



Ten Do-s and Don't-s for Sustainable Growth in Europe

Interim Report
EPC European Growth Task Force

EPC Issue Paper No. 18
27.10.2004

Members of the European Growth Task Force

Nick Clegg, Chairman of the EPC European Growth Task Force

Howard Chase (BP Europe), Javier Echarri (European Private Equity & Venture Capital Association), Nigel Flood (Manpower), Hanns Glatz (DaimlerChrysler), Göran Hultin (Manpower), Marie-Thérèse Huppertz (Microsoft), Henk Mannekens (BT), Kirsty Macdonald (Scotland Europa), John Monks (ETUC), Constanze Picking (DaimlerChrysler), Tony Long (WWF European Policy Office), Eric Vaes (InBev), Charlie Woods (Scottish Enterprise)

European Policy Centre: Hans Martens, Carlos Buhigas Schubert, Julien Bouzon

Disclaimer: The content of this paper commits only the authors and does not necessarily reflect the opinion of the EPC.

Introduction

Economic growth is not an end in itself. Rather, economic growth is there to serve a greater ambition: the creation and maintenance of a vibrant, socially inclusive and environmentally sustainable European society. Economic growth is a means to these wider ends.

The challenge, then, of boosting the growth rates of the European Union is part and parcel of the challenge of creating the necessary balance between economic prosperity, social justice, the development of intellectual capital and respect for our shared environment. Without higher growth rates in the European Union, none of these aspirations will be realised. Much, therefore, is at stake.

In this, the interim report of the EPC's Task Force on the European Growth Initiative, we underline that there is much that the European Union should be proud of. We reject the pessimism, which often governs much public discussion in the European Union.

Yet the successes of the European economy cannot disguise persistent shortcomings. The total employment rate in the EU still lags almost 10% below the proportion of the US labour market engaged in work. The EU would have to employ almost 17 million more people to close this gap. Productivity in the EU has stagnated in recent years, now at almost 20% lower¹ per employed person than in the US. These are the main reasons why, today, US GDP per capita is more than 30% higher² in the US than in the EU. Add to this the low fertility rates in the EU, and the impending explosion in the retired population in Europe, and the reasons why urgent action is required to boost EU economic growth becomes self evident.

The EU is not starting from scratch, given the already successful launch of the internal market, the introduction of the euro and the enlargement eastwards. Both the Lisbon agenda and the Sustainable Development strategy are precise and adequate tools, which set out the route towards stronger, sustainable growth. But far more political commitment is needed to turn the potential for strong EU recovery into reality.

Our Interim Report takes the novel form of a list of 10 "Do-s and Don't-s" which we address to all decision makers in the European Union. The intention is not to provide yet another exhaustive analysis of the policy remedies required. Rather, our list of 10 points is designed to highlight

¹ EU15, Source: Structural Indicators, European Commission

² EU15, Source: Structural Indicators, European Commission

some of the most crucial aspects of the process of economic reform in the European Union.

In drafting this interim report, we based our analysis on a number of underlying assertions:

- That a careful balance must be maintained between the role of the European Union itself and the duties and responsibilities of the Member States. A failure by Member States to implement commitments made at EU level is a persistent shortcoming in the pursuit of greater economic growth and competitiveness. On the other hand, the freedom of Member States to compete and exploit national advantages must not be threatened by excessive harmonization at EU level.
- That, in an enlarged EU with greater political and commercial diversity, new EU regulation must be ever more intelligently crafted in order to be effective. This is especially so in view of the EU's recent enlargement to twenty-five members. Regulation which provides incentives for individuals and companies alike to operate on a level playing field is most likely to succeed.
- That raising productivity and increasing job creation should go hand in hand. At present, high productivity levels are often accompanied by low employment rates, and higher employment rates by low productivity. Such a choice is not inevitable, and there are good examples in the EU of economies that possess both high levels of employment and impressive productivity levels. A relentless emphasis on innovation, intellectual capital and the fostering of dynamic, new economic sectors is needed.
- That job security and labour market flexibility must also go hand in hand. The assumption that one opposes the other is false. Job security for those in work by excluding those out of work is unacceptable. Lowering barriers for those wishing to enter the labour market does not necessitate the lowering of generous social security support, as long as that support does not act as a disincentive to seeking employment.

Each of the assertions in our list is supported by short explanatory and statistical annexes. Since a new European Parliament has recently taken office, and a new College of European Commissioners is due to be installed in a matter of days, the principal purpose of this interim report is to act as a wake up call to policy makers everywhere. The members of the EPC Task Force are drawn not only from the corporate world, but also from labour and environmental organisations. The claim, therefore, that this group represents an important spread of opinion from both the private sector and civil society is fully borne out in the work of the group.

European Policy Centre

Subject to the responses we receive from this interim paper, we will explore specific issues related to the challenge of boosting European economic growth for our final report, timed to coincide with the final report on the implementation of the Lisbon strategy in the spring of 2005.

In the meantime, we hope that this paper provokes discussion, and helps foster an environment in which active policy reform can take place throughout the European Union.

