CEEP OPINION
On the European Commission’s 2008 Strategic report including the Lisbon Progress Report and Integrated Guidelines 2008-2010
CEEP OPINION
On the European Commission’s 2008 Strategic report including the Lisbon Progress Report and Integrated Guidelines 2008-2010

1. COMMISSION’S LISBON PROGRESS REPORT

Introduction

With only two years to go to the target date of 2010, it seems most unlikely that the ambitions of the Lisbon Strategy will be fully realised. Europe will not be the “most dynamic knowledge-based economy” in the world by then. Employment rates will very probably not reach the 70% overall target, and will definitely fall well short of the 50% target for older workers, though they could reach the 60% target for female workers.

Part of the reason for missing the 2010 employment targets is sometimes said to be due to the accession of twelve new Member States. This has indeed lowered the statistical baseline, but at the same time it has been an important growth factor. And in any event, many of the EU-15 will themselves probably miss the Lisbon 2010 targets.

There are however reasons for a measure of optimism. Growth rates have improved, unemployment has been significantly reduced, millions of new jobs have been created. Good progress has been made in many Member States in reforming labour markets and in encouraging innovation and entrepreneurialism.

As the Commission’s progress report acknowledges, much of the economic progress has been due to cyclical factors. And now the global economy is entering a turbulent and uncertain period in which Europe will be fortunate to avoid a downturn.

What is needed for the EU to thrive beyond 2010 is a much more determined political willingness to face reality. For the time being, the EU may be the largest market in the world. But this may not last long. Our population is set to shrink; our Asian competitors narrow the gap with the first world all the time; our energy supplies are insecure; we have scarcely begun to deal with global warming; and we have major social problems, including shockingly high proportions of economically inactive people of working age and persistent failures to integrate several minorities into the economic and cultural mainstream of European life. A sense of urgency is needed at all levels in tackling these problems if Europe is to remain in the global first rank throughout this new century.

Remarks on the Lisbon progress report

CEEP agrees broadly with the analysis in section 2 of the progress made during the first Lisbon cycle (2005-8). We do however question the implied assumption that opening up network industries and services always helps the economy to grow and to function better. Network industries and services naturally need always to improve to provide better value for money and to change to reflect changing circumstances. But it does not follow that open competition always produces such outcomes and indeed there are examples which
suggest the opposite is sometimes the case. For example, the legal uncertainty often accompanying processes of liberalisation, at least for an interim period, has had as a side effect a significant decrease in investments in infrastructures. This has created bottlenecks and short comes that need now to be addressed.

We welcome the acknowledgment at paragraph 3.1 of the role of local and regional authorities in the application of cohesion funds. Indeed more emphasis should be placed by the Commission and Member States on the role of services and enterprises of general interest in making a reality both of the Lisbon strategy and of the flexicurity principles. Economic growth, social cohesion and environmental protection cannot be achieved without good public services delivered at an affordable cost. Last year CEEP completed an important, Commission-funded, project on the modernisation of SGIs and we would now welcome a high-level debate with the Commission on the best ways of promoting good practice in the reform and modernisation of public services.

Investing in people and modernising labour markets

CEEP believes that the European social partners’ negotiations which led to the 2007 joint analysis on labour market challenges was a stepping stone for the European social dialogue and beyond. Indeed the analysis helped the Commission and the European Council to adopt common principles on flexicurity. All stakeholders now need to concentrate on putting those principles in practice. For CEEP, the top priorities are to reform social protection and to improve educational outcomes as the foundation for future lifelong learning.

