

Innovation Policy in Europe: Beyond Technology Support

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Executive Summary

Need for Reform: *“Whatever the political difficulties, the case for further European economic integration and structural reforms remains pressing in order to stimulate investments and jobs.”—Wall Street Journal¹*

After setting economic and government policy goals in the Lisbon Accord of 2000, Europe’s leaders recognized a dire need for Europe to increase its global competitiveness. The effort required to attain such goals, however, would require a significant amount of economic and political “pain.” Amidst an ever-continuing political popularity contest, Europe’s political leaders have remained unwilling to risk losing support to push through the necessary reforms. Finally, the measures that have been taken have often been directed towards only ICT and High Tech industries. Europe appears to have misunderstood the importance of backing up its investment in new technology innovations with the managerial and organizational know-how needed to make innovation in all organizations a success. The longer Europe delays in increasing its competitiveness, the weaker its economy and influence will become.

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¹ *“OECD Semi-annual assessment of the global economy”, Wall Street Journal, 25 May 2005*

1. Summary of Lisbon Accord 2000

Fearing that Europe had fallen behind North America and Asia in terms of innovation, EU government leaders met in Lisbon in March of 2000 to set the ambitious goal of making the EU *"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"* by 2010.²

To achieve this goal, the overall strategy aimed to:

- Transition the EU to a knowledge-based economy through better policies for **R&D** along with **structural reforms** to increase Europe's competitiveness and level of innovation
- Modernise the European social model by investing in **human capital**
- Obtain sustainable **macroeconomic stability** throughout Europe

The main targets set for the realisation of the Lisbon agenda were:

- **Increase R&D investment to 3% of GDP**

The level of investment in research in the EU amounted to 1.9 per cent in 2002, compared to 2.7 per cent in the US and 3 per cent in Japan³

- **Reduce bureaucracy and promote entrepreneurship**

On the 2003 Green Paper on Entrepreneurship, the Commission presented its Action Plan which focuses on actions in five areas: entrepreneurial mindsets, incentives for entrepreneurs, competitiveness & growth, access to finance and reduction of unnecessary bureaucracy

- **Invest in human capital through education and skills development**

The agenda sought to increase Europe's long-term growth and achieve an employment rate of 70 per cent (60 per cent for women)

Progress by 2005

	Innovation as % in 2003	Employment %
Lisbon target	3	70
Sweden	4.3	74
Finland	3.5	67
Japan	3.1	68
United States	2.8	71
Germany	2.5	65
France	2.2	63
United Kingdom	1.9	73
Italy	1.2	56
Spain	1.1	61
EU15	2.0	64

(1) Source: Eurostat (Statistics and Technology: Statistics in focus 2/2005). Figure for Sweden is 2001; figures for Japan, UK, Italy and EU15 are 2002

Although the Nordic countries had made significant investments to increase innovation and competitiveness, most of Europe still lagged behind the efforts made by the United States and Japan. Reform efforts proved slow and targets remained well above realization.

² Lisbon Accord 2000

³ OECD Factbook 2005, "Economic, Environmental and Social Indicators,"

<http://iris.sourceoecd.org/vl=1701897/cl=22/nw=1/rpsv/factbook/06-01-01.htm>

2. Europe and its Social Model

Less Work? *“A 48 hour week limit would push the Euro zone in the opposite direction from the rest of the world. It is sending the wrong message.”-- Rodrigo Rato, IMF Managing Director⁴*

Europe's lackluster economic growth of late demonstrates clear evidence of its declining industrial competitiveness. Without faster growth, observers are questioning whether Europe will be able to sustain its “social model.” Although the Lisbon agenda was designed to create a more dynamic region, the implementation process has encountered and continues to face numerous obstacles in the form of differing political agendas.

Both political and social forces threaten a “re-launch” of the Lisbon Agenda. Its opponents fear the agenda will destroy the “European Social Model.” Working less, vacationing more, retiring earlier and demanding higher pay irrespective of economic realities remain key justifications for continuing the model. However, such elements threaten the model's very existence today. Without greater competitiveness and labour flexibility, Europe's unemployment level will only continue to worsen as industry moves abroad. In March of 2005, 19 million Europeans were unemployed.⁵ The ever-increasing globalization of the world only promises to augment the problem.

Continental Europe's largest economies, France and Germany, are among those resisting adjustment the most. As stated recently in the Wall Street Journal, “It does not bode well for the future of Europe when economies that were supposed to be the motors of European integration have become its main brake.”⁶ Without France and Germany behind it, the Lisbon Agenda lacks the “teeth” necessary to push through the reforms necessary to make its goals a reality.

