

Anita Pelle – Gabriella Tabajdi

## Research and Development in the EU

### The Lisbon strategy and the emergence of the knowledge-based economy in Europe

#### Lecture 4

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# The Lisbon strategy and the emergence of the knowledge-based economy in Europe

## Lecture 4

### In this lecture you will learn about:

- The emergence of the knowledge-based economy in Europe
- The Lisbon Strategy of the EU
- The steps and achievements of the Lisbon Process

### The emergence of the knowledge-based economy in Europe

The **European Economic Community** was established in **1957** with the declared objective “to ensure the economic and social progress of their countries by common action to eliminate the barriers which divide Europe”.

The newly created **common market** at that time was thought to be the *main instrument* to reach these objectives: economic development through the elimination of barriers to the *free movement of capital and labour (inputs of economic activities), and of goods and services (outputs of economic activities)*.

The **economic objectives** driving forth European integration in the beginning were most probably fully appropriate then: definitely a lot was to be done in eliminating the barriers such a short time after World War II. Moreover, the free movement of the factors of production was indeed necessary to enable optimal resource allocation, and capital and labour could in fact be interpreted separately, at that level of technological development. The challenges came later.

**Developed economies, since the second half of the 20th century,** have become *more complex than ever*, in many dimensions:

- in *organisational* or *technological* terms,
- their *relations* and *networks*,
- their *operations* and *decisions*,
- and the *products* and *services* themselves.

This development made it necessary to substantially *reset our way of economic thinking* as well. Compared to the early times of European integration, *capital and persons are no more so clearly distinguishable* as the **role of human capital** appreciated: *humans are the carriers of knowledge and knowledge is utilised to ever larger extents in the creation of economic value*. Furthermore, the creation, the attraction, and the accumulation of **intellectual capital** occurs very differently from the way physical and financial capital behave.

By the 21st century, **knowledge** itself has become *the most important* but, at the same time, rather complicated (intangible and often tacit but dynamic) *input of the economy*.

### The knowledge-based society in Europe

- ➔ **From restricted access to knowledge to self-education.** The way ancient societies related to knowledge (reserving access to knowledge to certain elites) changed in Europe during the Renaissance. Our contemporary scene is characterised by an overkill of excessive information. The result: lack of knowledge and inability to process the necessary information. *The goal is to build a learning society by teaching individuals how to avail themselves to self-education, as an important step to knowledge-based society.*
- ➔ **Definition of knowledge-based society.** *A knowledge-based society is an innovative and life-long learning society, which possesses a community of scholars, researchers, engineers, technicians, research networks, and firms engaged in research and in production of high-technology goods and service provision.* It forms a national innovation-production system, which is integrated into international networks of knowledge production, diffusion, utilization, and protection. Its communication and information technological tools make vast amounts of human knowledge easily accessible. Knowledge is used to empower and enrich people culturally and materially, and to build a sustainable society.
- ➔ **The difference knowledge-based society can make.** In a knowledge-based society
  - 1) all forms of *knowledge* (scientific, tacit, vernacular, embedded; practical or theoretical, multisensorial or textual, linearly/hierarchically organized or organized in network structures) are *communicated in new ways*;
  - 2) as the use and misuse of knowledge has a *greater impact than ever before*, equal access to knowledge by the population is vital;
  - 3) *information accessibility* should not be a new form of social inequality;
  - 4) *closing the growing gap between developed and developing countries* must be a top political priority—no one can be left behind;
  - 5) as *knowledge cannot be understood without culture*, research on the interface between vernacular and scientific knowledge must be developed;

- 6) *access to knowledge should be considered as a right* and should be protected from short-term industrial interests limiting this access;
- 7) there must be a *continuous dialogue between society and science*, thus promoting *scientific literacy* and enhancing the advising role of science and scholarship;
- 8) *scientific discourse should stop being gender-blind*, barriers that prevent more women from choosing science careers and reaching top positions should be overcome;
- 9) the *young generation's interest* in science and commitment to the knowledge-led future of their countries should be stimulated by introducing innovative teaching methods, and by changing the image of the scientist, with the help of the media and through involved mentorship

**The ethical dimension.**

- 1) *Knowledge and society form a partnership*: science needs to work in harmony with and for society; science and scientific knowledge must remain “human” regarding community and environment, including moral responsibility and safeguarding humanity’s cultural and linguistic heritage as well as diversity in creativity.
- 2) The call is for global ethics in the *pluralist society*, to enable the individual to exist in a local/regional as well as in a national community at the same time, inclusive of using his/her vernacular, national, and the international language.
- 3) It is also an ethical dimension of research to concern ourselves with the rights of and *obligations towards other living beings in the biosphere*.

