

**The case for a better European economic governance**  
Italian response to the Consultation for the future EU 2020 strategy

Roma, January 19<sup>th</sup>, 2010

1. The Lisbon Strategy for Growth and Jobs was created in 2000 to build a European competitive, knowledge-based society by 2010.
2. Through the Lisbon strategy, the cooperation and the coordination among the 27 Member States has been improved over the past few years, thanks to a method that respects national sovereignty while also recognising the value of working together in identifying challenges and defining policies and in finding solutions that have a real positive impact on our citizens and enterprises. This method is fully coherent with the European integration history, a history of “concrete achievements which first create a de facto solidarity”.
3. Though useful to stimulate responses to long-term challenges, the Lisbon Strategy today needs to incorporate new elements and be more effective in promoting sustainable growth and employment. This means (1) identifying priorities, instruments, and final objectives at both EU and National level, and (2) having a governance framework that is effective in correctly using instruments and reaching objectives, also taking into account the territorial dimension as foreseen in the renewed EU Treaty.
4. The consultation paper published by the European Commission on the future of the Lisbon strategy (EU 2020) is a welcome contribution to the discussions that already took place in a series of meetings of the National Lisbon Coordinators and in other European fora. Italy intends to promote its views on EU2020, possibly in cooperation with other Member States, strengthening some aspects of the Commission’s communication.

Priorities and final objectives.

5. The current version of the Lisbon strategy is based on two general final objectives (“growth and jobs”) and at least three different sets of priorities, namely the twenty-four EU integrated guidelines provided under the Treaty, the four priority areas defined by the European Council and an array of Country-specific recommendation that address national challenges.
6. One way to look at this issue is considering an order of merit in priorities, or better to classify priorities on the basis of their relative importance. As we said, the Lisbon strategy was born to coordinate EU and MS’s policies in order to achieve more competitiveness and, through this, more growth and more jobs. In general terms, Italy considers such framework still appropriate.

7. The four EU Council priorities attempted to better recognize some of the factors that affect the European competitiveness, but stopped short of identifying what is in our opinion the most important issue that the European economy is facing today and will face in the next years, i.e. the challenges and opportunities posed by globalisation, and its relationship with competitiveness policies. This has important implications for the restructuring, modernisation and growth of our manufacturing and service industries and for our industrial policy, also taking into account the role that SMEs play as the backbone of the European economy.
8. Globalisation has introduced new elements of competition across areas. Competition is now based not only on traditional economic elements, such as production costs, but also on social ones, such as the welfare of workers, and on their skills and education. At the same time, in the absence of an international agreement on climate change policies, the European Union should make all the efforts to safeguard the competitiveness of its industry, also strengthening the actions to avoid carbon leakage.
9. If we look closely, we see that – although with a different level of impact - all of the four EU Council priorities have a relevance if we consider their effects in terms of this issue. For energy, we talk about providing energy at cheaper prices and in a clean and secure manner; for climate change, we discuss how to improve the efficiency and decarbonisation of industry without damaging but even increasing its competitiveness, and making sure that our global competitors adopt comparable efforts. For research and innovation, they are seen as instrumental to maintain and increase any competitive advantage we might have and therefore strengthening the industrial base, with an emphasis on eco-innovative firms. For competitive conditions, these sure apply to all kind of enterprises, but are especially relevant for SMEs because they are the first to benefit, for example, for a better regulated competitive framework.
10. As long as employment policies are concerned, deep changes in the international division of production and labour have already occurred because of globalisation. The EU manufacturing sector is increasingly specializing in high-productivity activities, while moving the low-productivity part of the production process abroad. The GDP share attributed to the services sector is thus increasing. The change in the composition of value added has important social implications, because it requires an effective transition strategy for those workers who could be made redundant in the industrial sector, and significant changes in the skills that younger generations need to have to successfully access the labour market. Modern and appropriate education and training systems are therefore essential to provide the knowledge resources and competences needed to workers to sustain competitiveness and growth.
11. The gender perspective should be better incorporated in the strategy. Life-long learning opportunities need to be more widely available to women, while also enabling them greater access to all fields of skilled employment.

Women's entrepreneurship should be supported, especially in the most eco-innovative sectors. Equality of access to social protection systems should be ensured.

