

SPEED UP THE LISBON PROCESS!

The result is clear: Europe will not become “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 by 2010” (Lisbon Declaration, March 2000) unless the process speeds up and regains momentum.

The Confederation of Swedish Enterprise - representing 48 member associations and 60 000 members with more than 1,5 millions employees - sees the Lisbon strategy as the utmost priority. If duly and rapidly implemented it will be The success story for Europe. Europe deserves star quality.

Our primary tasks are to ensure that the value of enterprise enjoys widespread support and to improve business climate in Sweden and within the EU. The Lisbon agenda very much converge with or own priorities, designed to bring Sweden back to the top of the prosperity league. The most important factor in creating economic growth and prosperity is to promote the value of enterprise. Liberalized economies and lower taxes on work and wealth improve growth and entrepreneurship. Free competition and a level playing field is the best basis for growth. Creation of growing and flexible labour markets will achieve more and better jobs, better productivity and improved condition for entrepreneurship.

Sweden is among the best performers of the Lisbon Strategy. Yet, it is not difficult to be one of the best when real competition is lacking. One does not want to be the best team in the lowest division. One would prefer to play in the premier league. Good performers need tougher competition to become even better. This is one reason why benchmarking with top performers – such as USA and other fast growing economies - is very important.

Europe is facing many difficult challenges on its way to 2010. To mention a few of them: the economic outlook is shaky, new Member States will soon enter the Union, a political reform will shape the future of Europe and its constitutional system, ongoing and complex global trade negotiations within WTO including developing countries through the Doha agreement is pending, a number of threats such as war and terrorism and other unforeseeable developments of events are obstacles to take into account when looking at the future. However, this should not allow a standstill of the Lisbon Strategy.

By closing the biggest gaps between the EU Member States, the European Union could catch up with the USA and other global fast running competitors. Competitive companies are the engine for growth creating jobs, wealth and prosperity for Europe and its citizens. From a business point of view it is difficult to understand why Member States are blocking the progress when there is a quite simple precooked recipe to follow to make Europe 2010 a reality. Already three years out of ten have passed. If all EU Member States immediately started to implement the Lisbon strategy it would give the necessary fuel to the Lisbon process to take off with full speed towards 2010. It is time to go to work. Today for business, speed is essential.

This report updates previous years benchmark with the US and the follow up of the Lisbon Strategy and points out a number of business priorities.. The main conclusion is that very little has moved forward since last year.

In addition, the Confederation of Swedish Enterprise works together with other European business organizations and Unice preparing yearly messages to the EU presidencies before every spring summits The Lisbon Strategy is of greatest importance to European business.

These yearly reports are produced by the Confederation of Swedish Enterprise office in Brussels and managed by Anders Rydeman and Marie Törnell.

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The Lisbon process is losing momentum

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The Lisbon process is losing momentum

1. Introduction

Where are we now and where are we heading?

Since the launch of the Lisbon Strategy in March 2000 - to make Europe “ the most competitive and dynamic knowledge-based economy in the world, capable of sustainable growth with more and better jobs and greater social cohesion by 2010” - the process has been lacking real speed. If Europe shall become a growth machine and creating more jobs the need for an implementation and realization of the Lisbon Strategy is becoming more and more urgent as the reform process in many areas is losing momentum. This is especially troublesome as the economic situation at the same time is deteriorating and the growth prospects for this year are looking continuously shaky. The need for structural and economic reforms is thus greater than ever.

There are some positive developments where Member States have been trying to remove deadlocks to make Europe a success story. But there are still many disappointments to overcome before Europe can deliver its commitments to make Europe the most competitive economy in the world by 2010. See Chapter 11, page 38 where a number of areas important to move the process further have been listed.

The follow-up of the Lisbon agenda in Stockholm (March 2001) and Barcelona (March 2002) showed that the process has slowed to a snail’s pace. The spring summit in March 2003 under the Greek Presidency has to set priorities and deliver results. Otherwise the credibility for the Lisbon process and European leaders will be lost forever.

The Lisbon process is the pre-requisite to make Europe competitive. Modern reforms and flexibility are needed to create jobs and prosperity for Europe. It is also a condition to meet global challenges and to compete with the USA and other fast growing economies.

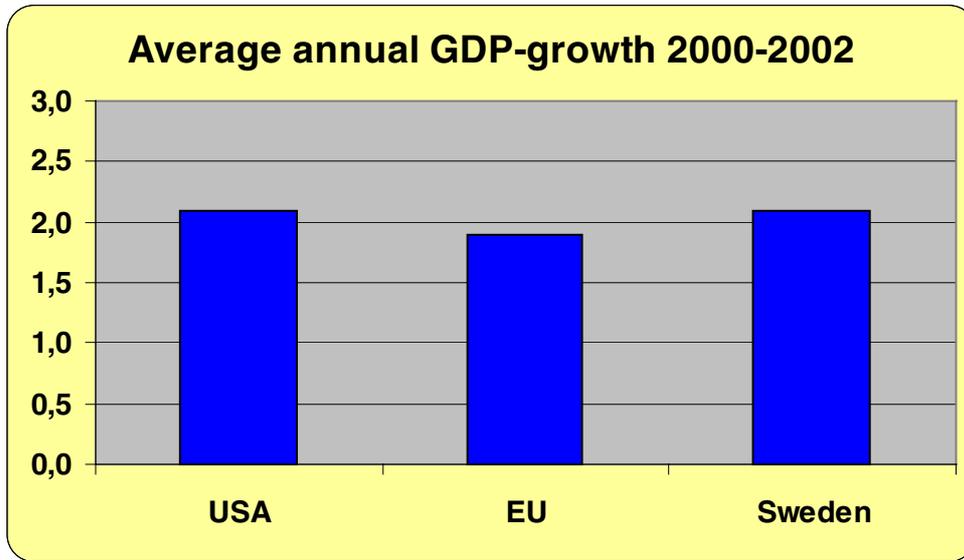
Sweden is one of the top performers in the Lisbon league. However, there is a lack of strong competition nor does it give the necessary incentive to become even better. Sweden still needs to continue with reforms and modernisation for labour markets and taxation in particular.

Macroeconomic background

An explicit aim from the Lisbon declaration is to raise the long-term growth in the EU to three per cent. So far there has been few countries showing signs of success in this field. On the opposite, especially the major countries have been showing very weak growth performance on average and the prospects for the next coming years are not too bright.

The average growth in the last three years is showed in figure 1. As can be seen there has been rather sluggish growth in the USA as well as in the EU during these years that of course includes the deep downturn in the USA 2001 and the weak recovery last year.

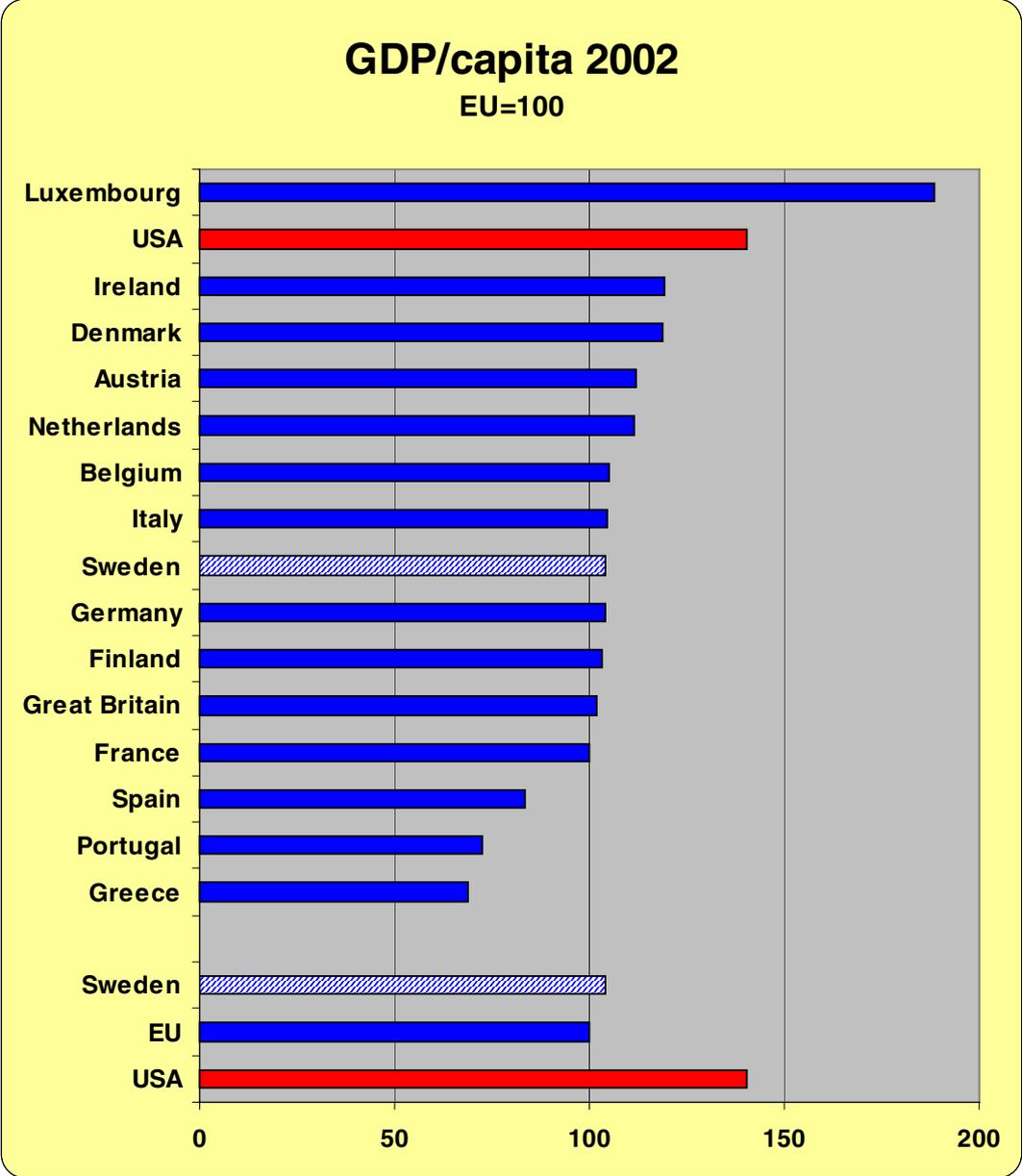
Figure 1. Average annual growth 2000-2002 in the USA, EU and Sweden



Source: European Commission, Autumn 2002.

The GDP/capita – the wealth league – illustrated in figure 2, has not seen any dramatic change in recent years. The main “winner”, however, is Ireland that has displayed an economic growth far above other countries during this period and has climbed to third place in the league.

Figure 2. GDP/capita 2002 in the USA and all EU-countries.



2. Main results of the report

The process towards the Lisbon aim of EU to become “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” (Lisbon Declaration, March 2000), is losing momentum. The aim with this report is to compare developments between Sweden, the European Union and USA applying Lisbon goals and to highlight business’ recommendation necessary to make the Lisbon strategy a reality.

The report covers a number of areas in the Lisbon agenda. It is a follow up of the evaluation of the Lisbon process made before the Barcelona summit March 2002. This year’s follow up before the spring summit March 2003 is a clear disappointment – hardly anything has been delivered during one year.

The progress in different important areas is evaluated in the light of 24 indicators chosen to illustrate the EU position in areas crucial for the Lisbon process. The indicators display that in almost all areas EU is still lagging far behind the USA and the overall impression is that the improvements are too few and too small. There is in fact no area at all where EU is performing better than the USA. In many areas there is an urgent need for speeding up reforms, primarily on the national level. This is especially true as regards the labour market, which has worked very poorly in most EU-countries in recent years.

Sweden comes out slightly better than the EU in most areas, but is still well behind the USA. There are also some clear bottlenecks for Sweden, areas where Sweden performs well below the EU average. A summary of Swedish strengths (+) and weaknesses (-) would look like this:

- | | |
|---|--|
| + Strong knowledge intensive sector | - Low entrepreneurial activity |
| + Rather successful diffusion of new technology to different parts of society | - High tax burden on both capital and labour |
| | - Insufficient incentives to education |

An agenda based on the result of this report must include several reforms to make possible for the EU to attain the aim of the Lisbon process. And this must be undertaken without further costly delays.

3. Policy Priorities and the Lisbon Strategy

The Lisbon agenda converges very much with our four principles and own priorities designed to bring Sweden back to the top of the prosperity league. Our primary tasks on European level are to ensure that the value of enterprise enjoys widespread support and to improve the business climate in Europe. In our view these four principles stand out as of particular importance for enterprises:

- 1) ***Strengthen the value of enterprise*** - *The most important factor in creating economic growth and promoting prosperity is to promote the value of enterprise. Entrepreneurial people create business in order to satisfy consumer demand. Enterprises create the growth that pays for consumption, welfare services and infrastructure improvements. This value is recognised in the Lisbon declaration as well as in the EU employment guidelines.*
- 2) ***Liberalise the economy and cut taxes*** - *A liberalized economy and lower taxes on work and wealth will improve growth and entrepreneurship.*

- 3) **Ensure competition on equal terms** - Free competition and a level playing field is the best basis for growth.
- 4) **Create a growing and flexible labour market** – A more flexible labour market will facilitate more and better jobs, better productivity and improved condition for entrepreneurship.

