

Prof. Dr. h.c. Christa Randzio-Plath

Former President of the Economic and Monetary Affairs Committee of the European
Parliament

Speaking Points

International Conference

**«REFORMS IN LISBON STRATEGY IMPLEMENTATION:
ECONOMIC AND SOCIAL DIMENSIONS»**

Panel I: Lisbon Strategy – framework for social reform agenda in
the EU

Zagreb, 3 May 2006

Hotel Esplanade
Mihanovićeva 1
Zagreb

1.

The objectives of the Lisbon Strategy uphold the European social model reflecting 60 years of common values in making social development one of the pillars of sustainable development. The European social systems contain the common values of equality and solidarity as well as the redistribution as fundamentals. Thus the difference between the European model and the US-model is, as the American academic and bestseller author Jeremy Rifkin puts it in his book "The European Dream": Public goods and universal, free or cheap access to them is crucial for a successful modern economy and a fair society. The objective is combining economic performance and competitiveness with social justice despite the differences in the level and quality of protection and implementing instruments.

2.

Six years have passed since the Lisbon European Council of March 2000 set out its strategic goals: "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". Sustainable growth remains at the heart of the Lisbon strategy. The essence of the Lisbon Strategy is the interdependence of economic, social and environmental progress. For the sake of those – in national governments and elsewhere – who still have not understood this, a short reminder may be needed. Europe's competitiveness in the 21st century, and the nature of European society itself, depend upon how we respond to the three central challenges of the modern global economy:

- To globalisation itself, with the pressure of growing competition from both industrialised and some developing nations.
- To constant, and accelerating, change – not only in technologies, but in markets, in tastes, and in business models.
- To economic and political instability.

Europe's choice: competitive strategy on excellence, on high quality of infrastructure, public service, welfare system, workforce, labour markets, companies and environment.

The credibility of the European integration is at stake with 19 million unemployed and 70 million poor people. The European integration being for decades not only a success story for the establishment and maintenance of peace but also for economic growth and

increase in living standards has to gain momentum as far as investment-led, employment-intensive growth is concerned. To meet the target of 70% employment rate, an average annual growth rate of 1.5% is needed until 2010 compared to the 0.7% per year growth only achieved in 2000-2003. Demand- and supply-measures have been integrated to an appropriate policy-mix, so that internal demand is gaining more dynamics, thus higher investment and consumption.

The European Union`s drive for economic modernisation cannot deny the interdependence of economic, social and environmental progress and the fact that Europe has no future trying to compete as a low- cost producer in the globalised world. The source of the Union`s competitive edge in the 21st century will be excellence, knowledge-based economy with the participation of all, first class public services, vibrant universities and research centres, efficient public administration, social peace, quality of life, a highly skilled work force, investment in human resources, life-long learning, dynamic labour markets and companies. A strong social policy is needed but social policies have not only to be looked upon as a cost factor but also to become a productive factor in economic performance. Actually social policies not only help to reduce social exclusion but also contribute to a better economic performance by increasing the capacity of the economy to adapt by investment especially in human resources to economic, social and industrial change. Social policies aside of its redistributinal functions allow an efficient combination of flexibility and security in the work place and in the labour market. Even social protection is not undermining competitiveness as demonstrated by the Nordic countries and the Netherlands holding top positions in the World Economic Forum`s competitiveness ranking.

3.

Europe and also the EU social model(s) need reforms. Social policies are not only a cost factor but also a means to stimulate productivity and internal demand. Therefore the social agenda is so important for the further implementation of the Lisbon Strategy. Europe must not give up its ambitious social policies, but should make full use of their potential contribution to economic performance and quality of life. Europe must enhance efficiency of social policies, eliminate poverty traps and other disincentives to work, invest in developing (education, vocational training), sustaining (health) and activate human

resources (through active labour market policies), and ensure that the modalities of the financing of social policies contribute to employment and growth while maintaining the principle of mutual support and intergenerational solidarity. The Lisbon Strategy addressed the need for comprehensive and integrated social and market reforms in order to create a Europe of Excellence. The social dimension of Europe is seen as fundamental to citizen's support for the European Union project. In order to avoid social dumping within the European Union clear rules with clear standards have to be applied for example also for the services' sector and the posting of workers. Decent levels for minimum wages could help.

4.

In a world of ever more mobile capital, the most durable source of competitive advantage is the labour force. Europe's most precious competitive asset is therefore a workforce which is well educated and trained, and has the autonomy and motivation to respond to constant change. This, and the need to overcome the barriers which keep so many Europeans out of the workforce, should be the guiding principles of European workplace and labour market policies.

