A EUROPE OF EXCELLENCE

THE LISBON STRATEGY: GETTING FROM DECLARATIONS TO RESULTS

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PSE

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Preface

2005 marks the mid-point of the "Lisbon Strategy", a 10-year strategy for Europe's economic, social and environmental development. This report was produced by the PES Group of the European Parliament in January 2005 as an input to the 2005 EU Spring Summit, which had the task of evaluating and relaunching the Lisbon Strategy. It was also our basis for the resolution of the European Parliament adopted on 9th March. Following the Summit, the report will continue to guide the PES Group's work on the implementation of the Strategy, which will be the EU's top priority for the next 5 years.

We hope the analysis and recommendations in this PES Group report will play their part in the battle for a true Europe of Excellence.

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What's the Lisbon Strategy?

The Lisbon European Council of March 2000 set Europe a new strategic goal for the new decade: "to become the most competitive and dynamic knowledge-driven economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion". The strategy it set out to get there has become known as the Lisbon Strategy.

The Politics of the Lisbon Strategy

Introduction

Discussions of the Lisbon Strategy are bedevilled by complexity, but this contribution to the mid-term review of the Strategy makes just three arguments about why its first five years have been a disappointment – even if there has been progress in some areas – and what needs to happen if the next five years are to be better:

1. **Lisbon's biggest weakness has been in implementation, especially by Member States. To change that, the Lisbon process must become more focussed, less technocratic and more democratic, involving national stakeholders in the policy debate.**
2. **Policy-makers have to understand the strategy, believe in it, and act accordingly.**
3. **Europe will not achieve the growth, jobs and social cohesion it needs unless the European macro-economic framework is also consistent with the Lisbon Strategy.**

At Lisbon's half-way mark, both the state of implementation of the strategy and the state of Europe's economy are already well-documented. This report will not add to the analysis mountain. But underlying our proposals are these two broad perceptions on the state of Europe, and the nature of the problems which the Lisbon Strategy is designed to address:

- **For all its problems, Europe has an economy and a social and environmental model which stand comparison with any in the world. In a recent global quality-of life survey[1], European countries occupied 9 of the top 10 places, and the EU's most successful national economies outperform the US on most economic and social indicators.[2]**
- **But we need to do better. Europe still lags in economic growth, employment levels and some key indicators of economic dynamism, such as rates of innovation and presence in cutting-edge sectors such as IT, biotechnology and nanotechnology. And new challenges, such as the ageing of the population, the growing pressures on the natural environment and the growing competitive strength of Japan, China, India and others, mean that Europe faces a more intense pressure than ever to raise its game.**

1 Economist Intelligence Unit, November 2004

2 EU-wide, the comparisons favour the US on some important economic indicators and the EU on others – as well as on most social indicators.

The Lisbon Strategy is the EU's blueprint for raising its game. Much has changed since the European Council launched the strategy in 2000. We have learned a lot about the difficulties of making a reality of that ambitious target. What has not changed, and should not change, is the Lisbon objective, quoted at the start of this report. The strategy is complex and challenging. But the vision it sets for Europe, for a dynamic economy and a good society, is the right one, which builds on Europe's unique strengths and answers to the aspirations of Europe's citizens. The rest of this report explains how we can make it work better.

The Lisbon Strategy — complex, but simple

The Lisbon Strategy has been much criticised for its complexity. With its multiple objectives and instruments, spanning social, environmental and economic policy, it has been likened to a Christmas tree.

But at the heart of the Lisbon Strategy is something very simple, yet poorly understood. The Lisbon Strategy is the expression of the economic, environmental and social model through which Europe will build its future — what we call, in this report, a **Europe of excellence**. Faced with a choice between a high road and a low road to competitiveness, Lisbon represents Europe's choice of the high road. In this model, it is a profound misunderstanding to talk — as many commentators do — of a trade-off between the economic, social and environmental dimensions.

The essence of the Lisbon Strategy is the **interdependence** of economic, social and environmental progress. For the sake of those — in national governments and elsewhere — who still have not understood this, a short reminder may be needed.

Two models, one choice

Europe's competitiveness in the 21st century, and the nature of European society itself, depend upon how we respond to three central challenges of the modern global economy:

- to globalisation itself, with the pressure of growing competition from both industrialised and some developing nations.
- to constant, and accelerating, change — not only in technologies, but in markets, in tastes, and in business models.

- and to chronic economic and political instability in the international situation, with consequences for energy supplies, for trends in migration, for the wider economic environment and for the geopolitical role of the EU – including the contest between differing economic and social models.

Europe's choice, expressed in the Lisbon declaration, is to base its competitive strategy on excellence, on the high quality of its infrastructure, its public services, its environment, its welfare systems, its workforce, its labour markets, its companies and much more.

That choice reflects a farsighted recognition that Europe has no future trying to compete as a low-cost producer in a global economy. We cannot and should not seek to imitate the lowest labour costs, most biddable labour forces, lowest taxes, most lax environmental, social and health and safety standards of our competitors. Such a strategy cannot work, and we cannot save our economy by destroying our society.

The Lisbon alternative is to recognise that, in favouring investment and creating an environment where world-beating companies can flourish, Europe's social and environmental model is not an obstacle but an ally. Investors will choose Europe for its skilled workforce, its vibrant universities and research centres, its first-class communications, its efficient public administration, its social peace, its quality of life. These are the source of Europe's competitive edge and can help build the agile, fast-moving companies of the 21st century.

A NORDIC ROUTE TO EXCELLENCE

↗ There is more than one way to reach high competitiveness and economic growth. The United States offers one route, but it is far from the European social and environmental model. Within Europe, the Nordic model, combining economic competitiveness with a strong social welfare system and high environmental standards, is one successful alternative. *The Global Competitiveness Report 2004-2005*[3] puts the three Nordic countries in the top five of competitiveness worldwide – showing that relatively high taxation, a strong public sector, high salaries, good welfare provisions and high social protection do not exclude growth and prosperity – on the contrary, they support it. This has been achieved through reform of the labour market; committing public money to an active labour market policy; prioritising education and life long

3 World Economic Forum

learning; cutting time spent between jobs to a minimum; action on gender equality and non-discrimination; a strategy of high quality jobs; and the EU's highest spending on R&D, with a particular emphasis on environmentally friendly technologies.