12. Social cohesion objectives should be made more consistent in the new framework. Growth has to be strictly linked to a process of eradication of social exclusion and poverty. In more general terms, the sustainability but also the adequacy of the welfare systems should be better integrated in the new EU 2020 Strategy.
13. Investment in infrastructures continues to be a key necessary element to achieve long-term growth and jobs across Europe.
14. Last, but certainly not least, solidarity and competitiveness, which are foundational element of EU, are the basis for the definition and elaboration of cohesion policies aimed at creating conditions for the harmonious development of EU that will help to reduce regional disparities in all Member States. Cohesion policies can and are expected to be also in the future a key instrument for achieving the objectives of the new strategy, by enabling its full implementation throughout EU while respecting and enhancing the spatial diversity.
15. We need to consider all these priorities in a new key – globalisation and its consequences. If we are able to face these priorities efficiently, the European economy, and in particular its manufacturing sector, will respond effectively to the challenges posed by globalisation.

#### Research and innovation

16. As we said, there is a consensus on the role that research and innovation can have in boosting potential growth. Economic growth, and to a large extent also well being, depends on innovation and technological progress. Yet, not enough emphasis has been given to this key driver of economic growth in the consultation document. The goal of a true knowledge-based economy is still desirable, but far from being achieved.
17. The experience of focusing on input measures (R&D expenditure) has not been entirely successful in driving the diffusion of innovation where it matters. The 3% target did not adequately take into account the different meaning that it could have had in the Member States, given their different specializations. And it was not successful because it did not take into account at all the role that SMEs have in the European economy.
18. First, the link between innovation and SMEs needs to be at the center of the new phase of the Lisbon Strategy. SMEs need to be able to access to the relevant innovation more easily, for example through an enhanced cooperation with public and private research centres. This cooperation needs to be sustained, through easing regulation, tax breaks, and if necessary also through new financial instruments, because it is crucial to ensure the transfer of innovation to SMEs. The Italian experience on Clusters (and on Technology Clusters) is certainly interesting from this

point of view. A greater emphasis on human capital and its ability to fully exploit new technologies is also essential.

19. Second, funding for research and innovation is limited at the European level. The impact of the EU Seventh framework programme on research is limited in terms of resources: it is about 6% of the total financial outlays in 2007-2013 (0.06% of the EU GDP). It is therefore necessary an approach that provides focus on competitive factors and innovation demand from SMEs, rather than being dispersed. If we want Research and Innovation to be a competitive factor, we need to concentrate resources where they are more needed. For example, since we believe that the transition to a low-carbon and resources efficient economy can create new opportunities for European enterprises, we need to provide more funding on research and innovation in this area.
20. Third, cooperation among the research centres needs to be improved. The initiatives set up on the basis of articles 169 and 171 of the Treaty, the Joint Programming, and the ERA-net initiatives need more adequate funding to be more effective. The successful development of the European Research Area needs a more efficient governance system, the creation of true European research infrastructures, more training and mobility for researchers, and a strong support for Key Enabling Technologies (KETs) and Future and emerging technologies (FETs). This will also be key to the successful implementation of the European Space Policy, as foreseen by the Lisbon Treaty.
21. Fourth, orienting public demand/public procurement to innovation, and in general terms, using demand-oriented innovation policies. This can increase the efficiency of public spending and its ability to respond to the challenge of having a more competitive economy.

#### SMEs and the external dimension

22. The focus on SMEs is crucial. SMEs are the backbone of the European economy. Improving their competitiveness is improving the competitiveness of Europe.
23. The first issue is of course regulation. The Small Business Act was a step in the right direction, and its implementation needs to be carried out swiftly in all Countries. Italy has already taken a number of initiatives inspired by the SBA to help SMEs to come out of the crisis successfully and also improve permanently their competitiveness. These include the creation of new financial instruments to favour the (re)capitalisation of SMEs, the reduction of administrative burdens through significant simplifications, reinforcing one-stop shops and electronic communications with the Public Administrations.
24. The second issue is related to generational transition in enterprises and in particular in SMEs. There is very often a problem in ensuring a smooth passage from one generation of entrepreneurs to the other. On one hand, adequate education for second-generation entrepreneurs is paramount.

On the other, if there is no second generation, we need to ensure that, rather than closing down the activity, its innovative content is preserved through, for example, a limited company.

25. The third issue is related to the international competitiveness of SMEs. It is obvious that more innovation positively affects external competitiveness. But this can be insufficient to penetrate some particularly difficult markets.
26. The external dimension of the Lisbon strategy has thus to be reinforced. But this needs to happen by paying particular attention to the needs of SMEs and by taking care of the consequences of the increased opening of our markets. We need to avoid exposing our enterprises, and especially the SMEs, to the unfair competition that can derive from asymmetric market situations.
27. If we open our markets to third countries this must happen on the basis of mutual advantage, and considering the objective of enhancing the benefits for both manufacturing and services industries as well as those of consumers.

