

## **CAN THE IMPLEMENTATION OF THE EU 2020 STRATEGY ASSURE SUSTAINABLE GROWTH, IN THE GLOBAL CRISIS PERIOD?**

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### **Introduction**

The world's economic recovery has come to a standstill and shows low levels of confidence, which adversely affecting investment and consumption. This lack of confidence is due to the negative feedback between the sovereign debt crisis and the situation in the financial sector together with a slowdown in the global economy. The impact has been particularly acute in the Euro area. As a result, GDP is likely to stagnate in the coming years and overall growth in the EU is forecast to be as low as 0.6% for 2012. Unemployment levels are likely to remain high at around 10% in 2012 and into 2013, exacerbating the social impact of the crisis.<sup>2</sup>

The sustainable growth is very much related with level of employment, poverty reduction, competitiveness through innovation and education as well as effective use of natural resources. All of these areas are tackled in EU Strategy 2020 criteria and their fulfillments are subject to uncertainty in the current crisis. Namely, the growth prospects of all Member States, whether they are currently in the Euro area or not, depend on dealing decisively with the sovereign debt crisis and demonstrating that the Euro is a stable and strong currency whose members are determined and capable of implementing sound economic policies.

Given the risk aversion in financial markets, these issues are not yet settled. In fact, too much political time and energy is being spent on emergency measures and not enough time is being devoted to implementing the policy changes that will bring the EU economies back to higher growth levels.

Therefore, it is crucial question to be answered: whether EU Strategy 2020 criteria can be met in the period of debt crisis and if these criteria are well targeted to assure sustainable growth and therefore help EU countries to get out of crisis?

### **EU strategy 2020 targeted criteria**

EU 2020 Strategy is a single common Strategy for all Member States, based on the idea of a truly sustainable economy, placing forward a comprehensive

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<sup>2</sup> "Annual Growth Survey 2012"- VOL. 1/5, Brussels, 23.11.2011; pg. 2

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approach to development, addressing three key dimensions: the economy, the environment and social policy.

Therefore, the Strategy determines a set of binding targets to be achieved by 2020<sup>3</sup>:

- 75 per cent of the population aged 20-64 should be employed.
- 3 per cent of EU GDP should be invested in R&D.
- The »20/20/20« climate / energy targets should be met (including an increase to 30 per cent of emissions reductions if the conditions are right).
- The share of early school leavers should be under 10 per cent and at least 40 per cent of the younger generation should have a tertiary degree.
- 20 million fewer people should be at risk of poverty.

These targets are important because they focus on key social, environmental and investment outcomes. In practice, this means, measuring progress in areas such as poverty, carbon emissions, education and employment levels, rather than relying merely on economic indicators. This is perceived as an important improvement vis-à-vis previous market-based benchmarks. European Strategy does not prescribe a GDP growth rate and focuses on specific targets related to its three priority working areas. This might be the result of the failure of the Lisbon Strategy: it proposed a 3 per cent common annual growth rate, but for individual countries it was a fairly abstract target. As it was discussed, this was one of the main reasons why the Lisbon Strategy failed to deliver and further progress is now being threatened by the economic crisis.

The crisis has not only shaped the 2020 Strategy, but has also demonstrated the importance of global economic and financial forces in European development efforts. As the world's biggest economy, the EU's trading and economic system and consequently its growth is linked to the performance of other countries and regions. A globalised economy implies that other areas, such as external or international social relations, also need to be considered within a comprehensive development strategy. In addition, the EU and its Member States provide the largest proportion of official development assistance and aim to take on a leading role in many international policy fields, including democracy-building and climate change.

### **Goals and weaknesses of EU Strategy 2020**

The 2020 Strategy is the EU's development plan was launched with the goal of »emerging stronger from the crisis« which was still present in 2010. As the global downturn has demonstrated, the EU's growth is linked closely to the performance of other countries and regions. Consequently, whether the 2020

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<sup>3</sup> [http://ec.europa.eu/europe2020/index\\_en.htm](http://ec.europa.eu/europe2020/index_en.htm)

Strategy is able to deliver results depends not only on regional policies and measures, but also on how it deals with the global context.

