

## Europe 2020: delivering well-being for future Europeans

March 2010

Annika Ahtonen  
Heather Bailey  
Olivier Boutellis-Taft  
Laurent Cohen-Tanugi  
Claire Dhéret  
Sarah English  
Elsa Fornero  
Laurent Freixe  
Sylvie Goulard  
Göran Hultin  
Peter Johnston  
Hans Martens  
Mats Nilsson  
Conny Reuter  
Maria João Rodrigues  
Erich Rutsche  
Gianluca Spinaci  
Gerhard Stahl  
Sotiria Théodoropoulou  
James Waterworth  
Martin Wight  
Fabian Zuleeg

In strategic partnership with the  
King Baudouin Foundation and  
the Compagnia di San Paolo

# **CHALLENGE EUROPE**

Issue 20

## **Europe 2020: delivering well-being for future Europeans**

Annika Ahtonen  
Olivier Boutellis-Taft  
Claire Dhéret  
Elsa Fornero  
Sylvie Goulard  
Peter Johnston  
Mats Nilsson  
Maria João Rodrigues  
Gianluca Spinaci  
Sotiria Theodoropoulou  
Martin Wight

Heather Bailey  
Laurent Cohen-Tanugi  
Sarah English  
Laurent Freixe  
Göran Hultin  
Hans Martens  
Conny Reuter  
Erich Rutsche  
Gerhard Stahl  
James Waterworth  
Fabian Zuleeg

Articles in this publication represent the views of the authors  
and not necessarily those of the EPC.

**March 2010**

ISSN-1783-2462

Cover illustration: © European Union, 2010

## Table of contents

<b>About the authors</b>	<b>4</b>
<b>Foreword</b>	<b>6</b>
<i>Hans Martens</i>	
<b>Introduction</b>	<b>8</b>
<i>Hans Martens and Fabian Zuleeg</i>	
 <b>I. A NEW ENVIRONMENT AND A NEW DIRECTION</b>	
<b>Growth with energy and climate security: a new approach to smart green growth</b>	<b>12</b>
<i>Peter Johnston</i>	
<b>Preserving the European welfare state</b>	<b>18</b>
<i>Hans Martens</i>	
<b>A mountain to climb</b>	<b>24</b>
<i>Sotiria Theodoropoulou and Fabian Zuleeg</i>	
<b>Sustaining our European economic and social model in an ageing society</b>	<b>30</b>
<i>Elsa Fornero</i>	
<b>Creating shared value – a new, sustainable business model</b>	<b>36</b>
<i>Laurent Freixe</i>	
<b>For a Europe built on solidarities and sustainability</b>	<b>41</b>
<i>Conny Reuter</i>	
 <b>II. THE NEED FOR A NEW FRAMEWORK</b>	
<b>From Lisbon to the Europe 2020 Strategy</b>	<b>45</b>
<i>Maria João Rodrigues</i>	
<b>Beyond the Open Method of Coordination</b>	<b>53</b>
<i>Sylvie Goulard and Heather Bailey</i>	

<b>Europe 2020: multi-level governance in action</b> <i>Gerhard Stahl and Gianluca Spinaci</i>	<b>59</b>
<b>Is the new European strategy on target?</b> <i>Annika Ahtonen and Claire Dhéret</i>	<b>67</b>
<b>Delivering on the post-Lisbon strategy: the contribution of business</b> <i>Olivier Boutellis-Taft</i>	<b>74</b>
 <b>III. WHAT CAN THE EU DO? SOME EU PRIORITIES</b>	
<b>Beyond Lisbon: the external dimension</b> <i>Laurent Cohen-Tanugi</i>	<b>80</b>
<b>The global ‘war’ for talent: labour-market policies for Europe 2020</b> <i>Göran Hultin</i>	<b>84</b>
<b>The importance of open innovation for the EU</b> <i>Erich Rutsche</i>	<b>91</b>
<b>A Digital Single Market for a Digital Society</b> <i>James Waterworth</i>	<b>96</b>
<b>Virtual and digital: the future of Europe’s green economy</b> <i>Mats Nilsson</i>	<b>102</b>
<b>A European strategy that directly engages business</b> <i>Sarah English and Martin Wight</i>	<b>106</b>

## About the authors

**Annika Ahtonen** is a Policy Analyst at the European Policy Centre.

**Heather Bailey** is parliamentary assistant to Sylvie Goulard.

**Olivier Boutellis-Taft** is Chief Executive of the Federation of European Accountants and a member of the European Policy Centre's Governing Board.

**Laurent Cohen-Tanugi**, an international lawyer and writer, led a French government task force on the future of the Lisbon Strategy in 2008.

**Claire Dhéret** is a Junior Policy Analyst at the European Policy Centre.

**Sarah English** is EU Policy Manager at Scotland Europa.

**Elsa Fornero** is Professor of Economics at University of Turin and Scientific Coordinator of the Centre for Research and Pensions and Welfare Policies (CeRP), and Vice-Chair at the Compagnia di San Paolo.

**Laurent Freixe** is Executive Vice-President, Nestlé Zone Europe.

**Sylvie Goulard** is a French MEP for the West region of France and the ALDE Coordinator for the Economic and Monetary Affairs Committee. She is also President of the European Movement in France and a Visiting Professor at the College of Europe in Bruges.

**Göran Hultin** is Labour and Government Affairs Adviser to Manpower.

**Peter Johnston** is a Senior Adviser to the European Policy Centre and was Chair of its Task Force on ICT for a Green Economy. He is a President of the International Advisory Council of the Club of Rome and Founding Vice-President of the Brussels-EU Chapter.

**Hans Martens** is the Chief Executive of the European Policy Centre.

**Mats Nilsson** is Vice President and Head of European Affairs for Ericsson.

**Conny Reuter** is the Secretary General of SOLIDAR, President of the Social Platform and a member of the European Policy Centre's General Assembly.

**Maria João Rodrigues** is currently Professor of European Economic Policies at the Institute for European Studies, Université Libre de Bruxelles (IEEULB), and at the Lisbon University Institute (ISCTE-IUL). She is also a member of the Governing Board of the European Policy Centre.

**Erich Rutsche** is currently Manager, Business Development and Relations at IBM Research Laboratory.

**Gianluca Spinaci** is administrator in the Forward Studies Unit of the Committee of the Regions of the European Union.

**Gerhard Stahl** is Secretary-General of the Committee of the Regions of the European Union.

**Sotiria Theodoropoulou** is a Policy Analyst at the European Policy Centre.

**James Waterworth** is Director of Government Affairs for Nokia.

**Martin Wight** is Manager Policy Development at Scottish Enterprise.

**Fabian Zuleeg** is Chief Economist at the European Policy Centre.

## Foreword

*Hans Martens*

The Lisbon Strategy, Europe's first framework for structural reform policies, has completed its term, leaving Europe at a crossroads. Now, more than ever, Europe is facing a new world with increasing competition, complex global challenges and internal economic and social difficulties.

The Lisbon Strategy was the tool designed to modernise Europe through introducing structural reforms to prepare our continent for new challenges. The Strategy took an innovative approach, as it was the first time Europe had drawn up a multi-sectoral strategy based on transnational cooperation and common and shared efforts. Its objective – to turn Europe into 'the most competitive and dynamic knowledge-based economy in the world by 2010' – was ambitious, and could have provided our continent with a mid-term vision which it certainly lacked.

However, the Lisbon Strategy has only brought limited results, and this has undermined Europe's credibility, and questioned its capacity to adapt its economic and social model to a more challenging world. The impression that EU Member States did not take the ownership to 'sell' the project at home was also unfortunate.

EU leaders now have to think about the next step and to understand the urgent need 'to move on'. Discussions on the Lisbon Strategy's successor: Europe 2020, are already well under way, and both the President of the European Commission José Manuel Barroso and the President of the European Council Herman Van Rompuy have called for a stronger commitment at the highest level.

This issue of *Challenge Europe* is the final output of a collaborative work between the European Policy Centre and some of its members which took place under the 'Post-Lisbon Coalition' project.

The 'Post-Lisbon Coalition' is part of the forward-looking research project 'Well-being 2030', a joint European Policy Centre and European Commission initiative, which investigates the policy options available to improve Europe's economic and social model and citizens' quality of life by 2030.

Members of the Post-Lisbon Coalition strongly believe that the post-Lisbon Strategy must offer the tools to create sustainable policies for sustainable

growth, which is a prerequisite to preserve European citizens' quality of life. Hence, part of the next Europe 2020 Strategy must be to create the conditions to deliver a higher level of well-being by 2030.

This publication aims to contribute to the debate on the Europe 2020 Strategy and to make recommendations about future policy. It brings together the inputs of a broad range of stakeholders, including EPC members and external partners, who firmly believe that a new strategy is needed, but that it has to be more ambitious, better implemented and rigorously monitored.

Chapter I analyses the main challenges Europe is facing and which will become more and more pressing in the next decade. These cannot be ignored as they create a new environment which EU leaders will have to take into account when shaping the Europe 2020 Strategy, and highlight the need for a new direction to guide Europe towards greener, smarter and more sustainable growth.

Chapter II assesses the results of the implementation of the Lisbon Strategy and looks into how to improve the mechanisms of its successor: Europe 2020.

Chapter III presents some priorities for the new strategy, and stresses that EU actions in particular fields should be considered as key drivers for achieving successful results.

This publication attempts to show how a well-thought out strategy can draw together two of the EU's main priorities: creating a strategy for sustainable growth for 2020 and maintaining citizens' well-being for 2030 and beyond.

**Hans Martens is the Chief Executive of the European Policy Centre.**



## Introduction

*Hans Martens and Fabian Zuleeg*

### **A new beginning: delivering sustainable well-being for Europe's citizens**

The discussions on Europe 2020, the successor to the Lisbon Strategy, are moving into a decisive phase. It is widely expected that EU leaders will broadly endorse the new approach in the coming spring and thus set its strategic direction.

But the formulation of the Europe 2020 Strategy is taking place in a very different context from that of the original Lisbon Agenda in 2000. Europe's economies are still reeling from the impact of the financial and economic crises and their longer-term consequences, including increasing deficits and debt levels and a deteriorating labour market.

The focus of Europe's long-term challenges has also shifted. Global competition from emerging countries has been added to the concern that the EU is falling behind the US in terms of productivity growth. Climate change has risen up the agenda and has become a clearly-defined EU priority. European countries are struggling to find ways to deal with migration and cohesion, and demographic change is having an increasing impact on our societies.

The Europe 2020 Strategy needs to take this changed environment into account. The EU must examine the Lisbon Agenda critically, to determine what has worked and what has not. The key focus must be on the delivery of real outcomes for Europe's citizens: in short, Europe 2020 must *matter* to EU citizens.

To achieve this, we suggest that the Europe 2020 Strategy should be based on ten key principles:

1. *Be more ambitious and radical:* In light of the changed environment and the lessons learnt from the Lisbon Agenda, Europe 2020 should not just be more of the same, but should instead set a new strategic direction. This should be reflected in its overarching goal. We suggest that this should be the sustainable well-being of Europe's citizens.
2. *Show leadership and achieve buy-in:* In the process of drawing up the new strategy, the European Commission needs to take the lead and push harder for a more ambitious Europe 2020. The European Parliament

should publicly scrutinise the strategy to assess whether it will address the EU's socio-economic challenges effectively. More must also be done to involve Member States and other stakeholders. Without widespread discussion of the strategy's goals and content, there will be little buy-in and implementation will suffer. Member States should initiate a wider domestic debate on the strategy now, involving parliaments, stakeholders and citizens, before committing to deliver their share of the Europe 2020 targets.

3. *Integrate the response to medium- and long-term challenges:* The EU needs to simultaneously find a response to the financial and economic crisis and address the EU's long-term challenges (e.g. globalisation, demographics and climate change). These responses must be integrated, as they are interrelated. For example, the fiscal stimulus was required to deal with the economic crisis, but leaves a legacy which will make dealing with the EU's long-term challenges more difficult.
4. *Break-down policy silos:* Europe 2020 needs to be established as a clear cross-cutting priority across all European Commission portfolios. The lead must come from Commission President José Manuel Barroso, but a new way of 'embedding' Europe 2020 is also required. The full College of Commissioners should be involved in a regular review of progress, based on regular statements from each portfolio on how Europe 2020 priorities have been – or will be – delivered. Silos also need to be broken down in people's minds given that Europe 2020 will be about more than just economic issues. It should be the EU's overarching strategy, incorporating and superseding all other strategies and targets.
5. *Tackling Europe's key challenges:* Delivering sustainable well-being requires a concerted effort across a wide range of policy areas. Europe 2020 should, for example, incorporate sustainable public finances and deal with climate change, demographics and migration, as well as social and other environmental policies. This involves policy areas where EU involvement is contentious and for which Member States are primarily responsible, for example, the public sector or training, skills' development and education. In these areas, the EU must not shy away from setting concrete targets and outcomes, as well as specifying how change will be delivered.
6. *Improve implementation mechanisms:* The EU must learn from the Lisbon Agenda that better governance is needed to ensure delivery.

Structural reform must be elevated to the level of fiscal and monetary policies. This means operationalising structural reform by integrating it into the EU's decision-making process (through ECOFIN and the Eurogroup) and linking it closely to fiscal policy mechanisms, such as the Stability and Growth Pact and the Excessive Deficit Procedure.

The EU budget must also be part of the implementation mechanism and its composition should reflect the strategy's objectives. The Open Method of Coordination (OMC) also needs to be strengthened, for example through the use of external expert reviews. A variety of mechanisms should be used to implement the Europe 2020 Strategy, depending on the policy area and the EU's competences, including 'classic' OMC, strengthened OMC with external review, fiscal policy mechanisms, funding and legislative measures.

7. *Multi-level and multi-actor implementation:* The Europe 2020 Strategy must recognise that many policies will have to be delivered outside Brussels and national capitals. It must spell out the roles and responsibilities not only of Member States, regions and cities, but also of private, public and third sectors in areas where they are expected to deliver a key aspect of the strategy. This also means developing new ways of cooperating, including a focus on where funding might come from and recognising that the remit for implementing change goes beyond national governments.
8. *Evidence-based and realistic:* The Europe 2020 Strategy must clearly link policies to outcomes, i.e. it needs to spell out what policies will deliver the targets and how. This means developing a new system of indicators and targets, for example acknowledging that countries have different starting points, so using benchmarking between comparable groups of Member States. The ongoing monitoring and evaluation of Europe 2020 should be underpinned by independent research and projections.
9. *Walk the walk:* The EU, particularly the Commission, must demonstrate that it will apply the Europe 2020 Strategy consistently and decisively in its own policies and programmes. This would involve, for example, prioritising funding for education and innovation, ensuring that the Single Market functions well and is fit for the future, and making sure the innovation potential of the transformation to the green economy is fully realised.
10. *Take more time:* Much work remains to translate these principles into reality. While maintaining momentum and recognising the urgency of

the challenges it faces, the EU should take the time needed to establish a meaningful strategy and action plan. The Spring European Council should focus on establishing the high-level objectives, but the detailed work and achieving buy-in should take us towards the end of 2010.

Of all the principles we have listed above, the last is probably the most important. The Europe 2020 Strategy has the potential to change EU citizens' lives – but only if we take the time to debate, analyse and engage. Not all of our suggestions, both in this list of principles and in the articles which follow, will be translated into practice. But we hope that they can be a starting point for a broader debate which can turn Europe 2020 from a statement of political intent into the concrete delivery of outcomes which citizens care about.

The principles set out above reflect the discussions the European Policy Centre has had with a range of its members, representing a variety of stakeholders. The overwhelming message from those discussions is that this strategy is so important that more must be done to make it concrete and deliverable. The Europe 2020 Strategy must be global and must respond to the key challenges Europe is currently facing.

Last but not least, the Europe 2020 Strategy must produce an agenda fit for the future, based on reflection and political leadership, which can deliver real outcomes for Europe's citizens. This publication, which addresses Europe's key challenges, aims to make a contribution to the debate on how to do that.

**Hans Martens is Chief Executive and Fabian Zuleeg is Chief Economist at the European Policy Centre.**

## I. A NEW ENVIRONMENT AND A NEW DIRECTION

### **Growth with energy and climate security: a new approach to smart green growth**

*Peter Johnston*

In the aftermath of the Copenhagen stalemate, and in light of the need for sustained economic growth in Europe, European leadership on energy and climate security needs to be given a new direction.

Hard truths must be faced: Europe cannot sustain its prosperity, levels of employment and social services without a new phase of sustained economic growth. However, the risks of energy or climate disruptions are as great as – if not greater than – ever. Smart, green growth is the way forward, but to achieve this, European policies must shift to an innovation-centred approach in partnership with consumers and the progressive business community.

The broadly positive outcome of the COP15 negotiations in Copenhagen reflects widespread recognition of the urgent need to stabilise concentrations of greenhouse gases (GHG) in the atmosphere at levels that will avoid an average surface temperature rise of more than 2 degrees Celsius and the resulting risks of regional climate disruptions.

However, the latest scientific assessments in 2009 indicate that this will require GHG concentrations below about 350 parts per million (ppm). They are already above this level. The whole carbon cycle of emissions into, and removals from, the atmosphere must therefore be re-balanced. As much attention must be paid to action to enhance natural removal and sequestration, notably via changes in agriculture and land-use, as to reducing emissions.

The Copenhagen talks also demonstrated the complexity and limits of international negotiations between governments alone. The climate-change challenge does not stand in isolation from others we face. We must simultaneously enable and ensure economic growth in both developed and developing countries, secure affordable and efficient use of energy by all, re-stimulate equitable human development, and protect bio-diversity.

Current international negotiations are too compartmentalised and are constrained by an outdated agenda. The management of GHG concentrations is inextricably linked to energy security through the need to use energy much more efficiently everywhere, and to ensure diversity of indigenous energy supplies in all regions. It is also inextricably linked to sustaining bio-diversity in forests and wetlands, the natural stores of bio-sequestered carbon and reserves of fresh water.

The European and international debate must also be more positive. It must be about opportunities and strategies for a better life in all countries. Europe cannot simply lead in restrictive regulations. We must lead in innovation and investments which offer solutions which are effective, sustainable, multi-purpose, and carry the support of key businesses and communities across the world.

This will require simultaneous transformations to more efficient use of energy and resources addressing both energy security and carbon emissions, and diverse and local low-carbon energy sources, to ensure affordable energy for all, enhanced removal of carbon dioxide from the atmosphere by adapting agriculture, forestry and land-use practices, and improvements in soils and food yields, secure fresh-water supplies and protection for bio-diversity.

Part of the solution must be a ‘carbon market’ which stimulates innovation and transformational change, and values eco-system services.<sup>1</sup> Only global business leaders and civil society (you and I, as consumers) can implement these transformations, and we and they must be as fully engaged as governments and heads of state in designing and then implementing the investments and transformations we require. We therefore need a new approach for a partnership between business leaders, legislators, civil society and governments, each contributing to transformation in their own way.

## **Revisiting targets for climate and energy security**

To meet temperature-change and GHG-concentration targets, a strategy for a rapid reduction in ‘net emissions’<sup>2</sup> will be needed. The EU’s 2020 emission targets will have to be reviewed as the scientific evidence and international framework evolves. However, the effectiveness of the Emissions Trading System (ETS) must also be critically re-assessed. It has not generated a sufficiently stable ‘carbon price’ to have an impact on investment and cut emissions. It affects only about 40% of production-based emissions and is unlikely to be replicated globally. It will not be sufficient to simply trade

emission permits between larger emitters in industrialised countries: 75% of emissions are related to discretionary consumption, and all consumers will need to be enabled and encouraged to change their consumption patterns.

The effectiveness of emission targets will depend on the strength of a portfolio of policies to accelerate transformational change: support for research and technical development (RTD) and innovation; the transformation of public administrations and government services; and ‘pulling through’ innovations by billions of personal, informed choices in our daily lives. Regulation and financial incentives must be complemented by other measures such as the labelling of products and services with their energy efficiency and ‘net carbon footprint’ at the point of sale, and net-carbon emissions’ reporting by companies to allow investors to take carbon-related risks into account.

Whatever the approach, an economic cost must be associated with carbon emissions.<sup>3</sup> To stabilise GHG concentrations, the real price of emitting a tonne of carbon dioxide will eventually need to be the cost of removing it again. Carbon emissions must eventually be matched by removals.

We know that the natural stability of GHGs has been assured in the past by a balance between geological emissions and bio- and geo-sequestration. This balance must be restored. We know that bio-sequestrations in forests, wetlands and soils have the potential to match natural and enhanced emissions. We know that they can be enhanced by appropriate forestry and agricultural practices, and can be scalable to the billions of tonnes required, at affordable costs (€20-100 per tonne), if we engage most farmers and forest and wetland managers across the world.

The market for emissions and removals must eventually be global, and must assure a stable and predictable ‘carbon emission price’, related to the real cost of removals. However, markets must first be created at local and regional level, and must be open to a very large number of participants – most or all emitters and sequesters of carbon dioxide. Wider markets can be built progressively from local, national and sector initiatives, with clearing mechanisms at regional and global levels. Only when such regional markets are mature and stable can they effectively be interlinked through global clearing systems. Europe cannot simply extend its own market to other regions.

There is now abundant experience on which to build: the ETS; the Clean Development Mechanism (CDM), and various ‘carbon off-set’ frameworks, both public and private. However, to do this, it will be necessary to bring carbon

capture, storage and sequestration within a wider framework of certification. To enable millions of companies and individuals to participate directly in markets, governments will need to assure certification for both carbon emissions and sequestration, and standards for reporting and labelling, in collaboration with business and NGO alliances.<sup>4</sup>

A market in which carbon emissions are traded and balanced with removals could provide stability and predictability, which is essential for investment and innovation; stimulate innovation and investment in energy efficiency, low-carbon energies and bio-sequestration; protect bio-diversity by valuing eco-systems services; and rebalance investments between developed and developing countries and between urban and rural areas, to the benefit of equitable human development.

## **Re-generating innovation and investment**

It is essential to encourage and enable the business and investment communities to accelerate investments in innovations for three areas of transformational change. Smart green growth is firstly about energy efficiency. Most of the reductions in European emissions by 2020 will come from efficiency improvements. Technologies for radical improvements exist, but are not used widely enough. Their potential goes beyond incremental improvements in the efficiency of existing products and services.

