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Lisbon Strategy for Growth and Jobs: frequently asked questions

Part One: The Commission's December 2006 Annual Progress Report

Last year, the Commission called on Member States to "move up a gear." Have they done so?

Yes. The pace of progress has been stepped up and the results over the last year have improved significantly. There has been a perceptible shift in national policy making, particularly in the four areas which the 2006 Spring European Council defined as priorities (see below). In addition, Member States are increasingly exchanging experiences and good ideas. However, while all have moved forward, there remain big differences between Member States in the depth and speed of reform.

What are the other main conclusions of the Commission's report?

There are three other main conclusions. First, reforms at European level under the Community Lisbon Programme (see [IP/06/1470](#)) are also progressing well overall. Second, the current brighter economic outlook is partly due to reforms already implemented. Third, Europe must now seize the opportunity provided by the upturn to quicken the pace of reform and thus to secure a prosperous and sustainable future in a globalised world.

What are the main political messages?

The tone of the report is positive and confident. It points to significant achievements over the last year and to the evidence that Europe is turning a corner.

However, it also says that slower progress in some areas – particularly competition in services and network industries and labour market reform – is acting as a drag on progress in other areas. The challenge is to achieve a consistent pace of implementation across the full range of policies, at EU level and by all Member States.

The report stresses that the current upturn must be seen as an opportunity to do more – not an excuse to do less. The improved economic situation will make change easier to cope with. It gives Europe a window of opportunity to introduce the far-reaching reforms which will lay the foundations for our future and help to shift the EU economy onto a new and higher growth trajectory. That opportunity should not be wasted.

The report is a vote of confidence in a modernised European economic and social model that can underpin our continued prosperity by combining the dynamism of the market with a strong commitment to social cohesion and environmental sustainability.

What is the evidence that the brighter economic outlook is due to reforms implemented under the Lisbon Growth and Jobs Strategy?

No-one is claiming that Lisbon reforms have been the only factor. But there is strong evidence from the Commission's economic modelling that they have made a significant contribution and can make a bigger one in the future.

To take just one example it is estimated that reforms in areas such as unemployment benefits, taxes and the ease of entry for new firms have reduced the structural unemployment rate by almost 1.4 percentage points and boosted GDP in the EU15 by 2% since 1995.

A more complete analysis is available in the Annex to the Annual Progress Report.

What does the Annual Progress Report cover? What is different from last year?

The structure is the same. A general section looking at overall progress across the EU and including some specific proposals to the Spring European Council, accompanied by more detailed annexes on macro-economic, micro-economic and employment policy. And 25 "country chapters" assessing progress in each individual Member State and identifying both strengths and weaknesses.

One major difference this year is that the Commission is inviting the European Council to endorse country specific recommendations.

Why is the Commission proposing country specific recommendations when it did not do so in its last Annual Progress Report?

Country specific recommendations in effect allow Member States to agree together at the highest political level on what they need to do to push reform forward. This will provide a stronger political basis for reform

These recommendations are proposed under Articles 99 and 128 of the Treaty. These are set out in a legal instrument which accompanies the Communication.

At the time the last Report was published in January 2006, National Reform programmes were only a few months old. It was too early to come to a clear enough view on the progress of implementation to underpin country specific recommendations.

What is the Commission's analysis based on?

The Commission's last Annual Progress Report assessed the 25 National Reform Programmes. The Commission identified strengths and weaknesses and proposed to the Spring European Council that EU leaders should make a common commitment to reinforcing the overall reform agenda in four priority action areas: knowledge (education, research and innovation); unlocking business potential; getting more people into work; and energy. The European Council accepted this proposal.

This year, the country chapters are based on an analysis of Implementation Reports by the Member States. The Implementation Reports demonstrate that Member States have taken many of the necessary steps to implement their programmes and to reinforce them in the light of the Commission's assessment last year and of the European Council's commitments.

What do the country specific recommendations cover?

The recommendations primarily cover areas that the Commission already signalled as needing further attention last year. A proposed recommendation signifies that in the Commission's view, though there may have been some progress, the Member State concerned still needs to reinforce or speed up its efforts in this area.

Is the Commission proposing recommendations for every Member State?

No. A small number of Member States [Denmark, Estonia, Finland, Ireland, Luxembourg and Sweden] have made good progress in all the areas identified last year by the Commission as requiring particular attention. No formal recommendations are proposed for these Member States. However, they still face significant challenges. In the country chapters covering these Member States, as in all the others, the Commission points to policy areas on which it will be particularly important to focus over the next couple of years.

