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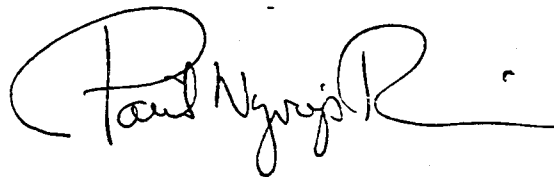
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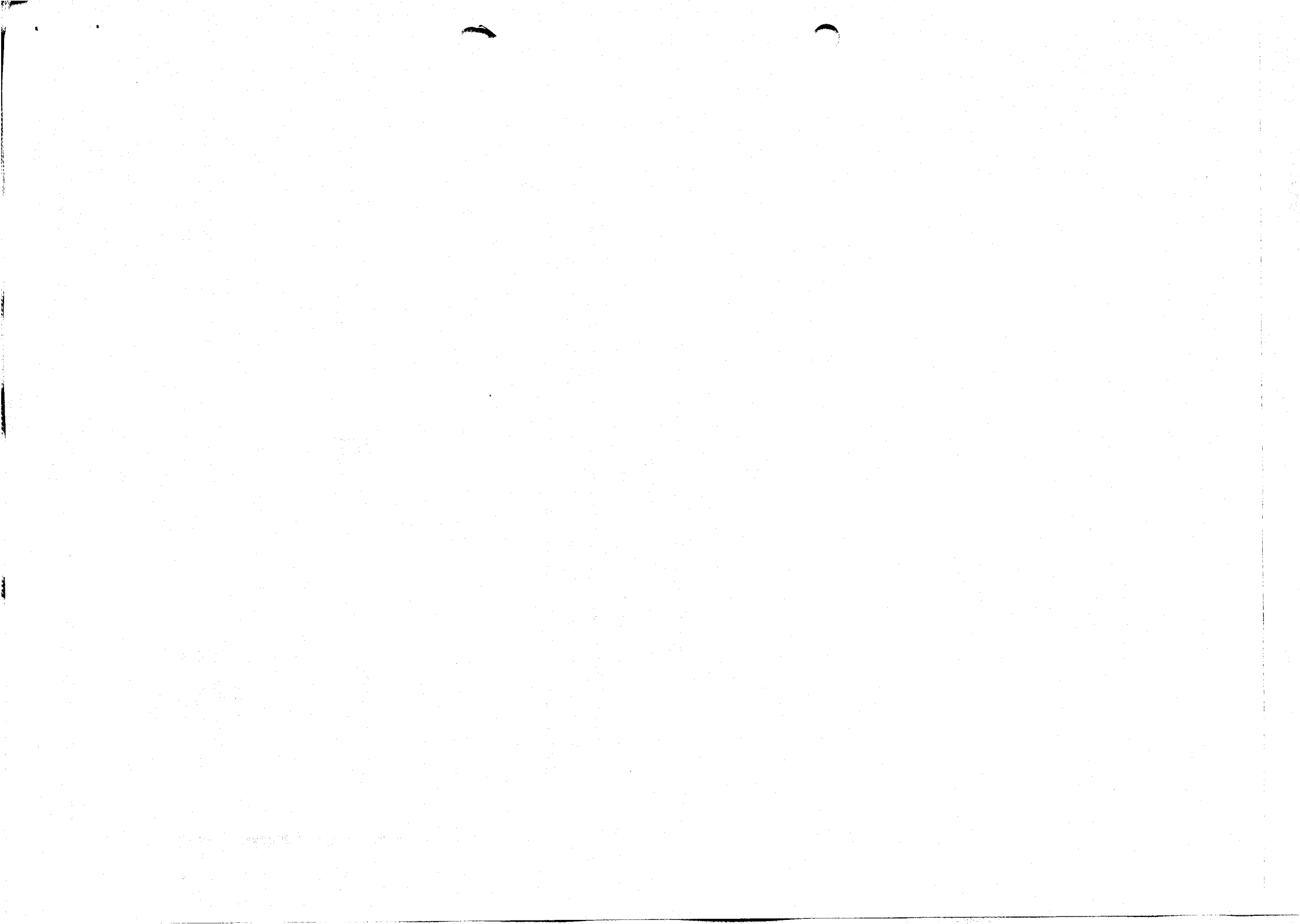
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ECONOMIC POLICY COMMITTEE

Brussels, 26 October 2000

EPC/ECFIN/608/00-fin

**Report by the Economic Policy Committee to ECOFIN on  
"Structural Indicators:  
an Instrument for Better Structural Policies"**

**Executive summary**

Structural reform, to raise productivity levels and attain high and sustainable rates of employment, is a priority for the European economies. At the meeting in Lisbon in March 2000 the Heads of States and Governments developed a new strategic goal for the Union to strengthen employment, economic reform and social cohesion as part of a knowledge-based economy. This strategic goal is based on a comprehensive strategy involving macro-economic policies aimed at sustainable growth, and structural reforms to improve the functioning of markets and modernise social protection. They invited the Council and the Commission to develop some structural indicators and in particular asked the Council to report on this subject at the end of 2000. ECOFIN in turn invited the EPC to report them.

The indicators cover the four priority areas developed in Lisbon: employment, innovation, economic reform and social cohesion. Some background indicators are included to present the overall economic context in which structural reforms are taking place.

Since there are many different processes using indicators at the EU level, the EPC propose to coordinate them by reference to three inter-related sets of indicators: the first set represents the limited number of indicators recommended for the synthesis report; the second set (which encompasses the first set) represents the indicators proposed for next year's assessment of the implementation of the Broad Economic Policy Guidelines; and the third set represents the indicators used in a range of

processes and action plans, many of which are led by other Council formations. This 'logical architecture' should help to reduce inconsistencies and ensure that the same key headline indicators are used across a range of processes. The EPC have taken efforts to coordinate with other Council formations, in particular the Social Affairs Council.

As invited by the ECOFIN council at its 17 July 2000 meeting, this report has two objectives: it formulates an opinion on the Commission's Communication of 27 September 2000 dedicated to the indicators to be used in the synthesis report and proposes alternative indicators in some cases; and it sets up an illustrative list of indicators to be used in the assessment of the implementation of the Broad Economic Policy Guidelines.

The EPC agreed a set of desirable characteristics for the indicators, including: limited number (in the first set), easy to understand, policy relevant, timely, reliable, mutually consistent and comparable across countries inside and outside the EU. It was also agreed that data collection should not impose an additional burden on enterprises and Member States. These characteristics concur with those in the Commission's Communication.

The EPC's proposed indicators for the first and second set are listed in section III of the report. For the first set, to be used in the synthesis report, the emphasis is on performance indicators. Some of the indicators, such as GDP per capita and the employment rate, represent the key policy objectives. We consciously avoided input measures as far as possible and most of the policy indicators were put in the second set related to the Broad Economic Policy Guidelines. The EPC made a great effort to accommodate the opinions from other Council formations as far as possible. This was in conformity with the role of the ECOFIN Council in the co-ordination of economic policy. The EPC's work greatly benefited from the assistance of the Commission, especially in identifying indicators and assessing the availability of data. This close cooperation has greatly facilitated our work and has made possible the high degree of consensus we reached on the list of indicators to be used in the Synthesis report.

Indicators provide a useful starting point for intelligent debate but they should not be read mechanically. The relation between the numeric values of an indicator and the achievement of policy goals is often not clear-cut and requires further interpretation. With some indicators it is necessary to take account of the institutional context, the

general level of development and the cyclical position of the economy. In these cases, it can be misleading and counterproductive to take individual figures and interpret them literally as policy benchmarks as also noted in the Commission's Communication. The use of indicators serves two functions : focusing on the evolution of an indicator within a country offers useful background when assessing performance in the specific area illustrated by that indicator; cross-country comparisons of indicators are also worthwhile, although results must be treated cautiously so as to avoid possible misinterpretation. When comparing across countries it is important to look at groups of indicators together rather than picking out individual indicators which sometimes give an unrepresentative impression.

The EPC took full note of the Commission's Communication of 27 September and recognises the valuable contribution it makes. The EPC adopted the working rule that its own indicators should accord with those recommended by the Commission except where the EPC felt there was a specific reason to diverge. In fact there is a substantial measure of agreement, both on the guiding principles and on the indicators themselves. In particular, the EPC agree with 23 of the 33 indicators proposed by the Commission in its Communication. Moreover, the remaining differences are often very specific. They relate to:

(i) Methodological difficulties :

- The EPC believes the cyclically adjusted budget balance should not be used until there is agreement on a common methodology. In its place the EPC propose the actual budget balance and the gross debt to GDP ratio.
- The EPC also prefers a measure of regional cohesion based on unemployment rates rather than GDP because of doubts about the quality of regional GDP data.
- The EPC considers that further work needs to be done on the quality and significance of the indicator on jobless households proposed by the Commission in the social cohesion section.
- The EPC prefers a wider age-bracket for the indicator on early school leavers.
- The EPC proposes slightly different definitions for the indicators of patents and income distribution.

(ii) The strong preference the EPC has for focusing on performance rather than input and policy indicators in the first set of indicators for the synthesis report.

- In the section on innovation, the EPC thinks the indicator for public expenditure on education focuses too heavily on inputs when indicators of educational performance are available.
- In the section on economic reform, the EPC proposes an additional indicators relating to business investment and FDI flows. In addition, the EPC also suggests that the Commission's indicator on state aids should be put in the second set as a policy indicator. With public procurement, the EPC prefers a slightly different definition and it considers that this indicator should only be in the second set of indicators.
- In the section on employment, the EPC proposes to add employment growth because it is one of the key goals identified at Lisbon and real unit labour cost growth as an indicator of what is happening to the price of labour. The EPC also proposes to include gender breakdowns of the employment rate of older workers and unemployment rates reflecting the priority given to raising female employment rates at Lisbon.
- In the section on social cohesion, the EPC proposes to add an index of absolute poverty.

This work is very much a first step. Further work on the precise definitions, methodology and data availability of specific indicators is still needed. Similar work on developing indicators is underway in other Council formations and the Commission services. So the EPC propose to continue their work on indicators with a review the indicators and their use towards the end of next year.

## Introduction and objectives

1. Structural reform is vital for the long-term potential of the European economies to raise productivity levels and attain high and sustainable rates of employment. Structural reform also has a key role in improving the functioning of markets and facilitating the short-term adjustment to shocks by enhancing the flexibility of market structures. This role is all the more important inside the single currency.

2.

At the Lisbon Summit in March 2000 the European Council noted that while the Union was experiencing the best macro-economic outlook for a generation, considerable structural challenges remain. Heads of State and Government developed a comprehensive strategy, aimed at transforming the European Union into the most competitive and dynamic knowledge based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion. They agreed:

"the need for the Union to set a clear strategic goal and agree a challenging programme for building knowledge infrastructures, enhancing innovation and economic reform, and modernising social welfare and education systems" <sup>1</sup>

With a view to guarantee the fulfilment of these key objectives, they highlighted the need to facilitate and enhance multilateral surveillance and co-ordination of economic policy, in particular through the further development of structural indicators. To this end, they invited the Council<sup>2</sup> to step up work on structural indicators and to report by the end of 2000. The Commission<sup>3</sup> were also asked to draw up an annual synthesis report on progress on the basis of a limited number of key structural indicators to be agreed relating to employment, innovation, economic

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<sup>1</sup> Paragraph 2 of the Presidency Conclusions of the Lisbon European Council, 23-24 March, 2000.

<sup>2</sup> Paragraph 18 of the Presidency Conclusions of the Lisbon European Council, 23-24 March, 2000.

<sup>3</sup> Paragraph 36 of the Presidency Conclusions of the Lisbon European Council, 23-24 March, 2000.

reform and social cohesion. The first report will be presented in time for the meeting in Stockholm in Spring 2001.

3. Following the Lisbon conclusions, the Economic Policy Committee (EPC) set up a working group to assist the Council in its work and to respond to the Commission's proposals for the development of a set of structural indicators which would then be used in the context of the Commission's "synthesis report", the Broad Economic Policy Guidelines (BEPGs), and the multilateral surveillance process. The purpose of the group was to coordinate the views of Member States, taking account of views of other Ministries within their country. The group has also made great efforts to take account of the views of other Council formations on their areas of expertise, with a view to ensuring that the horizontal role of the ECOFIN Council in ensuring the coherence and consistency of the existing economic policy co-ordination processes and exercises is maintained.