#### Low-carbon economy

28. The real challenge here is of course the ability to transform the ambitious engagements in the fields of emissions reductions, renewable energies, and energy efficiency into opportunities for our enterprises and thus in new jobs.
29. The crisis has made even more evident the role that eco-efficiency can have in promoting sustainable economic growth: the transition to an eco-efficient economy needs therefore to be a key element of the new strategy. This can happen with an adequate mix of regulation, market, and subsidies, but needs to be supported by strong sectoral policies promoting eco-efficient products and systems and eco-innovation.
30. Measures with significant environmentally damaging effects need to be identified and appropriate reforms need to be made to halt or minimise these effects. At the same time, we need to strengthen energy and resources efficiency measures for industry, and to ensure that the climate change policy creates a regulatory framework that favours internalising external costs and encourages emission reductions by industry and transport while strengthening adequate future investments. The value of ecosystems services should also be recognized. To these ends, it will also be crucial to promote the development and use of information and communication technology in support of environmental technologies and services, taking into account the specificities of Member States.
31. Framework conditions to encourage investments in eco-innovative industries are needed; on the other hand, sustainable production and consumption models need to be promoted by strengthening consumer information on sustainable lifestyles and green purchases. Finally,

education and training in these fields play an important role to increase employability of workers.

#### Infrastructures policy

32. Infrastructures are an essential element for the competitiveness of Europe. The Trans-European transport network (TEN-T) policy aims at providing the infrastructures needed for the internal market to function smoothly and for increasing productivity, growth, and jobs.
33. A number of documents put forward by the Commission during last months address the “need” of introducing general changes in the present EU transport policy, with a specific reference to the TEN-T guidelines, which are the Community’s instrument for policy definition and network planning. In all these documents the Commission discusses the general issue of a sustainable transport policy, concluding that a comprehensive shift in the current transport policy is needed.
34. It has to be considered, however, that the TEN-T Guidelines, which are the main Community instrument for policy definition and network planning, have been adopted in 1996 and amended in 2004. The current version of the Guidelines includes two planning layers: a comprehensive network and a second layer of 30 priority projects.
35. The “Comprehensive network” has been mainly financially supported through Cohesion Fund and, to a lesser extent, by TEN-T Funds. On the other hand, the 30 TEN-T Priority Projects, which cover major rail, road and inland waterway axes, have been primarily supported through the TEN-T Financial regulations.
36. We need to underline that the financial instruments available have not been sufficient to support the completion of the “Comprehensive network” nor of the Priority Projects, with few exceptions. Certainly there is also a responsibility of Member States for the delays: however, we are talking about major projects that require extremely relevant investments, and with a schedule that spans well beyond a single framework programme.
37. For these reasons it is absolutely crucial to ensure continuity in the way the EU establishes objectives, criteria, and financial instruments. Changes in the infrastructures policy, or the introduction of “comprehensive shifts” in the TEN-T guidelines, would be, at this stage, inappropriate and damaging.
38. There is certainly a need for “soft”, “smart”, clean technologies – such as Galileo – to transition to a sustainable and green transport system: but nonetheless there still a very strong need, in most Member States, for large investments in traditional ground-based infrastructures. This is particularly true for “peripheral” EU countries and for newly accessed Member States.
39. For this reason, in dealing with transport sector, the EU2020 strategy should dedicate adequate attention and financial resources to the

completion of the on-going projects for the implementation of the comprehensive network and of the priority projects, which will require at least another whole framework programme.

40. Before we discuss about deploying “smart” technologies, we need to remember that we still need a few years to complete and interconnect the basic infrastructures, thus allowing interoperability and accessibility (i.e. single-track railway lines to be doubled and/or electrified, bottlenecks to be removed, cross-border sections to be built, etc.).
41. In assessing its goals for EU2020, the EU should avoid discontinuities in the infrastructures policy, as this would result in a disruptive message to Member States and discourage the involvement in long terms projects which require relevant investments and a stable juridical and financial framework.
42. Broadband network infrastructures also have an important role in triggering employment and growth, not only in the ICT sector, but also through the development of the *network society* they promote.
43. The new strategy should continue to include support and incentives for the rebalance of the digital divide, implementing advanced broadband infrastructures plans, acknowledging the potential impact that the availability of such infrastructures have on the economic, social and cultural growth of each country. At the same time, the implementation of a “universal broadband access” concept should be carefully exploited, in order to promote an inclusive society and, consequently, allow institutions to use the Internet to communicate with citizens. ICT potential for energy efficiency should also accurately be taken into account in the forthcoming “Digital Agenda”, singling out the most promising actions to be carried out in order to support, for instance, smart grids, teleworking, traffic management.