Is there a chapter on the euro area ?

Yes. The chapter concludes that the closer economic and financial interdependence generated by having a single currency makes it necessary for the euro area as a whole to go beyond what is specifically required at the level of Member States. Membership of Economic and Monetary Union (EMU) places a particular premium on effective policy coordination to ensure fiscal discipline and structural reforms. Euro area Member States therefore have a particular need to use the economic upturn to aim at more ambitious budgetary consolidation, more competition especially in services and financial services, and further reform of labour markets.

Overall, in which policy areas has there been most and least progress?

Progress on better regulation and on enhancing the business environment has been good. Most Member States have also taken significant steps to boost R&D, though in several cases further reform is necessary if ambitious targets for R&D investment are to be met.

Weak competition in many markets, especially in network services including energy, continues to hold Europe back.

There have been important steps forward on reinforcing financial sustainability, including in those Member States most at risk from the costs associated with ageing populations and in those suffering most from the knock on effects of previous imbalances between revenue and spending. This progress will now need to be followed up with a sustained effort.

The growing consensus in favour of the "flexicurity" approach to labour market reform is a very positive development. Important measures have already been taken. Partly as a result, employment accelerated at an annual pace of 1.4% in 2006, the strongest pace since summer 2001, and the unemployment rate declined to 8.0%.

Nevertheless, if the 70% overall employment rate target for the EU is to be met by 2010, much more will need to be done to tackle the twin problems of inflexible labour markets that hold back competitiveness and of "segmentation", notably between workers on permanent contracts with high employment protection and those working on fixed-term contracts, with little or no security or chance of obtaining it.

Significant reforms in initial education and training in several Member States are improving opportunities for young people and over time will help provide employers with a highly-skilled and adaptable future work force.

But there is not enough progress yet on increasing lifelong learning for adults. The continuing wide gender pay gap is unacceptable. Many Member States need to do more to put environmental protection and environmental technologies at the centre of their reform agendas and in particular to cut emissions.

What are the main achievements under the Community Lisbon Strategy?

Important steps have been taken to create new opportunities for business, particularly in services and financial services, and to reorient the structural funds in support of growth and jobs. Moreover, a new regulatory culture is emerging that opens up new opportunities - at both national and Community level. The Commission has delivered 75% of the actions in the Community Lisbon Programme.

Which Member States are doing best?

The Commission does not want to take a "Eurovision song contest" approach and rank Member States. This serves no purpose and would depend on subjective judgements, given that it is not current performance but future potential that is key. But it is particularly encouraging to note three things.

First, those Member States which rank highly in current international competitiveness tables, for example the Nordic countries and Ireland, are resisting the temptation to rest on their laurels. They are aware that continuing to reform now is the key to maintaining their performance in the future.

Second, those larger economies whose success is particularly important in creating prosperity elsewhere in the Union – France, Germany, UK, Italy and Spain - have all moved forward significantly since last year, albeit from different baselines and although implementation is at different stages.

Third, while most still have much work to do to catch up, those Member States that joined in 2004 are also moving forward, though again the pace of progress varies.

Which Member States are doing badly?

All Member States deserve credit for having made progress, often in challenging political circumstances. It would not be accurate or useful to point the finger and say a particular Member State is doing badly. But there are big differences in the depth and pace of reform. It is crucial over time to close this gap because all of our economies are interdependent. Prosperity in one creates prosperity in others. So we need every Member State to perform to its full potential.

How is it possible to assess the performance of "new" and "old" Member States, or large and small ones, according to the same criteria?

It is not possible and we have not tried. We recognise that each Member State has a different starting point and different traditions. We are not assessing their current economic performance as such but progress in implementing and reinforcing their National Reform Programmes – in other words in getting in shape for the future, to take advantage of the opportunities of globalisation and to meet the challenges of ageing populations.

Is there a correlation between the number of recommendations and how well the Commission thinks a Member State is doing?

Clearly the Commission only proposes a recommendation where it thinks that an important challenge exists and that the Member State concerned needs to step up its efforts to meet that challenge. But there is no direct correlation between the number of recommendations and the overall level of progress.

Even for Member States with no recommendations this year, the Commission points out areas where there a particular effort is needed and which therefore could give rise to recommendations in the future. A Member State with one recommendation in a key area may need to address that area particularly urgently, to avoid progress in other areas being held back. And while a Member State with several recommendations clearly faces a range of tough challenges, it may also be doing well in some areas. The country chapters identify significant strengths in every national programme.

