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THE LIMITS OF POST-LISBON GOVERNANCE IN THE EUROPEAN UNION

LESLIE BUDD

Introduction

At the Lisbon Summit in March 2000, the Heads of the Members States of the European Union (EU) agreed to a strategy for growth and employment, based on fulfilling the objective of making the EU ‘the most dynamic and competitive knowledge-based economy in the world capable of sustainable economic growth with more and better jobs and greater social cohesion, and respect for the environment’ by 2010 (European Council, 2000) At the heart of what has become known as the ‘Lisbon Strategy’ are five policy areas that have been identified as needing strengthening in order that this objective might be met. In subsequent briefings and publications it has become apparent that the key policy area is:

The knowledge society: increasing Europe’s attractiveness for researchers and scientists, making research and development (R & D) a priority and promoting the use of information and communication technologies (ICTs), within which three main drivers have been identified. Firstly, spreading the use of ICT and mobile technology in order to make the EU a leading information society. Secondly, boosting R & D spending to 3% of EU Gross Domestic Product (GDP) so that the EU becomes the most attractive locale for high-tech activities. Finally, fostering life- long learning through enabling technologies to realise and sustain the knowledge society. (European Council, 2000).

The commitment to developing the knowledge society in order to transform the economies of EU economy is set within the strategic objectives of Lisbon:

1. Increase the trend rate of economic growth in the EU.
2. Raise the employment rate and participation rate of women in the labour market.
3. Develop the Information Society.

4. Establish a European-wide research area.
5. Create an environment in which innovative and start-up business may develop and thrive.
6. Modernise social protection (European Council, 2000).

The heady optimism of the Lisbon Summit of 2000 has given way to a more reflective Lisbon II, as contained in the 2004 Kok Report, with its implicit recognition that the 2010 target is unrealistic and unachievable. In the context of the asymmetrical governance of the EU, the creation of post-Lisbon governance looks like a zero-sum game. That is, the potential benefits of an e-governed knowledge society are insufficient to overcome the costs of asymmetrical economic governance of the EU and variability in the capacities and competences of the Member States. The economic governance of the European Union includes:

- Completion of the Single European Market (SEM), particularly the Services Directive in order to complete the liberalisation of cross-border transactions in business and financial services within the EU;
- The management of the single currency, known as the Euro- Area;
- The expansion of the EU and accession of new states into the economic and political institutions of the European Commission; and
- The policy framework for realising competitiveness agenda of Lisbon and ensure socio-economic cohesion between the richer and poorer regions of the EU.

The regime is asymmetrical because the operations of a number of the components listed tend to lead to unbalanced outcomes. For example, the fiscal rules (in the form of limits on government budget deficits and total government debt as a proportion of national income) constrain the reach and effectiveness of cohesion policy designed to address regional inequality. Similarly, the Lisbon objective of developing an EU information society may run counter to industrial policy that seeks to further and develop existing sectors of the economy that are not digitally-based. Perhaps a more important consideration is the nature of governance itself. As John Clarke's chapter that opens this book points out, governance can be a rather vague concept; often 'sexed up' by policy makers and politicians but frequently

unsatisfying. The vagueness of the concept is summarised neatly by Josie Kelly as:

In the literature on public policy and administration the concept of governance now dominates contemporary debates (Newman 2001). The concept is mostly used to explore the diminishing capacity of the state to direct policymaking and implementation, something also portrayed as 'hollowing out of the state' (Rhodes 1997). The term governance is also used to describe governing arrangements that are more than or greater than merely the institutions of government. Hence users of the term tend to focus on the rupture between the formal political institutions and the growth of governance arrangements – such as networks and partnerships – and the increasing use of deliberative forums for service users. (Kelly, 2006; 605).

The problem is compounded by the fact that governance operates at micro and macro levels. At the micro-level governance is frequently associated with corporate governance: the system and rules for managing the legal and business obligations and operations of firms. At the macro-level, governance is seen as a set of obligations and behaviours that encompasses an informal type of government. For example, global governance is defined as a set of inter-governmental relations in an environment of globalisation (Held, 2002). Given the increase in the number of issues that cut across national jurisdictions and beyond the powers of national governments – disease pandemics, genocide, global warming and environmental damage, etc. – there is demand for a range of international organisations and institutions to help form a more comprehensive system of governance on a global scale.

