stepping up the process of structural reform for competitiveness and innovation and by completing the internal market;
• modernising the European social model, investing in people and combating social exclusion; [and]
• sustaining the healthy economic outlook and favourable growth prospects by applying an appropriate macro-economic policy mix" (paragraph 5).

As such, the Lisbon Agenda was strongly oriented towards supply-side initiatives to achieve full employment and increase growth rates at the same time as it was meant to 'reform' the ESM and thereby ensure social cohesion. Implicit in this strategy was the need to adjust social welfare systems to the rigours of global competitiveness through flexibility (Bohle, 2009; Jessop, 2006; van Apeldoorn, 2009), alongside the shift to social cohesion based on employment rather than social protection through "investing in people" (CEC, 2000, page 25). Thus, a significant aspect of the Lisbon Agenda directly implicated in achieving the contrasting (and contradictory) goals was the focus on research and innovation, which translated into an emphasis on increasing the level of high-technology employment across Europe and the establishment of a European Research Area (CEU, 2000; paragraphs 12–13). As a result, the transition to a KBE was aligned with particular forms of employment—'more and better jobs'—which were, in turn, based on the arguments put forward by certain European academics who argued for a socially embedded perspective of the economy, innovation, and learning (Robertson, 2008).

The harnessing of new technologies that is repeated again and again in the 2000 Lisbon Agenda (and subsequent policy) seeks to emphasize that "technology and research represents tomorrow's jobs" (CEC, 2000, page 23). Such arguments are reiterated in the 2005 'relaunch' of the Lisbon Strategy, following the mid-term review chaired by Wim Kok called *Facing the Challenge* (CEC, 2004) and the 2006 *Aho Report* which specifically encourages the creation of 'innovation-friendly' markets (CEC, 2006). In these later policy turns the emphasis on research, innovation, and technology takes on a fetishized form as engines of sustainable growth. However, whereas the earlier agenda focused on 'more and better jobs', the 2005 Lisbon relaunch set only two headline targets—higher R&D spending (3% of GDP) and a 70% employment rate by 2010—as if the former would naturally lead to the latter. Nevertheless, according to the mid-term review, even such simplified goals would still entail significant restructuring on the part of European political economies:

"If Europe cannot adapt, cannot modernise its systems and cannot increase its growth and employment fast enough then it will be impossible to sustain these choices [for high living standards, social welfare and social cohesion]. Europe, in short, must focus on growth and employment in order to achieve the Lisbon ambitions" (CEC, 2004, page 16).

The relaunch of the Lisbon Agenda highlighted, according to van Apeldoorn (2009, page 32), the explicit "prioritizing" of "competitiveness over social cohesion, as well as environmental sustainability." This is evident in the integration of the EES with the Broad Economic Policy Guidelines by 2005; these guidelines were built on an agenda centred on inflation control, low public deficits and taxes, and the promotion of competition through the expansion of the internal market (Raveaud, 2007). Therefore, despite claims that the "Commission proposes to refocus the Lisbon agenda on actions that promote **growth and jobs** in a manner that is **fully consistent with the objective of sustainable development**" (CEC, 2005b, page 12; original emphasis), the relaunch dropped the social and ecological goals originally included to ensure the promotion of political and policy concerns with creating more employment opportunities through fostering research, innovation, and technological change. Notwithstanding rather empty reassurances that Europe was well placed in the "win–win game" of innovation (Rodrigues, 2009a, pages 123–124), whilst taking a strategic lead in the "race to the top" of "a globalized knowledge economy" (Rodrigues, 2009b), what Europe was left with was an agenda focused upon inflation control, but only in relation to wage moderation—hence, the shift towards creating 'more jobs' rather than 'better jobs'.

Lisbonizing versus financializing Europe: transition to a knowledge-based economy?

In order fully to evaluate the EU's progress along its proclaimed course towards being the most competitive KBE on the planet, we have rebased the data we use in our analysis below to use the year 2000 as the starting point for assessing the Lisbon Agenda's achievements. In addition, to avoid lumping together the 'old' and 'new' Europe, we have chosen to analyze the EU15 member states, leaving aside the Union's enlargement into Eastern Europe in 2004 and 2007. There is little evidence, if any, that the EU15 have been transformed into a dynamic KBE as envisioned in the Lisbon Agenda. Although this became obvious during the Lisbon years (eg, 2000–10) and led to a formal relaunch, it is still not clear whether this reorientation of the Agenda was meant to stimulate the emergence of a KBE or simply pandered to existing market pressures promoting international competitiveness (see van Apeldoorn, 2002; 2009). It therefore behoves us to ask, what did the Lisbon Agenda achieve? What happened to the 'European' political economy in this ten-year period? Our answers suggest that we have not seen the emergence of a KBE in Europe; and, in fact, we have a far more regressive restructuring in which finance has emerged centre stage. It is our conclusion that Lisbon has led to the financialization of the European economy and, indeed, the emergence of a fully blown finance-driven regime (Boyer, 2000).

More dynamic, more competitive? And stronger, lasting growth?

Our first finding is that the original Lisbon Agenda goal of accelerating productivity growth has failed: the EU15 achieved a change in labour productivity of 1.72% per annum prior to 2000, and only 1.16% per annum after the launch of the Lisbon Agenda (see figure 1).

