

6 THE LISBON STRATEGY

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Abstract

The Lisbon Strategy Targets are presented and assessed as accordingly to the domains of the structural indicators, the common indicators created to measure the progress towards reaching these objectives: Economic performance; Employment; Research, Innovation and education; Economic reform; Social cohesion; Environment.

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Introduction

In March 2000, the European Council in Lisbon set out a ten-year strategy to make the Union “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”. This goal was complemented by an environment and sustainable development dimension at the European Council in Gothenburg a year later.

The Lisbon Strategy is a commitment by EU governments to concentrate their efforts on a single overarching goal - to bring about economic, social and environmental renewal in the EU. The Lisbon Strategy means that growth should be created on an ecologically, economically and socially sustainable basis.

Under the strategy, a stronger economy will drive job creation alongside social and environmental policies that ensure sustainable development and social inclusion.

Since then, the European Council's annual Spring Summit has been dedicated to debates on issues relating to the Lisbon Strategy and to examining the progress made by the European Union and its Member States. Priorities are analysed and defined on the basis of a report submitted by the European Commission.

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To this end, the European Council also endorsed the use of the “open method of coordination” (OMC) as a new technique of governance. The OMC circumnavigates the traditional forms of EU policy formulation, and this approach calls for setting targets and benchmarking progress, primarily through the EU Council. Instead of deciding on binding rules, common targets are set for the whole of the EU, while leaving each country free to decide how to reach these goals. The countries exchange experience, compare progress and work out suitable guidelines to follow. This is the procedure used for cooperation on economic policy, employment policy, social issues, pension issues, and some other areas. This method involved: 1) the agreement at EU level on the Common Objectives; 2) The development of the Common Indicators to measure progress towards reaching these objectives; 3) The development of the National Plans based on these Objectives; 4) Peer Reviews of the National Plans; 5) European Reports documenting the outcomes of the process.

The Lisbon Strategy Targets/Objectives

The Lisbon Strategy Targets are presented and assessed as accordingly to the domains of the structural indicators, the common indicators created to measure the progress towards reaching these objectives.

1. Economic performance

The Lisbon Strategy does not set particular targets for economic performance. However, a sound economy is a precondition for achieving the objectives of the strategy. That is why particular emphasis has been placed on the Stability and Growth Pact and on the structural reforms intended to rise the growth and employment potential of the Union. The Lisbon approach implies:

- an average growth rate of around 3% per year;
- that the Member States' budgets are kept close to balance or in surplus over the medium term, ensuring the long-term sustainability of the public finances;
- that the public expenditure is redirected towards increasing the relative importance of capital accumulation (physical and human) and supporting R&D, innovation, and information and communication technology (ICT).

2. Employment

The Lisbon objectives in terms of employment, as expressed in the European Employment Strategy, cover the three overarching objectives of full employment, improving quality and productivity at work, and strengthening the social cohesion. This means in particular:

- An overall employment rate of 70% in 2010 (67% in 2005).
- A female employment rate of 60% in 2010 (57% in 2005).
- An employment rate for older workers (aged 55-64) of 50% in 2010.



- An increase until 2010 by five years in the average age at which people leave the labour market.
- Availability of childcare by 2010 for 90% of the children between 3 years old and compulsory school age, and for 33% of the children less than 3 years old.

3. Research, innovation and education

The productivity gains are highly dependent on the technological progress and improvement in the quality of labour and capital inputs. A key objective of the Lisbon Strategy has been to speed up the transition towards a knowledge-driven economy, in which education and training, research and innovation contribute efficiently to growth. The Lisbon approach implies:

Research

- Increasing the R&D spending to 3% of GDP by 2010. The proportion financed by business should rise to two thirds of that total (target set at Barcelona).
- Networking national and joint research programmes on a voluntary basis around freely chosen objectives and developing an open method of co-ordination of the national research policies.
- Improving the environment for private research investment, R&D partnerships and high-technology start-ups.
- Harnessing new and frontier technologies, notably biotechnology and environmental technologies.
- Introducing a cost-effective Community patent.
- Removing the obstacles against the mobility of researchers, attracting and retaining of high-quality research talent in Europe.
- Rolling-out of a world-class research communications infrastructure.

Information society

- 100% of the schools have to be connected to the Internet by 2002 (target set at Lisbon).
- All teachers to have training in digital skills by 2003.
- Ensure access to widespread, world-class communications infrastructure and ensure significant reduction in the cost of using the Internet (local loop unbundling).
- Create conditions for e-commerce to flourish.
- Prevent info-exclusion.
- Stimulate e-Government.
- Support take up of 3G mobile communications and introduction of Internet Protocol version 6.
- Launch the Galileo Programme (objective set in Stockholm 2001).