IT and electronic communications can enable radical changes in the way services are provided; in new business models and services that substitute for traditional ways of doing things; and in making more intelligent use of energy in homes, offices and cities.<sup>5</sup> The information and communications technology (ICT) sector is the motor of innovation capacities and has more than two billion customers worldwide. It is also spinning-off more efficient lighting systems, solar energy and smart-grid technologies that can help meet our needs more efficiently. Enormous new investments are needed to exploit new opportunities in all societies, and can now play a key role in accelerating recovery from the current economic and financial crisis.

The opportunities for ICT-based green growth have been addressed by a European Policy Centre Task Force, whose report has now been published. It urges new action to put three critical infrastructures in place:

- a carbon-accounting infrastructure to make energy use and carbon emissions visible to all;



- a smart electrical power grid system to accommodate new demands for renewable energy, energy efficiency and consumer empowerment; and
- high-speed broadband access to the Internet to support a new range of efficient online services.

This will require sustained investment, and governments must create the regulatory frameworks and partnerships within which such investments are secure. In addition, the Task Force suggests mobilising ICT-based innovations in transport and logistics, smart buildings and smart green cities. It also stresses the need to bring the numerous dispersed initiatives for smart, green growth together in a coherent and synergetic framework.

In the longer-term (2020-50), low-carbon and renewable energy sources have the potential to progressively substitute for fossil fuels. Solar (thermal and voltaic), wind and bio-fuel technologies open up radically new ways of meeting energy demand in all communities worldwide, even in the poorest. Bio-fuels could meet a substantial share of demand in Latin America; wind-energy generators could meeting a significant and growing part of demand in Europe and the US; and solar thermal generators could meet a large share of demand in North Africa and other deserts beyond 2020.<sup>6</sup>

In some regions, it may be possible and economically viable to continue to use oil, gas and coal, but with direct geological storage of the effluent carbon dioxide stream. Technologies for a diverse mix of de-centralised low-carbon energy supplies are becoming available, but huge sustained investment is needed to make them affordable in all countries.

Technologies for removal and sequestration of carbon from the atmosphere exist. New agricultural and forest management practices have been demonstrated at a sufficient scale, and can remove and 'fix' carbon at an affordable price. The most promising of them mimic biological processes.<sup>7</sup> The business and investment capacity for large-scale carbon removal and sequestration exists. The business of agriculture can become the production of food and fuels, and the removal of GHGs from the atmosphere. The business of forest management can become the production of food, clean water, fuel, wood and fixing GHGs. The business of wet-land management can become water management, bio-diversity and flood protection, and fixing GHGs.

However, none of these opportunities will be realised without a 'carbon market' that values the eco-service of carbon sequestration.

## Building confidence in the future and re-stimulating investment and economic growth

Recovery from the current financial and economic crisis will require co-ordinated efforts to re-build confidence in the stability of the world economy, and in our ability to meet the challenges of energy and climate security. We need confidence in our ability to innovate and manage markets, and confidence to invest in new infrastructures and technologies – with the investments amortised against the future revenues that will be generated – to build a stable, more prosperous and more equitable world economy.

The investments required will be large: some tens of trillions of euro over the next two to three decades. However, these investments are both realisable and economically viable if shared widely by millions of businesses and billions of individuals – as has been the case for the collective investments in Internet and mobile telephony infrastructures and equipment in the last 15 years. Governments must provide an environment conducive to these investments: clear and stable targets; sound markets; a stable financial system; and effective research and innovation frameworks.

We now know that there are limits to current development patterns. However, a new opportunity for smart growth is within reach. It will require a partnership between business leaders, legislators, civil society and governments, each contributing in their own way.

**Peter Johnston is a Senior Adviser to the European Policy Centre and was Chair of its Task Force on ICT for a Green Economy. He is a President of the International Advisory Council of the Club of Rome and Founding Vice-President of the Brussels-EU Chapter.**

## Endnotes

1. Eco-system services are provided by natural systems such as forest and wetlands – that supply clean fresh water; bio-fuels (wood, etc.); capture carbon dioxide from the atmosphere and store it in bio-mass and soils.
2. Total anthropogenic emissions, less sequestrations additional to those from natural systems associated with deliberate forestry and wetland management or specific agricultural practices.
3. Only carbon dioxide. A separate and parallel framework may be needed for methane because of its radically different residence-time in the atmosphere and different emission and absorption mechanisms. Hydrofluorocarbons (HFCs) would be better dealt with in the Montreal Protocol.
4. Such as the forestry and marine stewardship councils.
5. [www.smart2020.org](http://www.smart2020.org) and <http://www.aeanet.org/publications/publicationsstart.asp>
6. [en.wikipedia.org/wiki/Trans-Mediterranean\\_Renewable\\_Energy\\_Cooperation](http://en.wikipedia.org/wiki/Trans-Mediterranean_Renewable_Energy_Cooperation)
7. [www.biomimicryinstitute.org/institute-bio.htm](http://www.biomimicryinstitute.org/institute-bio.htm) and [www.amazon.com/Upsizing-Gunter-Pauli/dp/](http://www.amazon.com/Upsizing-Gunter-Pauli/dp/)

## Preserving the European welfare state

*Hans Martens*

The Lisbon Agenda launched in 2000 took the right approach in creating a framework for structural reform policies in Europe, but it suffers from a key shortcoming: the omission of a very large element of European economies, namely the public sector. This was a mistake then, and it would be an even bigger mistake to repeat it now.

A framework for structural reform in Europe must integrate the public sector at all its different levels – federal, state, regional and local.

Although public sectors differ in size across Europe, they are generally larger than in other parts of the world. Total central government outlays (as a percentage of GDP) in EU Member States range from 38.9 in Slovakia to 59.2 in Denmark, with a euro-zone average of 51. The corresponding figures are 36.6 for Australia, 34.4 for Switzerland, 41.1 for Japan and 41.5 for the US.<sup>1</sup>

This is a consequence of the European Economic and Social Model, with its focus on welfare provision with equal – and often free – access. But this model will come under severe pressure in future, not only because of the large public deficits accumulated during the financial and economic crises and the associated problems in re-balancing public budgets, but also structurally because of demographic developments in Europe. There will, quite simply, be fewer people to pay taxes and more to enjoy the services provided by the welfare society.

### **A question of choice**

The major role played by government in the economy is an integral part of the European model. It is what Europeans have chosen as their favourite way of organising society, which includes a common understanding of certain essential rights that everybody should have as members of a society, such as free access to health services and to education.

But Europe runs a big risk: if it ducks the current and long-term challenges it faces, Europeans will hit a wall at a later stage. Without reforms, most welfare states will run out of funds and radical changes in the European welfare state will become necessary, including elements of social provision financed by individuals rather than by the state. This would hurt the weakest members of society most and would therefore undermine equity.

The issue, therefore, is not reform of the public sector for the sake of it, but in order to preserve the preferred European model. There is an urgent need to start a wider public debate about the risks associated with failing to reform – specifically by not integrating public-sector performance and reform in the Europe 2020 project.

## **The role of the public sector**

The public sector, of course, sets the framework for the development of our societies through the law- and rule-making process. But the public sector at different levels (federal, state, regional and local) also provides a significantly differentiated set of services, including essential services such as defence, policing and legal protection.

Here, no other solution than public management seems possible. But even here, productivity and efficiency gains can be achieved without affecting their proper working.

Other services primarily delivered by the public sector include education, health, social services and transport. While many tasks have recently been moved to the private sector, the ground rules are still set by the public sector, especially in transport and other infrastructure-related areas.

But traditions are somewhat different across Europe: some Member States are sticking to a traditional, large and centralised public sector, while other, more liberal countries have experimented to a greater extent with market solutions.

## **The need for efficiency**

Whatever country we are talking about, a drive for increased productivity and efficiency is necessary because of the financing squeeze we now face. The large deficits being built up during the crisis will have to be paid back over the coming years, putting additional pressures on public finances in future. The scale of the challenge is immense, given the reduced growth potential and the economic and social challenges facing Europe. But this challenge is very much underestimated.

In the short term, cuts in welfare and other public services will occur in many countries in the absence of a strategy for efficiency-reforms in the public sector. With the prospect of continued high unemployment and low economic growth in Europe for many years to come, it will not be possible

to increase public revenues and, within a few years, the effects of the demographic development will kick in.

Political systems will then need to make even more difficult choices, including on the balance to be struck between equity and efficiency. Change will often need to involve a radical rethink and re-engineering of public services.

### **Public-sector productivity**

However, integrating the public sector into the Europe 2020 Strategy raises many practical and political issues.

First are the difficulties involved in measuring productivity in the public sector. Traditionally, the public sector's contribution to GDP has been measured by the costs of financing it, and this is obviously not a satisfactory way to deal with such a large proportion of our GDP and with services which can contribute directly to our well-being. It is also not particularly valid when the objective is to measure productivity, which simply means the relationship between inputs and outputs. In future, we will need to ensure a higher output for the available financing – the input. As Americans sometimes put it: we will need a bigger bang for our bucks!

Many attempts have been made in recent years to improve productivity measurement in public services: partly because of demands for greater accountability and transparency for taxpayers; and partly in preparation for more difficult times to come. This work needs to be accelerated and global or, at least European, standards for robust measurements must be introduced. This is an absolute priority for the European Commission's economical and statistical services.

In this context, it should be remembered that measurements of public services must include elements of quality as well as quantity. Higher productivity in, for example, the health sector, based on lower quality is not desirable. It could mean, for example, that the number of patients treated could go up while more people die or have a lower quality of life after treatment.

### **Political friction**

This is a first problem. A second one is the near-guaranteed resistance from public employees and their unions. It is therefore crucial to communicate plans to improve public-sector productivity in the right context, which is ultimately to

preserve the basic characteristics of the European welfare society in light of the challenges we face.

But it is equally important to communicate the message that reforms are not just focusing on making public employees work harder, but also on restructuring public-sector service delivery.

Firstly, there is a need to use all available new technologies, in particular ICT-based technologies, and, secondly, to introduce innovation in service-delivery processes. This will not only help us to preserve our model, but will also become a major driver for innovation, entrepreneurship and job creation in private-sector companies across Europe, as well.

This needs to be done at a European level through a common approach, involving standardisation and cooperation to ensure that these new markets become as large as possible, along the lines advocated by the European Policy Centre in its work on 'Digital Europe' – the creation of a knowledge-based European Internal Market.

## **Political resistance**

Winning over Europe's politicians could be even more problematic. There will be resistance to European-level benchmarking of the public sector, not least given that our political leaders are directly responsible for this. Will it be possible to have an open and frank exchange between the Heads of State and Government about the performance of the public sector in their countries? It is probably not what they really want to do, but we owe it to future generations in Europe to move forward in this direction.

If governments and European institutions will not do it, there is a need to raise awareness of this issue, so that populations in Member States – together with civil society organisations and, possibly, opposition parties – can drive this crucial process through.

## **A new approach to benchmarking**

In the absence of robust statistical data on public-sector productivity, a way forward for the next framework for structural reform in Europe could be to identify data that could become a basis for benchmarking – taking into account the need to measure quality as well as quantity.

There are a number of areas where this is already possible. A first place to start could be pension reform, benchmarking progress in abolishing pre-retirement schemes and linking the pension age to life expectancy to construct a benchmark for future pension liability. Another important area would be immigration, and in particular integration policies, benchmarking them in a way that reflects the positive contribution immigrants make to the financing of our societies, and the welfare state in particular.

### **Shining a light into the dark**

Measuring public-sector corruption is also important to get an overall picture of public-sector performance. A relatively refined indicator has existed for many years, namely Transparency International's Corruption Perception index.

Benchmarking corruption performance is not the most politically-correct issue to address, but there is an urgent need to tackle this issue. High levels of corruption in the public sector indicates inefficiency and waste – it is striking that there is a strong correlation between a country's ranking on the Corruption Perception Index and its performance on competitiveness as measured by a range of existing indices.

It is worrying to see the big differences in performance in this index even within the EU. The latest index (for 2009) places Nordic countries and the Netherlands near a confidence range of 90 (100 being an absolutely corruption-free society), while countries such as Greece and Romania only score just over 30. Nobody should doubt what such a low score means in terms of waste and inefficiency in government services. So let us get it out in the open, discuss it and begin to emulate best practices.

### **Much to do**

Further work will involve some of the big spending areas in public services, namely health, education and social services – and, of course, general public administration.

At national – and sometimes regional – level, we already have valuable indicators for a discussion about European benchmarks, but it is crucial to agree on European measurements to enable us to compare and to strive for best practices.

It is equally crucial that benchmarks emphasise the importance of common European solutions whenever possible, not least to underline the need to create European lead-markets to drive innovation. A first step should be the application of these benchmarks to the European institutions, to lead the way.

A lot of the efficiency gains will have to come from dramatically intensified use of ICT. In this context it is important to remember the more qualitative aspects of public service delivery, which often directly affect citizens' quality of life. There is, of course, no automatic correlation between the use of ICT and good quality in, for example, care services, but, to ensure high quality, the qualitative aspects must be borne in mind when deciding where to use the technology and how. Most importantly, changes in the use of technology need to be accompanied by innovation in processes.

### **Let's make a start now**

There is no doubt that introducing public-sector benchmarking in the future framework for structural reform in Europe will be difficult, from both a practical and a political perspective. But nobody has said it should be easy and this is not an excuse for delaying the process.

If we do not start now, the result will be poorer and poorer public services, more and more social provision payments by individuals, and thus increased inequality in Europe.

Proposals for change, like those put forward in this article, will most likely be criticised – and this is welcome! But those who criticise these proposals should come forward with alternative answers to the fundamental question of how the European welfare state can be financed in future while at the same time ensuring that Europe will have high economic growth potential in the coming decades.

**Hans Martens is the Chief Executive of the European Policy Centre.**

### **Endnote**

1. Figures are for 2010. OECD: Economic Outlook no. 86.



## A mountain to climb

*Sotiria Theodoropoulou and Fabian Zuleeg*

The debate on the 'Europe 2020' Strategy that will succeed the Lisbon Agenda is taking place under the shadow of the recent economic crisis, which will shape economic policies and developments in Europe for the next decade and beyond.

Its greatest challenge will be to establish a policy framework that promotes the long-term goals of growth, more and better jobs, competitiveness and, more generally, the well-being of citizens sustainably and under the constraints resulting from the recent crisis. Arguably, the tightest of these constraints is in the area of public finances.

Most European governments are currently facing soaring public debts and high budget deficits that will have to be adjusted sooner rather than later. This will be made even more difficult by high unemployment and the prospect of sluggish output growth for a number of years to come, adding to the longer-term challenges that demographic change is posing for public finances.

To make things worse, the decline of sectors such as financial services and construction has generated a hole in the tax revenues in those economies where they were particularly important, and this will persist until new sectors of economic activity emerge to replace them.

### **Options for consolidating public finances**

Even before the crisis, public debt in several European economies had been persistently high, aggravated by long-term liabilities such as pensions. Even in those countries – such as Ireland, the UK and Spain – which had seen a remarkable decline in debt as a proportion of GDP, it is now clear that this was not sustainable.

Substantial efforts to consolidate public finances will thus have to be undertaken in most countries in Europe. The question is when and how? In light of the scale of the challenge, this has to happen sooner rather than later, and should take place in a coordinated manner across the euro zone and the EU as a whole. Radical change is needed to adjust, and debt and deficits need to be more tightly bound to structural reforms in the Europe 2020 Strategy.

## ***Can we afford to wait any longer?***

Steering public finances back onto a sustainable path as soon as the recovery has been secured will have to be a priority. The current levels of government borrowing pose a real threat to the European economic and social model.

At the basis of this model lies the provision of public services which are crucial not only for economic growth and competitiveness but also for the well-being of citizens, such as education and training, healthcare, pensions and social security. Unless the long-term solvency of European governments is secured, financing for these services risks being severely restricted in the future.

In addition, the sooner European governments put their 'houses back in order', the lower the interest payments they will have to make to keep servicing their debt. That would free up precious funds for more productive and socially desirable purposes.

## ***What needs to be done***

Reducing public debt in a sustainable manner will require turning the current government budget deficits into surpluses for several years, by cutting public spending and increasing tax revenues. From a macroeconomic perspective, this will require a delicate balancing act, given that demand remains fragile, especially in the most indebted European economies.

If a government cuts spending and increases taxes too much, it risks depressing demand even further and undermining its own consolidation efforts. Private confidence would slump, pushing the economy into a downward spiral, while any structural reforms necessary to enhance growth potential may also become more difficult to implement.

However, if it cuts spending and raises taxes too little, then it risks macroeconomic instability. As its debt rises, the interest it will have to pay to keep rolling it over will increase. Under these circumstances, some governments may be tempted to shift their debt servicing to relatively short-term bonds to reduce their interest-rate costs. However, such a strategy is very likely to lead to a sudden interest rate spike and dramatically reduce governments' options for adjusting their public finances.

### ***It's about more than money***

It is not simply a question of cutting expenditure and increasing taxes. The adjustment of budgets must take into account the composition of government spending and revenues. To achieve consolidation while minimising the impact on demand and the adjustment capacity of European economies, governments should aim at improving the quality of public spending wherever possible.

Improving efficiency in public services is a case in point. Focusing spending on public investment rather than on consumption would also help to deliver long-term growth and to pay off the current debts. Targeting taxes at encouraging the shift to a low-carbon economy would also help to achieve longer-term objectives.

But we must also recognise the scale of the challenge. Achieving sustainable public finances will mean a complete reorganisation of public services, with hard decisions about what is delivered by the public sector and what can be achieved through different means, such as investments by households or companies. In many cases, the public service 'business model' needs to change.

### ***A question of belief?***

Governments have a big role to play: a credible commitment to reform programmes will help by reducing the interest rates they have to pay to service their debt. Mere political announcements, however, will not help, as they are not credible to markets. Reforms are needed that will reduce long-term liabilities. Changing budgetary procedures by law, as well as reforming the provision and financing of public services, can also help.

But reducing public debt and budget deficits is a tall order for national governments. This strengthens the case for coordinated fiscal adjustment across Europe. Given both the strong interdependence of European economies and variations in the public finance situation, European action could potentially ease the trade-off between fiscal adjustment and dealing with the employment consequences of the crisis.

### **Combining economic efficiency with political 'viability'**

Cutting public spending, reforming public services and increasing taxes may be economically necessary, but is not going to be politically easy, especially against a backdrop of weak growth and high unemployment.

European governments will also have to continue pursuing the structural reforms in labour and product markets necessary to adjust to the challenges of globalisation, demographic change and the shift to the low-carbon economy.

But why are such reforms so controversial, given that they will benefit the economy as a whole in the medium to long term?

One problem is that the costs of fiscal adjustment are likely to exceed the benefits in the short run and these costs will affect certain groups disproportionately. As a result, people are often unsure about whether they will gain or lose individually from the adjustment. While improved public finances will allow European governments to use their spending capacity to support growth, employment and cohesion in the future, there will still be winners and losers along the way. There are also many vested interests which will try to defend the *status quo*. Last but not least, there are disagreements about the distribution of spending cuts and tax rises, and the adjustment costs of changing public service provision.

### ***Hard choices and a way out***

While dealing with these problems will be difficult, European governments should take steps to make the adjustment easier to ‘sell’ politically or else risk greater instability and severely restricted room for manoeuvre in future. The Europe 2020 Strategy can provide a policy framework that facilitates these steps.

First, it is important to ensure that the benefits of adjustment emerge as soon as possible. A monetary/exchange rate policy will be needed which, while preserving price stability, supports demand more strongly. Greater macroeconomic policy coordination will also be required to tackle the trade imbalances which the current crisis has exposed, especially within the euro zone.

Ignoring these imbalances is likely to make fiscal consolidation in some of the most indebted countries, such as Spain and Portugal, virtually impossible and threaten the stability of the euro zone.

Secondly, it will be important to ensure that some compensation/support mechanisms remain in place. This could be very important in deciding how to reduce spending and restructure the provision of public services.

Thirdly, the social partners and wider stakeholders must be engaged in national dialogues to help forge a society-wide consensus about the need

for adjustment and a fair distribution of its costs. The experience of the 1990s in the run-up to Economic and Monetary Union has proved that this can work, especially in those countries – such as Ireland and Spain – which are currently facing the biggest challenges.

### **Required changes to fiscal governance in Europe 2020**

The magnitude of the adjustment that European governments will have to undertake to steer their public finances onto a sustainable path, and the political challenges that this will pose, are unprecedented. At the same time, the risks of delaying adjustment once the recovery has been secured cannot be overstated. Achieving policy coordination at the euro-zone/EU level can help ease the burden and political viability of adjustment.

That is why the current negotiations on the Europe 2020 agenda provide a great opportunity to shape a policy framework to forge coordination – an opportunity which must not be missed. This essentially means linking the fiscal-coordination framework closely with structural-reform policies.

Fiscal governance in the EU, especially under the Stability and Growth Pact, has been criticised in the past not only for failing to coordinate fiscal policy at the EU level, but also for failing to promote sustainable public finances in individual countries. This, however, does not imply that it should be abandoned altogether.

#### ***Better targets, more integration***

Instead, given the challenges ahead and the lessons learned so far, now is the time to reform it in a way that would achieve both of the above goals.

First, fiscal targets should promote sustainability. Net debt as a share of GDP should be targeted, rather than the gross, as the former takes into account all the financial assets and liabilities of a government. This would give the public a better sense of the real situation, especially given that pension liabilities could be included. It would also prevent the use of creative accounting or one-off sales of public assets to improve public accounts.

These targets should be set over a number of years to allow for the impact of business cycles as well as the different growth potential of EU/euro-zone members. Structural reforms could also be facilitated in this way, as it would give governments some extra fiscal space to compensate the losers.

Individual countries' net debt targets should be complemented by a joint target for current account balances within the euro zone, to ensure that the burden of adjustment efforts remains symmetric and manageable. Fiscal policies within the euro zone should target a real exchange rate that is compatible with a sustainable net public debt to GDP ratio in the long run.

Short-term deficit targets should be based on long-term average growth rates which are determined independently, to prevent governments consistently overestimating future growth.

In addition, fiscal, reform and contingency plans should be submitted by governments on an annual basis, with their implementation assessed by independent bodies. Given the current high levels of debt in several European economies, these assessments would help impose market discipline on governments that do not pursue adjustment vigorously enough.

