

EU Compact for

Jobs and Growth

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"... This is a time of transformation, a time for the EU to seize the opportunity to find fresh answers to new questions and to use its underlying strengths in new ways. We must act jointly to build a sustainable recovery. People are worried about the future, for themselves and their families. Just continuing with the same policies will not suffice – we need a new approach to provide solutions that work – and last. Only an integrated EU-wide strategy can set Europe on course for a return to strong and sustainable economic growth and employment creation, to the benefit of its citizens."

Jose Manuel Barroso, Political Guidelines for the Next Commission, September 2009

PRIME MINISTER'S FOREWORD



The EU and its Member States are at a critical point in our history. We have weathered the first financial and economic crisis of the modern global age. But a concerted and continuing effort is

required to move from recovery to growth. We face significant challenges to restore growth and employment levels, and to continue to raise the living standards of EU citizens. The Commission's forecasts predict that demand will fall, growth will be sluggish and unemployment will continue to rise. And the size of our task will be increased by additional challenges, such as ageing populations and climate change.

But we have an opportunity to lay the foundations for future growth and prosperity. Together, we need to seize this opportunity to reinvigorate our economies and build strong, sustainable and balanced growth in Europe.

And here we should be optimistic. With the Lisbon Treaty now in force, the EU has new and refreshed institutions with the right tools to meet these challenges, build for the future and compete with the rest of the world. I therefore welcome the European Commission's launch of a public debate on the policies we need to

complete the recovery, to sow the seeds of long-term growth and a low-carbon, resource-efficient climate-resilient economy for 2020 and beyond.

For these reasons I am proposing an *EU Compact for Jobs and Growth*. The EU's economic strength is truly greater than the sum of its parts. A new Compact would bring together the institutions and Member States in a common cause of generating strong, sustainable and balanced growth. Agreed between EU leaders and the Presidents of the Commission and the European Council, the Compact would enshrine our political commitment to economic reform in Europe. The Compact should set clear and measurable objectives based on Europe's three economic pillars of macroeconomic policy, microeconomic reform and financial market stability. An annual Economic Summit should review progress in all three pillars.

It is vital that the EU follows through on the commitments contained in a future Compact. For this reason it is also vital that the EU Budget and lending by the European Investment Bank are focused on and responsive to the priorities contained in the Compact.

I look forward to discussing these ideas.

A handwritten signature in black ink that reads "Gordon Brown".

**Prime Minister
Gordon Brown**

EXECUTIVE SUMMARY

Europe needs a new strategy for jobs and growth to address the key challenges it faces over the coming decade – securing recovery from the worst global economic crisis since the Great Depression, and making the transition to a low-carbon, resource-efficient future. These challenges are complex and interlocking. As a result of lower investment and rising unemployment, Europe's growth out of recession is forecast to be weak. Over the longer term, the challenges presented by emerging markets, climate change and an ageing workforce threaten the sustainability of our economic and social models. Significant internal imbalances within Europe, between surplus and deficit economies, also need to be addressed. Therefore, both as a major player in the world economy, and for the sake of its citizens, the EU must set itself a clear goal: to generate **strong, sustainable and balanced growth**. If we fail in this task, Europe risks a lost decade of growth and declining relative living standards.

This will require an unprecedented coordinated policy response focused around **six key priorities**.

First, we must ensure **fiscal policy protects the recovery whilst also supporting sustainable growth**. Deficits will need to be reduced over time, but at a pace that does not jeopardise the economic recovery, and with public investment targeted at areas that will improve productivity.

Second, we must **create new jobs and equip our workforces with skills for the new economy**. This can only be achieved by building more inclusive labour markets with productive employment opportunities and by investing in training and education.

Third, we must support **growth in the innovative industries of the future**. EU and national policies must embed innovation across the economy, whilst also focusing on technologies and sectors of future growth – especially in low-carbon and environmental technologies, digital industries, life sciences, services and advanced manufacturing.

Fourth, we must **support Europe's businesses to take advantage of the Single Market**. The creativity and entrepreneurship of our small and medium-sized enterprises can be unleashed by reducing unnecessary administrative burdens. We can also go further in removing the remaining barriers in the Single Market.

Fifth, we must go further in **opening up global markets to trade and investment**. Whilst we should continue to promote a multilateral rules-based system, effective trading relationships with key global partners can help Europe's business take advantage of new opportunities.

Sixth, Europe must have a **robust and competitive financial services sector** that facilitates sustainable lending and investment.

To do this we need to build on the important work already underway to strengthen regulation, both internationally and in the EU.

To deliver on this ambitious reform agenda, the EU needs a **new Compact for Jobs and Growth** that would:

- Generate greater political ownership of economic reforms;
- Set clear and measurable objectives for the development of the EU economy;
- Ensure improved coordination and coherence between existing policy instruments; and
- Establish an annual Economic Summit of EU leaders to review progress against the objectives and agree priorities for reform.

The EU Budget and EIB lending should also be harnessed to support agreed objectives.

THE CHALLENGE

The EU and its Member States are at a critical point in their history. Having enjoyed a long period of economic growth and stability, both Europe and the rest of the world have been hit hard by the first financial and economic crisis of the modern global age. The EU faces significant challenges, but also an opportunity to reinvigorate its economies to emerge from the crisis stronger than when we went into it.

Between 1994 and 2007, real per capita world GDP grew by around 40%, with European GDP growing by nearly 30% over a similar period, while unemployment fell to the lowest level in more than two decades.¹ World growth was boosted by the globalisation of flows – trade in goods and services, capital flows, and labour mobility – and by the marketisation of China, India and other emerging market economies and their entry into the global economy.

These factors too helped boost growth in Europe. Europe's share of world trade was 18% in 2008 – the largest trading bloc in the world.² And the transition economies of Eastern and Central Europe provided a new source of dynamism for the European economy. Meanwhile, Europe benefited from a long period of macroeconomic stability; and, from 2000, from structural reforms to labour and product markets in line with the Lisbon Strategy.

Europe was unable to avoid the impact of the worst global economic crisis since the Great

Depression, with the world economy shrinking for the first time since the Second World War and world trade falling by 15% in the first quarter of 2009. The European economy shrank by almost 5% in the year to June 2009, and the EU labour market lost more than 4 million jobs in the year from the second quarter of 2008.³

Europe moved quickly to deal with the consequences of the crisis. European countries took the lead in stabilising the banking system, implementing coordinated fiscal stimulus packages, and in bringing forward proposals to reform the financial sector. As a result, the EU economy is emerging from its most severe crisis in over half a century.

But that cannot mean a return to business as usual. While the immediate causes of the global economic crisis originated outside Europe, the crisis has revealed weaknesses not just in the global growth model but in the European growth model also. And as the world moves towards a new model, Europe's economic size and power give it a responsibility to take on a leading role. How the EU and its Member States respond to this crisis will determine the strength of economic recovery and the future prosperity of our citizens.

Europe, both as a major player in the world economy, and for its own sake, should set itself a clear set of objectives for growth that is strong, sustainable and balanced – economically, socially and environmentally.

