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»Europe 2020« – Proposals for the Post-Lisbon Strategy

Progressive policy proposals for Europe's economic, social and environmental renewal

- The Lisbon Strategy, with its predominantly supply-side and market-liberal orientation, has failed because it did not recognise the need for a European policy-mix.

- In the »Europe 2020« successor strategy, there should be a change of focus, expanding its aims beyond growth to include qualitative and sustainable economic development.

- Only if social and environmental goals are put on an equal footing with economic integration will it be possible to increase social productivity in Europe.

- Against this background, the authors offer a number of proposals for a coordination strategy for the next ten years and present key elements of new economic and employment policy guidelines.

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Content

Overview: Proposals for the »Europe 2020 Strategy«:

Proposals for economic policy guidelines:

1. Improve macroeconomic coordination to enable a new policy mix in the EU
2. Define medium- to long-term target debt levels to ensure budget stability in the face of demographic change
3. Introduce a Social Stability Pact for Europe in order to end the race to the bottom with regard to social protection systems
4. Develop a »low carbon economy« as a guiding principle for economic policy coordination in Europe, which in future will be based on a sustainable growth model and an environmentally and energy-efficient industrial base
5. Consolidate the Single Market while maintaining social and environmental standards, as well as through tax policy coordination
6. Increase support for investment and boost the attractiveness of the research environment in Europe

Proposals for employment policy guidelines:

1. Increase social productivity by creating an active policy for more and decent jobs, as well as sustainable growth
2. Re-orientate flexicurity in order to enhance employment and income security and to develop inclusive labour markets by striking a better balance between flexibility and social security
3. Enhance fair employment relations and promotion of equal opportunities through strong social partners, improved participation and progressive procurement legislation
4. Prioritise gender- and age-specific employment by setting new targets for the labour market
5. Promote fair wage policies to ensure macroeconomic stability within the framework of a European social model
6. Guarantee the funding of the welfare state through increased tax funding in favour of lower indirect wage costs
7. Design and promote training and education as an integrated European social and labour market policy

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1 Results of the Lisbon Strategy So Far

1.1 One-sided Orientation of the Lisbon Strategy

In the year 2000, there was widespread euphoria concerning the novel development of a European agenda which closely coordinated economic and social policy. Within ten years, the idea was, the European Union would be transformed into the »most competitive and dynamic knowledge-based economy in the world«, thereby achieving »sustainable economic growth with more and better jobs and greater social cohesion«. The Lisbon Strategy represented an ambitious reform programme which went far beyond the level of integration achieved up to that point in the inclusion of policy areas in which the member states largely remained sovereign and the EU had few regulatory competences.

But as early as November 2004, the mid-term review by a working group headed by former Dutch prime minister Wim Kok gave the Lisbon Strategy the worst possible grade: the verdict was one of disappointingly slow implementation of the agreed objectives, which can be traced back to an overloaded agenda, lack of coordination, conflicting priorities and a lack of political will, all reinforced by unfavourable global economic developments which were not conducive to the realisation of the Lisbon goals in the first half of the new century. This negative mid-term appraisal led to a revision and reorientation of the Lisbon Strategy with a narrower focus on economic growth and employment.

Basis of the Lisbon Strategy:

The Integrated (that is, economic and employment policy) Guidelines of the Lisbon Strategy commenced in 2000 at present include 24 Guidelines, divided into macroeconomic, microeconomic and employment policies. In legal terms, they are based on Articles 5, 121 (ex-Art. 99 EC Treaty) and 148 (ex-Art. 128 EC Treaty) of the Lisbon Treaty. According to Art. 121, the Council draws up recommendations by qualified majority at the instigation of the European Commission on the basis of the conclusions of the European Council on the basic outlines of economic policy for the member states and the Community and reports on this to the European Council. According to Art. 148, the Council, based on the conclusions of the European Council on the proposal of the Commission and after consulting the European Parliament, the Economic and Social Committee, the Committee of the Regions and the Employment Committee, lays down annual guidelines by qualified majority, which the member states take into account in their employment policy. These Guidelines must be in line with the principles adopted in accordance with Art. 121 para 2. According to Art. 5 para 3 of the Lisbon Treaty the EU can also take the initiative with regard to the coordination of the member states' social policies.

The current Integrated Guidelines of the Lisbon Strategy's three-year cycle 2008–2010 perceive the main source of greater economic dynamism to lie in structural reforms to increase growth potential. There is nothing wrong with supply-side consolidation of location factors, as far as it goes; however, pursued in isolation this can lead into a dead end. Although the need for a policy mix to boost growth is hinted at, ultimately structural reforms are the central focus of the overall strategy. Recommendations to extend the flexibility of labour and product markets run through the Guidelines and their explanatory notes like a red thread. The same goes for the emphasis in the Council's Joint Employment Reports, in which macroeconomic coordination is sometimes treated cursorily in a single sentence as virtually a compulsory exercise. In terms of employment policy the Lisbon Strategy aimed at raising employment rates, increasing the number of decent jobs, social cohesion and transformation into a knowledge society. At the latest since 2005, however, these objectives have increasingly been narrowed down to *labour market flexibilisation* and *stimulating labour supply*. With regard to financial policy, there are constant calls for reforms of tax and contribution systems based on neoclassical assumptions in order to increase member state competitiveness. Further liberalisation of the financial markets is supposed to contribute to the integration of the Single Market.

The Integrated Guidelines are based on the basic economic policy orientation of the European Commission, which itself is based on deregulating and revitalising the economy by dismantling inhibitory regulatory interference in the operations of the market. European employment policy is therefore justified decisively by the pressure to adapt imposed by globalisation. Accordingly, problems on the labour market are the consequence of inflexibility and inadequate qualifications. The recommended solutions are tax cuts and »more employment-friendly« social security systems – in other words, structural reforms in the labour market and social security systems. The integration of employment policy guidelines in the wider economic policy guidelines confirms that labour market policy and its inherent social components are subject to economic policy imperatives. In this way, the original idea of progressive labour market policy coordination and, related to that, options for reforms on the demand side are squandered and subordinated to quantitative growth targets and increasing competitiveness.

