Europe 2020 – A New Framework for New Growth

The European Council’s final adoption of the Europe 2020 strategy on June 17, 2010, was preceded by a public consultation on the basis of initial considerations, an evaluation of the strategy’s predecessor (the Lisbon agenda), and finally a proposal submitted by the European Commission. This intensive preparatory work gave rise to a new strategy designed to lead Europe onto a path of smart, sustainable and inclusive growth in the wake of the financial and economic crisis, with due attention to future challenges such as the aging population, climate change and ongoing globalization. With this focus, the Europe 2020 strategy dovetails neatly with the EU’s new economic governance framework, which was completed with the adoption of the “six-pack” of legislative measures in late September 2011. In light of these developments, this article discusses the development, design and implications of the new framework on the basis of existing analyses and resolutions.

1 Lessons Learned from the Lisbon Strategy and the Crisis as Key Influencing Factors

At the Spring European Council in Lisbon in the year 2000, the EU Heads of State or government agreed on the goal of making the EU “the most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion” by 2010.

From the year 2000 onward, the Lisbon strategy therefore served as the EU’s framework for economic policy coordination. The purpose of the strategy was to strengthen the EU economically, socially and ecologically with structural reform measures. The Lisbon strategy was not meant to create a new process, but to coordinate and simplify the Broad Economic Policy Guidelines, the Luxembourg process for employment, the Cardiff process to accelerate reforms on product and capital markets, and the Cologne process, also known as the “macroeconomic dia-
log.” The measures laid down in the Lisbon strategy were intended to be mutually reinforcing, and their effect was to be amplified by coordination among the Member States. The Lisbon strategy represented a change in the way EU policy was implemented, signaling a shift away from legislation and toward the “open method of coordination,” a soft, nonbinding mechanism based on peer reviews and benchmarking among Member States. From the very outset, the Lisbon strategy was characterized by joint objectives set at the EU level but not broken down at the level of individual Member States. This turned out to be problematic for those Member States which had already surpassed the targets as well as those which were still far from reaching them.

Progress made under the Lisbon strategy lagged behind expectations in the first five years. According to the Kok Report (Kok et al., 2004) commissioned by the European Commission, the reasons behind this low rate of success were varied: the overloaded agenda, poor coordination, conflicting priorities, and above all a lack of political determination to enforce the agenda (see also European Commission, 2005; Breuss, 2005). Pisani-Ferry and Sapir (2006) also emphasize the fact that the Lisbon strategy had originally been designed, in 2000, for a relatively homogeneous group of high per-capita income Member States, whereas after the enlargement of the EU the strategy was applied to a far more heterogeneous group.

Therefore, in the course of the midterm review in 2005, efforts were made to simplify and re-orient the strategy by focusing on the objectives of growth and jobs, and a new approach was adopted as the central guiding principle: the partnership approach, which underscores the equal status of the European Commission and the Member States and calls for the participation of all stakeholders (i.e., parliaments, regional and local government agencies, social partners and civil society).

In order to implement the partnership approach, the Member States prepared National Reform Programmes (NRPs) in 2005 and 2008, on the basis of which each country was meant to respond to its specific national challenges with tailored structural reforms in order to contribute to strengthening European competitiveness. The framework for the preparation of NRPs was provided by the Integrated Guidelines for Growth and Jobs, which formally comprised the Broad Economic Policy Guidelines and the Employment Guidelines.

For the European Commission (2010a), one success of the Lisbon strategy was the fact that broad consensus was reached on the reforms necessary in the EU. Martens and Zuleeg (2009) and Cohen-Tanugi (2008) consider it an especially positive development that all EU Member States acknowledged the importance of structural reforms and that mechanisms were introduced to address these issues at the EU level. Breuss (2008) sees the main benefit in the fact that social policy no longer focuses exclusively on social security (passive social policy) but is now understood as active employment policy. The benefits for European citizens and businesses lie in higher employment rates, the more dynamic business environment with reduced bureaucracy, the broader set of choices open to the population, and the downward trend in energy intensity (European Commission, 2010a).

