

## **The Lisbon strategy - and the CER Lisbon scorecard**

**Speech by President Barroso, 13 March 2009**

### Introduction

Ladies and Gentlemen: It is yet again with great pleasure that I come here to discuss the Lisbon strategy at the Centre for European Reform.

The presentation of the Lisbon scorecard is always a remarkable sounding board for the work carried out at the European Commission.

Creating scoreboards and making forecasts is always a difficult endeavour. This year it is close to mission impossible.

But I think the CER scorecard hits the nail on the head in acknowledging that reforms will be much harder to implement in this very difficult year.

Today we face the reality and exceptionality of multiple challenges. This is a truly global crisis. It goes beyond the crises we have seen in the past that only affected certain regions of the world. Because of the speed of transmission in financial markets, nobody has been exempted.

The danger is that our sense of urgency may make us forget that there are still long term challenges that persist throughout the current shocks.

This year's Lisbon scorecard correctly points out that, in the long term, apathy towards reforms in the face of demography, lack of skills and anachronistic labour legislation will condemn Member States to a chronic competitiveness deficit.

I will say more about the Lisbon Strategy and ongoing need for structural reform in a moment but let me first turn to the immediate situation.

### EU Response to the Crisis

There are some who are saying that the EU has been disunited and slow to act in the face of the crisis. I do not agree.

The EU took rapid action to avoid a banking meltdown. And, if we look back, the 27 and the Commission acted incredibly quickly, producing, within weeks, an economic recovery plan worth 200 bn euro.

As private demand drops, it is important that public demand is increased to avoid a vicious cycle. But it cannot be just spending for the sake of spending. It must be smart spending. Governments must invest in areas that are crucial to future competitiveness - infrastructure, broadband, skilling of workers. This will increase productivity and help us pay back debts more easily.

This is the logic behind the European Economic Recovery Plan proposed by the European Commission and adopted by the European Council. It blends a fiscal stimulus with smart reforms designed for Europe to emerge a stronger world actor after the crisis. It has been a source of inspiration for other plans throughout the world.

The news on the plan is good. Most Member States have now announced fiscal stimulus packages, meeting the overall target of 1.2% of the Union's GDP.

The stimulus will not come from MS alone. The Commission has proposed very ambitious measures to kick-start the economy again. These include a new general framework for state aid; accelerated

procurement procedures; the frontloading of structural funds with a possibility for the Community to finance projects for the full 100% and a significant increase in the EIB's lending capacity.

I have also proposed to use € 5bn of unspent funds to invest in energy-interconnections and the roll-out of broadband. I will not hide from you that I would have liked this proposal to have been agreed more quickly. But I am confident that it will be adopted by next week's Spring European Council.

Altogether, taking account of automatic stabilisers, fiscal support of some 3.3% of GDP has been made available for the recovery. It amounts to more than 400 bn euro – a massive stimulus to growth and jobs. We will assess the first impacts for the European Council in June.

Some are already saying the Recovery Plan is insufficient and calling for a new Plan. I would urge them to keep a cool head. We have made the diagnosis. We know the disease and are confident that we have a plan to cure it. The focus now has to be on implementing what has been decided on.

The situation is moving fast, and so are we. Ring-fencing impaired assets is a crucial step to get credit flowing again. Last week, the Commission published guidance to ensure a co-ordinated approach. Last week, we also set out what needs to be done to reinforce financial supervision on the basis of the de Larosière report. And we laid down the principles on the basis of which Europe will shape discussions at the G20 in early April.

There has been talk of protectionist measures taken by Member States that would, in extreme analysis, undermine the functioning of the single market.

To be frank, I think this issue has been blown out of proportion. It may be alluring to speculate on internal divisions or even on the break-up of the single market but nothing is farther away from the truth.

All Heads of State and Government are fully committed to reinforcing, not weakening, the single market. And the Commission will be vigilant in its role as its guardian.

The single market is the branch on which we are all sitting and I cannot hear any sound of chain saws!

### The Social Dimension

This crisis' most painful expression is the dramatic rise in unemployment. As a policy maker, and I know my European colleagues share this view, we are accountable towards all European citizens and their families. We must help people who have been hit by the crisis through these difficult times.

