

2020 STRATEGY

A NEW LISBON AGENDA

**Contribution from
FAES Foundation to the European
Commission's Consultation**



INDEX

1. The European Union's New Strategy for 2020	.5
2. Reforms Over and Above Managing the Crisis	.7
3. The Lisbon Strategy	.9
4. Clear Goals, Strengthened Leadership	.12
5. What is the Situation Today?	.15
6. A New Economic Agenda for Europe	.19
6.1 New Fiscal Rules: Restoring the Original Stability and Growth Pact	.19
6.2 Driving Competition and Structural Reforms	.21
6.3 A New Employment and Social Protection Policy	.23
6.4 Reforming Monetary and Financial Policies	.24
6.5 An Integrated Energy Policy	.25
7. Reforming the Welfare System	.28
7.1 Is There a Welfare State in Europe Today?	.28
7.2 The Economic Rationale for Reforms	.29
8. Improving European Education Systems	.34
9. The Challenges of Higher Education and of the European Research System	.37
10. A Europe Open to the World	.41
Acknowledgements	.43

1

THE EUROPEAN UNION'S NEW STRATEGY FOR 2020

The European Council held in December, 2009, proposed a review of the Lisbon strategy, taking as its starting point the impact of the crisis and the challenges posed for the future. The goal is to be able to launch next spring a new strategy for the European Union in 2020 to:

- **Ensure** sustainable public finance.
- **Maintain** investments and social wellbeing.
- **Establish** inclusive and efficient labour markets.
- **Strengthen** the Internal Market.
- **Allow** the exploitation of the reciprocal benefits of foreign trade.
- **And emphasize** the advantages to be gained from a greener or more environmentally friendly economy.

With a view to drafting its contribution to the new strategy, the European Commission launched a consultation exercise last November addressed to citizens and institutions so that they could provide their inputs to this strategy.

Last July, the Foundation for Social Studies and Analysis (FAES in its Spanish acronym) published the strategic reports entitled *Europe: Proposals for Freedom* and *The Reform of the International Financial System*, which analyze the main challenges Europe will have to face in the years to come and the possible measures to resolve them. In order to prepare these texts, the Foundation received the support of the European Commission in 2009 through the subsidy from the “Europe for citizens” programme, under the heading “Structural support for think tanks”.

The present document, which is intended to contribute to the open consultation begun by the European Commission, takes these reports as its basis and they are attached as additional information.



2

REFORMS OVER AND ABOVE MANAGING THE CRISIS

Europe is still immersed in an economic, financial, and fiscal crisis. The discussion is still out on its causes, its remedies and its future prospects.

The crisis has required the intervention of central banks to facilitate liquidity and restore the solvency of the financial system, as well as considerable funding provided by governments to bail out financial institutions. Most governments have accompanied these measures and the action of the automatic stabilization mechanisms with major packages to stimulate demand and support sectors in crisis, which has already opened up the debate about the need to apply exit strategies in order to cope with the sizeable volume of public debt that some countries are rapidly accumulating, to the point where their solvency is being called into question by the financial markets.

The crisis requires not only new financial and fiscal answers, along with reforms in financial regulation. It is not just a matter of designing exit strategies to restore

the stability of the public accounts. The recovery is not just a question of macro-economic balance and the evolution of the economic cycle. The crisis is going to change, is already changing, the position and future prospects held by individuals, companies, countries and whole economic areas, as in the case of the European Union. Not all the economies will emerge from the crisis at the same time, nor in the same way; some run the risk of being left behind.

“The crisis requires not only new financial and fiscal answers, but also reforms in financial regulation”

In the case of the European Union, the crisis is forcing a reconsideration of the factors for long-term growth and success. Otherwise, Europe runs the risk of enduring a long period of low growth without job creation, which will accentuate its decline with respect to other economic areas of the world, its problems in funding its welfare system, and the social tensions that are already beginning to emerge.