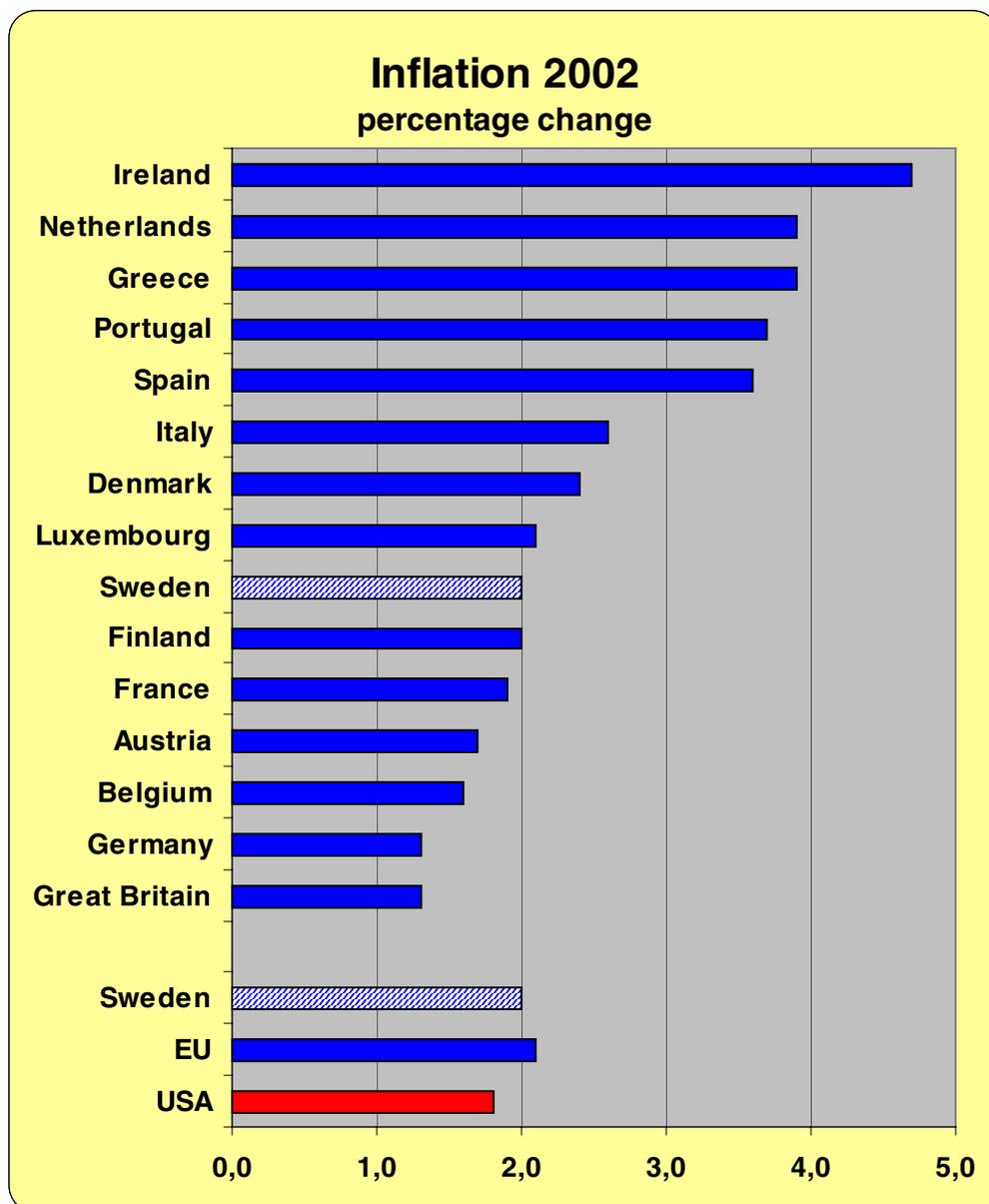
These four areas and Lisbon goals have been put together more in detail in chapter 11.

4. Stabilisation of the macro-economy

Inflation

The main achievement on the macro-economic level in the EU is the persistently low inflation in recent years. Also last year the average inflation rate was in line with the acceptable 2 per cent level (indicator 1).

Indicator 1. Inflation measured as Harmonised index for consumer prices (HICP) in the USA and all EU-countries, 2002.



Source: European Commission, Autumn 2002.

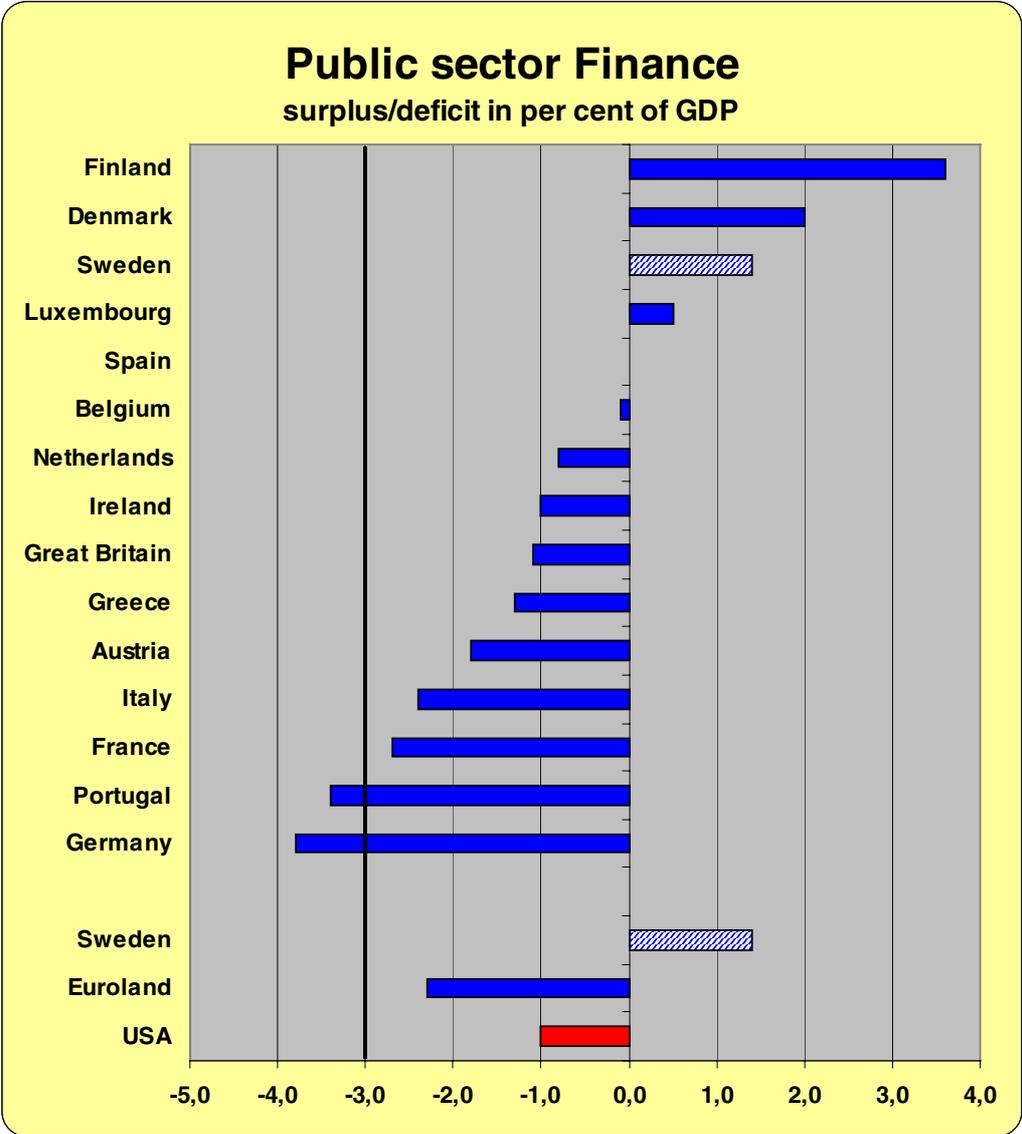
The only problem is that the spread between countries is still substantial. This of course reflects different growth rates in different areas and has given rise to some difficulties in finding a monetary policy that is suitable for all countries. It has, thereby, created some tension as regards the shaping of the interest policy.

Public Finance

The worsening economic development last year and a growth rate in the EU of just slightly above 0,5 per cent has meant increasing problems with public finance in many countries. Portugal, Germany and France have reached deficits above what is allowed in the stabilisation pact and the prospects for 2003 are not too encouraging.

The problems clearly reflect the lack of reforms earlier and now create a dilemma for policy makers. However, it would be devastating for the euro as well as for the long-term trust in the stabilisation policy to abandon the rules of the stabilisation pact at this stage.

Indicator 2. Public sector finances in all EU countries and the USA, 2002



Source: European Commission, Autumn 2002 Forecast and OECD.

The performance of the EU and different countries so far

- The EU has been successful as regards the stabilisation of inflation. The introduction of euro was also successful and even if it gave rise to temporary price increases in certain areas and for certain products, the effect was limited.
- Lack of reforms to stimulate growth, primarily lower taxes and labour market reforms, is worrying. The world economy generally has developed worse than expected, which has contributed to the alarming deterioration of public finance in some countries. Portugal, Germany and France last year had deficits larger than allowed in the stabilisation pact

Urgently needed action

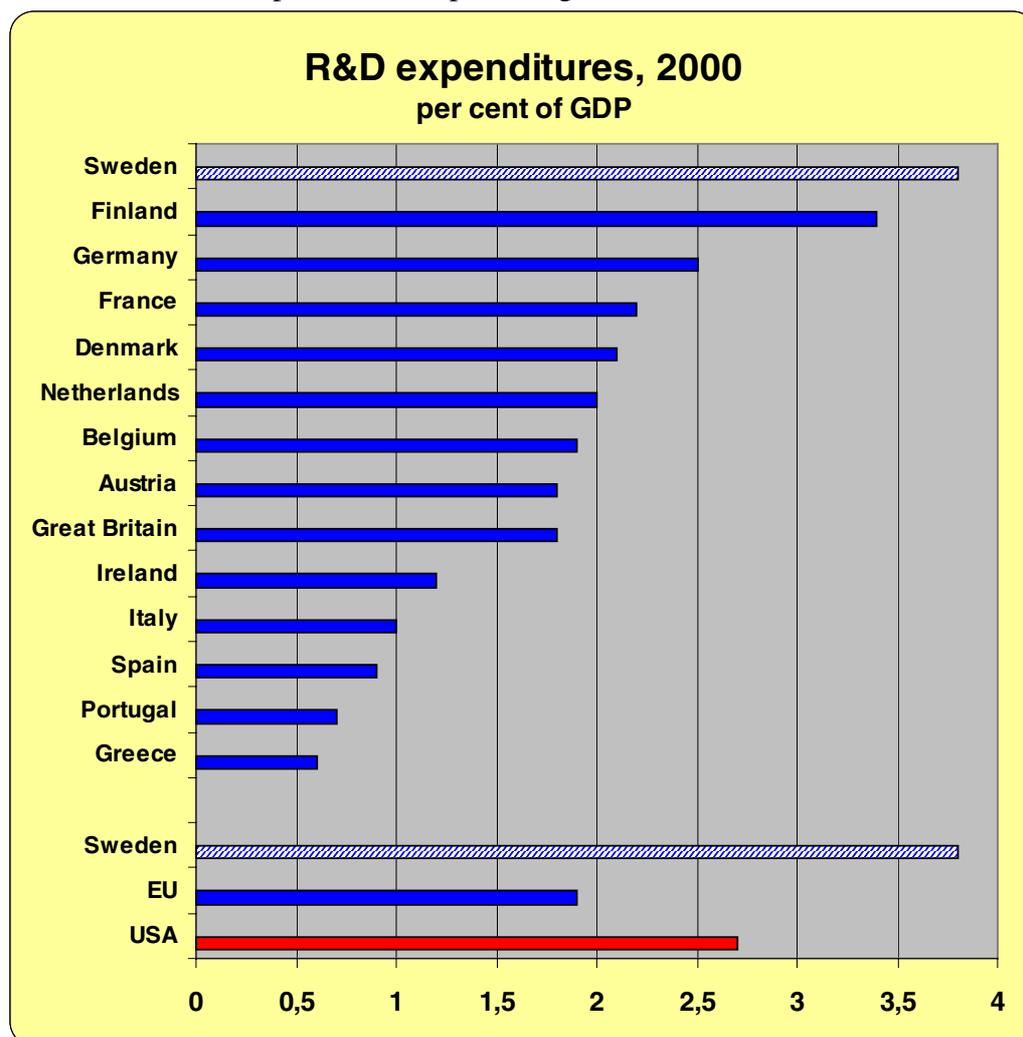
- Reforms of labour market must be given high priority in many countries, not least in France and Germany.
- Tax and expenditure policy must be outlined to stimulate long-term growth.
- In a situation with an alarmingly rapid deterioration of public finances it is of vital importance for the long-term market confidence to stick to the stabilisation pact.

5. Knowledge-intensive business and industry

Research & Development

R&D is a main driver behind growth and wealth. There is also an explicit target decided upon in Barcelona in March 2002 to increase total expenditures on R&D to three per cent of GDP to 2010. Today, however, the investments in most countries are substantially lower. Sweden and Finland are the only exceptions and these countries have already reached an R&D level above the target and also above the level in the USA (indicator 3).

Indicator 3. R&D expenditures as percentage of GDP, 2000.



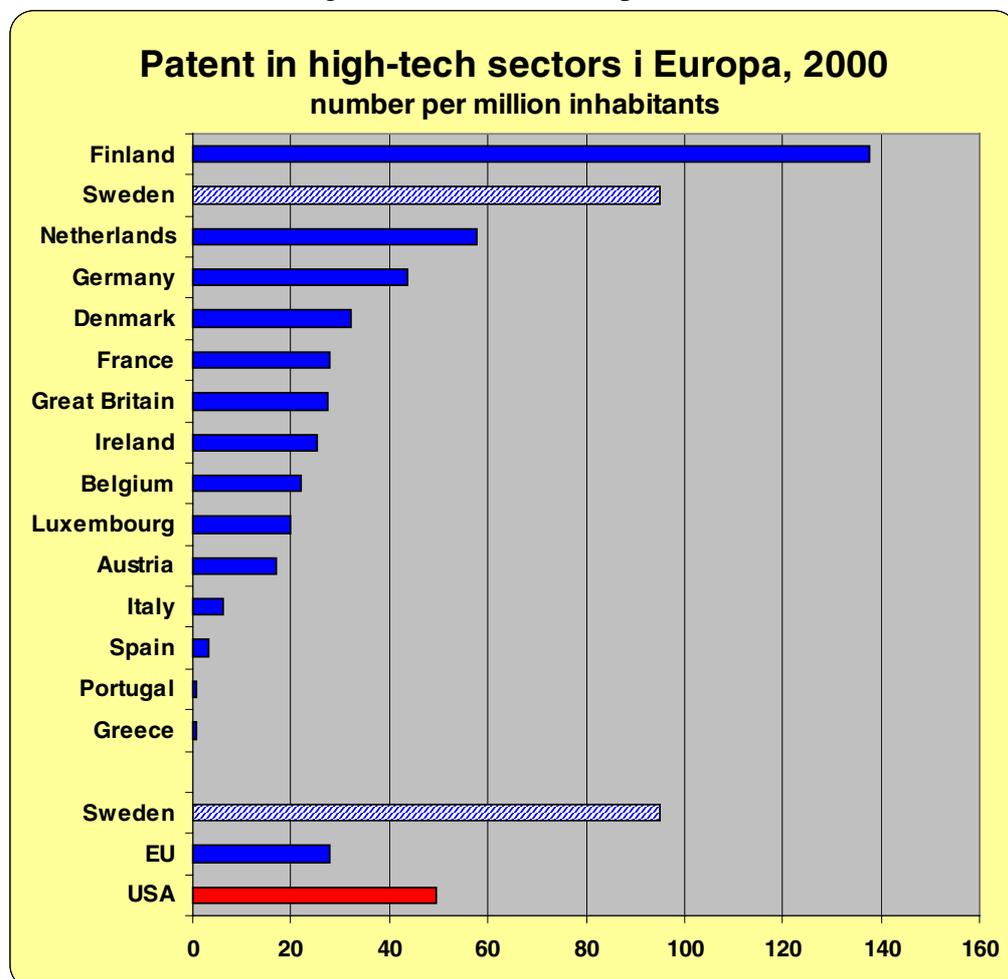
Source: European Commission, Benchmarking Enterprise Policy, and November 2002.

