

EU Social Agenda and Lisbon Strategy

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EU statutory objectives and the Lisbon Strategy

According to Art 2 of the General Provisions of the Lisbon Treaty, currently under ratification, the objectives of the EU are set out as follows¹²:

- 1. The Union's aim is to promote peace, its values and the well-being of its peoples.*
- 2. The Union shall offer its citizens an area of freedom, security and justice without internal frontiers, in which the free movement of persons is ensured in conjunction with appropriate measures with respect to external border controls, asylum, immigration and the prevention and combating of crime.*
- 3. The Union shall establish an internal market. It shall work for the sustainable development of Europe based on balanced economic growth and price stability, a highly competitive social market economy, aiming at full employment and social progress and a high level of protection and improvement of the quality of the environment. It shall promote scientific and technological advance.*
- 4. It shall combat social exclusion and discrimination and shall promote social justice and protection. Equality between women and men, solidarity between generations and protection of the rights of the child.*
- 5. It shall promote economic, social and territorial cohesion and solidarity among Members States.*
- 6. It shall respect its rich cultural and linguistic diversity and shall ensure that Europe's cultural heritage is safeguarded and enhanced.*
- 7. The Union shall establish an economic and monetary union whose currency is the euro.*
- 8. In its relations with the wider world. The Union shall uphold and promote its values and interests and contribute to the protection of its citizens. It shall contribute to peace, security, the sustainable development of the Earth, solidarity and mutual respect among peoples, free and fair trade, eradication of poverty and the protection of human rights, in particular the rights of the child, as well as to the strict observance and the development of international law, including respect for the principles of the United Nations Charter.*
- 9. The Union shall pursue its objectives by appropriate means commensurate with the competences which are conferred upon it in the Treaties.*

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¹² In view of the consensus among European leaders underpinning the Lisbon Treaty and the undemocratic process of its ratification by the national parliaments of the member states, this is likely to come into effect by 2009.

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Summarising the above broad objectives, the socio-economic elements contained in them are the following:

- *Internal market* - i.e. market liberalization on the EU level.
- *Sustainable development*, based on a three-pronged strategy of (i) growth, (ii) price stability and (iii) competition. The goals of full employment, social progress and protection of the environment come under the general framework of the internal market.
- *Social issues* - i.e. combating social exclusion, promoting social justice, with special reference to gender equality and the rights of the child, and intergenerational justice - are mentioned as special areas of concern also within the framework of the internal market.
- The same is true of *cohesion*, an area where the EU has traditionally had a particular interest.
- The establishment of an *economic and monetary union*, the currency of which is the euro, already linking 15 out of 29 member states.

Overall, it may be argued that the primacy of economic goals over social ones derives from the fact that the internal market and the monetary union are the main pillars of the socio-economic framework of the EU, defined and applied on the Community level, while social issues are subsumed within this framework, to be dealt with by member states on the national level.

This asymmetry has been the case, in particular since the mid-1980s and the establishment of the Single Market project, which was followed by the Single Currency project of the 1990s. This is further reflected in the Lisbon Agenda 2000-2010, which was set by the European Council in March 2000, with the express strategic aim of turning the EU economy into "the most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion".

By 2005, it became generally acknowledged that the Lisbon Agenda had failed to realise its objectives during the first half of its existence. It was thus decided to revitalize it, i.e. to give it a "new look", without interfering with its fundamental goals and assumptions. The renewed Lisbon Agenda took the form of the "Integrated Guidelines 2005-2008 for growth and jobs", a header that was expected to increase political ownership of the Agenda, i.e. to act as a rallying cry for the new policy era.

More specifically, the Integrated Guidelines 2005-2008 consist of the Broad Economic Policy Guidelines (art. 128), and the Employment Guidelines (art. 99), two Treaty-based instruments for the coordination of economic policy. They include 23 guidelines, of which 15 constitute the Broad Economic Policy Guidelines and 8, the Employment Guidelines. The Integrated Guidelines also mark the beginning of a new economic governance cycle, whereby member states submit their own annual National Reform Pro-

grammes depicting the policy measures taken to promote the goals of the Integrated Guidelines.

Generally, the main policy directions of the Lisbon Agenda, including its imbalances and asymmetries between the economic and the social aspects of policy, as well as between the pursuit of efficiency and equity, are reproduced in the Integrated Guidelines. Furthermore, it has been argued that “the neoliberal framework that became prevalent in the 1980s and the ensuing emphasis on stabilisation and market liberalisation remain central policy elements. At the same time, the social implications and aspects of economic policy are awarded limited attention and even less support in terms of funding and prioritisation”¹³.

