theLisboncouncil

e-brief

Issue 04/2009

# Innovating Indicators

## Choosing the Right Targets for EU 2020

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**'Give me a place to stand, and I shall move the earth.'**
Archimedes

As Europe reaches the end of the decade-long process known as the Lisbon Agenda and prepares to embark on EU 2020, the next 10-year strategy for social and economic development, close attention must be paid to the importance of indicators.[1] For one, indicators command policy and public attention because they are a tangible goalpost, something to strive and work towards, and something to be measured by. Choose the wrong indicator, and you will get 27 countries and the Brussels machinery marching off in an erroneous direction, wasting valuable political (and often financial) capital. By the same token, even if a good and desirable indicator is chosen, failure to achieve the goalpost will render the entire policy process a failure, at least in the eyes of the media, even if genuine advances have been made. And given the diversity of a Europe of 27, including countries at vastly different stages of economic development, can there be "one-size-fits-all" indicators in the first place, applying the same standards of success to Bulgaria and Latvia as you do to Netherlands and Sweden?

It is probably not without reason that the European Commission in its November 2009 public consultation on EU 2020 did not even mention indicators, making neither a commitment to the existing Lisbon Agenda benchmarks – a 70% employment rate and a goal to spend 3% of GDP on research and development – nor listing any new targets.[2] Yet, it is highly unlikely that EU 2020 will be devoid of explicit and measurable policy targets, because for all their shortcomings, they work. Policy processes without tangible goalposts of success are quite meaningless because measuring progress would be left to subjective evaluations rather than objective and comparable analysis. But to be sure, even choosing the right targets and applying sound methods for evaluation is not enough. How we use data and how we relate it to the public at large to make performance more transparent, to raise awareness and to point to best practices, is equally important and too often overlooked by the responsible bodies. "Innovating Indicators," as this e-brief proposes, means not only choosing

1. The author would like to thank the following people for dozens of conversations on the topics discussed in this paper: Jean-Claude Burgelman, Declan Costello, Jonas Fischer, Enrico Giovannini, Gerard de Graaf, Gert-Jan Koopman, Tonnie de Koster, Lucio Pench, Dirk Pilat, Xavier Prats-Monné, Andrea Saltelli, Andreas Schleicher, István Szekely and Andy Wyckoff. Thanks as well to Peer Ederer, Paul Hofheinz, Stéphanie Lepczynski, Philipp Schuller, Alicia de la Torre and Stephan Willms. All errors of judgment or fact are the author's sole responsibility.

2. Commission Working Document: Consultation on the Future "EU 2020" Strategy, Brussels, 24.11.2009 (COM(2009) 647). For more on EU 2020, click here.

‘The current crisis will profoundly – and enduringly – change the political and economic landscape.’

new, perhaps unconventional targets, but also implies that the chosen benchmarks should be more cutting edge and experimental, perhaps venturing into unknown territory in the hope of reaching more citizens and making the data presented more interesting and less abstract to the masses.

## Why Indicators Matter: The EU 2020 Agenda

Today, Europe finds itself emerging from the most severe recession since the 1930s, which has seen dramatically rising unemployment, threatening to undo the great gains in job creation made in previous years. With public anger at corporate excesses and lack of political leadership at an all time high, it is difficult to imagine a forceful push for change. Yet, that is exactly what is going to be happening, with or without a political programme, such as the Lisbon Agenda or its successor programme, EU 2020, to underpin it. The current crisis will profoundly – and enduringly – change the political and economic landscape. Public finances are under severe strain, just at the moment when the demographic transition towards an ageing and declining population is starting to be felt. Innovation and human capital are the top political priorities of our times, but we never seem to be able to follow through on our pledges if we look at the way public money is being spent and invested, and how we so often purposefully block the change that could empower new market entrants or facilitate the inclusion of societal groups permanently hovering on the fringes of the labour market.[3] And education, an evergreen of popular political goals and societal objectives, is taking a beating, with an unprecedentedly high number of school drop-outs, sowing the seeds of future social exclusion and presenting perhaps the single largest threat to future prosperity and growth.

3. Paul Hofheinz, *EU 2020: Why Skills are Key to Europe’s Future*, (Brussels: Lisbon Council, 2009).

## Turning Political Goals into Reality

The ultimate problem with the original Lisbon Agenda – and also with transformation programmes at the national level – is that collectively, we are not doing what we purport to want to do. While politicians are often blamed for the discrepancy between rhetorical goals and political reality, it is too simplistic and shortsighted to make them the primary scapegoat. Politicians are but a reflection of the populace they serve, the media world they encounter, and the institutional incentives provided. And in fairness, many politicians do try to bring about necessary changes, but their efforts are drowned in negative media coverage that is too often reduced to a sound bite, in the knee-jerk hostility and purposeful misunderstanding emanating from opposition leaders and vested interests, and the enduring apathy of voters, who are dangerously uninformed about future challenges and the underlying sources of past prosperity, such as competition, trade, economic integration and innovation.