It is a matter of undertaking a set of profound structural reforms acting consistently in the medium and longer term on the incentives for work, savings, innovation, entrepreneurship and risk-taking.

3

THE LISBON STRATEGY

The Lisbon Strategy was the response of the European Council to this challenge in 2000. In March, 2000, the conclusions of the Lisbon Summit took stock of the challenge represented by globalization and set the target of developing a new knowledge-based economy by making full use of the opportunities afforded by the new information and communication technologies. It called for a radical transformation of the economy of Europe that would act on the creation of infrastructures for the information society, the increase of innovation and economic reforms, as well as the modernization of social wellbeing and the educational systems.

The Union then set itself an ambitious strategic target: to become, by 2010, the world's most competitive and dynamic knowledge-based economy, capable of growing sustainably in economic terms with more and better employment and with greater social cohesion. Europe also set itself a target of full employment in which the structural reforms, combined with a solid macro-economic framework, would allow the achievement of an average economic growth rate of around 3%. At Lisbon, in addition to the

existing processes foreseen in the Treaties, the so-called “open method of co-ordination” was introduced as a working tool to ensure that the will of governments to share best practices would strengthen the drive for reform.

Two ideas underpinned the birth of the Lisbon Strategy:

- **First of all**, the process that had led the economies of Europe, from World War II on, to converge with the United States of America in terms of their levels of income had ground to a halt since the 1980s. Moreover, positions were continually being lost. Europe was incapable of maintaining high levels of employment while incorporating all the benefits offered by new technologies in terms of productivity and innovation.
- **Secondly**, the conviction that the success of the euro required not only budgetary and macro-economic stability, but structural conditions that would enable such stability through sustained growth.

For a decade, the Lisbon Strategy has been present throughout the European process. However, it is obvious that its goals have not been met: today Europe is not the world’s most dynamic area in terms of employment, growth or innovation; the process of structural reform has not advanced at the pace envisaged; and, regardless of the efforts made to cope with the latest crisis, most countries are going to have serious difficulties to finance their welfare systems in future. Europe has lost 10 years.

“Today Europe is not the world’s most dynamic area in terms of employment, growth or innovation; the process of structural reform has not advanced at the pace envisaged”

In recent years, the European debate has focused on the design of the new institutional framework, which has soaked up the political efforts and the public debate to the detriment of the boosting of structural reforms. At the same time, even budgetary discipline was relaxed in some countries. Now that the new Lisbon Treaty has come into force, the political efforts and the priority should focus consistently on the structural reforms that will enable long-term growth.

4

CLEAR GOALS, STRENGTHENED LEADERSHIP

A policy for Europe that intends to place the continent in the forefront of the 21st century must have at its core large structural reforms. Starting this reform process is unavoidable and the European Union must assume the role of driver and facilitator, in spite of being aware that the capacity of many of these reforms belongs to the Union's Member States.

The Lisbon Strategy set a great target: by 2010, the European economy aspired to exceed that of the United States in terms of dynamism, employment, growth, innovation and competitiveness. Ten years on, the new target must not be any less vague or ambitious. The failure to achieve past targets must lead us to redouble our efforts. Not trim our expectations. Only in this way will it be possible to ensure the wellbeing of Europeans in the long term.

The Union cannot resign itself to suffering low rates of growth and job creation. Europe, if it is not to be left behind, must act realistically and responsibly vis-à-vis its



citizens. Economic globalization has extended prosperity and brought about a boom of new economic powers that increase competition. It is necessary for European policies to shed a certain naive attitude, such as that shown in the unilateral cuts in greenhouse gas emissions that go beyond the international commitments assumed by the rest of the world's players, and to pay attention, on the contrary, to the citizens.

