

18.02.05**Decision**
of the Bundesrat

Position of the Federal Government on the Mid-term Review of the Lisbon Strategy (October 2004) – Growth and Employment up to 2010

In its 808th meeting on 18th February 2005, pursuant to §§ 3 and 5 EUZBLG (Act on Cooperation between the Federation and the Federal States in European Union Affairs), the Bundesrat adopted the following Opinion:

1. The Bundesrat takes note of the Federal Government's position paper, "Growth and Employment up to 2010", as an important contribution to the current process of deliberations on the future of the Lisbon strategy.

The European Council in Lisbon (spring 2000) adopted the strategic goal of making the EU the most competitive and dynamic knowledge-based economy in the world by 2010 in conjunction with a high degree of social cohesion and environmental protection.

A High-Level Group of Experts, chaired by Wim Kok and with a mandate from the Spring Summit 2004, has tabled a mid-term review, which shows that Europe – with the exception of some successful Member States – is on the whole still far from achieved the goals set in Lisbon. On the basis of the proposals put forward by both this High-Level Expert Group and the Commission on the future development of the Lisbon strategy, the Heads of State and Government of the EU will decide upon the requisite political steps at their Spring Summit in March 2005 and set the course for a new thrust to the Lisbon strategy.

2. The Bundesrat requests the Federal Government to take the Bundesrat's position, as laid out below, into account in the decisions to be taken on the Lisbon strategy at the EU Summit in March 2005:
3. The Bundesrat vigorously supports the goal of fostering firms' competitiveness in a knowledge-based economy in the EU in order to achieve durable economic growth with more and better jobs and greater social cohesion.

The Bundesrat agrees here with the Federal Government's view that, in the light of the largely negative conclusions of the mid-term review, a new thrust and concentration of reform efforts is called for at the European and national level to attain the core objectives of the Lisbon strategy. On the whole the initial design of the Lisbon strategy, with a plethora of goals, indicators and programmes, has meant that the Lisbon agenda is overburdened.

This will require the Federal Government to advocate at the European level that a catalogue of priorities to implement the individual goals of the Lisbon agenda be adopted at the European Council Spring Summit. It is essential to establish such priorities if the EU wishes to attain the ambitious goal of sustainably strengthening its competitive position vis-à-vis economic areas such as the USA, Japan and Asia (particularly China). It is also crucial to set priorities for implementing individual goals as over 150 objectives are enumerated in the Lisbon agenda.

4. The Bundesrat therefore vigorously supports a refocusing of the Lisbon strategy, which the Federal Government has also called for, with a view to concentrating on the goals of sustainable growth and employment through increasing firms' competitiveness in a knowledge-based economy.
5. Making businesses more competitive creates the preconditions for attaining the other Lisbon goals (social solidarity and sustainable ecological development) on a long-term basis. Improving the regulatory framework for businesses in the international arena should be the key concern, rather than pursuing an erroneous conception of industrial policy, which would bring with it the risk of economic misallocation of funds.

Measures are needed in particular to improve firms' equity situation, above all for SMEs. The Bundesrat supports the proposals along these lines in the report from the High-Level Expert Group on the Lisbon Strategy (known as the Kok-

report).

However, effective structural policy plays a key role in fostering growth and employment in areas with structural difficulties.

6. A strong economic area urgently needs to be conducive to start-ups and to have dynamic business start-up activity. More vigorous efforts must therefore be undertaken to promote the entrepreneurial spirit and support business start-ups and those who take on and continue to run existing businesses. In this context particular attention should be paid to target groups that are not yet exploiting their full potential to set up their own businesses, as well as to groups that are particularly well-suited to drive innovation. In Germany there is still room to improve both the general mood for start-ups and the propensity to set up in business. Furthermore, shifts in the demographic structure will mean that the age cohort previously most active in business start-ups will shrink considerably, whilst at the same time many firms will be forced to close down as they are unable to find anyone suitable to continue running the business. More targeted support should be provided in particular to small and medium-sized enterprises (SME) in the field of innovation and competitiveness to stimulate their ability to innovate and their creativity through tailor-made programmes, and to develop sustainable potential for growth.
7. Company financing is currently too reliant on loans, with too little recourse to risk capital. This makes it particularly difficult for start-ups and SMEs to acquire sufficient funding.
8. In addition, Member States should be able to continue to focus regional aid as precisely as possible on their most needy regions under the new Regional State Aid Guidelines. This offers scope to grant regional aid to large firms in regions that were not categorised as funding regions in drafts tabled to date by the Commission.
9. The Bundesrat calls on the Federal Government to take its own appraisal of the Lisbon process as a basis and to ensure that the shift in focus to concentrate on the goals of sustainable growth and employment is also reflected in public finances. This does not merely entail setting priorities and reallocating budgetary resources to pro-growth measures. Instead measures must respect the need for strict budgetary discipline at both the national and European level. In this context the EU budget should concentrate more on the political realities in

Europe, in other words, on policies crucial for the future, such as research and development. The Federal Government is therefore requested to take steps to ensure that Germany attains the figure of 3% of GDP for R+D expenditure stipulated in the Lisbon strategy. Putting the knowledge society into practice signifies supporting R+D in corporate and other contexts, as well as improving the educational system. Expenditure for these purposes must however not lead to more national budgetary expenditure but must instead be financed by reallocating funds.

