Policy implications

This critical assessment of the Commission’s 2020 strategy paper finds that the consequences of the exit strategy are largely glossed over. Policymakers face a looming trilemma - reducing debt, investing in green infrastructure, and maintaining the welfare state and public services - that can only be addressed by thinking out of the box. Tackling inequalities of all types should be the agenda’s top priority. The transition to a low-carbon society will not be delivered by greening ‘business as usual’ with a top-up of innovation. A paradigm shift is happening that demands a in-depth analysis of the limits of the current development model. The fundamentals of a raft of policies - taxation, industry, transport, trade, employment and others – must be opened up to discussion and revision. The focus should be on quality jobs, social security, social rights, social dialogue, public services, etc. A debate is needed on how the agenda can bring about a just transition by involving the stakeholders in delivering this radical change to the social model.

Introduction

The Commission has issued its strategy document “Europe 2020”, covering the next ten years, its purpose being to replace the Lisbon Strategy adopted in 2000. This document will structure the policy debate in the run-up to adoption of the new European strategy in June. Like the Lisbon 2000 document, “Europe 2020” consists of two parts, the first of which (sections 1 to 4) covers matters of content, with the second (section 5) covering the governance aspect. Just as the Lisbon 2000 Strategy was adopted in parallel with the Nice Treaty reform, the new strategy runs parallel with adoption of the new Lisbon Treaty. It should be stressed that, once again, the reform of the European Union and its operating regulations (decision-making procedures, powers, institutions) include no provision for incorporation into the treaty texts of the procedures and dynamics associated with these medium-term strategies (Lisbon, 2020 ; Pochet et al., 2009).

In this contribution we will begin with a brief presentation of a few key points covered by the new document. A second section will contain a critique focusing on the four main aspects. The third part will return to the question of the crisis, stressing the real issues at stake and the importance of the choices currently being made in relation to the mid-term strategy for 2020. The last section, finally, will propose an alternative approach.

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A brief overview of the contents of 2020

The new document is divided into four parts:

1. five ‘headline targets’;
2. seven ‘flagship initiatives’ focusing on – as indicated in the document title – ‘smart, sustainable and inclusive growth’;
3. a series of other policies dealing essentially with the internal market (part 3 of the document) and the Stability and Growth Pact (part 4); and finally
4. the actual governance of the new strategy.

These various parts will be briefly presented below.

The five ‘headline targets’ are:

1. An employment rate of 75% rather than 70% but for the population aged 20 to 64. Here the Commission has changed the age base from 16-64 to 20-64 which is consistent with the aim of increasing the numbers of students in post-secondary education. The extent to which this aim is realistic will depend essentially on the processes for exiting the crisis which has caused a significant drop in employment rates in a large number of countries.
2. Investment in the field of R&D amounting to 3% of GDP in an effort to catch up with the United States and Japan, a target which is the same as that of Lisbon. The Commission is itself sceptical as to the relevance of this target which, for example, fails to take account of the dynamic between research and innovation (Tilford and Whyte, 2010). It proposes to create a new indicator to reflect R&D and innovation.
3. To reduce European greenhouse gas emissions by 20%, improve energy efficiency by 20% and raise to 20% the consumption of renewable energies in the EU. There is nothing really new here as this target essentially reproduces the content of the energy-climate package already adopted by the EU27 in December 2008.
4. To reduce, on the one hand, the secondary-school drop-out rate by 10%, and, on the other hand, achieve 40% of graduates from higher education. The situation in this respect differs greatly from one member state to another, with some remaining particularly far from achievement of these targets, for example Portugal – 30% secondary-school drop-out rate – or the Czech Republic where only 15% of the population aged 30 to 34 years have a higher educational qualification. These two targets were not in Lisbon but a reduction of school drop-out rate was an aim included in the integrated guidelines (n° 23). The European Council has postponed agreement on these indicators until its June session (European Council, 2010: 2).
5. The final target relates to the effort to reduce by 20 million – i.e. by 25% – the number of persons at risk of poverty, on the basis of a threshold of 60% of median income. This is a new target and the only social target. Insofar as it is a relative target, linked to the median income, it is extremely difficult to achieve without extensive redistribution measures and an acceleration in the relative increase of low incomes compared with the average. This no doubt accounts for the European Council’s statement that ‘further work is needed on appropriate indicators’ (European Council, 2010: 2).