“The failure to achieve past targets must lead us to redouble our efforts. Not trim our expectations. Only in this way will it be possible to ensure the wellbeing of Europeans in the long term”

A consistent strategy of economic reform will demand actions by both the Member States and by the Union, and the use of all the tools at their disposal, from the development of new Community policies or the harmonization of existing ones through the traditional Community method, to the learning and reciprocal emulation sought by the open co-ordination method. When it comes to making the strategy and goals of the reforms explicit, priority will have to be given to those goals linked to the results and impacts of the policy on citizens and not be bound, in any case, to levels of public expenditure, which have sometimes become goals in and of themselves. We will have to take into account the starting positions of the Member States when it comes to setting targets. The instruments will have to be the most effective, be it the Community

method or the open co-ordination method, depending on the nature of each reform.

Given the situation the Union is in and the limitations shown by the open co-ordination method, it is necessary to give priority to those policies that are to receive direct action. It is convenient to place the focus on those areas in which the Union is competent in the light of the Treaties.

A new political drive is required along with co-ordinated leadership that today can only come from the joint action of the institutions. Even so, we feel that there is an essential leadership function in the co-ordination of the political proposals that must be carried out by the President of the European Commission. In this sense, one of the first measures must be integrating all the strategic documents being prepared by the European Commission into a single strategic project of the EU.

Equally interesting proposals are the initiatives advanced by the new permanent President of the Council to simplify the operations of this organ and reduce the number of persons attending its meetings. Whenever large-scale reforms are required, a sense of responsibility and a great effort are needed to communicate the goals and methods to the general public, avoiding any populist, nationalist or neo-protectionist temptation.

5

WHAT IS THE SITUATION TODAY?

Three major economic differences separate Europe from the United States and explain the relative lag of the Old Continent:

- **First of all**, the low relative number of hours worked, both with respect to the occupied population, as, above all, in absolute terms, due to the effect of the low occupation rate. In Europe, fewer people are employed and they work fewer hours. There has been a lot of discussion about whether this is a voluntary choice that would bring about greater levels of welfare in the form of leisure enjoyed, but the fact of the matter is that most countries in Europe apply fiscal, legal and institutional restrictions that de-incentivize work, and a model of employment relations that has been incapable of solving the problem of high levels of unemployment.
- **Secondly**, the weight of public expenditure in Europe is far higher than that of other OECD countries, such as the United States, Japan, or the emerging Asian economies. This greater weight of the public sector is the result of a

collective choice that has turned it into the supplier, when not the producer, of social services that are provided by the market in other countries. But it is also the result of a greater degree of market intervention in the form of subsidies and aid. The weight of the public sector has continued to grow in many countries in recent decades. In the current situation of public accounts and their foreseeable progression, an end must be put to the assumption that public services have no cost. In order to keep some of the services, it is necessary to establish co-payments, implying joint responsibility and avoiding the squander and incorrect allocation of increasingly scarcer resources. Not facing up to this challenge involves a serious threat to the sustainability of the social protection system in the medium term.

“The weight of public expenditure in Europe is far higher than that of other OECD countries, such as the United States, Japan, or the emerging Asian economies”

- **Thirdly**, the ageing-dependence ratio. The population of Europe is ageing and this has led to an inversion of the population pyramid. This is a result of the low birth rate and the increase in life expectancy, due to the high quality of the health systems. This situation does not guarantee the replacement of one generation by another and is a prelude to a dependent population majority versus an increasingly-smaller working age population.

It is not realistic to think that the solution could lie in the technification of the workforce to increase productivity, if we take into account educational levels, the differences among European countries, and the demographic and migratory pressure of the geographical context.

“In a globalized world, the European Union’s ability to compete lies in the ability to compete of each and every one of the citizens making up the Union”

The convergence of these three trends has led to an underlying issue, namely aligning policies placing people at their core. For too long in Europe, policies have focused on the legal instruments to develop entrepreneurship, to generate knowledge, but they have not focused on the development of the human resources that are to develop and implement these measures. In a globalized world, the European Union’s ability to compete lies in the ability to compete of each and every one of the citizens making up the Union.