The first step to success: policy coherence

Understanding the economic model which underlies the Lisbon Strategy is crucial to making a success of the strategy, because it has far-reaching implications for policy. On public finances and public services, on labour markets, on education and training, on the internal market, on research and development, on environmental policy and social protection systems, on all the strands of the Lisbon Strategy, a precondition of success is to pursue policies which are consistent with the chosen model of economic development. The second part of this report spells out in clear terms what this means in each of these key policy areas.

Before Europe's governments can successfully implement the Lisbon Strategy, they have to understand it. Too often, away from the Summit spotlights, Ministers and Commissioners seem to be reading from a different script, in which competitiveness is really just about more open markets, lower taxes and less regulation of businesses, while all the rest is window-dressing – necessary political cover, but a distraction from the real business of making Europe competitive. That is certainly a strategy, but it is not the Lisbon Strategy.

So here's the thing. The Commission and the European Council must use the mid-term review to decide whether they are serious about the Lisbon Strategy, about the economic and social model built on a Europe of excellence. If the answer is yes, then every policy touched by Lisbon must be consistent with that model – which means a profound rethink in some areas.

A radical agenda for success

Defending a Europe of excellence, defending high social and environmental standards and good public services, does not mean defending the status quo. The argument of this report is that these things can be, and must become, part of a winning economic formula – not that existing social and environmental policies, or existing regulatory regimes, always fit this bill. The rest of this report sets out the radical changes needed in several key policy areas, if Europe is to make a success of its Lisbon ambitions:

- Unlocking our Productive Potential sets out how a strong and unified domestic market, with coherent economic governance, can provide the macro-economic framework for a more enterprising European economy and for sustainable growth and quality jobs. More growth and jobs are also an essential condition for ensuring that reforms will be widely accepted and supported.
- Implementation, ownership and democracy proposes how a stronger democratic element and stronger instruments of governance can transform the patchy record of the EU and Member States in implementing Lisbon.
- Policies for excellence spells out some of the changes needed in order to make social and environmental excellence, entrepreneurship and the knowledge economy a source of competitive edge for Europe in the global economy.

Policies to match the Strategy

1. Unlocking our productive potential

The interdependence of structural reform and macroeconomic policy would be too obvious to mention, were it not for the fact that much discussion of the Lisbon Strategy ignores it. So let us be quite clear. No economy can fulfil its productive potential without an appropriate, supportive macroeconomic framework. The Lisbon Strategy will fail if we do not get macro-economic policy right – and so far, we are not getting it right.

In the last decade, the EU economy has grown well below its potential, with the result that millions of potential jobs have failed to be created. Both public and private investment have been inadequate to generate growth. From 4% of GDP in the early 1970s, gross public investment has fallen to 2.4% in the euro area, while private investment has also fallen. Investment in physical and human capital is the essential transition mechanism from stabilisation policy to long-term economic growth and a key instrument of the Lisbon Strategy. Stability is a public commodity that must be defended, but there will be no stability without growth. Macroeconomic reform is therefore an essential component of any effort to re-invigorate the Lisbon Strategy.

Why domestic demand matters

More than 80% of exchanges of European goods and services take place within the EU. A big and buoyant internal market is the indispensable basis for the business confidence that generates investment, growth and jobs. It is also a powerful advantage in international competition, enjoyed by some of our biggest trading competitors, such as the USA, Japan, China and India. In current circumstances, with the dollar falling dramatically in value, the role of domestic demand is becoming even more crucial. There is a need to stimulate this demand, by boosting investment. This relies on buoyant consumption, which depends in turn on the defence of the purchasing power of employees.

Europe's growth rate could be raised by almost 1% pa from 2005 to 2007, and around 0.5% pa from 2007 to 2010 by fully spending the EU budget, cutting interest rates, adopting EIB policies to promote private investment and redirecting national and EU public expenditures towards Lisbon objectives. This would create an additional 3.4 million jobs by 2010, rising subsequently to 4.7 million.[4]

Studies of this sort show that the Lisbon midterm review will be fatally damaged if it does not take account of the impact — for good or ill — of macroeconomic policy on the core objectives of growth and jobs. In the next five sections, this paper sets out how to boost the Lisbon Strategy through the creation of a coherent and growth-oriented macroeconomic framework and the completion of the internal market.

Reform of the Stability and Growth Pact

In September 2004, in response to growing evidence of the failings of the Stability and Growth Pact, Commissioner Almunia presented proposals for reform, to ensure earlier action to correct budgetary problems, take greater account of economic circumstances, focus more on the sustainability of budgetary positions, strengthen enforcement and improve the coherence of the EU's economic instruments.

The Commission proposals represent a big step towards a more effective and growth-oriented macroeconomic policy, which should

4 "Momentum for recovery in Europe: promoting public and private investment" (PES 2003). All of these results would be further enhanced once account is taken of the likely positive impact on investor confidence.

become a key part of the mid-term review of the Lisbon Strategy. But the PES Group believes reform must go further.

One of the Pact's great weaknesses has been its failure to recognise the essential economic distinction between current and capital spending, with the result that the investment which we need, if Europe is to meet the Lisbon goals, is often the first casualty of budgetary stringency. The reformed Pact should make a clear distinction between investment and current spending, with the requirement that, over the economic cycle, governments will borrow only to invest and not to fund current spending. This must not lead to lax budgeting or creative accounting. The definition of the expenses that should be considered as investment in the context of the SGP should be strictly limited to investment in education, social services, research and development, transport and communication infrastructure and infrastructure for renewable energy. In line with the Lisbon philosophy, much of the investment in education that is traditionally considered as current spending would have to be defined as investment.