Germany is struggling with its highest unemployment level since the Great Depression. While proposing corporate tax cuts, Mr Schroeder upset both his supporters and his opposition earlier this year by cutting benefits for the long-term jobless. By offering a tax cut, he attempted to make Germany more competitive with low-cost, low-tax Eastern European countries. The Green Party, however, quickly rejected the bill and made the chances of future corporate tax cuts unlikely. Even more worrisome, the SPD's recent defeat and call for early elections threaten to stall further reform efforts.⁷ Unemployment, lack of a free internal service market and loose fiscal policy could further slow Europe's growth prospects.

⁴ *“IMF chief says EU plans for 48-hour working week 'a mistake' FT INTERVIEW: RODRIGO RATO”, Financial Times, 19 May 2005*

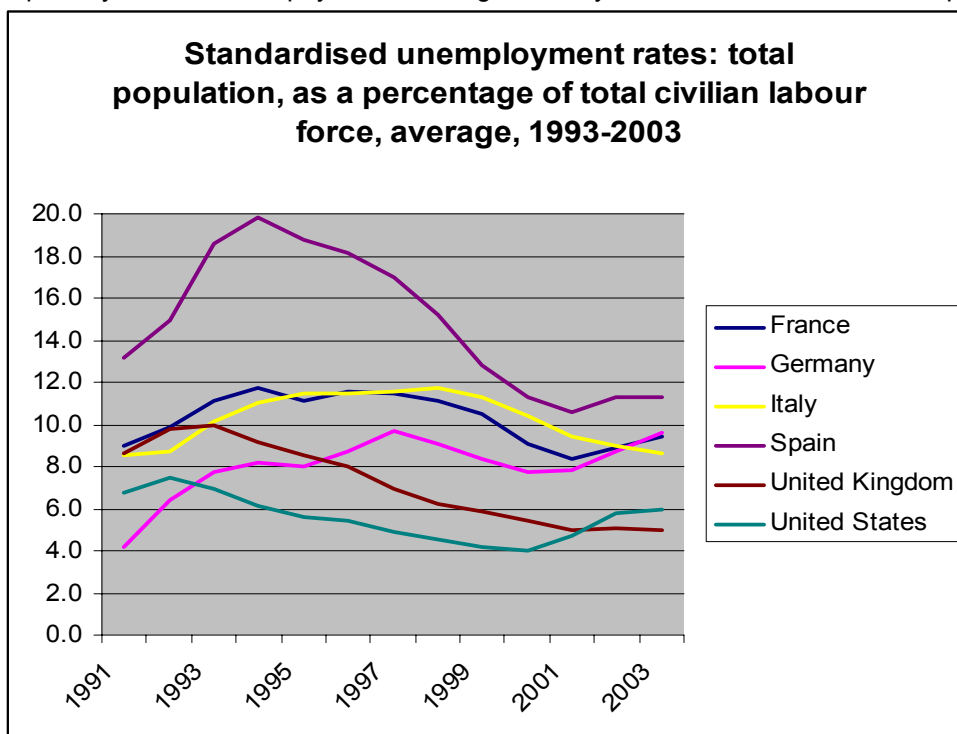
⁵ *“Pavlov's Welfare State”, The Wall Street Journal Europe, 3 March 2005*

⁶ *“Know-Nothings Deal Euroland A Double Blow”, The Wall Street Journal Europe, 24 March 2005*

⁷ *“German corporate tax cut a victim of poll”, Financial Times, 29 May 2005*

3. European Unemployment

The populist direction that some European governments are taking threatens the sustainability of growth. As spending goes up, higher taxes must follow to pay for benefits. But such taxes, usually payroll taxes, must be collected from a shrinking number of workers as jobs are cut (due to lower productivity and increasing external competition). This in turn increases the cost of labour and decreases the benefit of working in comparison to collecting unemployment or welfare checks. This process could lead to a spiral of rising taxes and falling employment, especially when welfare payments are high, as they are in most of Western Europe.



Source: OECD Factbook 2005

The heart of the issue was explained recently in the Wall Street Journal:

The result is predictable -- more jobs are lost, the tax base shrinks, and taxes must go up further to pay for yet more welfare benefits, making work less attractive and not working more attractive.

In the 1970s, unemployment went up everywhere in the developed world. But on the Continent, it never went down. Britain and the U.S. both saw major economic reforms in the early 1980s and subsequently recovered from the '70s. The Continent did not, and it's endured the pain of that lost decade ever since.... Growth has gone up a little at times, then back down, but unemployment in Continental Europe has remained stuck in a narrow range for three decades.