This persistent mismatch between pious goals and political reality threatens to undermine participatory democracy, societal cohesion and systemic credibility.

> ‘As is the case with all areas of politics and policy – including the use and dissemination of indicators – people make a profound difference.’

The looming threat makes it all the more important that political leaders initiate not only a meaningful, inclusive and empowering reflection on what it is that we collectively strive towards, but also formulate indicators and measurements that allow us to assess in a transparent and open manner how well we are doing in achieving our goals.

### Analysts *and* Advocates: Why People Make the Difference

It may be tempting to think that the two most widely known and admired indicator projects – The OECD’s Programme for International Student Assessment (PISA) and Measuring the Progress of Societies (which inspired the Stiglitz Report) – are successful because of the methodology they deploy or the analysis they provide. While that may certainly be true, it is also important to recognise that the people behind these projects, Andreas Schleicher and Enrico Giovannini, are an integral part of the success story. Both of them are advocates as much as they are analysts. They bring conviction, passion and an outward orientation to their jobs that is unusual in policy circles. They lend a “face” to their respective projects as they tirelessly travel around the world talking to policy makers, media, stakeholders, and other audiences about their work, highlighting why the data they present holds important messages for people and society. Anyone who has seen presentations given by these two gentlemen understands that their work is as much a personal calling as it is a job. As is the case with all areas of politics and policy – including the use and dissemination of indicators – people make a profound difference, for they breathe life into otherwise abstract issue areas, they are a sympathetic face that can explain why change is necessary and they are a public manifestation that there is a real person behind a report and not only a faceless bureaucracy.

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*Enrico Giovannini*

*Andreas Schleicher*

## ‘Indicators are a key tool to hold decision makers accountable for how well they are doing in achieving the objectives that have put them into public office.’

How do we know if our societies are doing well in preparing for – and responding to – future challenges? What are the measurements that hold intricate meaning for citizens in comparatively prosperous societies?[4] And are we ultimately using the right indicators to measure a desired policy outcome, or are we only taking into account what can be easily measured, such as R&D spending, and using it as a simplistic proxy for assessing a complex policy phenomenon, like innovation?

## Towards Evidence-Based Policy Making

Despite the evident shortcomings, indicators continue to be the single best tool to assess progress and performance. The global interest, if not movement, towards "evidence-based policy making" is rooted in the idea that policy should not be based on hear-say or ideology, but rather rest on solid evidence, for which measurements of performance and comparison with others are indispensible. Indicators are thus a key tool to hold decision makers accountable for how well they are doing in achieving the objectives that have put them into public office. Perhaps that is why indicators are politically so sensitive, so often scorned by politicians and their civil service as unfair, unbalanced and unable to account for their unique "national circumstances."

It was not without reason that in early 2005, one of the first acts of then newly appointed European Commission President José Manuel Barroso was to stop the "naming and shaming" of member states with regard to their performance on the Lisbon Agenda. This was in response to member states' fierce opposition to being handed a "report card" once a year from Brussels, which national political leaders experienced as publicly humiliating and counter productive in pursuing their domestic policy agendas. In addition, President Barroso oversaw a dramatic streamlining of the indicators used to assess progress. While the Lisbon Agenda I (2000-2005) had turned into something resembling a "Christmas tree," with more and more indicators added to measure more and more objectives, the policy process risked becoming "about everything, and thus about nothing."[5] President Barroso limited the indicators used to assess progress on the Lisbon Agenda to two: a 70% employment rate and a target to spend 3% of gross domestic product on research. For all the shortcomings associated with these two targets, on balance they worked and delivered the desired results. Specifically, they

- provided concrete and measurable targets to assess progress in two key policy areas: employment and research/innovation
- motivated the member states to improve their performance in these two areas
- raised awareness among the public at large on why performance in these two policy areas is important

4. In 2004, the OECD initiated an ambitious global project on "Measuring the Progress of Societies" in an effort to account more accurately for the vast multitude of conditions that lead to progress and well-being. It challenged the notion that GDP and GDP growth are sufficient on their own to measure progress. For more information, visit www.oecd.org/progress. French President Nicolas Sarkozy subsequently asked Joseph Stiglitz, Nobel prize winning economist, to lead a group drawing up new measurements of economic performance on social progress. Download Joseph Stiglitz et. al., *Report by the Commission on the Measurement of Economic Performance and Social Progress* (2009)

5. From *Facing the Challenge, The Lisbon Strategy for Growth and Employment: Report from the High-Level Group Chaired by Wim Kok*, November 2004, p.16.