Nick Clegg
Chairman, European Growth Task Force

TEN DO-S AND DON'T-S

1. ***Do take the EU growth challenge seriously and restore momentum to the Lisbon strategy.*** Growth is not an end in itself but the means to maintain the quality of life all Europeans deserve. Our continent's well-being depends on it. The objective of transforming the EU into the world's most competitive knowledge-based economy remains a valid goal.
2. ***Don't give in to pessimism.*** The EU is a global leader in sustainable development, has great economic strengths, is a magnet for foreign investment, a powerhouse of intellectual capital, a catalyst for global trade, and an unrivalled trans-national single market. But the re-establishment of sustainable economic growth is a complex process, which requires tough choices.
3. ***Do foster a better and more dynamic climate for innovation, entrepreneurship and investment.*** The development of sustainable entrepreneurial initiatives and the achievement of technological leadership, the adoption of Information and Communication Technologies, easier access to capital, and labour mobility and flexibility must enjoy full political support and necessitate a smart use of the available resources. Risk taking must be encouraged and rewarded.
4. ***Don't let EU Member States off the hook.*** Future prosperity cannot be invented in Brussels, especially in view of the EU's dramatic recent enlargement. Most of the measures to establish economic growth, social progress and environmental sustainability need to be taken at a national (or regional) level, but there is great scope to learn from each other and to coordinate policy measures more effectively than at present.
5. ***Do remember the fundamental value of the European Social Model.*** Lowering all social protection is not the answer. The most competitive members of the EU have economies with high employment rates and progressive welfare policies, which can serve as examples for others. The trick is to provide social support, which encourages - rather than discourages - employment.
6. ***Don't always assume the best remedy is more EU regulation.*** Be selective in creating more EU regulation in order to create value-added at European level. Better regulation, subject to transparent and rigorous scrutiny, is vital. Concentrate on implementing what has already been agreed, notably in completing the Internal Market, as much as on something new.

7. ***Do everything possible to invest in education and boost research capabilities in Europe.*** Europe's human capital is its most valuable asset. Europe needs to improve the relevant framework conditions to stop the "brain drain" and provide incentives to link up universities with the private sector.
8. ***Don't believe that European citizens are not willing to work.*** Long-term unemployment, especially amongst elderly workers, is a scar on European society, not a choice. Over-regulated labour markets and high labour-related taxes and fees can act to protect those in work whilst deterring the creation of new jobs.
9. ***Do remember the public.*** So far, a large part of the Lisbon process has been a debate between national Governments. The public must be involved and so should local and regional governments; there is no reason why citizens should accept their governments' failings when remedies are available. Communication is key.
10. ***Don't forget the bigger picture.*** Innovation and sustainability are the key to improve Europe's international competitiveness. Future prosperity depends on a carefully balanced blend of growth, environmental sustainability and social inclusion. Social cohesion and environmental protection are not impediments to economic growth, but necessary conditions for all dynamic and sustainable economies.

1. Do take the EU growth challenge seriously

Low growth and high unemployment continue to be a European disease. There are some early signs of economic recovery but not enough to inspire confidence. A breakdown of GDP factors illustrates weak outcomes, especially in the area of investment.

EU-GDP growth components (annual % changes)

	EU-15				
	1991-2000	2001	2002	2003	2004
GDP	2.1	1.7	1.1	0.8	2
Private Consumption	2	2	1.2	1.5	1.8
Government Consumption	1.7	2.3	2.7	2	1.4
Investment (GDCF)	2	0.6	-1.9	-0.4	2.7
Exports	6.9	2.7	1.2	0.3	5.3
Imports	6.3	1.3	0.6	1.7	5.2

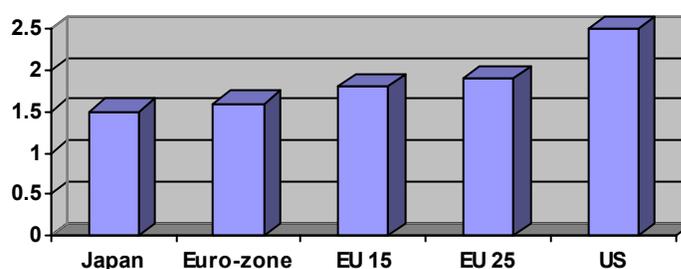
Source: Statistical Annex of European Economy

Why is higher productivity important?

It is generally agreed that approximately two thirds of the growth difference between the EU and the US is linked to lower labour utilisation, higher unemployment, more leisure time, shorter working hours, etc, but the rest can be ascribed to lower labour productivity in Europe

If Europe is to return to strong and sustainable economic growth, more and better jobs are needed. Boosting employment is not enough. The spread and application of knowledge that can lead to higher productivity jobs is vital. Otherwise, the EU will fall into a downward spiral of low productivity, low income, low consumption and, ultimately, low growth.

Average real GDP growth rate 2000-2005 (%)



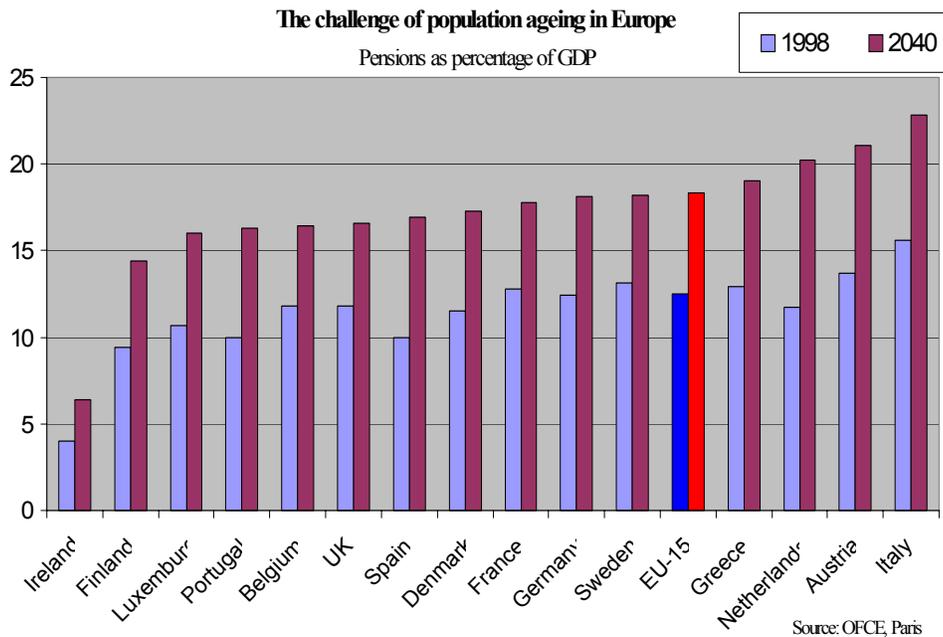
Source: Structural Indicators, EUROSTAT

The demographic challenge

The EU faces an additional pressing problem, which does not occur in other parts of the world: European countries have low birth rates, ageing populations and still harbours distrust towards immigrants.