Tough policy approaches are needed on social protection, in order to make clear links between trying to find work and making oneself employable and, on the other hand, eligibility to receive benefit payments, as recently stated in the Commission’s Joint Report on Social Protection and Social Inclusion 2007. CEEP fully supports the importance of strengthening the Open Method of Co-ordination (OMC) process through its three key challenges, which are: fighting poverty and exclusion, health care and long term care and adequate and sustainable pensions. CEEP is convinced that the first challenge (fighting social exclusion) mainly relies on the promotion of active inclusion. Europe has many millions of economically inactive people of working age. They are not classified as “unemployed” because they are not looking for work, although some commentators believe that many of these people could be found jobs and could do them satisfactorily, given the right support and motivation. This situation is bad for the individuals concerned, bad for social cohesion and bad for the economy. Everyone loses. [Just as one example, there are over 2.6 million such economically inactive people of working age in the UK, even though it is a country which met all the Lisbon employment targets some years ago. The annual cost of social protection payments (“incapacity benefit”) to these people is over £12 billion. Among the factors suggesting that many of them could work is the fact that the number of people receiving such benefits in the UK has grown nearly fourfold since the 1980s. Half a million of them are aged under 35. That there are jobs available in the UK is amply demonstrated by the large numbers of workers absorbed into the UK labour market since the accession of the new Member States to the EU. The situation is such that a senior government adviser has recently said that he believes that up to two thirds of these people (i.e. 1.9 million) could be got into work if much more radical approaches were taken, involving giving personal attention to each individual's needs. There is no reason to suppose that this shocking waste of human capacity is not mirrored elsewhere in the EU]. One could plausibly argue that reducing the number of people on incapacity/sickness benefit is as important a priority, if not more so, as reducing unemployment itself.

CEEP agrees with the Commission’s view that educational performance must be improved. It is not however simply a question of reducing the rate of early school leaving and improving reading skills. Numeracy, IT skills and the ability to interact effectively with other people are also critically important.
Unlocking the business potential, especially of SMEs

CEEP agrees that more needs to be done to create more business-friendly environments in many Member States. We are not sure however that it is possible to be so confident that “Europe’s better regulation agenda is starting to produce results.” That is not the perception of senior managers in CEEP’s member organisations, who find themselves constrained by disproportionate regulation in many fields and at several levels, particularly in the field of employment.

None of our major competitors regulates the labour market to anything like the extent that is typical in Europe. In saying this we do not question European social values or the distinctively European role of social dialogue. We simply suggest that there should be an impartial, high-level review of the proportionality and effectiveness of employment and related regulation in order to ensure we have a sustainable balance between workers’ rights and the competitiveness of our economic system.

CEEP agrees that Member States should continue to modernise public administration. But this should not be limited to the context of implementing the services directive and the better regulation agenda. A wider approach to this is needed and the Commission should invest more research and funding in this field, to approach the levels spent on supporting the SMEs sector.

Investing in knowledge and information

We agree with the Commission’s proposals here and welcome the idea of a “fifth freedom” – the freedom of knowledge.

On a detailed point, the Lisbon targets for research and development measure only the volume of R&D, but its effectiveness also needs to be assessed.

Energy and climate change

The climate change package sets ambitious targets for a 20% reduction in greenhouse gas emissions and a renewable energy share of 20% by 2020. It will be extremely difficult to reach those targets, but even if we do so the scientific advice seems to be that it will be a question of too little, too late. For the immediate term, the priority has to be to limit Europe’s reliance on energy imports from unstable and potentially hostile parts of the world.

As a passing point, energy and climate change is a policy area where the effects of the expected demographic downturn should turn out to be benign.

CEEP’s conclusions

While agreeing with most of the analysis and most of the proposals in the Lisbon progress report, CEEP considers the overall tone to be disappointingly low-key. The report does not seem to show the sense of urgency about the challenges the EU faces which we believe that the situation demands.

In CEEP’s view, Europe needs to focus on six major aims:
  • Safeguarding energy supply and moving decisively towards a low carbon economy
  • Very large reductions in the number of economically inactive people of working age
  • Integrating minorities into the economic and cultural mainstream, without damaging their distinctive identities
  • Major improvements in educational performance for the lowest achievers
  • Providing the best conditions for economic growth
  • Reducing inter-regional wealth and employment disparities.
As 2010 approaches, we need to start thinking about “Life after Lisbon”. CEEP proposes that the Commission should start work soon on formulating a new over-arching strategy for the development of Europe from 2010 onwards, focussed on the economic, social and environmental themes outlined in the previous paragraphs.

**INTEGRATED GUIDELINES FOR GROWTH AND JOBS (2008-10)**

**The state of the EU economy**

CEEP agrees broadly with the Commission’s general conclusions that “notwithstanding the favourable [economic] developments over recent years, the recent international turbulences call for action to increase the resilience of the economy and to use the existing scope to improve both labour utilisation and labour productivity”. However, it considers that these turbulences also call for more attention to the appropriate design of structural policies, in particular in the financial sector which is crucial for the well-functioning of the economy. This also includes taking a fresh look at the relative roles of the state and market sectors.