> ‘The risk of contagion will increase the demand for unbiased, rigorous and publicly accessible analyses on the economic and fiscal health of EU member states.’

Without a doubt, one of the most impressive achievements of the Lisbon Agenda is that it moved the public debate – and political attention – to focus on employment, rather than unemployment, with the former indicator being a more accurate and better reflection of the health and dynamism of a labour market than the latter. This shift away from a one-dimensional focus on unemployment, towards a comprehensive emphasis on employment is a clear success of the Lisbon Agenda, and deserves to be recognised as such. Furthermore, some eight EU member states actually reached their Lisbon employment target (Austria, Cyprus, Denmark, Finland, Germany, Netherlands, Sweden and United Kingdom), two reached the R&D target (Finland and Sweden), which is largely overlooked in the predominantly negative press coverage, which portrays the policy process as a complete failure.

## The Current Crisis as an Opportunity for More Rigorous Benchmarking and Evaluation

Some 10 years after the introduction of the euro, it is dawning on EU member states, particularly those within the Eurozone, that their fate is intricately linked to the economic performance and fiscal management of other countries. The plight of Ireland and Greece in the current economic crisis is not only a drag on their respective domestic economies but also on Europe at large, particularly the Eurozone. Much debate centered on Germany, the largest European economy, and on whether the country would come to the fiscal rescue of another country, despite the EU’s “no bail-out” clause, which prevents members of the Eurozone from supporting other members that are facing unsustainable levels of public debt. Irrespective of whether Germany is prepared to bail out another country or not, this case demonstrates that, in a monetary union, EU members with better economic governance must vigilantly observe what is happening in other, perhaps less disciplined, countries.

The emerging need to keep a check on economically weaker countries might lead to a call from at least some member states for more diligent monitoring and, if necessary, public naming and shaming of countries that do not keep their economic and fiscal house in order. In other words, the risk of contagion will increase the demand for unbiased, rigorous and publicly accessible analyses on the economic and fiscal health of EU member states, in particular Eurozone countries. This is a far cry from earlier times, when EU member states were united in not wanting publicly available, cross-country benchmarking studies about their respective economic state. And herein lies the opportunity, because for the first time in years the European Commission might get a mandate from EU members to provide more hard-hitting, publicly available data. This should be encouraged and made a vital part of the EU 2020 agenda, with the understanding that the goal is not to shame countries but to observe at an early stage the potential for future crises.

‘We need indicators based on output and actual performance, rather than simply measuring inputs, such as R&D spending or the number of patents.’

6. See Bloom et al, Management Practice & Productivity: Why They Matter, (London: Centre for Economic Performance, London School of Economics, 2007).

## From Input to Output Indicators

By contrast, the use of R&D spending as the key indicator for innovation has proven to be overly simplistic and generally speaking insufficient. While by all means greater investment in research and development should be encouraged, it should never automatically be equated with innovation, which is a complex, multi-faceted process that often involves no research spending whatsoever. For instance, in the service sector, which accounts for more than 70% of European economic activity, innovations are often more about speedy changes and adaptations in processes and business models than the result of long-standing research activity carried out by PhDs in laboratories. In particular, we need indicators based on output and actual performance, rather than simply measuring inputs, such as R&D spending or the number of patents granted. An area where the move from input to output measures has delivered truly extraordinary policy impact is in measuring education performance. Thanks to the OECD’s Programme for International Student Assessment (PISA), it became possible to measure output rather than input. Instead of taking education spending (=input) as the benchmark, the OECD set out to measure the actual reading and math skills of students (=output). The subsequent results were a thunderclap for many countries, particularly those that spend a lot of money on education while achieving poor results.

Another area where a causal relationship between investment (input) and innovation (output) is assumed is in government ICT investment. From e-government and e-health to smart grids and green growth, investment in ICT is seen as a panacea for lack of productivity, innovation and performance. And while ICT investment is indeed needed, one must understand that it is only an enabler, a potential catalyst. However, in the absence of the ability to restructure or reorganise a given operation, or to change organisational incentives towards rewarding meritocracy and innovation, the possible impact of ICT is likely to be very limited. Against this backdrop, it is not surprising that while huge sums of money have been spent on e-government in many countries, the impact is limited because of continued rigidities and innovation-hostile framework conditions. This calls for more research and investigation with regards to workplace innovation – examining how the actual “on the ground” organisation of work and work processes impacts productivity, performance, job satisfaction and creativity. Lack of innovation is often as much – or more – a management shortcoming as it is a lack of research spending.[6]

## From Country-Level Targets to European Goals

One of the EU’s better known and popular goals is the 20-20-20 target by 2020: cutting greenhouse gas emissions by 20%; reducing energy consumption by 20% through increased energy efficiency; and meeting 20% of energy needs from renewable resources, by the year 2020. Two things have worked about this goalpost.