At the same time, social exclusion, poverty, poor access to education, and labor market segmentation are still
considered problematic. Another critical point (especially in light of the financial crisis) is that important aspects of necessary reforms — including issues related to financial market supervision (Lamfalussy committee structure), the monitoring of systemic risks on financial markets, and speculative bubbles — were “forgotten” or not integrated into the strategy. Moreover, too little attention was paid to macroeconomic imbalances and competitiveness problems in the Lisbon strategy as well as the Stability and Growth Pact (SGP). The unclear distribution of tasks and ownership, as well as weak governance structures have drawn especially heavy criticism. Finally, the European Commission (2010a) refers to the communication of the Lisbon strategy and its importance for the EU as the strategy’s “Achilles’ heel.” According to Breuss (2008), the heterogeneity of the EU, especially after its enlargement to include transformation economies with relatively low income levels, was not sufficiently taken into account in the Lisbon strategy. Accordingly, the results diverge greatly among Member States (Cohen-Tanugi, 2008). Other important weaknesses included the administrative burden associated with the open method of coordination and the diversity of objectives — sustainability and globalization as well as employment and growth — pursued even after the relaunch of the strategy.

Ultimately, one of the essential objectives of the revamped Lisbon strategy — simplification and a sharper focus — gradually deteriorated as more and more quantified targets were added over the years (Breuss, 2008; Cohen-Tanugi, 2008).

Providing a conclusive assessment of the Lisbon strategy is difficult because its implementation was eclipsed by significant institutional factors such as the enlargement of the EU from 15 to 27 Member States as well as the launch of the single currency. Moreover, the crisis situation in recent years has overshadowed or even completely canceled out the long-term accomplishments of the strategy.

The financial crisis in 2008 disrupted the procedure under the Lisbon strategy: Instead of releasing a Progress Report in December 2008, the European Commission moved to present a European Economic Recovery Plan in November of that year (European Commission, 2008). The areas addressed in that program did not entirely coincide with the issues Member States were required to address in their NRPs. For example, the agenda included state aid and public procurement, neither of which had previously been covered by the Lisbon strategy. In general, one might say that the European Commission’s recommendations tended to shift away from the supply side toward demand-side measures. However, Martins and Zuleeg (2009) also criticize the fact that the voices emphasizing the benefits of structural reforms grew fainter during the crisis. Breuss (2009) argues that the financial crisis severely hampered the attainment of the strategy’s essential objectives, noting a clear trade-off between the massive economic stimulus package during the crisis and the targeted promotion of long-term growth and employment. However, Ederer et al. (2010) note, at least for Austria, “that the Austrian efforts within the Lisbon strategy were successful at either reaching the targets or initiating positive trends towards meeting these European and national targets.”

2 Europe 2020: Design, Objectives and Priorities

Against the backdrop of the crisis, it has quickly become clear that there is a
need for closer economic policy coordination with a view to enhancing economic growth potential in the EU and its Member States. This is especially true within the euro area. In conceiving the Europe 2020 strategy (European Commission, 2010b), the European Commission therefore relied on continuous process management as the actual core of economic policy coordination. With regard to objectives, the Commission has linked the new strategy to its predecessor by way of the three priorities (smart, sustainable and inclusive growth); at the same time, however, the Commission has also designed a completely new governance structure.

2.1 Distribution of Tasks and Governance

Due to the extraordinary circumstances (i.e. the crisis) which accompanied the process of redesigning the Lisbon strategy, one of the conceptual challenges involved was to balance the need for economic stimulus with the need for forward-looking growth strategies. A clear distribution of tasks was derived from the three priority areas. According to this distribution, it is the responsibility of each individual Member State to present the economic policy measures with which it can boost its growth potential. These measures are described in the NRPs to be submitted in April each year. The reform efforts at the national level are complemented by measures at the European level, for which a framework was defined in the form of seven flagship initiatives. The European Council is responsible for steering the strategy, defining horizontal political guidelines and assessing overall progress on a yearly basis. For their part, the specific configurations of the Council of the EU discuss and review the reform program measures and progress in their respective areas of competence. The Economic and Financial Affairs Council (Ecofin) monitors the coherence of individual measures with due attention to macrofinancial constraints. The European Commission reviews overall progress, prepares the Annual Growth Survey, and issues country-specific recommendations. In addition to these institutions, which play a decisive role in steering the strategy, other European institutions also contribute to the process: The European Parliament was already involved in adopting the legislative package and may submit an assessment of the Europe 2020 strategy in the form of a resolution each year. The European Economic and Social Committee and the Committee of the Regions ensure the involvement of social partners, civil society as well as regional governments and local authorities at the EU level. However, this does not relieve the individual Member States of their duty to ensure the comprehensive involvement of social partners and civil society at the national level.