Source: World Science Forum (2003)

As the **knowledge economy is growing in the EU** and **intellectual capital has become one of the main drivers of future growth**, *countries’ ability to attract intellectual capital is of growing importance* among the factors determining competitiveness. The **race for such resources is speeding up**, *competition is intensifying in this field as well*.

## The Lisbon Strategy of the EU

The **Lisbon Strategy** was an **action and development plan devised in 2000**, for the economy of the **European Union between 2000 and 2010**. Its aim was to make the EU

*“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 2010 (CoEU 2000). It was set out by the **European Council in Lisbon in March 2000**.



Source: CVCE website

**Excerpts from the Presidency Conclusions of the Lisbon European Council,  
23-24 March 2000**

The European Council held a special meeting on 23-24 March 2000 in Lisbon to agree a **new strategic goal for the Union** in order to strengthen employment, economic reform and social cohesion as part of a knowledge-based economy. (...)

**I. EMPLOYMENT, ECONOMIC REFORM AND SOCIAL COHESION  
A STRATEGIC GOAL FOR THE NEXT DECADE**

**The new challenge**

➡ 1. The European Union is confronted with a **quantum shift resulting from globalisation and the challenges of a new knowledge-driven economy**. These changes are affecting every aspect of people's lives and require a radical transformation of the European economy. The Union must shape these changes in a manner consistent with its values and concepts of society and also with a view to the forthcoming enlargement.

➡ 2. The rapid and accelerating pace of change means it is urgent for the Union to act now to harness the full benefits of the opportunities presented. Hence the need for the Union to set a **clear strategic goal** and agree a challenging programme for **building knowledge infrastructures, enhancing innovation** and economic reform, and modernising social welfare and education systems.

### The Union's strengths and weaknesses

3. The Union is experiencing its **best macro-economic outlook for a generation**. As a result of stability-oriented monetary policy supported by sound fiscal policies in a context of wage moderation, inflation and interest rates are low, public sector deficits have been reduced remarkably and the EU's balance of payments is healthy. The euro has been successfully introduced and is delivering the expected benefits for the European economy. The internal market is largely complete and is yielding tangible benefits for consumers and businesses alike. The forthcoming enlargement will create new opportunities for growth and employment. **The Union possesses a generally well-educated workforce** as well as social protection systems able to provide, beyond their intrinsic value, the stable framework required for managing the structural changes involved in moving towards a knowledge-based society. **Growth and job creation have resumed.**

4. These strengths should not distract our attention from a number of **weaknesses**. More than 15 million Europeans are still out of work. The **employment rate is too low** and is characterised by **insufficient participation** in the labour market **by women and older workers**. **Long-term structural unemployment** and marked **regional unemployment imbalances** remain endemic in parts of the Union. The **services sector is underdeveloped**, particularly in the areas of **telecommunications** and the **Internet**. There is a **widening skills gap**, especially in information technology where increasing numbers of jobs remain unfilled. With the current improved economic situation, the time is right to undertake both economic and social reforms as part of a positive strategy which combines competitiveness and social cohesion.

### The way forward

5. The Union has today set itself a new strategic goal for the next decade: **to become 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**. Achieving this goal *requires an overall strategy* aimed at:

- **preparing the transition to a knowledge-based economy and society** by *better policies for the information society and R&D*, as well as by stepping up the process of *structural reform for competitiveness and innovation* and by *completing the internal market*;
- **modernising the European social model**, *investing in people* and *combating social exclusion*;
- **sustaining the healthy economic outlook and favourable growth prospects** by applying an *appropriate macro-economic policy mix*.

6. This strategy is designed to enable the Union to *regain the conditions for full employment*, and to *strengthen regional cohesion* in the European Union. The European Council needs to set a goal for full employment in Europe in an



emerging new society which is more adapted to the personal choices of women and men. If the measures set out below are implemented against a sound macro-economic background, an average economic growth rate of around 3% should be a realistic prospect for the coming years. (...)

### PREPARING THE TRANSITION TO A COMPETITIVE, DYNAMIC AND KNOWLEDGE-BASED ECONOMY

#### An information society for all

8. **The shift to a digital, knowledge-based economy, prompted by new goods and services, will be a powerful engine for growth, competitiveness and jobs.** In addition, it will be capable of improving citizens' quality of life and the environment. (...)

9. Businesses and citizens must have access to an **inexpensive, world-class communications infrastructure** and a **wide range of services**. Every citizen must be equipped with the skills needed to live and work in this new information society. Different means of access must prevent info-exclusion. The combat against illiteracy must be reinforced. Special attention must be given to disabled people. Information technologies can be used to renew urban and regional development and promote environmentally sound technologies. Content industries create added value by exploiting and networking European cultural diversity. Real efforts must be made by public administrations at all levels to exploit new technologies to make information as accessible as possible.

