

**Overall Assessment of the Communication from the Commission,
*Europe 2020, a Strategy for smart, sustainable and inclusive growth.***

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WG 2 "Social Market Economy"
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I. Significant progress compared to the first draft by the Commission

The Commission's new contribution is far more elaborated than the previous one, published in November 2009 and upon which the public consultation was based.

The new *EU 2020 Strategy* seeks to distinguish clearly where the EU must act, what the EU Commission should do in order to achieve its stated objectives and what is the role of Member states.

Thus, it proposes five headline targets with seven flagship initiatives.

This clarified agenda has been widely welcomed and has shown the ability of the Commission to adjust to the critics and draw the benefits of the public debate.

Nonetheless some substantial remarks ought to be addressed as early as possible in order to keep the public debate going, as there is unfortunately not going to another public consultation.

II. Refocus on what is likely to be managed and measured

Lisbon I had too many objectives, most of which were not met. To avoid repetition,

- More thought should go into how the objectives are to be achieved;
- Monitor and measure progress;
- All new EU initiatives should be tested by the Impact Assessment Board to see whether they are compatible with the objectives and execution of the 2020 Strategy.

The new *EU 2020 Strategy* should therefore not widen the scope but rather concentrate on a few large topics, which may be actively monitored and managed. "What is measured, is managed".

III. The Priorities

Priority 1. "Smart Growth": Productivity and Job creation should come first

In terms of vision, it is positive that the EU Commission seeks to state an aim to the strategy while asking "Where do we want Europe to be in 2020?". Yet, there is still a lack of a central ambition in that vision. The constant use of some keywords, such as "smart" and "inclusive" strips them of substance and at very best fail to speak to ordinary citizens.

The GDP is broadly used as the only key measure. There could be other options available, such as the Stiglitz-Sen-Fitoussi report suggests, providing a larger view into our society by broadening the measurement instruments. Job creation or job market access indicators are important elements to be taken into account.

The first mutually reinforcing priority "smart growth" could be renamed to become "job creating growth".

The knowledge economy is not an objective by itself. The European competitive strategy should not be devised only for the most educated ones in Europe. The emphasis on knowledge economy and smart growth should be put in perspective.

The European competitive strategy should be based firstly on substantial productive gains, achieved in a short period of time, throughout the Union. Such a sharp increase of productivity can only be delivered out by increased private investments, retraining of the workforce, rapid digital developments, and the dissemination of best workplace practices.

Such a move for sharp increase in productivity gains in the private sector should be encouraged first in countries where productivity gains have been more limited in the last 10 years, because the long term sustainability of the Economic Union is at stake.

"Job creation", "industrial" and "digital agenda" could be presented as flagships 1, 2 and 3 of the new strategy in order to demonstrate what that strategy is about.

Priority 2. "Sustainable growth": Security first

The 2020 strategy puts considerable emphasis on green growth. The reality is that many member states have been increasing the costs of energy which will lead to de-industrialization in Europe. Energy policy should focus on:

- The potential for efficiency
- Avoiding further energy costs increases through new taxes such as carbon taxes
- Better functioning of EU cross border energy markets
- **Enhancing Security of supply, and less dependency on politically controlled sources of energy. That element is clearly recognized in the 2020 strategy: "strong dependence on fossil fuels such as oil... expose our consumers and businesses to harmful and costly prices shocks, threatening our economic security". Although acknowledged by the Commission, the issue of energy security does not appear as a top priority.**

Priority 3. "Inclusive economy": SMEs are the key to job creation and training

Job creation is essential to sustain the social market economy model.

More than 97% of enterprises are small. Reducing the risks for small firms to take on employees will do most to increase the participation rate of those who can work.

Policy induced failures in the labour market need to be identified and removed to increase the job chances for the most vulnerable groups such as women, the young, and people with low skills.

Skills and training are key to maintain the quality of the work force and equip young people to find jobs.