More coherent economic governance

Economic coordination between the European and national levels is beset by a multiplicity of plans and reports. Each year, Member States must produce stability and convergence reports, employment reports, structural reform reports, Broad Economic Policy Guidelines, implementation reports, and more – every year, more than 300 reports, drowning any clear political message. A simpler and more coherent procedure is needed, to draw all the threads together and to create a single focus for public and Parliamentary scrutiny. Europe needs a much more effective coordination of economic policies.

We propose:

1. that each Member State should adopt its own three-year **national economic policy coordination report**, combining the current stability and convergence programmes with the economic and employment reports, and taking account of national characteristics, priorities and diversity;

2. that the present multitude of annual reports related to progress on the Lisbon Strategy should also be replaced by a single three year **"Growth and Cohesion Plan"**,[5] which would be the national translation of the Commission's annual "synthesis report", summarising the past year's progress and setting targets and timetables for the coming year.

5 The Kok report makes a similar proposal, which it calls the "national plan".

The Broad Economic Policy Guidelines, with the national economic policy reports and the new national growth and cohesion plans, should play a pivotal role in ensuring coherence between the Stability and Growth Pact, national economic and employment policy and the Lisbon Strategy. The Guidelines already deal with structural issues. They should become a substantial economic policy tool to effectively determine European economic policy both at the formulation and implementation level. The main objectives of the BEPGs should be sustainable growth and job creation. They need to give equal attention to the composition of public expenditure and in particular to investment, highlighting in particular the links between public investment and the Lisbon goals. This should be mirrored at national level in the national plans and programmes.

This simplification – which goes beyond the Kok report – will be a big step not only towards more coherent policymaking, but also towards greater transparency and national ownership of Lisbon, to which we turn later in this report.

Finally, the 2005 Spring Summit should follow the model of the 1992 Single Market Programme, turning the Lisbon Strategy into a focused five-year programme, with precise, timetabled indications of the steps that will be taken at EU and national levels, without calling into question the EU Spring Council and its guidance and assessment mandate.

TAXATION AND LISBON

Unfair tax competition is a threat to the cohesion of the EU. Public finances are reduced because of tax erosion and avoidance, and the tax burden is shifted to the least mobile factor of production – labour – which is bad for employment, a central Lisbon objective.

In the “race to the bottom” model of competitiveness, tax competition is good. But in the Lisbon model, which depends on excellence, on a highly educated and skilled workforce, on high quality public services, on world class universities – in this model, healthy public finances are an essential element and the erosion of the tax base is a threat which must be tackled. That is one reason why the Single Market needs a coordinated approach to corporate taxation – not a single rate, but a progressive coordination of corporate tax bases, leading eventually to an approximation of European corporate tax rates – possibly following the model of VAT and excise coordination, introducing minimum and maximum tax rates.

The position of Member States on budgetary and tax questions is a litmus test of their seriousness about the Lisbon Strategy. Higher standards of education, lifelong learning, more R&D, better infrastructure and public services, cohesion and social inclusion, active labour market policies – these all need public money, at least as part of the recipe. But too often governments are in thrall to the prejudice that only lower taxes can generate growth & employment. The evidence suggests otherwise. Our message is this: nothing is for free.The Lisbon strategy is Europe's best hope for the future, but it has to be paid for.

A growth-promoting European monetary policy

The inflation target followed by the European Central Bank is tighter than any other inflation target guiding central banks in other currency areas. Moreover, it is asymmetrical, leading the Bank to act more strongly against inflationary than deflationary risks – when Europe's persistent problem is of insufficient rather than excessive demand, stagnation rather than inflation. Five years after the launch of the euro, the time is ripe for a re-assessment of European monetary policy, to look in particular at the nature of the inflation target, and listen to criticisms that the ECB's interest rate changes – whether up or down – are often too little, too late.

The ECB should make a stronger contribution to a global recovery, through a monetary policy which promotes not only stability, but also growth and employment in Europe, just as the mission of the US Federal Reserve is to promote both stability and growth in the US economy. The EU must promote closer global monetary cooperation, to reduce the threat to European jobs and growth from international monetary instability.

A European investment policy

Investment – public and private – is the crucial agent of transformation, whether of production or education systems, labour markets or infrastructures. Common action is needed to boost public investment and stimulate private investment, taking advantage of the greater effectiveness of a coordinated national and European initiative.[6] Special emphasis should be put on those forms of investment most crucial to Lisbon – such as research and innovation, the knowledge economy, education and training, and public services.

6 This could build on the Commission's proposal, in its recent Communication on the Financial Perspectives 2007-2013, for the creation of a Growth and Adjustment fund.

Carefully targeted **cohesion programmes** have an essential role to play. Europe's biggest productivity gains will come from raising productivity in the new member states — and in the economically weaker regions of the older member states — to the levels of the EU's most advanced regions. The Commission's 3rd Report on Economic and Social Cohesion spells out clearly the contribution of cohesion spending to the Lisbon objectives and proposes reforms to further strengthen its focus on those objectives. The objective of 0.46% for cohesion spending, set by the Edinburgh European Council, should be honoured and all Community Programmes reshaped in line with Lisbon priorities.

With enlargement, problems of inadequate infrastructure have also taken on a new urgency. In many cases, this will need big national investments in infrastructures, and additional European financing. Competitiveness gains in other sectors risk being squandered without first-class transport, telecommunications, energy and other infrastructures.

The Trans-European Networks — designed specifically to plug the biggest gaps in Europe's infrastructure networks — have a special role to play in raising the flexibility and efficiency of the economy and strengthening territorial cohesion, and in fully achieving the single market. Fully implemented, they could raise the EU growth rate by 0.2-0.3%, equivalent to an extra 1 million permanent jobs across the Union. In these circumstances, the priority Trans-European Network projects to begin before 2010 should be guaranteed by a Community loan.

