

EUROPE 2020

A strategy for sustainable growth and jobs

Contribution from the President of the European Commission to the informal meeting of Heads of State and Government of 11 February 2010

While the European Union was moving in the right direction before the crisis, the crisis has wiped out many of the gains ...

Between 2000 and 2008, GDP per capita increased by 13.5%, labour participation rates rose from 62% to 66%, while unemployment fell to 7%.

The crisis has changed the overall perspective dramatically. GDP has fallen by 4% in 2009. Industrial production is down 15% and is back to 1999 levels. Since 2008, the number of unemployed has jumped by 7 million and unemployment increased to 10%, i.e. more than 23 million people, levels not seen since the early 1990s.

Banks have been significantly weakened in terms of their capacity to provide financing to businesses and households. Public finances are severely affected, with average deficits now reaching 7% of GDP and debt levels having increased by 20 percentage points in two years, undoing 20 years of consolidation.

Part of the EU's growth potential has been destroyed by the crisis. As the "baby boomer" generation starts to retire in the next few years, the European labour force will start to shrink, which could further reduce growth. At the same time, international competition is becoming increasingly fierce, as the emerging economies' role in the global economy is further enhanced. Overall, the effects of the crisis make the challenges which existed before the crisis, such as globalisation, demographic ageing, lagging productivity and climate change, much harder to handle.

There are important lessons to be learned from the crisis if Europe is to underpin high standards of living and our social models ...

Coordination works and Europe adds value. A co-ordinated fiscal impulse was provided through the European Economic Recovery Plan. The EU also provided essential balance of payments support to Hungary, Latvia and Romania. Support to the banking sector was provided on the basis of a European framework. Economic policy co-ordination can deliver significant results if it is strengthened and rendered effective.

Our economies are interdependent, particularly in the Euro area, which means that reforms (or the lack of them) in some countries affect the performance of all the others. Similarly, as we emerge from the crisis, no single Member State can address the challenges effectively by acting alone.

Global interdependence demands a stronger EU. The EU has been an effective player in the G-20, whose meeting at the Heads of State and Government level goes back to EU initiative, because it has sought to speak with one voice. Leading globally implies that we accept our interdependence: for every €1000 growth in a Member State, about €200 benefits other Member States through trade. The EU must remain actively engaged in shaping the international agenda, including the G 20 agenda, in line with its views and in continuing to compete and prosper in open global markets.

The goal of the EUROPE 2020 Strategy is to develop our sustainable social market economy to be competitive, innovative, and inclusive ...

EUROPE 2020 cannot be business as usual: we need a step change in the effectiveness and delivery of the new strategy, designed to raise sustainable growth and create the jobs that we need. Whilst our starting position is arguably more difficult than before the crisis and perhaps than at any time in our generation, we also know that co-ordinated policy action can deliver on our objectives. This strategy must combine the successful exit from the crisis with an ambitious structural reform agenda. And we must address imbalances inside the Euro area to avoid increasing divergences between Member States that put pressure on our common currency.

By taking bold action we can realise our ambitions and avoid the trap of a decade of "sluggish" growth and high unemployment which would reduce our standard of living, put enormous strain on our social systems, and diminish Europe's role in the world.

Three themes are of key importance to Europe's success in a global world and should be the heart of the EUROPE 2020 reform agenda. For each of these, we should set a commonly agreed headline target for where the EU wants to be by 2020. These targets will be then translated by Member States into national targets, taking account of their differing starting positions:

1. **Growth based on knowledge and innovation:** this means improving our productivity by increasing our R&D and innovation performance, better exploiting the potential of ICTs and creating a digital single market, raising education outcomes and promoting skills.

This should be supported by a Research and Innovation Plan, focusing particularly on improving the framework conditions for the take up of research results and for exploiting innovative technologies.

We also need a European Digital Agenda to provide new business opportunities, aiming at promoting wider availability of content and modern public services, and strengthening consumer confidence.

2. **An inclusive high employment society:** this means empowering people through high levels of employment, using flexicurity, modernising labour markets and social protection with a view to building a more inclusive society.

In order to ensure that our people can acquire the skills which will help them move into new growth areas, a New Jobs Agenda could be developed, to make life-long learning more accessible, promote more openness of education systems for non-typical learners, and better match supply and demand, including removing obstacles to labour mobility.

For instance, it is important to address the major shortfall we have in mathematics, science, and engineering.

To build a more inclusive society, we must reduce poverty, including through renewed cooperation between the EU and the national levels.

3. **Greener growth:** this means building a competitive and sustainable economy, tackling climate change, accelerating the roll-out of smart grids and genuine EU scale networks, modernising the EU's industrial base, and turning the EU into a resource efficient economy.

