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Lisbon: a Strategy for all Seasons

Lisbon Council Growth and Jobs Summit

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Distinguished guests,

Ladies and gentlemen,

Let me begin by thanking the Lisbon Council for inviting me to speak to you today. The renewed Lisbon Strategy for Growth and Jobs is close to my heart. So it is always good to be with people who share my determination to forge a dynamic and open Europe of sustainable growth and high quality jobs.

I'm also pleased to be here because this conference is an important event - not least because it takes place immediately before the Spring European Council. I expect it will generate a number of positive messages that I can take to European leaders next week.

The European Growth and Jobs Monitor 2008, which Mr Heise has just presented, makes an impressive and invaluable contribution in that sense. It is a helpful tool, the conclusions of which are very much in line with our own.

The global economic outlook is not quite so positive, of course. Difficulties in the international financial sector are still working their way through the system, with negative fallout in the US, in particular.

As conditions deteriorate, the voices of those who feel threatened by globalisation get louder. The confidence of those who want to raise the drawbridge and retreat into a Fortress Europe gets stronger. They are wrong, as I will show later.

But first it is worth recalling, I think, what the Lisbon Strategy can and cannot do.

Lisbon won't free the European economy from natural business cycles. It won't bring an end to the sort of external shocks we are witnessing today. What it can do is improve Europe's growth potential through structural reforms.. It can make our economies more flexible and resilient.

And it's working. 6.5 million new jobs in the last two years. An increase in productivity growth for the first time in 10 years. Unemployment the lowest in 25 years.

In other words, Lisbon is a strategy for all seasons. It was right when the economic conditions were sunny. And it is right now that storm clouds are gathering on the horizon. This is my message to the European Council, contained in the Communication on Europe's financial sector adopted by the Commission last week.

Yes, we have had to clip our growth forecasts slightly. But Europe is still predicted to grow 2% this year - not exactly what I would call a recession. And this too is a sign that Lisbon is working, as the deceleration is mitigated by the reforms that have already been carried out.

Europe would be in a much worse state today if the Lisbon Strategy had never existed.

So I agree with your report when it notes: 'the worst response to the global downturn would be to abandon the policies that made Europe successful again, at precisely the moment when they have begun to work'.

After all, the reasons for reform are still with us. Globalisation is accelerating. The emerging economies are increasingly making their presence felt. We are beginning to feel the impact of demographic change.

Equally, the opportunities offered by emerging market dynamism are still there – for those with the courage to reach out and grasp them. As I say repeatedly: this is not a zero sum game. Europe doesn't have to resign itself to a shrinking slice of the pie. Globalisation is making the whole pie bigger.

Don't just take my word for it. In the last week alone, two independent studies have provided a wealth of evidence on how Europe is benefiting from globalisation.

The European Economic Advisory Group report, 'Europe in a Globalised World', illustrates the correlation between globalisation and an increase in employment in Europe over the last decade, for example.

A study I launched last week by Johns Hopkins University shows how Europe's open economies have benefited from globalisation. Above 60% of EU15 exports in 2006 went to developing countries, which is almost 10 percentage point more than in the beginning of the decade. Enormous levels of foreign direct investment have reached Europe in recent years, creating jobs, allowing for great technological advances, and improving competitiveness. The study shows that Europe remains the top destination of U.S. foreign direct investment (FDI), with the region accounting for nearly 59% of total U.S. investment outflows in 2006. That' a healthy global share and higher than at the start of the decade (55%). Over the balance of this decade, Europe has accounted for more than half (53%) of U.S overseas investment. Belgium alone received $1.2 trillion between 1997 and 2006. In recent year, the U.S has invested four times as much in Belgium as it has in China.

The same study shows that, thanks to globalisation, over the past ten years the EU economy has created 18 million more jobs than it has lost.

Do we really want to turn our backs on this by applying the breaks on reform?

I think the answer is clear.

It is this context, then, that the EU is poised to launch the next cycle of the Lisbon Strategy. And the key message of my Commission to European leaders is clear. The Lisbon Strategy is working. We do not need a new strategy. We do not need changes to the Integrated Guidelines. We just need to redouble our efforts and build on the good work already done.

That does not mean the Lisbon Strategy is a static process. Far from it. The Commission's Strategic Report, which will be discussed by European leaders next week, sets out a series of new policy initiatives to make Europe even more resilient to economic turmoil, and to reinforce European efforts to shape, and fully benefit from, globalisation.

Let me take a look at some of them.

First, the most important area: people. In the past, they were just one factor of production. In the emerging knowledge societies of the future, they are central to the success of any business, indeed any economy.

It is vital that we prepare every young European with the tools they need to flourish in the world of work. In our Strategic Report, we have chosen to focus on the most vulnerable group: early school leavers.

