The EU’s Europe 2020 Strategy

Introduction

In June 2010 the European Council agreed that the “Europe 2020 Strategy” should be the EU’s growth strategy for the next 10 years. The following month the Council agreed the broad economic guidelines which in turn form the basis of national planning in response to the strategy. The adoption of the Europe 2020 strategy follows the economic and financial crisis of the last three years and the previous EU growth strategy – the Lisbon Strategy.

This paper gives the background to the adoption of the new strategy last year, explains how it fits into the EU’s overall economic policies and assesses its likely chances of success.

Background

For more than a decade EU Member States and the European Commission have been aware of a problem of relative economic underperformance in the EU compared to competitor countries. The Lisbon Strategy, adopted in 2000 and which lasted until 2010, covered a range of measures designed to raise the EU’s economic performance to that of its competitors; a separate briefing paper, ‘The Lisbon Agenda for Economic Reform,’ available on the European Movement website, gives the details.

The last two years of the Lisbon Strategy period were a period of recession in Europe following the financial and economic crisis of 2008. But even allowing for these unexpected developments, the EU failed to reach the (admittedly ambitious) targets it had set itself in 2000 and re-affirmed in 2005. The issues that had triggered the launch of the Lisbon Strategy – slower economic growth in the EU, lower rates of participation in education beyond 16, low rates of employment and poor levels of participation in the workforce – could still be identified in 2010 as issues for the EU to address.

In its assessment of the Lisbon Strategy, the Centre for European Reform highlights the progress that has been made:

Most countries are closer to their Lisbon targets than they were in 2000. Progress has unquestionably been made. The share of Europeans completing secondary and university education has increased. There is more competition in sectors like energy and telecoms. Both the legal and effective ages of retirement have risen in many countries. The female employment rate has surged. Countries have made good progress towards their environmental targets.
But it also acknowledges that, “on the whole, the level of progress has been underwhelming”. Other commentators – such as the Swedish Prime Minister - have been more robust, characterising the Lisbon Strategy as a “failure”. Inevitably the critics are divided as to why the Lisbon Strategy failed to achieve its goals; over-ambition is one explanation, an alleged over-reliance on markets another. An alternative explanation might be that the Member States never had sufficient ownership of the Strategy and failed to mobilise political and public opinion behind it. It might also be argued that there were no real levers which could be used to ensure that Member States actually pursued the targets to which they had signed up.

**Europe 2020 – Challenge and Response**

The EU has identified the three main economic problems that it faces:

- Europe’s average growth rate has been lower than that of its competitors because of poor productivity – the latter is caused by a range of factors, including lower R & D investment, barriers to competition and insufficient use of information technology;

- the 69 per cent employment rate of people aged 20-64 in the EU is significantly lower than that of competitors such as Japan and the US;

- the rate of ageing in the EU population is accelerating and the EU’s active population will start to shrink from 2013-14, which will further strain welfare systems.

The headline targets that have been set in the 2020 Strategy are:

1. 75 per cent of the population aged 20-64 should be employed;
2. Three per cent of EU GDP should be invested in R & D;
3. the EU targets in energy (20 per cent cut in emissions, 20 per cent improvement in energy efficiency and 20 per cent increase in renewables) should be met by 2020;
4. the percentage of secondary school leavers who leave early (i.e. before 18) should be under 10 per cent and at least 40 per cent of the population aged 30-34 should have a degree or diploma;
5. 20 million fewer people in the EU should be living below the poverty line.

There are two elements to achieving these targets: the first is the establishment of a series of EU initiatives focused around meeting one or more of the targets; the second is the bringing together of the existing economic policy co-ordination measures with the 2020 Strategy target-setting process to develop a comprehensive policy approach.

The initiatives to help the meet the targets are divided into three sections, beginning with “smart growth”:

- digital agenda for Europe – getting ultra-fast internet access and the economic benefits it brings to all Member States;

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1 Simon Tilford & Philip Whyte, *The Lisbon Scorecard X: The road to 2020*, Centre for European Reform, 3 March 2010, p. 3
• innovation union – refocusing R & D on closing the gap between ideas and commercialisation, so as to turn inventions into products through things such as the community patent;

• youth on the move – making it easier for young people to be mobile across Europe through the mutual recognition of qualifications and the wider advertising of vacancies.

