

# The Debate over Europe and the Lisbon Strategy for Growth and Jobs

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## **Overview of the Lisbon Strategy after the Mid-term Review**

The Lisbon strategy launched by the European Council of March 2000 was a European comprehensive strategy for the economic and social development in face of the new challenges: globalisation, ageing, faster technological change. Its central idea is to recognise that, in order to sustain the European social model, we need to renew it as well as to renew its economic basis by focusing on knowledge and innovation. This should be the main purpose of an agenda for structural reform. Over the last five years, this strategy was translated into an agenda of common objectives and concrete measures, using not only the traditional instruments, such as directives and the community programmes but also a new open method of coordination, which had already been tested in employment policy and which was then extended to many other areas: policies for the information society, research, enterprise, innovation, education, social protection and social inclusion.

The general outcome in 2004 was clearly very unequal across policy areas and countries. Progress seems quite evident in connections to the Internet, networks for excellence in research, one-stop shops for small business, integration of financial markets, modernisation of the employment services or in some social inclusion projects. But some important bottlenecks are evident in fostering innovation, adopting a Community patent, opening the services market, developing lifelong learning or reforming social protection. Besides that, some northern countries display better performance than some southern ones, whereas some smaller countries seem to perform better than most of the big ones. This is, of course, a very rough assessment.

### **Clarifying the Strategic Objectives**

The first problem is the very relevance of the strategy. Taking into account the new challenges, is the Lisbon strategy still relevant?

The world landscape is changing. The emergence of new competitive players coupled with more evident ageing trends should fully be taken into account by the Lisbon strategy, but its approach remains valid and becomes even more urgent - this was the position adopted by the Spring European Council under the Luxembourg Presidency in 2005. Stepping up the transition to a knowledge-intensive society remains the central thrust. The need to improve the synergies between the three dimensions of the strategy - economic, social and environmental - is also underlined in the more general context of the sustainable development principles.

It was considered that the strategy should be re-focused on growth and employment, with some implications for the definition of the political priorities, as we will see below.

### **Defining the Political Priorities**

The three major political priorities of the Lisbon strategy for growth and jobs, after the mid-term review concluded in July are as follows:

- Knowledge and innovation - engines of sustainable growth;
- Making Europe a more attractive place to invest and to work;
- More and higher quality jobs.

These three political priorities were specified into a short list of 24 guidelines using the Treaty-based instruments called 'broad economic policy guidelines' and the 'employment guidelines'. Moreover, an additional strand was included dealing with the macroeconomic policies, under the label 'Macroeconomic policies for growth and jobs'.

## The Lisbon Strategy The Integrated Guidelines for Growth and Jobs

### Macroeconomic policies for growth and jobs

- 1 To secure economic stability for sustainable growth;
- 2 To safeguard economic and fiscal sustainability as a basis for increased employment;
- 3 To promote a growth-and employment-orientated and efficient allocation of resources;
- 4 To ensure that wage developments contribute to macroeconomic stability and growth;
- 5 To promote greater coherence between macroeconomic, structural and employment policies;
- 6 To contribute to a dynamic and well-functioning EMU.

### Knowledge and innovation - engines of sustainable growth

7. To increase and improve investment in R&D, in particular by private Business; To facilitate all forms of Innovation; To facilitate the spread and effective use of ICT and build a fully inclusive information society;
10. To strengthen the competitive advantages of its industrial base;
11. To encourage the sustainable use of resources and strengthen the synergies between environmental protection and growth.

### Making Europe a more attractive place to invest and work

12. To extend and deepen the Internal Market;
13. To ensure open and competitive markets inside and outside Europe and to reap the benefits of globalisation;
14. To create a more competitive business environment and encourage private initiative through better regulation;
15. To promote a more entrepreneurial culture and create a supportive environment for SMEs;
16. To expand and improve European infrastructure and complete priority cross-border projects;

### More and better jobs

17. To implement employment policies aimed at achieving full employment, improving quality and productivity at work, and strengthening social and territorial cohesion;
18. To promote a lifecycle approach to work;
19. To ensure inclusive labour markets, enhance work attractiveness and make work pay for job-seekers, including disadvantaged people, and the inactive;
20. To improve matching of labour market needs;
21. To promote flexibility combined with employment security and reduce labour market segmentation, having due regard to the role of the social partners;
22. To ensure employment-friendly labour cost developments and wage-setting mechanisms
23. To expand and improve investment in human capital;
24. To adapt education and training systems in response to new competence requirements.

For the first time, the EU is equipped with an integrated package of guidelines for its economic and social policies, using Treaty-based instruments. Behind this major political development a long maturing process had taken place and the need to enhance implementation was the final argument to be used.