2.2 Elements of the New Strategy

The National Reform Programmes lie at the heart of the Europe 2020 strategy. At the top level, the three main priorities — smart, sustainable and inclusive growth — define the cornerstones of the strategy. In line with these focus areas, five headline targets valid throughout the EU were defined. At a meeting in March 2010, the EU’s Heads of State or government agreed that each Member State is to define its own national target for each of the five headline targets (European Council, 2010). In addition to the five headline targets, the European Commission also launched seven flagship initiatives. The flagship initiatives refer to program focus areas which are each assigned to
one of the three priorities of the Europe 2020 strategy and make use of all instruments available at the EU level. These may include legislative initiatives, e.g. with regard to the single market, as well as financial funding, providing expertise or exchanging examples of best practices. Ultimately, the flagship initiatives are meant to work in concert with the Member States’ policy measures and contribute to the achievement of the five headline targets.

The ten integrated guidelines serve as an additional steering mechanism (European Commission, 2010i and 2010j). In addition to the five headline targets and the flagship initiatives, these guidelines are applied to the design of national economic and employment policies. The integrated guidelines are laid down in the Treaty on the Functioning of the European Union (TFEU) and comprise the Broad Economic Policy Guidelines (Guidelines 1 to 6, Art. 121 TFEU) and the Employment Guidelines (Guidelines 7 to 10, Art. 148 TFEU). In order to ensure a maximum of stability in the framework, it was agreed that the guidelines should remain largely unchanged until the year 2014. The guidelines link the above-mentioned elements with one another and serve to structure surveillance as provided for in the Treaty.

2.3 Five Headline Targets, Seven Flagship Initiatives, Ten Integrated Guidelines, 27 National Reform Programmes

The five headline targets make it possible to measure and compare progress:

1. Employment: 75% of the population aged 20 to 64 should be employed
2. R&D and innovation: 3% of the EU’s GDP to be invested in R&D and innovation (public and private investment combined)
3. Climate change and energy: (i) Reduction of greenhouse gas emissions by 20% compared to 1990, (ii) increase in the share of renewable energy sources in final consumption to at least 20%, and (iii) a 20% increase in energy efficiency
4. Education: Reduction of school drop-out rates below 10%; increase in the share of 30 to 34-year-olds having completed tertiary or equivalent education to at least 40%
5. Poverty and social exclusion: Lifting at least 20 million people out of the risk of poverty or social exclusion

The seven flagship initiatives give rise to seven European and seven national responsibilities:

**Smart Growth**
1. Innovation Union (European Commission, 2010c)
2. Digital Agenda for Europe (European Commission, 2010d)
3. Youth on the Move (European Commission, 2010e)

**Sustainable Growth**
5. Industrial Policy for the Globalization Era (European Commission, 2010f)

**Inclusive Growth**
6. Agenda for New Skills and Jobs (European Commission, 2010g)
7. European Platform against Poverty (European Commission, 2010h)

The ten integrated guidelines are key to economic policy coordination and surveillance:

**Guideline 1:** Ensuring the quality and the sustainability of public finances

**Guideline 2:** Addressing macroeconomic imbalances

**Guideline 3:** Reducing imbalances within the euro area
Guideline 4: Optimizing support for research, development and innovation, strengthening the knowledge triangle and unleashing the potential of the digital economy

Guideline 5: Improving resource efficiency and reducing greenhouse gases

Guideline 6: Improving the business and consumer environment and modernizing the industrial base

Guideline 7: Increasing labor market participation and reducing structural unemployment

Guideline 8: Developing a skilled workforce responding to labor market needs, promoting job quality and lifelong learning

Guideline 9: Improving the performance of education and training systems at all levels and increasing participation in tertiary education

Guideline 10: Promoting social inclusion and combating poverty.

On the basis of the current challenges (growth bottlenecks) identified, the 27 National Reform Programmes are meant to include the appropriate reform concepts and focus on the targeted promotion of long-term growth and employment.

