

SERI Background Paper

Integrating economic, social and environmental policies: who calls the tune?

A Background Paper for the EU Spring Summit

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1 Introduction

1.1 *Politics layer by layer*

Integrated politics for macroeconomic objectives has a remarkable tradition in the European Union. Already the late president of the Commission, Jaques Delors issued a White Paper on “Growth, Competitiveness and Employment”¹ calling for an investment-led development path, including reducing the cost of labour financed by a tax on environmental “bads”. As the tide had turned to a more neoliberal point of view based on restricted state activity and the rejection of an expanding welfare state in the member states, the White Book launched in a major conference and revisited a year later never made into practical politics. Instead the Essen summit 1994 decided to emphasise the co-ordination of labour market politics based on enhancing employability and increased flexibility of the labour market, a focus integrated into the Amsterdam Treaty and later on the starting point of the Luxembourg Process. Now, after a “lost decade for social politics” (Romano Prodi), the integration of social, economic and environmental politics is back on the agenda. However in a changed political landscape dominated by (micro-)economic thinking and a thrive to deregulation.

Given the politics of the last decade, the adoption of the EU sustainable development strategy EUSDS at the European Council in Gothenburg in June 2001 is a decisive political step towards implementing the sustainable development orientation of the Union as spelled out in article 6 of the Amsterdam treaty. The integration of the economic dimension with social, employment aspects and finally environmental aspects was made operational by including it into the Lisbon process, with the annual Spring Council serving as one central control institution of the results. The European Commission will, on the basis of its Synthesis Report published each January conduct an evaluation how far the previously defined objectives (determined in each Council Meeting) have been met, using the structural indicators from the synthesis report. So far, the economic goals as defined by the BPEGs shape the process; the social and environmental ones are added with the intention to make them comprehensive with the economic ones, rather than vice versa. The dimensions of sustainable development are so far not on equal footing – a challenge for the future not only of the EUSDS, but for policy integration, synthesis reporting and structural indicators as a whole. The integrative approach is lacking in the definition of integrated goals, and respectively the “translation” of priorities contained in the EUSDS in concrete goals for the synthesis report. The first stock-taking of the process was carried out at the Barcelona Council of March 2002.

Public interest in the Lisbon Strategy will intensify when good results on the basis of structural indicators and comparisons are achieved and displayed in Member State rankings. The set of structural indicators, which is currently made up of 42 indicators needs to be developed further; in its current version it reflects the dominance of economic concerns, rather than the integration intended. The short-run

¹ Commission of the European Communities (1994), Growth, competitiveness and employment. Present challenges and the way into the 21st century. Commission White Paper, Office for the Official Publications of the European Communities, Luxembourg.

goal should be improving individual indicators and improving the balance between headline categories, whereas the creation of real integrated sustainability indicators including indicators covering the linkages between dimensions would be a goal for the medium-run (until 2004).

1.2 Open questions

There is a real risk is that the idea of integration of three dimensions of sustainable development in the framework of the Lisbon Strategy is missed out – neither the sustainable development objective nor the integration of environment and social criteria into all fields of EU policy are mentioned in the draft constitution presented. It is therefore imperative to enhance the integration of the dimensions while strengthening the social and the environmental dimension in the framework of the Lisbon Strategy. In the medium term, this process should be extended to include the global impacts of EU politics in a comprehensive sustainability assessment, responding to the importance attributed to the international dimension in the Commissions Communication on the sustainability strategy as well as in the EU papers presented at the Johannesburg WSSD. Furthermore, the institutional aspects of governance for sustainable development, now singled out in a separate process based on the green paper on governance could be reintegrated to be covered by the Synthesis Report and the Structural Indicators. This integration is all the more important as the European Convention will definitely deal with governance structures, and might be led the wrong way if one of their core purposes, enabling policy integration towards sustainable development, is not properly reflected in the recommendations.

The sustainability coordination in the Commission, its internal assessment procedures and the improved coordination of Commission services, together with the presentation of an Annual Environmental Report² are first important steps into the right direction, towards a “true” sustainable development strategy and policy.

2 The EU integration process

The integration process starts with the broad economic policy guidelines BPEGs (section 2.1), with the employment guidelines (section 2.2) integrated in the Lisbon Process (section 2.3). Subsequently the environmental dimension is added to this framework, based on the Cardiff environmental integration process (section 2.4). The EU sustainable development strategy integrates all three dimensions (section 2.5), the synthesis report for the spring summit including the structural indicators makes it operational (section 2.6).

2.1 The Broad Economic Policy Guidelines BEPGs

“The BEPGs are at the centre of economic policy co-ordination in the European Union. They must be concise, concentrate on the main challenges facing the Union, with particular focus on the Euro area, where co-ordination is most needed, and help

² As decided at the Environment Council, 4 March 2002, cipher 50.

*to ensure that measures adopted in all Community economic co-ordination processes are consistent with it.*³

The BEPGs are drawn up in conformity with Article 99(2) of the Treaty establishing the European Community⁴. The EU economic policy strategy claims to be oriented towards the pursuit of growth and stability-oriented macro-economic policies, able to respond to changing economic circumstances in the short run as well as to improve long-term capacity for sustainable, job-creating and non-inflationary growth⁵. At the Barcelona European Council, it has been decided to broaden the guidelines' perspective to take into account the development of the sustainable development strategy.

In this respect, the ECOFIN Council states that the BEPGs, *"being at the centre of economic policy co-ordination, are well placed to develop a comprehensive, transparent and credible Community framework for improving the integration of environmental and sustainable development issues with economic policy."*⁶

This approach immunizes the BEPGs against the challenges from social, employment and environmental objectives, resulting in two deficits and making them a questionable basis for policy integration. One concerns the BEPGs as such, the other refers to the balance in and the quality of the integration process. In both cases deficits on substance are frequently accompanied by policy statements going far beyond the measures suggested towards real policy integration. Whether this a rather ambitious long term perspective or is mere window dressing is not always easy to decide.

For instance, realising that improvements in the presently rather poor employment trends are not to happen before 2003, the main challenge for economic policy, as to the Commission's paper, are to improve the well-being of its current and future citizens, with policies following closely the Lisbon strategy and thus being geared at achieving a balanced and sustainable expansion of economic activity. *"... [the Lisbon] goals can only be brought about by balanced efforts on both the economic and social front."*⁷ Consequently, in order to regain the conditions for full employment and therewith meeting the challenges set by the Lisbon agenda, action will need to be in four areas:

1. safeguarding and further strengthening of the macro-economic framework
2. promoting more and better jobs, raising labour force participation and addressing persistent unemployment
3. strengthening conditions for high productivity growth and

³ European Council 15 and 16 March, Barcelona; Presidency Conclusions: Part III, cipher 5 (emphasis added)

⁴ "The Council shall, acting by a qualified majority on a recommendation from the Commission, formulate a draft for the broad guidelines of the economic policies of the Member States and of the Community, and shall report its findings to the European Council. The European Council shall, acting on the basis of the report from the Council, discuss a conclusion on the broad guidelines of the economic policies of the Member States and of the Community. On the basis of this conclusion, the Council shall, acting by a qualified majority, adopt a recommendation setting out these broad guidelines. The Council shall inform the European Parliament of its recommendation." Consolidated Version of the Treaty establishing the European Community; Article 99(2)

⁵ ECOFIN/210/02-EN; Commission recommendation for the 2002 Broad Guidelines of the Economic Policies of the Member States and the Community; page 4

⁶ *ibid*, page 1

⁷ *ibid*, page 2

4. promoting sustainable development in the interest of current and future generations

Regarding sustainable development, the 2002 BEPGs agree that “*taking account of the needs of current and future generations, including environmental sustainability and social and regional cohesion, will ensure that policy measures that aim to boost prosperity will contribute fully to increasing the well-being of its citizens.*”⁸ On a political and strategic level, taking environmental and social constraints into account is perceived as a way to optimise economic policies. Examples are:

- through the internalising of environmental externalities⁹, economic policies can make major contributions to enhancing environmental sustainability.
- economic policies such as labour market participation and its financial consequences can positively contribute to the social dimension of the problems posed by ageing societies: the positive interaction of economic and social policies needs to be ensured with regard to supporting a long-term sustainable working life while at the same time making optimal use of the human resource potential.
- economic policies can contribute to social and economic cohesion in various ways.