The goals of social cohesion and the development of a knowledge economy have been pursued far less than reform measures for quantitative employment growth. The idea underlying the structural reform interpretation of the Lisbon Strategy is that macroeconomically beneficial results can be achieved by numerous small supply-side steps without paying much attention to the interaction of different policy areas. Social democrats have repeatedly raised objections to such a one-sided growth strategy. Possible alternatives include areas such as an environmentally sustainable industrial policy, the expansion of social services and higher public investment in education and infrastructure.

1.2 Failure of the Lisbon Strategy in Key Policy Areas

The fact that the Lisbon Strategy, with its one-sidedly market-liberal orientation, has failed to meet the ambitious target it set itself – namely to make the EU into the most productive and, in terms of the policies of the member states, most closely integrated economic and employment union in the world – is evident in a variety of policy areas:

1. In **Single Market and competition policy** the Integrated Guidelines are based on an anachronistic understanding of the common market. They assume the need to eliminate the remaining obstacles. This includes, besides the implementation of freedom of movement for workers and free movement of services, the »complete integration of financial markets«. This conception of the Single Market, however, is no longer up to date, and not only since the advent of the financial crisis. The prioritisation of full economic integration of the EU while neglecting the preservation of social standards, workers' rights and options for capital market regulation has created a system of market states in which the implementation of market freedoms takes priority. Given the considerable heterogeneity of social security provisions within the EU, however, there is no alternative to the host country principle or to maintaining country-specific wage agreements, minimum wage regulations and social norms.

2. In **labour market and employment policy** the Lisbon Strategy laid down the ambitious target of an overall employment rate of 70 per cent. It is apparent that in 2010 the rate will fall short of this figure by at least 5 per cent, due to the expected strong increase in unemployment in the EU-27. The European Commission particularly emphasises labour market flexibility and sets great store by the notion of *flexicurity*. The European interpretation of flexicurity is distorted in favour of flexibilisation and deregulation, however. Improvements in the employment rates of women (59.1 per cent in the EU-27 in 2008 with a target of 60 per cent in 2010) and of older workers (44.7 per cent in the EU-27 in 2007 with a target of 50 per cent of 55–64 years olds by 2010) have contributed most to raising the employment rate. Part-time employment, fixed-term contracts and other atypical employment forms have increased particularly. Regular employment subject to social insurance contributions was crowded out in favour of precarious employment. This affects certain branches and, in particular, women and younger or less qualified workers. In this kind of employment there is little access to training and further training, as well as to occupational pension schemes. So far, the Guidelines have hinted at a trade-off between a quantitatively high employment rate and high quality employment, which does not correspond with reality. It is precisely the member states with high employment rates and high job satisfaction among workers that are in a position to achieve the aim of social cohesion.

3. **European wage policies**, among the market states of the Eurozone, serve only to obtain competitive advantages against the background of a communitised monetary policy and a fiscal policy restricted by the Stability and Growth Pact. The Guidelines of the Lisbon Strategy reflect this in their concentration on the »adaptability« of wage policies to economic development. This is characterised by the fact that, in the event of positive economic development nominal wages keep pace with productivity, not taking into ac-

count previous inflationary developments. When unemployment is high, growth in real wages is supposed to lag behind productivity so that the state in question can become competitive again. Some member states came under considerable pressure, after some delay, due to excessive wage growth because the price competitiveness of export industries in the countries with excessively high wage development, not covered by productivity development, began to suffer. With at first still booming economies and high domestic demand due to wage development the consequence was current account deficits, up to the point at which the situation was no longer sustainable and a loss of confidence set in. In Germany, higher levels of foreign trade could not compensate for sluggish consumption as a result of wage developments. This led to a one-sided economy with the emphasis on the export sector. Besides the macroeconomic imbalances there is also blatant unfairness with regard to wage policy. For example, in many countries there is unequal pay for men and women with the same qualifications. Another problem with regard to fairness is the divergent development of income distribution. In some countries, the low wage sector has expanded significantly in recent years. This is exacerbated by the fact that, in many judgments of the European Court of Justice, free collective bargaining has de facto been subordinated to the Single Market's fundamental freedoms. This makes regulation of the low wage sector even more difficult because not all member states have statutory minimum wages.

4. The **coordination of budget policies** is carried out in the Eurozone by means of the Stability and Growth Pact, which encourages member states to limit their budget deficits to a maximum 3 per cent of GDP. The national debt must not exceed 60 per cent of GDP. In addition, the member states are supposed to maintain a balanced budget, on average, over the economic cycle. It is true that the rules have been made more flexible in a number of areas, following a decision of the European Council. For example, no excessive deficit procedure is to be instigated against countries with negative growth (previously –2 per cent). In addition, other »relevant factors« can be adduced to avoid an excessive deficit procedure. In the event of an excessive deficit procedure longer deadlines are to be granted. The European Commission confirms these aims in the Integrated Guidelines of the Lisbon Strategy in connection with the proposal of an annual reduction of new borrowings by 0.5 per cent. Ultimately, there is no economic justification for maintaining a balanced budget in the medium term, as originally laid down in the Stability Pact – unless the national debt is to be reduced over the long term to zero. The rules on indebtedness of the Stability and Growth Pact are therefore justified on the basis of political arguments. On the one hand, in the Integrated Guidelines the European Commission points to demographic change which in future will entail an increased financial burden. On the other hand, in connection with the sustainability debate, there is an insistence that limits must be imposed on borrowing today which would increase the burden of future generations. Another argument is that interest payments on the national debt primarily benefit the well off. The 2005 extension of the Stability and Growth Pact to a maximum indebtedness of 1 per cent of GDP is also to be welcomed since in this way debt financing of state investments will be possible, at least to some extent. At the level of practical implementation the fact that, so far, breaches of the rules have merely resulted in warning letters from the Commission is the object of legitimate criticism: sanctions have never been initiated by the European Council.

5. A **uniform EU environmental, climate and energy policy** was not a priority ten years ago in the drafting of the Lisbon Strategy. However, subsequent developments have not given rise to fundamental change. The limited success of the Lisbon Strategy is attributed in many quarters to, among other things, a structural lack of sustainable planning in strategy formulation. Against this background, the need for an environmental re-orientation of the European economic and employment strategy is clear. At least a formal remedy for this deficiency was created through the formulation of the 2008–2010 Guidelines. The inclusion of sustainability goals in the EU's growth strategy, however, was sluggish in the implementation phase. One reason for this may be found in the parallel discourses of the Cardiff Process and the Stockholm Strategy, which are both aimed at sustainable and environmentally balanced growth in Europe. So far, a fusion of these strategic planning approaches has not really been possible. However, although in its

current design the EU's economic and employment strategy has contributed little to the development of a »low carbon economy«, nevertheless some successes can be noted with regard to the environmentalisation of Europe as a business location. However, this was achieved primarily through ambitious EU regulatory legislation in environmental policy, sporadic national redistribution mechanisms and the targeted individual support policies of some member states. Strategic coordination of economic, labour, research, energy and environmental policies is still missing. It will continue to be impeded – in some cases even limited – in the future by a fluctuating distribution of tasks and competences between the EU and the member states in the various policy areas.