High-tech patents

An efficient patent system is an important part of the incentive structure in a knowledge-based economy and a necessary requirement for the implementation of new thinking and innovations into the market.

If looking at the high-tech patent in Europe¹ as well as in the USA Finland and Sweden have the largest number of patents per inhabitant. It should however be taken into consideration that this only displays patent applications in Europe that have been processed through the European Patent Office (EPO). However, since patents applied through the US Patent and Trademark Office have not been taken into account these figures underestimates the performance of the USA.

Indicator 4. Patents in high-tech sectors in Europe, 2000.



Source: Eurostat, Statistics in Focus 1/2002, Patent activities in the EU: towards high-tech patenting 1990-2000.

Since a well-developed and functional intellectual property rights system is an increasingly important part of the infrastructure in a knowledge-based economy, the inability to reach an agreement about a community patent is a major concern for the EU today.

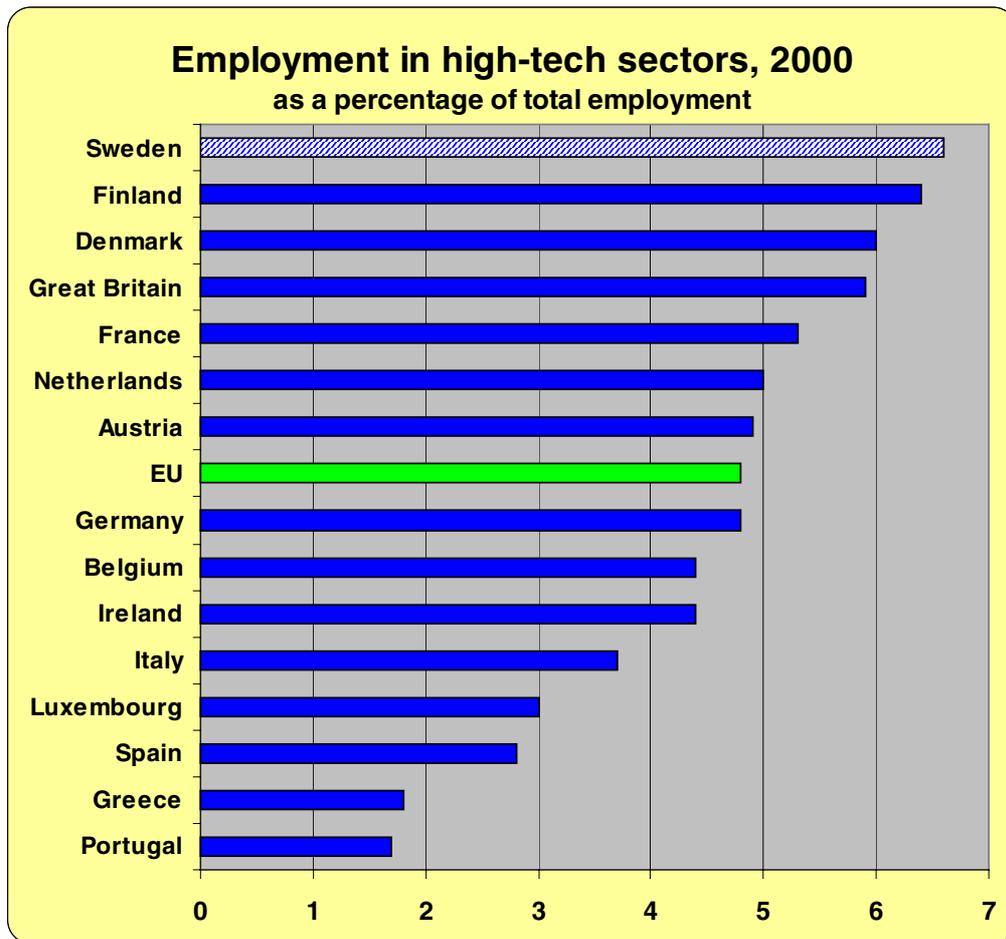
Employment in high-tech sectors

The more people that are employed in high-tech sectors, the better are the opportunities to increase productivity. Therefore, restructuring the economy towards more knowledge intensive activities is of crucial importance in order to increase the long-term growth potential. It is also in knowledge intensive areas that the EU must deploy its comparative advantages in the future to make the Lisbon target possible.

¹ Patent application rates in the high technology sectors include pharmaceuticals, aerospace, biotechnology and information technology.

Indicator 5 exhibits the employment in high technology sectors² as a share of total employment in the EU countries. Sweden and Finland are at the top, while Greece and Portugal lie at the bottom.

Indicator 5. Employment in high-tech sectors, 2000.



Source: Eurostat, Statistics in Focus 3/2002, National and Regional employment in high-tech and knowledge intensive sectors in the EU 1995-2000.

High tech exports

The share of high-tech exports³ in total exports is another indicator of the importance of the high-tech economy. It gives an idea of how successful a country has been in launching new and knowledge-intensive products in the international markets.

Ireland is clearly at the top with more than 40 per cent of exports from the high tech sectors. Ireland is even ahead of the USA that, however, has a significantly higher share of high-tech exports than the EU average, 30 per cent vs. 20 per cent. Sweden performs better than EU in this respect, but lies clearly behind the USA and Ireland.

² High technology sectors here include manufacturing of office machinery, computers, radio, television, communication equipment, medical precision and optical instruments plus post and telecommunication services, computer services and R&D.

³ High-tech sectors include aerospace, computers and office machinery, radio, TV & communication equipment, and pharmaceuticals.

Indicator 6. High-tech sector exports as percentage of total exports, 2001



Source: European Commission, Enterprise Scoreboard, 2002.

The performance of the EU and different countries so far

- There have been some increases in resources spent on R&D, but EU is still lagging behind the USA and the gap have even been widening in recent years.
- Growing mobility of scientific researchers has been encouraged and emphasised by the EU-Commission as it urged member states to stimulate greater mobility and cross boarder change.
- Ireland, Finland and Sweden are generally performing best in this area and are in some cases also at level with the USA. At the other end, Greece and Portugal are throughout at the bottom.

Urgently needed action

- Community patent must be solved taking into account business requests. Otherwise the Commission should consider to withdraw the proposal and focus on the already existing European Patent and possible improvements.

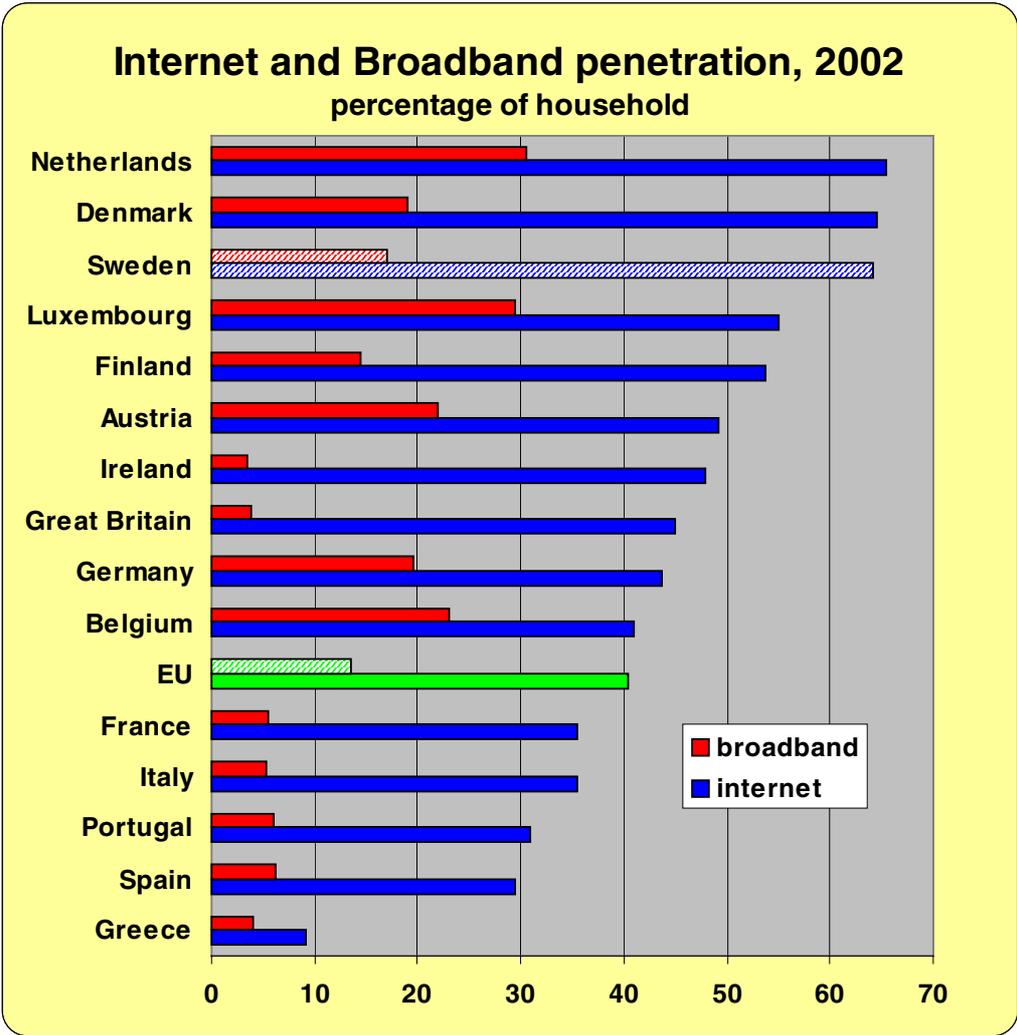
- All countries should act decisively to achieve the 3 per cent target for R&D expenditures as soon as possible.
- Taxes on labour must be reduced in order to create an attractive and competitive research and innovation climate.

6. Diffusion and use of new technology

Household access to and use of new technology

The diffusion and use of new technology require greater knowledge and involvement in all parts of society. As regards households there has been a strong increase in number of households connected to Internet in most countries. This was especially the case up to 2000, but since then the increase in penetration rates has slowed down a bit, partly reflecting that many countries seem to approach saturation levels. The introduction of broadband, which strongly enhance the potential for the user, is however growing more slowly than expected in many countries.

Indicator 7. Household access to new technology, 2002.



Source: Flash Eurobarometer 125, June 2002, Eurostat.

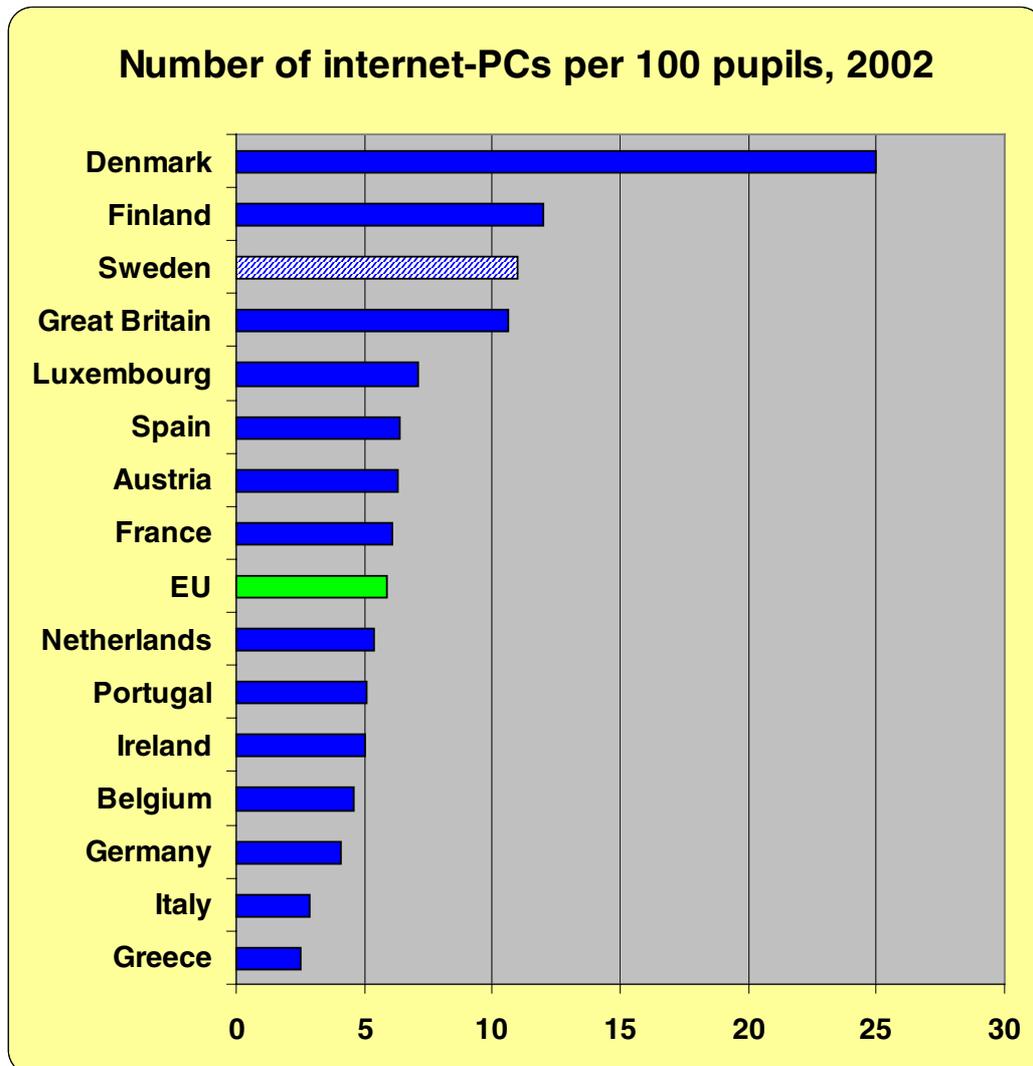
Indicator 7 shows that Netherlands, Denmark and Sweden have the highest penetration rates for Internet, between 60 and 70 per cent of all households. The introduction of broadband⁴ has been most successful in Netherlands and Luxembourg with around 30 per cent of households having access to broadband. Many countries, however, still have less than 10 per cent with broadband access to Internet.

