

## The Review of the Europe 2020 Strategy: From austerity to prosperity?

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### Key points

This Policy Brief argues that the mid-term review of Europe 2020 should be approached on three different levels in order to be effective: i) the revision and update of the content of the Europe 2020 strategy, including its objectives, targets and major flagship initiatives; ii) the reform of the governance of the strategy; and iii) the repositioning of the strategy at the core of EU policy. The future of Europe 2020 lies in its ability to become the protagonist of a new season in EU policy, in which countries can apply for more flexibility only if they can prove both structural reform and good governance. By establishing a 'new deal' among member states, an improved Europe 2020 strategy can help Europe to complete its transition from austerity to prosperity.

### Recommendations

How can these objectives be realised? The content of the strategy should be revised to include initiatives on infrastructure, the internal market and administrative capacity at all levels of government. Once the flagship initiatives and the indicators have been thoroughly reviewed, it would be important to ensure that:

- The European Commission drafts its Annual Growth Survey with specific reference to progress achieved and further progress needed on the way towards the Europe 2020 objectives and goals.
- Member states should break down the objectives at the sub-national level and coordinate regional reform plans (where appropriate).
- Member states should plan their spending of EU cohesion funds as a function of their national/sub-national reform plans.
- National reform plans and proposed spending plans at the national and sub-national levels should be accompanied by an in-depth impact evaluation.
- All reforms, besides the *ex ante* impact evaluations, should be accompanied by a plan to implement the identified reforms, a monitoring plan based on clear indicators, and a time horizon for the mid-term and the *ex post* evaluation of the proposed reforms.
- The European Commission should validate the plan by applying clear conditionalities.

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## Introduction

This Policy Brief looks at available options for the mid-term review of Europe 2020, which is currently being addressed both by the European Commission and by several Council formations under the aegis of the Italian presidency of the EU, and will be finalised by March 2015.

The paper argues that the mid-term review of Europe 2020 should be approached at three different levels: i) the revision and update of the content of the Europe 2020 strategy, including its objectives, targets and major flagship initiatives; ii) the reform of the governance of the strategy; and iii) the repositioning of the strategy at the core of EU policy. Restoring the centrality of Europe 2020 will require better, up-to-date indicators; a set of consistent and comprehensive flagship initiatives; a bottom-up approach to target-setting; a stronger set of incentives and conditionalities; more consistency with cohesion policy; and more coherence with EU legislation and national reform programmes. Moreover, the paper argues that Europe 2020 could (and should) become more central, also in the debate on the need for more flexibility in national fiscal policies in the name of stronger growth. The future of Europe 2020 rests on its ability to become the protagonist in a new season in EU policy, in which countries can apply for more flexibility only if they can prove both structural reform and good governance. By establishing a 'new deal' among member states, an improved Europe 2020 strategy could help Europe to complete its transition from austerity to prosperity.

There is no doubt that 2014 has been a peculiar year for the European Union, with a new Parliament starting its activities after the controversies of the May elections, and a new European Commission officially approved by the European Parliament on October 20<sup>th</sup>. Now that Jean-Claude Juncker has officially become the new President of the European Commission, the debate on the future of the EU is even more animated than before,

and calls for the definition of a new vision oriented towards growth, rather than austerity, have been formally endorsed by Juncker himself. Needless to say, significant contributions to this debate have come from the recent actions and statements of ECB President Mario Draghi, who repeatedly called for national governments to stimulate demand through investment and more expansionist policy directly aimed at growth.<sup>1</sup> The end of the 'austerity obsession' of the EU was also evoked by French Prime Minister François Hollande and his Finance Minister Sapin, who recently announced that France would not respect the rules of the Fiscal Compact for next year, and in the name of growth-oriented reforms would adopt more expansionist policies, leading the deficit/GDP ratio to reach 4.4% next year.<sup>2</sup>

In this debate, many commentators have argued that there are very few concrete ideas being proposed by advocates of a growth-oriented season for the EU. Juncker himself has spoken of a €300bn plan to stimulate investment, but the details of that plan are still obscure.<sup>3</sup> And while the quest for consistent and valuable ideas continues, many commentators tend to forget that the EU already has a strategy for growth, but that strategy has largely been swept under the carpet in the past four years. The strategy is called 'Europe 2020', and it was launched back in 2010 while the financial crisis was still raging, when no one had a clue that the crisis would become a sovereign debt crisis that mostly hit the Eurozone. As a follow-up to the better known, but largely ineffective Lisbon strategy that was supposed to make Europe "the most

<sup>1</sup> See Mario Draghi, "Unemployment in the euro area, Annual central bank symposium in Jackson Hole", 22 August 2014 (<http://www.ecb.europa.eu/press/key/date/2014/html/sp140822.en.html>).

<sup>2</sup> See "France warns of budget overshoot", *Financial Times* (by Hugh Carnegie, 10 September 2014, <http://www.ft.com/cms/s/0/368909a8-38b6-11e4-9526-00144feabdc0.html#axzz3G8Hikg5G>).

