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Working together for growth and jobs

A new start for the Lisbon Strategy

Communication from President Barroso
in agreement with Vice-President Verheugen

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Foreword

Growth and jobs: A New Start for the Lisbon Strategy

Just think what Europe could be. Think of the innate strengths of our enlarged Union. Think of its untapped potential to create prosperity and offer opportunity and justice for all its citizens. Europe can be a beacon of economic, social and environmental progress to the rest of the world.

It is in this spirit of realistic optimism that the new European Commission has put together our policy recommendations for the Mid-Term Review of the Lisbon Strategy – our ambitious agenda for reform launched by the European Council in March 2000.

Europeans have every reason to be positive about our economic potential. The successes of the second half of the 20th century have left a strong legacy. After half a century of peace we have one of the most developed economies in the world united together in a unique political Union of stable and democratic Member States. That Union has created a Single Market underpinned for participating members by a single currency that consolidates economic stability and deepens the potential of economic integration. We have consolidated a unique participative social model. Our standards of basic education are high and the science base is historically well developed. Europe is home to dynamic and innovative companies with extraordinary competitive strength. At their best, they are demonstrating a remarkable capacity for renewal. We have made more progress towards sustainable development than any other region of the world.

We have done this by acting in partnership – Europe’s institutions, government and administrations at a national, regional and local level, our social partners, civil society – all moving together towards a common goal.

This legacy represents a substantial down-payment towards the vision that binds us together; a vision, confirmed in the Constitution, of ensuring “the sustainable development of Europe based on balanced economic growth and price stability, a highly competitive social market economy, aiming at full employment and social progress and a high level of protection and improvement of the quality of the environment”.

The past 50 years have seen extraordinary progress, but in a changing world Europe cannot stand still. This is why five years ago Heads of State and Government signed up to an ambitious programme of change. They committed themselves to making the European Union the most dynamic and competitive knowledge-based economy in the world capable of sustainable economic growth with more and better jobs and greater social cohesion, and respect for the environment.

Today, we see that progress has at best been mixed. While many of the fundamental conditions are in place for a European renaissance, there has simply not been enough delivery at European and national level. This is not just a question of difficult economic conditions

since Lisbon was launched, it also results from a policy agenda which has become overloaded, failing co-ordination and sometimes conflicting priorities. For some this suggests that we should abandon the ambition of 5 years ago. The Commission does not agree. The challenges we face are even more urgent in the face of an ageing population and global competition. Unless we reinforce our commitment to meeting them, with a renewed drive and focus, our model for European society, our pensions, our quality of life will rapidly be called into question.

The need for urgent action is confirmed by the report from the High Level Group chaired by Wim Kok last November. It identifies a daunting challenge. According to Kok, *“The Lisbon strategy is even more urgent today as the growth gap with North America and Asia has widened, while Europe must meet the combined challenges of low population growth and ageing. Time is running out and there can be no room for complacency. Better implementation is needed to make up for lost time”*. Faced with this challenge Europe needs to improve its productivity and employ more people

On current trends, the potential growth of the European economy will halve over the coming decades and reach just over 1% per year.

Europe’s performance has diverged from that of our competitors in other parts of the world. Their productivity has grown faster and they have invested more in research and development. We have yet to put in place the structures needed to anticipate and manage better the changes in our economy and society. And we still need a vision for society which can integrate both the ageing and the young, particularly for the development of our workforce, where current dynamics cast a shadow over both long-term growth and social cohesion.

The Commission has risen to this challenge in presenting its proposals for the Union’s Strategic Objectives, *‘renewed growth is vital to prosperity, can bring back full employment and is the foundation of social justice and opportunity for all. It is also vital to Europe’s position in the world and Europe’s ability to mobilise the resources that tackle many global different challenges’*.

We need a dynamic economy to fuel our wider social and environmental ambitions. This is why the renewed Lisbon Strategy focuses on growth and jobs. In order to do this we must ensure that:

- **Europe is a more attractive place to invest and work**
- **Knowledge and innovation are the beating heart of European growth**
- **We shape the policies allowing our businesses to create more and better jobs**

Making growth and jobs the immediate target goes hand in hand with promoting social or environmental objectives. The Lisbon Strategy is an essential component of the overarching objective of sustainable development set out in the Treaty: improving welfare and living conditions in a sustainable way for present and future generations. Both Lisbon and the Sustainable Development Strategy contribute to ensuring this goal. Being mutually

reinforcing, they target complementary actions, use different instruments and produce their results in different time frames.

The Commission is fully committed to sustainable development and to modernising and advancing Europe's social model. Without more growth and jobs this will not be possible. Our Sustainable Development Strategy and our Social Agenda have been under review and proposals, ahead of the Spring European Council, will be presented in the coming weeks. In addition, we have to continue working with our international partners to address global macro-economic unbalances, as boosting growth is as beneficial to our partners as to the Union.

“Lisbon” therefore requires immediate action and the case for acting together in Europe is strong.

The costs of not doing so are large and quantifiable. The ‘costs of non-Europe’ have been substantiated through a large volume of academic evidence. One can argue with the figures. But not achieving “Lisbon” does have a cost. The best evidence can be found in the widening gap of Europe's growth potential compared to other economic partners. However, the potential gains from wider and deeper economic integration in an enlarged Europe are massive.

This mid-term review sets out how we can help Europe to meet its growth and jobs challenge. It launches the idea of a Partnership for Growth and Jobs, supported by a Union Action Programme and National Action Programmes containing firm commitments. It builds on three central concepts:

- First, **Europe's actions need more focus**. We must concentrate all our efforts on delivering on the ground policies that will have greatest impact. This means keeping existing promises, building on the reforms already underway in every Member State and launching new action where it is needed to keep us on target. It requires a rigorous prioritisation on the part of the Commission and must be anchored in the firm support of the European Council and the European Parliament.
- Second, we have to **mobilise support for change**. Establishing broad and effective ownership of the Lisbon goals is the best way to ensure words are turned into results. Everyone with a stake in Lisbon's success and at every level must be involved in delivering these reforms. They must become part of national political debate.
- Third, we need to **simplify and streamline Lisbon**. This means clarifying who does what, simplify reporting and backing up delivery through Union and National Lisbon Action Programmes. There should be an integrated set of Lisbon “guidelines” to frame Member State action, backed up by only one report at EU level and only one report at national level presenting the progress made. This will significantly reduce the national reporting burden placed on Member States.

All this must be set against the backdrop of wider reforms. Our ambition for change must be matched by the necessary resources at both EU and national level.

Sound macroeconomic conditions are essential to underpin a credible effort to increase potential growth and create jobs. The changes proposed to the European Union's stability and growth pact – the rules at EU level that govern national budgetary policies – should further stabilise our economy, while ensuring that Member States can play a full role in creating conditions for long-term growth.

At a European level, the debate on the future financial framework for the Union up to 2013 (“the Financial Perspectives”) must draw the consequences of our Lisbon ambition, supporting Lisbon priorities within the future EU budget. We must provide the support and investment a modern, knowledge-economy needs, use our resources in ways which help us to adapt to changing economic and social conditions, and operate programmes which provide the right incentives for Member States to focus their own national public spending on Lisbon objectives. The Commission's proposals for the Financial Perspectives reflect these priorities.

If we can match ambition, resources and good ideas; if we can transform them by the end of the decade into lasting change on the ground; and if we can support Lisbon by closing the gap on investment in our economy and launching a new drive for stronger cohesion across our continent then we can bring our Lisbon goals back into sight.