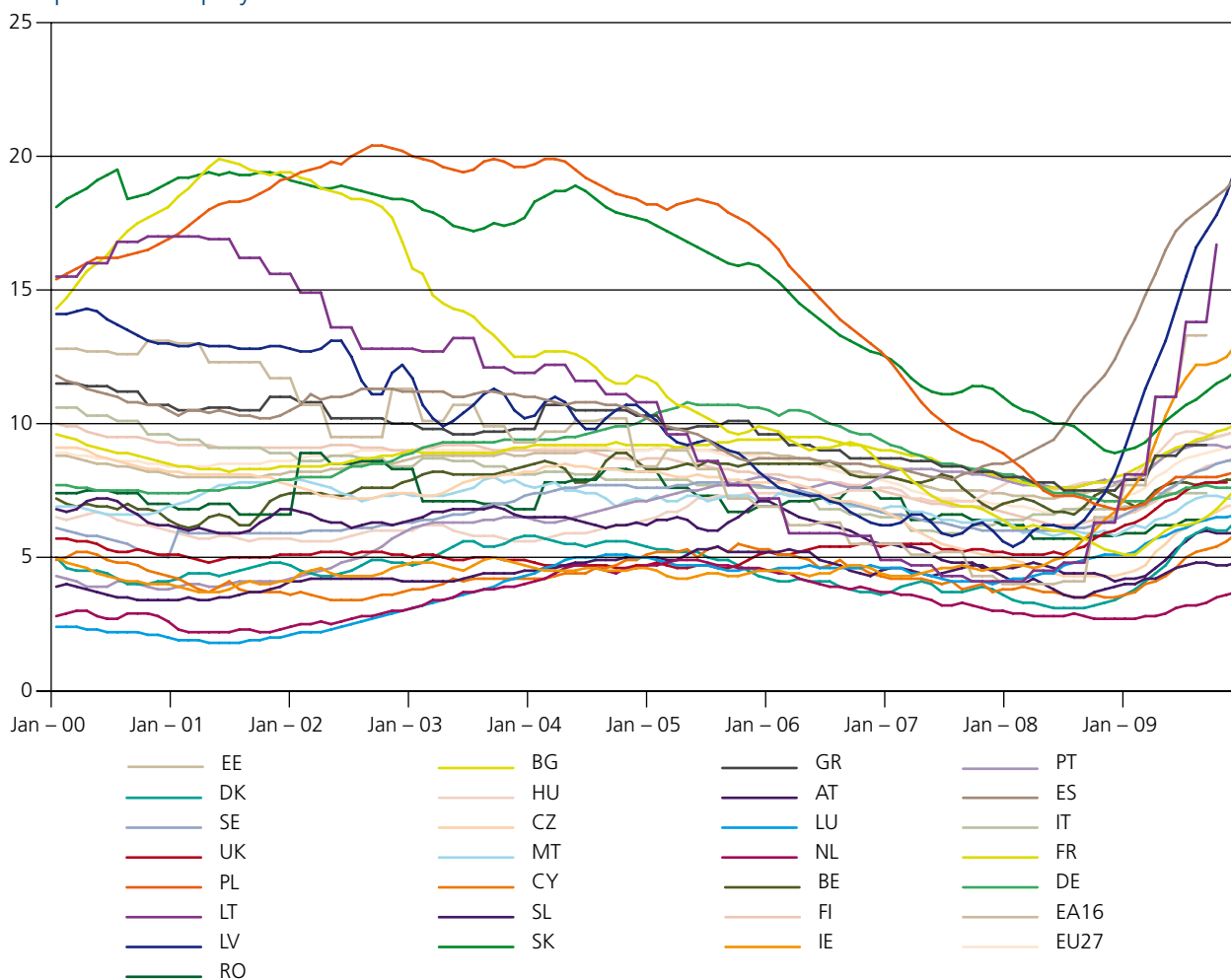
i) Strong growth

The short-term risks to growth are clear. The Commission has forecast that EU household savings will increase significantly between 2007 and 2010, which, all else being equal, implies a reduction in consumption of at least €175bn – about 1.75% of European GDP.⁴ This rise in savings, and consequent potential drag on demand, is likely to be particularly large in countries with high levels of household debt and may continue beyond 2010. In turn, Europe’s deep trade and financial integration means that this is likely to affect demand in all EU Member States, including surplus countries. At the same time aggregate demand from outside Europe

is likely to contract as the US savings increase. This will only be partially offset by growth in the emerging economies of Asia.

The progress made on structural reform, combined with measures taken by EU governments to support demand and jobs during the crisis, has helped EU labour markets to be more resilient than expected in the face of sharp falls in demand and output. However, the recession has also shown that the hoped-for convergence among labour market institutions and social protection systems, to a “flexicurity” model that would both provide income security and would allow necessary structural adjustment, was more apparent than real (see Graph 1).

Graph 1: Unemployment rates 2000-2009



Source: Eurostat

Going forward, as a direct result of the impact of the crisis on investment and on structural unemployment, the European Commission now believe that euro area potential growth will be just 0.7% in 2009 and 2010, recovering to only 1.5% in subsequent years.⁵ If this dismal prognosis were to be realised while the rest of the world returns to the pre-crisis trend, then Europe will go into rapid relative decline. While Europe currently makes up about a fifth of the world economy, it would represent only one fifteenth of world growth over the next decade. Europe and her citizens will miss the opportunities presented by the growth in trade and investment spurred by dynamic emerging economies.

So Europe needs not only to improve its productive potential to drive growth through structural reforms, but also to draw on new sources of demand both internally and externally. Only by doing both will we be able to generate the jobs and prosperity needed to raise living standards and tackle poverty.

For example, in the medium term, if Europe could raise its labour force participation by 5%, that would create up to 15 million jobs, and raise EU potential output by at least 4%, or €500 bn.⁶

ii) Sustainable growth

In the longer term, the challenges are even greater. Faced with the challenge presented by the emerging economies, including China and India, European business and workers will have to continue to move up the value chain, to products that are more knowledge and

technology-intensive. Many European workers have skills equal to any in the world; but other countries are advancing rapidly, and there are still far too many Europeans who do not have the skills they will need to be successful in the economy of the 21st century. Failure to act will condemn ever more of our citizens to unemployment or to low skilled, low paid jobs, in turn risking the economic and social viability of our social models.

At the same time, the need to respond to the challenge of climate change will force us to move to much more resource-efficient; low-carbon and climate-resilient modes of production and consumption, while maintaining competitiveness and ensuring secure supplies of energy and natural resources. The Copenhagen Accord, whilst not all that we might have hoped for, is a significant step forwards on the pathway to a low-carbon future, ensuring that developed and developing countries alike will reduce emissions, work together more openly to limit the rise in temperature to 2°C and the necessary funding is available to enable all countries to adapt to the impacts of climate change, and to reduce their emissions.

The EU needs to take advantage of the economic opportunities from the move to a low-carbon economy, both internally and worldwide. By being a 'first-mover', the EU can claim a competitive edge, establishing and exporting standards and ensuring access to markets set to become worth up to €4.5tn by the middle of this decade.⁷ As one example, by 2030, the annual sales of electric and plug-in hybrid vehicles, is forecast to reach almost 30 million cars globally.⁸

Our economies will also have to confront significant demographic change as a consequence of an ageing population, with direct consequences for ambitions to reduce poverty. Longer life expectancy has brought huge benefits, but combined with lower rates of fertility presents new difficulties in maintaining sustainable welfare states. Now the EU has four working-age people for every person over 65; by 2060 it will only have two.⁹ Unless we can extend working lives, accounting for responsibilities at home, and bring currently excluded groups into the workforce, this will strain public finances and be a continuing drag on growth, and on personal security over the life-cycle. The EU's Ageing Report projects that on the basis of current policies, age-related public expenditure is projected to increase on average by nearly 5% of GDP by 2060 in the EU.

