European and External Relations Committee

EU 2020 Strategy

Written submission from the STUC

STUC Submission in advance of the European and External Affairs Committee’s Roundtable Session on the EU 2020 Strategy

Introduction

1.1 Europe’s problems are serious and immediate - in this it is no different to the rest of the global economy seeking to overcome the impact of the global banking crisis and subsequent recession. Issues that must be addressed by the EU in 2010 include:

- the survival of monetary union as weaker economies come under sustained market pressure;
- rising unemployment, precarious work and falling living standards;
- managing social tensions as countries cut back spending to repay debt accrued during the recession; and,
- effectively re-regulating the financial sector – and ensuring that the European voice is heard at global level on this key issue.

1.2 In this context, pondering what Europe might look like in 2020 might be considered something of a luxury. Nevertheless, it is appropriate that the EU begins to consider the strategic changes required to ensure Europe meets immediate and longer-term challenges. Post banking crisis, these changes should be consistent with a shift towards a fairer, more sustainable and stable economic and social model.

The Lisbon Strategy

2.1 Trade unions consistently argued in favour of the ‘balanced and integrated nature’ of the Lisbon Strategy, emphasising that the search for a new dynamism in the European economy was entirely consistent with the basic elements of the European social model.

2.2 Ultimately, Europe’s trade unions were disappointed with the Lisbon Strategy. Even before the banking crisis and recession, the strategy could hardly be presented as a general success. Trade Unions supported the strategy strongly in 2000 but, in 2005, the focus shifted almost exclusively to the economic pillar; the balance with the social and environmental dimensions was lost. This change in emphasis led to an exaggerated focus on deregulation and labour market flexibility. Social Europe was relegated to subsidiary status despite high and rising levels of inequality, persistently high unemployment and an increase in precarious forms of work. The switch towards an over-liberalised approach coincided with, and perhaps contributed
to, rising disillusionment with Europe - too many people in the EU including many workers regard it now as a market union but not a social union.

2.3 When the record over 10 years is assessed, relatively few of the numerous bold objectives for 2010 have been achieved. This cannot be blamed entirely on the financial crisis of 2008. Insufficient progress was made towards key targets such as education and lifelong learning, renewable energy, childcare, and new enterprises. Some countries have done better than others. Whether the Lisbon strategy was instrumental and decisive in helping progress where it was made, or whether it would have been made anyway, is a point about which it is hard to be definitive.

2.4 Ironically, once the crisis hit, it was the welfare states, public services and stimuli packages which prevented the EU’s recession from slumping into depression. Yet for too much of the period from 2000, and especially after 2005, welfare states, public services and market regulation were regarded at best as old fashioned, necessary evils, and, at worst, as obstacles to the wealth creating potential of liberated markets.

Scotland’s performance against the Strategy’s targets

R&D target - expenditure on research and development should be at least 3% of GDP by 2010

3.1 The National Statistics Publication, ‘Business Research and Development Scotland 2007’ was published in June 2009. This found that:

- Gross expenditure on R&D (GERD) comprises that undertaken by business, government and the higher education sectors. In 2007 Scottish GERD reached £1,710 million, 6.7% of the UK total. This represents an increase of £189 million since 2006. GERD represented 1.52% of GDP in Scotland, compared to 1.79% in the UK. Scotland performs better on this measure of R&D due to the inclusion of government and higher education activity (see below). However, the relatively low contribution of business R&D to GERD is clear when comparing Scotland to other countries;
- The value of business enterprise research and development (BERD) undertaken in Scotland in 2007 was £513 million, 3.2% of the UK total and 0.46% of Scottish GDP. Expenditure increased from £461 million in the previous year (a 8.3% increase in real terms). There was a decrease in expenditure on services R&D, while there was a modest increase in expenditure on manufacturing R&D and a proportionally higher increase in expenditure on R&D in other sectors such as extractive industries. Almost half of Scottish BERD supported just 2 product groups: ‘pharmaceuticals’ (25%) and ‘precision instruments’ (23%)
- In 2007 BERD expenditure was equivalent to 0.46% of GDP in Scotland compared to 1.13% of GDP in the UK. BERD expenditure as a percentage of GDP is lower in Scotland than in most important competitor countries. In 2007 the average EU expenditure on business
R&D as a percentage of GDP was 1.12%. The leading countries have expenditure levels more than five times higher than Scotland (e.g. 2.66% of GDP in Sweden);

- Scotland performs very well in terms of R&D undertaken by the higher education sector. In 2007, Higher Education R&D (HERD) was £870 million in Scotland, 13.4% of the UK total and 0.78% of GDP. This is an increase of £98 million since 2006. In comparison to other regions within the UK, Scotland ranks first in terms of HERD as a percentage of GDP. Scotland also performs well at the international level, with Scotland's HERD as a percentage of GDP highest among the OECD countries.

3.2 Therefore, overall Scotland has failed to make significant progress towards the Lisbon R&D target. This is mainly attributable to the poor performance of the business sector. It is unclear to the STUC whether Scotland’s performance has been materially affected by the Lisbon Strategy.

3.3 The STUC believes that Scotland’s BERD performance is very unlikely to improve without a fundamental overhaul of the UK’s model of shareholder capitalism. The constant focus on high returns over short timescales is inimical to patient long-term investment in R&D.