4. The objectives of the work on structural performance indicators are to:

- gain broad agreement on a set of indicators that can be used in monitoring progress on achieving key Lisbon objectives, including progress on structural reform;
- support ECOFIN's role in driving forward economic reforms by providing an accurate picture of progress on structural reform, including strengths and weaknesses;
- sustain the pressure to reform through improved monitoring, better-quality policy discussion and more intensive peer pressure, including making the recommendations in the BEPGs.

5. The ECOFIN Council invited the EPC at its 17 July 2000 meeting to prepare a report for discussion by Ministers at their 7 November meeting in order to allow them to report to the European Council in Nice. This report should provide Ministers both with an opinion on the Commission's Communication and a set of indicators the EPC would like to see included in the synthesis report and to be used in the assessment of the implementation of the BEPGs. On 27 September 2000 the Commission presented their Communication on the indicators they propose to use in the synthesis report.<sup>4</sup> The EPC is very grateful to the Commission services for their

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<sup>4</sup> The Santa Maria da Feira European Council on 19-20 June 2000, specified its invitation to the Commission, by asking it to present by the end of September a report "on the proposed approach for the indicators and benchmarks, both in specific policies and to be used in the synthesis report to the Spring European Council, to ensure the necessary coherence and standard presentation" Paragraph 38 of the Presidency Conclusions.

considerable support to the ad-hoc EPC indicators group, in particular in the identification of indicators and in assessing the availability of data. This cooperation has greatly facilitated the work of the ad-hoc group and it has contributed to the high degree of consensus we reached in the list of indicators to be used in the Synthesis report.

6. The EPC report is organised along the following lines:

- section II sets out key principles for the indicators work, including: coverage; the logical architecture and characteristics;
- section III presents the indicators that the EPC would like to see used in the synthesis report and next year's BEPGs;
- section IV highlights some issues regarding the interpretation of the indicators and gives some examples;
- section V gives the EPC's opinion on the indicators which the Commission proposed in its Communication of 27 September.
- section VI concludes.

The report also includes four annexes: annex 1 lists the other formations of the Council, EU Committees and Council groups involved in setting up indicators; annex 2 provides the detailed definitions of the indicators and data sources; annex 3 comprises the opinions of the Employment Committee and the High Level Group on Social Protection on the Commission's Communication; annex 4 provides ECOFIN Ministers with the data on the indicators which the EPC proposes to use in the Synthesis report.

## II Key Principles

### **Coverage**

7. As in the Commission's Communication, the indicators are organised around the four pillars in the Lisbon Conclusions, and as developed in the 2000 BEPGs: employment, innovation, economic reform and social cohesion. A fifth group comprises indicators related to the general performance of the economy. These indicators relate to both sustainable growth and economic dynamism which are the ultimate goals of structural reforms, and to macroeconomic stability which constitutes an essential platform for successful reform. The latter therefore reflects the importance of achieving an appropriate policy mix, as highlighted in the Lisbon Conclusions. We also embrace issues relating to sustainable environmental development under this heading.

8. There are important inter-linkages between the indicators in the different Lisbon pillars. So for example, performance on employment is a key factor affecting social cohesion. Long-term unemployment is included as an indicator of social cohesion in the EPC list because the long-term unemployed have a high probability of becoming socially excluded. But long-term unemployment is clearly also relevant for the employment heading.

### ***The logical architecture for the three layers of indicators***

9. Since a range of processes and action plans have been created which already involve a battery of indicators, they need to be linked together in a way which avoids unnecessary duplication and inconsistencies.

10. The EPC approach would be to classify the indicators in three layers:

- The **first set** of indicators includes a limited number of indicators covering the general economic environment and the four areas specified in the Lisbon Summit. Together, they can be used to provide an overview of the key issues and represent the indicators which should be used in the Commission's synthesis report. As far as possible these indicators should seek to measure performance, rather than inputs or policy indicators, although these have been proposed in a few cases. The objective of the synthesis report is thus to assess the performance of the economy of the EU and its Member States, and where appropriate, to provide policy orientations.. Their implementation of

these policy orientations will then be evaluated in the various existing processes of economic policy co-ordination, with the Broad Economic Policy Guidelines at the centre.

- The **second set** of indicators relates to the more detailed objectives established by the BEPGs. It is intended that monitoring these indicators will assist in the assessment of the implementation of the Guidelines. The second set includes all the indicators in the first set, plus additional performance and policy indicators. The coverage is broadly the same as the first set although the indicators can also be organised around the nine main headings in this year's BEPGs (see section III).
- The **third set** represents the very detailed indicators used (or to be developed) to monitor and assess relative effort and progress in the various co-ordination procedures and action plans in individual policy areas and under the responsibility of different Council formations. It is likely that there will be a greater number of policy indicators among this set than the first two sets of indicators.

Box 1 illustrates the logic of how the various indicators fit into the different layers and Annex 1 lists the main co-ordination procedures and action plans covering the third set of indicators. In some cases it is not clear-cut whether the indicator should be in one layer or another, nevertheless we think the use of the layers is a useful way of organising a wide range of indicators.

11. This approach ensures the use of common key indicators in the different processes whilst simultaneously allowing each specific policy area to use and develop detailed indicators tailored to its specific needs. It is also consistent with the central role of the BEPGs in the coordination process, as stated in the Report to the European Council in Helsinki produced by ECOFIN on November 1999.

12. In conformity with the ECOFIN mandate, this report covers only the first two sets of indicators. But the ECOFIN Council has a particular responsibility for developing a coherent and comprehensive overall framework. Therefore, while the indicators that have been prepared for the ECOFIN Council cover the first two layers, the EPC have taken efforts to coordinate with interested groups from other Council formations to try to minimise inconsistencies. However, in some areas work is still underway and the indicators might need to be reviewed in the light of their findings.

This is particularly the case in the area of Social Cohesion where the work of the High Level Group on Social Protection is at an early stage. Also in the case of the indicators on sustainable environmental development, where further work on headline indicators will be presented at the Gothenburg Summit in July 2001.

#### **Box 1: Some illustrations of the cascade between the sets of indicators**

The following examples illustrate the cascade between the sets of indicators under the five main headings:

- On the **general economic environment**: the first set of indicators include basic information on real GDP growth rates, inflation and general government net borrowing as a share of GDP; the second set include more detailed indicators like the current account balance, the general government primary balance, public investment and so forth; the third set can be thought of as including more detailed indicators used in the Stability and Convergence programmes, such as indicators on consumption, investment, exports and imports as well as the more detailed information on the breakdown of public expenditure and tax revenues.
- Under the **employment** heading: key labour market performance indicators like the employment and unemployment rates are in the first set; more detailed performance indicators, like youth unemployment rates, and policy indicators, like the effective tax rate on employed labour, and net replacement rates, are included in the second set; and the third set comprises the more detailed indicators derived from the Employment Guidelines;
- On **innovation**: the top level indicators provide a broad overview including R&D expenditure, patents and performance at higher level educational attainment; the second set includes more specific indicators like the number of companies having received seed and start-up financing, and the share of schools on the internet; the third set relates to indicators used in such areas as the e-Europe Action Plan.
- On **economic reform**: key performance measures like price indices and the degree of integration are in the first set; policy indicators, like state aids and non-transposition rates of single market directives, and more detailed performance indicators, like market structure in banking and telecoms, are in the second set; and even more detailed indicators on market structure, performance and policies might be included in the third set.
- On the **social cohesion** side, in view of the work of the High-Level Group, we have limited efforts to agreeing some key indicators for the first set, while noting that many indicators under the employment heading are particularly relevant here as well. The indicators focus on the income, employment and educational aspects of social cohesion.

***Desirable characteristics***

13. At the outset, and in close cooperation with the Commission, the EPC group agreed on a set of characteristics that the selected indicators should conform to as far as possible. They should be:

- policy relevant;
- relatively limited in number (especially in the first set) and yet sufficiently large to be properly representative of the broad economic and social areas they cover;
- stable over time, albeit open to sensible evolution. Time series of data should be used wherever possible in order to allow for the different starting points of different Member States and other problems related to making cross-country comparisons (see section IV for some examples);
- easy to read and understand;
- mutually consistent and should avoid unnecessary duplication;
- available in a timely fashion from reliable data sources; and
- comparable across Member States and other developed nations and the US in particular. The data should also be capable of being aggregated at an EU level.

It was also emphasised that data collection should not impose an additional burden on Member States and enterprises. This consideration is particularly relevant for the development of new indicators.

14. These criteria are particularly demanding when we come to measuring the performance of the new economy. By definition, indicators of the new economy have a short track record and so the quality of the data and their evolution are more difficult to assess and interpret. However, given the importance of the new economy and its emphasis in the Lisbon conclusions it was decided that some indicators should be included in the report. As we learn more about how the new economy works and how to measure it, we will need to review the indicators under this heading.

15. We also faced difficulties identifying indicators respecting these characteristics in the area of social cohesion. In particular, many data in this field are available with a rather long time-lag and there are difficulties obtaining comparisons with the US. Nevertheless, these data have been incorporated in our list of indicators reflecting their importance in the Lisbon conclusions. Further work needs to be done to improve the quality and timeliness of these data. We await the findings of the High Level Group on Social Cohesion, which might necessitate a review of the indicators in this field..

16. More generally, while the list of indicators selected has to be stable enough to measure progress over a number of years, it should not be regarded as final. First, as noted, within the various processes under way within the EU, work on new indicators or to improve existing indicators is on-going. The list must be flexible enough to take account of the progress made in the various domains in developing new or improved indicators. Second, the EPC has identified a number of key areas on which the quality and availability of existing indicators needs to be improved upon further in the near future.

### III The EPC's proposed indicators

17. The EPC's proposed indicators for the first and second sets are listed below, they are grouped in tables covering: the general economic environment, employment, innovation, economic reform and social cohesion. The exact definition of the indicators is specified in Annex 2.

#### **General economic environment**

18. The general economic environment indicators include some of the key policy objectives, such as GDP per capita, and the proximate determinants such as the level and growth of productivity. They also include indicators aimed at describing the macro-economic framework, which is crucial to facilitate the success of structural reform. The quality and sustainability of the public finances, environmental sustainability, and the level of inflation are among these indicators.

Table 1: General economic environment	
<b>Top set (7 indicators)</b>	
Real GDP growth	GDP at constant 1995 prices
GDP per capita	Calculated in PPS
Labour productivity growth and level	GDP in PPS per hour worked and growth rate of (GDP in constant prices/hour worked)
Inflation	Annual percentage change: HICP
General Government debt	Gross debt as % of GDP
General government balance	Net general government balance as % GDP
Energy consumption	Gross inland consumption of energy divided by GDP
<b>Second set'</b>	
<b>3-1 Ensure growth and stability-oriented macroeconomic policies in conformity with the Treaty (1 indicator)</b>	
Current account balance	As % of GDP
<b>3-2 Speed up the ongoing process of fiscal consolidation (1 indicator)</b>	
Public primary balance	General govt net borrowing as % of GDP, excluding interest payments
<b>3-3 Improve the quality and sustainability of public finances (5 indicators)</b>	
Public investment	General govt investment as % of GDP
Public education expenditure	As % of GDP
Tax burden	Total revenues from taxes and social security contributions as % of GDP
Structure of Public revenues	Share of social security contributions, direct taxes and indirect taxes in the total revenues of the General Governments

Growth of public expenditures	Annual percentage change in total expenditures of the general government at current prices
<b>3-4 Promote appropriate wage developments (3 indicators)</b>	
Nominal wages growth	Annual percentage change in nominal gross wages and salaries per employee
Nominal unit labour cost growth	Annual percentage change in (employees compensation per employee divided by GDP per employed person at constant prices)
Wage differentials between males and females	Ratio of women's hourly earnings index to men's for paid employees at work +15 hours.
<b>3.9 Enhance sustainable development (3 indicators)</b>	
Aggregated emission of 6 greenhouse gases	
Water quality	Phosphorus and Nitrogen concentration in large rivers
Waste	Industrial waste (kg per 1000 USD GDP)

<sup>1</sup> Numbers 3.1, 3.2 etc in the second set of indicators relate to the headings in the 2000 Broad Economic Policy Guidelines.