MEMO TO SPRING SUMMIT: GET REAL ABOUT R&D

European Summits regularly reassert the objective of investing 3% of GDP in research and 2% in higher education in Europe by 2010 — and then fail to deliver. And yet the choice is in the hands of the Summiteers. For public R&D, it is a matter of making budgetary decisions — at national and EU level — consistent with the increase they have demanded — on average, a 6% increase in spending. Equally, for private R&D, the range of proven incentives is well known — what is needed is the political commitment to use them.

As part of a more active investment policy, the role of the EIB should be reinforced, with an emphasis on advisory and technical support to Member States and the private sector. It should give special priority to expanding risk-capital lending and its support for SMEs. The mid-term review should also revisit Jacques Delors' idea of European bonds to finance projects of common interest.

Reshaping the EU budget: a financial basis for Lisbon

Battles over spending are also battles over the fate of the Lisbon Strategy. Those who will the ends must will the means. Member States, in particular, must not get away with making a rhetorical commitment to Lisbon without ensuring that the budgetary resources needed are available. This is true both at national and at European level. The Spring Summit should make a commitment to producing **Financial Perspectives** which serve the Lisbon Strategy. The European Union must be given the means to carry out efficiently the policies entrusted to it. It needs a reliable and adequate source of own resources. Several possible sources merit study, including the ideas of a European levy – at a low rate – on road transport of merchandise, on corporate profits, or on energy.

The structure and composition of EU spending will also be decisive for the success of Lisbon. It is surely an elementary principle of political life that public money should be spent in accordance with political priorities. The new Financial Perspectives must be used to fundamentally redirect and restructure the EU budget so that it is more clearly focused on the Lisbon objectives.

The Commission's proposal for a "European Growth Adjustment Fund" could allow the Union to react more quickly to economic change through measures to stimulate growth, while both Structural Funds and Community Programmes should be rethought and reshaped in the light of the Lisbon goals. Resources left unspent from the EU budget each year should be transferred to the Growth Adjustment Fund, endowing it with sizeable resources which should be dedicated, as a priority, to Lisbon programmes. The sums involved are substantial. In 2003, € 5.47 billion was handed back to Member States.

2. Implementation, ownership and democracy

The Kok High-Level Group confirmed the self-evident truth that the Lisbon Strategy's biggest problem has lain with poor implementation by Member States. Of 40 "Lisbon Directives" since 2000, only 7 have been implemented by all Member States[7]. In part this has been a result of budgetary constraints, but the Kok Group are right in putting the major blame on a lack of political will, reflecting in turn a lack of national ownership of the Lisbon Strategy.

When Ministers return to national capitals, they face on the whole little or no pressure from Parliaments, Press or public to deliver on the

7 The Commission should adopt a firmer and faster policy on implementation of EU Directives. In EU history, there have been only two cases where Member States have been fined – one of these took 12 years to be concluded. The European Parliament, for its part, has a role to play in increasing democratic pressure for political commitments to be honoured.

commitments they have signed up to at Summits. The reason lies partly in the complexity of the Lisbon Strategy, partly in the lack of openness in its procedures. We endorse the Kok Group's proposal to focus on fewer targets – though in some respects the Group's choice of targets is ill-balanced. We have outlined above how to simplify the procedures for coordinating Lisbon's implementation at European and national levels. Below we set out further proposals for:

- giving national Parliaments and social partners greater ownership of the Lisbon Strategy – through a better ability to shape and monitor the process;
- making Lisbon policy-making and implementation more transparent and understandable.

National ownership: a role for Parliaments and civil society

We believe that national Parliaments are the key to turning the European Lisbon agenda into a national agenda in each Member State, and that a closer collaboration between the European Parliament and national Parliaments is the key to making the Lisbon Strategy a part of the democratic process, and the subject of a much greater public debate, scrutiny and accountability.

"National growth and cohesion plans"[8] will enable Member States to have a clearer overview of the implementation of the Lisbon agenda at national level and to define their own strategy for this purpose. National parliaments must have a central role in developing the national strategy and monitoring its implementation, with consultation with the social partners and national and local stakeholders, in order to build a broad coalition for change, with a sense of ownership of the national Lisbon Strategy.

Collaboration between the European Parliament and national parliaments should become a key element in bridging the gulf between European and national politics. The PES Group has already taken the first steps in this direction. On a Socialist initiative the European Parliament created in December 2004 a new, horizontal structure charged with coordinating its work on Lisbon, and preparing an interparliamentary forum before the 2005 Spring Summit, which – if successful – could become a permanent part of the Lisbon landscape.

8 See section on "More coherent economic governance"

More open governance at EU level

Implementation of the Lisbon Strategy also requires a political engine at European level, capable of advancing the agenda in line with the preferences and priorities of European citizens. This is not the case today. Implementation of the Lisbon Strategy at EU level is largely a matter of deliberation in the Council and in committees of civil servants. The European Parliament should be consulted on the key instruments of economic coordination, including the Broad Economic Policy Guidelines, the Employment Guidelines, social policy coordination and the Synthesis Report. This must, above all, remain an annual process centred on the Spring Summit. The annual Tripartite Social Summit should feed the outcome of an invigorated civic dialogue into the European decision-making process.

The new Commission should take the opportunity of the Mid-Term Review to reconsider also the appropriate roles of legislation and the Open Method of Coordination. In recent years, a bruised and chastened Commission has sometimes relied too heavily on the Open Method of Coordination, even where the Treaty provided a clear basis for a legislative approach. It is right that European governance should be characterised by lightness of touch, but there are times when the interests of the Lisbon Strategy require common rules or common standards, which the Open Method of Coordination cannot ensure.