**The new integrated guidelines**

Subject to the concerns below, CEEP considers that the new integrated guidelines are appropriate in headline terms. They balance macro-economic guidelines (1-6), microeconomic guidelines (7-16) and employment guidelines (17-24).

CEEP is pleased to note that its concern regarding the euro area’s role in international monetary and economic policy co-operation and the development of a more stable external environment has been taken into account, and looks forward to the presentation by the Commission of a comprehensive review of the functioning of EMU.

**CEEP concerns**

In our 2005 observations on the first set of guidelines, we wholeheartedly endorsed the new approach, while also expressing some general concerns about four particular points:

- The macroeconomic approach
- The regional dimension
- Environmental and energy considerations
- The role of the public sector.

These concerns remain valid to a considerable degree.

The **macro-economic approach** – which has essentially been followed since the early 1980ies - has indeed been successful in terms of sounder public finances, price stability, external cost competitiveness and the pace of structural reform. However, it has disappointed in relation to accelerating endogenous growth and achieving an annual rate of 3 %, as envisaged. In the current context of a weakening world economy, this issue has gained new urgency.

After 25 years of pursuing this policy approach, also including structural reform with a historic dimension such as the Single Market, introduction of the Euro, the Lisbon Agenda and successive Enlargements, it is time to conclude that new ways need to be explored if the 3 %-objective is to be achieved. Faster growth is indeed a pre-requisite for raising employment rates as well as for maintaining the European Social Model at desired levels. CEEP continues to believe that investment in the physical and social infrastructure will be an important ingredient.

More emphasis is needed on addressing **regional disparities**, particularly in relation to unemployment but also in relation to wealth and to population development. More thought needs to be given to the regional downsides of promoting intra-EU mobility of workers, and more emphasis needs to be given to finding ways of moving jobs to people without introducing distortions to competition through long-term subsidies.
Our earlier concerns about the potential tension between the rising costs of energy and environmental protection on the one hand and growth targets on the other are if anything greater than they were in 2005. CEEP has worked hard recently on the overarching issue of climate change and these observations on the integrated guidelines need to be read alongside our Opinion on climate change (07Climate04-12).

The role of the public sector is critical to the achievement of the Lisbon objectives and in CEEP’s view the Commission should pay much more attention to how best to reform the financing, delivery and governance of public services and enterprises (SGIs) to support the underlying objectives of the Lisbon strategy: economic growth, social cohesion and environmental protection. The European Commission spends large sums of money in promoting research into the business sector and facilitating its development, but by contrast the attention given to the public sector is very small. CEEP remain grateful for the support they received from DG Employment in last year’s project on restructuring and modernisation of public services but we are sure that a much more ambitious approach to R&D within public services and enterprises can and should be led by the Commission.

We would like in particular to focus on the employment chapter of the integrated guidelines.

The employment guidelines

CEEP is pleased to see the incorporation of flexicurity in guideline 21. These observations need to be read alongside our concurrent Opinion on that subject.

CEEP considers that the Commission should encourage Member States to be more open to including national representatives of all the cross-sectoral European social partners in developing national employment policies and National Reform Programmes (NRPs) under the Lisbon umbrella. Member States should be asked to confirm that they have consulted all the national social partners on these important issues when submitting their NRPs to the Commission.

In formulating recommendations for individual countries CEEP considers that the European Council should take a firmer approach towards those Member States which are failing to implement key aspects of the reform process, in particular in reducing the barriers between labour market insiders and outsiders. The continuation of such barriers does not just affect the countries concerned, it has an EU-wide impact in preventing optimal results from the reform process. It is therefore legitimate for the European Council to place a harsher spotlight on the failures of individual countries which hold back economic progress elsewhere in Europe by restricting growth.

Priorities

As far as the Lisbon progress report is concerned, we conclude that Europe needs to focus on six major aims:

- Safeguarding energy supply and moving decisively towards a low carbon economy
- Very large reductions in the number of economically inactive people of working age
- Integrating minorities into the economic and cultural mainstream, without damaging their distinctive identities
- Major improvements in educational performance for the lowest achievers
- Providing the best conditions for economic growth
- Reducing inter-regional wealth and employment disparities.

We consider that adopting a short list of overarching priorities such as these would help to summarise what the Integrated Guidelines are aiming to achieve and would help to communicate the European agenda in a clear way to the general public.