

## Box 7

### THE INTEGRATED GUIDELINES FOR GROWTH AND JOBS 2005-2008

On 12 July 2005 the ECOFIN Council adopted the first Integrated Guidelines for Growth and Jobs (IGs) for the period 2005-2008. The IGs bring together the Broad Economic Policy Guidelines (BEPGs) and the Employment Guidelines (EGs). This streamlining is one of the results of the mid-term review of the Lisbon strategy undertaken by the European Council at its meeting in Brussels on 22 and 23 March 2005. The IGs imply greater consistency and a reduction in the overlap between the formerly separate guidelines, with the BEPGs covering the whole range of macroeconomic and microeconomic policies, and the EGs covering employment policy. This has led to a significant reduction in the overall number of guidelines, from 28 BEPGs and 10 EGs to 24 IGs. Unlike the previous BEPGs, the first IGs issued in 2005 do not include country-specific economic policy guidelines.

The IGs will serve as the basis for the new national reform programmes which the EU Member States are asked to submit for the first time in the autumn of 2005. These will identify specific measures which Member States intend to take (or have taken) in order to support growth and employment at a national level over the period 2005-08. As a counterpart to the national programmes, the Commission has presented a Community Lisbon Programme covering all action to be undertaken at the Community level, which is to be endorsed by the European Parliament and the EU Council.

This box provides an overview of the guidelines package.

#### The Broad Economic Policy Guidelines

##### Macroeconomic policies

The BEPGs urge Member States which have achieved their medium-term budgetary objectives to maintain them or – if they have not yet achieved their objectives – to adopt the necessary corrective measures in line with the Stability and Growth Pact. Member States should avoid

pro-cyclical fiscal policies. Furthermore, the BEPGs state that Member States having an excessive deficit should take action in order to ensure a prompt correction. Where current account deficits risk becoming unsustainable, structural reforms improving competitiveness should be adopted – together with appropriate corrective fiscal policies. With specific reference to the euro area, Member States are called on to ensure better coordination of their economic and budgetary policies, and in particular to contribute to a policy mix that supports economic recovery and is compatible with price stability.

In light of Europe's ageing population, the BEPGs state that further effort should be made to reduce government debt and to increase labour market participation and labour supply, especially amongst women, young and older workers. Member States are also urged to reform their pension, social insurance and health care systems. The BEPGs stress that nominal wage increases should be consistent with price stability and in line with the rate of productivity growth over the medium term, taking into account differences across skill levels and local labour market conditions.

#### **Microeconomic reforms to raise the EU's growth potential**

Comprehensive reforms in product markets are seen as an integral part of addressing weak growth performance and insufficient job creation in the EU.

The BEPGs ask Member States to actively promote investment in research and development (R&D), innovation and education. More rapid progress is needed towards the Lisbon objective of allocating 3% of GDP to total R&D investment, with an adequate split between private and public investment. Member States are invited to report on their R&D expenditure targets for 2008 and 2010 and the measures to achieve them in their national Lisbon programmes. These objectives should be pursued by developing the appropriate framework conditions, promoting science-industry links, developing and strengthening centres of excellence, supporting the mobility of researchers and encouraging cross-border knowledge transfer via foreign direct investment. Member States should facilitate the access to and use of information and communication technologies (ICT). The need to orientate the EU towards higher productivity growth sectors, to identify the competitiveness factors in key industrial sectors and to address the challenge of globalisation is also emphasised.

The BEPGs also recommend that countries encourage the sustainable use of resources and strengthen the synergies between environmental protection and growth. Through the use of market-based instruments they should ensure that prices adequately reflect environmental damage and social costs, while encouraging the development of sustainable energies and the introduction of environment-friendly technologies. The implementation of these priorities should be in line with existing Community legislation and with the actions and instruments proposed in the Environmental Technologies Action Plan (ETAP). Member States should renew efforts to meet their commitments under the Kyoto protocol.

The BEPGs say that Member States should speed up the transposition of Internal Market directives, ensure stricter and better enforcement of Internal Market legislation and accelerate the process of financial market integration. They also urge Member States to eliminate obstacles to cross-border activities and apply EU public procurement rules effectively.

The BEPGs emphasise the need to remove barriers to competition in key sectors and to ensure the effective enforcement of competition policy. Member States are urged to adopt structural reforms easing market entry. Furthermore, effective competition in network industries should be ensured, while state aid should be further reduced and redeployed in support of horizontal objectives such as research, innovation and the optimisation of human capital.

Member States are asked to take active steps to create a more attractive business environment, to encourage the creation and growth of innovative enterprises. They should create a supportive environment for small and medium-sized enterprises, strengthen their innovative potential, improve access to finance, adapt tax systems so that they reward success and reduce the administrative burden for start-ups. With the aim of achieving a greater integration of national markets within the enlarged EU, Member States should develop adequate transport, energy or ICT infrastructures, notably in cross-border sections and peripheral regions.

#### **The Employment Guidelines**

Creating the conditions for full employment, better quality of and productivity at work, as well as greater social and territorial cohesion remain top priorities in the Lisbon strategy. According to the EGs, Member States should contribute to achieving an average employment rate in the EU of 70% overall, at least 60% for women and 50% for older workers by 2010, and to reducing unemployment and inactivity. Member States should consider setting national employment rate targets. Action is also required to increase female participation, to reduce gender gaps in employment, unemployment and pay and to tackle youth unemployment. Member States should take action to encourage a longer working life and modify incentives embedded in pension and tax and benefit systems that encourage early withdrawal from the labour market.

Member States are urged by the EGs to implement active labour market policies aimed at supporting the inclusion of disadvantaged people in the labour market, to modernise social protection systems and to fight poverty and social exclusion. They are also urged to take steps to tackle labour market shortages and bottlenecks, and to ensure greater transparency of employment and training opportunities at the national and European level.

The EGs emphasise the need for policy measures increasing the adaptability of labour markets to changing economic conditions. Greater flexibility should be achieved by adapting employment legislation as well as providing support for transitions in occupational status. Member States are urged to ensure that wage bargaining systems allow wages to better reflect productivity, and to adjust the structure and level of non-wage labour costs, especially for the low paid. Increasing and improving investment in human capital and reducing skill mismatches are seen as the key to boosting growth potential in the EU. The EGs point out that Member States are committed to establishing comprehensive lifelong learning strategies by 2006 and implementing the Education and Training 2010 Work Programme. They call on Member States to facilitate mobility within the European labour market by promoting the recognition and transparency of qualifications and competencies.