<sup>3</sup> See Juncker's presentation at the European Parliament, 15 July 2014 ([http://www.europarl.europa.eu/us/en/news\\_events/news/news\\_2014/news\\_jul\\_2014/juncker\\_programme.html](http://www.europarl.europa.eu/us/en/news_events/news/news_2014/news_jul_2014/juncker_programme.html)).

dynamic and competitive knowledge-based economy” in the world in the 2000-2010 decade, Europe 2020 seeks to achieve smart, sustainable and inclusive growth for the current decade, and thus features targets and objectives to be achieved mostly by 2020.<sup>4</sup> Such targets have been agreed upon by national governments of the EU member states, and as such constitute, in principle, much more than a reference framework for national reforms. They should, in fact, be setting the agenda and the key priorities for every government of the Union.

Against this background, the first four years of Europe 2020’s implementation tell a different story. As mentioned above, the ambitious growth strategy of the EU has been largely obscured by the need to tackle the economic crisis by strengthening the governance of the EU semester, even more than that of the eurozone. The ‘Six pack’, the ‘Fiscal treaty’ and the ‘Two pack’ have reshaped the relationship between national governments and the European Commission, which now has more levers to trigger reforms by member states, in particular through the ‘Country-specific recommendations’ issued every year and addressed to member states.<sup>5</sup> This new governance has, so far, mostly concentrated on austerity, but increasingly looks at the need for growth-oriented reforms, most often with no reference whatsoever to Europe 2020. This creates uncertainty for national governments, due to the absence of a clear vision and a consistent framework for coordinated reforms in the EU28.

As foreseen in 2010, in March 2015 Europe 2020 will have to be subject to a ‘mid-term review’. As a consequence, the reflection on how to review the strategy will have to take place mostly during the second half of 2014, a period that coincides with the Italian presidency of the Council and with the first steps of a new

Commission and the newly elected European Parliament. As a matter of fact, the Italian presidency has included the review in its agenda, and decided to address possible options for the mid-term review in the meetings of each of the relevant Council formations: this will lead to the definition of an official proposal for the mid-term review, to be presented in December at the General Affairs Council. The programme of the Italian presidency states that the presidency “will make every possible effort to revitalise the Europe 2020 strategy and facilitate smart, sustainable and inclusive growth”, and that it “intends to promote an open debate to increase the effectiveness and relevance of the Europe 2020 strategy”.<sup>6</sup> This almost unprecedented level of attention to Europe 2020 can bring significant value to the debate on Europe’s growth in years to come, and as such constitutes a ‘one-time opportunity’ for the re-definition of the scope and success of EU action in the years to come.

This Policy Brief looks at available options for the mid-term review of Europe 2020, and addresses the question of how to make the most of Europe’s growth strategy in the coming months. The paper is structured as follows. Section 1, below, contains a brief description of the Europe 2020 strategy, as well as the results achieved so far, as described in a recent stocktaking communication of the European Commission, released in March 2014.<sup>7</sup> Section 2 discusses possible changes to the substance of Europe 2020, including the seven ‘flagship initiatives’ launched in 2010, as well as the objectives and indicators envisaged by the strategy. Section 3 addresses the governance of the strategy, and in particular its basic architecture, and existing arrangements to ensure that EU institutions and member states

<sup>4</sup> [http://ec.europa.eu/europe2020/index\\_en.htm](http://ec.europa.eu/europe2020/index_en.htm)

<sup>5</sup> See the 2014 Country-specific recommendations ([http://ec.europa.eu/europe2020/making-it-happen/country-specific-recommendations/index\\_en.htm](http://ec.europa.eu/europe2020/making-it-happen/country-specific-recommendations/index_en.htm)).

<sup>6</sup> See the Official Programme of the Italian Presidency ([http://italia2014.eu/media/1349/programma\\_en1\\_def.pdf](http://italia2014.eu/media/1349/programma_en1_def.pdf)).

<sup>7</sup> See European Commission Communication, “Taking stock of the Europe 2020 strategy for smart, sustainable and inclusive growth”, COM(2014) 130, 14 March 2014 ([http://ec.europa.eu/europe2020/pdf/europe2020stocktaking\\_en.pdf](http://ec.europa.eu/europe2020/pdf/europe2020stocktaking_en.pdf)).

(not to mention regional governments) adopt it as a ‘pole star’ when deciding on their annual reform plans. Section 4 discusses options for the repositioning of the strategy at the core of the EU project.

## 1. Europe 2020 after four years: A mid-term assessment

Europe 2020 aimed to achieve smart, sustainable and inclusive growth by setting five main objectives for the EU:

- Increasing the employment rate of the population aged 20–64 to at least 75%;
- Reaching a level of investment in research and development of 3% of GDP;
- Reducing greenhouse gas emissions by 20% compared to 1990 values, increasing the share of renewables on total energy consumption to 20%, and increasing energy efficiency by 20%;
- Reducing poverty by lifting at least 20 million citizens out of the risk of poverty and social exclusion; and
- Reducing the rate of early school leaving by bringing it below 10%, and ensuring that at least 40% of citizens aged between 30 and 34 have completed their tertiary education (or equivalent).

