



## Europe 2020 seen from the V4

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# Europe 2020 seen from the Czech Republic

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## Introduction

European Union is approaching the mid-term evaluation of its political and economic strategy – Europe 2020. This process is supposed to start in 2015 and the European Commission will have a deep look into the implementation of this strategy at national levels.

In comparison with the previous Lisbon strategy (2000 – 2010), the current Europe 2020 strategy has a significant advantage. Despite relatively radical rhetoric of the first one (e.g. “...make the EU the most competitive and dynamic knowledge-based economy in the world...”)<sup>1</sup> it has never fulfilled its ambitious goals and was intensively criticized by both politicians and experts.

The European Commission proposed the current strategy on March 3, 2010<sup>2</sup> and provided it with much more sophisticated tools of implementation and division of competencies between the EU and national institutions. Being adopted in 2010, it strives to overcome the economic and financial (and to some extent institutional) crises in the European Union and to eliminate shortcomings in the EU’s economy. Europe 2020 identifies economic growth as its main mantra and defines it as smart, sustainable and inclusive. Smart growth means more investments into research and development and education, sustainable growth emphasizes low-carbon economy and vast investments into environment-friendly projects while inclusive growth is focused on increasing employment and poverty reduction.

Five clearly defined targets were arranged for the Europe 2020 strategy. These are as follows:

- Employment (75% of 20-64 years old population to be employed)
- Research and Development (3% of EU GDP to be invested)
- Climate change and energy sustainability
- Education (increase number of people completing tertiary education and reduce early school leaving below 10%)
- Fighting poverty and social exclusion (at least 20 million of people fewer at risk of poverty)

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<sup>1</sup> Presidency conclusions of Lisbon European Council, March 2000

<sup>2</sup> <http://ec.europa.eu/eu2020/pdf/COMPLET%20EN%20BARROSO%20%20%200007%20-%20Europe%202020%20-%20EN%20version.pdf> (31-10-2014)

These indicators which are supposed to be achieved by 2020 are translated into national targets and thus every EU member state can define its national target and assess its own progress towards the EU goals.

One of the main challenges of the Europe 2020 strategy is a need of co-ordination between the European Commission and individual member state governments. The cross-cutting policies and tools have been adopted which in reality shape some of EU policies (e.g. cohesion policy).

The system of implementation and monitoring was elaborated in relative detail based on yearly cycles of European Semesters whose aim is to co-ordinate economic and budgetary policies. The whole procedure begins with European Commission's Annual Growth Survey, discussions and conclusions of the European Council, National Reform Programme (NRP) and finishes with Country Specific Recommendations published by the European Commission.

Although the role of national government is supposed to be strengthened via NRP (which should be a national contribution to Europe 2020 strategy and its overall goals) the role of the European Commission seems to be crucial (via Annual Growth Survey and Country-Specific Recommendations).

## **National targets for the Czech Republic**

### **Target 1 – Employment**

The Czech Republic is one of the EU countries with the lowest unemployment rate. This fact might be surprising especially when compared with the situation in other Central and Eastern countries (e.g. Slovakia). The reasons are not fully clear but it might be a combination of several factors, e.g. level of protection of employees in the labour code, lack of access and willingness to resolve the labour disputes in court, relative equality in incomes,<sup>3</sup> existence of a minimum wage as well as a minimum living wage. Another reason might be relatively high number of agency employees whose protection is much lower than in case of regular employees.

In any case the Czech government adopted the same national target (i.e. 75%) as the European one. Even though the employment rates have worsened during the economic crisis period (2010-2012) especially in some of the examined groups (e.g. young people aged 15-24 and low skilled employees), the overall tendency is positive and the target is likely to be achieved in 2020. It is though important to note that this positive tendency has been also significantly influenced by the

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<sup>3</sup> Low Gini index – see <http://wdi.worldbank.org/table/2.9> (31-10-2014)

fact that average retirement age has increased. Therefore the employment of the group aged 55-64 has been growing steadily since 2008.<sup>4</sup>

**Table 1 - Employment rate (age group 20-64 years old)**

	2009	2011	2013	target
EU 28	69	68.5	68.4	75%
CZ	70.9	70.9	72.5	75%

Source:<http://epp.eurostat.ec.europa.eu/tgm/refreshTableAction.do?tab=table&plugin=1&pcode=tsdec420&language=en>

### **Target 2 – Research & Development**

As seen from the table number 2, the goals of the Czech government in the area of research and development are not very ambitious. Although the national target of investment of 1.00% of GDP into R&D in 2020 must be taken with a reserve (the Czech commitment includes only public expenditures on R&D) it is more than probable that the Czech Republic would be able to achieve at least 2.5% of R&D investments in 2020. It is positive that most of the Czech governments were aware of its importance and kept increasing the investments into R&D. Certain risk poses sustainability of big research projects (financed from the EU funds) which might threaten the investments into other research and development areas.

**Table 2 – Gross Domestic Expenditures on Research & Development**

	2008	2010	2012	target
EU 28	1.91	2.00	2.07	3.00
CZ	1.30	1.40	1.88	1.00

Source:[http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&plugin=0&language=en&pcode=t2020\\_20&tableSelection=1](http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&plugin=0&language=en&pcode=t2020_20&tableSelection=1)

<sup>4</sup> 2008 – 47.6% comp. 2013 – 51.6% - see [http://epp.eurostat.ec.europa.eu/cache/ITY\\_PUBLIC/3-19052014-BP/EN/3-19052014-BP-EN.PDF](http://epp.eurostat.ec.europa.eu/cache/ITY_PUBLIC/3-19052014-BP/EN/3-19052014-BP-EN.PDF) (31-10-2014)

### Target 3 – Climate change and energy security

The Czech targets in the environmental part of Europe 2020 strategy have been often characterized as insufficiently ambitious. As for the greenhouse gas emissions the Czech Republic as well as other countries in Central and Eastern Europe benefit from the fact that the year 1990 has been set as a reference base. Due to changes in structure of industry after the fall of communist regime in the Czech Republic and closing down of many energy-demanding factories (and implementation of more environment-friendly technologies into the power stations) the target (i.e. 80% from the base in 1990) was not very difficult to achieve. In 2012 the Czech Republic reached 67% of its greenhouse gas emissions in 1990. The overall data<sup>5</sup> show that the European Union as a whole has already achieved 82.1% (2012) and the overall decrease during the first five years was by 10 percentage points (comp. 2007 – 92.3%). Despite the economic crisis, which took place in this period, it would be good to pose a question whether this target of Europe 2020 is sufficiently ambitious.