This is the new start that Europe needs.

Executive Summary

Five years ago the European Union launched an ambitious agenda for reform. Over the last year the Commission has been reviewing the progress made. This has led to a vigorous debate at European and national level amongst all those with an interest in Lisbon's success. In addition, the Commission has benefited from the work of the High Level Group chaired by Wim Kok, which reported last November. Today, there is general consensus that Europe is far from achieving the potential for change that the Lisbon strategy offers. While both the diagnosis and the remedies are not contested, the reality is that not enough progress has been made.

This Report, at the mid-point stage of Lisbon, now sets out how we can work together for Europe's future and put the Lisbon agenda back on track.

The renewed Lisbon Strategy – what will change?

The Commission proposes a new start for the Lisbon Strategy, focusing our efforts around two principal tasks – **delivering stronger, lasting growth and creating more and better jobs**. Meeting the Europe's growth and jobs challenge is the key to unlocking the resources needed to meet our wider economic, social and environmental ambitions; meeting those wider goals will anchor the success of our reforms. For this to be possible, sound macroeconomic conditions are crucial, in particular the pursuit of stability-oriented macroeconomic policies and of sound budgetary policies.

I Ensuring delivery

Delivery is the main issue for the Lisbon Strategy at both European and national level. The **implementation of the reform agenda requires a renewed Partnership for growth and jobs**.

As regards the EU level, the **Commission** will play its central role of initiating policy and ensuring implementation.

In parallel, **Member States** must deliver the agreed backlog of Lisbon reforms. This should be backed up by National Lisbon Programmes – setting out how they will do this (*see governance below*).

II A renewed Lisbon Action Programme

This Report does not attempt to rewrite the Lisbon strategy, but it does identify new actions at European and national level which will help to see our Lisbon vision is achieved.

A more attractive place to invest and work

- Extend and deepen the internal market
- Improve European and national regulation
- Ensuring open and competitive markets inside and outside Europe
- Expand and improve European Infrastructure

- ✓ We must extend and deepen the internal market. Member States must improve **implementation of existing EU legislation** if businesses and consumers are to feel the full benefits. In a number of Member States, key markets like telecoms, energy and transport are open only on paper – long after the expiry of the deadlines to which those Member States have signed up.
- ✓ Key reforms are still needed to **complete the single market** and should be given specific attention: financial services markets, as well as services in general, the REACH proposal, a common consolidated corporate tax base as well as the Community Patent.
- ✓ The regulatory climate must improve. In March the Commission will launch a **new regulatory reform initiative**, and we will draw on outside expertise to advise us on the quality and methodology of how we carry out impact assessments.
- ✓ Competition rules must be applied proactively. This will help to boost consumer confidence. **Sectoral screenings of the barriers to competition** will be launched in sectors such as energy, telecoms and financial services.
- ✓ European businesses also need open global markets. The Union will press hard for **completion and implementation of the Doha Development Round**, as well as progress on other bilateral and regional economic relationships.

Knowledge and innovation for growth

- Increase and improve investment in Research and Development
- Facilitate innovation, the uptake of ICT and the sustainable use of resources
- Contribute to a strong European industrial base

- ✓ Public authorities at all levels in the Member States must work to support innovation, **making a reality of our vision of a knowledge society**. The Union's continued focus on areas such as the information society, biotechnology and eco-innovation should help them to do this.
- ✓ More investment by both the **public and private sector spending on research and development**. At EU level, we need the early adoption by the European Parliament and Council of the next **Research Framework programme** and of a **new programme for competitiveness and innovation**. These will be

presented in April.

- ✓ As part of a major **reform of State Aid policy** starting later this year, Member States, regional and other public actors will have more scope to support research and innovation, particularly by the EU's small and medium-sized businesses.
- ✓ Spreading knowledge through high quality education system is the best way of guaranteeing the long-term competitiveness of the Union. In particular, the Union must ensure that our universities can compete with the best in the World through the completion of the European Higher Education Area.
- ✓ The Commission will propose the creation of a “**European Institute of Technology**”.
- ✓ The Commission will support and encourage **Innovation Poles** designed to help regional actors bring together the best scientific and business minds with the right resources to get ideas from the lab and into the workshop.
- ✓ The Commission and Member States must step up their **promotion of eco-innovation** which can bring substantial improvements to our quality of life as well to growth and jobs, for example in areas such as sustainable resource use, climate change and energy efficiency.
- ✓ Partnering with industry will also be fostered by **European Technology Initiatives**, which build on the experience of the Galileo satellite navigation system. The first of these should start to appear in 2007 once the next Research Framework Programme is up and running.

Creating more and better jobs

- Attract more people into employment and modernise social protection systems
- Improve the adaptability of workers and enterprises and the flexibility of labour markets
- Investing more in human capital through better education and skills

- ✓ The **Social Partners are invited to develop a joint Lisbon action programme** ahead of the Spring 2005 European Council identifying their contribution to the Lisbon goals.
- ✓ Member States and the social partners must **increase efforts to boost the level of employment** particularly by pursuing active employment policies which help people in work and provide incentives for them to remain there, developing active ageing policies to discourage people from leaving the workforce too early, and by modernising social protection systems, so that they continue to offer the security needed to help people embrace change.
- ✓ The future of Europe and the future of the Lisbon Strategy is closely linked to **young people**. The Union and the Member States must ensure that the reforms

proposed help to give them a first chance in life and equip them with the skills needed throughout their lives. The Union also needs to develop its priorities in responding to the demographic challenge that we face.

- ✓ Member States and the social partners must improve the **adaptability of the workforce and of businesses as well as the flexibility of labour markets** to help Europe adjust to restructuring and market changes.
- ✓ In the face of a shrinking labour force, we need a **well-developed approach to legal migration**. The Commission will present a plan before the end of 2005 on the basis of the on-going public consultation.
- ✓ Europe needs **more and better investments into education and training**. By focusing at European and national level on skills and life-long learning it will be easier for people to move to new jobs. This should be backed up by the adoption this year of the **Life Long Learning Programme** at EU level and in 2006 the presentation of national Life Long Learning strategies by the Member States.
- ✓ Europe also needs a **more mobile workforce**. Mobility within the Union will also be helped by the early adoption of the pending framework for **professional qualifications**. The Commission will make proposals during 2006 to simplify mutual **recognition of qualifications**. Member States should accelerate the removal all restrictions on the mobility of workers from the countries that have recently joined the Union.
- ✓ Regional and local authorities should be designing projects which take us closer to our Lisbon ambition. The **next generation of Structural Funds** (including those for rural development) are being reshaped with this in mind – focusing on how it can help to deliver growth and jobs at a local level.

III Improving Lisbon governance

The governance of the **Lisbon Strategy needs radical improvement to make it more effective and more easily understood**. Responsibilities have been muddled between the Union and its Member States. There are too many overlapping and bureaucratic reporting procedures and not enough political ownership.

To clarify what needs to be done and who is responsible the Commission will bring forward a **Lisbon Action Programme**.

In addition, the Commission is proposing an integrated approach to **streamline the existing Broad Economic Policy and Employment Guidelines, within a new economic and employment cycle**. In future, an integrated set of Guidelines alongside the Lisbon Action Programme will be used to move the reform agenda forward. These will cover macro-economic policies, employment and structural reforms. In response, Member States are expected to adopt National Action Programmes for growth and jobs, backed up by commitments and targets, after broad discussion at a national level.