These targets were accompanied by seven flagship initiatives.<sup>8</sup> For each of these initiatives, the communication that officially launched the Europe 2020 strategy in 2010 allocated responsibility to both the EU and member states’ governments.<sup>9</sup> During the early years of the seven flagship initiatives, more targets were set, which add to the main ones described above. For example, the Digital Agenda set

precise targets related to broadband speed for 2013 and 2020;<sup>10</sup> and the industrial policy initiative led to the setting of a target to reach at least a 20% share of GDP attributed to manufacturing.<sup>11</sup>

Finally, in terms of governance the strategy tried to remedy the rather weak architecture exhibited by its ancestor (the Lisbon strategy), and imposed on member states the obligation to present two reports every year, the Stability and Convergence Programme and the National Reform Programme, which are presented in the month of April and are today fully integrated in the European Semester, and as such form the basis of the European Commission’s country-specific recommendations. As will be remarked, also in section 4 below, the stronger governance of the European Semester, achieved as a response to the crisis can prove essential for a better alignment of member states’ growth strategies, under the coordination of the European Commission. So far, however, most of the country-specific recommendations have focused on budgetary policy, even if recently the European Commission has ventured more often into recommending structural reforms, sometimes also reporting concrete results.

### *The results achieved so far*

The Europe 2020 objectives and targets were adopted under the assumption that Europe could achieve a quick return to growth after the financial crisis that hit the EU in 2008, following the sub-prime mortgage crisis in the United States. In 2010 three main scenarios for Europe’s economic outlook were considered: strong growth, sluggish recovery and a lost decade

<sup>8</sup> “Innovation Union”, “Digital Agenda”, “Industrial Policy for the Globalization Era”, “Youth on the Move”, “Resource-Efficient Europe”, “An Agenda for New Skills and New Jobs”, and the “European Platform against Poverty and Social Exclusion”.

<sup>9</sup> Communication from the Commission of 3 March 2010, “Europe 2020 A strategy for smart, sustainable and inclusive growth”, COM(2010)2020 final.

<sup>10</sup> See <http://ec.europa.eu/digital-agenda/en/about-our-goals> for a full list and explanation of the targets.

<sup>11</sup> Communication from the European Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions for a European Industrial Renaissance, COM(2014)014 final, 22 January 2014 (<http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52014DC0014&from=EN>).

scenario.<sup>12</sup> Four years down the road, the reality is somewhere between the second and the third scenarios, which makes many of the targets unattainable. In its stocktaking communication of March 2014, the European Commission was euphemistic in stating that “mixed results” had been achieved: as a matter of fact, **only the education targets appear likely to be achieved (subject to what will be said below), together with the environmental target.** The latter, however, are on track – more than as a result of ambitious reforms – but due to a substantial slowdown of industrial production and the economic crisis. This means that, should the EU be successful in restoring growth, these targets might once more become more difficult to reach.

Among the targets that appear most unlikely to be achieved, the employment and poverty targets seem more distant today than they were in 2010. The research and development indicator, however meaningful one considers it to be, is not showing significant improvements over time. Finally, energy efficiency is not increasing significantly, and according to the Commission would require major efforts to be brought back in line with the ambitious objectives set four years ago.

### *Europe 2020: Eight problems to be addressed*

A number of problems have emerged in the first four years of implementation of the strategy. These include:

- *The seven flagship initiatives have remained too isolated, sometimes too empty, and sometimes in conflict with each other.* Several examples could be mentioned in this regard, including the absence of significant synergies between ‘new skills for new jobs’ and the Digital Agenda (there is an estimated shortage of 900,000 jobs in the ICT sector in Europe); the limited interaction between ‘new skills for new jobs’ and the ‘industrial policy for the globalisation era’ (Europe, despite stunning unemployment rates, needs to create jobs in advanced

manufacturing, including so-called ‘green jobs’, which are currently lacking); the emerging conflict between the ‘industrial policy’ initiative and the ‘resource-efficient Europe’ initiative, especially after the launch of EU Action Plan on steel; and the lack of synergies between ‘innovation Union’ and the ‘Digital Agenda’. All this suggests that in most cases the flagship initiatives have become more a way to fragment competences and preserve regulatory powers than an integrated project to reduce duplicative efforts and achieve growth in the most cost-effective way.

- *The seven flagship initiatives have often been marginalised in the EU debate.* Suffice it to say that, as also recalled by the European Commission, the adoption of the Employment Package in April 2012 and the Youth Employment Package in December 2012 have been completed with little or no reference to the existing initiative ‘new skills for new jobs’, which shifted “the policy focus and communication efforts away from the flagship initiative”. As a consequence, the flagship initiative “did not fully succeed in creating a coherent framework for employment policies and exploiting the synergies between the different actions”, its “link with the European Semester has been limited”, in particular between the flagship initiative and the country-specific recommendations.<sup>13</sup>
- *The strategy does not lie at the core of EU policy today.* The marginalisation of the flagship initiatives meant that no reference to Europe 2020 could be heard in the current debate over the future of EU policy (at least until the Italian presidency decided to adopt the review as a priority). At the EU level, only the Committee of the Regions has decided to adopt a consistent, coherent and thorough reflection on the upcoming review, mostly denouncing the lack of a successful ownership of the strategy at the local level,

<sup>12</sup> See the Communication COM(2010)2020 final, *supra* note 9.