Structural reform also needs to be elevated at the political level, and discussed alongside fiscal and monetary policies at Ecofin and Eurogroup meetings. European governments must start tackling those countries which are not reforming head-on – and in public – before another crisis strikes.

### ***Sustainable and balanced***

Public debt and persistent deficits will be key features of the next decade. Economic performance in Europe will depend on how well countries manage to move towards fiscal sustainability. The Europe 2020 Strategy can give vital impetus to this process.

By strengthening economic governance, reinforcing coordination and integrating structural and fiscal policy with the management of public finances, the EU can play a leading role in moving Europe back to sustainability – not for its own sake, but to safeguard Europe's economic and social model for the future.

**Sotiria Theodoropoulou is a Policy Analyst and Fabian Zuleeg is Chief Economist at the European Policy Centre.**

## **Sustaining our European economic and social model in an ageing society<sup>1</sup>**

*Elsa Fornero*

Official projections<sup>2</sup> suggest that in the next 40 years, Europe's population will decrease moderately and become considerably older. As the large 'baby boomer' cohorts approach retirement, fertility rates will remain largely below their natural replacement rate and longevity will continue to improve, triggering a major increase in the old-age dependency ratios.

This demographic scenario calls for structural reforms in welfare systems as well as in labour and financial markets in order to increase participation rates (among both the elderly and women) and to promote investment in human capital and technological progress, to offset the expected negative impact on growth caused by the rising needs of an increasingly elderly population. This reform process started in the Nineties and is still in progress.

While many issues are involved, the following stand out as crucial:

- work prospects for the elderly;
- education and training programmes to enhance their employability, as well as their capacity to participate, when retired, in socially productive activities;
- women's financial security;
- adequacy of provisions for retirement income, including long-term care.

Although these issues extend far beyond pension systems, they account for the largest share of social protection expenditure and reforming them has occupied – and will continue to occupy – a very important place in policy agenda. Provisions for retirement are thus the main perspective around which the following observations are organised.

### **Extending working life**

Increasing the employment rate among the elderly and raising the average retirement age is perhaps the most effective way to prevent old-age poverty and to promote adequate pension systems, without jeopardising financial sustainability. It should thus represent the natural response to population ageing.

Instead, however, pension provisions in Western Europe effectively encouraged early retirement through lenient eligibility requirements and pervasive distortions in the pension *formulae*. This trend was reversed only in the last decade of the 20th century, when demographic pressures forced governments to introduce reforms.

These set out to correct the myopic, but widely held, ‘lump of labour fallacy’ (conducive to ‘work less, work all’ kind of policies) and to reduce the implicit tax on staying in work embedded in the generous earning-based pension *formulae*. Both appear essential to strengthen older workers’ willingness to work, while granting them a greater freedom to decide when to withdraw from the labour market.

Flexible retirement (not to be confused with the pre-reform early retirement provisions) requires an age-related incentive structure. Research has demonstrated that workers respond to financial incentives: if they are taxed, they leave as soon as possible; if they are rewarded for staying longer in their jobs, they stay (provided other factors, such as health or family considerations, do not prevent them from doing so).

This is the main rationale behind the stronger correlation that has been established between contributions and benefits in determining pension benefits, largely coincident with the passage from earnings-based (or Defined Benefits, DB) to contribution-based (or Defined Contribution, DC) pension *formulae*.

In this more neutral scenario, a minimum age, usually complemented with an income-eligibility test, is typically established to prevent people from making short-sighted decisions and to avoid an increase in future claims on public funds.

Beyond the minimum and up to a maximum age, an actuarial mechanism often links pension benefits to life expectancy. In some cases, an automatic adjustment of the minimum age with respect to increases in life expectancy is included, to ensure the financial equilibrium of the system and a more balanced allocation of the demographic risk across generations. To encourage forms of gradual retirement, provisions also increasingly separate the actual cashing-in of the pension benefit from effective withdrawal from the labour force.

These changes, implemented at different speeds and with different features in individual EU Member States, put the correct management of demographic



and economic risks at the heart of pension systems and reduce the scope for discretionary political interventions, which were responsible in the past for distortions, unfair redistribution (from poorer to richer workers) and burdens on future generations.

### **Education, training and compensation**

While a comprehensive array of measures has been introduced on the supply side to induce workers to stay in employment longer, less attention has been paid to the question of how to induce firms to retain their elderly labour force – i.e. the demand side.

Empirical evidence suggests that age-discrimination practices persist and that firms are doing little to adapt to the drastic change in the age composition of their workforce. Direct surveys of firms' attitudes reveal negative stereotypes of older workers, particularly with respect to their capacity to adapt to new technologies or organisational models. On the other hand, it suggests a positive correlation between the educational levels of the elderly and their participation in the labour market, and that the health of individuals with less human capital (skills and knowledge) deteriorates faster than that of those with more human capital.

Targeted education and (on the job) training programmes to enhance workers' employability and productivity, and more flexible working arrangements that better suit older workers and slow down their withdrawal from the labour force (gradual retirement), will thus be very important. The effectiveness of these programmes depends on how long older workers stay employed, implying a trade-off with early retirement provisions or pre-retirement schemes that simply transfer money to laid-off workers.

Other aspects of the labour market will also have to be redesigned. For example, seniority-based earning schemes may contribute to a mismatch between compensation and workers' productivity, and have extensive undesirable consequences. More generally, labour-market rigidities tend to create sub-optimal age-based coalitions of interests.

In flexible labour markets, wages track productivity: they typically increase up to middle age and then fall as workers approach retirement. Firms have no particular incentive to prefer younger to older workers and employees tend to work longer, because labour demand is stable over time; there is no need for unemployment rates to differ across age groups.

Conversely, in more rigid labour markets, wage and productivity tend to be less correlated to workers' age. Older workers cost too much and generous early retirement rules represent an escape route for both firms, which prefer to hire young people, and older workers, who prefer leisure to work. These arrangements have detrimental consequences: apart from redistribution of resources from future to current generations and from high- to low-skilled workers, they favour under-investment in education, as people only invest when the expected benefits make up for the lost earnings.

More flexible job markets are consistent with higher employment rates among the elderly, but they, of course, rely on adequate provisions for temporary lay-offs and spells of unemployment.

## **Women's pensions**

The position of women is passing from a model of paternalistic welfare based on the combination of both state and family support – perhaps generous in terms of results, but not so in terms of opportunities – to a new one, where they will enjoy more independence but face greater risks.

Women will probably suffer most from reforms, because the pension system is being restructured before the necessary changes (the equalisation of opportunities) have been realised in the labour market, and at a time when women's economic well-being in retirement is still very much dependent on their role as spouses (i.e. on their being a dependent member within the family).

Most older women have spent less time in the labour market than men, have been paid less and have had more interruptions in their working careers, generally because of responsibilities for caring for both children and elderly parents. Although things are changing for younger generations, calculating pensions on a strict contributory/actuarial basis will certainly reduce benefits. At the same time – and this is particularly the case for young people – the breakdown of the traditional family structure will require social safety nets in place of the customary solidarity within the family, but these are at odds with the predominant 'insurance' role that reforms are increasingly assigning to public pensions.

Whether the new situation, apart from being more 'modern', will prove more equitable to women and reduce their dependence on family/state support, greatly depends on how labour-market participation and earnings evolve in the future and whether a more balanced division of tasks can be

achieved within the family. Even though gender disparities are clearly more rooted in culture/tradition than in cognitive and working abilities, they have key implications for retirement well-being and take time to correct.

### **Adequacy of provisions**

Having enacted reforms that, in order to restore financial sustainability and reduce distortions, have cut public benefits and made retirement income more uncertain and more 'self-made', policy-makers need to focus on ensuring that other income sources will provide adequate supplements and that households will not be left facing excessive risks.

Indeed, the multi-pillars' approach is being implemented in most European countries, not only to compensate for the reduced replacement rates offered by the public pillar, but also as a better risk-sharing device, with public pensions (and other benefits for the elderly, such as minimum pensions and survivor benefits) subject to different risks than those relevant for occupational pensions and voluntary household savings.

To be effective, and thus provide satisfactory old-age income security in a less 'paternalistic' environment, this diversification requires that workers participate in pension plans and engage in personal savings. Partly in recognition of their social importance, private pensions are not allowed to operate on a strictly *laissez faire* basis, but are typically subject to various measures of public regulation and supervision, and are also sometimes partially backed by public guarantees.

This evolution prompts important questions: are individuals prepared/preparing for this? How can they be helped to take appropriate decisions concerning both their retirement age and the accumulation/investment of personal savings?

Empirical evidence points to widespread 'inadequate' behaviour, with 'anomalies' such as overconfidence, lack of self-control, preference for the *status quo*, contradictory preferences as to the dynamic allocation of resources, and so on. Financial illiteracy is also becoming a very relevant issue: people seem to lack basic notions of saving and of risk management, and this problem seems to be particularly acute among specific demographic groups (women, low-educated). Financial education programmes should thus be implemented to improve the trade-off between individual freedom and responsibility, on the one hand, and state (or company) paternalism, on the other.

A special risk that needs to be tackled is long-term care, for which demand will inevitably increase with ageing. It is not clear what the appropriate model for financing and organising the supply of care will be, and what the respective role of families and public provisions should be.

Finally, a distinctive element of pension reform in the EU is a tension between the role of individual countries and EU-wide policies and institutions. Although the need to increase the role played by funded pensions is driven by EU-wide economic and demographic forces, individual countries have had the autonomy to pursue reforms based on specific national circumstances, without direct EU influence. At the same time, maintaining and/or creating privately-funded provisions (in the forms of both collective and individual pension funds) is an important element in a broader EU policy agenda of fostering capital and labour mobility.

**Elsa Fornero is Professor of Economics at University of Turin and Scientific Coordinator of the Centre for Research and Pensions and Welfare Policies (CeRP) and Vice-Chair at the Compagnia di San Paolo.**

## Endnotes

1. This paper owes much to the research project “*Ageing, Health and Pensions in Europe*”, financed by the European Science Foundation ([www.esf.org](http://www.esf.org)), in which the Centre for Research and Pensions and Welfare Policies (CeRP) took part.
2. Eurostat 2009.

## Creating shared value – a new, sustainable business model

*Laurent Freixe*

The creation of a post-Lisbon strategy is an essential step on the road to Europe's competitiveness, and its ability to create both economic opportunities and social and environmental value for its citizens.

It comes at a uniquely seminal moment – the confluence of both the financial/economic crisis and critical environmental challenges. Separately, these crises clearly demonstrate that rewarding short-term gain at the expense of long-term business success can only be harmful both to companies and society at large. Together, they demand that we urgently re-examine certain premises and principles and ask again: how can companies and competition contribute to sustainable economic growth while respecting the environment and improving the living conditions of the public as a whole?

Business is a key driver of innovation and growth, while government plays an important role in creating the framework conditions that facilitate and encourage innovation. Even with the correct framework, this innovation and value creation can only take place in the long run if companies' leaderships adopt strategies with a long-term view that create value for both shareholders and society simultaneously.

The Europe 2020 Strategy can help to provide a 'virtuous competitive framework' of long-term thinking about what is both best for business and best for society; a framework for European companies to revisit the roots of their corporate objectives and goals; a framework to re-examine their company's relations with society, and to re-consider the motivations which drive their management and employees.

This focus on long-term thinking and creating a successful business based on the needs of society is not new, but has been lost by a narrow focus on short-term results and quick fixes. For sustainable long-term growth and the health of our enterprises, we must restore within our core strategies the state of affairs in which shareholder interests and interests of the broad public go hand-in-hand.

This long-term thinking is key both to business success and to restoring public trust in individual companies as well as business as a whole.

## Forward to basics: creating shared value

Over the past two years, we at Nestlé have been re-visiting, re-examining and re-considering our roots, our principles and our practices. Like any large multinational corporation of today, we face all the associated pressures, complexities and compromises. We believe that the fundamental way of doing business that Henri Nestlé inspired all those years ago is still alive and well, and it remains at our core. Our challenge now is to re-articulate it, to focus it to meet today's needs, and to ensure that all our employees, shareholders (and indeed all our stakeholders) are motivated to live by it.

With the help of academics including Professor Porter from the Harvard Business School, we have been able to crystallise the expression of 'the way we do business', and test it against the role that companies should play in addressing today's economic, social and environmental challenges.

In recent years, Professor Porter has coined the term 'shared value', defining it as "policies and operating practices that enhance the competitiveness of a company while simultaneously advancing the economic and social conditions in the communities in which it operates".<sup>1</sup> It is based on the understanding that in order to create value for its shareholders, a company also needs to create value for the people in the societies in which it is present. Put simply: business conditions improve when living conditions improve.

Clearly, companies have an increasing role to play in addressing today's growth, social and environmental challenges. We believe that they can have a greater positive impact if the main vehicle they use to help address those challenges is their very own fundamental business model – in other words using the main thrust of the company to drive success in all three areas. We call all this "creating shared value", and it is the cornerstone of our global business philosophy, strategy and the way we do business.

## Focus is key for maximum effectiveness...

A key to the success of any task is to concentrate efforts. Clearly, the greatest opportunities will come from areas where our business significantly interacts with – and can have the greatest impact on – society.

We have identified three areas where we think we can have the greatest impact and where we want to focus our resources: nutrition, water and rural

development. These are areas where we can not only gain a deeper understanding of mutual dependencies, but are also those which have the highest potential for mutual benefit.

For shareholders, the creation of shared value is consistent, reliable and responsible growth of sales, profit, and market capitalisation. For society, creating shared value in the context of nutrition means helping consumers enjoy a balanced diet by providing foods of high-quality nutritional value, taste and uncompromising safety. In the context of water and rural development, it means that we contribute to social, environmental and economic development throughout our business-value chain, from agricultural production through manufacturing to the consumer.

Creating shared value means addressing environmental concerns wherever we operate, thus better ensuring the quality of, and access to, raw materials and water, in the quantities needed for our business while trying to have a positive impact on the lives of the people living in the region. Environmental and societal concerns equally have to be addressed by, for example, providing free technical assistance and know-how to farmers across the world so that they can improve their farming methods, which impacts on yields, the environment, quality and, finally, income. Business can help farmers help themselves to move out of poverty.

This mindset both helps to address long-term strategic challenges facing companies and to build creative partnerships that accrue significant benefits for both sides. It forms the very basis for future business success as well as food security.

While companies need clear annual business goals for sales and profits, they should instil in managers the basic principle that long-term business success should not be sacrificed for short-term gain. At Nestlé, we want our investments to be good both for the company and for the societies where we operate.

### **Achieving the Europe 2020 objectives**

Creating shared value should be at the heart of any business model and we are convinced that it can contribute to the objectives of the Europe 2020 Strategy “to lead, compete and prosper as a knowledge-based, connected, greener and more inclusive economy, growing fast and sustainable, creating high levels of employment and social progress”.

## ***A new logic of collaboration***

To achieve the Europe 2020 goals, there is a need for clear leadership and operational objectives to better ensure progress. It will require collaborative efforts to improve the external environment and to escape the logic of trade-offs between economic growth and social and environmental improvements.

Joint approaches between the private sector, authorities, governments and not-for-profit organisations are needed to be able to expand the areas of congruence between economic and social objectives. Isolated efforts to address global and structural issues will not allow for long-lasting strategies and impacts. In this context, we look forward to the action plan that will accompany the Europe 2020 Strategy.

As the single largest manufacturing sector in terms of value-added, turnover and employment, the EU food and drink industry will be a major player in the implementation of the Europe 2020 Strategy. The setting of specific strategies for the food industry as part of an overall European food policy will facilitate meeting the EU objectives.

The recommendations and the action plan adopted in 2009 by the High Level Group for the Competitiveness of the Agro-Food Industry provide a sound basis for such a policy that will allow sustainable growth for the sector. This group aims at a holistic food policy, supported by reinforced Internal Market objectives and innovation.

Revitalising the Internal Market is crucial to a healthy European economy. The economic crisis has led to a revival of national reflexes, demonstrated by a surge in small-scale national initiatives which are often more of a hindrance than a help to boosting the economy. As a consequence, business costs increase, intra EU-trade is restricted, and the competitiveness of European companies is reduced without adding value to society at large.

Swift execution of the High Level Group's roadmap will be the best guarantee of sustainable growth in the food industry, and contribute to a smarter, greener and more efficient economy.

## ***Innovation as a key driver of value creation***

The Europe 2020 Strategy has the potential to create a favourable environment for higher education, research and development in Europe.



At Nestlé, we see research and development as the undeniable source of science-driven, consumer-focused and business-aligned innovation. Projects are business-focused and directed at consumer benefits and needs, combining generations of practical experience with new knowledge.

Our main focus is the nutritional quality of our products, which includes making important nutrients both available and beneficial to the body. Better understanding of how to manage weight and addressing micronutrient deficiencies are other areas of importance.

We are working in innovation partnerships with universities, start-ups, biotech companies and key suppliers. Our external relationships are richer and more entrepreneurial than ever. The exchange of knowledge during the process is huge, which benefits everyone involved. Ultimately, our innovation model adds value to the company, to consumers and to society.

### ***Focusing resources***

Last but not least, companies need to be allowed to focus their resources on areas where they can have maximum impact. Looking to the future, we will continue our efforts to identify and measure value creation coherently, to sharpen our focus, and concentrate on those areas where we are best equipped to bring value to society and to our company.

**Laurent Freixe is Executive Vice President, Nestlé Zone Europe.**

### **Endnote**

1. In Michael Porter and Mark Kramer, 'Strategy and Society: the Link between Competitive Advantage and Corporate Social Responsibility', *Harvard Business Review*, December 2006.

# For a Europe built on solidarities and sustainability

*Conny Reuter*

## **“It’s the social, stupid”**

It is certainly no coincidence that the new Europe 2020 Agenda is about to be decided in this European Year for Combating Poverty and Social Exclusion. This presents an opportunity to draw lessons from the deficiencies and shortcomings of the Lisbon Strategy, as it did not deliver the results needed on questions of social cohesion and social inclusion.

In the context of the previous debate on the revised Lisbon Strategy and Social Agenda, social NGOs like SOLIDAR had already lobbied for a stronger emphasis on social cohesion and inclusion – a call which went unheeded – and they have now contributed to the brief consultation by the European Commission on Europe 2020.

The effects of the systemic crisis on employment and the pressure placed on EU Member States’ budgets should lead the European Council and the Commission to reorient their policies.

Several Member States are currently in breach of the Maastricht single currency criteria. The crisis forced Member States to use public funds to finance recovery packages and bail out private banks. This, and other factors, has led to a dramatic deterioration in public finances in Greece, Spain and Ireland, in particular.

For the first time in history, EU Member States like Latvia, Lithuania, Hungary and Romania have been made to adhere to the fiscal conditionality imposed on them by the International Monetary Fund.

In many of these countries, the approach taken before the crisis was to grow the economy first and worry about investment in social infrastructure later. The social consequences arising from this approach were shrouded in the fog of growth measured through GDP and more wealth for a shrinking middle class. But now the crisis has led to drastic cuts in already-feeble public and social expenditure: schools and hospitals have been closed, and teachers and nurses have had their salaries cut by up to 20 or 30% (for example, in Latvia).

It seems that the Commission acted for ideological reasons alone in putting in place policies which focused only on jobs and growth, even though the European Social Model – in its different national interpretations and configurations – was built in times of crisis as an investment in shared solidarity and in inclusive and democratic societies.

The current context begs for a paradigm shift to ensure that jobs and growth are only one set of instruments by which to achieve good working and living conditions, and not an objective in themselves.

It is not just another European agenda which is necessary: the social crisis and challenge of climate change have global effects, and already affect – and will continue to affect – people's lives, not only in Europe.

In early 2009, social NGOs, together with the European Trade Union Confederation (ETUC), and environmental and development NGOs, set up the Spring Alliance, which calls for an Europe 2020 Agenda that 'puts People and Planet first'. Recalibrating the overall agenda will also demonstrate to citizens that the EU is taking their needs into account, in particular the needs of those in vulnerable situations and those who face discrimination.

Last month saw poverty on the rise: the equivalent of the total population of Germany is now living under the threat of poverty in Europe: 82 million people cannot live in dignity, do not have a decent income and do not have access to health and social services. More than 19 million people are now classified as 'working poor' and several hundred-thousand jobs are dependent on financial support schemes. The financial markets may want to return to business as usual, but the crisis in the lives of ordinary people is only just beginning. Experts expect a return to pre-crisis employment levels only in three to five years.

Massive cuts in employment not only create a precarious situation or poverty for the women and men concerned, but also have an impact on the development of neighbourhoods, cities and whole regions. In the medium term, rising precariousness and poverty represent a threat to democracy, as the participation of all in society and the representation of their concerns in decision-making processes is no longer guaranteed, and increasing shares of the population live or grow up without the prospect of equal opportunities and social promotion.

People living in poverty do not have all the possibilities to participate in social, cultural and educational activities that others do, even though they

are the ones who need them most. This must be taken into account in the design of the new Europe 2020 Agenda.

With rising poverty and exclusion also comes the disintegration of societies. Vulnerable people such as migrants, in particular, are victims of discrimination and racism, posing a great challenge to our democracies. Promoting multiculturalism and anti-discrimination is therefore crucial to the broader strategy.

Cohesion also means integrating all generations. While workers and employers aged over 55 have huge difficulties re-integrating into the labour market, young people cannot get their foot in the door. In some European countries, it is question of a 'sacrificed' generation.

Mobility and flexibility based on high social standards can help to increase employability, but cannot replace an industrial policy focused on the creation of quality jobs and services which are sustainable.

Within this context, it is important to remember that the Global Europe Strategy (the external dimensions of the Lisbon Strategy), which was supposed to create more decent jobs in Europe and in the rest of the world through trade liberalisation, has also failed. Focusing the debate on labour costs and competitiveness, instead of on sustainable development and ending the wealth disparities that have led us here, is a mistake.

SOLIDAR recommends focusing on the following main points in the design of the new Europe 2020 Agenda:

### **Quality employment and active inclusion:**

- Develop a European Employment Guideline that focuses in particular on active inclusion and the inclusion of people with multiple needs, which should be added to the existing Employment Guideline 23: 'Expand and improve investment in human capital';
- update the Employment Guideline 18 on the promotion of a lifecycle approach to work by further developing the Barcelona targets on child care and improving the framework conditions for a better reconciliation of professional and private life;
- introduce specific targets on quality jobs and decent work. Flexicurity approaches will only work when employees' rights are assured and the

‘working poor’ tendency has been reversed. This means investment in vocational training and lifelong learning.

