Attila Ágh – Miklos Losoncz – András Vértes[1]
Comments on the future "EU 2020" strategy

The objective of this paper is to present some ideas concerning the working document of the European Commission on the future "EU 2020" strategy. The first part of the paper evaluates shortly the first decade of the Lisbon strategy. The second part gives an overview on the present situation. The third part discusses the main challenges the European Union is facing. Based on the preceding analysis the third part of the report contains recommendations on the major priorities of the EU 2020 strategy.

1. The qualitative evaluation of the Lisbon Strategy

The mainstream view is that the last decade of **the Lisbon Strategy has been a failure**. According to this majority view there has been a crumbling consensus on the Lisbon Strategy changing priorities, since

- there has been **unsatisfactory growth**, particularly in the euro zone, and the **productivity gap** with the US has not narrowed since 2000, first of all in terms of **competitiveness** measured as productivity in the real economy; altogether the sheer economic figures have been **below the expectations**;

- there is still **no match** between economic competitiveness and social solidarity, since the efforts to strike a balance between economic efficiency and social justice have not been successful; in the most pragmatic terms the employment targets have not been reached either;

- the main reason for the failure of the Lisbon Strategy has been the **hesitant implementation of structural reforms at the national level** that has been causing deep divergence between Community and national tasks; this split has been reinforced by the global crisis and the recent "economic nationalisms".

On the other hand, one can argue with justification that the **Lisbon Strategy has been successful in some senses**, as a first practical experience of long term planning and structural policy coordination in the EU:

- **growth and jobs are still in the centre** of the program, and there have been significant achievements in this decade, particularly if one takes the view of the virtual scenario of "the last decade without the Lisbon Strategy". It has been very useful that the Lisbon Strategy has been focusing on **competitiveness as a**

[1] Attila Ágh is professor at Corvinus University, Budapest, Miklos Losoncz is research director at GKI Economic Research Co., Budapest and Jean Monnet Chair professor at Széchenyi István University, Győr, András Vértes is chairman of GKI Economic Research Co., Budapest. The authors are members of an academic research team focusing on strategic issues of Hungary's incoming presidency.

multilevel issue, i.e. both separating and combining the EU, national and regional level Lisbon Strategy, as well as producing the revelation that regional policy has to be based on the correspondence between economic, social and territorial cohesion;

- **competitiveness and productivity** has been treated more and more as a comprehensive issue in the productivist approach. Although there has been a painful reminder in the crisis and recession periods to the employment in a simple quantitative meaning, still the qualitative meaning of the "knowledge" worker has come to the fore with the emerging idea of "social productivity". The Lisbon Strategy has also meant **a turning point in the EU level social dimension** because it has Europeanized to a great extent the member states' social policy. The current Social Agenda runs from 2006 to 2010, and the Commission prepares a renewed Social Agenda for the post-Lisbon era by updating this policy mix;

- **integrating EU domestic policies with the external action for global competitiveness** has been one of the major achievements of the Lisbon Strategy that has been a culmination of an effort during the last decade. Since the early 2000s the EU has dealt with competitiveness on the global level, i.e. combined with global governance, and within the EU it has been emphasized that the quality of governance is the critical determinant of social cohesion. It has represented the continuity of the EU efforts in improving the regulatory environment both globally and domestically. The issue of global governance in the initial EU efforts was still mostly separated from the improving of the regulatory environment or better governance as the external and internal processes, but the two issues have recently been merged in the efforts of global regulation.

The **strengths and weaknesses** of the Lisbon strategy, in fact, have been combined the same process, with increasing strength and decreasing weaknesses during the decade, along both (1) the policy line and (2) the governance line, with (3) the missing harmony:

(1a) From the very beginning the Lisbon Strategy has been marked by the dilemma of **policy widening and reducing**, and by that of extending the criteria and benchmarks or limiting them to the basic indexes. This is the normal process of overloaded social sciences trying to cope with the increasing complexity that can be solved always at a higher systemic level of combining the holistic approach with a detailed overview of tasks. The latest Guidelines have been rather successful in coping with this re-emerging dilemma.