Three years after they were launched, the Integrated Guidelines, or the renewed Lisbon Strategy, are considered to have been a success. This is the main conclusion of the Commission’s Strategic Report published in December 2007¹⁴. In particular, after five years of especially low growth, nearing stagnation in 2002 and 2003, GDP growth reached 3% in EU-27 and 2.25% in the euro zone, in 2006¹⁵. This is taken as evidence of the fact that the Guidelines are working, even though it is admitted that “most of the recent upturn is cyclical”¹⁶.

Hence, the Commission has concluded that no amendment is required of the Integrated Guidelines agreed in 2005 and that they should remain unchanged for the next cycle, with only certain modifications to the explanatory notes accompanying them¹⁷.

In particular, the four priority areas of the Lisbon Strategy - knowledge (education, R&D and innovation), the business environment (especially SMEs), labour market policy (flexicurity, active ageing and employability) and energy and climate change (internal market for energy, public procurement policy) - are to be updated to take account of developments over the past three years, while member states are called upon to “deepen the Lisbon Strategy in the next Lisbon cycle”¹⁸.

Overall, it would appear that the fundamental asymmetry between economic and social policy, whereby the former sets the pace and the latter follows, is maintained in the Lisbon Agenda. This asymmetry is further exacerbated (a) by the fact that the member states have very few macroeconomic policy tools left at their disposal, since fiscal policy is regulated by the Stability and Growth Pact, while monetary policy is carried out independently by the European Central Bank; and (b) by the limited size and inappropriate structure of the EU budget, which is thus not in a position to compensate for at least part of the loss of policy autonomy of member states. We shall go on to look at the EU budget in some detail.

¹³ Frangakis (2006): 71.

¹⁴ Press Release IP/07/1892.

¹⁵ The annual percentage change of GDP of EU27 (at 2000 market prices) was equal to 2.0%, 1.2%, 1.3%, 2.5, 1.8% and 3.0% in 2001, 2002, 2003, 2004, 2005 and 2006 respectively. Over the same period, the corresponding rates of change of GDP of the Eurozone were equal to 1.9%, 0.8%, 0.8%, 2.0%, 1.5% and 2.2% (Statistical Annex Autumn 2007).

¹⁶ COM(2007) 803 final - Part I:5.

¹⁷ Thus, the European Commission is going to propose to the 2008 Spring European Council “to launch an ambitious next cycle, by: ... re-affirming the integrated guidelines for the next three years” Ibid - Part I:16.

¹⁸ Ibid - Part I: 7.

The EU budget - functions and resources

Functions - A budget has three functions: allocative or growth promoting, redistributive and stabilizing. The EU budget is however associated with the following conflicts: (i) between growth promoting and redistributive objectives; (ii) between net-payer and net-recipient countries; and (iii) between priorities promoted by different EU bodies¹⁹. As a result, the final compromise is essentially "an intergovernmental agreement among sovereign states to pool a limited share of their resources to address agreed problems at the European level"²⁰.

The total size of the EU budget for 2007-2013 period is €864.30 billion at 2004 prices, which amounts to 1.048% of the EU Gross National Income²¹, while a ceiling of 1.24% of the sum of member states' GNI applies throughout this period.

As we can see, the largest items concern agriculture, cohesion and competitiveness, which together absorb more than 77% of the total budget. This structure suggests (i) a strong redistributive element amongst regions and countries; (ii) a minor allocative one and (iii) virtually no stabilizing policy element.

In particular, the EU cohesion policy redistributes resources through the structural funds - the European Regional Development Fund and the Social Fund, aimed at regions with a low GDP per capita (75% of the EU average) and the Cohesion Fund, aimed at countries with a GDP under 90% of the EU average. On the other hand, expenditure on agriculture essentially redistributes resources across sectors (from industry and services to agriculture) and individuals (from consumers and taxpayers to farmers). In this sense, it may be considered to be part of the cohesion objective of the EU.

The allocative element, on the other hand, is relatively small, in spite of the emphasis placed on growth by the Lisbon Agenda. This is largely the result of the limited size of the EU budget and of the traditional emphasis placed on compensating the agricultural sector and, later, regions and member states for perceived inequalities in the evolution of the single market.