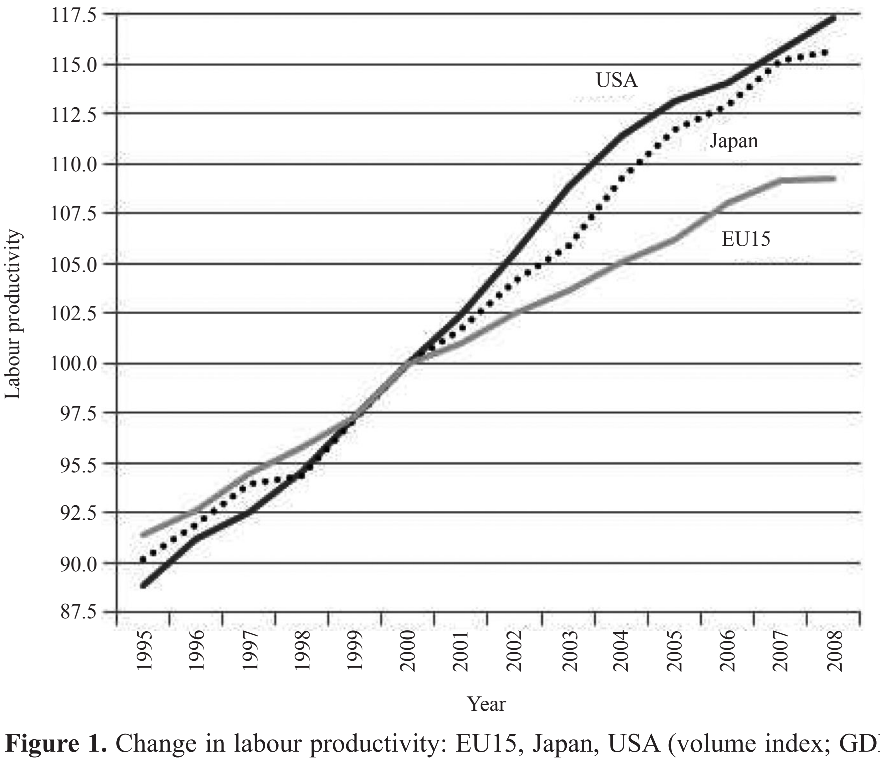
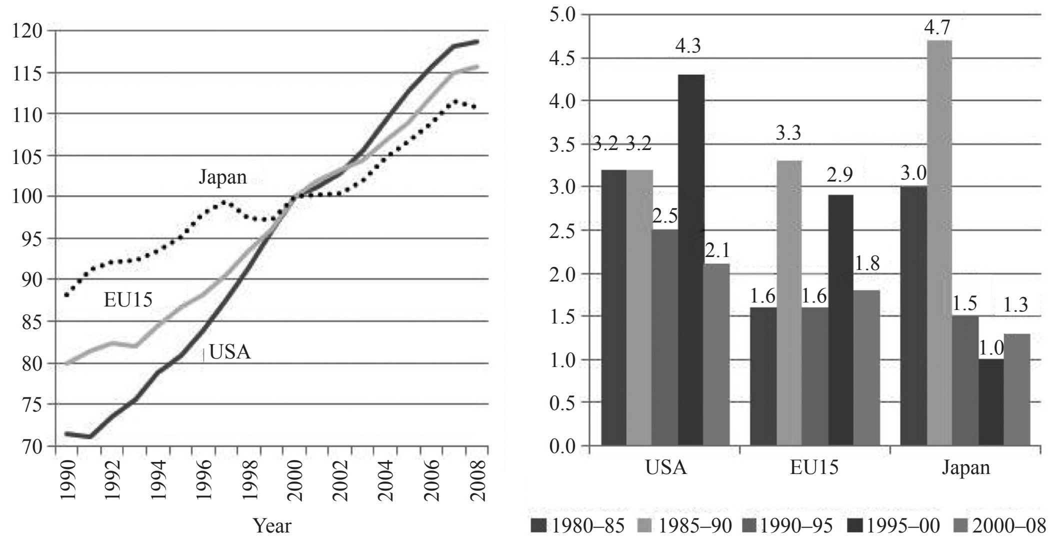


Figure 1. Change in labour productivity: EU15, Japan, USA (volume index; GDP per hour worked; 2000 = 100), 1995–2008 (source: authors' own calculations based on OECD, 2010).

In addition, the EU15 has continued to fall behind its major competitors throughout the 2000s. Although the labour productivity growth in the USA decelerated in the 2000s, it continued to outpace Europe's at a higher level of 2.22% per annum in the 1995–2000 period and 2.16% per annum in the 2000s. Japan's labour productivity grew at a very steady pace of 1.96% per annum in both periods, marginally losing ground to the US, but pulling ahead of the EU15.