### **Social economy and social services:**

- Recognise the specific role of the social economy and the link with economic activities in those fields which are particularly important in times of crisis: social and health services, employment and housing policies. These sectors can only contribute to tackling the effects of the crisis if they are not deregulated, and if decent and quality jobs are guaranteed.

### **Lifelong learning:**

- Set targets at European and Member-State level to increase low-skilled workers’ participation and integration into the labour market;
- orient vocational and professional training not only towards creating new skills for new jobs, but also towards reorienting existing jobs corresponding to the need to reshape the economy in terms of environmental sustainability.

### **Better governance:**

- Couple the social Open Method of Coordination (OMC) with EU financial instruments such as the European Structural Funds in the new Europe 2020 Agenda. The social and active inclusion strand should be integrated into employment guidelines;
- have only one overarching strategy instead of a multiplication of disconnected strategies in the different policy fields.

### **Global Europe:**

- Revise the Global Europe Strategy so that it puts the emphasis on the creation of decent work, sustainable development and food security, and provides the policy space for developing countries to develop their own industries.

**Conny Reuter is the Secretary General of SOLIDAR, President of the Social Platform, and a member of the European Policy Centre’s General Assembly.**

## II. THE NEED FOR A NEW FRAMEWORK

### From Lisbon to the Europe 2020 Strategy

*Maria João Rodrigues*

At the beginning of a new decade, the European Union, while implementing its new institutional setting created by the Lisbon Treaty, is dealing with two major challenges: redefining its role in the new emerging international order and renewing its development model.

This renewal should be guided by a Europe 2020 successor to a decade-long unique experience of transnational coordination of economic and social policies framed by the Lisbon Strategy adopted in 2000. This is the moment for a thorough, critical assessment of this experience and of the situation we are now in after a unique financial and economic crisis. It should also be the moment for setting a new ambition with very precise requirements regarding a central purpose, the strategic priorities, the key actions and the governance method for the years to come.

#### Taking stock of the Lisbon Strategy

Even if there were clear failures, implementation of the Lisbon Strategy should not be considered a failure overall and we must avoid throwing the baby out with the bath water. In defining the post-2010 agenda, it is important not to lose the relevant *acquis* of the Lisbon Strategy:

- a large political consensus on how respond to globalisation, with a competitive knowledge-intensive economy and not a downgrading of our living standards, and real progress in this strategic direction (before the 2008 crisis);
- a gradual re-direction of several policies: employment, social protection, education, research, innovation, the information society, the Single Market, energy, regional and macro-economic policies. Several hundred of the measures defined following the 2000 Lisbon European Council were implemented, although many others were not (see Table 1, page 46). Indicators are, by definition, the last feature to move to reflect real changes and here we have a mixed picture, with the best results for job creation and the worst for research investment;

- most of all, the building up of a unique European-wide process of coordination of structural reforms to cope with these challenges, involving European institutions, governments, parliaments, regions and civil society at several levels.

Despite the comprehensive nature of this process, there are many flaws regarding accountability, coordination and participation. The time has come to move from a technocratic to a political process – and to create a citizens' movement pushing in the same direction.

**Table 1: The Lisbon Agenda: relative achievements and failures**

Policy field	(Relative) achievements	(Relative) failures
Information society	<ul style="list-style-type: none"> <li>• Schools connected to Internet</li> <li>• Public services: access via Internet</li> <li>• Extension of broadband</li> </ul>	<ul style="list-style-type: none"> <li>• Scale in content industries</li> </ul>
Research	<ul style="list-style-type: none"> <li>• European research networks</li> <li>• European research infrastructure</li> <li>• Technology platforms</li> <li>• European Institute of Technology</li> </ul>	<ul style="list-style-type: none"> <li>• Community patent</li> <li>• Mobility of researchers</li> </ul>
Innovation	<ul style="list-style-type: none"> <li>• Joint technology initiatives</li> <li>• Clusters</li> <li>• One stop-shop for start-ups</li> <li>• Galileo</li> </ul>	<ul style="list-style-type: none"> <li>• Interface business-universities</li> <li>• Venture capital</li> </ul>
Lifelong learning	<ul style="list-style-type: none"> <li>• Extension of early-school education</li> <li>• Extension of vocational and technological education</li> </ul>	<ul style="list-style-type: none"> <li>• Modernisation of universities</li> <li>• Extension of training for adults</li> </ul>
Single Market	<ul style="list-style-type: none"> <li>• Telecommunications</li> <li>• Single sky</li> <li>• Financial services' integration</li> <li>• Services Directive</li> <li>• Reducing red tape</li> </ul>	<ul style="list-style-type: none"> <li>• Energy</li> <li>• Portability of pensions</li> <li>• Better regulation</li> </ul>

Trade	<ul style="list-style-type: none"> <li>• Bilateral agreements</li> </ul>	<ul style="list-style-type: none"> <li>• Doha Round</li> </ul>
Employment	<ul style="list-style-type: none"> <li>• Net jobs' creation (15 million)</li> <li>• Modernisation of employment services</li> <li>• Women's employment rate</li> <li>• Restructuring management</li> </ul>	<ul style="list-style-type: none"> <li>• Flexicurity</li> <li>• Employment of young people</li> <li>• Immigration management</li> </ul>
Social protection	<ul style="list-style-type: none"> <li>• Pensions' reform</li> </ul>	<ul style="list-style-type: none"> <li>• Active ageing</li> </ul>
Social inclusion	<ul style="list-style-type: none"> <li>• Childcare services</li> </ul>	<ul style="list-style-type: none"> <li>• Poverty-rate reduction</li> </ul>
Environment	<ul style="list-style-type: none"> <li>• Environmental awareness</li> <li>• Emissions Trading Scheme</li> </ul>	<ul style="list-style-type: none"> <li>• Renewable energies</li> </ul>

Source: M. J. Rodrigues (ed.) (2009) *Europe, Globalization and the Lisbon Agenda*, Cheltenham, UK and Northampton, MA, USA: Edward Elgar.

## Our development model is unsustainable

The point of departure should be to recognise that, even if Europe provides the best international example of quality of life and of a development model combining its economic, social and international dimensions, this model is just not sustainable and is driving us towards an unacceptable situation:

- our development model is unsustainable because our patterns of consumption and production are undermining the climate and the ecological balance of the planet;
- our ageing population is undermining the financial basis of our social protection systems, with a rising dependency ratio which risks increasing the financial burden on future generations or reducing their level of social protection or, most likely, both;
- our development model is unsustainable because the current international financial system is undermining the conditions for the long term investment necessary to ensure sustainable growth and jobs in the transition to a low-carbon and knowledge-intensive economy.

Europe will be confronted with new competitive pressures from emerging economies which combine a high level of expertise with much lower levels of standards. The new strategy should fully address these challenges.



## **A new concept of prosperity**

The first question to be answered is: ‘what should we mean by ‘prosperity’?’

The level of material resources measured by the GDP and living conditions in terms of habitat, mobility, food and health seems to be an unsatisfactory approach. It ignores the global resource constraints we face and the other factors necessary for people’s well-being: access to capabilities, useful activities, environmental and physical security, social protection, democratic rights, social integration and sense of belonging to a larger community. This larger and deeper concept of well-being should be the driver to renew our development model.

## **A strategy of innovation for sustainable development**

The EU’s new long-term strategy should be inspired by a central principle: innovation for sustainable development – technological, economic, social and political innovation. To drive this transformation, some strategic priorities should be clearly defined:

### ***Making the shift to low-carbon activities***

A shift is required in consumption, production and mobility patterns in all sectors, but particularly the most polluting, such as transport, manufacturing and housing. The expansion of business, personal and public services such as health, education, leisure, creative and communication activities should be encouraged but, to avoid de-industrialisation, should be combined with a new industrial revolution focusing on low-carbon, smarter and safer products coupled with after-sale services. Creating new jobs and greening the existing jobs should be combined with measures to ensure a fair transition, such as re-skilling workers.

### ***Making knowledge and creativity the main resource of people, companies and regions***

Innovation needs to be driven by new demands, but also by new supply interactions between companies, research and education institutions. This requires generalising the conditions for innovation in companies: organisational change and competence-building; access to technologies, expertise, venture capital and markets; and reducing the administrative burden.

This will also require the development of long-term pan-European research networks addressing the main challenges of this new development model in an interdisciplinary way. Knowledge accumulation has been overly subordinated to competition policy in European research programmes.

Finally, this means not only generalising secondary education and spreading higher education, but also extending access to lifelong learning through open learning centres and learning organisations, whose role will increase in the competence-building process. New competences such as teamwork, networking, learning to learn and sustainable behaviours should be generalised.

### ***Making the welfare system support change and reduce social inequality***

To underpin all these changes, we need to build a developmental welfare state, supporting transition throughout life cycles, making the best of people's potential and reducing social inequalities.

The first concern must be to reduce long-term and youth unemployment, helping people to move into new jobs, relevant training, useful activities, or a combination of these. Active ageing should be coupled with a better use of the elderly's experience and competence. Equal opportunities for men and women should be generalised at all professional levels. Reconciliation of family, working and social life should be made possible through better family care services and greater sharing of family responsibilities. Access-to-learning mobility across Europe should be generalised, paving the way for more professional mobility. Immigration with active social integration should be promoted as a dynamising factor in European societies.

Poverty should be actively combated, first by reducing social inequalities and the working poor; second, by providing general access to active labour-market policies and good public services and, ultimately, by ensuring a basic income and an integration scheme for all.

### ***Making the financial system serve the real economy***

We need to refocus the financial system on supporting the real economy. All financial institutions and products should be regulated to control financial instability and channel financial resources into supporting the real economy, sustainable growth and jobs and, more particularly, the long-term investments required by the above-mentioned strategic priorities.

This will also imply combating tax havens and speculative practices such as short-selling and many of the derivatives. Stronger banking supervision should be coupled with tighter controls on liquidity.

Finally, corporate governance rules – particularly accountancy standards, top-management remuneration and stakeholders/shareholders' rights – should be revised to ensure long-term investments and sustainable competitiveness. These principles should also be strengthened by the rating agencies when evaluating private and public debts.

Public finances should also be refocused to support the real economy, which is also the best way to progress towards balanced budgets. This means redirecting public spending and taxes to support public and private investment for smarter and greener growth.

Are these strategic priorities a wrong or risky choice because they would give Europe a competitive handicap? No. On the contrary, they can create the long-term 'first-mover' competitive advantage which will be followed by others, to create a win-win situation for the planet and avoid extreme differentiation and collapse.

In the meantime, the recent financial and economic crisis has been brought under control, but has yet to be overcome and we need to act to avoid the same thing happening again. Hence, the central challenge for this political process is how to ensure recovery, but also make it something more than a recovery – a transition to a new development model.

### **Improving governance: participation, coordination and accountability**

The following priorities are key to improving the governance of this political process:

The strategy architecture requires some fundamental improvements:

- at the highest level, a single strategic framework is required, with long-term and key strategic orientations, to overcome the current disconnection between growth and jobs, social policy, energy and sustainable development;
- at the intermediate level, the Treaty-based broad economic and employment guidelines should be integrated guidelines covering the full scope of the strategy;

- at the operational level, the common objectives and key actions in each relevant policy area should be set in line with these strategic priorities (and only those, in order to avoid the ‘Christmas tree’ effect).

Political accountability should be increased, by making clear choices about the priorities and by synchronising this strategy with the political cycles at European and national levels.

The European and national tool-box available in each policy area should be clearly identified, and we need to promote better use of those tools, and upgrade the policy mix with stronger and more European instruments. Each key action should be designed as multi-level action at global, European, national and local levels.

Implementation of the guidelines and the common objectives should be improved by:

- preparing mutually-consistent national Europe 2020 programmes;
- combining the national annual progress (short) reports with annual thematic reports focusing only on some previously-selected key actions;
- defining indicators and deadlines for the main objectives and inviting the Member States to define specific ambitious, but realistic targets for themselves
- selecting the key indicators to measure the key factors for general well-being, the knowledge economy and the development potential;
- developing more intelligent benchmarking, putting good practices in the right context, using progression indicators, developing rankings for each Member State’s capacity to move towards the targets they have set themselves;
- improving the monitoring and evaluation process by focusing on country-specific recommendations;
- improving the learning process based on thematic workshops and good practice databases;
- introducing positive political and financial rewards for progressing towards the common objectives and national targets.

The role played by the European Parliament and national parliaments should be developed.

Ways of improving the participation and mobilisation of civil society and social partners need to be identified by:

- enhancing the role of the Tripartite Summits and of the macroeconomic dialogue;
- supporting the role of the European Economic and Social Committee and the network of national Economic and Social Councils;
- supporting adaptation of the Europe 2020 Strategy to the specific target groups;
- developing various types of partnerships to implement projects.

Communication instruments should be improved to involve different types of actors: civil servants, opinion-formers, civil-society partners, young people, and citizens in general. Communications should be adequately promoted at European, national and local level by empowering those who can multiply and adapt the message.

Methods to ensure better implementation at territorial level should be developed and the initiatives taken by the Committee of Regions supported. The implementation of this agenda should now be fully translated at territorial level.

Finally, the EU should have an ambitious agenda for sustainable development comprising its economic, social and environmental dimensions, but the Union cannot achieve it in isolation. The implementation of this internal agenda needs to be supported by an international movement of strategic convergence in the same direction, able to avoid the risk of a 'race to the bottom', create win-win situations, and strengthen collaboration to face common global challenges.

This should be the one of the main goals of the new generation of EU external policies when reforming global governance and defining agreements with partner countries. This concern should be more systematically integrated into the new generation of EU external policies, which are now being redesigned and can have a new momentum with the Lisbon Treaty.

**Maria João Rodrigues is currently Professor of European Economic Policies at the Institute for European Studies, Université Libre de Bruxelles (IEEULB), and at the Lisbon University Institute (ISCTE-IUL). She is also a member of the Governing Board of the European Policy Centre, Brussels.**

## Beyond the Open Method of Coordination

*Sylvie Goulard and Heather Bailey*

The intended goals of the so-called “Lisbon Strategy” were valid and the reaction of the Member States timely.

In 2000, the EU was suffering high unemployment rates, and both politicians and citizens wanted greater economic growth. The Lisbon Strategy focused on issues directly linked to the social crisis sweeping Europe – innovation, education and training. Europe was supposed to become “the most competitive and dynamic knowledge-based economy in the world by 2010.”<sup>1</sup>

The Open Method of Coordination (OMC) engaged directly with policy areas linked to the serious social problems being experienced throughout the EU. As these policy areas were Member-State rather than EU competences, they had not really been addressed at the European level before.

Unfortunately, the OMC – the tool selected to bring these policy areas into the European arena – was not the right choice. There are two main explanations for its failure.

The first major problem was that, by its very definition, the OMC lacked the necessary legal instruments to make decisions binding. Instead of using the ‘*méthode communautaire*’, under which the European Commission launches initiatives and controls the performance of Member States, the EU chose lax coordination without a pilot.

It envisaged that the OMC could achieve the same results as a ‘real’ common policy consisting of rules, sanctions if necessary, and a common budget. Instead of using the strongest instruments at its disposal to tackle the most worrying challenge facing Europe, the Member States chose the weakest. They said that they wanted the Lisbon Strategy to be a success, but have done little to achieve it. Big speeches, no delivery.

The OMC was built on the premise that the Member States could be trusted to evaluate themselves and motivate each other to achieve greater goals through coordination at Member-State level: in other words, they were left to their own devices.

Some of them have risen to the challenge and worked hard to achieve the Lisbon Strategy goals, while others have not succumbed to the envisaged peer pressure from their neighbours and have continued for the last ten years as if the Lisbon Strategy had never been devised. The resulting failure was predictable: transforming our societies into knowledge-based economies requires huge changes, shifts in fiscal policies, painful reforms...

The second problem with the OMC was its lack of specific focus. Instead of concentrating all Europe's forces in a few areas in which the EU could have become a world leader, the Lisbon Strategy talked of becoming a world leader in research and development (in general) and being at the cutting-edge of environmental sustainability (in general). Both are admirable intentions, but far too broad to be realistically achievable in ten years and, for Europe's citizens, too abstract by far.

The very imprecise nature of its intended goals, coined with EU-wide generic statistical projections, meant that the project was doomed to failure. It was also too restrictive in its conception: each Member State was given the same percentage-point targets and overall objectives. For example, "the number of 18-to-24-year-olds with only lower-secondary level education who are not in further education and training should be halved by 2010."<sup>2</sup>

What many people call – as an excuse – "lack of political will" explains the absence of coordination between the European Commission and Member States. To achieve the Lisbon Strategy goals, action is required from all parties involved and a change of approach from 'soft law' is needed, as this has clearly not worked for the last ten years. The usual work of the Commission and work on the Lisbon Strategy have continued in parallel rather than being combined.

As the High-Level Group chaired by Wim Kok stated in November 2004: "External events since 2000 have not helped achieving the objectives but the European Union and its Member States have clearly themselves contributed to slow progress by failing to act on much of the Lisbon Strategy with sufficient urgency. This disappointing delivery is due to an overloaded agenda, poor coordination and conflicting priorities. Still, a key issue has been the lack of determined political action."<sup>3</sup>

What could have made the Lisbon Strategy a tangible success would have been a qualification of the statement "the most competitive and dynamic knowledge-based economy in the world by 2010", identifying three or four key areas in which the EU was going to be the world leader.

Although undoubtedly a difficult choice, the decision to identify and focus on specific areas would have given the Union a fighting chance of achieving its goals. As the ALDE response to the Commission's 2020 strategy consultation process highlights: "Your consultation paper rightly points out that the challenges to be tackled are immense. Unfortunately, it does not give an outline of how the European Commission will do so."<sup>4</sup> This is where the focus needs to now be.

Multiple challenges face the EU at the beginning of 2010 and, with discussion and consultations under way on the Europe 2020 Strategy, some crucial questions require deeper reflection:

- Does anyone outside the 'Brussels bubble' know that the Lisbon Strategy and the Open Method of Coordination exist? This is of crucial importance if we want to reconcile the citizens of Europe with the EU.
- Is the name of the Lisbon Strategy simply going to change to the Europe 2020 Strategy or will there be a profound revision to actually achieve results which the EU can be proud of? For unemployed citizens, this is not a purely academic question.

A few key areas need to be defined where the EU is going to excel and a process devised, using both 'hard' legislation and 'soft law', to ensure that everyone plays their role: the Commission, the European Council, industry and academic institutions all need to be involved and projects need to be cross-border. Solutions to the problems threatening Europe cannot be solved by each Member State working internally.

For argument's sake the EU could pledge to become a world leader in the following fields: transport innovation (from high-speed trains to city transportation networks); renewable energy; ways to economise energy consumption; biotechnologies; plants (new crops requiring less water and pesticides); animal or human health (in the fields of neurology, cancer, etc); and investing in the welfare of our ageing population (this is the reality of Europe's future, so better to react and accommodate it than to ignore it). This list is not exhaustive. The goal is less important than the willingness.

Of course, '*un fil rouge*' would be needed: this could be to increase the well-being of Europeans, in the spirit of the Treaty of Rome. Other possible fields include:

- 1) The worsening traffic situation is a major problem throughout the EU, with mobility gridlock contributing to environmental damage and economic



losses. An efficient transport network is needed throughout Europe. Innovation, through the Trans-European Network project,<sup>5</sup> for example, is required to ensure economic and social growth can be maximised, by producing a Europe-wide high-speed train network and using innovative methods to remove cargo traffic from the roads and make optimum use of all available forms of transport, including Europe's waterways.

- 2) Intensive research is needed, in partnership with academic institutions and industry, to develop new green methods of energy production. Grants need to be available to enable as many people as possible to invest in these greener energy-production methods. A key focus should be developing ways to conserve the amount of energy required, given the difficulties in finding a common approach on which everyone can agree to boosting renewable energy production.
  
- 3) Policy-developers and heads of governments need to think more creatively. Two important challenges for the coming decade are investing in Europe's ageing population and ensuring the EU has greatly improved ICT networks and Internet access. The two can be combined: they are not mutually-exclusive challenges. Investment in programmes to ensure that Europe's 'silver economy' is computer- and internet-literate are important to ensure that older people can continue to contribute to the economy through active employment. Innovative projects could also enable the Internet to be used to monitor and remain in contact with isolated elderly people living alone. This would enable them to maintain contact with the outside world even if they are house-bound and would also be a resource-efficient way of monitoring and contributing to their care.

Renaming the Lisbon Strategy will not be enough. Alongside selecting clearly identified goals for the next ten years, there needs to be in-depth reflection on European policy regarding the external dimension of the Lisbon Strategy.

The EU has been working for many years to open up its markets and to achieve the Single Market, which has helped both European and international trade. However, not every country's markets are as open as ours. Third countries can benefit from the Single European Market, but European businesses do not benefit from the same conditions elsewhere. At the same time, the high social and environmental standards imposed on European products (those 'made in the EU') are not required for imported goods. European producers and consumers cannot accept this discrimination. If high-quality standards reflect

political choices inside the EU, they have to apply to every product and person, irrespective of their point of origin.

As Laurent Cohen-Tanugi summed up in his report *Euroworld 2015*, presented on the eve of the French EU Presidency in April 2008: “The Lisbon Strategy appears inadequate on two counts as the ‘European response to globalisation’: on the one hand, it only deals with the internal dimension of such a response, and even in this respect its performance is not up to the mark; on the other, the critical external dimension of any strategy for globalisation falls, of necessity, within the province of common policies and not simply Lisbon-like intergovernmental coordination.”<sup>6</sup>

In the strategy which follows Lisbon, it is crucial that the external element is addressed and that the EU engages with the global economic picture and actively attempts to penetrate other international markets.

A third issue, which must be addressed in the next decade, is the approach to ‘multiculturalism’ throughout Europe. It is crucial to give people opportunities to learn a range of languages for a wide variety of reasons.

Being able to speak multiple languages is an important string to your bow in the modern economy. With the free movement of workers within the Single Market and a changing economy, many Europeans will go abroad for work, or work with international people in their own country. Being able to address people in their own language can help to break down cultural barriers, enriches those learning the language and teaches them about different cultures. It is a highly-useful diplomatic skill which should not be underestimated in today's globalised economy. It also encourages people to open their minds to other experiences and other ways of interpreting a situation, which is indispensable for the European project to continue to develop and deepen.