3 Alignment with the New Economic Governance Framework

In response to the weaknesses revealed by the global financial and economic crisis, a new basis was created for economic governance and surveillance in the EU. At the heart of these new measures is the package of six legislative proposals (the “six-pack”) adopted in September 2011 in order to strengthen the SGP and to place greater emphasis on preventing and correcting macroeconomic imbalances (European Commission, 2010ka to 2010kf). The “European semester” has been in place as the new framework for coordination and surveillance since January 2011. This adapted schedule incorporates the Europe 2020 strategy into the integrated structure, with interconnections arising in particular through the newly defined macrostructural surveillance. The Euro Plus Pact – a voluntary obligation to strengthen competitiveness and convergence –, tightened rules and supervision structures for financial markets, as well as support mechanisms for Member States with financing problems round off the new economic governance framework.

3.1 The European Semester

With the introduction of the European semester in January 2011, the previously separate processes under the SGP and for economic policy coordination were synchronized more closely. The legal bases for these processes remained separate, but the European Commission now assesses the Member States’ fiscal and structural policies simultaneously and in one consistent document. Another new feature is that the key challenges and the corresponding priorities for economic policy agendas are defined at the beginning of each year. This arrangement is meant to ensure that the European dimension is taken into account early in the budgetary negotiations for each coming year, and to ensure consistency with the measures under the Europe 2020 strategy (Köhler-Töglhofer and Part in this issue).

3.2 Interconnections

Besides the European semester as the overarching framework for policy coordination, there are other connections between the Europe 2020 strategy and the new economic governance scheme, in particular with regard to integrated surveillance itself as well as the identification and correction of macroeconomic imbalances.
The architecture of the Europe 2020 strategy consists of a macroeconomic surveillance component as well as thematic coordination (chart 1). The former focuses on macroeconomic imbalances, macrofinancial risks such as high foreign debt, and competitiveness. In this pillar of the strategy, Member States are specifically required to dismantle growth bottlenecks as identified in the process of developing the strategy. These tasks not only refer to “classic” structural policy areas such as education or productivity, but also include weaknesses in areas such as fiscal and financial policy (section 4). The analysis covered the general conditions for economic growth as well as the actual drivers of growth (European Commission, 2010m). Through this deliberately selected approach, duties under the reinforced economic governance must also be accounted for in the reform measures taken under the Europe 2020 strategy. The thematic coordination is geared toward growth-enhancing structural reforms based on the headline targets of the Europe 2020 strategy (European Commission, 2010l). In this regard, the interrelationships are clearly visible: Structural policies require the appropriate budgetary room for maneuver, while the growth-enhancing objective of the Europe 2020 strategy is intended to support the sustainability and quality of public finances.

The legislative package for the EU’s new economic governance includes two regulations on macroeconomic imbalances and defines a separate procedure for correcting such developments: the excessive imbalances procedure (EIP) (European Commission, 2010kd and 2010kf). Likewise, this issue is addressed in the revised guidelines (European Commission, 2010i and 2010j) and in the architecture of the Europe 2020 strategy as described above. In this respect, the medium to long-term orientation of the strategy with its objective of eliminating growth bottlenecks (which can arise in the form of internal and external imbalances) may overlap with the short and medium-term correction of imbalances within the framework of the EIP. Especially those aspects of the Europe 2020 strategy which aim to strengthen competitiveness and relate to e.g. incomes may play a key role in this context. The monitoring of macrofinancial risks under the Europe 2020 architecture will rely on the expertise of the European Systemic Risk Board (ESRB) established in 2010. In this area, there may also be overlaps with the EIP, especially in cases where imbalances are rooted in disproportionate lending developments, to name one example. Member States may thus receive recommendations for the correction of macroeconomic imbalances in the annual assessment of programs. Where an excessive imbalance is detected, specific recommendations will be issued, and for euro area members sanctions may be added. In addition to the suitable procedural integration of the EIP into the European semester, therefore, it will be nec-
necessary to pay special attention to ensuring consistency in recommendations and minimizing trade-offs in the future.

4 Implications for Austrian Economic Policy

Although Austria will continue to determine its own policies, the architecture of the Europe 2020 strategy will have a decisive impact on Austrian economic policy in the coming years.

