

Mid-term review of the Lisbon Strategy: UK submission to the high-level group

September 2004

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FOREWORD BY THE CHANCELLOR OF THE EXCHEQUER

Four years ago Europe set itself the ambitious objective of becoming the most competitive and dynamic economy in the world, with more and better jobs and greater social cohesion. Today, against a backdrop of intense and sustained global competition and with the emerging economies of China and India forging ahead, achievement of that goal looks as challenging as ever.

In the past it has been commonplace in Europe to think as a trade bloc and to debate the internal rules, disciplines and institutions needed to make that trade bloc work. In the modern global economy, those assumptions can no longer prevail. Instead, with competitive pressures now global - and with 18 million people across the Union out of work including more than 18 per cent of young people - the enlarged Europe must look outwards, not inwards, and pursue the reforms needed to master the competitive challenge that the global economy brings.

The agenda that flows from this demands a concerted programme of market opening, regulatory reform and new employment policies that equip people with the skills they need for work. In the modern global economy, the route to economic success and social cohesion is not through protecting people from change. Europe will only maximise the benefits of globalisation - and solve its problems of low growth and productivity - by becoming more open and efficient, embracing greater flexibility in labour, product and capital markets. And - as recognised by the European Employment Taskforce - we will only deliver the employment opportunities and living standards currently denied to so many, by reforming employment services and benefit systems to attract more people into the labour market, and by investing more, and more effectively, in the skills they need to succeed.

This will require tough decisions by all Member States working together; a hard look at whether the traditional approaches we have followed to economic policy-making in Europe still deliver results; and difficult decisions about whether the areas in which the EU currently targets its spending are the right ones.

The mid-term review of the Lisbon strategy is a vital opportunity for Europe to address these fundamental issues and to demonstrate clearly how a truly global and reforming Europe can master the opportunities and challenges of the global economy and deliver jobs and rising living standards for all of its citizens. It is an opportunity that no government in Europe, nor the Union as a whole, can afford to miss. I look forward to the contribution that the high-level group will make.



Rt. Hon. Gordon Brown MP, Chancellor of the Exchequer

EXECUTIVE SUMMARY

At the Lisbon European Council in March 2000 Europe's leaders committed themselves to a ten-year programme of economic reform designed to make the European Union "the most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion". Four years on, the achievement of this goal looks as distant as ever.

The mid-term review of the Lisbon strategy comes at a critical time for the European Union. Globalisation, and the rapid growth and integration of the world's emerging economies - China, for example, is already the second largest economy in the world, and India the fourth - is putting Europe under intense competitive pressure, forcing Member States to adapt quickly to maintain growth and living standards in their economies. Moreover, living standards in the US are more than a third higher than those in Europe and the gap could rise further in the absence of reform

Against this backdrop, the challenge for Europe is clear. If it is to achieve its goal of higher standards of living and greater social cohesion, and become a more powerful force in the world economy, it must address, and address urgently, the economic and structural weaknesses that hold back its performance. This will require a step change in the delivery of structural reform to close the growing gap between actions and intentions - studies have shown that Europe could increase its growth potential by up to $\frac{3}{4}$ of a percentage point of GDP through concerted reform, generating significant gains for its citizens. It will also require a hard look at Europe's traditional approaches to policy-making to ensure they remain fit for purpose in an age of global competition. Fifty years ago, Europe was in the vanguard in recognising the need to think beyond national borders in the way that economic activity is organised. Today it must again expand its vision and look outwards, ensuring that its policies take account of the realities of the modern global economy and are sustainable.

The mid-term review of the Lisbon strategy provides a vital opportunity to address the key questions facing Europe today: how can national incentives to reform be strengthened? what more must be done to build a popular consensus for reform among Europe's citizens? which are the priority areas for economic reform in Europe? what must an outward-looking Europe do to master the opportunities and challenges of the global economy? This paper - the UK's submission to the high-level group - recommends that the group should:

- **provide greater focus and strategic direction to the Lisbon agenda**, by:
 - clarifying that the aim of structural reform is to deliver higher living standards and greater social cohesion by raising the long-term growth potential of the European economy through stronger employment and productivity growth - recognising that economic prosperity is the key to social inclusion and the need to ensure low carbon emissions and the efficient use of resources;
 - establishing core targets and a new Lisbon Delivery Plan focused clearly on the key goal of increased long-term growth and providing greater strategic direction to policy-makers and awareness of the challenge among ordinary citizens;
- **propose improvements to the governance of the Lisbon strategy**, by:
 - illustrating how the new Commission could improve the coherence and links between its input to the different strands of the Lisbon agenda;

- recommending concrete steps to improve incentives for reform among Member States, through stronger accountability of national governments to one another and to the European public and greater transparency in intentions, actions and results. This could be achieved by a sharper and more focused system of Lisbon Scorecards and high-level annual political review and commitments to reform;
- **show how Community rules and instruments can best support reform**, by:
 - demonstrating how non-regulatory approaches can offer more effective means of achieving the Union's goals, and identifying which policy areas offer scope for a greater reliance on alternatives to traditional regulation, such as self-regulation, co-regulation or other market-based approaches;
 - highlighting the important role that the state aid rules can play in tackling the use of distortive aids to declining and uncompetitive industries while providing flexibility for Member States to tackle market failures and advance the Lisbon goals;
 - considering, in the context of enlargement and the Lisbon strategy, the role of the EU budget and demonstrating how EU budgetary choices can be made more supportive of the Lisbon agenda - for example, by stimulating growth in the Union's poorer regions and through the next phase of CAP reform;
- **identify the key reforms needed to advance the Lisbon goal**, including:
 - which areas of Community legislation, through imposing excessive burdens on business and competitiveness, should be reviewed and simplified, including in the areas of environmental and social legislation;
 - the need for further action to develop the Single Market, with liberalisation in services and a stronger emphasis on outcome-focused enforcement of market opening agreements, such as through the pro-active use of competition policy;
 - the priority actions needed to promote innovation and enterprise, including improvements to the regulatory environment, stronger science-industry links, action to promote high-tech skills, and increased access to finance;
 - the steps needed to raise employment by increasing the adaptability of workers and enterprises, attracting more people into the labour market and investing in skills, following the recommendations of the European Employment Taskforce;
 - the important role that greater external openness would play in advancing the Lisbon goals, and the actions needed to reduce the barriers that prevent Europe from realising the benefits of greater trade and investment openness; and
 - the strategic priorities for Europe in the area of environmental sustainability, including the EU's response to climate change through medium- and long-term targets and the need to promote investment in sustainable consumption and production technologies.