The main changes, in comparison with Lisbon, are the radical reduction in the number of indicators (which previously numbered 42 so-called ‘structural indicators’) and the incorporation of the environmental dimension into already accepted targets. It is to be noted, however, that the Sustainable Development Strategy continues to coexist in parallel with the 2020 Strategy.

The seven European ‘flagship initiatives’ focus on
1) innovation; 2) education; 3) digital society in relation to smart growth; 4) climate and energy; 5) mobility on the one hand and competitiveness on the other hand in the interest of sustainable growth; 6) Jobs and skills; 7) the fight against poverty in relation to inclusive growth.

The European ‘headline targets’ and ‘flagship initiatives’ are something of a window-dressing exercise, consisting of a few indicators in areas in which the European Union actually has few powers and hence only relative added value.

The proposals: These focus on completion of the internal market in the section entitled ‘Missing links and bottlenecks’ and on implementation of the Stability and Growth Pact in the section entitled ‘Exit from the crisis’. In spite of some progress compared with the consultation document (European Commission, 2010a), the Commission’s proposals are weak and contradictory. They fail to incorporate the impact of the short term (see below ‘exit from crisis’) on the medium term. There is not a word, for example, on the European budget and the level at which it should ideally be set. One positive point, by contrast, is the unblocking of the industrial policy debate but this receives no mention in the European Council’s conclusions. In terms of governance, the Stability and Growth Pact constitutes the principal reference and its provisions are intended to structure the member states’ action in the short term (exit from the crisis) and hence also the medium term. Unlike the initiatives outlined in the earlier sections of the document, this constitutes a return to the ‘core business’ of Community action, namely the internal market and monetary union. This contrast is doubtless what makes the document so peculiar. In the first part the aim is to coordinate the action of the member states but here it is the actual form of the European Union that is under consideration.

The last part of the EU2020 document deals with governance. The Commission proposal describes the place of the different actors (Commission, Council, Parliament, civil society, etc.) in the new process. The challenge is to persuade the actors to take ownership of the strategy and to combine the European targets and their implementation at national level, in particular by the definition of national targets. Such implementation is divided between a thematic approach, comprising the seven ‘flagship initiatives’ and five ‘headline targets’, and national reports that seem to focus essentially on public finance. The link between the two is to be achieved insofar as ‘the Europe 2020 and Stability and Growth Pact (SGP) reporting and evaluation will be done simultaneously to bring the means and the aims together, while keeping the instruments and procedures separate and maintaining the integrity of the SGP’ (European Commission, 2010c: 25).
In other words, it is a question of an – unsatisfactory – mix between thematic reports and the Stability and Growth Pact with pre-eminence accorded to the latter.

**Four major points of criticism**

Before reflecting upon an alternative approach, we will address the main problematic aspects. In the first instance, I should like to consider four such aspects: evaluation of the preceding strategy; the absence of any real consideration of the environmental and economic crisis; the tensions/contradictions; governance.

1. The first aspect is that no fundamental reflection whatsoever has been given to the question of why Lisbon failed (ETUI-ETUC, 2009; 2010; Pochet et al., 2009; Magnusson, 2010). Assessment of the results of Lisbon emanating from the Community level has been essentially political and has varied depending on the moment and the ongoing momentum: positive from 2000 to 2004; negative with the Kok report from 2004 to 2007; then positive, once more, as a result of growth in 2007 and 2008; finally non-existent (or highly critical) with the advent of the crisis. It is significant that the Commission document evaluating Lisbon (European Commission, 2010b) was issued after initiation of the consultation.