6. A **social policy strategy for the EU** is dealt with within the framework of the Lisbon Agenda in terms of quantitative job creation. Besides wages, other labour costs are now factors in the competition between countries for investment and relocation of production. This is why the Lisbon Strategy recommends the reduction of the tax and contribution burden associated with labour. The Guidelines are built on the view that the best protection against poverty and exclusion is a job. However, employment increasingly no longer provides absolute protection against poverty. Already one-third of working-age adults are at risk of poverty. The EU at-risk-of-poverty rate – disposable income below 60 per cent of national median equivalised disposable income – after social transfers stands at 16 per cent and is rising. There are significant differences between the member states, ranging from 10 per cent in the Netherlands to 21 per cent in Latvia. Almost every tenth child in Europe lives under an increased risk of poverty. The gap between rich and poor in Europe is widening rapidly. On average, the income of the top 20 per cent of the population in the EU-27 is five times greater than that of the bottom 20 per cent. A decisive factor in the increase in income inequality is labour market segmentation. The proportion of so-called »working poor« has risen dramatically primarily because of the expansion of temporary work, voluntary and involuntary part-time work and stagnating or falling real wages. Total expenditure on social protection as a proportion of GDP has been declining in recent years. The differences between the member states are enormous, however. In the most highly developed industrialised countries, the level of social spending is between 26 and 31 per cent. In contrast, in countries such as Latvia, Estonia, Romania and Slovakia social spending is only between 12 and 16 per cent of GDP. Welfare states in the EU have developed and are funded in diverse ways. Nevertheless, in recent years there has been considerable convergence of the different models. Pension insurance in particular – also under pressure from the Lisbon Strategy – has experienced something of an amalgamation of previous models, so that in many countries the three-pillar model of statutory old-age provision, enterprise and private pension savings has now been established. Due to shorter contribution periods as a result of longer periods of unemployment, however, an increasing problem of old-age poverty is emerging, causing the issue of pension-policy sustainability to appear in a new light.

7. **Education and research** play a key role in the Integrated Guidelines, although they are described exclusively as a means to the end of growth maximisation. It is true that a growth-dependent and largely resource-poor economy such as that of Europe must constantly raise the educational level of the population if it is to remain competitive. Concentrating solely on increasing »human capital« and »labour market relevance«, however, obscures education's function as a basis for personal development and an instrument for ensuring participation in society and the labour market, not to mention its role in facilitating social mobility. The Lisbon Strategy fails to address the central problem of the widely varying levels of educational opportunity for different population groups, both between and within the member states. In particular with regard to ensuring educational opportunities to immigrants the EU finds itself facing a pan-European field of action in which to counteract increasing educational segregation and to establish education as a cross-cutting theme of economic, social and labour market policy. At the same time, it should be noted that possibilities for training and further training in the EU remain extremely uneven. In particular in many countries the training and the further education systems are rigidly separated and offer little by way of flexible transitions. With regard to research promotion, although the Lisbon Strategy was able to improve the framework in certain areas, the EU is

still well short of the central goal of an R&D investment level of 3 per cent of GDP in 2010 – of the member states only Finland and Sweden so far have surpassed the target level.

1.3 Fundamental Need for a Broader Approach

Review of General Thrust and Values

It is not enough to note the failure of the Lisbon Strategy in individual policy areas; its basic thrust and underlying values should be examined. Particularly in light of the economic and financial crisis which has supervened, economic growth can no longer be taken as the self-evident goal of all economic activity. Growth is rather an instrument for creating prosperity and employment. It is therefore crucial that the focus is shifted to *qualitative, sustainable growth*, to increasing *social productivity* in Europe. Increases in prosperity can no longer be measured solely in terms of units of GDP because the measurement of goods and services traded in the market leaves out of account the occurrence of negative externalities and aspects of growth which are not purely economic in nature. The concept of social productivity, in contrast, is aimed at increasing output per labour unit and, at the same time, fostering the basic elements of an extended growth concept. This consists not solely of the quantity of newly created jobs but of the emergence of high quality and well paid »decent« work, also taking into account occupational health and workload; it also involves innovation through private and public investments, especially in research and development; an environmental and sustainable industrial policy; an investment based labour market policy; a socially-oriented education and integration policy; and a fair and modern family and gender policy.

The Integrated Guidelines, despite their claim to be »integrated«, focus solely on economic considerations. A new European strategy from 2010 must be able to link economic activities and forms of regulation in the EU to their social and environmental effects. Only if social and environmental goals are ranked equally with economic integration will sustainable progress be possible in the sense of a rise in social productivity. The question of a new political agenda for the EU up to 2020 must also take new challenges into account. These are due, for example, to demographic change, coping with the financial and economic crisis, including the overindebtedness of public budgets, climate change and the environment, as well as the need to redefine social justice in Europe against the background of sharper social differentiation between rich and poor. Europe must develop its own ideas about a new balance in the relationship between state and market and promote it on a global scale. The international economic crisis shows that a new unified framework is indispensible for the EU's external action. Taking more account of the external dimension of all individual policies and agreement on a coherent EU front in all international institutions should therefore be promoted as a cross-cutting task.

Examination of Form and Procedure

A post Lisbon Strategy must also review and further develop the coordinating instruments employed so far. The demand formulated here for a new qualitative and sustainable growth concept able to increase Europe's social productivity points towards a legislative capacity that goes far beyond the existing coordination mechanisms. The strengthening of economic, social and environmental regulation at the European level must be accompanied by the increasing democratisation of the EU. The genesis of the Lisbon Treaty testifies to the sluggishness and awkwardness of this process of deeper integration. Due account must be taken of this in the formulation of the post Lisbon Strategy: even if the long-term vision of integrated economic, social and environmental policies for sustainable prosperity, high-quality and full employment and resource-conserving environmental standards in a European democracy is outlined, the basis of EU activities at present remains, first and foremost, a matter of governance structures and coordination techniques within the framework of treaty-based policy areas. It is important to note, in other words, that the Lisbon Strategy, on its own account (and despite its potential range), is in the first place oriented towards economic and employment policy measures taken by the member states – in areas in which the Community has only weak or even no competences at all.

