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PART V

**COMMUNICATION FROM THE COMMISSION TO
THE SPRING EUROPEAN COUNCIL**

**INTEGRATED GUIDELINES FOR GROWTH AND JOBS
(2008-2010)**

including a

COMMISSION RECOMMENDATION

**on the broad guidelines for the economic policies of
the Member States and the Community
(under Article 99 of the EC Treaty)**

and a

Proposal for a

COUNCIL DECISION

**on guidelines for the employment policies of the Member States (under Article 128 of the
EC Treaty)**

(presented by the Commission)

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EXPLANATORY MEMORANDUM

In the Spring Council in 2005, Heads of State and Government renewed the Lisbon Strategy and placed its focus on growth and jobs. They organised the Lisbon Strategy around three-year cycles, whilst strengthening ownership and accountability by clearly distinguishing between reforms which should be undertaken by Member States and those for which the Community should take the lead. As one of the instruments to implement the Strategy, the Council approved a set of integrated guidelines and adopted the necessary legal instruments based on Articles 99 and 128 of the Treaty. These guidelines are meant to guide Member States, as they implement national reforms, through their National Reform Programmes (NRP). The integrated guidelines will expire at the end of the first three-year cycle, and will therefore need to be renewed for the next cycle. The re-launch of the Lisbon Strategy in Spring 2005 put Europe back on track to create sustainable growth and jobs.

During the first cycle of the renewed Lisbon Strategy (2005-2008) Member States have stepped up the implementation of structural reforms, although the pace and intensity differs between them. Whilst most of the upturn of the EU economy is due to cyclical factors, Lisbon-type reforms have helped increase the growth potential of Member States' economies. They have also helped to make the European economy more resilient in dealing with external shocks, such as higher energy and commodity prices and currency fluctuations. Further integration of Member States economies and alignment of business cycles, especially in the euro area, will allow for a monetary policy geared better to Member States needs.

Viewed as a whole, therefore, the strategy has helped to speed up the pace of reform, helping Member States to implement sometimes difficult but necessary change to address the challenges of globalisation. The new governance of the Lisbon Strategy, with its emphasis on partnership between the European and the Member States level, has proved its worth. An independent evaluation of the Integrated Guidelines concluded that they constitute a comprehensive and open framework which accommodates the essential policy developments related to growth and employment in Europe. The evaluation also concluded that stakeholders wish to focus on implementation, as the guidelines remain relevant. The integrated guidelines, hence, are fulfilling their role and thus do not require revision.

However, more remains to be done to prepare the EU and its Member States for globalisation and to strengthen the foundations for economic success in the medium- to longer term. At the same time they need to keep pace with fast changing social realities (longer working lives, increasingly diverse family structures, new patterns of mobility and diversity) The EU must better adapt its existing policies and instruments, but also build upon new policies such as the Globalisation Adjustment Fund, in order to better respond to the legitimate concerns of people adversely affected by changes in trade patterns and by economic and social change. The goal of making the EU a dynamic, competitive, knowledge based society remains essential. Within this framework, an even higher priority needs to be given to the social dimension, flexicurity policies, energy and climate change and to education and skills as elements to modernise European markets, promote innovation and ensure new opportunities for citizens in a knowledge society. The Lisbon toolbox is already bringing the different strands of policy together to offer a more comprehensive vision of how the EU and Member States can work in harness to tackle the complex issues facing Europe today. The common objective during the next cycle should be to use the Lisbon instruments, including the country-specific recommendations as adopted by Council in 2007 linked to the integrated guidelines, to full effect in order to speed up the effective delivery of outstanding reforms.

The integrated guidelines for the period 2008-2010 are presented in one comprehensive document with two parts:

Part 1 – The Broad Economic Policy Guidelines

Section A deals with the contribution that macroeconomic policies can make in this respect. Section B focuses on the measures and policies that the Union and the Member States must carry out in order to make Europe a more attractive place to invest and work and to boost knowledge and innovation for growth.

Part 2 – The Employment Guidelines

This part of the integrated guidelines includes the proposal for a Council decision on the Employment Guidelines, on which the European Parliament, the European Social and Economic Committee and the Committee of the Regions will be consulted, in accordance with Article 128 of the Treaty.

For Member States both economic, and employment policy, are a matter of common concern (Articles 99 and 126). For the purpose of multilateral surveillance and to ensure closer cooperation of economic and employment policies, Member States report on measures taken under these guidelines through National Reform Programmes (and Annual Implementation Reports). Based on these reports, where it is established that the economic or employment policies of a Member State are not consistent with the Integrated Guidelines, the Council may, using the possibilities under Articles 99 and 128, make recommendations to the Member State concerned.

THE STATE OF THE EU ECONOMY

Economic conditions have been favourable since 2005 when the Lisbon Growth and Jobs Strategy was re-launched, although recent months have witnessed growing downside risks. Growth picked up to almost 3 % in 2007, increasingly driven by domestic demand and leaving Europe better placed to cope with adverse external shocks. However, recent financial turmoil and the slowdown of the US economy have substantially increased the risks to the downside, and the outlook for 2008-2009 indicates a deceleration in growth. Tighter financial conditions will take their toll on investment growth, in particular of construction investment, while the good performance of the labour market will support private consumption growth. While most of the recent upturn is cyclical in nature, there is some evidence of a structural component linked to past reforms enacted by EU Member States. Structural improvements have been most evident in labour markets, with the unemployment rate declining to below 7% and the employment rate approaching 65%, with particular strong increases recorded amongst women and older workers. Since mid-2005, productivity growth in the EU has picked up and while most of the acceleration in productivity growth can be attributed to cyclical factors, it does seem that the decade long decline in trend productivity growth has been interrupted. It is encouraging that job creation and productivity improvements have occurred simultaneously for the first time in a decade.

Notwithstanding the favourable developments over recent years, the recent international turbulences call for action to increase the resilience of the economy and to use the existing scope to improve both labour utilisation and labour productivity. In some countries, unfortunately, reform seems to be slowing down. The EU's employment rate has remained low relative to our competitors. Moreover, the rate of unemployment, especially of long-term

nature and amongst young people, remains far too high. While many manufacturing enterprises have been sufficiently productive to withstand international competition, productivity growth in several service sectors has stalled. Looking forward the economic and budgetary impact of ageing populations is fast approaching, with the large baby boom cohorts coming towards retirement in many countries. This makes it imperative to reduce public debt at an accelerated pace and to modernise pension and health care systems. An emerging challenge is also to improve capacity of the financial system to respond to shocks in 2007. Financial market transparency, effective competition rules and appropriate regulation and supervision will continue to be crucial for both confidence and performance. As will be social partner enabled wage developments compatible with employment growth and macroeconomic stability.

The EU now has an opportunity to pursue, even accelerate, structural reform efforts. The policy challenge is to avoid complacency and to continue addressing the structural weaknesses that are still holding back job creation, innovative activity, the adoption of technological progress, and limit the EU capacity to respond to international shocks. At the same time, there is a need to pursue macroeconomic policies that succeed in ensuring stability, containing inflationary pressures and reducing public budget deficits.

INTEGRATED GUIDELINES FOR GROWTH AND JOBS (2008-2010)

Macroeconomic guidelines

- (1) To secure economic stability for sustainable growth.
- (2) To safeguard economic and financial sustainability as a basis for increased employment.
- (3) To promote a growth and employment orientated efficient allocation of resources.
- (4) To ensure that wage developments contribute to macroeconomic stability and growth.
- (5) To promote greater coherence between macroeconomic, structural and employment policies.
- (6) To contribute to a dynamic and well-functioning EMU.