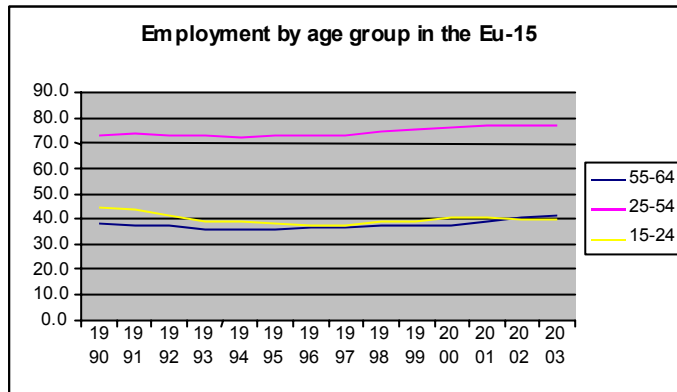
Western Europe jumped the track and fell into an economic ditch in the 1970s along with the rest of the world. But the Thatcher and Reagan reforms that pushed Britain and the U.S. back onto the rails were never tried on the Continent, and most of those countries have been spinning their wheels ever since.⁸

As we can see in the graph below there are two clusters of countries nearing the convergence point of the unemployment rate. Japan, UK and the USA have an unemployment rate averaging around 5%. On the other side, we have France, Germany and Spain with unemployment rates averaging around 10%. Spain's high unemployment rate of slightly above 10% is actually the

⁸ "Europe Hasn't Outgrown 'That '70s Show'", Wall Street Journal, May 5, 2005

lowest it has been in 30 years. This is clear evidence that the generous unemployment benefits in those countries boost the unemployment rate. Budget deficits continue to support the high unemployment rate and do little to encourage job seeking.

Permanently higher unemployment and taxes combined with the problem of an ageing population only further complicate the situation. The chronic unemployment, which for the past 20 years has oscillated between 8.5% and 12%, mainly affects the young, between 15 and 24.⁹ Only 25% of this age group is employed in Europe, compared with 54% in the U.S. The long-term unemployment, (more than twelve months) is around 43% in France, while in the U.S. it is around 11%.¹⁰



Source: OECD Factbook 2005

Ann Mettler, director of the Lisbon Council, described the "social model" as "a euphemism for protecting workers at the expense of economic dynamism."¹¹ She stated, "If the best our leaders can come up with is changing rules to permit countries to run large deficits and slowing down the completion of the internal market in services, all I can say is that the people of Europe deserve better."¹²

⁹ OECD Statistics Factbook 2005

¹⁰ OECD Statistics Factbook 2005

¹¹ "Unity Trumps EU's Free-Market Agenda, for Now," *The Wall Street Journal Europe*, 24 March 2005

¹² *Ibid.*

4. European Services Sector

For years, France, Germany and Italy have suffered a slow decline in employment as global competition has eroded their manufacturing base. Their economic futures, as in other advanced economies, lie mainly in services. Yet overregulation and lack of competition have held back productivity and job creation in this sector, compared with the U.S. The EU proposal to create a cross-border market in the services sector, has drawn fierce resistance from governments and citizens, evidenced by the thousands who flocked to Brussels on March 2005 to protest.

At present, bureaucracy at the national level can make it difficult and expensive for service providers to offer their services to or set up shop in another European country. The whole of Europe is thus deprived of greater competition, innovation and job creation. Consumers are given fewer choices and higher prices, thus depressing consumption and growth. The proposal brought forward by the European Commission would have generated millions of new jobs, benefited consumers by offering better services at lower prices, and reinvigorated the sluggish economy by increasing gross domestic product by 1%-3%, according to some estimates.¹³

A wide range of services in terms of quality and price would also benefit European companies. Unfortunately, however, the political willingness to create such an environment does not exist. Chancellor Schroeder has attacked the services directive in strong terms. "Under no circumstances should it go through," he said earlier this month.¹⁴ German media and unions believe that the services directive would lead to "social dumping," or the corrosion of labour standards by lawless operators based in Central and Eastern Europe. As Mr. Barroso has stated, however, "From a rational point of view, we understand that we will lose the global race if we do not adapt to global competition."¹⁵

¹³ "Pavlov's Welfare State", *The Wall Street Journal Europe*, 3 March 2005

¹⁴ "EU Remedy May Bring More Ills", *The Wall Street Journal Europe*, 3 March 2005

¹⁵ *Ibid.*

5. European Fiscal Policy

One of the pillars of the Stability and Growth Pact was to cap member states' budget deficits at 3% of GDP. This was agreed at the launch of the euro six years ago to glue together the fiscal policies of otherwise sovereign nations. A tight fiscal policy was once considered the bedrock for a sustained economic and social growth. Amid calls by Jean-Claude Trichet, president of the European Central Bank (ECB), to uphold rules to enforce fiscal discipline, half of the 12 nations now using the euro have broken or are about to break the Pact. The ECB has repeatedly opposed moves to loosen the pact. Mr Trichet has warned that budget deficit cap must be fully preserved. This is not only fundamental for macroeconomic stability and cohesion in the euro area, but also for confidence and growth prospects.