In general, the distinction between government and governance is subtle but there is a division between the two concepts. Government in democratic societies can be defined as the formal exercise of power and authority through the legitimate and accountable undertaking of functional duties that are underpinned by financial resources of behalf of a constituency. Governance, on the other hand, can be described as the informal attribution of power and authority to a set of institutions, agencies and/or actors who are incorporated into governmental relations by acting as intermediaries on behalf of government or its functional divisions. Governmental bodies and governance institutions both derive their legitimacy from their ability to deliver bargains on behalf of their respective constituencies, for example

business associations and trade unions in the case of governance. The difference is that in the former case, the attribution of power is formal and the latter is informal (Offe, 1985). If governance is a container for a range of concepts, ideas and practice around the process of governing, will the development of governance by digital means contribute to a better understanding and application of the concept and practice of governance? Governance is thus a broader concept and appears to be appropriate as an organising concept and principle for investigating the prospect for electronic and/or digital forms of governing at different territorial and functional scales.

Building Blocks of E-Governance

The establishment of e-government is often promoted on the grounds of economic efficiency. Central to this argument is that Using Information and Communication Technologies (ICTs) will lower transactions costs, by reducing the amount of bureaucratic procedures in public administrations (commonly known as 'red tape'). (European Commission, 2007a). In the EU, public procurement accounts for about 15–20% of the aggregate EU Gross Domestic Product (GDP), the standard measure of national income. This amounts to about €1.5 trillion to €2.0 trillion, at 2007 prices. The European Commission claims that use of this type of e-government service will generate 5% in annual cost savings over the long term. Furthermore, the role of e-government in improving public sector efficiency and innovation was highlighted in the 2004 'Competitiveness Report' (EC, 2004). This evidence does tend to show that e-government is a narrower concept than e-governance. E-government includes e-health, e-learning and e-taxation, for example. Proponents of e-government appear to stress its operational effectiveness rather than its strategic potential. E-governance, on the other hand, is broader and covers a host of relationships and networks based on the use of ICT within and across government and governance institutions that function outside the realm of formal government. The latter institutions include non-profit organisations and private organisations that are incorporated into the public domain, for example managing and operating some public services. The prefix, 'E' represents the electronic platform or infrastructure that enables these two concepts (Sheridan and Riley, 2006).

The United Nations Educational Scientific and Cultural Organization (UNESCO) defines e-governance as ‘the public sector’s use of ICT with the aim of improving information and service delivery, encouraging citizen participation in the decision-making process and making government more accountable, transparent and effective’ (UNESCO, 2005). Their more complete definition suggests that:

Governance refers to the exercise of political, economic and administrative authority in the management of a country’s affairs, including citizens’ articulation of their interests and exercise of their legal rights and obligations. E-governance may be understood as the performance of this governance via the electronic medium in order to facilitate an efficient, speedy and transparent process of disseminating information to the public, and other agencies, and for performing government administration activities. E-governance is generally considered as a wider concept than e-government, since it can bring about a change in the way how citizens relate to governments and to each other. E-governance can bring forth new concepts of citizenship, both in terms of citizen needs and responsibilities. Its objective is to engage, enable and empower the citizen.

UNESCO sets out the specific goals of e-governance as enabling better organisation of governments’ internal processes; endow more efficient delivery of services and information; create more transparency, legitimacy and accountability so increased public consultation and participation results. UNESCO sets out three fields of implementation for achieving these goals:

1. e-administration – effectively e-government that uses ICT to create more efficacious management of governmental policies and practices.
2. e-services – the evolution and sustaining of interactive accessed public services.
3. e-democracy – active and direct of engagement of all citizens in the political process and the management of governmental outcomes.

From these approaches what are the possibilities of e-governance in realising an information or knowledge society in the EU? Moreover, can the development of a comprehensive e-governance system lead to the main objective of the Lisbon Agenda, of making the EU the

most dynamic knowledge economy in the world by 2010, being achieved? This chapter explores the limits of a Lisbon e-governed EU and the potential of the EU to break out of its unbalanced forms of economic governance through virtual means.

The Promise and Potential Failure of the Lisbon Agenda

The strategic priorities of the Lisbon Agenda were stated above, but have been subject to a number of criticisms and challenges. In response, the EC sought to develop better means of following these priorities. The subsequent Sapir and Kok Reports, commissioned by the EC, stress the utility of the Lisbon growth strategy in enabling cohesion through the EU economy reaching its potential. The former was published as a result of the President of the EC inviting a group of independent experts, known as the 'High-Level Group' to analyse the strategic economic goals set out in the Lisbon Agenda with sustainable economic growth and greater social cohesion in July 2002. The Group was asked to review the entire regime of EU economic policies and to propose a strategy for delivering faster growth together with stability and cohesion in an enlarged EU. It subsequently became known as the 'Sapir Report' after the name of the Chair of the Group.