In this context, it is absolutely essential to ensure sustainable public accounts, and this requires a dynamic and innovative economy that grows and creates jobs. The long-term survival of the welfare systems makes it necessary to consider reforms that improve effectiveness, increase quality and foster the improvement and sustainability of the health or pension systems.

2020 STRATEGY A NEW LISBON AGENDA

If this set of reforms is not undertaken, Europe's potential growth will be lower than that of the rest of the economic areas it competes with.



6

A NEW ECONOMIC AGENDA FOR EUROPE

The goal must be to foster the proper operation of the markets in a context of macro-economic, financial, and fiscal stability, with a regulatory framework that strengthens incentives for work, savings, investment, entrepreneurship, and innovation. Addressing macro- and micro-economic elements as independent is not possible. Ultimately, budgetary stability depends above all on a strong economy, capable of generating growth and solid fiscal bases.

6.1. New Fiscal Rules: Restoring the Original Stability and Growth Pact

The Stability and Growth Pact was born with the goal of keeping Member States' public finances healthy in order to guarantee the stability of the euro. In 2005, amendments were introduced and these have had a series of negative effects that have undermined the foundations of the very Stability Pact:

- **Fiscal discipline** in the European Union has relaxed.
- **The degree** of subjectivity in decision-making has increased with the introduction of discretionary rules or that are open to interpretation.
- **And the space** for political negotiation has increased.

“Ultimately, budgetary stability depends above all on a strong economy, capable of generating growth and solid fiscal bases”

This reform has been frustrated as the redesigned Pact has been unable to provide incentives during the boom years for the generation of sufficient fiscal margins to cope with a crisis such as the present one.

The euro and the Stability Pact are two of the success stories of the European Union in the last ten years, and they have to be defended whenever they face moments of uncertainty. The single currency must be upheld using the measures that are necessary, the spirit of the original Stability and Growth Pact must be recovered, and measures tightened to maintain levels of expenditure. The target is to cap excessive deficit and public debt and so keep the Member States' finances in proper health, giving credibility to the euro and confidence to international investors by favouring the introduction of structural reforms.



6.2. Driving Competition and Structural Reforms

Legal and administrative barriers to the Internal Market, restrictive practices on competition, and tacit obstacles have a two-fold negative impact on the economy. First of all, on competition, particularly among SMEs. And secondly, on consumers, who are penalized with higher prices.

The single European market must be recovered as a first measure, for this is the basis on which the Union has been built. It is necessary to delve deeper in the principles, apply the legislation enacted to give legal certainty to operators and add new sectors, such as knowledge and education.

Practices hindering economic development must disappear: monopolies, quantitative or territorial restrictions, residency requirements or obligations to open a bank account in a specific country or town, tax breaks for local producers, obstacles to the joint exercise of multiple service activities, the requirements for access to the exercise of a profession that are not justified by strict reasons of law and order, or national pricing regulations.

“The single European market must be recovered as a first measure, for this is the basis on which the Union has been built”

For the European market to work with the greatest efficiency, it is necessary to replace the principle of the

country of origin by generic principles such as those of mutual recognition, non-discrimination, and proportionality.

The coming decade starts from a situation of crisis. There will not be enough capital for all the priorities that are being established. In this context, undertaking structural reforms that promote competition, dynamism, initiative of Europeans, and balanced public accounts becomes more essential than ever.

“Europe’s economy would gain, at all levels of public involvement (state, regional, and local), with a general process of privatizations carried out in the interests of taxpayers through transparent and competitive means”

The European experience has shown the success of the liberalization processes carried out. With the influx of new competitors, efficiency has increased, innovation has been fostered, and consumers’ possibilities to choose have increased. However, there are still clear asymmetries in the operation of liberalized markets. Some countries, together with liberalization, have carried out privatization processes for the former State monopolies for reasons that have aimed at gaining management effectiveness and developing financial markets.