Learning other languages should not just be for the elite. It is an essential tool for all European citizens in an increasingly competitive jobs market and in a globalised world.

The Lisbon Strategy and the OMC were ambitious, positive projects, but the reality is that they have failed to achieve their goals. For the 2020 Strategy, we need to ensure that not just the name is updated, but that tangible changes are visible. Member States need legislation which monitors their commitment to – and the progress of – the 2020 Strategy, as well as a greater sense of ownership and enthusiasm for the project.

The essential focus of this future strategy must be to ensure European innovation and development, and for the EU not to limit its economic progress to its national or external borders: we live in a globalised world and we need a globalised attitude towards a European strategy.

**Sylvie Goulard is a French MEP for the West region of France and is the ALDE Coordinator for the Economic and Monetary Affairs Committee. She is also President of the European Movement in France and is a Visiting Professor at the College of Europe in Bruges. Heather Bailey is Sylvie Goulard's parliamentary assistant.**

## **Endnotes**

1. [www.consilium.europa.eu/ueDocs/cms\\_Data/docs/pressData/en/ec/00100-r1.en0.htm](http://www.consilium.europa.eu/ueDocs/cms_Data/docs/pressData/en/ec/00100-r1.en0.htm)
2. [www.consilium.europa.eu/ueDocs/cms\\_Data/docs/pressData/en/ec/00100-r1.en0.htm](http://www.consilium.europa.eu/ueDocs/cms_Data/docs/pressData/en/ec/00100-r1.en0.htm)
3. 'Facing the challenge: The Lisbon Strategy for growth and unemployment'  
[http://ec.europa.eu/growthandjobs/pdf/kok\\_report\\_en.pdf](http://ec.europa.eu/growthandjobs/pdf/kok_report_en.pdf) p.6.
4. ALDE "EU 2020" Strategy. [www.alde.eu/fileadmin/webdocs/ALDE-EU-2020.pdf](http://www.alde.eu/fileadmin/webdocs/ALDE-EU-2020.pdf) p.10
5. [http://ec.europa.eu/ten/index\\_en.html](http://ec.europa.eu/ten/index_en.html)
6. Euroworld 2015 : A European Strategy for globalisation.  
[www.strategie.gouv.fr/IMG/pdf/Clean\\_Summary\\_tools\\_conclusions.pdf](http://www.strategie.gouv.fr/IMG/pdf/Clean_Summary_tools_conclusions.pdf) p.2

## Europe 2020: multi-level governance in action

*Gerhard Stahl and Gianluca Spinaci<sup>1</sup>*

The European Union has to find a sustainable answer to the biggest international financial and economic crisis since it came into existence. The years preceding the crisis were marked by striking external and internal macroeconomic imbalances, excessive risk-taking and speculation in financial markets, and insufficient job creation and economic growth in numerous European regions. In the current recession – one of the deepest and longest on record – 45% of the 17 million jobs which the EU has created since 2000 have been lost.

The risks and benefits of economic development were not only unevenly distributed between European territories, but the consequences of a speculative period also benefited just a few, putting a significant burden on public budgets on all levels – local, regional and national. Ultimately, it is the citizens – as taxpayers, users of public services and employees – who have to bear the financial costs.

A political answer is needed not only to the after-effects of the economic crisis, but also to the more long-term challenges of globalisation and international competition, climate change, energy supplies, demographic challenges and increasing inequalities. The EU has to agree on a development model which is sustainable throughout Europe, has a place in a competitive world, and respects the EU Treaty objectives of economic, social and territorial cohesion.

There should be no illusions. The policy shift which is needed will require coordinated efforts and serious commitments from all parts of society: public authorities at all levels, and economic and social actors.

The forthcoming Europe 2020 Strategy needs therefore to develop a broad ‘partnership for progress’; indeed, a new model of governance in partnership. The so-called Lisbon Strategy, launched in 2000 and revamped in 2005 as a strategy for growth and jobs, has failed to involve key actors across the whole spectrum. Local and regional authorities are amongst those left aside so far.

We are now in the process of thinking about priorities and formats for the new Europe 2020 Strategy. This provides a second chance for local and regional

authorities and key socio-economic actors to become fully involved in the process. Indeed, institutions need to reflect thoroughly and together on how to reap benefits from a fully-fledged partnership. This time we cannot afford to fail.

### **2020: 1 horizon, 20 horizons, 2000 horizons**

The evocative nature of the year 2020 is undisputed. We have already seen a number of other strategic planning exercises focused on this horizon and beyond. They were developed at various institutional levels, with different scopes but with one common feature: the aim of defining what type of society and economy we want to be, and engaging in a partnership process to get there.

In this regard, the Europe 2020 Strategy should become the reference point, the orientation for national and territorial strategic planning. It should become a shared master plan, where the largest number of ‘architects’ across the European landscape can see their role clearly and make their contribution. It will also encapsulate the core of our commitments on the global scene, indicating Europe's place and ambitions in the world.

Europe 2020 needs therefore to address the short- and long-term challenges mentioned above and to deliver concrete results. To address the developing social crisis resulting from the economic and financial crisis, bold action and fundamental changes are required – not the easiest of tasks under the current constraints of distressed public and private finances.

The Lisbon Treaty has reinforced the role of the EU institutions in providing political guidance. However, Europe remains an institutional and political project based on power-sharing, partnership and participation. All possible levers (regulation, coordination, partnership in investments, etc.) will be needed in order to encourage national and sub-national authorities to work together and move forward, hopefully on the basis of a European consensus on a new long-term strategy.

In this respect, the single horizon ‘Europe 2020’ needs to strike a balance between 20 or more individual horizons of the different Member States – still deeply rooted in their economic traditions, political and administrative planning cycles, which are rarely aligned to the European calendar.

An understanding of the instruments of governance in Member States and their territories is essential for successful implementation of a common EU strategy. Strategic planning is a common feature in many institutions at sub-national

level, whether at the level of the regions, cities, towns, or groups of these. These strategies need to reflect the common objectives set at EU level, and Europe 2020 needs to consider this wealth of experience.

### Horizon 2020 and beyond: medium-to-long term local and regional strategies

	Strategy/Action Plan (a few examples)	<i>Leitmotif/focus</i>
	Berlin Agenda 21 Budapest 2020	Sustainable urban development Integrated urban development at the core of enlarged Europe
Cities	Edinburgh 2020 Gothenburg 2050 Lyon 2020  Stockholm Vision 2030	Competitive ‘peripheral’ capital Sustainable society in an urban context Competitive and responsible metropolis in the world Carbon-free capital city
Regions	Flanders in Action 2020  Nordrhein Westfalen 2025 PACA Horizon 2020 Rhône-Alpes 21 Toscana 2020	Entrepreneurship, healthcare, smart logistics, green cities Innovation and solidarity Social policy and environment Mobility, ecology, research, governance Demography, health, transport
Meta- regions	Greater Region 2020 <sup>2</sup>  Öresund 2.0 <sup>3</sup>  Randstadt 2040 <sup>4</sup>	Leading integrated cross-border community Accessibility, knowledge, cohesive labour market, culture ‘Blue/green’ metropolitan network

*Source: compiled by Forward Studies Unit, Committee of the Regions.*

These valuable laboratories of experimentation and innovation are at the disposal of policy-makers at all levels.

### Europe 2020 – the role of local and regional authorities

Today’s Union is made up of about 270 regions and 90,000 local authorities. Their aggregated budgets are equivalent to 16% of EU-27 GDP – one-third of

total public spending and two-thirds of all public investment expenditure.<sup>5</sup> Around 70% of European legislation requires implementation at local level.

It is evident that any ambitious European reform plan aimed at developing a new sustainable social market economy needs the support of local and regional authorities for several reasons.

The sources of knowledge and innovation are very often located in cities and regions. Within a territory, different policies have to be coordinated and an integrated strategy developed in partnership with local and regional governments, economic and social actors, universities, research centres, etc.

The priorities of the future Europe 2020 Strategy (growth through knowledge, an inclusive society, a greener economy) require the mobilisation of all the competences and resources available: for example, education and training sector reform, migrant integration, life-long learning, enhanced labour market services, the Digital Agenda (e.g. universal access to high-speed connections and digital services), energy saving and greater use of renewable energy, enhancing the business environment and raising the quality of public services overall.

Regions can also play a role in making the ‘fifth’ freedom – the free movement of knowledge (researchers, knowledge and innovation) – a reality, by becoming key partners in the development of the European Research Area.

Regional and local authorities are responsible for a substantial amount of public spending, which can be a crucial lever for change and reform. Reforms need to be adapted to specific circumstances, requiring communication, dialogue with the local population and feedback: a role for which the mayor or president of a region – who has daily access to citizens, to SMEs, and to national and EU-level decision-makers – is ideally suited.

The Europe 2020 Strategy will also have an increasingly important external dimension. Regional and local authorities are already active promoters of vast networks of cooperation across and beyond Europe, involving the world’s leading cities and regions and including the growing, decentralised cooperation between the North and the South, where key questions such as those related to natural-resources management or migration fluxes are addressed.

## Multi-level governance – what already works

One key message from the draft Europe 2020 Strategy is the need to pool resources: across frontiers, across administrative boundaries and across levels of governments. In this regard, it is worthwhile underlining the added value which could come from some multi-level governance instruments which have been introduced in recent years.

### 1. The European Grouping of Territorial Cooperation (EGTC)

This relatively new legal structure (Regulation 1082/2006) makes it possible for a group of Member States, regions, local authorities and other public actors to establish a cross-border legal body. Initial experience has shown that the EGTC can become a key tool to foster an integrated agenda for sustainable development across frontiers and to incentivise trans-border 'knowledge triangles'.<sup>6</sup>

### 2. The EU strategies for macro-regions

Although it is still at an embryonic stage, the potential behind the idea of adopting an EU-level wide-ranging strategy for a large territory (e.g. the Baltic Sea, the Danube River) – engaging a number of Member States, regions, cities and local stakeholders – is already clear. The extent to which macro-regional strategies include all levels of government is likely to determine their success in creating synergy between different sources of planning and funding (including the EU) when addressing shared challenges.

### 3. The Assembly for Regional and Local Authorities of the Mediterranean (ARLEM)<sup>7</sup>

This rather original and new initiative, promoted by the Committee of the Regions, originates from the process of establishing the Union for the Mediterranean. It allows regional and local politicians from all countries bordering the Mediterranean to meet and engage in dialogue – on how to tackle climate-change, natural-resource and energy issues, as well as to foster SME competitiveness and labour-market dynamics within the Mediterranean basin. The aim should be to shape an outward-looking Europe 2020 Strategy by fully capitalising on such a grass-roots approach.

These few examples underline the extent to which multi-level governance approaches can contribute to the quality of strategy design and the effectiveness of actions.<sup>8</sup> However, the governance of the Europe 2020



Strategy requires further systematic improvement in partnership formats, especially with reference to the strategic planning and monitoring process.

### **Governing in partnership – next steps**

The Europe 2020 Strategy has to tackle tough challenges. If it is to succeed, it needs to be bold, especially when speaking about partnership formats and governance. It needs to engage all level of government, while distinguishing tasks according to competences.

The European Commission's proposals for greater political ownership of the process, through the enhanced involvement of the European Parliament and national parliaments, must be welcomed as a step in the right direction.

There is also a positive reference to multi-layer governance, whose lexicon (multi-layer instead of multi-level) should not, however, lead to an exclusively hierarchical approach. In other words, regional and local authorities should surely be better engaged within the national context in defining priorities, and delivering and monitoring progress under the forthcoming Europe 2020 Strategy. At the same time, they should not be subordinated to the Member States – they must be treated as fully-fledged institutional and political actors at the EU level as well.

In order to achieve this governance system, some 'operational' improvements must be considered.

The new strategy must be defined in terms of 'territorial' indicators at sub-national level. Targets and achievements must be set and measured at the geographical level, enabling us to identify and localise gaps and progress. The new territorial cohesion objective enshrined in the Lisbon Treaty also points in this direction.

We (will) have a great wealth of regional and local 2020 strategic action plans, partially drawn up on the basis of genuine local political initiatives, partially solicited by the EU policy-making process; for example, through the programming of Structural Funds. We need to link these plans with the Europe 2020 Strategy. By examining these regional and local plans and their strategic reporting on concrete projects, we can gain invaluable insights and draw essential lessons for the Europe-wide agenda.

We need to engage stakeholders across the spectrum, through innovative and voluntary but binding initiatives. The Covenant of Mayors has proved to be a successful pilot, engaging more than 1,000 mayors across Europe in exceeding the 20/20/20 targets related to CO<sub>2</sub> emission reductions and the use of renewable energies. An adaptation of the same partnership format could be envisaged in other policy areas, youth employment being just one example.

A further step would be to do more to promote experimentation and contractualisation<sup>9</sup> between the different levels of government, including the EU institutions. This would link the measurement of results and impacts in relation to the Europe 2020 goals to a system of positive and negative incentives and, most importantly, would stimulate ongoing inter-institutional cooperation during the implementation phase. This would also help foster stronger policy coordination as well as the more binding governance arrangements currently emerging as possible key features of the Europe 2020 Strategy.

On the basis of the findings of its Lisbon Monitoring Platform, the Committee of the Regions has been conveying messages from regional and local authorities on the strategy for growth and jobs since 2005. As its recent 'Opinion on the future of the Lisbon Strategy post 2010'<sup>10</sup> states, we will continue to pursue this exercise with regard to the forthcoming Europe 2020 Strategy, and will continue to report to all relevant EU Institutions in the spirit of governance in partnership.

In conclusion, subsidiarity should remain a guiding principle. Allowing flexibility and different forms of strategic planning at the decentralised level will contribute to the Europe 2020 priorities. 'Less is more': a limited, properly framed, number of EU priorities should be the basis for flexible, decentralised implementation.

**Gerhard Stahl is Secretary-General and Gianluca Spinaci is administrator in the Forward Studies Unit of the Committee of the Regions of the EU.**

## Endnotes

1. The article expresses the personal opinion of the authors.
2. Members are: French Speaking Community of Belgium, German Speaking Community of Belgium, Lorraine, Luxembourg, Rhineland-Palatinate, Saarland and Wallonia.
3. Cross-border region including Eastern Denmark, e.g. Copenhagen, and Southern Sweden, e.g. Skane.

4. Metropolitan region including, among others: Rotterdam, Den Haag, Amsterdam, Utrecht. Initiative led by the Dutch Ministry of Housing, Spatial Planning and Environment.
5. DEXIA (2009), EU sub-national governments: 2008 key figures.
6. 8 EGTCs already established, about 20 in the pipeline. Overview at [www.cor.europa.eu/egtc](http://www.cor.europa.eu/egtc)
7. More info at [www.cor.europa.eu](http://www.cor.europa.eu)
8. For a whole overview, please refer to the CoR White Paper on Multi-level Governance, CdR 89/2009, [www.cor.europa.eu/governance](http://www.cor.europa.eu/governance)
9. Contractualisation is intended as a way to engage different levels of government, beyond hierarchy, in a binding relationship to achieve jointly-set ambitious goals, according to specific competences and resources, with possible rewards for achieving qualitative/quantitative targets. The concept goes back to the European Commission's 'White Paper on European Governance' (2001) and its possible concrete formats have recently been revisited by the CoR's White Paper on *Multi-level governance* (2009).
10. Cdr25/2009, Rapporteur: Mrs Christine Chapman. Overview at [www.cor.europa.eu/lisbon](http://www.cor.europa.eu/lisbon)

## Is the new European strategy on target?

*Annika Ahtonen and Claire Dhéret*

Creating a successful European economic strategy for 2020 that can achieve its targets requires altogether four elements:

- credible and smart targets;
- policies that can deliver;
- genuine political commitment at national level that leads to action; and
- most importantly, an understanding how all the above are interconnected.

This article suggests new ways of setting the targets and indicators for the new European strategy, outlines how policies and actions should be integrated into this framework to deliver the targets, and considers how national ownership of the strategy could be enhanced.

The first step in designing the new strategy should be to re-examine how targets and indicators are set. This might strike some as a technical issue, but the reality is that we cannot achieve what we cannot measure. Credible indicators and targets must be the foundation for the new European strategy.

### **The overarching objective: sustainable well-being**

We need to start by finding a consensus on what the overarching objective of the new strategy should be (similar to ‘jobs and growth’ in the Lisbon Agenda). While this should be an issue for public debate, we believe the overarching goal should be the sustainable economic, social and environmental well-being of European citizens.

To define the indicators of sustainable well-being, two key issues have to be addressed.

First, the indicators should reflect citizens’ concerns and preferences: what factors do they associate with increased life satisfaction?

Secondly, the indicators should take into account the constraints and challenges currently facing our economic and social model. Ageing populations, public debt and scarcity of resources are just a few examples of issues that policy-makers should take into consideration when formulating targets, policies and action plans.

In defining and measuring these indicators, qualitative aspects must be also included. We need to go beyond numbers to capture social progress and measure citizens' well-being. The Lisbon Strategy prioritised economic factors and quantitative results, as illustrated by its two main targets (3% of GDP invested in research and development (R&D) and an employment rate of 70%). However, growth and jobs should no longer be the final objectives, but rather tools for achieving more sustainable well-being.

The three key priorities the Commission outlined in its consultation paper on the future Europe 2020 Strategy (creating value by basing growth on knowledge; empowering people in inclusive societies; and creating a competitive, connected and greener economy) contain important elements of economic, social and environmental sustainability. These should be developed further and brought together into one coherent overarching objective.

The risk in setting an ultimate goal such as “sustainable well-being”, and with the Commission's three thematic priorities, is that the new European strategy for 2020 may become overloaded with conflicting priorities and targets related to economic, social and environmental issues. For the sake of delivery and effective communication of the strategy, it should contain only 3-5 main targets that indicate the achievement of sustainable well-being.

### **Understanding the relationship between targets, policies and actions**

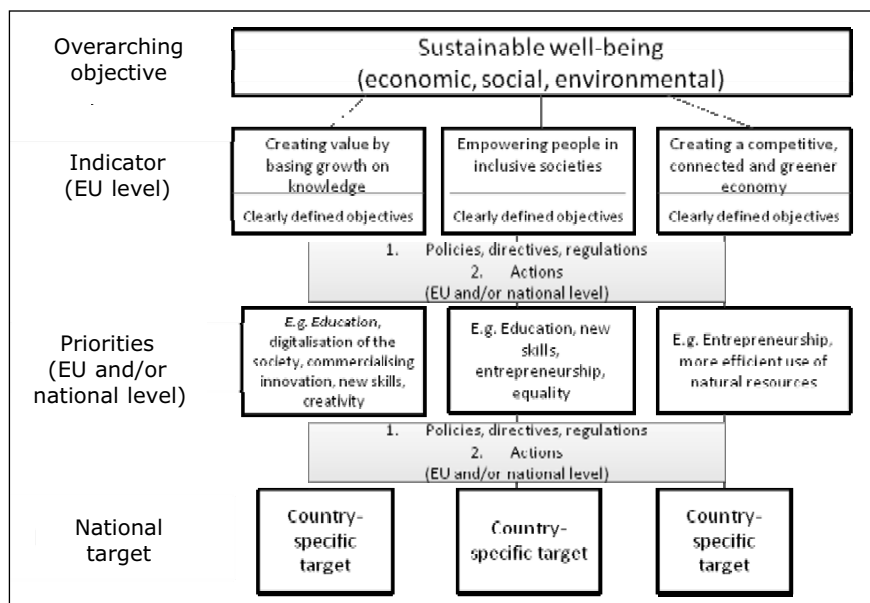
Targets, policies and action plans can only be defined successfully if they are based on a thorough analysis of the current situation and future prospects, and if the links between them are understood.

The figure below shows how the EU and the Member States should interlink targets, policies and action plans. Definition of the overarching objective (e.g. sustainable well-being) and identification of the indicators for its achievement (i.e. 3-5 clearly-defined targets that contribute directly to the main goal) should be coupled with the formulation of country-specific targets and priorities. These targets and priorities can only be realised if supported by credible policies and actions both at the EU and at the national level.

### **Targets and priorities – one size does not fit all**

The new strategy should set an average target for Europe based on country-specific targets for each Member State. Instead of simply giving all

Member States the same target, the differences between them should be analysed and taken into account.



One of the reasons why the Lisbon Strategy's goal of investing 3% of GDP in R&D was not reached was because the target was the same for all Member States. Although it can be politically difficult for Member States to accept different targets, countries should not be given the same goals if they start from very different levels. For example, the levels of investment in R&D differed substantially in Finland and Spain in 2000 (3.35% and 0.91% of GDP respectively), yet they were both required to achieve the 3% target by 2010. This mistake should not be repeated in the new strategy.

In the case of numerical targets, it might be better to base them on a percentage improvement rather than an absolute figure. For example, rather than calling on all Member States to invest 3% of GDP in R&D, the Lisbon target could have been to increase their R&D expenditure by X%.

In some areas, it could be helpful to set 'continuous' improvement targets which are reviewed on a regular basis. For example, country-specific improvement targets for employment are likely to be different during the economic recovery phase and after the recovery, and thus should be reviewed regularly. For some

targets, the EU might also consider defining the optimal level: after achieving this goal, a Member State would not be obliged to do better. This could, for example, be applied in the area of public finances.

In setting the targets, both the EU as a whole and the Member States should also clearly define their priorities: what outputs do they wish to achieve and which priorities do they want to invest in while striving to achieve the overarching objective and/or national targets?

As indicated in the figure, these priorities could, for example, include education, new skills and entrepreneurship. The EU as whole should agree on a set of priorities, but Member States may, of course, also have additional priorities which they wish to emphasise in their national policies and action plans.

At its best, benchmarking can be a valuable tool to encourage Member States to perform better. The basic assumption underlying this is that every country wants to do better than its neighbour. However, the key to credible and better benchmarking is to compare like with like. Thus, for each target, the Commission should identify groups of countries that have, for example, similar structures and starting levels. Rather than making comparisons between 27 countries, this should take place within groups of comparable Member States. The learning 'effect' for the EU as a whole comes from comparing best practices both within and between the groups.

### **Taking action and avoiding unintended consequences**

To accomplish the given targets and priorities, the Member States and the EU as a whole must determine what policies and actions are required both at the EU and at the national level. As indicated in the figure above, we need credible policies and actions at both levels to translate national targets into priorities, and those priorities into indicators of progress towards the overarching objective.