**Table 3 – Renewable sources as a percentage on overall consumption**

	2008	2010	2012	target
EU 28	10.5%	12.5%	14.1%	20%
CZ	7.6%	9.3%	11.2%	13%

Source:[http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&plugin=0&language=en&pcode=t2020\\_31&tableSelection=1](http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&plugin=0&language=en&pcode=t2020_31&tableSelection=1)

The second subsection of Climate change and energy security part of Europe 2020 is devoted to renewable energy. The European Union has bound itself to achieve 20% share of renewable sources on gross energy consumption. While on the EU level this target seems to be viable the Czech Republic could have set again a more ambitious target. As illustrated by table 3 this share gradually increases roughly by one percentage point a year. Even though there are some technological, environmental and capacity limits the Czech Republic could easily reach at least 16% of this share by 2020. Unfortunately, the Czech government is quite reluctant to further support renewable energy due to inappropriate support of solar parks construction in 2009 and 2010.<sup>6</sup>

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<sup>5</sup>

[http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&plugin=0&language=en&pcode=t2020\\_30&tableSelection=1](http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&plugin=0&language=en&pcode=t2020_30&tableSelection=1) (31-10-2014)

<sup>6</sup> Conditions of support and guaranteed prices of electricity from renewable sources were included in the Act no 180/2005 Coll. On support of renewable sources.

#### Target 4 – Education

The section focused on education has been divided into two targets, i.e. 1) percentage of population aged 18-24 with maximum of lower secondary education and not in further education and training (early leavers) and 2) attainment of tertiary education in the age group 30-34. In the area of early leavers the Czech target (5.5%) has already been achieved (comp. 5.4% in 2013) and the situation in the country is almost two times better than the overall EU target (10%).

As for the attainment of tertiary education the Czech Republic lacks behind most of EU countries. The table 4 shows the Czech commitments (32%) compared with the EU one (40%). Thanks to increase of capacity of the Czech universities and establishment of smaller colleges, the country is likely to achieve the target of 32% of population aged 30-34 in 2020.

**Table 4 - Tertiary educational attainment, age group 30-34 (%)**

	2008	2010	2012	target
EU (28)	31.2	33.6	35.8	40
CZ	15.4	20.4	25.6	32

Source:[http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&plugin=0&language=en&pcode=t2020\\_41&tableSelection=1](http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&plugin=0&language=en&pcode=t2020_41&tableSelection=1)

#### Target 5 – Poverty reduction

This target regards number of people living at risk of poverty or social exclusion. The Czech Republic has been also criticized for insufficiently ambitious goals because it wanted to reduce the number of people by 30,000 in comparison with the level of 2008. However, as table number 5 shows this relatively modest target seemed to be not so easy to achieve especially with respect to economic problems of European economies. Compared with the overall tendency of EU 28 which is increasing, the stagnation of number of people at risk of poverty in the Czech Republic appears to be a success on its own.<sup>7</sup>

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<sup>7</sup> In 2013 the Czech target has been achieved since the number of people decreased to 1,508,000.

**Table 5 - People at risk of poverty or social exclusion (unit: 1,000 persons)**

	2008	2010	2012	target
EU (28)	116,418	118,085	124,488	Sub 100,000
CZ	1,566	1,495	1,580	level of 2008 minus 30.000 people

Source:[http://epp.eurostat.ec.europa.eu/tgm/refreshTableAction.do?tab=table&plugin=0&pcode=t2020\\_50&language=en](http://epp.eurostat.ec.europa.eu/tgm/refreshTableAction.do?tab=table&plugin=0&pcode=t2020_50&language=en)

### **National Reform Programme and Country Specific Recommendations**

In the introductory chapter we mentioned that an indispensable component of EUROPE 2020 strategy is a National Reform Programme drafted by the government which is then commented by the European Commission and a Country Specific Recommendation is issued by the Council. This relevant document<sup>8</sup> recommends the Czech Republic to take the following selected actions in the period 2014-2015 (quotations in italics):

1. Following the correction of the excessive deficit, preserve a sound **fiscal** position in 2014. Significantly strengthen the budgetary strategy in 2015 to ensure that the medium-term objective is achieved and remain at the medium-term objective thereafter. Prioritise growth-enhancing expenditure to support the recovery and improve growth prospects. Adopt and implement measures to strengthen the fiscal framework, and in particular establish an independent fiscal institution to monitor fiscal policies, introduce fiscal rules for local and regional governments and improve co-ordination between all layers of government.

**Commentary:** The Czech Republic went through economic recession in 2009 and then between 2012 and 2013. While the first recession in 2009 was influenced especially by external factors (e.g. instability of market, crisis in Greece and other EU countries), the latter economic downturn was to some extent strengthened by the fiscal policy of the Czech government. From 2010 to 2013 the government adopted several austerity measures which reduced public investments especially in infrastructure. It led to significant decrease in construction as well as other industrial and service sectors which are connected to such public investments. In the end the economic slowdown caused

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<sup>8</sup> Council Recommendation of 8 July 2014 on the National Reform Programme (OJ 247/12) - [http://ec.europa.eu/europe2020/pdf/csr2014/csr2014\\_council\\_czech\\_en.pdf](http://ec.europa.eu/europe2020/pdf/csr2014/csr2014_council_czech_en.pdf) (31-10-2014)

public deficit which fortunately did not exceed 4.4% in 2010<sup>9</sup> and overall public debt reached its peak in 2013 (45.7%) with declining tendency in 2014. Current government (in power from January 2014) has changed to some extent the fiscal policy and decided to stimulate the economy by public investment.

2. Improve tax compliance with particular focus on VAT and reduce the costs of collecting and paying taxes by simplifying the tax system and harmonising the tax bases for personal income tax and social and health contributions. Reduce the high level of taxation on labour, particularly for low-income earners. Shift taxation to areas less detrimental to growth, such as recurrent taxes on housing and environmental taxes. Further reduce discrepancies in the tax treatment of employees and the self-employed.

**Commentary:** Efficiency in collecting VAT is one of the priorities of new Czech government which has already announced a tax reform that should take place in January 2015. A new reduced VAT rate will be implemented for some sensitive goods (e.g. medicine, children's diapers, etc.). Second important step of this tax reform is a reduction of discrepancy in the taxing of employees and self-employed. Finally, the third step is the establishment of special police investigation teams dealing with tax crimes. On the other hand the Czech government has not yet adopted any measure which would reduce direct taxes at the expense of indirect taxes which remain very low (e.g. property taxes).

3. Ensure the long-term sustainability of the public pension scheme, in particular by accelerating the increase of the statutory retirement age and by linking it more clearly to changes in life expectancy. Promote the employability of older workers and review the pension indexation mechanism. Take measures to improve significantly the cost-effectiveness and governance of the healthcare sector, in particular for hospital care.