To bring all this together Member States should appoint a **“Mr” or “Ms Lisbon” at government level.**

Reporting will also be simplified. There will be a single Lisbon report at EU and at national level on the progress made. This new reporting process will provide a mechanism through which the European Council and the European Parliament can focus on key policy issues without being encumbered by the multitude of sectoral reports which are currently part of the annual cycle.

This approach will make it easier for the European Council to give practical guidance each spring and for the Commission to play its role of monitoring progress towards the Lisbon goals, offering encouragement and proposing additional action to keep Lisbon on track.

* * *

On this basis, the Commission recommends to the European Council to:

- Launch a new Partnership for Growth and Jobs
- Endorse the Community Action Programme and call for Member States to establish their own National Action Programmes
- Approve the new arrangements for governance of the Lisbon Strategy set out in this Report, in order to improve the effectiveness of policy delivery at Community and national level and to encourage a real debate and genuine political ownership of our Lisbon goals.

1. GROWTH AND JOBS CENTRE STAGE

The Lisbon agenda was meant to unlock Union's potential...

The Single Market, the euro, the recent enlargement of the Union show the **potential of the Union has to achieve ambitious goals**. Over half a century the Union has built peace and prosperity. It has taken a changing economic, social and political landscape in its stride. It has done this by setting common goals and working together to achieve them; the Union and the Member States, Governments and civil society, business and citizens. This same dynamism drove the launch of the far-reaching agenda for reform in March 2000 at the Lisbon European Council. It mapped out a path towards a competitive and inclusive, knowledge-based, economy, offering a European response to the urgent challenges our continent faces.

...but not enough progress has been made.

Today, we see that combination of economic conditions, international uncertainty, slow progress in the Member States and a gradual loss of focus has allowed Lisbon to be blown off course. Yet the challenges if anything have become more urgent in the face of global competition and an ageing population; factor which are even more apparent today than five years ago. This assessment is shared by the Report presented by the High Level Group chaired by Wim Kok¹. It stressed Europe's **insufficient progress** in reaching the Lisbon strategy's objectives. In response, we need to restore confidence in Europe's ability to create the conditions to meet its objectives. Europe can build on its rich tradition and diversity, its unique social model and draw further strength from its recent enlargement which makes it the largest single market and biggest trading block in the world.

Growth and jobs are the next great European project.

The most important conclusion of the Kok report is that "the promotion of growth and employment in Europe is the next great European project". The Commission proposes to refocus the Lisbon agenda on actions that promote **growth and jobs** in a manner that is fully **consistent with the objective of sustainable development**. The actions falling under this strategy should reinforce the Union potential to meet and further develop our environmental and social objectives. However, the challenge is to define now a strategy that addresses the areas in which Europe is not performing well (for example, our stagnant growth and insufficient job creation).

This requires a renewed partnership.

This strategy must be taken forward through a renewed partnership between the Member States and the Union – with the full involvement of the social partners. The new Lisbon agenda is necessarily broad but a limited set of policy priorities will be central to its success. We must focus on these to ensure the success of the whole. Delivery will be critical and improvements of the existing delivery mechanisms are urgently required. This calls for a streamlined and effective working method to implement the strategy which binds together the Union and the Member States. For this to be possible, the Lisbon agenda must be owned by all stakeholders at EU, national, regional and local level: Members States, European citizens, parliaments, social partners and civil society and all Community institutions. They should all

¹ Report from the High Level Group on the Lisbon Strategy, chaired by Wim Kok, November 2004. http://europa.eu.int/comm/lisbon_strategy/group/index_en.html

contribute to construct Europe's future. After all, everyone will benefit from the future that the Lisbon agenda is trying to shape. The renewed Lisbon strategy is about tapping this potential for our citizens. It is about opportunity and a common vision for progress.

Sound macroeconomic conditions are the starting point for success.

Sound macroeconomic conditions and policies

Sound macroeconomic conditions are essential to underpin a credible effort to increase potential growth and create jobs. In particular, the continued pursuit of stability-oriented macroeconomic policies and of sound budgetary policies will be crucial. Governments must, whilst maintaining or pursuing sound public finances maximise the contribution to growth and employment.

The changes proposed to the European Union's stability and growth pact – the rules at EU level that govern national budgetary policies – should further stabilise our economy, while ensuring that Member States can play a full role in creating conditions for long-term growth.

Productivity and employment

The Lisbon strategy gives equal importance to increasing both employment and productivity, through enhanced competitiveness.

More and better jobs....

Labour markets must be allowed to function better, providing incentives for people to work and for businesses to take them on, and to create more and better jobs. This will require significant investment in human capital, and greater adaptability of the workforce in more inclusive labour markets.

...enhanced competitiveness through productivity growth ...

Productivity growth has slowed down markedly in the EU. Reversing this trend is the major competitiveness challenge facing the Union. At the same time, we must aim at lasting productivity increases in all key sectors of the economy. Together with improving the skills of the labour force, stronger investments and use of Information and Communication Technologies (ICTs) across the economy, a healthy competitive environment and the right balance of regulation are of paramount importance to boosting productivity. However, Lisbon's overburdened list of policy objectives has obscured the importance of these actions which can drive productivity growth. From now on, structural reforms, through such policies, should be pivotal in the renewed Lisbon strategy.

...must go hand in hand.

Productivity growth and increased employment must go hand in hand. We need to avoid the type of jobless growth that has marred the performance of the US economy in the past years. At the same time, we must bring the long term unemployed and people with relatively low skills back into work. This might impact the speed at which our productivity can improve. The strong emphasis on knowledge, education and innovation in our renewed Lisbon strategy will give people the opportunity to climb the productivity ladder and guarantee that overall our productivity grows quickly.

Open international

The **opening of international markets** and the strong growth of newly industrialising economies will make a significant contribution to growth

markets matter.

and jobs. However, this will only happen if we can ensure a deeper and more rapid process of structural adjustment of our economy to reallocate resources to sectors where Europe has a comparative advantage. Facilitating change to more competitive sectors and better quality jobs is therefore critical to the success of the renewed Lisbon strategy.

The responsibility must be shared between the EU and national level.

Against the backdrop, pushing forward our policy agenda relies on action at both Union and national level. Success depends on shared responsibilities and shared ownership. This is why a partnership is indispensable.

2. BUILDING A EUROPEAN PARTNERSHIP FOR GROWTH AND EMPLOYMENT

Growth and jobs – the first example of our Partnership for European renewal.

The Commission has just recently proposed building a partnership for European renewal². This forms part of the strategic programme for 2005-2009 and is geared to enabling the Member States, the European Union and the social partners to work together towards the same aim. As already stated, growth and jobs will spearhead this new partnership. All the input so far clearly indicates a real determination to work towards this renewed ambition.

To succeed we must take Lisbon forward by

The Commission is therefore calling on this March's European council to relaunch the Lisbon Strategy by way of a European Partnership for jobs and growth. The partnership will have **one aim and one only: to facilitate and speed up delivery of the reforms needed to boost growth and employment.**

It must bring solid added value if it is to produce tangible and swift results:

...mobilising support...

- **Getting the different players to work together.** Mobilisation and collective effort are the key elements of the Partnership. The challenges are common challenges and affect our model of development. We have to rise to them together – after all, everyone's individual input is essential to ensure collective success. The scale of the challenges is such, and our economies so interdependent, that no Member State is capable of facing up to the task alone.

...spreading ownership...

