

PROMOTING INVESTMENT AND POLICY CHANGE FOR STRONGER SUSTAINABLE GROWTH AND FULL EMPLOYMENT IN EUROPE

Draft PES policy statement in view of the forthcoming European Spring Council 2003

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Executive summary

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Our point of departure: to harness globalisation and to manage change

The European economic environment has been dominated, since the beginning of this decade, by persistently weak economic growth. The average growth rate for 2003 is forecast at only 1.8 % in real terms, and investment as well as private consumption growth continue to contract. Employment creation is estimated to continue, albeit slowly, but the risk of a new rise in the unemployment rate in the future is not to be ignored. In addition, corporate scandals and sluggish stock markets have undermined confidence in the European corporate sector as a whole.

This economic and social situation is undermining the confidence of European businesses and of our citizens. However, without this confidence, the challenging project of enlargement of the European Union is put at risk.

In this context, it is essential to recall our point of departure. Our main purpose was to use the year 2000 to launch a long term ambition: a new European strategy, the so-called "Lisbon strategy", capable of giving a positive response to

- the opportunities and the risks deriving from globalisation
- the necessity to manage technological change
- the challenge of moving the European economy towards a knowledge-based economy
- new environmental needs
- restoring full employment and better jobs
- ensuring social rights and inclusion.

This strategy is the only available policy route if the European Union is to succeed in facing the challenges ahead. However, the EU has not yet succeeded in convincing all political levels concerned, nor the wider public, that the Lisbon strategy is a strong policy instrument for addressing the economic, social and environmental challenges we are facing.

Despite the current economic slowdown, Europe's potential is very encouraging. At the eve of an enlarged European Union, we have to build upon the strength of a United Europe: stimulating strong economic activity in a sustainable way and renewing the social and cultural conditions for an inclusive society are necessary components for taking the European economic and social model successfully into this new century.

Our primary objective: To improve the European economic and social model in a sustainable way

The so-called Lisbon strategy launched in 2000, and since then completed by an environmental policy dimension at the Göteborg summit in 2001, should be understood as a strategy for the improvement of the European economic and social model. This requires effective European economic, social and environmental governance, committed to shared values of solidarity and sustainable development. This implies that active environmental policy, the preservation of social security and a permanent investment strategy for education, as complementary factors to economic and social governance, are not in contradiction with ensuring that the European Union should "*become the most competitive and dynamic knowledge-based economy in the world*", but that they constitute pre-conditions for the achievement of this strategic objective.

The Lisbon strategy brings together a large number of policy fields: information technology, research and innovation, enterprise, single market, environment, education and training, employment, social protection, social inclusion and economic policies. In all of these areas, it brings with it significant reforms aiming to deliver stronger sustainable growth, full employment, greater social solidarity and, last but not least, a better quality of life for all European citizens. Consequently, the cornerstone of the consensus to be maintained within this strategy is the balanced policy-mix between its economic, environmental and social dimensions and their mutually reinforcing reform processes.

In practice, however, the assessment regarding the implementation of the Lisbon strategy over the last two years has highlighted a number of difficulties:

- **The balanced policy-mix of the Lisbon strategy is at risk:** While the Lisbon strategy is based on a strong and equal interaction between economic, environment, employment and social policies and their reform processes, different political understandings and interpretations of the Lisbon strategy have led to a predominantly market-oriented implementation, favouring progress in economic reforms and the liberalisation of public services at the expense of the environmental and social dimensions.
- **National budget policies in the framework of the Stability and Growth Pact are under pressure:** Sound public finances are at the heart of a strong European economy. However, the process of budgetary consolidation has come to a halt since 1999 in a number of countries and, in some cases, even has reversed itself. For the euro area as a whole, economic policy has been insufficiently growth and employment-oriented, especially due to continuously low public investment.
- **It has been difficult to foster structural reforms:** A delivery gap has developed on the implementation of planned legislative initiatives in order to improve the European economic and social model which undermines

the credibility of reforms and raises doubts over the likelihood to meet the targets set out for 2005 and 2010.