Microeconomic guidelines

- (7) To increase and improve investment in R&D, in particular by private business.
- (8) To facilitate all forms of innovation.
- (9) To facilitate the spread and effective use of ICT and build a fully inclusive information society.
- (10) To strengthen the competitive advantages of its industrial base.
- (11) To encourage the sustainable use of resources and strengthen the synergies between environmental protection and growth.
- (12) To extend and deepen the internal market.
- (13) To ensure open and competitive markets inside and outside Europe and to reap the benefits of globalisation.
- (14) To create a more competitive business environment and encourage private initiative through better regulation.
- (15) To promote a more entrepreneurial culture and create a supportive environment for SMEs.

- (16) To expand, improve and link up European infrastructure and complete priority cross-border projects.

Employment guidelines

- (17) Implement employment policies aimed at achieving full employment, improving quality and productivity at work, and strengthening social and territorial cohesion.
- (18) Promote a lifecycle approach to work.
- (19) Ensure inclusive labour markets, enhance work attractiveness, and make work pay for job seekers, including disadvantaged people and the inactive.
- (20) Improve matching of labour market needs.
- (21) Promote flexibility combined with employment security and reduce labour market segmentation, having due regard to the role of the social partners.
- (22) Ensure employment-friendly labour cost developments and wage setting mechanisms.
- (23) Expand and improve investment in human capital.
- (24) Adapt education and training systems in response to new competence requirements.

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Consequently, the Commission:

- recommends the following broad guidelines for the economic policies of the Member States and the Community, in accordance with Article 99(2) of the EC Treaty, and
- proposes the following Council Decision on guidelines for the employment policies of the Member States, in accordance with Article 128(2) of the EC Treaty.

Part 1

Commission Recommendation on the Broad Economic Policy Guidelines (2005-2008)

COMMISSION RECOMMENDATION

**on the broad guidelines for the economic policies of the Member States and the
Community**

Section A – Macroeconomic Policies for Growth and Jobs

A.1 Macroeconomic policies creating the conditions for more growth and jobs

Securing economic stability to raise employment and growth potential

As macroeconomic stability is secured by a sound mix of many economic policies, challenges to stabilisation should be addressed by macroeconomic measures as well as by implementing structural reforms in product, labour and capital markets. Monetary policies can contribute by pursuing price stability and, without prejudice to this objective, by supporting other general economic policies with regard to growth and employment. For new Member States, it will be important that monetary and exchange rate policies contribute towards achieving convergence. Exchange rate regimes constitute an important part of the overall economic and monetary policy framework and should be orientated towards achieving real and sustainable nominal convergence. Participation in ERM II, at an appropriate stage after accession, should help those endeavours.

Securing a sound budgetary position will allow the full and symmetric play of the automatic budgetary stabilisers over the cycle with a view to stabilising output around potential. For those Member States that have already achieved sound budgetary positions, the challenge is to retain that position. For the remaining Member States, it is vital to take all the necessary corrective measures to achieve their medium term budgetary objectives in particular if economic conditions improve, thus avoiding pro-cyclical policies and putting themselves in a position in which sufficient room for the full play of automatic stabilisers over the cycle is ensured prior to the next economic downturn. In particular, an annual fiscal adjustment of 0.5% of GDP as a benchmark (more under cyclically favourable conditions) should be achieved in euro area and ERM II Member States. In line with the 2005 reform of the Stability and Growth Pact, for individual Member States the medium-term budgetary objectives (MTO's) are differentiated according to the diversity of economic and budgetary positions and developments as well as of fiscal risk to the sustainability of public finances, also in the face of prospective demographic changes. Moreover, in accordance with the report on the SGP reform endorsed by the European Council on 22 March 2005, introducing or strengthening national fiscal rules and institutions, including monitoring mechanisms can usefully complement the Pact and support its objectives.

An additional macroeconomic policy challenge for some Member States is to operate in an environment of robust catching up, which is to varying degrees accompanied by external deficits, rapid credit expansion and financial deepening. Fiscal restraint, effective financial supervision and promoting competitiveness are essential in order to contain external and internal imbalances. A cautious fiscal stance is one important way to keep external deficits within the range where sound external financing can be secured. Fiscal restraint can also limit the risk of surging domestic demand causing persistently higher inflation and the occurrence of macro-financial risks which could cause swings in real exchange rates and a protracted loss of competitiveness.

Guideline 1. To secure economic stability for sustainable growth

1. In line with the Stability and Growth Pact, Member States should respect their medium-term budgetary objectives. As long as this objective has not yet been achieved, they should take all the necessary corrective measures to achieve it. Member States should avoid pro-

cyclical fiscal policies. Furthermore, it is necessary that those Member States having an excessive deficit take effective action in order to ensure a prompt correction of excessive deficits.

2. Member States posting current account deficits that risk being unsustainable should work towards correcting them by implementing structural reforms, boosting external competitiveness and, where appropriate, contributing to their correction via fiscal policies. See also integrated guideline ‘To contribute to a dynamic and well-functioning EMU’ (No 6).

To safeguard economic and fiscal sustainability as a basis for increased employment

Europe’s ageing population poses serious risks to the long-term sustainability of the European Union economy in the form of an increased debt burden, lower potential output per capita, due to the reduction in the working age population, and difficulties in financing the pension, social insurance and health care systems. As documented in the Commission's Sustainability Report, a substantial sustainability gap for the EU in aggregate is likely to emerge. Several Member States are exposed to high sustainability risk, and a number of others to medium risk.

Member States should address the economic implications of ageing by, as part of the well established three pronged strategy for tackling the budgetary implications of ageing, pursuing a satisfactory pace of debt reduction and providing incentives to raise employment rates and increase labour supply so as to offset the impact of future declines in the number of persons of working age. In order to accomplish this further budgetary consolidation is necessary, going beyond recent progress, and resulting in the attainment of the MTO's by all Member States. It is also essential to modernise social protection systems so as to ensure that they are financially viable, providing incentives to the working age population to actively participate in the labour market, while at the same time ensuring that they fulfil their goals in terms of access and adequacy. Action on health prevention and promotion would help to increase healthy life years and ensure the sustainability of health care systems. In particular, improved interaction between social protection systems and labour markets can remove distortions and encourage the extension of working lives against a background of increased life expectancy.

Guideline 2. To safeguard economic and fiscal sustainability as a basis for increased employment

Member States should, in view of the projected costs of ageing populations,

1. undertake a satisfactory pace of government debt reduction to strengthen public finances;
2. reform and re-enforce pension, social insurance and health care systems to ensure that they are financially viable, socially adequate and accessible;
3. take measures to increase labour market participation and labour supply especially amongst women, young and older workers, and promote a lifecycle approach to work in order to increase hours worked in the economy.

See also integrated guideline ‘Promote a lifecycle approach to work’ (Nos 18, and 4, 19, 21).

Promote a growth, employment orientated and efficient allocation of resources

Well-designed tax and expenditure systems that promote an efficient allocation of resources are a necessity for the public sector to make a full contribution towards growth and

employment, without jeopardising the goals of economic stability and sustainability. This can be achieved by redirecting expenditure towards growth-enhancing categories such as Research and Development (R&D), physical infrastructure, environmentally friendly technologies, human capital and knowledge. Member States can also help to control other expenditure categories through the use of expenditure rules and performance budgeting and by putting assessment mechanisms in place to ensure that individual reform measures and overall reform packages are well-designed. A key priority for the EU economy is to ensure that tax structures and their interaction with benefit systems promote higher growth through more employment and investment.

Guideline 3. To promote a growth- and employment-orientated and efficient allocation of resources

Member States should, without prejudice to guidelines on economic stability and sustainability, re-direct the composition of public expenditure towards growth-enhancing categories in line with the Lisbon strategy, adapt tax structures to strengthen growth potential, ensure that mechanisms are in place to assess the relationship between public spending and the achievement of policy objectives, and ensure the overall coherence of reform packages.

