



December 2008  
AK Position Paper

## Future of the Lisbon strategy

## About us

**The Federal Chamber of Labour is by law representing the interests of about 3.2 million employees and consumers in Austria. It acts for the interests of its members in fields of social-, educational-, economical-, and consumer issues both on the national and on the EU-level in Brussels. Furthermore the Austrian Federal Chamber of Labour is a part of the Austrian social partnership.**

**The AK EUROPA office in Brussels was established in 1991 to bring forward the interests of all its members directly vis-à-vis the European Institutions.**

### **Organisation and Tasks of the Austrian Federal Chamber of Labour**

The Austrian Federal Chamber of Labour is the umbrella organisation of the nine regional Chambers of Labour in Austria, which have together the statutory mandate to represent the interests of their members.

The Chambers of Labour provide their members a broad range of services, including for instance advice on matters of labour law, consumer rights, social insurance and educational matters.

Herbert Tumpel  
President

More than three quarters of the 2 million member-consultations carried out each year concern labour-, social insurance- and insolvency law. Furthermore the Austrian Federal Chamber of Labour makes use of its vested right to state its opinion in the legislation process of the European Union and in Austria in order to shape the interests of the employees and consumers towards the legislator.

All Austrian employees are subject to compulsory membership. The member fee is determined by law and is amounting to 0.5% of the members' gross wages or salaries (up to the social security payroll tax cap maximum). 560.000 - amongst others unemployed, persons on maternity (paternity) leave, community- and military service - of the 3.2 million members are exempt from subscription payment, but are entitled to all services provided by the Austrian Federal Chambers of Labor.

Werner Muhm  
Director

## Executive Summary

In March 2008, the European Council invited Member States to give their initial thoughts on the future of the Lisbon strategy for the period beyond 2010. We would like to make several basic remarks from the AK's viewpoint for the Austrian position:

- The general Lisbon goal – “for the European Union to become the most competitive and dynamic knowledge-based economy in the world” – is formulated as a declaration of war and should be replaced by a positive wording that might read as follows: **“The goal is for Europe to become a dynamic knowledge-based economy that furnishes proof of the fact that high competitiveness is compatible with full employment, social security and sustainable development”**.
- The EU Commission has calculated the national contributions that are necessary in order to achieve the EU employment goals in its “employment rate scenarios for 2010”. Nevertheless, the Lisbon employment goals must not be seen as national goals. We therefore propose recalculating and thematising these scenarios based on the EU-27. In addition, we deem it necessary to focus more closely on the issue of quality of work – in terms of the Lisbon goal of “more and better jobs”. Improving the quality of work is a key element of the living and working conditions in Europe and counteracts the increasing precarity tendencies. At the same time, the post-Lisbon strategy needs to be geared even more than before to reducing poverty. Poverty not only has serious ramifications for society as a whole – the consequences for individuals are even more serious.
- The deciding determinant for greater growth and employment in Europe is still the dynamism of domestic demand. It is therefore necessary to reposition the European macroeconomic policy. The budgetary policy scope of the Member States must be increased by linking the Lisbon strategy with the Stability and Growth Pact in an intelligent way. At the same time, we need a monetary policy that also promotes growth and employment.
- On the global level, Europe needs to ensure fair international competitive conditions. That demands to establish in a binding way the ILO labour standards as well as minimum standards to protect the environment in international trade agreements of the EU and in the WTO.

- The post-Lisbon strategy comes at a time when it is becoming increasingly noticeable that we are nearing the peak of global oil production (oil peak) and climate change is already happening. Improving energy and resource efficiency therefore needs to be a key element of the post-Lisbon strategy. The aim should be for the EU to become the most energy and resource-efficient economic area in the world. The AK therefore proposes the drawing up and implementing of a European “Green New Deal”, which uses climate protection as the economic engine.