## 'A European target, with individualised country targets, offers a promising roadmap for greater progress, broader buy-in and constructive peer pressure.'

First, it is very popular, including among political leaders. The targets are clearly understandable to a broad number of people, and they are patriotic and bold, demonstrating first-mover advantage vis-à-vis other part of the world. Presumably, all of the above have led to a seldom witnessed political determination to press ahead with rapid speed in measuring performance, with EU environment ministers calling on the European Commission to complement GDP with "additional robust, reliable and widely recognised indicators to measure progress towards an eco-efficient economy."[7] Secondly, the 20/20/20 targets are European goalposts, meaning that there is not a uniform indicator that applies to all 27 member states, but rather a Europe-wide commitment of 20% in total, with individual member states contributing according to their state of development and ability. For instance, the renewables target for the UK is 15% by 2020, but 30% in Denmark where already 20% of the electricity needs are met by wind power, and reaches a high of 49% in Sweden, a country that is a global leader in renewables. One can envision a huge amount of peer pressure in delivering on these goals as a country would not want to fall foul of causing failure for the entire EU because it falls short of its target. This new approach to EU-wide targets with individualised commitments perhaps presents the holy grail to compliance, without having to resort to the use of the "naming and shaming" to which many member states object. It also is a way of accounting for different stages of development in different countries, which is more important than before given the diversity of an EU of 27 member states.

7. Request from EU Environment Ministers, meeting in Luxembourg, on 21 October, 2009.

In general, if one compares the 20/20/20 goals with two other key EU indicators, the 70% employment rate and the 3% R&D target contained in the original Lisbon Agenda, one immediately sees a difference. While few people would dispute the merit of spending more on research, the 3% goal seems abstract and arbitrary. Most observers would see no inherent benefit of spending 3% over, say, 4%. It's quite meaningless, because the figure that matters most is the private-sector R&D component, which is not separated from this overall target. Second, these targets have been applied uniformly to all EU member states, not taking account of their economic state. While a 3% R&D target is overly ambitious and not reachable (or perhaps even desirable) for countries like Bulgaria or Malta, it is not sufficiently challenging for a country like Sweden, which already spends more than 4% of GDP on R&D. Not surprisingly, the vast majority of countries have not met their Lisbon Agenda R&D spending goal, which in turn has led most observers, particularly the media, to conclude that the entire process has been a failure. In order to avoid such shortcomings in the future, targets not only need to be carefully chosen but they must also be realistic enough to ultimately be reached, otherwise countries can feel overwhelmed and lack the incentive to set everything in motion to deliver on a given goal. A European target, with individualised country (or even regional) targets, offers a promising roadmap for greater progress, broader buy-in and constructive peer pressure.

‘A persistent pattern of under-investment and over-consumption is not sustainable over time and will deprive future generations of political room to maneuver.’

8. For a good illustration of how to visualise policy developments over time, such as demographic outlook, explore the seminal work of Hans Rosling, professor of public health at Karolinska Institute, at www.gapminder.org.

9. In doing research for this e-brief, an expert told me that this data was readily accessible and published by Eurostat and the OECD. Asked where I could specifically find this, I was referred to this website. Perhaps I am a layperson but one cannot expect a majority of citizens to either find this site or draw solid conclusions from the presentation of this data.

## The Time Dimension of Indicators: Avoiding Future Risk and Paving the Way for Sustainability

One could understand that a first-time visitor to Europe would think that life in the EU is quite good – particularly in comparison to the rest of the world. The standard of living is high, our democratic systems advanced, societal cohesion high, and the infrastructure superb, to mention but a few of Europe’s hallmarks. So why do we need all this incessant talk about change, about reform, about modernisation?

For a very simple reason: because the status quo is not sustainable over time. Even before the current economic crisis hit, many member states could only sustain the status quo by running up large budget deficits. As a result, countries have to spend more and more of their budgets on interest expenditures. That is not just unfair to taxpayers, who contribute generously to sustain the system and have to trust that governments spend the money they collect wisely. It is also unfair to future generations, as a persistent pattern of under-investment and over-consumption, added with the burden of servicing an ever-growing public debt, is not sustainable over time and will deprive future generations of political room to maneuver.