Despite the strengths of the Strategy, it might be considered that it lacks ambition and a clear strategic vision. When defining its medium-term goals the EU could have taken the opportunity to put Europe back at the forefront of social, political and economic change by putting forward bold and innovative approaches to development. Instead, the Strategy has neither managed to go beyond existing agreements nor considered alternative growth models or trade policies.

One of the main drawbacks is that the contents and structure of the Strategy are extremely inward-oriented, which limits its outreach potential and relevance in a globalised world. The Strategy is supposed to set a path towards a sustainable economy with regard to which it must be considered that recovering from economic crises is no longer a purely national or regional issue, but heavily dependent on the performance of other major economies in the world. A comprehensive development strategy needs to take account of the realities of the global economy. This might draw us to a conclusion that, the Europe 2020 Strategy is unlikely to help the EU reclaim its role as a leading global economic and political player. In order to overcome this weakness, it is important to implement the Strategy alongside a set of comprehensive and coordinated international policies.

There is also an issue increasing differentiations among the EU countries. While some of them like Germany and Netherlands kept the same rating and are good in servicing public debts, many of them (Greece , Portugal, Italy, Spain) are facing with the public debt significantly above their annual GDP . These create problem in coordination in accomplishing required Strategy's targets. Together with a lack of coordination and binding targets, one of the main reasons for the lack of results in current implementation of the Strategy are that the targets set by the EU are pretty vague and partly inadequate measures of progress and prosperity.

It is also remarkable that the development plans suppose to have more targets in number than the current EU Strategy. The 2020 Strategy discusses some of the crucial issues, but it includes only three social targets (reducing poverty, increasing employment and reducing school drop-out rates), compared to the more than 30 targets set by the BRIC countries for instance. While Europe clearly has a considerable lead on these issues, without targets it is difficult to measure progress or to adopt specific actions to ensure a better quality of life for all Europeans.

### **The challenges in implementing EU Strategy 2020 targets in debt crises period**

The global economic crisis has triggered a severe debt crisis which is rocking the European Union and could jeopardise implementation of the Europe 2020 Strategy. Underlying the crisis, however, is an issue which intensifies instability and poses an even more serious risk in the years to come.

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Despite all integration efforts, extreme asymmetries remain between EU member states in areas such as employment and income, which are in direct correlation with sustainable growth of EU. At the same time, external observers have pointed out that several countries are putting the brakes on further unification and convergence and are pursuing independent policies on issues such as immigration.<sup>4</sup>

In this context, there are wide-spread doubts among other global actors concerning whether a collective European development strategy would have enough support to deliver on its objectives.

At the international level, the European crisis is having an impact on how the European Union is perceived. Some international observers argue that the EU has failed to provide the alternative and innovative approach to politics and economics that some countries were expecting, possibly because of internal tensions. The areas of climate change and trade agreements, among others, are policy fields in which the EU was expected to be a leading actor but is now no longer making progress.

The worldwide economic and financial crisis has been blamed, to a significant extent, on the deregulation of international markets and financial sectors. Not only does the EU 2020 Strategy fall short of offering an alternative to the existing system, but more importantly, it does not pay sufficient attention to the role and regulation of the financial sector in general. This could prove a major flaw and undermine implementation. It is obvious that the financial sector was instrumental in bringing about the crisis and many have complained about the preferential treatment given to this sector while ordinary people bear the brunt of the crisis. Many people believe that financial stability has been brought about with public money, while the financial sector has not contributed its fair share to the process. It is likely that European citizens are expecting some of these issues to be addressed within the Strategy – otherwise, popular support for the Strategy might be eroded.

Serious concerns have been raised about funding for the Europe 2020 Strategy. The document puts forward ambitious targets that will require significant investments, but it does not contemplate any new funding instruments, leaving the EU budget as the sole source of funding. At the same time, across the European Union, Member States are tightening their budgets and cutting spending in order to fight the crisis. If the austerity measures put pressure on the European budget, the combination of the lack of new funding instruments and smaller budgets could jeopardise implementation of the Strategy.