# The AK position in detail

## 1. Strategic goal

The general Lisbon goal – “for the European Union to become the most competitive and dynamic knowledge-based economy in the world” – is formulated as a declaration of war or challenge to the US and Asia that has not gone unanswered. Some people talk of a “race to the bottom”. We therefore propose a positive wording that might read as follows: **“The goal is for Europe to become a dynamic knowledge-based economy that furnishes proof of the fact that high competitiveness is compatible with full employment, social security and sustainable development”**.

We also urgently recommend that Europe rid itself of its fixation on the US. According to a study by Eurochambres, the umbrella organisation of the EU industry and trade chamber, from March 2008, the EU economy limps behind growth in the US by 20 years on average<sup>1</sup>. We consider such comparisons to be more than dubious – not only in view of the recent financial and economic crisis in the US, in which the famous US economist Nouriel Roubini sees a clear signal for America’s decline<sup>2</sup>. There are numerous factors that clearly speak for the European model. It is known that the US has by far the greatest inequality in

income distribution among all highly developed industrialised countries. In connection with this, we would like to recall the Wim Kok report of November 2004: “The Lisbon strategy is not an attempt to become a copy-cat of the US”.

## 2. Employment goals

The original wording in the conclusions of the Lisbon European Council with regard to the employment goals reads: “The European Council considers that the overall aim of these measures should be, on the basis of the available statistics, to raise the employment rate from an average of 61% today to as close as possible to 70% by 2010 and to increase the number of women in employment from an average of 51% today to more than 60% by 2010. Recognising their different starting points, Member States should consider setting national targets for an increased employment rate”.

This wording is clearly aimed at the respective starting point. Rightly so: expecting Spain (employment rate in 2000: 56.3%) or Italy (employment rate in 2000: 53.7%) to be able to increase their rates to 70% by 2010 would have been unrealistic. According to this logic, the Netherlands (employment rate in 2000: 72.9%), Great Britain (71.2%) and Sweden (73%) would have already achieved the Lisbon goals in the year 2000. Nevertheless, all stake-

The AK asks Europe to rid itself of its fixation on the USA and stand up self-confidently for the European model.

<sup>1</sup> www.faz.net, 10.03.2008

<sup>2</sup> www.tagesspiegel.de, 28.09.2008

In addition, the AK proposes to recalculate the employment rate scenarios based on the EU-27 and to focus more closely on the issue of quality of work.

holders in the meantime assume that the Lisbon employment goals are also national goals.

The EU Commission has in fact calculated the national contributions that are necessary in order to achieve the EU employment goals in its "employment rate scenarios for 2010". Accordingly, Austria would have to achieve an overall employment rate of 73.2% (currently 71.4%) and a female employment rate of 66.8% (currently 64%) by 2010.

We propose recalculating and thematising these scenarios based on the EU-27.

In addition, we deem it necessary to focus more closely on the issue of quality of work – in terms of the Lisbon goal of "more and better jobs". Improving the quality of work is a key element of the living and working conditions in Europe and counteracts the increasing precarity tendencies. Whilst job quality is thematised in the Integrated Guideline (No 17) and in the flexicurity principles, there is still no comparative analysis at EU level. However, this is necessary in order to tackle the goal of improving the quality of work in a systematic and sustainable way.

In connection with this, we would to call to mind the declaration made by the EU social ministers in January 2007, which stated that Europe requires increased and joint efforts to promote GOOD WORK. The declaration states: "GOOD WORK means workers' rights and participation, fair wages,

security and health protection at work as well as a family-friendly work organisation. Good and fair working conditions as well as adequate social protection are indispensable for the EU to be accepted by its citizens." From our point of view, this also calls for measures against wage dumping at European level. Improvements in the area of control possibilities that are urgently needed are counted with European minimum standards among the pillars for quality of work in the individual Member States. Particularly in view of the ECJ judgments Laval, Ruffert, Viking and Commission against Luxembourg, several legal clarifications need to be made as quickly as possible and the damage done corrected.