Central to the Sapir Report is a six-point agenda that is set out to help achieve the goals of Lisbon:

1. To make the Single Market more dynamic through better co- ordination of regulatory and competition polices to stimulate new market entry; invest in infrastructure to increase greater connectivity within the wider European economy;
2. To boost investment in knowledge through stimulating research, R&D by use of tax credits and create a single EU science-and-research institution;
3. To improve the macroeconomic policy framework for EMU through encouraging Members States to operate fiscal policy according to cyclical norms (surpluses during upturns and deficits during downturns) and to implement a more flexible and effective Growth and Stability Pact (GSP);
4. To redesign policies for convergence and restructuring through concentrating on low-income nations and not regions with priority given to institution building and

investment in human and physical capital with EU funds complementing national welfare policies to restructure individual's participation on the labour market;

5. To achieve effectiveness in decision-taking and regulation through more flexible and coherent allocation of policy competences between EU and Member State levels; devolution of some economic management and regulatory function to independent Europe-wide bodies; as well as a leaner Commission and more Qualified Majority Voting (QMV) in economic policy matters;

6. To refocus the EU budget through creating three new funds: growth; convergence; and restructuring so as to radically reorganise that part of the EU budget pertaining to economic performance, albeit within the 1.24% of EU GDP ceiling established by Agenda 2000 and the subsequent 3rd Cohesion Plan (Sapir et al, 2002; ii).

The strategic priorities of the Lisbon Agenda and the six-point agenda of the Sapir Report take place against the background of the regime of economic governance of the EU. The major elements are:

- Completing the Single European Market (SEM) in the context of the EU fulfilling its obligations to the World Trade Organisation (WTO);
- Management of Euro-Area macroeconomic policy, founded in part on the Maastricht Treaty rules (Buiters 1992, 2006) and the constraints of the Stability and Growth Pact (SGP) which restrict the use of fiscal activism to ameliorate the effects of industrial and regional shocks; and
- The enlargement to twenty-seven Member States and possibly more in the future.

The Sapir Report focuses on the components of two key policy drivers within the regime of economic governance, as shown in Table 3.1. It is against this background that the development of a European Information Society needs to be investigated, and in particular, how this

Table 3.1 Policy elements of two key drivers of economic governance

	Single Market	Lisbon
Ultimate aim	Integration and growth	Growth, social cohesion, employment
Intermediate objectives	Cuts on cost of cross-border transactions for products and services	Advances in education and innovation, Increase in R&D spending Liberalisation for service industries Increase in labour force participation and employment rates
Means	Elimination of border controls Harmonisation and approximation of laws	Definition of common targets Performance reporting and benchmarking Joint monitoring
Instruments	EU directives Enforcement by case law	Mostly national (spending, taxation, regulation)

Source: (Sapir, 2001)

development will contribute to achieving the objectives of the Lisbon Agenda. The Lisbon Agenda and its commitment to develop the information society and create a knowledge economy has been ‘sexed up’ by politicians, for example former UK Prime Minister Tony Blair. This sexing-up has tended to lead to an uncritical acceptance of new technology driving new industries, as the solution to the EU’s perceived economic weaknesses and the lack of dynamism of European societies. The evidence for this assertion rests on comparative evidence on the productivity performance of the EU and US economies. Behind the headlines, associated with this evidence, is a more variable picture so that digital sexing-up may not necessarily be appropriate to marrying the EU’s development to the information society (Budd, 2004). Moreover, there is a danger that policy makers become divorced from reality because of a poor understanding and specification of the information society.

The current seductive appeal of the information society is frequently associated with the work of the sociologist, Manuel Castells. His trilogy of books: *The Information Age: Economic, Society and Culture* has been influential among academics, policy makers and practitioners engaged with the interface between technology and society. Castells claims that informationalism is a new technological paradigm that is creating the network society that is

transforming the way we all live. The rather breathless account of this transformation suggests that Castells is too much in love with the possibilities of ICT. He tends to give little credit to the provenance of information society, particularly the role of the work economists like Fritz Machlup and his work on the knowledge industry; and the management writer Peter Drucker's observations on the shift to a knowledge-based economy (Machlup, 1962, Drucker, 1969). One common reference suggests that:

An information society is a society in which the creation, distribution, diffusion, use, and manipulation of information is a significant, political and cultural activity. The knowledge economy is its economic counterpart whereby wealth is created through economic exploitation of understanding. (http://en.wikipedia.org/wiki/Information_society accessed 01/06/07) The fact that all societies are essentially information societies (notwithstanding the overexcited use of this term) distracts us from a real understanding of the role of ICT and the potential of new developments, for example, e-governance. By endlessly stressing the 'new' and the 'modern', politicians and policy makers reduce many virtual or digital initiatives to impotence.