It makes no sense that fully or partially publicly-owned operators continue to exist in the de-regulated sectors of

Europe. Europe's economy would gain, at all levels of public involvement (state, regional, and local), with a general process of privatizations carried out in the interests of taxpayers through transparent and competitive means.

The operation of liberalized markets is also hindered because the European Union, unlike what has happened with monetary or competition policies, lacks adequate regulatory bodies to defend equality of treatment and make the Internal Market a reality, sector by sector. The fulfilment of this goal requires action in the sphere of financial oversight, energy, telecommunications and competition policy. The creation of an integrated European system of sectorial regulators must be implemented to give the supranational institutions greater room to manoeuvre.

6.3 A New Employment and Social Protection Policy

The European model of labour relations has been questioned, but the idea of flexi-security is gaining ground, a new employment and social protection policy based on three pillars: flexibility in the regulation of labour relations; social protection for the unemployed; and a strict regime of rights and duties for the latter. It is a question of investing in the employability of citizens. These policies entail a true revolution that has implied, where it has been applied, among others:

- **A reduction** in fixed employment costs, including in some cases the partial replacement of Social Security contributions by consumer taxes.
- **Flexibilization** of labour relations.
- **The introduction** of full competition in labour intermediation services.
- **The obligation**, in order to continue receiving unemployment benefits, to accept job offers even if they mean travelling from the place of residence, professional or occupation changes, and even reductions in earnings.
- **And a considerable increase** in the expenditure on training, in competitive conditions, and its monitoring to ensure effectiveness.

The success of these policies makes it advisable for European States to follow this path to modernize their labour relations model.

6.4. Reforming Monetary and Financial Policies

The international financial crisis has brought into question the structure of monetary and financial policies as well as the mechanisms for oversight in Europe.

In order to ensure the stability of prices and the financial system, the independence and autonomy of the European Central Bank must be strengthened.

The bail-out of a systemically important bank in the Economic and Monetary Union is a responsibility shared by all the countries participating in it as it avoids financial fall-out for them all. In this sense, the National Treasuries should assume pre-established financial commitments in the light of the contribution of the credit institutions resident in each country to the overall risk to the system.

“In order to ensure the stability of prices and the financial system, the independence and autonomy of the European Central Bank must be strengthened”

Furthermore, it would be necessary to foster, for internationally active banks, the creation of a European system for the regulation, supervision and resolution of crises around the European Central Bank.

It would also be necessary for these banks to have a unified banking legislation throughout the European Union, in line with that in the rest of the international financial centres.

6.5. An Integrated Energy Policy

Energy is one of the areas in which the European Union must play a clear role in the near future. The framework for energy is under review in all countries because of the ambitious goals assumed in environmental matters and

in the reduction in carbon emissions, as well as for the need to enable medium- and long-term growth, without forgetting the uncertainties posed as a result of political instability and the lack of security in key regions for energy supplies. Europe needs to ensure its energy sufficiency in the medium and long term and also, as far as possible, its autonomy in conditions of stability and pricing to make the investment trustworthy.

In the energy field, there is much to be done in terms of development and integration of grids and markets at the European level. A regulatory framework is needed to strengthen competition.

“Nuclear power is not the panacea, but no convincing European energy strategy is possible if it is not included”

We are currently witnessing rapid changes in the field of low carbon technologies, whether in the form of renewable energy sources or nuclear power. In order to deal with the huge investments and resources needed and to encourage research in this area, a stable regulatory framework is needed over the long run to ensure competition. A policy based on subsidies to certain energy sources harms consumers and taxpayers, constrains the competitiveness of European industry, and poses all manner of uncertainties, especially if there is no co-ordination at the European level.

In this sense, nuclear energy is essential for the future of Europe. If we mean to guarantee security of supply, fulfil our commitments with regard to the environment, and increase economic competition, Europe cannot afford to ignore any of the possible sources of energy within its grasp. Nuclear power is not the panacea, but no convincing European energy strategy is possible if it is not included.