### 3. Macroeconomic policy-mix

These days, what Europe is lacking is striking: the ability to react quickly and efficiently to economic challenges. The sharp downturn in growth as a result of the US financial crisis affects a Europe that is economically intertwined like never before – yet at the same time is completely divided on how best to react to this downturn. In the meantime, valuable time is being lost for countermeasures. It is important that the EU has demonstrated the ability to act during the financial crisis and has hatched an action plan at a speed that is nothing short of breathtaking for the EU. It is now about putting together a European economic package. Only if growth and employment get going again can the worst effects of the financial crisis be absorbed.

The AK underlines that with regard to the financial crisis a strengthening of domestic demand at European and national level matters more than ever.

What matters now more than ever is strengthening domestic demand – through the interaction of sensible measures at European and national level. Whilst great efforts were made to increase the competitiveness of European enterprises as part of the Lisbon strategy, hardly any measures were and are being taken to increase domestic demand, which consists of domestic private investments, domestic private consumption as well as investments and consumption by the state.

An investment programme coordinated throughout Europe is needed to strengthen domestic demand. The economic policy's efficiency at EU level is greater than at national level due to the close economic links in the single market. A joint and specific approach among public investors in areas of the Lisbon strategy like education and training, research and development, childcare, infrastructure, energy and climate policy etc. should be the focal point of a growth strategy for Europe. At the same time, the consumer demand of private households needs to be strengthened by a corresponding tax and wage policy.

We need to increase the economic policy scope in the budgetary policy in order to be able to effect these investments. In our view, this is a key lesson to be learned from the lack of progress in the Lisbon strategy. It is therefore necessary to reposition the macroeconomic policy in Europe. The Wim Kok report in November 2004 also makes it clear: "The wider

macroeconomic framework, both the pursuit of monetary and fiscal policy, must be as supportive of growth as possible".

What does this actually mean? The budgetary policy scope of the Member States can be increased by linking the Lisbon strategy with the Stability and Growth Pact in an intelligent way. Austria should support the so-called "Golden Rule" during the course of deficit calculation. What this means is that long-term public future investments for growth and employment are not counted towards the Maastricht deficit as these are also confronted with long-term national income. As a result, the euro area may in future be capable of reacting to crises quickly and effectively. The macroeconomic guidelines also need to be adapted accordingly.

At the same time, we need a monetary policy that also promotes growth and employment. As things stand, it is essential that the European monetary policy also contributes to this. Efforts to create transparency and regulate the financial markets at European level need to be continued and strengthened.

We are convinced at any rate that if the European macroeconomic policy is not repositioned, the post-Lisbon strategy will also not yield the expected results.

The AK is convinced that the post-Lisbon strategy will not yield the expected results if the European macroeconomic policy is not repositioned.

#### 4. Poverty reduction and gender equality

The Lisbon strategy is also aimed at significantly reducing the number of those at risk of poverty and social exclusion by 2010 (Barcelona European Council, March 2002). In its spring report prior to this, the Commission proposed halving the number of those at risk of poverty by 2010.

The Commission consultation paper "Europe's Social Reality" (2007) points to the fact that Europe has a serious poverty problem. 72 million people, all the same 15% of inhabitants in the EU-25 (it is probably even higher including the EU-27) are at risk of poverty, with another 36 million only just avoiding this danger. In its study "Growing Unequal? Income Distribution and Poverty in OECD Countries" (2008), the OECD also warned recently that the gap between rich and poor has widened in recent years in most OECD countries.

Poverty not only has serious ramifications for society as a whole – the consequences for individuals are even more serious: this means not only poor living conditions, but also as a rule poor health, social exclusion and poor prospects for the future (even for children – "poverty inheritance").

In our view, the post-Lisbon strategy needs to be geared even more than before to reducing poverty. In connection with this, we pronounce ourselves very much in favour of establishing quantitative goals in the area of poverty because this would strengthen the open method of coordination (OMC)

and would significantly help reduce poverty in a more goal-orientated and sustainable way.