3. Policies for excellence

This report argues a three-part case for pursuing policies of excellence in the social and environmental areas, in the knowledge economy and elsewhere:

- **First, because economic progress must be the servant of social progress. The Lisbon objective must be a stronger economy <u>and</u> a better society – we cannot make things better by making them worse.**
- **Second, because a new impetus for the Lisbon Strategy calls for the mobilisation of all political and economic actors, at all levels. You cannot mobilise a democratic society behind a strategy which tries to convince people that, as Europe continues to grow richer, it can no longer afford the social and environmental achievements which previous decades could take for granted.**
- **Third, because they are an essential element in Europe's strategy for competitive success.**

The introduction to this report argued that the success of the Lisbon Strategy depends on having a clear vision of the competitive model which underlies the strategy, and on ensuring that all the policies advanced within the Lisbon framework are compatible with that model.

We do not argue that existing social or environmental policies, for example, are always well-adapted to the demands of competitiveness. Sometimes, reforms may be needed to better meet our objectives of sustainable growth and competitiveness. But reform should not be – as in some mouths it is – a euphemism for lowering of standards. In the Lisbon Strategy, excellence is a source of European competitiveness, not an obstacle. Here are some examples of how this understanding can shape our policies.

Making *social excellence* a source of competitive edge

In a world of ever more mobile capital, the most durable source of competitive advantage is the labour force. Europe's most precious competitive asset is therefore a workforce which is well educated and trained, and has the autonomy and motivation to respond to constant change. This, and the need to overcome the barriers which keep so many Europeans out of the workforce, should be the guiding principles of European workplace and labour market policies.

It is no accident that the Scandinavian countries which have most aggressively pursued the Lisbon Strategy of social excellence are now also among the EU's highest economic achievers. They have sought to provide the kind of *real* job security that rests on our abilities being kept up-to-date so that we can remain and progress in the labour market. Scandinavian governments have invested heavily in active labour market and social policies and the skills needed for the knowledge economy, including transfer of skills to older and female workers who might otherwise be excluded from the labour market. That way, labour markets can evolve, as long as there is healthy social dialogue, systems for vocational training and job-matching and a social security system that does not leave anybody behind.

Social excellence and raising the employment rate

There is rare unanimity among economic and political actors and analysts that raising Europe's employment rate is one of the most urgent tasks of the Lisbon Strategy. To compensate for a declining workforce and ageing population, we need to draw on all the resources we can.

This means, above all, addressing the issue of economic inactivity, particularly among elderly workers, the unskilled, immigrants and ethnic minorities – so policies against social exclusion turn out not to be a distraction, but a vital element in meeting a core Lisbon objective.

Policy-makers must be aware, also, of the strong link between the employment rate and the sustainability of the European model. One of the strongest pressures for reform has come from a growing ratio of retirees to workers. In part, this is a matter of demographics, but the effective age of retirement has also fallen, putting a strain on welfare systems and shrinking the workforce. Given the right conditions, many of these workers would welcome the opportunity to carry on working. It should be a priority of the mid-term review to see that they get that opportunity.

SOCIAL PROTECTION -PART OF THE PROBLEM... OR PART OF THE SOLUTION?

According to figures published by Eurostat, in the European Union of 25 more than 15 million people are classified as *dependent*. In most countries services for dependent people are insufficient and it is women who fill the gap. According to data from Northern Europe, where there are adequate services, it can be seen that the level of activity of women is much higher than in other European countries. This means that the Lisbon Strategy certainly cannot be dissociated from social protection policies and that, on the contrary, these policies are an integral part of it. This link must be made more explicit.

The largest group of excluded workers is women. For many of them, the decision on whether to take paid work depends on the availability and attractiveness of part-time or temporary work. Thanks to EU legislation, part-time work offers the same rights as full time employment, including maternity benefits and paid holidays – a major boost to the employment rate.

The keys to raising the employment rate lie in a series of progressive social measures, including measures to ease the balance between work and family life. The importance of such measures is underestimated by those who emphasise deregulation to the exclusion of all else.

Europe needs, for example:

- active labour market policies, designed to reduce the time spent in the transition between jobs;

- measures to promote gender equality, both in the workplace and in society, including the promotion of equal pay for work of equal value;
- increased training and retraining, focussed on the concept of lifelong learning, to ensure that Europe's workers are equipped to cope with constant change; and targeting in particular those groups most often excluded by skills barriers from the labour market, including older workers, immigrants and ethnic minorities;
- action against the long-hours culture, ensuring equal rights for temporary workers; combating racism and harassment within and beyond the workplace.

Policy makers must also recognise the case for migration being part of the response the EU must make to its ageing populations and shrinking workforces. Even if the headline Lisbon target of a 70% employment rate was achieved by 2010 and maintained thereafter, the number of employed people in the EU-25 would be expected to drop by 20m by 2030. Given that neither fertility rate increases nor productivity growth could be expected to compensate for this, the conclusion must be that managed migration – in the balanced spirit of the Tampere agenda – is essential to avoid economic growth dropping off and our established quality of life being reduced.

Social excellence – promoting adaptability of companies and workers

Modern competitive conditions require a rethink of the concept of flexibility. In a fast-moving global economy the most successful companies will be the most agile. Those which rely on shifting pools of short-term workers, on detailed rulebooks and limited workforce autonomy, will lose out to companies whose workers have ties of loyalty and motivation, based on job security and decent working conditions.

That is why the most successful companies will be those which have built high-trust industrial relations systems. **Flexibility of numbers** – the obsession of old-fashioned deregulators – with maximum freedom to hire and fire, to use short-term contracts, to minimise the employers' obligations to the workforce, is incompatible with **functional flexibility** – workforce adaptability, initiative and responsibility – which are now the key to success.

Labour market policies and industrial relations systems must be re-oriented towards anticipating and managing change. To create a faster-moving European economy – and a new confidence among Europe's workforce that change is not a threat but an opportunity – requires modern work organisation, and active labour market policies. With good consultation of stakeholders, strong unions and a workforce well equipped for change, industrial change can be managed and social costs minimised.