Global actors have also commented that the EU 2020 Strategy, in comparison to the previous Lisbon Strategy, implies a shift from market to political objectives. Very often, this also entails a similar shift from market to political incentives, which are usually provided with public money and can adopt

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<sup>4</sup> Javier Pereira “Europe 2020 – The European Strategy for Sustainable Growth”- The Friedrich-Ebert-Stiftung, September 2011; pg.3-4

different forms including subsidies and similar instruments. In a situation of limited funding, however, it is important to ensure that political priorities are self-sustainable in the long term from a market perspective. If political objectives can't be supported by market incentives in the long term, the whole process could result in a waste of taxpayers' money.

### **Specific issues related to implementation of the EU Strategy 2020 in debt crisis period**

In order to achieve the targeted criteria and indicators as well to assure sustainable growth each of the EU countries need to take appropriate measures towards : fiscal consolidation , establishing better lending policy for enterprises in order to increase economic growth, , create the new jobs especially for youth through better education process and decrease general rate of unemployment , as well as increase the funds for researches and innovation and invest in energy efficiency and new renewable energy resources.

#### **a) Fiscal consolidation**

Determined fiscal consolidation is essential in order to restore macro financial stability as a basis for growth and stabilization of the European future. Therefore the EU countries need to be focused on broadening the tax base of certain taxes and thus increasing revenue or reducing high tax rates. The latter, practically seems to be just opposite in the practice nowadays, since most of the EU countries ( as measure against financial crisis ) have already increased their tax rates (VAT , personnel or other taxes), which make additional burden to the economy and citizens which are facing the threat of poverty more than ever. In fact, the Governments debt levels have increased markedly – by 20% on average over 2007-2011 as a result of the crisis , and what is more important , the internal public debt has significantly increased in past few years . This means that the state budgets of many EU countries are credited by the real sector, which additionally worsens the chances towards improvement of the economic growth in each of these national economies. In line with the agreed EU approach, although significant steps have been taken to consolidate public finances, based on unchanged policies, public deficits are continuously increasing and the pressure of higher taxes is stronger.

#### **b) Supporting economic growth trough improving lending policy**

A healthy financial system and, in particular, a robust banking sector support growth. The bank excesses leading up to the crisis have resulted in a widespread fragility in the sector and now risk acting as a brake on economic recovery. Restoring investors' confidence will require a strengthening of banks capital positions and measures to support banks access to funding, and will help to sever the link between the sovereign crisis and the financial sector.

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Therefore the Commission considers that priority should be given to<sup>5</sup>:

- Strengthening of the capital positions of systemic banks where required in order to reflect heightened risks in the sovereign debt markets.
- Facilitating bank access to term funding by implementing temporary measures , so as to limit the impact of banking sector reform on the flow of credit to the real economy, avoiding the risk of further tightening credit conditions.
- Creating a specific regime adapted for SME growth markets allowing them to be more visible to investors and subjecting SMEs to proportionate listing requirements. Prudential rules should also be reviewed to ensure that they do not unduly penalize lending to SMEs.

The fact is on the other hand, that the banks in most of the EU countries are facing the problem of worsening their credit portfolio, and therefore they are continuously reviewing their credit policies, tightening the rules for loans and even more increasing the ratio for collaterals which is problem especially for SMEs work.

**c) Increase of employment and competitiveness through better education**

Due to the recent global crisis, unemployment has increased with 23 million people unemployed in the EU today. The crisis is precipitating major shifts across the economy, with business undergoing fast restructuring, many persons moving in and out of employment and working conditions being adjusted to changing environments. Thus, the share of long-term unemployed has increased, with risks of falling permanently outside the labor force.

A particular focus is needed on young people, since the total number of young (under 25) unemployed in the EU increased by one million – making it one of the groups that have been worst affected by the crisis. EU-wide unemployment rate has increased to over 20%, with peaks of more than 40% in some Member States. This group also faces other structural challenges, hindering their integration into the labor market. For instance, 40% of young employed persons work on temporary contracts. Moreover, one out of seven (14.4%) currently leaves the education system with no more than lower secondary education and participates in no further education and training<sup>6</sup>.

It is important that European policy-makers understand that the quantity and quality of education will play a key role in maintaining European competitiveness. In the area of education, the Europe 2020 strategy envisages reducing the early school leaver rate from 15% to fewer than 10%, whilst increasing the percentage of the population aged 30-34 who have completed their tertiary education from 31% to at least 40% by 2020.