(1b) The deep tension between **competitiveness and solidarity** has also gone through the entire decade of the Lisbon Strategy and it has produced a large variety of solutions from the productivist approach to technocratic views. In fact, the mainstream view has always been formed not by the theoretical arguments but by the sheer necessity of the brutal pressures by the world market and/or the globalization waves.

(1c) The original idea of the EU was based on the spill-over effect, actually, on **coherence and synergy**, namely on the positive effect of policy changes on adjacent policies. Although the first naïve approach has been overcome, the main idea still stays, since the whole development model of the Lisbon Strategy presupposes – in a variety of direct and indirect ways – that basic coherence between/among various policies produces synergies.

(2a) The main dilemma of the Lisbon Strategy governance has been **the compatibility of the Community and national competences**, and the **OMC has** been introduced as a bridge between them. In the meantime with the policy widening and with the entry of the new type of policies this bridge has become overloaded and a new, **much larger and stronger bridge has to be built** to carry the increasing weight of the new Community policies.

(2b) Accordingly, the main institution-building task has been to establish the compatibility between **the super-planning in the Commission versus member states Lisbon actions**. The macro-tuning was made successfully in the Lisbon Strategy-II and Lisbon Strategy-III, but **for the EU 2020 a new institutional planning structure is needed** with the EU metagovernance on the top that will be facilitated by the Lisbon Treaty.

(2c) The Lisbon Strategy has also been very successful in producing **new modes of governance**, it has actually been a breeding reaction for new methods and approaches in this field. These new modes of governance has increased performance but they have also brought in new contradictions in the democratic control of policy making, so the history of the Lisbon Strategy has also been that of the renewed democratization and communication campaigns.

(3a) Initially, the Lisbon Strategy was based on the strategic planning but left out the public sector reform, although public sector was supposed to do the job of strategic planning. Later on the Lisbon Strategy concern has been more and more extended to the **public sector management**, but it has never been formulated clearly that **one of the key preconditions** of the Lisbon Strategy success is the **high performance** of public sector.

(3b) The global financial crisis, and the ensuing political, social and ideological crises, have demonstrated that the relationships of the public and private sectors **need a drastic re-regulation** through the creation of a proper institution in the EU. After the first steps of establishing this new system it has become evident that the Lisbon Strategy has presupposed **a particular combination of the EU democracy with the EU type of market economy**.

(3c) Accordingly, while in the first decade **the budgeting approach and the Lisbon Strategy lines have been separated**, at the end of this decade the recognition has come that they **have to be merged**. Whereas earlier public sector was outside of the Lisbon Strategy framework both institutionally and policy wise, it cannot be so any longer, since public sector has been penetrated by the Lisbon targets that have budgetary consequences as well.

In such a view, **one can summarize the historical assessment of the Lisbon Stra**tegy in the following way: The main trends in the development of the EU have been **policy widening and governance innovations** that have gone through the entire decade of the 2000s and **the Lisbon Strategy has been an extremely useful** (sometimes successful, sometimes unsuccessful) **framework** for them. In that sense the Lisbon Strategy could also be a comprehensive **experimental** framework for structural reforms, i.e. for a set of the long term reform ideas and practices. Thus, under the new global and EU circumstances, the renewed Lisbon Strategy can be in the future a very useful and successful prime mover of the EU reforms as a pushing force for the harmonization of the EU institutions and policies (EU 2020).

2. The present situation

The world economy – including the EU – is recovering from the crisis sooner than expected and the costs seem to be smaller than had been feared. The bottom was not as deep, confidence started to improve faster, recovery started earlier, the global financial system survived as well as the majority of banks.

Nevertheless, we have to admit that **a wounded EU is coming out of the crisis**. **Some basic values** of the EU (such as the Single Market, the common currency) **have been more emphasised than before**, whereas **other basic values are in danger** (such as cohesion and solidarity, the Stability and Growth Pact, potential growth, Lisbon Strategy etc.).