### **Fostering the Implementation**

The aim of defining coordinated guidelines for economic and social policies in the EU began in the 1990s, with the preparation of the Economic and Monetary Union. During the Lisbon European Council in 2000, the political conditions were still not ripe to achieve the adoption of an economic and social strategy using more compulsory instruments such as Treaty-based guidelines. Hence, a new method was defined, called the 'open' method of coordination, based on:

- identifying common objectives or guidelines;
- translating them into the national policies, adapting to national specificities;
- organising a monitoring process based on common indicators, identifying best practices and peer review.

The development of this method in 11 policy fields since 2000, in spite of some shortcomings (such as bureaucratisation, simplistic benchmarking and so on, was quite instrumental), had been quite instrumental in building the necessary consensus about the strategic challenges and the key reforms to be implemented. In 2005, the arguments regarding the implementation and the coordination gap were already enough to ensure a transformation of some of the most important of these 'soft' guidelines into 'harder' ones, by building on them in order to formulate Treaty-based guidelines.

Hence, the open method of coordination did play a role in building a European dimension, organising a learning process and promoting some convergence with respect by the national differences. Does this mean that this method is now over? This is not at all the case. It can pursue its role, when this is needed which means that the policy making process can work at two levels, one more formal and precise

implementation.

A second important development regarding the instruments for implementation concerns the national reform programmes for the next three years, to be prepared by all the Member States in autumn 2005. These programmes should be forward-looking political documents setting out a comprehensive strategy to implement the integrated guidelines and adapting them to the national situation.

A last important piece to foster the implementation is the recently adopted Community Lisbon Programme, putting together, for the first time, all the regulatory actions, financing actions and policy developments to be launched at European level regarding the Lisbon strategy for growth and jobs.

#### **Developing Financial Incentives**

Different reforms of financial instruments are underway in order to put them more in line with the political priorities of the Lisbon strategy for growth and jobs:

- the Community framework for the State aids is being reviewed in order to turn them into a more horizontal approach, focusing R&D, innovation and human capital;
- the European Investment Bank and the European Investment Fund are also deploying new instruments in support of the strategy for growth and jobs, and were asked to put a special focus on the needs of the innovative SMEs in Europe;
- the Community Programmes can also play an important role, notably if they are also able to become a catalysts of the national programmes for growth and jobs. Three very relevant cases are the seventh Framework Programme for Research and Technological Development, the Community Programme for Competitiveness and Innovation and the Community Programme for Lifelong Learning;
- the Community Strategic Guidelines for the Cohesion policy, which were recently proposed by the European Commission are now strongly in line with the integrated guidelines for the Lisbon

strategy, covering their three main strands: making Europe and its regions more attractive places to invest and to work; knowledge and innovation for growth; and more and better quality jobs.

The scope of these two last instruments depend, of course, on the size of the financial resources to be given in the next Financial Perspectives (2007-2013) to two central objectives: investing in the Lisbon priorities and keeping regional cohesion.

Beyond all this, a reform was introduced in the Stability and Growth Pact which can have very relevant implications for the Lisbon strategy. According to this, macroeconomic stability remains a central concern, the limits for the public deficit and the public debt remain three per cent and 60 per cent as ratio of GDP and pro-cyclical fiscal policies should be avoided. Nevertheless, a new emphasis is put on fostering economic growth and on the sustainability of public debt in order to cope with the demographic trends. Against this background, the Lisbon goals, such as reforming social protection systems and redirecting public expenditure to key investments for growth potential (in R&D, innovation, human capital) are among the relevant factors to be taken into account when assessing the public deficits (either below or above 3 per cent) or when defining the adjustment trajectories, in case of the excessive deficit procedure.

With this background in mind, let us now focus on one of the most complex issues of the general debate over Europe: the reform of the ESM.

#### **For a Sustainable European Social Model**

The reform of the European social model is one of the most complex issues within the general debate on Europe. This model is the outcome of a long and complex historical process trying to combine social justice with high economic performance. This means that the social dimension should be shaped with the purpose of social justice, but also with the purpose of contributing to growth and competitiveness. Conversely, growth and competitiveness are crucial to support the social dimension and should also be shaped to support it. This also means that there are different choices in both economic and social

policies which evolve over time and must be permanently under discussion, political debate and social dialogue.

### **Reforming the European Social Model to Face New Challenges**

Nowadays, it is clear that the European social model is facing new strategic challenges, which seem to be:

- globalisation and the new competitive pressures;
- transition to a knowledge-intensive economy;
- ageing trends;
- new family models;
- very process of the European integration, in its new stage.

The sustainability of the European social model depends on renewing its economic basis as well as on reforming its main components, in order to cope with these key strategic challenges. Against this background, some of the main priorities for these structural reforms can be identified.