The idea that the information society will be some kind of societal stimulant in the twenty-first century is one that ignores the rather mundane and chaste nature of the reality behind it, as a historian of science notes:

There is no doubt that the rise in employment in service industries in the rich countries is one of the major economic changes in the last thirty years. A number of analysts have, perversely, identified this growth of service employment with the rise of an 'information society' with connotations of weightlessness or indeed the 'dematerialised' economy. This was a fashionable, and misleading, way of saying little more than that the service industries now account for very large proportions of GDP and employment. This is partly the result of mis-specification because services include a vast range of activities, many of them far from weightless or indeed new. (Edgerton, 2006; 70)

Our ability to experience shock and awe in the face of the 'old', and old technologies in particular should not be underestimated (Landes, 2003). After all, the principles of the internal combustion engine; the aeroplane; and the railways have been with us for over a

century. Thus the claims for the liberating effects of an EU information society, based on ICT and its applications, should be treated with healthy scepticism, something that the promoters of the Lisbon Agenda appear to forget.

Realising a European Information Society?

A European information society owes its lineage to modernist thinkers of the nineteenth century but has been most recently triumphed in the Lisbon Agenda. In reflecting on an EU Information Society, the Kok Report points to the transformative nature of the 'knowledge society' in boosting productivity, economic growth and employment. The report flags up the possibilities of new business models that can be more easily adapted to the needs of networks and tailored to individual demands. The 'economic' perspective on the knowledge society is in line with the major objectives of Lisbon, as well as those of the Sapir Report. But, beyond stating the utility of ICT, the Kok Report does not expand on how the knowledge society is to be achieved. There is little or no mention of the role of the public sector in the Kok Report, beyond a discussion of regulatory reform. In contrast the Sapir Report engages in a detailed debate on budgetary reform at the EU level, but in both cases the role of e-government and e-governance in enabling an EU information society is missing.

The main policy vehicle for an EU Information Society is i2010. This is the Commission of the European Union's strategic framework to promote the digital economy and ICT research in order to help achieve the Lisbon objectives of making the EU the most dynamic, sustainable and socially inclusive economy in the world. A number of policy instruments have been created to support i2010, including joint research projects with stakeholders, as well as new regulatory procedures. According the Commission's Annual Report on the development of Information Society in Europe, growth has been steady (EC, 2007b). The recent growth trends are shown in Table 3.2. The i2010 project builds on the previous 2005 eEurope Action Plan which was launched at the Seville European Council, in order to fulfil the demands of the Lisbon Council of 2002 and Barcelona of 2004.

Table 3.2 Growth in ICT Services and GDP in the EU

	Share of ICT sector (2006)	Growth rates		
		2004–5	2005–6	2006–7
Software & IT services	31%	5.8%	5.7%	5.9%
Electronic Communications services	45%	3.5%	2.3%	1.4%
Growth in Gross Domestic Product*	–	2.2%	1.7%	2.4%

* The twenty-five Member States of the EU known as EU25

Source: EITO, 2007 (not including Malta and Cyprus), National Institute Review (2007)

Central to these demands are the modernising of public services and developing opportunities for a dynamic e-business sector. Satisfying these demands is conditional on greater access to broadband at competitive prices and secure ICT infrastructure.

The EC's 2005 communication 'i2010 – A European Information Society for Growth and Employment' points to the need to have policy convergence to accompany and enable the EC's claim for digital convergence. The EC sets out three priorities:

1. Competing in a 'Single European Information Space';
2. Promoting growth and employment in higher-value added occupations, by reinforcing innovation and investment in research into ICT; and
3. Creating an inclusive information society in Europe in order to integrate better public services and quality of life with growth and employment objectives, all within a commitment to sustainable development.

For the purposes of this chapter, we focus on the third priority. The Communication stresses the benefits to all EU citizens from the greater usage of ICT. By making public services more accessible, by means of this type of technology, the quality of life will be improved and efficiency gains will be created for public procurement. That is, the buying of goods and services from the private and non-profit sectors by the public in order to deliver cost-effective public services. In the EC's view, giving greater access to ICT-based public services will also help overcome the challenges of e-inclusion, defined as overcoming the digital divide between nations and regions and among citizens. It has proposed a European Initiative on e-inclusion in 2008, focused primarily on the e-procurement and e-health aspects of e-

government by means of the vehicle of Actions Plans for these two areas of e-governance. The Annual Information Society Report 2007 builds on these initiatives, but again does not escape the constraints imposed by the regime of economic governance that underlies the Lisbon Agenda. The seemingly serial stalking nature of the Lisbon cycle does place constraints on the development of a comprehensive form of e-governance in the EU. The sado-masochistic preferences of policy makers for the market adjustment agenda of Lisbon to whip EU e-inclusion into shape undermines the very basis of developing a fuller system of e-governance. In other words, without appropriate public sector action and institutions, satisfying the demands for e-inclusion will be a frustrating and ultimately unsatisfactory experience. The question of policy deviancy in developing e-governance is examined in the next section.