3.4 The STUC has long argued for a Scottish Investment bank to provide the type of committed capital necessary to support higher levels of long-term investment by Scottish businesses.

_Employment target - the employment rate should be at least 70% by 2010_

3.5 In a previous submission to this Committee, the STUC argued that ‘Scotland’s employment rate clearly compares favourably with the average rate for Europe and exceeds the Lisbon target’. This continues to be the case despite the depth and length of the recession. Some other factors should be taken into account however:

- The ongoing decline in manufacturing jobs – contrary to current orthodoxy, it is not inevitable that manufacturing will continue to decline. Some member states have been far more successful in retaining manufacturing employment;
- Regional inequalities (i.e. within Scotland) - the disastrous labour market policies of the 80s and 90s left Scotland with pockets of persistently high economic inactivity which is why the STUC is arguing so strongly for interventions introduced during the current recession must be maintained until well after the labour market has stabilised;
- Focusing only on the employment rate can distort comparisons of labour market performance in different European countries. Typically, rates of inactivity are higher in Scotland (far higher in some sub-regions) than the EU average;
The labour market remains delicately poised – the rise in unemployment has not yet reached levels to match the fall in output. However, the economy remains very fragile and public spending cuts may well see the jobless total rising and the economy slipping into a prolonged deflationary period during which it will be very difficult to sustain employment at Lisbon target levels.

3.6 Of course, the Lisbon target was for ‘more and better jobs’. It is difficult to argue that the jobs created over this period were better in any meaningful way.

EU2020

4.1 President Barroso said recently in his Policy Guidelines of the next Commission – “we need a new, much stronger focus on the social dimensions in Europe, at all levels of government”. That ambition is not adequately defined or reflected in EU 2020.

4.2 Much of the next decade will be dominated by the consequences of the current economic crisis. Unemployment is likely to remain higher than pre crisis levels up to at least 2015/2016; and taxation will be higher and public spending lower as debts have to be repaid. At the same time the environmental crisis needs to be tackled, and the demographic position is difficult with increased numbers of pensioners and lower numbers of working age persons.

4.3 A central criticism of the Commission paper is that it does not spell out sharply enough the way these three factors will dominate the future. Nor is there a progressive vision of the social dimension and social policy. The economic crisis and rising unemployment (of young people in particular) will be a major feature of the next five years and will be or should be the central focus for policy makers. This raises a number of key questions:

- How does Europe cope with this rising unemployment?
- What scale of public resource will be necessary?
- How do we spread rises in prosperity across the population and reverse the trends towards inequality.
- What are the roles of employers, trade unions and other stakeholders?
- What scale of recovery plan is needed to tackle the problems?
- How can the EU handle the difficult question of exiting from high levels of public debt while not deepening the recession and causing further rises in unemployment and inequality?
- How does Europe tackle the various gender “gaps” (i.e. pay, working hours, work / life balance etc.) and fight unfair discriminations.
- How does Europe attack the roots of the crisis and the emphasis on the short term deal making culture?
- How do we commit ourselves as Europe to a policy agenda of quality jobs?
4.4 These key questions are either inadequately addressed or completely avoided in the Commission paper. Europe requires a genuine strategy to help member states out of the crisis and towards a more equal, more sustainable Europe. The new strategy must set Europe on the course of long-term sustainable growth, increased employment and enhanced social conclusion and equality.

**Key aspects of EU2020 for Scotland**

5.1 The priorities set out in the Commission’s paper are consistent with the Scottish Government’s policy framework:

- Creating value by basing growth on knowledge;
- Empowering people in inclusive societies; and,
- Creating a competitive, connected and greener economy.

5.2 The Committee’s previous inquiry into the reform of the EU Budget process identified particular opportunities for Scotland in research (given our strong university base) and renewables (given our wind and marine resources, skills base and research advantage). The 2020 strategy suggests that these will remain key areas for Europe thereby providing opportunities for Scotland.

5.3 It is interesting to note the 2020 consultation explicitly discussing ‘industrial strategy’. The STUC looks forward to the EU and member states taking a more interventionist approach to ensuring that the economic and social benefits are maximised from development of industries such as renewables and CCS.

5.4 It is however a shame to note that the Commission’s lop-sided obsession with ‘flexicurity’ remains undiminished. It is difficult to see how this agenda can do anything but undermine the Scottish Government’s targets on solidarity and cohesion.

*How can Scotland make progress against the EU2020 objectives?*

6.1 The STUC believes that the foundations of a policy framework necessary to deliver progress are already in place at Scottish level.

- Effective partnership working between Scottish Government and Westminster to ensure that Scotland derives maximum advantage from any funding streams associated with the strategy e.g. renewables, CCS and research;

- A commitment to learn lessons from new strategic industrial policies at EU and member state level in order that Scotland derives maximum economic and social benefits from emerging industries;
Supporting EU approaches to reform the financial sector and corporate governance to ensure that Scottish industry benefits from a more stable and supportive investment environment;

Accepting that a strong society is a prerequisite for, and not a barrier to, a stable, growing economy. Scotland and the UK as member state must support Social Europe as an integral part of 2020.

STUC
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