**Employment**

19. The Lisbon conclusions set targets to raise the overall EU employment rate and the female employment rate. Most of the indicators in this area are directly connected to these high level objectives - for instance, the employment rate of older workers, the unemployment rate, youth unemployment rate and employment growth. Real unit labour cost growth is intended to represent the developments in the price of labour. There are also some policy indicators related to, effective tax rates on labour, tax rates on low wage earners and net replacement ratios. These policy variables influence both the supply and demand for labour. Another policy area concerns active labour market policies, the indicators on lifelong learning and the activation rate reflect some of these issues.

Table 2: Employment	
<b>Top set (7 indicators)</b>	
Total employment rate	Persons in employment in age bracket 15-64 as proportion of total population in the same age bracket, by gender
Employment growth	Annual change in total employed population, by gender
Employment rate of older workers	Persons in employment in age bracket 55-64 as proportion of total population in the same age bracket, by gender
Unemployment rate	ILO definition, by gender
Real unit labour cost growth	Annual % change in (nominal compensation per employee divided by nominal GDP per employed person)
Tax rate on low wage earners	Income tax plus employee and employer contributions as a share of labour cost for low wage (see specific definition in annex 3)
Lifelong learning indicator	% of population aged 25-64 in education and training
<b>Second set</b>	
3.8- Invigorate labour markets (6 Indicators)	

Youth unemployment ratio	Total of unemployed (15-24 years old) as a share of total population in the same age bracket; %
Participation rate	Total employed and unemployed persons as a percentage of total working age population (breakdown by age and sex)
Effective tax rate on employees	Income tax + employee's and employer's social security contributions for employees/ labour cost for employees
Tax wedge on employees	Sum of social security contributions, personal taxes on labour income and consumption taxes (including excise duties) paid by employees as a share of employees' compensation
Net replacement rates	Ratio of out-of-work income to in-work income net of taxes and benefits
Activation rate	Number of participants in training and similar measures who were previously registered unemployed related to the number of registered unemployed (yearly average)

20. We share the opinion expressed by the Employment Committee (annex 3) with regard to the indicator of lifelong learning; the proposed indicator needs to be developed further to improve the comparability across Member States. Nevertheless, given the central importance of lifelong learning in improving employability, and as approved by the Employment Committee, we propose to keep this in the top set of indicators. Similarly, with regard to the tax rate on low wage earners, we agree with the Employment Committee that this indicator should be improved further in the near future.

### *Innovation*

21. The indicators on innovation reflect both key inputs, such as R&D expenditure, venture capital and human capital, and performance measures like the number of patents per capita and the exports of high tech products. There are also indicators of the ICT sector which was considered as having a strategic importance in the knowledge-driven economy in the Lisbon conclusions: ICT expenditure and employment, internet access, schools connected to the internet and the use of mobile phones represent this aspect. That there are more input measures in this group than under the other headings reflects the difficulties in finding good performance indicators in this field.

Table 3: Innovation

Top set (7 indicators)	
Total R&D expenditure	% of GDP, broken down by gov't and others
Educational attainment rate of young population	% of 15-19 yr olds in education, and % of 25-34 yr olds with at least tertiary level education
ICT expenditure	As % of GDP

Venture capital	Venture capital investment (i.e. Private equity less business angels) relative to GDP
Level of internet access	Active online accounts, residences and business per 100 inhabitants
Exports of high-technology products	Share of total exports
Patents	Patents applications with the USPO and EPO broken by country of inventor per capita
<b>Second set</b>	
<b>3-5 Foster a knowledge-driven economy (7 Indicators)</b>	
Science & Technology graduates	Share of Science & Technology graduates as % of population aged 25-29
Educational attainment	% of total population having achieved upper secondary educational attainment As % GDP
Capitalisation of stock 'new' markets for 'high growth' companies	
Number of companies having received early-stage financing	Number of companies having received seed and start-up financing, as % of total companies
Share of secondary schools connected to the internet	Percentage of schools connected to the internet in secondary education
Use of mobile phones	Mobile phones per 1000 inhabitants
Employment in the ICT sector	As % of total employment

**Economic reform**

22. Direct performance indicators under the heading of economic reform are difficult to identify. Price levels are key in this regard although they need to be interpreted with care (see section IV). There are special difficulties identifying suitable indicators on a comparable basis in this area. In particular, with respect to indicators related to: the degree of competition and extent of regulations; the market structure in network industries; the market share of public enterprises in network industries; and the market share of incumbents in network industries. Further work needs to be done in developing such indicators. At this stage, only relative price levels for selected network industries are included. There are also some indicators of the degree of market integration, such as trade shares. Business investment and foreign direct investment give an indication of both the growth of productive capacity, including the use of new technologies, and the attractiveness of different locations for investment. These therefore reflect the efficiency of product and capital market reforms in increasing the potential output of the EU economy.

Table 4: Economic Reform	
<b>Top set (6 indicators)</b>	
Trade integration	(Total exports + imports) / 2 * GDP
Relative price levels	Price level of private final consumption including indirect taxes (EU=100)

Prices in network industries	Telecoms, electricity and gas
Business investment	As % of GDP
Total FDI flows	As % of GDP and Member State share in EU total
Capital raised on stock markets	As % of GDP

Second set	
<b>3.6- Ensure efficient product (goods and services) markets (8 indicators)</b>	
Intra EU trade as a % of GDP	(Intra-EU exports + imports of goods) divided by 2* GDP
Technical barriers to manufacturing trade	Shares of EU trade covering harmonised and non-harmonised areas respectively
Non Transposition rate	Percentage of Single Market directives which should have been already transposed
Value of Public procurement tenders not published in the Official Journal <sup>1</sup>	As % of GDP
State aids	State aids (sectoral and ad-hoc) as % of GDP
Market share of public enterprises	Share of the total added value in industry produced by public enterprises
Market structure in banking	Top-five firm market share
Market structure in telecoms	Top-three (fixed-line and mobile) operators market share
<b>3.7- Promote capital markets through further integration and deepening (9 Indicators)</b>	
Stock market capitalization	As % of GDP
Bond market capitalization	As % of GDP (breakdown by type of issuers)
Investment of institutional investors in equity and bonds	As % of GDP
Volume of new corporate and financials institutions bond issues	Relative to GDP, breakdown by types of issuer (financial, corporate)
Long term differential on govt. bonds relative to EU average	10yr govt bond interest rate differential between each MS and the US and the EU average
Corporate financing by bank loans	Monetary and financial institutions' loans to non-financial corporations as % of GDP
Intra-EU FDI flows	As % of GDP
Share of foreign equities in domestic portfolios	
Cross-border banking penetration	As % of total assets + liabilities

<sup>1</sup> The reliability of these data will be examined further.

On capital markets there was a lot of interest in a measure of the cost of capital, however in the end it was agreed that the proxies currently available were too imperfect. But this remains an indicator to be developed. The EPC propose an indicator on capital raised on stock markets for the first set. It is of course recognised that there are other sources of finance for investment, and measures of the use of corporate bond markets are included in the second set, but an equity indicator (and the venture capital one under the innovation heading) is maintained as it is believed that European equity (and venture capital) markets are particularly under-developed relative to the US. In the second set there are also some indicators of the degree of capital market integration, covering both cross-border bank loans and the share of foreign equities in domestic portfolios.

23. Policy indicators in the economic reform area tend to reflect market distortions. They include: state aids, the size of the sheltered public procurement market, non-transposition rates of single market directives.

### **Social cohesion**

24. On social cohesion there is a fairly limited list covering a few key indicators of the income, employment and education aspects. The EPC recognise, however, that social cohesion has other dimensions. The EPC also agrees with the comments of the High Level Group on Social Protection that some indicators to monitor policies aimed at modernising social protection need to be developed (annex 3). In line with the logical architecture we have developed for the other indicators, we would expect that these indicators would fit most naturally in the second and third layers. The EPC also agrees with the High Level Group that some of the employment indicators and the indicators being developed on the projected evolution of pensions and health care spending are very relevant in this context. Finally, consistent with the opinion expressed by the High Level Group on Social Protection (annex 3), the EPC recognises that the development of indicators of social cohesion is at an early stage. It considers that the work to be done in the High Level Group on Social Protection should be incorporated into the list of indicators as soon as it is available. It fully shares the opinion expressed by the High Level group on Social Protection that "the indicators which are currently proposed are merely a first approach to social exclusion and poverty."

**Table 5: Social Cohesion**

Top-set (7 indicators)	
Income distribution	Ratio of 80 <sup>th</sup> to 20 <sup>th</sup> percentile
Relative poverty rate	Share of population below 50% of median disposable income
Absolute poverty rate	Share of population below 50% of 1994 median disposable income
Persistence in poverty	% of population below poverty line for 3-year period
Long-term unemployment rate	ILO definition - over 12 months
Regional unemployment	Standard deviation in unemployment at regional level
Share of early school-leavers	18-29 year-olds with only lower secondary education, not in education or training

### **Indicators to be examined for further development**

25. A full list of areas of indicators to be examined for further development is given below. Without going through all the indicators in the table we flag up a few priorities. The EPC would like to include measures of potential output and the output gap and cyclically-adjusted measures of the budget balance when an appropriate methodology can be agreed upon. A measure of employment on a full-time equivalents basis was regarded as a matter of urgency. The cost of internet access and interconnection charges were also regarded as important. Some data already exist but further work needs to be done to verify their reliability. Similar concerns relate to measures of e-commerce. The EPC also stressed that the indicators related to the liberalisation in network industries should be improved further. The EPC were interested in further work on indicators of efficiency of public administration, corporate demography and the length of company registration procedures. Indicators on the cost of basic retail financial products was regarded as a useful area for development giving a direct measure of retail financial market performance.

26. When the data on jobless households are available, the EPC would like to study them before recommending them for inclusion in the list. A measure of the share of people that are dependent on social security transfers also seems an essential element of the assessment of social cohesion: so an indicator like the benefit dependency ratio should be studied for further development. Finally, the EPC believe that further work should be directed to examining indicators of social cohesion at the regional and local level.

Table 6: Indicators to be examined for further development

Top-set indicators	
Potential output and output gap	(General economic environment)
Cyclically adjusted budget deficit	(General economic environment)
Full-time equivalents employment rate	(Employment)
Cost of Internet access	(Innovation)
Interconnection charges	(Innovation)
Liberalisation in network industries (market structure, share of public enterprises in the whole economy and incumbent)	(economic reform) (Economic reform)
Efficiency of public administration	(Economic reform)
Company registration Regulatory environment	(Economic reform)
Corporate demography	(Economic reform)

Cost of capital	(Economic reform)
Index / Index class	(Social cohesion)
Social cohesion at the regional and local level	(Social Cohesion)
Benefit dependency ratio	(Social cohesion)
<b>Second-set indicators</b>	
<b>BEPG's reference</b>	
Total factor productivity level	3-1
Cyclically adjusted primary balance	3-2
Projected evolution of pensions spending	3-3
Projected evolution of health care spending and total social expenditure (including education)	3-3
Public services on-line	3-5
E-commerce as a % of total sales	3-5
Cost of basic retail financial products	3-7
Employment protection legislation	3-8
Effective working time	3-8
Flows into and out of long-term unemployment	3-8
Benefit duration	3-8
NAIRU	3-8
Vacancy rate	3-8
Tons of recycled waste per resident	3-9
Biodiversity	3-9

#### IV Interpretation of the indicators

27. In interpreting these indicators it is important that they should not be viewed mechanically or in isolation. They should be used in monitoring the effectiveness of policies and as a basis for intelligent debate and qualitative assessment. Structural reform is multi-faceted and many aspects are not easy to quantify. This reinforces the message in the the Commission's Communication that indicators should be interpreted in the round after taking account of other information. For instance, with some indicators it is necessary to take account of the institutional context, the general level of economic development and the position in the economic cycle. In these cases it can be misleading and counter-productive to take individual figures and interpret them literally as policy benchmarks.