<sup>13</sup> See the Commission stocktaking Communication, *supra* note 7.

due to an ineffective focus on the territorial dimension (see below, section 2).<sup>14</sup> Most importantly, there is no link between the goals set by new EU policy initiatives and the existing targets set by Europe 2020. As a notable example, consider that European Commission impact assessments hardly refer to the need to achieve Europe 2020 objectives as a goal of new Commission proposals, and rather limit themselves to evaluating the costs and benefits of available policy options.<sup>15</sup> This fundamental element of policy coherence – ensuring that the daily activity of the European Commission in proposing new rules is in line with long-term objectives – is largely missing at the EU level. Not to mention the lack of motivation and impact assessment of most amendments voted by the European Parliament, and the persistent lack of accountability and transparency of the Council, which adopts decisions that never refer to the alignment between the proposed rules and the objectives set (in agreement with all member states) back in 2010.

- *The strategy is almost unknown in member states, and is not setting the agenda of national governments, let alone the regional ones.* As a further reflection of the lack of centrality of the strategy in Brussels and Strasbourg, it is inevitable that member states hardly ever referred to Europe 2020 targets and objectives when defining their reform plans. The limited ambition of the strategy today (in stark contrast to the resounding statements of 2010) is easily observed: in the current debate, the fact that

Europe 2020 was adopted as a “reference framework” by some regional governments when deciding how to design their annual reform plans and how to spend EU cohesion funds was hailed as a success. However, Europe 2020 contains a set of politically agreed targets and actions (even legally binding, limited to the energy efficiency targets): bringing anecdotal evidence that shows that a limited subset of regulators used it as a useful reference is very far from sounding like a success.

- *The targets of Europe 2020 were not adapted to the specifics of the regional and local communities, resulting in a widespread lack of ownership.* Targets were specified for each member state (and in most cases they don’t ‘add up’, meaning that if all member states achieved their own target, the overall EU target would not be achieved): however, given the internal fragmentation of member states, setting an ‘average’ target for the country resulted in meaningless targets for the regions, especially in large member states. A good example is the monitoring of innovation through the European Commission’s ‘Regional Innovation Scoreboard’, which systematically shows regions that are ‘leading innovators’ as opposed to others that are innovation followers, or score even more modestly.<sup>16</sup> This exercise, certainly useful as a descriptive tool, cannot be considered useful in prescriptive terms: as a matter of fact, not all regions can attain the same level of innovation, just as in the US no one expects Montana or Wyoming to be as innovative as California or Massachusetts. The setting of targets that are more tailored to the achievable potential of a given region would be the very first precondition for the adoption to these targets, and Europe 2020 as a whole, as a ‘pole star’ for regional and national reform plans. And at the same time,

<sup>14</sup> See the Committee of the Regions’ Athens Declaration of March 2014 (<http://cor.europa.eu/en/news/Documents/2210-athens-declaration-a5.pdf>).

<sup>15</sup> See, on this issue, Renda, A. (2011), “Law and Economics in the RIA world”, Intersentia. And Renda, A., et al. (2013), “Assessing the Costs and Benefits of Regulation”, Study for the European Commission Secretariat General, December 2013 ([http://ec.europa.eu/smart-regulation/impact/commission\\_guidelines/docs/131210\\_cba\\_study\\_sg\\_fin\\_al.pdf](http://ec.europa.eu/smart-regulation/impact/commission_guidelines/docs/131210_cba_study_sg_fin_al.pdf)).

<sup>16</sup> See e.g., the European Union Regional Innovation Scoreboard 2014 ([http://ec.europa.eu/enterprise/policies/innovation/policy/regional-innovation/index\\_en.htm](http://ec.europa.eu/enterprise/policies/innovation/policy/regional-innovation/index_en.htm)).

it would be a basic precondition for increasing the sense of ‘ownership’ of the initiative by EU citizens and their local regulators.

- ***The strategy was not fully linked to EU cohesion funds.*** At least in the early years of implementation, little was done to ensure that member states earmarked funds to be spent on the basis of initiatives that would appear in line with Europe 2020 objectives. This is also because funds are spent at the regional level, and in most cases targets were only broken down at the national level (see bullet point above). Only in the past two years, and even more within the new 2014-2020 multi-annual financial framework, does the link between structural funds and Europe 2020 targets seem to have been reinforced. However, a lot remains to be done to ensure consistency between these two fundamental lines of EU action.
- ***Some of the indicators appear to be very imperfect proxies of the problems they are supposed to address.*** This is the case, in particular, for the objective of reaching 3% of expenditure in R&D over GDP, which is a perfect example of an input, rather than an outcome, indicator, and by itself falls quite short of guaranteeing the achievement of a more innovative Union. Similarly, the need to rely on an absolute poverty indicator, rather than a relative one, as currently happens, has been raised by several experts and academics in recent years.
- ***The seven flagship initiatives were insufficient to restore growth from the very beginning.*** This is a rather uncontroversial statement today. Suffice it to recall that, according to the European Commission, for most of the seven initiatives the foreseen activities have been either completed, or all launched. For example, most initiatives planned under the ‘European platform against poverty’ have been reportedly launched and implemented (the Commission has delivered approximately two-thirds of the 64 actions), but poverty in

Europe is on the rise, and there is no strategy left.<sup>17</sup> This suggests that the level of ambition of at least some of the flagship initiatives was insufficient to achieve the smart, sustainable and inclusive growth evoked by the strategy as a whole. Even more importantly, there are significant ‘elephants in the room’, i.e. issues that are central to Europe’s recovery, which are totally or partially unaddressed by the flagship initiatives. These certainly include the Single Market, a coherent policy on infrastructure, and good governance at all levels of government.