- **Making sure** that these objectives and reforms are **taken on board** by all the various players. The Lisbon Strategy failed to commit the key players sufficiently in terms of delivery, particularly at national level. Mobilisation is possible only if the various players feel that the policies proposed concern them, and that they are truly involved in the decision-making and implementation process. The Member States should therefore be called on to produce a single national action programme – following broad consultation – and a single national report on the Lisbon Strategy (see point 4).

² COM(2005)12, Strategic objectives 2005-2009. Europe 2010: a partnership for European renewal – Prosperity, solidarity and security.

...and strengthening priorities.

- **Refocusing** efforts on priority and visible objectives, backed up by tangible measures impinging on growth and jobs. This is fundamental if Lisbon is to succeed. It is by pinpointing clear priorities and concrete action that we shall get people rallying behind it and committing themselves to it.

For this partnership to deliver result, it requires, at a national level, the full commitment of every partner.

3. ACTIONS TO DELIVER GROWTH AND JOBS

3.1. A Lisbon Action Programme for the Union and the Member States

Three main areas...

At the heart of the proposed partnership for growth and jobs is a **Lisbon Action Programme**. It sets out priorities which will help the Union and its Member States drive up productivity and create more and better jobs. It covers actions in three main areas:

- **Making Europe a more attractive place to invest and work,**
- **Knowledge and innovation for growth,**
- **Creating more and better jobs**

...will simplify our approach...

This provides a stronger focus for the renewed Lisbon strategy. It gives a clearer sense of priorities. It responds to the criticisms that Lisbon had too many priorities and was too complex for people to really understand what Lisbon was about.

...setting out who does what, by when and how we will judge progress.

The Lisbon Action Programme – building on the experience of the Internal Market Programme – identifies responsibilities, sets deadlines and measures progress. In particular, it makes a clear distinction between actions at Member States and European Union level. The most important actions are presented in this chapter.

All EU Institutions have a role to play.

As regards the EU level, the Commission will play its central role of initiating policy and ensuring implementation. It will do so working closely with the Parliament and Council, as well as drawing on the expertise of other EU institutions such as the European Economic and Social Committee, the Committee of the Regions or in the financial field the European Investment Bank.

Member States must make firm commitments.

As regards the national level, the Commission will be a facilitator through benchmarking, financial support, promotion of social dialogue or by setting up best practices. But success on the ground is where the first phase of Lisbon has fallen down. This is why the Commission is setting out where Member States, taking account of their specific situation, are expected to make firm commitments within their own national action programmes. These should cover concrete measures, including a time-table and progress

indicators. The Commission will continue to monitor and assess the progress made, using the new method of reporting and coordination described below.

3.2. Making Europe a more attractive place to invest and work

Boosting growth and jobs requires increasing Europe's attractiveness as a place to invest and work. The European Union and the Member States must focus their actions on key levers.

We need a better environment for our small and medium-sized businesses.

Action here is of **particular importance for Europe's small and medium sized businesses (SMEs)** which constitute 99% of all enterprises and two third of employment. There are just too many obstacles to becoming an entrepreneur or starting a business, and, therefore, Europe is missing opportunities. Encouraging more entrepreneurial initiative implies promoting more entrepreneurial attitudes. The balance between risk and reward associated with entrepreneurship should be reviewed. The stigma of failure complicates a fresh start and even deters many from starting a business in the first place. Finally, in Europe, despite progress during the first five years of Lisbon, there is still insufficient risk capital available to start up innovative young businesses and current tax rules discourage the retention of profits to build up equity.

3.2.1. Extend and deepen the Single Market

We need to extend and deepen the internal market...

Completing the Single Market, particularly in the area of services, regulated professions, energy, transport, public procurement and financial services remains a crucial task. Providing high quality services of general interest to all citizens at affordable prices is also necessary. A healthy and open services sector is increasingly crucial to growth and jobs in the European economy. The services sector has been responsible for almost all the new jobs created in the EU in the period 1997-2002. Services now account for 70% of EU value added. Freeing up the provision of these services will stimulate growth and generate employment. A net increase of 600.000 jobs could be achieved if the services sector was freed up.

These are areas which can deliver a real growth and job dividend and are of immediate relevance for consumers. In many of these areas, Lisbon has already delivered much of the legislation, but Member States are letting their businesses and citizens down by dragging their feet in implementation and enforcement.

...spur investment and innovation...

Removing remaining barriers will create new opportunities for market entrants and the resulting competition will spur investment and innovation. This is all the more important against a backdrop of stagnating intra-EU trade in goods and stalling price convergence.

Making the most of services of general economic interest

Public services have a central role in an effective and dynamic single market. The Commission published in May 2004 a White Paper setting out principles underpinning EU policies in the area of services of general interest and addressing key issues such as the interface with internal market, competition and state aid rules, and the selection of the provider and consumer rights.

The Commission will return to this issue later in 2005.

...and national administrations have a central role.

Finally, Member States should ensure that their own regulatory systems are better attuned to the needs of an EU-wide market. It is crucial to ensure and, where necessary, improve of the role of national administrations in providing the right market conditions (e.g. greater use of on-line services (e-government), tackling corruption and fraud). Moreover, much can be done in the area of taxation to make the Single Market work better and to reduce the existing barriers and the administrative burden for entrepreneurs.

SINGLE MARKET LEGISLATION

The **Financial Services Action Plan** was one of the real success stories of the first phase of the Lisbon Strategy: legislative measures were delivered on time; the European Institutions worked well together and innovative solutions were found to fill in the detail of the ambitious new framework. What counts now is to ensure the rules are consistently applied across the Union. At the same time, the “leftovers” from the Financial Services Action Plan should be addressed over the coming years. Action will be taken only if broad consultation with interested parties and impact assessment demonstrates a clear value-added

In order to build consensus on the **Services Directive** and to ensure the smooth discussion of this important proposal, the Commission will work constructively with the European Parliament, the Council and other stakeholders in the run up to the adoption of the first reading by the Parliament. We will focus particularly on concerns raised on areas such as the operation of the country of origin provisions and the potential impact for certain sectors.

On the **REACH directive**, the Commission stresses the need to arrive at a decision which will be consistent with the Lisbon goals as regards the competitiveness of the European industries and encouraging innovation, and which will achieve a marked improvement in health and environment to the benefit of Europe’s citizens. The Commission signals its willingness to cooperate fully with Parliament and with Council in search for pragmatic solutions to key issues which have emerged in the examination of REACH in order to improve its workability.

In order to overcome the obstacles posed by 25 different sets of rules governing how companies are taxed when they operate in several Member States, the Commission is taking work forward to try to achieve an agreement on a **common consolidated corporate tax base** and its implementation. This will reduce a significant overhead to doing business in different countries, while leaving Member States free to set the corporate tax rate.

The **Community Patent** has become a symbol of the Union's commitment to a knowledge-driven economy. This remains an important proposal and rapid progress towards a workable solution that supports innovation must be pursued.

3.2.2. *Ensure open and competitive markets inside and outside Europe*

Competition is of fundamental importance.

Competition is of fundamental importance for the whole partnership for growth and jobs. **EU competition policy has played a key role in shaping European competitive markets**, which have contributed to increasing productivity. This will continue in the enlarged Europe in particular through proactive enforcement and a state aid reform regarding innovation, R&D and risk capital. The Commission will, therefore, continue to pursue its competition policies, which can also help in identifying regulatory and other barriers to competition. **Enquiries in key sectors**, like financial services and energy, will be undertaken to ascertain the underlying reasons why markets do not fully function in such sectors.

Member States must reduce and redirect State aid.