⁴ More technically broadband is here defined as the services using 256Kbms for the provider-to-consumer (downstream) direction and 64Kbps upstream, including ISDN telephone lines, modem cable and ADSL.

Internet penetration in schools

The use of Internet has increased strongly in schools and in most countries almost all schools are now on line. However the computer-intensity and thus availability still varies a lot (indicator 8). Number of computers with Internet access per 100 pupils varies from 25 in Denmark to less than 3 in Italy and Greece. Sweden is doing fairly well and is coming out as number three in the EU, but still far behind Denmark.

Indicator 8. Number of internet-PCs per 100 pupils (all school levels), 2002.

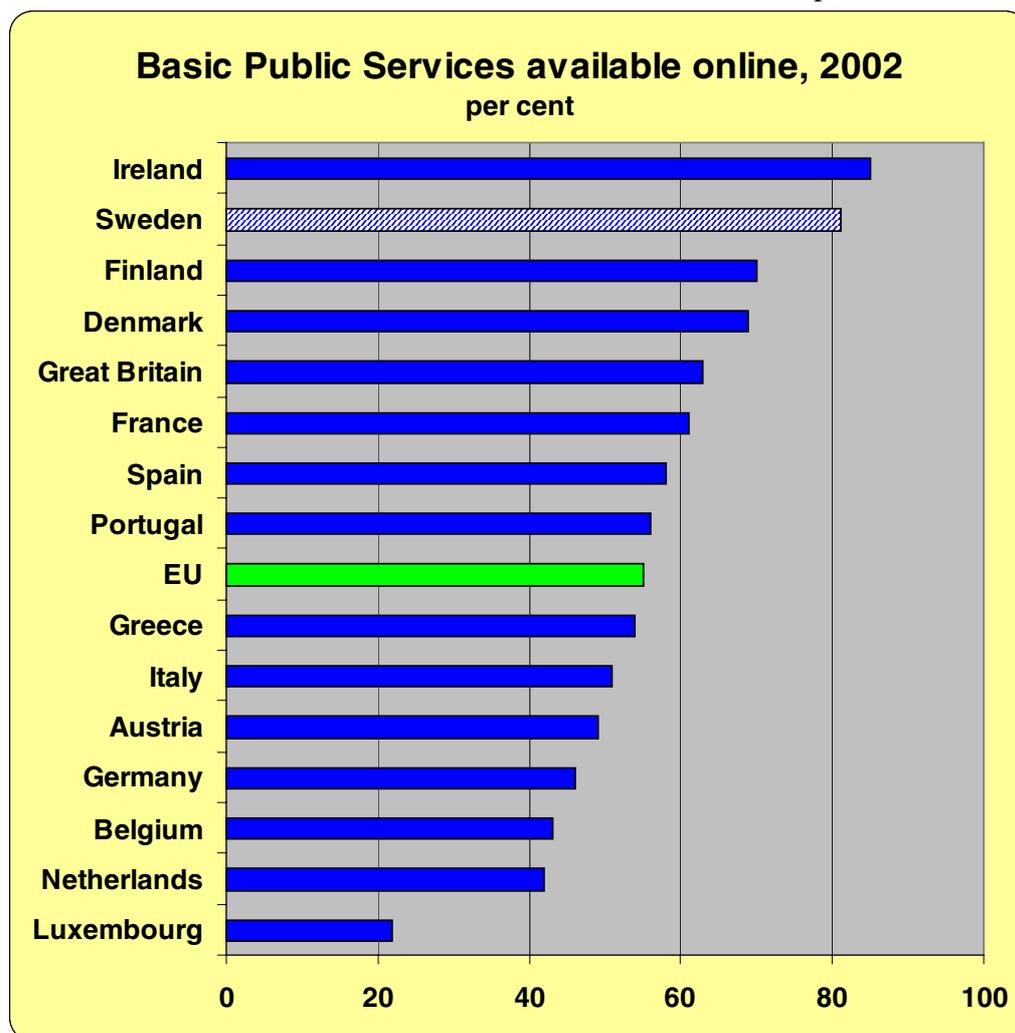


Source: European Commission, Eurobarometer 118, 2002

Public sector services online

There has clearly been some progress in the field of eGovernment. E.g. the number of basic public services provided to business and households, which is used as an indicator by the European Commission, increased in most member countries last year. This was especially the case for services to business but not so pronounced as regards the services to households. As can be seen by indicator 9, Ireland and Sweden have been most successful in this field with more than 80 per cent of basic services provided on line, while Luxembourg lies at the bottom.

Indicator 9. Basic Public Services to Business and households provided on-line, 2002.

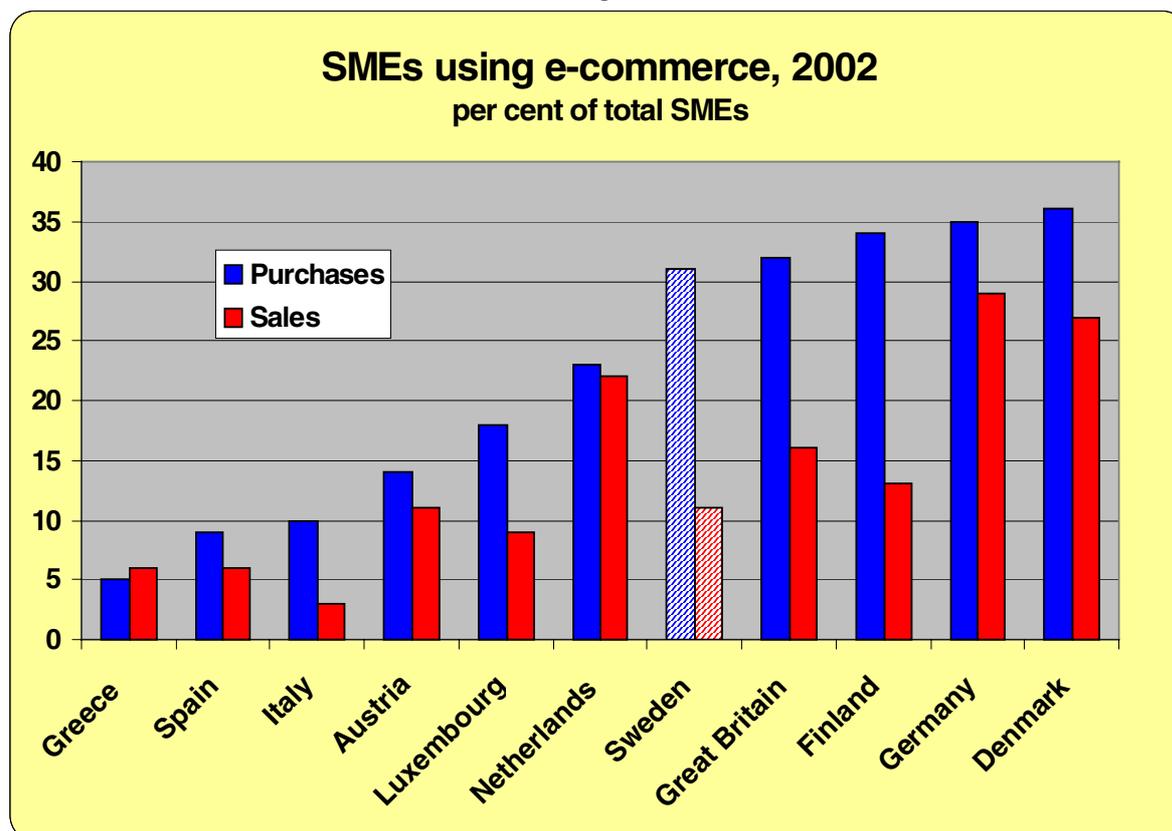


Source: European Commission, Web-Based Survey on Electronic Public Services, 2002.

E-commerce and SMEs

Business access to the Internet has now become commonplace, but still the utilisation of Internet among SMEs is rather limited and also varies widely within the EU. Internet is so far primarily used for purchases from suppliers and to a much lesser extent for sales to final customers. Indicator 10 displays the proportion of small and medium-sized enterprises that utilises Internet to purchases or sales. In Denmark, Germany, Finland, Great Britain and Sweden 30-35 per cent of SMEs use Internet to purchases, while this is the case for just 5 per cent of the firms in Greece. As regards sales, Denmark and Germany are on top with 25-30 per cent of the SMEs utilising the Internet.

Indicator 10. Utilisation of e-commerce among SMEs, 2002.



Source: European Commission, Europe go Digital, 2002.

The performance of the EU and different countries so far

- The diffusion and application vary a lot between countries. The Nordic countries generally are ahead, while the Mediterranean countries clearly are lagging behind.
- Some progress has been made as regards the use of Internet in schools, but the availability must increase further in many countries.
- SMEs are not utilising the potential of Internet fully.
- Governments have provided an increasing number of basic services on-line.
- Information Society Action Plans have been introduced in many countries to speed up the process.
- The use of broadband is growing slower than expected

Urgently needed action

- Solve legislative, tax (VAT) and security problems associated with e-commerce.
- Improve the overall security of on-line transactions (private sector, European Commission, Member States).

- Co-ordinate allocation of frequencies for multimedia wireless system (4 member states have implemented, 5 committed).
- Encourage SMEs to go Digital through coordinated networking activities etc.
- Promote the use of electronic signatures within the public sector (Member States, European Institutions)

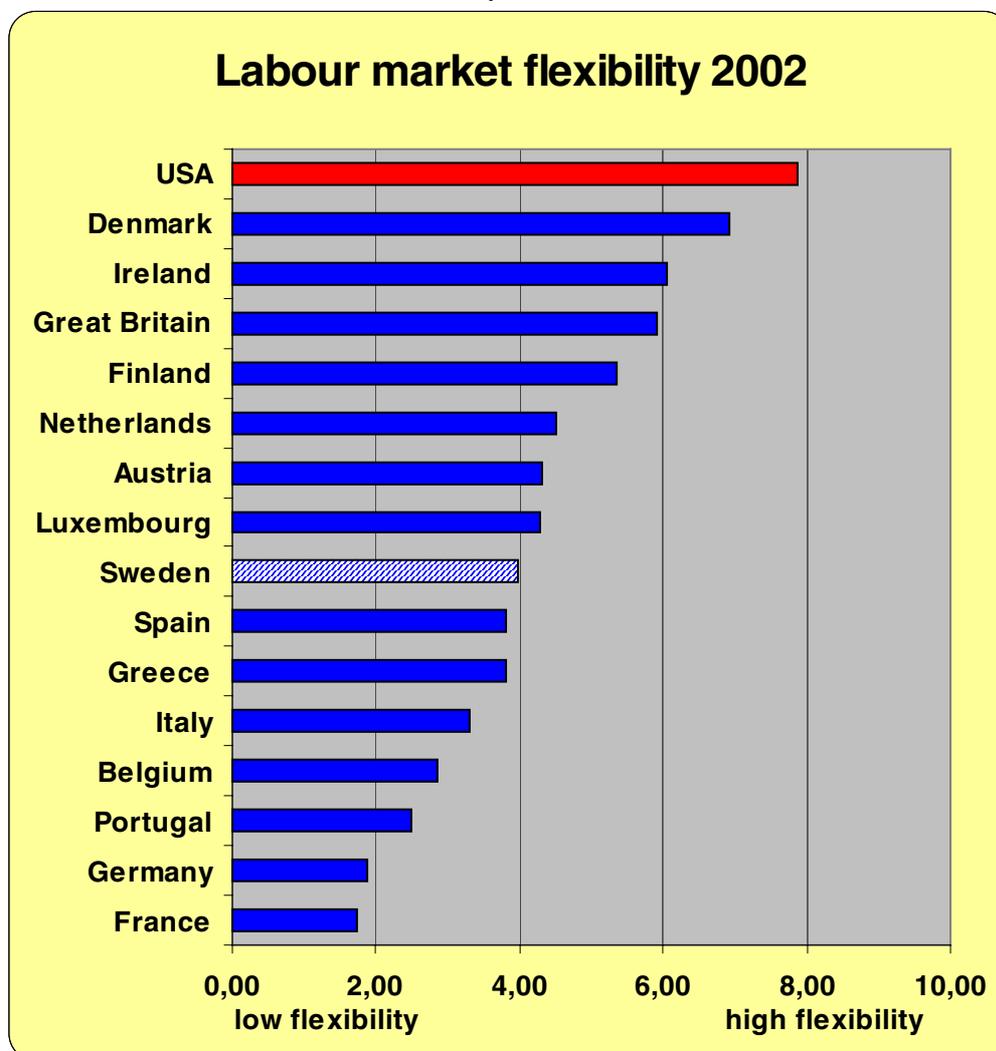
7. Market efficiency

The Labour market

A well functioning labour market is a crucial prerequisite for long-term higher growth. However, there is no explicit target as regards reforms in the labour market in the Lisbon process, which could prove to be troublesome as it is clear from the performance in recent years that the labour market in most EU-countries is much less efficient than in the USA. The result has been high structural unemployment in many EU-countries.

In the EU there are, however, large differences between countries. Indicator 11 shows that Germany and France is considered by companies to have the poorest functioning labour market, while Denmark, Ireland and UK are the only countries in the EU that come close to the USA as regards the labour market flexibility.

Indicator 11. Labour market flexibility, 2002.



Source: IMD, World Competitiveness Yearbook, 2002.