## 2. Where do we go from here? Reviewing the content of the Europe 2020 strategy

For what concerns the review of the content of the strategy, there are various alternative options that could be pursued, which reflect different levels of ambition. To be sure, doing nothing would not be a viable option, for the reasons outlined above: most of the targets are either unattainable or obsolete, and some of them are also very imperfect proxy for the outcomes they are meant to represent. Accordingly, the minimum change required would be to update the targets set in 2010 to reflect the current situation, and thus set a new frontier for what can be possibly achieved by the EU28 in 2020.

Below, proposals are presented in ascending order of ambition, distinguishing between revisions of the Europe 2020 targets, revisions of the flagship initiatives, and a possible revision of the ultimate goals of the strategy.

### *Reviewing the targets, and adding more*

Some of the Europe 2020 targets deserve a careful rethink, whereas others could be maintained as they are. Among the former group:

<sup>17</sup> See the Commission stocktaking communication, *supra* note 7.

- **The target of spending 3% of GDP in research and development must either be replaced, or at least complemented by output indicators** representing the level of innovation taking place in a given portion of territory. In this respect, the indicators used in the innovation scoreboard of the European Commission appear more meaningful and useful, provided that related targets are defined in a way that reflects the potential of each region of the EU28 (the European Commission could set national targets with member states, but the latter should specify regional targets). Recently, the European Council called on the Commission to develop a complementary indicator focused on innovation 'outputs'.<sup>18</sup>
- **The target on poverty is incomplete, and should be complemented by an 'absolute' target** that looks more accurately at the percentage of the population that is lifted out of the poverty and material deprivation area in each member state.<sup>19</sup> The UK, for example, did not set any target under the poverty and social exclusion pillar of the Europe 2020 strategy, except for "existing targets set down in the 2010 Child Poverty Act which are profiled as percentages". The Commission itself reported that "it was not possible for Member States to agree on a single indicator to express the target on the reduction of the number of people at risk of poverty, hence an indicator made up of three components is commonly used". No real region-specific targets have been set in this area, and the allocation of targets to the different regions seems to have encountered significant problems.<sup>20</sup>

<sup>18</sup> See the European Commission's Communication, "Measuring innovation output in Europe: towards a new indicator", COM(2013)624, 13 September 2013.

<sup>19</sup> See i.a. the World Bank (2015), "A Measured Approach to Ending Poverty and Boosting Shared Prosperity: Concepts, Data, and the Twin Goals", Policy Research Report, World Bank, Washington, D.C., doi:10.1596/978-1-4648-0361-1.

<sup>20</sup> Suffice it to quote a recent survey of the Committee of the Regions, which reported the following statement by

More generally, the European Commission's stocktaking exercise in March 2014 acknowledges that "the targets on employment and education do not say much about the quality of the work occupied or the levels or adequacy of skills achieved", and that "some targets – such as the ones on education – are more directly within the realm of public authorities, while others – such as employment or spending on R&D – reflect broader economic trends".<sup>21</sup>

A different issue is whether other targets should be added. This chiefly depends on whether the overall objectives of Europe 2020 and the flagship initiatives will remain unchanged. If new flagship initiatives are introduced (see section 2.2 below), this would lead to the addition of new targets. At the same time, should the overall goal of Europe 2020 shift from growth to well-being (see section 2.3 below), indicators of well-being would have to be introduced and monitored on a yearly basis for each member state.

In the absence of such major changes, the only indicator that seems likely to be introduced in the review is **an indicator of resource efficiency**, also because Eurostat has now published a resource efficiency scoreboard with resource productivity as lead indicator. In the EU Environment Action Programme to 2020 (7th EAP), member states and the European Parliament decided to establish indicators and set targets for resource efficiency and to assess whether it would be appropriate to include a lead indicator and target in the European

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a Spanish respondent: "Spain has set a national goal of reducing the population at risk of poverty or social exclusion to 1.4-1.5 million people by the year 2020. The translation of this goal for Catalonia results in the reduction of the population at risk of poverty or social exclusion in 240,000 people, but this proportionality does not respond in any way to regional particularities. Given that the rate of people at risk of poverty in Catalonia stands currently at 27% of the population ... the reduction target by 2020 is far removed from being significant and useful to the situation."

<sup>21</sup> See the Commission stocktaking communication, *supra* note 7.



Semester. Resource productivity, as measured by GDP divided by Raw Material Consumption, has been identified as an appropriate candidate for such a target.<sup>22</sup>

### *Should the flagship initiatives be reviewed?*

A thorough review of Europe 2020 could also consider a revision of the flagship initiative, especially since some of them have proven to be incomplete, others are close to completion, and overall the initiatives do not seem to include some of the core drivers of economic growth and well-being in the EU. Certainly, a lot must be done to upgrade the flagship initiative on employment (new jobs) and education (new skills), to enable a more effective and comprehensive set of initiatives aimed at improving the match between supply and demand of labour in the Union.

Furthermore, a shift is needed, from targets set at the EU level and translated into actions to be adopted at national level, towards joint actions aimed at achieving more economic integration at the EU level, and thus pan-European targets that are more than the sum of national targets.