- **The Lisbon strategy finds it hard to develop into an effective policy co-ordination mechanism of multi-level governance:** Considerable scope exists within the framework of the Lisbon strategy to take account of differences in all policy areas and policy-making levels concerned. But the challenge to move from a single policy approach towards a policy-mix strategy and to involve the European, national, regional and local levels at the same time remains a central challenge to be considered by the Convention in the on-going institutional Treaty reform.
- **It has been difficult to communicate effectively the primary objectives and expected benefits of the strategy to the media, national and local authorities, businesses and citizens at large:** This is partly due to the fact that it takes time for the wide range of public and private actors concerned to adjust to the new policy-mix approach inherent to the whole Lisbon strategy. It is also to be explained by insufficient concrete and tangible results achieved so far, not least due to the medium to longer term nature of many policies and reforms involved. In addition, an effective communication strategy has been lacking so far.

Against this background, we should pursue the following priorities with a view to the next Spring summit in 2003:

- A. Focus on a "working rich strategy",** re-directing the Lisbon strategy towards greater social cohesion and more investment in human resources, as well as more research and environmentally friendly production
- B. Focus on public finances conducive to sustainable growth and employment** through the re-focusing of public expenditure and tax policies, notably the shift of the tax burden from labour to capital, and the introduction of a European-wide withholding tax on capital income
- C. Focus on implementation and policy co-ordination** at all levels to achieve an efficient European economic, social and environmental governance for the greater benefit of our citizens.

Overall, the primary objectives of increasing Europe's growth potential and its employment rate (the share of people at work within the working age population), as well as the development of effective economic, social and environmental governance to reach these objectives, are the main challenges. The overriding need to continue our fight against unemployment, against insufficient levels of investment and in favour of greater social inclusion must henceforth be maintained at the heart of all discussions on the future of our European economic and social model in an enlarged European Union. This implies that the Lisbon strategy must not be turned into a pure "business" or "market strategy". To achieve this, we have to re-define economic growth within a more environment-friendly model of sustainable development conducive to the improvement of working and living conditions through high levels of individual education and training in a dynamic knowledge-based European economy. We must ensure that the policies and reforms the Lisbon strategy generates provide tangible answers and results to ordinary peoples' concerns in their daily lives.

At this stage, we do not see the need for new targets or new procedures. Rather, those agreed at the successive summits since 2000 need to be implemented in a more efficient way and with equal determination by our national governments as

well as EU institutions. From now on, this must also integrate the enlargement implications for the Union, with a particular focus on new job creation and skills.

A: Focus on a "working rich strategy"

- **Develop a working rich strategy as a clear alternative to a combination of low wages, insecure jobs and low levels of education and training, especially by increasing the education and skills levels of our citizens**
- **Develop a European investment strategy for infrastructure, research and education conducive to higher sustainable growth and full employment**
- **Move towards a sustainable development model, including a sustainable working life**
- **Stimulate high-productivity employment**
- **Meet demographic challenges, reinforce social security and stimulate equal opportunities**
- **Guarantee a high level of social cohesion in our societies, including the gradual elimination of the kind of extreme forms of poverty which exists in some of our member states**

We believe that Europe must direct its policies towards a "working rich strategy", whereby education and an upgrading of qualifications ensures the maintenance and the creation of high-productivity jobs, capable to guarantee decent wages, good working conditions and strong social rights. We want to create **more favourable conditions for public and private investment**, in infrastructures, new technologies, the environment, research, education, human resources and social services. We want to create **more favourable conditions for businesses to provide growth potential and high quality jobs**, which focus on innovation, quality at work and modern social security. Higher investment will lead to the introduction of new and cleaner technology and thereby will promote higher productivity as well as corporate responsibility in the environmental field. The private corporate sector has to play an active role in this context.

In addition, in the framework of a European corporate social responsibility strategy, closer co-operation between the private corporate and public sectors is of high importance to stimulate social cohesion. Public authorities, the business community and the trade unions can provide and support opportunities for the less privileged to retain their jobs or to re-integrate the workforce, such as in providing joint public/private supplementary training/in-service training.

Moreover, synergies have to be developed between structural reforms for business, competition, research, education and social policies in order to answer new needs relating to health, the environment, social inclusion and care.

However, necessary structural reforms are only politically and socially acceptable if they are embedded in a system, which ensures rights and duties, with opportunities not only for the well educated but for all wage earners and citizens which may be affected by structural reforms. This implies that for those who are affected in the shorter run, the reform process must from the start include an economic and social perspective and concrete sets of actions which should lead to new job opportunities.