Projections show that by 2050 there will be one pensioner to every working person, reducing growth to less than 1%, with severe cuts in GDP per capita and general welfare. Migration is a defining characteristic of today’s world and represents a moral challenge for Europe. Yet, it can also be a useful tool in combating the problems that arise from demographic change. It could help reduce labour shortages in key sectors, such as ICT or health care, as well as low-skilled occupations. It could also spread the effects of the economic transition over a longer timescale, thus limiting the immediate impact of demographic change.

There are not many options. If Europeans want to maintain their high standards of living, serious reforms need to be launched urgently in order to address the problems of an ageing and under-performing continent.



2. Don't give in to pessimism

The EU is a global leader in many areas, but has not been successful in conveying this message to the rest of the world. All too frequently it is seen – even by Europeans – as a historical and cultural paradise rather than a truly innovative venture.

But it is also a fact that some members of the EU are persistently the best performing countries in the world, whether it is with regard to competitiveness, innovation or human development. Learning from their experience would be a good starting point. Europe is already a global leader in different fields – telecommunications, environment, optics, tourism, etc. –including the means to building an inclusive society. It also plays the role of setter of standards at world level in different fields such as in environment or financial provisions. Furthermore, Europe is a global leader in sustainable development. This is an area of major comparative advantage and the EU should become the global reference, creating new markets and jobs, becoming more energy-efficient, demonstrating the link between environment and welfare, exporting our knowledge and creating a new culture of sustainable development.

The Lisbon strategy

The strategy for developing Europe's model already exists. The Lisbon strategy is a comprehensive plan designed to equip Europe with means to meet current and future challenges. Implementing the strategy would result in higher living standards that could be sustained through stronger economic growth, social inclusion, investment in human capital and the information society as well as the protection of the environment.

Yet, the general view is that implementation has been poor and that a strong push is needed in many areas. Despite the negative perceptions in the media and elsewhere, some significant advances in the economic reform process have, in fact, been achieved:

- The adoption of a substantial body of legislation, actions and measures aimed at achieving the Lisbon targets;
- The creation of more than 6 million jobs since 1999;
- The full or partial completion of certain networks (telecommunication, rail freight and gas); and
- Concrete progress towards a knowledge-based society, with a significant increase in broadband and mobile users as well as eGovernment services.

However, many important challenges still remain. It is now time for **implementation** rather than for the planning of new strategies or initiatives.

In addition:

- The complete transition towards a **knowledge-based society** is a top priority and further efforts are urgently needed.
- **The role of legislation** and the **division of powers**, between national and EU institutions and between the EU institutions themselves, need simplifying.
- Greater policy **coherence must be achieved** so that policies support, rather than contradict each other.
- The focus should be on **innovation** rather than imitation.
- Available funds must be used intelligently. **Financial resources**, both at national and EU level, must be put in place to accomplish agreed objectives.
- The exchange of **best practice** needs greater emphasis.
- There should be a greater focus on those areas in which Europe potentially enjoys **comparative advantage**.
- **Social cohesion** and **environmental sustainability** should not be seen as trade-offs, but as contributors to the EU's long-term competitiveness.
- The **Growth and Stability Pact (SGP)** needs much closer interaction with Lisbon's goals and the Internal Market needs urgent completion and updating.
- It is **high** time for a **public debate**. Lack of public awareness results in a lack of bottom-up pressure to achieve the Lisbon goals.

The Lisbon strategy also has a strong, but often forgotten, external dimension.

The EU must also:

- Respond to the challenges posed by **international trade and labour** competition by “re-skilling” and developing new areas of competitive advantage.
- Find new approaches to the **management of globalisation** and to reconcile the opportunities it creates with the difficulties that go with it.
- Develop proactive **international partnership** with other leading economies to promote liberalisation of trade in goods and services in the framework of the Doha Development Agenda.
- Accept that globalised **international competition** and greater **capital mobility** may erode the capability of European economies to maintain the fiscal basis of their social models.
- Promote the idea of a more **socially inclusive** and **secure world**, as is demanded by very different fora. Europe has the answer and must become the reference point at international level.

3. Do foster a better and more dynamic climate for innovation, entrepreneurship and investment

Europe must give priority to the creation of an environment that gives confidence to existing enterprises, is attractive for investments and stimulates the development of global leadership in major industrial and technological areas.

For this to happen the EU must send strong signals by providing an improved climate for entrepreneurship and the implementation of structural reforms that enable innovation and competition. The completion of the Single Market, overcoming inefficient regulation, increasing labour flexibility, the provision of risk capital, usage of new technologies, and investment in education and R&D are vital steps.

The list of basic requirements for a more innovative and entrepreneurial Europe includes:

- Improving in the financial environment. This is still an under-exploited area and further measures, such as micro-credits and programmes for seed capital need rapid development.
- Promoting company creation through networks and services that promote closer contact between the different relevant inputs: policy making, research centres, finance, etc
- Providing SMEs with proper attention and support according to their relative importance in the European economy.
- Ensuring sufficient R&D funding and promoting closer contacts between science and industry so that research results are translated more effectively into new products and services.
- Establishing a regulatory environment that fosters investment and encourage the development of innovative business models.
- Improving training and education provision in order to build up an innovative business culture.
- Accelerating the adoption and use of new technologies, especially in the information and communications technology field, a key driver for enhanced competitiveness not only in the private sector but also by public authorities.
- Protecting and encouraging innovation.

