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SEVEN STEPS TO DELIVER ON THE EUROPEAN STRATEGY FOR GROWTH AND JOBS

The budgetary consolidation efforts we need to implement must be supported by a renewed strategy for growth and jobs for the coming years. Such a strategy only makes sense if it is based on a shared analysis and a shared sense of direction. An agreement on the general principles and the key targets is a prerequisite for consistent action by the Member States and the Union.

We must focus on the right priorities but we must above all move from *what* we plan to do to *how* we will actually do it. Governance is key here. Our new joint strategy will only make a difference if we make sure it is taken up by the relevant political and economic actors and integrated into EU and national decision-making. In the past, there has been a lack of ownership, of monitoring, and of enforcement. There has also been a lack of focus. That must change.

There is only one way for this to happen: a strong involvement of members of the European Council. Making the growth strategy work for the Union as a whole is the responsibility of the members of the European Council.

To improve the governance of the strategy, we should take the following steps which build on existing procedures while aiming at providing more focus and impetus:

1/ *A concentration on a limited number of key quantitative EU targets supported by national targets*

So far, we have been endorsing in the so-called Integrated Guidelines a number of horizontal guidelines (24 in the current guidelines which runs from 2008 until the end of this year), and quantitative targets. The initial objective was to keep the number of targets limited, but over the years, we have progressively added other ones. Until now, these general quantitative targets were not underpinned by concrete commitments at national level.

We should agree on two elements to strengthen the effectiveness of our economic strategy:

- first, the number of guidelines should be reduced (less than 24). Within this reduced number of guidelines, we should agree to set a limited number of EU quantitative targets (a maximum of five) which will deliver EU growth, with a deadline and possible intermediate steps[1]. These targets should relate to policy objectives which are key for the success of our strategy.

- second, the individual Member States will translate these common EU targets into specific and differentiated national targets, taking due account of the different starting positions[2]. The framing of these targets should result from a dialogue between Member States and the Commission in a multilateral framework, so as to ensure full consistency. They should be endorsed by the Council.

1 *Possible targets to be considered could be R&D expenditures; participation rates in labour markets; tertiary education rates; poverty reduction.*

2 *This approach was applied in the climate change targets. However, in the case of climate change, national targets are binding (if a country does not reach its target one year it will have to catch up, and sanctions are foreseen). This is not what we propose for the Strategy.*

2/ Identification of bottlenecks or barriers for growth at the EU and national levels

Bottlenecks or barriers are constraining competitiveness, productivity and growth, both at the EU and at the national level. We need to have, by the June European Council, a fresh assessment of what are the main bottlenecks and their impact on growth:

- The Commission should identify and submit to the Council for discussion bottlenecks at the EU level, including in the functioning of the Internal Market.

- Member States should, in consultation with the Commission, identify major existing bottlenecks for growth, competitiveness and productivity at national level[3]. The Commission should assess the macro-economic relevance of these bottlenecks, so as to ensure adequate focus.

3/ Strengthened EU and national programmes

Both at EU and national level, reform programmes have to be strengthened:

- Each Member State will continue to set up its own national reform programme presenting its policy priorities in terms of structural reforms, but they will be required to put a particular emphasis on the quantitative targets and how they intend to address the bottlenecks identified. This reporting should not become a heavy bureaucratic process.

- The Commission will be charged with proposing to the Council an EU programme to support the strategy. This EU programme, which should be beefed up compared with the current "EU Lisbon programme", will indicate in operational terms how EU policies can contribute to reaching the key numerical EU targets and address the bottlenecks at the EU level. It should also take due account of the international dimension. It will be discussed and endorsed by the Council, which should have the possibility of changing it.

[3] *Depending on the country, these bottlenecks could relate to deficient infrastructure or cross-border connections, non-competitive pricing practices, deficiencies in labour and product markets.*

EU instruments should be used, within the current framework of the financial perspective, as incentives for reform. For instance, investing in human capital could be better matched by funds from the Research Framework Programme or the structural funds. Lending by the EIB could be recalibrated to give preferential support to structural reform actions. The CAP and regional policies could lend more support to such reforms. EU policies should be reoriented to support green jobs.

4/ Better monitoring and surveillance

Efficient monitoring and surveillance mechanisms are key for the successful implementation of the Strategy. They should build on four elements:

- To address the weaknesses in our surveillance revealed by the crisis, and in particular in the monitoring of macroeconomic and financial imbalances in EU Member States, budgetary plans and structural policies should be presented by Member States to the Commission simultaneously (through Stability and convergence programme and national reform programme). This will help Member States and the EU to face up to the policy choices and prioritisation that will be necessary to preserve investments in future sources of growth, strictly respecting the Stability and Growth Pact. The legal instruments (SGP and country-specific recommendations under the Integrated Guidelines) should be kept clearly separate and the integrity of the Pact should be fully preserved.

