

Response of the Federation of Austrian Industries to the

COMMISSION WORKING DOCUMENT,  
**CONSULTATION ON THE FUTURE "EU 2020"  
STRATEGY (COM (2009) 647/2)**



## 1) General remarks:

On both an Austrian and a European level, the Federation of Austrian Industries has always been a strong supporter of the Lisbon Strategy. Especially in the current economic climate, a revitalised Lisbon Strategy should be the driving force to pursue structural reforms in Europe. The impact of the crisis on the corporate sector, labour markets and public finances has been significant and will be long-lasting in the absence of an adequate policy response. Everyone is aware of the need to define and implement strategies and tools to maintain the dynamics for growth and international competitiveness of Europe. It is more obvious than ever that continued structural reforms are the only way to help restore growth and improve employment in Europe in the longer term. However, in order to restore growth one of the key weaknesses of the Lisbon Strategy must be overcome, which derives mainly from the lack of commitment of member states to implement structural reforms. We therefore call on the European Commission to put strong emphasis on the implementation of national reforms based on a modern and functional benchmarking system. A successful exit from the crisis is a prerequisite to starting the EU 2020 process. A sound and sustained exit from the downturn can only be achieved through a committed and coordinated effort by all member states. In this regard, a clear-cut and conclusive procedure towards budgetary consolidation and timely withdrawal of the fiscal stimulus packages should be outlined prior to the start of the EU-2020 process.

The EU 2020 Strategy should not be an agenda for crisis management but a strategy for longer term actions that aim to raise potential growth and high employment rates and for a return to sustainable public finances. It should focus on the implementation of necessary structural reforms in various sectors and all ambitions to integrate the social dimension and climate change policies should be done with a clear emphasis on growth and jobs.

## 2) Starting-point: How to overcome the financial /economic crisis?

A sustained recovery will only be possible if a sufficient level of financing is available to companies and if public indebtedness and tax burdens are kept under control. Financial market reforms and fiscal consolidation strategies must be an integral part of the EU's growth strategy and be conducive to an investment-led recovery.

### ➤ access to finance:

It is of utmost importance that the crisis will not have a significant knock-on effect on future access to capital, lending standards and financial innovation. Broad access to finance is an essential component of a dynamic, innovative and adaptable economy, and will need to be a permanent concern of policy-makers in the coming years.

Financial markets should be regulated in a smart way, so that productive investment and entrepreneurship is encouraged rather than stifled.

➤ new structure for financial markets

A sound level of financing and an appropriate evaluation of risk are essential pre-conditions for a sustained economic revival. Financial market reforms and bank restructuring efforts will need durably to reinforce the resilience of the system.

As demonstrated by the fall-out of the financial and economic crisis, the current system suffers from considerable shortcomings, both on the European and global levels. To avoid replicating the mistakes of the past, it is necessary to strengthen cross-border, EU-wide financial supervision and endow authorities with proper and prudent competence. We should aim to identify and manage risks early on, namely before they become so large as to pose a systemic risk and jeopardise financial stability.

We should strive to bring about a level playing field across Europe and to prevent regulatory arbitrage. In particular, we should strive to establish common standards – experience shows that the involvement of supranational bodies is likely to facilitate this process. In tandem with this, we envisage a strong role for EU-authorities in improving cross-border information exchange (on exposure etc.) and cross-border stability assessment procedures. However, the overall objective should be the implementation of a more effective control mechanism including enforcement rather than an extension of the supervisory burden.

➤ stability of public households

The Stability and Growth Pact remains the appropriate instrument to coordinate the necessary return to fiscal discipline across the EU. Greater focus on debt sustainability and structural reforms will be key to combining growth with fiscal consolidation in the years ahead.

European social systems have cushioned the impact of the crisis on workers and citizens. However, with the return of high unemployment and a severely deteriorating outlook for public finances, the EU's capacity to provide protection against risks and combine economic growth with social protection will only be sustained by intensifying reform efforts. Social security-, health- and pension systems must be revised, also taking into account the ageing population. Joint progress must be achieved in increasing employment levels, productivity growth and the financial sustainability of European social systems.

➤ Imposing modern employment practice

We have to bear in mind that levels of unemployment resulting from the economic and financial crisis have not yet reached their peak. In Austria, as in most other member states, unemployment will peak in the years 2010/2011, before recovery can be anticipated. A continuation of difficult times for Member States in terms of social cohesion and for European business is to be expected.

In line with the target for more growth and more jobs, labour market reforms should focus on increasing labour productivity and competitiveness, an adjustment in the capacity of labour, labour market participation, labour mobility across regions and industries, and increased employability. Member states must implement the principles of flexicurity and the Small Business Act (SBA) across all levels of public administration. Young, innovative and fast growing companies will be at the centre of the EU's economic revival and will be a key factor in spurring innovation and creativity. Additionally new models such as social type enterprises should be promoted, in which market-based strategies are applied to solve issues of unemployment, social cohesiveness and local development.

Finally, combining employment and productivity growth will also require a reduction of taxation on labour and a substantial increase in the supply of skilled workers in European labour markets. Modernised education and training systems and well-designed immigration policies are crucial building blocks to support high and sustainable growth in the years ahead.

