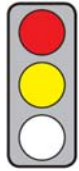


MAIN ISSUES

Objective of the Communication: Proposal for the definition of a comprehensive action and development strategy for a concerted economic policy by 2020.

Parties affected: All Member States, companies and EU citizens.



Pros: Some of the measures, such as the single EU patent law and the improved protection of intellectual property rights, would encourage the capacity for innovation.

Cons: (1) The strategy opens the door to a strongly interventionist EU economic government motivated by industrial policy.

(2) In the case of four of the five key targets concerted action at EU level is not at all justified. Education and social security must remain subject to national powers.

(3) Many of the proposed measures lead to inefficient outcomes.

CONTENT

Title

Communication COM(2010) 2020 of 3 March 2010: "Europe 2020 – A strategy for smart, sustainable and inclusive growth" and **European Council Conclusions** of 25/26 March 2010

Brief Summary

The differences between the Commission's Communication and the European Council conclusions are marked by "COM" and "EC".

► Background, targets and structure (COM)

- In 2009, the gross domestic product (GDP) in the EU fell by 4%, industrial production dropped back to the levels of the 1990s and 23 million people or 10% of the active population was unemployed (p. 7).
- The "Europe 2020" strategy, successor to the failed Lisbon Strategy, is to "turn" the EU into a "smart, sustainable and inclusive economy" (p. 6) delivering "high levels of employment, productivity and social cohesion" (p. 10).
- The Commission proposes five headline targets which are to be met by 2020, with the highest priority being smart, sustainable and inclusive growth. In so doing, the Commission wishes to set three priorities which "offer a vision of Europe's social market economy for the 21st century" (p. 10).
- Within the priority framework, the Commission puts forward seven flagship initiatives which are to "commit both the EU and the Member States" (p. 6) and to be pursued by the Commission and the Member States.
- The Commission will monitor target achievement by way of reports to be provided by the Member States.

► Five headline targets (COM and EC)

- **Employment:** 75% of the population aged 20 to 64 should be employed (currently 69%).
 - **Research and development (R&D)**
 - **COM:** 3% of the GDP should be invested in R&D (currently below 2%).
 - **EC:** The conditions for R&D should be improved with the "aim" of bringing GDP investment levels to 3%.
 - **Climate and energy:** The 20/20/20 targets should be met. In particular the share of renewable energies in the total use of EU energy should be raised by at least 20% by 2020.
 - **Education**
 - **COM:** At least 40% of the population aged 30-34 should have a tertiary degree (currently 31%) and the share of early school leavers per age group should be under 10% (currently 15%).
 - **EC:** The quality of education levels should be improved. In particular, the number of early school leavers should be reduced and university graduates increased, though without specifying exact numbers.
 - **Fight against poverty**
 - **COM:** The number of people living "at risk of poverty" should be reduced by 20 million.
 - **EC:** Social inclusion should be promoted in particular by reducing poverty.
- EC:** The Member States will "set their national targets, taking account of the EU headline targets [...] and their national circumstances".

► Three priorities (COM)

- Smart growth: developing an economy based on knowledge and innovation.
- Sustainable growth: promoting a more resource efficient, greener and more competitive economy.
- Inclusive growth: fostering a high-employment economy delivering social and territorial cohesion.

► **Seven flagship initiatives**

The Commission is putting forward seven flagship initiatives which serve to meet the goals as well as a catalogue of tasks for the EU and Member States.

– **Flagship initiative "Innovation Union":** The aim of this is to re-focus R&D and innovation policy on the challenges of the 21st century.

-EU level: completion of the European Research Area, development of a strategic research agenda, creation of a single patent right, copyright and trademark right and development of "sustainable key enabling technologies".

-MS level: fostering of excellence and "smart specialisation" in the R&D innovation systems and focussing school curricula on creativity, innovation and entrepreneurship.

– **Flagship initiative "Youth on the Move":** The aim is to enhance the performance and international attractiveness of European universities for students from outside the EU and to raise the overall quality of all levels of education and training in the EU.

-EU level: contribute to the modernisation of universities in terms of curricula, governance and financing, e.g. by introducing a benchmark system and promoting the mobility of students.

-MS level: "Efficient" investment in education at all levels and improvement of educational "outcomes" and of young people's entry into the labour market.

– **Flagship initiative "A Digital Agenda for Europe":** The aim is to provide broadband access to all by 2013 with internet speeds of 30 megabits per second (Mbps) and above 100 Mbps for 50% of European households by 2020.

-EU level: Provide a legal framework that stimulates investments in internet structures, create a single market for online content and services and actively promote SME.

-MS level: Public funding of expanding broadband networks and promoting the introduction and deployment of modern online services.

– **Flagship initiative "Resource efficient Europe":** The aims are to reduce CO₂ emissions, enhance competitiveness and promote greater energy security.