However, decent as these objectives are, the specific policy recommendations derived from them follow more a neo-liberal ideology than an analysis of the economic reality and thus fall seriously short of implementing the objectives. The 2002 memorandum of the European Alternative Economists points out that the current year has seen repeated downward revisions of official forecasts for economic growth and employment and upward revisions for unemployment in the EU. The substantial growth of 2,75%, predicted in the BEPG 2001, did not take place and the strong recovery expected for this year did not materialise either. Economic growth remains between one half and one per cent and therefore much too low to prevent unemployment rising again. General weakness is compounded by an extraordinarily high wave of dismissals particularly by those corporations in new technologies, telecommunications, media and financial services, which only a few years ago were regarded as the spearheads of the “New Economy” and the basis for the “knowledge-based society” which, according to the Commission, would make Europe the world’s most competitive region by 2010. It is now clear that much of the New Economy was not well founded and that the dynamics of financial speculation have led to a build-up of large overcapacities in these areas, driven by an obsessive emulation of the American model of shareholder capitalism. The present economic fragility is all the more worrying because the EU cannot count on external stimulus to offset the lack of domestic demand. The situation in the US is very unstable and close to recession, and in Japan the long lasting stagnation continues. For the first time in more than twenty years there is a real danger of a deflationary spiral in the world economy¹⁰.

However, for the European Commission and ECOFIN, none of this gives cause for concern, let alone a reason to review and revise the theoretical basis of their forecasts and policy recommendations. Instead of taking seriously the dangers

⁸ *ibid.*; page 9

⁹ externalities: effects of economic activities on the environment which are not being accounted for in any way

¹⁰ European Economists for an alternative Economic Policy in Europe, p. 4

inherent in the present situation and of recommending strong economic policy responses, they chose the way of self-immunisation by refusing to recognise reality.

The Broad Economic Policy Guidelines (BEPG), see the EU “at the brink of an economic recovery” as a result of “the swift and decisive response of economic policy, sound fundamentals, a restoration of confidence allied with the unwinding of the impact of a series of adverse economic shocks”. Since there is no particular problem the European authorities see no need for a review or a revision of policies. The complacency of the BEPG comes close to absurdity when they state - in a situation of uncertainty and declining investment - that “the commitment to price stability has fostered a culture of stability, reducing uncertainty and promoting wage moderation, thereby providing a necessary basis for an investment-friendly environment”. This is a shameful declaration in view of the uncertainty brought about by financial markets, greatly enhanced by the misconduct of a large number of firms.

When it became increasingly obvious that several countries would not be able to keep to the limits for public deficits laid down in the Stability and Growth Pact (SGP) of 1997 and that some governments seem – very reasonably - willing to increase public expenditure to stimulate growth regardless of the public deficit, the Commission responded in a chaotic way. Although it announced its determination to open formal procedures against Portugal and possibly Germany because of excessive deficits, it also proposed to postpone the time horizon for the achievement of balanced budgets. While some public declarations held that the SGP should be interpreted in a flexible way, the president of the Commission qualified the pact as “stupid”, thereby endorsing the repeated critique which we have formulated since its adoption in 1997. However, it is clear that the collapse of the SGP has not provided an incentive to the Commission for a critical re-examination of the theoretical assumptions underlying its policy orientation. This divorce from empirical evidence and reality is a political scandal which is very costly for millions of people. Nonetheless the Commission does not bother to take notice of any critiques beyond the failed neo-liberal camp, let alone enter into an open public debate about its economic priorities and how to achieve them¹¹.

Into this questionable but unquestioned framework the employment strategy (Luxembourg Process, see section 2.2) has been integrated, under the premise that it must not distort the predefined economic policy objectives, strategies and instruments. Finally, next to economic and social policy recommendations, policy recommendations for environmental sustainability have been added. As asked by the Stockholm European Council and further emphasised by the Gothenburg European Council, the promotion of socially and environmentally sustainable development is to be integrated with the BEPGs, resulting in the annual spring summit synthesis report. Accordingly, the 2002 BEPGs reaffirm that an “*active environmental policy [is needed to] ensure a responsible use of scarce natural resources and development which is economically, environmentally and socially sustainable in the long run.*”¹²

Specifically, Member States are thus being advised to increasingly make use of economic instruments in pursuit of social and environmental objectives, however, without putting other policy objectives in jeopardy. Economic instruments are regarded preferred policy instruments as they are thought to be:

¹¹ *ibid*, p. 6

¹² ECFIN/210/02-EN; Commission recommendation for the 2002 Broad Guidelines of the Economic Policies of the Member States and the Community; page 22

- providing flexibility to industry and helping to solve problems in a cost-effective way, while encouraging technological innovation.
- the most efficient means to curb pollution because they allow for the internalisation of externalities, because of which they are “a way to implement more consistently and cost-effectively the polluter-pays-principle.”¹³

The Economic Policy Committee EPC, in its 2000 report on country examinations on structural reforms, noted increased awareness among Member States that market-based instruments are a means to make policies more cost-effective¹⁴. However, as the ECOFIN Council pointed out in a report to the Barcelona European Council, it seems that generally market-based instruments are still a supplement to regulatory instruments (command-and-control measures) and not replacing them in particular in environmental policies¹⁵ - a point to be welcome by any pragmatic policy maker as it broadens the spectrum of policy instruments available for specific purposes instead of narrowing it down, but deemed disastrous by the ECOFIN. Insofar it is rather a threat than an opportunity that the 2002 BEPGs in order to introduce sustainable development consistently into the Member States’ policy agenda ask the Member States to for instance

- introduce and strengthen policies based on economic instruments like taxation, user and polluter charges, insurance / liability schemes and tradable emission rights.
- prepare for the introduction of emissions trading at EU level by ensuring, amongst others, that they have in place sufficiently robust procedures for monitoring, reporting and verification of emissions – such action would be needed to fulfil the requirements of the Kyoto-protocol in a cost-effective way.

As opposed to this rather narrow view, effective and efficient environmental politics needs command-and-control measures in particular for health-relevant issues like the regulation of toxics, as only regulatory instruments apply to all citizens equally. Economic instruments are the preferred choice for the decoupling of resource consumption and economic development through the price mechanism, in particular if charged at the input side of the economy (i.e. in energy consumption, material flows and land use). Furthermore, informational instruments (including voluntary agree-and-control measures) are a useful complement in a flexible and problem adequate mix. They should be applied to different environmental problems based on explicit, politically determined policy targets in a tailor made fashion. In a similar way, social and employment policies emphasise economic instruments and market “liberalisation” rather than setting legal standards or defining mandatory norms. The focus on employability, to be achieved by training to enhance the individual competitiveness rather than a policy focus on employment creation illustrates this point. But even beyond this call to select the most appropriate instrument in any case (and to keep a toolbox as big as possible to have an optimal choice), economic instruments must be handled with care as they could cause a threat to policy making if overly used: It is common sense by now that a move towards sustainability needs significant changes of our production and consumption patterns. These are shaped by a specific vision of progress, a mental map or “leitbild” representing the sum of our aspirations, the idea of a really good life people have at

¹³ *ibid.*, page 23

¹⁴ ECFIN/117/02-EN; Economic Policy Committee’s (EPC) 2002 Annual Report on Structural Reforms

¹⁵ ECFIN/EPC/138/02-EN final; Report by the (Ecofin) Council to the European Council in Barcelona on a strategy to integrate environment and sustainable development within economic policies

a certain point in time (e.g. with parenthood priorities tend to be modified based on the old pattern). Limited economic and social resources put certain constraints on the realisation of this "leitbild", but still it is instrumental in determining the use of resources once additional disposable income is available. The material expression of these aspirations is most frequently shaped by what average consumers can watch with the rich and the celebrities the media cover so broadly. This group, however, is least susceptible to economic instruments – they can afford to ignore the incentives as a strategy of social distinction. With the role models unimpressed, economic incentives are necessarily perceived as a restriction to realise the desired life styles by the majority of consumers, causing frustration and political resistance not only against the instruments chosen, but against the policy objectives pursued as such. Without policies specifically targeted at the wealthy, the frequent use of economic instruments threatens to undermine the basic public support all sustainability politics is dependant upon for its success.

