

REFLECTION PAPER ON THE FUTURE EU 2020 STRATEGY

This is a time of deep transformation for Europe

The worst economic and financial crisis in decades has hit Europe hard with economic activity contracting sharply and the unemployment rate in Europe set to rise to double digit figures in 2010, a level last seen a decade ago. Collective action to save the financial system and to boost demand and confidence through public intervention has helped to prevent an economic meltdown. Now the challenge for public policy is to focus on making a successful exit from the crisis and to shape the next generation of public policies in a very different set of circumstances.

The exit from the crisis should be the point of entry into a new economy, smart, green economy and competitive, where our prosperity will result from using resources better, and where its key input will be knowledge. These new drivers should aim at creating a sustainable social market economy, tapping new sources of growth and creating new jobs as a response to the higher level of unemployment our societies will have to face in the coming years.

Delivering this sustainable growth requires agreement to an agenda that puts people and responsibilities first. The efforts of a decade which resulted in a reduction of unemployment from 12 % to 7% in the EU have now been swept away by the crisis. Many of the jobs lost have been destroyed and will only be replaced by jobs created by new sources of growth in the value economy.

This new approach is set in the context of globalisation which will remain one of the main drivers for European dynamism in the next decade. The EU needs to be quick in seizing opportunities and in anticipating and adapting to future trends. The crisis has underlined the extent of interdependence in the European and global economies. To reach our objectives for 2020, we must act decisively in the G20 and international forums to promote the principles of the sustainable social market economy in the global context.

Recognising constraints and facing new challenges

A successful EU 2020 strategy must be built on a good analysis of the constraints facing policy makers in the coming years and the correct identification of the challenges to be tackled by the EU.

The financial and economic crisis has taken a heavy toll on public finances, businesses, employment and households. The present situation is not only causing concern for our social protection systems and our future economic and financial stability but also places a major constraint on expenditure related policies. At all levels, public policy makers will have to find ways of triggering economic dynamism with limited budgetary margin for manoeuvre. One of the challenges as public sector deficits are brought back under control is to ensure that public expenditure is reshaped in ways that enable us to reach our 2020 vision, and not make it more difficult to achieve by cutting spending in future oriented areas such as education and research.

In developing a new vision and direction for EU policy, we need to recognise that conserving energy, natural resources and raw materials, using them more efficiently and increasing productivity will be key drivers of the future competitiveness of our industry and our economies.

We also need to recognise the challenge presented by the European demography: even prior to the crisis, the change in our demography, i.e. a lower proportion of young people in the overall population, was expected to reduce potential growth to around 1% by 2020 without corrective action. The crisis has exacerbated the long-term social challenges that Europe is facing, such as the integration of an increasing immigrant population, social exclusion and child poverty, gender equality and solidarity between generations in the context of an ageing society. A substantial rise in the employment rates will be necessary as well as a modernisation of the social protection systems.

This implies that new policies must demonstrably contribute to social cohesion, tackling unemployment and fostering social inclusion. This requires rethinking education systems and labour markets and enhancing mobility and Europe's dynamism to unleash our innovative and creative potential.

The challenge of becoming a greener society with knowledge at the centre will require increased policy coordination to make the economy more competitive. Our social, economic and environmental objectives must go hand in hand if we are to deliver on our thematic priorities for 2020. By setting out a vision of EU 2020, replacing the current Lisbon strategy while building on its achievements, the EU can set its priorities in a ten year horizon that will allow the EU and national levels to work together to move beyond the current crisis and to mobilise new sources of growth and social cohesion.

Key priorities for EU 2020

To become a successful sustainable economy, Europe needs to promote key, agreed priorities and to work on delivering them over several years. The heart of the new EU 2020 strategy will be thematic, focusing on the drivers of our sustainable social market economy.

No single Member State can successfully address these challenges alone. The framework of the single market gives us the size and the scale necessary to achieve these objectives. It is the central tool which ensures that citizens reap real benefits from increased competition and that companies operate in a level playing field. It will be updated to respond to the demands of tomorrow's economy, and achieve our priorities for EU 2020.

Huge opportunities exist in the post-crisis world for people and for businesses. The aim is for Europe to lead, compete and prosper as a greener, knowledge-based economy, growing fast and sustainably, creating high levels of employment and social progress. To achieve this, Europe needs a strengthened industrial base, a modern service sector and a thriving rural economy. As 'first mover' in building this society of the future, Europe can derive important benefits by developing competitive, innovative products, rolling out the infrastructures of the future, entering new markets and creating new, high-quality jobs. But the benefits go much wider. A Europe that is open to the world will continue to be a model for others to follow, projecting its values and fostering stronger labour, environmental, and safety standards around the globe.

To develop its sustainable social market economy, the EU should focus on the following priorities:

- (1) ***Creating value by basing growth on knowledge.*** Knowledge is the engine for sustainable growth. In a fast-changing world, what makes the difference is innovation in both products and processes. Building on its strengths in technology

and knowledge, Europe should tap fully the potential of the digital economy. . This means promoting excellence and developing a world-class level education in our universities, and ensuring that young people have access to quality education from an early age.