Although nobody has questioned openly the advantages of the Single Market, still, as a natural course of events, the **divergence of opinions and interests** is continuing and national economic policies are over-emphasised. Some **exhaustion** is also observable and it may have fatal consequences. **The EU is not ready to continue neither the enlargement, nor the reforms and it is not ready to handle the internal frictions**. No deepening, no widening and no changes – that is the attitude of the member states. It is a real danger that it can stop the integration process.

The main reason is that **the trust in and popularity of the national governments are falling sharply in the crisis** leading to political uncertainties. In each member state the governing political parties aim at reducing internal social tensions, and stopping the growth of unemployment by slowing the contraction of employment. These measures – together with the bailouts of undertakings in the financial and occasionally other sectors – cause an unprecedented increase of **general government deficits** in the 2009-2011 period. As the aggregate GDP of the EU is declining these years, general government debts climb fast to **80, 100 or even 120 per cent of GDP** in many countries. The fiscal, monetary, income and structural policies of the national governments are in **a Catch-22 situation**: on one hand, fiscal expansion is needed to keep social balance during the crisis, whereas on the other one structural reforms and other measures have to be taken in order to restore financial equilibrium. These requirements mutually exclude each other.

The difficulties are more pronounced if we take into account that the main quantitative objectives of the Lisbon Strategy were not attained, although the EU has clearly made progress in some key areas. To put it **sharply**: **the EU needs to renew a rather unsuccessful than a successful agenda**. Further, it is an **unpopular strategy**, which in many respects is looked at as ridiculous (though from many other points of view **it is unfair** to say).

The EU has a **quite weak economic policy coordination system**. Although narrow in scope and sometimes short-sighted, within the ECB frame there is efficient **monetary** policy coordination in the countries concerned. In theory there is **fiscal** coordination linked to the SGP, however, it is rigid, bureaucratic, often formal and cannot adjust to the new circumstances of global economic crisis. **The SGP has been criticised** for a long time that it is much more stability-oriented than growth-enhancing; however, it turned out that **it does not ensure stability either** (mostly because there is no guidance and criteria on external disequilibria). At the same time, other requirements seem to be unjustifiable: e.g. 2 years to be spent in the ERM-II mechanism prior to adopting the euro. Finally, there is some loose and disintegrated structural policy coordination, in the framework of the cohesion policy, energy policy, climate change and the Lisbon Strategy. The overall conclusion is that **it seems to be poor** and **not sufficiently deep in the globalised world** and especially in times of a global crisis with synchronised downturns.

3. Recommendations for the EU 2020 strategy

The qualitative evaluation of the Lisbon Strategy can contribute to prepare the new strategic vision for the 2010s with a mission statement of the EU 2020 as a future-oriented definition of the EU:

- The EU has to return to the brave vision by formulating its outstanding role in the global world in the terms of European values, through **competitiveness based on social productivity**. Actually, **the EU approach to the global governance** has proven to be superior to the former US approach during the Bush administration. After the failure of the US global policy the statements of the Obama administration are much closer to the EU global policy line. In the global competition of various modes, **the EU offers the best combination of the economic and social dimensions**. It gives a new opportunity for the EU as the soft superpower to participate actively in the establishment of the global governance with the partnership principle of effective multilateralism instead of unilateral hegemony.

- Active and effective global governance presupposes **efficient European governance** that has to be closely linked with the extended European governance as globalisation cum regionalisation in the neighbourhood, i.e. **global governance combined with the reformed European neighbourhood policy**. In order to manage the EU as a whole, the European governance has to combine the internal-transnational and external-global governance. EU has to fight against the institutional and regulative crisis, through both the EU regulatory agencies and the global regulative network. European governance needs the **upgrading of metagovernance on the top** in the Big Institutional Triangle and **the complex institution building in the EU** as a whole in the spirit of multilevel governance. **The EU should speak in one voice**. (The consequences of the lack of that is clearly reflected in the failure of the Copenhagen climate conference last December.)

