Broad guidelines of the economic policies BGEP of the member States and the Community for 2003-2005

2003/2074(INI) - 08/04/2003 - Non-legislative basic document

PURPOSE : to present the Commission Recommendation on the Broad Guidelines of the Economic Policies of the Member States and the Community for the 2003-2005 period. CONTENT : to recall, the BEPG's concentrate on the contribution that economic policies can make to achieve the EU's strategic Lisbon goal. The Lisbon agenda has seen notable successes, like the creation of five million jobs and agreement on the opening up of energy markets and on a Community patent. However much more needs to be done to further boost employment, productivity and business dynamism. Interim target dates are less than two years away. The BEPGs make both general and country-specific recommendations. They focus on the key economic policy priorities. They underline the need for growth and stability-oriented macroeconomic policies and for pursuing structural reforms to raise Europe's growth potential. Finally, they focus on actions to strengthen economic, social and environmental sustainability. With a clear strategy and new streamlined processes for making recommendations and measuring progress, the focus is now firmly on implementation. The guidelines testify to the EU's recognition of the imperative for higher and sustainable growth rates and its resolve to take the necessary action to achieve this result. Sound macroeconomic conditions and policies are a prerequisite for a sustainable increase in economic prosperity. A stronger entrepreneurial spirit and improved investment in knowledge and innovation is key to opening up new opportunities for growth. Better functioning and more competitive labour, product and capital markets are indispensable to achieve a more flexible economy and lift potential growth. Due regard must however be paid to economic, social, and environmental sustainability concerns to ensure that efforts will produce the expected results in the longer term. The general economic policy guidelines are applicable to all Member States and to the Community. Within the overall strategy, key economic policy challenges may differ across Member States due to differences in economic performance, prospects, structures and institutions. Taking due account of them, this report presents country-specific economic policy recommendations as well as a section on the euro area, addressing its specific challenges. The Commission's recommendations concern three main axes: 1) Growth and stability oriented macroeconomic policies : Macroeconomic policies play a key role in sustaining growth and employment and in preserving price stability. They should aim at supporting a well-balanced expansion and the full realisation of current growth potential. They should furthermore aim at establishing the framework conditions that promote adequate levels of saving and investment, as well as a stronger orientation of the latter towards knowledge and innovation, to position the economy on a sustained, higher, non-inflationary, growth and employment path. In planning for the future, firms and individuals must have confidence that price stability will be maintained, and that exchange rates and long-term interest rates will be reasonably stable. The maintenance of sound macroeconomic conditions depends on the policies pursued by central banks and governments, and the wage developments resulting from settlements concluded by social partners. Monetary authorities should pursue price stability and, subjectto this being achieved, support the general economic policies. Member States should contribute through their budgetary policies to stabilising output around a higher and sustainable growth trend, by allowing the full and symmetric play of the automatic stabilisers over the cycle and reinforce the co-ordination of their budgetary policies. Two conditions apply. First, excessive deficits should be avoided. Second, budget positions close to balance or in surplus in cyclically-adjusted terms should be achieved. However, when assessing compliance with the close to balance or in surplus requirement, particular attention shall be paid to country-specific circumstances. Wage developments should contribute to stable macroeconomic conditions and to an employment-friendly policy mix. 2) Economic reforms to raise Europe's growth potential : action to improve incentives in order to make work pay, to facilitate job creation and to improve the functioning of the labour market is important in this respect. Member States should: - improve the combined incentive

effects of taxes and benefits, reduce high marginal effective tax rates in order to eliminate unemployment and poverty traps, cut the tax burden on low-paid labour, improve the administration of eligibility criteria for benefits whilst preserving an adequate level of social protection, and ensure the efficiency of job search assistance for benefit recipients; - ensure that wage bargaining systems allow wages to reflect productivity, taking into account productivity differences across skills and local labour market conditions; - promote more adaptable work organisation and review labour market regulations, notably those relating to employment contracts taking account of the need for both flexibility and security; - facilitate labour mobility, both geographical and occupational, especially by promoting the recognition of qualifications and the transfer of social security and pension rights, by eliminating obstacles to mobility related to the housing market, and by promoting lifelong learning; - ensure efficient active labour market policies that are targeted towards individual needs with special attention to people facing the greatest difficulties in the labour market, according to rigorous impact evaluations. Increasing the EU's growth potential depends not only on job creation but also on giving an additional stimulus to labour productivity and business dynamism. Labour productivity gains are highly dependent on increased investment in physical capital ('capital deepening') and in knowledge and innovation. Member States are invited to : - foster competition in goods and services markets; - accelerate the integration of EU capital markets, in particular by implementing the Risk Capital Action Plan by 2003 and the Financial Services Action Plan by 2005 (2003 for securities markets); ensuring consistent enforcement of EU rules and removing barriers to efficient cross-border clearing and settlement; - generate a supportive environment for entrepreneurship and for SMEs to start-up and grow by reducing the administrative burden on business; by increasing the efficiency of the public sector; by simplifying the corporate tax system; and by improving the regulatory environment; - promote investment in knowledge and innovation and make progress towards the 3% of GDP objective of total R&D investment. 3) Strengthening sustainability : growth will only be sustainable if action is taken now to cater for the impact over the long-run of economic, environmental and social factors. Growth will only prove to be sustainable if due attention is being paid to issues of economic, social, and environmental sustainability. Carrying out impact assessments and cost-benefit analysis of proposed legislation will allow synergies and trade-offs between economic, environmental and social objectives to be identified and assessed systematically. Where possible, flexible, market-based solutions that achieve environmental and social goals without jeopardising economic performance, should be preferred. Beyond increasing employment rates, the focus should be on continued reductions in public debt burdens and on reforming pension and health care systems. Recommended measures here include a further decline in government debt ratios, especially for countries that have not achieved the 60% debt to GDP ratio. In addition Member States should remove incentives that encourage early withdrawal from the labour market and reform pension systems to accommodate flexible employment and career patterns. To contribute to an increase in the well-being of current and future citizens, economic growth must not be at the expense of the environment. The environmental costs of economic activity should gradually be priced in. The use of scarce natural resources should be paid for. The "polluter pays principle" should be systematically applied. Finally, the Commission formulates specific recommendations for the euro zone and invites the decision making bodies at national eurozone level to : - cater for a balanced macroeconomic policy mix; - address unwarranted inflation differences; - strengthen economic policy-coordination.