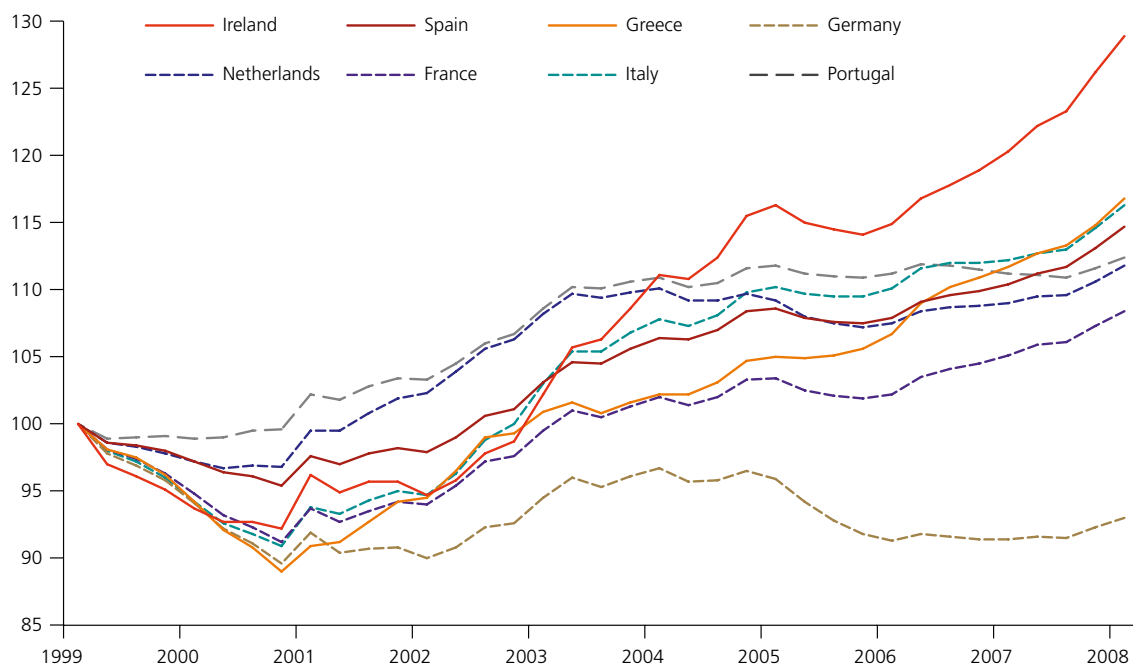
iii) Balanced growth

Over the longer term unbalanced growth will be neither strong nor sustainable. It is now clear that the global mix of macroeconomic and structural policies, particularly financial, before the crisis created instabilities and masked structural weaknesses.

In the run up to the crisis, output grew very quickly in some Asian emerging market economies, especially China. These economies benefited from strong growth in export demand, while structurally high domestic savings rates constrained domestic demand growth. Some developed economies, especially the US, experienced low levels of household savings and persistent fiscal deficits that led to domestic demand growing considerably faster than supply. As a consequence, over the period, the US current account deficit averaged about 5% of GDP, or 1.25% of world GDP.¹⁰ These developments helped create significant global imbalances and an environment of excessive leverage and risk-taking in the financial sector, particularly in US-originated asset-backed securities.

On the surface, European growth appeared more balanced, with the eurozone running a small surplus over the period, while the EU as a whole was in broad balance since around 2000. But this concealed significant internal imbalances within Europe, characterised by excesses of demand over supply in some economies and progressive losses in competitiveness vis-à-vis EU partners, as shown by developments in unit labour costs (see Graph 2).

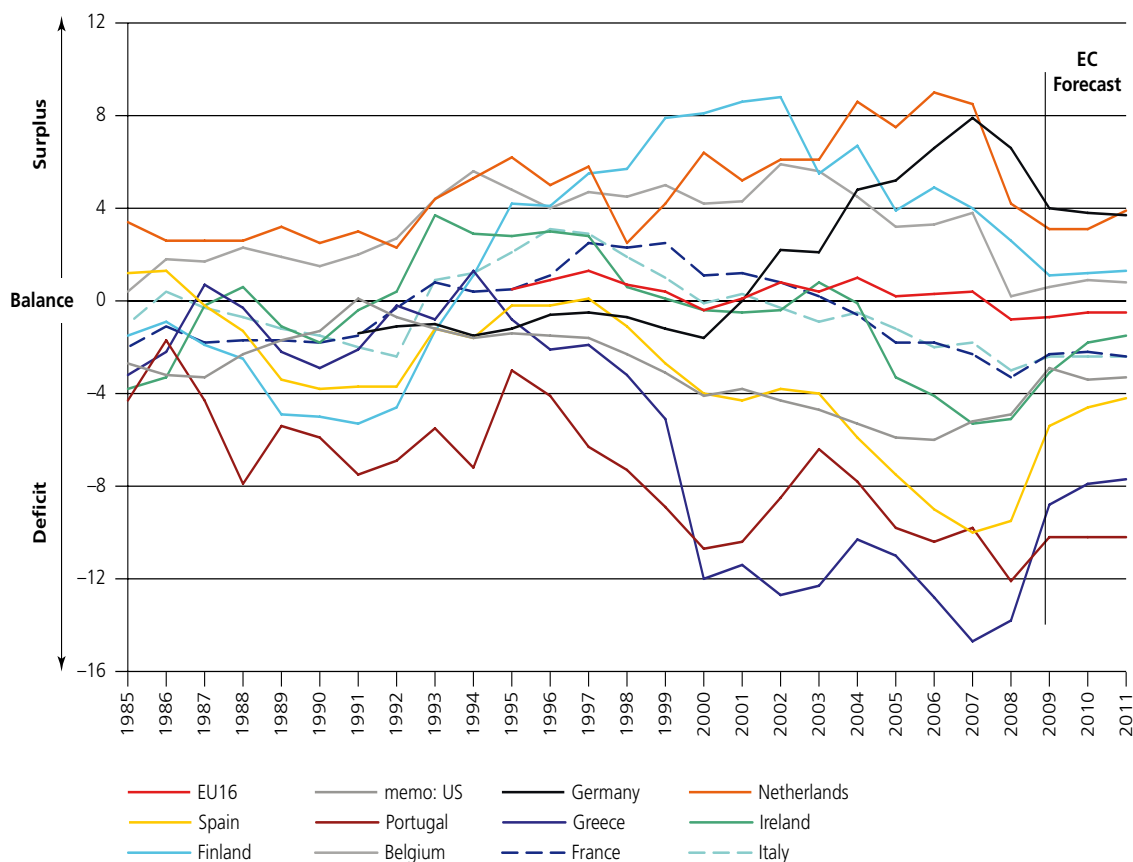
Graph 2: Evolution of Unit Labour Costs 1999-2008 (Index 1999 = 100)



Source: Europe Commission

At the same time, levels of demand were much lower in other economies – the combined effect of which was greater divergence in current account balances across the eurozone (see Graph 3).

Graph 3: Intra-EU16 Current Account Balances (% of GDP)



Source: AMECO

While global macroeconomic imbalances globally helped to create an environment that led to excessive leverage and risk-taking in the financial sector, particularly in US-originated asset-backed securities, these intra-European imbalances may have reflected the build-up of unstable macro-financial risks, as capital flowed into unproductive, speculative investments – particularly housing markets – facilitating the emergence of asset bubbles in some EU countries and undermining productive potential and international competitiveness (see Graph 4).

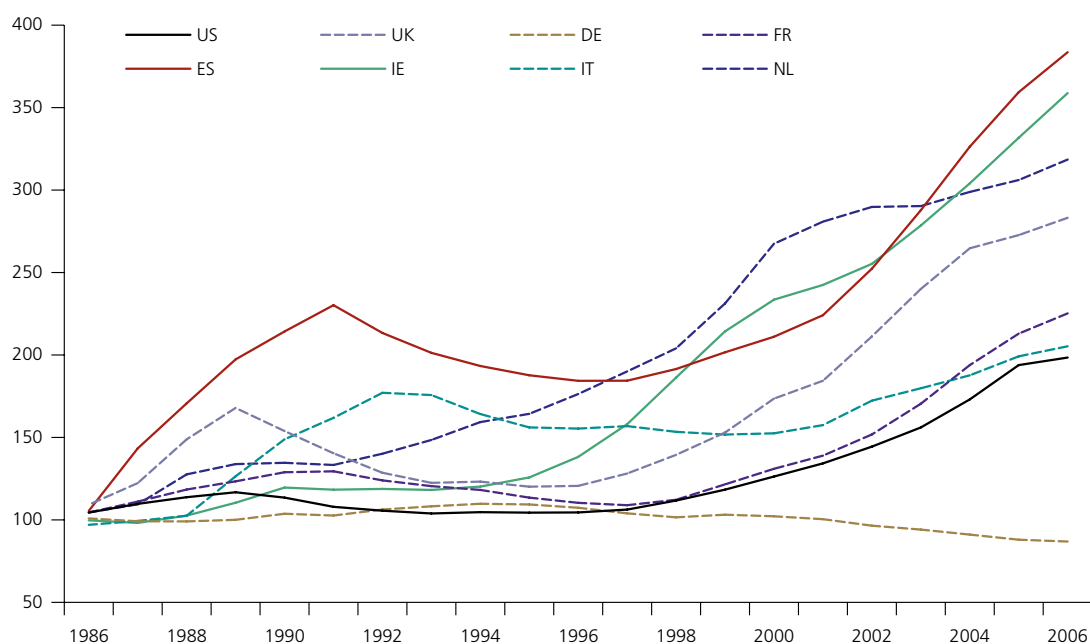
While the crisis has led to some reduction in European imbalances, recovery – in the absence of policy action – is likely to lead to their re-emergence, particularly in an environment of

lower demand from outside Europe. European countries will need to address the structural issues that lead to unsustainable borrowing and consumption in some countries, while restraining demand in others.