#### Budget and Cohesion

44. Resources exist at the European level, but they are very limited. The crisis has underlined the need to provide a budget which would enable the EU to finance strategic investments at the Community level and respond adequately to both short and long-term challenges.
45. Additional resources could be provided, for example, through ad-hoc debt instruments, focused on specific long-term growth factors such as research, innovation, infrastructures, energy and environment. As far as the European budget is concerned, it is increasingly clear that the current scheme needs to be improved, to make the budget an instrument of the EU2020 strategy.
46. However, we still need to ensure that the new strategy is taken up across all the regions of the EU (see page 11 of the consultation document). The cohesion policy, to be intended as a single policy fully integrating the economic, social, and territorial dimension, shall continue to be one of the

key pillars for the implementation strategy. To this aim the post 2013 cohesion policy will have to be reformed, in order to ensure a stronger concentration on few relevant EU priorities, a greater orientation to result, a less bureaucratic way of administering the resources, and stronger conditionality on the use of financial resources. But this does not mean abandoning the poorest regions of some MSs merely on the basis of some statistical factor because all regions, also the poorest ones, wherever they are located, can and must contribute to the objectives of the EU 2020 strategy. We need to remember that regional policy has a strong political significance, testified by its role in the Treaties.

47. Both in terms of consistency and in terms of effectiveness and efficiency the renewed Lisbon Strategy and the cohesion policy should constitute a functional and strategic *unicum* in response to the socio-economic growth within EU.

### Governance

48. After the priorities and the goals, the most important issue is the need to introduce a stronger mechanism of governance. The scheme of non-binding policy prescriptions has advantages in terms of flexibility, but it is sometimes weak in terms of political commitment and enforcement.
49. The current scheme of governance has its advantages. But we need a clearer and better attribution of responsibilities and a strong simplification of the process.
50. We need a clear attribution of responsibilities both at the National and at the EU level, because it is paramount to achieve a better governance system. We firmly support the principle of partnership, with strong responsibility and ownership at the national level, especially with reference to the allocation and management of resources and to long-term sustainability of public finances.
51. A further development of multilevel governance, and a greater involvement of local and regional authorities both in the current phase of definition of the new strategy and in its subsequent implementation, is regarded as essential.
52. We also agree that the objectives of the new strategy should be set and owned at the highest political level, while giving operational tasks to the relevant Council formations. A greater involvement of the European Council is certainly desirable, to give a greater political impulse to the Strategy. We also support the envisaged greater role for the European Parliament.
53. At the European level, a clear acknowledgment of responsibilities along the macro, micro, and employment lines should be given to the Ecofin, Competitiveness, and EPSCO Councils. At the national level, Italy believes that the experience of the National Coordinator (and of the National Reform Programme) has been useful and can be continued, to

support the implementation at the national level of the decisions of the European Council and of the EU2020 strategy. It is however necessary that the Coordinators have a greater political weight, ideally having a ministerial profile as it is the case in Italy and other Member States.

54. In this context, the role of multilateral surveillance on EU 2020 and its interplay with the Stability and Growth Pact needs to be clarified. While stronger governance is highly desirable with the aim of making the process more effective, we are concerned that mixing up two different instruments may end up in weakening both processes. Therefore, there should be clearly defined links and parallel procedures.
55. The sum of twenty-four integrated guidelines, four general priorities, and three or four country-specific recommendations, does not provide an effective framework for action, but on the contrary risks to generate asymmetries in the policy responses, because every MS could find in this scheme some support for its policies, however erratic they are.
56. We should rather have a scheme that establishes final objectives, notably growth and employment, considers the three general areas – macro, micro, employment –, and identifies a limited number of intermediate priorities/targets for each area closely linked to the final objectives.
57. Targets and objectives should be pursued with appropriate policy instruments and strategies peer-reviewed at EU level and with the support of the EU budget. The proposed governance of the new Strategy should be as much as possible evidence-based. Thus, the ongoing work on indicators and modelling analysis and its use in policymaking should be strengthened.
58. In particular, Italy feels the need of implementing and further developing analytical tools and well designed targets in order to strengthen delivery of economic reforms. In this regard, we support the revision of the current targets' framework in "ultimate" and sub-targets. These targets should be clearly defined in advance on the basis of the LAF procedure and in coordination with the Member States. National Reform Programs should define the ways and means to achieve the national targets and sub targets, defined at the national level.
59. This scheme would bring a stronger enforcement at the National level because with fewer and clearer priorities Governments can be made more accountable and effective in the implementation of reforms in the relevant areas.
60. Finally, we support improving communication and narrow the gap with the European public opinion. The link between implementation of reforms and its impact on citizens' well-being should be better explained and communicated to the public opinion.