The simple observation, for example, that not a single target has been achieved – and would doubtless not have been achieved in 2010 even without the crisis (Tilford and Whyte, 2009) – obviously raises the question of the underlying rationale and value of the indicators chosen. It is therefore insufficient to repeat yet again that research and development should be 3% (the same target as at Lisbon). There is a need, rather, to ask why corporate R&D efforts have failed to increase over the last ten years and what measures might be appropriate to improve this situation. Public investment is, in actual fact, exactly the same (around one per cent of GDP) in Europe as in the United States or Japan; the difference is attributable to private investment by businesses. Similarly, the increase in the employment rate has been exclusively attributable to atypical contracts (Pochet, 2009). Is it appropriate to adopt a new target (75%) without at least discussing the quality of the jobs created? Indeed, job quality is a term that has completely disappeared from the new strategy.

In part as a response to the criticism of a single target for all, the new indicators are to be formulated in national terms. But the differences between member states are – in some cases – tremendous. For example, in post-secondary education, 12 countries have already reached or are close to the level of 40%. Four countries (Czech Republic, Italy, Romania and Slovakia) have, on the contrary, less than 20% and four others (Austria, Hungary, Malta and Portugal) less than 25%.

For the time being the discussion within the indicators group (EMCO) inclines towards national targets that would reduce by at least half the difference with the European target but EcFin (2010) proposes no less than five different methods.

The fundamental question remains: if the targets themselves are appropriate for action at national level and fully endorsed by national actors, why the need for Community monitoring?

2. The second criticism relates to the treatment of the economic and financial crisis on the one hand and of the ecological crisis on the other. Even though both crises are accorded recognition in the document, it would appear, on the basis of the proposals made, that few lessons have been learned. To give a single example: is it possible to continue with a ‘better regulation’ agenda, newly baptised ‘smart regulation’, the underlying purpose of which is, as is well known, to limit the regulatory capacity of the public authorities (Vogel and Van den Abeele, 2010; Van den Abeele, 2009)? The least that might have been expected in the wake of the financial crisis would have been some fundamental rethinking of the role of public regulation. Some Commission documents indicate clearly, that there were shortcomings in the underlying analysis of Lisbon in relation to the role of financial markets: ‘with the benefit of hindsight, it is clear that the strategy should have been organised better to focus more on critical elements which played a key role in the origin of the crisis, such as robust supervision and systemic risk in financial markets, speculative bubbles (e.g. in housing markets), and credit-driven consumerism’ (European Commission, 2010b: 4).

All in all, though a few pages of the document are devoted to the crisis, the link between the choices for exiting the crisis and the mid-term targets is not made explicit. Indeed, a closer reading reveals contradictions (see below). It is to be noted that in this 30-page document less than half a page is devoted to the issues of regulation of the financial sector.

As for inequalities, they are limited to the questions of health and poverty. Yet the various forms of inequality were among the significant contributory causes of the crisis. What is more, in the absence of a reduction of inequalities, the idea of a green economy is hardly credible, for no one is going to change their behaviour if the most affluent sections of the population continue to enjoy material prosperity such that they can disregard with impunity the constraints imposed by the environmental crisis. Similarly, the Commission had initiated work on an alternative wealth indicator and a reference to the Sen-Stiglitz-Fitoussi report was included as a source of inspiration in an earlier version of the document but has disappeared from the final version. Even the intellectual exercise of attempting to think differently about the future has thus been omitted from the document. What is missing in reality is any genuine projection of the state of the world in 2020. What are the possible scenarios as viewed from the present time and how, on this basis, can a path be traced? In what is the Commission, as the guardian of the general interest, opening up a way to shaping the future? This is all the more surprising in that the Commission earlier conducted an important exercise designed to consider scenarios for Europe 2025 (European Commission, 2009). It would have been possible, for example, to take, as an explicit initial hypothesis, a world that had become both more multi-polar and greener,
with stronger economic regulation in the wake of the crisis and an acceleration in the ageing of the population (see part 4).