Member State should reduce and redirect State Aids to address market failures in sectors with a high growth potential as well as to stimulate innovation. These initiatives should clearly target the needs and burdens for small and medium sized enterprises. The Commission will launch a major overhaul reform of State aid rules during the course of the year (see section 3.3.1).

EU business also needs open global markets.

European companies are facing more and more international challenges and EU trade policy needs to ensure that they can have access to third markets and compete on a fair basis with clear rules. In summary, open markets, both in Europe and globally, are crucial to generating higher growth rates.

GROWTH AND JOBS: THE GLOBAL DIMENSION

The completion of an ambitious agreement in the DOHA round, therefore, remains the fundamental objective. This should be complemented by bilateral and regional Free Trade Agreements, including with Mercosur, the Gulf Co-operation Council.

There should be a fresh drive for regulatory and administrative convergence at the international level, in particular in transatlantic trade relations. Ensuring that standards converge as widely as possible at the international level – whether this is with our major trading partners such as the USA or with rapidly growing markets in Asia such as China, India and with other countries in the EU neighbourhood – holds out the potential for significant cost reductions and productivity growth. The Commission will actively pursue this agenda.

3.2.3. *Improve European and national regulation*

The right regulatory framework helps business and builds consumer confidence.

Cutting unnecessary costs, removing obstacles to adaptability and innovation and more competition and employment friendly legislation will help create more conducive conditions for economic growth and improved productivity. This comprises measures such as simplification, well shaped legislation and efforts to reduce the burden of administrative costs. The right regulatory framework will also strengthen consumer confidence and help them contribute to growth. Regulatory burdens also disproportionately affect

SMEs which usually have limited resources to deal with the administration such rules often imply.

We must remove unnecessary burdens

A new approach to regulation should seek to remove burdens and cut red tape unnecessary for reaching the underlying policy objectives. Better Regulation should be a cornerstone for decision making at all levels of the Union.

BETTER REGULATION

Better regulation has a significant positive impact on the framework conditions for economic growth, employment and productivity by improving quality of legislation, thereby creating the right incentives for business, cutting unnecessary costs and removing obstacles to adaptability and innovation.

Member States should also pursue their own better regulation initiatives, notably in respect of sectors where Europe's productivity growth is clearly lagging behind, such as the services sector.

The Commission will ambitiously pursue this objective and launch a major new initiative before the Spring Council, which includes:

- Better assessing the effect of new legislative/policy proposals on competitiveness, also through its Impact Assessment instrument.
- Drawing on outside expertise to advise on the quality and methodology of how to carry out impact assessments.
- The cumulated burden of regulation, difficult market access and insufficient competitive pressure can hold back innovation in sectors that have a high growth potential. The Commission will, therefore, launch a series of sectoral reviews with a view to identifying growth and innovation inhibiting obstacles in key sectors. A special attention will be given to burdens for small and medium sized enterprises.

3.2.4. Expand and improve European infrastructure

A modern infrastructure facilitates trade and mobility.

The Single Market needs to be equipped with **modern infrastructure** to facilitate trade and mobility. Progress here has been disappointingly slow and this now needs to be addressed. **A modern infrastructure is an important competitiveness factor in many enterprise decisions**, affecting the economic and social attractiveness of locations. It guarantees mobility of persons, goods and services throughout the Union. Also, infrastructure investments especially in the new Member States will encourage growth and lead to more convergence, in economic, social and environmental terms. Given the long term effects of infrastructure, decisions should significantly contribute to sustainability. Similarly, fair and efficient systems of infrastructures pricing will serve this objective.

The opening up of energy and other network industries must be fully implemented.

Finally, we need to ensure that the opening to competition of sectors like energy and other network industries, which has already been agreed, is now fully implemented on the ground. These measures offer an essential lever for ensuring the best use of physical infrastructure with both industry and consumers enjoying the benefits, wherever their location, of lower prices, greater choice and a guarantee of high quality services of general interest to all citizens.

EUROPEAN INFRASTRUCTURES

Modern transport and energy infrastructures throughout the European Union territory are a prerequisite for reaping the benefits of a re-invigorated Lisbon strategy. Member States must deliver on their commitments to start work on **45 “quick start” cross-border projects** for transport and energy. European coordination on a project by project basis must be matched by a clear commitment on the part of Member States concerned to launch a planning and financing process. Member States should report on progress made as part of their national action programmes.

3.3. Knowledge and innovation for growth

Knowledge drives productivity growth.

In advanced economies such as the EU, knowledge, meaning R&D, innovation and education, is a key driver of productivity growth. Knowledge is a critical factor with which Europe can ensure competitiveness in a global world where others compete with cheap labour or primary resources.

3.3.1. Increase and improve investment in Research and Development

We must close the EU's R&D investment gap

The EU, however, still invests about a third less than the USA in R&D. 80% of the gap is due to under-investment in research and development from the private sector, notable in ICT. The EU is currently spending only 2% of GDP, barely up from the level at the time of Lisbon's launch. We must achieve faster progress towards the EU target of 3% of GDP for **R&D expenditure**. This requires increased and more effective public expenditure, more favourable framework conditions and powerful incentives for companies to engage in innovation and R&D, as well as more numerous well trained and motivated researchers.

MEETING THE 3% R&D TARGET

Progress towards the Lisbon target for EU research and development spending (3% GDP by 2010) is largely in the hands of Member States. In their national Lisbon programmes, Member states should explain the steps which will bring this target in reach. Mobilising more business investment is crucial and Member States should take full advantage of the possibilities that the new State aid framework.

A key building block should also be a co-ordinated European approach to **improve the tax environment for R&D**. This is an increasingly important factor encouraging business to spend more on investment research and development in other countries. This will primarily be important for the growth of high-tech small and medium sized enterprises throughout the Union.

At EU level the **7th research framework programme** will aim strongly boost our industries' competitiveness in key technology areas by pooling and strengthening efforts across the EU and by leveraging private sector investment. The new framework programme will also focus on excellence of the research base through the future **European Research Council**, composed of independent world-class scientists, selecting research projects and programmes on the basis of scientific excellence.

REVISION OF THE STATE AIDS FRAMEWORK FOR R&D AND INNOVATION

In the context of the overall reform of State aid rules, a **revision of the existing State Aid Framework for R&D** will be brought forward with the aim of facilitating access to finance and risk capital as well as public financing of R&D and innovation. The Commission will present a communication on the future of State Aid policy before summer 2005. We need to make it easier to provide financial support for research and innovation, particularly for young and innovative companies. Today, limited access to finance is one of the biggest barriers to innovation. Public support should be available where the spill-overs for society at large is significant, while ensuring that competitive conditions are not distorted.

3.3.2. *Facilitate innovation, the uptake of ICT and the sustainable use of resources*

Universities have a crucial role in creating and spreading knowledge.

Universities' contribution to the creation and dissemination of knowledge throughout the Union must be reinforced. The Commission will come forward with ideas on how to increase their potential and quality in research, science in order to be more attractive and build better links with industry. The Commission will also propose guidelines to improve their research collaboration and technology transfer with industry. It will address the question of how to enable European universities to compete internationally. In many ways, the existing approaches to financing, governance and quality are proving inadequate to meet the challenge of what has become a global market for academics, students and knowledge itself.

EU investment should play its part.

In order to achieve greater synergies between research, structural and cohesion funding, we should invest more in facilities for research and innovation, which enable more regions to participate in EU level research activities.

