

## Reflections on the Lisbon Strategy for Growth and Jobs beyond 2010

### Denmark's Non-paper

#### 1. Introduction

1.1. Denmark welcomes the Commission's invitation from the meeting of National Lisbon Coordinators on 5 December 2008 asking Member States to contribute to the reflections on the future of the Lisbon Strategy for Growth and Jobs in the post 2010-period. As a result, Denmark has prepared a non-paper with inputs from the so-called Lisbon Coordination Committee involving all concerned stakeholders at national, regional and local level. Denmark also welcomes the Commission's own non-paper on the Lisbon Strategy after 2010 and the approach opting for 'an evolution rather than a revolution'. The past ten years of experience and lessons learned should be part of a future Lisbon strategy but the Commission's invitation also represents **an appropriate occasion to assess the functioning of the present strategy and intensify efforts put in areas that have undergone significant changes since 2000.**

Following the Commission's invitation, Member States have started reflecting on their contributions to the Lisbon strategy post 2010 while also concentrating on the numerous challenges of the current financial and economic situation. One of these challenges has been to ensure that the immediate short-term measures taken to respond to the situation happen within the framework of the Stability and Growth Pact and correspond with the medium- to long-term goals laid down in the Lisbon strategy. The European response to the financial crisis builds on **co-ordinated action and shared objectives while at the same time acknowledging Member States' interdependent economies and various starting positions.** This approach is also characteristic of the Lisbon strategy thus underlining the importance of EU commitment to a common strategy as well as co-ordinated act whenever action is called for.

The fact that the Lisbon strategy has succeeded in promoting the reform agenda in Europe (e.g. higher rate of employment) is a result of nearly a decade of persistent political effort. The Lisbon strategy was launched in 2000 with a view to achieving the ten-year goal for the Union to 'become the most competitive and dynamic knowledge-based economy in the world, capable of sustainable growth with more and better jobs and greater social cohesion'. Ten years after the results remain mixed. The strategy still points forward with **efforts to be intensified, objectives to be prioritised and focus to be increased in order to consolidate the achievements to date and pursue the implementation of necessary structural reforms.** There continues to be a great need for structural reforms in Europe and implementing Lisbon reforms should remain a key priority after 2010 to ensure that EU will be capable of reaping the benefits of globalisation.

1.2. In Denmark's view, there is a need to reflect on how to make the successor to the Lisbon strategy more effective. The Lisbon strategy post 2010 needs to be clear in its focus and ambitious in its target setting. Increased focus on structural reforms will raise the ambition of the overall strategy. The overall goal should be to ensure long-term economic growth which will help job-creation and diminish social problems.

At the height of the recent economic boom in 2007, the budget balance in EU27 was -0.9 pct. of GDP. As a result of the current downturn, the budget balance is expected to worsen to -4.8 pct. by 2010. Those numbers indicate that Europe risks falling into a debt crisis in the longer run. It is therefore essential that the new strategy ensures consistency between focusing on long term growth and the need to tackle the problem of **structural budget deficits**.

To deal with the current structural problems and to reach the goal of long-term growth it is crucial to make reform that spur a stable economic development and regained confidence in financial markets. Ensuring a high level of employment including labour market and pension reform; strengthening the area of knowledge and innovation; combating climate change and ensuring energy supply are amongst other essential challenges in the years to come. They all call for an ambitious strategy beyond 2010 based on at least five strategic directions described in the following.

## **2. Five strategic directions for a Lisbon strategy post 2010**

In most challenges lies also opportunity. The overall driver in the Lisbon strategy post 2010 should be to turn these challenges into opportunities through common efforts. The Lisbon strategy's current four priority areas provide an appropriate framework to address these challenges but call for further efforts. Denmark would like to see joint EU and national actions develop around five strategic directions i) Deepening the internal market; ii) Enhancing knowledge and innovation; iii) Making growth green; iv) A strengthened external dimension; v) Reinforced governance structure and implementation.

