

Renewing the European strategy for economic and social development

Maria João Rodrigues*

1. Our point of departure

In our preparations for the Lisbon Summit, we faced the following main question: is it possible to update Europe's development strategy so that we can **rise to the new challenges resulting from globalisation, technological change and population ageing, while preserving European values?** In the new emerging paradigm, knowledge and innovation are the main source of both wealth and divergence between nations, companies and individuals. Europe is losing ground to the USA, but this does not mean we have to copy them.

We must define a European way that enables us to evolve to the new innovation- and knowledge-based economy. One whose distinctive attributes range from the preservation of social cohesion and cultural diversity to the very technological options. A critical step will be to set up a competitive platform that can sustain the European social model, which should also be renewed.

Answering this question required us to take stock of some key ideas:

- economy has always been, to some extent, based on knowledge. The only element that is radically new is the exponential acceleration of knowledge production, storage and dissemination are evolving, using information technologies;
- institutional innovation is required, if we want to tap into the potential of this new paradigm while avoiding risks of social divide. Innovation, for example, of norms regulating international trade and competition, of social models, or of education systems;
- in each and every Member State of the European Union, institutional innovation has to internalise the level of integration accomplished through

* Special Advisor to the Prime Minister, with the preparation of the Lisbon European Council;
Professor of Economics, ISCTE.

the single market and the single currency. This means that some level of European co-ordination is required to carry out institutional reforms, while respecting national specificity. A multilevel governance system is needed that enables its various levels (*i.e.* European, national and local) to interact.

In order to find an answer to the initial question, we had to commit to a vast intellectual and political undertaking of reviewing Europe's political agenda and the main community policy papers in the light of the last updates of social sciences. European intellectuals with a solid reputation assisted us in this task¹. Our purpose was to ascertain which institutional innovations could change the way in which European societies are currently regulated, so as to pave the way for a new development trajectory.

2. Tailoring and leading political change

But key ideas needed to lead to political decision-taking and action. The entire Presidency was tailored to achieve this goal, throughout its 2 European Councils, 14 Councils of Ministers, 7 Ministerial Conferences, and several sessions of the European Parliament and a high-level Forum grouping the major stakeholders in Europe and the Member States.

As the main objective was to define a global strategy, the key role had to be played by the European Council – in synergy with the initiatives of the European Commission. The meeting of the European Council had to be special and focused only on this objective. We had to hold it sufficiently early to provide guidance for the following Councils of Ministers and sufficiently late to allow for the strong effort of persuasion required to reach agreement. This action relied on a series of ambitious initiatives formally proposed by the Presidency, at its own risk, resulting in multiple contacts made with all community instances and national governments. Ultimately it led to the Prime Minister's visit to all E.U. capitals. Public debate also made it possible to collect a widely diversified set of contributions from civil society, from all E.U. governments and from all community instances.

Decisions made at the Lisbon Summit helped define the final shape of the high-level consensus and mobilisation obtained meanwhile, by establishing more precise objectives, calendars and methods and defining the mandates of all Councils of Ministers involved. This propeller enabled the last meeting of the European Council at Feira to produce a set of concrete results, which will now

¹ Rodrigues, Maria João (ed.), Robert Boyer, Manuel Castells, Gøsta Esping-Andersen, Robert Lindley, Bengt-Åke Lundvall, Luc Soete, Mario Telò, Mark Tomlinson, 'The new Knowledge Economy in Europe – a Strategy for International Competitiveness and Social Cohesion', Cheltenham: Edward Elgar – *forthcoming*; 1st edition in Portuguese: Rodrigues, Maria João (coord.), Robert Boyer, Manuel Castells, Gøsta Esping-Andersen, Robert Lindley, Luc Soete (2000), 'Para uma Europa da Inovação e do Conhecimento – Emprego, Reformas Económicas e Coesão Social', Lisbon: Celta.

begin to be transposed at the national level and developed during the following Presidencies.

3. The Lisbon Strategy

A new strategic goal and an overall strategy was defined by Lisbon European Council. Quoting its own Conclusions:

'The Union has today set itself a *new strategic goal for the next decade: to become the most competitive and dynamic knowledge-based economy in the world capable of sustainable economic growth with more and better jobs and greater social cohesion. Achieving this goal requires an overall strategy aimed at:*

- preparing the transition to a knowledge-based economy and society by better policies for the information society and R&D, as well as by stepping up the process of structural reform for competitiveness and innovation and by completing the internal market;*
- modernising the European social model, investing in people and combating social exclusion;*
- sustaining the healthy economic outlook and favourable growth prospects by applying an appropriate macro-economic policy mix.'*

The Lisbon Strategy set the following main political orientations:

- a policy for the information society aimed at improving the citizens' standards of living, with concrete applications in the fields of education, public services, electronic commerce, health and urban management; a new impetus to spread information technologies in companies, namely e-commerce and knowledge management tools; an ambition to deploy advanced telecommunications networks and democratise the access to the Internet, on the one hand, and produce contents that add value to Europe's cultural and scientific heritage, on the other;
- an R&D policy whereby the existing community programme and the national policies converge into a European area of research by networking R&D programmes and institutions. A strong priority for innovation policies and the creation of a European patent;
- an enterprise policy going beyond the existing community programme, combining it with a coordination of national policies in order to create better conditions for entrepreneurship – namely administrative simplification, access to venture capital or manager training;
- economic reforms that target the creation of growth and innovation potential, improve financial markets to support new investments, and

complete Europe's internal market by liberalising the basic sectors while respecting the public service inherent to the European model;

- macro-economic policies which, in addition to keeping the existing macro-economic stability, vitalise growth, employment and structural change, using budgetary and tax policies to foster education, training, research and innovation;
- a renewed European social model relying on three key drivers, *i.e.* making more investment in people, activating social policies and strengthening action against old and new forms of social exclusion;
- new priorities defined for national education policies, *i.e.* turning schools into open learning centres, providing support to each and every population group, using the Internet and multimedia; in addition, Europe should adopt a framework of new basic skills and create a European diploma to embattle computer illiteracy;
- active employment policies intensified with the aim of making lifelong training generally available and expanding employment in services (especially care services) as a significant source of job creation, improvement of the standards of living and promotion of equal opportunities for women and men. Raising Europe's employment rate was adopted as a key target in order to reduce the unemployment rate and to consolidate the sustainability of the social protection systems;
- an organised process of cooperation between the Member States to modernise social protection, identifying reforms to answer to common problems such as matching pension systems with population ageing;
- national plans under preparation to take action against social exclusion in each and every dimension of the problem (including education, health, housing) and meeting the requirements of target groups specific to each national situation;
- improved social dialogue in managing change and setting up of various forms of partnership with civil society, including the dissemination of best practices of companies with higher social responsibility.

4. Strategy and governance

The actual implementation of any strategy requires a political engine, *i.e.* a governance centre at the European level with the power to coordinate policies and adapt them to each national context. The Lisbon decisions made this governance centre stronger, in three ways:

- firstly, the European Council will play a stronger role as co-ordinator, henceforth devoting its spring meeting to the monitoring of this strategy, based on a synthesis report presented by the European Commission;
- secondly, the broad economic policy guidelines will improve the synergy between macroeconomic policies, structural policies and employment policy;
- thirdly, the Union adopted an open method for inter-Member State co-ordination, which will begin to be applied to all policy fields, stepping up the translation of European priorities into national policies.

This method combines European coherence and respect for national diversity. It defines the required European guidelines in each policy domain, subsequently identifying best practices and reference indicators and, finally, materialising in national plans consisting of concrete targets and measures fitting each nation's case. Its purpose is to set up a vast process of innovation, learning and emulation between European countries, in which the European Commission may play a new role as catalyst. The method actually aims to speed up real convergence, now that nominal convergence is being achieved in order to prepare for the single currency.

The political construction of Europe is being based on different political methods in accordance with the problems to be solved. Various methods have been worked out which are placed somewhere between pure integration and straightforward cooperation. Hence:

- Monetary policy is a single policy within the Euro zone.
- National budgetary policies are coordinated at European level on the basis of strictly predefined criteria.
- Employment policies are coordinated at European level on the basis of guidelines and certain indicators, allowing some room for adjustment at national level.
- A process of cooperation is beginning with a view to the modernisation of social protection policies, with due regard for national differences.

Policies aimed at building the single market, such as monetary policy or competition policy are, logically, based on a stricter method of coordination in relation to the principles to be observed. However, there are other policies which concentrate more on creating new skills and capacities for making use of this market and responding to structural changes. They involve learning more quickly and discovering appropriate solutions. Such policies have resulted in the formulation of a coordination method which is more open to national diversity.

5. The open method of coordination

The open method of coordination is based on different stages:

- defining guidelines for the Union combined with specific timetables for achieving the goals which they set in the short, medium and long terms;
- exchanging best practices and, where appropriate, establishing quantitative and qualitative indicators and benchmarks against the best in the world and tailored to the needs of different Member States;
- translating these European guidelines into national and regional policies by setting specific targets and adopting measures;
- periodic monitoring, evaluation and peer review organised as mutual learning processes.

The open method of coordination is a concrete way of developing modern governance using the principle of subsidiarity. This method can foster convergence on common interest and on some agreed common priorities while respecting national and regional diversities. It is an inclusive method for deepening European construction.

The purpose of the open method of coordination is not to define a general ranking of Member States in each policy, but **rather to organise a learning process at European level** in order to stimulate exchange and the emulation of best practices as well as to help Member States improve their own national policies.

