

Sticks are not EU2020's keys to success

By Ann Mettler

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Carrots, budget reform and some basic education are better tools.

Binding commitments to reform and penalties for non-performance: these measures, proposed by [Spain's](#) EU presidency to ensure the success of the EU2020 strategy, sound like a dream come true to some critics of the open method of co-ordination, a method deemed to have lacked the teeth necessary to coerce member states to comply with the EU2020's much-maligned predecessor, the Lisbon Agenda. And, without doubt, Spain's idea of strengthening the internal market in energy, information technology and financial services is good, albeit not entirely new.

But, by themselves, these proposals are unlikely to lead to success. Moreover, they discount two of the principal lessons of recent years.

Firstly, countries that do not reform do not need reprimands from [Brussels](#), because they are punishing themselves. Nowhere is this clearer than in Spain itself, with its 19.4% rate of unemployment (the rate in the Netherlands is 3.9%). The old adage that reforms are 'painful' needs to be re-thought; social pain tends to be concentrated in countries that do not reform, not those that do. If countries cannot motivate themselves to embrace modernisation, it is unlikely that Brussels can. A likelier outcome would be an unwarranted backlash against the EU.

The key obstacle to reform and compliance is the inability of national leaders to overcome domestic resistance. What the EU should ponder is how to handle the energy oligopolies and incumbent telecom operators that feel threatened by the drive to complete the internal market.

Secondly, Brussels has an abysmal track record of enforcement. Compliance with the EU's stability and growth pact has been poor, yet no member state has ever been sanctioned. The same is true for the internal market, which has been kept shockingly fragmented by poor compliance. Do national politicians therefore have reason to fear EU reprimands for failing to meet single-market or EU2020 obligations?

If the internal market is to be deepened, the EU2020 strategy needs to differ from the Lisbon Agenda. But there are options that could increase the chances of success and sustain momentum better than binding commitments and penalties.

The EU could, for one, produce an annual ranking of the ten champions of social sustainability and innovation. Europe has proven best able to convince countries to change course when it has created a club with a high standard for admission, such as entry into the EU itself or into the eurozone. The PISA rankings drawn up by the Organisation for Economic Co-operation and Development to show educational performance have inspired interest among the public and fear in government; an EU ranking of the ten countries that have done most to, for example, foster innovation, reduce unemployment, invest in people and adjust pension systems could do the same.

EU leaders could demonstrate true commitment to economic revival by changing priorities in budgets at national and EU level. Nowhere is this truer than with the EU budget: it needs root-and-branch reform, with funds re-directed into areas that promise employment and economic progress. National budgets should undergo rigorous – and publicly available – analysis by Brussels to judge the quality and sustainability of public finances.

The state needs reform, too. This is not a matter of cutting budgets, but about delivering more and better services. The state sector accounts for some 40% of gross domestic product in many member states; innovation and better performance is as important here as in the private sector.

A fourth step is to increase economic and financial literacy. A survey by Danske Bank, for instance, found that 44% of Finnish parents do not know the concept of 'interest rate', while 74% of Irish adults do not know what 'disposable income' is. How can EU citizens grasp the threats that big deficits and heavy debts pose to ageing societies if they do not understand their own finances? Change is easier to cope with if its underlying causes are understood.

These are but a few of the measures that could be considered. A comprehensive EU2020 strategy might be complex, but it would also exponentially increase the odds of success. Reform is hard. But not reforming is harder still.

Ann Mettler is executive director of the Lisbon Council, a Brussels-based think-tank.