E-Government to E-Governance in the EU?

The previous section argued that the dominance of the Lisbon Agenda in promoting an EU Information Society has overlooked the means by which its objectives will be achieved. Underneath the Actions Plans and the i2010, one finds a number of e-government initiatives but no real explicit move towards developing a comprehensive system of e-governance. Clearly, the boundaries between e-government and e-governance are fuzzy and we do need to remind ourselves about the subtle but important differences between the two concepts and how they function in reality. That is, e-government involves managing and delivering public and publicly-underwritten services using electronic media. E-governance is the set of institutional arrangements for formulating and managing public policy in pursuit of governing electronically-mediated services. According to Sheridan and Riley, 'Information sharing, knowledge sharing, and jurisdictional cooperation (horizontality), are the means to achieve e-governance' (2006; 4). The challenge for the EU is the degree to which horizontality can be achieved across twenty-seven member states: member states, moreover, with differing economic capacities and development paths. Information and knowledge sharing may be difficult in an environment in which the digital divide is experienced between countries and within countries.

The telecommunications market in the EU has been liberalised since the late 1990s, with five Directives covering its completion by 2003:

1. Framework Directive: Outlines the general principles, objectives and procedures.
2. Authorisation Directive: Replaces individual licences by general authorisations to provide communications services.
3. Access and Interconnection Directive: Sets out rules for a multi-carrier marketplace, ensuring access to networks and services, interoperability, etc.
4. Universal Service Directive: Guarantees basic rights for consumers and minimum levels of availability and affordability.
5. E-privacy or Data Protection Directive: Covers protection of privacy and personal data communicated over public networks.

These Directives initially only covered the EU15 (the Member States from Western Europe).

Although newer member states have also to comply with these Directives, their full implementation does bring difficulties because of the lack of a relatively sophisticated market and the need for new infrastructure. In 2007, there were ninety outstanding cases against member states in breach of one or more of these Directives, many of them in the newer states whose infrastructure is less developed and who are recipients of the EU's Cohesion Funds.

The crucial issue for the development of e-governance in the EU, particularly in economically less developed member states, is creating capacity in e-government structures and processes that provide the building blocks of the former.

The Commission's proposals for the review of the telecommunications regulatory framework were adopted in 2007. They focus on the four areas of increasing competition; better regulation; strengthening the internal market; and protecting consumers. Two things need noting: the telecommunications sector has many characteristics of a natural monopoly. That is, the minimum efficient scale of operations necessitates the market being dominated by very few large producers. Furthermore, as the EU expands, the benefits of scale economies created by the internal market are offset by the costs associated with diseconomies of scale of operating beyond an optimal scale. In this situation, achieving better regulation and protecting

consumers may prove difficult. Moreover, generating standard service levels for e-government processes and operations in a union of nations with differing capacities and capabilities inhibits the creation of the appropriate set of institutions of e-governance. The Lisbon perspective tends to dominate the development of e-government capacity as shown in Diagram 3.1. That is, the development of a European Information Society appears to be determined by the realisation of the knowledge economy within the EU economic space: the emphasis of which is on the transformative power of research and development in itself. The bias towards technology rather than process seems to be a barrier in moving from e-government to e-governance. The approach to the five main elements of Diagram 3.1 can be summarised as:

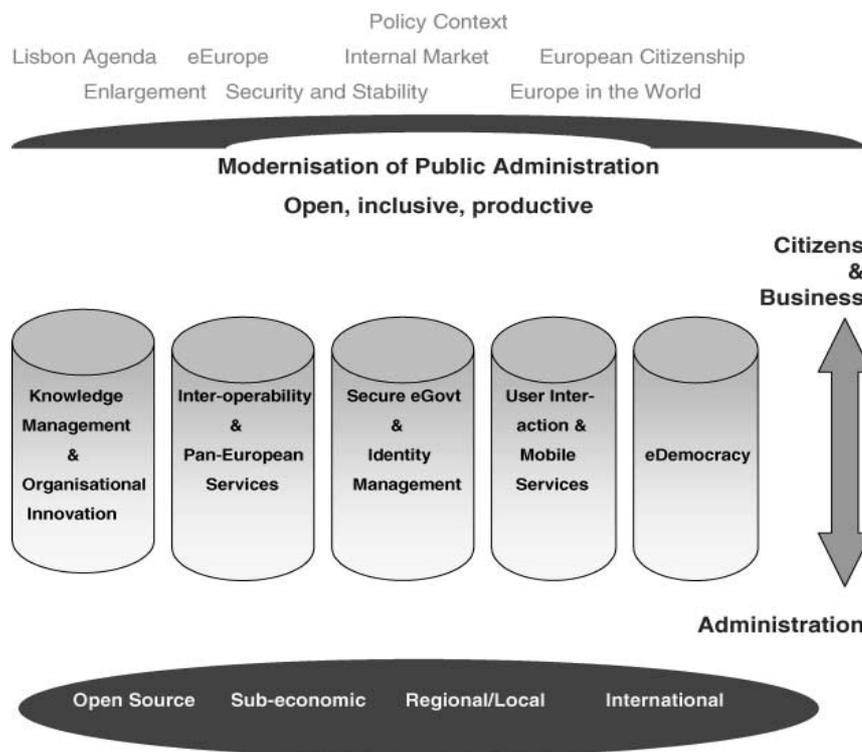


Diagram 3.1 E-government R&D focus.

Source: European Commission (2007b). Reprinted with permission.

1. *Knowledge Management and Organizational Innovation*: The EU views organisational innovation as one of the key drivers of e-government. By creating online access for routine services, more complex services can be created and managed by government officials efficaciously. Through knowledge enhanced ICT-based services

it is claimed that democratic processes, public policies and public services will be improved. The main vehicle for making these changes is Knowledge-enhanced e-government (KEEG).

2. InterOperability and Pan-European Services: The advantage of providing e-government services stems from gaining economies of scale and scope as a result of standardisation of ICT systems. Public administrations in the EU, however, have developed digitally-based services at different governmental scales so that the take-up of these services will be constrained. By creating Pan-European interoperability, then the scale and rate of take-up of e-government services should increase significantly.

3. Secure E-government and Identity Management: In order to overcome cross-border constraints on EU citizens accessing public services, electronic forms of pan-European identity are proposed. It is planned that the EU population will be able to exercise its rights and responsibilities as citizens and reinforce the objectives of inter-operability and pan-EU services. But, there are a number of technological and organisational challenges such as security and privacy and the fear of the rise of 'surveillance society'. Creating 'frictionless' access is central to achieving these aims, as well as those of Pan-EU services.

4. User Interaction and Mobile Services: This function is directly related to interoperability but includes a wider frame of reference and resources. It consists of combating the digital divide to overcome inequalities in access due to, inter alia, age, income, employment and personal formation and social exclusion as well as disability that limits access to on-line infra-structure and resources. The ubiquity of mobile telephony appears to promote the idea of mobile e-government as the dominant form. Not all public services are accessible through this type of communication so that the EC is proposing that all wireless forms should be included for consideration as delivery vehicles. This sort of e-government includes internal trans- actions as well as external ones leading to claims of significant cost savings with public administrations

and associated non-profit and private agencies. The issue of mobile access to government services is developed further by Vincent and Harris in Chapter 4.

5. *E-democracy*: The EC's definition of e-government is 'the use of Information & Communication Technologies (ICTs) to make public administrations more efficient and effective, promoting growth by cutting red tape. This is something which anyone who has spent hours waiting in line in a government building can appreciate' (European Commission, 2007b). It is claimed that the effective introduction of e-government and sustaining it can make a significant contribution to overcoming the 'democratic deficit'. This term covers the apparent dissatisfaction with democratic politics in the EU and elsewhere. The introduction of innovative ICT to enable public administrations to manage multiple, complex and conflicting 'expressions of will' in a democratic society more readily may be longer on promise than delivery, however. To date, this kind of response has not been a major driver of e-government. But, unless e-government is underwritten by trust and accountability then no technological imperative will overcome the democratic deficit. By promoting different forms of engagement between the citizen and government through different channels, under the rubric of e-participation, some of the current weaknesses in e-democracy may be overcome.

Prospects for an E-Governance Transaction Space in the EU

The actioning of these five drivers present a major challenge to the creation of what can be termed an e-governance transaction space in the European Union because of the heterogeneous nature of various e-government initiatives and the differing e-capacities of participating member states. A transaction space is defined as, 'an abstract n-dimensional space defining the institutional, legal, cultural and language differences that must be accommodated if a given transaction between two or more agents is to take place' (Wood and Parr, 2005; 4). The idea of a transaction space is one that is developed from the relationship between transactions costs and agglomeration economies. Transactions costs are incurred in any exchange of good or service as each party engages in a formal or informal contract, enforced by some procedures so that each party complies with the conditions of the exchange.