As important as the paradigm change in the basic approach to economic policy is, it is also advisable not to integrate all Community policies in the Strategy. It would be very important to redesign the organisational principles, coordination techniques and instruments of the Lisbon Strategy. There is a particular need to reform implementation and monitoring with regard to the Strategy, quite apart from its contents. So far, most member states have used the progress and activity reports that they are required to draft merely to justify national policies which they would have implemented anyway. The European Parliament and national parliaments have so far been too little involved in the Lisbon Strategy. The bindingness and relevance of open policy coordination in the EU will increase, however, only when parliaments incorporate and evaluate the goals and advances of the common agenda in their policy debates. The same goes for the role of civil society actors, such as trade unions, associations and NGOs. Bringing in their expertise would substantively improve the post Lisbon Strategy and help to raise its profile considerably among the European population. In this connection, the form and principles of the Strategy must be discussed – the at present ponderous and formalistic procedure of combined »employment policy« and »economic policy« guidelines urgently needs to be simplified.

Contribution to the Quest for New Objectives

Against this background, in what follows proposals will be presented for the possible core elements of reformulated guidelines. The presentation makes no claim to outline a full set of new guidelines; the aim is merely to give an indication of how, within the tight framework of European coordination efforts, a different path can be struck than in the previous Lisbon Strategy.

The ideas presented here also constitute a response to the on-going debate on the objective of the »Europe 2020 Strategy« by the European Commission started at the end of November 2009. Although a number of important challenges of the coming ten years are identified correctly in the Commission's proposal, the ideas about how they are to be tackled barely differ from the previous Lisbon Strategy. Supply-side structural reforms are still on the agenda; the full implementation and enforcement of the Single Market freedoms and exhortations with regard to permanent budget consolidation and greater willingness on the part of workers to embrace flexibility and mobility as key elements of increasing prosperity are taken for granted. Apart from a clear commitment on the part of the Commission to develop more environmentally friendly production methods what is known so far about the planning for the »Europe 2020 Strategy« appears to be a call to maximise continuity. However, such a »business as usual« strategy will be insufficient to deal successfully with the challenges of twenty-first century Europe in terms of either substance or approach. After the pilot project of the Lisbon Strategy and recognition of its defects and shortcomings a realignment and reorientation are required, towards which we shall offer a number of detailed suggestions.

2 Important Elements for the New »Europe 2020 Strategy«

2.1 Proposals for Economic Policy Guidelines

2.1.1 Improved Macroeconomic Coordination to Enable a New Policy Mix in the EU

Improving a sustainable growth trend and, in conjunction with that, stabilising economic upturns is no easy task since key decisions are taken decentrally. These include investments by private companies, but state, trade union and monetary policy activities also play a major role. A stable growth trend with regard to public investment, for example, can contribute to stabilising expectations in the corporate sector and thereby be conducive to increased private investments. The same applies to a wage policy firmly oriented towards trend productivity growth and price stability. Wage agreements concluded on this basis provide planning security for employees and companies and keep domestic consumption on a stable path. In addition, monetary policy can contribute to higher growth by intervening less to ensure price stability. The problems of policy mix can therefore be diminished by good coordination between fiscal, wage and monetary policy. At the European level, the European Macroeconomic Dialogue (Cologne Process) was brought into being for this very reason in 1999. On top of that, the member states should initiate the establishment of National Macroeconomic Dialogues within the framework of the post Lisbon Strategy: in recent years, it appears that the aims of an EU-wide employment and productivity-friendly policy mix have to some extent been undermined at the national level. As a result of these uncoordinated developments some member states have fallen behind with regard to the price competitiveness of their export industries, while other countries, such as Germany and Finland, have, for the opposite reasons, posted strong current account surpluses.

In National Macroeconomic Dialogues, representatives of government, the social partners and the central banks could contribute to the re-establishment of the European Macroeconomic Dialogue by discussing the details of member state policies and examining their compatibility with the macroeconomic policy mix at the European level. These details include, for example, the basic orientation of tax and spending policies (with their effects on inflation) and wage policy. This should ensure that national macroeconomic policies do not diverge too far from one another and from European agreements, the flow of information between national and European level is intensified and the urgent need for transnational coordination is made apparent.

The euro is increasingly developing into a full-fledged reserve currency alongside the US dollar. This imposes particular requirements on macroeconomic policy. If the latter fails to take an expansive course the Eurozone will be threatened by stagnation. The function of the euro as reserve currency may in future call for current account deficits in order to keep up with global demand for the currency. This arises both endogenously and on the basis of the monetary policy of other countries. If an expansive macroeconomic policy is not pursued at the same time, in future Europe will be at risk of higher unemployment. Monetary policy in particular, in combination with a responsible budget policy, must therefore seek to avoid destabilising developments. On the basis of these coordination requirements this constitutes another topic for the Macroeconomic Dialogue.

The aims of a new guideline with regard to macroeconomic coordination should include:

- the strengthening of the European Macroeconomic Dialogue;
- the establishment of National Macroeconomic Dialogues involving representatives of the government, the social partners and the national central bank;
- interlocking coordination of economic, tax and wage policies at the national and supranational levels;
- design of a new policy mix in Europe by addressing the goals of a high level of investment, higher productivity and moderate price rises;
- attention to the special role of monetary policy to achieve an optimal policy mix in EMU.

2.1.2 Definition of Medium- to Long-Term Target Debt Levels to Ensure Budget Stability in the Face of Demographic Change

The impact of demographic change on public finances cannot be underestimated. If in the future European governments wish to take on more debt they will have to find buyers for their debt instruments. Since demographic change is not solely a European problem, however, there is likely to be a surplus on capital markets – in other words, the market prices for government bonds will fall, while interest rates will correspondingly rise. The benefit-cost ratio of debt reduction today in relation to taking on debt in the future, therefore, appears to be more unfavourable than on the assumption of constant interest rates, particularly if, as a result of misguided government tax and budget policy, future generations inherit a worse infrastructure and perhaps even lower quality education and training. Estimates of the benefits of a debt reduction strategy which fail to take these effects into consideration will fall short. Ultimately, it is not solely government fiscal policy which determines the success of budget consolidation, but the overall macroeconomic policy mix.