Lisbon's second goal of a 'stronger lasting growth' of 3% per year on average during the 2000s was not even approached. The growth objective has failed, even without taking into account the prolonged recession following the 2008 international financial and economic crisis. Whilst in the second half of the 1990s the EU15 economy grew at 2.9% per annum, it slowed down dramatically afterwards, managing a growth rate of only 1.8% per annum, which was marginally better than Europe's growth figures recorded during the recessions in the early 1980s and 1990s (both at 1.6% per annum). It is noticeable that the 3% annual growth rates envisaged by the Lisbon Agenda for the 2000s were achieved in neither the US nor Japan, which grew at 2.1% and 1.3% per year, respectively. A longer term look over the past three decades shows that, despite the buoyant promises of a liberalized, flexible, and knowledge-based economy, output growth has been consistently decelerating across all the three world's largest economies (see figure 2). Moreover, by striking contrast with its competitors, the EU15's output growth during the 2000s was of extensive rather than intensive nature; that is, it was driven not by productivity gains but by increased labour inputs.



(a) (b)

Figure 2. (a) Long-term GDP growth trends: EU15, Japan, USA (volume index; 2000 =100), and (b) % change per year, 1980–2008 (source: authors' own calculations based on OECD, 2010).

More and better jobs?

In the 2000s progress was made towards achieving Lisbon's third headline targets of having 70% of the Union's 15–64 year olds in employment by 2010 (see figure 3). In the 1990s the employment rate had increased from 61.8% to 63.5%, before growing to 67.5% in the 2000s. Overall, between 2000 and 2008 there were 16.3–17.3 million new net jobs created in the EU15, an increase of almost 11%. Job creation in the US was much more sluggish, totalling 8.5 million net jobs, or an increase of 6.2%. An employment rate gap between the two economies has, therefore, decreased over this period from over 10 percentage points in the 1990s to just 3.8 percentage points in 2008. The EU15 has also achieved a modest success vis-à-vis Japan by decreasing the employment rate difference by one percentage point.

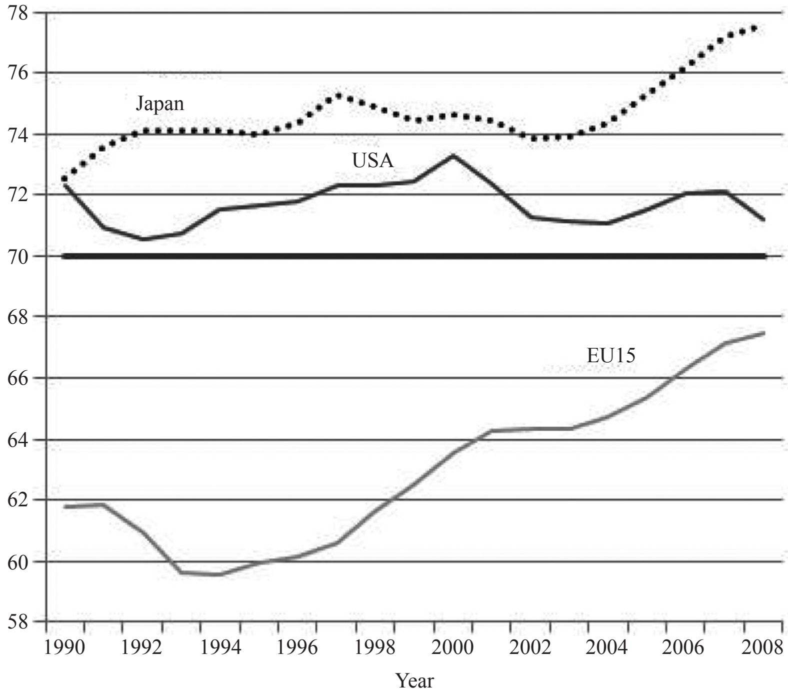


Figure 3. Long-term change in employment rates: EU15, Japan, USA (volume index; standardized civilian employment as % of 15–64 population; 2000 = 100), 1990–2008 (source: authors' own calculations based on OECD, 2010).

Notwithstanding the rather impressive employment growth recorded in the EU15 prior to the beginning of an international financial and economic crisis in late 2007, almost two thirds of all these newly created jobs were outside permanent and/or full-time employment. The share of permanent employment in the EU15 decreased from an average of 88.5% prior to the introduction of the Lisbon Agenda to 86.2% in the 2000s; full-time employment declined from 85.4% to 82.8%, respectively (see table 1). By 2008, an average worker was 3.4 times more likely to be employed on a temporary basis in the EU15 than in the US. Furthermore, whilst the average share of part-time employment in the US actually decreased from 14.1% of total in the 1990s to 12.8% in the 2000s, in the EU15 part-time jobs grew from 14.6% to 17.2% of total employment. It is notable that Japan has also experienced a wave of labour market reforms, pushing its workforce to be even more 'flexible' than that in the US.

In reviewing this evidence on the 'Lisbonizing' of the European economy, we reach a number of conclusions. First, innovation and knowledge have not transformed European society, neither in absolute terms nor in the ways imagined in the euphoria of the late 1990s when the new economy seemed to offer so much promise [which was then embedded in the KBE concept (Godin, 2006)]. Productivity has increased but at a much slower pace than previously, and at a slower pace than Europe's international 'rivals' (eg, USA and Japan) (see figure 1). This would suggest that knowledge intensity in work has not increased; instead, rising levels of employment across the EU15 have been restricted to service sectors (eg, retail, hospitality) that do not entail high levels of innovation or knowledge generation (see Warhurst and Thompson, 2006). Thus, while Lisbon has helped to get more people into work, it has not entailed a wholesale transformation of work into knowledge-based employment. The opposite is probably more the case as GDP has been driven by increasing labour inputs rather than productivity (see figure 2). As will become evident with the discussion below, increasing employment across the EU15 has been the main and only

Table 1. Employment trends by type: EU15, Japan, USA, standardized shares of permanent and temporary employment, and full-time and part-time employment, as % of total, 1990–2008 (source: authors' own calculations based on OECD, 2010).