See also integrated guideline ‘To encourage the sustainable use of resources and strengthen the synergies between environmental protection and growth’ (No 11).

Ensure that wage developments contribute to growth and stability and complement structural reforms

Wage developments can contribute to stable macroeconomic conditions and an employment friendly policy mix. This requires that real wage increases are in line with the underlying rate of productivity growth over the medium term and are consistent with a rate of profitability that allows for productivity, capacity and employment-enhancing investment. This requires that temporary factors such as variation in productivity caused by cyclical factors or one off rises in the headline rate of inflation do not cause an unsustainable trend in wage growth and that wage developments reflect local labour market conditions. In countries with declining market shares, real wages would need to grow below productivity in order to restore competitiveness. These issues need to be taken into account in the continued dialogue and information exchange between monetary and fiscal authorities and the social partners via the Macroeconomic Dialogue.

Guideline 4. To ensure that wage developments contribute to macroeconomic stability and growth

And to increase adaptability, Member States should encourage the right framework conditions for wage-bargaining systems, while fully respecting the role of the social partners, with a view to promote nominal wage and labour cost developments consistent with price stability and the trend in productivity over the medium term, taking into account differences across skills and local labour market conditions.

See also integrated guideline ‘Ensure employment-friendly labour cost developments and wage-setting mechanisms’ (No 22).

Promote coherent macroeconomic, structural and employment policies

The role of sound macroeconomic policies is to provide conditions conducive to employment creation and growth. Structural reforms, consistent with sound fiscal positions in the short and medium term, are essential to increase productivity and employment in the medium-term, thus leading to the full realisation and strengthening of growth potential. They also contribute to fiscal sustainability, macroeconomic stability and resilience to shocks. At the same time, appropriate macro-economic policies are key for reaping the full growth and employment benefits of structural reforms. A key feature of Member States' overall economic strategy is to ensure that they have a consistent set of structural policies that support the macroeconomic framework and vice versa. In particular, market reforms need to improve the overall adaptability and adjustment capacity of economies in response to changes in both cyclical economic conditions and longer-term trends such as globalisation and technology. In this regard, reform of tax and benefit systems are important in order to make work pay and avoid any disincentive for labour market participation.

Guideline 5. To promote greater coherence between macroeconomic, structural and employment policies

Member States should pursue labour and product markets reforms that at the same time increases the growth potential and support the macroeconomic framework by increasing flexibility, factor mobility and adjustment capacity in labour and product markets in response to globalisation, technological advances, demand shift, and cyclical changes. In particular, Member States should: renew impetus in tax and benefit reforms to improve incentives and to make work pay; increase adaptability of labour markets combining employment flexibility and security; and improve employability by investing in human capital.

See also integrated guideline 'Promote flexibility combined with employment security and reduce labour market segmentation, having due regard to the role of the social partners' (No 21; No 19).

A.2 Ensuring a dynamic and well-functioning euro area

Since the creation of the euro area almost ten years ago, the euro has embedded economic stability in euro area countries, shielding them from exchange rate turbulence. Subdued growth performance and persistent divergences in growth and inflation raise questions as to whether internal adjustment in the euro area is working smoothly, suggesting that economic policies and governance structures may not yet have fully adjusted to draw the full benefit from the monetary union. Since euro-area countries can no longer make independent use of monetary or exchange rate policies, [further] reforms are key to develop alternative mechanisms to help their economies adjust to economic shocks and competitiveness challenges.

The policy mix in the euro area needs to support economic growth while safeguarding long-term sustainability and stability. At the current juncture, it is important that the policy mix underpins confidence among consumers and investors, which also implies commitment to medium-term stability. Budgetary policy has to ensure a fiscal position which can support price stability, and is consistent with the need to prepare for the impact of ageing populations on the one hand and to accomplish a composition of public expenditure and revenues that fosters economic growth on the other. Euro-area Member States committed accelerate adjustment towards the MTO so that most of them would achieve their MTOs in 2008 or 2009

and all of them should aim for 2010 at the latest. Due to the high share of the public sector in economic activity in the euro area, the quality of public finances has a considerable influence on economic performance. Therefore, it is crucial that resources are spent in a growth-supportive manner and distortions arising from the financing of public activity are minimised. Comprehensive structural reforms will allow the euro area to raise its growth potential over time and ensure that stronger growth does not build up potential for higher inflation. Reforms catering for more adaptable labour markets, more competition on product markets and deeper financial market integration accompanied by growth and stability-oriented macroeconomic policies are particularly salient for euro area Member States as they have an important impact on their capacity to adequately adjust to shocks.

To contribute to international economic stability and better represent its economic interests, it is critical for the euro area to play its full role in international monetary and economic policy cooperation. While the appointment of a Eurogroup President for a two-year term of office as of 2005 has brought greater stability to the external representation of the euro area, further steps are needed to improve the external representation of the euro area, so that the euro area can take a leading strategic role in the development of the global economic system that is commensurate with its economic weight.

Spill-over effects are most powerful and the need for a common agenda is strongest in the euro area. Sharing a common currency and a common monetary policy offers an extra dimension to coordination that could strengthen the role of the euro area in delivering growth and jobs for the whole EU. The Commission will present a comprehensive review of the functioning of EMU to mark its tenth anniversary, with ideas on how policies, coordination and governance can help the euro area to work to best effect.

Guideline 6. To contribute to a dynamic and well-functioning EMU, euro area Member States need to ensure better co-ordination of their economic and budgetary policies, in particular:

1. pay particular attention to fiscal sustainability of their public finances in full compliance with the Stability and Growth Pact;
2. contribute to a policy mix that supports economic recovery and is compatible with price stability, and thereby enhances confidence among business and consumers in the short run, while being compatible with long term sustainable growth;
3. press forward with structural reforms that will increase euro area long-term potential growth and will improve its productivity, competitiveness and economic adjustment to asymmetric shocks, paying particular attention to employment policies; and
4. ensure that the euro area's influence in the global economic system is commensurate with its economic weight.

Section B – Microeconomic reforms to raise Europe's growth potential

Structural reforms are essential to increase the EU's growth potential and support macroeconomic stability, because they increase the efficiency and adaptability of the European economy. Productivity gains are fuelled by competition, investment and innovation. Raising Europe's growth potential requires making progress in both job creation and productivity growth. After lagging US productivity growth for more than a decade, productivity growth in the EU has accelerated since mid-2005. Sustaining this improvement is a major challenge facing the Union, especially in the light of its ageing population. Population ageing alone is estimated to reduce by nearly half the current rate of potential growth. A continuation of the productivity upswing, and increasing the hours worked are thus indispensable to maintain and increase future living standards, and to ensure a high level of social protection.

B.1 Knowledge and innovation — engines of sustainable growth

Knowledge accumulated through investment in R & D, innovation, education and life long learning, is a key driver of long-run growth. Policies aimed at increasing investment in knowledge and strengthening the innovation capacity of the EU economy are at the heart of the Lisbon strategy for growth and employment. This is why national and regional programmes for the period 2007-2013 have been increasingly targeted on investments in these fields in accordance with the Lisbon objectives.

Increase and improve investment in R & D, with a view to establishing the European Knowledge Area

A high level of R&D is crucial for our future competitiveness. R&D affects economic growth through various channels: first, it can contribute to the creation of new markets or production processes; second, it can lead to incremental improvements in already existing products and production processes; and third, it increases the capacity of a country to absorb new technologies.

The EU is currently spending about 1.85% of GDP on R&D (although ranging from below 0.5 % to nearly 4 % of GDP across Member States). The level of R&D spending has remained slightly decreased since 2000. Moreover, only around 55 % of research spending in the EU is financed by the business sector. Low levels of private R&D investments are identified as one of the main explanations for the EU/US innovation gap. More rapid progress towards establishing the European Research Area, including meeting the collective EU target of raising research investment to 3 % of GDP is needed. Member States are invited to report on their R&D expenditure targets for 2010 and the measures to achieve these in their National Reform programmes and the annual Progress Reports paying attention in particular to integrating the European dimension within their national R&D policies. The main challenge is to put in place framework conditions, instruments and incentives for companies to invest more in research.