At the same time, reducing poverty needs to be viewed as a cross-sectional task. The social situation of households with low incomes depends e.g. very much on the scope and quality of public services. Public services that work should therefore take precedence over the principles of the single market and competition in a binding European framework, and affordable and secure access to the services should be ensured for all. In view of rising energy prices, measures in the area of energy efficiency not only have a favourable effect on CO2 emissions and climate change, they also have effects in the area of poverty reduction and promote growth and employment. An example here could be the thermal insulation of buildings, which also has positive effects on the building industry besides energy-saving effects – if there are correspondingly wide-ranging campaigns.

In addition, we propose focusing more on gender equality. There are still large gender-specific differences on the labour markets in Europe (wage differential, employment rate etc.). The post-Lisbon strategy should therefore place more emphasis on gender equality and express it through a separate guideline (as part of the Integrated Guidelines).

Furthermore, the AK proposes to focus more on gender equality.



## 5. More realistic assessment of the potential of SMEs

Developing the potential of enterprises, in particular that of SMEs, has been one of the four cornerstones of the revised Lisbon strategy since the 2006 spring summit. According to the European Council, SMEs form the “backbone of the European economy” and have the potential “to contribute significantly to creating more growth and jobs in the European Union”.

If economic policy measures are taken in favour of SMEs, the impression conveyed by the Austrian government as well as by the EU Commission is that very special, important measures are involved for a particular part of the corporate landscape. In reality, all measures that apply to the entire SME sector affect almost the entire corporate sector as 99.6% (in Austria) and 99.8% (EU average) of all enterprises can be counted as SMEs. When discussing measures (incentives, tax concessions etc.) in favour of SMEs, we should therefore also always analyse whether it does not lead to workers being reallocated to enterprises in reality.

The importance of SMEs for growth and employment is far too simplistic as a rule and is therefore depicted in a distorting way. It goes without saying that a corporate sector which 99.6% of all enterprises should belong to should also exhibit a certain importance for growth and employment. However, the AK would like to point out that “only” two-thirds of employees work in 99.6% of enterprises (the share of

SMEs in investments and value-added is even smaller). SMEs on the whole also have much lower productivity than large-scale enterprises and also pay significantly lower wages and salaries (to say nothing of internal social security benefits). The SME sector’s contribution on the whole to corporate expenditure on research and development (a key indicator for future growth possibilities) is even smaller: less than a quarter of all R&D expenditure made by enterprises is effected by 99.6% of enterprises.

The aim of these indicators is merely to emphasise that sensible and effective economic policy measures should be discussed in a differentiated way. It means supporting precisely those SMEs that are actually important to promising structural change (new products, methods, organisational models...) with measures and creating additional high-quality jobs (in terms of income, job security, quality of work...) / benefiting from growth opportunities that present themselves.

In our view, it would also be worth considering – as has already been implemented in several other European countries – developing a high growth support programme. The aim would be to bundle state possibilities (technology incentives, organisational support, personnel search, infrastructure improvements, space requirements, logistics, capital market access, promoting investments etc.) in order to support the small group of extremely dynamic enterprises further in their efforts to grow. The problems that en-

The AK asks to include small and medium sized enterprises stronger in growth and employment concerns in the future.

enterprises encounter when managing such rapid growth are often not first and foremost or exclusively to do with finance, but include at any rate a host of topics – which differ from company to company. The scarce resources available are often deducted from actual market cultivation or the process for rendering a service. Such a high growth programme would therefore not comprise first and foremost (or not exclusively) traditional financial incentives for certain projects. The design of such a programme should instead allow for flexible, “individually” tailored support for the respective company-specific problem of a growth process in a certain enterprise. As experience in other countries shows, the target group is limited to a maximum of a few thousand enterprises; however, on the other hand it calls for significant personnel resources on the programme’s part. To ensure that such an innovative programme approach is embedded in the social policy, the programme would need to be developed with the involvement of key stakeholders and be supported in future.