In international trade, transactions costs are incurred in the form of transport and insurance costs to ensure that traded goods and services arrive at designated markets (Wood and Parr, 2005). Agglomeration economies are those that are external to the firm in the form of co-location of business activities. They take the form of pooled labour markets and shared market intelligence in the same activity in a particular locale. These kind are known as localisation economies. For unlike activities in the same place, the provision of transport infrastructure, research and development facilities form the basis of what is known as 'urbanisation economies'. There is a third category of agglomeration economies, known as 'activity-complex economies': 'they refer to economies that emerge from the joint location of unlike activities which have substantial trading links with one another' (Parr and Budd, 2000; 603).

Activity-complex economies can be likened to economic growth poles in which economic activities are developed and sustained by proximity to each other, for example financial centres; innovation networks and so on. The benefit of proximity is expressed in the form of gaining agglomeration economies and thus lowering the transactions costs for the firms involved. The more that a transaction space is homogeneous, the lower will be the transactions costs of constituent firms and thus the transaction space will be more efficient. On the other hand, the more heterogeneous a transaction space the higher the transactions costs. In this context heterogeneity, is defined as the degree to which the collection of institutional and cultural characteristics faced by economic agents' transactions is different across the geographical space that separates these agents (Wood and Parr, 2005; 5).

The evidence that transactions costs are positively related to the heterogeneity of a transaction space rests on three lines of reasoning. Firstly, the span of control shortens as the transaction space becomes more homogeneous and vice versa. In the former case, the number of economic agents that are needed to co-operate and the regulatory institutions to be complied with in undertaking a transaction is smaller (Williamson, 1975). The more that economies of communications are realised, the less the probability of loss of control by the transacting agents. Secondly, the rules, regulations and control procedures covering transactions will be

more effective in a more homogeneous transaction space and vice versa. That is, standardisation of contracts will be more effectively enforced and limit exploiting opportunism in dealings between firms (Sokoloff, 1995). Thirdly, conflict between transacting or contracting agents is reduced as a result of the co-location of firms in a particular place. Market information is more easily distributed and shared and co-operative relationships develop from greater face-to-face communication, leading to transaction spaces that are more homogeneous and thus lower transactions costs (Wood and Parr, 2005).

More effective trust relationships tend to be created in more homogeneous spaces because of proximity and face-to-face contact. It has been argued that these types of arrangements are essential to the survival of specialist businesses and those operating in complex supply chains (Stuart and Sorenson, 2003). There is also an increasing amount of evidence that supports the hypothesis of the importance of strong links between trust, reputation and face-to-face contact (Glaeser et al, 2000). In an age that is apparently dominated by ICT and a population seduced by the ubiquity of this technology and one which lusts after the next 'new' digital device, this conclusion may seem surprising. However, both the biotechnology and finance sectors of the advanced economies have lower transactions costs where agglomeration economies are largest (Parr and Budd, 2000; Stuart and Sorenson, 2003). The relationship between firm co-location and co-operation, face-to-face contacts and communications and trust and reputation suggest that the more homogeneous a transaction space the more efficient will be business transactions (Wood and Parr, 2005).

Given this discussion, it is apparent that if a framework in which institutional, cultural and language differences can be created, then combining a set of e-government initiatives will not be enough to create a system of e-governance. That framework is the transaction space which is sufficiently homogeneous to limit increasing transactions costs. The paradox is that any system of governance is necessarily heterogeneous, given our definitional elements of networks, partnership and fora in which service users deliberate in. But, in order to function efficiently (lower transactions costs) a transaction space of e-governance must be more homogeneous. Furthermore, the relationship between agglomeration economies and more

efficient transaction spaces is a severe challenge for any form of virtual organisation and its operational management. Given the unstable nature of networks and partnerships over the longer term, the ability to create the conditions for an EU Information Society in which e-governance enabled is doubtful. The youthful promise of social networking sites like Facebook, YouTube and Second Life among others, notwithstanding, matching the benefits of face-to-face contact and communications is a difficult and frequently unsatisfactory pursuit. At present the major Lisbon objective of an Information Society in which the EU Knowledge Economy progresses is a description and not a basis for action and creating the necessary agency to fulfil this objective. Therein lies the rub, the technologically and R&D over-determined nature of the Lisbon Agenda inhibits the development of the necessary institutional processes and procedures in which digital and virtual technology can generate more homogeneous transaction spaces. The starting point of initiating any form of governance is to cohere the appropriate networks and partnerships around a central set of objectives, potential outcomes and the institutional basis to produce these elements, as well as matching them to governmental functions. Aggregating the parts of e-government programmes driven by R&D will not add up to the total sum of e-governance. That is, by having R&D and technologically-driven e-government projects that are not set within an efficient transaction space will not create a system of e-governance.