**Commentary:** The reform of pension system remains the main challenge for the Czech government. Despite an intensive public debate there is no consensus among main political parties how to tackle the ageing of population and in what way how to increase the retirement age. There is no link between the retirement age and the life expectancy and the retirement age is only slowly increasing in order to reach 65 years of age limit in 2030. The effort to reduce costs in the healthcare sector is in a long-term unsuccessful and unlikely to be achieved since there is a direct correlation between higher age and higher demands for healthcare system. The only partial success is a growth of older employees' employment (age group 55-64).

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<sup>9</sup> Eurostat data – ESA 2010 methodology

4. Strengthen the efficiency and effectiveness of the public employment service, in particular by setting up a performance measurement system. Reach out to non-registered youth and provide individualised services. Increase considerably the availability of affordable and quality childcare facilities and services, with a focus on children up to three years old.

**Commentary:** A need for more individualized services of employment service has been repeated several times in country specific recommendation. The government has not yet prepared any concrete measure in this field. As for the availability of child-care facilities a new law is in process of adoption. It would enact possibility to establish informal children's groups. However, the facilities are supposed to be above all for pre-school children (from 3-6 years old). The long maternity and parental leaves in the Czech Republic (up to four years) thus remain one of the main obstacles for females to come back on the labour market.

5. Ensure that the accreditation, governance and financing of higher education, contribute to improving its quality and labour market relevance. Accelerate the development and introduction of a new methodology for evaluating research and allocating funding in view of increasing the share of performance-based funding of research institutions. In compulsory education, make the teaching profession more attractive, implement a comprehensive evaluation framework and support schools and pupils with poor outcomes. Increase the inclusiveness of education, notably by promoting the participation of socially disadvantaged and Roma children in particular in early childhood education.

**Commentary:** Inclusiveness is one of the most important deficiencies of the Czech educational system. Socially disadvantaged children are often separated in special schools. There is a lack of sufficient support of teacher assistants in the classrooms who could effectively assist to disadvantaged children. Number of university students originating from socially disadvantaged environment and with low educated parents is still lower in the Czech Republic than in other developed countries.<sup>10</sup>

6. In 2014 adopt and implement a Civil Service Act that will ensure a stable, efficient and professional state administration service. Speed up and substantially reinforce the fight against corruption by implementing the remaining legislative measures provided for in the anti-corruption strategy for 2013-2014 and by developing plans for the next period. Further improve the management of EU funds by simplifying implementing structures,

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<sup>10</sup> <http://www.oecd.org/edu/Czech-Republic-EAG2014-Country-Note-czech.pdf> (31-10-2014)

improving capacity and tackling conflicts of interest. Increase transparency of public procurement and improve the implementation of public tenders by providing appropriate guidance and supervision.

**Commentary:** One of the most crucial chapters in government declaration concerns the good governance and the fight against corruption. Absence of a civil service act has been criticized by both the European Commission as well as other stakeholders in the Czech Republic for a long time. The new law is in process of adoption and is supposed to be in force since January 2015. Concrete steps are also expected to be applied in the anti-corruption fight. On the control level it consists of setting up special police team focused on organized corruption activities. Crucial is also strengthening the central financial authorities. Other measures which can significantly influence the transparency in the governance is intensely discussed (e.g. law on public contracts register, law on political parties financing, etc.).

## Conclusions

The Czech Republic has set relatively modest targets for the EUROPE 2020 strategy. Some of them could have been definitely more ambitious (e.g. research and development, renewable sources) while others are realistic and likely to be achieved (e.g. education targets). In the Czech political debate some of EUROPE 2020 priorities are taken very seriously (e.g. employment, research and development) but in other areas there is no political consensus (e.g. environmental issues, strategy how to promote renewable sources).

The Czech Republic has been evaluated<sup>11</sup> as a country with a limited progress (i.e. grade 2 on the level 5-best to 1-worst). Fiscal situation is under control and there is some progress in tax compliance. New measures are expected to be in force from January 2015, especially in the area of good governance (e.g. civil servants act) and support of informal children's groups. On the other hand no progress has been reported in the high taxation of labour. There was also no improvement in shift of the tax burden to more indirect taxes (e.g. property taxes). Nonetheless, the biggest challenge remains in the sustainability of pension and health care systems.

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<sup>11</sup> [http://ec.europa.eu/europe2020/pdf/csr2014/swd2014\\_czech\\_en.pdf](http://ec.europa.eu/europe2020/pdf/csr2014/swd2014_czech_en.pdf) (31-10-2014)

## Europe 2020 seen from the V4 – a Hungarian view

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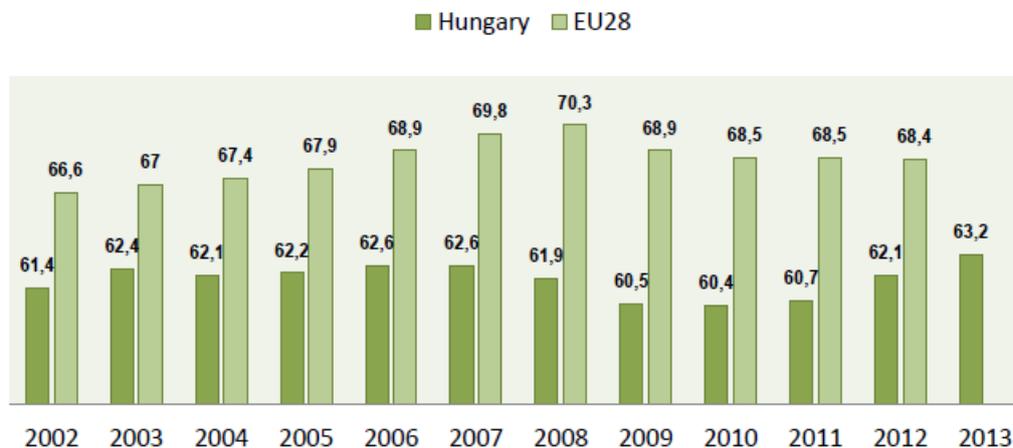
Europe 2020 – the successor of the EU’s Lisbon Strategy – can be characterised by ambitious but more realistic objectives than its predecessor. EU 2020 targets for the year 2020 have been set for five areas: employment (objective: 75% of 20-64 population should be employed); R&D (its share in GDP should reach 3% of GDP); climate and energy (the famous 20-20-20 objectives); education (at least 40% of 30-34 population should be with completed tertiary education.; the share of early education leavers should be reduced to max. 10% of 18-24 population; the number of people at risk of poverty should be reduced to under 100,000,000). The strategy allows that national targets may differ – this can be necessary for various reasons, basically related to the difference in the situations and specific problems of the Member States.