When we turn to policies for social protection, the same logic applies. To create a society which welcomes rather than resists change, and to respond to an economy where ever fewer workers will have a job for life, the role of social protection will be crucial. That is why the Brussels European Council[9] insisted that a high level of social protection was central to the Lisbon Strategy, and called for the reinforcement of policies to combat poverty and social exclusion. This link must be recognised in the mid-term review. Social protection and social inclusion should be included in the national action programmes of Member States, with common social indicators and objectives to evaluate the impact of European policies.

Making the *knowledge economy* a source of competitive edge

Europe's best opportunity to compete globally lies in improving its performance in the most advanced, cutting-edge industries. That means that the Lisbon Strategy depends crucially on European excellence in the knowledge economy – to which there are two main elements: the creation of a well-trained and highly educated workforce; and a big increase in the scale and effectiveness of research and innovation.

A workforce for the knowledge economy

The mid-term review should put education and training at the heart of the Lisbon Strategy. Public investment in the knowledge society remains insufficient. Options such as better use of EU structural funds and education and training funds should be examined. There is also a big gap in private funding compared to many of our competitors. Commission figures show that the private sector in the USA invests five times as much in human resources as in the EU.

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Education is an essential ingredient in sustainable growth: raising average educational attainment by one year represents a 5% increase in productivity and growth in the short term and a further 2.5% in the long term. Higher levels of education and training mean better life chances, social inclusion, a better job and active citizenship. But we lag behind in terms of funding. In 2000, total public expenditure on education as a proportion of GDP was 4.9% in the European Union. Expenditure per student in higher education in the USA is 2 – 5 % higher than in our Member States.

If Europe really aspires to a knowledge-based society, we must raise educational attainment for all. Europe invests far too little in its education system, and one in five young Europeans drops out of school too early. In the USA and Japan, the proportions completing higher education are 50% higher than in the EU. In a democracy, the knowledge-based society must be open to all – and in the European model of society, we must mobilise all our resources, regardless of class, income, gender, or ethnic origin.

A sound basic education must go hand-in-hand with lifelong learning, accessible to all. Modern economies are characterised by sophisticated technologies, by more mobile – and often more short-lived – companies, and by rapid change in the knowledge and skills needed. That is why training and qualifications need to shift towards the concept of lifelong learning, and towards Europe-wide convergence and recognition of professional qualifications, to allow employees, as well as enterprises, to play a full role in Europe's single market. Systems must be developed, with the help of the social partners, which fully meet the needs of the European economy. Increased European financing for educational programmes such as Socrates and Leonardo should greatly increase the number of students who receive part of their training in another Member State.

Research and innovation for the knowledge economy

Europe should aim for excellence and no less in our universities and higher education systems. A key part of achieving excellence must be a commitment to an ambitious research and development programme. The creation of a European Research Area – as endorsed by the Lisbon Summit – remains our priority target. We call also for the rapid establishment of a European Research Council, to promote a co-ordinated EU-wide approach, funding basic and blue skies research and making the results available at EU level. The investment target of 3% of GDP must be attained by 2010, with extra incentives provided, both for a substantial overall increase in private sector investment, up to two thirds of the global amount, and to direct innovation towards, for example, human health, and to an energy-efficient economy.

Europe urgently needs more people to choose research careers and existing research staff need incentives to stay in Europe. We need no less than 700,000 new researchers by 2010. A scientific career in Europe must be made more attractive to young Europeans and to third country researchers who at present choose instead to head for the United States. The percentage of researchers in the active population in the European Union is 5.4, in the USA 8.7 and in Japan 9.7.

We need stronger European-wide cooperation and emulation between universities and public and private research, with the aim of raising the number of centres of excellence in research, with stronger incentives for achievement at both national and European level.

To improve the cross-fertilisation between research and industry, Europe's research sector must become more closely connected to the industrial world – through, among other measures, a commitment by the Spring Summit to develop technological platforms.

The contribution of R&D to the central Lisbon objective could be further strengthened by giving special emphasis to green technologies, nanotechnologies, life sciences and biotechnology and corrective measures to facilitate access to the new instruments of Integrated Projects and networks of excellence.

The introduction of a **Community patent** is long overdue, and an urgent priority, which would give a real boost to research and development.

The telecommunications sector has a special role to play in the knowledge society. To be competitive in this day and age means being at the cutting edge of digital technology. The 2005 e-plan must be completed and implemented and preparation of the 2010 plan should start as soon as possible. The 'digital gap' between the technologies at our disposal and the skills of the workforce must be bridged through education and training. As with many of the key Lisbon policies, it is vital both for European competitivity and for social cohesion that the digital gap between regions and social groups should be bridged. No EU citizen must be excluded from the information society.

Making *environmental excellence* a source of competitive edge

The compatibility of policies on the environment, public health and food safety with objectives for the economy, growth and employment should be clearly affirmed by the mid-term review.

This global and integrated approach should be the distinctive feature of the Lisbon Strategy for sustainable development. The relaunch of the Lisbon Strategy takes place against a backdrop of growing pressures on our natural environment, and yet also rising public expectations regarding environmental protection and the quality of life. The Lisbon Strategy requires us to meet those twin challenges in a context of competitiveness and growth.

Far from being a brake on growth, environmental policies can give the EU a competitive advantage. We attach great importance to the Commission's Action Plan for Environmental Technologies. Development of clean technologies and renewable energies can lead to job creation, boost research and development activities and reduce both social, environmental and health care costs. There will, moreover, be growing demand for those technologies in the near future, and EU industry should aim to be a world leader in those activities. In a world of finite resources, with growing environmental pressures on the one hand and environmental awareness on the other, firms which adapt earliest to higher environmental standards will enjoy a crucial "first mover" advantage. For Europe's producers, environmental excellence may bring short-term costs, but long-term rewards.

In the spirit of the Lisbon and Göteborg Strategy, there must be a balance in EU policies. Environmental policy can add to competitiveness and must be compatible with growth and employment – it must not and need not take second place to economic objectives. A European development model based on responsible use of natural resources and on the best environmental technologies will provide the basis for long-term development that will benefit future generations. This choice can also guarantee the defining features of the European model, in contrast to a logic geared solely to short-term profit.

