



Study Group Europe*

Paving the Way for a Sustainable European Prosperity Strategy

Preparations for a new ten-year strategy for economic and employment policy coordination in the EU have motivated the Friedrich-Ebert-Stiftung's Study Group Europe to examine a number of fundamental aspects of policy coordination in the EU. In what follows, first, the added value and necessity of a European consultation and agreement on common decentralised policy goals are described. Second, the need for a new European ideal-model is outlined, in the form of a »sustainable prosperity strategy«, which bids farewell to the dominance of growth and competitiveness in the expiring Lisbon Strategy. Third and finally, proposals are presented which contain additional elements of a toolbox for the successful implementation of this new ideal-model of European coordination.

Does Europe Need an »EU 2020 Strategy« at all?

At the end of 2010, the process begun in 2000 at the European Council in Lisbon, which was supposed to turn the European Union into the most competitive and dynamic knowledge-based economic area in the world, will expire. In place of the Lisbon Strategy, a new integrated growth and employ-

ment strategy is to commence, running until 2020. The mere fact that the Lisbon Strategy is expiring is not sufficient reason for a new »EU 2020 Strategy«. Rather, the EU needs a new growth, employment and social strategy because the Lisbon Strategy was not capable of fulfilling the high expectations with regard to the benefits of Europe-wide economic and employment policy coordination and therefore failed on a number of essential points. At the same time, new challenges have arisen for the EU and, with the coming into force of the Lisbon Treaty, the legal framework has also changed.

1. **Fundamental Need for Economic and Employment Policy Coordination**

Satisfying the fundamental need for economic and employment policy coordination within the EU is needed as a result of the Union's economic architecture. At the latest with the implementation of the common currency and the associated monetary and fiscal policy provisions the member states – and in particular in the Eurozone – have increasingly been deprived of the means of reacting to economic downturns or asymmetric shocks. The traditional means of dealing with economic crises – such as currency

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devaluations, base rate reductions or public investment programmes – have been made markedly more difficult or even impossible by the harmonisation of monetary policy in EMU and by the fiscal policy convergence criteria of the Maastricht Treaty (as well as the related Stability and Growth Pact). If renationalisation of these policies is excluded on the basis of the related economic and political costs, the proper integration of other troublesome macro-economic policies must be the key to increasing growth and employment in the EU. This argument has only gained in credibility through the current international economic and financial crisis. Creating political conditions for individual and social prosperity and, at the same time, finding common European solutions to grave crises, besides the convergence benefits that coordination brings, in particular to mobile workers, represent the main added value of such a strategy for European citizens. A fully functioning »EU 2020 Strategy« can promote political solutions for the most pressing concerns of people living in the EU – for example, combating mass unemployment, the maintenance or increase of living standards and the prevention of rising poverty – which are simply no longer practicable for unilateral action by individual member states.

2. **Overcoming the Marginalisation of the Social Dimension of the European Integration Process**

An integrated overall strategy is also to be preferred to the merely incremental stringing together of individual initiatives because only in that way can the incessant marginalisation of the social dimension of European integration be overcome. The EU therefore needs an »EU 2020 Strategy« to restore the balance between economic interests and considerations of social security which have become seriously out of kilter. Even the Lisbon Treaty has done nothing to fundamentally change the fact that in the EU market creating and market correcting policies of differing legal quality are in competition with one another (»constitutional asymmetry«). While market creating policy instruments, such as the four Single Market freedoms of competition law, due to its status as primary law and the direct effect of EU law, enjoy almost constitutional rank, policies aimed, both at European and national level, at the correction of market outcomes – for example, to impose social and environmental norms – must be formulated on the basis of these primary law provisions. In order to overcome the existing inequality the successive expansion of more effective European legislation – with teeth – is needed in areas such as social protection, workers' rights and the environment. For this purpose, the »EU 2020 Strategy« can constitute a binding political framework, which, however, falls short of a revision of the Treaty.