The Product markets

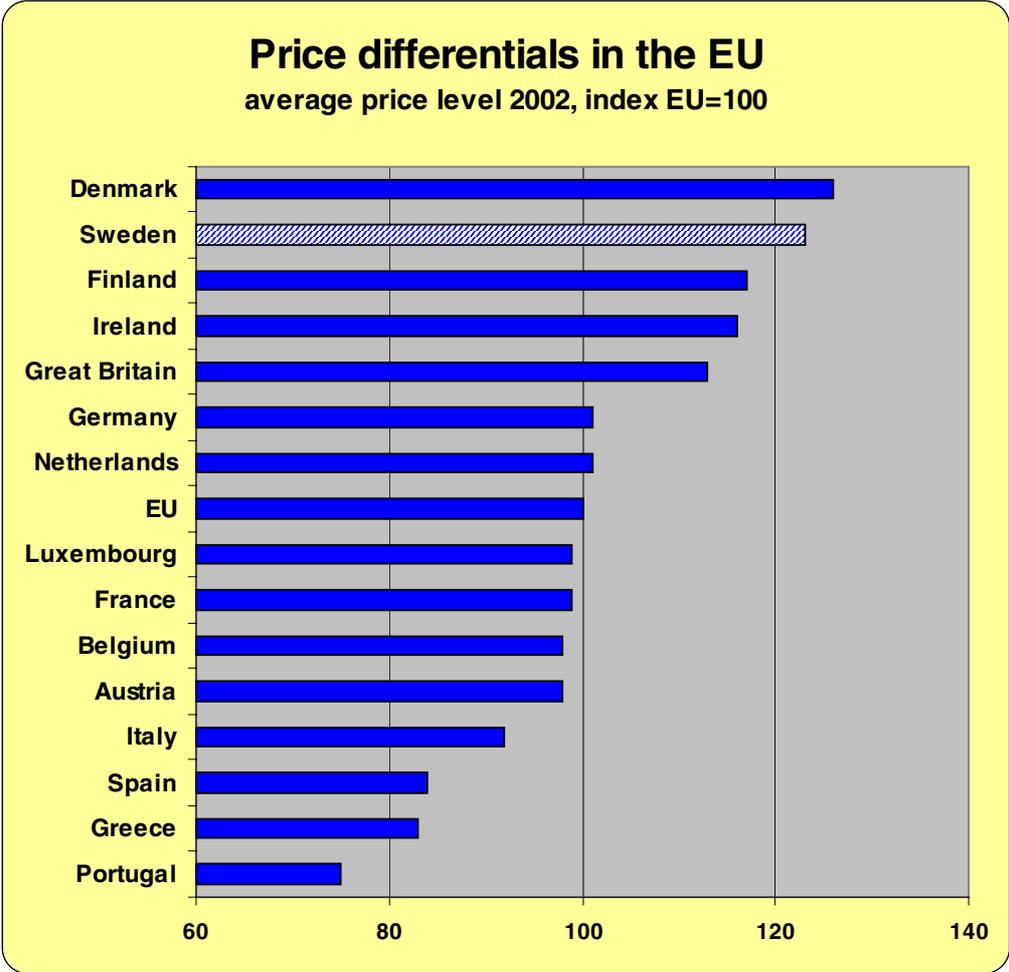
An integrated and efficient internal market requires a strategy covering several areas. Still much remains to be done in certain markets, e.g. in services and utility sectors. In order to

achieve fair competition government aid must be kept to a minimum. The overall Government aid has also been reduced in recent years and there has also been a tendency towards more horizontal support (e.g. for SMEs), which gives less distortable effects on competition.

The tendency for price differences to narrow within EU in recent years is a sign of a more integrated and efficient market, but still there are unjustifiable differentials in some areas, which indicates that the convergence process is expected to continue.

Indicator 12 shows that the Nordic Countries still have the highest average price level in the EU, while the Mediterranean countries are at the bottom.

Indicator 12. Price differentials in the EU 2002 .



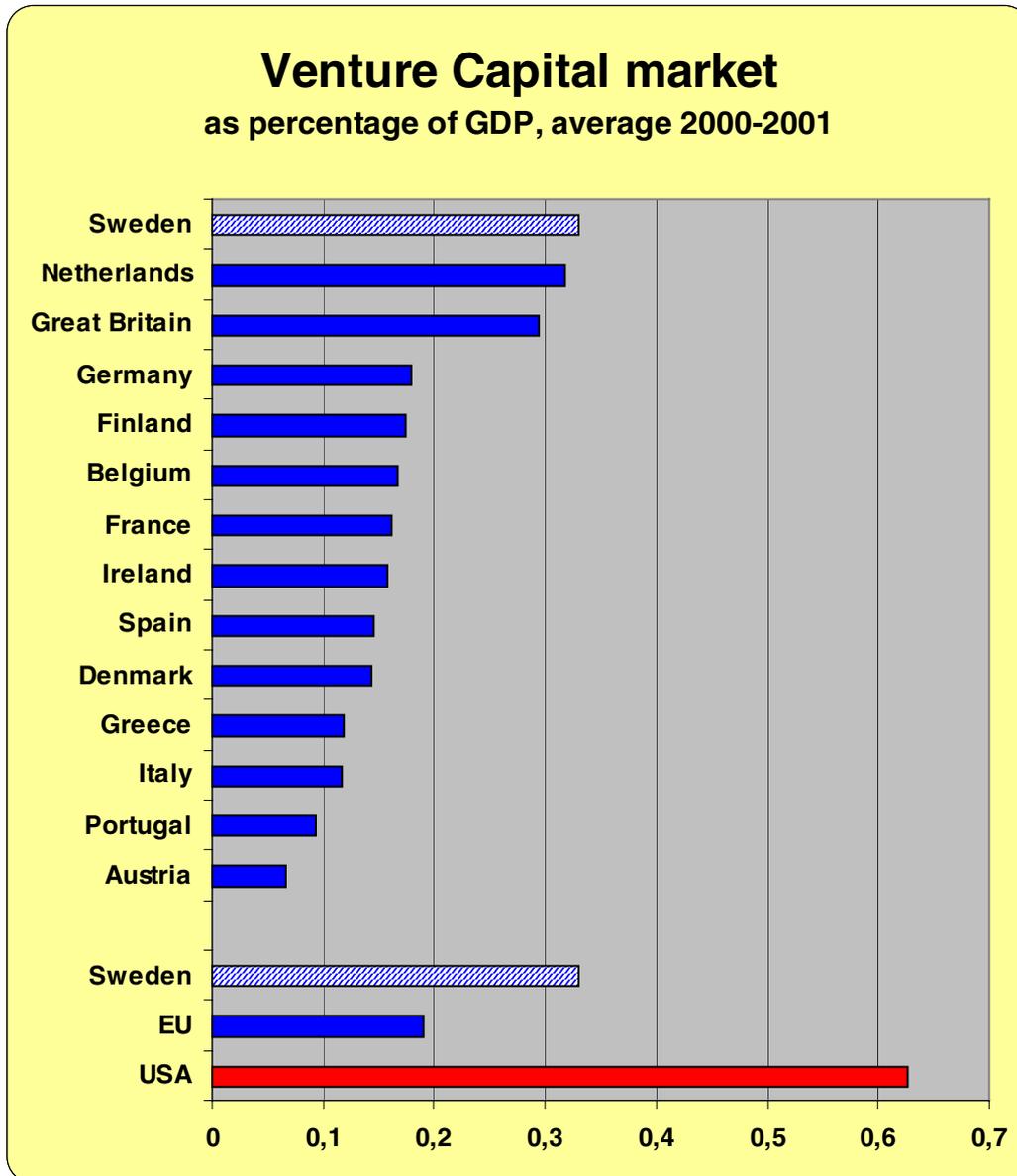
Source: Price WaterhouseCoopers, 2003.

Finance and Venture Capital market

In an economy changing as rapidly as today, an efficient venture capital market is more important than ever. However, the venture capital market in the EU is still much smaller than in the USA and the integration process of the venture capital markets in the EU is also moving forward too slowly. The Financial Services Acton Plan, to be fully implemented 2005, has shown some progress 42 measures have been foreseen and a great majority has been adopted. Still to be adopted by the Council preferably by July 2003 are the Prospectus and Pension directives. The Lamfalussy fast track procedure should be extended securities market to apply to banks, insurance and conglomerates. The Investment Services and Transparency Directives should be adopted by the Council by March 2004 at the latest. The size and maturity of the

venture capital market in the EU is clearly lagging behind the USA. Sweden, Netherlands and Great Britain has the largest venture capital market in relation to GDP within the EU, but also in these countries the market is much smaller than in the USA (indicator 13).

Indicator 13. Size of the venture capital market in relation to GDP, average 2001-2002.



Source: European Commission; Structural indicators, 2002.

The performance of the EU and different countries so far

- Telecommunications market has been liberalized 2001; however, it has not very effective implementation by some Member States. Despite full liberalisation in many of the three top performing Member States the former monopolies still have very dominant positions.
- As regards the internal market 10 per cent of relevant directives have still not been translated into member state law. France, Italy and Germany account for 40 per cent of infringements cases for failures to apply single market legislation. Failure to reach the 98,5 % target implementation of the Single Market legislation in summer 2002 in many countries (however not Finland, Sweden, Netherlands and Spain).

- The service sector makes up a growing share of the economy as a whole. However, cross border and foreign trade in services is still relatively small. EU is also losing shares in service exports of the world economy to USA and Asia (China) .

Urgently needed action

- Liberalisation of gas and electricity markets is crucial both for households and business in all EU Member States.
- Electronic communication package (telecom) has to be rapidly and correctly implemented in all Member States.
- As regards Public procurement the legal package is foreseen to be adopted June 2003. However, it should only be adopted should it ensure the objective of the internal market namely to improve and facilitate cross border/EU wide public procurement.
- Risk Capital Action Plan is to be implemented 2003 and Financial Services Action Plan 2005. Of vital importance as well is the Adoption of the Prospectus Directive and Pensions Directive.
- Extending the Lamfalussy fast track procedure in securities to banks, insurance and conglomerates by July 2003.
- Modernising the labour markets and making it more flexible.

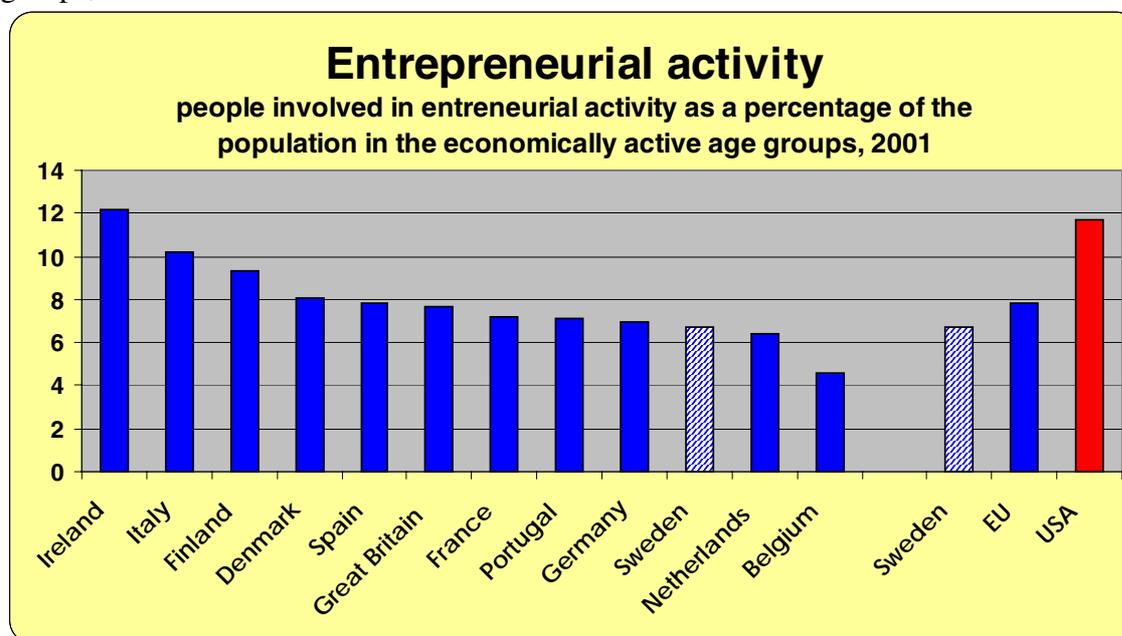
8. Entrepreneurship and business climate for small firms

Entrepreneurial activity

Entrepreneurial activity is a key to the dynamics and innovations, which is crucial for long-term growth. Indicator 14 shows the proportion of the population that is involved in entrepreneurial activity, either in the process of starting a new firm or as the owner/manager of an active business less than 42 months old.

Measured in this way new enterprise in the EU is clearly lagging behind the USA. It is only Ireland that displays new enterprise at the same level as the USA. In Sweden the number of entrepreneurs, in per cent of the population in the economically active age groups, are below the EU average and only half the level of USA.

Indicator 14. Number of entrepreneurs in percent of population in economically active age groups, 2001.

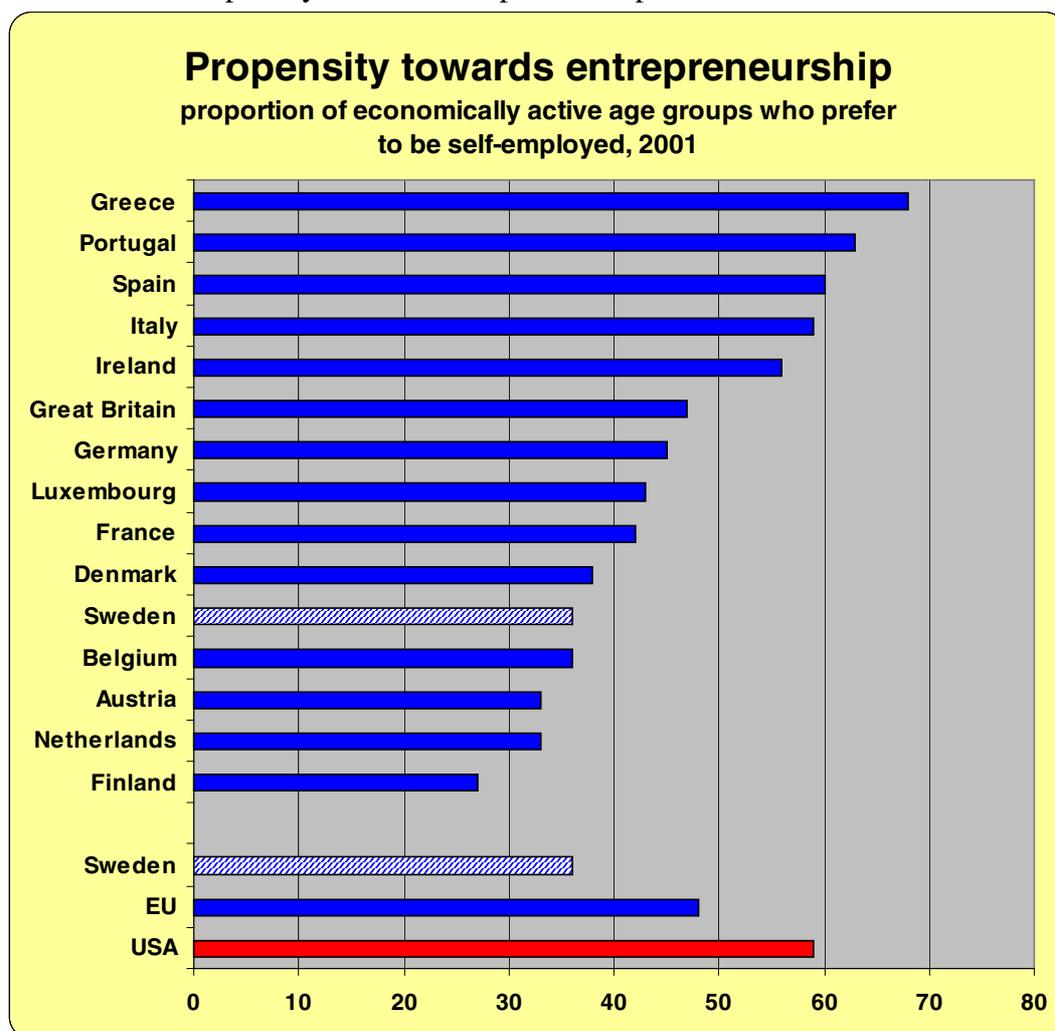


Source: Global Entrepreneurship Monitor, 2001.