28. While this point is quite general, there are some indicators which are not directly comparable across countries at all. For instance, when the indicator is affected by the size of the economy or the overall level of development. An obvious example would be absolute levels of GDP: GDP in Germany is about 10 times that in Austria. We normally make a simple adjustment to correct for this, for instance in the case of GDP we look at GDP per head which for Austria and Germany then make them almost the same. However, some cases are not so obvious. Three examples which are relevant for the indicators we select are considered in more detail in Box 2 - namely trade shares, foreign direct investment flows and price levels. As for GDP we can make adjustments to make the indicators more comparable, but the adjustments are not so clear-cut, nor are they so easy to understand as in the GDP case where you simply divide by the number of people. This does not undermine the usefulness of such indicators, one can still always look at the evolution of the indicator in each country or compare similar countries. The main point is to be aware of the potential pitfalls when interpreting the data.

29. Sometimes it is useful to distinguish between performance indicators and policy indicators when interpreting the data. In some cases, policy indicators are easy to identify, such as tax rates or the level of state aids, in other cases the distinction is more difficult, such as educational attainment levels. One reason for making a distinction is related to the view that there might be different ways of achieving the same performance, for example a number of policy approaches might be consistent with achieving a high rate of employment. It was for this reason that we considered it helpful to focus on performance indicators in the top set of indicators - the set which are closest to the ultimate objectives - as far as possible.

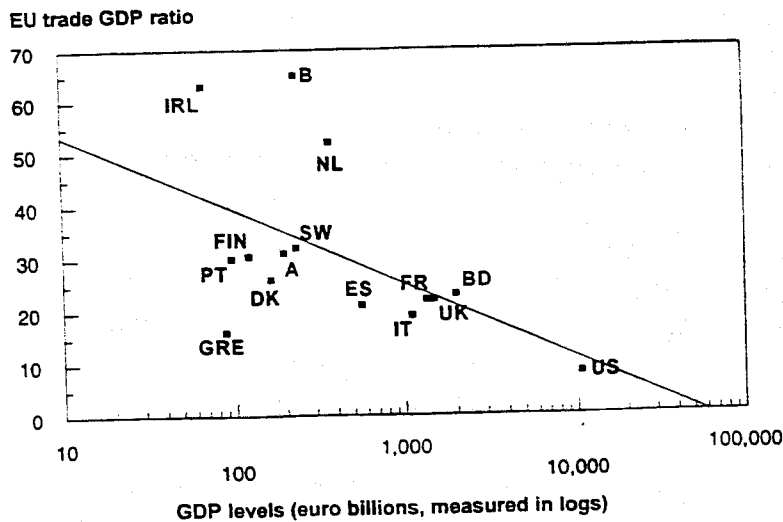
30. Another reason for making this distinction is that the effects of changes in policy on the structural features of the economy can take many years to show through to performance. This reflects real adjustment lags, for example lags in the adjustment of the capital stock through gradual changes in investment, and hysteresis effects in labour markets. In interpreting the data it is useful to have some idea how quickly they are affected by policy decisions, and whether the effects of policy changes which have already been made have yet to feed through.

31. Many indicators can change quite quickly due to cyclical developments rather than because the structural performance has changed. A good example is the level of unemployment. If output is high relative to potential (or trend) output then unemployment will be relatively low. Ideally, one might construct structural indicators which would strip out the cyclical component and focus solely on the structural component. In the case of unemployment, one way of doing this is to focus on measures like the non-accelerating rate of unemployment (or NAIRU). However, in practice one can only estimate the structural component with a high degree of uncertainty.

**Box 2: Problems of interpretation related to size and the level of development**

The first example is the **ratio of trade to GDP**. This tends to be inversely related to the size of the economy. Big countries, such as the US and Germany, trade less than smaller countries, like Belgium or Ireland. This is in part due to how open these countries are to trade but a more important factor is the difference in the size of the domestic economies. Regions within the US or Germany of comparable size to Belgium or Ireland would have much higher trade to GDP ratios than the national ratio, but much of the trade is with other regions in the same country.

## Trade integration, 1998



Exports: GDP from European Commission  
GDP levels from OECD

There are several ways of interpreting the data:

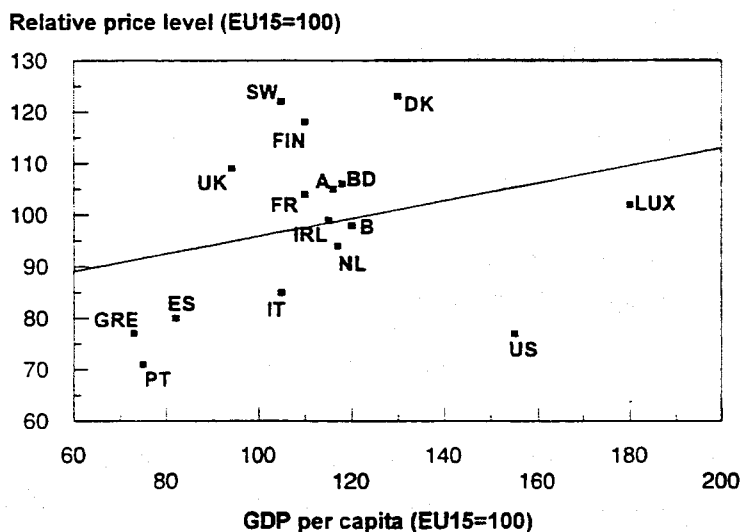
- focus on the evolution of the trade to GDP ratio over time in the country concerned;
- make comparisons for similar sized countries, eg France, Italy and the UK could be compared. This is essentially the approach the Commission propose in their paper;
- make an explicit adjustment for the size of the economy, for instance through a regression of 'size' against trade share where 'size' could be measured through the absolute level of GDP as in the chart above. The focus would then be on whether the trade share is high or low relative to what is expected of a country of that size. This sort of analysis can provide very helpful background but as indicators the adjusted variables are hard to explain and are not measured with any precision (eg, being affected by the sample of countries used to estimate what is 'normal' for a country of that size).

In the **same way** as the ratio of trade to GDP is related to the 'economy's size', so is the ratio of **foreign direct investment to GDP**. So exactly the same considerations apply when interpreting the data.

The third example is the **comparison of price levels**. It is well-known that the price levels of non-tradeables tend to be related to the level of development of the economy. This has little to do with the level of competition in product markets, rather it is due to differences in the levels of wages after allowing for productivity differences.<sup>1</sup> In the tradeables sector, in more highly developed economies higher wages are matched by higher productivity, and prices are equalised through trade.

This is not the case in the non-tradeables sector and prices tend to be higher in the more developed economy where wage levels are higher. This is illustrated in the chart below.

## Comparison of price levels



GDP per capita from European Commission  
Price level from Eurostat

We have very similar choices for how to interpret the information as in the trade example, ie we can:

- look at the change in the relative price levels over time;
- compare countries at the same level of development;
- make an explicit adjustment for the level of development.

The main point is to be aware of these issues when interpreting the data. It is also worth noting that prices are computed including indirect taxes, which are quite different among countries.

It is worth emphasising that some of the price level indicators considered relate to sectors which are being opened up to trade as the barriers preventing trade are removed, especially in the network industries. Here, the caveats about non-tradeables do not apply and the raw price level indicators are a very useful guide of how much progress has been made in achieving a single market.

<sup>1</sup> See the European Commission's 'EU Economy 1999 Review' (November 1999) and the ECB Bulletin 'Inflation Differentials in a Monetary Union' (October 1999) for further details.

32 For the purpose of these indicators, it was agreed that cyclically adjusted variables should not be included in the list for now. However, another EPC group has been discussing the appropriate methodology for making cyclical adjustments. Work on this issue must be continued. When agreement has been reached on the methodology, some cyclically-adjusted variables will be considered for inclusion in the list of structural performance indicators. In the meantime, when interpreting the indicators it will be important to be aware that the short-term evolution of some indicators will be affected by the cyclical position of the economy and some qualitative assessment of this will need to be included in the presentation of the indicators.

33. It is partly to try to abstract from purely cyclical effects that it was agreed that indicators should be evaluated as a time series over a number of years as far as possible. This procedure also guards against over-interpreting movements in data which are volatile for other reasons. One example is the data on capital raised on stock markets. This indicator is likely to be volatile for both cyclical and other reasons, eg due to the distorting effects of large one-off issues especially on smaller capital markets. Another example is the indicator of FDI flows which can be distorted by the effects of large Mergers and Acquisitions. So it will be important to evaluate these indicators in particular over a run of years.

34 One final comment on interpretation concerns the indicators of social cohesion. The measures of income distribution, relative poverty and regional unemployment dispersion are relative indicators which only tell part of the story. They need to be combined with indicators on the growth of total incomes and overall levels of unemployment to provide a rounded picture. For example, we can face situations when relative poverty can increase, whilst at the same time, the absolute level of income of poor people increase. This would be the case if high incomes increase faster than lower ones.

## V Assessment of the list of top-tier indicators proposed by the Commission in its Communication on Structural Indicators

35. The Commission presented its proposed list of indicators for the 'Synthesis Report' on 27 September. Overall, we welcome the progress the Commission has made as represented by its Communication and the draft list of indicators proposed.

The EPC has also greatly benefited from the close cooperation and assistance of the Commission in its own work.

36. The general principles that have guided the Commission in selecting its proposed list of indicators accord with our own. The Commission paper achieves a good balance between the four pillars of the Lisbon Summit and the general economic performance indicators. Also the total number of indicators is a reasonable balance between the need to focus the political debate, and the importance of offering a balanced picture of the structural performance of the Member States' economies. Finally, we welcome the broad characteristics of the indicators selected by the Commission, in terms of availability, readiness and comparability.

37. Moreover, we endorse most of the specific indicators they propose for the first set of indicators and the detailed comments below, which necessarily focus on the differences, should be seen in this context.

- 23 of the 33 indicators proposed by the Commission are perfectly acceptable to us for the first set.
- A further 3 indicators (Public procurement, sectoral and ad-hoc state aids and cross-border banking) the Commission propose are acceptable but the EPC considers that they should be in the second, more detailed, set. For one of them (public procurement) the EPC propose a slightly different definition.
- In 6 cases, the EPC recognises the relevance of the issue addressed by the indicator proposed by the Commission (sustainability of public finances, human capital, patents, regional cohesion, early school leavers, income distribution) but prefers a different indicator or proposes a slight difference in the definition of the indicators proposed by the Commission. In one of these cases the Commission's preferred indicator is included in the EPC's list for the second set.

- The EPC recognise also the importance of having an indicator of unemployment in the section on social exclusion. But the EPC think that further analysis is required on the indicator proposed by the Commission (jobless households) before it can be recommended for inclusion in the set of indicators. The EPC preferred long-term unemployment which is in the Commission proposal in the section on employment.
- Finally, seven indicators have been incorporated in the EPC list, which are not in the Commission communication (government debt to GDP ratio, general government balance, real unit labour cost growth, employment growth, business investment, FDI flows, absolute poverty level).

1. Turning to the details, it is helpful to organise our comments around the five pillars. In the table that follow the areas of agreement with the Commission are in the lighter shade.

Table 7: General economic environment	
Commission Communication for synthesis report (6)	EPC list of top set indicators (7)
Real GDP growth	
GDP per capita	
Inflation rate	
Labour productivity (EPC list also includes productivity growth)	
Energy intensity of the economy	
	General government balance, Gross government debt
Cyclically adjusted budget balance	For further development

- Until agreement has been reached on the methodological issues, the EPC do not think it is appropriate to include an indicator like the **cyclically adjusted budget balance** among the first set of indicators. Therefore, while the EPC consider this concept very important, they believe it should come under the 'to be developed' category.
- In its place, the EPC propose the **actual general government balance as share of GDP**.
- Further, the EPC consider that for a properly rounded picture of the sustainability of public finances, the first set of indicators should also include the **gross debt to GDP ratio**.

- One other small difference is that the EPC propose using both productivity levels and **productivity growth** rates. There is general agreement that productivity levels are very important, but there are problems related to the conversion into common currencies. Productivity growth rates can be compared without converting into a common currency.

The EPC agree with the inclusion of an **energy intensity of the economy indicator**, however ideally this would exclude energy from renewable sources. This is a matter for further development.