Public research expenditure must be made more effective and the links between public research and the private sector have to be improved. Poles and networks of excellence should be strengthened, better overall use should be made of public support mechanisms to boost private sector innovation, and a better leverage effect of public investments and a modernised management of research institutions and universities should be ensured. It is also essential to

ensure that companies operate in a competitive environment since competition provides an important incentive to private spending on innovation. In addition, a determined effort must be made to increase the number and quality of researchers active in Europe, in particular by attracting more students into scientific, technical and engineering disciplines, and enhancing the career development and the transnational and intersectoral mobility of researchers, and reducing barriers to mobility of researchers and students. The international dimension of R & D should be strengthened in terms of joint financing, development of a more critical mass at the EU level in critical areas requiring large funds and through reducing barriers to mobility of researchers and students.

Guideline 7. To increase and improve investment in R & D, in particular by private business, the overall objective for 2010 of 3 % of GDP is confirmed with an adequate split between private and public investment, Member States will define specific intermediate levels. Member States should further develop a mix of measures appropriate to foster R & D, in particular business R & D, through:

1. improved framework conditions and ensuring that companies operate in a sufficiently competitive and attractive environment;
2. more effective and efficient public expenditure on R & D and developing PPPs;
3. developing and strengthening centres of excellence of educational and research institutions in Member States, as well as creating new ones where appropriate, and improving the cooperation and transfer of technologies between public research institute and private enterprises;
4. developing and making better use of incentives to leverage private R & D;
5. modernising the management of research institutions and universities;
6. ensuring a sufficient supply of qualified researchers by attracting more students into scientific, technical and engineering disciplines and enhancing the career development and the European, international as well as inter-sectoral mobility of researchers and development personnel.

Facilitate innovation

The dynamism of the European economy is dependent on its innovative capacity. The economic framework conditions for innovation need to be in place. This implies well-functioning financial and product markets as well as efficient and affordable means to enforce intellectual property rights. Innovations are often introduced to the market by new enterprises, which may meet particular difficulties in obtaining finance. Measures to encourage the creation and growth of innovative enterprises, including improving access to finance, should therefore enhance innovative activity¹. Technology diffusion, and policies to better integrate national innovation and education systems, can be fostered by the development of innovation

¹ The EU's broad based innovation strategy therefore addresses intellectual property rights, standardisation, the use of public procurement to stimulate innovation, joint technology initiatives, boosting innovation in lead markets, such as cooperation between higher education, research and business, encouraging innovation in regions, innovation in services and non-technological innovation, and improving businesses' access to risk capital.

poles and networks as well as by innovation support services targeted at SMEs. Knowledge transfer via researcher mobility, foreign direct investment (FDI) or imported technology is particularly beneficial for lagging countries and regions. It is also crucial to strengthen further the integration of the knowledge triangle of R&D, education and innovation.

The EU's broad based innovation strategy therefore addresses intellectual property rights, standardisation, the use of public procurement to stimulate innovation, joint technology initiatives, boosting innovation in lead markets, cooperation between higher education, research and business, encouraging innovation in regions, innovation in services and non-technological innovation, and improving businesses' access to risk capital.

It is now imperative to deliver a unitary, affordable Community patent, set up an EU-wide jurisdictional system for patent litigation and facilitate the enforcement of intellectual property rights in the Internal Market.

Guideline 8. To facilitate all forms of innovation, Member States should focus on:

1. improvements in innovation support services, in particular for dissemination and technology transfer;
2. the creation and development of innovation poles, networks and incubators bringing together universities, research institutions and enterprises, including at regional and local level, helping to bridge the technology gap between regions;
3. the encouragement of cross-border knowledge transfer, including from foreign direct investment;
4. encouraging public procurement of innovative products and services;
5. better access to domestic and international finance;
6. efficient and affordable means to enforce intellectual property rights.

The diffusion of information and communication technologies (ICT), in line with the objectives and actions of the i2010 initiative, is also an important way to improve productivity and, consequently, economic growth. The EU has been unable to reap the full benefits of the Information and communication technologies (ICT), due especially to the continuing under-investment in ICT, organisational innovation and in digital skills. Wider and more effective use of ICT and the establishment of seamless Single Market in electronic communication services are essential for the future competitiveness of European businesses. . It is also important to reduce and prevent fragmentation of the 'e-Internal Market' by putting in place interoperable e-services between the Member States.

Guideline 9. To facilitate the spread and effective use of ICT and build a fully inclusive information society, Member States should:

1. encourage the widespread use of ICT in public services, SMEs and households;
2. fix the necessary framework for the related changes in the organisation of work in the economy;
3. promote a strong European industrial presence in the key segments of ICT;

4. encourage the development of strong ICT and content industries, and well-functioning markets;

5. ensure the security of networks and information, as well as convergence and interoperability in order to establish an information area without frontiers;

6. encourage the deployment of broad band networks, including for the poorly served regions, in order to develop the knowledge economy.

See also integrated guideline ‘Promote flexibility combined with employment security and reduce labour market segmentation, having due regard to the role of the social partners’ (No 21).

To strengthen the competitive advantages of the European industrial base

A strong industrial base is of key importance for Europe's economy. The competitiveness of the EU depends on the ability of the economy to reorient activities towards sectors with higher productivity. An approach where innovation, employment, regional and other policies are integrated, supports upgrading the EU industrial base.

In order to enhance and sustain economic and technological leadership, Europe must increase its capacity to develop and market new technologies, including ICT and environmental technologies. The synergies from jointly addressing research, regulatory and financing challenges at the European level, where for reasons of scale or scope individual Member States cannot successfully tackle market failures in isolation, should be analysed and exploited. The EU has still not managed to fully realise its technological potential. The pooling of European excellence and the development of public-private partnerships and cooperation between Member States where the benefits for society are larger than those for the private sector will help tap this potential.

Guideline 10. To strengthen the competitive advantages of its industrial base, Europe needs a solid industrial fabric throughout its territory. The necessary pursuit of a modern and active industrial policy means strengthening the competitive advantages of the industrial base, including by contributing to attractive framework conditions for both manufacturing and services, while ensuring the complementarity of the action at national, transnational and European level. Member States should:

1. start by identifying the added value and competitiveness factors in key industrial sectors, and addressing the challenges of globalisation;

2. also focus on the development of new technologies and markets:

(a) this implies in particular commitment to promote new technological initiatives based on public private partnerships and cooperation between Member States, that help tackle genuine market failures;

(b) this also implies the creation and development of networks of regional or local clusters across the EU with greater involvement of SMEs.

See also integrated guideline ‘Improve matching of labour market needs’ (No 20).

Encourage the sustainable use of resources

Lasting success for the Union also depends on addressing a range of resource and environmental challenges which, if left unchecked, will act as a brake on future growth. Recent developments have emphasised the importance of energy efficiency and reducing the vulnerability of the European economy to oil prices variations. An integrated approach to climate and energy policy is needed to increase the security of supply, ensure the competitiveness of the EU economy and the availability of affordable energy, and combat climate change. Member States and the Community must both contribute to achieving the EU targets of at least a 20 % reduction in greenhouse gas emissions, a 20 % share of renewable energies as well as a 20 % improvement in energy efficiency by 2020. Member States should continue the fight against climate change in order that the global temperature increase does not exceed 2°C above pre-industrial levels, and implementing the Kyoto targets in a cost-effective way. Member States should halt the loss of biological diversity between now and 2010, in particular by incorporating this requirement into other policies, given the importance of biodiversity for certain economic sectors. The use of market-based instruments, so that prices better reflect environmental damage and social costs, plays a key role in this context. Encouraging the development and use of environment-friendly technologies, the greening of public procurement with particular attention to SMEs, and the removal of environmentally harmful subsidies alongside other policy instruments can improve innovative performance and enhance the contribution to sustainable development. For example, EU companies are amongst the world leaders in developing new renewable energy technologies. In a context of continued upward pressure on energy prices, and accumulating threats to the climate, it is important to push energy efficiency improvements as a contribution to both growth and sustainable development.

