

## ***OECD FORUM 2005***

### ***FUELLING THE FUTURE: Security, Stability, Development***

#### **Europe's Economy: Which way to Lisbon?**

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#### **Key Messages**

1. Lisbon so far a mixed success and Europe must face up to ageing and globalisation.
  - Lisbon: Five years with rather mixed success due principally to a lack of ownership and thus implementation.
  - Add challenges like ageing which will knock-off 1% point of potential growth and add 4-6 points to public spending. Also globalisation with increased competition from low-cost economies (China/India) and from high-tech economies (US) puts pressure on Europe.
2. Europe needs an offensive strategy to tackle its problems and face up to the challenges. The basic elements of Lisbon are what is needed.
  - The re-focussed Lisbon Strategy aims to tackle the fundamental problems of growth and jobs. Essential to increase number of people on the labour market and to work more years in our life time. Without substantial increase in participation and in working life our Welfare State will collapse. Growth around 1% or little more is not enough to sustain our welfare. Likewise we cannot close ourselves off from the rest of the World, so we have to adjust and compete with low cost as well as high-tech economies. The recent deceleration in technical progress and productivity must be reversed via increased investment in human skills and innovation and via readiness to reorganise production
3. The Lisbon Strategy focuses on employment and productivity to secure Europe's welfare.
  - The renewed strategy puts emphasis on four areas:
    - i. stability oriented macro-economic policies including sound public financing respecting the Pact;
    - ii. knowledge and innovation as engines of sustainable growth: incentives for investment R&D and innovation, programmes for eco-innovation and eco-technology and improved investment in higher education;

- iii. making the EU an attractive area to invest and work: integration and opening up of markets, improved regulation and better infrastructure;
- iv. more and better jobs for social cohesion including increased investment in education and training, improved adaptability and make work pay to attract more people into work.

- Those elements correspond basically to what the OECD recommends to its members. What's new is more focus on essentials.
- Furthermore, and very importantly, creating a partnership for delivering growth and jobs. Essential element is a national reform programme with national government's objectives and measures. This programme to be debated at national level.

#### 4. Lisbon-type reforms have delivered growth and employment

- Empirical analysis shows that these types of reforms may bring important benefits. They could increase potential growth by approximately  $\frac{3}{4}$  percentage points on an annual basis (over 4-5 years). This may even underestimate consequences as this analysis does not take into account capital market integration (estimated to be around 1% of GDP).
- Lisbon-type reforms have been implemented in a number of EU Member States from the mid-1990's. Both euro-area and non-euro-area and Member States with different economic models, for example, Anglo-Saxon and the Nordic countries, countries with previous reform programmes, high employment rates and relatively good productivity performance. And also relatively sound and sustainable public finances.

#### 5. What about the present low growth prospects?

The recently acceded Member States will grow at around 3-5% in 2005 to 2006. Denmark, Sweden, and UK between  $2\frac{1}{2}$  - 3%. Inside the euro-area a country like Spain could see growth at  $2\frac{3}{4}$ %.

However, the euro-area held back by slow growth especially in Germany, Italy and Netherlands. Growth in these Member States is markedly slower than in previous up-turns, and explains most of the under performance of the euro area. In some (Germany + Netherlands) of these countries cost competitiveness has been improved. If confidence with business and consumers improves - and that can happen with commitment to appropriate reforms - these countries may take off like in previous recoveries.

However, growing at around 2% i.e. potential is not enough and that is why we need the Lisbon reforms to bring us to a higher growth path which will be able to sustain our Welfare State.