In more detail:

- **An initiative on infrastructure.** Rather than a Digital Agenda looking at broadband infrastructures and eSkills (the latter clearly overlapping with the “new skills for new jobs” flagship initiative), it would make sense to launch an initiative on the pan-European converged infrastructure, which encompasses e-communications, media, smart energy markets and grids, and most notably transport – so far left out of the

strategy. Infrastructure is indeed converging and increasingly interdependent, and this requires coordinated action to increase its resilience and efficiency throughout the territory of the Union. Such a flagship initiative would also be a perfect match for the EU critical infrastructure protection (CIP) initiatives, and also – most importantly – for possible financing of EU infrastructure through Eurobonds and actions by the European Investment Bank.

- **An initiative on the Single Market.** As stated above, in section 1, the Single Market is the real ‘elephant in the room’ of the Europe 2020 strategy. This is a structural problem of the current strategy, which is based on the fragmentation of targets at the member state level, but not on the achievement of common goals such as economic integration. An initiative on the Single Market should be tightly coordinated with the portfolios of the new Commissioners in charge of the Internal Market, of Financial Services and of the Digital Agenda, and should be coordinated by the new Vice President for the Digital Single Market. The focus of the initiative should mostly fall on services (where most of the internal market work is still to be done), and in particular on digital services. The starting point for such an initiative would be the work already started with the Single Market Acts (I and II). The initiative could count on a set of indicators such as those recently proposed by Pelkmans et al. (2014).<sup>23</sup>
- **An initiative on administrative capacity and regulatory reform at all levels of government.** Such an initiative would ideally be coordinated by the new Vice President for Better Regulation, Inter-

<sup>22</sup> In the Communication “Towards a circular economy: A zero waste programme for Europe”, COM(2014)398, the Commission states that “The review of the Europe 2020 strategy is currently underway supported by public consultation to gather all views on its development. The Commission therefore considers that any decision on setting a resource productivity headline target should be taken in the review, after taking into account the results of public consultation together with recommendations of the European Resource Efficiency Platform”.

<sup>23</sup> See Pelkmans, J. et al. (2014), “Towards Indicators for Measuring the Performance of the Single Market”, Study for the European Parliament ([http://www.europarl.europa.eu/RegData/etudes/note/join/2014/518749/IPOL-IMCO\\_NT\(2014\)518749\\_EN.pdf](http://www.europarl.europa.eu/RegData/etudes/note/join/2014/518749/IPOL-IMCO_NT(2014)518749_EN.pdf)).

institutional relations and Fundamental Rights of the European Commission.<sup>24</sup> Its potential scope would include: i) the strengthening of better regulation in EU institutions, most notably the European Parliament and the Council; ii) the strengthening of better regulation tools and administrative capacity in national governments, parliaments and administrative agencies; iii) the strengthening of the capacity of regional and local administrations, especially when implementing and enforcing EU legislation; and iv) tackling corruption at all levels of government, and in particular at the local level. Indicators on these four aspects would ideally refer to consolidated experiences such as the OECD 'government at a glance' indicators, and governance indicators such as those used by the World Bank.

Adding these three initiatives would represent a significant step forward for the remainder of the decade. As a matter of fact, the current debate on the need for more flexibility in the coordination of economic policy in the EU, coupled with more respect for national specificities, raises the problem of how to respect the EU's diversity, at the same time increasing the level of trust between member states. Stronger administrations, greater capacity to deliver on reforms and lower corruption are starting points to achieve this result without requiring top-down standardisation of economic recipes. At the same time, emphasising the pan-European nature of Europe 2020 targets also helps to convey the message that member states are not competing to achieve the targets, but rather cooperating towards a brighter future.

### *A strategy for growth, or well-being?*

Another possible approach to the reform of the Europe 2020 strategy, which seems very difficult to attain in the near future, however, is the shift

<sup>24</sup> See Schrefler, L., J. Pelkmans & A. Renda (2014), *What can the Better Regulation Commissioner do for the EU?*, CEPS (<http://www.ceps.eu/book/what-can-better-regulation-commissioner-do-eu>).

from a growth- (or GDP-)oriented strategy towards a set of actions that target the well-being of EU citizens. The ultimate consequence of this shift would be the possibility to attach greater weight to those policy domains that are empirically found to represent the most significant drivers of individual well-being, i.e. safety and security (including most notably economic security due to employment), education, health, access to culture and more broadly social interactions.<sup>25</sup> The debate on the need for a different narrative for the EU and a new set of actions that go beyond GDP is present, but not entirely developed within EU institutions, despite current efforts in the 'Beyond GDP' project.<sup>26</sup>

Designing future flagship initiatives, especially for Europe 2020 social dimension issues, in a way that captures the essence of the current debate on well-being, would represent a quantum leap for the future of the strategy. It could also prelude to a future (beyond 2020) in which the EU is much closer to its citizens as it not only deals with economic stability and austerity, but also with the factors that contribute to individual well-being, happiness or life satisfaction.<sup>27</sup>

### **3. Governance as the Achilles heel of the Europe 2020 strategy**

Governance has always been a big problem for EU growth strategies: the 'Lisbon Agenda' that preceded the Europe 2020 strategy had largely failed before the financial crisis, as testified by the 2004 Kok report (the mid-term review report of the Lisbon strategy) and also by subsequent progress reports of the European Commission (e.g. the ones on the i2020 strategy). A large part in this failure can be attributed to the choice of

<sup>25</sup> See Eurostat's feasibility study ([http://unstats.un.org/unsd/broaderprogress/pdf/Feasibility\\_study\\_Well-Being\\_Indicators.pdf](http://unstats.un.org/unsd/broaderprogress/pdf/Feasibility_study_Well-Being_Indicators.pdf)).