It is no by accident that the Scandinavian countries which have most aggressively pursued the Lisbon Strategy of social excellence are now also among the EU's highest economic achievers. They have sought to provide the kind of *real* job security that rests on our abilities being kept up-to-date so that we can remain and progress in the labour market. Scandinavian governments have invested heavily in active labour market and social policies and the skills needed for the knowledge economy, including transfer of skills to older and female workers who might otherwise be excluded from the labour market. That way, labour markets can evolve, as long as there is healthy social dialogue, systems for vocational training and jobmatching and a social security system that does not leave anybody behind.

5.

There is rare unanimity among economic and political actors and analysts that raising Europe's employment rate is one of the most urgent tasks of the Lisbon Strategy. To compensate for a declining workforce and ageing population, Europe needs to draw on all the resources Europe has. This means, above all, addressing the issue of economic

inactivity, particularly among elderly workers, the unskilled, immigrants and ethnic minorities – so policies against social exclusion turn out not to be a distraction, but a vital element in meeting a core Lisbon objective.

The strong link between the employment rate, the social inclusion objective and the sustainability of the European model is one of the elements of the Lisbon objectives targeting a 70% employment rate for the year 2015, including an employment rate of 60% for women and 50% for elderly workers.

6.

Modern competitive conditions require a rethink of the concept of flexibility. In a fast-moving global economy the most successful companies will be the most agile. To create a faster-moving European economy – and a new confidence among Europe's workforce that change is not a threat but an opportunity – requires a modern work organisation, and active labour market policies. Flexicurity, the Nordic Model is a good answer to the challenges. Flexicurity describes the particular Danish mix of flexibility and social security. It is a policy strategy that attempts to enhance the flexibility of labour markets, work organisation and labour relations on the one hand, and to enhance security – employment security and social security – notably for weaker groups in and outside the labour market, on the other hand. Europe is here at the start of a new departure, given the challenges of globalisation and markets developments. The objective is to part from job security to employment security.

The role of social protection will be crucial. That is why the Brussels European Council insisted rightly that a high level of social protection was central to the Lisbon Strategy, and called for the reinforcement of policies to combat poverty and social exclusion. This link must be more dealt with in the national reform programmes of Member states.

7.

A workforce for the knowledge economy needs to put education and training at the heart of the Lisbon Strategy. Public investment in the knowledge society remains insufficient. Options such as better use of EU structural funds and education and training funds should be examined. There is also a big gap in private funding compared to the private sector in the USA which invests five times as much in human resources as in the EU.

Education is an essential ingredient in sustainable growth; raising average educational attainment by one year represents a 5% increase in productivity and growth in the short term and a further 2,5% in the long term. Higher levels of education and training mean better life chances, social inclusion, a better job and active citizenship. A sound basic education must go hand-in-hand with lifelong learning, accessible to all. Surely a Europe of Excellency is needed but a knowledge based society must invest in education for all.

Modern economies are characterised by sophisticated technologies, by more mobile – and often more short-lived – companies, and by rapid change in the knowledge and skills needed. That is why training and qualifications need to shift towards the concept of lifelong learning.

8.

Gender equality is central to economic growth. Needed is an increased level of employment among both women and men. Therefore very rightly, the Lisbon strategy points to the need to provide for availability, affordability, good quality of childcare and eldercare. The now agreed Gender Pact of the EU symbolises a new understanding of this perspective which needs more commitment of Member states to conciliate professional and family life, to encourage the female entrepreneurship and to overcome the gender-segragation in the labour market and professional training.

9.

Funds needed: EU level + national level financial + strong state

Services of general interests (SGIs) and services of general economic interest (SGEIs) are an essential element of the European Social Model, and are fundamental to the universal delivery of public goods like health, education, culture, public transport, water, energy supplies, childcare and eldercare to all citizens. It is essential that in reforming the European social systems SGIs and SGEIs are respected given their key role not only in delivering a better quality of life to citizens, but also in enhancing businesses' capacity for efficiency and their access to a healthy and well-educated adaptable labour force.

10.

The social dialogue is an essential element in the traditions of the Member states and the

European Union. Any successful reform of the social systems needs involvement of all stakeholders, in particular the social partners and civil society. The development of a greater role for the triologue at European level is necessary.

11.