The narrow economic focus has two more disadvantages:

- it confuses the economic optimum of minimum costs, achievable at least in theory by internalising external costs with an optimum of maximum social and environmental quality, and
- it blinds the eye for the need of defining policy objectives for the interlinkages (economic, social, environmental and institutional objectives already exist) by implying that integration is already given through the economic calculus applied to all aspects of development.

2.2 *The employment guidelines*

Based on the employment chapter in the Amsterdam Treaty and the Commission's European Employment Strategy, including the employment guidelines, the European Council on Employment in Luxembourg (November 1997) announced "a new departure in the thinking and action upon which the Union's Member States have been embarked...¹⁶". While the Commission had suggested to agree on binding targets including an increase in the employment rate from 60.4% to 65% by 2002 and to more than 70% in the long run (thus imitating the US situation), and a decrease of the unemployment rate to 7%, the Council rejected any binding commitments due to cost reasons. However, the general orientation of the Commissions proposals was confirmed (and the targets adopted in Lisbon, March 2000), including a restructuring of expenditures, reform of the payment and tax systems and a shift from passive transfers for the unemployed towards active measures. Under the four headings of entrepreneurship (less transfers, more incentives, lower labour costs), employability (training and education), adaptability (promoting atypical employment regimes) and equity of opportunities (increasing the employment rate of women) a wealth of proposals had been presented and was endorsed as the basis of future employment politics. Based on the neoclassical belief that each supply creates its own demand if only the price is low enough, deregulation, reduction of social security cost and wage subsidies were considered as measures to decrease the price of labour, while training and life log learning were intended to overcome the qualification mismatch perceived in reality (but in fact limited to a small number of business sectors like information technology). This strategy is based on the pre-analytic vision that the

¹⁶ *ibid.*, cipher 2

labour market suffers from a mismatch of supply and demand and tries to adjust the labour supply to business demands. Once this mismatch was overcome, so the philosophy goes, flexible labour markets would guarantee full employment. Thus increasing employability is considered the most necessary measure, not employment creation. The quality of work plays no role in this perspective – as employment creation is left to the market participants, the public authorities hold no responsibility for it, and – so the theory goes – if the work is bad, the employer will have to offer higher salaries to make people accept the jobs, creating in turn an incentive to improve the working conditions (150 years of industrial relations demonstrate the limited value of the argument, but nonetheless it plays a strong role in economic thinking and political decision making).

The Council decided to implement the provisions for an effective coordination of Member States' employment policies as from 1998 onwards, based on a shared policy approach as documented in the employment guidelines. These guidelines are the basis for a process of indirect coordination of national politics on the EU level, a rather new kind of policy regime strengthening the role of the Council and weakening the Commission in European policy making. It draws on the experience derived from the similarly structured multilateral surveillance of economic policies based on article 105 of the Treaty. The idea behind is to create for employment similar possibilities to converge towards jointly set, verifiable, regularly updated targets as for economic policy, while respecting the differences between the economic and employment area, as well as between the situations in the individual Member States.

The Employment Guidelines are the basis of the coordinated employment strategy. They must be compatible with the Broad Economic Policy Guidelines and their implementation, and thus the weakness of the BEPG directly translates into restrictions for the effectiveness of the (anyway non-binding) employment guidelines, far beyond their internal shortcomings. Furthermore, they may vary according to their nature, their impact on Member States and the parties to whom they are addressed. Also, the differing situations of the Member States in relation to the problems addressed by the "guidelines" are accepted to result in differing solutions and emphases, in line with individual situations.

Behind this new strategy for employment stood an overall strategy involving two more aspects:

1. Development of a coordinated macro-economic policy (Cologne Process), which has had limited impact as compared to the BEPGs. Whereas the first draft named as the key challenge overcoming weak growth and turning it into a strong internal market demand for more employment (Council document 1999), the Neo-Keynesian approach was eliminated before the end of the German presidency. The final result adopted in Cologne was a call for harmonised interaction of salary, fiscal and monetary politics, improving the effectiveness of the Luxembourg process and giving additional emphasis to structural reforms to enhance competitiveness by enforcing the common market. The latter element is called the Cologne Process; it includes regular consultations with the social partners and the European Central Bank ECB. Harmonisation of direct and indirect taxes and social security provisions is no

dominating field of interest, however, and the Cologne Process has had little influence so far.¹⁷

2. A more systematic, deliberate use of all Community framework- and support policies in support of employment. However, the problem perception regarding unemployment remained unchanged as compared to the Luxembourg process; it was still focussed on labour market rigidities considered to provide the key obstacle to full employment. This micro-economic perspective dominates despite the lack of and even the contradiction to empirical evidence, for instance the OECD Employment Report 1999 which could not find any significant correlation between the level of regulation and the level of employment.

Last but not least, the Council pointed towards the “importance of common indicators, based on comparable statistics, for the effective monitoring and assessment of employment policies and for the identification of good practices¹⁸”.

2.3 *The Lisbon Process*

What had been initiated in Luxembourg and followed up in Cardiff (the Cardiff market integration process shifted the emphasis of the Broad Economic Policy Guidelines towards an essentially micro-economic focus, on efficient markets, harmonised regulation, etc.) and Cologne (the Cologne macro-economic coordination process was never particularly active or influential), fed into what has become known as the *Lisbon Process*. The Lisbon European Council, March 2000 set a new strategic goal for the Union: “*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*¹⁹”. As key targets, a BIP growth rate of 3% was endorsed as a mid-term policy target, with the vision to re-establish full employment in the medium term based on an employment rate of 70%, and the acceleration of structural change towards a knowledge based economy by “*a more coherent and systematic approach*”. This includes to improve the *existing* processes (the existing Broad Economic Policy Guidelines, the Luxembourg labour market policy coordination and the Cardiff internal market enforcement process); these are considered to offer the necessary instruments, “*provided they are simplified and better coordinated*²⁰) and supplemented by additional liberalisation (telecommunication, gas, electricity, mail, transport and financial markets) plus further supply side improvements. Additionally, the BEPGs should focus increasingly on medium- and long-term implications of structural policies and on reforms aimed at promoting economic growth potential (including education to increase the human capital), employment (by decreasing labour costs) and social cohesion, as well as on the transition towards a knowledge-based economy (e.g. by providing internet access to schools). It was, in this context, agreed that the European Council would hold an annual Spring meeting devoted solely to economic and social questions. In this context, the Lisbon Council invited the Commission to draw up an annual synthesis report on progress on the basis of structural indicators dealing with employment,

¹⁷ Aust 2001

¹⁸ *ibid.*, cipher 17

¹⁹ Lisbon European Council, 23-24 March 2000; Presidency Conclusions, cipher 5

²⁰ Lisbon European Council Conclusions, cipher 35

innovation, economic reform and social cohesion, to be presented in the forefront of the Council Spring meetings. Secondly, implementation of a new open method of coordination was decided as the means of spreading best practice and achieving greater convergence towards the main EU goals:

- guidelines on how to achieve the short-, medium- and long-term goals are to be fixed;
- quantitative and qualitative indicators and “*benchmarks against the best in the world*” are to be established – where appropriate - in order to compare best practice in different Member States and sectors;
- the European guidelines are to be translated into national and regional policies;
- finally, periodic monitoring, evaluation and peer review are to be organised as a mutual learning process.