At the beginning of March 2005, however, the EU proposed a list of exemptions allowing for a "temporary violation" of the 3% cap. Luxembourg's Jean-Claude Juncker, who holds the EU's rotating presidency, proposed the rules, which created loopholes allowing for budget-deficit excesses for any of 16 reasons.

The ECB is not the only institution warning about the negative consequences for growth that such a decision poses. Italy's and Greece's debt had already been downgraded and credit-rating company Standard & Poor's predicted that a weaker pact and budget deficits could trigger further debt downgrades across eurozone countries, resulting in higher debt-servicing fees that could hurt the economic growth. The feared junk debt status for European countries might not be impossible¹⁶. S&P also warned that the European Central Bank might have to lift interest rates to offset the looser fiscal policy. The negative effect on some sovereign debt is already relevant. Since the beginning of the year, the spread on Italy's 10-year bonds over German bunds has crept up from 14 to 20 basis points.

The budget deficit is an easy and fast way for governments to mitigate the economic effects of downturns and has been used for decades. In 1965, government spending as a percentage of GDP averaged 28% in Western Europe, just slightly above the U.S. level of 25%. In 2002, U.S. government spending was 26% of the economy, but Europe's had climbed to 42%, a 50% increase.¹⁷ Over the same period, unemployment in Western Europe has risen from less than 3% to 8%, and to nearly 9% for the 12 countries in the eurozone.¹⁸ These two phenomena are related. In countries with generous welfare benefits, rising unemployment further increases government spending. It has become a bad habit that European governments continue to repeat even in the face of clearly measurable harmful effects.

Centre-right governments, such as Mr Chirac's in France, equally share the blame. After a crushing "Non" vote to the EU Constitution, Mr Chirac appointed Dominique de Villepin Prime Minister. Mr de Villepin has long been known for his support of maintaining France's welfare state. As Hans Redeker, global head of foreign exchange strategy at BNP Paribas explained, "De Villepin is viewed as maintaining the status quo. He supports the 'French economic model' and does not see any need for urgent reform."¹⁹

¹⁶ "UK, Germany, France and US face junk status in 30 years- S&P", *Financial Times*, ", 21 March 2005

¹⁷ "Europe Is Stuck in 'That '70s Show'", *The Wall Street Journal Europe*, 9 May 2005

¹⁸ *Ibid.*

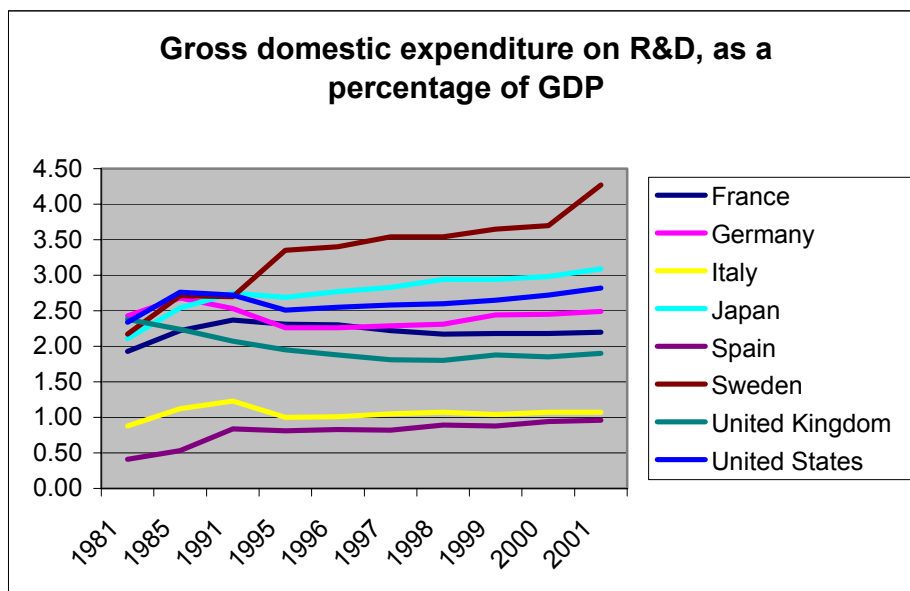
¹⁹ "Chirac picks ally de Villepin as new PM", *Financial Times*, June 1, 2005.