Education and training

- Achieve a substantial increase in per capita spending on human resources.
- Promoting life-long learning.
- Adapt skills base to the needs of the knowledge society.
- Better recognition of qualifications.
- Promote learning of European Union languages and introduce a European dimension to education and training.
- Promote school twinning via the Internet.

4. Economic reform

In the Lisbon Strategy, economic reform aims to bring about well functioning, competitive and efficient markets and favourable framework conditions for growth, reducing transaction and transition costs for companies and people alike. These reforms have often been translated into requests for the adoption of specific legislative proposals by a given deadline. Together, they largely determine the attractiveness of Europe to invest in, to do business in and, ultimately, to create prosperity. The Lisbon Strategy targets are:

- Increase the percentage of the Internal Market directives transposed into national law up to 98.5% (target set at Stockholm).
- Increase the percentage of the Internal Market directives, which are more than two years overdue, transposed into national law up to 100% (target set at Barcelona).
- Ensure the opening of the energy markets for business customers in 2004 and, subsequently, for the domestic users (target set at Barcelona).
- Ensure cross-border energy transmission capacity equivalent to at least 10% of the installed production capacity by 2005 (target set at Barcelona).
- Achieve a Single European Sky by 2004 (target set at Barcelona).
- Ensure full implementation of the Risk Capital Action Plan by 2003 and the Financial Services Action Plan by 2005.

In addition, the Lisbon Strategy calls for economic reforms to:

- Increase the supply of venture capital support (including via the European Investment Bank (EIB)/European Investment Fund (EIF)).
- Further opening of the market for postal services, railway and port services, and agreement on rules for public service contracts in transport.
- Increase the openness of public procurement.
- Complete the Internal Market for services.
- Lower the costs of doing business and reduce red tape.
- Introduce an improved impact assessment system for the Community proposals.
- Continue the downward trend in state aid as a percentage of the GDP and redirect aid towards horizontal objectives.



- Promote a competitive business environment by eliminating tax obstacles against the functioning of the Internal Market.
- Promote quality public services.

5. Social cohesion

The Lisbon Strategy included the twin objective of being able to sustain social policies and to bring about a meaningful improvement in social cohesion across the Union as a result. The approach to improving cohesion is strongly focused on two processes, which have been created using the open method of co-ordination (OMC): the Social Inclusion process, which promotes an integrated and multi-dimensional approach to fighting poverty and social exclusion, and the Pension process, which examines the policy mix necessary to ensure that pension provisions can be adequate and sustainable in the future. Other policy areas – most notably basic education and training, employment policy, life-long learning, equal opportunities and non-discrimination – are directly relevant. The key to promote social cohesion is to ensure access to a well paid job for everyone who is capable of working.

The targets for the Union include:

- Halving by 2010 the number of early school leavers who do not continue with further education.
- Efforts to reduce by 2010 the number of persons living at risk of poverty.

6. Environment

The Göteborg European Council agreed on a sustainable development strategy (SDS) that set out the policy framework within which European Union action should operate in order to fulfil the long-term vision of sustainability, where economic growth, social cohesion and environmental protection should go hand in hand in a mutually supporting way. In this respect, the SDS underpins the whole of the Lisbon Strategy and adds to it an environmental strand. Most of the specific environmentally unsustainable trends identified in the SDS and translated to specific objectives are considered as core elements of the Lisbon Strategy ambitions.

The specific priorities identified in Göteborg were translated into targets, such as:

- Progress towards an indicative target for 2010 of 22% of the electricity generated from renewable sources.
- Decoupling of GDP and transport growth, in particular by a shift from road to other modes of transport and give priority to investing in environmentally friendly infrastructure.
- Tackling rising traffic volumes and congestion, noise and pollution.
- Decoupling resource use and generation of waste from growth.
- Respond to the citizen's concerns about safety and quality of food, use of chemicals, infectious diseases, antibiotic resistance, etc.

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- Reduction in the greenhouse gas emissions (i.e. the Kyoto targets) with visible progress by 2005.
- Halting the loss of biodiversity by 2010.

The Lisbon process also institutionalized an annual Spring European Council meeting - to be held in March each year - which would monitor implementation and formulate the various guidelines for the future policy coordination. The assessments made through the Spring Report give the countries that perform best a chance of recognition and those lagging behind an incentive to put in a better showing next year. In addition to the EU, the countries comparing themselves with one another, and comparing Europe with its foremost competitors, the United States and Japan, is just as much part of the process. Another important part of the Lisbon Strategy is for the EU countries to exchange experience and share good examples and successful methods to provide mutual inspiration in their endeavours.

Every year the European Commission has documented how far the Member States have progressed towards about forty key goals in the Spring report, which represents the input for the European Council.