### **Education and Training**

Access to new skills will become crucial to get new and better jobs. Education and training systems should be reformed in order to cope better with the challenges of:

- globalisation and the transition to a knowledge economy;
- ageing trends, by spreading new methods to assess, enhance and use elderly workers' competences;
- new family models, by providing equal opportunities to career choices and more flexible access to lifelong learning over the life-course;
- European integration, by adopting a common framework for key-competences and facilitating the recognition of qualifications and the labour mobility.

## **Social Protection**

Social protection systems need structural reform to cope with:

- the transition to a knowledge economy, by a more personalised approach in active labour market policies, by creating learning accounts and by providing more flexibility of personal choices in using the range of social benefits;
- globalisation and new competitive pressures, by giving stronger priority to more effective active labour market policies; by a careful monitoring of the benefits in order to make work pay and to attract more people into the labour market, reducing unemployment and strengthening the financial basis of the social protection systems. A careful monitoring should also be made of the non-wage labour costs as well as the search of complementary (public and private) financial resources;
- ageing trends, by promoting active ageing, reducing early retirement, providing incentives to remain active, and introducing more flexibility in the retirement age. Balancing the financial effort to be provided by different generations may also require a careful reconsideration of the balance between the three pillars of the social protection system;
- new family models, by spreading family care services and facilitating working time flexibility as important ways to reconcile work and family life;
- European integration, with a common legal framework required by the single market concerning minimum standards and portability, to be complemented with the open coordination of the reforms of the social protection systems.

## **Social Inclusion**

Social inclusion policies should also be updated in order to cope with the challenges of:

- the transition to a knowledge economy, by putting more focus on developing new social and professional capabilities, beyond the simple income guarantee;



- globalisation, by better targeting the social inclusion programmes and by strengthening the management of the industrial restructuring;
- ageing, by promoting active ageing and by designing target measures for poor elderly people;
- new family models, by developing family care services and by designing target measures for single parents;
- European integration, by an open coordination of the social inclusion policies complemented with European programmes for social inclusion.

### **Labour Regulations**

The labour regulations and the human resources management should also evolve to meet the challenges of:

- the knowledge economy, by developing learning organisations in the work place, promoting learning careers and 'learning first contracts' for young people, organising learning accounts and improving the working time flexibility for training;
- globalisation, by creating more internal labour flexibility (concerning work organisation, working time and wage setting), by combining new forms of external flexibility with security and by strengthening the management of industrial restructuring. The active promotion of better labour standards at international level can also play a crucial role;
- ageing, by encouraging new forms of work organisation, working time management and better working conditions;
- new family models, by facilitating working time flexibility, parental leave and career breaks;
- European integration, by the regular update of the European directives, by removing the obstacles to the mobility of workers at European level and by defining a European frame for economic migration.

### **Social Dialogue**

Finally, social dialogue should itself evolve to cope with the same challenges of:

- the transition to a knowledge economy by negotiating learning agreements at company, sector and national level;
- globalisation, by negotiating innovation agreements and the social management of the industrial restructurings at company, sector and national levels;
- ageing, by negotiating about the conditions for active ageing in the collective agreements;
- new family models, by systematically introducing equal opportunities in the collective agreements;
- European integration, by upgrading the social dialogue concerning the European strategy for growth and jobs.

The changes which are mentioned above are the outcome of an intensive experimentation, debate and negotiation which is already underway in Europe.

### **A Reinterpretation of the Basic Values**

This larger discussion in the Member States should take into account this more general background of the European social model and the new strategic challenges it is facing. Moreover, its underlying basic values seem also to be under re-interpretation, notably when:

- it is said that security should be for change, and not against change;
- providing security, the focus is put not only in income guarantee but also in enabling and building capabilities;
- the concern with social justice is putting more emphasis in equal opportunities, even they should be combined with basic solidarity with the weakest members of society;
- the individual responsibility is also highlighted by this concept of equal opportunities, also leading to more freedom of choice over the life course;

- the principles of sustainable development are taken into consideration in the re-conceptualisation of social justice; hence the contributions and benefits regarding social protection should be balanced across generations.

Let us now focus on two concrete areas of reform with many implications for the renewal of the European social model: lifelong learning and innovation.

### **Sharing responsibilities to develop lifelong learning**

The commitment to preparing national strategies for lifelong learning has already been made in the framework of the national programmes for growth and jobs. The recent overview at European level led to the identification of some possible common objectives which are summed up in the guideline 24 of the integrated guidelines for growth and jobs. More specifically, this strategy should aim at:

- defining the goals for lifelong learning in terms of not only educational levels but also new jobs profiles and competences;
- developing a new infrastructure for lifelong learning;
- creating a diversified supply of learning opportunities able to provide more customised solutions:
- fostering the various demands for learning and to create a demand-led system;
- spreading new financial arrangements in order to share the costs of lifelong learning between the various stakeholders and encourage the initiative of companies and individuals;
- improving governance for lifelong learning.

