

Future Social Market Economy



Policy Brief # 2013/06

Europe's Sustainability Strategy - A Casualty of the Euro Crisis or an Ambitious Restart?

Europe's economy should not just grow, it should also target social inclusion and the responsible use of resources. The goal of sustainability may be embedded in the Treaty on European Union and the EU's economic strategies, but the emphasis on GDP growth and competitiveness in battling the crisis threatens to undermine efforts to establish a common approach for sustainable economic activity. This may be unavoidable during an acute crisis. But in the long term, the EU must show the way forward.

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Global processes of social change, shifting economic power, political upheaval, and economic and financial crises each present Europe with a variety of challenges. A sustainable Europe needs a strategy that facilitates economic strength and political stability while guaranteeing the viability of social and environmental systems. These objectives must be conceived with the needs of current and future generations in mind.

1. Time for a new approach

Since Maastricht, the EU has committed itself to the concept of development anchored in long-term objectives. To achieve this, it developed its own sustainability strategy, the EU Sustainable Development Strategy (EU SDS) in 2001. A decade later, it integrated key features of sustainable development into its ten-year growth strategy, Europe 2020. And though both strategies bear considerable potential, they have lost traction in practice. In order to revitalize both, the EU must harmonize them. Indeed, the effects of the ongoing euro crisis demonstrate the need to place environmental, economic and social objectives on equal footing in driving Europe's economic strength.

2. EU SDS and Europe 2020 – a stock-taking

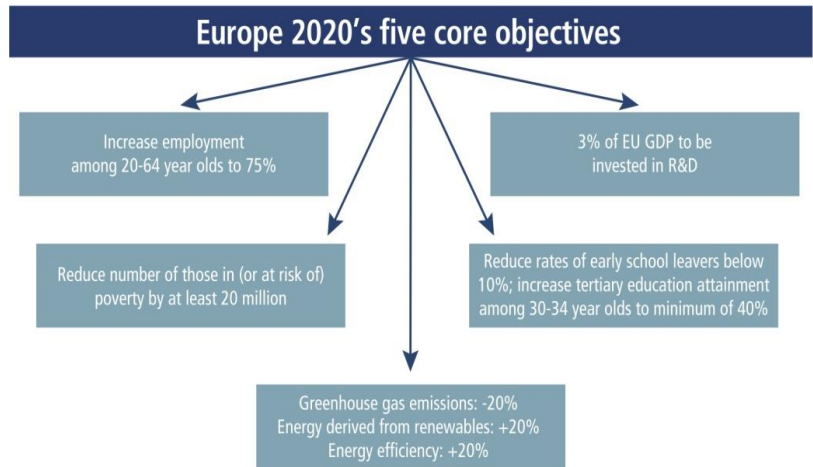
Issued in 2001, the EU's first sustainability strategy was in many ways a more reasonable complement to the economic plan put forth by the EU at the time. The EU regularly enacts programs of several years' duration as a means to achieving its economic policy objectives. The Lisbon Strategy, also known as the Lisbon Process, was in place until 2010. It was supposed to make Europe the most competitive and innovative region in the world, a goal which from today's perspective appears overly ambitious. The EU SDS was created in parallel, which meant that two distinct strategies were developed: one for economic growth; the other for sustainable development. The initial EU SDS included ideas for improved European policies on

issues ranging from greenhouse gas emissions to public health care, poverty, diminishing biodiversity and traffic congestion. It was supposed to serve both as a model for national plans within the EU and as a flagship for the EU internationally.

The EU SDS faced new competition with the launch in 2010 of the EU's new ten-year plan, the Europe 2020 strategy. Somewhat slimmer in comparison to its predecessor, the Lisbon Strategy, Europe 2020 incorporated growth as well as sustainability, therefore targeting sustainable growth. By emphasizing an integrated concept of sustainable growth, Europe 2020 effectively forced the EU's formally independent EU SDS of 2001 into the background. Indeed, the key objectives of sustainable development – reducing greenhouse gas emissions, using renewable energy sources, increasing expenditure for innovation and combatting poverty – are integral features of Europe 2020.

Taken together, the EU SDS and the Lisbon Strategy were not particularly successful. The objective of a 70% employment rate was not met. And although more people were employed, this failed to reduce poverty. Spending for research and development also did not, as planned, increase much by 2010. Europe also failed to diminish significantly the productivity gap between itself and the United States. So there was much to be said for an economic strategy that consistently incorporated sustainability while driving growth.