In concrete terms, with specific reference to Europe this means that the consolidation of public finances may constrain growth. In that event, planned consolidation cannot be effected since there will be tax revenue losses, higher social spending and so on. This is even more likely if all governments seek to consolidate at the same time and as rapidly as possible. With a judiciously chosen consolidation target and coordination with monetary policy in the Eurozone, however, a balance can be struck. Since monetary policy is committed primarily to price stability, however, Europe-wide budget consolidation cannot be supported in every case. Having said that, this can be made easier in the case of responsible budget consolidation if, for example, it is financed via slower spending growth, targeted spending cuts or relatively price-neutral tax increases. In that case, price erosion will remain within bounds. Coordination with monetary policy will be more difficult if the vehicle of consolidation is inflationary consumption taxes and state charges, for example, in health care. If joint and decisive action by governments and the ECB is able to maintain the economy on a stable growth path in spite of consolidation efforts, consolidation will be possible without slowing down the economy. This requires well functioning communications, however, and is therefore of the very essence of the European Macroeconomic Dialogue.

In future, the member states should inform the European Commission about their desired medium- or long-term debt level so that it can be approved, as long as it does not exceed certain limits, which must be determined at the political level, or definite consolidation steps towards this goal are indicated. For the time being, the level of 60 per cent laid down in the Stability and Growth Pact can serve this purpose, which will not require reform of the Treaty. One problem with a narrow interpretation of the old 60 per cent debt level criterion is that countries such as Belgium and Italy, which at present lie far beyond it, are compelled to adopt an extremely restrictive financial policy. For countries particularly hard hit by the current financial crisis this can be a problem. These restrictions should be considered during the discussion of European debt limits in the Council and the Commission. A change in the target figures should therefore not be ruled out. This would apply particularly if the various demographic measures shift across the EU, as is currently predicted.

The aims of a new guideline on budget stability should include:

- The definition of national target debt levels to increase flexibility in the European coordination of budget policies.
- A review of the overall public debt target of 60 per cent laid down in the Treaty, taking into consideration demographic development and increased public debt as a result of the financial and economic crisis.
- Increased consideration of target debt levels in the Macroeconomic Dialogue.

2.1.3 Introduction of a Social Stability Pact for Europe to End Competition between Social Security Systems

A Social Union of equal status must be set up alongside Economic and Monetary Union. A Social Stability Pact would ensure that the member states maintain their social spending – taking into consideration their respective states of development – within the framework of prescribed minimum values. This would go a long way towards halting the ruinous race to the bottom of social security systems. The openness of a national economy can have a negative impact on social transfers and social benefits. The effects of this race to the bottom on the welfare state require regulation. This could be achieved, for example, by means of guidelines within the framework of a »social corridor«. Substantively, this model should comprise a minimum level of social spending, depending on the country's level of economic development, taking into account such factors as demographic development and other things influencing demand for social security.

The aims of a new guideline on social policy coordination should include:

- Ending the race to the bottom among social security systems in the EU.
- Reaching agreement on a Social Stability Pact, linking economic performance and social spending.
- Setting two average social protection ratios as a percentage of GDP, one for the EU-15 and one for the 12 new member states, as targets for the next 10 years.
- Establishment of subordinate aims for average social protection ratio corridors among the member states.

2.1.4 Development of a »Low Carbon Economy« as Guiding Principle for Economic-Policy Coordination in Europe, which in Future will be based on a Sustainable Growth Model and an Environmentally- and Energy-Efficient Industrial Base

A renewed Lisbon Strategy must help Europe to proceed towards a »low carbon economy«. This should be the overriding paradigm of a future economic and employment policy and, to that extent, a departure from the strategy of trying to achieve positive environmental effects merely as side-effects. In order to bring about fundamental change in Europe's economic structure, regulatory and investment policy instruments must be better coordinated. With regard to the environment, the importance of the EU emissions trading system should be mentioned specifically. Investment signals are sent via this cap-and-trade mechanism which should be reflected in economic strategy. These strategic control signals can be used to induce investment in the modernisation of existing facilities and the construction of new, more efficient plants, which are needed for the reorganisation of Europe's industrial base. At the same time, national control systems should have an environmental orientation, in particular in those areas in which the EU emissions trading system is not operant. A stronger emphasis on the »polluter pays« principle would not only free up financial resources for support measures, but also put a similar price on emissions in all economic sectors and broaden opportunities for the utilisation of efficient technologies in small companies, transport and buildings.

The promotion of sustainable and clean energy technologies is a prerequisite of the successful establishment of Europe as a future business location. Besides instruments of regulatory control, instruments of promotion should also be coordinated among the member states in a more results-oriented manner in order to achieve common goals more efficiently. This applies in particular to electricity generation. The linking up of research promotion and economic policy needs to be improved so that what are currently high-cost options with regard to reducing emissions and increasing efficiency become low-cost options in the future. Only with state support for research efforts in green and energy efficient technologies will it be possible rapidly to get past the critical phase between innovation and the market integration of a technology which is essential for the reorganisation of Europe as a business location.

Public infrastructure, in particular in transport and energy, is a precondition of transforming Europe's economic structure. Given the urgent need for investment and the longevity of infrastructure, the analysis of future requirements and demands on networks is of key significance for restructuring. Modified demand for energy, new energy sources, future traffic flows and new propulsion technologies have certain infrastructural prerequisites which require the cross-border cooperation of the EU member states.

The reorganisation of energy and transport infrastructures into intelligent and future-oriented systems also has significant employment potential and goes hand in hand with the promotion of technology. Ultimately, the reorganisation of Europe as a business location into a modern low carbon economy harbours enormous opportunities on global markets for clean technologies, efficient plants and sustainable electricity generation. Exercising this development option should not be considered only from an economic policy standpoint. It behoves all industrialised countries to develop a new sustainable economic model which can be adopted without having a negative impact on other regions of the world. In this connection, the external dimension of a future Lisbon Strategy must not be overlooked.