### Europe 2020 – targets for Hungary

#### Employment

Hungary has endorsed the general EU target for employment: increasing the rate of employment of the population between 20 and 64 to 75% by 2020. As Figure 1 shows, there is some improvement in the recent years in this field, but the target seems to be quite far. Figure 2, showing also further data regarding the labour market, reveals further doubts about the success of the efforts.

Figure 1 The rate of employment among the 20-64 aged population



Source: Eurostat, Central Statistical Office of Hungary, in: National Reform Programme 2014 of Hungary, p. 28.

Figure 2 Selected labour market indicators for Hungary

		2010	2011	2012	2013
Employment rate (20-64 year-old) %	HU	60.4	60.7	62.1	63.2
	EU 28	68.5	68.5	68.4	68.3*
Unemployment rate (15-74 year-old) %	HU	11.2	10.9	10.9	10.2
	EU 28	9.6	9.6	10.5	10.9*
Participation rate (20-64 year-old) %	HU	67.9	68.1	69.6	70.3
	EU 28	75.5	75.6	76.1	76.4*
Number of registered job seekers (thousand people)	HU	583	583	559	528

\*average of the I-III quarters of 2013

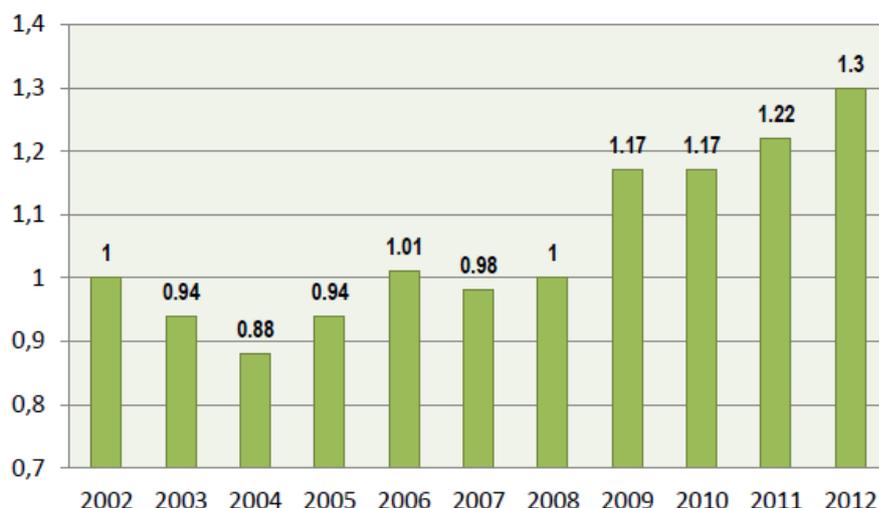
Source: National Reform Programme 2014 of Hungary, p. 31.

Measures aimed at increasing employment include public work (121 th. persons in 2013), and also the intention to channel people from public work to the “normal” labour market; employment in social cooperatives (in 79 settlements by the end of 2013); active labour market measures (84 th. people per month on average); the extension of the employment of disabled people; foster parent employment relationship.

## R&D

Having a realistic approach, Hungary has set the 1.8% ratio of R&D to GDP by 2020, the overall EU target being 3%. After the deepest point in 2004, the ratio has increased to 1.3% in 2012.

Figure 3 Input of R&D as a share of GDP, 2002-2012 (%)



Source: Eurostat, in: National Reform Programme 2014 of Hungary, p. 28.

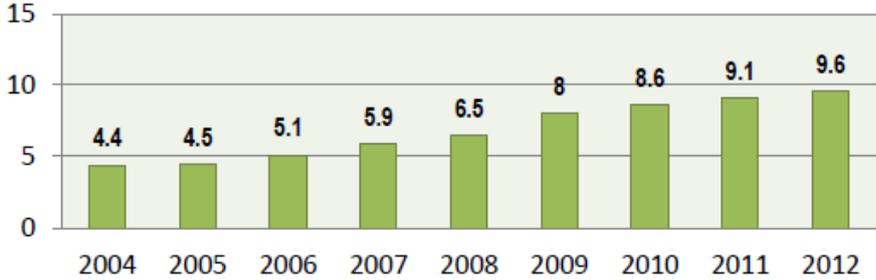
R&D investment in 2012 has been HUF 363 bn; from this amount, higher education institutions represented HUF 67 bn, research institutions HUF 53 bn, enterprises HUF 53 bn (the rest being equal to HUF 4 bn. R&D employment in 2012 was 56 th. people. The big weakness of R&D activity in Hungary (beyond the overall volume and share in GDP) is the fact that only 13% of SMEs engage in innovation activity. Currently, a number of new or planned strategies aim at dynamising R&D activity in Hungary.

**Climate and energy**

In the field of climate and energy, the objectives set by Hungary differ from those of the EU: this is due to a possibly realistic approach. Hungary agreed to:

- raise the proportion of renewable energy sources in energy consumption to 14.65% by 2020;
- achieve an overall energy saving of 10 %; this original objective has been modified to 18% (compared to the Business-As-Usual scenario of the document entitled “National Energy Strategy 2030” by 2020;
- increase greenhouse gas emissions outside the ETS (EU Emission Trading Scheme) by max. 10% (compared to the level of such emissions in 2005) by 2020.

**Figure 3      The share of renewable energy source in final energy consumption (%)**



Source: Eurostat, in: National Reform Programme 2014 of Hungary, p. 29.

