

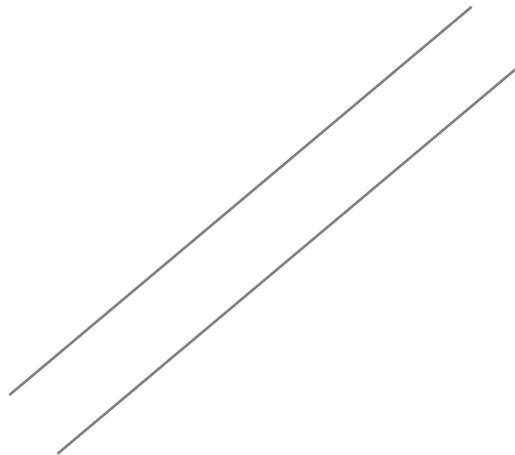
THE 2005 ROBERT SCHUMAN LECTURE

José Manuel Barroso

President of the European Commission

Brussels 14 March, 2005

Creating a Europe of Opportunities



Ladies and Gentlemen,

When the European Council launched the Lisbon strategy back in March 2000, the future looked bright. The dot com boom was in full swing, and world economic forecasts looked rosy. But as Paul Valéry once said: “The trouble with our times is that the future is not what it used to be.” The dot com bubble burst, the terrible events in America on 11 September 2001 seemed to cast a chill over economies the world over, and in Europe we became more aware of the demographic squeeze and the effects of global competition, and the consequences these will have on our economy and social model if nothing changes. Five years later, the future has changed. It is time to rethink the Lisbon strategy.

The Lisbon Council has achieved an astonishing amount in its short history, and has acted as an important forum of ideas and fresh thinking. Its whole *raison d'être* is to keep the spirit of the Lisbon Agenda alive and burning brightly. It would be the height of temerity for me to pull out one of my stock speeches, simply describing what the Lisbon Agenda or the mid-term review is all about.

No. Correct me if I am wrong, but I think you have given me the honour of addressing you here today because you want to know what the real message is concerning this urgent task we have set ourselves: to reinvigorate Europe to generate growth and more and better jobs so as to ensure solidarity and social cohesion. In other words, you want to know: what does the President of the European Commission really think about the Lisbon Process?

But first, a little history. The immediate concern of the Founding Fathers of Europe was to secure peace and stability on our war-ravaged continent. The creation of the European Coal and Steel Community ensured that, in the words of Robert Schuman, who we are honouring here today: “Any war between France and Germany [became] not merely unthinkable, but materially impossible.”

The stunning success of what British Prime Minister Harold Macmillan called this “revolutionary, almost mystical, conception,” soon led to attempts to build on this new-found peace and stability. The aim of the European Economic Community was to inject new economic dynamism into what had become a peaceful continent, yes – but a tired and worn-out one as well. One way it proposed to do this was by creating, as Article 3 of the Treaty of Rome puts it: “an internal market characterized by the abolition...of obstacles to the free movement of goods, persons, services and capital.” It too got off to a terrific start. The creation of a fully-functioning customs union – 18 months ahead of schedule – was a major engine of Europe’s continuing rapid growth in the 1960s.

However, the oil shock and stagnation of the 1970s soon followed. There was increasing talk of eurosclerosis, even the break-up of the EEC. Once again, the search was on for a way of injecting dynamism into the European economy. The solution, the Single Market project, was inspired. Not so much from an economic point of view – after all, the proper establishment of the “four freedoms” and a truly integrated, internal market had been the goal of the EEC from the very beginning. Rather, the Single Market project was inspired from a political, even a marketing, point of view. At a stroke, through the use of much more majority voting, the establishment of important principles like mutual recognition, and a media-friendly “headline deadline” of 1992, politicians were able to cut through the Gordian knot of vested interests and inertia and deliver the much-needed boost that Europe badly needed. The euro crowned this achievement, bringing currency stability and hence wider macro-economic strength to the table.