The good news is that initial steps have been taken towards the creation of a better environment for business and first positive signs are becoming visible. A recent study³ analysing business conditions around the world singles out the EU as the busiest reformer. It includes indicators such as simplicity of starting a company, enforcing contracts, obtaining finance,

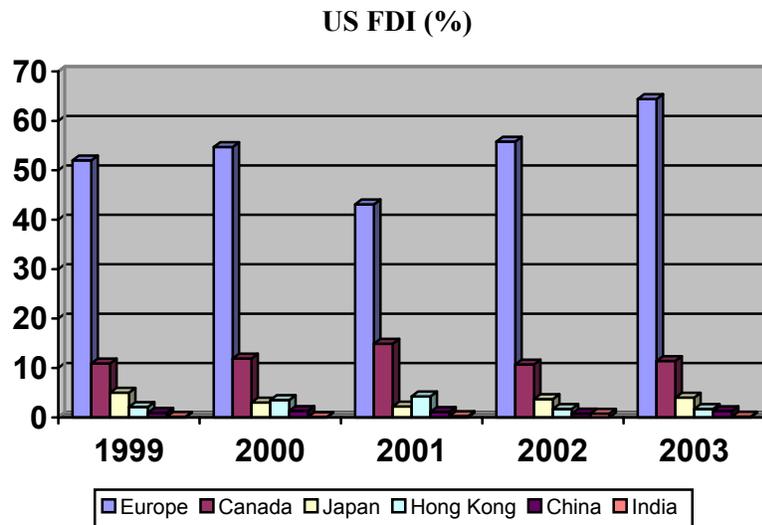
³ *Doing Business in 2005: Removing Obstacles to Growth*, the World Bank and International Finance Corporation

protecting investors, etc. Although there is still a long way to go, it conveys a real change of mood in the EU.

EU as a recipient of FDI

Much has been said about the EU as an increasingly unattractive place in which to invest. Mounting regulation and slow growth are the most common complaints. Nevertheless, statistics contradict these comments and highlight rather positive and even puzzling trends.

Europe is obliged to retain current levels of investment and significantly increase its competitiveness. An EU pact for investment, with a coherent and integrated approach, could prove to be useful and timely and would send a clear signal to the rest of the world.



Source: US Dep. of Commerce

4. Don't let the EU Member States off the hook

“The European Council agrees that the critical issue now is the need for better implementation of commitments already made. The credibility of the process requires stepping up the pace of reform at Member State level. Enhanced monitoring of national performance is needed, including information exchange on best practice. There must be speedier translation of agreements and policy making at EU level into concrete measures. The European Council underlines the need to address the unacceptably high deficits in transposing agreed measures into national law, and to complete the legislative programme arising from the Lisbon Agenda.”

Presidency Conclusions, Brussels European Council 25/26 March 2004

Responsibility for implementing the Lisbon strategy does not lie with the EU institutions alone. Many of the reforms required to boost EU growth are the exclusive competence of the Member States who have the overriding responsibility to put a common framework in place that will provide prosperity and high living standards for future generations. This was the aim of the Lisbon strategy from the outset.

The different levels of government within the Member States have a vital role to play. It is crucial to involve regions and local authorities and other stakeholders, such as civil society and business. They are frequently the motors of best practice and the source of positive peer-pressure within and across borders. Regional policy plays a fundamental role in this regard and in easing the transition towards achieving the Lisbon objectives.

Completing the Single Market

Since the internal borders were removed more than ten years ago, the internal market has proved to be a driving force for the EU. It has increased economic growth by approximately 1.8%, and has fostered the creation of 2.5 million new jobs, but it is still not a full-fledged reality.

The internal market needs to be optimised quickly, as it is the basic foundation for turning the EU into a global leader. The Internal Market strategy 2003-2006 provides a good basis for action.

Areas requiring urgent action

- The Community Patent
- The Directive on recognition of professional qualifications
- The Financial Services Action Plan investment services and transparency Directives.
- The Directive on Services
- The Trans-European Transport network must be driven forward, especially in the context of enlargement.

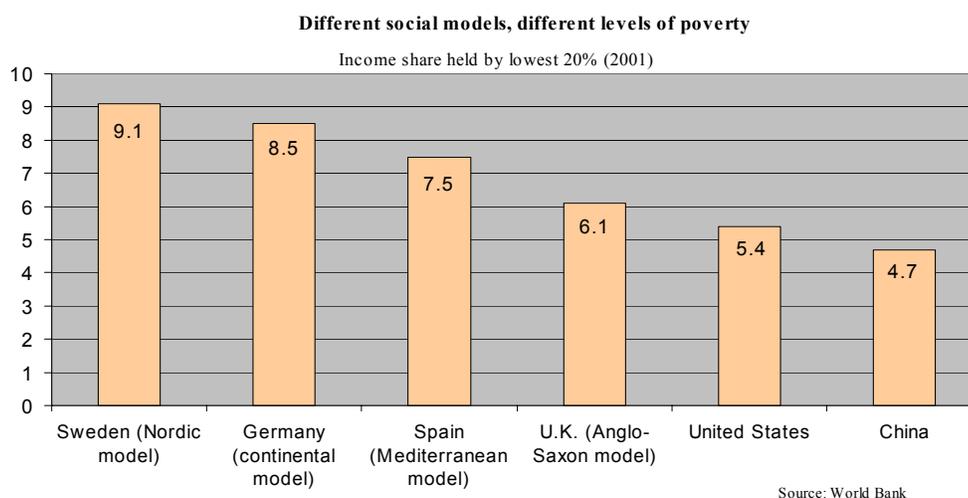
5. Do remember the fundamental value of the European Social Model

The European economic and social model is a generic definition of how Europeans choose to organise their societies and their life choices according to different sub models that share essential characteristics. It is not, however, set in stone, and changing circumstances mean that the model needs to be updated.