## 6. Regional policy

As already mentioned elsewhere, the AK would like to point out that the realignment and simultaneous subordination of the cohesion policy to the reworked Lisbon Agenda holds the danger of strengthening regional disparities in particular at national level. With the assisted region back-drop being abolished, regional policy goals like redistribution, development

as well as preserving the functionality of rural areas were dispensed with. Rural regions come under the aegis of European agriculture (EAFRD), with agricultural interests asserting themselves principally in the programmes for rural areas. Underdeveloped areas have therefore become the “losers” of the new regional policy.

The effects of this are already becoming abundantly apparent for Austria: two-thirds of the communities are already suffering from a population exodus and this trend will increase greatly in years to come. At the same time, a third of Austrian communities have to cope with severe population migration, which can give rise to social problems such as exclusion. In addition, the following gender development, which will increase in the coming years, can be observed: well educated women are moving into agglomerations and are therefore reducing the potential of regions.

The disparities between the regions and in particular the city-countryside divide will increase even more in the coming years, which is also an expression of the current European regional policy. It is becoming noticeably more difficult to maintain the functionality of rural areas as well as the peripheral regions. The availability of general social services – but also universal services – in the regions is also very much threatened. The developments outlined briefly here have implications for sectoral policies; however, they also have implications in particular for the fundamental goal of the European

The AK warns about the danger of strengthening regional disparities as consequence of the realignment and simultaneous subordination of the cohesion policy to the reworked Lisbon Agenda.

Besides, the AK points out that given the fact of increasing globalisation Europe needs to ensure fair international competitive conditions.

regional policy, namely social equality. Other Member States have already given up on peripheral regions in the true sense of the word in light of the above-mentioned problems.

It is therefore a question of focusing attention on social and territorial cohesion again in the post-Lisbon strategy and examining the sectoral policies for their effects on regions. The AK calls for the post-Lisbon policy to take up the following future challenges: social equality of the regions, functionality of the general, educational and health services in the regions, functionality of the public infrastructure in the regions, accessibility, jobs and quality of life in the regions. In connection with this, no difference should be made between the individual region types. The EU citizen and his/her needs should be the focal point of the policy. The post-Lisbon process should scrutinise the single market policy (competition, deregulation and liberalisation policy) to see what contribution these can make to the European regions and should revoke liberalisation where the quality of life in the regions is reduced due to the competitive strategy and no adequate solutions were found.

## 7. Social structuring of globalisation

China and India joining the WTO has given globalisation a new dimension because – according to Harvard economist Richard Freeman – the global market therefore has another two billion people at its disposal in the form of cheap and increasingly well educated workers. The forecasts are

sombre: “Although Chinese wages are only a fraction of European wages, we are forced to realise that the differences in quality between goods produced in China and the EU are only slight or do not exist at all” – according to the report issued by the high level expert group set up by the European Council for the half-term review of the Lisbon strategy (2004). The combination of “low income – high technology” could prove to be the gravest challenge facing the Western prosperity model. In the meantime, studies from the IMF also reveal that globalisation is at the expense of the wage share in the developed industrialised countries<sup>3</sup>.

Against this background, Europe needs to ensure fair international competitive conditions. Pressure undoubtedly exists for deregulating high standards due to the difference in regulatory orders based on an international comparison. The EU is given a leading role in international forums here precisely because of this. This affects above all the WTO in its capacity as the central organisation for regulating international trade relations. If it was possible in the WTO to enforce minimum global standards to protect intellectual property rights, why should it then not be possible to establish in a binding way minimum standards to protect workers, the so-called ILO labour standards, or minimum standards to protect the environment? On the basis of these minimum standards, it would then be a question of setting a regulatory convergence process in motion in the long term with the goal of as high a level

<sup>3</sup> Financial Times, 5.4.2007

of protection as possible for workers, the environment and consumers. The competition that undoubtedly exists at present on the basis on the non-observance or deliberate circumvention of such minimum standards could therefore be prevented. A similar thing also applies to the EU's bilateral trade policy, which is gaining in importance. Binding compliance with and implementation of minimum standards in the social and environmental sector should also be driven forward here. There is nothing, except a lack of political will, to deter the EU.