With the aim to *implement* the Lisbon Strategy, the European Council “...met in Barcelona on 15 and 16 March for its annual Spring Meeting *on the economic, social and environmental situation in the Union.*”²¹ On the basis of the 2nd Synthesis Report, the Council saw some important progress having occurred in terms of implementing the Lisbon strategy, however, there were also areas identified where progress has still been too slow. As a consequence, broad areas were identified which require “...*specific impetus in view of their central role in the completion of a genuinely common economic area and the pursuit of the Union’s long term objectives.*”²²

1. Active policies towards full employment: more and better jobs (the Luxembourg Employment Strategy was evaluated positively, now, the targets and goals agreed upon at Lisbon needed to be incorporated. Especially, there was need to *simplify* the strategy, in particular by a reduced number of guidelines). Also, the role of social partners in the implementation and monitoring of the guidelines would need to be reinforced.
2. Connecting European Economies
 - a. “*only through an integrated and efficient European capital market will consumers and businesses alike reap the full benefits of the euro.*”²³
 - b. integration of the European energy, transport and communication networks
 - c. integration of European networks and the opening of utility markets – this should take full account of the importance of quality public services.
 - d. A competitive economy based on knowledge: with focus on
 - e. Education
 - f. Research and frontier technologies

As far as future working methods “Beyond Barcelona” are concerned, the 2001 European Council “...*urges the Council and the Commission to streamline the relevant processes: the focus must be on action for implementation, rather than on the annual elaboration of guidelines. ... [The Council] has decided that the calendars for the adoption of the Broad Economic Policy Guidelines and of the annual Employment Package should be synchronised as soon as feasible. Thus, at its Spring meeting, the European Council will review and, where necessary, adjust the*

²¹ European Council 15 and 16 March 2002, BARCELONA; Presidency Conclusions; ciphers 1 (emphasis added)

²² *ibid.*; cipher 27

²³ *ibid.*; cipher 35 (emphasis added)

*Community's economic, social and environment policies as a whole.*²⁴ As can be seen in the 2002 Broad Economic Policy Guidelines and the process of drafting the 2003 synthesis report, the call to streamline and to focus on implementation has been taken up. The Communication from the Commission stresses this principle of streamlining and puts it into practice by designating the task to cover the major strategic policy issues to the BEPGs, while employment and environmental issues are formulated in a subsequent step, tailor-made to fit into the niches left open by the BEPGs. These are regarded as being “*at the centre of economic policy coordination and provid[ing] the framework for overall policy orientations. ... The forthcoming guidelines should also integrate the promotion of sustainable development.*”²⁵ This hierarchy benefits from the fact that no critical assessment of the BPEG's failure so far was undertaken, nor an evaluation of the limited success from enhancing employability instead of creating employment.

As an overall assessment, the integration of environmental issues into the most politically relevant coordination process is definitively a step towards a more balanced development of the Union. Already decision makers and Commission officials claim that “things are getting more sensitive” to social and environmental concerns. However, given the lack of balance in the current process, a regression process is needed to derive a good result from a weak basis, i.e. a regular assessment of the achievements, the objectives defined and the instruments used, in order to stepwise integrate and in the course of this process modify the sectoral policy objectives to result in a coherent and thus more effective policy approach. Unfortunately, such regressive evaluation mechanism is not foreseen in the impact assessment now being implemented in the Commission (see below).

2.4 The Cardiff Environmental Integration Process

The European Council in Cardiff, June 1998, endorsed the Luxembourg Process by expressing the view that “strong fundamentals and the sound policies set out in the Broad Economic Guidelines provide the conditions for a further strengthening of the recovery and its extension into a self-sustaining, non-inflationary economic growth process over the medium and longer term – a prerequisite for substantially and durably higher employment²⁶”. This is the basis of the Cardiff market enforcement process.

For the first time, Council Presidency Conclusions also dedicated significant attention to environmental issues, based on a Commission Communication stating “Most of our environmental problems have their origins in current practices in sectors such as agriculture, transport, energy and industry and we must look to these areas for their solution. Attention must also be given to our unsustainable consumption patterns. This is the vision behind article 6 in the Treaty – environmental integration as a positive instrument for progress. New technologies and management practices can provide the answer to some of these problems. Our policies must encourage their development and application.”²⁷ This Commission communication followed the request by the Luxembourg European Council for the submission of a strategy to implement the requirements of Article 6 of the consolidated EU-Treaty. It states that

²⁴ *ibid.*; cipher 49 (emphasis added)

²⁵ *ibid.*; ciphers 45 and 48

²⁶ Cardiff European Council, 15 and 16 June 1998; Presidency Conclusions, cipher 9

²⁷ *ibid.*, page 3

“the real challenge facing the Community is to find a way of developing action which meets all of its objectives in an integrated way. This is the challenge of sustainable development, a concept too often perceived as purely environmental, but which brings together concerns for social and economic development alongside protection of the environment.²⁸” “A healthy environment is central to the quality of life. Our economies must combine prosperity with protection of the environment.²⁹”

As a consequence, the European Council endorsed the principle that major policy proposals by the Commission should only be tabled once they had undergone an environmental impact assessment, resulting in the need to define new, integrated policy objectives, the so-called Cardiff environmental integration process. All relevant Council formations, starting with Transport, Energy and Agriculture Councils, were invited to establish their own strategies for environmental integration and sustainable development within their respective policy areas. Monitoring of progress should take place with the help of the Commission’s suggested guidelines and indicators³⁰.

Bureaucratic and mechanistic handling of affairs in the past were criticised by the Commission Communication as they “failed to deliver”. Instead it was suggested to adopt new procedures which are to be logical, practical and meaningful to all those concerned. However, the rather obvious need to reconsider all sectoral objectives while pursuing policy integration was not realised.

“The integration of environmental concerns into sectoral policies derives from the conclusions of the Cardiff European Council, in which all relevant formations of the Council were invited to establish their own strategies for giving effect to environmental integration and sustainable development within their respective policy areas. Several Council formations reported about their progress to the Helsinki European Council. The Helsinki conclusions stated that the Council’s work on the integration strategy should be concluded at the Gothenburg European Council, which should make a general overview and provide guidelines for future work.³¹”

So far, the transport, agriculture and energy formations of the Council have delivered results of varying quality; the second group of formations which has joined the process includes the Ecofin and Internal Market council; their reports due in 2002 have been postponed to 2003 with only limited results available so far. This ongoing process is the only one in the Union to systematically analyse the interlinkages of economic, social and environmental objectives and policies. So far it is hampered by the intrinsic biases of the individual Council formations, but if deepened and harmonised it can provide essential input to the EUSDS and the synthesis reporting. The indicators developed are not easy-to-communicate headline indicators, but provide a pool to choose from in the future development of the structural indicators.

²⁸ *ibid.*, page 5

²⁹ *ibid.*, cipher 32

³⁰ Commission Communication to the European Council: Partnership for Integration – A strategy for integrating environment into European Union Policies

³¹ 9116/01; 2355th Council meeting – Environment – Luxembourg, 7 June 2001

TABLE 1

Development of Sustainability Indicators

The Cardiff European Council Conclusions (June 1998) had called for the identification of indicators as a basis for monitoring progress with the environmental integration strategies to be developed for different sectors. In compliance with this task, the Commission provided a report on environment and integration indicators to the Helsinki Summit (December 1999), laying down the 'architecture' of an overall indicator system: as different policy requirements call for a range of indicator sets, two kinds of indicators should be developed: (1) environmental indicators and (2) sectoral integration indicators. Together, they should be able to answer the following questions:

- Is there a general improvement in the state of the environment?
- Do key sector policies take environmental concerns into account?
- Can sustainable development be achieved in sectoral policies and for the society as a whole?³²

The requirement for policy relevance should ensure that areas selected for indicators are areas of primary environmental concern.