Guideline 11. To encourage the sustainable use of resources and strengthen the synergies between environmental protection and growth, Member States should:

1. give priority to energy efficiency and co-generation, the development of sustainable, including renewable, energies and the rapid spread of environmentally friendly and eco-efficient technologies, (a) inside the internal market on the one hand particularly in transport and energy, *inter alia*, in order to reduce the vulnerability of the European economy to oil price variations, and (b) towards the rest of the world on the other hand as a sector with a considerable export potential;
2. promote the development of means of internalisation of external environmental costs and decoupling of economic growth from environmental degradations. 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), *inter alia*, through, (a) the use of market based instruments, (b) risk funds and R & D funding, (c) the promotion of sustainable production and consumption patterns including the greening of public procurement, (d) paying particular attention to SMEs, and (e) a reform of subsidies that have considerable negative effects on the environment and are incompatible with sustainable development, with a view to eliminating them gradually;
3. pursue the objective of halting the loss of biological diversity between now and 2010, in particular by incorporating this requirement into other policies, given the importance of biodiversity for certain economic sectors;

4. continue to fight against climate change, while implementing the Kyoto targets in a cost-effective way, particularly in regard to SMEs.

See also integrated guideline ‘To promote a growth- and employment-orientated and efficient allocation of resources’ (No 3).

B.2 Making Europe a more attractive place to invest and work

The attractiveness of the European Union as an investment location depends, *inter alia*, on the size and openness of its markets, its regulatory environment, the quality of its labour force and its infrastructure.

Extend and deepen the internal market

Whilst the internal market for goods is relatively well integrated, services markets remain, legally or *de facto*, rather fragmented. The complete and timely implementation of the Services Directive will be a significant step towards a fully operational Internal Market for services. The elimination of obstacles through administrative burden reduction to cross-border activities it will help unleash the untapped potential of the services sector in Europe. Finally, the full integration of financial markets would raise output and employment by allowing more efficient allocation of capital and creating better conditions for business finance.

The further improvement of the transposition of internal market directives should remain a priority in order to reap the benefits of a Single European market. Furthermore, directives are often not implemented or applied correctly, as illustrated by the high number of infringement proceedings launched by the Commission. Member States need to cooperate more positively with each other and with the Commission to ensure that they deliver the full benefits of internal market legislation to their citizens and businesses. For example, there is considerable scope for further improvements in public procurement practices. Such improvements would be reflected in an increase in the share of public procurement publicly advertised. Moreover, more open procurement would lead to significant budgetary savings for the Member States.

Guideline 12. To extend and deepen the internal market, Member States should:

1. speed up the transposition of internal market directives;
2. give priority to stricter and better enforcement of internal market legislation;
3. eliminate remaining obstacles to cross-border activity;
4. apply EU public procurement rules effectively;
5. promote a fully operational internal market of services, while preserving the European social model;
6. accelerate financial market integration by a consistent and coherent implementation and enforcement of the Financial Services Action Plan.

See also integrated guideline ‘To improve matching of labour market needs’ (No 20).

Ensure open and competitive markets inside and outside Europe

An open global trading system is of essential interest for the EU. As the world's leading trader and investor, our openness allows lower cost inputs for industry, lower prices for consumers, a competitive stimulus for business, and new investment. At the same time, it is important for the EU to use its influence in international negotiations to seek openness from others. Therefore the EU remains committed to further breaking down barriers to trade and investment, while it will stand firm against unfair practices in trade, investment and distorted competition.

Competition policy has played a key role in ensuring a level playing field for firms in the EU. It can also be beneficial to look at the wider regulatory framework around markets, in order to promote the conditions which allow firms to compete effectively. A further opening of European markets to competition can be achieved by a reduction in the general level of remaining State aid. This movement must be accompanied by a redeployment of remaining State aid in favour of support for certain horizontal objectives. The review of State aid rules has facilitated this.

Structural reforms that ease market entry are particularly effective for enhancing competition. These will be particularly important in markets that were previously sheltered from competition because of anticompetitive behaviour, the existence of monopolies, over-regulation (for example permits, licences, minimum capital requirements, legal barriers, shop opening hours, regulated prices, etc. may hinder the development of an effective competitive environment), or because of trade protection.

In addition, the implementation of agreed measures to open up the network industries to competition (in the areas of electricity and gas, transport, telecommunications and postal services) should help ensure lower overall prices and greater choice whilst guaranteeing the delivery of services of general economic interest to all citizens. Competition and regulatory authorities should ensure competition in liberalised markets. The satisfactory delivery of high quality Services of general economic interest at an affordable price must be guaranteed.

Empowered consumers who make informed choices will more quickly reward efficient operators. Further efforts are needed to improve the enforcement of consumer legislation which both empowers consumers and opens up the internal market to more intense competition at retail level.

External openness to trade and investment, by increasing both exports and imports, is an important spur to growth and employment and can reinforce structural reform. An open and strong system of global trade rules is of vital importance for the European economy. The successful completion of an ambitious and balanced agreement in the framework of the Doha-Round as well as the development of bilateral and regional free trade agreements, should further open up markets to trade and investment, thus contributing to raising potential growth.

Guideline 13. To ensure open and competitive markets inside and outside Europe and to reap the benefits of globalisation, Member States should give priority to:

1. the removal of regulatory, trade and other barriers that unduly hinder competition;
2. a more effective enforcement of competition policy;

3. selective screening of markets and regulations by competition and regulatory authorities in order to identify and remove obstacles to competition and market entry;
4. a reduction in State aid that distorts competition;
5. in line with the Community Framework, a redeployment of aid in favour of support for certain horizontal objectives such as research, innovation and the optimisation of human capital and for well-identified market failures;
6. the promotion of external openness, also in a multilateral context;
7. full implementation of the agreed measures to open up the network industries to competition in order to ensure effective competition in European wide integrated markets. At the same time, the delivery, at affordable prices, of effective services of general economic interest has an important role to play in a competitive and dynamic economy.

Improve European and national regulation

Market regulation is essential to create an environment in which commercial transactions can take place at a competitive price. It also serves to correct market failures or to protect market participants. Nevertheless, the cumulative impact of legislation and regulation may impose substantial economic costs. It is therefore important that legislation is well-designed, proportionate and regularly reviewed. The quality of the European and national regulatory environments is a matter of joint commitment and shared responsibility at both the EU and Member State level.

The better regulation culture has begun to take root in the EU. In the Commission's approach to better regulation, the economic, social and environmental impacts of new or revised legislation are carefully assessed to identify the potential trade-offs and synergies between different policy objectives. Moreover, existing regulation is screened for simplification potential, including of administrative burdens, and its impact on competitiveness is assessed. Finally, a common approach to measuring the administrative costs of new and existing legislation has been agreed, and an ambitious target has been set to achieve a 25 % reduction in the burden arising from EU legislation and its national transposition by 2012.