10. Realising Europe's full e-potential depends on creating the conditions for **electronic commerce** and the **Internet** to flourish, so that the Union can catch up with its competitors by hooking up many more businesses and homes to the Internet via **fast connections**. The rules for electronic commerce must be predictable and inspire business and consumer confidence. Steps must be taken to ensure that Europe maintains its lead in key technology areas such as mobile communications. The speed of technological change may require new and more flexible regulatory approaches in the future.

11. The European Council calls in particular on:

- the Council, along with the European Parliament where appropriate, to adopt as rapidly as possible during 2000 pending legislation on the **legal framework for electronic commerce, on copyright and related rights, on e-money, on the distance selling of financial services (...)**;
- the Member States to ensure that **all schools in the Union have access to the Internet and multimedia resources by the end of 2001**, and that all the teachers needed are skilled in the use of the Internet and multimedia resources by the end of 2002;
- the Member States to **ensure generalised electronic access to main basic public services by 2003 (...)**;

**Establishing a European Area of Research and Innovation**

12. *Given the significant role played by research and development in generating economic growth, employment and social cohesion, the Union must work towards the objectives set out in the Commission's communication 'Towards a European Research Area'. (...)*

**Creating a friendly environment for starting up and developing innovative businesses, especially SMEs**

14. *The competitiveness and dynamism of businesses are directly dependent on a regulatory climate conducive to investment, innovation, and entrepreneurship. Further efforts are required to lower the costs of doing business and remove unnecessary red tape, both of which are particularly burdensome for SMEs. (...)*

**Economic reforms for a complete and fully operational internal market**

16. *Rapid work is required in order to complete the internal market in certain sectors and to improve under-performance in others in order to ensure the interests of business and consumers. (...)*

**Efficient and integrated financial markets**

20. *Efficient and transparent financial markets foster growth and employment by better allocation of capital and reducing its cost. They therefore play an essential role in fuelling new ideas, supporting entrepreneurial culture and promoting access to and use of new technologies. It is essential to exploit the potential of the euro to push forward the integration of EU financial markets. Furthermore, efficient risk capital markets play a major role in innovative high-growth SMEs and the creation of new and sustainable jobs. (...)*

22. *As well as preserving macro-economic stability and stimulating growth and employment, **macro-economic policies should foster the transition towards a knowledge-based economy**, which implies *an enhanced role for structural policies.* (...)*

23. *The European Council requests the Council and the Commission, using the existing procedures, to present a report by Spring 2001 assessing the contribution of public finances to growth and employment, and assessing, on the basis of comparable data and indicators, whether adequate concrete measures are being taken in order to:*

- **alleviate the tax pressure on labour** and especially on the relatively unskilled and low-paid, improve the employment and training incentive effects of tax and benefit systems;
- **redirect public expenditure towards increasing the relative importance of capital accumulation – both physical and human – and support research and development, innovation and information technologies;**
- **ensure the long-term sustainability of public finances (...).**



## MODERNISING THE EUROPEAN SOCIAL MODEL BY INVESTING IN PEOPLE AND BUILDING AN ACTIVE WELFARE STATE

24. **People are Europe's main asset** and should be the focal point of the Union's policies. *Investing in people and developing an active and dynamic welfare state* will be crucial both to *Europe's place in the knowledge economy* and for ensuring that the emergence of this new economy does not compound the existing social problems of unemployment, social exclusion and poverty.

### Education and training for living and working in the knowledge society

25. *Europe's education and training systems need to adapt both to the demands of the knowledge society and to the need for an improved level and quality of employment.* They will have to offer learning and training opportunities tailored to target groups at different stages of their lives: **young people, unemployed adults and those in employment who are at risk of seeing their skills overtaken by rapid change.** This new approach should have *three main components*: the **development of local learning centres**, the **promotion of new basic skills**, in particular in the information technologies, and **increased transparency of qualifications.**

26. The European Council accordingly calls upon the Member States, in line with their constitutional rules, the Council and the Commission to take the necessary steps within their areas of competence to meet the following targets:

- a substantial annual **increase in per capita investment in human resources**;
- the number of **18 to 24 year olds with only lower-secondary level education** who are not in further education and training **should be halved** by 2010;
- **schools and training centres**, all linked to the Internet, **should be developed into multi-purpose local learning centres accessible to all**, using the most appropriate methods to address a wide range of target groups; learning partnerships should be established between schools, training centres, firms and research facilities for their mutual benefit;
- a European framework should **define the new basic skills** to be provided through lifelong learning: *IT skills, foreign languages, technological culture, entrepreneurship and social skills*; (...)