Politically, it will be important to exploit the argument that future developments will put current well-being at risk to the fullest.[8] Today’s political leaders must demonstrate more convincingly that current actions can either increase or reduce future risk. In addition, citizens need to have a plethora of indicators that are easily understandable at their disposal to comprehend what is at stake. These should include both macro-level data as well as micro-level data that are meaningful and relevant to the individual. With regards to the former, we need complete transparency over expenditure, revenues and public debt. It should not be as difficult as it currently is for citizens to have access to information on how public expenditure is structured.[9] In addition to access to better and more information, citizens deserve to be told why they should care about this data, how for instance under-investment in education will impact them and their family personally over time, or how a steadily rising debt burden will threaten the social welfare and social security systems they are counting on in times of need or in retirement.

With regards to the latter, there are now several countries that tell individuals how much they need to save today to have a given pension in old age. These efforts are to be applauded and expanded across the EU, a continent in which so many continue to have unwavering faith that the state will adequately provide for them. In order not to disappoint these citizens, as well as for the sake and sustainability of Europe’s world-class social security systems, it is imperative to provide better and more targeted information that is meaningful to the individual recipient, so that he or she can make informed choices and realistic assessments of the future.

## ‘What good are the best, most sophisticated indicators when they are only known to a handful of bureaucrats or intellectual elites?’

### Awareness Raising and Communication Should Be Centre-Stage

What good are the best, most sophisticated indicators when they are only known to a handful of bureaucrats or intellectual elites? How good is the quality of our democracy when so many citizens are woefully under-informed about areas that are intricately linked to their current and future well-being, such as education, health, environment, pension and tax systems? Despite living through an unprecedented information revolution, thanks to the Internet, social networking tools and other emerging technologies, it is still unnecessarily difficult to get basic information about key statistics. And even if the information can be found, it is often presented in ways that are less than intellectually accessible and meaningful to the average citizen.

The issue at hand seems to be that data is produced mostly for an elite target group – statisticians, policy makers, intellectual leaders, academics, etc. – without sufficient concern for the audience that ultimately counts most, citizens and voters. And given the complexity of some of the issues involved, we need more than just suppliers of data, i.e. statistics offices, to make a difference. There is an entire value chain that needs to be mobilised in order to facilitate a better understanding among citizens. Starting at school, where economic and financial literacy should become a core part of the curriculum, and media outlets, which should provide more quality information, to civil society actors, which could use their unique roots in communities to raise awareness and bolster understanding. If we want to succeed in informing and empowering citizens, awareness raising and communication will be as important as the content itself. That realisation marks an important watershed that the producers and elite consumers of data will likely grapple with, but it is the only way to have a better public discourse about current and future challenges. And it is the key to sustaining a vibrant democracy, with an informed and empowered populace, prepared to take action today to make the European model of society sustainable and enduring for coming generations.

### Regional and Local Actors are Key

One way to facilitate this process is to involve regional and local actors more actively. Not only do we need more data that applies to the regional and local level[10] but experience also tells us that citizens identify more with – and are more interested in – their immediate surroundings than in larger entities, such as countries or the European Union. Regional and local institutions are often seen as more legitimate and credible, and they present a level of governance that is less removed from the day-to-day lives of citizens. Against this backdrop, it is advisable to link macro policy and macro indicators more than is currently the case to the regional dimension, and try harder to engage regions and municipalities in the production and dissemination of data, while working actively with regional actors, such as mayors, NGOs, social partners, public administrations, etc.

10. The Swedish region of Sörmland is an excellent example of a subnational actor that is effectively using indicators to generate interest among citizens and raise awareness. Its “EU on the Marketsquare” project publicly highlights Sörmland’s performance on key aspects of the Lisbon Agenda with other regions. Indicators include, inter alia, population growth, percentage waste, percentage of eco-friendly cars, number of new enterprises.

## 'Not only do our leaders need to be careful to choose the new indicators wisely, but any decision should be made along with a blueprint for delivery.'

One way to engage regions more in ongoing policy processes, such as the EU 2020 programme, and to make the accompanying targets more tangible and relevant, is to break them down by region. Spain, for instance, included a breakdown by region of the main goals of the Lisbon Agenda, in its National Reform Programme. Here, one can see how individual regions perform with regards to key indicators, such as the employment rate, early school leaving rate or life-long learning rate. Uniquely, Spain not only measures its performance at the regional level, but also sets regional targets. For instance, while a region like Navarra, which has an employment rate of 72% (and which has therefore already reached the Lisbon Agenda target of 70%) strives for an employment rate of 75% by 2010, other less-performing regions, such as Andalusia, with its current employment rate of 59,1% has a comparatively more modest (and realistic) 2010 target of 66%. The Spanish case deserves attention and further study, and might be a good model to follow for the EU 2020 Agenda.