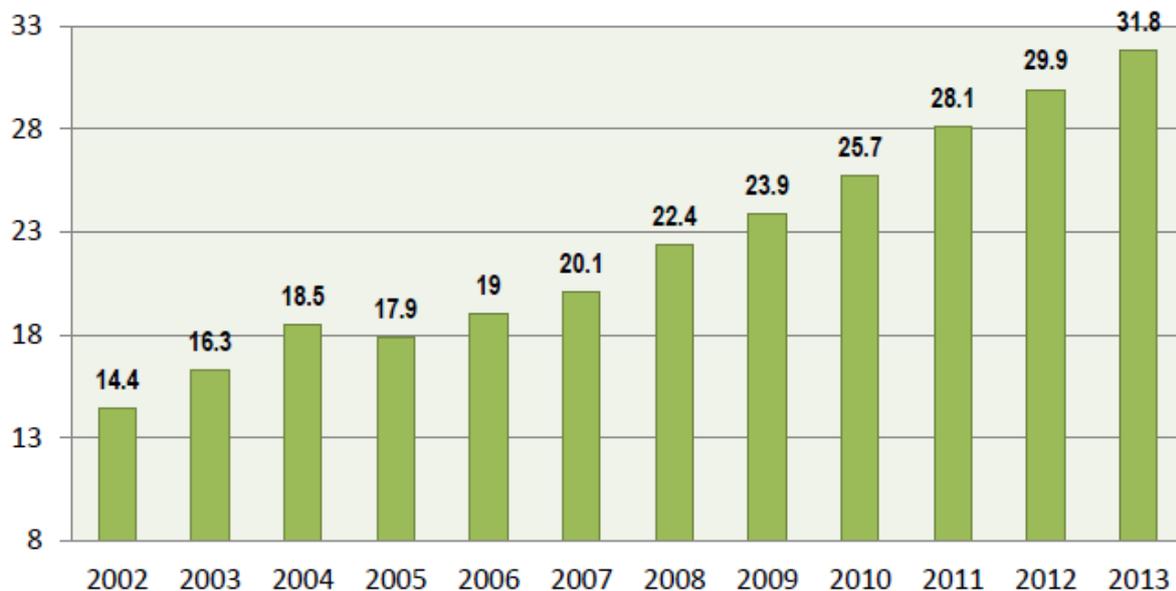
The tendencies show a positive trend in all three areas (the evolution of the rate of renewable energy source usage in final consumption is shown by Figure 3). Different strategies and action plans (National Building Energy Strategy; National Energy Efficiency Action Plan III; National Renewable Energy Action Plan) as well as the creation of the National Adaptation Geographical Information System aim at continuing the development seen during the last decade.

## Education

In the field of education, Hungary agreed to:

- increase the share of the people in the 30-34 age group with tertiary level (or equivalent) qualifications to 30.3% by 2020;
- reduce the rate of early school leavers (aged 18-24) to 10% by 2020.

**Figure 4** The rate of people (aged 30-34) with tertiary (or equivalent) qualification (%)



Source: Eurostat, in: National Reform Programme 2014 of Hungary

In the two aspects, the trend are different. The rate of early school leavers is slightly increasing; in 2013 the rate was 11.8% (of the population aged between 18 and 24 years), thus the target has become more distant than before. Regarding tertiary and equivalent (qualification), the target has already been reached in 2003, as in that year, 31.9% of the population had tertiary (or equivalent) qualification.

Despite a number of tangible actions and programmes ranging from kindergarten to postgraduate studies, there are serious doubts about the future. In the first aspect (early school leavers), the question is whether the target is reachable at all. In the second aspect (share of people with tertiary education) the question – behind the figures – is the real content, the quality of tertiary education. Unfortunately, Europe 2020 benchmarks are not able to measure the quality of higher education and one can only hope (but hardly believe) that the increasing quantity of graduates will not have negative effects on the average quality of graduates and the value of the diplomas.

Of course, this is not a particular Hungarian question, but a worldwide problem in higher education.

### **Poverty and social exclusion**

Poverty and social exclusion are serious problems in Hungary. In 2012, 3,188,000 people (32.4% of the total population) have been affected by poverty – this is very far from the EU average and even further from the EU targets for the future.

According to the National Reform Programme, the country intends to reduce:

- the rate of poverty of families with children;
- the number of persons suffering from severe material deprivation;
- the number of persons living in households of low labour intensity

by 20-20% by 2020; this way, the government intends to lift 450 th. people out of poverty. Beyond a general strategy against exclusion (National Social Exclusion Strategy), specific attention is devoted to the aim of the improvement of the situation of children.

### **Europe 2020 – open questions**

After the overview of the major objectives and the performance of Hungary, it is necessary to ask some general questions concerning Europe 2020. The first one is whether the strategy is taken seriously by the Member States. The formal answer is a strong “yes”, but this does not necessarily mean that regarding the substance, we can have the same reply. Still, there is some progress compared to the experience with the Lisbon Strategy. The regular EU recommendations are reflected in the documents describing government policies and strategies – this, in itself, is good news.

A further question is whether the figures (indicators) reflect reality and catch the essence of the processes that are supposed to be measured and monitored. In this respect, the picture is far from being unambiguous: as we have seen, quality can sometimes hardly be described and evaluated by quantitative indicators.

A further question is whether the current method of coordination is efficient in order to achieve Europe 2020 targets. In this respect, the linkages between Europe 2020, the EU budget, macroeconomic policy coordination and fiscal policy show a considerable progress compared to the situation before 2010. The European semester provides a well-structured framework for

several aspects of policy coordination and adjustment. Still, it is a question whether the current tools and linkages are sufficient for providing a coherent framework for Europe's ambitious competitiveness and employment objectives.

# Poland's experience with Europe 2020 strategy

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## Introduction

After the unsuccessful Lisbon Strategy, the EU adopted the Europe 2020, which was planned to be more prioritized on the growth and to include more the specificity of the member states. In other words, it was intended to be both more goal-oriented and more realistic. The main targets to achieve by the EU are translated to the national targets, and they refer to high employment ratio, high spending on the R&D, climate change commitments, high level of societies' participation in education and reduction of the poverty. The EU policies are supposed to contribute more to these targets compared to the contribution to the Lisbon Strategy unclear goals. The extension of the crisis, however made some of the Europe 2020 goals extremely difficult to achieve.

For Poland, a long-term stability in the EU is a priority, as the country is highly and multi-dimensionally connected with the Single Market. Thus the ultimate goal of the Europe 2020 to assure growth fits Poland's needs to benefit from the EU as the market as well as the source of stable capital. Moreover, the European economic governance – i.e. through the European Semester – is in line with the Europe 2020, thus making the strategy's commitments more binding to the member states, including Poland. Certainly, because of the various legal base of the European Semester, some issues are more difficult to evade (i.e. the restrictive fiscal policy through two-pack and six-pack) than the other (i.e. regarding the energy sector).

The set of goals chosen by the Commission is imperfect because of the two reasons. Firstly, some of these indicated goals are rather 'input targets' that is the targets easily obtained by government spending, but without a real impact of the conditions of the economy. Such an example is the target on R&D spending, which could be simply directly spent from the national coffers to support research. Instead of such an 'input target' a better solution would be to set the 'output targets' which rely on profound changes in the structure of the economy, if needed.

Secondly, some targets are much independent of the government policies in short term, and are much dependent to the exogenous factors. For instance, the higher participation of the citizens in higher education and better results in limiting the greenhouse gas emissions are not the government's merits, but are a consequence of the economic crisis, contributing to lower output. Thus, such targets should be more sensitive to such exogenous factors.

This all means, that Poland should not take much seriously these targets, as they moderately tell about real conditions and competitiveness of the economy. Still, they should be monitored, because they altogether may point at some strengths and weaknesses of the Polish economy.