		1990	2000	2008	1990–99	2000–08
EU15	permanent	89.5	86.5	85.5	88.5	86.2
	temporary	10.5	13.5	14.5	11.5	13.8
	full time	86.7	83.8	81.7	85.4	82.8
	part time	13.3	16.2	18.3	14.6	17.2
Japan	permanent	89.4	87.5	86.4	89.3	86.5
	temporary	10.6	12.5	13.6	10.7	13.5
	full time		82.3	80.5		81.6
	part time		17.7	19.6		18.4
USA	permanent	94.9[a]	95.8[b]	95.8	95.3	95.9
	temporary	5.1[a]	4.3[b]	4.2	4.7	4.1
	full time	85.9	87.4	87.2	85.9	87.2
	part time	14.1	12.6	12.8	14.1	12.8

[a] 1995.
[b] 2005.

success of the Lisbon Agenda (see figure 3), yet it has been achieved through promoting low-skilled and part-time employment in the service sectors (see table 1).

Arguably, there are circumstances when one might prefer part-time or temporary employment to full-time or permanent employment, given one's lifestyle, reproductive, and work–life balance choices. It is rather less arguable, however, that a 'better job' typically means a better-paid job. Thus, to evaluate the Lisbon Agenda's ambition of creating more *and* better jobs, we have focused on remuneration trends in Europe, Japan, and the USA over the last two decades. In 1990 the average salary in the US was US $29 755 per annum (in comparative prices), with the EU15 and Japan trailing behind at US $23 475 and US $20 832, or 78.9% and 70% of the US level, respectively. By 2000, the EU15 pay gap with the US had grown to 71.6% of the US level, increasing further to just 70% by 2009. In the late 2000s an average EU15 employee was earning around US $17 000 a year less (on a purchasing power parity basis) than their American counterpart (see figure 4).

These findings suggest that human capital and skill levels have not necessarily improved during the Lisbon era—or, if they have, this has not led to improvements in worker compensation or security. Indeed, as the earlier evidence from the US has indicated, getting 'smart', by itself, had little to do with workers ending up in 'poverty-wage' jobs (Howell, 1994). As mentioned already, part-time employment increased more than full-time employment. This suggests that 'flexibility' has been promoted over and above 'security' (van Apeldoorn, 2009), though one has to remember that different national labour, industrial policies, social policies, and regulations have driven the growth of this form of employment in different parts of Europe (see Birch and Mykhnenko, 2009; Hudson, 2011). In comparative terms, the Lisbon Agenda has led to a widening gap in salaries between Europe and the USA as a consequence of this increasingly flexible workforce (see figure 4). The gap in worker remuneration has risen from around 20% below US levels to around 30% below, all in the space of 18 years. The lower labour costs in Europe provide a worrying indication of the shift towards low-end work, supported by evidence of slowing labour productivity levels (see figure 1). This outcome fulfils the EU's aim to reduce labour market costs (eg, CEU, 2000), but at the cost of turning 'more and better' jobs into simply more less-well-paid jobs (Raveaud, 2007).

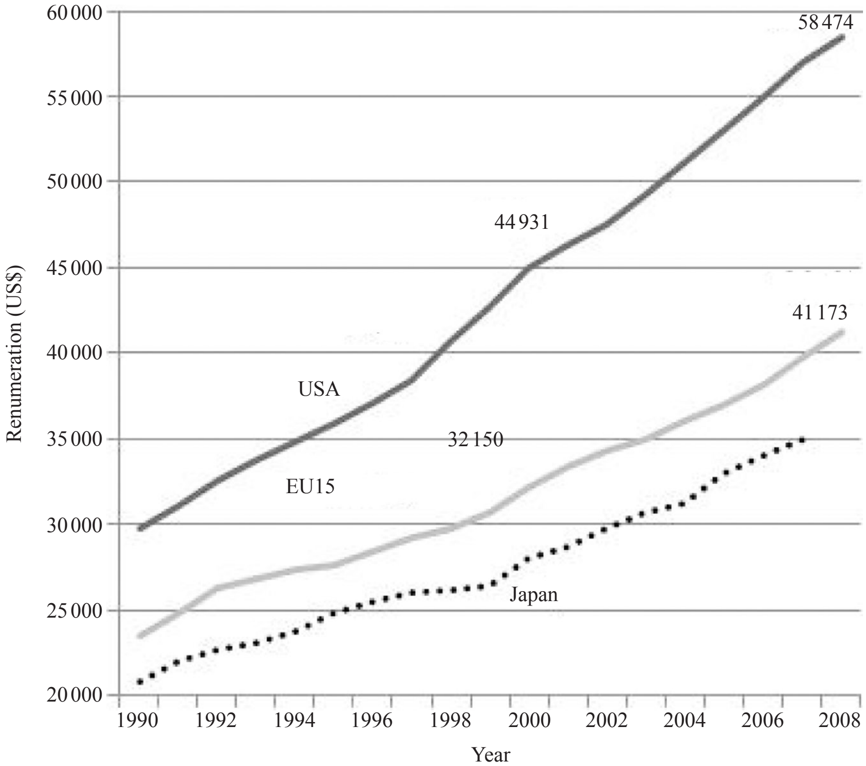


Figure 4. Long-term change in workers' remuneration: EU15, Japan, USA (labour compensation per employee; international US$, purchasing power parity adjusted), 1990–2008 (source: authors' own calculations based on OECD, 2010)

