ENABLING SUSTAINABLE GROWTH THROUGH THE IMPLEMENTATION OF EU 2020 STRATEGY-IS IT VIABLE?

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ABSTRACT

The Europe 2020 strategy, adopted by the European Council in June 2010, aims at establishing a smart, sustainable and inclusive economy with high levels of employment, productivity and social cohesion. The key objectives of the strategy are expressed in the form of five ambitious targets in the areas of employment, research & development (R&D), climate change & energy, education and poverty reduction, to be reached by 2020. However, being on the half-way to the targeted period, many European countries, very likely will not be able to meet this benchmark in 2020.
The paper analyses the main weakness of the EU 2020 Strategy, trying to suggest the main points of intervention, in other to get countries closer to targeted criteria and find the way out from the debt crisis.

Key words: economic growth, unemployment, poverty reduction, research& development

INTRODUCTION

The sustainable growth is very much related with level of employment, poverty reduction, competitiveness trough 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

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devoted to implementing the policy changes that will bring the EU economies back to higher growth levels. This impose the question whether the EU 2020 Strategy criteria are achievable and well targeted, so to assure sustainable growth and thus help EU countries to get out of crisis?

THEORY

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 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:

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

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% 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 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 Strategy is able to deliver results depends not only on regional policies and measures, but also on how it deals with the global context.
In November 2014 , The European Commission announced a € 315 billion Investment Plan to get Europe growing again and get more people back to work. The Plan is built on three main strands:
- the creation of a **new** European Fund for Strategic Investments (EFSI), guaranteed with public money, to mobilise at least € 315 billion of additional investment over the next three years (2015 - 2017);

- the establishment of a credible project pipeline coupled with an assistance programme to channel investments where they are most needed;
- an ambitious roadmap to make Europe more attractive for investment and remove regulatory bottlenecks.

According to European Commission estimates, taken as a whole, the proposed measures could add € 330 - € 410 billion to EU GDP over the next three years and create up to 1.3 million new jobs.

ANALYSIS

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

ISSN: 1857-9000 (printed version), 1857-9019 (electronic version)

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

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, several countries are putting the brakes on further unification and convergence and are pursuing independent policies on issues such as immigration.

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.

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 till the end of 2014 it hasn't had 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. Yet, although there is significant effort by the EU Commission to make Europe more attractive for investment trough the *new European Fund for Strategic Investments* (EFSI), some positive

effects might be visible (or not) after the period of 4-5 years. On the other hand, the access to finance of this Fund envisage strict rules and high standards for entities' eligibility which implies that only the best will get the benefit of it , which might even more brother the gap among the EU members .
This also confirms the general opinion 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 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.

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 over the past years 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

additional 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.

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.

Therefore the Commission considers that priority should be given to:

• 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.

Although the newly adopted Investment Plan envisage to inject over 300 million euro of public money in the real economy through the creation of a transparent pipeline identifying viable projects at EU level, the criteria should also engage the most advanced , the strongest companies from the most develop EU countries to get the most of the funding again deepening the gap between developed and less developed EU countries and ruining the EU principle of cohesion and equal development . It is even more likely that the SME from les developed EU countries will stay out of the race for the promised "financial cake " .

Increase of employment and competitiveness through better education and scientific research

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.
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 second target is particularly crucial since education plays a key role in employment and competitiveness by increasing employability and by fostering long-term growth. Although much improved the statistics show significant differentials among the EU member states related to fulfillment of these criteria. While many of the EU countries already reached or are close to reaching the goal of reducing early school leavers to 10%, the four countries : Italy, Spain, Romania and Bulgaria are still above the targeted level.
In the area of tertiary education, the Europe 2020 strategy calls for reaching a 40% graduation rate in every EU 28 country. The distance to this goal differs widely from country to country. While the graduation rates in Luxemburg , Ireland and France are 66%, 60% and 50% respectively , the same indicator in Italy and Romania is about 26% , while Czech Republic,

ISSN: 1857-9000 (printed version), 1857-9019 (electronic version)

Hungary, Croatia . Austria, Bulgaria, Malta and Latvia are still bellow the targeted level(between 30-35%).
Anyhow the biggest investment in the future growth supposed to be the investments in research in development which were targeted at the level of 3% of GDP according to EU 2020 strategy. In particular this indictor shows the biggest failure among the countries. Namely , only Finland and Sweden spent 4% of the GDP on research and development , 8 countries has already reached the target , and the rest eighteen countries have invested from 0,5% to maximum 2% of their GDP in this important area. The situation is the most dramatic in Cyprus, (0,5%), Czech Republic (1%), Slovakia and Greece (1,2%), Bulgaria, Croatia, Italy and Latvia (apx 1,5%) and Hungary, Lithuania and Poland (1,7-1,9%). It is important to say that even the highest developed countries (IK, France, Germany, Denmark) over the crisis period has barely reach the targeted rate of 3% , while Luxemburg has not fulfilled the criteria spending on research and development 2,3%.
This situation might have even worse implications on the future growth and development in the EU countries, especially less developed ones, which needs even more investments than the targeted 3%. . The current EU Programmes (Horizon 2020 and The Programe for competitiveness and innovation COSME) based on excellence are too complicated to apply and require good established network predominantly led by the most outstanding institutes from the first five most developed EU countries . Therefore if the EU wants to achieve balanced development and decrease the gaps in economic growth among the EU countries need to facilitate the financing of the research projects, especially those coming from the less developed EU countries .

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 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 trough 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, especially those concerning poverty reduction and investing in research and development as the most crucial factor for the future sustainable growth in the EU as a whole. While some of the EU countries are already achieved required criteria indicated from the EU 2020 strategy , there are also many which are not even close to the required targets with no prospects to achieve them till 2020.
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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