Europe 2020's authors sought to avoid the mistakes of Lisbon and took care to not overburden the strategy. Clearly formulated objectives for employment, innovation, education, social inclusion, as well as climate and energy issues were designed to combat the EU's most pressing problems.



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Compared with its predecessor, Europe 2020 is leaner and predicated on a more sober assessment of Europe's position in global economic competition. It also acknowledges the greater dynamism of industrialized and emerging nations outside Europe and recognizes that a large part of Europe's growth comes from trading with these countries (Fehmel 2013: 22, 32f).

In terms of social targets, Europe 2020 distinguishes itself by assigning a high importance to social objectives, with the battle against poverty being an equal part of the overall strategy. The Lisbon Strategy drew a distinction between economic, financial, employment and social concerns. It failed to articulate social objectives in detail and gave member states the freedom to collaborate on these issues as it suited them (Daly 2012: 275). Europe 2020, by contrast, is designed to achieve what advocates of sustainable development have long called for: making social and environmental issues axiomatic components of economic thinking.

3. Sustainability tossed by the wayside

Good intentions, no matter how sincere, do not necessarily translate into effective impact, as the current crisis demonstrates. Policymaking in Brussels currently has little room for the objective of sustainable, inclusive growth. EU institutions and member states target more or less exclusively GDP growth, enhanced competitiveness and budget reforms. This can be attributed in large part to the EU's stability and reform packages which include the instrument for ensuring compliance with the Europe 2020 objectives: the European Semester (see box). This instrument is also tasked with monitoring economic policy in 28 EU member states and measuring the progress made on Europe 2020's five objectives. However, the logic driving its oversight capacity means that it is designed primarily to strengthen EU stability mechanisms and monitor public finances. In fact, of the recommendations issued by the

European Commission through the European Semester, only those relating to fiscal policy are enforceable.

Putting issues of sustainability and social inclusion on equal footing in the Europe 2020 strategy doesn't mean that they are afforded equal weight in practice. A look at the EU's financing instruments, for example, shows that sociopolitical measures, apart from the structural funds supporting Europe's weaker regions, play only a minor role (cf. Daly 2012). Furthermore, Europe

innovation. This, after all, often requires public spending. The International Monetary Fund (IMF) has also admitted that the consequences of prescribed consolidation for states in crisis, such as rising unemployment and falling demand, have been significantly underestimated (cf. Thillaye 2011: 14f.).

Overall, the prospects for achieving Europe 2020's sustainability targets are dim. According to experts, education targets

have the greatest chance of success. It is, however, unlikely that the EU will reach the targeted 3% in research and development spending. In fact, the European Commission has already called on industry to contribute more in this area since member states have reduced research expenditures in the EU budget. Targeted employment rates also seem far-fetched. And finally, efforts among member states to improve their energy efficiency are weak

The European Semester

The European Semester for coordinating EU economic and fiscal policy planning was introduced in 2011 as part of the Europe 2020 strategy. It carries out the following tasks on an annual basis:

- the European Commission presents at the beginning of the year its Annual Growth Survey;
- the European Council meets in March to provide orientation for economic policymaking;
- member states submit their reform plans, receive recommendations from the Commission and integrate these into their draft budgets;
- the Annual Growth Survey assesses implementation.

The European Semester is tasked with monitoring, among other things, whether member states are targeting Europe 2020's five core objectives with regards to sustainable and inclusive growth. It is, however, an instrument designed primarily to monitor budgetary discipline and economic performance.

2020 is not a binding strategy for the EU and can be superseded by individual fiscal policy agreements.

(cf. Gros/Roth 2012).

For the EU's sustainability objectives, this bears some risks. Demands for lower wages, for example, could make the battle against poverty more difficult. Work alone, as the OECD warns, doesn't necessarily rescue people from poverty. Prescribed austerity can also run counter to the declared goal of making Europe more competitive (without a price war) as a location for

4. Lack of influence

So how should we move forward? According to the European Commission, Europe 2020 functions well, despite everything. Their view is that the European Semester suffices as supervisory authority and guarantor in ensuring that Europe develops in a sustainable manner (cf. Council of the

European Union 2012). This line of thinking further maintains that the integrated sustainability objectives of Europe 2020 render a separate strategy obsolete. The review and revision of the old EU SDS which would now be due, is also redundant.