MID-TERM REVIEW OF THE LISBON STRATEGY: UK SUBMISSION TO THE HIGH-LEVEL GROUP

INTRODUCTION

1. This paper is a submission from the UK to the members of the high-level group tasked with carrying out an initial analysis to inform the mid-term review of the Lisbon strategy. It is intended to accompany the recent analysis published by HM Treasury in *Advancing long-term prosperity: Economic reform in an enlarged Europe*. It covers:

- the need for renewed clarity in the objectives of the Lisbon strategy and in the targets which underpin it;
- the governance of the Lisbon process, including the need for stronger incentives for reform and an evaluation of Commission structures;
- the need to examine the instruments of reform, to ensure that Community rules and practices support progress towards the Lisbon goals; and
- the key policy issues on which the high level group should focus its attention and deliver recommendations.

2. At the Lisbon European Council in March 2000 Europe's leaders committed themselves to a ten-year programme of economic reform designed to make the European Union "*the most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion*" by 2010. Four years on, this ambitious goal remains as distant as ever, and the credibility of the Lisbon process, among the business community and other stakeholders, has been severely undermined. The case for reform is compelling.

3. The backdrop to the Lisbon strategy is an increasingly globalised world economy and the rapid growth and integration of the world's emerging economies, such as China and India. The impact of global companies, global brands, global flows of capital and global sourcing - is putting Europe under intense and sustained competitive pressure, forcing Member States to change and to change quickly. Where previously industries and sectors could be sheltered from global competition there is today hardly a product or, increasingly, a service produced by European companies that is not subject to it. In this new global economy the route to competitiveness is not through subsidies or barriers offering protection from global competition. Rather, in the next phase of the Lisbon strategy, the onus is on the European Union to build on the opportunities generated by enlargement and transform itself from an inward-looking trade bloc to an adaptable, reforming, open and globally-oriented Europe, able to master the economic challenge from the rest of the world and demonstrate leadership on sustainability.

4. At the same time, Europe also faces a huge demographic challenge, with the working population shrinking, the demands on social provision growing, and the resources needed to pay for them diminishing. Europe needs to use its resources more efficiently if it is to cope with this pressure: it needs more people in work, and those people working more productively. Only then will growth be sufficient enough to allow future generations to enjoy the social benefits brought about by economic success.

5. The scale of the challenge speaks for itself: living standards in the US are more than a third above those in the EU; Europe's recovery from the recent global slowdown

has lagged that of other parts of the world; US productivity in 2002 exceeded that in the EU by as much as 19 per cent, with only two Member States enjoying levels of productivity above those in the US; and between 1992 and 2002, the EU managed average annual employment growth of just 0.6 per cent - less than half that experienced in the US - and leaving the Union as a whole in need of a further 21 million new jobs if it is to meet its 70 per cent employment target for 2010. The high levels of unemployment and economic inactivity that have accompanied this have served only to heighten social exclusion and exacerbate inequality. Concerted effort is needed in the second phase of the Lisbon strategy if Europe is to deliver rising living standards for all of its citizens.

6. The agenda that flows from this demands a programme of market opening, regulatory reform and new employment policies. It entails responsibilities for Member States and the EU institutions - Commission, Council and Parliament alike. Europe will only maximise the benefits of globalisation - and solve its problems of low growth and employment - by becoming more efficient and increasing its productivity, pushing ahead with the necessary structural economic reforms to promote sustainable long-term growth and increase the responsiveness of its labour, capital and product markets. Europe must become more aggressive in making sure that in its operation the Single Market does not shelter inefficient industries but does what it should do: forces them to be more competitive; fosters investment in key growth areas like R&D; and encourages new enterprise and rewards it properly - generating the growth, productivity and employment that the Europe needs to deliver rising living standards, social cohesion and environmental sustainability. The prize is significant: by pursuing the necessary reforms, Europe could increase its growth potential by up to $\frac{3}{4}$ of a percentage point of GDP within five to ten years, generating substantial gains for all of its citizens¹.

SHARPENING THE FOCUS OF THE LISBON AGENDA

7. Too often the underlying aim of the Lisbon agenda is not clear enough, leading both to an ambiguity in approach and diverting attention away from the key reforms needed to strengthen the drivers of long-term growth and deliver rising living standards for Europe's citizens. If Europe is to realise its strategic objective for 2010, it must unite around a clear definition of what that objective means in practice and make greater efforts to explain and gain support for it among ordinary citizens.

The Lisbon objectives

Delivering long-term growth

8. Over the past four years, the Lisbon agenda has been successively expanded in a way which has diluted its focus on the core aims of growth, jobs and social cohesion and the priorities for reform which flow from these. **As Europe approaches the second phase of the Lisbon strategy, the high-level group should re-establish the core objectives of the Lisbon agenda over the next five years.**

9. Structural reform is for a purpose: to deliver rising standards of living and greater social cohesion for Europe's citizens by raising the long-term growth potential of the European economy on the basis of stronger employment and sustainable productivity growth. The only way to deliver sustainable long-term improvements in Europe's growth is to modernise the underlying structures of European economies to release their potential for innovation, enterprise and job creation.

¹ *Delivering Lisbon: reforms for the enlarged Union*, Report from the Commission to the spring European Council, January 2004.

Responding to economic change

10. To compete effectively in the global economy and advance this core aim, Europe's economies must become better able to respond to economic change, so that firms and individuals are capable of adjusting smoothly and rapidly to changing market conditions and the economy is able to sustain high rates of productivity growth and employment. If Europe is to satisfy the legitimate expectations of its citizens for rising living standards, it must embrace:

- **dynamic product markets**, in which firms can respond quickly and efficiently to changing market conditions, taking full advantage of new technologies and opportunities in order to maintain their competitive edge. This means promoting a competitive environment with low barriers to entry which rewards efficiency, discourages waste and provides firms with strong incentives to innovate and deliver quality and choice in goods and services to their consumers;
- **adaptable labour markets**, which have the ability to adapt to changing patterns in demand in a way that maintains high employment, low inflation and unemployment, and continued growth in real incomes. This means ensuring that the labour force is equipped with transferable skills, that tax and benefit systems provide incentives for people to enter and remain in work, that firms have the capacity to create and vary employment, and that the institutional environment encourages labour market participation; and
- **flexible capital markets**, which ensure that capital is employed effectively and that businesses, entrepreneurs and innovators all have ready access to the funds they require to develop their ideas.

Economic growth and social justice

11. It is also increasingly clear that delivering economic prosperity is the key to tackling the social dimension. Europe rightly aims high in the area of social protection. Yet too often a trade-off is seen between economic and social aims, which leads to a defensive protection of existing social structures, and fails to recognise the intrinsic importance of economic success in ensuring social cohesion. First, there is the obvious fact that economic growth is necessary to generate revenues for social programmes. Second, extending opportunities to engage in economic activity - whether by starting a business, or getting a job - is increasingly at the root of creating a more cohesive society.