Tax Treatment and the administrative burden for SMEs need to be reviewed. Micro firms should have administrative derogations.

Priority 3. "Inclusive economy": Demographics matters.

The ageing population is the fundamental driver of economic and social change in Europe today. The policy objectives need to look ahead and cater for these inevitable changes in matters such as:

- Longer working life, removal of incentives that encourage early exit from the labour market
- Pension provision, based more on savings than "pay as you go" which will weigh heavily on the smaller working population
- Inter-generational solidarity
- Health care provision, greater focus on prevention than cure, and policies based on health is wealth, rather than quota systems.

IV. Headline targets

Concerning the five headline targets, much has been already written about the importance of some quantifiable indicators to be used.

Target 1. "75% of the population aged 20-64 should be employed". Concerning the first objective, one could set an even more ambitious target. Indeed, European economies cannot be on a sustainable footing if demographic pressure is not properly addressed. The age for workforce targeted by the strategy should range at least from 18 to 70 years, taking into account part-time employed people (students, pensioners). This target should be accompanied by policy with a new approach to life-long learning and flexibility from the employer's side.

Target 2. 3% of EU's GDP invested in R&D. While it is important to dedicate a defined target of the GDP to research and development, these 3 % should be efficiently used. It should not be a target in itself, and should mobilize a wide range of different instruments, not just public resources to finance public research. Public/private partnerships and increased investment by private companies should be stated from the start as the core objective.

Target 3. if the "20/20/20 emission target" is to be underlined, the EU 2020 strategy does not take into account the strategic importance of ensuring energy and security, which are far from being attained. More specifically, due to disparities in terms of situations within the European Union, this situation may destroy economic in several member states. Moreover, sticking to these figures does not

necessarily take into account the lessons from the Copenhagen conference. If the exemplarity of the EU is necessary, it is far from being sufficient.

Target 4. Reducing the share of early school leavers is crucial, but setting a target for a tertiary degree is not enough. This diploma should also be relevant in the job market.

Target 5. The lack of social dimension of the Strategy was one of the main criticisms by several stakeholders during the consultation process. Not only should the most significant number of people be lifted out of poverty, but human dignity should be protected as the basis of the society. As poverty is unfortunately often transmitted within a family, family policies ought to have a special focus.

V. The Commission proposals

As the Commission states, several Europe's structural weaknesses have been exposed by the crisis. One of these is a productivity gap, which has widened during the last decade compared with our main economic partners. **But some other structural problems have emerged at the very heart of the European project.** The widening of the productivity gap even among the single market states has not been matched by a reduction in terms of prices within the eurozone. This has created a structural imbalance even within the EU single countries. Coping with internal imbalances is a structural problem that should be addressed with the priority it deserves as it is posing a threat to the very economic sustainability of the single market itself.

Innovation: While investment in innovation is widely accepted, this should be seen in a wider, global context. Indeed, in this context Japan is a comparison to be remembered. Even if Japan dedicates a high percentage of its GDP to research, it has not helped it to go through a lost decade and years of economic lethargy. Moreover, while high-end innovation and research are certainly to be highlighted, one must not forget the importance of a practical DUI-approach (doing, using and interacting. In this regard, one should also seek to enhance private financing, public/private-partnerships and enhancing the Small Business Act in order to permit the implementing of those policy commitments effectively.

Digital society: while taking the leadership in this field and transforming the European society into a digital powerhouse is to be praised, this should be further be linked with other initiatives, and related to producing adequate content as well. If the digital economy can be a means to a more efficient and transparent economy and public administration, the "e-age" is not reaching everybody. The generation gap must be taken into account, as well as many of the social gaps, as digital economy does not really reach the elderly or the poor people. Public space should stay something concrete and can only be complemented by e-government services.