Lastly, the stabilizing element is completely absent from the EU budget. Thus, should an economic shock commonly affecting more than one member state occur, there is no provision for a common fiscal intervention by the member states concerned in order to stabilize their economy and to avoid a possible upheaval on the EU level.

Overall, the expenditure side of the EU budget appears to be the historical product of time, rather than the financial aspect of clearly defined policy objectives. Although the redistributive element is stronger than the allocative one, it has not adjusted to the growing disparities resulting from the recent enlargement of the EU to include 14 new member states,

¹⁹ Cipriani (2007)

²⁰ Wynn (2007):1

²¹ GNI is equal to GDP minus primary income payable by resident units to non-resident units, plus primary income receivable by resident units from the rest of the world.

the average income and standard of living of which is considerably lower than that of the "old" 15 member states²².

Not surprisingly, the funding of social policy is negligible. This in fact comes under the "competitiveness" heading, i.e. it is considered to be one of the Lisbon objectives, and in 2007 it absorbed just 0.16% of the budget. Similarly, expenditure on health and consumer protection (under the heading of "security and justice") is also minimal, amounting to less than 0.47% of the budget in 2007.

While the rationalization and overall appraisal of the effectiveness of the EU budget expenditure appears urgent, it is the restructuring of the EU policy objectives and structure that is even more urgent, so as to reflect the growing social needs of the EU member states, as well as the need to boost growth and to provide effective tools for the stabilization of the EU economy, should the need arise.

Resources - In addition to the straitjacket of the Financial Perspectives, which set the level of expenditure in relation to GNI, keeping it constant for six years, the EU budget suffers from two more limitations - the principle of equilibrium, whereby revenue and expenditure must be in balance and the inability of the EU to raise loans in order to finance its expenditure²³. The resources of the EU budget consist of the items shown in the table below.

Figure 1. The structure of the EU budget resources 1996-2006 (% and €million)

	Customs Duties and agricultural levies (%)	VAT resource (%)	GNI resource (%)	Total (€ million)
1996	19	51	30	71,177
1997	19	45	36	75,415
1998	17	40	43	82,223
1999	17	38	45	82,700
2000	17	40	43	88,040
2001	18	39	43	80,788
2002	12	29	59	77,550
2003	13	26	61	83,352
2004	13	15	72	95,201
2005	14	16	70	100,942
2006	15	17	68	102,367

Source: Cipriani (2007) T.2.1

As we can see, the tendency is for the share of the GNI resource to increase, while that of the VAT resource, as well as of the customs duties and agricultural levies (also known as

²² In 2004, the average GEP/capita of the enlarged EU was more than 12% lower than the equivalent indicator for the EU15, while income disparities doubled overall.

²³ In this sense, the term "own resources" should not be confused with EU financial autonomy.

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the “traditional own resources”) to decline. In particular, the GNI resource - levied at a uniform rate in proportion to the GNI of each member state - is a residual resource used to balance the budget. Its growing significance has meant that member states that are net contributors to the budget have tended to view this in terms of their national allocation, rather than that of the substance of EU policies. Hence the national squabbles between net contributor and net recipient member states, giving rise to intricate and largely unjustifiable schemes of EU budget rebates. These not only obscure the overall EU budget structure, but also prevent a more meaningful discussion of the future of the EU budget from taking place.

Last, but not least, the decision-making process with regard to the setting of the resources side of the EU budget is dominated by the Council, while the European Parliament is called upon to give its opinion. The Lisbon Treaty goes some way towards redressing this imbalance, although again the Council appears to have the first say in the matter.

Overall, the resources side of the EU budget is, much like its expenditure side, a historical product of time, with little relevance to any vision of the future of the EU. It is dominated by the narrowly defined national interests of the EU member states, while it is subject to institutional limitations, that prevent it from playing a more ambitious role in relation to the EU policy objectives.

Alternative proposals by the Euro Memo Group

The Euro Memo Group (EMG) has since its inception, in the late 1990s, drawn attention to the fact that the EU budget is far from fulfilling its purpose. Both its size and its structure, as well as the undemocratic way of its design, limit its contribution to a social, democratic and dynamic Europe²⁴. The proposals for an alternative EU budget in terms of size, resources and expenditure, made by the Group are the following.