- The “EU competitiveness” and “EU cohesion” have to be put on equal footing through the principle of **social productivity**. The EU has to move ahead in the global competition as one compact unit in the spirit of economic, social and territorial cohesion as the Lisbon Treaty stipulates. This means that the **competitiveness program** has to be completed by a **catching up program**, both in **quantitative** and **qualitative terms**. There is a need for this kind of Road Map, with new community policies and new budgeting on one hand, and with renewed efforts for fully integrating the new member states, including the EU 2020 agenda, on the other one.

One of the possible ways to renew the Lisbon Strategy is that the **EU 2020 strategy takes the role of integrating structural and sustainability policies** in the EU. This would imply that the European Union has an **overarching unified framework for implementing some long-term key structural objectives**, such as employment growth, restructuring the pension system, climate change, energy safety, knowledge-based economy, innovation. The major value added content of this could be that the new strategy would co-ordinate and harmonise the common and Community policies as well as those of the member states in a comprehensive frame and extend them to additional fields (cohesion policy, common agricultural policy, etc.) not having been covered by the Lisbon strategy yet. Harmonisation should be extended to both the time horizon and the contents of the individual policies and programmes. The **guiding principle of the**

strategy should be the integration of structural policy and sustainability. The objectives and the priorities of the other filed should be derived from the requirements of long-term structural changes.

The proposed comprehensive strategy calls for **the reform of the EU budget**. This means that **the expenditures of the Community budget should be based on the needs of the strategy and the policies related to it** rather than the other way round.

As far as the individual policies are concerned **the Stability and Growth Pact** should **be divided into a stability and a growth section.** Stability should remain with the Stability and Growth Pact, whereas growth **should be channelled into the EU 2020 strategy**. In order to reduce the pro-cyclical feature and improve the contribution to crisis management it is worth making efforts for a more modern and flexible interpretation of the SGP. The establishment of a **crisis management fund** or the allocation of funds in the Community budget for the same purpose would be necessary to help EU member states or even third countries that face economic troubles. It is worth pondering of making exceptions to the general rules of the SGP in a pre-determined fixed period **if a country undertakes comprehensive structural reforms** and the general government deficit increases due to the additional costs of the reform program. As a result of the crisis the position of the European Central Bank strengthened from among the institutions of the European Union. This may be an obstacle to the development of structural policy. **The perspectives of the EU 2020 strategy are becoming gloomier if only the institutional weight of the European Central Bank increases**. The macroeconomic environment could improve if in addition to the rate of inflation decision makers of the common monetary policy would consider other macroeconomic indicators (mainly unemployment) as well.

In order to improve the allocation of resources **the profile of Community funds and the European Investment Bank should be modified**. This means, on one hand, that **financial sources allocated for the development of widely defined infrastructure** (transport, the energy sector including the security of supply, environment protection together with climate change) that is not financed exclusively according to market forces and that serves economic growth in the long-term **should be channelled into the Community funds**. In this **case the merging of the Cohesion Fund and the Regional Development Fund into an infrastructure and regional development fund** could be reasonable and justified. On the other hand, the **European Investment Bank** should be made responsible for **funding the investment projects of the business sector** aiming at the direct promotion of economic growth. One of the sets of results by these changes would be that the provision of non-repayable grants would cease to exist or its significance would wane, bureaucratic co-ordination would loose in importance, the increasing share of financial sources would be allocated according to market-conform methods. Following the sharp separation of profiles the size of financial sources to be allocated by these institutions as well as their proportions should be fixed. This is **tightly related to the EU 2020 strategy and the reform of the Community budget**.

On the other hand, a separate **Lisbon Fund** should be established with the task of funding the implementation of Lisbon objectives (apart from the promotion of economic development through the business sector). It is the European Social Fund that may be the basis of the Lisbon Fund but with a much wider profile that reflects the whole Lisbon strategy. The Lisbon Fund should offer social and economic actors **non-repayable financing** (with an appropriate own contribution of those concerned according to the principle of additionality) to be used primarily for **raising employment** and **investing in human capital development**.