Lisbon's failures and the emergence of a finance-based economy

The Lisbon Agenda's most spectacular failures have been with Europe's evident lack of success in the transition towards a KBE. First, in the second half of the 1990s employment growth in high-technology sectors—the core of a KBE as defined by the EU's statistical agency—was expanding rather rapidly at an annual rate of 3.7% per annum, primarily due to a fast rise in high-technology knowledge-intensive services. After the launch of the Lisbon Agenda employment growth in high-tech sectors decelerated to an average of 1.1% per annum, with high-technology manufacturing actually experiencing a steady loss of jobs at a rate of 1.2% per annum, during the 2000–08 period. The share of high-technology sectors in total employment across the EU15 declined from 4.73% in 2000 to 4.61% in 2008, with high-technology manufacturing experiencing a sharp fall from 1.35% to 1.10% of total employment and high-technology knowledge-intensive services effectively flatlining throughout the period at 3.51% (see figure 5).

Second, the Lisbon Agenda's headline target of increasing expenditure on R&D to 3% of GDP has not been achieved. Indeed, in the early 2000s the relative share of R&D spending had declined from 1.91% in 2000 to 1.89 in 2005, before recovering and increasing to 1.99% in 2008. The EU's gap with the USA has persisted, and it has actually widened with the bloc's other (perceived) global competitors including Japan and South Korea, with China rapidly catching up (see figure 6).

Instead of the emergence of a KBE, what has happened is the creation of a finance-based economy, especially when it comes to employment and jobs growth. One of the major predictions about the KBE was the idea of a 'knowledge wage premium' or a 'knowledge rent' due to scientists, engineers, and other key knowledge workers. Putting aside the primary sectors of agriculture and mining, and excluding central and local government officials from

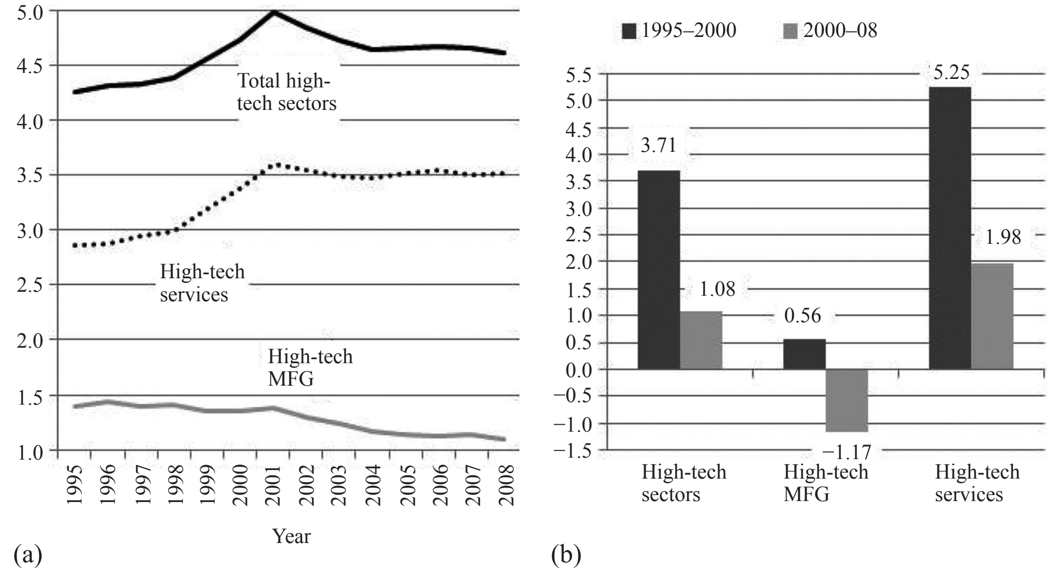


Figure 5. Knowledge-based employment in the EU15: (a) a share of knowledge-intensive services, high-technology manufacturing (MFG), and total high-technology sectors in total employment (%), 1995–2008; (b) average annual employment change in high-technology sectors (%), 1995–2000 and 2000–08 (source: authors' own calculations based on Eurostat, 2010).