INNOVATION POLES

At a regional and local level, we need a greater focus on establishing innovation poles, **bringing together high technology small and medium sized enterprises, universities and the necessary business and financial support.** Member States should exploit the opportunities offered by EU regional and social funds to support regional innovation strategies. This is crucial to exploiting new “centres of excellence”, promoted in our research program so that we get more ideas out of the lab and into workshop. This will be facilitated by strengthened links between the regional funds, the research framework programme and the new Competitiveness and Innovation Programme.

National Lisbon action programs should provide a roadmap for such establishing and developing new and existing poles.

The search for knowledge has always been at the heart of the European adventure. It has helped to define our identity and our values, and it is driving force behind our future competitiveness. In order to reinforce our commitment to knowledge as a key to growth, the Commission proposes the creation of a “**European Institute of Technology**” to act as a pole of attraction for the very best minds, ideas and companies from around the World. The Commission will actively explore with the Member States and public and private stakeholders on how best to take this idea forward.

Investment in new technologies...

Innovation is significantly affected by competition and tax policy, as well as the speed with which new technologies are taken up, especially in the context of rapidly changing technology.

...is crucial to push up productivity,

More generally, our innovation performance is crucially dependent on strengthening **investment and the use of new technologies, particularly ICTs**, by both the private and public sectors. Information and

while....

Communication technologies provide the backbone for the knowledge economy. They account for around half of the productivity growth in modern economies. However, investments in ICTs in Europe have been lower and later than in the United States, especially in service sectors such as transport, retail or financial services.

i2010: European Information Society can stimulate ICT use

While the prime responsibility remains with business and public administrations when making their investment programmes, Europe is helping. A new initiative - **i2010: European Information Society** will stimulate the take-up of ICTs, to continue the *e*Europe agenda which the Lisbon Strategy fostered. It will do this by promoting a clear, stable and competitive environment for electronic communications and digital services; increased research and innovation in ICTs and an Information Society dedicated to inclusion and quality of life.

We must also meet resource and environmental challenges...

Lasting success for the Union depends on addressing a range of **resource and environmental challenges** which if left unchecked will act as a brake on future growth. This goes to the heart of sustainable development. In contrast to Europe, many parts of the world see high rates of economic growth combined with rapid rise in their population. Europe must rise to this challenge and take the lead in shifting towards more sustainable patterns of production and consumption.

...Eco-innovation will hold the key.

Moreover, by getting more output from given inputs innovation leading to productivity growth can also make a significant contribution to ensuring that economic growth is increasingly environmentally sustainable. This is why eco-innovations need to be strongly promoted, notably in transport and energy.

ECO-INNOVATION

The Commission will step up its promotion of environmental technologies. It will also take necessary steps to promote the development of approaches and technologies that allow the EU to make the structural changes needed for long term sustainability, for example in the areas of sustainable resource use, climate change and energy efficiency. These are needed both for use within the EU and to meet demand in expanding markets worldwide. There is significant potential for economic, environmental and employment synergies from environmental technologies and energy efficiency.

These will be supported by increased research and technology dissemination efforts, including leveraging private finance through the European Investment Bank, to promote the development and uptake of low carbon technologies.

3.3.3. *Contribute to a strong European industrial base*

A strong industrial base can keep us at the cutting edge of science and technology.

Taking the lead internationally in the field of R&D and innovation creates a first-mover advantage which can be long-lasting, all the more so as technological breakthroughs such as our experience with GSM enable Europe to set international standards. In order to enhance and sustain an economic and technological leadership Europe must have a **strong industrial capacity, particularly by exploiting fully its technological potential**. We need an integrated and anticipative approach based on market driven development of industrial sectors. The synergies from jointly addressing research, regulatory and financing challenges at the European level where for reasons of scale or scope individual member states cannot succeed in isolation to tackle market failures have not always been fully exploited.

Galileo and aeronautics stand as examples of where public-private partnerships have delivered.

The Galileo project and the aeronautics are powerful examples of a successful pooling of European excellence – in both cases bringing significant benefits to the European economy. Such approaches, mobilising public private partnerships, should be developed to tackle cases where the benefits for society are larger than those for the private sector: for example, energy from hydrogen. The relaunch of the Lisbon strategy should create the right conditions for tapping this potential and facilitating the necessary structural change whilst working externally to achieve open markets.

EUROPEAN TECHNOLOGY INITIATIVES

Industrial competitiveness can be supported by setting up major European technology initiatives mobilising funding from the Union, Member States and industry. The next framework programme for research can drive this process, providing sufficient priority. The objective is to **tackle market failures and to advance concrete product or service developments** on the basis of those technologies that are not only fundamental to Europe's sustainable development model, but will also contribute to industrial competitiveness. Their scale justifies additional EU funding, which in turn will mobilise additional national and private funding. The management would be handled through **public-private partnerships**.

Important examples relate to environment-friendly technologies, such as hydrogen technologies and solar energy. For these projects, Galileo, which will create an important market and numerous jobs, is a good reference point. Increasing the EU's ability to transform technology into concrete products, markets and jobs is a key for the Lisbon success.

The Commission will identify criteria, themes and projects in close cooperation with the main stakeholders (Member States, research community, industry, and civil society) and report to the European Council in June. This process and the subsequent preparation and funding phase will take place within the Framework Programme preparation and adoption process.

3.4. Creating more and better jobs

Europe needs more and better jobs...

Ensuring prosperity and reducing the risks of social exclusion means doing more to give people jobs and make sure they remain in work or education throughout their lives.

...but demographics are putting our employment record under further pressure.

In a context of rapid economic change and intense demographic ageing, creating more and better jobs is not just a political ambition: it is an economic and social necessity. Over the next 50 years Europe will face an unprecedented demographic transition. The total working population will decrease in absolute terms on current demographic trends. Apart from the significant social changes this transition will bring about, it will also put enormous pressure on our pension and social security systems and, if left unchecked, drag down potential growth rates to a paltry 1% per year. In addition, the population of some of our Member States could shrink dramatically. The Commission will adopt a green paper to launch a debate on this demographic challenge in order to identify which public policies could be put in place to address it.

Finally, the Commission will propose to **revise the European Employment Strategy in 2005** as an integral part of the new Lisbon Strategy, building on the Lisbon Action Plan.

3.4.1. Attract more people into employment and modernise social protection systems

We must attract more people into the labour force...

While the issue of low birth rates in Europe should be properly addressed as part of a long-term policy, **raising employment levels is the strongest means of generating growth and promoting socially inclusive economies.** The challenge is to attract and keep more people in the labour market through active labour market policies and appropriate incentives. Moving people from unemployment or inactivity back to employment and giving incentives to stay longer in the workforce all require the modernisation of social protection systems. The huge potential of women in the labour market remains to be fully exploited. Social partners should be committed to further eliminate the gender pay gap.

...and shape the right policies for both the young and for older workers.

Action is also needed for **young people**, where Europe is still faced with high structural unemployment and high drop out rates from education and for older workers who still start exiting the labour market on a very large scale by the time they reach 55 years of age. Moreover, many people find it difficult to combine work with family life. The provision of better and affordable child care facilities, in particular, could make an important contribution. Legal migration to avoid shortages of specific skills and a mismatch of demand and supply in important segments of the labour market also has a key role to play

EUROPEAN YOUTH INITIATIVE

In their letter of 29 October 2004, the leaders of France, Germany, Spain and Sweden put forward a proposal for a European Pact for Youth which concentrates on reducing youth unemployment and facilitating entry into the labour market. Finding ways to further combine work and family life as a central element of the Initiative.