The glass is half-empty not half full as foreseen by the Mid-term review of the Lisbon Strategy. The Lisbon strategy so far has not been a success. The lack of political leadership and ownership of the whole process is to blame. Hopefully the reforms following the mid-term review 2005 will bring better results because of the 3-years planning, because of the watered-down objectives and instruments, because of the clearer cut orientation with the national reform plans on the basis of the 24 guidelines and the European policies in view to streamlining, concentration and financing. But the success will not only depend on the ownership question but also on political leadership and economic governance. The success depends on how the structural reforms are accompanied by progressive macroeconomic policies and not just stability – oriented policy- making approaches. Despite the fact that Europe is representing 20% of world trade, 30% of global GDP and 45% of FDI Europe does not mobilise resources to create prosperity in Europe. The lack of internal demand is crucial for this development. An appropriate macroeconomic investment- led employment- creating policy- mix is needed for Europe`s recovery.

12.

To relate funds to the renewed Lisbon Strategy is necessary. . But there has to be a balance in the political objectives and the structural funds spending. But also fair taxation policies in the EU are necessary to finance public goods and services and social security. “Begggar-thy-neighbour” policies in the field of taxation have no place in the Single Market.. The downwards spiral in corporate taxation has to be stopped.

Conclusions

1. Yes to welfare and competitiveness
2. Active labour market policies for active labour/ flexicurity

3. Responsibilities for the social partners – social dialogue/ Partnership social partners
4. Restructuring and managing industrial change
5. Gender equality
6. Supply of working force, Population ageing (70% 55-64 are working)
7. Education back bow of society = life-long childcare
8. Investment in Science and Research
9. sustainable environment and sustainable development
10. public investments

to use public investments have not only secured the foundation for the Nordic countries competitiveness but also influenced the cyclical movement of their economies. Macroeconomic policies also taxation have been a direct investment to secure the prosperity.

11. Interdependence of European economies has great potential that can be used. More than 80% of exchanges of European goods and services take place within EU. We spend more than 1/3 of our GDP on trade within the EU. Internal European demand is a of great importance. Growth in internal demand in the Euro zone fell from 4% at the turn of millennium to less than 1% in 2003 and just above 1,5% in 2004. Stimulating internal European demand = growth and jobs. Economic integration and yes to competitiveness but not without social and environmental sustainability.

We have to recall that there is a long list of reforms Europe has to tackle from the Single Market to the ICTs penetrating every part of our economies. Structural reforms were key to improve productivity in order to stimulate economic growth and prosperity. But despite reforms Europe has not achieved productivity gains. Europe had a productivity growth of 2,6% from 1990 to 1995. This figure went down to 1,3% in the period from 1996-2006 according to the Deutsche Bank Research. This is difficult to explain. For me it is clear that macroeconomic policy support for structural reform has been to weak. The time for just calling for structural reforms is over. Very rightly the Council Conclusions insists on appropriate macro-economic policies and improving business and consumer confidence to “durably bring growth up to its potential level.”

- Europe has financial room and labour resources fro more investment and

growth oriented macroeconomic policies but was not able to design a more investment oriented macroeconomic policy. The “Isilly” Pact was one reason, the lack of confidence because of unknown sluggish growth, economic and employment insecurity were at the heart of the problem. The three big economies especially were the problem, especially Germany, in former decades the engine for Europe.

More than 80% of exchanges of European goods and services take place within the EU. A big and buoyant internal market is the indispensable basis for the business confidence that generates investment, growth and jobs. It is also a powerful advantage in international competition, enjoyed by some of our biggest trading competitors, such as the USA, Japan, China and India. In current circumstances, with the dollar falling dramatically in value, the role of domestic demand is becoming even more crucial. There is a need to stimulate this demand, by boosting investment. This relies on buoyant consumption, which depends in turn on the defence of the purchasing power of employees.

TAXATION AND LISBON

Unfair tax competition is a threat to the cohesion of the EU. Public finances are reduced because of tax erosion and avoidance, and the tax burden is shifted to the least mobile factor of production — labour — which is bad for employment, a central Lisbon objective. In the “race to the bottom” model of competitiveness, tax competition is good. But in the Lisbon model, which depends on excellence, on a highly educated and skilled workforce, on high quality public services, on world class universities — in this model, healthy public finances are an essential element and the erosion of the tax base is a threat which must be tackled. That is one reason why the Single Market needs a coordinated approach to corporate taxation — not a single rate,

but a progressive coordination of corporate tax bases, leading eventually to an approximation of European corporate tax rates — possibly following the model of VAT and excise coordination, introducing minimum and maximum tax rates.