This kind of objectives seem to be consensual, but the implementation gap shows that the real problem lies with sharing responsibilities between the relevant actors. The priorities are as follows:

- the identification of goals for lifelong learning: the public authorities should enhance the forecasting procedures, the companies should improve their human resources management,

the social partners negotiate learning agreements and all these actors develop partnerships for growth, jobs creation and competence building;

- the development of a new infrastructure for lifelong learning: the public authorities should create knowledge resource centres and regulate the telecommunications and TV industries for this purpose; companies and households should equip themselves with the necessary hardware and software; the same should happen with the education institutions, which should also become content providers;
- a more diversified supply of learning opportunities: education institutions should be turned into open learning centres and provide more tailor-made solutions for each target-group, companies should develop learning organisations and social partners negotiate a wide range of solutions;
- to improve the framework conditions for lifelong learning: public authorities should foster the provision of child care services and social partners should negotiate the appropriate flexibility in working time management, including time accounts and training leaves;
- to develop a guidance system: the public authorities and education institutions should provide better guidance services and individuals should be encouraged to define their personal development plan;
- to renew the validation and recognition system: the public authorities should create centres of competence validation, companies should present intellectual capital reports and individuals define their personal portfolio;
- to spread new financial arrangements for sharing the costs: the public authorities should cover the costs of basic education for all, improving the education of young people and support targeted adult people with tax reliefs or direct incentives; companies should fund job-related training; social partners should negotiate the sharing of training costs in the labour contracts or the collective agreements; the education institutions should mobilise resources for new investment plans

and the individuals could be encouraged to manage their learning accounts or special entitlements (drawing rights) for training.

### **Sharing Responsibilities to Foster Innovation**

For a more effective implementation of the national programmes, this kind of sharing of responsibilities should be specified for the other policy fields. Another critical example for the success of the Lisbon strategy, the sustainability of the European social model and the renewal of European competitiveness is innovation policy. There is a quite high level of consensus concerning some possible common objectives which are summarised in the guideline eight of the integrated guidelines for growth and jobs. Innovation policy should aim at developing:

- The provision of R&D: creating conditions to foster the private investment in R&D, notably tax incentives and researcher mobility; reducing the cost of patenting and improving the management of intellectual property rights; fostering the interfaces between companies and universities;
- Competence building: spreading skills for innovation at all levels of education; training for innovation management; enhancing the skills base in each sector or cluster;
- Financial innovation: improving access to venture capital for innovative SMEs; reorientation of public investment to R&D and innovation; tax incentives with the same purpose; new priorities for structural funds;
- Provision of consultancy services: developing the support services for innovation, transfer and diffusion;
- Improving quality and paving the way to new products and services: competition policy; dissemination of quality standards; improving the criteria of public procurement; targeting sophisticated markets;
- Changing organisations: national programmes for organisational development in companies; reforming university management; modernising public services;

- Incubating activities: developing incubators; supporting high-tech start-ups;
- Networking: promoting clusters and partnerships for innovation; extending access to broadband; developing e-business.

Nevertheless, a clearer identification of responsibilities is needed when it comes:

- the provision of R&D, which depends not only on the research institutions and on companies, but also on the framework conditions to be created by the public authorities concerning tax incentives, research careers and intellectual property rights;
- competence building, which depends on the education and training institutions and on the companies and their collaboration with these institutions;
- financial innovation, which depends on the initiatives of financial institutions and companies as well as the regulatory conditions of the financial markets to be created by the public authorities;
- the quality of products and services, depends mainly on companies' behaviour and on competition policy, the dissemination of quality standards and criteria for public procurement to be developed by the public authorities;
- changing organisations, that is companies, education providers and research institutions, together with public services; and,
- networking, which depends on all actors which interact in the national or regional systems of innovation.

Furthermore, the reforms of the European social model already mentioned above are also designed to support this renewal of the European competitiveness focusing on innovation.

In conclusion, the sustainability of the European social model depends on the success of the overall strategy for growth and jobs, which are now the two key words. This success depends on a new approach to the renewal of European competitiveness, a full use of

the potential of the single and external market as well as on more scope for growth in the macroeconomic management. Finally, this success also depends on well designed reforms of the European social model itself.

The concrete solutions to achieve this particular combination in each Member State can only be found on an individual basis. That is why the preparation and implementation of the national reform programmes for growth and jobs opens an opportunity which should not be missed.