7

REFORMING THE WELFARE SYSTEM

7.1. Is There a Welfare State in Europe Today?

The Welfare State is an insurance system and a system for providing payments in cash or kind in the face of certain needs and eventualities: old age, relatives/children, illness, and unemployment. The coverage of these risks by the State, extremely diverse in nature and varying from one country to another, has been generously consolidated in most European countries and it is normally viewed as one of the most characteristic elements of the European social model. However, in the light of the reality of Europe, the conclusion reached is that there is not a European model of Welfare State with a content that is decided and interpreted by all in the same way. Every country in the Union seems to follow a different pattern, determined by the conditions of its domestic policy.

In 2006, the average gross expenditure on social protection policies amounted to 26.9% of the GDP of the 27-nation European Union. Nonetheless, this European aver-

age hid national differences. The greatest differences within the Union arise in the ratios for funding the unemployment insurance, as well as in family policies.

The social benefits paid through direct transfers represent the largest part of the benefits payable under the social security systems of European Union Member States, and in most cases these do not take into consideration the beneficiaries' income level. There is also a notable variation between countries in the funding of the social protection system. In 2006, social contributions amounted to 58.9% of total revenue, on average, although there are countries that fund more than half their social expenditure through taxation.

Despite these differences, it is possible to detect a number of common characteristics. Among others: widespread access to education and vocational training; widespread access to social protection and health care; and a predominance of public funding for the health and educational systems through taxes or social contributions, with a redistributive effect.

7.2. The Economic Rationale for Reforms

In the process of building Europe, the institutions dealt from the outset with the policies affecting competition and the creation and development of the Common Market, whereas the budgetary and social policies have always been the

responsibility of the Member States. This approach began to change with the adoption of the euro, which led first to a process of convergence of the macro-economic magnitudes and policies and later to the adoption of the Stability Pact. The economic crisis is once more bringing to light the importance of a policy enforcing budgetary rigour. It has also been seen that the long-term sustainability of public accounts relates to both future commitments assumed by the welfare systems and also the medium- and long-term growth prospects, partly constrained by the incentives offered to economic agents.

That Welfare State is traditionally characterized by the great weighting and involvement of the public sector in the production and provision of social protection. And in this sense, it is necessary to acknowledge that the current design of that Welfare State is anchored in the past. There is so much to be gained in terms of efficiency, quality and sustainability with its reform.

Europe suffers from a burden of regulations and rigidities that prevent mobility, limit competition, hinder innovation and discourage entrepreneurship and risk-taking. In such a scenario and with that ambition, the reform of the Welfare State is urgent in order to make it viable and ensure that social welfare continues to be a feature of the European model.

For Europe to take advantage of all the opportunities of globalization, it is necessary to undertake the reform of

the Welfare State. It is necessary to move towards a true welfare society that is more dynamic and able to offer better lifestyles to its citizens through more and better jobs, lower taxes, and greater freedom of choice for educational, health and social services.

“That Welfare State is traditionally characterized by the great weighting and involvement of the public sector in the production and provision of social protection. It is necessary to acknowledge that the current design of that Welfare State is anchored in the past”

In the field of social policies, it will be necessary to:

- **Boost freedom of choice** for users-taxpayers.
- **Foster a greater separation** between those guaranteeing services and those producing them.
- **Study and extend co-operation** between the public and private sectors for the provision of services, while maintaining pre-established quality levels.
- **And it must be taken** into consideration that the long-term financial sustainability of the pension system and the health system is currently the number one target in order to prevent its collapse in the future.

In the near future, the ageing of the population in Europe together with the scientific advances will foreseeably lead to an increase in public spending on health and

pensions, in a setting in which, in view of the current trends, the active population will be declining. In order to respond to the budgetary and economic effects arising from these demographic changes, it will be necessary to adjust life expectancy and pensions, gradually extending the working life period. It is also necessary to support a policy that boosts the birth rate through tax incentives and measures facilitating the reconciliation of work and home life, the consolidation of structures for looking after and caring for young children, and the social position of families.