Furthermore a form of economic growth is needed which is based on a responsible and efficient use of natural resources, on the respect for the environment, on modes of production that comply with the imperative requirements of public health and consumer safety and protection, and of the preservation of biodiversity, fauna and flora. It should be recognised that pursuing **environmentally friendly policies and investments are not a burden on economic development**, rather they can have a positive and dynamic impact on growth, employment and social well being. Frontier technologies such as IT and biotechnology lay the foundation for new business, jobs and growth. However, to a large extent the technologies and systems of the past still dominate in areas such as transport, energy, parts of manufacturing industry and agriculture. To speed up the replacement of old technologies there is a need for investment through new market-based incentives and through public procurement. It is therefore necessary that the European labour, product and service markets must function better together and all must respect sustainable development as a matter of solidarity between generations and toward the poorest populations of our planet.

Our aim is to oppose a purely economic strategy of "working poor" through which European competitive capacity would rest upon downward pressure on wages and social standards, bad working conditions and unequal access to education and training. This should also include the necessity to combat more effectively undeclared work. Full employment is the overriding Lisbon objective for the improvement of the European economic and social model. We therefore need to stimulate **high-productivity employment** through investment in education, skills and e-learning. This, in turn, should enhance broader access to a high quality learning content as well as to higher occupational and geographical mobility and a higher rate of participation in the labour force for women and older people. More generally, such a reinforced active labour market policy should make tax and benefits systems more conducive to a high level of labour market participation. Gender equality must be more widely promoted and other forms of discrimination at work and for the access to work must be actively avoided. Promoting all aspects of the quality of work, including health and safety at work is crucial in this context. Good working conditions enhance the well-being of workers and promote higher productivity and a sustainable working life.

Low employment rates amongst immigrant populations within the EU is a waste of human resources. It also generates social exclusion and instability. We, therefore, need a stronger interaction between immigration policy, active labour market policy and policies against social exclusion. This policy agenda should become part of the Lisbon strategy.

Modernised welfare systems, by increasing labour force participation, quality at work and social inclusion while safeguarding the concept of solidarity and social rights and promoting a balanced combination of work and family life are a yardstick against which progress in the Lisbon strategy and the improvement of the European economic and employment model can be measured.

In order to implement the enlarged Lisbon strategy along these lines, our main proposals are:

- to **upgrade working qualifications, skills and mobility** as well as life-long learning by developing common European quality standards for education and recognition of professional qualifications
- to develop and identify **best practice in sharing costs** and in implementing **life-long learning activities**

- to identify, in this context, adequate sources of financing such policies in the educational and training fields such as a **new mobilisation of the European Structural Funds** with a direct focus on education and training
- to increase the quality at work by urgently **reviewing the framework directive on health and safety at work and the machinery directive** and by developing a **directive on harmonisation of safe equipment**
- to **identify structural barriers** to full employment and to promote the integration of EU immigrant populations into our labour markets
- to bring the **European Guidelines package on economic and employment policy** more into line with the general framework of the Lisbon strategy
- to implement guidelines and national action plans for the **mainstreaming of environment policies**
- to **foster public and private investments** in the field of environmental policy and network industries by speeding up the replacement of old technologies through market-based incentives and public procurement as well as by developing more Trans-European energy and transport networks
- to enhance the **European knowledge area** by opening national systems of research and by promoting co-operation in education
- to improve the European and national policies for innovation and to foster **networking and partnerships** between enterprises, public and private research and education activities by financing co-operation and best practices, including the support of the European Investment Bank
- to set up an **independent European Research Council**, responsible for developing the European Research Area and for monitoring public/private partnerships
- to set up an **action plan for the introduction of new and clean environmental technologies**, including the promotion of marketing and exporting of clean technologies
- to put **into practice the outcome of the UN World Summit on Sustainable Development** at national and regional level by setting up timetables and review procedures
- to support the **modernisation of small- and medium-sized enterprises** and to promote their access to capital and simplified regulation by setting up databases of best practice
- to **use constructively restructurings/mergers for employment** and innovation by assessing the contribution to sustainable growth and employment of specific merger cases
- to increase **EU-wide transferability of social security rights** by pursuing work on the reform of the 1408/71 regulation on the co-ordination of social security systems, including pension portability
- to identify **best practice in matching pension and health systems** with population ageing and to **assess the role of private pension funds and their contributions to sustainability** of economic and social protection systems
- to make **real progress in developing the service society** for a society of solidarity by promoting social services within the framework of all European Structural Funds.