10. At the European level the new policy focus must slot into a budgetary framework for 2007 to 2013 that is as tight as possible. For national budgets in the Member States this means strict compliance with the Stability and Growth Pact, for this guarantees not only a stable and reliable currency but also allows for low interest rates with price stability, thus creating the basis for more growth in Europe. The Bundesrat notes with concern that the overwhelming majority of current deliberations on reforming the Stability and Growth Pact would involve watering-down the existing rules. Rather than contributing to attaining the objective of more growth, this would jeopardise the single currency's stability and thus also pose a threat to the Lisbon strategy's goals.
11. The Bundesrat supports initiatives aiming to introduce a uniform assessment basis for corporate taxation, which would thus contribute to dismantling tax obstacles and would promote Europe as an economic area.

The Bundesrat welcomes the decision adopted by the EU Ministers of Finance to mandate the Commission to draw up the rules required for a common assessment basis in a joint working group with the Member States. All those involved should aim to table the draft provisions for a uniform assessment basis in early 2006.

12. The Bundesrat agrees with the Federal Government that our prosperity is rooted in innovation and technology. It supports the Federal Government's demand that the 7th Framework Programme for Research should be clearly directed to making European academia and industry more competitive and that the quality of projects should be a decisive selection criterion when taking funding decisions. Furthermore, investment in knowledge and education is one of the keys to competitiveness for Member States and the EU as a whole. In the light of strict budgetary restrictions, it is currently increasingly important to reallocate funds from public budgets to expenditure that fosters growth by investing in assets and human capital, as well as in expenditure to strengthen the knowledge-based society. In order to attain the goal of a knowledge-based economy, the concepts of the information society must be developed further and given more tangible expression to meet the needs of a modern knowledge society. This means implementing existing notions of lifelong learning even more effectively and developing new concepts specifically aimed at particular target groups, such as for example older employees, but also SMEs. It is also essential to use human resources' potential more fully and to make the educational system more permeable. Against the backdrop of demographic changes, coupled with the ongoing globalisation of the world economy, holistic integrated personal development becomes increasingly important in implementing this ambitious goal; this should encompass a range of aspects, starting with all the phases of an individual educational career (schooling, training, entering a profession, life-long, ongoing further professional qualification) and running right through to new work concepts for older employees (sabbaticals, part-time employment, teleworking).
13. The Bundesrat calls on the Federal Government to place greater emphasis in its policies on the goal of integrating older workers into professional life. The Bundesrat welcomes the Federal Government's commitment to the Stockholm goal of increasing the employment rate for older workers between 55 and 64 to 50 % by 2010: However, it is thus all the more difficult to understand why this objective is overlooked in the Federal Government's position paper on the Lisbon goals.
14. In contrast to the Federal Government, the Bundesrat does not consider that the poor performance of the Lisbon strategy noted in the mid-term review was caused mainly by the worsening economic context and external shocks (terrorist

attacks worldwide, financial scandals, collapse of the New Economy, rising prices for oil and other commodities). These developments and the events since 2000 were certainly not propitious for implementation of the Lisbon goals. However, it is primarily the EU and the Member States that are responsible for the mid-term review's disappointing assessment and for the fact that the EU as a whole is lagging still further behind the USA.

This is demonstrated very clearly by Member States that were prepared to press ahead with reforms, such as Great Britain, Ireland, Denmark and Sweden; despite the negative global economic context, these Member States have already performed better on some of the goals established in the Lisbon process than was envisaged in the targets set and have attained high growth rates. In 2003 Finland and Estonia even managed to achieve a significant budget surplus. In contrast, Germany, where far-reaching structural reforms are still required, is particularly afflicted by the poor macroeconomic context. If the Lisbon strategy is to succeed, it is essential that the Federal Government rapidly and consistently get to grips with the work needed on economic, tax, social security and labour market policy, whilst taking national specificities into account.

15. The Bundesrat therefore urges the Federal Government to shoulder the responsibility for more growth and employment in the Germany economy by creating a favourable regulatory framework; this should be done to a much greater extent than is expressed in the Federal Government's position paper. Germany must once again be in a position to fulfil its special role as the largest national economy in the EU and must vigorously address the reforms needed for more growth and employment. Agenda 2010 can only be the first step in achieving the ambitious Lisbon agenda goals in Germany. Reforms in Germany must not be put on hold until after the 2006 elections.
16. The Bundesrat considers that national efforts to achieve more growth and more jobs should be supported by European policy through the instruments of the Lisbon process. The EU and the Commission should take on the task of raising awareness of the need for tangible reforms in the Member States and energetically encouraging willingness to pursue those reforms by using a best practice approach and identifying existing strengths and shortcomings. Debates on reform in the Member States will continue to advance too slowly unless the Commission puts forward such significantly better arguments to support the case for reform. It will be of the essence to limit comparative assessments for benchmarking to a few criteria and indicators to measure Member States'

growth and employment performance.