-EU level: Proposals for the modernisation of traffic and transportation, the establishment of grid infrastructures for e-mobility, intelligent traffic management, reduction of CO₂ emissions for all traffic vehicles and the promotion of electric and hybrid cars.

-MS level: Phase out environmentally harmful subsidies and focus on urban traffic where much of the "congestion" and emissions are generated.

– **Flagship initiative: "An industrial policy for the globalisation era":** The aim is to support the economy, as it faces the challenges and uses the opportunities of globalisation, and the green economy.

-EU level: Facilitate the transition to a resource efficient economy for companies, reduce transaction costs in the single market, promote company clusters and the restructuring of sectors "in difficulty" towards future oriented activities.

-MS level: More public sector procurement with investment incentives, reducing administrative burdens and improving the enforceability of intellectual property.

– **Flagship initiative "An agenda for new skills and jobs":** The aim is to modernise labour markets by empowering people "through the acquisition of new skills to enable our current and future workforce to adapt to new conditions and potential career shifts, reduce unemployment and raise labour productivity" (p. 18).

-EU level: Implement a flexicurity agenda (combination of flexible labour markets and a high level of employment and income security), adapt the legislative framework to evolving work patterns and new risks at the workplace and promote migration policy.

-MS level: Implement the flexicurity approach through concrete national measures, the efficient alignment of tax and benefit systems, by extending working life and improving the work-life balance.

– **Flagship initiative "European Platform against Poverty":** The aim is to raise "awareness and recognise the fundamental rights of people experiencing poverty and social exclusion", thus enabling them to take an active part in society.

-EU level: Set up a platform for cooperation, peer-review and exchange of best practice as an instrument with which to combat social exclusion and to support the "most vulnerable".

-MS level: Fully deploy and maintain the social security and pensions systems and safeguard "adequate" income support and access to health care.

EC: The EC does not address the flagship initiatives. Instead, it calls upon the Commission to submit "rapid" proposals for "focused integrative guidelines".

► **Coordination of economic policies pursuant to Art. 121 TFEU – Monitoring actions**

COM: The Member States should submit on an annual basis reports on the national measures taken and their success, on the basis of which the Commission can monitor the implementation of the strategy and, where necessary, take corrective action in the form of recommendations and political warnings.

EC: The EC authorises the Commission in principle with the overall economic policy coordination pursuant to the new Art. 121 TFEU. It will conduct an annual overall evaluation, based on the monitoring carried out by the Commission.

Changes Compared to the Status Quo

The aim of the Lisbon Strategy adopted in 2000 was to turn Europe into the most competitive and dynamic knowledge-based economy in the world and to reach full employment. None of these goals could be achieved. The Strategy "Europe 2020" is somewhat less ambitious. Compared to the Lisbon Strategy, the Commission is now highlighting environmental sustainability and social aspects rather than competitiveness and market dynamics. In its Conclusions, the European Council expressly mentions competitiveness and the Member States' balance of payments as the benchmarks for its annual total evaluation.

The Lisbon Strategy obliged Member States to take measures which went beyond EU competences. For that purpose the so-called open method of coordination was developed, which, amongst other things, provided for the establishment of national action plans. The Strategy "Europe 2020" continues on this course.

Statement on Subsidiarity

The EU Commission does not address the principle of subsidiarity.

Options for Influencing the Political Process

Leading Directorate General:

DG General Secretariat

Consultation procedure:

The outcomes of consultation procedure from 24 November 2009 to 15 January 2010 can be viewed under: http://ec.europa.eu/eu2020/pdf/overview_responses.pdf.

ASSESSMENT

Economic Impact Assessment

Ordoliberal Assessment

The Strategy "Europe 2020" opens the gate to a European economic government. The coordination of national economic policies would be favourable if it focused on the requirements of the Stability and Growth Pact. However, **the somewhat simplistic response of the European Council** – which abstains from addressing any of the Commission's flagship initiatives – **to call upon the Commission to develop "rapid" "focused integrative guidelines" makes it likely that the coordinated EU economic policies will be closely oriented towards the flagship initiatives and thus mainly motivated by industrial policy interests and highly interventionist in nature.** In principle, this also applies to the five headline targets set by the Commission – mitigated only slightly by the European Council – as the target figures of the Commission are in part not adopted.

For four of these five headline targets – employment policy, R&D, educational policy and the fight against poverty – there are neither externalities nor economies of scales which would justify a Europe-wide coordination. This is most significant in the field of educational policy. Due to the fact that there is little need for a harmonised coordination, the regulation competences in Germany are even subject to the federal states and not subject to the federal government.