### Going Forward: Reflection on the Political Economy of Indicators

With the economy scarred by recession and formidable challenges on the horizon – from combating climate change and dealing with an ageing workforce to ensuring fiscal sustainability – there has never been a more urgent need for good and easily accessible indicators. That is why we must initiate a better, broader debate on what kind of indicators we should adopt, and what role we expect those indicators to play in helping us reach our social and economic goals. Do we want to measure how far we are from achieving a goal? Or do we want to measure a final outcome? How do we adequately account for future risk? And what are the actors and institutions that can most credibly relate the social and economic reality captured in the indicators to different audiences, such as the media, the EU member states, society at large? These are only a few of the questions that need urgent answers.

These questions are of special importance now that the details of the EU 2020 programme are being formulated. Not only do our leaders need to be careful to choose the new indicators wisely (for a recommendation of possible indicators, see the box that begins on page 12) but any decision should be made along with a blueprint for delivery, i.e. what is the dissemination strategy, what are the actors involved, who is the key audience, how do we measure success? These are but a few of the issues on which the ultimate success or failure of the EU 2020 agenda will stand or fall.

What's more, we must urgently stop the finger pointing, which is ultimately only a tool to renege on one's responsibility. On the one hand, the European Commission likes to blame the member states for not conceding to the publication of potentially controversial and embarrassing data, when the reality is that even if the Commission could have "named and shamed" in recent years

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it would unlikely have led to major reforms or profound changes in awareness. This is because a one-off data publication is unlikely to lead to anything more than a one-day media rush in the absence of a comprehensive follow-up strategy, regional and other stakeholder engagement, sustained advocacy and a communication plan that surpasses the launch date.

The EU member states, on the other hand, should stop seeing Brussels as the headmaster who uses data to criticise the performance of the pupils. It is a misguided political choice to see oneself as a “pupil,” rather than the recipient of important information that empowers and informs better decision making, that yields key insights, such as lessons to be learned from EU peers, and that can perhaps make unpopular changes at home a bit easier by demonstrating that other countries have had good experiences from a given reform.

If, at the end of the day, leaders of the European institutions do not muster the political courage – or if the EU itself continues to suffer from a lack of a mandate bestowed by the member states – it might be wise to outsource some of the necessary analysis to credible and neutral actors, such as the Organisation for Economic Co-Operation and Development (OECD). The OECD would be well positioned to deliver necessary messages about the EU’s economic and social performance, as well as future threats and the recommended policy responses. As an inter-national think tank, the OECD is well poised to take the political heat that inevitably comes with breaking facts that might be uncomfortable and embarrassing to policy makers.

But ultimately, that is only a short-term solution for Brussels and the member states who must finally come to grips with the fact that they sit in the same boat. They are responsible not to themselves but to the citizens of Europe, who rightfully expect easy access to data and meaningful information that will allow them to form their own judgments about future challenges and opportunities.

## New Indicators for a New Agenda: EU 2020

The onset of a new decade and a new strategy, EU 2020, present a unique opportunity to introduce new indicators, which can help drive forward the understanding and awareness of key policy challenges, such as

### Eco-Efficiency and Low-Carbon Economy

The accompanying indicators, the 20/20/20 targets, are already formulated and politically endorsed. These indicators should now be made part of a larger re-tooling of the economy, and politically should be "moved" from the sole responsibility of environmental ministers, DG Environment and the new Climate Action commissioner to a broader political framework mapping out a medium- to long-term economic development strategy for Europe, ideally the EU 2020 strategy.

### Public Finances

The post-crisis world will be marked by a dramatic rise in deficits and an urgent need to shore up public finances to make them sustainable over time. Thanks to the Stability and Growth Pact, we actually have indicators that are supposed to measure fiscal-policy performance: an annual budget deficit no higher than 3% of GDP and a national debt lower than 60% of GDP. While these limits have done much to entice governments to manage their public finances well, they have not been able to prevent the violation of both targets in many member states, and not only due to the current economic crisis. Going forward – and in the awareness that public finances are going to come under severe stress in coming years – we do not necessarily need new indicators in this field, but we do need a broader information campaign of what happens when these targets are persistently violated. What does it mean for the prospects of a country when debt levels surpass, say, 100% or 120% of GDP? What concretely will it mean for people and their lives? What will it mean for other countries that are peers in a monetary union? Why should we care? We need broadly accepted and widely understood answers to these questions, and we need them urgently. At a minimum, we need a vigorous public debate about how we want our political leaders to spend the taxes they collect, and what kind of expenditure is most likely to pave the way to a prosperous future.