Member States should set equally ambitious reduction targets for administrative burdens stemming from all levels of national legislation. More generally, Member States should adopt a comprehensive and explicit better regulation strategy, including appropriate institutional structures, monitoring tools and resources. Member States should systematically assess costs and benefits of legislative initiatives and revisions. They should improve the quality of regulation, while preserving their objectives, and simplify existing legislation. They should consult widely on the costs and benefits of regulatory initiatives; particularly where trade-offs between different policy objectives are implied. Member States should also ensure that appropriate alternatives to regulation are given full consideration. This is especially important for small and medium-sized enterprises (SMEs), which usually have only limited resources to deal with the regulatory requirements imposed by both Community and national legislation. Hence, special consideration should be given to whether SMEs could be exempted in total or in part from administrative requirements.

Guideline 14. To create a more competitive business environment and encourage private initiative through better regulation, Member States should:

1. reduce the administrative burden that bears upon enterprises, particularly on SMEs and startups;
2. improve the quality of existing and new regulations, while preserving their objectives, through a systematic and rigorous assessment of their economic, social (including health) and environmental impacts, while considering and making progress in measurement of the administrative burden associated with regulation, as well as the impact on competitiveness, including in relation to enforcement;
3. encourage enterprises in developing their corporate social responsibility.

Europe needs to foster its entrepreneurial drive more effectively and it needs more new firms willing to embark on creative or innovative ventures. Learning about entrepreneurship through all forms of education and training should be supported and relevant skills provided. The entrepreneurship dimension should be integrated in the life long learning process from school. Partnerships with companies should be encouraged. The creation and growth of businesses can be encouraged by improving access to finance and strengthening economic incentives. This can include adapting tax systems to reward success, reducing non-wage labour costs and reducing the administrative burdens for start-ups, notably through the provision of relevant business support services (especially for young entrepreneurs) and setting up of single contact points. Particular emphasis should be put on facilitating the transfer of ownership and improving rescue and restructuring proceedings in particular with more efficient bankruptcy laws. The implementation of the proposals which will be part of the upcoming 'Small Business Act' for the EU will contribute to unlocking the growth and jobs potential of SMEs.

Guideline 15. To promote a more entrepreneurial culture and create a supportive environment for SMEs, Member States should:

1. improve access to finance, in order to favour their creation and growth, in particular micro-loans and other forms of risk capital;
2. strengthen economic incentives, including by simplifying tax systems and reducing non-wage labour costs;
3. strengthen the innovative potential of SMEs;
4. provide relevant support services, like the creation of one-stop contact points and the stimulation of national support networks for enterprises, in order to favour their creation and growth in line with Small firms' Charter. In addition, Member States should reinforce entrepreneurship education and training for SMEs. They should also facilitate the transfer of ownership, modernise where necessary their bankruptcy laws, and improve their rescue and restructuring proceedings.

See also integrated guidelines 'To promote a growth- and employment-orientated and efficient allocation of resources' (No 3) and 'To facilitate all forms of innovation' (No 8, Nos 23 and 24).

Expand and improve European infrastructure

Modern infrastructure is an important factor affecting the attractiveness of locations. It facilitates mobility of persons, goods and services throughout the Union. Modern transport, energy and electronic communication infrastructure are an important factor element of the Lisbon strategy. By reducing transport costs and by widening markets, interconnected and interoperable trans-European networks help foster international trade and fuel internal market dynamics. Moreover, the ongoing liberalisation of European network industries fosters competition and drives efficiency gains in these sectors.

In terms of future investment in European infrastructure, the implementation of 30 priority transport projects identified by Parliament and Council in the trans-European network (TEN) transport guidelines, as well as the completion of the quick-start cross-border projects for transport, renewable energy and broadband communications and research (identified under the European Initiative for Growth and the implementation of the other transport projects, supported by the Cohesion Fund) should be a priority. Infrastructure bottlenecks within countries also need to be tackled. Appropriate infrastructure pricing systems can contribute to the efficient use of infrastructure and the development of a sustainable modal balance.

Guideline 16. To expand, improve and link up European infrastructure and complete priority cross-border projects with the particular aim of achieving a greater integration of national markets within the enlarged EU, Member States should:

1. develop adequate conditions for resource-efficient transport, energy and ICT infrastructures, in priority, those included in the TEN networks, by complementing Community mechanisms, notably including in cross-border sections and peripheral regions, as an essential condition to achieve a successful opening up of the network industries to competition;
2. consider the development of public-private partnerships;
3. consider the case for appropriate infrastructure pricing systems to ensure the efficient use of infrastructures and the development of a sustainable modal balance, emphasizing technology shift and innovation and taking due account of environmental costs and the impact on growth.

See also integrated guideline 'To facilitate the spread and effective use of ICT and build a fully inclusive information society' (No 9).

Part 2

The Employment Guidelines (2008-2010)

Proposal for a

COUNCIL DECISION

**on guidelines for the employment policies of the Member States
(under Article 128 of the EC Treaty)**

Proposal for a

COUNCIL DECISION

on guidelines for the employment policies of the Member States

THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty establishing the European Community, and in particular Article 128(2) thereof,

Having regard to the proposal from the Commission²,

Having regard to the Opinion of the European Parliament³,

Having regard to the Opinion of the European Economic and Social Committee⁴,

Having regard to the Opinion of the Committee of the Regions⁵,

Having regard to the Opinion of the Employment Committee,

Whereas:

1. The reform of the Lisbon Strategy in 2005 has placed the emphasis on growth and jobs. The Employment Guidelines of the European Employment Strategy and the Broad Economic Policy Guidelines have been adopted as an integrated package⁶, whereby the European Employment Strategy has the leading role in the implementation of the employment and labour market objectives of the Lisbon Strategy.
2. The examination of the Member States' National Reform Programmes contained in the Commission's Annual Progress Report and in the draft Joint Employment Report shows that Member States should continue to make every effort to address the priority areas of
 - attracting and retaining more people in employment, increasing labour supply and modernising social protection systems,
 - improving adaptability of workers and enterprises, and
 - increasing investment in human capital through better education and skills.

² OJ C ..., ..., p. .

³ OJ C ..., ..., p. .

⁴ OJ C ..., ..., p. .

⁵ OJ C ..., ..., p. .

⁶ OJ L 205, 6.8.2005, p. 21 (Employment Guidelines) and p. 28 (Broad Economic Policy Guidelines).

3. In the light of both the Commission's examination of the National Reform Programmes and the European Council conclusions, the focus should be on effective and timely implementation, paying special attention to the agreed quantitative targets and benchmarks, and in line with the conclusions of the European Council.
4. The Employment Guidelines are valid for three years, while in the intermediate years until 2010 their updating should remain strictly limited.
5. Member States should take the Employment Guidelines into account when implementing programmed Community funding, in particular of the European Social Fund.
6. In view of the integrated nature of the guideline package, Member States should fully implement the Broad Economic Policy Guidelines.

HAS ADOPTED THIS DECISION:

Article 1

The guidelines for Member States' employment policies as set out in the Annex are hereby adopted.

Article 2

The guidelines shall be taken into account in the employment policies of the Member States, which shall be reported upon in the National Reform Programmes.

Article 3

This decision is addressed to the Member States.

Done at Brussels,

*For the Council
The President*

ANNEX

Guidelines for the employment policies of the Member States: promoting the European Social Model

Member States, in cooperation with the social partners, shall conduct their policies with a view to implementing the objectives and priorities for action specified below so that more and better jobs support an inclusive labour market. Reflecting the Lisbon strategy and taking into account the common social objectives, the Member States' policies shall foster in a balanced manner:

- *Full employment:* Achieving full employment, and reducing unemployment and inactivity, by increasing the demand for and supply of labour through an integrated flexicurity approach is vital to sustain economic growth and reinforce social cohesion. This requires policies that address simultaneously the flexibility of labour markets, work organisation and labour relations, and employment security and social security.
- *Improving quality and productivity at work:* Efforts to raise employment rates go hand in hand with improving the attractiveness of jobs, quality at work, labour productivity growth, reducing segmentation and the proportion of working poor. Synergies between quality at work, productivity and employment should be fully exploited.
- *Strengthening social and territorial cohesion:* Determined action is needed to strengthen and reinforce social inclusion, fight poverty - especially child poverty-, prevent exclusion from the labour market, support integration in employment of people at a disadvantage, and to reduce regional disparities in terms of employment, unemployment and labour productivity, especially in regions lagging behind. Strengthened interaction is needed with the Open Method of Coordination in Social Protection and Social Inclusion.