6. Conclusion

Falling Behind: *"I am terrified! Whilst we are living in the 1970s, the United States are living in 2004", said. On the basis of a number of empirical studies showing that Europe is over twenty years behind the United States in terms of employment, research and development, GDP and productivity.*"-- Arnaldo Abruzzini, Secretary of Eurochambres²⁰

Beyond the lack of cohesion and direction in the political environment of Europe, there are also some weaknesses beneath the Lisbon Agenda goals themselves. Apart from fixing the political consequences derived from the French and Dutch rejection of the European Constitution, the focus should be on improving the economic aspects of the European industry.

The Nordic countries have already achieved levels of investments in R&D and knowledge far above those targeted by the Lisbon Agenda. This has allowed them to increase their productivity and social development levels beyond worldwide standards. Finland and Sweden are with Japan and Switzerland as countries with more triadic patent families per million, around 90, more researchers per 1000 inhabitants and more expenditure in R&D as a percentage of GDP.²¹ They have proved it possible and profitable to move towards the Lisbon goals. Getting there will require short-term sacrifices and a large amount of political compromise. Neither one nor the other, however, seems attractive to EU politicians right now.



Source: OECD Factbook 2005

The EU guidelines for innovation focus mainly on ICT and High-Tech industry. The incentives and plans launched have been allocated to areas that hope to yield some kind of technical innovation. This strategy appears sound, but relies entirely on the ICT and High-Tech sectors and may not be enough to achieve the full development of the EU. Technology by itself is not an unavoidable barrier to entry; it has become more and more accessible to the entire world.

Helping companies to better understand the needs of their customers and to better integrate the surrounding technology in their processes would certainly support the development of new successful European companies, such as Inditex or Tesco. Inditex and Tesco, like Dell in America and Toyota in Japan, are successful thanks to their innovative management techniques and capacities to shape their organisations into customer-focused entities. None is known for the adoption of cutting-edge technology, but rather for having used the available