– **a common European format should be developed for curricula vitae**, to be used on a voluntary basis, in order to facilitate mobility by helping the assessment of knowledge acquired, both by education and training establishments and by employers.



### More and better jobs for Europe: developing an active employment policy

(...) 29. In this context, the Council and the Commission are invited to address the following four key areas:

- **improving employability and reducing skills gaps (...);**

- giving **higher priority to lifelong learning** as a basic component of the European social model (...);
- **increasing employment in services (...)**;
- **furthering all aspects of equal opportunities (...)**.

30. The European Council considers that the overall aim of these measures should be, on the basis of the available statistics, to *raise the employment rate from an average of 61% today to as close as possible to 70% by 2010 and to increase the number of women in employment from an average of 51% today to more than 60% by 2010.* (...)

➡ **Modernising social protection**

31. **The European social model**, with its developed systems of social protection, **must underpin the transformation to the knowledge economy**. However, these systems need to be adapted *as part of an active welfare state* to ensure that work pays, to secure their long-term sustainability in the face of an ageing population, to promote social inclusion and gender equality, and to provide quality health services. (...)

➡ **Promoting social inclusion**

32. The number of people living below the poverty line and in social exclusion in the Union is unacceptable. **Steps must be taken to make a decisive impact on the eradication of poverty by setting adequate targets.** (...) *The new knowledge-based society offers tremendous potential for reducing social exclusion, both by creating the economic conditions for greater prosperity through higher levels of growth and employment, and by opening up new ways of participating in society. At the same time, it brings a risk of an ever-widening gap between those who have access to the new knowledge, and those who are excluded.* (...)

Source: CoEU (2000)

Overall, the Lisbon Strategy intended to deal with the **insufficient level of productivity in the EU relative to the 21st-century challenges and realities**. It did so through the *formulation of various policy initiatives* to be taken by all EU member states. The *broader objectives* set out by the Lisbon strategy *were to be attained by 2010*.

Under the strategy, a **stronger economy based on knowledge would create additional employment in the EU**, alongside **inclusive social and environmental policies**, *which would themselves drive economic growth even further*.

## The steps and achievements of the Lisbon Process

Upon the Lisbon Strategy adopted in **March 2000**, the so-called **Lisbon Process** was launched. Its **steps** are presented below.

- Between April and November 2004, Wim Kok headed up a review of the program and presented a report on the Lisbon strategy. This was **the so-called Kok report** concluding that even if *some progress was made, most of the goals were not achieved*.
- The **European Commission** used this report as a basis for its **proposal in February 2006 to refocus the Lisbon Agenda** on actions that **promote growth and jobs** in a manner that is fully **consistent with the objective of sustainable development**. The Commission's communication stated that *"making growth and jobs the immediate target goes hand in hand with promoting social or environmental objectives."*
- In its resolution on the **midterm review** of the Lisbon strategy in **March 2005**, the **European Parliament** expressed its belief that *"sustainable growth and employment are Europe's most pressing goals and underpin social and environmental progress"* and that *"well-designed social and environmental policies are themselves key elements in strengthening Europe's economic performance"*. These declarations were classed as unrealistic by some, and the failure of the "relaunch" initiative was predicted if the existing approach was not changed.
- The Lisbon Strategy **terminated in 2010**, and was **evaluated by the European Parliament** then. The EP's main conclusion was that the strategy was not based on Treaties or legal sources but on the Lisbon Presidency Conclusions therefore its implementation could not be optimally managed. Also, it has proven to become **an evolutionary process** while being implemented.

As regards the **quantitative achievements**, the EP pointed out the following:

- *Total employment rate has been increased, by some member states even surpassing 70% by 2007;*
- *Overall female employment rate in the EU increased to 58.3% by 2007, almost reaching the 60% target.*
- *Older-age (55-65 years) employment rate increased from 37% (2000) to over 45% by 2007, with large disparities across member states though.*
- *Unemployment rate decreased below 7% across the EU by the end of 2007.*
- *The rate of early school leavers dropped to 14.8% (2007) to 17.1% in 2000.*

The *non-binding character of the Lisbon Strategy* contributed to the lack of full success, and this was a *lesson for the new Europe 2020 strategy*. **Official appraisal** of the Lisbon Strategy took place in **March 2010** at the **European Summit** where the new Europe 2020 strategy was also launched.

### Questions for self-study

- What does the concept of knowledge-based society refer to? What difference can knowledge-based society make?
- What objectives did the Lisbon Strategy set for the EU for the decade 2000-2010? Please introduce the Lisbon process.

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