<b>Table 8: Employment</b>
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Commission Communication for synthesis report (7)	EPC list of top set indicators (8)
Total employment rate (EPC want to include a full-time equivalents measure as soon as it is ready)	
Female employment rate	
Employment rate of older workers (EPC include breakdown by gender)	
Unemployment rate (EPC include breakdown by gender)	
Tax-rate on low wage earners	
Life-long learning	
Long-term unemployment rate	to social cohesion section
	Real unit labour cost growth
	Employment growth

- On the **employment rate** itself, although there remain some problems with measures based on full-time equivalents. The EPC believe that this measure should be developed as a matter of urgency and included in the top set.
- The EPC propose two additional indicators under this heading. **Employment growth** was considered sufficiently important to be included despite the fact that employment rates are included. **Real unit labour cost growth** is also added as an indicator of what is happening to the price of labour.
- The EPC propose to include **breakdowns by gender for the indicators on the unemployment rate and the employment rate of older workers** in addition to the overall female employment rate which the Commission includes. This reflects the high priority attached to raising female employment rates in the Lisbon conclusions.
- One minor difference is that **long-term unemployment** is proposed under the employment heading in the Commission list and under the social cohesion heading in the EPC list. This really just serves to underline that there is no unique ordering and the indicators should be regarded as a whole.

**Table 9: Innovation**

Commission Communication for synthesis report (7)	EPC list of top set indicators (7)
	Total R&D expenditure
	Venture capital
	ICT expenditure
	Exports of high-technology products
	Level of Internet access
Patents in high tech	All patents
Public expenditure on education	2 <sup>nd</sup> layer indicator (3-3)
	Educational attainment rate of young population

- On **patents** the EPC think it is unnecessary to focus exclusively on high tech patents, and prefer the patent indicator to cover all patent. Patents are in any case partial in that some sectors do not make much use of them and so it is not a good idea to limit the scope further. Besides, all patents imply some innovation and an opportunity to make economic rents. Further, there are other indicators, such as R&D expenditures and exports of high-tech products, which capture the importance of the high tech sectors.
- While recognising the importance of investing in education, the EPC believe that the indicator of **expenditure on education as a percentage of GDP** focuses too heavily on inputs rather than performance to be in the top set. Moreover, this indicator is not broad enough to measure a country's effort on human capital, in so far as it does not incorporate private expenditure. Nevertheless, the EPC decided at this stage to include this in the wider, second set of indicators and urged the Commission to devise an indicator covering both public and private expenditures on education.
- For the first set the EPC selected a measure of **the educational attainments of the young population** as illustrative of Member States' performance on investing in human capital. The EPC propose to consider both the enrolment in education by 15-19 year olds and the share of 25-34 year olds with at least tertiary education.

<b>Table 10: Economic Reform</b>
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Commission Communication for synthesis report (7)	EPC list of top set indicators (6)
Trade integration	
Prices in network industries	
Relative price levels (including indirect taxes)	
Capital raised on stock markets	
Public procurement advertised as % of total procurement	2 <sup>nd</sup> layer indicator (3-6); share <u>not</u> advertised as % of GDP
Sectoral and ad-hoc state aids	2 <sup>nd</sup> layer indicator (3-6)
Cross border banking penetration	2 <sup>nd</sup> layer indicator (3-7)
	Business investment
	Total FDI flows

Economic reform is the section where there are the most differences. Some of the indicators chosen by the Commission were regarded as too detailed for the first set, others were related to policy rather than performance. The following three indicators were therefore proposed for the second set in the EPC list:

- **Public procurement** advertised as a percentage of total. In addition to putting this in the second set the EPC proposed a slight redefinition of the indicator to public procurement that was not advertised as a share of GDP. This redefinition would give a stronger impression of the size of the economy that is being sheltered from international competition by public procurement practices.
- **Cross-border banking penetration.**
- **Sectoral and ad hoc state aids.**

The EPC also propose two additional indicators for the first set:

- A measure of the **ratio of business investment to GDP**. Over time investment is a key factor driving the potential growth rate both because it adds to physical capacity and because of embodied technical change. So the EPC regard it as a key performance indicator. Of course, the quality of investment is also very important and should not be forgotten when interpreting the data.
- **FDI flows as a share of GDP** is also considered to be an important indicator for the first set. FDI flows often bring with them transfers of technology and they are also an indicator of the attractiveness of different locations to relatively mobile investments.

**Table 11: Social Cohesion**

Commission Communication for synthesis report (6)	EPC list of top set indicators (7)
Relative poverty rate	
Persistence of poverty	
Distribution of income (quintile ratio)	Distribution of income (ratio of 80 <sup>th</sup> percentile and 20 <sup>th</sup> percentile)
Share of early school leavers (18-24 years old)	Share of early school leavers (18-29 years old)
	Absolute poverty index
Regional cohesion (variation of GDP)	Regional cohesion (variation of unemployment)
Jobless households	for further development
In employment section	Long-term unemployment rate

- **Jobless households:** The EPC recognises the importance of labour market conditions for social cohesion. But, as noted above, it propose to include long-term unemployment under the social cohesion heading rather than Jobless b-households. It considers indeed that further work needs to be done on this indicators, on the quality and significance of the data, which mixed the impact of unemployment and family structure on social cohesion.
- **Regional cohesion:** the Commission propose a measure based on the variation of real GDP per capita between regions. The EPC have some concerns about the regional GDP data, for instance since national GDP deflators are used differences in regional price levels are ignored. When looking at per capita regional income data, there are also statistical distortions caused by differences between where people work and live. The EPC therefore and prefer a measure based on regional unemployment differences. An indicator also proposed by the Employment Committee.
- In addition, the EPC considers that an indicator measuring the changes in the **absolute level in poverty** should be incorporated.
- The EPC prefer slightly different measure of the **income distribution** which allows for the fact that the data on the top and bottom 20 per cent of the population are poorly measured.

One final point, the Commission did not decide whether the **poverty indicators** should have a threshold of 50 or 60 per cent of median disposable income in its communication. The EPC supports a 50 per cent threshold.

## VI Conclusions

38. This paper marks the start of an effort to provide quantitative indicators of the progress towards meeting the objectives laid down in the Lisbon conclusions and in the BEPGs. The aim is for a single coherent set of indicators which inform policy. Also for a set of indicators which allow policy-makers to go into greater detail as necessary. The EPC considers that this list fulfils the mandate which the European Council gave to the Council in view of the European Council in Nice.. It considers that it might facilitate the agreement on a limited list of structural indicators for use in the Commission synthesis report in view of the next Spring European Council in Stockholm. This report also provides the Council and the Commission with a provisionallist of indicators to be used in the assessment of the implementation of the Broad Economic Policy Guidelines.

39. In specific areas further work is in train to develop both new indicators (eg on measures of corporate demography) and their interpretation (eg with regard to price levels). Considerable work is also ongoing in other Council formations. Some of this was not completed in time to be fully reflected in this report. The EPC encourages these formations to continue this important work. In many cases the other Council formations have specific expertise which will make a valuable addition to the indicators exercise. We note in particular that the work of the High Level Working Group on Social Protection is at an early stage and so these are particularly tentative.

40. The EPC propose to review the structural indicators towards the end of next year to ensure the subsequent synthesis report makes full use of ongoing development work and the work of the other Council formations. The EPC recommends that the Commission prepares a report on this.. It will also consider how the indicators have been used in the assessment of the implementation of Broad Economic Policy Guidelines and the other processes.

**Annex 1: Main procedures in ECOFIN or other Council Formations providing the third set of structural performance indicators**

The Luxembourg process to coordinate the European employment strategy. A list of indicators was developed by a sub-group of the Employment Committee, and these are used in the annual Joint Employment Report which provides the European Council with an assessment of the National Action Plans on Employment.

The Cardiff process to promote structural reforms in EU economies. A list of indicators has been agreed by the EPC, and the Council group on internal market-horizontal issues, as an illustrative one aimed at guiding the Member States in preparing their annual reports on structural reform.

The Social Agenda is being prepared by the High Level Group on Social Protection and it will be adopted by the Heads of State and governments in Nice in December 2000. The High Level Group will establish a list of indicators covering social cohesion and the improvement of the efficiency of social protection systems in the near future.

The e-Europe initiative. The Industry Council is to produce a limited list of indicators to monitor innovation, and set up, together with the Research Council, an Innovation scoreboard

Monitoring enterprise policy: the Industry Council decided to set up a monitoring group on enterprise policy. This is aimed at reinforcing best practice and benchmarking exercises already developed in this area.

The Environment Council is to agree indicators to present at the Gothenburg summit of Heads of State and governments in 2001.

## **Annex 2 : opinion expressed by the Employment Committee and the High Level group on Social Protection**

**Communication from the Commission to the Council, the European Parliament, the Economic and Social Committee and the Committee of the Regions**

### **Structural indicators**

#### **Opinion of the Employment Committee**

##### **Background**

In accordance with the Lisbon conclusions, the European Council will meet every Spring in order to review the economic and social situation of the Union on the basis of an Annual Synthesis Report on employment, innovation, economic reform and social cohesion to be prepared by the Commission.

In response to the mandate of the Feira European Council, the Commission adopted on 27 September a Communication to the Council on structural indicators for the Synthesis Report.

Structural indicators are on the agenda of the Employment and Social Policy Council of 17 October. In order to prepare this discussion, and following a suggestion by the Presidency, the Employment Committee has examined the Communication and adopted the present opinion having consulted the working group on indicators.

##### **General comments**

The Committee supports the view that the indicators, although classified into four distinct areas, should contribute to an integrated view of progress achieved towards the overall objectives defined by the Lisbon Summit and therefore should not be considered in isolation. For this reason, and whilst devoting more attention to the indicators proposed for the employment area, the Committee also examined indicators in other areas which present a special interest from an employment perspective.

The Committee wishes to emphasise that the information provided by the structural indicators has to be completed by a qualitative assessment. The Annual Synthesis Report should therefore make best use of all relevant quantitative and qualitative information related to employment. There is also a need to ensure consistency between the Annual Synthesis Report and the Joint Employment Report.

The Committee agrees with the need to use a limited number of indicators in the Annual Synthesis Report in order to focus the policy debate while ensuring a balanced assessment of performance and progress across the four areas. It also

welcomes the attention paid to data availability and comparability in establishing the list of indicators, and in particular, the setting of priorities for the further development of indicators.

The Committee is aware that the Annual Synthesis Report will focus on assessing progress of the EU towards the implementation of the Lisbon strategy and that the key structural indicators proposed have to be viewed in this perspective. Bearing in mind the need for consistency with those overall objectives, progress in the implementation of the Employment Strategy and the various sectoral policies by the Member States will continue to be monitored in their respective frameworks. The Committee emphasises the importance of continued efforts to develop relevant indicators for this purpose. For its part, the Committee will ensure that new developments arising from the Luxembourg process are reflected in indicators proposed for future Annual Synthesis Reports.

The Committee underlines the need for effective co-ordination between all relevant groups, while respecting their areas of responsibility, and wishes to express its commitment to co-operate with other Committees and technical groups.

#### **Employment indicators**

The Committee welcomes the inclusion of several key indicators agreed for the monitoring of the Luxembourg process in the present set of structural indicators. All structural indicators related to employment have also been used for the assessment of the Luxembourg process in the Joint Employment Report except for the indicator of taxation on low paid work.

The Committee agrees that the aspects covered by the present seven indicators reflect the priority policy objectives to be assessed in relation with the strategic goals defined by the Lisbon Summit. However, further improvements could be considered, either in the present exercise or in the future, after development of indicators in the context of the Luxembourg process.

The Committee strongly recommends that time series be used for the assessment of progress and performance, in order to take into account differences in Member States' situations of departure, as well as the effect of cyclical changes in economic activity.

The Committee fully agrees with including the female employment rate in the list of indicators in order to assess progress towards the specific long-term target defined by the Lisbon Summit. However, in line with the text of the Communication (point 21), it considers that gender breakdowns should be given where appropriate and in particular, should be available for indicators 1, 3, 4 and 5. This would mean merging the first two indicators and thus allow for adding a further indicator without increasing the total number of indicators for employment.

The Committee considers that despite significant improvements over recent years, reducing youth unemployment remains an important objective of the European Employment Strategy that also contribute to the goals defined by the Lisbon Summit. This should be reflected in the present list of structural indicators. The indicator should be the one agreed for the Luxembourg process, that is, the ratio of youth

unemployment to the youth population.