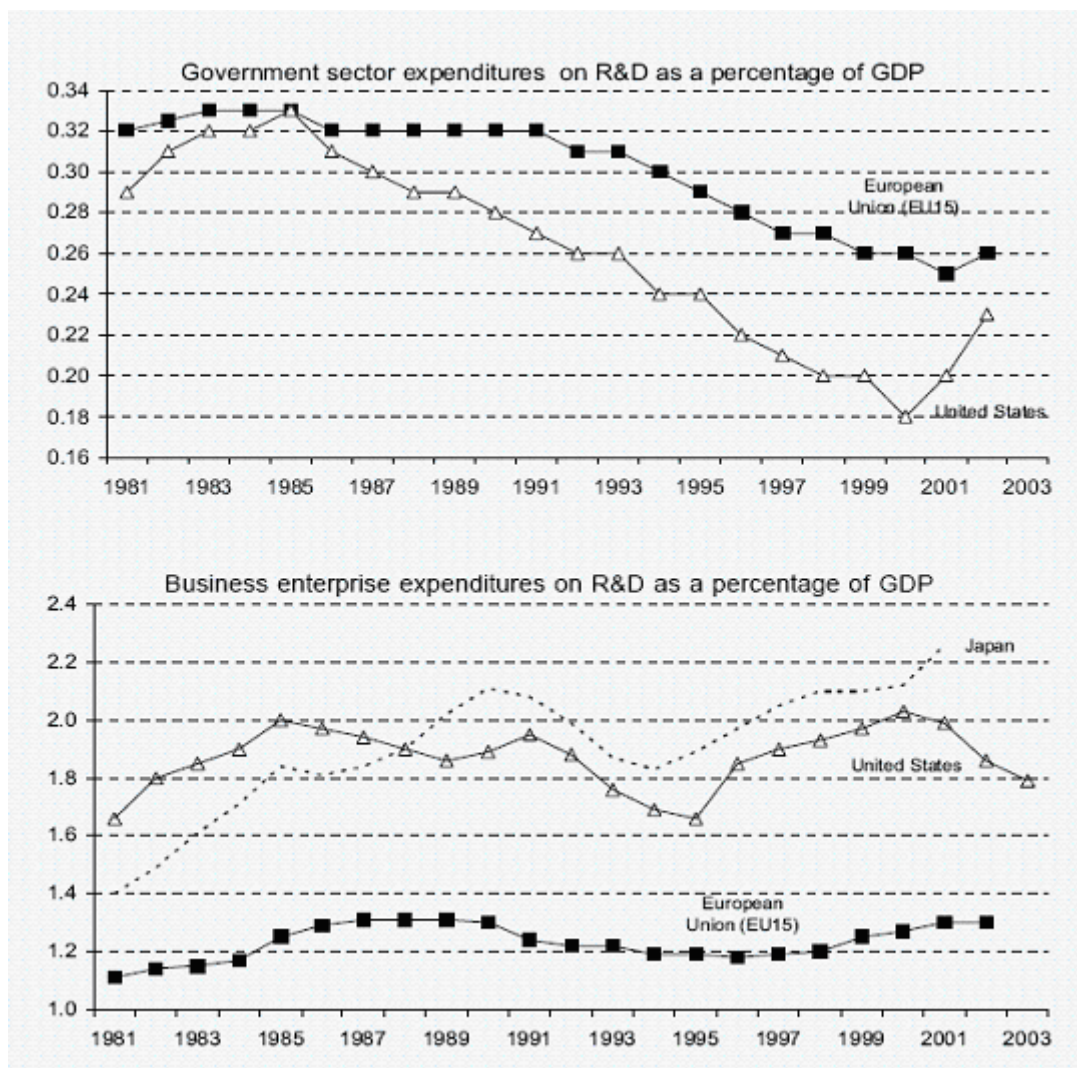
²⁰ Agence Europe, 15 March 2005

²¹ OECD Statistics Factbook 2005

technology in a more efficient way.²² Any help focused to provide the European industry's "Silent Majority" with such know-how could perfectly complement High-Tech innovation efforts.

The *European Competitiveness Report* argues that the US's higher productivity growth – in comparison to European growth- is not simply a matter of technological innovation. US companies are better able to reshape their organisations and management methods in order to maximise profits from new technologies. Focus on customer needs and the capacity to absorb available technology may well be the "missing link" that prevents Europe from taking full advantage of new technological opportunities.

The EU has improved its technological capacities. But beyond this, the EU needs to now improve some of its structural economic components including: the rigidity of its labour market, its complex patent processing procedures, and its lack of financial market integration. Only by making the necessary reforms will Europe create a more attractive environment for private investment. The graph below demonstrates how the EU is falling behind the US in its business enterprise expenditures on R&D. Addressing the causes of this difference would certainly make the Lisbon Accord's goal of increasing private sector expenditures on R&D more attainable.



Source: Eurostat

²² ICTs contribute 40% of total productivity growth, but they could give a much greater contribution if they were more widely adopted. For example, in the United States ICTs account for 60% of total productivity growth. Source: EUROPA, the portal site of the European Union

Competition from Abroad:

Made In Italy Via China: *"Some production could move to lower-cost countries and we would even consider China" ---Patrizio Bertelli, Prada's CEO²³*

Outsourcing Innovation: *"German car suppliers are transferring R&D outside Europe. By 2007 the report's estimates that 29% of their R&D expenditure will be outside western or central Europe, compared with 17% today. They plan to increase R&D activities in the USA, China, India and Eastern Europe."--Booz Allen & Hamilton*

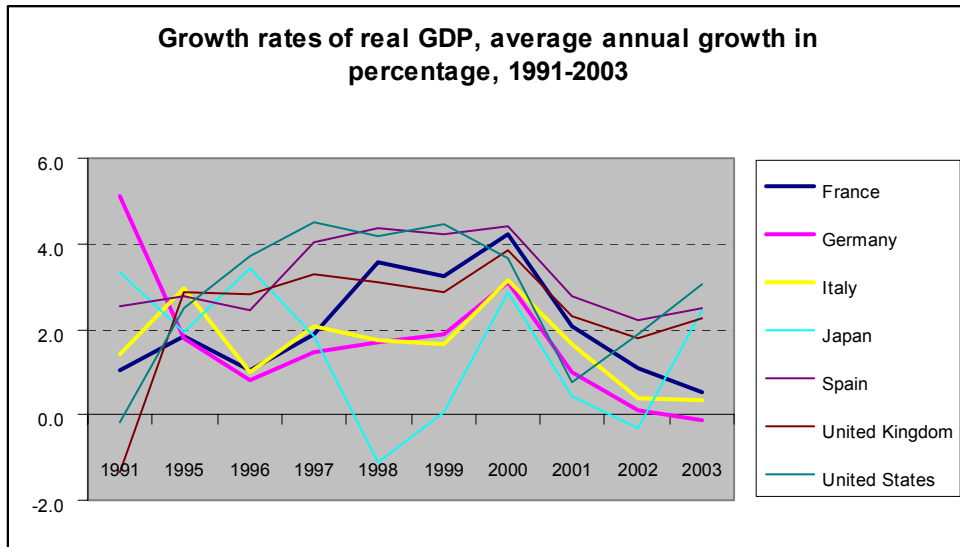
China started its transformation towards a more developed economy well behind the US and EU. Foreign investment of more than \$53 billion in 2002 has helped China to modernize its economy, providing it with new technological and organizational knowhow and giving access to new markets.²⁴ China is moving away from low-tech industries towards directly competing with Europe's higher value-added ones. Even at this early stage, China is challenging a great part of the EU economic structure. The European experience with the issues in the textile sector after the elimination of tariffs on January 1st 2005 demonstrates that EU should prepare for this challenge. As it is clear that Europe cannot compete with China and India's low wages, the only way to improve the EU's competitiveness is through innovation across all departments. Unfortunately, this is easier said than done.