3. **Failure of the Lisbon Strategy**

These fundamental problems are not new and, to some extent, also represent the motivating forces behind the Lisbon Strategy. But that makes its failure even more significant. As things stand today, the foundering of the Lisbon Strategy is an important reason for a new strategy which is markedly different from the old. The Lisbon Strategy has clearly not achieved its ambitious aims with regard to growth and employment, never mind in relation to social and environmental progress in the EU. Growth in the EU has remained below average, decade on decade; increase in employment rates have been inadequate and occurred only as a result of precarious employment; productivity and the wage share have stagnated or fallen; and the poverty rate remains at a high level, with the risk of poverty increasing even for those in employment. The EU is far from being the most competitive economic area in the world, even though it has declined more slowly as a result of the economic crisis than many comparable regions. A broad increase in prosperity has not been achieved through the Lisbon Strategy.

4. **Intensification of Common Challenges**

Finally, in recent years the common challenges have intensified and multiplied. The risks arising from demographic developments and increasing social inequality in the EU member states have become greater as a result of newly emerging problems, such as coping with the financial and economic crisis, including the looming government debt crises. The failure of the climate conference in Copenhagen has also shown that the frequently invoked collective action by the international community with regard to combating climate change remains elusive. The EU has also failed to live up to its promises. The common threats looming as the crisis decade of the 2000s comes to a close underscore the need for an overall strategy more emphatically than ever.

Sustained Prosperity Strategy rather than Competition for Growth: A New Ideal-Model for the »EU 2020 Strategy«

A new strategy is, therefore, more urgent than ever. If it is to cope with the challenges of the EU in the coming decade the new European agenda must avoid the mistakes of the Lisbon Strategy in both qualitative and quantitative terms.

Ditch the Mantra of Competition and Growth

In qualitative terms, this means the unambiguous renunciation of the mantra of competition and growth as the central reference point of all the EU's economic policy goals. Instead of measuring the success of an economic and social policy strat-

egy in terms of the EU's position in relation to other world regions in spurious rankings, the principal yardstick must be (intertemporal) progress in living standards in the EU. *The EU does not need a competition strategy, but a sustainable prosperity strategy.* Social, environmental and economic progress must constitute equal-ranking guidelines for such a strategy, focusing on *sustainability, employment and social cohesion*. These goals must be regarded and prioritised as aims in themselves; all too often, decent work, social progress and environmental sustainability not only are regarded as by-products of rising competitiveness, but have to be fought for in the teeth of utilisation interests. Economic growth purely as an increment function of economic variables has merely an ancillary role in such a model: if an economic upturn increases demand for labour or a higher growth path reduces the prosperity gap between different member states, the measures taken with regard to a sustainable prosperity strategy must strengthen such growth. If growth rests on dumping strategies involving low wages and cuts in social spending, however, and higher growth rates must be set against stagnating or falling living standards, it cannot be the aim of a prosperity strategy to promote these tendencies or even establish them as a benchmark.

Increase Social Productivity

Quantitatively, change must take the form of the replacement of conventional macroeconomic aggregate figures, such as GDP growth, by a more diversified set of indicators which do justice to the desired, more wide-ranging prosperity goals. Although the Lisbon Strategy does contain an almost unmanageable number of parameters, indices and benchmarks, they serve largely as interim markers for the purpose of the ultimately one-dimensional comparison of economic growth rates with other regions of the world, such as North America or East Asia. Instead of becoming enslaved to such a short-sighted growth fetish, a prosperity strategy, aimed at employment, sustainability and social cohesion, focuses on increasing social productivity. That means that when evaluating the development of a national economy, besides indispensable increases in productivity, other aspects of prosperity should be taken into account, such as improving the quality of work, the just distribution of productivity gains and environmentally sustainable patterns of production and consumption.