One can start to see why the Lisbon Agenda seems to be creating the possibility of a zero-sum game. On the one hand ICT and its application will not in themselves create an EU Information Society and thus the conditions for EU e-governance. On the other hand, the regime of asymmetrical economic governance, based on the primacy of market adjustment inhibits the development of a world beating knowledge economy, whose benefits are distributed among the populace. Is there any way out of this conundrum?

One possible solution is the extension of the Open Method of Co-ordination (OMC) in the development of governance structures and processes. OMC can be seen as an attempt to integrate the operations of EU-level and Member State policy processes more flexibility and consists of:

1. subjecting national policies to EU-wide guidelines;
2. establishing measures of best practice against which the performance of member states can be compared; and
3. calling on member states to adopt action plans in order to operationalise EU guidelines. (Budd, 2007; 358)

The OMC operates by establishing a series of ‘soft law’ agreements to make the operation of formal EU governmental rules (‘hard laws’). For example, the implementation of legislation to deregulate and liberalise telecommunications markets, in the context of achieving the Action Plans for e-inclusion and e-health. The challenge for a Lisbon-inspired EU Information Society and e-governance is that elements of e-government projects can be successfully established at national and sub-national levels. For example, e-democracy through e-participation may be appropriate to some local initiatives or simple governmental programmes, but once these are ramped up to EU-wide levels then manifold problems may occur. As argued above, a trans- action space of e-governance will be less efficient if it is more heterogeneous. One of the Lisbon Agenda’s main drivers is the creation of an EU Information Society. This entity requires a degree of heterogeneity for it to be implemented and leads to the potentially paradoxical outcome of it undermining the logic of the Lisbon Agenda itself.

Conclusion: Prospects beyond a Zero-Sum Result?

Many of the objectives of the Lisbon Agenda of 2000 are laudable. Few can argue with making the EU the most dynamic, socially inclusive and sustainable economy in the world. Nor for that matter, with harnessing the potential and possibilities of ICT to create an Information Society in order to overcome the digital divide. Like most politically inspired programmes, the 2010 deadline for the achievement of its objectives is overambitious. This was recognised in the subsequent Sapir and Kok Reports, expressed in the moniker: Lisbon II. One could be accused of being cynical if one were to identify this process with the serial thriller and sex movies: Die Hard, II and III or the prospect of Deep Throat I–IV. Sexing up movies as brands to sell more cinema tickets and merchandise may be one thing, but the

legitimacy and accountability of supra-national development programmes in Europe is another matter altogether. This is particularly the case in using the Lisbon Agenda to drive through the development of complex public policy changes such as the introduction of e-government programmes in order to create a transaction space and eventually a system of e-governance.

The underlying rationale of the Lisbon Agenda is that competitive markets will ensure economic dynamism and ensure social cohesion. Aided and abetted by the EU's regime of economic governance, the conditions for creating an EU Information Society and a knowledge economy will accordingly be fulfilled by the application of ICT and R&D. Desire may be a stronger emotion than rationality in the human condition, but by overlooking the role of process in all its complexity, EU and Member State policy makers may be generating a zero-sum game. A zero-sum game is one in which all the winnings are matched by the losses, for example poker. The regime of economic governance is asymmetrical and lacks the institutional basis needed to fulfil the objectives of the Lisbon Agenda, as noted in the Sapir and Kok Reports. It restricts the development of an EU Information Society and the distribution of its benefits to the wider population because of the operation of the assumptions that technology, in and of itself, and market adjustment are sufficient conditions for creating and sustaining a dynamic knowledge economy. Given these parameters, creating an e-governance transaction space will be very challenging.

This chapter has contended that the more heterogeneous a transaction space the larger will be the transactions costs, and thus the efficiency of the transaction space. The importance of agglomeration in the form of co-location that creates greater co-operation and trust has been noted by observers of advanced industries (Glaeser et al (2000); 113). In order to make an e-governance transaction space more homogeneous, virtual and digital forms of agglomeration must be developed so that an abstract space that encompasses institutional, cultural and language difficulties can be simulated and created. However, the very existence of significant differences in language, culture and institutions across the EU suggest that creating digital versions of social inclusion, participation or democracy will not of themselves address

this challenge. Summing together individual e-government projects will not generate the total of e-governance, whatever the utility of these projects. E-governance in the EU is pregnant with possibilities and conceiving of it as a transaction space is a starting point. But, the gains and losses will cancel each out if the post-Lisbon environment is over-determined by technological and R&D imperatives, buttressed by an asymmetrical regime of economic governance which distorts the development path of the European Union.

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