Equal opportunities and combating discrimination are essential for progress. Gender mainstreaming and the promotion of gender equality should be ensured in all action taken. Particular attention must also be paid to significantly reducing all gender related gaps in the labour market in line with the European Pact for Gender Equality. This will assist Member States in addressing the demographic challenge. As part of a new intergenerational approach, particular attention should be paid to the situation of young people, implementing the European Youth Pact, and to promoting access to employment throughout working life. Particular attention must also be paid to significantly reducing employment gaps for people at a disadvantage, including disabled people, as well as between third-country nationals and EU citizens, in line with any national targets.

Member States should aim towards active social integration of all through promotion of labour force participation and fight poverty and exclusion of those and groups who are most marginalized in society.

In taking action, Member States should ensure good governance of employment and social policies and ensure that the positive developments in the fields of economics, labour and social affairs are mutually reinforcing. They should establish a broad partnership for change by fully involving parliamentary bodies and stakeholders, including those at regional and

local levels and civil society organizations. European and national social partners should play a central role. A number of targets and benchmarks which have been set at EU level in the framework of the European Employment Strategy in the context of the 2003 guidelines should continue to be followed up with indicators and scoreboards. Member States are also encouraged to monitor the social impact of reforms and define their own commitments and targets, for which they should take these into account, as well as the country specific recommendations agreed at EU level.

Good governance also requires greater efficiency in the allocation of administrative and financial resources. In agreement with the Commission, Member States should target the resources of the Structural Funds, in particular the European Social Fund, on the implementation of the European Employment Strategy and the Union's social objectives and report on the action taken. Particular attention should be paid to strengthening institutional and administrative capacity in the Member States.

Guideline 17. Implement employment policies aiming at achieving full employment, improving quality and productivity at work, and strengthening social and territorial cohesion.

Policies should contribute to achieving an average employment rate for the European Union (EU) of 70 % overall, of at least 60 % for women and of 50 % for older workers (55 to 64) by 2010, and to reduce unemployment and inactivity. Member States should consider setting national employment rate targets.

In addressing these objectives, action should concentrate on the following priorities:

- attract and retain more people in employment, increase labour supply and modernise social protection systems,
- improve adaptability of workers and enterprises,
- increase investment in human capital through better education and skills.

1. Attract and retain more people in employment, increase labour supply and modernise social protection systems

Raising employment levels is the most effective means of generating economic growth and promoting socially inclusive economies whilst ensuring a safety net for those unable to work. Promoting a lifecycle approach to work and modernising social protection systems to ensure their adequacy, financial sustainability and responsiveness to changing needs in society are all the more necessary because of the expected decline in the working-age population. Special attention should be paid to tackling the persistent employment gaps between women and men, further increasing the employment rates of older workers and young people, as part of new intergenerational approach, and the promoting active inclusion of those most excluded from the labour market. Intensified action is also required to improve the situation of young people in the labour market and to significantly reduce youth unemployment, which is on average double the overall unemployment rate.

The right conditions must be put in place to facilitate progress in employment, whether it is first time entry, a move back to employment after a break or the wish to prolong working lives. The quality of jobs, including pay and benefits, working conditions access to lifelong learning and career prospects, are crucial for a flexicurity approach, as are support and

incentives stemming from social protection systems. To enhance a life cycle approach to work and to promote reconciliation between work and family life policies towards childcare provisions are necessary. Securing coverage of at least 90 % of children between 3 years old and the mandatory school age and at least 33 % of children under 3 years of age by 2010 is a useful benchmarks. The increase in the average employment rate of parents, especially single parents, requires measures to support families. In particular, Member States should take account of the special needs of single parents and families with many children. Furthermore to prolong working lives, the effective average exit age from the labour market by 2010 would require a five year increase at EU level (compared to 59.9 in 2001). Member States should also enact measures for health protection, for prevention and for the promotion of healthy lifestyles with the goal of reducing sickness burdens, increasing labour productivity and prolonging working life.

The implementation of the European Youth Pact should also be a contribution to a lifecycle approach to work in particular by facilitating transition from education to the labour market.

Guideline 18. Promote a lifecycle approach to work through:

- a renewed endeavour to build employment pathways for young people and reduce youth unemployment, as called for in the European Youth Pact,
- resolute action to increase female participation and reduce gender gaps in employment, unemployment and pay,
- better reconciliation of work and private life and the provision of accessible and affordable childcare facilities and care for other dependants,
- support for active ageing, including appropriate working conditions, improved (occupational) health status and adequate incentives to work and discouragement of early retirement,
- modern social protection systems, including pensions and healthcare, ensuring their social adequacy, financial sustainability and responsiveness to changing needs, so as to support participation and better retention in employment and longer working lives.

See also integrated guideline 'To safeguard economic and fiscal sustainability as a basis for increased employment' (No 2).

Active inclusion policies can increase labour supply and strengthen society's cohesiveness and are a powerful means of promoting the social and labour market integration of the most disadvantaged. Every person becoming unemployed must be offered a new start in a reasonable period of time. In the case of young people this period should be short, e.g. at most 4 months by 2010; for adult people at most 12 months. Policies aiming at offering active labour market measures to the long-term unemployed should be pursued, taking into consideration the participation rate benchmark of 25 % in 2010. Activation should be in the form of training, retraining, work practice, a job or other employability measure, combined where appropriate with on-going job search assistance. Facilitating access to employment for job seekers, preventing unemployment and ensuring that those who become unemployed remain closely connected to the labour market and employable are essential to increase participation, and combat social exclusion. This is also in line with a flexicurity approach. Attaining these objectives requires removing barriers to the labour market by assisting with

effective job searching, facilitating access to training and other active labour market measures, ensuring affordable access to basic services and providing adequate levels of minimum resources to all. This approach should, at the same time, ensure that work pays for all workers, as well as remove unemployment, poverty and inactivity traps. Special attention should be paid to promoting the inclusion of disadvantaged people, including low-skilled workers, in the labour market, including through the expansion of social services and the social economy, as well as the development of new sources of jobs in response to collective needs. Combating discrimination, promoting access to employment for disabled people and integrating immigrants and minorities are particularly essential.

Guideline 19. Ensure inclusive labour markets, enhance work attractiveness, and make work pay for job-seekers, including disadvantaged people, and the inactive through:

- active and preventive labour market measures including early identification of needs, job search assistance, guidance and training as part of personalised action plans, provision of necessary social services to support the inclusion of those furthest away from the labour market and contribute to the eradication of poverty,
- continual review of the incentives and disincentives resulting from the tax and benefit systems, including the management and conditionality of benefits and a significant reduction of high marginal effective tax rates, notably for those with low incomes, whilst ensuring adequate levels of social protection,
- development of new sources of jobs in services for individuals and businesses, notably at local level.

To allow more people to find better employment, it is also necessary to strengthen the labour market infrastructure at national and EU level, including through the EURES network, so as to better anticipate and resolve possible mismatches. Better transitions between jobs and into employment are an essential part of a flexicurity concept and policies to enhance mobility and matching on the labour market should be promoted. Job-seekers throughout the EU should be able to consult all job vacancies advertised through Member States' employment services. Mobility of workers within the EU should be fully ensured within the context of the Treaties. Full consideration must also be given on the national labour markets to the additional labour supply resulting from immigration of third-country nationals.