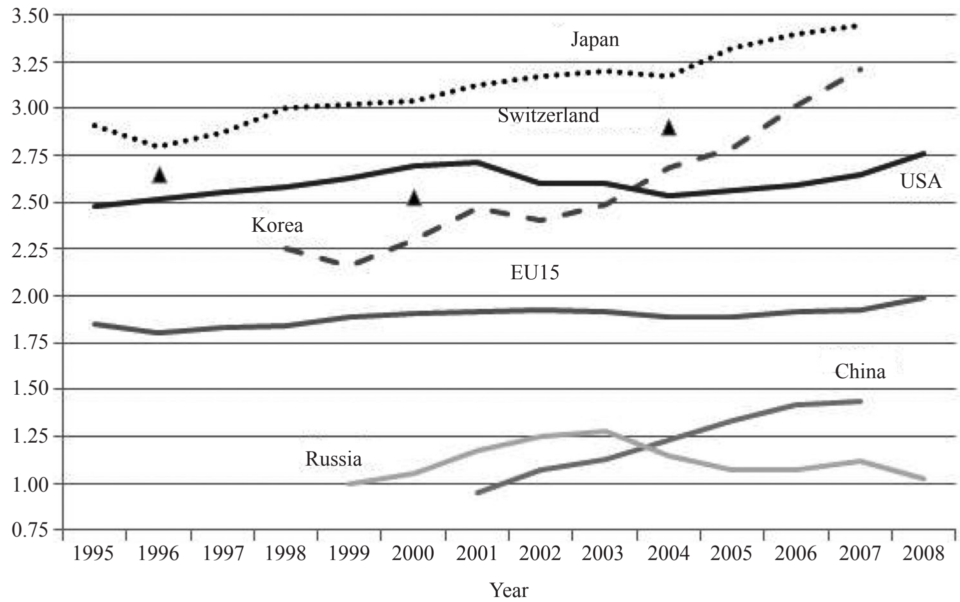
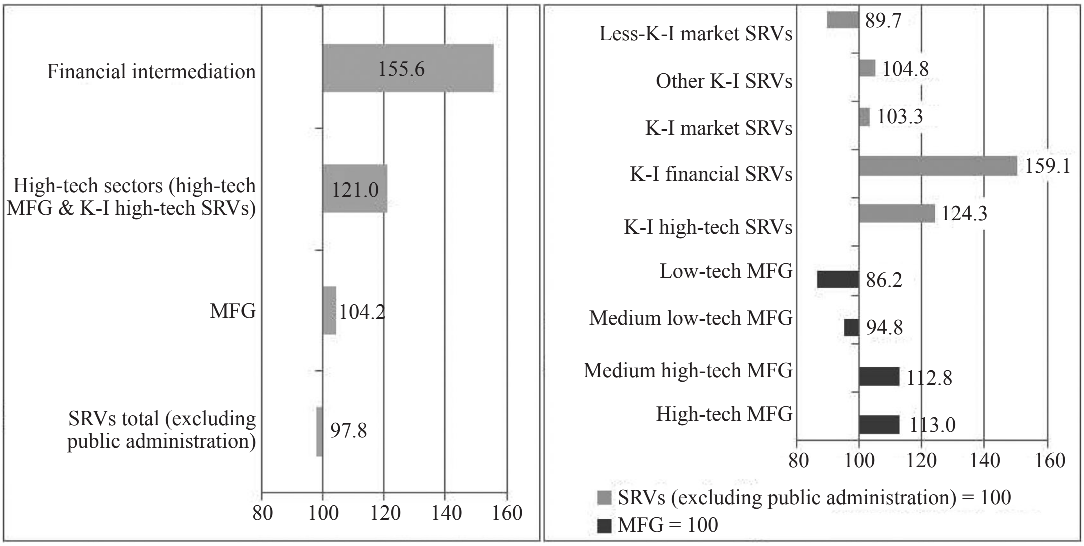


Figure 6. Research and development expenditure in the EU15 and comparator nations as a % of GDP, 1995–2008 (source: authors' own calculations based on OECD, 2010).

the competitive, market-driven type of remuneration, it is possible to analyze this wage premium by looking at remuneration levels. It appears that, prior to the beginning of the 2007+ global financial and economic crisis, workers employed in high-technology manufacturing and knowledge-intensive high-tech services were enjoying a wage premium of just 21% above the average remuneration across the EU15 economy as a whole (excluding the primary sectors and civil servants). At the same time, financial intermediaries were earning, on average, 56% above the rest of the employees and almost one third above high-tech workers [see figure 7(a)].