- (2) ***Empowering people and fighting exclusion.*** In the post-crisis economy, many of the jobs that have been destroyed will not be replaced so we need to create new ones. The transformation of the EU towards a greener, knowledge based economy will boost new job creation and help reduce high levels of unemployment. New jobs requiring new skills will be offered, requiring access to lifelong learning for all to renew their skills. Transition between jobs, between training and jobs will require major efforts to prevent people falling out of the system, and to ensure social cohesion. And to create jobs, a major effort is needed to develop entrepreneurship, which is key to develop innovation capacity.
- (3) ***Creating a competitive greener economy.*** Europe needs to remain competitive in the future world of relatively high energy prices, and significantly greater resource competition. More efficient use of resources, energy, and the application of new, greener technologies will stimulate growth, create new jobs and services and help the EU meet its environmental and climate goals. Because of the importance of industry for growth and jobs, a new approach will be necessary to support this transformation. Achieving these objectives will constitute an important asset for the EU to compete in a global world.
- (4) ***Making Europe mobile and connected.*** In a world where new industrial patterns based on mobility are emerging, the EU is still not tapping all the benefits of its single market: obstacles remain, reducing cross-border activity and limiting access to capital. At the same time, the emergence of on-line services, or of new services, for instance in the health sector shows considerable potential for the single market. Europe needs also to encourage labour mobility to help people fight unemployment and take up new opportunities: this starts by ensuring the social protection of mobile people, and promoting learning mobility for young people. Together with the roll out of high speed internet, we need to develop smart, upgraded transport and energy infrastructures to improve competitiveness.

Making it happen: starting with a successful exit from the crisis

The first task for the EU is obviously to make a successful exit from the crisis. Financial resources have come under pressure as a result of the crisis. The remaining problems in the financial system need to be solved swiftly in order to raise the EU's growth potential. Access to credit and efficient financial market supervision will be crucial for the recovery and the transition to the new economy will depend on the availability of capital to finance innovation. At the same time, achieving a major transformation cannot be done without fresh investment in people, technology and productive capacity. To unleash the potential of the economy, structural reforms should be fully implemented to create new sources of growth.

The key challenge is how to balance the continued need for fiscal support to demand in the short run, and the need to invest in future sources of growth with the need to restore sustainable public finances and macroeconomic stability. If this balance is not ensured,

there is a risk that the recovery will be slow with growth of around 1% of GDP and unemployment remaining above 10% for years to come.

The Stability and Growth Pact will play an important role in delivering the budgetary means to achieve sustainable growth and jobs. While consolidating public finances, Member States will need to redirect public expenditure towards the thematic objectives of EU 2020 so that the necessary investments in Europe's future can be made. Despite important fiscal constraints, room can be found to invest in sustainable growth. Investments and structural reforms designed to deliver a greener economy will generate more revenues and will ease the consolidation of public finances.

Harnessing existing instruments in a new approach

To make as successful exit from the crisis and deliver our EU 2020 objectives, we need a strategy for convergence and integration which recognises more explicitly the advanced interdependence of the EU:

- Interdependence between Member States in the form of (positive or negative) spill-over effects of national actions, particularly in the eurozone;
- Interdependence between different levels of government (EU, Member States, regions, social partners - multi-layer governance);
- Interdependence between different policies, and the importance of policy integration to deliver the overall objectives;
- Interdependence at global level – none of our Member States is large enough to keep pace with the emerging economies or to undertake this transformation alone.

Clear governance will be essential to make the new strategy effective. The focal point of the future strategy should be the European Council since it is the body which at European level ensures the integration of policies, manages interdependence between Member States and the EU. It should therefore make the decisions and set the objectives, and steer the strategy through appropriate instructions to sectoral Councils, in close cooperation with the Commission.

The European Parliament could be asked to play a greater role in the new governance structure. Beyond its traditional role on the integrated guidelines, Parliament could express views on the EU 2020 strategy before the Spring European Council. In addition national parliaments should be mobilised to support the future strategy.

The Spring European Council in 2010 will set the strategy on its course for the next 5 years on the basis of a Commission proposal to be tabled in January 2010. The European Council should fix a small number of headline objectives, and define the corresponding policy actions to be pursued at EU and Member State level in partnership. The European Council's conclusions, with the corresponding orientations for EU and Member States policies would thus become the integrated guidelines.

For each of these objectives, Member States would set their individual targets for 5 years corresponding to their national situations and their starting points. The Commission and the European Council will monitor progress every year in Member States and at EU level.

To prepare the yearly review and decisions by the Spring European Council, the monitoring of progress will consist of 2 elements:

1. A *thematic review*. In order to reflect better the interdependence between Member States, and to enhance policy coordination by the European Council, it is proposed to introduce thematic recommendations for each of the key objectives identified by the European Council. Based on an annual report by the Commission, this approach would allow the European Council to monitor progress in Member States and at EU level on key objectives such as innovation, energy efficiency, employment etc.

2. A *country review*. To achieve the best results for the preparation of the European Council the monitoring of Member State economies would be broadened to include the analysis necessary for the proposed thematic review, drawing on better aligned Treaty based instruments, including the Stability and Growth Pact;.

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