12. The Lisbon goal of greater social cohesion is a vitally important one. But economic flexibility and fairness must be advanced together. There are many different ways of combining efficiency and social justice, but as Europe moves into the second phase of the Lisbon strategy and confronts the challenge of the modern global economy, policies built on the notion of a trade-off between economic efficiency and social cohesion should be reconsidered.

13. The UK's structural reforms, for example, have shown that by putting opportunity at the centre of the labour market, flexibility and fairness can be combined. Reforms to the UK's tax and benefit system, including the introduction of a National Minimum Wage and tax credit system, combined with high quality services, such as Jobcentre Plus, provide incentives and practical support to enable people to re-enter the labour market rapidly. These reforms have demonstrated that, by combining wage flexibility with an active and responsive system of welfare support, social justice and a dynamic labour market can be delivered together. Europe needs to move away from an overly protectionist approach that can close down opportunities for those who most need help. A responsive European economy is the key to economic success and full

employment, and full employment is the route to social justice with everyone sharing the benefits of greater EU prosperity.

Sustainable development

14. The same is true of the environment. Europe has led the world in understanding that economic growth must go hand in hand with environmental protection and social progress. But it is only through innovation and by adapting its policies that the EU will be able to meet these objectives in an increasingly competitive world economy. Europe cannot afford to stifle innovation and entrepreneurship with disproportionate regulations, but neither can it meet its social and economic objectives without regard to environmental sustainability. Growth that results in environmental damage, such as climate change, jeopardises living standards and prosperity in the long run. The EU must therefore continue to ensure that in its pursuit of growth it recognises the importance of sustainable development, working through the market and using economic instruments such as emissions trading where appropriate, to address this important challenge.

Better targeting

15. The lack of clarity and purpose in the Lisbon objectives is reinforced by the large and growing number of targets that serve to underpin the Lisbon strategy. Properly conceived, targets have an important role to play in focusing the attention of policy-makers on what really matters in structural reform. Equally, considered and meaningful targets can play a significant role in helping to communicate the objectives of the Lisbon strategy to Europe's citizens.

Refocusing the Lisbon targets

16. The high-level group should therefore evaluate the current set of Lisbon targets and make recommendations for how they might be rationalised and refocused on the core objectives of the Lisbon strategy to provide a clearer sense of strategic direction and purpose to policy-makers, businesses and consumers alike. In this context, it should make recommendations for:

- **a clear set of core headline targets** for the Lisbon strategy in place of the myriad of existing sub-targets. Such targets should focus on the key objective of raising the Union's long-term economic growth performance through increased employment rates (as specified in the Union's three existing employment targets) and a stronger performance against the drivers of productivity growth – competition, enterprise, innovation, skills and well functioning capital markets. They should also address Europe's goal to become an eco-efficient economy with protection for the environment;
- **targets that reflect the realities of modern global competition**, and which focus on Europe's performance relative to the best of the rest of the world, such as the productivity gap between the EU and the US;
- **targets that are measurable and defined in terms of outcomes**, rather than policy inputs. In the UK, for example, a system of Public Service Agreement targets provide a clear sense of direction and ambition to delivery agencies and the public by focusing on the results that the Government is seeking to achieve. Outcome-related targets provide a stronger basis for monitoring what is and it not working and deliver stronger public accountability; and
- **targets that have universal ownership and relevance in the enlarged EU**. There should be no divergence in the objectives or targets of the new Member States, nor any diluting of existing core targets - for example, on

employment rates. The existing Lisbon targets were set by a Union of 15 but for a Union of 25. Relaxation of the key targets at this stage would be interpreted as an admission of defeat by Europe’s policy-makers and serve only to undermine the credibility of the Lisbon agenda in the eyes of Europe’s citizens. Besides, it is only through the drive towards full employment that social exclusion and poverty can be tackled in a sustainable way. Europe must continue to aim high.

Delivery planning for success 17. A sharper and more focussed set of Lisbon targets would improve the sense of direction that is currently lacking in the process of structural reform. It could also underpin a more strategic delivery plan for the next five years, filling another important vacuum in the Lisbon agenda. The breadth, ambition and complexity of the Lisbon process requires a stronger sense, not only of where Europe wants to be, but of how it intends to get there. **The high-level group could usefully consider the scope for establishing a new Lisbon Delivery Plan relating the high-level goals of the Lisbon agenda both to the measurement of progress and to the means of delivering progress through reform.** The table below gives a simplified and stylised example of a delivery plan in the context of the Union’s overall employment objective. The final agreement of such a plan would be a useful output from the 2005 spring European Council.

An employment delivery plan: a stylised example

High-level goal	Strategic objective	Targets and measurement	Potential policy levers
Increased long-term growth leading to higher living standards and greater social cohesion.	To raise employment across the EU to improve long-term economic growth.	By 2010, to achieve an EU average: 70 per cent total employment rate 60 per cent female employment rate 50 per cent 55-64s employment rate	<i>Member States:</i> Active labour market policies Tax and benefit reforms Investment in human capital <i>Member States and the EU:</i> Regulatory reform

GOVERNANCE OF THE LISBON STRATEGY

18. The March 2004 spring European Council conclusions called on the high-level group to make recommendations for how to improve the method of structural economic reform in Europe. This section provides observations on the governance of the Lisbon process and suggests areas for the attention of the high-level group.

Governance: the role of the new Commission

19. As facilitator of dialogue and exchange under the open method of coordination and originator of EU regulatory proposals, the Commission has a central and important role to play in fostering progress towards the Lisbon goals. The UK, along with several other Member States, believes that the occasion of the appointment of a new Commission later this year provides a key opportunity for the Commission to examine and evaluate its own structures with a view to providing greater coherence and direction to the Lisbon strategy, including by nominating a new Vice-President with explicit responsibility for economic reform. In particular:

- there should be clear coherence and links between Commission work on economic and financial affairs, competition and consumer policy, the internal market, enterprise, research and development and employment and social affairs - though this should not undermine the independence of competition decision-making; and
- there should be strong, high-level leadership and oversight of the regulatory reform agenda, and the regulatory outputs of the wider Commission.

20. **The UK encourages the high-level group to make recommendations for how the new Commission might improve the coherence of its input to the Lisbon strategy and so give greater impetus to the delivery of the Lisbon goals.**

Governance: the responsibility of Member States

21. Many of the reforms need to advance the Lisbon goals are the responsibility of the Member States, in keeping with the principle of subsidiarity. That should not change. The size, diversity and cultural richness of the European Union, means that the context for reform varies across Member States, reflecting local histories, institutions and traditions. The Lisbon strategy, though grounded in shared ideals and targets, must allow a pluralist approach to reform, in which Member States have the flexibility they need to tailor their policy responses to suit local domestic circumstances. Following enlargement to 25, a pluralist approach is more important than ever.