Sustainable growth – promoting a more resource efficient, greener and more competitive economy

Competitiveness: In terms of competitiveness, the EU is still lagging behind major other actors. In its flagship initiative, "An industrial policy for the globalization era", the EU Commission still fails to highlight the importance of the small and medium-sized enterprises and their input to the growth of the EU economies. Yet, investing in SME would enable the strategy to have a more direct impact on the real economy. A dramatic increase of capacity and resources of the European Investment Fund is needed.

Combating climate change: the Commission repeats the EU Council's resolution from last December, but the failure in the Copenhagen negotiations should better be taken into account, as stated above. The EU should mobilize all available means to engage emerging countries in this respect. What comes more specifically to energy efficiency, this should be attained at a rational cost. In this domain many of our partner countries face similar problems, and one could seek for better exchange in this domain with the United States.

The EU Commission is not highlighting enough the issue of energy security, and it does not take

into account the important disparities of the different EU countries. Indeed, the energy dependence is putting some economies into a serious asymmetric situation and having impacts on their capacities to sustain a stable development. Promoting infrastructure projects within the EU and beyond is of major importance, but more should be done in order to diversify both the geographic and production origins of energy supply. Issues as strategic reserves and EU leverage in energy markets are key elements of such a strategy.

Missing links: economic foreign policy. The EU should enforce its foreign policy tools in the trade domain. In order for the EU to fully enjoy its trade and economic potential, it should have a coherent and strategic approach to economic diplomacy. This is not today the case, and the EU Commission proposition does not make it better, as no trade strategy to engage existing or emerging partners is presented. In addition to policy, one should also give the EU the relevant tools in the form of permanent diplomatic missions in the economic field not only in the capital cities, but also in the regions, for example in China and Brazil, enabling thus the economic dimension to be better integrated to the EU external action. The EU should adopt bold trade policy tools, suspension of foreign access to the single market as an extreme measure if needed. The EU should also adopt a strategy with global trade priorities and strategic objectives in order to have an effective and well functioning trade policy.

Exit from the crisis: first steps towards 2020. The negative impact on European growth of the unavoidable fiscal consolidation that is likely to take place after 2011 has to be taken into account. At the time, serious solutions to prevent foreign exchange risks and monetary turmoil within the EU should be finalized. Some convergence in consolidation would be a value added.

Delivering results: stronger governance. Concerning the issue of governance, the EU Commission's proposition fails to offer a relevant control mechanism to assure an enhanced functioning of the EU 2020 strategy, and thus its full ownership by all stakeholders. Indeed, there should not be financing in the absence of results, as in the EU Parliament resolution stated. Open coordination method has come to an end and should be replaced by a system inviting to a better compliance. While this would demand more sticks and carrots, it would give a better image of the EU as well as be a proof of its relevance.

The EU Council seems to be unable to take, at this stage, adequate measures against member states not honouring its responsibilities thus even threatening the very core achievements of the Union.

Concerning the EU Commission, it should take a more proactive role while keeping the statistics. It has the right tools and authority to be more assertive and fully assume its responsibilities.

Concerning the EU Parliament, few propositions are made for it to be informed of the advancement of the implementation of the EU 2020 strategy. While the EU Commission sees the Parliament an important tool to communicate this strategy to the public, the Parliament certainly is not offered the relevant tools to control assess and reshape the strategy.

As hoped by the EU Commission, the member state governments should gain full ownership of this strategy, and this has already started to take place. Indeed, in Belgium, the Prime Minister has already proposed that the EU 2020 strategy ought to be translated into a national, Belgium 2020 strategy.

Even if there are some signs that the regions are better taken into account than in the previous version, the subsidiarity principle is partly forgotten here, and should be underlined further. The regions are responsible in many countries for implementing the relevant policies, such as in the transport or education sectors, and should be fully integrated. Thus, the Committee of Regions has launched its own consultation so that to collect concrete propositions to the CoR.

Full ownership has been demanded by the EU Commission, but as the method for this consultation has been very hasty, and the first proposition ill prepared, the EU Commission might be obliged to prepare itself for a slightly longer agenda despite a good contribution on March 3rd 2010.