Summary

These challenges are complex and interlocking: strong, sustainable and balanced growth will require better coordination of macroeconomic policy to support and rebalance demand; renewed efforts to complement and enhance the Single Market with thorough going structural reforms to European labour and product markets; and, crucially, the political will to make the most of the long-term drivers of social and economic change.

Graph 4: Annual House Price Growth 1986-2008 (Index 1985 = 100)



Source: Bank for International Settlements

Taken together, these challenges define the set of choices in front of Europe. The scale of the challenges means that the consequences could not be more significant. A failure to act could lead to a prolonged period of low growth and high unemployment, which in turn would hinder the ability of government, both economically and politically, to improve social cohesion, pursue necessary structural reforms, maintain Europe's advanced welfare systems, and ensure fiscal sustainability – an experience similar to Japan's "lost decade" of the 1990s. Europe needs to promote reforms to ensure

strong, sustainable and balanced growth so as to provide more jobs and improve the standard of living of its citizens.

Although some of the challenges that Europe faces are not new, others are – the crisis has the potential to fundamentally re-shape the global economy over the long-term. But with crisis comes opportunity. Europe has a responsibility to its citizens to accelerate reform, to lead a global and sustainable recovery, and provide the foundations for long-term prosperity.

AGENDA FOR ACTION

As the EU economy moves from crisis to a recovery supported by an unprecedented, coordinated policy response, there can be no room for complacency. If Europe is to avoid a path of low growth, climate insecurity, resource scarcity and relative economic decline, we need a shared explicit and urgent agenda for economic reform that puts us on the path to **strong, sustainable and balanced growth**.

This agenda for action must deliver a future where Europe's economy generates new sources of growth, creates jobs, delivers opportunities and social progress for its citizens, is low-carbon, resource-efficient and can compete with high-performing economies. And Member States need to work together to share, review and deliver these goals.

Europe is at a unique point in its evolution. With the Lisbon Treaty finally coming into force, the institutions of the EU have the right tools at their disposal to tackle some of these challenges. The informal EU Council on 11 February 2010 should be the first meeting of national leaders with a new Commission and a new President of the Council.

We must use this opportunity to bring together the Member States and institutions of the EU to agree a Compact for Jobs and Growth. Such a Compact would ensure coherence between the existing tools and pillars of EU economic policy, including the Stability and Growth Pact, a structural reform programme to succeed the Lisbon Strategy, financial services reform, as

well as the EU Budget, and follow-up to the Copenhagen Accord on climate change. The European Commission's consultation on the EU2020 Strategy provides a useful starting point for considering how we achieve this:

An ambitious agenda for European and national reform should be underpinned by six key priorities;

- Fiscal policy that protects the recovery and supports sustainable growth for the future;
- Creation of new jobs and a skilled workforce for the new economy;
- Growth of the innovative industries of the future;
- Supporting Europe's businesses to take advantage of the Single Market;
- Opening up global markets to trade and investment; and
- A robust and competitive EU financial services sector.

The EU Budget needs to support the agreed economic agenda and this paper proposes some areas where funding should be reprioritised, so that it better supports EU objectives and delivers the jobs and growth that EU citizens demand. These proposals underline the need for fundamental reform of the budget, so that it delivers the policies and priorities of the EU. Reprioritisation within existing resources, rather than an increase in overall budget size, is key to assuring better value-for-money to EU taxpayers.

EU BUDGET REFORM

The EU Budget needs radical reform to address the key challenges that citizens are facing and support the EU's policy priorities, including those set out in the proposed Compact for Jobs and Growth.

The forthcoming European Commission Budget Review White Paper should be a genuinely fundamental, strategic and ambitious review of the budget, to ensure this resource – worth €140bn a year – is used in the most effective way to support the EU's priorities in a fast changing world.

Resources should be radically re-oriented towards EU action in three priority areas: building a prosperous Europe with a strong global economy; addressing the challenges of climate change; and ensuring security, stability and poverty reduction. Spending on agricultural support should be reduced. EU funding should only be provided where there is clear EU added value, where budgetary intervention is a proportionate and flexible instrument, and where there is sound financial management.

In the context of the goals of this Compact, this means the EU Budget should prioritise:

- Supporting Member States' efforts to make the transition to high value added economies, with resources focused on those with the greatest transition to make, thereby creating jobs and prosperity;
- Complementing Member States' efforts to strengthen knowledge, research and innovation, to ensure the EU has the skills and expertise to compete in a low carbon, global economy. The proportion of the EU Budget spent on research and innovation should be increased. In particular, the Budget should support well-targeted research, development, demonstration and deployment of low-carbon technologies, adding value to national programmes to help enable the EU to lead in the technologies of the future.

Consideration should also be given to the appropriate role of the EU Budget alongside other sources of public or private finance, to support the development of the infrastructure the EU will need to ensure both energy security and the longer term transition to a low-carbon, resource-efficient and climate-resilient economy.

With the challenges of fiscal consolidation in mind, the EU should also consider how better use can be made of loan funding – for example through the European Investment Bank (EIB) Group, an existing crucial source of European investment – alongside budgetary funding. In some instances loans can provide more value than spending through the EU Budget and can catalyse private investment. Greater use of blended loan-grant instruments should also be considered to prepare countries for accession and further support their economic transition following accession.

The December European Council called on the Commission to produce a report, during 2010, in order for the Council to provide orientations on priorities. Conclusions from this debate will provide the framework for proposals for the next budgetary period, or Financial Perspective. Discussions of the next Financial Perspective are expected to start in 2011.

PRIORITY 1: FISCAL POLICY THAT PROTECTS THE RECOVERY AND SUPPORTS SUSTAINABLE GROWTH

There are emerging signs of recovery. Although progress varies across countries, the sharp decline in EU economic activity has been halted, financial markets have stabilised, and confidence is returning. It is clear that coordinated international action, including on fiscal stimulus, has prevented the financial crisis from turning into a prolonged global depression. However, Europe's economy remains fragile and the greatest risk to recovery is to reduce support prematurely and risk a double dip recession. That is why European leaders have agreed that government support should not be withdrawn until the recovery is fully secured. We must meet commitments made under the European Economic Recovery Plan, which has been instrumental in supporting demand and limiting the impact of the recession, and continue to provide the necessary support to secure economic recovery.

The global economic downturn has had a major impact on the fiscal positions of most EU countries and action will need to be taken to ensure sustainable public finances over the medium term. This requires, as far as possible, explicit deficit reduction programmes that show how the deficit will be reduced in fair and balanced ways. It is also crucial that the pace and scale of such programmes support rather than undermine future economic growth and job creation, not least as such growth itself will play an important role in reducing deficit and debt levels. Since the exact timing of recovery

will vary across countries so too must plans for fiscal consolidation.

Development of national strategies and their advance communication will contribute to rebuilding confidence and anchoring expectations. The Stability and Growth Pact remains the appropriate framework for the coordination of fiscal consolidation within the EU, taking account of guidance provided by the Council that consolidation needs to be undertaken in line with economic recovery.

In returning Europe's public finances to balance after the unprecedented costs of the global economic downturn, we also need to ensure that we take action to support sustainable recovery and longer term economic growth, which will be crucial for the on-going health of the public finances in the future. This means maintaining and enhancing efforts in areas that are most conducive to improving productivity as the main driver of sustainable, long run growth. We must therefore support the five drivers that underlie long-term productivity growth – competition, innovation, skills, investment and enterprise. This framework should inform economic reforms across Europe, while focusing public interventions on areas where public spending is more effective than private investment – where collective provision is needed because a resource brings benefits to all, or to address other market failures.