²³ "Made In Italy Via China", *The Times*, 20 May 2005

²⁴ UNCTAD 2003 and European Competitiveness Report 2004

VII. Appendix

Innovation Policies in: France, Germany, Italy, Spain and the UK



Source: OECD Factbook 2005

FRANCE

Investment in R&D

Although France had surpassed the EU average in terms of R&D expenditure in the years preceding the Lisbon accord, by the 1990's this figure had stagnated and even declined. The 1999 Innovation and Research Law set the main objective of increasing the interaction between academic research and business through technology transfers from public research to industry. The "plan in favour of innovation" adopted in April 2003 updated this Law. Most recently, the "Credit Impot Recherche" was extended for the period 2004-08 in an attempt to boost the 2.19% percentage of GDP expended in R&D to achieve the goal of 3%.

Entrepreneurship

A national call was launched in April 2004 to establish the "Maisons de l'entrepreneuriat" within universities to encourage an entrepreneurial culture while bridging the cultural gap. The 2004 Finance Law granted a tax reduction for R&D investments by young entrepreneurial firms during their first years of existence. Tax exemptions were further granted to individual investors who invested in such companies.

Human Capital

Under the "Plan de cohesion sociale" a wide range of new contracts were created simplify entry into the labour market by youth between the ages of 16 and 25. France achieved a positive trend in employment consistently, increasing from 59% in 1999 to 63% in 2003.

GERMANY

Investment in R&D

After neglecting expenditure on R&D during the 1980s and 1990s, German spending on R&D increased from 2.3% of GDP in 1998 to 2.5% in 2004.²⁵ Among its plans, the government was considering shifting approx 12bn euros spent on homeownership subsidies to further fund education and research efforts.²⁶

Entrepreneurship

As part of the "High Tech Masterplan," small and medium-sized companies (SME's) were provided with 500 million euros to fund innovations and future technologies.

The key elements of the program included providing easier access to venture capital and increasing cooperation between public and private SME researchers.²⁷

In 2005, 120 mn euro per year were set aside to build technology centers and incubators to support entrepreneurs--office rental, consultancy services, research accomodation etc. provided by such centers would be funded by the government.²⁸ The government planned introduce legislation to strengthen the protection of intellectual property.

Human Capital

By 2004, the German government had increased its budget for education and research by more than one-third.²⁹ To increase competitiveness among German universities, the government allocated an additional 250 mn Euros annually to the top ten German universities. To attract top international researchers, the German Ministry for Education and Research (BMBF) provided 50 mn euros to launch the "Centres for innovation competence" program.

The Federal Government planned to ensure Germany's future by focusing the country on the basic technologies that would speed job growth and development in multiple industries. Adding to Germany's strengths in automotive and machinery, "basic technologies" included information and communications technologies, microsystem technology, optical technologies, materials science and environmentally friendly processes and production technologies.³⁰

ITALY

Investment in R&D

Efforts to reduce Italy's national debt sharply limited the level of public funding for research and innovation. Funding for research was cut during recent years. Italy's expenditure in R&D as percentage of GDP remained well below the average for EU15 countries (1.16% vs 1.99% in 2002 respectively).

25 "German government seeking to create a climate of innovation," *German Federal Government Website*, <http://www.bundesregierung.de/en/Latest-News/Information-from-the-Government-10157.648211/artikel/German-government-seeking-to-c.htm>

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http://www.bundesregierung.de/servlet/init.cms.layout.LayoutServlet?global.naviknoten=10157&link=bp_a_notiz_druck&global.printview=2&link.docs=760726

27 *German Embassy website*, http://www.german-embassy.org.uk/building_the_germany_of_tomorr.html.