Environmental indicators should be covered by two complementary products, (1) an annual indicator report from the European Environment Agency (EEA), covering a wide range of environmental topics and including some 60-70 indicators out of about 400 indicators calculated by the EEA. (2) A much more limited set of environmental headline indicators should aim at presenting a more general picture of trends in key environmental areas. They could be considered as something like a "flashing light" to alert policy makers to the need for specific changes or improvements in environmental policy measures and to raise public awareness of specific environmental problems. The possible set presented in this Commission document included the key areas climate change, air quality, water quality (inland and marine water), nature and biodiversity, land-use, chemicals, waste, resource use, urban areas and fragile eco-systems.

Sectoral integration indicators became an important priority through the integration strategies in the key policy areas identified in Cardiff, Vienna and Cologne Summits. The aim here is to link environmental concerns with the activities in the sectors. They should provide a tool for monitoring and benchmarking the implementation of the integration strategy. A set of criteria to be met by all sectoral indicator sets was laid down: they should be policy relevant, analytically sound, easy to understand, based as far as possible on existing data and be properly interpreted at the appropriate geographical level. The results of the Transport and Environment Reporting Mechanism (TERM) were a good example for the progress in preparing these indicators.

While these 2 sets of indicators definitely cover part of the issue of sustainable development, they definitely fall short of representing the full concept as in particular the social dimension is more or less absent. The Environment Council in its conclusions of 12th October 1999 underlined the need for a broader sustainable development strategy, which would need to include the development of a more EU-specific set of Sustainable development indicators applicable to sectoral integration strategies³³.

³² SEC(1999) 1942 final; Commission Working Document: Report on Environment and Integration Indicators to Helsinki Summit

³³ 2207th Council Meeting – Environment – Luxembourg, 12 October 1999; Sustainable Development and environmental integration – Conclusions: cipher 12

DG Environment intends to make use of the Cardiff results when drafting their EU Environmental Report, hoping to strengthen their impact on the integration process.

2.5 *The EU Sustainable Development Strategy (EUSDS)*

The Cardiff European Council in June 1988 decided that a system of regular monitoring and review would be necessary in order to measure achievements and to adjust to the adopted policies, based on the identification of indicators against which progress could be monitored. Whereas in certain cases, setting quantifiable targets could be helpful, over time benchmarking could be seen as a useful tool in order to progress towards best-practice. Regarding the environment, in this Commission communication in 1998 priority was given to two “urgent priority packages” – Agenda 2000 and the implementation of the Kyoto Protocol: “there can be no better example of the essential need for integrating environmental concerns into other policies than the case of climate change. ... fulfilment of [the Climate Change Convention agreed in Kyoto] and recognition that subsequent further reductions will be necessary, must become a primary consideration in the framing of all key policy areas³⁴”.

At the Gothenburg European Council, June 2001, the Heads of State and Government decided on a European Sustainable Development Strategy, based on the Commission’s Communication “A sustainable Europe for a better world: a European Union Strategy for Sustainable Development³⁵” and endorsing it, calling for a comprehensive implementation of sustainability principles in all Union policies. The Commission Communication claims “Sustainable development should become the central objective of all sectors and policies. This means that policy makers must identify likely spillovers – good and bad – onto other policy areas and take them into account.³⁶” This paper is regarded a decisive step at the political level in the direction of sustainable development. 6 issues were identified that pose the biggest challenges to sustainable development in Europe³⁷:

1. combating poverty and social exclusion
2. dealing with the economic and social implications of an ageing society.
3. limit climate change and increase the use of clean energy
4. improve the transport system and land-use management
5. address threats to public health
6. manage natural resources more responsibly

The document furthermore urges that the process of integration of environmental concerns in sectoral policies, launched by the European Council in Cardiff, must continue and provide an environmental input to the EU Sustainable Development Strategy, similar to that given for the economic and social dimensions by the Broad Economic Policy Guidelines and the Employment Guidelines, thus giving social and environmental concerns a significantly higher profile than was the case in the previous Commission documents. The sectoral environmental integration strategies should be consistent with the specific objectives of EU Sustainable

³⁴ *ibid.* page 9

³⁵ COM(2001)264 final

³⁶ COM (2001) 264 final; page 6

³⁷ COM (2002) 264 final; page 10 ff.

Development Strategy³⁸. However, regarding the development of a comprehensive set of sustainability indicators it did not suggest any innovative kind of integration indicators, but stated that “Measuring progress will imply adding a number of indicators to those already agreed for monitoring the Lisbon strategy. These indicators flow naturally from the long-term objectives and targets the Commission is proposing in this document³⁹”.

In reaction to the Commission document, the Council welcomed it and stated that “sustainable development – to meet the needs of the present generation without compromising those of future generations – is a fundamental objective under the Treaties. That requires dealing with economic, social and environmental policies in a mutually reinforcing way.”⁴⁰ Nonetheless, no revision of policy targets to foster this mutual reinforcement was foreseen. Instead of formulating adequately adapted policy objectives or starting a new process of doing so the Council decided to integrate the new ideas into the existing Lisbon framework. It agreed “a strategy for sustainable development which completes the Union’s political commitment to economic and social renewal, [and] adds a third, environmental dimension to the Lisbon strategy. [...] This has the potential to unleash a new wave of technological innovation and investment, generating growth and employment. [...] In this context the Council stresses the importance of decoupling economic growth from resource use.”⁴¹

Of the six themes suggested by the Commission, the Council endorsed four, at the time narrowing their scope and phrasing the objectives in a most vague way and without time tables for their achievement:

1. Combating climate change;
2. Ensuring sustainable transport;
3. Addressing threats to public health, and
4. Managing natural resources more responsibly.

However, also an important decision regarding the institutional dimension, its organisations and mechanisms was taken: “To achieve better policy coordination in the Union, the European Council:

- will at its annual Spring meetings give policy guidance, as necessary, to promote sustainable development in the Union;
- invites the Union institutions to improve internal policy coordination between different sectors [...];
- notes that the Commission will include in its action plan for better regulation to be presented to the Laeken European Council mechanisms to ensure that all major policy proposals include a sustainability impact assessment covering the potential economic, social and environmental consequences.”⁴²

These documents, the Communication from the Commission, as well as the Council decision no doubt offer valuable progress concerning the integration of sustainable development into all policy areas, in particular as the list of themes and procedural decisions encompasses environmental, social, institutional and economic aspects. However, it lacks integration, thus ending up incomplete, neglecting in particular the interlinkages of the dimensions. The social component (education,

³⁸ COM (2001) 264 final; page 13

³⁹ COM (2001) 264 final; page 13

⁴⁰ Gothenburg European Council, Presidency Conclusions, § 19

⁴¹ Gothenburg European Council, Presidency Conclusions, § 20, 21

⁴² Gothenburg European Council, Presidency Conclusions, § 24

human capital, qualifications, lifelong learning) is mentioned in the chapter concerned with an ageing population but not as an independent issue. Main components of the institutional dimension, such as gender equity or participation are only touched upon, the issue of unemployment is underrepresented.

The concept of integration is not comprehensively implemented in the sustainable development strategy. For example, in the chapter on climatic change, no reference is made to the social components of the climate risk, nor to possible effects of distribution and other selective burdens resulting from the suggested strategies. The economic component focuses on the promotion of competitiveness through de-regulation, privatisation, Europeanising and intensification of competitiveness, always based upon the assumption that stronger competition will lead to a reduction in prices, which are considered a definite indicator for a better position of the consumer (this can also be seen from the economic indicators). However, the side-effects of such policies are not being questioned at all, although this is explicitly mentioned as part of the strategy.