The attitudes towards entrepreneurship vary a lot between countries. To some extent this reflects tradition and the fact that countries are in different economic development phases, but it also is an indicator of general economic conditions for entrepreneurship. There must be a reasonable reward and appreciation for the time, effort and money that individuals invest in business.

In the USA there is a larger proportion that would like to be self-employed, than is the case in the EU. Within the EU, however, there are large differences and while the Mediterranean countries show the most positive attitude towards entrepreneurship, Finland lies at the bottom. Also in Sweden the proportion that prefers to be self-employed is clearly smaller than in most countries (indicator 15).

Indicator 15. Propensity towards entrepreneurship 2001.



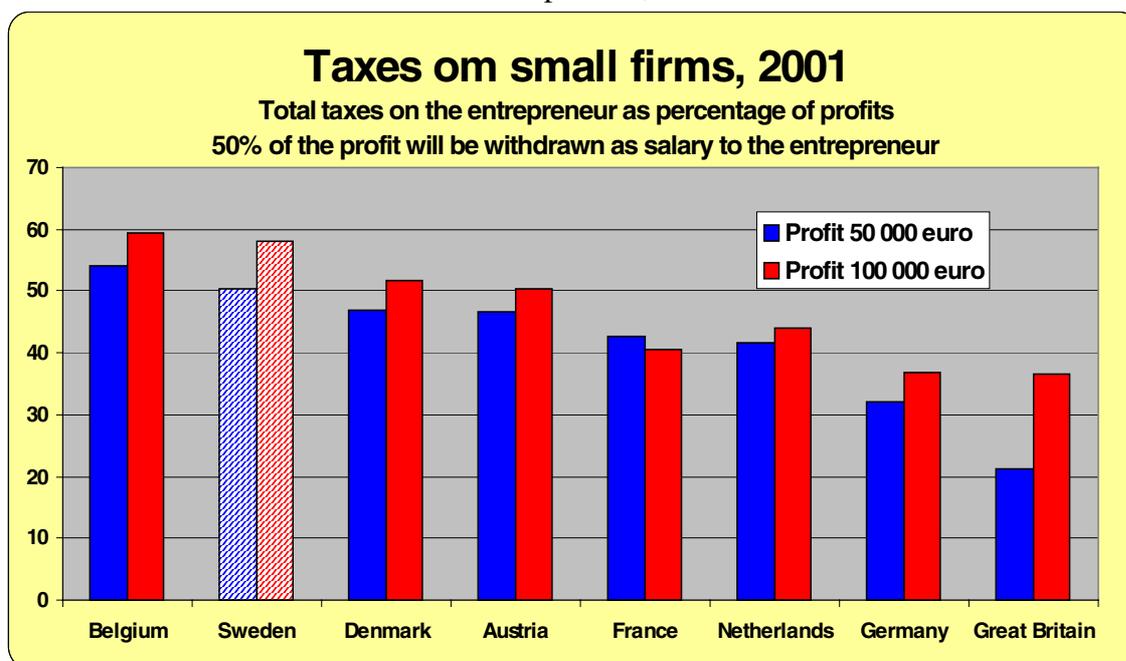
Source: Flash Eurobarometer, November 2001.

Taxation on enterprise

High taxes generally hit the SMEs very hard. This is true for taxes on labour as well as for different taxes on ownership. Indicator 16 illustrates the total tax burden on an entrepreneur. The tax burden is measured as total taxes (income tax, social charges, corporate tax and tax on dividend) as percentage of profit. The ratio is calculated for two profit levels. Sweden and Belgium have the highest taxes on entrepreneurs, between 50 and 60 per cent, while Great Britain has the lowest.

Besides the generally high taxes on small firms in many countries, it is also worth stressing the importance of common rules in the taxation area. The slow convergence process in this field imposes a special cost for small firms and makes business across the border for them more difficult.

Indicator 16. Total tax burden on an entrepreneur, 2001.



Source: Confederation of Swedish Enterprise, 2002.

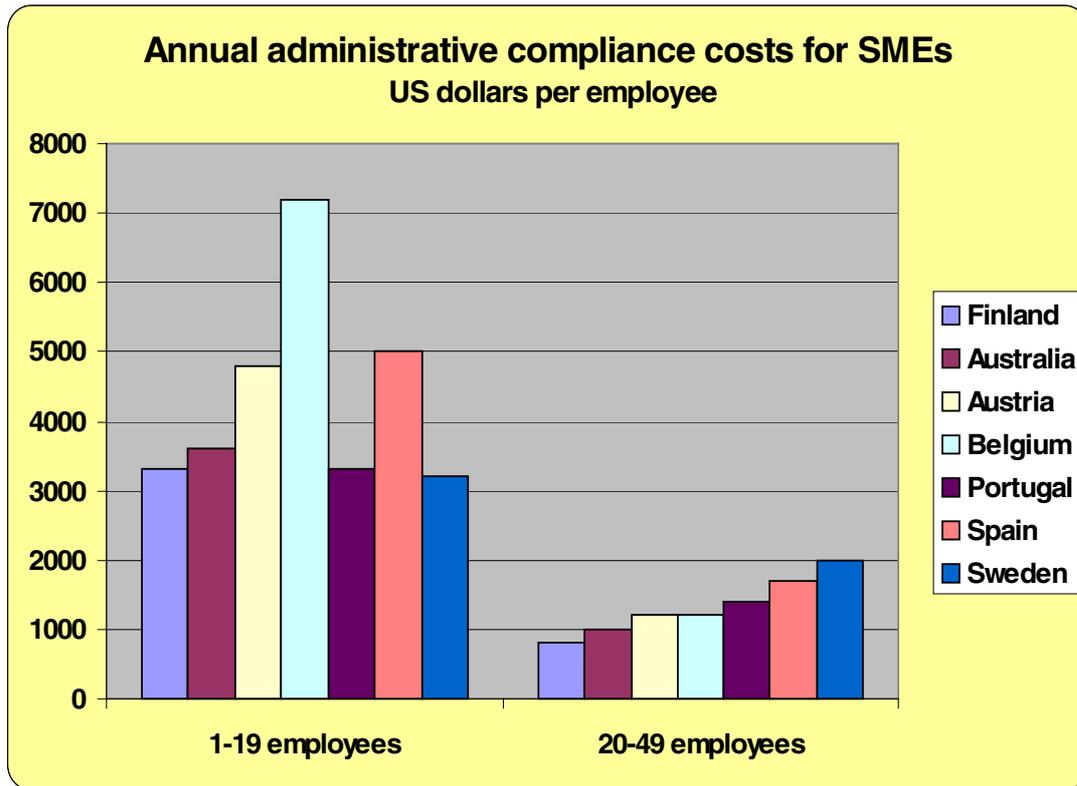
The administrative burden

The costs for small companies to comply with different tax, employment and environment regulations are often substantial. The OECD has recently made a study to estimate the actual costs to fulfil all administrative requirements. It includes both internal and external resources used to comply with the regulations.

As can be seen from indicator 17 the costs per employee is substantial and for the smallest firms (1-19 employees) the costs per employee amounts to more than 3000 US dollars for all countries in the survey and in Belgium it is as much as 7000 US dollars per employee. For the slightly larger companies (20-49 employees) Sweden shows the highest cost, 2000 US dollars per employee.

Even if some progress has been made on national level in reducing the administrative burden on companies in recent years, there is obviously much to do to ease the burden especially on the small firms.

Indicator 17. The administrative burden on SMEs, 2002.



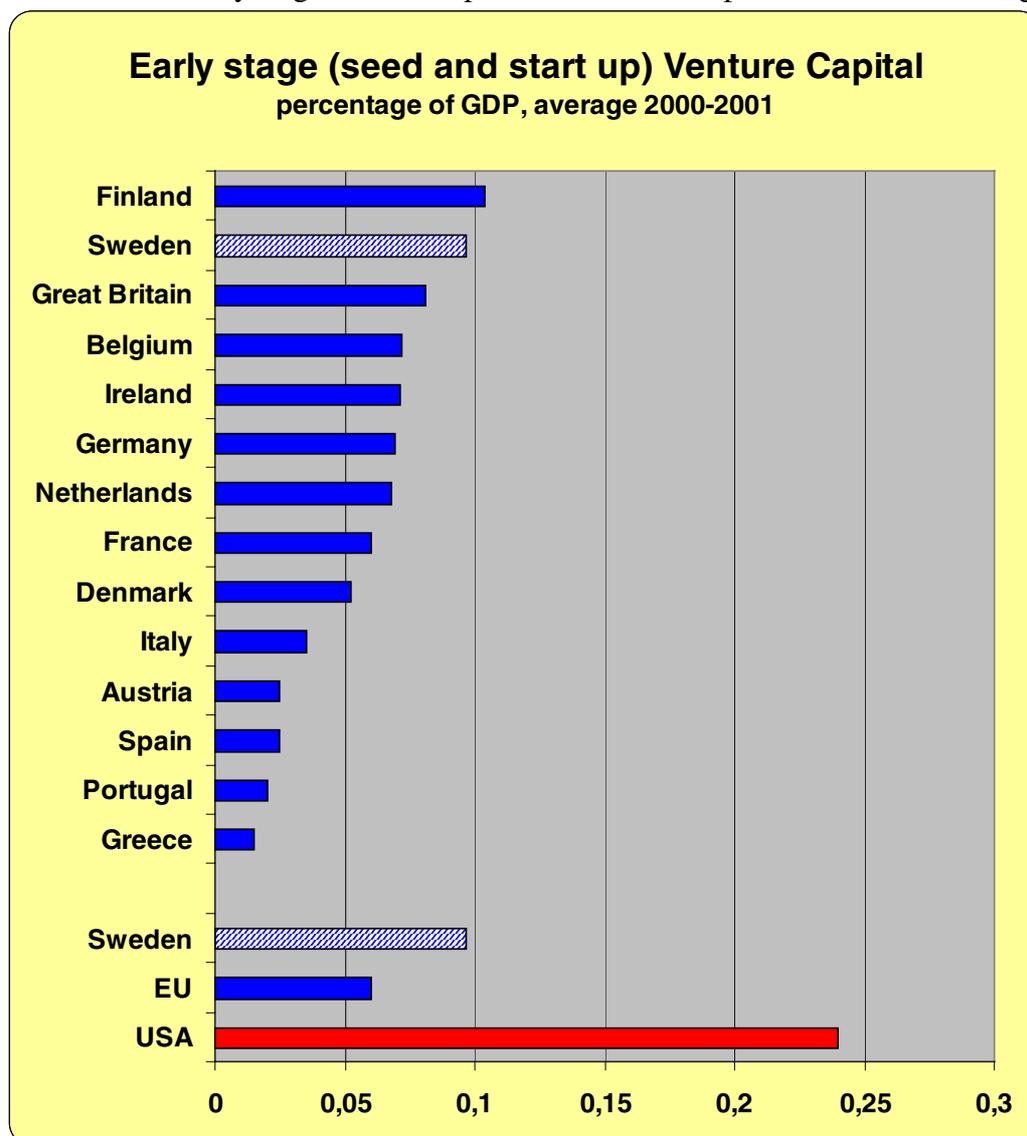
Source: OECD, *Businesses' Views on Red Tape, Administrative and Regulatory Burdens on SMEs*, 2002.

Early stage venture capital

The Venture Capital Market for SMEs is of vital importance to make possible for the ideas of the entrepreneurs to be realized in the markets. The early stage capital market, however, as well as the venture capital market in general, is clearly much less developed in the EU than in the USA.

Finland and Sweden have the largest early stage capital market in the EU, measured in per cent of GDP, but also in these countries the market (in per cent of the size of the economy) is much smaller than in the USA (indicator 18).

Indicator 18. Early stage venture capital investments in per cent of GDP, average 2000-2001.



Source: Eurostat

The performance of the EU and different countries so far

- Tax levels have been reduced in some countries, but in many countries high taxation is having a dampening effect on growth and taxation is still also an obstacles for cross border business
- Some progress has been made on the national level to reduce the administrative burden on companies, but the regulatory environment is still regarded as one of the major obstacles for higher growth, especially among small firms.

Urgently needed action

- Improving and simplifying the regulatory environment is on the agenda for this year. The strategy for administrative simplification has to be adopted and implemented at a national level.
- The venture capital market must be broadened and access to risk and/or venture capital improved.
- Taxes on entrepreneurs must be reduced to competitive levels.