**2.1. Deepening the internal market.** First of all, the Lisbon goals can only be met if the internal market for people, goods, services, and capital functions efficiently. A well-integrated internal market should be put back at the centre of the Lisbon strategy to boost growth, jobs and competitiveness in Europe. In many areas where measures have already been taken, there is still a need to improve enforcement of internal market rules and cooperation between public authorities – both national and international – and to increase the level of information and coordination.

Due to current economic changes, the rise of unemployment has become a short-term top priority for EU and its Member States. However, the challenges of an ageing population and a shrinking labour force remain, and it is necessary to maintain focus on the long-term **issue of increasing the flexibility of the labour market**. This is highly relevant as a means to curb the structural deficits and ensure long-term growth. EU should continue to work on removing internal barriers in order to ensure the effective mobility of workers, which is an important way to meet the present and future demands for labour. This should happen without prejudice to ensure that the risks of irregular migration are prevented within the framework of the modalities of the policies for the entry and residence of third-country nationals or, where appropriate, other policies, including the modalities of the framework for freedom of movement. EU needs to be prepared to make full use of its potential when the state of the market changes again.

Furthermore, success in this area will be most important for **securing social inclusion and cohesion** that are prerequisites for growth and jobs. The economic crisis only stresses the

importance of committing to the sustainability of Europe's social system originally at the core of the Lisbon strategy. The labour market structures should continuously be improved through the development of the model of flexicurity.

The Single Market review from 2007 putting consumers and SMEs at the centre of policy will help create the appropriate conditions to unlock business potential and relaunch the European economy. Particular efforts will be needed to continue the implementation of the Small Business Act for Europe. Successful and timely implementation lays the basis for future growth of SMEs and Europe in general. Strengthening the competitiveness of EU's economy also requires continued focus on **better regulation, simplification as well as reduction of unnecessary administrative burdens** mainly for SMEs.

**2.2. Enhancing knowledge and innovation.** In order to compete globally and to pursue the goals of the Lisbon strategy, Europe must be able to produce, retain and attract highly qualified labour. Denmark therefore stresses the importance of continued emphasis on the realisation of **the internal market for knowledge – the fifth freedom – as one of the key conditions for a competitive European research area.**

Creating a knowledge-based economy can only be done if we significantly strengthen our focus on the effectiveness of innovation, including non-technological user-centred and open innovation. Addressing the challenges of the knowledge society requires that research, education and innovation are regarded as three integrated elements. This calls for **further attention and exploration of policy challenges and opportunities of Europe's so-called knowledge triangle.**

The economic downturn leads to a slowdown in the investments in Information and Communication Technology. Consequently, the private as well as the public sectors in Europe will not be able to harvest the full productivity and efficiency gains of the ICT revolution. With the highest expenditure on R&D in Europe, the ICT sector remains crucial to the innovation capacity. Targeted investment in intelligent ICT-based solutions will in addition play a key role in solving other important societal challenges such as climate change, environmental risks, and demographic changes.

**2.3. Making growth green.** Energy and climate change as well as sustainable growth should continuously be part of the Lisbon priorities. The current challenges of combating climate change and ensuring energy supply while ensuring high growth rates require investments in new knowledge and technologies, promotion of energy-efficiency and a change into a sustainable low-carbon and resource efficient economy. The early adoption of Europe's climate and energy package along with the ambition to take responsibility in ensuring a new global climate agreement in Copenhagen 2009 proves the EU's ability to set an example for the rest of the world to follow. The EU as a 'first mover' will in return create new opportunities in terms of green growth and jobs.

The crisis is an opportunity for the EU to make growth more sustainable. We should continue to develop our growth strategy within an environmentally sustainable framework and ensure resource efficiency, greener products and environmental friendly technology to assure that current growth does not happen on the expense of coming generations. Danish experience

demonstrate that high economic growth can be maintained without increasing energy consumption through an active and persistent energy policy aiming at energy efficiency, renewable energy, and technological development.