Is the Commission making specific proposals to the Spring European Council this year?

Yes. The Annual Progress Report invites the European Council to enhance the follow up of each of the specific commitments made in March 2006 and to agree some additional steps. Some examples follow – full details are in the Report.

In the priority action area of knowledge, the European Council is invited to ensure that Member States agree on the Commission's proposal to establish a European Institute of Technology (EIT, see IP/06/1164) in time for it to be operational in 2008. The European Council is also invited to make a renewed political commitment to a clear and coherent European framework for intellectual property protection.

As far as unlocking business potential is concerned, EU leaders are invited to set a joint 25% target for reducing administrative burdens to be achieved jointly by the EU and Member States by 2012. The Report also invites the European Council to make the early and effective implementation of the Services Directive a top priority.

In addition, the Commission intends to conduct a systematic analysis of key goods and services markets to identify specific obstacles to competition and make proposals for removing them. The Report invites Member States to do the same.

On labour markets, the Commission will present a Communication on flexicurity by summer 2007 as the basis for agreement, by the end of 2007, on a set of common principles.

The Commission will propose in January 2007 a Strategic Energy Review and a Communication on further action to tackle climate change. These proposals will include specific measures to be decided by the Spring European Council.

What happens after the Annual Progress Report?

As usual, the Report will be submitted to EU leaders at the Spring European Council which will adopt conclusions on the way forward. The Council will also be asked to support the country specific recommendations,

Further Implementation Reports will be prepared by Member States and analysed by the Commission in a new Annual Progress Report around the turn of next year.

The Integrated Guidelines on which the whole process is based will be reviewed and if necessary revised in 2008.

Meanwhile, the Commission will continue to reinforce its efforts to get the message across – directly or in cooperation with stakeholders - to a wide public that the growth and jobs strategy is a positive vision of wider opportunity, not a message of doom, gloom and austerity. It will encourage Member States to do the same and will lay a strong emphasis on ownership and communication in evaluating progress at national level.

Part Two: Background

What is the Lisbon Strategy for Growth and Jobs?

If the EU makes the right economic reforms now, it can secure a prosperous, fair and environmentally sustainable future for Europe. It can ensure that our economies are well positioned to take advantage of the opportunities offered by globalisation. It can put Europe in a strong position to cope with demographic changes that will mean more older people and fewer young people of working age in our societies.

So when they met at the Lisbon summit in March 2000, European Union leaders set out a new strategy, based on a consensus among Member States, to make Europe more dynamic and competitive.

The Strategy became known as the “Lisbon Strategy” and came to cover a very wide range of policies. The Strategy was relaunched in Spring 2005 after initially moderate results.

Why is the Strategy now more clearly focused on Growth and Jobs?

Growth is not an end in itself, but it is a prerequisite for being able to maintain and increase Europe's prosperity and thus for preserving and enhancing our social models.

Growth must be sustainable – while there is sometimes a short-term cost to protecting the environment, in the long term the costs of not tackling environmental issues such as climate change would be far greater.

We need more jobs for two reasons – first because far too many people's lives are still blighted by unemployment and second because only by getting more people into work can we ensure that our societies cope with demographic change. Older populations mean higher pensions and health care costs and those need to be financed by the working population.

In a nutshell, what are the most important steps for achieving more jobs and growth in Europe?

There are many pieces in the jigsaw puzzle. It is the whole policy mix that counts. We need to make Europe an attractive place to invest and to work.

That means budgetary sustainability, better regulation and the right tax and benefit systems. We need to improve education and training to allow more people to reach their full potential, for their own sake and that of society as a whole. We need to invest in research to maintain our comparative advantage relative to competing regions.

We need more competition to make sure that research feeds through into real innovation, as companies strive to stay ahead in highly competitive markets. We need to make our economy more adaptable to change and more resistant to external shocks. We need more people of all ages in employment to finance social spending as our populations age. We need to use energy more efficiently and sustainably and to negotiate better with countries which supply us with energy. All of these things require European and national level reforms.

What are the main targets under the Growth and Jobs Strategy ?

Before the 2005 relaunch, there were too many disparate targets. We now have a streamlined and simplified process with only two headline targets: investment of 3 % of Europe's GDP in research and development by 2010 and an employment rate (the proportion of Europe's working age population in employment) of 70% by the same date.