However, the AK is against developing the post-Lisbon strategy into a "globalisation strategy".

However, we do not think much about developing the post-Lisbon strategy into a "globalisation strategy". The deciding determinant for greater growth and employment in Europe is still the dynamism of domestic demand: "Only around an eighth of all goods and services produced in the EU are exported, around an eighth of all goods and services consumed in the EU are imported. The EU economy is therefore primarily characterised by developments in the single market that can be influenced by the economic policy"<sup>4</sup>.

## 8. Energy and climate change

The post-Lisbon strategy comes at a time when it is becoming increasingly noticeable that we are nearing the peak of global oil production (oil peak) and climate change is already happening. The independent "Energy Watch Group"<sup>5</sup> posits the theory that

the oil peak was already reached in 2006, while other experts put it between 2010 and 2020. At the same time, the International Energy Agency (IEA) assumes average growth of 2.2% for global oil needs between 2007 and 2012; oil consumption is set to reach 95.5 m barrels a day in 2012, with 116.3 m by 2030. The enormous gap in supplies that clearly arises from this explains the cryptic sentence uttered by Fatih Birol, chief economist at the IEA, in an interview in April 2008: "We should leave oil before oil leaves us"<sup>6</sup>. Birol considers it at any rate conceivable that the "the sirens could sound even louder" with the publication of the World Energy Outlook 2008 in November 2008. In a speech given at the "Swiss Energy Congress", EU Commissioner Andris Piebalgs also alluded to this problem for the first time and asked whether oil production can keep up with growth.

Climate change will also shape the post-Lisbon period. The US climate researcher James Hansen, who kicked off the climate debate at the end of the 1980s, sternly warns: "If there's no action before 2012, that's too late. What we do in the next two, three years will determine our future. This is the defining moment"<sup>7</sup>.

Improving energy and resource efficiency therefore needs to be a key element of the post-Lisbon strategy. The aim should be for the EU to become the most energy and resource-efficient economic area in the world.

4 Markus Marterbauer: „Wem gehört der Wohlstand“, Paul Zsolnay Verlag, Wien 2007, p. 195  
5 [www.energywatchgroup.org](http://www.energywatchgroup.org)

6 Internationale Politik, April 2008  
7 [www.alternet.org/story/85080/](http://www.alternet.org/story/85080/), 13.05.2008

The AK points out that improving energy and resource efficiency needs to be a key element of the post-Lisbon strategy.

In the end, it is a matter of greening industrial societies in order to make a breakthrough in the form of a new ecologically and socially sustainable development model. Many present-day production methods and consumption patterns in the EU are not sustainable. At the same time, the European Union has the potential worldwide to become an exemplary model of an ecologically sustainable global region.

The former Commission President Jaques Delors tried to initiate the discussion on a new development model back in 1993 with the White Paper "Growth, competitiveness, employment – the challenges and ways forward into the 21st century" and thematise the structural connection between the environment and employment. The Community has been following an economic development model for decades that is characterised by insufficient use of labour resources (high unemployment) and excessive use of natural resources (no decoupling of economic growth and resource consumption). The causes are known and have been supported by numerous studies: the increasing taxation of human labour has steered technological progress primarily towards an increase in labour productivity – the consequence being that ever fewer workers are producing more and more (with the financing of social security systems also coming under ever more pressure). In contrast, the consumption of energy and other natural resources has increased almost in parallel with GNP. It is a question of

reversing this trend by way of sensible measures (e.g. ecological tax reform).

Drawing up and implementing a European "Green New Deal", which uses climate protection as the economic engine, should likewise be part of the new development model. Measures in particular for managing climate change hold tremendous employment potential (measures to increase energy efficiency, strengthening renewable energy, thermal insulation, greening transport systems etc.).



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