Under the heading of “sustainable growth” there are two initiatives:

• resource efficient Europe – reaching the EU’s climate change and energy targets would, for example, save €60 billion in oil and gas imports by 2020;

• an industrial policy for the globalisation era – promoting a more competitive industrial base for the EU, including developing new businesses in areas such as green industries.

Under the third heading, inclusive growth, there are two initiatives:

• an agenda for new skills and jobs – to help create the conditions for modernising labour markets and to respond to the problem of the ageing population;

• European platform against poverty – promoting economic and social cohesion through enabling the poor and socially excluded to be active in society.

To bring together the various reporting cycles in the EU for different aspects of economic policy, in future there will be an annual timetable called the “European semester” in which the reports will be synchronised, published and debated. This means that the National Reform Programme – the annual statement of each Member State setting out how it intends to meet the goals of Europe 2020 – will be published in April alongside each country’s report under the Stability & Growth Pact. So the growth and fiscal aspects of policy will be considered together – making for a more effective approach. The Commission will play its part by publishing its annual reviews of performance towards the 2020 targets each spring as well.

Assessment – Will it Work?

The limited achievements of the Lisbon Strategy perhaps understandably make some sceptical about the likelihood of the EU doing better with this new strategy. Part of the difficulty was the lack of sense of ownership in Member States of the Lisbon Strategy – it was too top down in its approach. The plans for Europe 2020 emphasise that work is required not just by national governments but at regional and local level too if the targets are to be met. This will mean, for example, consulting local government. More publicity and encouraging the sharing of responsibility for National Reform Plans are approaches designed to raise the profile and therefore the importance of the Strategy in the eyes of national political and economic leaders.

A key difficulty with the Lisbon Strategy was the absence of enforcement mechanisms to ensure that targets were met. Linking Europe 2020 to the reports required under the Stability & Growth Pact helps to fill that gap – the fiscal and growth policies of Member States will be considered together – and there will be a system of peer review with each
Member States’ reports being discussed at Council and European Council meetings in the spring. But there are no sanctions if Member States don’t meet their targets and some areas, such as secondary education, fall outside the EU’s competence in any case.

The difficulties in getting Member States to set targets and to adopt the policies to meet them were highlighted in the Commission’s survey of the draft National Reform Plans produced by Member States. It found that, for example, the cumulative target for increasing employment to 75 per cent of the age group would not be met on the basis of current plans as Member States had set targets that were insufficiently ambitious and three countries (the UK was one of them) had set no target at all. The same was true in practice for the other four targets, where in each case the EU would be unlikely to reach the agreed target by 2020. This is depressing but perhaps not surprising at this early stage; Member States will have to do better.

The truth is that for the targets to be met, national governments will need to feel they are under pressure to deliver. That means that national parliaments and the European Parliament will need to drive that, in the absence of any media or public pressure. And there must be a risk that that setting targets and failing to meet them will undermine the credibility of the programme.

A further issue that raises doubts about the potential for Europe 2020 is the wide variance in economic performance across the EU. Germany is performing well; the peripheral countries badly. While the oft-cited competitiveness gap between Germany and Greece is huge, that between other Member States is also uncomfortably wide. Can the Europe 2020 Strategy help Member States to bridge that gap? The Strategy will not tackle the current imbalances in the eurozone – Dutch and German domestic demand is too low for example and in Greece and Portugal real wages are too high and productivity too low. Europe 2020 is not irrelevant to tackling these issues – improving educational performance is very relevant – but it is of limited value in tackling the competitiveness gap. In addition, the effect of the bailouts and the fiscal spending contractions in parts of the eurozone are hard to measure at this stage.

While the difficulties of meeting the targets, which lie primarily in a lack of political will, is very clear, the absence of an alternative policy should be recognised. The Europe 2020 Strategy may not be sufficient but is it not better than any alternative? The last time Europe experienced a recession as bad as the one we experienced in 2008-10 was in the 1930s and the then European governments responded with disastrous beggar-thy-neighbour policies that made the economic situation worse. The approach taken in the 1970s was little better.

The development of the Single Market, the current European Commission initiative on identifying ideas to take it further, a possible world trade agreement in the Doha Round and the debate around the future Multi-annual Financial Framework and the 2020 Strategy itself all offer greater hope for growth and prosperity in the EU than the protectionist, anti-competitive policies of the past.

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The Senior European Experts Group is an independent body consisting of former high-ranking British diplomats and civil servants, including several former UK ambassadors to the EU, and former officials of the institutions of the EU.

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