

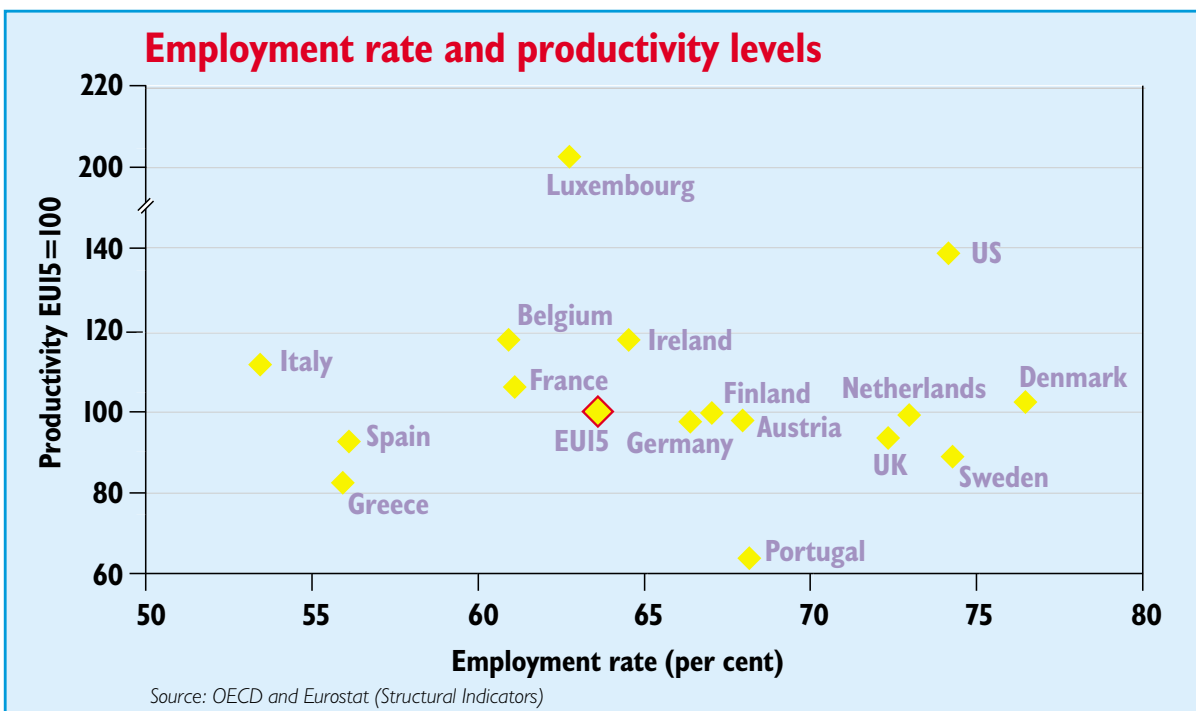
Making Europe work

What happens to Europe, matters to Britain. **Its prosperity is our prosperity.**

The Government's White Paper on European Economic Reform, published ahead of the Barcelona European Council of March 2002:

- sets out its vision of the EU as a **dynamic, job creating and socially inclusive economy** – the ten year objective agreed by EU leaders meeting at the Lisbon European Council of March 2000, and
- considers the **challenging reforms** of product, labour and capital markets needed to realise these goals and deliver prosperity and social justice to all of Europe's citizens – both current and future generations.

While there has been considerable progress over the two years since Lisbon, the EU continues in some respects to underperform both its US neighbour and its own aspirations. Closing these gaps is important; for Europe, for the UK, and for the global economy as a whole.