3. No reflection is given to the tensions or contradictions between the different aims. The new description of growth as ‘smart’ is quite inadequate as an approach to solving a complex debate between, on the one hand, the need for a return to growth to ensure social stability and social cohesion and, on the other hand, the need for a change of paradigm which requires a redefinition of growth (as traditionally understood) to avoid an increase in greenhouse gas emissions. A decoupling of growth and emissions has indeed taken place – such that growth no longer implies an increase in emissions – but the aim is to achieve a reduction, not just a stabilisation of emissions. Moreover, the limited improvements of ghg emissions in the EU were mainly due to crises /transformation crisis in CEE and the current crisis.

To give another example, how can it be possible to specify the aim of reducing the number of persons living in poverty by an exchange of good practices (sic) and by creating a platform for such exchange? Is such an aim seriously viable and compatible with respect of the criteria of the Stability and Growth Pact in the short term and without any changes in the distribution of income and the mechanisms for redistribution?

The challenges and tensions should not be camouflaged by means of ‘euro-jargon newspeak’ but should allow the conduct of a genuine and open debate.

4. The fourth aspect is that of governance. The idea, as in Lisbon, is to grant a key role to the European Council which is expected to act as the supreme body entrusted with preservation of the general interest. What is concealed in the text, by contrast, is the central role given to the Ministers of Finance at both national and European level. It is they who are to be the real coordinators of the strategy, for the national reports are to be included in the framework of the provisions of the Stability and Growth Pact. This constitutes a backward step to the extent that one aim of Lisbon was, precisely, to redress the role of the EcoFin Council, which had been strengthened by monetary union, so as to place the other sectoral Councils on an equal – or almost equal – footing with Ecofin.

Ownership of a text or a strategy has to be achieved by means of texts prepared in secret by the Commission after consultation with, in the main, the member state governments. Another cause of the feeble legitimacy of Lisbon was the periodic political revaluation conducted in the virtual absence of democratic and open debate. Once again the European Parliament is marginalised in the basic initial choices.

The essence of strategy definition is to place the opposing options on the table and assess the choices to be made and the consequences of these choices. However, the choice of medium-term options will also depend on the choices made for the short term.

What is really at stake: how to exit the crisis

An important blind spot in the Commission’s proposal relates to the whole question of exit from the crisis, the strategies to be employed to this end, the choices of which, in terms of the budgetary policy choices to be made (deficits, ageing, unemployment, climate, etc. who is going to pay?), will represent a heavy burden throughout the rest of the decade.

Indeed, the crisis is not over yet and unemployment is still growing. Especially thorny is the reduction of deficits at a time when population ageing is beginning to make itself felt. Thus deficits will have to be reduced while at the same time increasing expenditure on pensions (and healthcare). In addition, the environmental crisis and climate change call for substantial investment in the order of at least one point of GDP (Stern, 2008), but no doubt more, in green infrastructure (transport, intelligent electricity grids, alternative energy, etc.). All countries will therefore be faced with a trilemma: reducing the public deficit, investing in going green, and preserving the welfare state and public services (Figure 1). It is unlikely that it will be possible to overcome more than two of these challenges. Forcing workers to shoulder the main cost of budgetary adjustment in a crisis for which they bear no responsibility whatsoever could provoke severe protest. The complexity of this state of affairs is compounded by the simultaneous need to thoroughly rethink the model of consumption and production in order to reduce CO2 emissions (the automotive sector being only the most obvious example). Also, in all likelihood, debt reduction and compliance with the stability and growth pact will have a lasting impact on national social policy.

The Commission clearly indicates the fields to be tackled as a matter of priority (European Commission, 2010c: 24) ‘Fiscal consolidation and long-term financial sustainability will need to go hand in hand with important structural reforms, in particular of pension, health care, social protection and education systems. Public administration should use the situation as an opportunity to enhance efficiency and the quality of service.’ By contrast (European Commission, 2010c:
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24) ‘budgetary consolidation programmes should prioritise “growth-enhancing items” such as education and skills, R&D and innovation and investment in networks’. What is at stake here is indeed the conditions of exit from the crisis and the impact on the social institutions and public services including education. For it is all very well to establish targets in terms of education but if the process of exit from the crisis is effected, as is already the case in certain countries, by a reduction of education budgets and particularly post-secondary education (increased privatisation), it seems hardly plausible to achieve the targets regarded as strategic. The same applies to health care where the reference to inequality will carry little weight given the pressures of privatisation. Concealed in the document is the intention of attempting to resolve the trilemma by transferring the costs of education and health to the private sector. Such a step will serve only to increase inequalities, in the absence of compensatory action by the state (in which case there would be no reduction in costs).