Guideline 20. Improve matching of labour market needs through:

- the modernisation and strengthening of labour market institutions, notably employment services, also with a view to ensuring greater transparency of employment and training opportunities at national and European level,
- removing obstacles to mobility for workers across Europe within the framework of the Treaties,
- better anticipation of skill needs, labour market shortages and bottlenecks,
- appropriate management of economic migration.

2. Improve adaptability of workers and enterprises

Europe needs to improve its capacity to anticipate, trigger and absorb economic and social change. This requires employment-friendly labour costs, modern forms of work organisation and well-functioning labour markets allowing more flexibility combined with employment security to meet the needs of companies and workers. This should also contribute to preventing the emergence of segmented labour markets and reducing undeclared work. To successfully meet these challenges an integrated flexicurity approach is needed, covering contractual arrangements; life long learning; active labour market policy; and social security systems (see also Guidelines 18, 19, 23).

In today's increasingly global economy with market opening and the continual introduction of new technologies, both enterprises and workers are confronted with the need, and indeed the opportunity, to adapt. While this process of structural changes is overall beneficial to growth and employment, it also brings about transformations which are disruptive to some workers and enterprises. Enterprises must become more flexible to respond to sudden changes in demand, adapt to new technologies and innovate constantly, in order to remain competitive. They must also respond to the increasing demand for job quality related to workers' personal preferences and family changes, and they will have to cope with an ageing workforce and fewer young recruits. For workers, working life is becoming more complex as working patterns become more diverse, irregular and an increasing number of transitions need to be managed successfully throughout the lifecycle. With rapidly changing economies, workers must be prepared for and furnished with lifelong learning opportunities, in order to cope with new ways of working, including enhanced exploitation of Information and Communication Technologies (ICT), and changes in their working status with associated risks of having to face temporary losses of income better accommodated through the provision of appropriate modernised social protection.

Member States should implement their own pathways, based on the common principles adopted by the Council. Flexicurity involves four key components that should be taken into account: flexible and reliable contractual arrangements through modern labour laws; collective agreements and work organisation; comprehensive lifelong learning (LLL) strategies to ensure the continual adaptability and employability of workers, particularly the most vulnerable; effective active labour market policies (ALMP) that help people cope with rapid change, reduce unemployment spells and ease transitions to new jobs; and modern social security systems that provide adequate income support, encourage employment and facilitate labour market mobility (this includes broad coverage of social protection provisions, unemployment benefits, pensions and healthcare, that help people combine work with private and family responsibilities such as childcare). Geographical mobility is also needed to access job opportunities more widely and in the EU at large.

Guideline 21. Promote flexibility combined with employment security and reduce labour market segmentation, having due regard to the role of the social partners, through:

- the adaptation of employment legislation, reviewing where necessary the different contractual and working time arrangements,
- addressing the issue of undeclared work,

- better anticipation and positive management of change, including economic restructuring, notably changes linked to trade opening, so as to minimise their social costs and facilitate adaptation,
- the promotion and dissemination of innovative and adaptable forms of work organisation, with a view to improving quality and productivity at work, including health and safety,
- support for transitions in occupational status, including training, self-employment, business creation and geographic mobility.

See also integrated guideline ‘To promote greater coherence between macroeconomic, structural and employment policies’ (No 5).

To maximise job creation, preserve competitiveness and contribute to the general economic framework, overall wage developments should be in line with productivity growth over the economic cycle and should reflect the labour market situation. The gender pay gap should be reduced. Particular attention should be given to the low level of wages in professions and sectors which tend to be dominated by women and to the reasons which lead to reduced earnings in professions and sectors in which women become more prominent. Efforts to reduce non-wage labour costs and to review the tax wedge may also be needed to facilitate job creation, especially for low-wage employment.

Guideline 22. Ensure employment-friendly labour cost developments and wage-setting mechanisms by:

- encouraging social partners within their own areas of responsibility to set the right framework for wage bargaining in order to reflect productivity and labour market challenges at all relevant levels and to avoid gender pay gaps,
- reviewing the impact on employment of non-wage labour costs and where appropriate adjust their structure and level, especially to reduce the tax burden on the low-paid.

See also integrated guideline ‘To ensure that wage developments contribute to macroeconomic stability and growth’ (No 4).

3. Increase investment in human capital through better education and skills

Europe needs to invest more and more effectively in human capital. Too many people fail to enter, progress or remain in the labour market because of a lack of skills, or due to skills mismatches. To enhance access to employment for men and women of all ages, raise productivity levels, innovation and quality at work, the EU needs higher and more effective investment in human capital and lifelong learning in line with the flexicurity concept for the benefit of individuals, enterprises, the economy and society.

Knowledge-based and service-based economies require different skills from traditional industries; skills which also constantly need updating in the face of technological change and innovation. Workers, if they are to remain and progress in work and be prepared for transition and changing labour markets, need to accumulate and renew skills regularly. The productivity of enterprises is dependent on building and maintaining a workforce that can adapt to change. Governments need to ensure that educational attainment levels are improved and that young people are equipped with the necessary key competences, in line with the European Youth Pact. In order to improve labour market prospects for youth, the EU should aim at an average

rate of no more than 10 % early school leavers; and that at least 85 % of 22-year olds should have completed upper secondary education by 2010. Policies should also aim at increasing the EU average level of participation in lifelong learning to at least 12.5 % of the adult working-age population (25 to 64 age group). All stakeholders should be mobilised to develop and foster a true culture of lifelong learning from the earliest age. To achieve a substantial increase in public and private investment in human resources per capita and guarantee the quality and efficiency of these investments, it is important to ensure fair and transparent sharing of costs and responsibilities between all actors and to improve the evidence base of education and training policies. Member States should make better use of the Structural Funds and the European Investment Bank for investment in education and training. To achieve these aims, Member States must implement the coherent and comprehensive lifelong learning strategies to which they have committed themselves.

Guideline 23. Expand and improve investment in human capital through:

- inclusive education and training policies and action to facilitate significantly access to initial vocational, secondary and higher education, including apprenticeships and entrepreneurship training,
- significantly reducing the number of early school leavers,
- efficient lifelong learning strategies open to all in schools, businesses, public authorities and households according to European agreements, including appropriate incentives and cost-sharing mechanisms, with a view to enhancing participation in continuous and workplace training throughout the life-cycle, especially for the low-skilled and older workers.

See also integrated guideline ‘To increase and improve investment in R & D, in particular by private business’ (No 7).

Setting ambitious objectives and increasing the level of investment by all actors is not enough. To ensure that supply meets demand in practice, lifelong learning systems must be affordable, accessible and responsive to changing needs. Adaptation and capacity-building of education and training systems is necessary to improve their labour market relevance, their responsiveness to the needs of the knowledge-based economy and society and their efficiency and equity. ICT can be used to improve access to learning and better tailor it to the needs of employers and employees. Greater mobility for both work and learning purposes is also needed to access job opportunities more widely in the EU at large. The remaining obstacles to mobility within the European labour market should be lifted, in particular those relating to the recognition and transparency and use of qualifications and learning outcomes, notably through the implementation of the European Qualifications Framework. It will be important to make use of the agreed European instruments and references to support reforms of national education and training systems, as is laid down in the Education and Training 2010 Work Programme.

Guideline 24. Adapt education and training systems in response to new competence requirements by:

- raising and ensuring the attractiveness, openness and quality standards of education and training, broadening the supply of education and training opportunities and ensuring flexible learning pathways and enlarging possibilities for mobility for students and trainees,

- easing and diversifying access for all to education and training and to knowledge by means of working time organisation, family support services, vocational guidance and, if appropriate, new forms of cost sharing,
- responding to new occupational needs, key competences and future skill requirements by improving the definition and transparency of qualifications, their effective recognition and the validation of non-formal and informal learning.