The open method of coordination

22. In the context of the Lisbon strategy, this means that the open method of coordination continues to be the right approach, because it promotes the sharing of best practice and allows solutions to adapt to local conditions within a clear framework of common objectives, targets and shared political commitment.

23. The open method of coordination has, however, been criticised for failing to deliver and the incentives for reform have not been strong enough. The complexity and necessary pluralism of structural reform means that a one-size-fits-all approach is both undesirable and unworkable. Equally, there is no place for formal or financial sanctions in the Lisbon strategy as some have suggested. Rather, in a process such as the Lisbon strategy, incentives to reform can - and should - only be strengthened by improving the level of accountability of Member States to each other and to the European public. And that in turn requires far greater transparency: in intentions, actions and results.

Improving incentives

24. **The high-level group could usefully consider the means by which transparency and accountability in structural reform might be enhanced to deliver stronger incentives to reform – potentially through a new system of Lisbon Scorecards and Lisbon Commitments.** While there are clearly a range of possibilities here, but the UK believes that one model would be to combine two key reforms to the spring European Council process, involving:

- **a greater emphasis on benchmarking national performance** to identify successes and delivery gaps in the Member States. Each year for the spring European Council, the Commission - supported by an independent panel of policy experts - should prepare a detailed assessment of Member States' performance against a core set of headline Lisbon targets, expressly ranking both their overall performance in levels terms and the progress made against each indicator over a recent period. This publicly available "Lisbon Scorecard" could serve to increase the level of scrutiny of national governments, generating stronger incentives for reform; and

- **a new system of Lisbon Commitments** - clear annual statements, endorsed at the highest political level, of the specific structural reforms each Member State intends to introduce in the year ahead. The Lisbon agenda recognises that failure to act in one Member State can have negative consequences for all. Member States therefore owe it one another to do their bit for the wider European ambition. Such statements would build on, though not be limited to, recommendations contained in the Broad Economic Policy and Employment Guidelines. Commitments might be grouped under the core headings of raising productivity and employment and could in future years incorporate a summary of reforms implemented in the last year which the Commission could be invited to report on annually. As with a Lisbon Scorecard, they would be open to outside scrutiny, increasing the peer pressure on Member States to take forward serious reform. Produced by every Member State they would also allow national governments to demonstrate to their citizens the shared nature of the challenge and the efforts being made by other Member States and their citizens to ensure competitiveness in the new global economy.

THE INSTRUMENTS OF REFORM

25. In most cases the instruments of reform are primarily in the hands of Member States. In such circumstances there must be flexibility to enable national governments to implement domestic reform programmes, subject to the need to preserve the integrity of the Single Market.

26. In a number of areas, however, action at the Community level may also be appropriate to advance the Lisbon goals. In such cases, the Union must look to use a broad range of policy instruments, selecting the best instrument to suit the outcome. Ten years after the completion of the original Single Market legislative programme, it is increasingly recognised that it does not make sense to look automatically for regulatory solutions, when non-regulatory solutions will often work at least as well if not better. Moreover, forthcoming discussions on the EU's policy and spending priorities for the next Financial Perspective present an important opportunity to embrace a modern and flexible framework for EU level action in support of the Lisbon strategy.

27. This section highlights a number of key issues that the high-level group might usefully consider in its work on the mid-term review, including:

- the importance of regulatory reform, and the use of instruments beyond regulation, in advancing the Lisbon goals;
- the case for further reform of the state aid rules to ensure that market failures can be tackled in a proportionate and economically rational way;
- the need for a modern EU budgetary framework in support of the Lisbon goals which provides value-added EU investment where appropriate; and
- the need for a prudent interpretation of the Stability and Growth Pact to ensure it supports growth and the Lisbon agenda.

Regulatory reform

28. As with state aid, regulation can also play a key role in helping to tackle market failures, and well-designed and proportionate regulatory intervention is essential to underpin the operation of markets.

29. Poorly designed or excessive regulation, on the other hand, can impose significant economic costs. In addition to the compliance and administrative burdens imposed on firms, poorly considered regulation can also have the unintended consequence of raising barriers to entry in markets, reducing competition, or discouraging firms from employing new workers, thereby lowering employment and contributing directly to social exclusion.

30. There is much evidence to suggest that weaknesses in the European regulatory framework are inhibiting the performance of the EU economy. Recent work by the OECD has shown that most EU countries are more highly regulated than their major overseas competitors, while the Commission has also concluded that regulation is among the principal factors preventing Europe from achieving the Lisbon goals and that a favourable regulatory environment is needed if competitiveness is to increase. As Europe moves into the second phase of the Lisbon strategy it must therefore look at improving, and seeking solutions beyond, its traditional approach to policy-making.

31. In January 2004, the Finance Ministers of Ireland, the Netherlands, Luxembourg and the UK launched a new Four Presidency initiative on regulatory reform, with proposals designed to improve the assessment of new regulatory proposals, particularly for their impact on the competitiveness of the EU economy; simplify the burden of regulation imposed by the existing EU *acquis* and ensure that greater use was made of alternatives to regulation in seeking to advance the Union's policy objectives. The March 2004 spring European Council welcomed the initiative and called for a programme of work, committing to return to this issue in November 2004.

32. Recent evaluation of the process of regulatory reform in Europe underlines the need for strong action to address this challenge and improve the use of regulation as a tool of economic, social and environmental policy in Europe. It has been noted², for example, that no sanctions exist for failure to comply with the impact assessment process, that the Secretariat-General has no powers to reject inadequate impact assessments, and that firms remain concerned that the process does not adequately reflect the impact of regulation on the business sector. Still further analysis³ concludes that market analysis remains weak, with alternatives to regulation insufficiently considered and a continued bias in favour of regulation rather than market solutions.

33. There is already work underway to address this crucial issue, including to:

- strengthen the incentives for the use of impact assessment within the Commission, Council and European Parliament and in Member States;
- develop enhanced competitiveness testing for new proposals, ideally involving a Green Paper and/or White Paper stage so that ideas can be assessed before legislative proposals are made. The Competitiveness Council must play a genuine cross-cutting role here in assessing the impact of key EU legislation on the competitiveness of business, while the

² *Achieving a new regulatory culture in the European Union*, EPC Working Paper No.10, Brussels, 2004.

³ *The EU's new system of regulatory impact assessment*, European Policy Forum, London, 2004.