PRIORITY 2: CREATE NEW JOBS AND EQUIP OUR WORKFORCE WITH SKILLS FOR THE NEW ECONOMY

The reforms of the last ten years mean that Europe's labour markets have proven to be more resilient than might have been expected given a 5% contraction in GDP. Nevertheless, Europe's workforce has been hit hard by the global economic crisis. In the year to the second quarter of 2009, employment fell by more than 4 million – erasing in 12 months almost 3 years of progress.¹¹

Moreover, the impact of the crisis is yet to be felt fully by labour markets, and unemployment across the EU is forecast to be over 10% by 2010.¹² Unemployment in Europe has historically taken more than three years to return to pre-crisis levels. Indeed there is a significant risk that European employment might not recover to pre-crisis levels. Member States need to act to avoid a legacy of higher structural unemployment, with large numbers outside of the labour market for prolonged periods.

More than any other factor, this would do lasting damage to Europe's social cohesion. The burden of unemployment is disproportionately felt by particular social groups, and so fuels greater inequality. For instance, in the year to the second quarter of 2009, employment for young people aged 16-24 contracted by 7.3%, compared to a population average of 1.6%.¹³ Employment rates for the low-skilled dropped

by around 4.9%, compared with a fall of only 2.6% for the medium-skilled, while high-skilled employment expanded by 3.1%.¹⁴

To avoid a 'jobless recovery' we need to act quickly to move people back into the workforce, and equip them with the skills to thrive in the labour market of the future. The rapid global response to the crisis, including the coordinated €200 bn stimulus outlined in the Commission's Economic Recovery Plan, saved between 7–11 million jobs across the world.¹⁴ However, as our economies begin to recover, significant obstacles to job creation lie ahead.

The two-tier labour markets in many European countries are both manifestly inefficient and unfair. These are characterised by a core group of employees on permanent contracts, while the rest remain detached from the labour market for long periods. They should be reformed using flexicurity pathways to maximise employment opportunities and improve income support for EU citizens. Our response should therefore include reforms to ensure the sustainability of Europe's social models so that appropriate support continues to be available to the most vulnerable.

To equip the workforce of the future, all schools and adult colleges across the EU should have access to high speed broadband and the technology to allow students to access it. Acquiring and updating ICT skills throughout life will be essential to ensure Member States offer high value 'knowledge workforces' to make the EU competitive in a global economy.

In order to **build more inclusive labour markets with productive employment opportunities** where everyone has the opportunity to develop their skills and experience, Member States should:

- Continue to pursue active labour market policies, providing extra support for those who face the biggest obstacles to work;
- Allow for more flexible wage-setting to address imbalances between the competitiveness of different European economies;
- Effectively implement, enforce and promote the existing EU legislation to ensure all citizens are benefiting from agreed minimum standards;
- Tackle discrimination in the labour market which keeps disadvantaged groups from accessing jobs;
- Promote new and different ways of working, including family-friendly policies, to enable more people to come into the workplace, progress and stay in work for longer, and increase the participation of women in the public and private sectors; and

- Set national targets to reduce child poverty supported by better cohesion between employment policy and social protection.

While the primary responsibility for labour market policy rests with Member States, the EU has a vital role in ensuring that working people can take full advantage of the Single Market. The EU can also be a catalyst for change by gathering and sharing information on good practice. The EU should:

- Make it quicker and easier for professionals such as doctors, nurses, pharmacists and architects to have their qualifications recognised by strengthening and updating the Directive on the Recognition of Professional Qualifications;
- Improve the information job-seekers can access through the European Employment Service for job vacancies (EURES), in particular the skills and competencies required, and the institutions that offer the necessary training and up-skilling; and
- Promote greater participation and equality of women in the workplace by ensuring a new EU Gender Roadmap which includes agreement of targets to close the gender pay gap and increase the participation of women in public and private sectors.

In addition to reforming labour markets, we must **invest in the skills of the workforce** so that our citizens can succeed in the jobs of the future. We must also continue to modernise higher education to ensure a successful transition to a knowledge-based economy.

Urgent action is required at a national level. Member States should:

- Focus public investment in education and training on the skills needed to supply future growth markets with a competitive workforce, especially markets that will play a key role in a low-carbon, resource-efficient economy;
- Encourage more and stronger partnerships between business and education or training providers to increase the employability of graduates and the provision of lifelong learning;
- Ensure higher education is more responsive to labour markets by strengthening the autonomy of universities and enabling them to attract more sustainable and diverse sources of funding; and
- Provide access to development schemes and opportunities to widen participation and access to training and further education from under-represented groups.

Action will also be required at the EU-level. The EU should:

- Reprioritise funds from the European Social Fund and the European Investment Bank to help firms looking to up-skill their workforces including for the low-carbon, resource-efficient economy;

- Link green skills academies through an EU network to ensure qualifications in installing renewable energy supplies are recognised and knowledge is shared, building on existing expertise;
- Use the outcomes of the first European Skills Review in 2010 to help the EU determine where funds are needed to meet future skills needs and support Member States' workforce planning;
- Support the Commission's call in its June 2009 Communication to ensure that at least 5 million young Europeans can enrol in high quality apprenticeships up to the end of 2010; and
- Agree a target for all homes and businesses to have access to broadband at 2 Mb per second by the end of 2013.

PRIORITY 3: GROWING THE INNOVATIVE INDUSTRIES OF THE FUTURE

The economic crisis has accelerated the process of global industrial restructuring that was already underway with the rise of developing economies in Asia and Latin America. This process has affected high-value industries where Europe has traditionally had a competitive edge. For instance, EU exports of high-technology products as a share of total exports fell from 21% in 2000 to 17% in 2006.¹⁶

Over the next decade, the dual challenges of emerging from the crisis and tackling climate change will combine to make the importance of Europe moving up the value chain even more critical. It is clear that innovation will be a critical factor in future growth and delivering the commitments made through the Copenhagen Accord, with pro-active policies needed to unlock the potential of the European economy.

European industry will need to respond to major societal challenges such as climate change and an ageing population, as well as growing consumer demand for innovative goods and services. The low-carbon and environmental services sector is already worth €3.5tn a year and could well grow to over €4.5tn by the middle of this decade.¹⁷

The EU therefore needs to adopt the broad framework conditions that will enable enterprise and innovation to flourish, particularly among

small and medium-sized enterprises (SMEs). As an example of where we need to improve, the average investment in an early stage European firm is around €1m, compared to €4m in the US. These challenges were addressed in the UK Government's "Future of EU Competitiveness" paper in June 2009.¹⁸

In the first instance this requires **market-based policies that promote investment in knowledge and innovation across the economy.**

Member States should:

- Improve the conditions for the commercialisation of intellectual property as a significant contributor to innovation; and
- Use the power of public sector procurement to drive innovation, by encouraging businesses to compete in bringing innovative technologies and ideas to address specific challenges identified by public bodies.

To support greater innovation at a European level, the EU should:

- Pass a European Innovation Act that radically simplifies and streamlines EU Innovation funding programmes so that companies find them easier to use and more relevant to their needs;

- Make rapid progress on establishing a European Patent and a single unified patent litigation system to support innovation;
- Establish an EU-wide Small Business Research Initiative, a public procurement mechanism that would offer opportunities to young and innovative businesses developing technology-based solutions for societal needs;
- Increase the proportion of the EU Budget spent on research and innovation under the Framework Programme in the context of wider reprioritisation away from the EU's non-priority areas;
- Establish the Industrial Initiatives foreseen in the EU's Strategic Energy Technologies (SET) Plan, which seeks to accelerate the development and deployment of cost-effective low-carbon technologies, during 2010. In particular, the EU must work with the EIB and other financial institutions to develop innovative financing vehicles to help deliver the €50bn investment needed to deliver SET Plan objectives over the next ten years; and
- Enable the European Investment Fund to access capital markets and pro-actively lever in €3bn in additional private funding for investment in technology companies in key strategic sectors such as low carbon, life sciences, digital and advanced manufacturing, and address the need to scale-up existing EU venture capital funds.