Size - As far back as the late 1970s, the MacDougal Report (1977) proposed that the EU budget should be equal to at least 2 - 2.5% of the joint GDP of the member states, for policy to have any perceptible effect on the EU economy. The EMG has stipulated that the minimum size of the EU budget be set 5% of the joint GDP of the member states. Furthermore, it has been suggested that the transition from the present state (of 1.24% of GNI) be accomplished gradually over a period of 10 years, whereby the size of the budget increases by 0.5% each year. Such an increase is subject to the democratization of the decision-making procedure.

Resources - The present system is considered to be both inadequate and inappropriate. More specifically, it is proposed that a thorough reform of the current system of own resources is undertaken, whereby the VAT related component is abandoned and, in addition to the traditional tariffs, the only other revenue source is a progressive GDP-related European income tax, applying the ability-to-pay-principle across the EU member states. In particular, the coun-

²⁴ The full title of the Euro Memo Group is “European Economists for an Alternative Economic Policy in Europe”.

try specific tax rate should be fixed in relation to the relative strength of each member state, measured in income-per-capita in purchasing power standards (PPS)²⁵. It would be at the discretion of the member states to decide the way in which the European tax is domestically re-financed, although this should not give rise to a new tax competition round.

A larger EU Budget could further be financed through the introduction of new taxes on a European level. The following taxes, which in fact serve more than one goal, have been suggested:

- On incomes, on savings and on corporate profits. Such a tax would also help contain tax competition;
- On speculative financial transactions. Such a Tobin-type of tax could mitigate financial instability;
- On CO₂ emission. A tax of this kind would further help protect the environment.

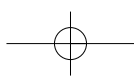
In addition, the EGM has proposed that the strict prohibition of a European debt (art. 269 of the Treaty) is abandoned and that the EU is allowed to finance long-term European projects, such as the Trans-European-Networks or investment in common technological development projects, through loans, using the European Investment Bank as its agent on capital markets. Such projects carry self-financing implications since they strengthen the productive basis and thus also the tax basis of the European economy. Therefore, it is justified in terms of intergenerational equity to shift part of the financial costs for such infrastructure to future generations, who are its main beneficiaries.

Expenditure - The EMG supports the concept of the "European Social Model", which however needs to be further articulated and strengthened across the member states. At present, this is largely a fictitious concept, which the Lisbon Agenda regards mainly as a "factor of production", i.e., devoid of its social aspects and implications.

In this respect, the EMG strongly supports the necessity of a federal budget, which provides, on the one hand, the tools for stabilization or recovery on a European level, in case of common shocks and, on the other hand, the tools for interregional and interpersonal redistribution in order to cope with asymmetries. More specifically, the following proposals have been made.

- A European Employment Stabilization Fund of the order of 1% of EU GDP be set up, to act as an automatic stabilizer, allowing rapid transfers to countries facing a worse than average deterioration in employment performance;
- The Regional Funds be raised to 1% of EU GDP and special subsidies be assigned to new member states, taking into account their especially high social needs, while avoiding any possible competition for funds with the poorer regions of the "old" member states;

²⁵ Thus a per-capita-income of 120% of EU average would lead to a tax rate that is 20% higher than the average EU rate of 5% (leaving aside the income from tariffs) i.e. 6% of GDP, whereas a country with a per capita income of 50% of EU average would have to pay only 2,5% of its GDP in European taxes.



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- Direct transfers to poor sections of the population be made as part of the fight against poverty in the EU. In particular, it has been proposed that the EU makes a payment of €20 per month to each of the nearly 80 million poor persons in the Union, and that this amount be increased by €10 each year, until it reaches the level of €50. Such a relatively moderate anti-poverty transfer from the EU would soften the otherwise growing disparities within the union.

Decision-making process - According to the present institutional arrangements, the European Parliament has no formal role in the determination of resources and the level of contributions of member states. In particular, the multi-annual frameworks have reduced the power of the Parliament when compared to the Council in the budgetary debate. This needs to be redressed, so that the decision-making process becomes more democratic, as well as transparent, making for greater legitimacy of EU policies and actions.

Overall, the EU budget is a key condition for the evolution of European integration and part of the debate about the legitimacy of EU actions. To debate the EU budget is to discuss visions of Europe's future²⁶. The EMG lays great emphasis on the institution of a federal budget, capable of supporting an ambitious vision of the future of the Union, one in which democracy and social cohesion, in addition to growth and dynamism, are its defining features.

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²⁶ Cipriani (2007)