Commission, Council and European Parliament must all develop enhanced practices for ensuring that policy-making remains consistent with the Lisbon objectives; and

- further improve the techniques available for impact assessment, including better quantification of non-economic benefits - for example, in environmental or social legislation - and stronger appraisal of options including the benefits and costs of non-intervention.

34. The high-level group should seek to build on existing work to strengthen impact assessment by identifying which policy areas offer scope for a greater reliance on non-traditional instruments, such as co-regulation and self-regulation. For example, the development of an emissions trading scheme has shown the potential for adopting a market-based approach to some environmental challenges, providing a better distribution of costs and a greater incentive for change. And the Community's policy on tele-working has also demonstrated that a non-statutory approach can deliver results quickly and without imposing the inflexibilities and costs associated with more traditional regulation.

35. The particular application of this argument both to the impact of the existing acquis on the Lisbon agenda and to the further development of the Single Market is discussed in the next section of this paper.

State aid reform

36. While poorly-targeted government intervention in markets can distort competition, situations also exist in which, as a result of market failures, competition alone does not lead to the best possible outcomes. In these circumstances, state aid - provided it is proportionate and targeted at tackling market failures - can improve overall economic efficiency and advance the Lisbon goals.

37. The EU state aid regime plays an important role in preserving competition within the Single Market, preventing the most distortive state aids such as those which address the symptoms, rather than the causes, of economic under-performance or which provide support for declining or uncompetitive industries. Misplaced concerns over the impact of de-industrialisation must not be managed through the inefficient misuse of public subsidy to create national champions and the state aid rules have a crucial role in preventing the competitive distortions that this would lead to.

38. Equally, the state aid regime must play an enabling role, giving Member States the flexibility they need to intervene to tackle market failures where they arise and ensuring that such support can be given quickly without unnecessary delay.

39. In recent years, the reorientation of aid towards horizontal objectives – such as enterprise, the environment and research and development – has helped facilitate effective intervention by Member States consistent with the need to minimise distortions of trade and competition in the Single Market. Equally, the introduction of block exemptions – for aid for SMEs, training and employment – and proposals for a new Significant Impact Test are allowing aids which serve an important economic purpose and which are unlikely to create distortions to be implemented more swiftly.

40. Nonetheless, further action is needed to ensure that Member States are able to take action quickly and proportionately to tackle market failures in their jurisdictions and to challenge the inefficient use of aid to prop up declining industries. **The high-**

level group might draw attention to the importance of the state aid rules in advancing the Lisbon goals, and in particular the need to:

- ensure that the guidelines for regional aid allow Member States to target regional assistance effectively at the most under-performing regions while strengthening controls over those aids which have the greatest potential to lead to inefficient investment decisions and undermine competition;
- modernise the horizontal guidelines to improve the ability of Member States to tackle the market failures that inhibit innovation, the supply of risk capital and the development of environmental technologies; and
- introduce new guidelines permitting aid for the purposes of economic, physical and social regeneration in deprived areas, ensuring that the benefits of structural reform are felt by all.

A modern and flexible EU budget

41. There is rightly a debate as to how best the Community budget can support the Lisbon strategy. There are reciprocal links between the Lisbon process and the EU budget. Expenditure from within the EU budget should underpin, rather than detract from, progress towards the Lisbon goals. Moreover, the Lisbon process itself contains many valuable lessons for the formulation of EU policy that can be used to improve and help inform budgetary choices. The challenge of the next Financial Perspective - the first to be decided by an enlarged Union – is to set the EU level policy framework and associated spending that will facilitate an effective Single Market for an EU of 25, in terms of increased productivity, competitiveness and growth opportunities for all.

42. As several Member States have made clear, the Commission’s Communication on the next Financial Perspective fails to meet this remit by some margin. The proposition of an EU budget of €1 trillion over seven years is based on little or no evidence or policy analysis, pays little regard to the basic tenets of public expenditure budgeting and management, and takes scant account of the fiscal realities across the EU. The notion of “EU value-added” is implicitly presented as more spending by the Commission. In short, the Communication is politically unrealistic and conceptually unacceptable.

43. Many of the policy objectives inherent in the Lisbon strategy do not have budgetary solutions. Regulatory reform and other instruments will often be the most appropriate tools for achieving them. And the case for public expenditure at the EU, rather than Member State, level needs to be made. The key question is therefore not how the Community can spend its way to the Lisbon goals, but how to ensure that EU budgetary choices are supportive overall of the Lisbon agenda. **The high-level group should consider the role of the EU budget in the context of enlargement and the Lisbon strategy and make recommendations for how spending might be reprioritised.** Specific issues might include:

- **for convergence policy**, what is the best way for the EU budget to help stimulate new jobs, more investment and great productivity in the poorer regions? Where should the balance of EU spending effort fall, given the huge disparities between the economic performance of new and old Member States? And, as referred to above, how best can the state aid rules be designed to support regional policy in the richer Member States, without causing economic distortions?

- **for coherence between EU internal and external policy**, how can the next phase of Common Agricultural Policy reform - including further decoupling, market opening and the removal of export subsidies - be accelerated so as to reduce the direct burden on the EU economy and unlock further liberalisation in the WTO which would in turn provide significant additional benefits to the European economy? And what role can/should EU spending play in helping Member State governments to manage the transition costs of reform?

The Stability & Growth Pact

44. Europe must also ensure that the frameworks for its economic policies enable it to deliver strong and sustainable growth, which supports the Lisbon strategy. The Stability and Growth Pact represents an important step forward in recognising the importance of long-term budgetary discipline and encouraging greater transparency of Member States' fiscal positions.

45. However, if the Stability and Growth Pact is to be a pact for long-term sustainability of public finances and genuinely a pact for growth, there is a strong case for placing greater emphasis on the importance of low and stable debt levels and longer term fiscal challenges, giving greater attention to the economic cycle and the quality of public spending - including the importance of public investment - and addressing issues over its economic rationale, consistency and evidence base. Taking account of public investment needs is particularly important in the context of the Lisbon agenda, if existing and new Member States are to deliver the necessary structural forms. Public investment in the new Member States amounted to 3 per cent of GDP in 2003 for example - and it is vital that much needed programmes of reform are funded to combat decades of under-investment.

46. It is vital, in other words, that the Stability and Growth Pact contributes to growth and does not impede it. That is why the UK supports a prudent interpretation of the Pact, grounded in a sound economic rationale, which is applied symmetrically throughout the cycle; which distinguishes between high and low debt countries; and which allows for borrowing for public investment within prudent limits⁴. A prudent interpretation would lock in long-term fiscal discipline and sustainability, enhance credibility across the economic cycle, by allowing the automatic stabilisers to operate fully and symmetrically to smooth fluctuations in output, and allow appropriate increases in investment in public services to deliver strong and sustainable growth.