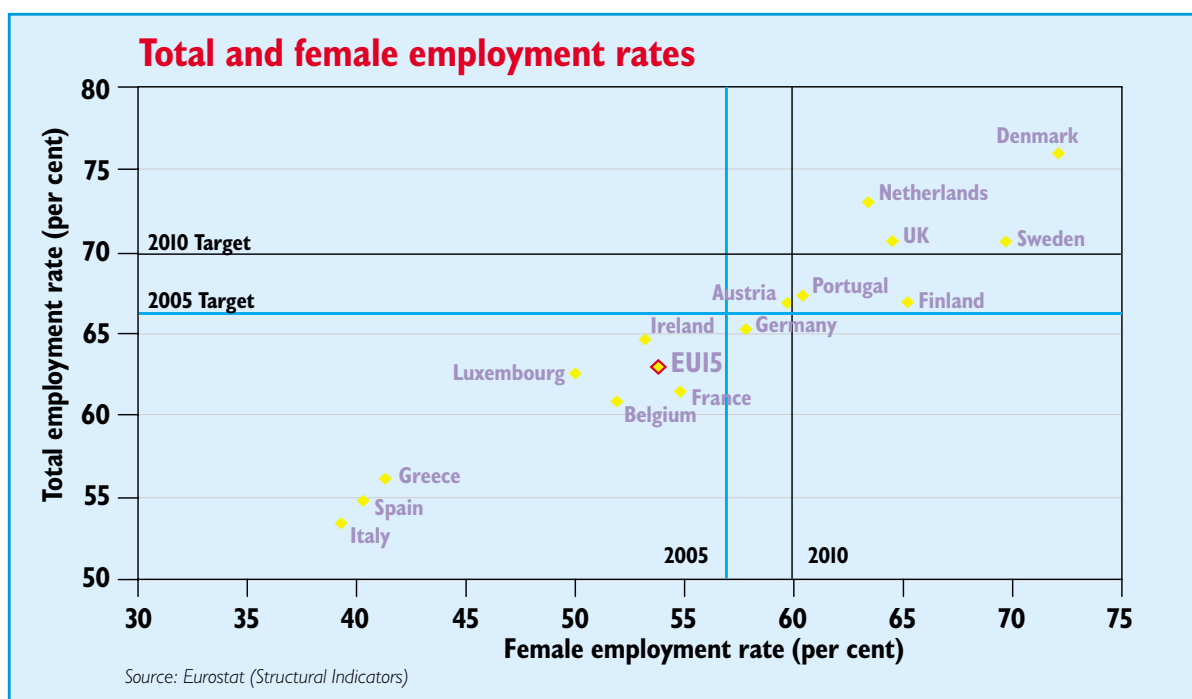
European economic reform – an EU priority

EU leaders committed themselves at Lisbon two years ago to creating “the most competitive and dynamic knowledge-based economy in the world, capable of sustaining economic growth with more and better jobs and greater social cohesion”. Much has been achieved already – an extra 5 million jobs, greater choice for consumers, and larger, more open markets for businesses.

Further reform is, however, needed to realise the EU’s full potential. This need is made all the more pressing by ageing populations, approaching EU enlargement and the arrival in much of the EU of euro notes and coins. A two-pronged approach is required:

- boosting low **employment** rates, and
- addressing the key factors which drive **productivity growth**.