Employment is a major issue and it is essential that the model helps to reduce unemployment and not promote it. It must provide a catalyst for rejuvenating the labour market by combining and fostering higher levels of flexibility and mobility without harming social protection.

Contrary to widespread beliefs, maintaining social protection and achieving high levels of competitiveness are not contradictory aims. On the contrary, the most competitive economies in Europe enjoy highly developed social security models with large public sectors. In these countries, the public sector has been able to “reinvent” itself, changing from a slow-moving bureaucracy to an active driver and a reliable partner towards growth and innovation.

Most importantly, fiscal and regulatory burdens on employment (non-wage labour costs, rules for dismissal etc) are light, while social security provision for those genuinely unable to find work remain generous.



The role of the public sector

Citizens evaluate the effectiveness of the social model on the basis of their own experience: “getting value for what they pay”. The public service has traditionally been in charge of the management of different aspects, such as security, education and health. One of the biggest challenges in

updating and reforming the social model is to make it live up to the aspirations of a changing society and bring it closer to the citizens.

Innovation plays a key role. The public sector accounts for approximately half of the Member States' economies and, therefore, should also become a driver towards achieving competitiveness by transforming itself into a modern and innovative administration in which citizens and business are their vital centre of attention.

As such, it should focus on:

- Providing better and more efficient services to citizens. From education to environment there is a wide range of opportunities to invest in society and contribute to growth and competitiveness.
- Finding better means of allocating public expenditures. Many Member States could improve the environment in which businesses prosper, while maintaining high quality social services.
- Improving cooperation and coordination across Member States and implementing pan-European e-Government services

Modernising the European social model can be a decisive tool for achieving high levels of competitiveness and a major factor for advancing sustainability. Its success depends on the ability to innovate and re-structure in response to new challenges, by allocating adequate resources to growth creating measures and quality services. In other words, we need to identify the critical aspects that will provide welfare and prosperity to society as a whole.

Public goods

At the same time, there is a need for a public debate on the definition of services of public interest that ensure the provision of high-quality and affordable services of general interest to all citizens and enterprises in the EU, as a fundamental element of the European social model.

What should be done about the social model...

- Rethink what are the benefits of micromanaging the economy. Is excessive intervention in labour and product markets positive for the economy?
- Invest in people. Areas like R&D, ICT, education and the environment must be scaled up to achieve excellence.
- Transform the culture of governance into real public management, capable of designing a coherent and sustainable strategy for the future
- Implement better management and better regulation (human resources, financial, budgeting, etc).
- Design a coherent and approach to combine working and family life.

6. Don't always assume the best remedy is more EU regulation

Regulation at EU level seeks to strike a balance between minimal economic disturbance and market efficiency on the one hand, and social, environmental and consumer protection concerns on the other hand. Therefore EU regulatory activities are not in themselves obstacles to the attainment of the Lisbon objectives. On the contrary, they are driven by the aspiration to create a competitive and sustainable Europe, which also proves to be the main dynamic behind the Lisbon strategy.

However, regulation can stifle economic development and deter investment because of compliance costs, administrative burdens and cumulative effects. This can be a large barrier for entrepreneurs, small firms and growth companies at the heart of innovation. This is particularly true for increasingly competitive markets where conditions should foster investment and the conception of new products and services, rather than apply past regulatory concepts.

The reform of EU regulatory procedures is vital in light of the Lisbon strategy. EU and national regulations impact directly or indirectly on economic activity, international and European competition and innovation. Reforming regulatory procedures could have a major impact on the Lisbon strategy. Reforms like the one set out in the “better regulation” framework are a good example of that change in regulatory culture.

What needs to be done...

The EU level must:

- Rethink the concept of subsidiarity. Clarify the roles and responsibilities of the EU institutions and national governments in this regard.
- Develop a coherent Risk Communication Policy. The EU institutions should establish a formal and binding policy statement for effective risk communication, which would apply to all phases of the regulatory process.
- Provide MEPs and members of the Council with a set of comprehensive guidelines on regulatory quality requirements.

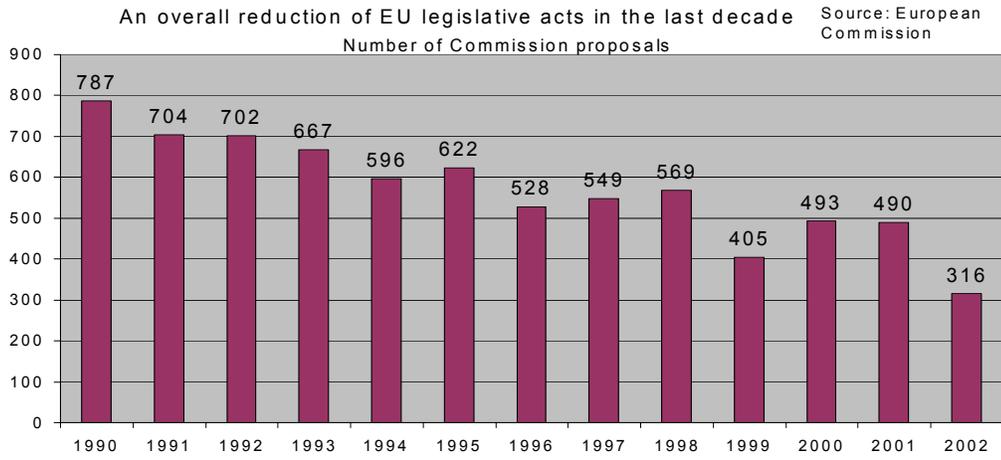
On better regulation

- Publish a formal and binding policy statement on Better Regulation.
- Enhance the role of the SME Envoy. SMEs should be fully informed about proposals that potentially affect their activity and be able to formulate recommendations.
- Upgrade the structure of the Council and the EP, and creating

internal organisations responsible for improving inter-institutional coordination and carrying out impact assessments on any major amendments they submit.