The aims of a new guideline on an environmentally-friendly economy should include the following:

- Environmental policy should no longer be considered solely in terms of environmental protection – the potential of an environmentally-friendly and efficient economy for new jobs and new export markets must be recognised.
- Transformation into a low energy economy by means of better coordination of regulatory and investment instruments.
- Full utilisation of the EU emissions trading system (in tandem with a European eco-tax system) to send out price signals for essential investment and close energy-efficiency loopholes.
- Better coordination of investment in research and development to avoid overlapping research efforts, integrate specific technologies in the market and thereby identify export potentials for the European economy.
- Regard investment in (cross-border) public infrastructure as a precondition of the transformation of European national economies.

2.1.5 Consolidation of the Single Market in Compliance with Social and Environmental Standards, as well as Tax Policy Coordination

The implementation of the Single Market is largely complete. Having said that, there is still something to be done in the area of services markets. However, this must be achieved in compliance with minimum social and environmental standards. Competition is important, but it must be established on a foundation of fairness. For that reason, the member states are obliged – in particular with regard to tax policy – to continue their coordination efforts and to work towards a so-called »common consolidated corporate tax base«. With the Financial Services Action Plan important steps have been taken towards the integration of the financial market in Europe, although with a strong bias towards market integration. Henceforth, the point must be to guarantee the proper functioning of the financial markets – in particular the provision of liquidity – and to implement uniform standards. The financial and economic crisis has made all too clear the structural weaknesses of an economic model with too much faith in markets. There is no alternative to stricter regulation of the financial markets and a new, sustainable approach to social, environmental and economic policy coordinated at the European level.

The aims of a new guideline on Single Market consolidation should include:

- Greater consideration for social and environmental standards in Single Market directives and in the application of EU rules in the awarding of public contracts and in the establishment of the European services market.
- Buttressing financial market integration with better coordination of member states' financial market supervisory authorities and the extension of the EU's regulatory competences.
- Implementation of minimum standards in the area of corporate taxation, as well as a common consolidated corporate tax base.

2.1.6 Step Up Investment Efforts and Increase the Attractiveness of the Research Environment in Europe

Without investment there can be no economic growth and thus no prosperity in Europe. The state should seek to stimulate private investment through its own investment. Research and development are carried out in companies and universities alike but all in the public interest. The state can support research by creating a framework which encourages entrepreneurship and innovation and keeps top quality researchers in Europe. For this purpose it is essential to step up provision for research and development and maintain it at a high level. The goal envisaged in the Lisbon Strategy of achieving a level of investment of 3 per cent of GDP by 2010 across Europe has not yet been realised. This can be corrected right away by increasing financial provision for R&D in the member states if the EU does not want to miss the boat, in particular by cultivating innovative products and technologies in sectors of the future, such as the environment and information and communications.

The aims of a new guideline on the promotion of investment and research should include:

- Maintaining public investment in infrastructure and education/training at a constant level and allowing it to grow, as well as increasing public investment in research and development by 2015 to at least an average 3 per cent of GDP in all EU member states, and by 2020 to at least 3.5 per cent of GDP in every member state.
- Making available further funding, in particular in the areas of environmental and information and communications technologies.
- Through changes in tax law and incentives to set up companies, creating conditions under which it pays to invest in new development in comparison to existing processes.
- Continuously reviewing and improving the working conditions of researchers in European universities, in particular with regard to encouraging the next generation and recruiting scientists from abroad.
- Increasing cooperation between universities and companies by improving the integration of the career paths of scientists and people working in industry.

2.2 Proposals for Employment Policy Guidelines

2.2.1 Increase Social Productivity by Creating an Active Policy for More and Good Employment, as well as Sustainable Growth

Any revision of the Lisbon Strategy must ensure a new balance between economic and social objectives. A successful employment policy depends on an active and broad strategy for sustainable and high quality growth. A progressive labour market and employment policy must work towards both a quantitative increase in the number of jobs and an improvement in their quality. The previous limited perspective of the Lisbon Strategy, in terms of which employment increases were to be attained solely through higher qualifications for workers and more flexible labour markets, must be superseded by a holistic approach, which also brings work organisation more sharply into focus. Europe needs not only more jobs but good jobs. There is no contradiction here; it is the core of successful models in member states where the goals of the Lisbon Strategy are already being met. A social and progressive employment policy calls for demand management based on common macroeconomic coordination between the member states.

The aims of a new guideline on high quality and sustainable employment growth should include:

- Increasing social productivity by bringing increases in the employment rate in the member states into line with increases in the quality of employment and working conditions.
- Establishment of effective demand management through a coordinated economic, financial and monetary policy.
- Introduction or consolidation of an active labour market policy based on an innovative combination of promoting training and further training, progressive incentives for employers to reconcile work and family life and options for job sharing or job rotation.
- Promoting the social integration of the disabled through employment.
- Development of uniform indicators to measure »decent work«.

2.2.2 Reorganisation of Flexicurity to Bolster Employment and Income Security and to Develop Integrated Labour Markets through a Better Balance of Flexibility and Social Security

A new balance must be struck with regard to flexicurity as a combination of flexibility and social security in employment, expanding its social components. Flexible solutions should make entry to the labour market easier, but must be urgently complemented by wage and social policy, as well as productivity boosting measures to improve employment security throughout the life cycle. »Decent work« for Europe means curbing precarious employment and the low wage sector. Minimum standards of the kind already granted to full- and part-time workers across the EU must be developed for temporary agency workers and the economically-dependent self-employed. As a first step in this direction, labour inspectorates in the member states could be coordinated at the EU level in order to raise standards regarding the implementation of labour law provisions and to promote high quality working conditions. The health protection and safety of workers – which includes protection against excessively long working hours – must be raised to the highest possible level. The focus of previous policy on the external flexicurity of the market must be supplemented by notions of internal flexicurity, within enterprises, such as with regard to working time and work organisation.

The aims of a new guideline on flexicurity should include the following:

- Flexibilisation of labour markets should take place only on the basis of adequate employment and income security in order to prevent so-called »working poverty«.
- Preservation of the balance between flexibility and security in the sense of productive and sustainable job creation.
- Active and preventive labour market measures, including early diagnosis of needs, support in job seeking, personalised advice and action plans, availability of the requisite social services to assist in the labour market integration of people who are hard to place, and anti-poverty measures.
- Adequate income replacement payments during unemployment within the framework of the law in the relevant member state.
- Opportunities for training and further training, both at work and during periods of unemployment, based on the principle of lifelong learning, as well as greater recognition of workers' informal knowledge and informal qualifications.
- Adaptation of labour law with a view to reducing atypical forms of employment, such as temporary and fixed-term employment, while maintaining or increasing workers' rights.
- Focus on the whole life cycle, including interrupted and atypical careers.
- Emphasis on the sustainability of work through restructuring, away from an individualistic conception of jobs towards innovative forms of collaborative work organisation.