28 "Commission Approves State Aid Scheme for SMEs Using Incubators-May 4, 2005," *Eu Business website*, <http://www.eubusiness.com/topics/Rd/sme.2005-05-04/view>

29 *Speech by the Federal Minister of Education and Research Edelgard Bulmahn on the Occasion of the Annual Conference of the German-British Forum in London on 14 October 2004* http://www.german-embassy.org.uk/partners_for_innovation.html

30 *Federal Ministry of Education and Research website*, <http://www.bmbf.de/en/1315.php>, and <http://www.fz-juelich.de/ptj/index.php?Index=1049>

Entrepreneurship

A number of tax incentives were introduced at national level to encourage firms to innovate. In particular, the Tecno-Trementi Law gave firms tax deductions for investment in new machinery, training of staff and R&D. The Ministry of Productive Activities launched an "Action Plan" for ICT Innovation. The government attempted to reduce bureaucracy. The start-up was streamlined through the creation of one-stop shops for setting up new manufacturing firms.

Human Capital

In order to increase Italy's research headcount and quality, the government approved a tax relief bill to attract researchers from outside Italy. The Italian Institute of Technology was created in Genova to deal with technological and scientific research.

SPAIN

Investment in R&D

In 2003, Spain's R&D expenditure had reached 1.1% of GDP, falling well below the 3% goal. Although Zapatero increased R&D expenditure by 25% in 2005, a significant proportion of the increase was directed to long-term interest-free loans for business. The Spanish scientific community opposed this measure on the grounds that priority should have been given to scientific research as opposed to private enterprises.

Entrepreneurship

In May 2005, Spain signed an innovation-oriented agreement with Italy and Portugal that focused on the innovation of production processes for small and medium-sized enterprises (SMEs).

Human Capital

At 60.7% in 2003, Spain had made some progress in reaching the Lisbon accord target of 70%. The government implemented support programs to encourage the reduction of agricultural and low productivity service jobs while increasing jobs in higher value-added manufacturing sector. The significant improvement in the employment figures can be seen in the graph below:

UK

Investment in R&D

The UK is far from reaching the Lisbon target of 3% of GDP by 2010. The Science & Innovation Investment Framework 2004-2014, published July 2004, announced the long-term objective of raising overall expenditure on R&D to 2.5% within ten years, from the current level of 1.9%. Achieving this goal would require substantial and sustained increases in both public and private sector investment.

Differences in innovation investment explained a significant part of the UK's productivity gap. Differences in R&D investment alone accounted for a quarter of the gap with the US.³¹ UK labour productivity levels were below those of major advanced economies. The productivity gap remained substantial and existed across almost all sections of UK manufacturing and services. Services accounted for most of the gap.

Entrepreneurship

Small businesses made a major contribution to improving productivity in the UK. The Innovation Report announced several actions to support high-growth SMEs. The main lines of action were focus on improving the awareness of Intellectual Property Rights, Rolling out a Leadership and

³¹ Sheehan and Wyckoff, "Targeting R&D," OECD website, <http://www.oecd.org/dataoecd/24/41/33719708.pdf>

Management Programme for SMEs, Providing SMEs with advice on how design can add value to their businesses and Providing access to technical measurement facilities and expertise ³²

Human Capital

The UK managed to build an excellent track record in terms of employment rates. It had reached the 2010 Lisbon agenda target of 70% employment rate previously and had maintained low long-term unemployment rates.

Efforts to achieve the above Lisbon Accord targets varied widely on a country-by-country basis. Below is a summary of the best and worst performers:

<i>Area</i>	<i>Best performer</i>	<i>Worst performer</i>
Entrepreneurship	Ireland	Belgium, Sweden, Netherlands
Fulfilment of Internal Market	Denmark, Spain	Belgium, France, Germany Portugal,
Taxes on enterprise and labour	Ireland, UK	Sweden, Belgium, Denmark
Macroeconomic stability	Finland	Germany, France
R&D, technological renewal	Sweden, Finland, Ireland	Greece, Spain, Portugal
Innovation	Finland, Sweden	Portugal, Greece, Spain
Labour market modernisation	Denmark, Ireland	France, Germany, Italy
Incentives to higher education	Portugal, UK, (Hungary)	Denmark, Sweden, Belgium

Source: The Lisbon Strategy and Business priorities in EU-25, Confederation of Swedish Enterprise, March 2004

³² UK Government website, Innovation Report, <http://www.innovation.gov.uk/innovationreport/index.asp?lvl1=1&lvl2=4&lvl3=0&lvl4=0>