- Benchmarking should be used more extensively by the Commission, and particular attention should be given to the key quantitative targets. This benchmarking should not only compare relative performance of EU Member States but also include an external dimension and compare the EU with other countries' performance. Independent assessments of the EU programmes will be done. Assessments and scoreboards will be made public.

- To enhance the dialogue with Member States and increase the quality of surveillance, missions in the member countries to review the situation on the ground should be developed, beyond the current very short Lisbon missions. They should look more in depth into the implementation of the agreed priorities, and bring together experts from the Commission and from other Member States.

- Progress, both at the EU and national level, will be closely monitored by the competent Council formations. In case of delivery gaps, when policies are not in line with the Integrated Guidelines or when they risk jeopardising the proper functioning of the monetary union, the surveillance instruments established by the Treaty (notably early warning, recommendation on the basis of article 121) should be used.

5/ *Taking into account the euro area dimension*

Participation in the euro area should be better taken into account. The provisions of the Lisbon treaty related to the euro area (article 136) foresee that the Council will adopt measures specific to those Member States whose currency is the euro and set out economic policy guidelines for them, while ensuring that they are compatible with those adopted for the whole of the Union and are kept under surveillance.

Against this background, and without having specific discussions on the euro area in the European Council, the recommendations for the euro area as a whole and its Member States should be strengthened, with a stronger focus on competitiveness and macroeconomic imbalances. This would be in line with the importance of economic spill-over effects in the monetary union and the challenges the euro area is facing.

As highlighted by the letter from the President of the Eurogroup of January 15 presenting his intentions for his new mandate, the Eurogroup has a central role to play in this respect, as well as in the monitoring of the implementation.

6/ Taking into account the international dimension

The EU strategy has to take globalization better into account. A level playing field in trade will benefit European industry. The EU will continue to fight for an effective and fair mechanism to combat climate change. These elements should be integrated into the EU programme and be subject to the same monitoring as the national programmes.

It is important for the EU to ensure that its voice is heard in the International Financial Institutions, the G20 or other international fora. The European Council will have to ensure that this is the case and that on going work on the reform of the international financial system is pursued. The European Council will need to prepare carefully its positions for the G20 to ensure that our common vision is well reflected in the economic policy discussions at the global level. The European Council will prepare in June the positions the President of the EC and the President of the Commission should present on behalf of the EU in the G20 Summit in Toronto.

7/ The role of the European Council

The European Council will be ultimately responsible for the success or failure of the European Strategy. It should assess regularly, and at least once a year, macroeconomic, structural and financial developments (benefiting from the assessment of the European Systemic Risk Board) across the EU and coordinate closely policy response, giving guidance to the Commission and the Council formations. In this context, it should look at the impact of national policies on the EU as a whole, including a stronger focus on macroeconomic imbalances and divergences of competitiveness within the Single Market. It should also review progress made in the implementation of the strategy. This was the original purpose of the Spring Council. It should be restored in such a fashion that we are able to give our guidance to these processes.

There is also a need to go beyond general discussions on the economic strategy and to focus on concrete policy measures. The EC should on a regular basis hold discussions on selected policy issues, looking at all the instruments and policy measures available to deliver results. Relevant Council formations could be tasked with preparing such discussions, and ensure their follow-up in terms of implementation. The Chairs of these formations could report back to the European Council. To give impetus to these discussions, the EC could also mandate external personalities to look further into some specific issues. The European Council should be in a position to make real policy choices.

A first such discussion could already in 2010 focus for example on research, development and innovation. The 3% GDP target fixed within the Lisbon Strategy has not been reached. We need to understand why and what should be done in the future. We should ask each member of the European Council to state what his or her government is prepared to do to increase the R&D&I spending over time. At the same time, we should look at all possible ways to help colleagues reach their targets. These include exchange of best practices, joint research initiatives between Member States or at the EU level, EU financing, regulation promoting technological progress.

Other possible themes in the short term could be energy security, the greening of the economy, policies to strengthen our productive base (manufacturing, service industry), or the functioning of labour markets.

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Next steps:

- the European Council in March should, on the basis of the Commission communication, agree on the focus of the strategy, the five quantitative targets, and finalize the governance structure. Preparatory work should be done by the relevant Council formations (which should focus more specifically on the quantitative targets within their area of competence). In particular, the ECOFIN should look into the overall economic consistency and the governance structure. The General Affairs Council should play a coordinating role in the run-up of the March European Council.

- in June, the European Council will endorse the integrated guidelines presenting the strategy, as well as the country specific quantitative targets and bottlenecks. on the basis of the Commission proposal and preparation by relevant Council formations (targets should be discussed by the relevant Council formations, the guidelines should be prepared by Ecofin and Epsco).

- in the autumn, the European Council could have a first discussion on a selected policy issue, for example research and development. Member States should send their stability and convergence programme and national reform programme.