Nevertheless – and it may seem like heresy for me to say this – the Single Market is beginning to show its age. It is clearly a child of its time, a time when the primary

concern of large companies was achieving economies of scale by expanding across borders. It is an old-style single market of legal requirements and harmonisation. In its current form it does not, and perhaps cannot, devote sufficient attention to the needs of today's companies, which are looking for knowledge, flexibility, market financing, innovation and sustainable growth. It is not, I am sorry to say, a single market which is truly dynamic in the sense of opening up opportunities. Opportunities for small and medium-sized businesses. Opportunities for the excluded, the socially vulnerable, the old, the young, the disabled and the unskilled. Opportunities to experiment. Opportunities to take risks and reap the rewards. Creating this "Europe of Opportunities" is what I think the Lisbon Agenda should be about.

And this is why I am proposing to refocus the Lisbon Agenda on growth and jobs. Not simply because we need a strong economy to pay for the social protection which is dear to the hearts of so many Europeans, although this is certainly true. But because in this "new" Single Market, employment security is provided by creating a sufficient number of job opportunities both for those without a job, and to ease transition between one job and another for those already in employment.

Critics have argued that this ignores the imperatives of our cherished social model. But there is no more powerful tool of social cohesion than full employment. And social cohesion and adequate safety nets targeted at the individual rather than the job make the whole process of structural adjustment much easier.

You will note I said growth and jobs. In some Member States, job creation has occurred in recent years without faster growth. The cost has been a fall in productivity, and therefore in growth of earnings. Slow growth has also put a severe constraint on public expenditure at a time when needs are growing to finance pensions and increasingly expensive health care. A more dynamic European economy should be able both to create jobs and allow for an increase in earnings, while providing more room for manoeuvre for hard-pressed national budgets.

Of course the high growth potential of the new Member States should make achieving the Lisbon objectives easier. However, the Europe of 25 is also more diverse. Maintaining and applying our current rules will be more difficult, and the mid-term review will have to make the necessary adjustments for Lisbon to work in an enlarged Europe.

"The knowledge society" and "innovation" are dreadful buzz words, conjuring up images of long-haired computer technicians and white-coated men and women in high-tech laboratories. But these concepts are also a vital part of any modern, dynamic and sustainable economy. In the new Single Market, they should not just be thought of in terms of research and higher education, but in terms of their ability to open up business opportunities as well.

The knowledge society and lifelong learning can also contribute to social cohesion by equipping the labour force with the ability to adapt faster to changes in business organisation and the structure of demand. They can help jobseekers to find new employment more easily. They can unlock the potential of those who are excluded from the market through lack of skills and education, by helping them climb the ladder to where many of the new jobs are waiting for them. By improving the productivity of the workforce, the knowledge society and lifelong learning are also the basis for rises in real incomes.

An acceleration in innovation and knowledge acquisition is in turn necessary to meet the challenges of sustainability – economic, environmental and social – through an economy based on intangibles rather than the consumption of limited natural resources.

This is what I believe. This – I hope – is what you believe. So what has blocked our progress so far, and how are we going to do things differently from now on?

First of all, as the Lisbon Council itself has so perceptively observed, the Lisbon process has suffered from a priority-less plethora of actions that have lacked co-ordination and a clear division of responsibility between the different actors concerned.

Announcing grand but empty new initiatives is not my style nor the style of this Commission. That is why, in tackling this problem, we decided instead to take a cool and considered look at all the different areas that have been covered by the Lisbon strategy up until now and select the three most clearly related to growth and job creation. We then focused on a limited number of key actions for each of those areas which promised to pay the highest and most immediate dividends.

At this point I should say that it is not my intention, in such expert company, to turn this into a sterile exercise of listing actions you already know about, for you to tick off as I progress. Instead, I will outline the three areas I mentioned, highlight certain key actions linked to them and share my thoughts on them.

The three areas we selected, as you are well aware, are 1) make Europe a more attractive place to invest and work, partly by making the Single Market work better; 2) use knowledge and innovation for growth; and 3) create more and better jobs.

Together, these areas represent our best hope for achieving the growth and employment needed to put Europe back on track. Action will be required in each of these areas to make Lisbon work, and they are all closely inter-related. The fussy eaters out there should be warned: we are not offering an à la carte menu here.