These policies and actions have to be based on research and a coherent understanding of the situation, backed up by both empirical and analytical evidence which can be used to justify them.

It is also important to try to predict the outcomes of the policies and action plans. Thus, at each level, when targets, policies and action plans are set, policy-makers should be innovative and think the unthinkable: i.e. consider what potentially unwanted consequences actions could have.

For example, what if investing 3% of GDP in R&D only leads to a significant number of innovations that are not commercialised and do not have access to the markets? Will a strong emphasis on higher education lead to a knowledge-based economy based on Master's degrees, where the master craftsmen are forgotten?

These unintended consequences should be taken into account when targets, policies and action plans are being formulated.

## **Enhancing political commitment**

Establishing targets, policies and action plans is a valuable exercise and, at its best, the process itself will enhance political commitment. However, Member States all too often lose the focus on the target when they define national policies and actions. How else could one explain, for example, the setbacks in achieving a truly functioning Internal Market, which would be the greatest contributor to growth in Europe?

So, how can we ensure that Member States are genuinely committed to achieving given targets?

First of all, the EU-wide targets should be derived from national ones. The national targets should be the result of a multi-level consultation and an agreement between the Commission and the Member States.

Secondly, the process of defining targets and policies must be given time. It requires political discussions and research on EU-wide and country-specific targets, and studies on possible policy outcomes and actions. The Commission should consult national and regional authorities while the targets and EU-level policies are being defined. Simultaneously, this would allow time to commit policy-makers and citizens to the targets at the domestic level. We need a public EU-wide multi-level commitment to the new strategy. This is a long process and requires the involvement of all stakeholders.

Thirdly, much can also be done at the national level to enhance political commitment. National governments and MEPs should be encouraged to communicate the vision of the new strategy and the discussions on the targets to their regions and local authorities. As it is up to national governments and regional authorities to define what domestic policies and actions are required to achieve the country-specific targets, these suggestions for measures should be debated among political parties.



National coordinators should play a key role in coordinating them, and in ensuring that they are in line with the EU targets and policies. The national coordinators can also play an important role in studying and evaluating the progress made at national level and reporting back to the EU.

### **High level buy-in and communication**

The commitment of Heads of State and Government and the political elite to the new strategy is a key to achieving its goals. A bottom-up approach, involving national and regional policy-makers *and* citizens in the process from the beginning, would generate political pressure on the political elite to demonstrate their commitment to the targets.

However, EU-level pressure on Heads of State and Government to commit themselves publicly to the national and European-wide goals is also required. In return, it is important that Member States know that they can amend their domestic policies and action plans if, for example, there is a change of government.

The importance of good communication cannot be over-emphasised. The EU and political elites should clearly communicate to the citizens the positive gains they will derive from meeting the targets. They should also highlight the central role played by the Member States in setting the country-specific targets and policies.

A first step in communicating the strategy would be to think carefully about its name. The EU and the media should avoid confusing citizens with terms such as Lisbon Agenda/Strategy and Lisbon Treaty. A similar risk of confusion is raised by the EU's '20/20/20' energy and climate targets and the 'Europe 2020 Strategy', especially if the 20/20/20 targets are incorporated in the new strategy. Secondly, as indicated before, to be able to communicate the strategy and its objectives clearly, it is important to identify 3-5 main indicators for achieving the ultimate goal.

### **Conclusion**

The new European strategy for 2020 can still succeed. However, the targets, policies and actions require careful thought. They should be in line with existing strategies and policy objectives, and must be realistic. The key to this is to understand the links between them, and to define them on the basis of a thorough analysis of the current situation and future prospects.

In addition, no target, policy or action plan will be successful without credible political commitment. To achieve this, the EU needs to get all levels of the European society behind the strategy and apply stricter control over the process. Involving national and regional policy-makers and citizens in the process, requiring Heads of State and Government to commit themselves publicly to the national and European-wide goals, and paying close attention to communicating the new strategy, are some of the ways in which political will and national commitment can be enhanced.

The Spring European Council should focus on outlining the overarching objective and consider potential indicators for its achievement. There is no need to rush into putting together specific targets or policies at this point. The rest of the year should be devoted to research, analysis and discussions on specific targets and credible policies. Once finalised, these targets and policies must take into account the concerns and preferences of EU citizens, regions and Member States, and the constraints currently facing European societies. We need time to build a credible European-wide commitment to the targets and policies which will be so vital to our future well-being.

**Annika Ahtonen is a Policy Analyst and Claire Dhéret a Junior Policy Analyst at the European Policy Centre.**

## **Delivering on the post-Lisbon Strategy: the contribution of business**

*Olivier Boutellis-Taft*

We stepped into 2010 without really noticing that the EU had, all of a sudden, become "the most dynamic and competitive knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion, and respect for the environment". At the same time, the Lisbon Treaty entered into force, but it remains unclear as yet whether we really now have a simpler, more efficient and more transparent institutional framework.

However, it is clear that we face critical challenges: the ecological crisis is without doubt the most serious of these, vital as it is to the future of our planet and to mankind, even if this is sometimes obscured (or some would like it to be obscured) by other crises, perhaps not as fundamental but nonetheless serious and maybe somewhat easier to confront.

The current economic crisis is certainly the worst since the EU came into existence; according to the World Bank, it will have a significant impact on the 2020 horizon. It is fuelling a social crisis that questions some of the foundations of modern Western societies and is coupled with a series of crises in foreign affairs that also require immediate attention.

In the quest for certainties, there are at least two which should be obvious: that this is not sustainable and that we all have a role to play in bringing about the changes necessary to pave the way for a sustainable future.

Faced with a global – in all senses of the term – crisis, all stakeholders have a responsibility and a role to play. Alas, after the initial shock of the credit crunch, the business-as-usual temptation is already reappearing both in policy and business circles. The appetite for structural reform is dangerously vanishing as evidenced by the missed opportunity of Copenhagen. However there can be no 'free riders'. What is needed is a genuine paradigm shift requiring efforts by all.

Enterprises are the main source of output and have always been important drivers of change. They therefore have a genuine and instrumental role to play and perhaps a greater responsibility to change. It is, however, important

not to overstate this role, not only to manage expectations, but also to ensure that all stakeholders play their part and that no one feels off the hook, as this would be detrimental to all.

## **Business can be instrumental ... if we get the policy framework right**

It is striking to realise that, at the end of the day, most of us share the same objectives. While we should not forget that they exist, it is now rare to find people who promote exhausting the planet's resources, transforming labour into slavery, exploiting child-soldiers, or making short-term gains by depleting the value of a business.

Still, many of us behave in ways that may not be entirely consistent with these objectives or the principles which underlie them.

Furthermore, even if the fundamental objectives are often not all that different, divergences become more obvious when it comes to the ways and means to achieve those objectives or intermediate goals; i.e. those that are achievable and are not in the realm of long-term idealism.

This phenomenon is especially frustrating as, at first sight, it may seem that a little bit more debate and compromise would do the trick – and even if mankind's ability to compromise sometimes seems desperately limited, there is so much talent in debating that it should be sufficient to bridge any gap!

Striking a balance between debating and compromising, and between ideology and objectivity, is probably one of the most important achievements of European integration and the EU institutions (this is, of course, not to say that peace and prosperity are trivial benefits).

Unfortunately, it often seems to go unnoticed, at least in Europe. Many outside the EU who want today's global society be democratically governed, on the basis of the rule of law and objective debates resulting in (imperfect but) constructive compromises, often look in Europe's direction. Ironically, some in Europe – on the pretext of 'repairing' the system – call for more politicisation and personalisation of power. This not only ignores the successes of a young institutional innovation, but also calls for more of the same at a time where it is doubtful that the 'good old days' of ideologies and their by-products, radicalism and populism, would be of much help to address the sustainability challenge. Let's not forget Albert Einstein's warning that "we can't solve problems by using the same kind of thinking we used when we created them".

Business is not different from other stakeholders and what has been said above regarding similarities of objectives holds true in most cases. People in business do not (necessarily) correspond to the caricatures of greedy short-term predators. Most also happen to be consumers, parents and citizens; many are employees; all are accountable in a way or another; none escapes some form of scrutiny. It is therefore important to understand what creates and enhances divergences, and what drives behaviours.

The role of business in addressing today's challenges and contributing to the Europe 2020 Strategy is obviously of paramount importance. It can also be a catalyst for change, as it is at the heart of modern societies and plays a role in everything we need and enjoy, from food to goods and services, from research to innovation, from healthcare to entertainment.

This is in no way intended to minimise the important role of the public sector, particularly in relation to key issues for the future such as research and education, but rather simply to remind us that at one stage or another, business plays an instrumental role.

The jobs it provides (or destroys) are critical to social inclusion and the distribution of income; conditions and quality of work are essential to self-fulfilment. Its role in education is equally not to be neglected, especially when it comes to professions and the widespread positive externalities that the private-sector's investments in continual professional education bring to society. As well as complementarities, there are obvious benefits from cross-fertilisation between the public and the private sector and, in the long term, interests and objectives should be aligned.

Business and market forces have also been the most powerful drivers of change and have in many ways contributed heavily to shaping the world we live in. This has a downside too, as it is as much part of the problem as it can be part of the solution. For instance, many of the goods it provides and processes it uses contribute to our unsustainability; but they would not get sold without consumers buying them. In addition, changes have been made in the way many are produced in response to competitive pressures, public scrutiny and new legal requirements.

In reality, even if objectives and long-term interests converge, we remain subject to different constraints, respond to different incentives and have different time horizons. The decisions of a large listed multinational company are influenced by the next quarterly report; those of the millions

of people living below the poverty line are determined by the perspective of the next day, if not the next meal; those of policy-makers are generally shaped by the next elections.

Good intentions and commitments will not materialise, and objectives will not be achieved, if we do not get the incentives right. Therefore, if business can make a significant contribution to making things happen, policy-makers have a defining responsibility to ensure the incentives are right. This is a prerequisite.

### **Proper market functioning requires true and fair information**

The days of grand appeals for action and ambitious goals are gone. The time has come to deliver and implement. Political ambition is essential – courage to act even more so – but it is better reflected in day-to-day legislative decisions than in fixing bold targets for implementation by the next generation.

The first step, while less glamorous for politicians and journalists, is nonetheless essential: it should be about identifying and scrapping disincentives. As shown by the European Policy Centre publication, *Gain without pain*, obstacles and barriers must be tackled first. For instance, there is little sense spending resources on carbon mitigation while continuing to subsidise carbon production indirectly; little benefit in subsidising employment while continuing to tax labour. Given the growing complexity of our regulatory systems, consistency becomes a critical issue. Inconsistency in policies is a waste of public resources. With current pressure on public finances, policy-makers have an increased responsibility to ensure budgetary sustainability. Addressing policy inconsistency should be seen as ‘acting’, and should be as recognised and rewarded as adopting another new piece of legislation.

Once disincentives and counterproductive regulations have been eliminated, we will need to invest in developing better framework conditions, new incentives and, wherever necessary, putting in place mandatory requirements and enforcement mechanisms.

However, when it comes to shaping behaviours and making things happen, experience shows that market mechanisms have often proved the most efficient, for good or ill. Therefore, redressing the pricing system is a fundamental imperative.

As centralised economies have proved unable to survive, market economies will equally collapse if the pricing system sends inadequate signals – environmental and social externalities must be taken into account. As suggested in a policy statement by the Federation of European Accountants, cost internalisation is instrumental to making markets work better, mitigating negative incentives and preventing distorted allocation of capital. Only by paying the right price will we make the right choice. However, a lot more work still needs to be done to translate this concept into concrete action and initiatives such as The Prince of Wales Accounting for Sustainability Project are key for our future.

### **Developing a longer-term cooperative approach to policy-making**

The Europe 2020 Strategy will demand considerable policy work. There are hopeful signs of agreement that this does not mean more, but rather better, regulation. However, this common understanding still has to be translated into action. Moreover, fairly fundamental changes are needed that will require joint efforts by all stakeholders. There is a need to move from a confrontational model of policy-making to a cooperative one.

With consultation and impact assessment, we have good tools to progress in this direction. However, policy-makers must be prepared to accept their outcome and resist the temptations generated by short-term political objectives. Businesses must abandon strategies aimed at mitigating short-term costs or benefiting from a regulation-based competitive advantage. Everyone needs to commit the resources required to have properly-informed debates and timely decision-making.

Every stakeholder has a share – and a role to play – in the public interest and should review their approach to cooperative policy-making on this basis. While some may still appear self-serving, conservative and defensive, there are many signs of a new sense of responsibility in the business community, which, for instance, translates into the positions taken on issues such as sustainability, financial supervision, executive pay and a European common consolidated tax base, to name just a few controversial examples.

Neither politicians nor business are free of bias. None is the ‘big evil’ or the ultimate model of all accomplishments. All stakeholders have no choice but to accept that they need to move beyond their comfort zone, revisit their respective sacred cows, and work together in an atmosphere of mutual understanding and cooperation underpinned by a strong ethos. In this way, we shall enhance our ability to overcome short-termism and extend our time horizon.

It is all about tempering our preference for the present by understanding that today's present is yesterday's future. John Maynard Keynes rightly identified the issue when he said that while in the long term we will all be dead, still, the later, the better.

**Olivier Boutellis-Taft is Chief Executive of the Federation of European Accountants and a member of the European Policy Centre's Governing Board.**



### III. WHAT CAN THE EU DO? SOME EU PRIORITIES

#### **Beyond Lisbon: the external dimension**

*Laurent Cohen-Tanugi*

Any meaningful reflection on the appropriate European strategy to succeed in the global economy of the next decade must start with a bold assessment of the shortcomings of the 2000-2010 Lisbon 'process'. Unfortunately, the outgoing European Commission had so much invested in this process that it proved incapable of making such an assessment.

The truth of the matter is that, even before the global crisis hit, the Lisbon Strategy had produced only mixed results, unevenly distributed among Member States and falling distinctly short of its core mission of improving Europe's competitiveness, productivity and innovation capacity.

Moreover, the Lisbon Agenda essentially aimed at adapting European economies and societies to globalisation through loosely-coordinated national structural reform programmes. It lacked any concern for acting upon and shaping the global economic environment. In other words, while increasingly labeled as "Europe's response to globalisation", it was essentially an internal agenda without an external focus. The fairly recent reference to the "external dimension of the Lisbon Strategy" was itself a misconception, as the external policies required must necessarily be set at the Community level and have little to do with the Open Method of Coordination.

The current crisis has highlighted these shortcomings and the resulting inadequacy of the Lisbon process as a European strategy for globalisation. It has shown that no national strategy, however successful, can withstand external shocks of the kind that globalisation is likely to produce in the future. Yet, at the same time, it has confronted the EU with its own deficiencies in dealing with economic crisis management outside the monetary field, which resulted in a dangerous renationalisation of economic policies that is now threatening an already weakened Single Market and, possibly, the Economic and Monetary Union.

The globalisation of the knowledge economy, the pre-crisis assessment of the Lisbon Strategy, the lessons from the crisis itself and its legacy in terms of job destruction and public deficits, all call for a much bolder and more

ambitious response to position Europe so it can compete in the global economy of the next decade. But neither the EU Member States, nor the Commission – whose main mission this is – seem to have realised this.

The consultation paper published by the Commission in November on the evolution of the Lisbon Strategy post-2010 does not rise to the challenges it rightly identifies. Despite some marginal improvements and the welcome relinquishment of the ‘Lisbon’ brand, the Commission’s vision for 2020 looks very much like ‘more of the same’.

However, we need a new design for the next decade as regards both substance and governance of the post-Lisbon strategy.

The historic contribution of the Lisbon process has been to trace a common direction for socio-economic reform across Europe and thereby ‘Europeanise’ areas of primarily national competence. This has now been accomplished, and should be pursued and better managed by the Member States themselves at the highest level. The appointment of dedicated national coordinators of the revamped strategy capable of working together as a homogeneous College under the leadership of the new European Council President, with a clearer focus on competitiveness through innovation, and a few priority areas such as higher education and labour-market reform, should be at the heart of ‘Lisbon Plus’ at the Member-State level.

For its part, the EU, and the Commission in particular, must shift gears and concentrate its energies on the Community level, using the full panoply of internal and external (long-standing and emerging) common policies and instruments to enhance the EU’s competitiveness and its weight in the global economy.

The internal priorities at the Community level remain largely the same and are well identified in the existing literature on the post-Lisbon agenda. The external dimension, however, requires more radical changes. After five decades of legitimate focus on its own development, the EU must turn outwards and adjust its ideological mindset and operational toolbox to the realities of the 21st century.

The most significant historical development since the end of the Cold War has been the rise (or return) of new global or regional economic powers outside the Atlantic area, creating a globalised, multipolar world of continental nations, shifting massive economic power to Asia and inducing

a return to geopolitics in the world economy. This is a transformative development, the consequences of which the EU has not yet fully measured and adjusted to.

The economic crisis has further accentuated this trend and reinforced globalisation, if only by strengthening its governance, with the G20 likely to become a permanent forum for all global governance matters.

Fortunately, in spite of significant differences over how to do it, the strategic importance of adapting Europe to the new globalised world is becoming a matter of consensus among the Member States, including the UK, which has been promoting the theme of “global Europe”. Beyond that, under French leadership, the notion that Europe should also aim at “shaping globalisation” is also gaining ground. Institutionally, implementation of the Lisbon Treaty should enhance Europe’s ability to project itself on the world stage.

In this new environment, as the Copenhagen Climate Change Conference painfully demonstrated, adapting internally and ‘leading by example’ externally is no longer enough. The EU must develop the set of instruments and policies that characterise all economic powers of equivalent or even lesser weight, and seek not only to promote its model and values, but also to identify and defend its interests in the global economy.

The external policies that the EU needs include energy, environmental and monetary diplomacy; immigration and co-development policies; an international standard-setting strategy, and a strategic approach to its relations with the new economic powers, including in relation to foreign investment. All of these must be developed as much as possible as common policies, institutionally modeled on the common trade policy, and interconnected.

A related priority is to fix the twin inadequacies of European over-representation and EU under-representation (or a total lack thereof) in international fora, including the G20. The EU will come under increasing pressure to resolve this issue as the G20 risks marginalising EU coordination on global governance matters, and European divisions are preventing the necessary reform of international institutions, undermining the EU’s credibility in its advocacy of multilateralism. The EU should be represented as such by EU institutions and/or a group of relevant Member States *speaking with one voice for the EU* in all international fora, including the G20.

In short, a strong, Community-level external focus should be central to the successor strategy to Lisbon if the EU is to remain in the race in the post-crisis global economy. This means further economic and political integration going forward. The crisis and its consequences provide the necessary momentum for political leadership to move the Union in this direction.

**Laurent Cohen-Tanugi, an international lawyer and writer, led a French government task force on the future of the Lisbon Strategy in 2008 (“Beyond Lisbon: A European Strategy for Globalisation”, Peter Lang, Brussels, 2008, [www.euroworld2015.eu](http://www.euroworld2015.eu)).**

# The global 'war' for talent: labour-market policies for Europe 2020

*Göran Hultin*

Europe has a proven track record in building market leadership in commercial applications of cutting-edge science and technology.

Its contribution to the development of the world's communication technology is nothing short of impressive; its automotive technology has stood its ground despite continuous global challenges to its leadership; and, through joint efforts, it has mobilised a formidable challenge to the traditionally US-dominated aviation industry. Examples of past success are a tribute to European talent, but talent markets have become global and no one has the luxury of standing still. Europe must make more of its own human capital while at the same time fostering, retaining and attracting global talent.

The interaction between the economy and labour markets is complex. The qualitative and quantitative shortages at the higher and lower ends of the skills markets differ and, consequently, so do the ways in which we respond to them.

What is clear, however, is that skills pay: employment rates are higher among those with higher skills and the medium-skilled are 40% more likely to be employed than those with low skills. The job market for low-skilled workers is expected to shrink by close to 30%, while jobs for those with high-level qualifications will grow by about 20%.

Growth will come from the expansion of services and investment in science and technology industries, and this can only happen if people have the right competences and skills.

## **Global war for talent – from rhetoric to reality**

Despite room for improvement in its high-school education, Europe does not perform worse than the US. However, when it comes to higher skills' levels, the US tends to be more attractive for leading experts and scientists. Anecdotal evidence is often still patchy, but points to hurdles in Europe such as bureaucracy and difficulties in accessing research funding, with social considerations often blurring the scientific focus.

At 1.9%, the EU still has a long way to go to reach its target of spending 3% of GDP on research, and private funding continues to be viewed with suspicion. By contrast, the US spends 2.5% of GDP on funding scientific research, attitudes to private funding are more open, and it boasts better facilities and a meritocratic culture.

Analysis of migration trends seems to confirm the anecdotal evidence. Annual inflows tend to match outflows in numbers, but not in quality. On average, those with BAs, Masters and PhDs are more likely to leave<sup>1</sup> and only 13% of them plan to return<sup>2</sup> to Europe.

Emerging economies such as China and India are increasing their presence in the field of science and technology and are thus entering the global labour market, not only as locations for low-cost services and manufacturing but also as creators of high-skill jobs.

Despite their huge labour force, the leading global companies emerging in these countries are finding that the right skills are in increasingly short supply. But who will be tomorrow's talent supplier: the industrialised countries with recognised education systems but a declining workforce, or developing countries with large populations but inadequate education?

The war for talent has moved from rhetoric to reality and the benchmark for Europe in producing and retaining talent is no longer just the US. We also compete for global talent with China and India.