Moreover we cannot accept that other global economic actors gain short-term competitive advantage by practising a policy of environmental dumping, whilst Europe assumes its responsibilities with regard to future generations, their environment and their health. The European Union has been a driving force in promoting environmental policies on

the international stage. We want this role to be continued, in particular, but not exclusively, in the framework of the Kyoto process, whose objectives are only a first, insufficient, step, and which must be completed by supplementary objectives to counter climate change.

The EU has equipped itself with the most ambitious environmental legislation in the world. But we note with concern that for the environment, as for other Lisbon policies, transposition and implementation of European legislation by Member States is very often inadequate. On the environment therefore, just as on other policies, we need a careful follow-up process and 'name and shame' procedures to be applied to defaulting Member States.

The need for action and coordination by Member States must be emphasised. To renew the Lisbon Strategy on the basis of a new dynamic is also to promote a method concentrating on a few priority environmental objectives, with specific and quantified objectives, geared to a 2010 deadline.

We call for a resolute policy on climate change and the responsible use of resources: a reduction of 30 to 40% in CO2 emissions by 2040, in particular through the promotion of energy efficiency, renewable energies and energy savings. This requires a reinforcement of research and development on environmental technologies.

We ask for an ambitious policy on chemical products, leading to an environment free of the most dangerous chemical products, as far as possible, by 2020 – which will offer a competitive edge to industry through production based on environmental excellence.

We want to restore the full confidence of consumers in food safety matters.

We must translate into action the ambitious objectives of European legislation on water quality and waste management. Transport policy must be re-examined, especially through a shift from road towards more environmentally friendly transport. Measures to internalise external costs and an appropriate tax policy will be essential to achieving this shift. Lastly, the polluter pays principle must be implemented, putting pollution costs into figures, starting with harmful pesticides and transport emissions.

Making *entrepreneurship* a source of competitive edge

The Lisbon Strategy depends crucially on creating an environment in which European businesses can flourish. Every argument and every proposal in this paper has a role in that task. A central message of the paper has been that barriers to business come in many forms. We need a Lisbon Strategy that addresses all these barriers, not a watered-down version that focuses solely on deregulation. Deregulation does not begin to address the needs of business for a well-trained and motivated workforce, first-class services and infrastructure and the other factors for productivity which this paper has described. What business most needs is **smarter** regulation.

In the European Union, the biggest step towards smarter regulation would be to complete the internal market. This is essential for three reasons:

- removing barriers to entrepreneurship;
- increasing consumer choice;
- creating a big domestic market for Europe's producers.

Handled correctly, completion of the single market provides enormous scope for economic and employment gains for both consumers and businesses. A single market in financial services, for example, could remove an important barrier to entrepreneurship in some Member States by improving access to capital. It would bring big gains too to Europe's citizens, through improved choice and the downward pressure of competition on costs. To mobilise broad support for completing the single market, and to create the trust on which a well-functioning market depends, the legal framework should ensure high standards of consumer protection, as well as strengthening economic and social cohesion.

SERVICES – READING FROM THE WRONG SCRIPT

↗ The Commission's controversial draft Directive on Services illustrates the importance of ensuring that legislation is consistent with a Europe of excellence. Measured against the Lisbon Strategy, the draft's central weakness is that , in pursuing the important goal of a single market in services, it pays little or no regard to other vital elements of the Strategy, such as the social *acquis* and the importance of high-quality

public services. In its present form, the Directive could trigger a "race to the bottom", where service providers set up shop in member states with the lowest employment legislation. The services sector has a key role to play in our modern economies but we need to maintain a socially acceptable balance between the opening of the market and the guarantee that social and consumer rights are maintained.

The persistence of national differences in company law, accounting systems, and corporate tax systems represent another huge barrier to European business — especially to cross-border activities by smaller firms. While national diversity should be respected, there is substantial scope for expanding the area of common rules. Progress must be much faster in the next five years. Corporate taxation, in particular, is an area where genuine commitment to removing barriers to business is incompatible with the refusal of some Member States to discuss harmonisation even of definitions and systems.

Improvements in corporate governance and management have also a role to play in improving the business climate and investor confidence. There must be higher standards of transparency, better supervision of financial and fiscal arrangements, stronger guarantees of the independence of auditors and a strict separation — in accounting and management consultancy firms — of the functions of auditor and financial advisor.

As companies have to respond to global competition and technical change — reflected for instance in restructuring, relocation and offshoring — European industrial policy must encourage a modernised, competitive and diversified industry, with an emphasis on new and dynamic sectors such as biotechnology or the information society. We should develop European know-how and technological independence, for example in aeronautics and space. The Galileo project offers a successful model of a future-oriented European industrial policy — relevant, for example, to the task of strengthening European logistical capacities. Built on European excellence in research and on technological independence, and combining both public and private financing, it will generate positive spin-offs in management of the environment, in risk reduction, even in management of the CAP. This success story should be followed up with ambition and its lessons closely studied and more generally applied, in order to safeguard social cohesion and labour market stability.

The mid-term review of the Lisbon Strategy should also be seen as an opportunity to put **small firms** at the heart of the strategy. Small enterprises are the backbone of the European economy, a key source of jobs and a breeding ground for business ideas. The mid-term review must identify more effective measures to allow them to play a full role in the single market, and to exploit their potential as a driving force for innovation and employment. There must be more support, in particular, for very small enterprises and for the social economy, which are major sources of employment. It should promote entrepreneurship, simplify and improve the administrative, regulatory and financial environment and give small businesses easier access to Community support services, programmes and networks, in line with the European Charter for Small Enterprises and the Multiannual Programme 2001-2005.