<sup>26</sup> See [http://ec.europa.eu/environment/beyond\\_gdp/index\\_en.html](http://ec.europa.eu/environment/beyond_gdp/index_en.html)

<sup>27</sup> See the UK Life Satisfaction approach, as described in Renda et al. (2014), *supra* note 15.

linking the strategy to the ‘Open Method of Coordination’, built on the premise that “the Member States could be trusted to evaluate themselves and motivate each other to achieve greater goals through coordination at Member-State level: in other words, they were left to their own devices”. The Kok report already denounced in 2004 that the strategy’s disappointing delivery was “due to an overloaded agenda, poor coordination and conflicting priorities” and that “a key issue has been the lack of determined political action”.<sup>28</sup>

The Europe 2020 strategy tried to fix some of these problems by allocating more responsibilities to member states for the achievement of the targets, and by setting more country-specific targets. At the same time, the link established with the Stability and Growth Pact (SGP) is still too weak, and has ended up mostly being replaced by an almost total emphasis on austerity measures, rather than growth-oriented ones. Also, the link between the Europe 2020 goals and the use of EU structural funds has been too weak: even if this link appears stronger now under the 2014-2020 MFF, it must also be recalled that the budget endowment for the MFF has been subject to cuts dictated by governments that feared money-wasting behaviour by some of the member states, resulting in no additional growth.

Put simply, the governance of Europe 2020 is broken since member states have *de facto* and *de jure* no incentive to align their agendas to the target set by the strategy. This is confirmed by the absence of any reference to the agenda in the overwhelming majority of government plans at national and regional level in the EU28. Against this background, it is clear that only procedural reform and a new set of conditionalities can fix the strategy’s governance and potentially

restore its effectiveness. Possible areas of intervention in this respect are outlined below.

### *Stronger consistency and policy coherence at the EU level*

The European Commission’s impact assessment documents should motivate the choice of preferred policy options, with explicit reference to the Europe 2020 objective that these options can contribute to, where appropriate. This implies that the upcoming revised impact assessment guidelines incorporate a specific set of questions to help Commission officials ensure coherence between their proposed actions and the ultimate, long-term objectives of the EU. Likewise, the amendments proposed by the European Parliament should be subject to the same proof, and the same should happen for the Council.

### *Reconciling the macro- and the micro-economic policies of the EU*

This requires, inter alia, that: i) the Commission devotes similar attention to structural reforms (micro-economic issues) and issues of financial stability in its Annual Growth Strategy and in the subsequent Country-Specific recommendations; ii) the Competitiveness Council should be strengthened and placed at the same level of the ECOFIN, and both should work under the coordination of a stronger General Affairs Council.

### *Introduce a ‘micro-conditionality’ for the attributions of cohesion funds*

Currently, the macro-economic conditionality ensures that the effectiveness of the five European structural and investment funds is not undermined by unsound macroeconomic policies, in line with the European Council conclusions of 8 February 2013. Such conditionality has both a preventive and a corrective arm.<sup>29</sup> At the same time, cohesion

<sup>28</sup> See the Kok Report, *Facing the Challenge*, 1 November 2004 ([http://ec.europa.eu/research/evaluations/pdf/archive/fp6-evidence-base/evaluation\\_studies\\_and\\_reports/evaluation\\_studies\\_and\\_reports\\_2004/the\\_lisbon\\_strategy\\_for\\_growth\\_and\\_employment\\_report\\_from\\_the\\_high\\_level\\_group.pdf](http://ec.europa.eu/research/evaluations/pdf/archive/fp6-evidence-base/evaluation_studies_and_reports/evaluation_studies_and_reports_2004/the_lisbon_strategy_for_growth_and_employment_report_from_the_high_level_group.pdf)).

<sup>29</sup> Under the preventive arm of the macro-economic conditionality the Commission may request amendments to a member state’s partnership agreement in order to address macroeconomic imbalances, for

funds have been increasingly tied to the Europe 2020 objectives, especially after 2014, but the current system does not seem to be triggering sufficient coherence between member states' national reform plans and their decisions on how to spend funds from EU and national resources.<sup>30</sup>

### *Improving the 'ownership' of Europe 2020 by strengthening its territorial dimension*

As observed in section 1, one of the main outstanding problems of the Europe 2020 strategy is the limited extent to which it permeated the agenda of national and local authorities, thus creating a widespread lack of ownership among regional and local administrations, which has been repeatedly denounced, inter alia, by the Committee of the Regions.<sup>31</sup> One of the reasons for this lack of ownership is certainly the absence of adequate territorial differentiation in the definition of the targets to be achieved at the end of the decade. In recent surveys on each of the flagship initiatives run by the Committee of the Regions, this element emerged very clearly, especially from the opinions of local regulators.