The open method of coordination is to be combined with the other available methods depending on the problem to be addressed. These methods can range from integration and harmonisation, to cooperation. The open method of coordination itself takes an intermediate position in this range of different methods. It is an instrument to be added to a more general set of instruments.

The European Commission can play a crucial role as a catalyst in the different stages of the open method of coordination namely by: presenting proposals on European guidelines, organising the exchange of best practices, presenting proposals on indicators, supporting monitoring and peer review.

Monitoring and evaluation should be based on systemic approaches in the national context and should help to create a culture of strategic management and of learning with experience, involving all relevant partners.

The open method of coordination's main source of inspiration is the Luxembourg process regarding European employment strategy. Following the

Lisbon Summit conclusions, this method is now being implemented in different policy fields, namely, the information society, R&D, enterprises, economic reforms, education and social inclusion. An empirical and flexible approach is being used in order to develop and to adapt this method to the specific features of each policy field.

Developing the knowledge economy with social cohesion and promoting real convergence in Europe, by matching the community drive with national policies – this will be the main test for the Lisbon Strategy over the coming years.

6. Overview of the Lisbon strategy implementation

One year after the Lisbon European Council, a clearly positive overview can be drawn as regards the implementation of its conclusions:

- **the Lisbon strategy has been a central reference in the development and renewal of EU economic and social policies;**
- the open method of co-ordination, proposed by said strategy for the deepening of Europe's construction, is being extended to the information society, research, innovation, education and social exclusion policies;
- the European Commission fully incorporated this strategy in its work programme and has presented a long list of proposals in line with the political agenda and guidelines defined in Lisbon;
- the Council (namely its Industry, Single Market, Employment and Social Affairs, Education, Research and Ecofin formations) has committed to fulfilling said agenda, based on such proposals;
- **part of the guidelines defined at the EU level is currently being adapted by Member States at the national level.**

Special reference should be made to the most relevant progress, as follows:

1. The e-Europe Plan for the information society has achieved a considerable level of implementation at the European and national level;
2. The guidelines and instruments for building a European Research Area are currently under appraisal at the Council level and the proposal for the 2002-2006 Framework Programme has already been presented;

3. Ambitious developments concerning innovation policy have been submitted by the Commission and approved by the Council;
4. The Multiannual Programme for Enterprise, to begin in 2001, has been approved, thus showing the clear influence of the European Charter for Small Enterprises adopted at the Feira European Council. Fine-tuning of a benchmarking exercise on enterprise policy is currently under way;
5. Both national reports and the synthesis report on economic reforms (the Cardiff process) and the coming Working Programme on the Single Market make reference to the accomplishment of the Lisbon strategy. Significant progress has been made with the approval of the statute of the European company, the communication on services of general interest, the reduction of State aid and liberalisation in the telecom industry;
6. In-depth analysis of the reform of financial markets, based on reports made by the European Commission and the Committee of Wise Men, is currently under way;
7. The first execution report concerning the Innovation 2000 Initiative launched by the European Investment Bank has been appraised by the Council;
8. Agreement has been reached on the directive regarding the taxation of savings, following the matrix approved by the Santa Maria da Feira European Council;
9. In terms of education policy, there is considerable renewal in the approach based on the open method of co-ordination and more ambitious objectives are being defined for lifelong learning;
10. The employment package approved by the Council for 2001 includes a significant renewal in the guidelines, based on the Lisbon strategy;
11. As to the social protection policy, the Commission, the High-Level Group on Social Protection and the Economic Policy Committee prepared very good reports on the problems and implementation of reform strategies;
12. The policy on fight against social exclusion has perhaps achieved the most rapid progress, as the Council approved the list of appropriate objectives have been turned into national plans on fight against social exclusion, immediately in 2001;

13. After complex discussion, the European Social Agenda was approved at the Nice European Council, defining the social policy priorities for the next 5 years;
14. The different Council formations and committees continue to identify relevant indicators at a good pace. The list of 35 priority structural indicators on employment, economic reform, innovation and social cohesion approved at the Nice Summit has already been incorporated in the Synthesis Report drafted by the European Commission for the Spring European Council in Stockholm;
15. The key-issues for the broad economic policy have been fine-tuned under the co-ordination of Ecofin with inputs from other Council formations, in accordance with the new established methodology. A proposal presented by the European Commission on strengthening economic policy co-ordination within the euro area is also being discussed.

A decisive test to the effectiveness of the Lisbon strategy is the Member States' ability to implement it at the national level. The Stockholm Spring European Council, last March, has taken stock of this implementation. Detailed information has been provided on the areas of information society, economic reforms, macro-economic policy, education and employment, and the momentum was kept with the adoption of more concrete measures. The environmental dimension was added to economic and social dimensions defined in Lisbon providing the European Union with a comprehensive strategy for sustainable development. Other contributions in this journal will present these new topics with further detail.