EUROPEAN INVESTMENT BANK LENDING

The European Investment Bank (EIB) is the long-term lending arm of the EU and is owned by its 27 Member States. This shareholding structure underlies the EIB's AAA credit rating, which it uses to raise substantial volumes of funds on the capital markets. It lends these funds to projects at favourable rates in order to further EU policy objectives.

As a policy driven and not-for-profit bank, the EIB's main task is to contribute towards the integration, balanced development, and economic and social cohesion of the EU Member States – continuously evolving its lending priorities to fit with EU policy. It currently has six priority objectives for lending within the EU:

- Economic and Social Cohesion and Convergence in the enlarged EU;
- Implementation of the Innovation 2010 Initiative (i2i);

- **Development of Trans-European and Access Networks (TENs);**
- **Environmental Sustainability;**
- **Support for SMEs; and**
- **Sustainable, Competitive and Secure Energy;**

Outside the EU, EIB lending is based on EU external cooperation and development policies.

The EIB will usually lend up to 50% of the project's cost with loans typically exceeding €25m. The maturities of loans range from 12 years in the industrial sector to over 20 years for infrastructure projects.

As a response to the crisis, the EIB agreed to increase its 2009 and 2010 annual lending volumes to €75bn – an increase of over half compared with pre-crisis levels – so that it has the capacity to support a much larger scale of EU activity than in previous years. This could be helpful for Europe in meeting its priority investment needs while meeting the challenges of fiscal consolidation.

THE EUROPEAN INVESTMENT FUND

The European Investment Fund (EIF) provides equity instruments through venture capital, growth and lower mid-market funds, to improve the availability of risk finance to high-growth and innovative small and medium-sized enterprises (SMEs). It delivers this through direct investment into venture capital funds, guarantees and credit enhancement to local financial institutions, improving their lending capacity and the availability and terms of debt they can offer to beneficiary SMEs.

The EIF operates using either its own funds, or those available through mandates given by the European Investment Bank, the EU, Member States or other third parties. Its core objective is to earn an appropriate return for its shareholders, through a commercial pricing policy and a balance of fee and risk-based income, alongside its goal to contribute to the pursuit of Community objectives.

While the future shape of the European economy is uncertain, a number of industries will be important to the development of the EU's economy over the next five years and for the future. Europe can do more to **support areas of technology, products or services of future growth**, in industries such as low-carbon, and environmental industries, services, advanced manufacturing, life sciences and the digital economy, as outlined in the "Future of EU Competitiveness".¹⁹ For example Europe should support the development of new technologies that increase energy efficiency, reduce carbon emissions and support adaptation to climate change. High-speed broadband could offer many benefits, including lower cost products and services available online, and allow more innovative product and service development amongst a wider group of citizens. It will also be important, both to maximise the enabling impact of high-speed broadband for other industries, and to take advantage of its ability to increase access to public services for all.

The EU should:

- Develop a new EU Broadband Strategy which includes a pro-competitive recommendation on Next Generation Access to deliver business certainty on the returns on investment in new infrastructure and facilitate the rollout of high-speed broadband;
- Establish a series of Renewable Energy Research Centres, within the existing budget and framework of the European Institute of Technology and Research Framework programmes, to explore under-utilised sources of renewable energy, especially wave, tidal and bio-energy;
- Promote the development of a bigger and smarter European electricity grid through prompt and thorough implementation of the Third Internal Market Package, including the production of Ten Year Investment Plans every two years starting in 2011, and through regional co-operation to remove the barriers to investment.
- Sign a Memorandum of Understanding by autumn 2010 on the North Seas Countries' Offshore Grid Initiative and further development of links with the Mediterranean region;
- Create Centres of Biotechnology Excellence across the EU under the existing budget and Framework Programmes to provide a focus for companies and researchers built around a critical mass of expertise, in coordination with national actions to ensure we gain value-for-money from investments;
- Remove barriers to the deployment of low carbon vehicles, for example by establishing common European standards for electric car charging infrastructure;
- Increase the proportion of funding from within the current Framework Programme for research into the development of low-carbon energy technologies; and
- Improve agricultural productivity and efficiency, through better functioning land and credit markets, more skills training, and greater uptake of technology, as well as removing unnecessary regulatory burdens and encouraging better integration along the

food chain. Common Agricultural Policy (CAP) reform for the next Financial Perspective would support this agenda.

AGRICULTURAL INNOVATION AND GROWTH

Promoting growth in rural areas will be vital to meeting the objectives under the Compact.

Rural economies are not just about farming. Rural development requires us to ensure that all rural sectors are able to grow and diversify, using the right mechanisms to target support where it is most needed.

Nonetheless, EU policies must support an innovative and competitive EU agricultural sector. The coming decades will present European farming with growing economic, environmental and social challenges, not least climate change and a growing global population.

All farm businesses will need to transform to remain viable and take advantage of opportunities as they arise. The EU faces a widening productivity gap with key global competitors; the current Common Agricultural Policy (CAP) – particularly Direct Payments – does little to enhance the competitiveness and preparedness of EU farmers to face future challenges yet receives a greater proportion of EU Budget funding than any other area.

We need an EU framework that will improve agricultural productivity and efficiency, with better functioning land and credit markets, more skills training, and greater uptake of technology, as well as removing unnecessary regulatory burdens and encouraging better integration along the food chain to improve market signals between consumers and farmers. To achieve this, there is a clear need for radical reform of the CAP; reform that places viable, competitive farming at its heart.

PRIORITY 4: SUPPORTING EUROPE'S BUSINESSES TO TAKE ADVANTAGE OF THE SINGLE MARKET

The Single Market stands as one of Europe's greatest achievements and an example to the world. But we cannot afford to take it for granted, nor to neglect it. For Europe's businesses to create wealth and opportunities for our citizens, they need to be able to reap the full advantages of the world's largest marketplace as the global economy recovers. This makes it even more important that we maintain our commitment to open markets and continue to resist protectionism in all its forms. We also need to do more to provide the right environment for our businesses to compete and prosper.

Europe's future competitiveness depends upon entrepreneurship and the **creativity and innovation of our small and medium-sized enterprises**, which constitute over 99% of enterprises, provide over two-thirds of private sector jobs and created 84% of new jobs between 2002 and 2007.²⁰ We need to ensure that smart regulatory principles are in place to enable businesses to continue to start, grow and create jobs. The 2008 French Presidency's ambitious Small Business Act should guide action at EU and national levels. Our central challenge is to translate the agreements we have made into a reality to deliver tangible benefits.

Member States should:

- Cut domestic administrative burdens and unnecessary red tape, focusing on regulations that make it more difficult to start up and grow new enterprises and run SMEs, especially micro-enterprises;
- Rigorously assess the impacts of new regulation before it is agreed, quantifying the economic, social and environmental effects; and
- Ensure, where possible, that businesses are provided with a modern regulatory framework, for example, using global accounting and audit standards that can be operated using modern technologies.

Given the role of the EU in regulating and enforcing the rules of the Single Market, much of the responsibility for reducing burdens is at the European level. The EU should:

- Meet the target to reduce EU administrative burdens by 25% by 2012 in ways that make a tangible difference to business, and broaden the approach to include compliance costs;

- Check throughout policy development and negotiation that EU proposals are still relevant and based on current evidence. The Impact Assessment Board should ensure this principle is applied within the Commission. The relevant Working Group and Parliamentary Committee should enforce this in the Council and Parliament;
- Monitor the overall impact of new regulations, particularly on business every year. The Commission should provide an overview of costs and benefits – both those planned at the beginning of the year and those implemented by the end – so that the European Council can determine whether the balance is right;
- Empower the EU's SME Envoy to hold Commission DGs to account for their commitment to 'think small first' and report publicly on actions to mitigate disproportionate burdens on SMEs. This should include naming and shaming those DGs that fail to apply the SME test to new regulations that place a burden on business and those that do not apply Common Commencement Dates, and share good practice within the Commission;
- Invite the European Court of Auditors to assess whether better regulation programmes are delivering on their promises. This would include a yearly quality check of impact assessments to ensure they have provided a proper quantified basis on which to make a decision;
- Strengthen ex-post evaluation of regulations by the Commission in order to check that individual regulations are fit for purpose, and that across sectors, the cumulative impact of regulation is proportionate; and
- Establish an ambitious timetable for fully implementing the Small Business Act, with all agreed actions completed by the end of 2010. The Commission must report clearly on progress made and further action required to remove barriers to business start-up and growth.