“The European Union needs to strengthen the co-ordination of the migration policies of the various Member States, a field in which very different approaches have come to the fore”

Ageing and the birth rate are not the only forces changing the demographic reality of Europe. The growing presence of immigrants, even in the midst of the crisis, is a fact in the main European countries. Immigrant workers have been in the past, are now, and will continue after the crisis to be an essential part of key economic sectors. The European Union needs to strengthen the co-ordination of the migration policies of the various Member States, a field in which very different approaches have come to the fore. Europe’s social protection systems cannot become the factor determining how attractive Europe is for immigrants; nor must we think of immi-

gration as irrelevant for Europe's future or that the present trend can be stopped or reversed. Europe needs to attract talent and people prepared to work and integrate into our societies.

8

IMPROVING EUROPEAN EDUCATION SYSTEMS

Education systems are facing new challenges. They must be capable of offering each and every individual the human capital necessary for them to make the most of the opportunities afforded by globalization. The internationalization of markets, which is changing how people work, demands new technical skills and new abilities in management and organization. The development of the Information Society offers tools that modernize how we communicate and advance in science, how we relate to each other, learn and organize that learning. Together with a suitable institutional framework, knowledge is the key to the wealth of nations.

Most countries in Europe are considering the reform of school and university-level education systems, encouraged by the information furnished by international benchmarking such as that offered by the OECD's PISA report. The situation is uneven among European countries: some lead the international rankings while others lag far behind.

Nonetheless, there are certain trends that are consolidating, lessons to be learnt from the best, and if these were to become generalized, they could benefit Europeans as a whole. First of all, giving incentives for effort, responsibility, merit and recognition of achievements. The appropriate incentives that acknowledge excellence among teachers and students must be established. Only thus will education form part of a personal project in which every student takes responsibility for his or her own future.

It is also important to boost the authority of teachers and their social prestige. It will be necessary to review the systems that give access to the profession and the selection procedures of schoolteachers and lecturers, encourage initial and on-going training for teaching staff, and promote their geographical mobility by overcoming the obstacles of all kinds that today make this difficult, when not impossible.

“Together with a suitable institutional framework, knowledge is the key to the wealth of nations”

It is necessary to strengthen the independence of schools in terms of management and competition, so that they can offer a range of educational curricula and projects capable of adapting to the needs of their students and the demands of their parents, in an advanced and increasingly plural society. To this end, it is essential to encourage transparency and responsibility at all levels of the education system.

Freedom of choice demands having suitable information and assessment tools available clearly showing the results of the different systems. Indicators have to be set up at all scales: European, national, regional, for each centre and for each student.

It is vital to improve the lifelong learning systems throughout the careers of individuals and to develop training and learning qualification and accreditation systems that allow constant adaptation to the changing circumstances of the employment markets, thus strengthening collaboration with the private sector.

9

THE CHALLENGES OF HIGHER EDUCATION AND OF THE EUROPEAN RESEARCH SYSTEM

The Bologna Process has led to the establishment across Europe of a two-cycle university system comprising bachelor's and master's degrees, the design of a homogeneous new credit system in which priority is given to the skills, abilities and learning acquired by students, and the creation of different yet comparable quality assessment systems. This process must not, however, be anything less than the starting point to allow European universities to achieve a position of leadership in terms of both teaching and research.

University independence is essential to allow institutions the flexibility to respond to their surroundings and to facilitate the independence and creativity of academic work. Nonetheless, autonomy may become an obstacle for reform and modernization if the universities are governed as closed corporations without any accountability.

European universities will have to specialize increasingly in the future. The old model of a small university

offering a local community a full range of degrees and qualifications has no place in an open, competitive setting. In the future, not all universities will be able to offer the same degrees or even access the same sources of funding or research programmes. Europe must be capable of attracting talent and of creating its own talent. This requires searching for excellence.