Of course, these are not the only issues that matter – but achieving both is absolutely central to getting our economies into shape for globalisation. And there is progress towards both of them. At the 2006 Spring European Council, all Member States agreed to set ambitious R&D targets and most have undertaken important reforms to help them get there. Employment accelerated at an annual pace of 1.4% in 2006, the strongest pace since summer 2001, and the unemployment rate declined to 8.0%.

How is the implementation of the Lisbon Growth and Jobs Strategy organised?

There is a close partnership between the Commission and Member States, with a clear division of responsibilities and a strong emphasis on maximising the synergies between the Community and the national levels and between different economic policy areas. Member States undertake reforms at national level based on National Reform Programmes presented in 2006 and based on the policy guidelines ("Integrated Guidelines") agreed collectively by all Member States in 2005 and due for review in 2008. These NRPs cover a three-year period.

Each year, Member States produce reports on the implementation of their NRPs. They presented the first of these implementation reports in October this year. All Member States have appointed Lisbon Co-ordinators ("Mr or Mrs Lisbon") charged with driving the strategy forward in their own Member State and involving stakeholders in its implementation. Many Member States have appointed co-ordinators at ministerial level. The Commission assists, monitors and assesses this national level reform process.

In conjunction with this, a programme for European level reform – the Community Lisbon Programme (see IP/06/1470 and MEMO 06/399) - is implemented. Has the management of the Strategy always worked in this way?

No. The Strategy was relaunched in 2005. Before that there was more complicated system with a plethora of different targets and reporting mechanisms and fewer synergies between the different strands. Some progress was made but overall the results were not fully satisfactory. So the Commission proposed a relaunch, based broadly on the recommendations of a mid-term review led by former Dutch Prime Minister Wim Kok.. EU leaders agreed to this proposal at the 2005 Spring European Council.

Why do we need a European strategy when many of the necessary measures have to be taken at national level?

Our economies are interdependent. Prosperity in one Member State creates prosperity in others. Sluggishness in one Member State holds others back. So Europeans need to work together to achieve economic reform, sharing policies that work.

In addition, national policies alone are not enough to allow the Growth and Jobs Strategy to succeed. European Union policies are also central to the Strategy. For example, an efficient internal market, the right policies on external trade, the updating and enforcement of EU competition law, well-targeted European research programmes, the effective use of EU Structural and Cohesion funding and the application of EU environmental policies are all crucial to delivering the prosperous and modern society which is the ultimate aim of the Lisbon Strategy.

What is the Commission's role in the governance of the Strategy ?

First, it proposes the Integrated Guidelines for reform, which are then approved by the Council and form the broad basis for Member States' National Reform programmes.

Second, in its Annual Progress Report the Commission assesses the content and implementation so far of National Reform Programmes, allowing stakeholders and citizens to see how far each Member State has got.

Third, it works continuously with Member States to help them exchange experience, learn from each other and implement, update, and improve their National Reform Programmes, taking into account the strengths and weaknesses identified in the Annual Progress Report. This role as a catalyst for mutual learning, building consensus that feeds into national as well as European policies is sometimes low profile, but has been central to the Commission's work since the European Community began.

Last but not least, the Commission ensures through its role in driving forward the Community Lisbon Programme that policy making and funding activities at European level best serve the goals of growth and jobs.

What is the link between the Growth and Jobs Strategy and the Structural Funds?

It is a very close link. The Commission is committed to ensuring that structural and cohesion funding is used primarily to contribute to the Lisbon Growth and Jobs objectives. In a single market those funds will be spent on procuring works, goods and services from all over the EU. That will benefit all Member States and not just those directly receiving the most substantial amounts of structural funding. The Commission has worked with Member States to ensure that their National Strategic Framework documents planning use of the funds for 2007-13 reflect the growth and jobs priorities. EU 15 Member States are committed to earmarking at least 60% of Structural Funds Investment in convergence regions and 75% in regions under the Regional Competitiveness and Employment objective.

Is the EU maintaining its target of becoming the most competitive knowledge-based economy in the world by 2010?

The key aim is getting into a rhythm of high sustainable annual growth and low unemployment by 2010. If, for example, the US does even better that will not mean the EU strategy has failed. Rather, it will be good news for us all. Nevertheless, it is crucial that Europe closes the competitiveness gap with the US – that goes hand in hand with getting the EU in shape to benefit from globalisation.

What matters in the end is that we in Europe can maintain and enhance our quality of life – and that of our children and grandchildren – in the context of globalisation, demographic change and environmental challenges. That is what the Lisbon Strategy is ultimately about.