B. Focus on public finances conducive to sustainable growth and employment

- **Re-focus the Stability and Growth Pact in line with the Lisbon strategy by enhancing the quality of public finances towards higher levels of investment**
- **Develop national "Growth programmes" for more investment**
- **Reduce the fiscal burden on labour**
- **Strengthen the EU Budget**
- **Make tax revenue on capital contribute more adequately to public policy financing and investment**

We regard sound public finances and controlled levels of public debt as providing a platform of fiscal stability. However, stability is not an end in itself. On the contrary, stability should be seen as providing new opportunities to public policy-makers in contributing most effectively to the ultimate objectives of strong and sustained growth, social justice and full employment. We, therefore, support the necessary adjustments for a revised and more flexible application of the "Stability and Growth Pact" and the introduction of more sophisticated criteria taking into account investment, structural deficits, active labour market policies, and financial burdens arising from the ageing of the population. A more adequate policy-mix must be defined within this Pact, where macroeconomic policies, structural policies, wage policies, investment in human resources and offensive educational policies reinforce each other, mobilising investment, innovation, sustainability, solidarity and responsibility. **Restructuring public finances towards investment** is important in this context. European and national fiscal policies can and should therefore be increasingly oriented towards public investment and towards **stronger budgetary co-ordination**.

Moreover, national convergence programmes should provide detailed information on the **use of national public spending as a contributor to sustainable economic growth and competitiveness in line with the commitments deriving from the Lisbon strategy**. Special emphasis should be put on government investment expenditure (e.g. infrastructures, research, education and training), with particular attention to be paid to possible synergies among national and Community-wide public and private investment efforts, as well as on ways and means of stimulating a common investment policy. To make such an exercise most effective, national convergence programmes need to be issued at a common time during each year and contain comparable information between Member States. Equally, those programmes should mirror political commitments made within the broad economic and employment guidelines, as well as policy objectives in the field of economic reforms and social cohesion.

To this end, a reformed "**Growth Pact**" is needed in order to produce public budgets for growth, investments and social cohesion by enhancing the quality of public finances and their contribution to the commitments of the Lisbon strategy as well as by improving monetary, economic, fiscal, wage and tax co-ordination in the Euro-zone. Consequently, the Stability and Growth Pact should strengthen its growth pillar and should imply further macro-economic policy mix co-ordination.

This also entails improved co-ordination of Member States' tax policies with a view to avoiding harmful tax competition and to making tax policy more employment-friendly. Enhanced **tax policy co-ordination** is needed which should be

employment-friendly, pursue further tax reforms to reduce the fiscal burden on labour, create a more SME-friendly tax system and use tax incentives to stimulate private investment while at the same time ensuring sustainable financing for social protection.

Ultimately, true political determination to develop high-quality public spending and stronger budgetary co-ordination will be necessary to strengthen investments in Europe. An increased EU budget in this context is desirable. It is indispensable that we activate private saving surpluses and stimulate their transfer towards investment for common European public goods. **A European-wide tax on capital income would be a first step in this direction which could be used in particular for public-private partnerships in Trans-European infrastructure projects, such as in communications and knowledge-infrastructures.**

In order to implement the enlarged Lisbon strategy, our main proposals are:

- to set **budget allocation rules for times of high economic growth**
- to re-define public deficit targets by **taking account of non-cyclical expenditure paths** and **to define improved public spending**, namely by making a distinction between investment expenditure, current expenditure and revenues
- to **redirect public expenditure and tax policy** towards physical and human capital accumulation in such areas as education and training, life-long learning, research, information and frontier technologies, telecommunication and transportation networks
- to develop procedures to evaluate the **quality of public finances** in their contribution to common European public goods (i.e. infrastructure, research, education and training) and to the reduction of structural unemployment, to be based on a common definition of "high quality public expenditure"
- to apply the **"golden rule" in the Community budgetary surveillance mechanisms**, i.e. the distinction between current and capital spending when assessing the budgetary situation in the Member States
- to set up **public spending targets** within the Stability and Growth Pact to support the Lisbon objectives and common European public goods which should be exempted from public deficit calculation
- to develop a **European Investment Strategy** in particular for public-private partnerships in Trans-European infrastructures through a strengthened EU budget
- to establish a **European-wide withholding tax** in order to increase the financing sources of the EU budget and to contribute to European-wide public investment projects