The following are a selection of indicators that could be used in addition to the targets set out by the Stability and Growth Pact:

**Quality of Expenditure**

- Every citizen should have access to at least rudimentary information on how public money is spent, i.e. social security, interest expenditure, defence, research, education, transport, etc. While experts will say that this information can be found, for example here on the Eurostat website, the reality is that the information is neither easy to find nor easy to understand. The European Commission should take it upon itself to a) collect the pertinent data, b) publish it in an easy-to-understand format, accessible on the Internet and not buried in a 200-page report, and c) draw conclusions by comparing the 27 EU member states, i.e. note which countries have a high quality of expenditure and explain why these countries benefit from this strategic investment in its future.

**Sustainability of Public Finances**

- Good data should have a time dimension, i.e. we should be able to show how data that is measured today can indicate a threat or a challenge in the future. Apart from climate change, sustainability of public finances will be the key threat to Europe's future. There will be tremendous pressure to increase spending, be it to care for an ageing population or making the necessary technological investment in a low-carbon future. That is why it is necessary to make greater, more publicly visible use of **sustainability gap indicators**, which should clearly illustrate what measures are needed today to ensure long-term sustainability in light of pension projections, demographic developments and countries' initial budgetary position. Against this backdrop, the recent European Commission Sustainability Report was very welcome and holds the potential to make great strides towards fostering a better understanding of the need for sustainability in public finances.

## Social Cohesion, Education and Opportunity

In the aftermath of the current crisis and the threat of rising inequality within our societies, the EU should rightfully bolster the social dimension of the EU 2020 Agenda. But with it should come a recognition that a social model is not static, that policies that have fostered social cohesion in the past might be leading to greater social exclusion now. In that light, we may need to benchmark our current social outcomes against the values we say we possess, holding up a mirror to European society as it has evolved in the last half decade and asking ourselves: do today's policies give us the social outcomes we desire and need? Specifically, do we do enough to provide opportunity to all, to include immigrants, young people, mature workers, women and the low skilled in our traditional model of European prosperity?
Or are today's policies excluding those groups (who happen to contain society's weakest members) as consistently, effectively and unjustly as pre-cohesion social models shored up the rich at the expense of the poor? Is it not time to reflect on what "social inclusion" means in increasingly diverse societies, in which the sole male breadwinner and traditional family structures are becoming the exception, not the norm? In order to forgo the ideological, backward-looking debate that inevitably accompanies such reflections, it might be better to simply look at performance, i.e. How many immigrants find opportunity – and inclusion – in our schools, universities and labour markets? How many women can find professional fulfillment and enjoy motherhood? How many people looking for a job are actually able to find one? What is the dependency ratio for pension systems? A good example of a report which simply presents comparative data on these points and allows people to draw their own conclusions is published by the German think tank berlinpolis.

Entitled "Wie sozial ist Europa?" or "How Social is Europe?", the report highlights the performance across Europe of five key dimensions: distribution of income; labour market inclusion; opportunities for education and vocational training; gender equality and generational equity.

In addition to using targets and measurements to inform and stimulate a much-needed debate over social cohesion and the long-term sustainability of our social models, there is one goalpost that needs particular focus, namely the employment rate. Up until now, the 70% employment rate contained in the Lisbon Agenda was actually very useful, with member states making real efforts to reach it. However, what has been largely overlooked is that an analysis of the employment rate needs a much greater focus on skill levels because that is where the crux of the challenge of social inclusion lies. According to 2007 Eurostat figures, in the EU 27, high- and medium-skilled workers reached their Lisbon employment targets with a respective employment rate of 83.8% and 70.2%. However, the employment rate among low skilled was a mere 48.6%. Going forward – and assuming that the 70% employment target will remain part of the EU 2020 strategy – it will be absolutely necessary to provide additional data on the skill composition of the work force, including the corresponding employment rates. These figures will demonstrate that any serious effort to raise employment rates must be accompanied by a simultaneous strategy to invest more in the low skilled and provide greater opportunity and access to additional training (for more, see EU 2020: Why Skills are Key to Europe's Future by Paul Hofheinz, Lisbon Council policy brief, December 2009). Against this backdrop, the proposed benchmark of tertiary level attainment of 40% of 30-34 year olds by 2020, contained in the Strategic framework for European cooperation in education and training (ET 2020) should definitely be considered for inclusion in EU 2020 (though my colleague, Paul Hofheinz, has argued that graduation rates would show faster, quicker signs of performance improvement and serve as a better benchmark reference.). Looking at labour markets only in terms of employment rates and not in terms of skill levels is too narrow in assessing progress in the EU 2020's self-stated goals of "creating value by basing growth on knowledge" and "empowering people in inclusive societies."