**Polish targets: easy task in education, hard in employment and climate change**

In general the Polish targets differ from the EU ones. The divergence between the Poland's and EU goals does not favour Poland in the all cases. The Polish goals: the employment ratio, the spending in R&D, the reduction of greenhouse gas emission, the increase of renewables in energy consumption are less stringent compared to the total EU goals. But regarding the education the bar for Poland is set higher, compared to the rest of the EU (see: Table 1).

**Table 1. The EU and Polish targets for 2020.**

	Employment rate	R&D	GhG emissions	Renewables	Early school leavers	3 <sup>rd</sup> level of education	People at risk of poverty
EU	75%	3%	-20%*	20%	Less than 10%	40%	- 20 million
Poland	71%	1.7%	+14%**	15.48%	Less than 4.5%	45%	-1.5 million

\* base year: 1990, \*\* base year: 2005 and not included in the EU-ETS quotas

Source: European Commission

To assess whether these goals are feasible, it is important to see the current values of the indicators and their progress since several years. A good reference point could be a 2010, when the strategy was adopted. The Table 2 presents Poland's progress in complying with these targets, compared the EU's progress.

**Table 2. The EU and Polish progress in complying with the targets in 2012.**

	Employment rate	R&D	GhG reductions	Renewables	Early school leavers	3 <sup>rd</sup> level of education
EU 2010	68.6%	2.01%	-14.27%	12.5%	13.9%	33.6%
EU 2012	68.5%	2.08%	-17.86%	14.1%	12%	36.9%
Amelioration (A)/ Degradation (D)/ Stabilisation (S)	<b>S</b>	<b>A</b>	<b>A</b>	<b>A</b>	<b>A</b>	<b>A</b>
Poland 2010	64.3%	0.74%	(+)15.68%	9.3%	5.4%	34.8%
Poland 2012	64.7%	0.9%	(+)12.85%	11%	5.7%	40.5%
Amelioration (A)/ Degradation (D)/ Stabilisation (S)	<b>A</b>	<b>A</b>	<b>A</b>	<b>A</b>	<b>D</b>	<b>A</b>

Source: Eurostat

In general, Poland as well as the EU improved their standing in the most of indices. EU did not manage to improve the employment rate since 2010, which is the sign of the crisis. In the same time Poland slightly improved this indicator. EU did not achieve a success in reducing poverty and social exclusion, as since 2010 to 2012 the share of people at risk this phenomenon increased from the 23.8% to 24.8%. Poland, fortunately improved in a similar time period the share from 27.8% to 26.7%.

Bearing in mind the targets it is easy to see, that some of them are difficult to achieve by Poland in 2020, whereas some are completed even now. The finished task seem to be the greenhouse gas emission target, but in fact this target bases much on the stage of the business cycle. Because of the global crisis the industries are also in downturn and produce relatively less than before the crisis, thus emitting less greenhouse gases as well. Poland is also not so far from completing the task regarding the early school leavers. The problem with this indicator is that Poland worsened a performance in this area since 2010. There is also a big chance to achieve the tertiary education attainment, but much in fact depends on the business cycle. The more difficult to achieve would be the other indicators. Regarding the employment, the improvement was negligible, and such pace of amelioration would leave the target out of reach. In the case of R&D expenses, if the 2010-2012 pace is maintained it either would not guarantee reaching the

target in 2020. The 2010-2012 progress in increasing the share of renewables gives a substantial chance to meet the goal in 2020.

The analysis of these data gives some additional insights about the changes in the EU and Polish society. The interpretation of the increase in the participation in education system should be connected with the crisis context and slow or no improvement in employment rate. People simply are motivated to study instead of entering the labour market, when the crisis deteriorated it. They either wish to wait for better time or to improve their skills and qualifications to get a decent job.

### **A specificity of Poland in Europe 2020 targets**

The raw figures without country specific background could reveal only a part of the country's socio-economic fundamentals. It is important to look at these headline targets deeper, with accounting for the specificity of the country. It is even good to jointly analyse some targets and progress in meeting the commitments to draw correct conclusions about the standing of the economy and its competitiveness.

Regarding the employment rate, Poland had problems with it for many years and no structural changes took place to ameliorate it. But a relatively better progress in performance in this case compared to the EU arises from the two factors. The first one is the fact, that in the Eurozone a downturn in a real economy and the burst of the speculative bubbles contributed to the growing unemployment rate. A second factor concerns the mobility of labour and a substantial migration rate since the beginning of the crisis, which improves the overall statistics. The Commission within the European Semester's country specific recommendations underlined a necessity to tackle the issues of youth unemployment rate

The figure regarding the expenses in R&D puts Poland economy in a difficult position. Low expenditures would not guarantee the technological advance. But the figure alone is not as pessimistic as a broader context of Polish innovativeness. According to World Economic Forum's Global Competitiveness Index Poland is not innovative and many of the research is not further forged into commercial solutions. The lack of technology-driven growth and concentration on low labour costs is bears real threat to Poland's economy of falling into the middle income trap.

Some explanation to a weak R&D spending is a fact, that there is a small participation of the private sector in it. This might be a consequence of the fact, that mostly big corporations have a potential to conduct research, whereas the small and medium ones cannot afford it in difficult – crisis – times. Most of the big corporations in Poland are the multinationals, which possess their

research bases in the other countries, so they do not need to fund research in Poland, when they do it elsewhere. Fortunately, there a little hope for Poland. Several technological parks have been already built. Moreover, Poland systematically improves its image as a country with innovative and technological potential. In the mid of 2014, even Google decided to open 3<sup>rd</sup> world's biggest Google Campus in Warsaw<sup>12</sup>, to assist the innovative businesses in the country. This would promote Poland well in the world and would encourage corporations to locate some research unit in this country. But the European Commission states that the innovation environment is too risk averse and there are no effective incentives to invest in R&D.

The reduction of greenhouse gas emission would not make many problems for Poland as it currently meets the target. The problem is that EU now experiences a downturn, which contributes to the lower orders from Polish industries, and to a temporary low greenhouse gas emissions. But Poland's government also contributed to limit the emissions, especially by increasing the energy efficiency. Poland changes its energy mix too slowly to be prepared for increased production with maintaining a similar level emissions. Also a figure regarding the renewables looks better than it really is. A lion share in composition of the renewables belongs to the biomass, which is burnt in regular plants and which emits much greenhouse gases and produce even a negative carbon footprint. Poland imports around € 250 million of biomass a year.<sup>13</sup>

The education targets are unfortunately only the quantitative, not the qualitative ones. In Poland the quantity of the graduates is not entirely in pair with their quality, especially in term of their matching to the labour market. In effect a big share of graduates does not translate to a better employment ratio.