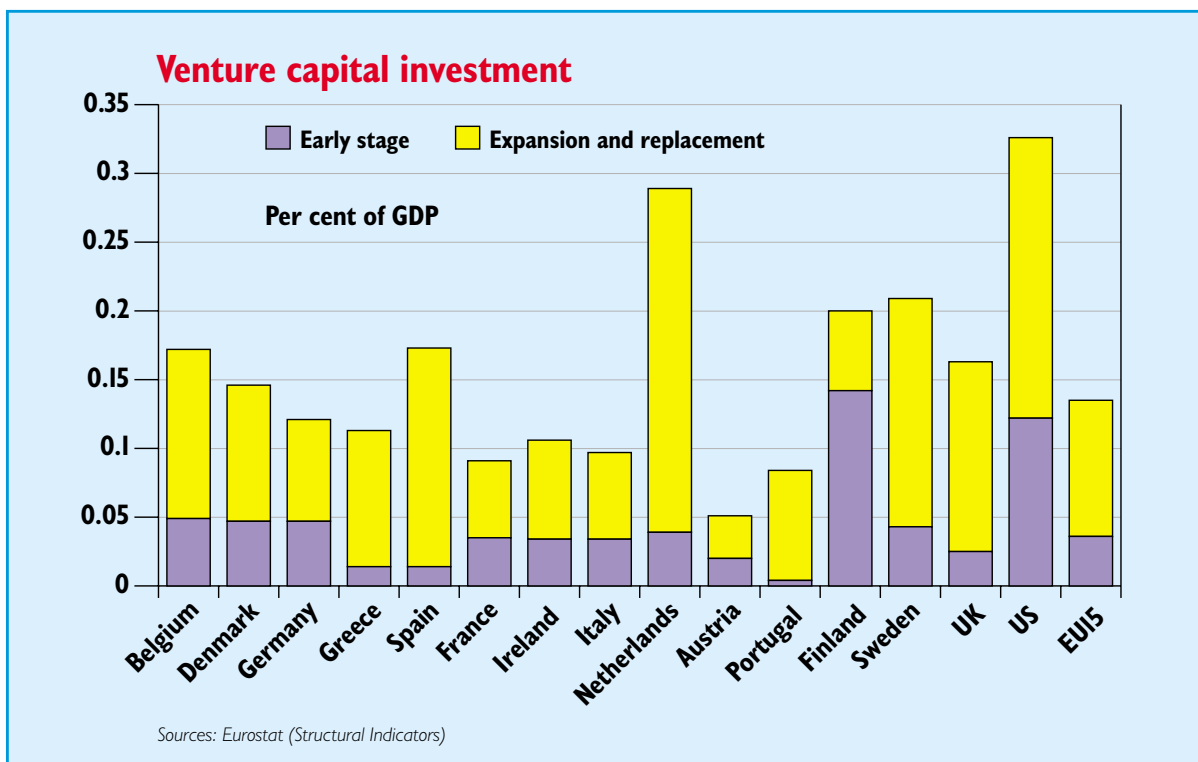
Providing enhanced **employment opportunities for all** must be a priority for a Europe intent to ensure that all groups benefit from rising prosperity. Lisbon set 2010 targets for both overall and female employment rates. Interim targets for each of these, and a 50 per cent target for older workers,



were added one year later when EU leaders met in Stockholm. The Government in this paper strongly welcomes the Spanish Presidency's focus on employment in its Barcelona agenda.

Both reform at a national level, and completion of the Single Market, are necessary to address the key influences on **productivity growth**:

- **competition** – ensuring more open markets, a rigorous competition policy, and less but better targeted state aid
- **investment** – especially in and by small businesses; facilitated by efficient and integrated financial markets, and complemented by investment in high quality public services
- **enterprise** – encouraging a better financial and regulatory environment, including the provision of venture capital (see chart), and by a culture conducive to risk-taking
- **innovation and R&D** – assessing, disseminating and unlocking the potential of new ideas in both business and academia, and
- **skills** – delivering life-long learning for the knowledge-based economy, to enhance individual self-worth and dignity and avoid social exclusion.



European economic reform – a UK priority

The Lisbon goals complement fully the key principles of the Government's domestic policy approach; that **economic prosperity and social justice are interlinked**, and that **employment opportunities for all are the best safeguard against social exclusion**.

A reforming, dynamic and full employment Europe would be a Europe of increased competitive pressure, confidence and growth; a Europe which would both **promote and facilitate** the UK's efforts to boost its own productivity and raise its own economic performance.

Over three quarters of a million UK companies trade with the rest of the EU. Such trade accounts for over half of the UK's total exports, and affects around 3 million UK jobs. A stronger EU market would mean a stronger UK economy.

The **tangible benefits** to UK consumers and businesses of integration in a reforming EU are already evident, and will grow as reform progresses:

- the right to **work, study or retire** in any EU Member State
- lower **energy** and **communication costs**, and cheaper **air fares**, as markets are liberalised and competition increases
- better **consumer protection**, e.g. motorists involved in accidents elsewhere in the EU can make an insurance claim at home
- **mutual recognition of standards**, allowing UK manufacturers to sell across the EU without expensive re-testing in each country
- more open, transparent and competitive **public purchasing**, delivering better value for money for taxpayers, and
- **environmental benefits**, such as common emission standards for vehicles.