Although the European Commission takes up some of these points in its consultation document on the new »EU 2020 strategy« (for example, the sustainability aspect and the »environmentalisation of the economy«), it explicitly links the new strategy to the failed Lisbon Strategy, instead of reviewing the latter critically. It still talks of the »goal of making Europe a leading, competitive, prospering and connected economic area«. The danger is, therefore, that the Commission's environmental re-orientation in relation to the »EU 2020 Strategy« is merely instrumental: nothing more than window

decorating on the fashionable European theme of »Green Technologies«. No real paradigm change, from a competitive race to the bottom to a qualitative prosperity strategy, is discernible in the Commission's plans.

Procedural Reform: A New Toolbox for Real Reforms

The reorientation of the »EU 2020 Strategy« towards a sustainable prosperity strategy, as presented here, at the same time requires procedural reform. The Lisbon Strategy already suffered from the imbalance between relatively demanding goals and insufficient provision for the purpose. The »open method of coordination« (OMC) is incapable of properly harmonising the economic policies of the member states with one another, on the one hand, and with the European level, on the other. This does not even begin to remedy the basic problem with the EU's economic policy structure, namely the lack of macro-coordination between monetary, fiscal and wage policy. In addition, adherence to the common guidelines – notwithstanding the hopes invested in the disciplinary effects of »naming and shaming« between the member states – is, in the end, based on nothing more than a willingness to cooperate. An ambitious strategy must be more binding. To this end, fuller use must be made than hitherto of the available options for binding Community methods. In the coordination of economic and employment policies, measures for sanctioning individual member states or incentives for cooperation in accordance with Art. 121 (4) and Art. 149 TFEU must set in motion. In the area of employee protection, the instrument of differentiated framework directives must be used, with which minimum provisions could be enacted in accordance with Art. 153 (2b), to be implemented gradually. The integration of the areas of social inclusion and social protection and a combination with OMC could considerably increase their bindingness and effectiveness in employment and social policies. In contrast to the previous one-size-fits-all approach, coordination of the policies of member states with similar welfare regimes would significantly heighten their demonstration effect and prevent attempts at externally imposing a change of course on nationally determined social policies. More far-reaching proposals, such as a Social Stability Pact, which links the member states' social expenditure ratios to their economic performance, could give further impetus to the implementation of a social-environmental prosperity strategy.

Democratisation of Coordination

The European Commission, in contrast, wishes merely to integrate the existing instruments in a new concept in order to implement a »partnership for progress« between the member states and the European level. It is extremely doubtful that such a minimal and immanent reform will be sufficient, given the markedly growing need for coordination and action with regard to a real prosperity strategy. Having said that, the Com-

mission's call for closer involvement on the part of the European Parliament and national parliaments should be endorsed. Civil society, too, must be effectively involved in the development of the »EU 2020 Strategy«, including, as far as possible, decision-making – for example, associations and NGOs often have the expertise to judge the effects of relevant initiatives. In addition, the social partners are themselves macroeconomic actors. The Commission has also declared its support for the participation of civil society actors. However, the credibility of this must be measured by what opportunities for involvement are actually made available. Here a formalised proposal might be imagined on their integration in the reporting and evaluation process of policy coordination at national and supranational level, which previously were at the discretion of the ministerial and EU bureaucracy. Greater transparency and democratic anchoring of discourse is also possible only if national parliaments are encouraged to address the coordination of economic, employment and social policies more robustly than hitherto.

Summary

Only a fundamentally new approach to European coordination of economic and employment policies can make the planned »EU 2020 Strategy« a success for the citizens of Europe. Doctrines for the establishment of a new ideal-model beyond the mantra of absolute competitiveness must be drawn from the central challenges arising from the international economic and financial crisis, climate change, demographic developments and increasing social disparities. Laying down the goals of the new European Ten-Year Agenda in terms of a sustainable prosperity strategy and enhancing its instruments can set the course for a promising EU approach to current and future global crises and risks.

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