Reducing the number of early school leavers should be considered crucial because the lower educated population faces lower employment rates, while the

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<sup>5</sup> “Annual Growth Survey 2012”- VOL. 1/5, Brussels, 23.11.2011; pg. 13

<sup>6</sup> V. Stan , A. L. Bujor “EU Strategy 2020 in the Context of Actual Crisis- “Petre Andrei” -University of Iași, Romania; pg. 168

second target is particularly crucial since education plays a key role in employment and competitiveness by increasing employability and by fostering long-term growth. The research show significant differentials among the EU member states related to fulfillment of these criteria.<sup>7</sup> While many of the EU countries already reached or are close to reaching the goal of reducing early school leavers to 10%,<sup>8</sup> the four Mediterranean countries of Malta, Portugal, Spain and Italy present a dramatically different picture. In Malta over 35% of students leave school with only a lower secondary degree. In Spain, as well as in Portugal, the figure is still over 30%, and in Italy around 20% of its students leave school early.

In the area of tertiary education, the Europe 2020 strategy calls for reaching a 40% graduation rate in every EU27 country. The distance to this goal differs widely from country to country. In Romania, the Czech Republic and in Slovakia, the tertiary graduation rate has to be increased more than 20% by 2020. Further, while Italy would need to more than double its graduates, Austria would still need to invest immensely to increase its tertiary graduation rate by more than 15% to reach the 40% benchmark. On the other hand there are those countries that have reached the 40% goal today<sup>9</sup>, while the largest European economy (Germany) is far from fulfilling the benchmark with a further increase of 12%.

#### **d) Other aspects to be considered**

In addition to economic realities, the social tissue of the EU is being put to the test. The crisis has disproportionately hit those who were already vulnerable and has created new categories of people at risk of poverty. There are also clear signs of increases in the number of people at risk of income poverty, notably child poverty, and social exclusion, with acute health problems and homelessness in the most extreme cases. People with no or limited links to the labor market – such as pensioners or vulnerable people dependent on social benefits, for instance single parents – are also exposed to changes affecting the calculation and eligibility of their source of income.

An emphasis on resource efficiency, for example in areas such as energy efficiency and reducing waste, can improve competitiveness, create new jobs and help our environment. Reforms which improve the business environment and competitiveness should also be a priority.

At the end, it is the fact that EU economies are fragmented and with different economic level, which prevent the EU firms to grow and enjoy the same economies of scale and therefore have unequal access to finance as well as innovation capacities or regulatory obstacles which effect on structural reform

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<sup>7</sup> F. Roth, E.A. Thumb “The Key Role of Education in the Europe 2020 Strategy”-CEPS Working Document No. 338/October 2010, pg. 2-4

<sup>8</sup> Poland, Slovenia, the Czech Republic, Slovakia and Lithuania, Luxembourg, Finland and Austria and Sweden, Ireland, the Netherlands, Denmark, Hungary, France, Germany and Belgium

<sup>9</sup> Ireland, Denmark, Luxembourg, Finland, Cyprus, Sweden, France, Belgium, the United Kingdom, and the Netherlands.

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processes, without which, medium term projections point to the EU remaining stuck in slow growth.

### **Conclusions**

The sustainable growth is very much related with level of employment, poverty reduction, competitiveness through innovation and education as well as effective use of natural resources. All of these areas are tackled in EU Strategy 2020 criteria and their fulfillments are subject to uncertainty in the current crisis.

The EU 2020 Strategy as a successor of the Lisbon Strategy states that the exit from the crisis should be the point of entry into a new and sustainable social market economy, a smarter, greener economy, where our prosperity will come from innovation and from using resources better, and where the key input will be knowledge.

The establishment of this kind of knowledge society will need a radical rethinking on the part of European policy-makers when dealing with educational matters. The EU 2020 Agenda has taken an important step forward by setting the target for tertiary graduation rates at an ambitious 40%.

However, many European countries, very likely will not be able to meet this benchmark in 2020. Furthermore, the crucial topic of educational quality is not even touched upon, although it is quite clear that the quality of education is as important as the quantity in the global competition for innovativeness.

There are also clear signs of increases in the number of people at risk of income poverty, notably child poverty, and social exclusion, which require increase of the amounts for social transfers and decrease the opportunity for increase the budgets for research and innovations .

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