2.2.3 Boosting of Fair Employment Relations and Promotion of Equal Opportunities through Stronger Social Partners, Improved Participation and Progressive Procurement Laws

Social cohesion in Europe depends crucially on whether workers are protected by statutory working conditions and enjoy participation and codetermination rights in the representation of their interests. The creation of a dynamic labour market oriented towards inclusion and with full employment should be achieved and accompanied by the Social Dialogue in order to cushion the effects of restructuring measures. At the European level, this dialogue between the social partners should be stepped up. The Macroeconomic Dialogue should therefore be revitalised and made more transparent.

Social productivity can be improved only if workers' rights are safeguarded and the instruments of economic democracy reinforced. This calls for support for and strengthening of workers' participation at the European level. The integration of workers has proved itself especially in the crisis. Where national trade unions are unable to perform their proper functions due to legal restrictions there should be a European initiative to counter the infringement of basic social rights. The European works councils Directive should be modernised and, looking ahead, a debate on a European works constitution act should be encouraged. Mooted reductions of participation rights, as in the Regulation on a Statute for a European Private Company, must be countered effectively. Minimum wages and the revision of the Posted Workers Directive should put employment protection in the forefront. European procurement law should be fully implemented, with the possibility of taking into account local rates in public procurement. In particular, the principle of equal wages and working conditions for the same work in the same location should be established.

The aims of a new guideline on employment relations should include:

- Close cooperation between governments and social partners with a view to establishing equal access to the labour market, equal opportunities on the labour market, fair working conditions and fighting discrimination.
- Active promotion of the role of the social partners and workers' participation in all member states.
- Building up the Macroeconomic Dialogue to become the focus of European coordination efforts to improve social productivity.
- Inclusion of the European Parliament and national parliaments in activities concerned with enhancing employment relations.
- Revision of procurement law so that social protection clauses and minimum wage and working standards can be implemented effectively.

2.2.4 Prioritisation of Employment Which Is Gender Sensitive and Geared to Older Workers in the Setting of New Target Quotas for the Labour Market

Employment rates as a general aim of economic policy are too undifferentiated when it comes to assessing targets at the level of the member states. »Decent work« also entails consideration for gender components, since precarious employment in many sectors means women's precarious employment. In particular, continuing deficiencies with regard to the reconciliation of work and family life in many areas obstructs women from making the transition to normal employment. Therefore, urgent measures are needed to reconcile work and family life in the EU. In particular, more all-day care centres are therefore required, as well as gender-sensitive regulation of child-raising.

The increasing segmentation of the labour market must be offset by the implementation of Europe-wide minimum social standards to protect workers. Europe will be able to remain a presence on world markets only if it creates decent jobs. Lifelong learning is a key element in the fight against unemployment and labour market segmentation. However, it must be said that access to training and education is difficult in particular for the low qualified and persons in precarious employment. There must be sustained investment in general and vocational training and further training. This applies particularly to older workers. The employment rates of older workers will be sustainably improved only by considerably expanding opportunities for further training and skills acquisition.

The aims of a new guideline on employment objectives should include:

- Comprehensive elimination of remaining gender-specific differences with regard to employment relations and wages, and during periods of unemployment.
- Better reconciliation of work and private life through the provision of adequate care centres for children and others, with flexible hours and accessible to all, regardless of financial circumstances.
- Integration of active aging – including appropriate working conditions and better health protection in the workplace – in enterprise standards, as well as making available vocational training, regardless of a worker's length of time with the firm or age.
- Use of employment rates as measures in setting growth targets in the debate on the macroeconomic policy mix.

2.2.5 Fair Wage Policies to Ensure Macroeconomic Stability in a European Social Model

In some member states, wage increases in recent years have sometimes deviated significantly – whether up or down – from the wage norm. To the extent that this has contributed to economic divergences in the EU or is one cause of current crisis developments this will inevitably have repercussions for the strategy which must henceforth be pursued. The wage policies of individual states should be oriented towards the sum of productivity development and inflation. Wage increases which remain below this norm threaten to undermine domestic demand and, in extreme cases, to instigate deflationary developments, with stagnating investment and falling employment. If wages exceed the norm, the outcome will ultimately be relative price increases, including export prices. This can result in an unbalanced economic structure which, in the worst case, can result in a loss of confidence and prolonged periods of stagnation.

In countries experiencing very unfavourable developments with regard to price competitiveness, wage policy should temporarily deviate downwards from the wage norm. However, because of the threat of deflation, wages should on no account be cut, but rather temporarily frozen. Countries with good price competitiveness and high current account surpluses, based on wage development, should temporarily pursue wage development which exceeds the framework of productivity increases and target inflation. A coordinated strategy for reducing foreign trade tensions in the EU has the best prospect of success. By orienting wage agreements to medium-term productivity increases, balanced participation in increasing prosperity for both male and female workers could be achieved over time. It is a challenge for European inter-state solidarity to combat tensions on the part of both deficit and surplus countries. The support of the social partners in establishing a European framework for the coordination of wage negotiations is therefore very important.

In the face of the rapid expansion of the low wage sector Europe-wide relative lower wage limits are essential, taking into account the member states' different levels of economic development and national average wages. Low wage limits need not necessarily take the form of statutory minimum wages since – in particular in the Scandinavian countries and Austria – generally binding wage agreements often serve as adequate safeguards. Minimum wages help to increase the contribution of low earners to social productivity and can help to change the existing income distribution. Acting on the income disparities manifested in a growing gap between rich and poor can also help to make living standards more equitable in the EU.

The aims of a new guideline on wage policy should include:

- Orientation of wage policy to the sum of medium-term productivity gains and (target) inflation, taking into consideration differing qualification levels and labour market conditions.
- Efforts to reach wage agreements above or below the wage norm in response to extremely unbalanced current account developments related to past wage and price developments instead of wage cuts.
- Revision of wage indexation in individual member states with regard to their compatibility with the objective of price stability.
- Social partner support for the establishment of a European framework for wage policy coordination.
- Agreement on statutory minimum wages or minimum wages based on collective agreements, amounting to at least 50 per cent of the national average wage by 2015 and at least 60 per cent by 2020.