17. In this context each Member State's strengths and shortcomings regarding reform must be identified in more concrete terms than in the past. In Germany this applies in particular to the reforms that are needed in the labour market, in social policy, fiscal and tax policy, as well as to the overall scope of state activity.

The Commission should carry out comparative assessments in the following areas in particular and contrast the successes and shortcomings of the Member States:

- support for growth and improving business competitiveness, particularly for regulations pertaining to business competitiveness and efficiency;
 - capacity to innovate;
 - sustainability and efficiency of social security systems;
 - sustainability and efficiency of fiscal policy without prejudice to the Stability Pact procedure;
 - labour market flexibility, particularly the continuing obstacles to hiring staff.
18. The Bundesrat considers that the "open coordination method" is of great importance in this sphere, provided that it is used to analyse the need for reform in specific Member States in terms of a limited number of meaningful criteria and indicators and to spotlight shortcomings and/or successes; benchmarking and best practice tools should be used to support this analysis.

In fields where the EU does not have legislative powers (e.g. education) the "open coordination method" must not however mean that concrete measures are adopted or that Member States are given instructions on how to proceed; this would violate the provisions on the division of powers laid down in the Treaties and infringe the subsidiarity principle. Instead the focus should be on exchanging experience and information, as well as on identifying best practice.

19. The Bundesrat therefore considers that the new approach proposed by the Commission to implement the Lisbon strategy is a step in the right direction. The Lisbon process will become more targeted and more transparent by focusing on competitiveness, reducing the scope and volume of legislation, increasing expenditure on research and development, as well as simplifying and

streamlining coordination and management instruments. The burgeoning of goals and indicators hitherto has been a factor in the failure of the Lisbon strategy to create pressure for Member States to reform.

20. The national Action Plan for Growth and Employment proposed by the Commission can serve to indicate the direction that further reforms in Germany should take. The Federal Government is urged to involve the federal states as early as possible in drawing up the action plan. The Bundesrat calls for the 2005 national action plan to concentrate on making the labour market more flexible, along with implementing further reforms in social, finance and tax policy, in order to secure jobs in Germany and create growth.
21. The Bundesrat regrets that the system of national action plans proposed by the Commission does not include comparative assessments and a league table of Member States' reform efforts. The only way to create competition, and indeed to foster the pressure to implement reforms, is by drawing up a league table of Member States' performance and highlighting existing strengths and shortcomings. The Federal Government should therefore not resist this type of comparison, but should accept it as a means to identify and remedy shortcomings in government policy.
22. In addition, the EU must also introduce measures within the scope of its own powers to smooth the way to attaining the Lisbon goals. This includes – as the Federal Government has noted in its position paper – making firms more competitive by scrapping burdensome EU legislation, particularly cost-intensive legislation, and opting not to introduce excessive new provisions. The deregulation initiative should however not only focus on provisions that stifle business competitiveness, but should also encompass provisions that affect the public sector's activities. This would contribute to consolidation of public budgets and would thus help to improve the general economic context. Last but not least, the business world and the general public must be accorded enough scope to act if they are to accept European policies. The only way to keep European capital in Europe and/or to attract capital from outside Europe is through free markets, with as little regulation as possible.
23. The Bundesrat is convinced that cross-border liberalisation of key markets and the dismantling of barriers to trade generate economic dynamism in Europe and are thus beneficial in seeking to achieve the Lisbon goals. To this end the

Commission has tabled a draft EU services directive, making it easier for firms and freelancers to offer their services across the European Union. The draft directive is currently being examined and discussed in detail; the Bundesrat expressed its position on 2nd April 2004 (BR Official Document 128/04 (Resolution (1))), on 9th July 2004 (BR Official Document 128/04 (Resolution (2))) and on 24th September 2004 (BR Official Document 128/04 (Resolution (3))). The overall effect of this move could be greater economic dynamism in the service sector and new jobs. However, the specific requirements of certain professional areas and exemptions from the scope of the directive must be taken into account. Furthermore, the Bundesrat also calls for the Single Market for electricity and gas to be fully implemented in order to lower the costs for companies and enhance competitiveness.

24. In the interests of the business world the Federal Government is requested to advocate at the EU level that the burden of bureaucracy be diminished and that the quality of legislation be improved. The priority here must be to ensure that the impact of new legislation is appraised, with a particular focus on the ramifications for the international competitiveness of firms in Member States. In this context careful checks should be carried out to determine whether certain provisions might limit firms' competitiveness in the international arena; these considerations are for example currently being examined in connection with the environmental protection directive REACH. On the other hand however, existing legislation must also be reviewed to determine whether unnecessary and excessive burdens are placed on businesses and the public sector. Deregulation and efforts to reduce bureaucratisation must be implemented at all levels to make business locations more attractive to firms.