The mid-term evaluation of the Lisbon Strategy

In May 2004, as the Lisbon Strategy was close to its halfway point, the European Commission (acting on the conclusions of the March 2004 European Council) set up a High-Level Group of Independent Experts chaired by the former Netherlands Prime Minister Wim Kok, to make an independent assessment of the progress. The 13 experts represented the different stakeholders in the strategy. The group has met six times and submitted its report, *Facing the Challenge*, to the Commission and Council on 3 and 4 November 2004. Its aim was to prepare for the European Council's mid-term review in March 2005.

The Report concluded that results so far were disappointing, and the EU was very unlikely to meet its 2010 goals, chiefly due to a lack of determined political action. It highlighted an overloaded agenda, poor coordination, and conflicting priorities. It also pointed out that structural reform has become a codeword for deregulation and weakening workers' rights, and noted that policies should, instead, help workers to address structural change (investing in skills and productivity instead of deregulating labour markets). It also underlined the vital importance of aggregate demand management to exploit fully the Europe's growth potential.

Furthermore, the Kok Report stressed the importance of sustaining the European social model, and advised against copying the US system of minimal social welfare. The High Level Group's proposals focused on the need to communicate better with the EU citizens, and to obtain their support for the reform process. Importantly, the report stressed the role that the social dialogue and the social partners, both at national and European level, can play in delivering the Lisbon objectives of high non-inflationary growth, more and better jobs and strong social cohesion.

The key message from the Kok Report is that while all the three pillars of the Lisbon strategy - economic, social and environmental – remain valid, the priority is now for Europe to boost its economic growth rate and increase employment. Europe faces two



enormous challenges - increasing global competition and a rapidly ageing population. In the face of these challenges, if Europe is to safeguard and strengthen its distinctive economic and social model, it must adapt and reform.

Achieving higher growth and employment demands committed political leadership, at national and European levels, combined with a greater effort to engage Europe's citizens with the case for urgent change. The Kok Report recommends a new focus on communication, to ensure that the Lisbon Strategy is properly understood and made relevant to every household in Europe .

With the aim of achieving the targets set by the Lisbon Strategy by the year 2010, the Kok Report sets out a series of recommendations, in the following five broad priority areas:

- a) **The Knowledge Society.** R&D spending is too low in the EU. Tax incentives for enterprises that invest in research should be encouraged; public-private partnerships should be facilitated and encouraged as a means of boosting investment.
- b) **The Internal Market.** Member States should implement the EU legislation in a timely fashion. The European Commission should produce a full list of Internal Market legislation still awaiting transposition in each of the 25 Member States.
- c) **Creating the right climate for entrepreneurs.** A balance must be found between regulation and competition. Greater attention should be paid to ensuring that the prior evaluation of all key legislative measures through economic impact assessment is conducted. A common definition of administrative burden should be agreed. The Commission should assess the cumulative administrative burden on companies and set a target for reducing it. Similarly, the Member States should undertake an analysis of their national laws and set themselves targets to reduce the national administrative burden.
- d) **Building a flexible labour market for stronger social cohesion.** The Member States should develop a comprehensive "active ageing" strategy by 2006. An active ageing strategy requires a radical policy and culture shift away from early retirement towards three key lines of action: providing the right legal and financial incentives for workers to work longer and for employers to hire and keep older workers; increasing participation in life-long learning for all ages, and improving working conditions and quality in work.
- e) **Working towards an environmentally sustainable future.** Eco-innovations should be developed and promoted, building on the existing European leadership in key eco-industry markets. National and local authorities should set up action plans for greening public procurement by the end of 2006, focusing in particular on renewable energy technology and new vehicle fuels.

According to Kok, "The Lisbon strategy is even more urgent today as the growth gap with North America and Asia has widened, while Europe must meet the combined challenges of low population growth and ageing. Time is running out and there can be no room for complacency. Better implementation is needed to make up for the lost time". Faced with this challenge, Europe needs to improve its productivity and employ more people.

A new start for the Lisbon Strategy

On 2 February 2005, the Commission proposed a new start for the Lisbon Strategy focusing the European Union's efforts on two principal tasks – delivering stronger, sustainable growth and more and better jobs. The institutions of the European Union have begun to turn the new momentum for a re-launch into concrete action. The European Council of March, as well as the European Parliament and the European social partners, gave full support to the Commission's proposal to re-launch and refocus the Lisbon Strategy.

The European Council of March 2005 relaunched the Lisbon strategy by refocusing on growth and employment in Europe. By taking this decision, the Heads of State or Government have delivered a clear message concerning the Union's priorities over the next few years. Europe must focus its policies further on growth and employment to achieve the Lisbon goals, against a sound macroeconomic policy background and within a framework aimed at social cohesion and environmental sustainability, which are the vital pillars of the Lisbon strategy.