Not everyone reads the situation this way. A number of member states are committed to an initiative put forward by Germany and Austria which would revise, and revitalize, the 2001 EU SDS. The strategy has already been revised by the European Commission in 2005 and 2009. The European Council later confirmed that the EU SDS would remain the overarching framework for EU policies and strategies. While member states were keen to link it more closely with the Europe 2020 strategy where possible, they had no desire to replace it. The EU SDS is supposed to be reviewed every two years by the Commission. In October 2012, the EU Environment Council consequently called on the European Commission to achieve this by 2014 at the latest. This suited the ministers as the previous summer saw the United Nations Conference on Sustainable Development (i.e., Rio+20), which was intended to reinvigorate political commitment to sustainable development. However, in a protocol declaration the Commission responded that it did not think much of the idea of revising the strategy (cf. Council of the European Union 2012).

In short, the EU's sustainability programs are currently paper tigers which have little influence on the course of current political decision-making. The general opinion in Brussels is that the existing Commission won't be undertaking any further revision of the old EU SDS, with its term coming to an end next year. The EU's five core objectives from the Europe 2020 strategy are going nowhere and it now looks unlikely that they will be revised in 2014 as originally planned.

5. First pragmatic, then ambitious

Presently, there is little point in insisting on a revision of the 2001 EU SDS and Europe 2020. Firstly, the time strictures of the current Commission render this superfluous. Secondly, formulating major goals achieves nothing if they find no resonance in the current political situation and serve only to salve the consciences of political actors.

That doesn't mean that the EU can shelve its sustainability goals. Rather it should carefully consider how to maintain this new dynamic and how it might best be integrated into the political process. The following approaches could help achieve this:

Europe 2020 and the EU SDS should no longer be revised discretely, rather they should be prioritized and negotiated as a package by the incoming European Commission. In this way, the objectives of the various strategies can be adapted to each other and to prevailing conditions. With these processes underway, Europe could then make a timely contribution to the post-2015 agenda, the globally applicable regulatory framework for the era after 2015. That's when the Millennium Development Goals of the United Nations elapse, meaning the world will require a new development plan.

Synchronizing the various objectives is the key. The agenda of Europe 2020 should consider current GDP growth goals which reflect the impact of the crisis. If required, the five most important objectives could even be moderated. Even if this looks like a setback on paper, there is at least a chance for ensuring the relevance of Europe 2020 goals. The target of 2020 remains in place.

The goals for the post-2020 era are considerably more ambitious, but nonetheless correspond with pre-2020 targets. Here, a revised EU SDS would be appropriate. While the EU reformulates its goals, at the same time it can ensure that they form part of the United Nations' post-2015 agenda. The term of the EU SDS should be synchronized with that of the UN agenda for the post-2015 era. That means that when the United Nations begins to take stock, it is also then time for a further revision of the updated EU SDS.

6. Conclusion

European initiatives for greater economic, environmental and social sustainability have set significant objectives. And they have attempted to integrate them into the economic reasoning of the EU. The current crisis has brought this approach to its limits. The pursuit of GDP growth and competitiveness are superimposed over everything else. Realistically, little more is likely to happen under the current European Commission. But the incoming Commission should once more declare sustainability a priority so that it also gets a say in shaping the United Nations' post-millennium goals. The issue here is not whether the EU SDS or the new Europe 2020 strategy presents the better framework. The EU must revise both as a package, coordinate one with the other and adapt them to current conditions. The goals of the Europe 2020 strategy could be moderated somewhat to avoid missing the boat during the GDP-oriented crisis management phase. It should seamlessly connect with the revised EU SDS. Its goals would be significantly more ambitious. And with them, the EU could play a part in shaping United Nations development goals for the post-2015 era.

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Policy Brief 2013/04: Who Benefits from a Transatlantic Free Trade Agreement?

From a purely economic standpoint, the US and the entire EU will profit from a dismantling of tariffs and non-tariff trade barriers between both regions. The real gross domestic product per capita would increase in the US and in all 27 EU member countries. Also when one looks at labor markets, the positive effects on employment predominate. The public welfare gains of these economies admittedly do stand in contrast with real losses in income and employment in the rest of the world. On balance, however, the beneficial effects on economic welfare prevail.

Policy Brief 2013/05: Federal States, Industries and Education Level – Effects of TTIP in Germany

All major industries and states would benefit from a transatlantic trade and investment partnership (TTIP). The greatest manufacturing and employment effects would be seen in the electronics and metal processing industries. Baden-Württemberg, Bavaria and North Rhine-Westphalia would benefit most. Furthermore, it becomes apparent that new jobs would be created for all education groups – even for relatively unskilled workers.

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