This is because of the common belief among the young persons and their parents that any higher education would increase the chances to get a job. Such approach contributed to open many tertiary education units in the end of 20<sup>th</sup> and the beginning of the 21<sup>st</sup> century, some of which since the beginning of the demographic decline and further since the beginning of the crisis collapsed. In the recent years, the value of the diploma of many of such education units proved to be moderate and in fact did not guarantee any job connected with a particular major. But the crisis also encouraged youngsters not to enter the labour market but to continue training or education (i.e. to obtain PhD degree) in public universities. The other incentive to study is that the schools gained the EU funds, which enabled them to make the education offer more attractive – many private schools were able to decrease or to eliminate fees.

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12 <http://googlepolska.blogspot.com/2014/06/google-campus-zawita-do-warszawy.html> (accessed 3.12.2014)

13 <http://www.forbes.pl/polski-absurd-biomasa.artykuly,135335,1,1.html> (accessed 3.12.2014)

Also there was a common belief that tertiary education assures better standard of living than the vocational schools, which made that they were massively closed. But in the last years, when it appeared that graduates of such school have relatively good prospects, the vocational schools are re-opened.

Since the beginning of the crisis there are also some positive changes regarding the quality of education. The universities and other tertiary education units gained the flexibility in designing the majors, which enables to form students more in line with the market expectations. There are also some first single attempts to introduce a cooperation between the business and universities regarding the formation programme. Still, these solutions need to be spreaded across the country.

### **The inclusion of the Europe 2020 in national efforts**

The government describes its progress in reaching targets within the yearly National Reform Programmes. The Programmes present a detailed view on the commitments the government make for the next year and the linkage between the commitment and the particular Europe 2020 target. The problem is that any country – even Poland – may choose some items to follow, and ignore the rest. It could also do the insufficient actions and would not obtain any financial fee.

Still, the pressure of the institutions and the other member states within the European Semester framework on complying with the targets could be an incentive to undertake thorough structural reforms. Thanks to this pressure there is a chance to meet the criteria not only in the superficial manner but to really reshape Poland's economy.

### **The macroeconomic policy coordination**

Poland accepts the need to strengthen a coordination of the macroeconomic policies, especially if such common position or activity would translate to the greater stability of the EU. However there exist some hesitations, whether the system would discipline the member states symmetrically. Especially when conducting the fiscal policy depends on the structural funds, the use of which is concentrated on the Central and Eastern Europe (CEE), while at the West of the EU the citizens use less structural funds. Thus the CEE countries have more pressure to keep their budgets balanced. Additionally, the Excessive Deficit Procedure cannot be ignored by any member state. In the context of sustainable growth, the stable fiscal policy is a key to a long-term prosperity.

## **Summary and conclusions**

Poland is interested in the stability of the EU in order to secure the European market. But if Poland wishes to develop further, it needs not only to open up to the external markets but also to undertake severe structural reforms. Poland is really a bad performer regarding the technologies and innovation. The expenses in the R&D sector are dramatically low, with a moderate chance to avoid the middle income trap. The striking conclusion is a fact that the education system still does not really fit to the market needs, as the share of third level education graduates is bigger than in the EU, while the employment is smaller.. Some of these targets (the reduction of the greenhouse gas emissions) are more easily achieved because of the exogenous circumstances (i.e. the economic downturn, migration).

## Europe 2020: View from Slovakia

Zuzana Gabrižová

EuroPolicy

Marc Luyckx Ghisi is the former adviser to the European Commission ex-President Jacques Delors. The so called “Forward Studies Unit”, he was a member of, was tasked to design the Lisbon Strategy, not so renowned predecessor of Europe 2020 Strategy. Yet, being aware of the development, Ghisi maintains that the Lisbon Strategy was meant to be the new post-capitalists, post-industrial economic paradigm based on the transformation towards the knowledge society and, above all, it was human centred. That was one of the best kept secret in the world, says Ghisi, a theologian, philosopher and mathematician by academic background, who speaks 9 languages.

True, the Heads of States and Governments of the EU at the time when the Lisbon Treaty was adopted, decided to exclude the word “paradigm” out of the strategy wording. Nevertheless, to Ghisi, strategies like this are the sign of a bigger shift that comes with the conscious or unconscious realization that the old industrial model of the economy is killing the Earth. Subconsciously, the mankind has chosen life, which manifests itself in the newfound interest in the environment, corporate social responsibility and human capital. Europe 2020 Strategy is trying to go towards this direction, but with wrong vision, meaning it is trying to fit the new into the “old industrial bottle.”

### The unwanted child

The Europe 2020 Strategy, if taken seriously, could be perceived as new common sense of purpose for the EU. One that goes beyond the (otherwise still valid) „peace project“ narrative, one, that is materially and forward oriented. Compared to the Lisbon Strategy, it contains 3 new aspects. Firstly, it has clearly formulated areas of interest, concrete targets and provides a certain flexibility (taking into account the industrial intensity in Member States and their demography, formulating tailor made policy recommendation by the European Commission to the member states within the European Semester).

The embracement of the new strategy was hardly enthusiastic by the political leadership in Slovakia. In 2010, after the European Council discussed the targets in the new strategy, the Slovak Prime Minister Robert Fico said, he considered the targets to be “completely illusionary” and expressed the concern that these – according to him – yet again, unattainable targets will

only bring further disillusion with the EU as such. He also complained about the political pressure to adopt the strategy, adding that while he can agree with the targets, his problem is with their quantifications. To illustrate that, the Prime Minister informed, that while the European target is 3 % of GDP for R&D expenditure, Slovakia can only hope for 1,8-1,9 % in 2015. The reality is of course much grimmer 4 years later, the Slovak national target, as mentioned also below, was in the end set at 1 % GDP. In the discussion on Europe 2020 Slovakia again highlighted the traditional priorities - cohesion policy and energy security.

The 2010 Eurobarometer surveyed people on the 2020 targets, which most of the respondents in Slovakia considered to be “appropriate”. At a 2013 conference dedicated to Europe 2020 Strategy (symptomatically organized by a business chamber), the same Prime Minister criticised the document and its low notoriety among the general public. Few minutes later, in another keynote speech, the Slovak EC VP Maroš Šefčovič hailed the strategy as a “modernisation project.” Most of the expert discussions on Europe 2020 and its flagship initiatives in Slovakia were organized by the Representation of the European Commission itself in Slovakia.