At international level

- Intensify international cooperation on regulation, which implies following-up on the agreements reached with the US and Canada and further negotiation with other major economies, such as Japan or China.



7. Do everything possible to invest in education and boost research capabilities in Europe.

Human capital is a necessity and a guarantor of a modern economy. Measuring competitiveness is measuring the development of human capital in a given society. The present “brain drain” of eminent European researchers shows the risk of losing parts of this important asset for future developments in Europe.

Human capital should become Europe’s major comparative advantage bearing in mind the traditional strong public expenditure in education. Human capital leadership requires more than financial efforts. Member States must accelerate the reforms undertaken.

The private sector must also play a more active role and the European Commission should promote and ensure a closer interaction between policy making, companies, universities and research centres and financial bodies.

What we need:

- Increased private investment in education and training: developing partnerships between firms and university would lead to higher private investment in education that could be rewarded through fiscal incentives and stimulus allowing for future commercialisation of R&D results.
- Promotion of sciences and technology and public awareness of the career prospects in these fields, with a strong focus on the female population.
- Better access to lifelong learning: is indispensable in order to achieve high employment rates and higher labour productivity.
- Facilitation of educational and professional mobility.
- Regeneration of teaching staff. By 2015, over a million primary and secondary school teachers will have to be recruited. A shortage of teaching staff would considerably slow down the emergence of Europe as a leading knowledge-based society.

Research and Development and Innovation

R&D is a major source of knowledge creation in today’s world. Both public and private expenditure in the EU remains far below the commitments made in Barcelona of achieving 3% of GDP by 2010.

One of the basic differences between the US and EU economies is the level of investment on R&D and the consequent effects this has on productivity growth and real economic growth.

This results in:

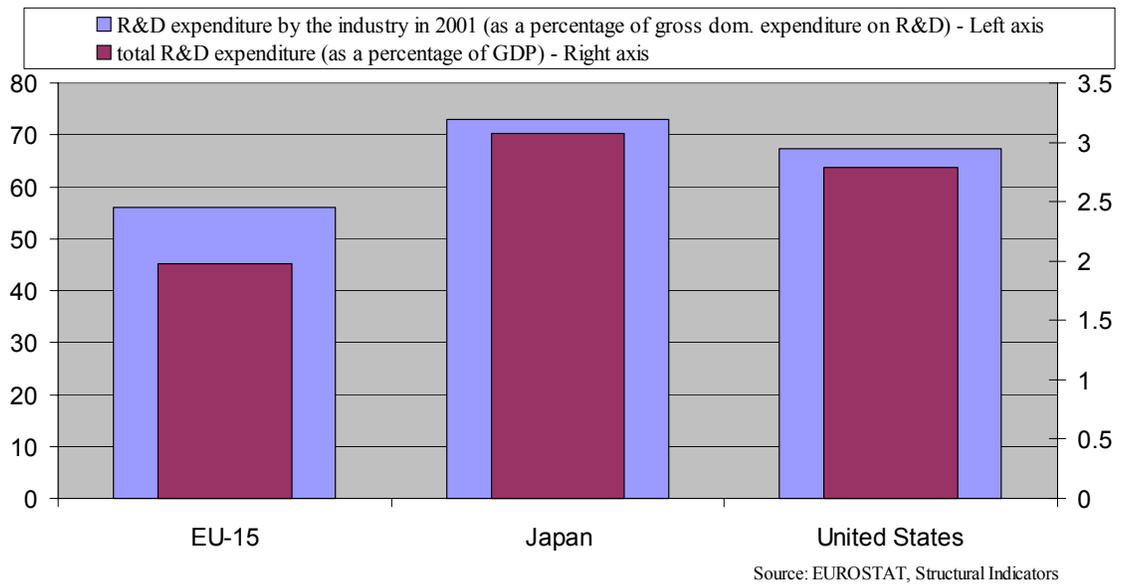
- better growth performance by the US in R&D sectors
- larger weight in R&D intensive sectors
- better Intellectual Property Rights (IPR) protection
- higher R&D intensity in most sectors

In general it can be said that US growth is more linked to R&D, while in the EU there is a large growth in capital intensive industries (metals, paper, etc.).

At the same time, the right balance between the EU and national measures must be found. Some other important measures would include:

- engagement of the private sector in R&D.
- proposal of a relevant number of priorities and themes that would mix theoretical breakthroughs and applied research.
- creation of a more attractive European Research for scientists and researchers.
- improvement of the IPR regime, allowing for easier cooperation between private and public research institutions and for smoother knowledge transfer to permit commercial product development.
- establishment of a clear link between R&D programmes and entrepreneurship
- opening of the EU's Research Area to the rest of the world.determination of strategic priorities for future European technology leadership.