With globalisation, the number of unskilled jobs in our economy is bound to decline. There is a real danger that those with few or no skills will become unemployable, with all the social consequences that flow from that. We must help them to acquire the skills they need to succeed.

We cannot just stand by and see the talents of a section of our youth go to waste.

The figures speak for themselves. The better educated you are, the less the risk that you will become unemployed.

Recently, for example, unemployment among 25 to 64-year-olds was just 4.7%, compared with 11.2% for those with only a lower secondary education. Just 7% of the former were at risk of poverty, compared with 20% of the latter.

We need to develop skills today that we need tomorrow. I hope - and expect - that the Spring European Council next week will call on the Commission to undertake a major skills review for Europe, and make the necessary proposals to ensure that the right skills are available when needed.

There is some urgency. Already today, millions of vacancies in Europe are unfilled because there are not enough people with the right skills to fill them.

For example, in one of Europe's key industries, advance network technology - which includes mobile telecommunications, one in six vacancies cannot be filled. Only three years ago, this was one in 12 vacancies.

This is a fast-growing sector for employment, and we cannot let this situation get worse. And always remember that what is good for Europe's citizens is good for businesses, too. They need a highly qualified and adaptable labour force.

Another key pillar of the Lisbon Strategy we have returned to is research and innovation. Put simply, we need more R&D investment in Europe, particularly in the private sector. Companies are increasingly willing to break up their R&D operations and distribute them around the world. To keep investment coming in, Europe must increase its relative attractiveness. Because companies want to be close to growth markets in Asia, we have to bend over backwards to convince them that they are better off investing here.

I think the EU target of spending 3% of GDP on R&D has helped to focus minds. We may not reach this target by 2010, but we are definitely moving in the right direction.

All Member States have now set national R&D investment targets. If these are met, the EU will be spending 2.6% of its GDP on R&D by 2010 – up from 1.9% in 2005.

Having said that, I am well aware that businesses, particularly SMEs, are the biggest drivers of innovation. That's why we have a policy of helping SMEs to realise their full potential as vehicles of innovation.

We need a fifth freedom in Europe – the free movement of knowledge – to complement the other four freedoms on which the Single Market rests.

Researchers must be able to take up positions in other EU countries easily. We must, where possible, co-ordinate policies to avoid wasteful overlaps and duplication.

The Commission is proposing to launch a new generation of world-class research infrastructures, which far exceed the capacity of any single Member State. Top-class laboratories. The most modern databases. Cutting-edge lasers. This is how we attract and retain the brightest and the best in Europe.

We need to support open innovation, but at the same time, we need to ensure that knowledge is suitably protected by a European patent and copyrights.

Our universities also need to change. Too many of them are playing in the second or third division, too few in the Champion's League. They need to be much more open to collaboration with industry.

The third priority we have looked at is the business environment. We have got to get this right. As I have said many times now, business needs a red carpet, not red tape. We need a Single Market that works for Europe. We need public administrations that are modern, innovative, and client-focused. We need more small businesses. And more of them need to grow into world-beating companies.

That is why I will be asking the European Council next week to endorse the idea of a Small Business Act.

I will be proposing an Act that removes legal and administrative obstacles to SME growth at all stages of their development. The Commission is now consulting the stakeholders. Our aim is that the SBA will help unleash the full potential of SMEs.

The final Lisbon pillar we have revisited in our Strategic Report is energy and climate change, the defining challenge of our generation.

Let's finally lay to rest the idea that there is a trade-off between high standards of environmental protection and competitiveness. There isn't. Just look at some of the Nordic countries. We can do well by doing good. Europe must lead the world in the shift to a hi-tech, low carbon economy.

Here again I'm impressed and encouraged by your report, which devotes a special section to the link between environmental sustainability and economic development. Energy efficiency in particular, it appears, goes hand in hand with greater prosperity.

So let's get down to business and complete the internal market for energy. Let's see Member States set mandatory energy reduction targets for government buildings and systematically include energy efficiency as an award criteria for public procurement.

Ladies and gentlemen,

Reform is not about rolling back valuable social advances nor our social market economy, it is about equipping people to succeed in times of change. Giving them the chance to take control of their own lives. Being the best they can be.

It is about modernising our social systems and securing their sustainability.

It is about a dynamic business environment where entrepreneurs are spending their time and resources on producing high-quality goods and services that people from all over the world want to buy. Not filling in unnecessary forms.

It is about a low carbon economy that is good for the environment and good for business. An economy that provides rising living standards but which doesn't cost the earth.

That's why continuing reform is so important.

That's why this new cycle of Lisbon reform will not be the last.

Thank you.