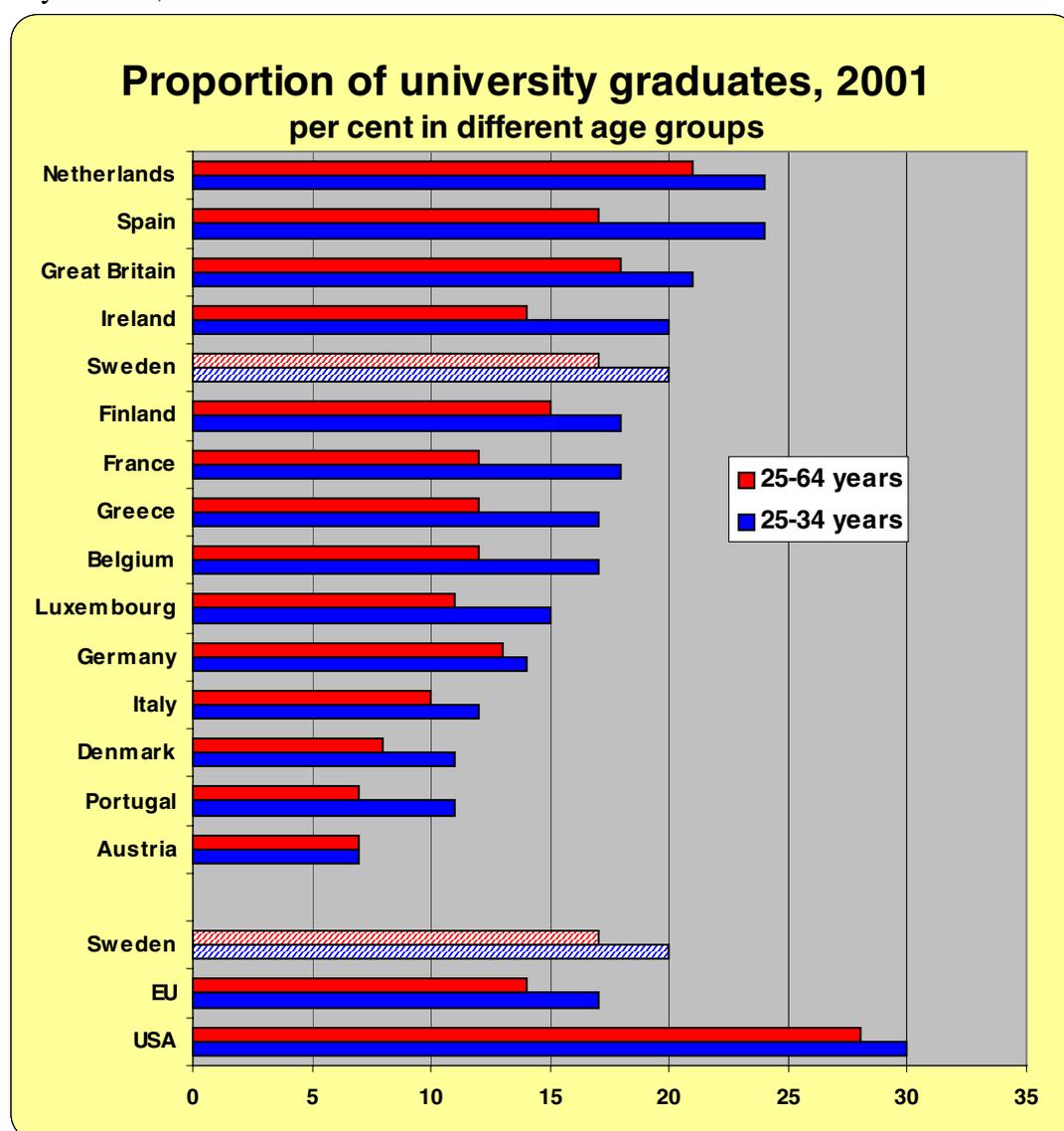
9. Education

Higher education

There has been a gradual increase in the proportion of graduates during the last years in many EU-countries, but still the EU has a significantly lower proportion of university graduates (at least three years university education) than the USA. This is true for the population as a whole as well as for the younger age groups.

In the EU, Netherlands and Spain are at the top, while Portugal and Austria show the lowest figures for higher education. Sweden has increased the proportion of graduates in recent years and has slightly better figures than the EU on average (indicator 19).

Indicator 19. Proportion of university graduates⁵ in the population as a whole and among 25-34 years old, 2001.



Source: Education at a Glance, 2002.

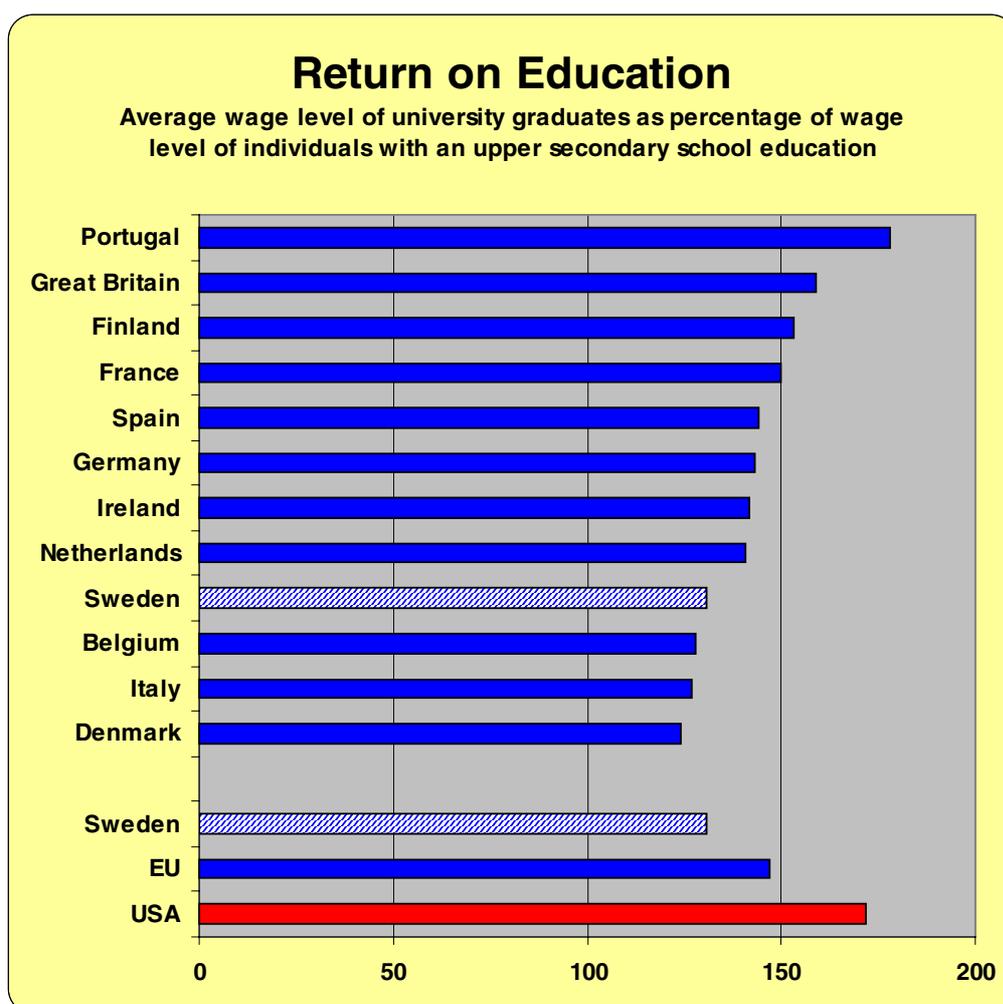
⁵ Includes graduates with University education of at least three years duration.

Return on education

In a gradually more knowledge-based economy, the incentive to higher education is a key question. There must be a reasonable return on the time, money and effort invested in higher education. We can get an indication of the return on higher education by comparing the average wage levels for persons with higher education and those of people with only an upper secondary school education.

Indicator 20 illustrates that in the USA the return on education is markedly higher than in the EU. In the EU Portugal and Great Britain are at the top, while Denmark, Belgium, Italy and Sweden have the lowest return on education. It is worth noticing that this comparison is made before taxes and it is clear that since taxes on labour are especially high in countries like Sweden, Belgium and Denmark, these countries would come out even worse if the comparison was based on the education return after tax.

Indicator 20. Return on education measured as wage spread between groups with different educational levels, 2000.



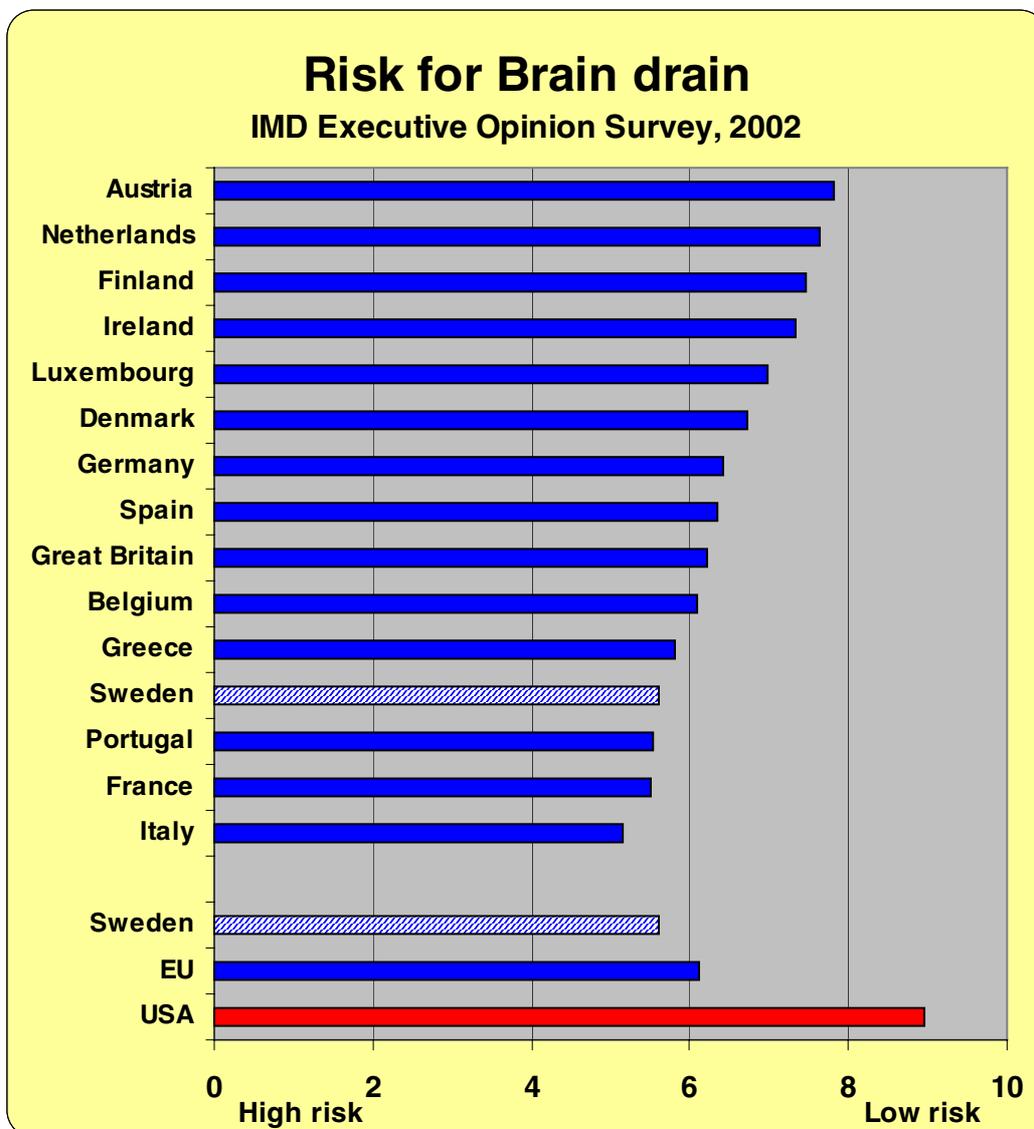
Source: Education at a Glance, 2002

Brain drain

In the future we can to an increasing extent expect an internationally mobile labour market, where attractiveness is the key word if a company wants to employ the most qualified labour. If a company or a country cannot offer attractive conditions to this segment of the labour force, there is an increasing risk of brain drain.

One can get an indication of the size of this problem from the annually undertaken survey by IMD (World Competitiveness Yearbook). This survey shows that in some countries in the EU brain drain is a growing problem. As can be seen from indicator 20 the problem is much more pronounced in the EU than in the USA and within the EU Portugal, France, Italy and Sweden that comes out worst.

Indicator 21. Risk for Brain drain. To what extent does brain drain hinder competitiveness in your country? 1 = large negative effect, 10 = no negative effect.



Source: IMD, World Competitiveness Report, 2002.

The performance of the EU and different countries so far

- Educational investments as percentage of GDP have increased in some countries.
- Certain improvements as regards the number of people with a university degree in Science and Technology.
- Sweden is one of the countries with the lowest proportion of 20-year-olds enrolled in university, with only 30% starting higher-level education within 3 years after secondary education.

Urgently needed action

- Modernise national education and training systems and adapt them to labour market realities. Closer cooperation between the education and business will help raise the quality and relevance of the education
- Raise teachers' skills and competencies in information technology.
- Increase mobility among students, teachers and researchers.
- Increase incentives to higher education, most importantly lowering taxes on labour.
- Sweden need to continue to improve its educational system.

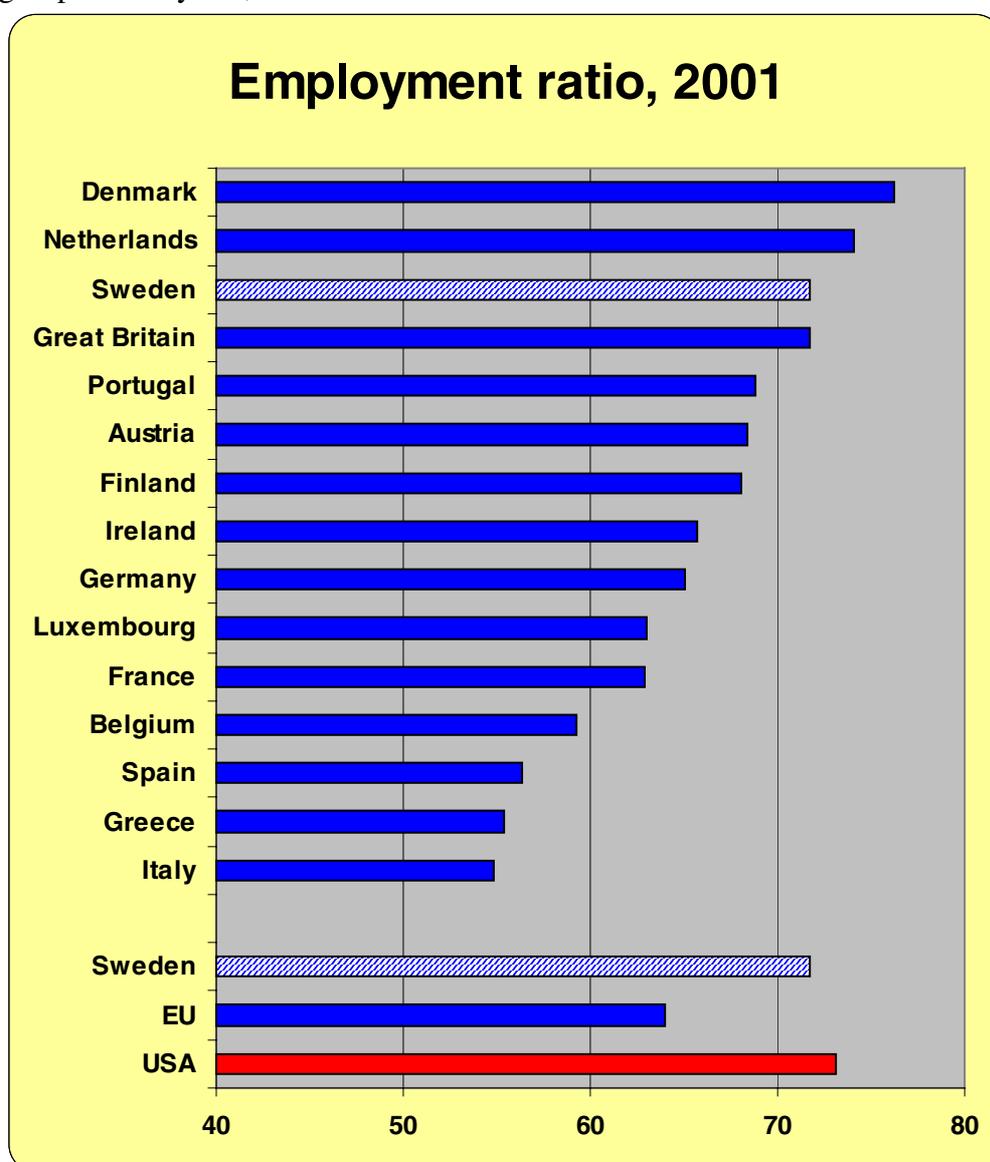
9. Employment

Employment ratio

A higher level of participation on the labour market is a major aim of the Lisbon Process and of course a prerequisite for the EU to reach the three per cent growth target set up in Barcelona last year. There are also explicit targets as regards the employment ratio in total (70 per cent) and for women (60 per cent).