Less clear is the question of whether the EU should define harmonised targets in the field of R&D. Theoretically, it is possible that in basic research some Member States rely on the option of benefiting from the findings of other Member States but without contributing financially to the research themselves. However, this ignores the fact that institutions that conduct basic research increase the innovative capability of companies based in their direct environment. Therefore, incentives for free riding in the field of basic research are generally low. To this end, an EU-wide quota for R&D does not make any sense.

In fact, more likely is **the risk that national preferences be infringed and institutional competition restricted.** This is to be expected in particular if the Commission holds sway and these targets become binding to all Member States. Instead of setting harmonised targets for all Member States the Commission should limit itself to promoting the exchange of information on best practices between Member States so as to enable them to learn from each other.

The only headline target which is harmless is that of a coordinated European climate policy, since the positive cross-border effects accompanying a reduction in greenhouse gas emissions entail national environmental protection measures that are of little weight. What is **not necessary, however, is the specification of a certain share of renewable energies.** For efficient climate policy it suffices to set a cap for the emission of greenhouse gases. The means by which to do this should be left to the market (cp. [CEP-Dossier](#) – in German only).

Impact on Efficiency and Individual Freedom of Choice

In the end, many of the proposed measures lead to inefficient outcomes. This applies for example to the proposal to use public procurement in order to expedite the development and introduction of selected technologies. A precondition for such an approach would be that public contractors know better than private companies which technologies will make most profit in future. As this is not the case, it should be left to companies to predict future developments. The same holds true for the planned restructuring of sectors in difficulty towards future oriented activities and the requested specialisation of national R&D and innovation systems.

A high added value in European economies is best ensured by intense competition in the single market and a restriction on administrative regulation. To be welcomed is the Commission's call for more creativity, innovation and entrepreneurial spirit in national curriculums. For the more innovative companies are established, the higher is the degree of "creative destruction".

The planned introduction of a harmonised EU patent and EU patent court as well as intended improvements to the protection of intellectual property rights lead to a higher willingness to innovate: thus companies' costs for R&D are reduced and legal safety is increased.

Also to be welcomed is the Commission's target to reduce impediments to the single market. This applies to the inner European trade with digital content as well as to the Commission's plan to simplify access to the single market for small and medium-sized enterprises. Both measures improve competition and increase efficiency. However, the envisaged promotion of clusters it is to be rejected. Such promotion measures set incentives for companies to pursue rent-seeking activities instead of productive employment. The promotion of the inner-European mobility of students is reasonable. It pushes universities to adjust their curriculums and services to the demands of students and consequently of the labour market. Against this background, the planned benchmarking of European universities is to be welcomed, since transparency and competition between universities is enhanced. The assessment criteria for such a benchmarking, however, should be defined independent of economic and political EU targets.

Impact on Growth and Employment

Many of the proposed measures are not appropriate for increasing economic growth and employment and thus only very little positive impact can be expected for growth and employment – if any at all.

Impact on Europe as a Business Location

Since both the targets and the means by which these targets can be achieved are problematic, it is very likely that the quality of Europe as a business location will decrease.

Legal Assessment

Legislative Competence

Art. 121 TFEU empowers the EU to coordinate economic policies (European Economic Government).

Whether or not single measures are included in the TFEU catalogue of competences depends on their shaping.

Subsidiarity

Regarding national measures in the fields of education, social security systems and urban traffic, EU powers are clearly limited. According to the principle of subsidiarity (Art. 5 (3) TEU) the EU is not empowered to prescribe any concrete actions to Member States in these policy fields.

Proportionality

Whether single measures are appropriate depends on their concrete shaping.

Compatibility with EU Law

Not rateable.

Compatibility with German Law

To all measures which are decided at EU level and which will lead to expenses for national governments the principle applies that the German Bundestag must have enough freedom to choose which expenses and which profits are made in order to maintain its policy powers (cp. BVerfG, 2 BvE 2/08, No. 256).

Alternative Policy Options

The EU should limit its actions to the fields where community action constitutes a real added value. That would include the completion of the single market and climate policy. Other areas such as education and social security should not be subject to EU regulation.

Possible Future EU Action

In June 2020, the European Council will assess the national targets, approve the Strategy "Europe 2020" and the employment guidelines and return to the fight against poverty. In October 2010 it will address R&D and at the beginning of 2011 energy policy.

Conclusion

The Strategy "Europe 2020", widely approved by the European Council on 25/26 March 2010, opens the door to a strongly interventionist European economic government motivated by industrial policy. For four of the five headline targets – namely employment policy, R&D, educational policy and the fight against poverty – a Europe-wide coordination is not justified as there are neither any significant externalities nor economies of scales and competition would be restricted. The areas of education and social security must anyway remain subject to national competences. Merely the headline target of an EU coordination of climate policy is reasonable. Many of the proposed measures lead to inefficient outcomes. The introduction of an EU patent law and the planned improvements to protecting intellectual property rights strengthen the innovative capability of companies.