Despite the successes of the Single Market, significant barriers remain in numerous sectors, and companies continue to report difficulties on the ground. The Commission's Single Market Review showed that removing the remaining barriers would lead to a further increase in EU GDP of 2.2%, create 2.75 million jobs, lowering prices, increasing choice for consumers and promoting growth.²¹

In the aftermath of the economic crisis, we need to make a renewed effort not only to renew our collective commitment to the Single Market, but to deepen and improve its ability to deliver competitive advantages for our businesses. A well functioning internal market is essential to enterprise and business growth. Relatively low levels of cross-border activity by Europe's SMEs indicate that they face particular barriers to accessing the opportunities presented by the Single Market. We need to identify the barriers that inhibit enterprise and SME growth and take action to remove them.

Market reforms aimed at **increasing choice, competition and market growth and access in the Single Market** must become a focus of action at a national-level, and Member States should:

- Ensure more consistent and timely implementation and enforcement of Single Market legislation and a robust process for Member States to peer review each others implementation of EU legislation; and

- Improve cooperation between national enforcement authorities and more accessible problem-solving mechanisms that inspire business confidence. For example, the scope of the SOLVIT service might be expanded to address a wider range of national barriers than it does currently.

MARIO MONTI REVIEW OF THE SINGLE MARKET

On 20 October 2009, President Barroso asked Mario Monti to prepare a report on the re-launch of the Single Market. A former Internal Market and Competition Commissioner, Mr Monti is well-qualified to make recommendations on completing the Single Market ahead of the approaching 20th anniversary of the Single European Act. This is a unique opportunity to progress a more targeted and integrated approach to liberalisation, focusing on barriers in sectors with the highest growth potential, such as the digital economy, low-carbon technologies and services – and those affecting the competitiveness of start ups and SMEs. He should also consider specific measures to strengthen implementation and enforcement of existing legislation, and facilitate the free movement of workers. The UK looks forward to working with Mario Monti on our shared objective of renewing the Single Market as the cornerstone of European integration.

The **review being carried out by Mario Monti into re-launching the Single Market** is

a useful platform for improving its functioning.

There are several areas where further concrete steps must be taken at an EU-level. The EU should:

- Appoint a task force to ensure that the implementation of the Services Directive by Member States delivers the estimated full potential of economic benefits, worth around €30 bn per year to Europe's economy;
- Extend the modernisation of licensing and authorisation schemes in the Services Directive to more sectors, including manufacturing and private health-care, and extend the provision of online information and e-enabling of national licensing regimes;
- Identify and address barriers to the competitiveness of start ups and SMEs with high growth potential;
- Complete the Single Market for online consumer and business services to improve choice, security and the growth of innovative businesses, by tackling the fragmented rules which stifle cross-border e-commerce and building a modern, pro-competitive and consumer-friendly legal framework for copyright and digital content;
- Establish a green Single Market for emerging low-carbon and environmental technologies, services and products (including those that will help us adapt to the changing climate) by developing standards across the EU for measuring and auditing carbon footprints, clear standards and labelling for energy-efficient products and measuring resource efficiency over their life-cycle;
- Open new markets in the European rail sector through rigorous enforcement of the First Railway package, and new measures to deal with systemic deficiencies in the existing legislative framework which prevent the establishment of a functioning single market in rail;
- Create a single aviation market by ensuring that EU laws are implemented in a non-discriminatory way at a national level and by simplifying existing regulation;
- Establish an open internal market for investment capital, allowing venture capital, private equity and all other types of investment funding to be marketed to professional investors across the EU on the basis of a single home authorisation through the Alternative Investment Fund Managers Directive; and
- Restore full State Aid disciplines, starting by ending the temporary state aid framework at the end of 2010, in order to create a framework that maximises opportunities for competition and growth. Once the temporary rules have ended, changes to pre-existing rules should be limited to where there are genuine market failures. In this context, amendments to risk capital guidelines should be considered to include bigger deal sizes for near-market funds to support expensive technology-based investments by SMEs.

SERVICES DIRECTIVE

The Services Directive is one of the most ambitious and important pieces of Single Market legislation agreed under the Lisbon Strategy, reducing and removing barriers to cross-border trade in Europe's largest sector. Services now account for approximately 70% of EU output and employment – 57% of these were traded within the EU. As outlined in "The Future of EU Competitiveness", the Services Directive has the potential to deliver €37bn in welfare gains each year across the EU and create up to 600,000 new jobs. But this will only be achieved if the right systems are in place and being used by regulators, and if the mutual evaluation exercise is effective in identifying and removing any remaining unjustifiable barriers. The Commission's support in this process will be vital.

PRIORITY 5: OPENING UP GLOBAL MARKETS TO TRADE AND INVESTMENT

The economic crisis has further underlined the integration of global markets. Over a third of EU trade is external, which meant that the 14.7% fall in global trade in goods and services between the first quarter of 2008 and the second quarter of 2009 had a significant impact on our economies.²⁰

As the global economy emerges from recession, the EU must secure its position as an ambitious leader and champion for open and fair markets, including setting standards in terms of its own openness. This will not only support global growth, especially in developing countries, but will also open up new opportunities for Europe's exporters and competitive access to vital imports – around 65% of extra-EU imports are inputs for EU business – and the dynamic benefits that come from increasing competition from abroad.²¹

As a 'first mover' the EU has the potential to take full advantage of new and emerging markets, to promote companies specialising in low-carbon industries abroad and to gain the competitive advantage by setting standards which can be adopted worldwide. The global market in low-carbon goods and services will expand as the world recognises the dangers to recovery of pursuing a high-carbon path. The EU also has the potential to benefit from being at the forefront of adaptation to climate change, developing innovative approaches

and technologies. Emerging and developing economies are already beginning to see the potential of ambitious climate mitigation trajectories as a spur for delivering jobs and growth. In the global race to the top, the EU must remain ahead of the pack.

And we should not neglect the potential new source of growth from opening up trade with and investing in Low-Income Countries. 50 years ago Korea's GDP per capita was around one tenth of the US and it accounted for less than 0.2% of world imports. Now, as it takes on the Chair of the G20 Finance Ministers, it accounts for nearly 3% of global imports.²² It can be in our interest, as well as those of our low income trading partners to make the most of their potential.

The Single Market brings huge advantages in terms of making the EU a highly desirable trading partner and it brings the EU significant leverage in negotiations.

We should continue to support our overarching aim of **promoting increased trade and investment through a multilateral rules-based system**, and concluding the Doha Development Agenda supported by the development of **effective bilateral trading relationships with key global partners**. To develop these relationships, the EU should:

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- Conclude ambitious Free Trade Agreements (FTAs) with key partners, including India, Korea, Canada, Mercosul and ASEAN. These FTAs will increase EU trade and create thousands of jobs across Europe. Finalising the EU-Korea FTA (the most advanced) this year is expected to yield US\$1.6bn in duty savings to the EU. EU trade with India is worth an estimated €60bn, €50bn with Canada, and €135bn with ASEAN²³;
 - Strengthen regulatory cooperation with key trading partners, including the USA, Japan and China to address crucial non-tariff barriers particularly in areas of new technology such as healthcare and environment sectors;
 - Prioritise the removal or reduction of tariffs to free up trade in low-carbon and environmental goods and services to prepare for a low-carbon future building on the Copenhagen Accord;
 - Increase international cooperation on projects which will help push forward the development of low-carbon technologies and increase employment, such as the Mediterranean solar plan and the NZEC scheme for supplying Carbon Capture and Storage technology in China;
 - Simplify trade regulations at EU borders, embedding a risk-based approach to trade regulation and harnessing technological advancements which makes processes easier;
 - Identify and resolve protectionist measures and barriers to trade and investment that matter to Europe's businesses, including through the EU Market Access Strategy, which focuses on EU export markets;
 - Modernise the EU's trade defence regime, to better account for the needs of business and consumers as well as the realities of global supply chains;
 - Support development in low-income countries by delivering our overseas development assistance commitments, including effective delivery of Aid for Trade;
 - Promote trade and investment with and between Low-Income Countries through effective implementation of Economic Partnership Agreements that drive regional integration and further EIB investment in infrastructure and private enterprise; and
 - Establish new annual Economic Dialogues with countries in the Neighbourhood and accession countries on reform priorities, to be taken forward by the High Representative for Foreign Policy.