I want to stress that Europe's social models, which some have criticised in the past, have represented a significant advantage vis-à-vis other regions of the world. Our safety nets are working. Without them, people would have been out in the cold and demand would have plunged even further.

Member States have put in place a variety of measures to help workers.

These include flexible working arrangements combined with retraining, lowering social contributions on low-income workers and re-absorbing young people into education. These initiatives will be fully backed by the European Social Fund which amounts to more than € 10 bn this year alone.

We are working closely with social partners in view of the EU jobs summit that will take place in May to agree common approaches and share solutions.

### The Future of Lisbon

So where is the Lisbon Strategy in all of this? Well, as you point out in your scoreboard, some people are saying that Lisbon is now dead in the water.

The financial crisis, they say, has exposed the bankruptcy of an agenda which is based, in part at least, on cutting red tape and making markets more flexible.

Well, I think, as you say in the scorecard, these people have got the wrong end of the stick.

There is no doubt that financial regulation needs an overhaul. But you cannot conclude from this that other sectors of the economy need the same treatment. We should not, as you say, throw the baby out with the bathwater.

Your scorecard also asked whether Lisbon has worked and whether anything would have been different without it?

One could always speculate that reforms that took place would have taken place anyway or that countries not taking the Lisbon strategy seriously have simply not followed the policy recommendations made by the European Commission and endorsed by the European Council.

But I find this a rather simplistic analysis. I believe that the impact of the Lisbon agenda in particular since 2005, when a partnership was instituted between the Commission and Member States, has given solid results.

The governance mechanism has allowed Member States to be confronted with the specific challenges they face and offered solutions.

The interaction between the EU and national level has for many, though admittedly not for all, created mechanisms of soft pressure that have favoured the climate for pushing through reform.

I am thinking in particular of the considerable steps that many Member States have taken to reform their pensions systems. True, the demographic challenge was clear to all but in many cases the fact that the request came from the EU level has allowed national governments to "sell" the measure more effectively with the people at home.

So what about the Lisbon Strategy after 2010? The world will no doubt be different after this crisis but we can be sure that the European Union will be faced with the same challenges as today - demography, globalisation and climate change.

We need to put even more emphasis on productivity growth, which sustains our standard of living as our working population shrinks. I agree fully with the Centre for European Reform that more attention is necessary to innovation and R&D where the EU is still lagging behind. We will not get there unless we collectively invest more in R&D and reform our innovation systems to get better results.

Education and skills will be critical because it is the only way to give younger generations the means to fully profit from opportunities and shape our future.

Europe has a massive opportunity to lead the world in 'green' jobs. There are major chances in the digital economy and the next generation Internet. But if our young people don't have the right skills, not Europe but other countries will seize these opportunities and take the jobs of the future- it's that simple.

Our strategy must look beyond the EU borders. We need to compare ourselves and learn from others. We must also ensure that other countries play by the rules and keep their markets open. And whenever we can, we must try to promote the adoption of our rules and standards around the world, as we have already done successfully in many areas. This will not only ensure stronger protections and safeguards, it will also be an important competitive advantage for our industry which can operate on the basis of their 'home' rules.

We also need to look at our Lisbon instruments. Do the integrated guidelines and the policy advice for each country (country specific recommendations) still serve the objectives or do they need to be

sharpened? Are we still aiming for the right targets? And how can ownership and participation of stakeholders and regional/local authorities be strengthened? The Commission has not found the stone of wisdom yet, so please continue to provide your input and views

The most important thing about continuing with the Lisbon Strategy after 2010 is that it offers a compelling vision of the future. Particularly in times of crisis, people need to be able to see where we are going – where we will be when we will come out at the other end of the tunnel?

I want Europe to become a knowledge economy. It will invest in research and innovation, certainly. And it will use the new generation of information technologies. But it will also continue to manufacture sophisticated and up-scale goods. And it will further tap into Europe's huge creative potential, and its many natural and touristic attractions.

I am confident that, in the next five years, we will manage to strike the right balance to promote employment security and more adaptable labour markets so that people can move into the jobs of the future. And I believe that, in this, we will serve as an example to the rest of the world.

Ladies and gentlemen, the road may have got bumpier, but this is no reason to stop at the side of the road or put the car in reverse. We cannot lose sight of our destination. Europe as a better place with more opportunities for all.

Thank you