The EUSDS shows additive rather than integrative character and is hampered by a bias on neo-liberal economic policies and a focus on micro-economic thinking. It remains to be seen what kind of ameliorations the continuous work on the strategy will bring about. So far, it suffers from the fact that economic, social and environmental policy objectives have been put together into one single strategy in a rather additive manner without taking sufficient account of their differing backgrounds and context, and without adjusting the respective objectives to secure comprehensiveness and freedom of contradictions for the new strategy. So far, it has not yet been examined whether and how far the policy goals from different policy arenas are coherent with or even mutually supportive to each other, thus losing the opportunity to systematically exploit the possible synergies. In a similar manner, contradictions and the need to further develop individual policy objectives in order to operationalise the complex task of integrating sustainable development have not been evaluated, thus losing the opportunity to reduce trade offs by systematic conflict management. This is also obvious in the set of indicators suggested by the Commission: they are selected to cover sectoral objectives of different dimensions, with no integration of the various dimensions identifiable.

The Council not only endorsed the EUSDS and set some rather focussed priorities, it also decided to operationalise the integrative approach of sustainable development throughout its key policy coordination mechanism, and thus “... *an environmental dimension was added to the Lisbon Strategy*⁴³”.

2.6 *Spring Summit reporting and the structural indicators*

The Lisbon European Council in March 2000 agreed that the European Council would hold an annual Spring meeting devoted solely to economic and social questions. In this context, the Lisbon Council invited the Commission to draw up an annual synthesis report on progress on the basis of structural indicators dealing with employment, innovation, economic reform and social cohesion, to be presented in advance of the Council Spring meetings.

⁴³ Environment Council, 4 March 2002; cipher 25

In its first Synthesis Report, as contribution to the Spring European Council in Stockholm, March 2001, the European Commission drew up a list of Structural Indicators, emphasising the need for flexibility to allow for improvements in the indicators available⁴⁴. The list of selected indicators included general economic background indicators, as well as a list of 27 indicators for the areas employment, innovation and research, economic reform and social cohesion.

The Commission identified ten priority areas, in which action was needed in order to consolidate and extend the Lisbon strategy ("*...they take the Lisbon strategy forward over the next decade.*"):

1. more and better jobs
2. new European labour markets – open to all, with access for all
3. economic reforms for goods and services
4. integrated financial markets
5. the right regulatory environment
6. e-Europe 2002
7. the IT skills gap
8. research, innovation and enterprise
9. frontier technologies
10. effective social protection for an ageing population

In addition, the first Synthesis Report argued that "*the economic and social dimensions of Lisbon must be completed by integrating an environmental dimension to contribute to a European Union strategy for sustainable development. A strategy, which is oriented towards innovation and more investment, exploiting the possibilities offered by frontier technologies. A strategy which can draw on further market reforms – including targeted taxation – aimed at getting prices right to reflect better the costs of environmental degradation and offer incentives for change. A strategy constructed on a strong analytical basis.*"⁴⁵

The European Council, at its first Annual Spring Meeting in Stockholm on economic and social questions, March 2001, committed itself to continuously improve the process: "*the sustainable development strategy, including the environmental dimension, to be adopted at the Gothenburg European Council in June will complete and build on the political commitment under the Lisbon strategy. All dimensions of sustainable development should be reviewed in the context of the annual Spring European Council.*"⁴⁶ Thus, at the Barcelona European Council (March 2002), "*progress in integrating the sustainable development aims into the Lisbon strategy*"⁴⁷ would be reviewed. This commitment paid tribute to the recognition that, in the long term, economic development, social cohesion and environmental protection must go hand in hand. Additionally, Barcelona should also account for reviewing the contribution that the environmental technology sector can make to promoting growth and employment. However, in how far the basic objectives behind the BEPGs were in line with social and environmental objectives was not evaluated.

⁴⁴ COM(2001) 79 final: Communication from the Commission: realising the European Union's potential: consolidating and extending the Lisbon strategy; Here, reference is made to the structural indicators drawn up by the Commission a few months before: COM(2000) 594 final: Communication from the Commission: Structural Indicators

⁴⁵ COM(2001) 79 final: Communication from the Commission: realising the European Union's potential: consolidating and extending the Lisbon strategy: p28

⁴⁶ European Council Stockholm, Conclusions of the Presidency, 23-24 March 2001; cipher 50

⁴⁷ *ibid*; cipher 51

As a result of the Stockholm Council decision, and with the EUSDS endorsed in Gothenburg, the Commission committed itself to provide the basis for an annual stocktaking of the progress made in implementing sustainable development by including all three dimensions in its Synthesis Report to the Spring European Council. The structural indicators were to get an environmental component and a sustainability purpose, first time in the 2nd Commission Synthesis Report to the Barcelona Spring European Council in Spring 2002.

This report refers to some deficiencies and therefore points out priority areas for 2002 regarding employment, economic reform (i.e. open markets), education and research. The structural indicators took into account the four areas of sustainable development highlighted in the Gothenburg conclusions: combating climate change, ensuring sustainable transport, addressing threats to public health as well as managing natural resources more responsibly. Through adding the environmental dimension and at the same time wanting to keep the list of structural indicators in accordance with the principles used already for the original choice of indicators⁴⁸, some indicators had to be dropped “...when they had become less politically relevant compared to the new indicator entering the list, when the indicator duplicated to some extent another indicators in the list or in one case when doubts about the quality of the data had emerged.”⁴⁹. In this way, the Commission claims “the three dimensions of sustainable development (social, economic, environmental) are reflected in the whole set of indicators.”⁵⁰

However, as the 2nd Commission Synthesis report and its economic indicators demonstrate, the European Union, although presenting all main components of a comprehensive sustainable development strategy does not succeed in effectively connecting the components amongst each other and paying due attention to their trade-offs and synergies. As a result of the economic bias in understanding sustainable development, the Barcelona Council in March 2002 urged the preferential use of market instruments in the EU’s Sustainable Development Strategy “ ... to get prices right so that they better reflect the true social costs of different activities.”⁵¹

In January 2003 the Commissions Report to the Spring Summit asked the European Council to assume its enhanced role at the centre of economic, social and environmental policy-making looking beyond the short-term challenges and pressures to focus attention on action. In general terms the Commission recommended reinforcing the summits central role each year in setting the direction for the Union’s economic, social and environmental action. In particular it highlighted the particular opportunity to set priorities within - the Broad Economic Policy Guidelines, the revamped Employment Guidelines and the Internal Market Strategy – used to deliver the Lisbon strategy.⁵²

In summary, despite the reference to full integration of sustainable development into all policy areas, socio-economic factors are still the main drivers for action. The

⁴⁸ this is that the indicators should be (1) easy to understand; (2) policy-relevant; (3) mutually consistent; (4) timely available; (5) comparable across Member States and as far as possible with other countries; (6) selected from reliable sources; (7) should not impose too large a burden on Member States and respondents.

⁴⁹ COM(2001) 619 final: Structural Indicators; cipher 17

⁵⁰ *ibid.*; cipher 15

⁵¹ *ibid.*; cipher 31-32

⁵² Commission of the European Communities 2003

Barcelona Council conclusions do not offer any perspectives and goal-settings for a better linkage between economic, social and environmental concerns. DG Environment hopes to improve this situation with the EU Environment Report to be launched in July 2003 as an input to the Lisbon process and thus the Spring Summit synthesis report, but without structural changes this will be of limited impact. Recognising this, DG ENV recommends a further step of improving consistency, calling for harmonised time frames (2010, 2015, 2020) in all major policy documents to permit their integrative assessment.

2.7 Sustainability Impact Assessment

The sustainability impact assessment suggested by the Commission and demanded by the Gothenburg Council has gone through a number of internal discussion processes (modifying not only the proposed structure of the appraisal, but as well its name, from 'sustainability impact assessment' via 'integrated impact assessment' to plain 'impact assessment') within the Commission. Although the process is to be implemented only in 2003, a number of critical elements is already known, although many details may be still up to change, in particular once practical experience allows for a new learning loop, and from the research and consultancy contracts on implementing sustainability assessment in the existing administrative procedures the Commission has signed in December 2002. At least for the time being, the coordination is not executed by a specific steering unit within the Commission, but through a rather loose network of representatives meeting on a regular basis in the Secretariat General, with the lead services maintaining the full responsibility (as a means to create a feeling of ownership) and reporting back to the network.