KEY ISSUES: DELIVERING THE LISBON GOALS

47. The previous sections of this paper have dealt with issues concerning the management and direction of the Lisbon strategy. This section highlights a series of key policy issues which the UK believes the high-level group should consider and make recommendations on in its work. These are:

- regulatory reform and the need to identify priority areas for simplification of the existing acquis;
- a dynamic and competitive Single Market and the need to build upon past successes with a new approach to delivering stronger competition;

⁴ See, for example, *The Stability and Growth Pact: A discussion paper*, HM Treasury, March 2004.

- enterprise and innovation and the actions that need to be taken to foster a truly entrepreneurial and knowledge-based economy in Europe;
- labour market reform and the need for strong and effective follow up to the recommendations of the European Employment Taskforce;
- the external drivers of growth and productivity and the importance of greater external openness in advancing the Lisbon goals; and
- sustainable development and the core actions needed to reinforce and implement the EU's Sustainable Development Strategy.

Regulatory reform: simplifying the acquis

48. As described above, there is significant evidence to suggest that reform of the regulatory framework in Europe is needed to advance the Lisbon objectives. Key to this is the need to improve impact assessment of new regulatory proposals and to make greater use of non-regulatory solutions in addressing future policy challenges. However, a substantial challenge also remains in evaluating and assessing the existing acquis.

49. For many years, European regulation, to establish the Single Market and to advance other important goals such as employment protection or environmental sustainability, has delivered important benefits to businesses and consumers. However, such have been the changes in the global economy over the last decade that instruments which were well designed when first developed may now be outdated, inappropriate or counterproductive – ill suited to a more fast-moving and flexible world in which opportunism and responsiveness are the keys to economic success. The UK, in common with many other Member States, therefore believes that the time has now come for a thoroughgoing review of the existing Community legislative framework to ensure that it remains fit for purpose.

50. The existing work of the European Commission to simplify the acquis is an important foundation for this work. This rolling programme seeks to identify areas where Community legislation is excessively complex and to provide proposals for change. Progress in simplification, however, has been mixed. It is not clear, on the basis of the evidence to date, what benefits should be expected from the programme and by when, or on what basis individual directives have been prioritised. To ensure that the process of regulatory simplification delivers tangible economic benefits it must be revitalised – linked to clear objectives relating to the Lisbon goals and approached systematically to prioritise entire areas of the acquis for review and, if needed, reform.

51. The March 2004 spring European Council endorsed the need for further work to identify priority areas of the acquis for simplification and the high-level group is uniquely well-placed to contribute to this process. Drawing on its expertise in the areas of business and economic reform, and on evidence from across Europe on the impact of Community regulation in an environment of intensified global competition, it will be in a position to assess the impact of areas of existing acquis on achievement of the Lisbon goals. **The high-level group should therefore seek to identify which areas of existing Community legislation, including in the environmental and social areas, impose excessive burdens on business and competitiveness and may be holding back progress towards the Lisbon goals. It should include these in its report.**

A dynamic and competitive Single Market

52. The Single Market is one of the great success stories of the European Union, and has delivered substantial benefits to businesses and consumers over the past ten years. By removing cross-border barriers to market entry, the Single Market has helped to increase competitive pressure in Europe, promoting productivity and growth, creating incentives for innovation and ensuring that resources are reallocated swiftly towards more productive uses. According to the Commission's own analysis, extra prosperity to the value of around €875 billion has accrued over ten years as a result of the Single Market – equivalent to around €5,700 for every household in Europe.

53. The Lisbon strategy has sought to broaden and deepen the Single Market, opening up markets which had previously been subject to national monopolies or other constraints – for example, in energy, postal services and financial services. In others, such as services more widely, future legislative agreement should pave the way for significant economic gains to the European economy. Indeed, liberalisation of services – some 70 per cent of EU GDP – has the potential to repeat the growth in trade experienced after 1992 and deliver once more the welfare gains that arose from it.

54. However, while these legislative steps constitute genuine progress towards the establishment of a truly open and dynamic Single Market, more needs to be done to ensure improved outcomes on the ground. In particular, many studies have shown that, despite various agreements to liberalise European markets, competitive pressure remains relatively weak in a number of sectors. The OECD, for example, have concluded that restricted competition could be reducing productivity by double-digit percentages in some EU markets, while research by the McKinsey Global Institute⁵ suggests that insufficient competitive pressure is one of the most important factors explaining the relatively poor use of productivity-enhancing ICT in the EU compared with its major competitors.

55. Viewed in this context, European agreements to open markets are but one stage of the policy process needed to deliver genuine economic benefits to the European economy and advance the Lisbon goals. As Europe heads into the second stage of the Lisbon strategy, there is a need to move beyond regulation and to focus instead on the need for implementation and enforcement of existing agreements, including by examining the role that the Commission – by using its independent powers over competition policy – can play in ensuring that the benefits of open markets are translated into improved economic performance.

56. While competition authorities will always have an important role to play in responding to individual cases, they should also have a remit to pro-actively investigate the functioning of particular markets and to address inhibitions to competition. This dimension to competition policy should be a key tool for ensuring that the regulatory programme that has thus far defined the Single Market delivers tangible economic results in the years ahead – something that the Commission itself has recognised in proposing “*an enhanced pro-active enforcement of competition law ... [with] in-depth analysis of the factual and legal or administrative barriers to competition that most seriously harm consumers and competition in the internal market and imperil the competitiveness of European enterprises.*”⁶ This approach can be used to strengthen

⁵ *Reaching higher productivity growth in Germany and France*, McKinsey Global Institute, October 2002.

⁶ *A pro-active competition policy for a competitive Europe*, European Commission, 2004.

Internal Market policy more generally, helping to guarantee implementation and enforcement of Community law and ensuring that markets become more competitive.

57. In this context, **the high-level group should set out a vision for the next stage of development of the Single Market, including how the necessary shift in emphasis from market-opening legislation to outcome-focused enforcement can best be achieved, and how the institutions responsible will need to develop to deliver.**

Enterprise and innovation

58. Enterprise and innovation are crucial drivers of progress towards the Lisbon goals, enhancing economic dynamism and productivity within an economy. To compete effectively in an integrated and competitive global economy, Europe needs to improve its capacity to innovate and to foster entrepreneurial culture. While some Member States stand out as strong performers, the EU as a whole continues to underperform relative to a number of its major international competitors, lagging the US on ten of eleven innovation performance indicators produced by the Commission and with rates of entrepreneurial activity around half of those in the US.

59. There is no single solution to this problem. Rather, a combination of measures – at the regional, national, and Community levels and including partnerships with the private sector – is required to improve Europe’s performance. The application of effective policies within Member States should be underpinned by evidence and the sharing of good practice. And there should be better identification of the key priorities and the use of indicators to monitor progress across the board.