“The widespread idea of higher education as a natural and almost universal continuation of secondary school must be abandoned”

European universities will have to adapt to a context of ever greater competition. Universities must be encouraged to compete for the best students, the best lecturers, and also for research projects and resources.

In order to develop a new university culture based on individual effort, excellence and merit, it is essential for students to view their university studies as a wise investment of time, effort and money. To this end, the widespread idea of higher education as a natural and almost universal continuation of secondary school must be abandoned.

After the success of such programmes as the Erasmus exchange scheme and following the implementation of the Bologna Process, the European Union should make a determined effort to foster the mobility of students and teachers with sufficient funding from both the Community

and the Member States' budgets and from the private sector. However, there can never be true mobility without mutual recognition of diplomas and qualifications throughout the Member States.

The establishment of standardized exams to assess the knowledge of school-leavers and university graduates will facilitate the processes for admission of students from other Member States by universities throughout Europe. This entire process will require the stimulation of transparency and accountability among the universities themselves. In the context of a Common European Space for Higher Education, it is impossible to build comparable, compatible, and competitive systems without incorporating the assessment and accreditation of teaching, personnel, and funding.

“Europe is also facing the challenge of training generations of Europeans able to speak other languages, as well as their own, particularly English”

The great challenges Europe faces in research and innovation involve favouring citizens' creativity and entrepreneurship, the cornerstones of a dynamic and competitive society, developing an institutional framework that both fosters the emergence of new companies and their funding, and also attracts and retains talent. To achieve this, it is necessary to acknowledge excellence in research and to establish appropriate incentive systems.

Europe is also facing the challenge of training generations of Europeans able to speak other languages, as well as their own, particularly English. The goal must be to attain a Europe that, without renouncing its own languages, is able to cope, study, work, research and create in English too. This will lead to an increase in the employability of Europeans and raise the attractiveness of Europe for highly qualified human resources.

One of the goals must be to foster the conversion of new knowledge into new products and new businesses, and this requires boosting the development of new financial markets, the creation of independent institutions specializing in project assessment, driving next-generation Internet networks throughout Europe, and establishing a new policy on tax incentives. The alternative to tax incentives is a general reduction in tax rates, which is a much more neutral and effective incentive for risk-taking and business activity. Europe also needs to simplify and homogenize the current regulations on intellectual property and patent law and to implement more flexible systems for the mobility of researchers between countries, institutions, and the public and private sectors.



10

A EUROPE OPEN TO THE WORLD

The European Union will, in the decades to come, represent in demographic and economic terms, an ever smaller part of the world total. Other regions are growing faster and other players are taking prominence on the global stage. The policy followed so far by the new Administration in the United States leads us to think that this latter tendency can only speed up. The unfolding of the recent Copenhagen summit, in a field where the European Union aspired to play a leading role, is a good example of this.

The European Union can only aspire to play a significant role on the international scene if it places its economic, institutional and political capital at the service of a truly dynamic and innovative economy that is fully integrated in the world's economy. An open economy that is capable of attracting talent and investments from across the globe. All kinds of protectionist temptation must be avoided, as must those resulting from aspirations to be a world leader for standards in the labour, environmental or security areas. This leadership is possible, but it should not be the rationale for barriers that, far from protecting jobs or European industry, end up isolating and impoverishing them.

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No-one can know which companies or which sectors will provide the jobs for tomorrow that will ensure the wellbeing of Europeans. Any temptation to lapse back into old-school industrial policies must be shunned. Protecting lame-duck sectors, launching or strengthening national champions or returning to the vain dream of a publicly-planned economy is fatal for both the public coffers and for economic competitiveness.

If Europe wishes to play the leadership role it aspires to in the 21st century, it needs a stable framework favouring innovation, investment, the creation of companies, flexibility, and openness.