The mid-term review should make clear Europe's commitment to provide incentives – fiscal and other – to encourage industrial innovation, focused primarily on SMEs. In contrast to the USA's pragmatic innovation support regime, EU support is confined to research. The European Research Area should be complemented by the creation of a European Innovation Area in which assistance is provided for SME innovation, from research down to the development of products for the market.

Reviving the Lisbon Strategy: The PES Group's Proposals to the 2005 Spring Summit

In keeping with the values and objectives set out in the Constitutional Treaty, this paper has argued that a proper understanding of modern competitive conditions, and of the Lisbon competitive model, should transform the terms of European political debate – but that not all of those charged with implementing the Lisbon Strategy, in national governments or at European level, have fully grasped this. We have called, in particular, for a more sophisticated understanding of competitiveness, which recognises the interdependence of economy, society and environment. We have argued that a crude "economy first" approach ignores the true sources of Europe's competitive advantage, and risks damaging the European social and environmental model, and alienating and demobilising Europe's citizens.

We call on the 2005 Spring Summit to show that it has understood these basic truths and to relaunch the Lisbon Strategy with a new clarity of focus, matched by a vigorous programme of action, to turn political commitment into practical results. The Summit should therefore:

- re-affirm its commitment to the "**Europe of excellence**" model underlying the Lisbon Strategy
- agree that the Financial Perspectives must greatly increase the funds available to achieve the Lisbon objectives, with an increase in particular in heading 1a, "competitiveness for growth and employment"[10]; and in heading 1b, cohesion policy, which should also become more closely aligned with the Lisbon Strategy
- agree that unspent EU budgetary resources should be transferred to the European Growth Adjustment Fund to finance, in particular, high-priority Lisbon programmes
- agree to launch a detailed review of ways of strengthening the EU's own resources, with a view to reaching agreement by the end of 2006
- in order to implement the commitment Member States made at the Lisbon Summit in 2000, quantify:

  a) the budgeted increases each Member State will make in education spending, year-on-year until 2010

  b) the progress they will each make towards cutting by half, by 2010, the number of 18-24 year olds not in further education and training
- in order to find the additional 700,000 new researchers that the EU will need by 2010 to meet the target of raising R&D to 3% of national income, insist that each Member State should pledge itself to a national target – and agree to report back by the end of 2005 on measures taken and planned

10 covering R&D, education and training, transport and energy and social policy

- agree that all Member States will develop, in consultation with the social partners and by the end of 2005, national strategies for lifelong learning
- set a deadline for full implementation of the Commission's 2003 action plan "Investing in Research" and the European Parliament report of the same name[11]
- break the deadlock on adoption of the Community Patent
- agree the rapid establishment of a European Research Council and a European Innovation Area, with a special emphasis on promoting the development and diffusion of eco-innovations and building on European leadership in eco-industries
- agree quantified targets for increases in public and privately funded research, including research into environmental technologies, to be achieved in each year until 2010, in each Member State and at EU level; agree that each Member State will report by the end of 2005 on measures taken and planned, in order to meet these targets
- adopt the Almunia proposals for a reformed Stability and Growth Pact, incorporating also the rule that, over the economic cycle, governments borrow only to invest, with a common definition of "intelligent investment"
- replace the multitude of national Lisbon reports demanded of Member States with two 3-year reports – one on economic and employment policy coordination, the other a growth and cohesion plan, reporting progress on Lisbon and setting verifiable targets
- adopt a 5-year Lisbon programme, modelled on the 1992 single market programme, with precise, timetabled indications of the steps to be taken at EU and national level
- introduce naming and shaming of those member states which do not meet their Lisbon commitments, whether in regard to its economic, social, environmental or knowledge economy aspects
- revise policy coordination procedures in order to improve openness and strengthen national ownership and social dialogue
- ask the Commission for determined action to promote equal pay for work of equal value and to reduce both workplace and societal barriers to higher workforce participation by women, older workers and others
- guarantee that the revision of the Working Time Directive will not represent a retreat from the 48 hour week and that the Temporary Work Directive should be unblocked
- agree an early deadline for all Member States to meet the 2002 Barcelona Summit's childcare targets
- ask the Commission to present by the end of 2005 a new action plan on gender equality

11 COM(2003)226, April 2003 and Linkohr report, November 2003

- ask Member States to agree comprehensive ageing strategies by 2006
- re-affirm the role of social protection in equipping Europe to respond to the change and uncertainty of the global economy and reach agreement on a new European Social Agenda, with an agreed timetable for implementation
- agree a timetable for the development of a comprehensive European approach to managing migration, linking the EU's migration policy to relations with countries of origin and underlining that better integration – of new migrants and settled ethnic minorities – is an essential part of successful management of migration
- agree that all Member States will define national timetables for the implementation of the Environmental Technology Action Plan, with concrete measures and deadlines, and with special emphasis on the research dimension, support for small firms and removal of environmentally harmful subsidies
- agree, in cooperation with business, a timetable for implementation of the EU's Integrated Product Policy
- instruct the Commission to bring forward by the end of 2005 detailed and ambitious proposals to carry forward sustainable energy policies, including energy efficiency, energy savings and renewable energy
- agree a timetable for a smooth adoption of the REACH proposal with a view to ridding our environment of the most dangerous chemicals by 2020
- undertake to reach agreement by the end of 2005 on joint action by the European Union and Member States to achieve a decisive shift towards sustainable transport
- agree that all Member States will draw up by 2006, with local authorities, action plans for greening public procurement
- agree to a fundamental and urgent reconsideration of the EU's approach to liberalisation of services, with the goal of reaching agreement, by the end of 2005, on an amended Services Directive which protects the European social *acquis* and is accompanied by a Framework Directive on Services of General Interest, in order to protect the contribution of high-quality public services to the European competitive model
- present a new Internal Market Strategy 2007-2010, giving priority to the development and completion of the European services market
- agree on a retail financial service market integration at EU level, to be in force by 2010, and designed to favour access to risk capital and promote investment
- agree a timetable for the implementation of the Action Plan on Enterprise and the Charter for Small Business

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