Let us look first at how to **make Europe a more attractive place to invest and work**, an area where the Commission has perhaps the biggest role to play. A key aspect of this will be making the Single Market work better (or creating a “new” Single Market of opportunities, if you will).

In order to make the Single Market work better, the Commission considers that priority should be given to three actions. Firstly, better implementation of existing directives and better regulation (notably in favour of SMEs) – even if this means withdrawing proposals when amendments appear to compromise the value of the original proposal. Secondly, we need stricter application of competition policy, and of public procurement rules. Finally, we need to complete the internal market in services through the Services Directive.

Yes, the sharp-eared among you will notice that I mentioned the dreaded “services” word. The Services Directive has gained some notoriety in recent weeks, and as far as I’m concerned the vigour and intensity of the debate on this is to be welcomed. It shows that democracy in Europe is alive and well and that the emergence of a European public opinion directed towards a European issue is in the making.

The European Parliament, which I addressed on this issue just last week [9/3/05], has made a major contribution to this debate, and the Commission looks forward to forging an active partnership with it on the Services Directive in the future. Reflecting on the debate, I do believe that the Directive can be improved during the co-decision procedure. In particular, understandable fears regarding so-called “social dumping” need to be addressed. We must also look at the issue of Services of General Interest.

However, while many of those opposed to this Directive have genuine concerns that we must listen to, it is important to remember that such a sector will offer more and better opportunities to the socially excluded and the millions of new people coming onto the job market. As Commissioner McCreevy so succinctly put it when he joined me in the European Parliament last week, we cannot just stand here as the voice of the “ins” and forget about the “outs.”

That is why when I say we stand ready to address genuine concerns about the operation of the country of origin principle, for example, this does not imply that we will abandon the principle. The heterogeneity of services means that it would be totally impracticable to legislate for each service. Likewise, the very different provisions in each Member State would make harmonisation very difficult. Therefore, if we are to have a Single Market for services, it will have to be largely on the basis of the country of origin principle, but with appropriate guarantees.

And let us not forget that this principle and its corollary, mutual recognition, are nothing new. They are basic features of the Single Market since at least the famous Commission White Paper of 1985. They are applied in a wide variety of areas, including mutual recognition of qualifications and banking. If there is a problem with administrative capacity in certain Member States, it must be addressed. But this is a general problem for the Single Market and not one specific to the services sector.

The economic studies commissioned by Member States and the Commission are unequivocal about the advantages of opening up the market for services. Real wages will rise, prices will fall, employment will go up. The Copenhagen Economics Study, for example, stated that total economic benefits to consumers and producers would rise by 0.6 per cent or some €37 billion. While productivity improvements would lead to some job losses in certain sectors, total net employment in the EU would rise by some 600,000. Real wages in the EU would rise by 0.4 per cent while the price of services in the EU would fall – by an average of 7.2 per cent in the regulated professions. These are concrete gains we would all benefit from. I will not apologise for trying to realise them. Far from it – in fact the Commission intends to emphasise what is at stake by releasing a study very soon on the economic costs of “non-Lisbon.” And for those who dislike this emphasis on economics, let us not forget that it was Schuman himself who spoke of “...economic development as a first step in the federation of Europe.”

The reason such extraordinary untapped potential exists is no secret. A Commission survey in 2002 found 91 different barriers to cross-border trade in services. As a result, the single market for services remains highly fragmented. Although services, including public services, account for some 70 per cent of EU GDP and have been the major driver of growth and job creation for over two decades, both cross-border trade and investment remain at a pitiful level. In fact, the level of intra-EU trade in services has not increased at all since 1992. In that time, intra-EU trade in goods has increased by a third and added 1.8 per cent to EU GDP every year.

With the re-launch of the Lisbon Agenda, our role should be to open up opportunities for growth in those areas where greatest potential exists. Today, the greatest unexploited potential clearly lies in services. If we are not able to tap this potential, European workers and consumers will be the real losers.