Insufficient private investment in R&D

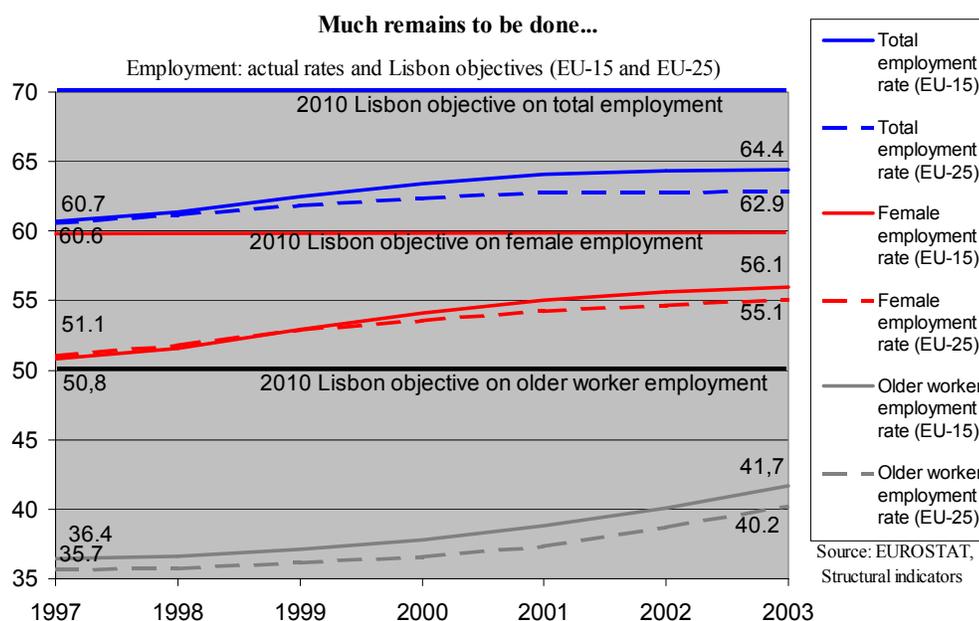


Building a European Area of Knowledge

The EU should aim at the eventual creation of a European Area of Knowledge, which would favour a better climate for higher education, R&D and innovation. To reach these goals many measures still must be put in place. Better and more efficient coordination between the Member States, sufficient financial security, real involvement of business, etc are some of the core elements needed to guide this objective. Needless to say, investing in innovation has an evident effect on higher productivity, economic growth and efforts to improve social welfare.

8. Don't believe that European citizens are not willing to work

Attaining the 2010 target of a 70% overall employment rate is becoming increasingly unlikely with unemployment the scourge of European society for the last thirty years. In too many Member States, high levels of protection for those in work has been achieved at the cost of excluding large numbers of people from the labour market. Increasing employment-rich growth is a prerequisite for tackling the challenge of an ageing population.



Employment must become a real possibility for all. All of the different actors should contribute to a collective effort to promote employment, ease the transition and integration of unemployed people into the labour market and better match those out of work with employment and training opportunities.

A knowledge-based economy demands new and continuously updated skills. Investing in people and skills to generate greater human capital is a necessity.

Three areas require serious attention:

- **Education and Training:** The reform of the education system with the needs of the labour market must be reconciled, while improving the EU-wide recognition of qualifications.

- **Mobility:** Measures must be devised and implemented to release the full potential offered by the Single Market.
- **Information:** General knowledge about the EU-wide labour market must be enhanced through more targeted information, to encourage people to make appropriate career choices, based on the most complete information possible.

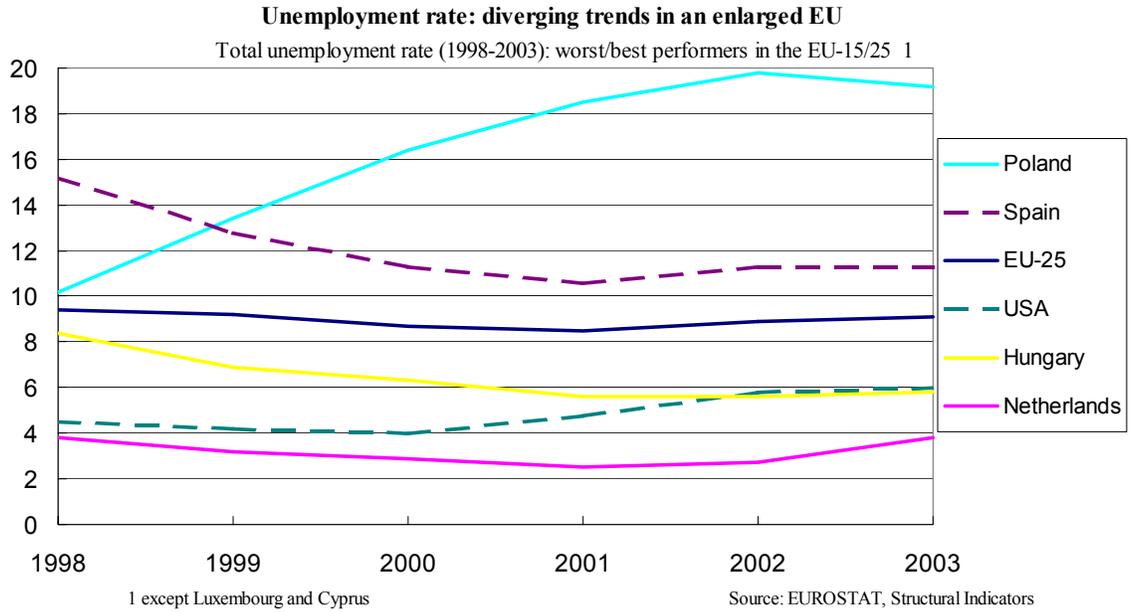
There is a long list of measures that need urgent implementation to affect change and improve the functioning of labour markets within the EU.