60. **The high-level group should therefore identify the priority actions needed to improve Europe’s innovation and enterprise performance**, including to:

- make the EU an attractive place for business to invest in research and development - by improving framework conditions, the regulatory environment, the sustainability of research funding and infrastructure, and the intellectual property regime. Agreement on the Community Patent is long overdue;
- drive up research excellence, through stronger competition in national research systems, better science-industry links, action to address the skills needs of high technology and innovative businesses and greater user-friendliness of EU funding;
- drive up innovation across all sectors, including the public sector, and harness factors such as public procurement and competition policy more effectively to promote innovation and environmental sustainability;
- increase access to finance for new and innovative high growth businesses, tackling the market failures that currently inhibit the supply of risk capital;
- frame regulation effectively so as to promote innovative solutions to policy challenges and address regulatory barriers to enterprise and innovation.

61. In this context, the group might draw on the assessment of the policy actions needed to promote enterprise and innovation in Europe set out in *Towards an*

enterprising Europe and *Towards an innovative Europe*, published by the governments of the UK, France and Germany in January 2004 and February 2004 respectively⁷.

Labour market reform

62. Labour market reform is perhaps the most important issue facing European policy-makers as they seek to advance the Lisbon goals. Higher levels of employment will contribute directly to Europe's long-term economic growth performance – the core objective of the Lisbon strategy. And employment is not just an economic issue. It is increasingly acknowledged that a job is the best form of help for those on the margins of society. Europe's tradition of solidarity and concern for the disadvantaged and excluded challenges policy-makers to deliver the employment-based social policy at the heart of the Lisbon strategy. Social inclusion, lifelong learning and equality of opportunity are good for employment. They also contribute to building a more just and fair society.

63. Four years since the launch of the Lisbon strategy, considerable progress has been made, with five million more jobs created across the enlarged Union, two thirds of which have gone to women. But much more needs to be done if Europe is to meet its three key employment targets by 2010.

64. Recent trends in EU employment growth highlight the scale of this challenge. The EU must create more than 21 million new jobs by 2010 if it is to succeed in meeting its overall employment target of 70 per cent. Of these jobs, some eight million must be filled by women and almost six million by older workers if the targets for female employment and for employment among older workers are also to be met. The enlarged Union has the potential to be an even more powerful economic force than did the EU of 15 Member States, but with enlargement come new and bigger challenges – perhaps none greater than in the labour market.

Jobs required to meet the Lisbon targets (EU25)

	Employment rate in 1999 (per cent)	Employment rate in 2002 (per cent)	Jobs created 1999-2002 (million)	2010 target (per cent)	Jobs needed 2002-2010 (million)
Total	61.9	62.9	4.9	70.0	21.5
Female	52.9	54.7	3.4	60.0	8.0
Older workers	36.2	38.7	1.5	50.0	5.8

65. Last year, the European Employment Taskforce recognised the importance of labour market reform and employment growth to the Lisbon agenda and highlighted the ongoing need for urgent structural reform, noting that “*the high-minded words, expressed at Lisbon more than three years ago, must be followed by deeds*”. The UK strongly endorses this conclusion and the priority areas of reform identified to:

- increase adaptability of workers and enterprises;

⁷ Both reports are available on the HM Treasury website.

- attract more people in to the labour market – particularly women and older workers by improving childcare provision and reducing incentives for early retirement;
- invest more effectively in human capital; and
- ensure effective implementation of reforms.

66. The focus now must be on effective follow up, with Member States committing to implement the reforms recommended by the Taskforce. The incorporation of the recommendations of the Taskforce into the European Employment Strategy - through the Employment Guidelines and Country Recommendations - is a welcome and important first step. Now Member States must take up their responsibility for delivery, by setting in place the necessary reforms and holding one another accountable for their actions through the National Action Plans, thereby ensuring that the 2005 spring European Council can effectively take stock of progress. In this context, **the high-level group should affirm its support for the conclusions and recommendations of the European Employment Taskforce and repeat its call for strong and immediate action by every Member State to implement the necessary reforms.**

67. In this context, the high-level group could usefully draw conclusions on the future of the European Social Agenda, highlighting the strong linkages between strong and dynamic labour markets and social inclusion, and the need for further modernisation of social protection systems to ensure that job creation is not harmed.

Reinforcing growth: harnessing the external drivers

68. The March 2004 spring European Council noted that “*increasing external openness globally and improving the dynamic economic relationships between trading partners will enhance growth prospects*”, and requested that the high-level group examine “*both the internal and external drivers of growth, competitiveness and employment*”. An improved recognition of the vital linkages between the Lisbon strategy and trade openness must be central to the second phase of the Lisbon strategy.

69. By bringing down barriers to trade within Europe, the Single Market programme has delivered substantial benefits to the EU economy. Increased openness to external trade offers the prospect of similar, if not greater, reward.

70. The benefits of trade should be seen in the context of an overall goal of higher economic growth. The majority of general cross-country studies suggest that increased trade openness has a positive impact on country income⁸. Overall, these studies suggest that a one per cent increase in the trade-to-GDP ratio will lead to increases in real GDP per capita of at least one third of one percent in the longer term. Research also suggests that the total cost to EU consumers of existing EU protection could represent as much as seven per cent of GDP, or around €600-700 billion⁹. A Union serious about achieving the Lisbon goals must therefore look seriously at the important role that greater trade openness could play in raising Europe’s long-term growth performance.

71. Openness to trade strengthens the drivers of productivity in several ways:

⁸ See, for example, Frankel, J.A. and Romer, D. (1996), *Trade and growth: an empirical investigation*, NBER Working Paper No 5476; and Frankel, J.A. And Rose, A.K. (2000), *Estimating the effect of currency unions on trade and output*, NBER Working Paper No 7857.

⁹ Patrick A Messerlin, *The real cost of European protectionism*, Institut d’Etudes Politiques de Paris and Groups d’Economie Mondiale de Sciences Po (GEM), 2001.

- it facilitates a more efficient allocation of resources across countries - less distorted markets induce countries to exploit their comparative advantage based on factor endowments giving rise to a more efficient allocation of resources and industrial structure that enhances productivity;
- it provides greater opportunities to exploit economies of scale - greater market access allows the more efficient domestic firms to increase gains from specialisation and economies of scale;
- it improves competition in domestic and foreign markets, enhancing the effects of the Single Market and acting to reduce monopoly rents, driving down margins and prices for consumers of goods and services and increasing economic efficiency; and
- it facilitates access to new technologies - exposure to foreign markets and to new technologies and processes, combined with inward investment, can generate cross-border technology spill-overs, enhancing the benefits from domestic European investment and improving productivity.