In line with the importance placed on lifelong learning in the Lisbon Conclusions, the Committee strongly supports the inclusion of an indicator on lifelong learning in the first Annual Synthesis Report, while sharing the concerns about the comparability problems raised by the indicator proposed in this area. It therefore recommends that work to improve this indicator or to explore alternative sources be undertaken as soon as possible. However, the Committee feels that the proposed indicator should be used in the Annual Synthesis Report for 2001.

As underlined in the text of the Communication (point 27), the European Council stressed the importance of an active employment policy. The Committee considers that promoting active labour market policies is a key objective of the Luxembourg process and that this objective should be better reflected in the future set of indicators.

The Lisbon strategy recognises lifelong learning and education and training as key factors to achieve a knowledge-based economy and society. The need to increase participation in employment should therefore not be to the detriment of encouraging participation in education and training of the younger age groups. As it is presently defined, the overall employment rate includes young people at an age where the large majority are still in education. The Committee would be in favour of adjusting upwards the bottom age limit used for this indicator. For the first Annual Synthesis Report, however, and in order to ensure consistency with the indicators used for the Joint Employment Report 2000, the Committee would agree with using the present definition. It would consider a possible change to be introduced in the next exercise.

The Committee expresses some reservations regarding the indicator proposed for taxation on low paid labour. It underlines that it is not consistent with its decision regarding this indicator for the Luxembourg process; in particular, that the present 67% threshold is too high. The Committee also considers that the objectives to be stressed are the elimination of disincentive effects of tax systems and of poverty and unemployment traps and would therefore favour an indicator enabling a better measurement of these dimensions. The taxation indicator proposed under indicators to be developed appears more suitable in that regard. While acknowledging that existing data may not enable a more suitable indicator to be developed in due time for the ASR, the Committee stresses the urgency of completing the ongoing work in this domain and elaborating a better indicator.

The Committee agrees with the priorities regarding indicators to be developed, although it shares the concerns regarding the difficulties linked to the development of indicators on the quality of work and the insufficient comparability of present sources to measure flows into LTU. Therefore the Committee stresses the urgency of further work to address these concerns.

### **Social cohesion**

The Committee draws attention to the fact that the development of indicators in this area is at an early stage and emphasises the need to avoid pre-empting the future work of the High Level Social Protection Group.

While fully recognising social cohesion as a distinct policy area, the Committee strongly supports the statement of the Communication (point 12) on the important role of employment in promoting social inclusion. Some employment-related structural indicators could therefore help in assessing progress towards social inclusion objectives, in line with the initial conclusions of the High Level Group on Social Protection on the Communication. The Committee also feels that regional differences in employment and unemployment should be considered under aspects related to regional cohesion. However, enlarging the scope of the indicators currently proposed under social cohesion – apart from the employment dimension – is ultimately a matter for the High Level Group on Social Protection.

The Committee would welcome the opportunity to exchange information on the work done by the High Level Group and is willing to encourage appropriate co-ordination between their respective groups of experts on indicators.

### **Innovation**

The Committee recognises that the indicator of public expenditure on education can be appropriate in relation with the target of increasing investment in human resources defined by the Lisbon Summit. However, it considers that further work is needed to develop indicators enabling a reflection of progress in relation to quality aspects.

The Committee considers indicators 3, 4 and 6 in this area as a first step and would welcome in the future the inclusion of indicators more related to the effective use of Internet and ICT.

**Initial conclusions of the High Level Group on Social Protection on the Commission's Communication on structural indicators of 27 September 2000.**

**Background.**

The European Council of Lisbon, with a view to ensuring overall coherence and the effective monitoring of progress towards the new strategic goal which it had established, decided that it should hold a meeting every Spring devoted to economic and social questions. Accordingly the Council invited "... the Commission to draw up an annual synthesis report on progress on the basis of structural indicators to be agreed relating to employment, innovation, economic reform and social cohesion". The Feira European Council of June 2000 requested that the Commission should start preparing this work by "presenting a report by the end of September on the proposed approach for indicators and benchmarks, both in specific policies and to be used in the synthesis report to the Spring European Council, to ensure the necessary coherence and standard presentation".

In response to this demand, the Commission has adopted on 27 September 2000 a communication on structural indicators.

**Response of the High Level Group on Social Protection.**

At the request of the Presidency, the Commission made a presentation to the Group at its meeting of 29 September 2000 outlining the Communication. The Group had an initial discussion of the Communication focussed on:

- the general approach proposed in the Communication;
- the specific proposals relating to social cohesion;
- the possible contribution of the High Level Group to the ongoing work of developing the appropriate indicators.

The Group has reached the following first conclusions:

General comments

- The drawing up of structural indicators and the preparation of the synthesis report for the Stockholm and subsequent annual Spring summits constitute important steps in the implementation of the overall integrated strategy set out at Lisbon. It is necessary to ensure that this integrated strategy, and the balance and the interaction between all its policy areas, including gender and vulnerable groups aspects, are reflected as fully as possible in the work on indicators and in the synthesis report. It is also necessary to take into consideration the pace of progress and developments as they occur in each of these policy areas in Member States and at EU Level.

- The Group welcomes the Communication's emphasis on mutually reinforcing economic, employment and social policies. The efforts called for in Lisbon with regard to economic reform and employment are expected to strengthen social cohesion. In turn, social cohesion is also a productive factor and a precondition for growth and for maximising the potential of human resources: the development of social policies in support of social cohesion is a key element within the strategic vision of Lisbon, together with the implementation of structural reforms and the maintenance of an appropriate mix of macro economic policies. As a result, the efforts aimed at modernising social protection and promoting social inclusion have to be adequately reflected in the Synthesis Report. In accordance with the mandate that it received in Lisbon, the Group will contribute to the definition of the relevant indicators in these areas.

#### Social cohesion

- The Group acknowledges that the development of indicators in relation to social cohesion is as yet at an early stage and it welcomes the recognition of the need for ongoing work in this field. It invites the Commission to strengthen the work in this respect with a view to ensuring a balance between the main policy areas of Lisbon. It acknowledges also that indicators in other domains, for example within the employment group of indicators (para. 28), can contribute to illustrate aspects of the social cohesion objective.
- The Group welcomes the recognition that "social exclusion is a multidimensional phenomenon and indicators must be developed accordingly". As a result, the existing indicators which are proposed only provide a first approach to social exclusion and poverty. Further developments of the work should also refer to social exclusion and inclusion in the context of the move towards the knowledge based economy and society.
- The definition of objectives at the Nice Summit will give a major impetus to the eradication of poverty. On the basis of these objectives, Member States will prepare national action plans which will address the question of developing relevant indicators. This will contribute to improve indicators at the EU level.
- Having regard to the Lisbon conclusions, the Group feels that it is also necessary to develop the analysis of the role protection and, in particular, its impact on social cohesion. The study assigned to the Group on the future evolutions of social protection, including in particular the sustainability of pension systems, will be undertaken in this perspective.
- The Group highlights that the synthesis report should not only describe the problems faced by our society but also illustrate how policies address them. The Group emphasises therefore the need for further work on the effectiveness of all social policies relevant to the national action plans, with a particular emphasis on social protection.

**Further Steps**

- The Group intends to continue its reflection on the Commission's Communication and on the issue of indicators generally at its forthcoming meetings and may set down further conclusions with a view to having them taken into account in the drafting of the synthesis report for the Stockholm Summit. It also considers that the Social Protection Committee should play a leading role in setting policy direction regarding the definition of indicators and should be ready to take up work on this basis by 2001.

To this end the Group feels it is important to ensure that sufficient time and resources are devoted to the development of summary indicators capable of being used in future annual synthesis reports. The Group thinks that it would be necessary that the Social Protection Committee should establish a sub-committee on indicators early in the new year. The Group intends to co-ordinate its work on this issue with the Employment Committee and proposes to liaise with the Economic Policy Committee

## Annex 3 : precise definitions of the proposed indicators

## MACRO-ECONOMIC PERFORMANCE

## Top-tier (7 indicators)

Indicator	Precise definition	Statistical source	Type of indicator
Real GDP growth	Growth rate of GDP at constant prices	Eurostat, National Accounts	Performance
GDP per capita	GDP per capita calculated in PPS	Eurostat, National Accounts	Performance
Labour productivity (level and growth rate)	GDP calculated in PPS divided per hour worked Growth rate of [GDP in constant price divided per hour worked]	Eurostat; OECD for per hour worked data (from 2003 Eurostat, ESA95, annual data) (ECB)	Performance
inflation	Annual percentage change in harmonised index of consumer prices (HICP)	Eurostat, Price Statistics	Performance
Energy consumption as % of GDP <sup>5</sup>	Gross inland consumption of energy /GDP	Eurostat	Performance
Public balance	Net borrowing of the general government, as used in the EDP procedure, as a percentage of GDP	Eurostat, ECFIN; AMECO, derived from National accounts	Performance
General government debt	General government gross debt as a percentage of GDP, as used in the EDP procedure	Eurostat, ECFIN Ameco database	Performance

<sup>5</sup> Indicator agreed by the Environment Council  
44

**3-1 Ensure growth and stability –oriented macroeconomic policies (1 indicator)**

- i- Monetary policy committed to maintain price stability, in accordance with the Treaty
- ii- Sustained efforts for MS to speed up fiscal consolidation :
  - Achieve as rapidly as possible budgetary positions close to balance or in surplus
  - Lower public debt
- iii- support wage developments consistent with price stability and job creation

Indicator	Precise definition	Statistical source	Type of indicator
Current account balance	Current Account balance as a percentage of GDP	Eurostat (EU-15 and EU countries), ECB (Euro area current account), IMF US	Performance

### 3-2 Speed up the ongoing process of fiscal consolidation (1 indicator)

- i- take advantage of the better than expected economic growth to achieve budgetary positions in 2000 better than in the 2000 updated SCP;
- ii- as growth remains strong meet a budgetary position close to balance or in surplus as a rule in 2001;
- iii- pursue where appropriate further fiscal consolidation beyond the minimum required by the SGP to create additional room for manoeuvre for cyclical stabilisation, unexpected budgetary developments, putting the debt on a more rapidly descending trajectory, preparing challenges associated with ageing population.

Indicator	Precise definition	Statistical source	Type of indicator
Public primary balance	Net borrowing of the general government as a percentage of GDP, excluding interest payments	Eurostat, ECFIN; AMECO, derived from National accounts	Policy

### 3-3 improve the quality and sustainability of public finances (5 Indicators)

- i- improve the sustainability of MS public finances principally through expenditure restraint rather than through tax increase
- ii- introduce or enhance the mechanisms and institutions that help control spending, in this context the ceilings for expenditure could be considered
- iii- redirect government spending to give greater importance to investment in physical and human capital, R&D, innovation and information technologies, so as to ensure a substantial annual increase in per capita investment in human resources
- iv- review benefit system, in order to make work pay
- v- reduce the tax burden, especially on low-wage labour, to favour employment within continued fiscal consolidation
- vi- promptly review pension and health care system in view of the budgetary challenges of ageing population
- vii- improve the efficiency and transparency of tax systems, especially through widening the tax base, reducing tax rates and ensuring appropriate enforcement procedures
- viii- engage in reforms of the VAT system, aiming at greater simplification and modernisation of existing rules, more uniform application of existing provisions and the re-enforcing of administrative co-operation : conclude the discussion of e-commerce, which is instrumental to guaranteeing a smooth functioning of the internal market
- ix- pursue tax-co-ordination so as to avoid harmful tax competition; reach an agreement on the tax package in line with the conclusions of the European Council held in Helsinki in December 1999.