The impact assessment is one element of the Commission's work for better regulation, and the Council decision to make this an element of the implementation of sustainable development via the Lisbon process is helpful (all the more worrying is the fact that the draft constitution presented by the Convention includes neither the issue of sustainability, nor policy integration, let alone the call for proper instruments for these purposes). It is intended to improve coherence, integration and thus the quality of Union policy by establishing an assessment of key policy proposals in terms of their economic, environmental and social impacts. For this behalf, it must be more effective than the existing assessment procedures which are this way largely integrated into one procedure, i.e. it must provide a structure for designing new policy proposals, be integrated into the normal policy development process at an early stage, cover all policy areas, be monitored throughout the process (on the basis on an inter-service agreement) and strictly enforced. Consequently, the 'impact assessment' is integrated into the Commission Planning Cycle. The process followed is claimed to be based on proportionate analysis by matching the efforts with the severeness of the impacts (no criteria are known so far but the reference to "common sense") and to provide transparency by involving stakeholders and the publication of the consultation results. However, this laudable ambition will be extremely difficult to implement in particular in the earliest stages of the decision making process (determining the issues to be dealt with and identifying the objectives to be implemented) which are the essential ones for determining the direction policies will take. Even the foreseen broad involvement of services in the definition of objectives will be not be an easy administrative innovation. In the next step, identifying a variety of options and instruments to provide the opportunity for a political choice the way is up to chose, but the direction may already be determined. The subsequent steps

planned are examining subsidiarity, analysing the main economic, social and environmental impacts, and planning monitoring and evaluation.

In future, this procedure will stretch over three years, starting with the drafting of the Annual Policy Strategy/Work Plan of the Commission, when in a preliminary assessment the draft programme is screened to identify those policy measures needing detailed assessment, and conducting an extended assessment including regulatory (i.e. institutional) and economic, environmental and social impacts, i.e. all four dimensions of sustainable development. As a means of enforcement, the assessments are planned to be a precondition for any inter-service and inter-institutional agreements, with the assessments to be published together with the proposal. In the following year(s), the integration is to be maintained throughout the implementation process based on inter-service agreements already in preparation.

Although this procedure will only be fully implemented from the Annual Policy Strategy 2004 onwards, already from the 2003 Work Plan 40 proposals have been selected for extended impact assessment, ten thereof on an inter-service basis.

3 Outlook: short-term improvements and long-term integration

The European Union's Sustainable Development Strategy's intention to integrate the dimensions of sustainability is definitely a positive development; it represents an essential step forward as opposed to the debate which has taken place up to now. In this context, the publication of structural and sustainability indicators no doubt represents an important step towards the full integration of environmental, social/employment and economic objectives into all policy areas. This, however, will be a long-term process, starting with improving the indicators as they stand, but in the long term replacing them by a more focussed, integrated and coherent system.

3.1 An important first step

So far, it has to be acknowledged that the composition of indicators shows a distinct imbalance and variation in quality. On the one hand, this is due to the indicators' origin: the environmental chapter, like all other topics confined to six indicators, was merely added to the existing list of structural indicators. On the other hand, the existing set of indicators represents largely unchanged economic priorities and old ways of thinking: inflation-free growth, poverty alleviation, employment, plus environmental protection, with problem solving achieved through new technology and deregulated markets. There is neither evidence for examination of interactions of these mainly laudable individual objectives, nor has the effectiveness of the cure suggested to achieve the objective of economic health been assessed against the achievements obtained, or have trade-offs or mutual reinforcement effects been identified. The effectiveness of the means suggested to reach the political ends is not being elaborated on, but taken for granted, instead of assessing the basic assumptions and the interference of different instruments while monitoring their effectiveness as such and in particular concerning their interaction.

Thus, the set of indicators presented by the European Commission is rightfully regarded as a trial, it was well suited to serve as a basis for discussion at the Summit of Barcelona, but it is in need of readjustment. Based on the experience gained, the indicators will be and need to be developed further in order to tackle sustainable development in Europe as effectively as possible.

3.2 Improvements within the existing set of sustainable development indicators

As a first step, there is urgent need for technical improvements, while maintaining the given structure of the existing set of sustainable development indicators, well short of linking and co-ordinating the various policy areas as a precondition for true synthesis. The 2003 structural indicators⁵³ offer limited progress in this respect:

General economic background: the indicator on potential output developed but not yet included in the list would offer valuable information for policy making, but as always the devil is in the detail – it remains to be seen how it is defined and calculated. Not only labour productivity but also resource productivity should be included in this section, with data collection not for individual resources or sectors but for the overall productivity regarding the total resource consumption of the economy in order to grasp also the effects of structural change.

Employment: the average effective exit age replaces the employment rate of older workers; however, effective labour participation by gender and age group would have been more informative. The gender pay gap indicator under preparation will do little to identify the driving forces behind and thus to inform political decision making in favour of enhanced gender equity. For the quality of work, no substantial progress in indicator development is reported. For childcare facilities, not only the data availability as such should be discussed, but if there is a significant correlation of this indicator with the more general provision of employment opportunities to women – if so, the indicator is a useful stand-in reflecting the overall attitude of governments. If not so, it should be replaced by an indicator better serving this purpose. For the most important of the indicators under development, job vacancies, unfortunately no progress is being reported. Accounting for the gains from unpaid work is not foreseen so far, despite the fact that unpaid work outnumbers paid working hours throughout the Union.

Innovation and research: the focus on transition to a knowledge based economy through better policies for R&D ignores the crucial role of social innovation for a knowledge-rich *society* as the basis for any knowledge based economic transition. The two composite indicators under preparation completely ignore all kinds of knowledge except for science and technology, with a special emphasis on I&T technology. This focus on knowledge provision while neglecting the content is a safe receipt for disaster in the transition to a knowledge based society. Reporting the source of R&D finance is a progress given the reluctance of European business regarding R&D investment, but a sectoral disaggregation would still be useful. E-commerce and e-government are suggested as future indicators, plus as an element of the composite indicators under development. This double accounting gives them more than proportional weight, without any assessment of the social and environmental impact of enhancing both. Four of the five indicators under development focus exclusively on I&T technology, threatening to narrow the focus of European research and investment in an economically most risky way.

Economic reform: the convergence of interest rates replaces the capital raised on stock markets. However, this convergence is rather meaningless unless the convergence of other cost factors is reported as well, and the local relation of labour cost to capital cost gets lost in the indicator. Dropping the capital raised on stock

⁵³ Commission of the European Communities, Structural indicators, COM(2002)551 final

markets reflects the actual trend but masks the collapse of the “New Economy” illusions on which much of the BEPGs is based. Company registration cost replaces business investment, again masking one underperforming characteristic of the Union business sector, while the cost of short run capital for small business would have been a better indicator for the difficulties entrepreneurs face when planning a new start-up business. Unfortunately, there is no progress reported regarding the indicator on the cost of capital.