The global market for talent poses a two-fold policy challenge:

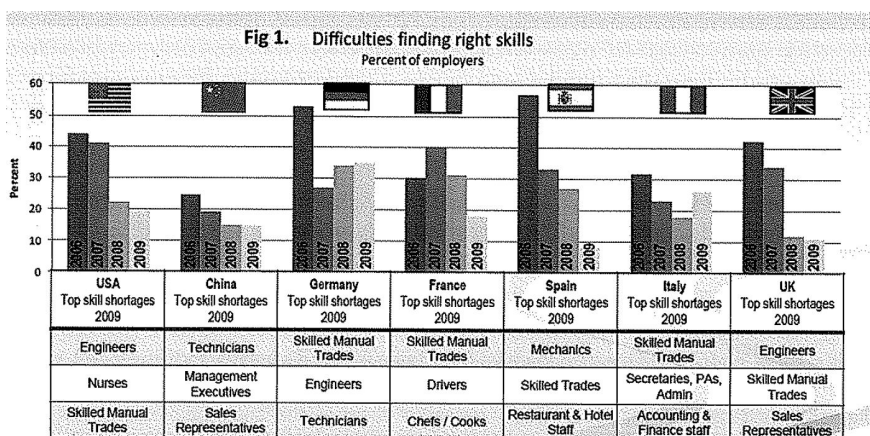
1. *To retain and attract global talent in key areas of economic development.* According to the Expert Group on New Skills for New Jobs, "these [talents] are needed to help adapt to rapidly changing circumstances, to seize new opportunities, but also to shape the future, to innovate, to turn ideas into actions and to create new jobs".<sup>3</sup>
2. *To guide the career choices of young talents to achieve better alignment with the emerging needs of future growth sectors.* The Expert Group argues that both lack of knowledge about (and visibility of) current and future supply and demand for skills, and inertia in education and training systems, alongside labour market failures, prevent a better match between supply and demand. Too many individual education and training decisions are made without competent career guidance and

counselling, with a lack of understanding of people's strengths or the real dimensions and opportunities of different careers, labour-market realities and employment prospects – a situation which often leads to inappropriate training and career choices.

## Lack of mobility and skill mismatches

Despite high levels of unemployment, many employers still cannot find the right skills to fill job vacancies. Before the economic downturn, about four million jobs remained unfilled throughout the EU. Since then, the crisis has driven down the number of unfilled jobs, now estimated at about 3.5 million in the EU-27 and around 3 million in EU-15. Comparing labour-market data internationally is often difficult, but even with a margin for error, the conclusion is the same; Europe misses out on major employment opportunities because of significant mobility and skill-mismatch problems. And it is not just about an unfilled job – it is also a forfeited economic opportunity.

While unfilled jobs are one indicator of skill mismatches, the annual skill shortage survey conducted by Manpower, a leading private employment agency, sheds further light on the challenge (figure 1). In 2009, one employer in four in Europe reported difficulties in filling jobs. This was down from 32% and 39% in previous years – an indication that the slowing economy has eased demand – but one in four is nevertheless high, especially when considering the persistently high levels of unemployment in continental Europe.



Source: Manpower Skill Shortage Survey 09

The shortage in skilled manual trades tops the list in almost every European country, and has done so year after year. At first glance, this does not seem to be in line with Europe's ambition to be the most competitive and dynamic knowledge-based economy in the world.

However, we need to keep in mind that for every new highly-qualified job, three or four other jobs are created elsewhere in the economy. Given this, the output of the knowledge-based jobs must be at the forefront of Europe's 2020 future, but it is carpenters, plumbers, drivers, administrative assistants that enable those jobs to be effective.

### **Life-long learning – building an adaptable workforce**

There are many different ways of identifying current and emerging skills' needs. But there are limits to how far future skills' needs can be predicted, given the speed with which technology and markets develop and change. Beyond those limits, we need policies that prepare our workforce to adapt to the unforeseen and unexpected.

Life-long learning, continuous skills' upgrading and often total re-skilling for new careers and professions will be necessary. By 2025, Europe's workforce will have aged and declined by 23 million while the number of retirees will have increased. Herein lies a challenge: an estimated 83% of Europe's 2020 labour force is already of working age today and all the technology currently used in the workplace will be outdated by then – a significant skill-obsolescence challenge since most of them are already beyond the reach of any structured or systematic skills' development.

### **Employability – a personal responsibility**

It is an oft-cited fact that people change careers up to five times during their lifetime. It is hard to verify the accuracy of this claim, but it is true that most people can expect to make several changes during their working lives.<sup>4</sup> How successfully this happens hinges on the quality of core education, skills' sets and career counselling on which people build their future options.

Employability is a balanced mix of hard skills, soft skills and experience. While some hard-skills' shortages may be attributed to capacity or quality problems in vocational training, the indications are that this is more a problem of career choices. An office-based career tends to be preferred over more practical manual work. These decisions are, however, mostly made



without understanding the real dimensions and opportunities of different careers, labour-market realities and employment prospects. As a result, labour markets suffer from a persistent shortage in some areas, on one hand, and many people end up finding themselves in the wrong jobs, on the other.

Too often, attitudes towards training which reflect the skills and competency needs of the slower labour markets of the past persist. Rapid technological developments and the shift towards knowledge-based industries and services have changed labour-market dynamics. It will not only be of key importance that labour is available when and where needed, but also that skills are quickly upgraded to correspond to enterprises' needs.

In this context, concepts of life-long learning have been widely discussed and developed, mainly focusing on the role of training institutions and employers as providers of skills programmes. The nature and the frequency of employment-market changes challenge the effectiveness of supply-driven initiatives and underline the importance of individuals' responsibility for their own employability.

Training policies need to encourage and support the individual in taking on greater responsibilities. Opportunities for skills' development should be easily accessible and tailored programmes for skills-upgrading must suit the individual's time and availability constraints rather than the other way around.

Tools for such training are already available and are continuously being improved, but policies need to encourage and support people to make greater use of them. It may, for instance, be useful to consider leading public and private employment agencies' use of online platforms for a wide range of web-based courses and assessment tools to help job-seekers with career guidance and to keep their skills at the cutting-edge. For instance, Manpower<sup>5</sup> offers all its job-seekers and temporary staff free access to more than 4,500 online courses covering business, computer and technical skills to enhance their employability and re-engineers their skill sets for the jobs available.

### **Making more of our talent – an employer challenge**

Developing a knowledge economy not only requires different skills and a new look at how skills are developed. It also requires a fresh look at how skills are managed and how competences can be mobilised and used more effectively in the workplace.

To a large extent, the emphasis is still on fitting the person and his/her skills or professional qualifications to the job. In a knowledge economy, people's competencies often go beyond the strict definitions of the job, thereby forfeiting much of their talent and potential contribution. The knowledge sector may have to shift towards workplaces where employees are encouraged to develop competences and managements are challenged to make full use of them, rather than squeezing them into a particular job. Managing an organisation of competences, as opposed to running an organisation of job posts, requires a fundamental managerial rethink.<sup>6</sup>

Again, the policy challenges are two-fold:

1. To improve people's choices of vocation using leading practices in aptitude assessment, labour- and job-market information, and qualified career guidance.
2. To encourage a proactive and demand-based training and life-long-learning culture, with labour authorities promoting public-private partnership best practice for training and upgrading skills; companies making better use of current skills and recognising improved skills; and employees and individuals taking the initiative and being responsible for their own employability.

### **Hard skills are about career choices – soft skills about succeeding**

Whether the skills' challenge is put in the context of persistent skills' shortages, frequent job changes or skills' obsolescence in an ageing workforce, they not only point to the growing need for individuals to take a greater responsibility for their employability, but also underline that learning how to learn is as important as learning the skills of a trade.

While technical skills will not generally guarantee a job-seeker work, they are nevertheless a significant investment in his/her future. The earlier the right choices are made, the more cost-effective they will be. Formal training may get young people to the interview, but to land their first job, the way they present themselves and their attitude to work generally count for more than their still-untested skills.<sup>7</sup> While hard skills determine career choices, soft skills determine how successful people are in their chosen career.

Mounting evidence underlines the importance of soft skills. People do not generally lose their jobs because of a lack of hard skills, but because of inadequate soft skills<sup>8</sup> such as communications, adaptability, teamwork,

initiative, organisation and self-management, etc. Soft skills are not only important for landing or keeping a job – a recent study<sup>9</sup> has found that they also greatly enhance the success of hard-skills training.

While soft skills may come easier to some, they can be learned and improved with the help of training and coaching. Education and training systems must therefore increasingly take into account the importance of soft skills in preparing trainees not only to land their first jobs, but also to stay in work throughout their working lives.

### **Solutions are urgent, but the potential is real**

Is the glass half empty or half full? None of these challenges are new and Europe's past success has occurred despite the failure to address long-standing labour-market challenges and deploy our talent optimally.

The skills' issue features prominently on the policy-makers' agenda. For example, EU Member States have asked the European Commission to report on future skills' requirements in Europe up to 2020 and a group of experts has prepared a report for the Commission with its recommendations.

There is recognition that the need for effective solutions and policies is becoming more urgent, but the potential for improvement is real and, with appropriate responses, we should be able to look to the future with optimism.

**Göran Hultin is Labour and Government Affairs Adviser to Manpower.**

### **Endnotes**

1. Gilles Saint-Paul, *The European brain drain: Europeans living in the US*, December 2008.
2. *Time Magazine*, How to plug Europe's brain drain, January 2004.
3. Report by Expert Group on New Skills for New Jobs, January 2010.
4. Joyce Lain Kennedy, Tribune Media Services.
5. [www.manpowerertdc.com/](http://www.manpowerertdc.com/)
6. Alain Dumont on employability and managing competencies, 2009.
7. Manpower Inc. (interview with recruiters), 2009.
8. B. Minic (2009), *Workforce Development*, Manpower Inc.
9. World Bank, *A Review of Interventions to Support Young Workers: Findings of the Youth Employment Inventory*, October 2007.

# The importance of open innovation for the EU

*Erich Rutsche*

“Advances in the various fields of human endeavor are due, to a large extent, to the cooperation of the best brains and best talents available everywhere.” It was this insight from former IBM Chairman Thomas J. Watson Jr – and the availability of great scientific talent and economic opportunity in Europe after the war – that led to the opening of the company’s Zurich Research Laboratory more than four decades ago.

The concept of close collaboration with leading universities was a starting point on a path that has led us to the concept of open innovation today, which has changed the way new opportunities are identified or created, how work is carried out, and how value is brought to market.

CEOs, government officials, academic and community leaders around the world are all relying on ‘innovation’ to be the fundamental driver of economic opportunity, job creation, business competitiveness and advances in education, health care and a vast range of other disciplines – now more than ever. Investing in innovation is the surest way to survive and thrive in today’s complex, connected world.

## What is innovation?

The word ‘innovation’ seems to be everywhere these days. Within the information technology industry, it has traditionally been defined as the process of invention and discovery, and been driven by investments in research and development. While this is accurate, innovation in the 21st century is broader – and it needs to be.

IBM’s former innovative leader Nick Donofrio defines it as follows: “Sometimes (innovation is) not an invention, a creation or a discovery. Sometimes it’s just seeing things that other people missed. It’s looking at these deep intersections or interstices and seeing something that nobody else saw before, and that becomes the innovation.” It is not only great technical breakthroughs, but also any significant improvement in a product or process that generates value or reduces waste.

Traditionally, innovation has been viewed as starting with the famous corporate research and development (R&D) laboratories of the recent past.

Bell Labs, Xerox PARC and IBM Research, along with basic research programmes at the world's leading universities, epitomised the innovation engines of the 20th century.

But these organisations also operated in classic 'ivory tower' mode – highly secretive and proprietary in their approaches, sharing little with others – and, as a result, their best ideas sometimes took a somewhat leisurely path to market. There is no better example of this in practice than the old IBM Research.

### **From the ivory towers to an open business model**

Through the 1970s, much of IBM Research was corporate funded. It had its own research agenda and occasionally made some technology transfers, but this was not done in a very coordinated manner. During this time, IBM was the only company in information technology and, with strong profit margins, many of its scientists could indulge in the kind of research and enjoy the kind of freedom they wanted.

Things began to change in the 1980s, and the company began looking at how to make research more effective. It launched joint programmes between its research and product divisions, with a shared agenda that both parties – research and development – had to agree on. Collaborative teams were assembled to accelerate the transfer of research results, but again this was all being conducted within the walls of IBM.

This model was successful at the time, but the dramatic changes in our industry in the last few decades required new models and a fundamentally new approach to innovation.

This shift first became evident in the 1990s, when IBM nearly collapsed – a truly dire time for the company, with a lot of my colleagues asking: "Are we going to survive as research or are we going to be blown apart and get sent off to the product divisions?"

The only possible response to ensure survival and shorten time to market was to become proactive and work on real customer problems. In the years running up to this catastrophic time, the company had somewhat ignored their needs. The new approach meant listening to customers and getting a direct insight into their problems. It was unheard of for a researcher to directly engage with the customer, but it created a very successful model, bringing rewards for both the client and the research organisation.

There have been a large number of start-ups in the information technology sector and the competitive environment has changed a great deal. Open standards are mandatory and, together with open source, became a strong driver that enabled the rapid deployment of new technologies and business ideas on a common, often Open Source-based platform. We are strong supporters of this movement and are contributing to many projects: Linux, Eclipse and Apache. These open platforms are an important nurturing ground for new technologies and businesses that bring innovation to the marketplace.

One key change in the last few years has been in how IT innovations are brought to market. A business model or usage model of IT innovation evolved from software licensing to software as a service and cloud-computing services, and research followed this trend.

Another change that takes the traditional partnership model a step further is what we call a 'collaboratory'. Just like it sounds, this is a laboratory where our researchers co-locate with a university, government, or commercial partner to share skills, assets and resources to achieve a common research goal.

As you might expect, we create a lot of technologies within research, many of which we can transfer into the business but also some that just do not fit. For these, we need partners or suppliers to adopt and support them as their own. While they may fall outside the traditional framework, they still can contribute to the IBM's intellectual property income – approximately \$1 billion annually – which, in turn, is a significant contributor to our profit figures.

## **Innovation in the eye of the CEO**

In 2006, a CEO study conducted by IBM concluded that external collaboration is indispensable for innovation.

Eight hundred CEOs were interviewed, representing a sample from all geographic areas, a range of annual revenues, and everything from small- and medium-sized businesses to large, global enterprises. When asked what sources their companies relied on for their innovative ideas, "business partners" were near the top of the list, just behind the general employee population. "Customers" came out top, which confirmed that the most significant sources of innovative ideas come from open, collaborative approaches, including reaching outside the organisation. In fact, CEOs said they get about twice as many innovation insights from customers as they do from their own sales and service teams.

Perhaps the most surprising finding (and probably the only area where I disagree with the respondents) was that “Internal R&D” was second-to-last on the list. While I may be biased, as an engineer-turned-businessman, I would argue that those who do not see value returning from their R&D investments are not managing their portfolios to reflect the changes underway in the marketplace. In other words, they still are not collaborating externally and working directly with their customers and ecosystems.

The CEOs also told us that partnering – whether across internal or external boundaries – is easy in principle, but very difficult in practice. This is not at all surprising.

Working with different groups to achieve common objectives requires a change in the culture of most organisations, and cultural transformations may be the hardest of all. I am convinced that to truly embrace a culture of collaboration, you must acknowledge limitations in your competences and accept the skills and insights of others. We have had some success in this area with something we call ‘Jams’, where customers, partners, employees all participate in a giant chat room and post ideas in an organised format. Our most recent ‘Innovation Jam’ in 2008 generated 32,000 ideas and comments.

This is particularly important for companies like ours that are addressing problems in systems, such as traffic monitoring, healthcare and energy grids, as they are very sophisticated in nature and very complex.

We have learned that we cannot work on problems like these unless we have established a very close relationship with clients, business partners, and even other vendors who might very well be competitors. This is the foundation of our ‘smarter planet vision’. We know that we cannot develop, interconnect and embed intelligence in objects as diverse as buoys in the middle of the ocean or livestock around the world without the help of our partners.

### **Follow or lead – policy recommendations**

The shift to open innovation may make the 20th-century business model as we know it history. Increasingly, the motivating force that brings people together is less about business organisation and more about the collective enterprise – activities driven by a common set of interests, goals or values.

This trend is accelerating, and it will have profound implications for how companies think about everything from leadership to managing and

motivating global talent. It will change the way they approach innovation itself. As boundaries dissolve, as more fluid relationships form, as ecosystems expand and as networks get larger, the very nature of decision-making by individuals, businesses and the world takes on a new shape. Local actions now have global consequences, and the reverse is true as well.

To pursue open, collaborative innovation, enterprises must find ways to tap into the potential offered by the skill, talent and creativity of people from different teams in different organisations across the globe. A company can only be as innovative as the collective capacity of those who make up its ecosystem. To attract and retain talented people, it must enable them to feel respected, as individuals, as professionals and as members of a team. Collaborative innovation also depends on finding sustainable and agile business models in the ecosystem that allow the participants to establish, survive and grow, even in challenging times.

We are convinced that the art of collaboration will be the distinguishing leadership characteristic of the 21st century. Universities need to teach it. Government policies and regulations need to facilitate it. The EU framework programmes are in many ways a good example of this.

The great challenges in today's markets and the environment cannot be addressed by lone players. We are all networked and linked. Open innovation recognises this fact and tries to take advantage of it. No individual enterprise, no matter how large and talented, can afford to go it alone in today's highly competitive, globally integrated marketplace.

All of this challenges traditional notions of how we organise our innovation and research initiatives. What is clear is that the framework programmes need to be internationalised to a larger extent, so that the EU can benefit from skills from all over the world.

As Esko Aho said in his report *Information Society: Research and Innovation* of May 2008: "Systemic change is needed to remove barriers to innovation and promote stronger interactions between users, researchers and business. If the best researchers from around the world participate in the Framework Programme, it will also become more attractive for the best European researchers."

**Erich Rutsche is currently Manager, Business Development & Relations at IBM Research Laboratory.**



## A Digital Single Market for a Digital Society

*James Waterworth*

It is a neat coincidence, and an opportunity, that the conclusion of the EU's Lisbon Strategy and discussions on its successor, 'Europe 2020', are taking place as the global economic and political order is being reshaped.

The global financial crisis, the deep recession, recovery and the rapid rise of 'emerging' powers – notably China, India and Brazil (to name but three) – mean the EU needs to think very carefully and urgently about its ambitions, its challenges and how to meet them.

Does the EU wish to remain an economic powerhouse across a broad base of products and services? Can we maintain the social market model? Is the EU serious about cutting CO<sub>2</sub> emissions by 20% by 2020 (and why not more)? Are we still truly committed to the EU becoming the world's leading knowledge economy for its 500 million citizens?

The short answer to all these questions is: 'Yes we can'. The real question is: do we have the political will to get there?

In this article, I will argue that the transition to a 'Digital Society' is a prerequisite for meeting these challenges. Only a digital transformation can deliver the productivity and innovation enhancements required to reshape our society and economy to the extent necessary, and at an affordable and implementable cost.

This transition is not about a Digital Society for its own sake. Rather it is about the role that digital products, services and solutions can play in reshaping all aspects of our society and economy, and empowering Europe's citizens – be it through the way energy is managed in homes and offices, the way goods are transported, or the way we 'consume' culture.

There are a number of key ingredients to build a Digital Society. Perhaps the most important of these is the Single Market. The Single Market was completed before the Internet 'revolution'. It is now time to update it to reflect the Internet's increasing role in our cultural, political and economic lives. To that end, the EU must build a 'Digital Single Market'. That is the opportunity we must now grasp.

## The challenges are known

The key challenges facing policy-makers include growth and jobs, well-being, sustainability and climate change, demographic change and security. While most of these challenges are familiar, eternal even, the difficulty lies in the fact that the world is changing, as are the answers.

The Europe 2020 strategy seeks to find and implement those answers, and the intention behind it is correct: to ensure that the EU deals with these challenges by becoming more productive, knowledge-driven and greener than before. To do this, it must set a clear goal of building the Digital Single Market as the path to becoming a Digital Society.

## A Digital Society

In the past, policy-makers have focused on ensuring the right conditions for the spread of, and affordable access to, (tele)communications. The phenomenal take-up of mobile telephony over the last 20 years shows they did this well. We have now entered a new phase in which policy-makers need to look beyond simple high-speed connectivity, fixed and mobile combined.

Widespread access to greater computing power in the form of PCs, mobile phones and other devices, combined with access to high-speed networks, has enabled new kinds of interactions, both professional and amateur. These interactions form the basis of the modern online culture and economy. They also enable interactions between citizens and governments, and between businesses. These interactions are typically more efficient and less carbon-intensive than physical interactions (although they will never completely replace them). They can also be malicious.

While policies to enable faster and faster networks remain important, policy-makers must also focus on the enabling factors for a Digital Society, such as trust, open innovation models, skills and changes to regulatory models.

Regulatory reform on a pan-European basis, a Digital Single Market, will allow Europe to profit from digital interactions by:

- enhancing productivity and competitiveness, thus securing and creating jobs;
- moving more rapidly to a sustainable economic model;
- enhancing the knowledge-creation process;

- facilitating participation in the democratic process;
- providing an avenue for creative expression and entertainment.

It is also important to re-evaluate notions that Europe's economy should be based on manufacturing alone. While the EU is home to many of the world's leading manufacturers, those manufacturers are increasingly delivering a service alongside or inside products: modern cars contain computers and therefore software is critical to the automobile industry; mobile phones are less and less differentiated by their shape and increasingly by the software inside the phone and the services they access; the world's leading manufacturer of DVDs is European and we should aim for the world's leading online content distributors to be European as well.

The European economy is not only a manufacturing economy. It is not just a service economy. It is, and should be, a judicious and high-value mix of manufacturing and services.

### **A Digital Single Market – a citizen's single market**

Figures produced by the European Policy Centre, in conjunction with Copenhagen Economics, show that the benefits of building a Digital Single Market would be in line with those of the 1992 Single Market Programme. That represents a very significant economic opportunity for Europe.

Growth of this kind would be achieved through a combination of increased global competitiveness, productivity gains and giving entrepreneurs the opportunity to access the Single Market so they are not confined to their home markets, and can grow to the size needed to compete globally. Each of these factors safeguards existing jobs and creates new ones.

The Single Market has been the jewel in the European competitiveness crown since it was launched, leading to the development of the world's largest and most competitive market and a large expansion in intra-community trade. However, European Commission figures show that barriers to the Digital Single Market exist – only 7% of online transactions are cross-border and 60% of online attempts to purchase goods and services cross-border fail.

This is incompatible with the way citizens/consumers live now and will plan their lives. EU citizens enjoy and exercise their freedom of movement as tourists, students and business travellers. However, cultural works of

importance to them – for example, music – often cannot be accessed as they move. For the consumer, a Digital Single Market would provide a larger, more competitive market in which to shop for goods and services. There is no technological impediment to this.

A Digital Single Market would allow citizens/consumers a chance to benefit from the Single Market in a way that the original Single Market mostly did not. While it enabled firms to trade more easily throughout the Union, it did not alter the fact that most business-to-consumer trade remained local.