2.2.6 Ensuring the Funding of the Welfare State via Increased Tax Financing and thus Lower Indirect Wage Costs

The compatibility of welfare state funding with price competitiveness must be examined. Current account deficits call, in the first instance, for stronger coordination of wage policies. In tandem with this, the member states affected should consider a change in welfare state funding, for example, on the basis of VAT or income taxes. The distributional effect should also be taken into account here. With VAT increases particular care must be taken to maintain price stability. Any reform of tax and contribution systems must pay attention to a fair distribution of the burden and preserving the functionality of social insurance systems. The modernisation of social security systems should not be governed solely by budget considerations and the reduction of indirect wage costs, thereby leading to cuts in social services. Its function of protecting against life's major contingencies and at a level which corresponds to a particular society's prevailing living standards contributes significantly to social cohesion.

Social policy should therefore be enhanced as an autonomous domain at the European level. This requires an active policy to combat poverty and social exclusion. Alongside familiar poverty risks, new ones, such as working poverty, must be more closely considered. In particular in old age it is important that workers can rely on maintaining their standard of living. In future, the incidence of old-age poverty is only likely to increase in many countries. In order to avoid this, precautions must be taken, in particular by including a strong basic insurance component in pensions. This does not rule out contribution-based pensions, but within a solidaristic framework. Demographic change is nothing new: in the past, the costs attendant on an aging population could also be covered by rising productivity. However, increasing income inequality means that productivity gains have largely been to the benefit of capital owners at the expense of employees. This has fatal consequences for the funding of social security systems. A sustainable economic, financial and social policy must therefore be devoted primarily to the fair distribution of income and assets.

The aims of a new guideline on welfare state reform should include:

- A distribution of the burden which is as equitable as possible between employees and employers by safeguarding contribution- or merit-based justice and maintaining or enhancing the social security system.
- Consideration of an increase in welfare state funding through taxation in order to reduce income inequality in general and to find the means to counter the demographic challenge of an aging population.
- Ensuring the maintenance of living standards in old age and the avoidance of poverty through the pension insurance system by introducing basic insurance as part of the provision for old age, in respect of which not all pension income from other sources will be taken into account.
- No falling below a minimum net pension from statutory pension insurance contributions of 60 per cent of the net wage, taken as reference figure.

2.2.7 Design and Encouragement of Education and Training as Integrated European Social and Labour Market Policy

Education and training enable participation and personality development. The democratic knowledge society needs more than a relatively small number of highly qualified individuals, but rather skills and education/training throughout the population. Education is, on the one hand, the precondition of a strong knowledge and services based economy which creates new jobs and both puts and keeps people in employment (although it is more than merely an economic variable). On the other hand, education is a fundamental requirement of a solidaristic society and a lifelong pursuit of responsible citizens. Education and skills or knowledge have always played a key role as a precondition of equal opportunity and social advance. Education policy is, at the same time, social and labour market policy. This integrated understanding of education applies to all EU member states equally. Every EU citizen – including migrants who have taken up residence in the EU – therefore has a right to education or training. Regardless of age and social origins, people should be given the opportunity to seek vocational qualifications.

Lifelong learning should be made easier and more attractive by means of European learning accounts and transparent career paths in the education system. So-called qualification frameworks make this possible, in particular if they include different education sectors. Further education and training systems must be designed to be as labour market friendly as possible in order to meet the needs of business and also to create access opportunities for those with the relevant qualifications. The higher education system should also be regarded as another possibility for vocational training, also for less qualified workers. Integration in a comprehensive, Europe-wide framework offers the opportunity to make non-academic training more future-oriented and flexible. Vocational training can be supplemented by higher education at a latter date.

The aims of a new guideline on education policy should include:

- Provision of learning opportunities leading to qualifications for all, including migrants who are long-term EU residents, comprising around 10 years of full-time study.

- Continuous development of enterprise training provisions, particularly for the low qualified.
- The integration of different education and training paths – from vocational training to higher education – to establish a uniform European qualification framework paying particular attention to access criteria, flexibility of educational pathways and recognition issues.
- Establishment of a Europe-wide learning account for every EU citizen which registers all qualifications, including those acquired outside college.
- Increased public spending on education and training in every member state to at least 7 per cent of GDP by 2020.

3 Outlook

The financial and economic crisis can leave us in no doubt that the relationship between the state and the market must change. Created in 2000 and enhanced in 2005 during the golden age of neoliberalism, the Lisbon Strategy is not a suitable vehicle for such change. It is too beholden to the alleged ability of the free market to regulate itself, too heavily tilted towards economic and employment policy and too deficient in possibilities for European policy coordination.

If a revised and completely redesigned strategy for the European coordination of economic and employment policies is planned for the coming decade, then it requires a balance between economic, social and environmental principles and goals. We have presented a number of proposals for such a triangle of aims, which represents the only possibility for Europe's stable development. These proposals are derived from a social and democratic understanding of future EU integration and are based on a fundamental need for change, apart from structural reforms and so-called »growth euphoria«. These proposals are confined to the narrow range of possibilities offered by the Lisbon Treaty with regard to European policy coordination. Nevertheless, they are aimed at a transformation of values and call for accompanying measures if they are to be sustainably applied.

Individual member states, but also the EU as a whole, must answer the question of how policy can be funded in the future – that is, how the state can retain its ability to act during periods of increasing endebtedness. In these circumstances, even more unorthodox measures, such as a financial transaction tax, should be brought into play. Increased asset redistribution within countries and mechanisms for some sort of financial equalisation at the European level, for example, by a common unemployment insurance, should also be discussed. While, for example, the Social Stability Pact and relaunch of the Macroeconomic Dialogue proposed here require only a minimum level of supranational competence, against the background of the financial and economic crisis the feasibility of more far-reaching options should be considered, such as stepping up sanctions related to the goals of the Europe 2020 Strategy or the establishment of a European economic government.

In general, the new economic and employment policy strategy is tasked, based on the lessons learned from the coordination approaches applied over the past decade, with designing an instrument able to cope with the shock of the global economic crisis and the foreseeable future challenges for a global society which is more exposed to risk, thereby setting a new course for the development of the EU. The proposals presented here are intended to contribute to this.

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