These include:

- a. A regulatory culture promoting markets helping them to work better.
 - Making labour markets more flexible
 - Providing better fiscal incentives
 - Creating an employment friendly tax environment
- b. A job creation agenda based on productivity growth.
 - Reinforcing the link between entrepreneurship and job creation
 - Promoting new forms of work organization
 - Creating an employment friendly tax environment
- c. Labour market flexibility and security. Policies and regulation focus on minimizing the time spent between jobs.
 - Increasing participation rates (not only disadvantaged)
 - Promoting labour market flexibility and security
 - Consolidating active labour market policies (ALMP)
 - Fostering life long learning
 - Balancing work and family

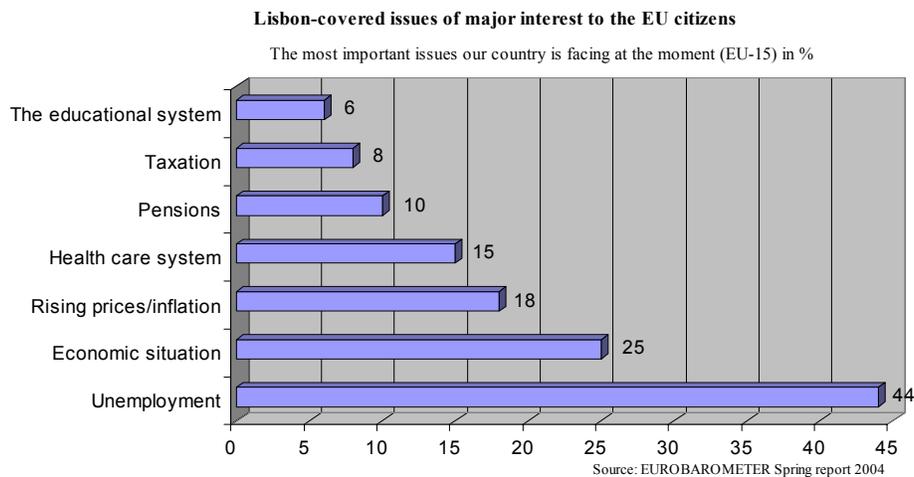
Europe needs to fulfil its economic potential, to set the basis for a sustainable employment strategy with higher levels of productivity and enhanced confidence in the medium and long term.

Both the European Employment Strategy and the different commitments made by the Member States in this area have failed to achieve the desired results. With high employment a prerequisite for sustainable growth, it may be useful to study ways to strengthen and simplify the open method of coordination for employment at European level. Streamlining the instruments (BEPG, Employment Strategy and Action Plans) into a single coherent message- an employment pact – might be a more useful way to achieve an active labour market strategy that members could support.



9. Do remember the public

The Lisbon strategy was partly built on a bottom-up approach in the sense that the Open Method of Coordination should provide the basis for comparison of progress and make it visible to all parts of society in which progress is needed. Bottom-up pressure is still lagging, despite the fact that the Lisbon Agenda actually deals with matters that should be very close to businesses and citizens as well as organisations representing a broad spectrum of societal interests.



It is important to realize that the success of the Lisbon strategy requires a change of mentality, not only for governments. All actors in society must know about it and play their part, as members of institutions, as business leaders, as representatives of NGOs, University students, union members, as consumers, etc. It is hard to understand why a strategy targeting all the very basic interests of European citizens - from employment to health - should remain so unknown to EU citizens.

The media should also play a much more active role. There is no reason why it has not yet launched and fostered a public debate on issues that are so close to the citizens' needs and interests.

What is missing:

- A clear and strong leadership at European level.
- Better dissemination of the Lisbon process goals.
- Public debate to exert bottom-up pressure to achieve the Lisbon goals.
- National parliaments to discuss versions of the Spring Report, highlighting national achievements compared to the EU average.
- Full involvement of the Social Partners and Civil Society groups.
- Fostering the debate through media, in an effort to exert healthy peer-pressure.

10. Don't forget the bigger picture

Sustainability is a key factor, and should not just turn into a fancy word. It is the central pillar, the final defining characteristic of the European Model. It must play an active role in all policies and demand coherence from them.

Sustainability is, of course, closely related to a balance between economic development and the natural environment, but also factors such as social cohesion and financing developments are important.

It is important to note that Europe is financing its development in a balanced way. The external balances (balance of payments) and the internal balances (public finances) are good – the latter primarily because of the strict rules of the Stability and Growth Pact. In comparison the US have presented a higher economic growth over recent years - but at the cost of financial sustainability. The external and internal balances are showing increasing minuses that will have to be addressed at some time, and without doubt at the expense of economic growth.

With respect to environmental sustainability, several issues should be highlighted:

1. The Sustainable Development strategy is the overarching long-term objective. It primarily addresses Europeans quality of life. However, “long-term” should not be misinterpreted and regarded with complacency. The implementation of the reforms is as urgent as the rest of the policies.
2. Climate change is not a feature of the future. It is happening today and it needs clear responses. Complying with Kyoto is a necessary first step (gas emissions, generation of waste, tax energy, phasing out fossil fuel production and consumption, energy efficiency, new alternative fuels, etc.)
3. Sustainable investment in knowledge and technological progress are vital. No major advancement can be achieved without these two factors, as they are the drivers of fundamental issues such as reducing pollution; a more sensible use of natural resources and improving public health. Overall, technology is directly linked to improved living standards across all sectors and has a great impact in lowering cost and increasing healthy competition.
4. Sustainable Development as a concept is too broad. Intuitively, people may understand it but there is a large gap between theory and practice. Educating for the protection of the environment and for Sustainable

Development would make a great difference. (Threats to public health, diseases, food security, CAP, etc)

5. Serious improvement must be made in making policy more transparent and in regaining citizen's trust. Disaffection for public institutions and political leaders is a well-known current trend. Public ownership of the sustainable development agenda is a must that will unquestionably have a multiplier effect.
6. Policy coherence. There are too many overlapping interests and policies in the EU. It is crucial to rediscover perspective and have a clear vision. A comprehensive and overall plan that cuts across all policy areas will lead to much needed coherence and convergence towards sustainability.
7. The EU is ideally placed to be the global leader in sustainable development. Europe cannot afford to miss this opportunity. The EU has more experience than any other part of the world in combining economic growth with social cohesion and concern for the environment. Turning that into our defining strength can only result into a "life insurance" for future generations.