Particular attention needs to be paid to the delivery of the Lisbon agenda. In order to achieve these objectives, the Union must do more to mobilise all the resources at the national and Community levels, so that their synergies can be put to more effective use. Furthermore, the involvement of relevant stakeholders can help to raise awareness of the need for growth and stability-oriented macroeconomic policies and for structural reforms, improve the quality of implementation, and increase the sense of ownership of the Lisbon strategy.

To this end, these broad economic policy guidelines (BEPGs) reflect the new start for the Lisbon strategy and concentrate on the contribution of the economic policies to higher growth and more jobs. The revised Lisbon Strategy did not change the original intentions of the Lisbon strategy but it did decide that the future orientation of the strategy should focus on Growth and Jobs.

The message at the heart of the Lisbon partnership for growth and employment is one of confidence and determination: the challenges facing Europe's society, economy and environment are surmountable. If managed well, they can be turned into new opportunities for Europe to grow and create more jobs.

At present, Europe finds itself at a crucial crossroads facing both internal and external challenges. On the one hand, Europe must address the challenge of ageing population, which in the long-run will result in a considerable shrinking of the working-age population, while increasing the share of the retired persons. Unless the decline in the size of the workforce is compensated by increases in labour productivity, potential growth will drop dramatically to around 1% by 2040, which is only half of the current level. Such a decline in economic performance together with a rise in age-related expenditures would put the European social model under considerable stress. On the other hand, the increased pace of globalisation has exposed the EU economy to mounting competition from abroad. The range of economic activities exposed to external competition has widened, now including the production of both high-tech and labour intensive goods and services. R&D investment in the EU has become close to stagnation. If current trends continue, R&D investment will reach 2.2 % of GDP in

2010, considerably lower than the agreed objective of 3%. Against this background, important decisions need to be taken, which will determine the Europe's economic and social future.

The goal of the Lisbon partnership for growth and employment is to modernize the EU economy in order to secure an unique social model in the face of increasingly global markets, technological change, environmental pressures, and an ageing population. This strategy is also to be seen in the wider context of the sustainable development requirement that the present needs have to be met without compromising the ability of the future generations to meet their own needs.

One important element of the Lisbon re-launch is the overhaul of its governance structure to define more clearly the respective responsibilities at the national and the Community level in order to better match tasks and competences. The Commission must complement the efforts of the Member States. As a consequence, policy actions at Community and Member States level have been split into complementary, but separate agendas.

While the success of the Lisbon partnership for growth and employment depends predominantly on the Member States and their determination to introduce the necessary structural reforms, the Community dimension of the strategy contributes essential value added.

The European Council in June endorsed the Integrated Guidelines for Growth and Jobs, which constituted a basis for the Member States' national programmes for growth and jobs. The European Council also invited the Commission to present, as a counterpart to the national programmes, a "**Community Lisbon Programme**" covering all actions at Community level. This programme will follow the structure of the integrated guidelines for growth and jobs. Policy measures proposed under this programme fall under three main areas:

- Knowledge and innovation for growth.
- Making Europe a more attractive place to invest and work.
- Creating more and better jobs.

In order to ensure the credibility of the renewed Lisbon partnership for growth and employment and to enlist the continued support of the European citizens, action has to be taken immediately to achieve visible results. In particular, measures at the Community level should concentrate on key actions, such as the support of knowledge and innovation in Europe, the reform of the state aid policy, better regulation, the Internal Market for services, the removal of obstacles to mobility, economic migration, to development of a common approach to economic migration, and the social consequences of economic restructuring. It will also be essential to align cohesion and rural development policy more closely with the Lisbon partnership for growth and employment. The Commission calls on the other institutions of the European Union to make a concerted effort to deliver quickly on these policies.

Synergies and complementarities between the Community Programme and the Member States reform programmes are key to the success of the renewed Lisbon strategy. In the spirit of the partnership for growth and jobs and in order to implement this Programme successfully, the European Commission will work closely together



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with the European Parliament and the Council of Ministers and draw on the expertise of other EU institutions, such as the European Economic and Social Committee, the Committee of the Regions and, in the financial field, the European Investment Bank.

The Lisbon partnership requires a long-term communication strategy that not only keeps the citizens informed, but engages them in the process. The main thrust of the communication efforts must be at national, regional and local levels. This is why there must be close and continual coordination with the national governments, parliaments, regions, cities and civil society. This will provide the democratic legitimisation of the strategy itself and the basis for it to succeed.

The EU has entered a crucial stage, both in a political and in an economic sense. The EU expects Member States to come up with credible and ambitious action plans to make the Lisbon work. Europe has to show the way. Europe has to show that it can choose. It has to substantiate its choices. The choices need to be ambitious but realistic. By showing leadership, the Commission can stimulate and encourage the Member States to do the same. It is only by the combined forces of the Commission, the European Parliament and the Member States that Europe can reach the ambitious goals set in the renewed Lisbon agenda.

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