It is also interesting to stress that, according to the Commission (European Commission, 2010c), green taxation should contribute to reduction of the debt and reduction of contributions on labour and not, as one might have expected, to accelerate change by devoting these new resources to medium- and long-term investments (transport networks, smart energy grids, etc.). The thinking on taxation makes no mention of alternative sources of revenue such as the taxation of financial transactions, dividends, the highest incomes, even though this question has, to varying extents, been tackled in several large European countries including Germany, France and the United Kingdom. On the other hand, the European Council conclusions state that ‘the Commission will shortly present a report on possible innovative sources of financing such as a global levy on financial transactions’ (European Council, 2010: 6). Meanwhile, a simple idea put forward in a book by the Belgian Verhofstadt (Verhofstadt, 2009), namely to exclude green investment from the Stability and Growth Pact, is not taken into account.

Faced with the trilemma, the Commission has clearly chosen the budgetary consolidation corner, with a hint of green but in the absence of any guaranteed financing or ambitious targets. Without clear economic instruments that would give guidance to economic actors (to internalise environmental costs) the whole strategy of a transition to low-carbon economy is not credible. The instruments to achieve the (otherwise very moderate) targets do not work like the ETS or are missing (no serious discussion of a European carbon tax /with a level reflecting the costs of using environmental resources). Without having the carbon price ‘right’ the green transition strategy can not be successful.

Totally absent from this document is any deep reflection on how to exit the crisis. Management of the eurozone is regarded simply as a strengthening of controls and strict application of the Stability and Growth Pact. The Greek case reveals, on the one hand, the institutional shortcomings of the eurozone (Marzinotto et al., 2010), a point that has been stressed from its creation by most economists (Gros and Thygessen, 1992), but similar criticism must be levelled at non-co-operative strategy choices, such as that of medium-term pay restraint to foster exports and employment in Germany but which takes place to the detriment of the other countries of the zone (Wolf, 2010).

What alternative approach?

The development of an alternative approach requires consideration of what the world will be like in 2020. In the box below we enumerate a few hypotheses.

Geopolitical balances: in 2020 the challenge for Europe is to make its voice heard in a context of growing tension between China and the United States. Have the European countries learned the lesson of their marginalisation when they try to go it alone? Or is each big country still trying to maintain some influence but without success?

Climate challenge: in 2020 some major industrial developments have taken place and the new ‘stability and green growth pact’ has opened up the way to green investment. But the challenge now is to achieve reductions of 40 to 50% by 2030 (in relation to 1990). OR the international community has totally failed, provoking major diplomatic and trade tensions with the rest of the world.

Finances: by 2014 the EU has emerged from the crisis triggered in 2008. The system of monitoring and governance has been strengthened, as has, in the wake of the Greek crisis, the coordination of policies within the eurozone. OR in 2015 a further financial crisis erupts on account of the speculative bubble on green technology and the inadequacy of the measures taken after the crisis of 2008; the eurozone is suffering from the new imbalance resulting from the continuing German strategy of wage restraint.

Demography: as from 2013 the ageing of the population makes itself felt and begins to cause labour and skills shortages in certain occupations and sectors. At the same time low-skilled jobs continue to be relocated en masse so that a stock of persons with few or no skills continues to exist. Moderate external migratory flows persist and the debate now focuses on the climate refugees, particularly those coming from the Sahel region of Africa. The retirement age has been raised in all countries.

On the basis of these hypotheses it is possible to consider the paths that could be followed to meet the medium-term central challenge, namely the change of economic and social paradigm.