**2.4. A strengthened external dimension.** With an integrated internal market, Europe must also activate its external policies and ties with non-EU markets to be able to compete in a still more challenging and global environment. Open trade between EU and the rest of the world is fundamental to boost jobs, growth and competitiveness in Europe as well as abroad. **EU should reflect on ways to strengthen the external dimension of the Lisbon strategy after 2010 in a way that both strengthens market access for businesses and protects social and environmental standards.** To meet this end, Europe should promote its norms and standards internationally including ILO standards. In order to ensure coherence and consistency of policy, the external dimension should focus on common standards in both bilateral and multilateral trade agreements.

The current economic downturn may, to some people, question the actual benefits of globalisation. However, the current crisis has proven that enhanced economic and financial dialogue between EU and its major economic partners as well as effective coordination of policies is severely needed. Furthermore, by working together the EU stands a better chance of increasing its weight outside the European Union. Protectionism should be avoided at any level as it would only deepen the crisis further.

**2.5. Reinforced governance structure and implementation.** The revised governance structure of the Lisbon strategy carried out in 2005, following the Kok report, introduced several new instruments such as the Integrated Guidelines, National Reform Programs and regular adoption of country specific recommendations as well as points to watch. There is no doubt that these instruments have improved substantially the governance process by enhancing member states' commitment, responsibility and dialogue with the European Commission. The Open Method of Coordination is another important tool that has allowed Member States to share best practice and learn from each other.

Europe, however, still has difficulties delivering on the Lisbon strategy. A successor to the strategy may therefore need to involve complementary methods and adjustments of the current governance structure that would further improve member states' ability to deliver results as well as respond to an enlarged and more diversified EU. The current crisis is also an opportunity for national governments to consider new policy instruments that will foster Member States' cooperation to support growth and employment. It will also be important to ensure greater coherence between EU economic policy frameworks, in particular the Stability and Growth Pact and the proper functioning of the internal market.

A successor to the Lisbon strategy should have a reinforced governance structure that promotes reform implementation more effectively. The strategy needs to reflect on the discrepancy between what the strategy is expected to deliver and the instruments at its disposal. Denmark proposes to consider the following elements:

- The three-year cycle has proven to be adequate and should be maintained. Member states' reporting in the second and third year of the cycle could be simplified in order to keep the governance structure as streamlined as possible.
- In addition to aggregate EU targets (average age of retirement, level of research and tertiary education, level of administrative burdens etc.), a **more differentiated and flexible approach** could be considered inviting Member States to set their own national targets in accordance with national situations and leaving them to decide how they will contribute to the EU-level target. Reflecting the increased heterogeneity of the EU, this dynamic would possibly create a more ambitious and realistic target setting as well as strengthen national ownership. The approach could initially be tested on selected areas and indicators.
- Input targets should be avoided. Member States should, when possible, be assessed on **output-orientated, quantitative indicators** (e.g. number of newly qualified academics and not the amount of money invested in universities). Furthermore, more precise impact-analysis of targets and of available cost-efficient measures to reach the targets should be made in order to strengthen the implementation of the strategy.
- More openness towards the idea of **ranking** individual member states on relevant indicators should be pursued and possibly include comparisons with influential non-EU countries.
- **Reallocation of the EU budget** to better fit the strategy. This includes, among other things, greater focus on innovation and knowledge. This could also imply further targeting the spending of Structural Funds in accordance with Lisbon priorities.
- **Coherence and synergies** among the 27 Member States' individual National Reform Programmes and the Community Lisbon Programme should be exploited to a greater degree to avoid the experience of a fragmented Lisbon strategy.

Finally, in order to improve the visibility and concrete understanding of the Lisbon strategy, **political visibility of the Lisbon strategy post 2010 should be enhanced at all levels in order to ensure an efficient implementation of national reform programmes.** The European Council already holds an important role when renewing the strategy every third year and assessing it every year. National ownership and commitment to the strategy could be expected to increase if for example the National Reform Programme is presented to national parliaments and discussed in relevant parliamentary committees. Furthermore, all relevant stakeholders including organisations, social partners, NGO's, local governments should consistently be involved.

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This paper is Denmark's first contribution to the reflections on the Lisbon Strategy for Growth and Jobs beyond 2010.