The Policy Areas presented in this Communication contain a number of measures central to unleashing the potential of young people. They will be important elements in the revised European Employment Strategy and back-up by EU funding, notably through the European Social Fund. Taken together these measures constitute a genuine European Youth Initiative:

- The policy area “Attract more people into employment and modernise social protection systems” proposes measures to reduce **youth unemployment** such as better vocational training and the development of apprenticeships, and measures to ensure that young unemployed people be given particular attention in active labour market policy measures. Also under this heading, actions aimed at improving facilities for childcare and for elderly and disabled as well as extension of parental leave for fathers will contribute to a more harmonious combination of work and family life.
- In the policy area “Increase investment in human capital through better education and skills”, several measures specifically target the younger generation and aim at **endowing this group with the human capital and the skills needed** in a dynamic knowledge-based economy. Examples of such measures are the increase and improvement in effectiveness of investments in education; the reduction of early school leavers and of low achievers; and increased participation in mathematics, science, technology and engineering studies.
- Measures under the heading “Increase and Improve investment in Research and Development” - linked with the ability to increase the amount of human capital in the economy - will also benefit the younger generations by **opening up new career prospects**.

The modernisation of social protection systems is also important.

Member States should **modernise social protection systems** (most importantly pensions and health care systems) and strengthen their employment policies. Member States' employment policies should aim at attracting more people into employment (notably through tax and benefit reforms to remove unemployment and wage traps, improved use of active labour market policies and active ageing strategies); improving the adaptability of workers and enterprises notably through wage developments in line with productivity growth and increased investment

in human capital. Increasing healthy life years will be a crucial factor in achieving this objective.

Member States should set national targets for employment...

The Commission is proposing that **Member States fix national employment rate targets for 2008 and 2010** in their National Lisbon Programmes and that they map out which policy instruments they intend to mobilise to reach it. The employment guidelines will assist Member States in selecting the most effective instruments and the Commission will, on this basis, in its Strategic Annual Report assess progress.

Voluntary business initiatives, in the form of corporate social responsibility (CSR) practices, can play a key role in contributing to sustainable development while enhancing Europe's innovative potential and competitiveness.

...and we need the support of the social partners.

Finally, the **social partners** are asked to promote the integration of people excluded from the labour market, including young people. This will not only contribute to the fight against poverty, but also ensure that more people are in work.

3.4.2. Increase the adaptability of workers and enterprises and the flexibility of labour markets

A high degree of adaptability will boost our performance and help people into jobs.

In rapidly changing economies, **a high degree of adaptability is also vital to promote productivity growth and to facilitate job creation in rapidly growing sectors**. Increasingly, new firms and SMEs are major sources of job creation and growth in Europe. More flexibility combined with security will require a greater ability of workers and enterprises to anticipate, trigger and absorb change. Greater adaptability should also contribute to ensuring that wage labour cost developments do not exceed in line with productivity growth over the cycle and reflect the labour market situation. Given differences in labour market institutions and the functioning of labour markets, it is clear that a one-size-fits-all policy would be ineffective and potentially counterproductive. Member States will themselves have to develop the best policy mix.

We must remove barriers to mobility.

In order to target specific problems, the Commission will make proposals to **remove obstacles to labour mobility** arising from occupational pension schemes and work on the co-ordination of admission policy for economic migrants. Adoption of proposed legislation to further mobility in the professions, the adoption of a European Qualifications Framework in 2006 and the promotion of equal opportunities (recast proposal) are also of fundamental importance.

3.4.3. Investing more in human capital through better education and skills.

More investment in education and skills is a further factor.

Structural change, greater labour market participation and productivity growth require a **continued investment in a highly skilled and adaptable workforce**. Economies endowed with a skilled labour force are better able to create and make an effective use of new technologies.

Educational attainment in Europe falls short of what might be required to ensure that skills are available in the labour market and that new knowledge is produced that is subsequently diffused across the economy. The emphasis on lifelong learning and knowledge in economic life also reflect the realisation that advancing educational attainment and skills makes an important contribution to social cohesion.

Life long learning is a priority.

The modernisation and reform of Europe's education and training systems is mainly the responsibility of Member States. However, there are certain key actions that must be taken at European level to facilitate and contribute to this process. The proposal for a new **Lifelong Learning programme**, to replace the current generation of education and training programmes from 2007, must be adopted by the legislator by the end of 2005 in order to allow it's effective and timely implementation. It must also be endowed with a budget consistent with its aims. Member States must fulfil their commitment to put in place **Lifelong Learning Strategies by 2006**.

EU funding has a role to play.

The Community will contribute to the objective of more and better jobs by mobilising its expenditure policies. The **Structural Funds** are already being used and geared towards these objectives, but this progress can only be **consolidated through the adoption of the proposals for the new Framework post 2007**. Adequate funding for these policies which would lever regional and national means from the public and the private sector and support the sharing of best practices is required.

DELIVERING LISBON: REFORM OF EU COHESION POLICY AND THE ROLE OF THE STRUCTURAL FUNDS

For the next generation of regional development, European Social Fund and cohesion programmes, the Commission proposes a more strategic approach in an effort to ensure that their content is targeted on growth and jobs. Strategic guidelines will be established at Community level by decision of the Council, setting the framework for guidelines at the level of each Member State to be negotiated in partnership and taking account of differing national and regional needs and circumstances.

The future regional programmes and the national employment programmes will seek to target resources notably in the less prosperous regions where Community resources will be concentrated:

- on developing more and better jobs through investments in training and in the creation of new activities,
- by encouraging innovation and the growth of the knowledge economy by reinforcing research capacities and innovation networks, including the exploitation of the new information and communication technologies and,
- on improving the attractiveness of regions through infrastructure provision.

Rural Development policies will also focus more specifically on the creation of growth and jobs in rural areas. Full advantage needs to be taken of the possibilities on the internet and broadband communications to overcome the disadvantages of location.

This should be taken forward by Member States, in partnership with regions and cities.

3.5. The impact on growth and jobs

Lisbon delivers growth in medium- and longer-term.

The policy actions set out in this communication will evolve as Member States detail their national action programmes. While it is not possible, therefore, to provide a comprehensive assessment of the effects of the whole Lisbon Action Programme at this stage, it is now widely recognised that the type of measures envisaged in this Action Programme can make an essential contribution to increasing the growth potential in the medium- and longer-term³.

A Single Market in services could add 0.6% to GDP and increase the employment rate by 0.3%...

Making Europe a more attractive place to invest and work

The Internal Market Programme is one of the best examples of a Lisbon-type reform leading to a significant impact on growth and employment. For example, the completion of a single market in services should lead to an increase in the GDP level by 0.6% and of employment level by 0.3% in the medium-term. The integration of financial markets could – in the medium to long term – lower the cost of capital for EU companies

³ See “The costs of non-Lisbon. An issues paper”, draft working document of the services of the Commission.

by about 0.5 percentage points and that this could bring about a 1.1% rise in the level of GDP and 0.5% in the level of employment in the long run.

Knowledge and innovation for growth

...investing in knowledge and education should boost our capacity to innovate, ...

Investing in the knowledge should increase the capacity of the EU to innovate and to produce and use new technologies. An increase in the share of R&D expenditures in GDP from 1.9% to 3% (in order to reach the Lisbon target by 2010) would result in an increase of 1.7% in the level of GDP by 2010. Investment in human capital is also necessary because highly skilled people are the ones who are best equipped to work with the most productive capital and to implement organisational changes appropriate for the new technologies. An increase by one year in the average education level of the labour force might add as much as 0.3 to 0.5 percentage points to the annual EU GDP growth rate.