Indicator	Precise definition	Statistical source	Type of indicator
Public investment	Investment of the General Government as a percentage of GDP	Eurostat; National accounts	Policy
Public education expenditure	Share of education expenditure of the General Government as a percentage of GDP	Joint UNESCO/OECD/ Eurostat Questionnaire	Policy

Tax burden	Total revenues from taxes and social security contributions, including imputed social security contribution as a percentage of GDP	Eurostat, ECFIN; AMECO, derived from National accounts	Policy
Structure of Public revenues	Share of social security contributions, direct taxes and indirect taxes in the total revenues of the General Governments	Eurostat, ECFIN; AMECO, derived from National accounts	Policy
Growth of public expenditures	Annual percentage change in total expenditures of the general government at current prices	Eurostat, National Accounts	Policy

## 3-4 Promote appropriate wage developments (3 indicators)

- i- insist that nominal wage increases be consistent with price stability. This implies, that, in the euro-area, aggregate wage increases will be consistent with keeping price increases within the price stability objective of the ECB
- ii- stress the importance of real wage developments for strong employment growth; and encourage real wages to increase in relation to labour productivity growth while taking into account the need to strengthen, where necessary, and subsequently maintain, the profitability of capacity-enhancing and employment-creating investment
- iii- ensure that collective bargaining systems take account of productivity differences (whether according to skill, qualification, sector, enterprise or geographical area) when determining wage levels
- iv- pursue policy aiming to reduce gender pay differences due to de facto discrimination

Indicator	Precise definition	Statistical source	Type of indicator
Nominal wages growth	Annual percentage change in nominal gross wages and salaries per employee	Eurostat, ECFIN; AMECO, derived from National accounts	Performance
Nominal unit labour cost growth	Annual percentage change[ in nominal compensation per employee (i.e. excluding the self-employed) divided by GDP at constant prices per person employed](i.e. including the self-employed)	DG ECFIN Ameco database (derived from national accounts)	Performance
Wage differentials between males and females <sup>9</sup>	Ratio of women's hourly earnings index to men's for paid employees at work +15 hours.	Eurostat Community Household Panel (ECHP)	Performance

<sup>9</sup> Indicator specified by the EMCO ad hoc group on structural indicators. This indicator should be improved, so as to eliminate differences in working occupation.

### 3.9- Enhance sustainable development (3 indicators)

i- introduce or strengthen market-based policies like taxation, user charges insurance/liabilities schemes and tradable permits, which put a price on scarce resources; help achieving the EU objectives under the Kyoto protocol; and contribute to break the link between environmental pressure and economic growth

ii- reassess sectoral subsidies and tax exemptions and other existing measures which have a negative environmental impact whilst taking fully account of other relevant economic and social factors

Indicator	Precise definition	Statistical source	Type of indicator
Aggregated emission of 6 greenhouse gases		UNFCCC	Performance
Water quality	N and P in rivers	EEA	performance
Waste	Industrial waste (kg/1000 USD GDP)	OECD, Environmental Data compendium	Performance

## INNOVATION

## Top-tier indicators (7 Indicators)

Indicator	Precise definition	Statistical source	Type of Indicator
Educational attainment rate of young population	Percentage of 15-19 in education and Percentage of population aged 25-34 having achieved tertiary educational attainment	Eurostat, Labour Force Survey (LFS)	Performance
Total R&D expenditure	Total R&D expenditure as a percentage of GDP (broken down by government and others)	Eurostat R&D statistics, OECD (main science and technology indicators) <sup>10</sup>	Performance
Patents	Patents applications with the US- and with the European Patent Office, broken by countries of inventor (EU member States, US, Japan)	European Patent Office (EPO) and US Patent Office (USPO)	Performance
Venture capital as a % of GDP	Venture capital investments (ie private equity minus buyouts) relative to GDP	European Venture Capital Association (for the EU) National Venture Capital Association (for the US)	Performance

<sup>10</sup> Time series : 1990-1999 (1998 and 1999 for most MS)

<sup>11</sup> Definition of the ICT sector

(1) Information Technology: IT hardware (Computer hardware, office equipment and data communications hardware) plus IT software and services (systems software, applications software, consulting services, implementation services, operations management, support services).

(2) Communications Technology: End-user equipment (e.g. telephone sets and mobile telephone sets) plus Network equipment (e.g. circuit switching equipment and cellular mobile radio infrastructure) plus Carrier services (e.g. telephone services including internet and online services, mobile telephone services and cable TV services).

ICT weight in total economy <sup>11</sup>	ICT expenditures as a percentage of GDP	European Information Technology Observatory (EITO)	Performance
Exports of high-technology products <sup>12</sup>	Share of high-tech export products in total exports	Eurostat	Performance
Level of internet access <sup>13</sup>	Internet on-line active accounts (both residential and business users) per 100 inhabitants	European Information Technology Observatory (EITO)	Performance

**11 Definition of the ICT sector**

(1) **Information Technology:** IT hardware (Computer hardware, office equipment and data communications hardware) plus IT software and services (systems software, applications software, consulting services, implementation services, operations management, support services).

(2) **Communications Technology:** End-user equipment (e.g. telephone sets and mobile telephone sets) plus Network equipment (e.g. circuit switching equipment and cellular mobile radio infrastructure) plus Carrier services (e.g. telephone services including internet and online services, mobile telephone services and cable TV services).

**12 High Technology Sector:** Aerospace, Computers and Office Machinery, Electronics, Instruments, Pharmaceuticals, Electrical Machinery, Non-electrical Machinery, Armament.

### 3-5 Foster a knowledge-driven economy (7 Indicators)

- i- provide adequate framework conditions to increase the involvement of the private sector in the financing of R&D expenditures, R&D partnerships and high technology start-ups, for example by using tax policies and by improving the functioning of risk capital markets
- ii- stimulate competition in product and capital markets, in particular by removing entry and exit barriers, with a view to strengthening incentives for firms to innovate and to promote the diffusion of technology and information
- iii- ensure efficient and adequate public support for the funding of basic research, the creation of centres of excellence and the provision of incentives for the establishment of better links between research institutes and business and ensure the dissemination of information ; EC state aid rules must be strictly applied
- iv- ensure availability of low-cost, high-speed Internet access
- v- take measures to reduce the fragmentation and compartmentalisation of the R&D effort and to intensify co-operation at the EU level so as to establish a European area of research and innovation; improve the networking of research centres by 2001 and take steps to remove obstacles to the mobility of researchers by 2002. ensure, on the basis of a Commission proposal, the establishment of an EU patent system by 2001
- vi- strengthen education and training efforts, both private and public, in order to raise the adaptability of the labour force and to avoid the emergence of unemployment and social exclusion due to the lack of skills; promote lifelong learning of Information Society skills, encourage companies, workers and educational institutions to participate in Lifelong Learning, halve by 2010 the number of 18-24 years old with the only lower-secondary education who are not in further education and training; increase the number of researchers and engineers; guarantee the availability of internet and multimedia resources to all schools by the end of 2001 and the required teacher skills by the end of 2002; use information technology on a wider scale in schools

Indicator	Precise definition	Statistical source	Type of Indicator
S&T graduates	share of S&T graduates as a percentage of population aged 25-29 <sup>14</sup>	Eurostat, Education statistics (from Joint Eurostat / OECD / UNESCO questionnaire)	Performance

<sup>14</sup> Graduates of tertiary education (in natural sciences, engineering, mathematics and computing. This measure also includes programmes that do not lead to a university degree but which generally require the prior successful completion of a programme of upper secondary level for admission to them.

Educational attainment <sup>15</sup>	Percentage of population having achieved upper secondary educational attainment	Eurostat, Labour Force Survey	Performance
Capitalisation of stock new markets for high-growth companies	As a percentage of GDP	FIBV; stock markets, ECB statistics for companies acting world-wide, the national breakdown not trivial	Performance
Number of companies having received early-stage financing	Number of companies having received seed and start-up financing as a percentage of total companies	EVCA	Performance
% of secondary schools connected to the internet <sup>16</sup>	Percentage of schools connected to the internet in secondary education	OECD, Education Policy Analysis or national data	Performance
Use of mobile phones	Mobile phones for 1000 inhabitants	OECD, Communications Outlook	Performance
Employment in the ICT sector	Percent of total employment in ICT sector	OECD, Information technology and Communication outlook	Performance

<sup>15</sup> Agreed by the EMCO ad-hoc group on indicators

<sup>16</sup> Agreed by the EMCO ad-hoc group on indicators, available for 11 countries  
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## ECONOMIC REFORM

## Top-tier indicators ( 6 indicators)

Indicator	Precise definition	Statistical source	Type of indicator
Trade integration <sup>17</sup>	Total export of goods + total imports of goods divided by 2* GDP	Eurostat (Comext), further work at eurostat planned within EDICOM II	Performance
Relative price levels <sup>18</sup>	Relative price levels of private final consumption including taxes (EU=100)	Eurostat /OECD (consumer price statistics: PPP indicators)	Performance
Prices in network industries	Relative Consumer price level for specific services in the telecommunications (local call, national call, call to USA), electricity (for medium annual consumption 2000MWh for Industry users and 3500 mWh for households, excl. taxes)and gas (medium consumers : annual consumption 83,7Gj, excl. taxes) markets	Eurostat (price statistics) DG INFSO for telecommunication data	Performance
Business investment	Business investment expenditure as percentage of GDP	Eurostat, national accounts	Performance

17 The dimension of the country must be taken into account when interpreting this indicator.

18 This index does not only reflect market efficiency and integration but also differentials in economic development. Moreover, the current available indicator includes the effect of taxes. Work will have to be done in the near future to present an indicator neutralising the effect of taxes.

Capital raised on stock market	Capital raised on stock markets as a percentage of GDP	FIBV; ECB statistics	Performance
total FDI flows	As a Percentage of GDP and Member State share in EU total	Eurostat (FDI, national accounts) and SDC M&A data base	Performance

### 3.6- Ensure efficient product (goods and services) markets ( 8 indicators)

- i- implement the internal market legislation fully and effectively, especially in the areas of public procurement and technical standards; take measure to ensure availability of both Government procurement and basic public services on line by 2003; reduce the volume of national technical regulation to the strict minimum; improve the functioning of the mutual recognition principle
- ii- ensure the independence of competition authorities; empower competition authorities to enforce Articles 81 and 82 of the EU Treaty with transparent and effective instruments;
- iii- reduce State aid, in particular ad hoc aid, and redirect it towards horizontal goals; improve the monitoring of State aid and the assessment of its efficiency
- iv- complete the liberalisation of the telecommunications market by the end of 2001 and, in particular, work towards strengthening competition in local access before the end of 2000
- v- speed up the liberalisation of energy (electricity and gas), postal services and transport sectors aiming at a truly internal market in these areas, fully implement the Community directives that open markets for public utilities; make certain that the benefits of lower prices and high quality are also transmitted without delay to consumers and industrial users via adequate regulation and taking into account of public service obligations; systematic assessment of reforms in networks industries in needed after they have been implemented
- vi- reinforce competition in services sectors, especially in the financial services, the distribution sector and business services; on the basis of a Commission proposal, agree on a strategy for the removal of barriers to services by the end of 2000 and undertake measures to enable electronic commerce to fully develop its potential
- vii- reduce regulatory burden on business, in order to create a more friendly environment for innovative business, especially the set up and the running of SMEs, and set out a strategy for further co-ordinated action to simplify the regulatory environment by 2001;
- viii- develop a systematic approach to the regulatory framework for services which could aim at identifying areas where market elements could be used in the provision of public services; develop measures to improve the efficiency of public administration by promoting the use of new management an communication (e-commerce, Internet, public procurement on line) techniques and by stimulating transparent Public-Private Partnerships
- ix- monitor the effective implementation of the many regulatory reforms in order to obtain concrete results in terms of economic efficiency and consumer benefits

Indicator	Precise definition	Statistical source	Type of indicator
Intra EU trade as a % of GDP	Intra EU exports of goods + intra -EU imports of goods divided by 2* GDP	Eurostat (Comext), further work at Eurostat planned within EDICOM II	Performance
Technical barriers to manufacturing trade	Shares of EU trade covering harmonised and non-harmonised areas respectively <sup>19</sup>	Cardiff report, DG MARKT	Performance
Non Transposition rate	Percentage of all Single Market directives which should have been already transposed	Single Market Scoreboard, Dg Markt	Policy
Value of Public procurement tenders not published in the Official Journal	As a percentage of GDP	Dg Markt	Policy
State aids	State aids (sectoral and ad-hoc) as a percentage of GDP	Dg Comp- European Commission	Policy
Market share of public enterprises (general and sectoral)	Share of the total added value in industry produced by public enterprises	Eurostat SBS	Policy
Market Structure in banking	Number of banks broken down by size classes of total balance sheet	Eurostat SBS ECB	Performance
Market structure in telecoms	Market share of the largest and the three leading operators on fixed and mobile phones	Eurostat SBS	Performance