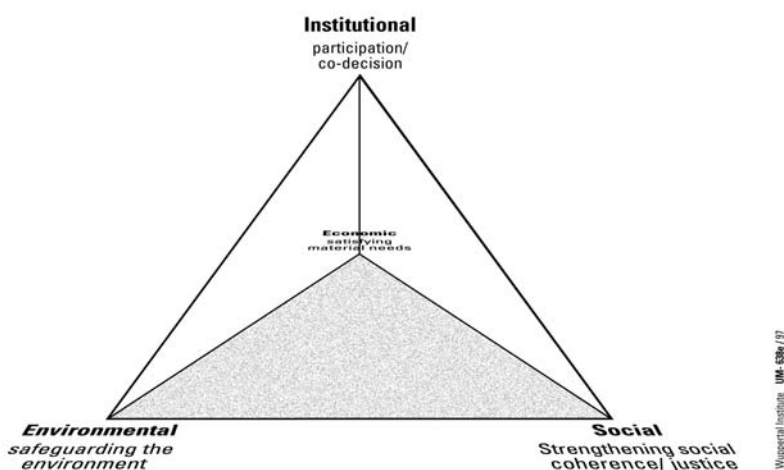
Social cohesion: Regarding the redefinition of inequality of income distribution, risk-of-poverty-rate, persistent-risk-of-poverty rate, and population living in jobless households the Communication from the Commission provides no details – again, the devil must be sought in the unpublished details. To monitor the effectiveness of redistribution policies the effects of social transfers on poverty alleviation should be reported in a direct way instead of using indirect parameters, e.g. referring to the number of households helped over the poverty threshold by social transfers. For regional cohesion the indicator has been changed from including the regional unemployment rate to the regional employment rate – a change which makes sense from an economic point of view, but neglects that the unemployment rate is the social problem to deal with and felt most severely by the people in the region. The change reduces the resonance the indicators have with the public as well as the distorting the priority setting of politics. In a next step, the reporting should refocus from social cohesion to social justice and openness – a cohesive but unjust society, and/or stigmatising certain groups cannot be regarded sustainable. While reporting on distributional justice, not only the differentiation within countries should be reported, but as well the distribution within the Union.

Environment: Whereas no changes have been made to the indicators as such, the reference to the Kyoto targets added to the indicator on greenhouse gas emissions may be used in the future to distract the attention from the Unions own more ambitious goals; these should at least be reported the Kyoto figures. Regarding the modal split of transport, a disaggregation by gender would be most informative, but is not foreseen so far. The indicator “municipal waste“ should be replaced by total material flows, of which municipal waste represents a minor and relatively unproblematic share. Material flows are measured as Total Material Input TMI or Total Material Requirement TMR including the “ecological rucksacks”. Resource productivity is not an environmental indicators but an economic one and should be shifted to the general economic background section. Recycling rates of selected materials are rather meaningless from an environmental point of view (the physical input-output tables under development at Eurostat provide more information) as they do not refer to environmental impacts, but to the structure of the economic activities to be covered by the general economic background indicators. As the monetary value creation resulting from an economic activity causing an environmental damage is irrelevant for the extent of the damage as such, energy consumption, material flows and transport should not be measured per economic unit, but in absolute terms, allowing to identify the real trends of environmental damage. Exposition to toxicity risks is what worries people and can be reported by focussing on selected sub-issues; the overall consumption of toxic chemicals makes much less sense to report. Land use and protected areas should be added. This third component of natural resource use besides energy and materials is essential for safeguarding biodiversity, groundwater quality and healthy food. For healthy life years and for biodiversity no progress is reported, although UNEP has provided a biodiversity pressure index and applied it to Europe, which could rather readily be calculated for the Union instead of

trying to measure the immeasurable, i.e. the quantity of biodiversity as such. Urban air quality could be replaced by an indicator which is capable of evaluating the total number of illnesses resulting from environmental impacts. Sustainable consumption, although high on the policy agenda, is not reflected in the indicators, nor is there any work under way to include the issue in future.

These changes would constitute significant improvements within the existing system. However, nonetheless topics would still be clustered by policy areas, with the different dimensions still neither assessed, nor balanced, nor sufficiently integrated. As the lack of integration enduring in the set of indicators actually reflects the current political reality, assessing the objectives and reviewing the indicators is a political task rather than a technical one. Policy integration based on sound concepts in each dimension is one key to a sustainable future; it must be pursued together with the (easier) task of developing an integrated system of sustainable development indicators.

Prism of Sustainability: Dimensional Goals



3.3 Medium to long-term improvements: Indicators and Progress Monitoring

In the medium to long term, the classification of structural indicators, which is based on historical rather than factual grounds, should be replaced by a systematic structure, derived from the concept of sustainability. Such a systematic set of sustainable development indicators would include an additional institutional dimension next to the economic, environmental and social dimension, which covers the essential “rules of the game“ of governance and political decision making.

This seems to be the most appropriate way to pay tribute to a number of essential elements of sustainability like participative democracy, gender equity or decentralisation of power, as the United Nations has done when developing their set of sustainable development indicators. The European Commission had initially

addressed this issue in the draft EU Sustainable Development Strategy⁵⁴, however, for the time being, it is dealt with under the separate issue of “good governance”. The “Prism of Sustainability” is a tool to visualise these four dimensions and their interlinkages; it can be used to test the balance of any indicator system suggested by allocating the individual indicators to dimensions and their interlinkages and assessing the resulting distribution.

| I. One-Dimensional Indicators | |
|--------------------------------------|---|
| Economic | <ul style="list-style-type: none"> ➤ Growth of GDP/Capita ➤ Inflation Rate |
| Social | <ul style="list-style-type: none"> ➤ UNDP Human Poverty Index HPI 2 ➤ Unemployment Rate |
| Environmental | <ul style="list-style-type: none"> ➤ Energy, Material, and Land Use (Environmental Space Use) in absolute figures ➤ Protected Reserves (IUCN, class 3, 4) |
| Institutional | <ul style="list-style-type: none"> ➤ Voter Turnout in Elections ➤ UNDP Gender Empowerment Measure GEM |
| II. Interlinkage Indicators | |
| Environmental-Economic | <ul style="list-style-type: none"> ➤ Resource Productivity (GDP/TMI) ➤ Transport Intensity |
| Socio-Economic | <ul style="list-style-type: none"> ➤ Labour Productivity (Production per Capita) ➤ Income Distribution per Decentile |
| Socio-Environmental | <ul style="list-style-type: none"> ➤ Environmental Health Problems ➤ Access to Common Goods (to be specified regionally) |
| Economic-Institutional | <ul style="list-style-type: none"> ➤ Corruption Rate (Transparency International Index) ➤ Share of Taxes on Labour, Capital and the Environment in Total Tax Revenues |
| Socio-Institutional | <ul style="list-style-type: none"> ➤ Co-Decision Rights of Workers ➤ Reliability of the Health Care and Social Security System |
| Environmental-Institutional | <ul style="list-style-type: none"> ➤ NGO Right to File Suit ➤ Freedom of Information |

Key policy objectives and targets can be allocated to each of these four dimensions. Reduction of environmental pressures, social cohesion, participation, competitive economy – no doubt, all these are important sustainability objectives, but how do they fit together? The great political challenge is to integrate the dimensional objectives and policy goals into a joint perspective of sustainable development. To reconcile the partly complementary, partly competing goals it is essential to take the

⁵⁴ Communication from the Commission (2000) A sustainable Europe for a better world: A European Union Strategy for Sustainable Development

inter-linkages of these dimensions into account, as this is where synergies and compromises must be sought. For instance, resource efficiency helps bridging the gap between environment and economy (thus, resource efficiency is not an environmental but rather an environment-economic inter-linkage indicator), and distribution of income is an inter-linkage of the economic and the social dimension.

With only two key indicators chosen for each dimension and inter-linkage, the result is a set of twenty core sustainable development indicators, describing progress in a most systematic way.

This one or a similar set of indicators would provide a useful basis for long term monitoring the progress of sustainable development on European and national level; even if the main concerns change, individual indicators can be methodologically updated or even replaced without changing the structure. For instance, meaningful economic indicators could be the cost of short run capital for small business, and the wealth accumulated by households.

The indicators are derived from a variety of studies concerning the integration of different dimensions of sustainable development. They are tested to be mutually comprehensible, thus providing an integrated overview of relevant trends regarding the sustainability of all four dimensions, and their interaction. Rather obviously, the focus on relevance is not a pure scientific decision – defining objectives is a political task. However, the set of indicators is open for amendments and modifications if only the comprehensiveness is sufficiently checked; for example, one or two more indicators per dimension and interlinkage could be added to meet the specific needs of a “competitive sustainable knowledge society”⁵⁵.

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