### Innovation and Dynamism

It is difficult, if not impossible, to imagine innovation thriving in an environment of stasis, where the status quo rules and any kind of change comes at a hefty transaction cost. Innovation is as much the ease and acceptance with which new ideas can be brought to fruition as it is about solving societal challenges. Looking back at the Lisbon Agenda I (2000-2005) and Lisbon Agenda II (2005-2010), it was a mistake to position "innovation" so unilaterally as something that pertains only to companies and not to the public sector or the third (non-profit) sector, as a social phenomenon that is mostly about research and technology and not about changes in society and organisations or the broader economy landscape and social structure and that is mostly driven by the incentive to generate private-sector profits rather than to solve societal challenges or empower users and citizens. The European Innovation Scoreboard, published by the European Commission's DG Enterprise, has tried to widen the scope of innovation, which is certainly to be welcomed, but it is imperative to build on the success of this project, for instance by improving the communication strategy or including other key indicators which are of pertinence to citizens, such as public-sector performance in delivering services.

With the benefit of hindsight – and well-aware of the complexity of measuring "innovation" – there should now be a concerted effort to find measurements that can capture the notion of change, of dynamism, of movement in the economy and society. Ways to measure dynamism could for instance include the following indicators:

- **Productivity growth.** Increases in productivity are invariably the result of dynamic change, often spurred by technology, research and process or business model innovation. As long as a sector or individual company records productivity growth, one can assume that innovation is taking place and that the position vis-à-vis competitors can either be sustained or even be improved. As such, productivity growth is a more suitable measurement for innovation and dynamism than R&D spending, also because it is an output indicator, rather than an input indicator.
- **The number of people who switch jobs in a given year.** Is the Danish flexicurity model, in which some 15% of the workforce switch jobs in a given year, as much as driver of innovation as it is a standard bearer for employment security?
- **The number of highly skilled non-native workers a country or region attracts.** If the world's innovation elite chooses other places to reside, is that not something that should be a great worry, especially in view of Europe's demographic outlook?
- **Birth/death rate of companies or "company demographics."** While it is well accepted and encouraged that new companies should grow, Europe struggles with the inevitable consequence, namely that as some companies rise, others will decline and eventually even fail. The unilateral focus on entrepreneurship rates is insufficient because entrepreneurs can only thrive in systems that refrain from propping up national champions or that shield individual companies or entire sectors from new entrants or unwanted competition.

Part of the reflection on the successor strategy of the Lisbon Agenda should involve a thorough analysis of indicators, focusing not only on what the indicators should be but also on why they hold intricate importance for citizens, how they can be communicated and how they should be used to raise awareness of current and future challenges and opportunities. This will necessitate not only an internal expert reflection, but also a much broader and more inclusive approach vis-à-vis the citizens of Europe. Only then can we hope to formulate indicators that stand a chance of eliciting the necessary public interest and – if necessary – pressure to improve performance, measure progress and reach targets.

At the same time, our leaders will need to determine if these targets – once agreed and adopted – should be uniformly applied to every member state, irrespective of that country's state of development, or whether country-specific targets should be adopted? Or, should it be a European-wide target, like the 20/20/20 goals, which allow for an overall goal but with country-specific sub-targets?

Whatever approach is taken, the mantra of "innovating indicators" should accompany the use of targets in the new EU 2020 strategy. There is much to be learned from the original Lisbon Agenda, and even more to be improved upon. That is why the launch of the EU 2020 agenda must be accompanied by an ambitious, hard-hitting and compelling set of goals that are meaningful for the citizens of Europe.

## Summary of Recommended Indicators for EU 2020

### Environmental Sustainability / Climate Change

- 20/20/20 targets (already exists)

### Fiscal Sustainability / Public Finances

- Annual budget deficit below 3% of GDP (already exists via the Stability and Growth Pact)
- Public debt below 60% of GDP (already exists via the Stability and Growth Pact)
- Quality of expenditure (new indicator)
- Sustainability gap indicators (new indicator)

### Social Cohesion, Education and Opportunity

- 40% tertiary graduation rate of 30-34 year olds by 2020 (already exists via the Strategic Framework for European Cooperation in Education and Training, ET 2020)
- 70% (or higher) employment rate (already exists via the Lisbon Strategy)
- Opportunities and access to education and vocational training (new indicator)
- Generational equity (new indicator)

### Innovation and Dynamism

- Productivity growth (new indicator)
- Number of people who switch jobs (new indicator)
- Number of high-skilled immigrants (new indicator)
- Birth / death rate of companies (new indicator)

ISSN: 2031-0935

The e-brief series is published on the editorial responsibility of the Lisbon Council asbl. The responsible editor is Paul Hofheinz, president, the Lisbon Council asbl

www.lisboncouncil.net

Design by www.karakas.be