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instance. Where a member state fails to respond satisfactorily to such a request, the Commission may propose to the Council to suspend part or all of the payments for the programmes concerned. The proposed suggestion requires the support of a qualified majority of the Council to take effect. Under the corrective arm, the Commission must propose to suspend part or all commitments or payments when a member state fails to take corrective action within the economic governance procedures (e.g. the excessive deficit procedure and the macroeconomic imbalances procedure). A proposal to suspend commitments is deemed adopted unless it is rejected by the Council with qualified majority. A proposal to suspend payments requires the support of a qualified majority of the Council.

<sup>30</sup> The ring-fencing provisions require member states to concentrate 50-80% of the ERDF in 2014-20 on the RTDI, SME Competitiveness and Low-Carbon Economy Thematic Objectives, with a sliding scale that allows for lower concentration in Less-Developed Regions compared to More-Developed Regions.

<sup>31</sup> See the Athens Declaration, *supra* note 14.

Should the European Commission try to define targets that are specifically tailored to the potential of each and every region of the EU? Ideally, this activity should be performed by national governments in cooperation with regional administrations, in a 'cascading approach' that allocates responsibility to authorities that possess the best knowledge of the territory. If this really occurred, possibly along with specific incentives for local administrators to seek EU funding to obtain specific targets, and with similar incentives in the internal multi-level governance, then Europe 2020 would become a lot more than simply a 'reference framework'.

In this respect, the Committee of the Regions' initiative to develop a Regional Progress Indicator over time is a first step towards more effective multi-level governance in Europe 2020: it needs to be coupled with more consistency between Europe 2020 and cohesion policy, and with a shift from the current 'top-down' setting of indicators, towards a more bottom-up approach.

## **4. Putting Europe 2020 back on the radar of EU, national and regional policy-makers: A proposal**

A crucial challenge that will have to be addressed in the upcoming mid-term review of the Europe 2020 strategy is the attempt to reposition the strategy at the core of the EU project, and thus as the pole star of EU growth-oriented policies in years to come. This is inevitably difficult, given that – as observed in section 1 – the strategy has lost its centrality in recent years. Certainly, some of the essential steps to restore the centrality of Europe 2020 are the ones already described above: better and updated indicators; a set of consistent and comprehensive flagship initiatives; a bottom-up approach to target setting; a stronger set of incentives and conditionalities; more consistency with cohesion policy; and more coherence with EU legislation and national reform programmes.

Apart from these actions, which have been described in sections 2 and 3, Europe 2020 could become an important reference in the ongoing debate over the need for more flexibility in national fiscal policies in the name of greater growth in coming years. As a matter of fact, countries that generically advocate more flexibility should explain and demonstrate that such flexibility is functional to an overall, pan-European growth project, and that there is no other way to achieve growth targets than by exceeding the constraints of the fiscal treaty, and in particular the '3% rule' and the medium-term objective assigned to each member state, to ensure that they converge towards a debt/GDP ratio of 60% in 20 years.

Especially after the recent statements of François Hollande and Matteo Renzi on the need to review the 3% rule, it is likely that the EU will remain divided between austerity champions and flexibility champions over the coming months. In this context, Europe 2020 could provide a way to reconcile these two views, provided that it also contributes to achieving more trust between member states; something that necessarily has to accompany any attempt to relax otherwise rigid rules. This idea emerged, albeit tentatively, in the debate on the so-called 'contractual arrangements' or 'partnerships' between the European Commission and member states, which had been evoked back in the second half of 2013 as a potential way to enable more ad hoc policies at the national level, under the cautious supervision of the Commission.

How could this happen? This paper offers a modest proposal to strike a balance between the opposing views. Once the flagship initiatives and the indicators have been thoroughly reviewed, it would be important to ensure that:

- The European Commission drafts its Annual Growth Survey with specific reference to progress achieved and further progress needed on the way towards the Europe 2020 objectives and goals.
- Member states break down the objectives at the sub-national level and coordinate

regional reform plans (where appropriate) in a way that makes constant reference to the Europe 2020 goals set at regional and national level.

- Member states plan their spending of EU cohesion funds as a function of their national/sub-national reform plans.
- National reform plans and proposed spending plans at the national and sub-national levels are accompanied by an in-depth impact evaluation, which demonstrates that there are no better (i.e. more cost-effective, or more efficient) alternatives to the ones proposed, in order to reach the Europe 2020 goals. This impact evaluation would have to be particularly detailed if the reforms proposed entail a derogation from the constraints envisaged by the fiscal treaty: in this case, the national government would have to demonstrate that no available alternatives would at once be consistent with the fiscal treaty and achieve the Europe 2020 goals.
- All reforms, besides the *ex ante* impact evaluations, should be accompanied by a plan to implement the identified reforms, a monitoring plan based on clear indicators, and a time horizon for the mid-term and the *ex post* evaluation of the proposed reforms.
- The European Commission validates the plan by applying clear conditionalities - e.g. only a country on its way to reducing the number of infringement proceedings, with a good track record in cohesion funds spending and exhibiting good progress on the (new) good governance indicators would be able to apply for flexibility.

In other words, the future of Europe 2020 rests in its ability to become the protagonist of a new season in EU policy, in which countries can apply for more flexibility only if they can prove both structural reform and good governance. By establishing this 'new deal' among member states, an improved Europe 2020 strategy can indeed help Europe complete its transition from austerity to prosperity.