## Employment

**National target:** 72 % of the population aged 20-64 to be employed  
**European target:** 75 % of the population aged 20-64 to be employed

During the past years, the focus of the National Reform Programs / Stability programs, that are also supposed to outline the effort taken towards the Europe 2020 objectives at national level, has been the fiscal situation with the view to exit the excessive deficit procedure. That is why the reform of the tax system, fight against the tax evasion and tax fraud took the precedence. In 2014, with the consolidation well underway, the employment situation starts to gain the main attention, as acknowledged in the documents. Slovakia has set the national target at 72 % people in the active age (compared to the 75 % at the EU level) to be employed. Not an easy task, as despite the fact, that Slovakia enjoyed the 6<sup>th</sup> highest economic growth in the EU, the unemployment rate remained very high, and what is worse, the average time during which a person is out of work exceeds the average in other Visegrad countries.

The measures to tackle the situation focus on decreasing the labour costs of for low income workers, increasing the motivation on the side of supply and demand and the reform of employment services (mainly subsidizing employment of young people). The Roma community pose a special challenge in this respect. The Slovak Prime Minister has repeatedly publically stated that it is the unemployed Roma, who “ruin our statistics of unemployment,” an statement

heavily criticized by the civil society. The inclusion of Roma however should be a priority as it directly links to two other Europe 2020 targets – education and fighting poverty.

## **Research & Development**

**National target:** 1 % of GDP to be invested in R&D

European target: 3 % of GDP to be invested in R&D

Research & Development has been the “paper” priority in Slovakia for a long time, not so much the budget priority, however. European structural funds have been the major source of financing for Slovak science, which, of course, is in direct contradiction with the EU’s guidelines stating that the EU funds are meant to be only supplementary resource. As a result, Slovak science suffers from unpredictability of financing resources, lack of effective system of management and from the fragmentation of research communities (too many small projects that do not provide for the real research infrastructure). The flagship measure in this area is the national strategy for “Smart specialization” that suggests giving the highest priority to the research in the areas of biomedicine, biotechnology, progressive materials, technology and sustainable energy. The new R&D parks under construction are seen as a platform for possible future breakthroughs. The Smart specialization strategy has been criticized by the EC commissioned study for not being developed in a truly inclusive dialogue and for the questionable potential to attract private sector among other things.

## **Climate and energy**

Greenhouse gas emissions

**National target:** -13%, (base year 2005)

European target: -20% (base year 1990)

Renewable energy

**National target:** 14 % of total energy consumption from renewable sources

European target: 20 % of total energy consumption from renewable sources

Primary energy consumption

**National target:** 11 % of energy consumption compared to the average of 2001-2005

European target: 20 % decrease of primary energy consumption

In the area of climate and energy Slovakia has set little ambitious objectives. In fact, they count for 2<sup>nd</sup> lowest after Rumania and Netherlands. The energy intensity of Slovak economy is 1, 8

times higher than the EU's average. This fact dictates how the policy is embraced and it is exclusively seen in the categories of trade-offs. Just to illustrate, the American steel plant, located in the less economically developed Easter Slovakia and one of the top employers in the country, is continuously pointing out that the EU climate policies (together with national energy tariffs system) is decreasing their competitiveness and in the worst case scenario driving them out of the country. On the other hand, the development of the nuclear element of the Slovak energy mix is seen as a main contributor to the decarbonisation effort, neglecting the possible costs in the future (nuclear waste, risks linked to the human factor). The implementation of energy efficiency policies, as another key element in decreasing the primary energy consumption, is significantly lagging behind in Slovakia.

## **Education**

### **School drop-out rate**

**National target:** Early leavers from education and training under 6 %

European target: Early leavers from education and training under 10 %

Tertiary education

**National target:** at least 40 % of 30-34-year-olds should complete third level education

European target: at least 40 % of 30-34-year-olds should complete third level education

Within the EU, Slovakia occupies the third place – after Poland and the Czech Republic – when it comes to the number of early school leavers, with a current rate of just 6% of 18-24 year olds. This is significantly below the EU average of 14% and is also below the EU's 2020 goal of 10%. Graduation from secondary school has significant social value and the acquisition of at least the vocational certificate is a prerequisite of being able to get a job. The period of compulsory education in Slovakia is 10 years, generally from six to 16 years of age. Slovakia actually records its dropout rate at the end of the second primary education stage (9th year; 15 years old) rather than after the compulsory 10 years. This is because compulsory and basic education do not overlap. What helps to keep the figures down is the legislative threat of withholding child benefits for parents if a child has more than 15 hours of unauthorised absence from school per month. Parents can be taken to court for negligence and in the worst case, deprived of custody. Roma children are 30 times more likely to drop out. Also, they are often inappropriately placed in special schools, as many do not pass the education entrance test (the so-called “school maturity tests”) in the Slovak language. The government has pledged to introduce these tests in the Roma language, so that such children are not excluded from mainstream education from the outset.

The overall tertiary education target has set at the 40 % has been criticized as being too statistically oriented. In education, numbers are hardly the objective; it is the content that matters. In the past, the lower numbers of people with tertiary education has been compensated by the plurality of vocational education in Slovakia. The vocational education has been widely dismantled, its social status diminished and the Ministry of education is aiming at its revival.

The bachelor degree is far from its original purpose to be more labour market oriented. The financing of schools depending on the number of students deforms the education system and the public administration is trying to come up with a new way of measuring the quality of education. At the same time, - luckily- there is the understanding that you can only guide the education system according to the needs of the labour market to a limited extend (as there are only few sectors where it is possible to make long-term predictions) and the understanding for the wider social mission of the university education (critical thinking, frontier research, to develop the citizenship skills, etc...).

## **Poverty**

**National target:** 170.000 less people should be at risk of poverty or exclusion  
European target: 20 million less people should be at risk of poverty or exclusion

At the EU level, the target for reducing the poverty has been altered compared to original proposal, to reach a wider group of people. Thus it has been made softer. Reportedly, it was the German Chancellor Angela Merkel who refused to give more money to EU poverty reduction goals, despite a majority of countries in favour. „It may sound rough, but this is no EU competence, this is national competence,“ Merkel was supposed to say according to a book based on so-called Antici protocols from European Councils published in Germany this year. In the end, a compromise was found at the suggestion of Jean-Claude Juncker. The definition of poverty is broadened, so that more people are included and the 20 million target can be reached more easily.

Even though the Slovakian target seems relatively ambitious, the biggest challenge is posed by the people living in the extreme poverty (around 1-3 %). Some experts argue that there should have been a quota, say 10-20 %, of the target reserved for this group of individuals living in the extreme poverty.

In the past, the motivation to find a work was supposed to come from the lowering of the material standards (decreasing the basics state subsistence from the state), which proved highly counterproductive as it ignored the fact that the poverty itself excludes whole group from entering

the labour market, creating a vicious circle. Not to mention the omnipresent discrimination faced by the Roma community.