C: Focus on implementation and policy co-ordination at all levels

- **Improve policy co-ordination**
- **Develop efficient economic, social and environmental governance**
- **Manage the enlargement implications**
- **Focus on implementation and public information**

The actual implementation of the enlarged Lisbon strategy will require a **political engine, i.e. economic, social and environmental governance at European level** with the necessary mandate and means to co-ordinate policies and to adapt them to each national context. The Lisbon decisions have already provided mechanisms in order to make this governance work:

- the European Council plays a stronger role as co-ordinator of the different specialised Councils,
- the European guidelines on economic and employment policies have to ensure the synergy between macroeconomic policies, structural policies, education policy, environment, employment and social policy;
- the open method of co-ordination translates European priorities into national policies
- a decisive shift to a more strategic and medium-term approach to policy making has been achieved.

However, in each of our Member States, institutional innovation has still to internalise the level of integration accomplished through economic and social reforms. In addition the present implementation of the Lisbon strategy is accompanied every year by conflicts of competence in and between the various institutions at all levels. Too often, joint decisions which have been reached among the Member States are forgotten when it comes to national policy making. This means that a **multilevel governance system** is needed that enables its various levels (*i.e.* European, national and local) to interact and to properly implement the Lisbon strategy. It is of high importance to create a culture of dialogue among the different levels and policy fields concerned. The Social partners are expected to contribute with a policy framework agreement on the pending Lisbon agenda.

There is an urgent need **to increase the transparency, participation and democratic legitimacy of the Lisbon strategy**. Moreover, from 2003 onwards, the accession countries will be called upon to share the goals set in the Lisbon strategy. This includes extending the European economic and social model to the new EU countries, and integrating them in the modernisation and reform of the European economic and social model. It is of great importance **to engage the accession countries in implementing the objectives and mechanisms of the Lisbon strategy**.

A decisive test of the success and effectiveness of the Lisbon strategy will now be the ability of the Member States and European citizens to implement it at national level. The main concern regarding the Lisbon strategy should now be meeting the targets already defined, continuing to translate it at national and regional level, and converting it into an **agenda for European citizens and civil society**.

In order to implement the enlarged Lisbon strategy, our main proposals are:

- to develop an **inter-institutional agreement** on future streamlined working methods in order to ensure the participation of the European Parliament and better co-ordination between all institutions concerned
- to implement **Common European guidelines on economic and social policies** to ensure the synergy between macroeconomic policies, structural policies, education policy, environment, employment and social protection policies;

- to **include the environmental dimension in the streamlined policy co-ordination cycle on economic and social policy** by introducing guidelines in this field too;
- to charge the **General Affairs Council with co-ordinating the implementation of the Lisbon strategy** by pooling the input from all the Councils concerned which will be equally involved in this process;
- to improve the use of the **open method of co-ordination towards a Community instrument** for real convergence and for reconsidering economic and social cohesion policies
- to ask for a concrete **implementation review, including a scoreboard** indicating Member States' and accession countries' progress towards the implementation of the Lisbon objectives at European, national and local level
- to **define the conditions for accession countries** to successfully catch up with the modernisation of economic, environment and social policies
- to provide **support for training accession countries' administrations** in order to assist them with the implementation of the European Economic and Employment Guidelines priorities.
- to **involve the parliaments in the Member States, the social partners and civil society** at all levels by participating in the ex-post assessment of the results obtained
- to develop **national and regional "Social Pacts"** between the Social Partners towards a more efficient implementation of the Lisbon strategy
- to launch an **initiative for better information and public participation** in the implementation of the Lisbon strategy by establishing a web-site on the Lisbon strategy as an information tool for the wider public.

The Party of European Socialists