On the basis of an analysis by the Commission, the most important country-specific macrostructural growth bottlenecks were identified in joint discussions in the Economic Policy Committee (EPC) and the Economic and Financial Committee (EFC); these bottlenecks were then confirmed by the Ecofin Council in June 2010. The Employment Committee (EMCO) identified the most essential growth bottlenecks in employment policy. This procedure has created a certain coherence between macro- and microeconomic reforms as well as challenges in labor market policy at the national level up front. At the same time, the direction of reforms has been defined for all 27 Member States, and the necessary alignment of economic policy agendas has been ensured. In Austria’s case, the following macrostructural growth bottlenecks were identified (European Commission, 2010m):

1. Consolidation of public budgets and simultaneous promotion of growth
2. Strengthening of the financial sector
3. Strengthening internal demand
4. Increasing labor participation, especially among older workers
5. Orienting educational systems toward the improvement of human capital and strengthening innovation capacity

Together with the national headline targets under the Europe 2020 strategy, overcoming these growth bottlenecks will constitute Austria’s economic policy agenda for the next ten years. In order to reach the EU-wide headline objectives, the Austrian government has defined five national targets. These objectives call for an increase in R&D spending as a percentage of GDP; educational targets in tertiary education and school dropout rates; an increase in the employment rate with special attention to older workers, women, and people from migrant backgrounds; environmental and climate-related targets; and targets related to reducing the risk of poverty (Austrian Federal Chancellery, 2010):

1. Increasing R&D expenditure by 1 percentage point to 3.76% of GDP
2. Increasing the employment rate from its current level of 74.9% to 77–78%
3. Reducing greenhouse gas emissions by 16%, increasing the share of renewable energy usage to 34%, and stabilizing energy consumption at the level recorded in 2005
4. Reducing the school dropout rate to 9.5% and increasing the share of persons with tertiary academic degrees to 38%
5. Reducing the number of persons at risk of poverty by 235,000 on the basis of the three indicators defined at the EU level

The Austrian National Reform Programme, which was submitted to the European Commission in April 2011, discusses how these targets and obligations will be realized at the national level. Overall, the program represents an economic policy agenda compliant with the Europe 2020 strategy (Austrian Federal Chancellery, 2011).

Even the critics of the Europe 2020 strategy have noted that it accounts for many factors which are essential for competitiveness and growth. In addi-
tion to requiring supply-side factors such as infrastructure, education and research, growth also necessitates demand dynamics which can keep up with and stimulate supply (Ederer and Janger, 2011). As the Europe 2020 strategy is geared toward three priorities – smart, sustainable and inclusive growth – all of these factors are addressed. Ederer and Janger (2011) confirm that the essential points of the strategy exhibit elements of an innovation-oriented growth policy. This clearly supports Austria’s current transition from imitation-based to innovation-based growth (Aiginger et al., 2009).

Despite the financial and economic crisis, the basis for reforms is strong in Austria. The conceptual framework is also fundamentally suitable for adding greater stringency to the reform agenda. In the coming years, therefore, it will be decisive to take advantage of this leeway and to advance Austria’s fiscal consolidation process consistently, to implement structural reforms, to strengthen demand and to create stimuli for growth and employment.

5 Conclusions

An overall assessment of what the Europe 2020 strategy will do for Austria is characterized by considerable uncertainties. Macroeconomic estimates show that the simultaneous attainment of Austria’s targets under the Europe 2020 strategy with regard to R&D intensity, tertiary educational attainment and the employment rate will increase Austria’s GDP growth by 0.3 percentage points between 2010 and 2020; this accounts for nearly one-sixth of long-term GDP growth projections. As reaching those targets will have long-term effects, in 2050 Austria’s GDP will be 5% higher than it would be if the Europe 2020 targets cannot be attained. The economic effects of reaching the environmental and climate-related targets are even more difficult to estimate; however, the induced investment effects and long-term savings in energy costs are likely to have considerable effects, as an investment of EUR 1 million in “green” measures is said to create 11 to 16 new jobs. Meeting the employment targets is likely to reduce the risk of poverty for some 20,000 people, which is already one-tenth of the poverty reduction target (Ederer et al., 2010).

The following economic policy insights can be derived from the development and architecture of the Europe 2020 strategy:

– Structural and fiscal policies are converging and require appropriate coordination.
– The significance of employment, the knowledge base, competitiveness, energy efficiency and social inclusion as elements of a supply-side economic policy is highlighted by the priorities defined in the strategy.
– The definition of quantitative targets at the EU level and at the level of Member States as well as the close surveillance process have increased the pressure for reforms.
References