Let me turn now to the second area for action: the promotion of **knowledge and innovation for growth**. While the main responsibility here lies with Member States, the EU has a role to play, in particular by mobilising its budget in support of research and higher education. In fact, I have invited a group of European Nobel Prize winners to discuss this issue with me this very evening and tomorrow morning, such is its importance.

Some of the things we have already proposed to do in this area include bringing high technology, SMEs, universities and businesses together to create "innovation poles" at regional and local levels; creating a European Institute of Technology to attract the very best minds and companies from around the world; and of course the future European Research Council, composed of independent, world-class scientists who will cut across national borders to select research projects and programmes purely on the basis of scientific excellence.

But as I said earlier, we should also think of knowledge and innovation in terms of their ability to open up business opportunities. For example, while the major gap in private funding of research which exists needs to be addressed by business itself, a review of the EU's state aid regime for research and development will make it easier to better integrate public and private action for research in the general interest. This being said, the key to more and better industry-financed research is ensuring that the results of that research can be translated into commercial gain.

Equally, European patents could prove an effective way of boosting private research, provided that the cost to business is kept at a reasonably low level and filing procedures are simple and streamlined enough to give the dynamic small and medium-sized business sector the opportunity to access such patents. It is therefore crucial that agreement is reached on the Community Patent.

The last of the three areas where action is required for the successful refocusing of Lisbon on growth and jobs – the need to **create more and better jobs** – is also crucial. This can be done by improving the mobility and adaptability of workers, investing in their potential and modernising labour markets and social protection systems.

Several Member States have already shown great courage in undertaking wide-ranging reforms of their national systems. In certain cases these have already led to tangible results, including a return to high employment and better growth rates. In others, the results are still to come.

European institutions cannot replace Member States in the actions they have to take, and we should not be surprised by this. National labour markets and systems of social protection have grown up in different ways over time and entail complex webs of rights and responsibilities. Each country must find its own path to reform in the light of its current situation and traditions. The EU should avoid heavy procedures and wrong-headed attempts at harmonisation. Instead it should provide support and encouragement to those that have taken the path of reform, often in the face of considerable difficulties and reticent public opinion.

The path ahead will not be an easy one, but I am an optimist by nature. I firmly believe that the potential among European citizens is there, just waiting to be unlocked. There is a misplaced belief, it seems to me, that in Europe people are reluctant to adopt innovations, remain averse to risk and must in some way be forced to abandon existing ways of living and working. But does the evidence bear this out?

Look at mobile telephony which, driven by a combination of user-friendly technology and competition between suppliers, was eagerly snapped up by European consumers. Thanks to them, this is now a sector where Europe leads the world. Or look at low cost airlines – enthusiastically seized upon by citizens hungry for affordable mobility, who in the process created a market and new jobs that did not exist before. I am sure you can all think of other examples.

Sadly, though, European citizens do not always have the freedom and choice to flex their muscles in this way. In fact, they are often the last to see the markets for their products opened up to competition, and they benefit less both in terms of lower prices and choice of services than industry – particularly large firms. This has generally been the case for network industries such as electricity, gas and fixed-line telephony. Refocusing Lisbon around growth and employment also means refocusing around consumers and users generally.

That the “old” Single Market is not yet delivering growth and jobs at its full potential can in large part be put down to the successful defence of established interests to the detriment of society at large. These vested interests – in all sectors of society – see something to lose from a more dynamic, less fragmented market.

If the mid-term review is to be a success, if we are to create a Europe of real opportunities, we must be more outward-looking. Users of all types, consumers as well as business, small firms even more than large firms, are the main beneficiaries of the Single Market. The established interest groups have all got important contributions to make, and they have made them. But where are the young entrepreneurs? The general public? The risk-takers? Consumers? SMEs? Innovators? They need to mobilise if resistance to change is to be overcome.

The Commission in particular sees its role as defending the general interest of all Europe against both sectional and national attempts to undermine it. But to do that, we need support. We need the support of all those who are truly committed to making Europe the best place to work, invest and live.

And there, ladies and gentlemen, lies a genuine opportunity.