72. As requested by the European Council in March 2004, **the high-level group should corroborate the role that external openness and an outward-looking EU can play in advancing the Lisbon goals. In doing so it should identify the barriers that prevent Europe from realising the benefits of greater openness and recommend concrete actions to enhance the contribution to the Lisbon strategy from this source, including how best to:**

- **maximise the benefits from multilateral trade liberalisation**, by taking a leadership role in negotiations and pressing for a significant and rapid reduction in barriers to external trade, including tariffs, quotas, export subsidies, market support and product standards. Protectionism is hurting both European economies and those of developing countries. In the case of European agriculture, the cost to tax payers is about €50 billion per year, plus a further €50 billion a year to consumers via artificially high food prices. The World Bank estimates that the potential gains to the global economy from a significant reduction in barriers to trade in agriculture could exceed \$350 billion. The EU should show leadership by agreeing to significant further agricultural reform so that border protection is substantially reduced and export subsidies are no longer an issue for world trade by 2010, and to reduce all agricultural tariff peaks towards the maximum level for non-agricultural products; and
- **strengthen the transatlantic economic relationship** – the EU’s most significant trade and investment relationship – through enhanced cooperation, moving beyond what is achievable at a multilateral level to tackle the most difficult behind-the-border barriers and reduce the unnecessary costs of duplicative regulatory systems, and prioritising areas where closer bilateral cooperation will yield the greatest economic benefits.

73. A fuller analysis of the links between trade, productivity and the Lisbon agenda can be found in *Trade and the global economy: The role of international trade in productivity, economic reform and growth*, published by HM Treasury in May 2004.

Sustainable development

74. Extending the Lisbon agenda to explicitly include sustainable development in 2001 has strengthened the fight against climate change and improved the take-up of environmental technologies. However, a greater focus is now needed on the priority areas for action and the need for stronger implementation and improved policy-making. **The high-level group should therefore identify the strategic priorities for Europe in the area of environmental sustainability and deliver recommendations for how these may be advanced.**

75. While a significant number of strategic environmental and sustainable development targets and objectives have already been agreed at the European level, certain of these deserve priority attention within the Lisbon process to promote action at the global, EU, national and local levels. These include the EU's response to climate change through medium- and long-term targets, sustainable consumption and production and environmental technologies, and the global dimensions of trade and development assistance.

76. Targets alone, however, are not enough. Europe must also find ways of closing the implementation gap, using the integrated nature of the Lisbon process to stimulate coherent decision-making across different sectors. Kyoto targets can be achieved through robust National Allocation Plans and by extending the Emissions Trading Scheme to sectors such as aviation, and to other greenhouse gases. Advancing progress under the Environmental Technologies Action Plan requires a burden-free path from research to pre-commercialisation, the creation of markets through green procurement, and incentives for sustainable consumption and production. The European Council and the OECD have agreed that subsidies which damage the environment should be eliminated. But stronger mechanisms are needed to encourage the EU and the Member States to undergo the necessary reforms. Alternatives to traditional environmental regulation, such as framework legislation, voluntary agreements with industry or the open method of coordination could help to close the implementation gap while reducing compliance costs for business.

CONCLUSIONS AND RECOMMENDATIONS

77. This submission has highlighted a number of areas that the UK believes the high-level group should consider and draw conclusions on in producing its report for the Commission and the Member States. It has identified the top level aim of the Lisbon strategy as being to promote higher living standards and greater social cohesion, and worked backwards from that through the key policy challenges needed to generate growth and so meet this aim. The mid-term review of the Lisbon Strategy comes at an important time for the EU. After enlargement it can rightly look back at its achievements and ask "what next?" But if the Union is legitimately to retain the credibility it has earned; if it is to become a major player on the world stage and a more powerful force in the world economy, then it must address, and address urgently, the economic and structural weaknesses that continue to hold it back. To summarise:

Sharpening the focus of the Lisbon agenda

- the high-level group should re-establish the core objectives of the Lisbon agenda over the next five years – that structural reform is for a purpose: to deliver rising standards of living and greater social cohesion for Europe’s citizens by raising the long-term growth potential of the European economy on the basis of stronger employment and productivity growth;
- the high-level group should evaluate the current set of Lisbon targets and make recommendations for how they might be rationalised and refocused on the core objectives of the Lisbon strategy;
- the high-level group should consider the scope for establishing a new Lisbon Delivery Plan relating the high-level goals of Lisbon to the measurement of progress and to the means of delivering progress through reform;

Governance and instruments

- the high-level group should make recommendations for how the new Commission might improve the coherence of its input to the Lisbon strategy and so give greater impetus to the delivery of the Lisbon goals;
- the high-level group should consider the means by which transparency and accountability in structural reform might be enhanced to deliver stronger incentives to reform - potentially through a new system of Lisbon Scorecards and Lisbon Commitments;
- the high-level group should highlight the need to ensure that the state aid guidelines effectively prohibit payments of distortive aids to declining industries while providing flexibility for Member States to tackle market failures and advance the Lisbon goals;
- the high-level group should seek to build on existing work to strengthen impact assessment by identifying which policy areas offer scope for a greater reliance on non-traditional instruments, such as co-regulation, self-regulation and other market-based approaches;
- the high-level group should consider the role of the EU budget in the context of enlarged Union and the Lisbon strategy and make recommendations for how spending might be reprioritised - for example, to stimulate growth in the Union’s poorer regions and through the next phase of CAP reform;

Key issues in delivering the Lisbon goals

- the high-level group should seek to identify which areas of existing Community legislation, including in the environmental and social areas, impose excessive burdens on business and competitiveness and may be holding back progress towards the Lisbon goals;
- the high-level group should set out a vision for the next stage of development of the Single Market, including how the necessary shift in emphasis from market-opening legislation to outcome-focused enforcement can best be achieved, and how the institutions responsible will need to develop to deliver;

- the high-level group should identify the priority actions needed to improve Europe's innovation and enterprise performance, including improvements to the regulatory environment, stronger science-industry links, action to promote high-tech skills, and increased access to finance;
- the high-level group should affirm its support for the conclusions and recommendations of the European Employment Taskforce and repeat its call for strong and immediate action by every Member State to implement the necessary reforms;
- the high-level group should corroborate the role that external openness and an outward-looking EU can play in advancing the Lisbon goals. In doing so it should identify the barriers that prevent Europe from realising the benefits of greater openness and recommend concrete actions to enhance the contribution to the Lisbon strategy from this source; and
- the high-level group should identify the strategic priorities for Europe in the area of environmental sustainability, including the EU's response to climate change through medium- and long-term targets and the need to promote investment in sustainable consumption and production technologies.