### **3) Europe needs quality and sustainable growth**

More Focus on Competitiveness, Structural Reforms and Growth is Key: It is more obvious than ever that continued structural reforms and more investment in areas which improve our competitiveness are the only way to help restore growth and employment in Europe. Economic growth is an important factor that determines the rates of employment and unemployment. For instance in Austria 2,5 % of GDP growth is required to decrease unemployment rates .

**Research and innovation:** Investments for the future such as R&D, new technologies, innovation, high-quality education and skills development are key to the EU 2020 strategy and should be given priority. It is necessary to develop the world's best education systems and research institutions in Europe. It is similarly important to address the multiple interfaces between education, research, innovation, finance, infrastructure and production.

**Industrial policy - no green technology without traditional industry:** The Commission is focusing on a "smarter, greener economy," where prosperity will emerge from innovation and better use of resources and where the key input will be knowledge. The necessary transition to a greener, more knowledge-based and interconnected economy will only be possible if a strong and competitive industrial basis is maintained in Europe. An ambitious EU industrial policy, along the lines defined in the May 2009 Competitiveness Council's conclusions, should develop a fully integrated approach to competitiveness, energy, climate and technological challenges. With a view to maintaining and strengthening the competitiveness of European industry and improving the conditions for investment in Europe, all institutions – Council, Commission and Parliament – must ensure that their legislative initiatives do not entail unnecessary or disproportionate burdens – also in respect to other economic regions with lower ecological standards and commitments - since industry plays a key role in the European economy. We must maintain a strong and

competitive industrial base in Europe if we want to reap growth and job opportunities, maintain our high level of welfare and social security systems and if we want to position Europe as a strong economic and political player on the global stage.

**Single Market:** its revitalisation must be put back at the centre of EU policy. The growth and jobs potential of the Single Market is not fully realised and has been challenged by the crisis. Removing barriers to free movement of people, goods, services and capital must be an overarching objective for EU and national policies.

**Shaping globalisation and fighting protectionism - External dimension:** Europe must set the pace in international negotiations and fight all forms of protectionism. The EU's commercial interests in trade negotiations must be re-prioritised. New issues, such as services and investment liberalisation, access to raw materials and energy, and the liberalisation of enabling technologies must become focal points of attention. The strategic regulatory dialogues with key partners such as the US, China and Russia must also be strengthened. Better enforcement of international trade and investment rules will help EU companies expand and will create more and better jobs in Europe.

**Securing Raw Materials:** The drastic price increases of recent years and the expected continuation in the upsurge of prices make it strategically necessary further to enhance raw materials' efficiency: to secure the supply of raw materials and to ensure access to them so that European industry can continue to be the technology leader of the future. The EU 2020 Strategy must take account of the current restrictions and risks involved in raw material security.

**Continuing Better Regulation:** Better regulation is central to strengthening competitiveness and supporting sustainable growth and employment. This involves the simplification of existing Community legislation to ascertain that policy aims are achieved in a less burdensome and simpler way, and an impact assessment of new legislative proposals in order to reduce the administrative burdens of existing legislation. The annual costs of administrative burdens are estimated by the Commission to amount to 3.5% of EU GDP, 30% of which originates at EU level. The jointly agreed target to reduce administrative burdens associated with Community legislation by 25% by 2012 should be reassessed for 2020 and the new EU2020 strategy must ensure that consideration of the relevance, efficiency, proportionality and cost-effectiveness of new legislation is a guiding operating principle.

#### **4) Lessons from the Lisbon Strategy**

The first decade of the Lisbon strategy has exposed two important and related weaknesses that will need to be overcome in the future:

- a) The Community dimension of the strategy has remained under-developed. EU initiatives too often lack consistency with competitiveness goals and fail to build a strong link with the reforms requested at national level. The EU budget is inadequate and EU external policies lack assertiveness.

- b) A majority of Member States have demonstrated a lack of commitment to implement agreed reforms. This relates among other things to a failure of the Lisbon Strategy to stir strong political interest and public awareness at the national level, a lack of benchmarking and peer pressure instruments at EU level, a lack of communication and insufficient links to citizen's daily concerns.

The whole credibility of the EU's future growth strategy will rely on the ability to set a limited number of realistic and measurable objectives to be achieved over the next five years by the Commission, the European Parliament and the Council.

The EU's policy agenda will only be successful if it generates greater political interest at national level and develops the necessary incentives for governments to deliver on agreed commitments. Beyond the need for EU institutions to demonstrate leadership in implementing growth-enhancing policies, a change of culture is required at national level to foster 'local' ownership of those policies.

## **5) EU 2020 needs economic governance**

With the entry of the Lisbon Treaty into force, a more effective system of economic governance can be put in place. This is an opportunity that EU institutions should not allow to pass by. National benchmarking initiatives and "naming and shaming" initiatives are vital to foster comprehensive policy learning across member states, increase the pressure on under-performers and avoid a piecemeal approach to implementing the necessary reforms. The Lisbon assessment methodology framework - recently developed by the Council and the Commission - makes it possible to identify reform requirements and implementation efforts across Member States. These tools should be better exploited in the future.

In order to enhance public ownership and transparency and grant the EU 2020 strategy a higher status within the Union, the new President of the European Council should become the patron of the EU-2020 process.