...and the right approach to employment could raise the participation rate by 1.5%.

Creating more and better jobs

Finally, the improvement in the employment performance observed in the latest years is more significant in those countries that have carried out reforms aimed at increasing the participation rate and at better designing active labour market policies and tax and benefit systems. Studies show that such reforms can increase the participation rate by 1 ½ percentage points and combined with wage moderation, they may result in a 1% reduction in the unemployment rate.

The mutually reinforcing nature of these individual steps means that the overall impact could be much higher.

As the above selection illustrates, the individual measures envisaged in the Lisbon Action Programme would have substantial positive economic effects. But the strategy is a comprehensive package of reforms which are mutually reinforcing. The available estimates indicate that it would not be unreasonable to expect the full Lisbon Action Programme, once all its constituent components have been implemented, to increase the current EU potential growth rate bringing it closer to the 3% objective. It would also raise employment by at least some 6 million jobs by 2010.

4. MAKING THE PARTNERSHIP DELIVER ON GROWTH AND JOBS

We are revamping the way Lisbon is delivered, ...

While some progress has been made towards reaching the targets set at the Lisbon European Council in 2000, the overall picture is very mixed. The single biggest challenge we are facing midway towards 2010 is, therefore, to fix the implementation deficit. We need to revamp the delivery process which has become too complicated and is poorly understood. It generates much paper, but little action. Responsibilities between the national and the European level have become blurred. Limited ownership is the result

... through a single national Lisbon programme for growth and jobs,...

To remedy this, the Commission proposes a complete overhaul of how the renewed Lisbon Strategy is implemented:

... a Mr or Ms Lisbon in national Governments,

- **A single National Action Programme for growth and jobs**, adopted by national governments after discussion with their parliaments would help to get ownership and legitimacy at the national level would be strengthened through the involvement of social partners and civil society in the preparation of a national Lisbon programme. This programme sets out the reform actions and targets appropriate to the conditions prevailing in the member states. It should be prepared and adopted by governments following discussions with their national parliaments.
- **Member States would appoint a Mr or Ms Lisbon at government level** charged with co-ordinating the different elements of the strategy and presenting the Lisbon programme.

... a single reporting structure...

- The **national Lisbon programmes** for growth and jobs would become the major reporting tool on economic and employment measures in the context of the Lisbon strategy. This will greatly simplify the myriad of existing reports under the Open Method of Co-ordination (OMC), which the Commission will review.

... alongside an EU Lisbon Programme, and ...

- **Priorities for action at Union level** have been identified and have been set out in a separately published in a Community Lisbon Action Programme. Agreement on their importance is sought to enable rapid progress with decision making and, subsequently, their implementation.

a single integrated package for economic and employment co-ordination.

- The simplification in reporting structures would be mirrored at EU level by **integrating in a single package the existing Treaty based economic and employment co-ordination mechanisms** (under the Broad Economic Policy Guidelines and Employment Guidelines): this will be done in a Strategic Annual report which will be published annually in January.

Member States must show their commitment.

Member States. Delivery is the Achilles heel of the Lisbon strategy. The proposals for improving the delivery mechanism could resolve many of the difficulties. But they will only work if there is genuine commitment from Member States.

Clear roles would also be assigned at the European level:

The European Council sets the direction...

The European Council would have overall responsibility for guiding the process. An integrated approach for adopting guidelines for national programmes for growth and jobs as well as for simplified reporting by Member States on implementation will allow even stronger guidance from the European Council.

... drawing on the views of the European Parliament...

The European Parliament would also be involved in this process by giving an opinion on the Strategic Annual report to be taken into account by the Council. Presidents of the Parliament, the Council and the Commission could

continue to meet regularly, including before the Spring European Council, to identify how the legislative proposals related to the Community Lisbon Programme can be taken forward in the legislative process. The Commission will also inform the European Parliament on a regular basis about its analysis of progress made and measures adopted by the Member States.

...and the Commission drives the process forward.

The Commission would support the Member States in drawing up their Lisbon programmes and will put the necessary structures in place to facilitate this process. It would evaluate the targets and measures adopted by the Member States, draw attention to underlying difficulties and use its strategic annual report to ensure the Union remains on track. This would be complemented by the use of its powers under the Treaty to ensure correct transposition of legislation and that Member States' Lisbon commitments are kept.

The Social Partners should play a special role.

The role of the **social partners** will also be vital. Their support will be crucial in areas such as active labour market policies, life long learning or anticipating restructuring in industrial sectors. Therefore, the Commission invites them to draw up their own multi-annual Lisbon programme for growth and jobs using the powers granted to them under the Treaty. The regular Tripartite Summit should be dedicated to the evaluation of progress made and to the exchange of best practices within the Member States. The Partnership for growth and jobs is, therefore, fully consistent with the ambitions of the partnership for change adopted by the social partners at the Tripartite Summit in March 2004.

This new 3 year cycle starts in 2005.

This new 3 year cycle would be launched in 2005 with new more general economic and employment guidelines being set, allowing member states to tailor make their national Lisbon programmes to cater for their national situations. A review would take place in 2008. A detailed overview of the new approach to governance is being published separately.

This structures our partnership and ensures change will happen.

In summary, the proposals to make the partnership deliver on growth and jobs are based on a clear attribution of responsibilities allowing all actors to take ownership of the actions under their responsibility. The new approach clears away the jungle of existing reporting obligations. Essentially, it shifts the focus from co-ordination through multi-lateral discussions between 25 Member States and the Commission, on individual policy themes (the Open Method of Co-ordination), with a bilateral in depth dialogue between the Commission and Member States on a commitment based national action programme. This dialogue is framed by the existing Treaty based economic and employment policy co-ordination tools – the Broad Economic Policy Guidelines and the Employment Guidelines.

...allowing us to reap the benefits of coherent action in different areas and at different levels.

Finally, this approach will allow us to reap genuine synergies from action at the different levels of the partnership and build on complementarities with and between the Member States. For example, Member States will be confirming national R&D expenditure targets in their Lisbon programmes and setting out the actions they intend to take. At Community level, a doubling of R&D expenditure is proposed under the seventh framework programme and a number of policy measures are foreseen to facilitate R&D

expenditure in the Member States. Based on the national Lisbon programmes, the Commission will, therefore, be able to annually evaluate progress towards the 3% of GDP R&D expenditure target for the Union as a whole, make any necessary proposals for adjusting policy instruments, give feedback to Member States and, if necessary, report on serious difficulties to the European Council.

Informing people about Lisbon is an important step to creating a commitment on all levels of government.

Above all, people need to understand why Lisbon matters.

The challenge of making the case for reform does not stop with this Report, nor even with the launch of the partnership for growth and jobs at the March European Council. Lisbon's ambitious agenda of reform must go together with efforts to explain the challenges we face. The case for reform must be made and remade, in order to capture the sense of urgency and show that that we can offer a response – a distinct, European response. But getting this message across requires a real and sustained effort.

...and this must be explained at EU and national level.

This task must be shared by the European Institutions. But the prime responsibility is at the Member States level, where messages can be tuned to national concerns and national debates. This must involve all those with a stake in Europe's success – national parliaments, the regions, cities and rural communities, as well as civil society. The Commission for its part will be treating this agenda for growth and jobs as a central communications priority throughout its mandate.