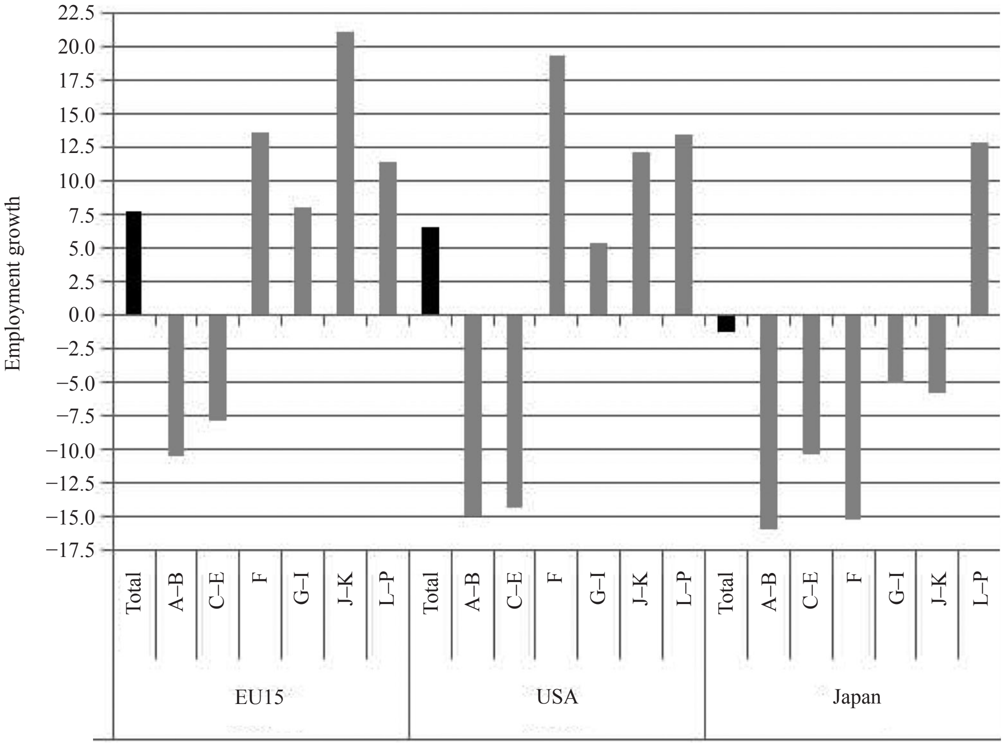
(a) (b)

Notes: MFG = manufacturing; SRVs = services; K-I = knowledge intensive

Figure 7. (a) Average annual gross earnings by economic activity in secondary and tertiary economic sectors in the EU15: wages and salaries in services, manufacturing, high-technology sectors, and financial intermediation sectors (volume index; average EU15 salary = 100. All NACE branches except agriculture, forestry, and fishing: mining and quarrying; public administration; and private households with employed); (b) average wages and salaries across services and manufacturing sectors by degree of technological sophistication and knowledge intensity, 2006 (source: authors' own calculations based on Eurostat, 2010).

To unpack further different categories of knowledge workers, one might compare average wage and salary levels between various branches of manufacturing (from high-technology manufacturing, medium to high-tech manufacturing, medium to low-tech manufacturing, and to low-tech manufacturing), as well as of services (from knowledge-intensive high-technology services, knowledge-intensive financial services, knowledge-intensive market services, other knowledge-intensive services, and to less knowledge-intensive services). Within manufacturing, there had hardly been any difference in pay levels between high-tech and medium–high technology employees, with both enjoying a modest 13% wage premium above the rest of the sector [see figure 7(b)]. Arguably, the bulk of manufacturing activities remaining in the EU15 after three decades of continuous deindustrialization is in the medium to high technology sectors. Yet even within the services sector, by the end of 2006 only employees of knowledge-intensive financial firms enjoyed a remarkable wage premium of almost 60% above all the other service activities. Knowledge-intensive high-tech services were paying their employees only 24% above the average, whereas workers in other knowledge-intensive market and public services had been remunerated at levels just 3–5% above the average in the services sector. Thus, despite the earlier assurances of Bell (1973) and Drucker (1989), it is not the scientist, engineer, or designer but the banker who has been empowered to command a higher price in the new world of KBE.

It is important to stress that financial intermediation has not been the sole winner of the EU's drive to a KBE in terms of monetary rewards; the sector has also witnessed significant levels of job creation as well. Whereas high-tech employment in the EU15 grew by 7.67% between 2000 and 2007, financial services employment during the Lisbon period expanded almost three times as fast, growing by over 21% [see figure 8; cf figure 5(b)]. During the same period, construction was the second fastest growing sector in the EU15 (and the



Note: Total includes the following sectors: A-B (agriculture, hunting, and forestry; and fishing); C-E (industry, including energy); F (construction); G-I (wholesale and retail trade, repairs; hotels and restaurants; and transport); J-K (financial intermediation; real estate, renting, and business activities); L-P (health care; education; public administration; other service activities).

Figure 8. Employment growth by sector: the EU15, USA, and Japan (%), 2000–07 (source: authors' own calculations based on OECD, 2010).

fastest-growing sector in the USA), despite not representing an exemplary KBE sector. By the end of the decade, then, it became all too evident that the only tangible result of the Lisbon Agenda's declared epochal shift to a KBE was the financialization of the European economy.

From these data it is evident that the transformation of Europe into a gleaming hub of high-technology firms and employment has not happened. In fact, employment in high-tech sectors decelerated from the year 2000; furthermore, the proportion of the EU15's workforce employed in high-tech manufacturing (ie, the most competitive export sectors) has fallen throughout the Lisbon era, while total high-tech employment has stagnated at around 4.6% of total employment (see figure 6). What becomes apparent from looking at the evidence we have marshalled here is that, rather than high-tech employment in knowledge-intensive manufacturing sectors, the Lisbon Agenda has led to the expansion of financial (and nonfinancial) services (see figures 7–8). This level of employment growth in financial services has outpaced both the USA and Japan. Moreover, the knowledge premium offered by 'better jobs' is most obvious in this financial intermediation sector (eg, banks, financial institutions, insurance firms). Consequently, it is plausible to claim that Lisbon has contributed to the financialization of the European economy, as it encouraged organizational and institutional changes in capital mobility, securities markets, and corporate governance that were meant to stimulate investment in high-technology sectors (eg, information and communication technologies), in response to the perceived benefits received by US firms (Deeg, 2012; Grahl, 2011; Watson, 2001), but have promoted the financial sector instead.