European economic reform – a global priority

The EU is part of an increasingly interconnected world. Europe's opportunities, responsibilities and challenges do not stop at its borders.

Globalisation must be made to work for the benefit of all, and a **reforming, stronger and more dynamic Europe** is better placed to:

- benefit its neighbours **directly**, as a stronger and more open market economy
- benefit its neighbours **indirectly**, insofar as its own experience of reform may provide examples for others looking to reform their own economic and social structures
- **break down trade barriers** and keep the multilateral trading system on track towards growth, development and improved global governance, not least in the context of the WTO's Doha Development Agenda
- play a leading role in **reform of the international financial architecture**, and in supporting and promoting sound, sustainable macroeconomic frameworks
- meet, and encourage others to meet, the challenge of the **Millennium Development Goals** and other aid and development objectives, and
- target **sustainable development**, pursuing economic, social and environmental objectives concurrently in a global as well as EU context, thereby raising the quality of life for both current and future generations.

Progress since Lisbon

The reform process initiated two years ago at Lisbon and given momentum at Stockholm has already produced results, as the table below illustrates. Progress has been facilitated by the growing use within EU economic policy-making of 'open coordination'. This involves the application of best practice, peer pressure and benchmarking to common EU problems which may require a variety of carefully tailored national solutions. While much has been achieved, much more remains to be done.

Innovation	Economic Reform for Single Market	Modern Social Agenda
<ul style="list-style-type: none"> ✓ EIB to channel €1bn of venture capital support to SMEs 	<ul style="list-style-type: none"> ✓ Further postal services liberalisation in 2001 	<ul style="list-style-type: none"> ✓ Social inclusion programme and indicators
<ul style="list-style-type: none"> ✓ Fully liberalised and competitive telecoms market in 2001 	<ul style="list-style-type: none"> ✓ State aids register and scoreboard by July 2001 	<ul style="list-style-type: none"> ✓ National action plans to combat social exclusion
<ul style="list-style-type: none"> ✓ Rules for e-invoicing 	<ul style="list-style-type: none"> ✓ Strategy for removal of barriers to services in 2000 	<ul style="list-style-type: none"> ✓ Report on sustainability of pensions in EU
<ul style="list-style-type: none"> ✓ European innovation scoreboard 	<p data-bbox="603 1377 821 1422">Employment</p>	<ul style="list-style-type: none"> ✓ Sustainable development action plan June 2001
<ul style="list-style-type: none"> ✓ Regulatory framework for radio spectrum and broadband 	<ul style="list-style-type: none"> ✓ Five million new jobs since Lisbon 	
<ul style="list-style-type: none"> ✓ Small Firms charter by 2000 	<ul style="list-style-type: none"> ✓ Implement mobility action plan ✓ High-level task force on skills and mobility 	

Barcelona and beyond – the next steps

The challenge for a reforming, enlarging, ageing, integrating and open EU is to demonstrate both **bold ambition** and **decisive progress**; to combine breadth of vision with concrete steps. The box below illustrates the Government's view, building on the Spanish Presidency's priorities for the 2002 Barcelona Council, of the direction those steps should take. An ambitious agenda, certainly, but Europe's citizens demand no less. At Barcelona and over the coming months and years, Europe's leaders must demonstrate that they can deliver.

European economic reform: the next steps

- reform of **labour market policy** to help regain full employment, and a focus on **life-long learning** and opportunity for all
- lighter and more targeted **regulation**
- liberalisation of risk capital markets by 2003 and financial markets more generally by 2005
- opening up of **energy** markets, and developing EU **networks** in telecoms, transport, gas and electricity
- less but better targeted **state aid**
- enhanced professional mobility, with **mutual recognition of professional qualifications**
- facilitating EU-based **research and development**, and
- a review of, and clearer focus on, the **EU-US** trade and investment relationship.