With this in mind, EU policy-makers have a chance to connect the EU with the lives of its citizens very directly, thus empowering each and every one of them, and this could also enhance the Union's standing in the eyes of its citizens. It is for this reason that we might think of the next phase as creating a 'citizens' Single Market.

For companies, the Single Market offers access to a larger market at a lower cost and would give European entrepreneurs the chance to grow to scale in online businesses in the same way that their counterparts from the US already can.

Europe has seen the positive effect of the Single Market on its industries before. In technology, the mobile revolution has been driven by European firms such as Nokia, Ericsson, Alcatel, Siemens, France Telecom, Vodafone, Telefonica, STM, etc. They are global leaders and have created millions of well-paid jobs in Europe. Their rise coincided with, and was enabled by, the original Single Market, telecoms' liberalisation and the GSM standard. We should aim to repeat such global success stories, and the Single Market is a key ingredient.

## **The way forward – some recommendations**

The EU has a crucial role to play in delivering a Digital Single Market so that we can build a Digital Society in Europe. It is vital that the European institutions keep their eye on the big picture and try to avoid rivalries between sectoral or Member-State interests.

It is also imperative for the EU to manage and track implementation of the Europe 2020 Strategy rather than just leaving this to individual Member States. This is vital to ensure some coherence across the EU and to derive the Single Market impact.

The institutions should continue to remind stakeholders that the creation of a Digital Society is not a *technology* agenda, but rather about the transformation of our economies and societies and their empowerment. This process is urgent if Europe wants to remain at the top table of world affairs and to cope with the major social challenges foreseen. We have no other credible option.

The EU must harmonise the current fragmented regulations concerning buying, selling and interacting online within the Union, as it has done for the sale of most products. Areas that need to be addressed include:

- trust: consumer protection rules, data privacy and security rules should be the same throughout the EU;
- copyright licensing: as the nuts and bolts of the knowledge economy, information must be able to flow freely throughout the Union and used in ways that rewards creators and rights' holders but are also adapted to modern methods of collaboration and communication;
- secure cross-border contracting: payment systems, electronic signatures and other basics of contracting need to function in a pan-European fashion.

From the consumers' perspective, the rules regarding cross-border commerce should be as transparent and standard as they are currently within Member States. From the traders' perspective, placing a service on the market should be as simple as today's 'CE' mark rules, signifying conformity throughout the Union without requiring approval in every Member State.

### **Conclusion – who will lead the revolution?**

The digital revolution is underway. Major trading partners such as the US, India, Japan, Korea, Brazil and China are transforming their economies and their societies to reap the benefits. Will Europe lead the revolution or just be a customer of these revolutionaries?

As we are increasingly squeezed between the cost advantages of the East and the innovation potential of the West, Europe must decide which route to pursue to face up to the current and future range of social challenges. The answer seems clear to me, but we must urgently make that decision.

Whether your principal preoccupation is to ensure that the elderly are not excluded, that public budgets can continue to deliver public services, that we reduce CO<sub>2</sub> emissions, that 'niche' culture is nourished, or that we

protect and create new high-value jobs, there is only one credible path to realising these goals: the creation of a Digital Society.

The EU should bravely lead this revolution to reshape the world, as the continent's revolutionary heroes have done so many times previously. Step one in this process is a Digital Single Market.

If you meet any doubters, point them to the EU's achievements over the last 50 years, not least the Single Market and the common currency. This can and must be done.

**James Waterworth is Director of Government Affairs for Nokia.**

## Virtual and digital: the future of Europe's green economy

*Mats Nilsson*

Europe needs to move decisively towards a more environmentally sustainable economy. Not only has the EU set itself ambitious greenhouse gas (GHG) emission reduction targets to combat climate change, but it also needs to reduce Europe's dependence on imported energy. Last but not least, a greener economy can be a motor for economic growth and exports.

A green economy is also essential to make companies more competitive. Raw materials need to be managed better and, as they become a scare resource, this could generate significant cost savings. Furthermore, as handling raw materials often implies transporting heavy goods (materials, products or waste), the impact of those materials on GHG emissions and on the energy budget also requires further attention in the EU.

Ensuring that policy measures are aligned with the drivers of the green economy – combating climate change, enhancing energy security, and boosting innovation and resource efficiency – would result in a more sustainable society and economy, which would deliver a green economy with a high growth potential.

### **A green and smart Europe 2020**

The EU must take a leading role in promoting sustainable lifestyles, with an economy, culture and way-of-life in harmony with the environment. Environmental protection and waste management also call for action at the EU level to encourage firms to optimise the use of raw materials.

The EU is already facing many of the problems associated with climate change and is also bound by its international commitments to act. But it also already has the capabilities and competences to provide the necessary solutions within its borders. EU leadership and focus on this policy area cannot be avoided: the Europe 2020 Strategy should seize this opportunity and should not only reflect the need to green the economy, but also set out concretely how to achieve the necessary changes.

The growing use of Information and Communication Technology (ICT) can have a two-fold effect: on the one hand, it will help turn our green ambitions into reality; on the other, it will be a key driver for increasing the effectiveness and the competitiveness of European companies.

## **ICT as enabler for the green economy**

Studies indicate that ICT can contribute to an overall GHG emissions' reduction of 15% by 2020<sup>1</sup> through smart cities, metering, smart grids and smart energy production, where ICT can facilitate efficiencies in the supply side of energy and other resources.

The ICT sector produces only 2% of the world's GHG emissions and represents the largest transformational source for a green economy, through its capacity to substantially reduce GHG emissions from other sectors.

In many areas, the ICT sector's potential goes even further. If we can move from a 'heavy goods-and-people' transport infrastructure to a 'knowledge-and-content' transport infrastructure (i.e. from roads to the virtual information super highways), we can cut an even larger proportion of GHG emissions and energy consumption.

By transforming certain economic activities, we can therefore dramatically reduce our carbon footprint in these areas. This can easily be achieved for services such as:<sup>2</sup>

- banking → e-banking or even m-banking (using the mobile for banking);
- bank transfers → e-payments
- health → e-health and further using mobile technologies to m-health;
- videoconferencing – moving from physical to virtual meetings;
- teleworking;
- online content: the 'consumption' of books, newspapers, movies, shows, sports events, etc. on the Internet;
- smart management of utilities and smart metering in water, gas, electricity;
- intelligent transport systems and solutions (ITS).

Our economy is also becoming more knowledge-intensive. 'Production' increasingly involves the assembly of knowledge and software, rather than turning raw materials into finished products. For example, the product value of a modern car is mostly represented by the knowledge required to build it and the software it contains, rather than the physical materials used. This



shows clearly that the knowledge economy will go hand in hand with the green economy and that they are mutually reinforcing.

With raw materials becoming an increasingly scarce resource, the transformation to leaner and intelligence-based production is vital. Using ICT to enhance efficiency and tackle waste management/recycling adds another dimension of economical and environmental benefits: it addresses environmental and sustainability concerns; reduces dependence on scarce resources; and fosters a smarter and customer-focused approach to manufacturing.

### **How to get there?**

We need to be able to measure progress in order to advance. It is therefore essential to define appropriate targets and ways of measuring progress towards them, in order to facilitate the transformational impact of ICT. For example, in setting GHG targets for the health-care sector, the impact of investing in ICT infrastructure should be measured as well as taking into account the cuts in GHG emissions which would result from less travelling, less paper and a reduction in the building capacity required.<sup>3</sup>

The green economy is coming, and it is key to our future. But we will not get there without the right investments: in research, knowledge, innovation and new enterprises. This should include facilitating cross-sector activities and embedded ICT solutions in sectors such as health, energy and transport. It also means encouraging private investment and setting the right framework to do so.

Using the potential offered by the capabilities which exist in the ICT sector, the EU can become the global leader in these transformational efforts. It should:

- define national and sector targets that take into account the potential for these transformational effects;
- define appropriate measurement methods, indicators and targets;
- facilitate these transformational effects through various policy tools, including research, education, public procurement and tax incentives;
- make ICT a central part of cities' future strategies, so that city infrastructure investment is encouraged to utilise ICT for energy efficiency and GHG reductions;
- make ICT, including massive broadband deployment, a key target for the infrastructure investments of the future; and

- facilitate cross-sector activities such as e-health, smart metering and sustainable cities.

## **Green economy transformation drives productivity and growth**

The knowledge economy and the green economy go hand-in-hand. Many studies have demonstrated the correlation between productivity growth and the use of ICT.<sup>4</sup> It is also becoming increasingly clear that ICT is a key tool to meet our emission-reduction targets. It can thus help us to become smarter and greener, creating a win-win-win scenario which combines economic growth and a better environment with a sustainable lifestyle.

The EU must take the lead – through investment, standards and guidance. The Europe 2020 Strategy must make the most of this opportunity. It must provide the EU with a positive and forward-looking agenda and build on our current strengths.

But the window of opportunity is small – others are investing heavily and the EU will miss its chance to be at the forefront of these developments unless we act now.

**Mats Nilsson is Vice President and head of European Affairs for Ericsson.**

## **Endnotes**

1. WWF (2008) "Outline for the first global strategy for CO<sub>2</sub> reductions".
2. Ericsson WWF paper "A five-step-plan for a low-carbon urban environment".
3. Ericsson "Measuring Emissions right"
4. Some of the many studies linking ICT to productivity growth: See World Bank – *Information and Communications for Development 2009: Extending Reach and Increasing Impact*.

## **A European strategy that directly engages business**

*Sarah English and Martin Wight*

The development and implementation of the Europe 2020 Strategy presents a real opportunity to learn lessons from the experience of both the Lisbon Strategy and the European Economic Recovery Plan. It comes amidst uncertainty over economic recovery, but greater certainty about the impact of the economic crisis on future public finances.

The challenge, as set out succinctly in the European Commission's consultation document, is "to find ways of triggering economic dynamism with limited budgetary margin for manoeuvre". The unmet challenge of the Lisbon Strategy remains to transform the productivity of Europe's businesses, increasing both their traditional and carbon productivity. Increased productivity will come from increased investment in infrastructure, capital, skills and research and development (R&D), where fiscal measures can play an important part in incentivising businesses.

However, it is increasingly recognised that much less tangible issues can also make a real difference to business productivity and performance – leadership, skills' utilisation, innovative behaviours, access to knowledge and collaboration.

These changes cannot be stimulated using fiscal levers alone. They require direct engagement with businesses and tailored adjustment to regional business environments – the domain of Europe's economic development agencies. The good news is that interventions to address these drivers of productivity are better targeted, rely more on spreading expertise than on financial assistance, and consequently have the potential to offer significantly better value for money.

### **Incentivising and supporting a smarter, greener economy**

The Europe 2020 focus on a smarter, greener economy envisages a very different Europe to the one we live in today. It is in this context that we make the plea for Europe 2020 to move beyond EU-wide and Member-State macro approaches to view economic development agencies as key players, and provide a framework to enable and guide their work.

Scotland's economic development agencies work to improve the productivity and performance of more than 10,000 businesses. If agencies in other nations

and regions achieve comparable coverage, extrapolating up from Scotland's five million people to the EU's 500 million, this would allow a highly-effective Europe 2020 Strategy to guide engagement with over one million European businesses – and not just any one million businesses.

The development agencies' job is to help boost the performance of those businesses that cannot do it on their own (while steering clear of those with no wish to grow), focusing on Europe's SMEs with the potential for significant growth – the engines of a smarter, greener, more dynamic economy. Without such efforts by all stakeholders, including all levels of government and public services, the Strategy stands little chance of gaining the force and momentum required to achieve this transformation.

The consultation document's failure to identify the key players and stakeholders who will be engaged in delivering the Europe 2020 Strategy – not least the regional players which will play a crucial role – is a major shortcoming. The nature of their likely relationships and responsibilities in mobilising effective action requires greater emphasis within the Strategy. It should not only signal awareness of the scale of the challenge ahead, but also provide guidance on how Member States, regions and public-sector actors might take early steps to prepare for the future economy.

Providing both the incentives and support for businesses to radically transform their strategies will be an essential component of this. The role of public-sector bodies such as development agencies will be critical in this, given their existing expertise in providing such support to enterprises. However, we need a revitalised approach to how such actors work with enterprises and nurture this new European business environment with the goals of innovation and 'green productivity' at its heart. This will be vital to transform Europe's productivity.

Given the current budgetary constraints across the public sector, these governance issues must be addressed to genuinely join up approaches to – and pool resources for – the types of incentives and support mechanisms outlined above, between the EU and the various national administrations, as well as within and between Member States.

## **Transforming Europe's productivity**

The rest of this paper focuses on two areas where we believe Europe 2020 could more effectively underpin transformation of Europe's productivity, in:

- developing a renewed approach to boosting innovation;
- recognising the catalytic role that business leadership plays in opening up companies to performance improvement.

In both these areas, we will use the latest developments in Scotland to highlight key issues, but we believe these are equally applicable elsewhere.

Our experience in Scotland, and the recent success of the European Recovery Plan, points to two further lessons for Europe 2020:

- the value of a sector focus on areas of genuine global competitive advantage;
- the opportunity to secure significant economic advantage from the transition to a low-carbon economy.

### **Innovation and sustainable growth**

The Europe 2020 consultation document prioritises “creating value by basing growth on knowledge”. The overall intent is very welcome, particularly the commitment to “provide more attractive framework conditions for innovation and creativity, including through incentives for growth of knowledge-based firms.”

Governments, local authorities, specialised public-sector bodies, business representatives and key education agencies must act with knowledge, insight and enthusiasm to support the efforts of business and individuals under the priority of “empowering people”.

For example, the level and type of business support they deliver must be finely attuned to Europe 2020’s key objectives. This support – which includes leadership development, skills utilisation, triggering and supporting collaborative efforts – will be crucial to prepare enterprises for a radically different economic marketplace. To this end, existing definitions of, and parameters for, “innovation” will be inadequate to bring on board the majority of Europe’s businesses which are not directly engaged in activities related to technology or R&D.

In developing such “attractive framework conditions”, an extensive review of Scotland’s approach to innovation suggests three important areas of focus:

1. *Broadening the approach to innovation:* Innovation policies have in the past been heavily focused on technology and R&D. Businesses across all

sectors need to innovate to compete and grow. In technology sectors such as life sciences, the innovation challenge in developing a business model to exploit research excellence may be as intense as in technology development. In sectors outside traditional definitions of the knowledge economy – such as tourism and food and drink – innovation in areas such as using customer intelligence or managing supply chains can bring significant improvements in business performance and productivity. The EU needs a framework that recognises and enables all types of innovation: process, service and business model as well as product.

*2. Securing business growth from research excellence:* In common with a number of European countries and regions, Scotland has areas of world-class research in its universities. Recognising its potential as an engine of growth, significant resources have been focused on building links between business and academia across Europe. Meeting the EU's aspiration to "maximise and accelerate the practical benefits of research for Europe's businesses and SMEs" requires a much stronger focus on companies' ability to absorb and exploit the knowledge generated. The EU framework needs to emphasise building firms' absorptive capacity and focuses on research capability where there is a clearer 'line of sight' to market.

*3. Focusing on business-to-business collaboration:* Aligned to the need for a broader approach to innovation is the recognition that evidence from sources such as the Community Innovation Survey<sup>1</sup> suggests that business innovation is more likely to stem from interaction with customers or suppliers than from external researchers. The importance of collaboration in R&D is reflected in the EU's research programmes. In addition to these significant set-piece collaborations, the EU framework must encourage companies to view collaboration as a route to innovation and R&D, exploiting a range of opportunities: collaborating to build the capacity to bid for work, build supply chains for new products or stimulate technology development to keep a sector competitive. This is particularly vital in economies dominated by SMEs.

## ***Leadership***

The Europe 2020 consultation paper also has a welcome focus on skills as a key driver of productivity growth. One area which deserves greater emphasis is leadership skills. This is vital because the quality of leadership will determine a business's ambition, innovativeness and capacity to move into new markets. It will also determine the level of investment by the business in its employees'

skills and the extent to which employees are empowered to maximise their contribution to business performance and growth. Skills utilisation is increasingly recognised as a crucial component of increased productivity.<sup>2</sup>

The Organisation for Economic Co-operation and Development (OECD) has found<sup>3</sup> that investment in management and leadership development results in lower SME failure rates, and increased profitability and overall competitiveness. In Scotland, a shortage of talented leaders has been identified as a major inhibiting factor in business growth. Addressing this requires careful approaches built on trusted relationships. Understandably, there can often be unwillingness among senior managers and business owners to accept deficiencies in their own leadership and management skills, leading to under-investment in leadership development.

The EU framework must emphasise this and empower those closest to businesses to stimulate demand among companies to identify, attract, retain and develop future leaders. In many cases, this will happen by developing networking opportunities linking managers in need of leadership development with mentors in businesses already reaping the benefits of successful approaches.

### ***Sectoral focus***

Increasing Europe's productivity and economic performance requires a clear focus on its areas of global competitive advantage. The consultation paper helpfully focuses on the knowledge-driven economy, reflecting Europe's strengths in intellectual assets. However, depending on the definition, the knowledge economy can be either all-encompassing or restrictively focused on technology-related activities.

This also presupposes that Europe has a stronger, over-arching set of policies for prioritised economic activity. The consultation document points to the need for "new sources of growth". These should be clearly detailed and aligned with the EU's portfolio of support instruments.

The forthcoming strategy should detail how "increased policy coordination" will be achieved across all relevant Commission Directorates-General. In particular, there should be greater focus on integrating the strategy's strategic objectives with existing and developing EU instruments and policies related to sustainable growth (e.g. innovation and sustainability, regional development) as well as working towards completing the Single Market. In addition to policy

coordination, this major shift requires a similar commitment by the Commission to remove barriers of complexity associated with multiple EU funding rules, to promote synergies across programmes and allow implementing bodies to focus on the priorities, reflecting the emerging ‘smarter’ regulation agenda.

Transforming Europe’s economic performance requires a sharper focus on those industries and sectors where the EU can lead the world. In many cases, this will be in sub-sectors or particular components of a global sector’s value chain. Our experience in Scotland has demonstrated that this allows stronger engagement with business and resources focused on the major transformational opportunities.

The EU’s approach to knowledge and innovation communities provides an excellent model for a more focused approach and the impact of the European Recovery Plan, with its focus on energy, also demonstrates the value of this approach. The EU framework must drive greater sectoral focus and create an environment for nations and regions to combine their sector-stimulation across Europe.

### ***Low carbon***

The Europe 2020 vision of “a new sustainable social market economy” balances Europe’s economic, environmental and social aspirations. The transition to a low-carbon economy is at the heart of all three: addressing the environmental imperative, opening up significant new economic opportunities and safeguarding the quality of life for current and future generations.

The Commission consultation paper’s focus on opportunities in the energy and transport sectors, and its reminder of the importance of resource-efficiency across all sectors is very welcome. Scotland’s approach to a low-carbon economy reflects this combination of focused and generic interventions. This needs to be a key strand running through sectoral, innovation, investment and leadership policies.

While international opinion and global actions point to clearer government commitments to achieve a ‘smarter, greener economy’, citizens and enterprises must be convinced of the need to go beyond current efforts. Emerging from a global economic recession, it may prove difficult to motivate Europe’s citizens and businesses to support a new economic agenda focused on ‘green’ productivity and innovation. This will be exacerbated by a range of challenges, including high levels of public debt, low growth and high unemployment.



If the transition to a low-carbon economy is to provide the required boost to European productivity, investment in infrastructure also needs to be aligned with demand and capacity among Europe's companies to harness this investment to change the way they do business.

The US productivity growth spurt more than a decade ago came not just from investing heavily in IT, but also in transforming business models to maximise its use.<sup>4</sup> While Europe 2020's ambitious vision is welcome, this must be tempered with realism about the recent historical context of Europe's economy. The Europe 2020 Strategy must address the challenge of demonstrating the long-term benefits of such a radical cultural shift.

### **Demonstrating growth: implementing the vision**

The Lisbon Strategy experience has demonstrated that limited and consensus-led performance-tracking does not engender the level of action required to meet strategic objectives. The indicators underpinning the strategy should also provide clear signals of 'what success will look like', so that actual performance can be compared to this. Given the strategy's ten-year lifespan, it will need to describe how the transformation to a 'smarter, greener economy' will develop over the coming decade.

This will require realistic indicators that do not detract from the strategy's focus – smart, green growth. For example future innovation that will drive growth will likely encompass social and organisational innovation as well as innovation stemming from more traditional R&D investment. Therefore, measuring progress against simple high-level indicators of R&D spending will not in itself help us to ascertain if we are making the progress required. Future indicators should focus on integrating quality of life, welfare and environmental concerns with measures of economic progress and innovative capacity.

This should, of course, be reviewed in line with global economic conditions and changes. For the strategy to remain credible over the ten-year period, it must balance providing a developing vision with adequate adjustment mechanisms to review and – if necessary – change course.

**Sarah English is EU Policy Manager, Scotland Europa, and Martin Wight is Manager Policy Development, Scottish Enterprise.**

## Endnotes

1. *Community Innovation Survey* (2004-2006), ONS, Eurostat.
2. OECD (2002) *Management Training in SMEs*, Paris: OECD.  
[www.oecd.org/dataoecd/20/43/2492440.pdf](http://www.oecd.org/dataoecd/20/43/2492440.pdf)
3. Skills Utilisation Action Group (2009) *Reaping the Benefits*, Edinburgh: Scottish Government.  
[www.scotland.gov.uk/Publications/2009/06/19094657/10](http://www.scotland.gov.uk/Publications/2009/06/19094657/10)
4. Basu, Frenlad, Oulton, and Srinivasan (2003) *The Case of Missing Productivity Growth: Or does IT explain why productivity accelerated in the US but not in the UK?* Chicago: Federal Reserve Bank of Chicago.

## Mission Statement

The European Policy Centre (EPC) is an independent, not-for-profit think tank, committed to making European integration work. The EPC works at the 'cutting edge' of European and global policy-making providing its members and the wider public with rapid, high-quality information and analysis on the EU and global policy agenda. It aims to promote a balanced dialogue between the different constituencies of its membership, spanning all aspects of economic and social life.

European Policy Centre  
Résidence Palace  
155 Rue de la Loi  
1040 Brussels  
Tel: 32 (0)2 231 03 40  
Fax: 32 (0)2 231 07 04  
Email: [info@epc.eu](mailto:info@epc.eu)  
[www.epc.eu](http://www.epc.eu)



With financial support from  
the European Commission