In this framework, a completely different perspective is required and the point of departure must be that of inequality. The social dimension cannot be limited exclusively to the issue of poverty, however important this problem may be. During these last decades most countries have experienced an increase in
wage inequality and labour market fragmentation (most new jobs being fixed-term or part-time). What is more, ‘pseudo-self-employment’ contracts have proliferated, eroding the strength and impact of established labour standards (Castels, 2009). Although the expressed aim had been also to promote a process whereby the new member countries could catch up with the older ones, territorial inequalities have increased with polarisation between capitals and outlying regions. The economic and financial crisis has also impacted particularly strongly upon these countries (Schwenninger, 2010; ETUI and ETUC, 2010). It is essential, given these developments, to think in terms of social and territorial cohesion in order to develop a vision of the future. Competition takes place increasingly within national labour markets between workers with differing statuses and different nationalities (posted worker directive, freedom of movement). These trends will be exacerbated by exploding youth unemployment and the risk of a ‘lost generation’ as a result of the crisis. As such, a response in terms of flexicurity is utterly inappropriate. Inequality also has consequences in the area of environmental transition: how to ensure that more environment-friendly consumption becomes affordable? How to convince people of the essential need for change when the richest can continue to waste resources as much as they like? (Kempf, 2009)

To tackle this question seriously, it is necessary to return to the role of social rights versus economic rights. The priority accorded to the latter is clearly apparent from judgments issued by the Court of Justice in cases such as Laval, Viking, Rüffert, or Luxembourg. The new treaty, containing reference to the fundamental rights included in the charter, is an improvement but it is necessary to take the process even further (Schömann, 2010). A genuine effort to redress the imbalance between the economic and social dimensions is a prerequisite for building a balanced future (Supiot, 2010). In the absence of progress in this respect, any proposal for a new European social model will be built on shifting sands.

The second aspect is to take seriously the current change of direction towards a low-carbon society. It cannot be a question of ‘business as usual’ with a hint of green and innovation (on this latter point see Aghion et al., 2009), for we are faced with a change of paradigm that requires thinking in depth on the basis of the limits of the current development model (alternatives to GDP growth, environmental justice, changes in social attitudes and modes of production, etc.). Beyond the climate change debate, the question of energy, and particularly the already apparent or imminent oil crisis, indicates that the current model of development is non-sustainable. Major inter- and intra-sectoral changes will take place with important consequences for employment and national areas of specialisation. This raises questions of transitions within individual sectors and among sectors and also the question of the quality of newly created jobs.

Innovation will indeed be at the centre of the process, giving rise to the issue of patents and intellectual property (transfer prices for less developed countries; see the debate on anti-AIDS drugs). It is therefore a contradiction to seek – as does the document – to strengthen intellectual property rights when the challenge, on the contrary, is to spread innovation as widely as possible.

The changes will also affect modes of consumption (more local and more environment-friendly) and production (regulations to ensure efficient production). Other important questions will include relocation (given increasing energy and transport prices and/or consumer preferences) with a debate on levies (carbon compensation) at frontiers. These various elements require a deepening of the definition of a European industrial policy (concerning which the 2020 document – this being one of its positive points – does initiate a debate).

Green development will raise the questions of social justice and redistribution (Degryse and Pochet, 2009). This will be strengthened by the adoption of new environmental levies intended to alter behaviour (Laurent and le Cacheux, 2009) and their frequently regressive effects. But beyond behaviour, it is the question of attitudes that is central, in other words, the way in which we perceive problems and formulate the challenges that they pose (Laurent, 2010).

A whole range of policies, accordingly, must be subjected to fundamental discussion and revision. The list includes taxation policies, industrial policies, transport policies, trade policies, employment policies (transition, green jobs). In this latter area there is a need for an agenda that focuses on quality jobs, social security, social rights, social dialogue, public services, etc., an agenda that has to be debated with the aim of achieving a fair transition through participation of the collective actors in the steps required to achieve this radical change in social and economic model.

**Bibliographical references**