PRIORITY 6: A ROBUST AND COMPETITIVE EU FINANCIAL SERVICES SECTOR

Open, efficient, fair, stable and competitive financial markets are essential for sustainable growth, and enable households and businesses to save and invest. The crisis has dramatically underlined the need for the EU to strengthen the effectiveness and harmonisation of its financial services regulation and supervision and ensure a competitive market. The EU has played a leading role in the international debate on reforming the international financial system, including through the G20. This should allow a globally competitive EU financial services sector to continue, and will require stability and a level playing field beyond the boundaries of the Single Market. Higher standards in the EU must be combined with global convergence to similar high standards, both to underpin global sustainable growth and to avoid regulatory arbitrage, protecting the competitiveness of the Single Market.

Within the EU, many improvements are already underway: the new European Systemic Risk Board (ESRB) and European Supervisory Authorities (ESAs) should be effective in 2011. Together, these will provide early warnings about the build-up of systemic risk, and ensure a high and consistent level of national supervision of firms. Further EU legislation will be needed on three significant areas of work:

- Capital and liquidity;

- Over-the-counter (OTC) derivatives and clearing infrastructure; and
- Crisis management and recovery and resolution.

The EU should strengthen its financial services through:

- Future amendments to the Capital Requirements Directive (CRD) in mid-2010, which should be in line with the work of the Basel Committee, ensuring that banks hold more and better quality capital, increasing their resistance to shocks or downturns and ultimately providing the financial system with greater stability. Work on implementing the global standards in EU law should commence later in 2010;
- Requiring systemic EU financial firms and authorities to develop effective Recovery and Resolution Plans (RRPs), to reduce the probability and wider economic impact of firm failure. In the UK, the Financial Services Authority (FSA) is undertaking pilot actions alongside the Financial Stability Board (FSB) on firm-specific RRP with the aim of reducing moral hazard posed by systemically important institutions;

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- Reducing risk in the OTC market, and managing it more effectively is a key priority. This work will involve greater transparency and use of trade repositories; and also high prudential and operational standards for Central Counterparty Clearing Houses (CCPs) to be developed by the Committee on Payment and Settlement Systems (CPSS)/ the International Organisation of Securities Commissions (IOSCO) by the end of 2010, alongside increased use of CCPs for clearing-eligible OTC derivatives; and
 - Maintaining the level of protection for EU investors in overseas markets, currently afforded by Member States' bilateral arrangements, as competency for this policy transfers to the EU as a result of the Lisbon Treaty.

It will be key to ensure that the right regulation is implemented in the right places, based on strong consultation and impact assessments: the unintended consequences of poorly-designed regulation may stifle growth through reduced lending to businesses. The EU should also continue to take the lead in global fora such as the Financial Services Board (FSB), G20 and International Monetary Fund (IMF) to raise globally coordinated standards.

DELIVERING STRONG, BALANCED AND SUSTAINABLE GROWTH

If Europe is to generate strong, sustainable and balanced growth into the new decade, the EU will need to sharpen its focus on the six priorities outlined in this paper. This has been reinforced in the agenda set out by President Barroso in his Political Guidelines, and in the Commission's consultation on a new EU2020 strategy.

However, delivering an ambitious reform agenda will also require new mechanisms at a Community and national level. The UK believes Europe should establish a **new Compact for Jobs and Growth that brings together EU institutions and Member States in a common cause of generating strong, sustainable and balanced growth.**

The Compact would:

- Generate greater political ownership of economic reforms;
- Set clear and measurable objectives for the development of the EU economy;
- Ensure improved coordination and coherence between existing policy instruments; and
- Establish an annual Economic Summit of EU leaders to review progress against the objectives and agree priorities for reform.

Building on the institutional reforms of the Lisbon Treaty, the Compact should take the form of a political agreement between the President of the Commission, the President of the European Council and Member States. **Greater political ownership of economic reform** would support delivery of the aspirations of EU citizens and enhanced European cooperation in a new era of global economic management, as defined by the agreement reached at the Pittsburgh Summit of the G20. Europe's economic reform priorities should be agreed at an annual Economic Summit.

The starting point of the process for delivering this ambitious agenda must be a set of **clear and measurable objectives** focused on achieving strong, sustainable and balanced growth. These objectives should include:

- Strengthening Europe's long-run growth potential;
- Ensuring growth within Europe and its Member States is balanced;
- Increasing employment and labour market participation;
- Raising labour and capital productivity; and
- Facilitating investment.

Macroeconomic, microeconomic and financial sector reforms should continue to be monitored and implemented according to existing processes under their different legal instruments. This means fiscal policy under the Stability and Growth Pact (SGP); structural reforms through peer review; and financial market stability through the new European Systemic Risk Board (ESRB). The SGP's targeted focus will support Europe's economies in returning to long-term fiscal sustainability. Increased visibility, stronger national ownership and greater accountability would strengthen the ability of the existing peer review approach to deliver structural reforms.

Improving coordination and coherence between these policy instruments is crucial.

Aligning their reporting timeframes would ensure that policy areas can be considered together and conclusions drawn in the round. To this end Economic and Financial Ministers (ECOFIN) should produce annual progress reports and recommendations on macroeconomic and microeconomic pillars, as described in the treaties. Equally, the European Systemic Risk Board (ESRB), which is required to report biannually to the Council, should also report to leaders.

An annual Economic Summit of EU leaders should be established to review progress against objectives on the basis of reports from ECOFIN and the ESRB. The Summit should agree on future actions at national and Community level to ensure Europe's economy remains on course to meet objectives set by leaders. The Summit should also inform reporting by the

President of the Council and the President of the European Commission to the European Parliament.

The EU Budget and lending by the European Investment Bank should be better coordinated and structured to support these objectives. Funding and financing should focus on and respond to the priorities contained in the Compact.

ROLES AND RESPONSIBILITIES IN THE COMPACT

EU institutions and Member States would each have distinct and important roles to play, within their own areas of competence, in delivering economic reform under the Compact framework.

At an EU-level, the **Commission** should:

- Allow its policies and proposals to be scrutinised and tested against their potential to make progress across Europe on objectives agreed at the annual Economic Summit;
- Ensure stronger links between the objectives of the Compact and the delivery mechanisms available at regional, national, EU and international levels;
- Work with Member States to reprioritise the EU Budget to focus on these priorities and consider where loans through the EIB can be more effective than grants;
- Conduct rigorous and evidence-based analysis of the impact of national and Community reforms towards meeting the EU objectives.

As an important part of the EU policy-making machinery, the **European Parliament** should:

- Express its views on the objectives agreed by EU leaders to the President of the European Council and the President of the European Commission.

Many of the reforms under the Compact fall within the competence of Member States. Therefore, Member States should:

- Define and establish measurable national targets that contribute to meeting EU objectives, and be held publicly accountable for progress towards these targets through intergovernmental peer review;
- Gather views from national stakeholders, including sub-national levels of government and business, in setting targets and monitoring performance;
- Agree to be publicly benchmarked against their progress towards these objectives on the basis of analysis by the Commission in advance of the annual EU Economic Summit;
- Report to the Council and Commission on progress against their targets, including how structural funds have been used to support progress.

NOTES

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