Funding from the **three Community financing sources** (the two funds and the European Investment Bank) should be based on the **separation of "competitiveness policies"** (particularly R&D) and **"catching up policies"**, and their combination as catching up policy for competitiveness has to facilitate the implementation of the EU 2020 strategy in less developed EU member states. Obviously, the EU itself should allocate much more resources for "competitiveness policies" in the next decade but it is necessary to elaborate also the qualitative "catching up policies" for those still lagging behind but willing to accept the conditionality for their catching up process. These policies can give real chances to less developed member states and/or regions to accelerate not only their **quantitative** development in terms of GDP per capita, but in **qualitative terms** as well, as this was the case of Ireland, Spain and other states.

In the new strategy the proper **"governance mix"** has to be introduced as a matrix of three dimensions in order to balance the institutions:
(1) at the Community and national levels,
(2) within the Big Institutional Triangle (Council, Parliament, Commission) of the EU and
(3) at the several territorial levels with economic, social and territorial cohesion.

The metagovernance role of the General Affairs Council has to include the supervision of the – short, medium and long term – planning with an anticipatory capacity of unexpected events, as well as with the monitoring of the implementation of the EU 2020. Both functions have to be based on the cooperation with the proper units at the Commission that have to report to the General Affairs Council, which summarises the situation for the Spring European Council meeting. The EU 2020 cannot be effective and efficient enough without this **fine-tuning of planning and the close monitoring of the implementation**.

Developing such a strategy is **not possible with one leapfrog**. Taking the EU realities into account, it would require **3-4 years** for gaining gradual commitment by the member states, the Parliament and the society, and assigning consistent funding to the process.

Although for many reasons, adoption of a similar programme would be needed **in 2010 with an introduction from 2011** – including budget reforms, this is not realistic.

It is reasonable to distinguish **two stages of the EU 2020 strategy** for the periods between 2011-2013 and after starting from 2014. **In the first period until 2013** (mostly in 2010) there should be some room for detailed evaluation of the processes thus far and for discussions about future challenges. In parallel, the discussion on smaller-scale and practical changes with quick implementation potential could also start. For instance: focusing on fewer elements, organising independent monitoring, provide some funding and elaborating some sanctions that are bearable yet observable. **Fewer documents, fewer reports and more substantive changes are needed for the long-term.** This process is hard to accomplish before Autumn 2010. Therefore, under the Spanish presidency the evaluation of the Lisbon Strategy can take place on the usual Spring Summit, and substantive discussion or perhaps approval of the first stage (2011-2013) of the EU 2020 strategy is possible under the Belgian presidency at the earliest.

The first stage should not simply aim at formulating new priorities or linking existing programmes, but **appropriate funding** should also be provided for the 2011-2013 period. The EIB could take credits, the rebounding EU funding could also be used for such purposes, and some bearable cuts on the CAP and Cohesion Funds are also among the first options. **The ongoing budget review may be used for this purpose.**

Finally, in 2010-2013, by applying deep reforms and together with the new mid-term financial planning period, it is reasonable to formulate the main lines of **the actually new EU 2020 strategy, which will be implemented from 2014**. This way **the whole budget could be changed**, including **the introduction of own EU financial resources** (tax), the **policy-driven reshaping of fiscal planning** and **increasing the EU's total budget**; and in parallel fiscal **framework conditions to help structural changes could be adopted**. Overall, the EU 2020 strategy would be much more efficient.

There are signs indicating **a slight move of attitudes** in this direction. The last European Council of December, 2009 seemed to have acknowledged that, in future, key policy objectives, such as the planned EU 2020 Strategy should be explicitly "owned" by the Heads of Government and Member States administrations. Further discussions are necessary to find out how this "ownership" can be made reality. Realising the limits of the open method of co-ordination, Spain's Prime Minister Zapatero has recently called for the **strengthening of policy co-ordination** among member states and of coercion mechanisms regarding the achievement of the set objectives. A certain shift appears to have taken place from quantitative factors to qualitative ones, since some Spanish perceptions emphasise the importance of **new skills for better jobs** (probably resulting in greater social cohesion) rather than simply jobs and growth.