In order to seize these opportunities, we should develop an Industrial Policy for the globalisation era, combining all possible instruments (e.g. internal market, competition, skills, regional policy, trade and investment, standards and regulatory convergence, for instance for electric cars).

Working with stakeholders, it should implement pathways for different sectors, including agriculture, manufacturing and services.

We must gear our key policy instruments to deliver the objectives ...

We need the appropriate combination of actions at Member State and EU level. The Commission will make proposals to unlock untapped sources of new growth and job creation in order to:

- Re-launch the internal market, one of the EU's biggest assets and an essential driver for sustainable growth and jobs. Unlocking the potential for entrepreneurship, notably creating a more favourable environment for SMEs, is crucial for job creation and growth. The EU needs well functioning markets where competition and consumer access stimulate productivity, growth and innovation, and with a strong social component. It is the joint responsibility of the EU and the Member States to ensure that our services and goods markets, including financial services and energy, deliver for our citizens and businesses;
- Ensure that the EU budget fully reflects the agreed political priorities so that it can become a key delivery instrument for the EUROPE 2020 strategy, complementing national budgets and EIB lending. At the same time, new financing models also need to be explored to pool resources between the public and the private sectors and maximise the impact. The role of the EIB in providing innovative funding for venture capital and the exploitation of the results of R&D should be strengthened;
- Design an external economic policy in full support of our EUROPE 2020 objectives, to tap the full potential which international trade has as a driver of growth, employment and investment in the EU. This should include an ambitious market access strategy. We should also develop regulatory convergence, in particular with our largest trade partners, setting high standards for future sectors which will drive economic growth.

We face critical choices going forward: our 2020 vision should shape our exit from the crisis ...

A co-ordinated and comprehensive exit strategy from the crisis in the near term will lay the foundations for delivering on the key objectives for 2020. Sound public finances are critical to restoring the conditions for sustainable growth and jobs.

The withdrawal of temporary crisis-related measures should be coordinated and encompass efforts to restore the financial sector to normal market conditions, to phase out discretionary fiscal stimuli, and to remove temporary schemes to support hard-hit sectors. Implementing the withdrawal should depend on the pace of economic recovery and take full account of the impact on employment.

To support the EU's economic growth potential and the sustainability of our social models, the consolidation of public finances in the context of the Stability and Growth Pact involves making priorities and choices: coordination at EU can help Member States in this task. In addition, the composition and quality of government expenditure matters: budgetary consolidation programmes should prioritise 'growth-enhancing items' such as education, R&D and investment in networks, e.g. energy interconnections – i.e. the key thematic areas of the EUROPE 2020 strategy. Enhancing the efficiency of public expenditure will be of key importance, namely in areas like pensions, health care, social protection and education systems, where innovative solutions should be explored.

Member States and the EU should face up to the trade offs, make the right policy choices, and prioritise expenditure in favour of necessary investments in future sources of growth (education, R&D, resource efficiency, etc.). Not only because it raises the EU's growth potential, but also because it is the only approach that leads to sustained job creation and the possibility to continue to equip European societies with modernised social protection systems.

Stronger economic policy co-ordination is more essential than ever ...

Working together in a co-ordinated manner and gearing EU level policies and expenditures towards these objectives is essential. In our interconnected economies, growth and employment will only return if all Member States move in this direction, taking account of their specific circumstances and of the impact of their policies on other Member States and the Union as a whole.

The European Council should provide overall guidance for the strategy, on the basis of Commission proposals built on one core principle: a clear EU value added. We need greater ownership. In this respect, the role of the European Parliament is particularly important. The contribution of stakeholders at national and regional level and of the social partners needs also to be enhanced.

EUROPE 2020 needs a strong governance framework that harnesses the instruments at its disposal, to ensure implementation of its goals and to steer the exit from the financial and economic crisis.

EUROPE 2020 should be the concrete expression of Europe's economic policy, thus laying the ground for a truly economic governance of Europe. This requires a political debate on the choices we have to make to maintain our competitiveness and our living standards and effectively enhance economic and social cohesion. Public money is scarce and our economic position has deteriorated, while major structural challenges remain unaddressed.

The recognition of interdependence of the Member States economies, including the issue of relative competitiveness in the context of the euro area, should lead us to stronger EU co-ordination; we should focus on a limited number of priorities, with clear EU value added, and we need a close link between the objectives and instruments to deliver them. In the coming years, we need to move from input to impact.

Moreover, the scope of and obligations resulting from the Stability and Growth Pact must be fully respected and its autonomy should be preserved. In order to provide the European Council with the fullest information possible, the instruments of the Pact should be brought together in time with the EUROPE 2020 strategy to help Member States return to sustainable public finances and to achieve our 2020 objectives in full.