Conclusion

The sell-by date of the Lisbon Agenda is now well past; and it all started to smell rather rotten with the onset of the 2007+ financial crisis. As laid out in 2000, Lisbon was conceived in another age and for another era—namely, in the new economy era of the late 1990s when information technology, soaring stock markets, dot.com ventures, and dynamic entrepreneurialism drove the growth of the US economy. As such, it would always be too late for Europe; it would always be playing catch-up on terms determined by someone else. In this sense, the European Council and Commission promotion of an 'American' economic model, as Kitson (2005) terms it, may very well have sabotaged the Lisbon Agenda from the start, especially since there is an inherent conflict between the context and policies implemented in the USA and EU. We would argue that it is unfortunate that the Lisbon Agenda achieved its greatest success in the promotion of financial restructuring, which started with the Financial Services Action Plan between 1999 and 2004 and continued until the crash in 2007. The emergence of a finance-driven regime—to use Boyer's (2000) term—in Europe is evident in the data we outlined in this paper. According to Grahl (2011), the attempt to 'Americanize' the European economy by encouraging the finance sector was actually very successful and, as a result, deeply problematic because it created systemic risk through greater interdependence amongst European countries (see Deeg, 2012). The consequences of the 2007+ financial crisis and the possible slow and ongoing collapse of the Eurozone illustrate the possibility that this financialization of the economy has left the European project in tatters (Young, 2011).

Employment in financial intermediation (eg, banks) grew faster in Europe between 2000 and 2007 than either the USA or Japan, and was the fastest-growing sector in Europe by some distance. The financialization of the European economy that this growth presaged was doubly evident in the growth of earnings in the financial sector, which outstripped all other sectors including high-tech work in either manufacturing or services. On the one hand, the financial sector is the poster child of the Lisbon Agenda, representing the key growth sector and the key earnings premium in Europe. On the other hand, high-tech employment, the epitome of the KBE, stagnated following the launch of the Lisbon Agenda in 2000; high-tech manufacturing actually declined in the following decade. At the same time there has been an expansion in insecure, part-time, and temporary employment, which has helped to increase Europe's employment rate but has not improved productivity or workers' remuneration. In fact, we would argue that this growth in low-paid, low-skilled, and insecure work compounded the emergence of a finance-driven growth regime in Europe. The need for new forms of finance for peripheral and insecure groups provided ample opportunities to innovate new financial products that enabled these groups to borrow and spend at rates not available before.

The consequences of this financialization of the economy have been evident for several years now and are currently played out on the news on an almost daily basis as European country after European country seeks to recover from the damage done by financial institutions of all stripes. The likelihood of the collapse of the Eurozone is being seriously discussed at the time of writing (Hesse, 2012; Lanchester, 2011; *The Daily Telegraph* 2012; *The Financial Times* 2011). The threat of further austerity is high (Kitson et al, 2011). The possibility that Europe, along with other major high-income economies, will suffer its own lost decade should be high on everyone's agenda. In 2009 and 2010 the European Commission outlined its own strategy called *Europe 2020* (CEC, 2009; 2010a), which is meant to get the EU "back on track" after the financial crisis "exposed structural weaknesses in Europe's economy" and wiped out the gains from Lisbon (CEC, 2010a, page 5), although they also claim that Lisbon "helped the EU to weather the storm of the recent crisis" (CEC, 2009, page 2; see also CEC, 2010b). It is probably safe to say that this agenda for the post-Lisbon era is already off-track itself, with policy makers distracted by the continuing sovereign debt crisis in the Eurozone.

That said, it is also evident that this new agenda is aiming for the broadest appeal possible by promoting "smart, sustainable and inclusive growth" (CEC, 2010a, page 1); it can mean something to everyone as it seeks to promote a "knowledge-based, connected, greener and more inclusive economy, growing fast and sustainably, creating high levels of employment and societal progress" (CEC, 2009, page 4). As a strategy, it is inspired by the German 'social market economy', mentioned several times. It also mirrors the OECD's (2012) new 'Strategic policy agenda for inclusive growth'. But neither strategy goes much beyond the Lisbon Agenda; the only real differentiation is the incorporation of sustainability criteria, or the idea that Europe will increasingly depend on the efficient use of natural resources. However, there is still a reliance on market mechanisms and instruments to achieve the Europe 2020 agenda, and little reflection on how liberalizing and deregulating markets led to the mess in the first place. Financial reforms and restructuring—if they have not stalled already—are tied to a concern with pensions and ageing populations being unsustainable as well as to concerns with the single market remaining too fragmented and in need of further competitive pressures and consumer-driven growth (CEC, 2010a). And, despite a number of well-documented calls to pursue viable functional alternatives to the 'Americanization' of European geographical dynamics of knowledge and innovation (see Crescenzi et al, 2007), Europe 2020 continues to ignore the continent's strengths and institutional complementarities. Overall, the post-Lisbon era is not faring well, and the agenda put in place by European policy makers does not bode well for the implementation of policies that benefit the majority at the expense of the minority; it all feels far too familiar.

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