<sup>19</sup> The indicator "technical barriers to trade" is a comparison of the growth of total intra-EU12 manufacturing trade with the growth in intra-EU12 manufacturing trade covered by the New Approach. Trade covered by the New Approach inside the EU has been gradually growing in importance and now represents about 31% of total manufacturing trade

### 3.7- Promote capital markets through further integration and deepening (9 Indicators)

- i- facilitate the widest possible access to investment capital on an EU-wide basis, including for SMEs, by means of a "single passport for issuers"
- ii- facilitate participation of all investors in an integrated market by eliminating barriers to investments in and by pension funds, by ensuring adequate investor protection, by clarifying the distinction between sophisticated and retail investors, by reviewing conduct of business rules and by improving the framework for the investment activities of institutional investors
- iii- promote further integration of government bond markets through greater consultation and transparency on debt issuing techniques and instruments, and improved functioning of cross-border sale and repurchase markets;
- iv- improve the efficiency of securities clearing and settlement systems, with the aim of facilitating and promoting sound cross-border activities;
- v- enhance the efficiency of cross-border retail payment systems through improving the procedures for processing cross-border payments and communication with the customers;
- vi- enhance the comparability of financial statements of companies which need access to an integrated financial market and allow the EU to respond quickly to developments underway in the international accounting field;
- vii- speed up fiscal actions to promote the development of new firms and investment in venture capital, changes in bankruptcy legislation to give entrepreneurs a second chance, and actions to promote employee ownership schemes;
- viii- ensure more intensive co-operation between EU financial market regulators and supervisors;
- ix- follow-up on the EU provisions on take-over bids and on the restructuring and winding-up of credit institutions and insurance companies

Indicator	Precise definition	Statistical source	Type of indicator
Stock market capitalisation	Stock market capitalisation as a percentage of GDP	FIBV; ECB statistics	Performance
Bond market capitalisation	bond market capitalisation as a percentage of GDP (breakdown by type of issuers)	FIBV; ECB statistics	Performance

Investment of institutional investors in equity and bonds	Investment in equity and bonds from institutional investors as a percentage of GDP	OECD	Performance
Volume of new corporate and financial institutions bond issues	relative to GDP, breakdown by types of issuer (financials, corporates)	DG ECFIN-SOF internal database	Performance
Long term differential on government bonds relative to the Eu average	10 years government bond interest rate differential between a country and the Eu average (data available for the EU member States and the US)	Datastream	Performance
Corporate financing by Bank loans	Monetary and financial institutions' loans to domestic non-financial corporations as a % of business investment	ECB	Performance
Cross-border banking penetration	Bank's cross border assets and liabilities as a percentage on total assets and liabilities	Bank for International Settlements/Eurostat	Performance
intra-EU FDI flows	As a Percentage of GDP and Member State share in EU total	Eurostat (Fdi, national accounts) and SDC M&A data base	Performance
% of foreign equities and bonds in domestic portfolios		Eurostat/OECD financial account statistics	Performance

## EMPLOYMENT

## Top-tier ( 7 indicators)

Indicator	Precise definition	Statistical source	Type of indicator
Total Employment rate <sup>17</sup>	Persons in employment in age bracket 15-64 years as proportion of total population in the same age bracket, breakdown by gender	Eurostat, Labour Force Survey	Performance
Employment growth <sup>18</sup>	Annual change in total occupied pop.(breakdown by gender)	Eurostat, National accounts	Performance
Employment rate of older workers <sup>19</sup>	Persons in employment aged 55-64 years as proportion of total population in the respective age bracket (breakdown by gender)	Eurostat, Labour Force Survey	Performance
Unemployment rate <sup>20</sup>	Total unemployed individuals (ILO def.) as a share of total active pop., % (breakdown by gender)	Eurostat harmonised series	Performance

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17 Agreed by the EMCO ad hoc group on indicators

18 Agreed by the EMCO ad hoc group on indicators

19 Agreed by the EMCO ad hoc group on indicators

20 Agreed by the EMCO ad hoc group on indicators

Real Unit labour cost growth	Annual percentage change in [nominal compensation per employee (i.e. excluding self-employed) divided by GDP at market prices per employed person (i.e. including self-employed)]	DG ECFIN Ameco database (derived from national accounts)	Performance
Lifelong learning indicator <sup>21</sup>	Percentage of population participating in education and training (25-64 years old) – Adult participation in training over 4 weeks prior to the survey	Eurostat, Labour Force Survey (LFS)	Performance
Tax-rate on low wage earners <sup>21</sup>	Income tax plus employee and employer contributions for low-wage earners (i.e. with a wage of 67% % of an average production wage and with no child, or 100% for a married couple with two children) as a share of labour cost	OECD database	Policy

<sup>21</sup> We would have preferred the indicator agreed by the EMCO ad hoc group on indicators, but since this indicator is not yet available, we can accept the Commission proposal but strongly support that further work will be done so as to deliver next year the indicator agreed by EMCO.

## SOCIAL COHESION

## Top tier indicators (7 indicators)

Indicator	Precise definition	Statistical source	Type of indicator
Income distribution	Ratio of the ratio of the 20th percentile to the 80th percentile of income distribution	ECHP	Performance
Absolute poverty rate	Share of population below the poverty line. Poverty line defined as 50% of the median-equalised disposable income in 1994	ECHP	Performance
Relative poverty rate <sup>25</sup>	Share of population below the poverty line. Poverty line defined as 50% of the median-equalised disposable income	ECHP	Performance
Persistency in poverty <sup>26</sup>	Share of population consistently below the poverty line for a three-year period. Poverty line defined as 50 % of the median-equalised disposable income	ECHP	Performance
Long-term unemployment rate <sup>27</sup>	Total long-term unemployed population (> 12 mths ; ILO definition) as proportion of total active population	Unemp. Harmonised series Eurostat ,Labour Force Survey	Performance

25 possible problems of comparability

26 All MS except Sweden, Finland and Austria

27 Agreed by the EMCO ad-hoc group on indicators  
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Regional unemployment	Standard deviation in unemployment rate at the NUTS 3 level for regions	Eurostat, Regional statistics	Performance
Share of early school-leavers <sup>28</sup>	Share of people aged 18-29 years with only lower secondary education and not in education, training	Eurostat, Labour Force Survey	Performance

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<sup>28</sup> Agreed by the EMCO ad-hoc group on indicators

### 3.8- Invigorate labour markets (6 Indicators)

- i- promote the transition from passive to active measures and implement a comprehensive preventive strategy against long-term and youth unemployment, in line with the Employment guidelines; in particular raise the employability of individuals through a lowering of taxes and social security contributions, especially on low-paid workers; facilitate access to labour market training, education and lifelong learning, and aim at reintegrating the unemployed through well-focussed active programmes; involve the social partners with the public authorities in the efforts to improve education, training and opportunities for lifelong learning
- ii- review and reform, where appropriate, tax and benefit systems to ensure effective incentives and rewards for participation in an active working life; assess passive income support and compliance with eligibility criteria in benefit schemes to other expensive, passive systems outside the labour market and develop active labour market measures to avoid long-term unemployment supported by purely passive systems
- iii- enhance labour mobility, inter alia through mutual recognition of qualifications and by improving the portability of pension entitlements in order to sustain labour mobility across sectors and regions in the EU
- iv- modernise work organisation in co-operation with the social partners, including flexible working time arrangements, measures to facilitate part-time work and an assessment of tight job protection legislation and high severance payments; accompany any reductions in overall working time, whether by legislation or social agreements, by efforts to prevent increases in unit labour costs and take future labour supply needs into account
- v- strengthen efforts on equal opportunities policy for women and men, inter alia, by improving incentives in tax and benefit systems and by promoting policies to reconcile work and family life
- vi- strengthen efforts to agree on steps to secure a more inclusive labour market by the end of 2000

Indicator	Precise definition	Statistical source	Type of indicator
Youth unemployment ratio <sup>28</sup>	Total of unemployed young people (15-24 years old) as a share of total population in the same age bracket; breakdown by sex ; %	Unemp. Harmonised series Eurostat Labour Force Survey	Performance

<sup>28</sup> Agreed by the EMCO ad-hoc group on indicators  
65

Participation rate	Total employed and unemployed people as a percentage of total population of 15-64 years old (breakdown by age and sex)	Eurostat, Labour Force Survey	Performance
Tax wedge on employees	Sum of employer & employee security contributions, personal taxes on labour income as well as consumption taxes paid by employees as a share of labour costs for employees	DG EFCIN (AMECO database and OECD Revenue Statistics)	Policy
Effective tax rate on employees <sup>29</sup>	Income taxes on employed labour plus employees' and employers' social security contributions/ labour costs for employees	DG TAXUD on the basis of ECFIN AMECO Data base and projections	Policy
Activation rate <sup>30</sup>	Number of participants in training and similar measures who were previously registered unemployed related to the number of registered unemployed (yearly average)	NAPs	Performance
Net replacement rates	Ratio of out-of-work income to in-work income net of taxes and benefits	Based on the OECD published figures	Policy

<sup>29</sup> Agreed by the EMCO ad-hoc group on indicators

<sup>30</sup> Agreed by the EMCO ad-hoc group on indicators

## Indicators for further development

## First layer

Indicator	Precise definition	section	Type of indicator
potential output and output gap		Overall performance	Performance
Cyclically adjusted public balance		Overall performance	Policy
cost of internet access		Innovation	Performance
Interconnection charges		Economic reform	Performance
Market structure in network industries		Economic reform	Performance
Public share of network industries (for the whole economy)		Economic reform	Performance
Share of incumbent in network industries		Economic reform	Performance
Efficiency of Public Administration		Economic reform	Performance
Cost of capital			Performance
Company registration	Total number of weeks and procedures lapsed between the application for and completed registration of a new company	Economic Reform	Policy
Regulatory environment		Economic Reform	Policy
Corporate demography		Economic Reform	Performance

Total Employment rate (Full time equivalent)	Total hours worked divided by the average annual number of hours worked in full-time jobs, calculated as a proportion of total population in the 15-64 age bracket;	Employment	Performance
Dispersion in regional GDP		Social Cohesion	Performance
Jobless households	Share of households in which no member is in unemployment among all households in which at least one person is aged 25-55	Social Cohesion	Performance
Benefit dependency ratio	Number of working age recipients of benefits substituting work income (disability, unemployment benefits, etc.) as a % of working age population	Employment	Performance

## Indicators for further development

## Second layer

Indicator	Precise definition	section	Type of indicator
Total factor productivity level		3-1	Performance
Cyclically adjusted primary balance		3-2	Policy
Projected evolution of pensions spending <sup>31</sup>		3-3	Policy
Projected evolution of, health-care spending and total social expenditure (including education <sup>32</sup>		3-3	Policy
Land use	Land- use changes (Eurostat EEA)	3-9	Performance
Tons of waste per resident recycled products		3-9	Performance
Biodiversity		3-9	Performance
Public services on line	Taxes services, social security on line and e-public procurement as a percentage of total public procurement	3-5	Policy
E-commerce as a % of total sales		3-5	Performance

<sup>31</sup> ) in view of the work under progress in the EPC working group on ageing

<sup>32</sup> ) in view of the work under progress in the EPC working group on ageing  
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Cost of basic retail financial products		3-7	Performance
Employment protection legislation	Synthetic indicator on employment protection legislation	3-8	Policy
Effective working time	Effective average working time per year and per person employed	3-8	Performance
Flows into and out of long-term unemployment		3-8	Performance
Benefit duration		3-8	Policy
Nairu		3-8	Performance
Vacancy rate		3-8	Performance

*Number of indicators : top tier (35 indicators)*

Macroeconomic performance	7
Innovation	7
Economic reform	6
Employment	8
Social cohesion	7

*Number of indicators : second tier (43 indicators)*

3-1	1
3-2	1
3-3	5
3-4	3
3-5	6

3-6	8
3-7	9
3-8	6
3-9	3

Annex 4 : data for the EU Member States, the EU as a whole and third countries for the indicators to be used in the synthesis report as proposed by the EPC

To be provided later on.