There are, however, large differences between countries and as can be seen from indicator 22 some countries (Denmark, Netherlands, Sweden and Great Britain) already have attained the target, while the Mediterranean countries generally are lagging far behind.

Indicator 22. Employment ratio for the entire population in the economically active age groups 15-64 years, 2001.



Source: Eurostat.

Long term unemployment

Long-term unemployment is very damaging both from a macro-economic and an individual perspective. High unemployment is clearly an indicator of a poorly functioning labour market.

Indicator 23 illustrates the long-term unemployment in per cent of total employment and it shows that the USA has markedly lower long-term unemployment than the EU. This is definitely a serious cause for concern for the EU and shows very distinctly the urgent need of structural reforms in the labour market in many EU-countries. In the EU, the share of unemployed that is long-term unemployed is highest in Italy and lowest in Denmark, Sweden and Austria. Also in these countries, however, unemployment is a considerably larger problem than in the USA.

Indicator 23. Long-term unemployment as percentage of total unemployment, 2001.



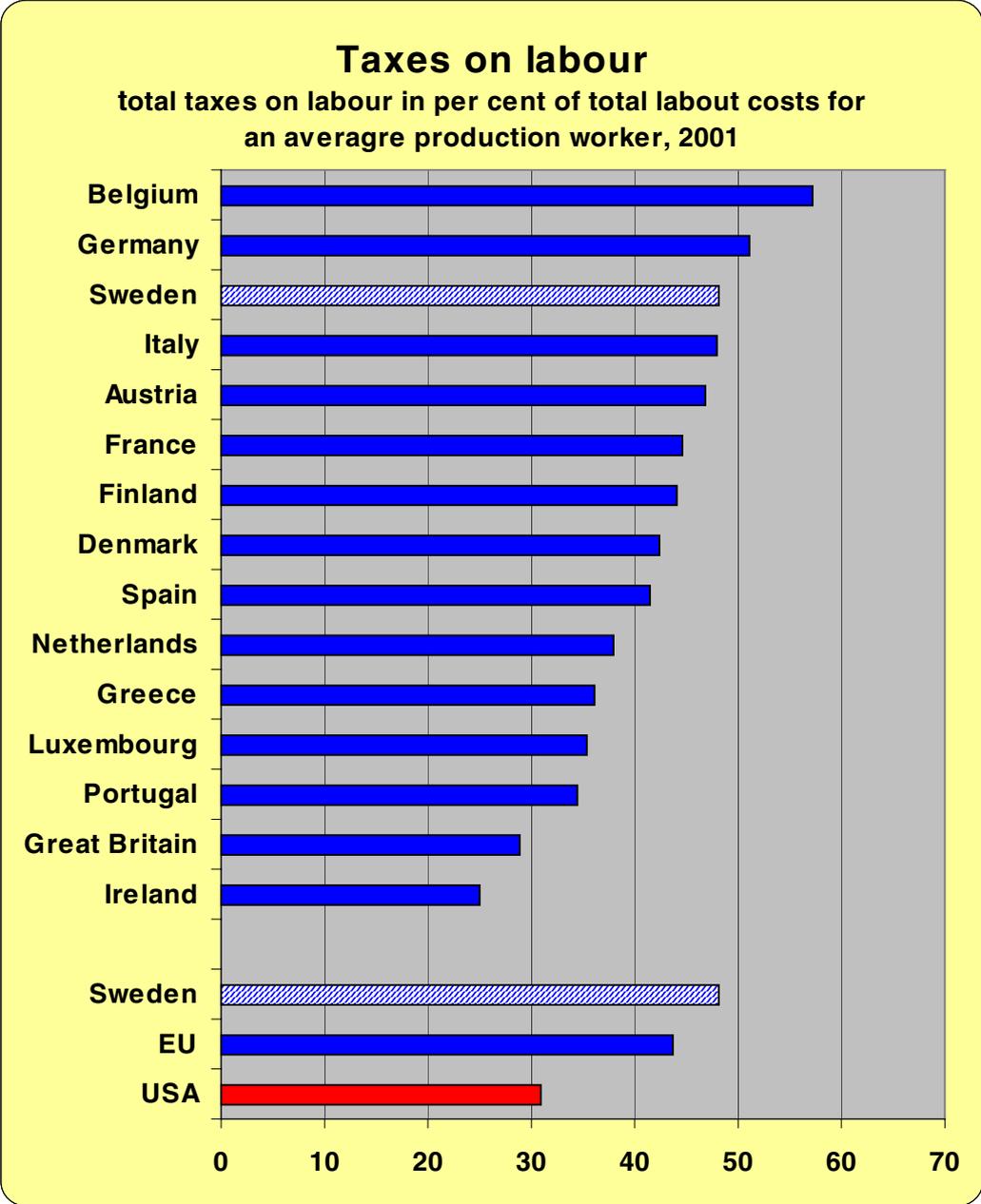
Source: OECD, Employment Outlook, 2002.

Taxes on labour

High taxation of labour increases the cost of employing people and thus has a negative effect on employment. In the EU, in general, the total taxes on labour are significantly higher than in the USA. The total taxes for an average industrial worker, in per cent of total labour costs, amount to almost 45 per cent in the EU, compared to just slightly above 30 per cent in the USA. In spite of the significant competitiveness disadvantage that this imposes on the EU, there have been only minor reductions in the tax rates in the last couple of years.

Belgium has the highest taxes on labour at this wage level followed by Germany and Sweden; while Ireland and Great Britain stand out as the low tax countries in the EU.

Indicator 24. Taxes on labour, 2001



Source: Confederation of Swedish Enterprise, 2002.

The performance of the EU and different countries so far

- There has generally been a slight increase in employment ratios in 2002.
- There are very few examples of countries undertaking substantial tax cuts on labour in order to stimulate employment. Taxes on labour are still destructively high in many EU-countries, especially Sweden, Belgium and Germany.

Urgently needed action

- Labour reforms must be undertaken in order to make the market more flexible and facilitate creation of more and better jobs
- There is an urgent need in many countries to cut taxes in order to increase incentives to work and to higher education.
- Long-term unemployment to be reduced in line with The European Employment Strategy.

11. THE LISBON STRATEGY AND SWEDISH BUSINESS PRIORITIES

The Confederation of Swedish Enterprise strongly supports the high priority given in the Lisbon Strategy to growth and adjustment of the economy to the new conditions of a more knowledge-driven economy. It basically support our four main areas aimed at making a more entrepreneurial Europe. The same message applies both on a national as well as on EU level.

These four “ national” areas are listed below as main titles. A number of Lisbon goals have been included under each title. The aim is to point out a number of measures to be carried through mainly at a national level in order to make Europe a success story by 2010.

STRENGTHEN THE VALUE OF ENTERPRISE

- ***COMPLETING THE INTERNAL MARKET***

A well functioning internal market with free movement of persons, goods, services and capital is and remains a cornerstone of European integration. The internal market is the essential tool for realizing the Lisbon Strategy and the transition to a knowledge-based economy and society contributing to growth, job creation and wealth. Unnecessary barriers must be abolished and new barriers avoided. Despite the 10 years existence of the Internal Market a great number of Member States are lagging behind implementation of relevant EU legislation while some of the Member States are doing their work. This unbalance hampers companies from the benefits of the Internal market.

The service sector growth potential should be taken into account. It makes up a growing share of the economy as a whole. In some countries it accounts for more than 60 % of GDP. However, cross border and foreign trade in services is still relatively small. As a proportion of European exports, services amount to only 22 per cent. In almost every country, 60-70 per cent of the gainfully employed work in the service sector. Furthermore, companies are affected by the manner in which the national market allows expansion and service development, and this applies to both exporting and currently non-exporting companies. The trade in services was growing very fast between 1990 and 2000. Within the EU growth was just under 60 per cent during that time. However, recent development shows that EU is losing shares in service exports of the world economy to USA and Asia (China) .

- ***OPENING OF UTILITY MARKET***

A well functioning internal market requires also deregulation. All sectors have to be open for competition.

Liberalisation in energy market - The political compromise (November 2002) on the Energy package has to lead to a final adoption by the Council in June 2003. Incumbent Member States must now give the highest priority to pursue real market opening. A complete liberalisation for the energy market will lead to better competition between companies and lower energy prices for both business and households.

Telecommunication - The 1999 review of the telecom package the full, effective and timely implementation of the new regulatory framework for electronic communications to create and maintain a competitive environment that offers incentives to innovate, invest and improve the quality of the services offered.

Transport market - Adoption by the Council of the 2nd railway package by December 2003 and full implementation of the 1st package by all Member States during 2003. Business strongly supports market access to port service and the creation of a Single European Sky and request the Council to adopt legislation by June 2003.

Post liberalisation – The process on EU level is too slow. Speed is required.

- **STIMULATE INNOVATION**

Community Patent – A breakthrough based on business request has to be taken at the Spring Council in March 2003. Business and in particular SMEs need a unitary community patent which is affordable, provides legal certainty and can coexist with the present European Patent System. Member States that due to national reasons are blocking the adoption of a community patent that can meet users` needs, and that is competitive in a global context, have to reconsider their positions. Concerning the language regime, the best solutions would be “English only”, however a compromise of three language could be accepted. If the Member States cannot agree on a community patent system that would meet these criteria, the industry is better off without it. The further improvement of the existing European Patent System could then serve the interest of innovative European companies.

Biotechnology – urgent need for a European policy that takes the full potential, competitiveness and worldwide development of the sector into account. More specific concerning GMO - products: an efficient system for traceability and labelling has to be developed so that the moratorium on these products could be lifted. Member States have to set clear criteria for risk management as soon as possible.

- **ACCESS TO FINANCE**

Access to risk capital and equity financing at low cost is of the highest importance to develop new ideas, technologies and new markets. Business and in particular innovative SMEs, need efficient financial markets.

Financial Services Action Plan (FSAP) by 2005 and securities markets by 2003. Member States have to increase their effort to meet the Lisbon target to create “efficient and integrated financial markets. 42 measures are needed to complete the FSAP. A great majority of measures has been achieved. The Prospectus and Pension directives have to be adopted by the Council preferably by July 2003. The Council should adopt the Investment Services and Transparency Directives by March 2004 at the latest. The Lamfalussy fast track procedure has facilitated the adoption of legislation and to bring it into line with the evolution of markets. Now applied in the securities market, it should be extended to banks, insurance and conglomerate.

- **PROMOTE ENTREPRENEURSHIP**

Entrepreneurship - It is time to recognize the importance entrepreneurship as a main driver for growth, more jobs and better conditions for all. The positive development of new enterprises and how companies are able to grow are key factors for our ability to reach the goals of Lisbon. We therefore welcome the Green Paper on Entrepreneurship as a tool to create a better entrepreneurial climate, favourable to the society as a whole. It is vital that, in order to reach the necessary results, Member States must pair any creation of new action plans at EU with new, concrete commitments.

- **SIMPLIFICATION**

Administrative simplification - The creation of a better business climate through administrative simplification and regulatory reform is a must to secure the necessary growth. The strategy has to be adopted and fully implemented by Member States.

- **SUSTAINABLE DEVELOPMENT AND COMPETITIVENESS**

Sustainable development - Business considers the strategy for sustainable development in Europe to be an important process. It is important to bear in mind that the three legs of sustainable development are not equal dimensions. In fact, economic growth is a prerequisite for sound development at the environmental and social level. We believe that market-driven solutions can achieve tangible results far faster than the use of regulation and control.

Climate Change – The EU has taken a leadership role in implementing the Kyoto Protocol and a directive for an emission trading scheme aimed at reducing greenhouse gas emissions within the EU is pending a final decision. Business believes that such system constitutes a forceful tool to meet environmental targets cost-efficiently. We are, however, concerned that some measures in the proposed directive would run contradictory to the key principles of growth and sustainable development formulated in the Lisbon strategy. One example is the rules for allocation of the permits where the notion of “early action” has to be recognized. It is vital from a competition point of view that a EU-wide trading system does not penalise growing industries and energy-efficient industries that have already undertaken measure. Or impede huge efforts and large investments needed in new and improved technology to reduce emissions.

ENSURE COMPETITION ON EQUAL TERMS

Free competition and a level playing field is the best basis for growth. Monopolies, subsidies and excessive bureaucracy harm efficiency. Public monopolies should be exposed to competition from private alternatives in order to give citizens more value for money. Private initiatives should be encouraged at all levels of national government.

Most sectors such as energy, telecommunication, transport and post are fully open to the private sector. Other areas, such as health and education, are developing but not satisfactorily. Promote more competition in all parts of the economy by, for instance, increasingly opening up the public sector more to competition. The public sector has to face sound commercial practice, the demand for better service and keep the public spending under control

Competition policy must be improved and modernised. When assessing a company’s market position in merger control, it is important to take a dynamic perspective. It must not be more difficult for small than for large member states to host multinational companies operating in the global market. State subsidies to business should be abolished. Fewer subsidies would improve company performance and make it possible to lower taxes.

Public procurement – new rules to improve the public markets were supposed to enter into force by 2002, but have still not been adopted. Instead amendments are presently discussed which would risk the re-erection of national barriers to trade and thus undermine the very principles of the Internal Market. Action must be taken by the Council and the Parliament to omit amendments which are not compatible with better functioning public markets and thereafter ensure the adoption of the Procurement Package by June 2003.

. LIBERALIZE THE ECONOMY AND CUT TAXES

- ***REDUCE TAXES AND PUBLIC DEFICITS***

Lower taxes on work and wealth improve growth and entrepreneurship. Taxes in Sweden are well above the European average, which in its turn is higher than the OECD average. From EU level Sweden have been urged to reduce taxes on labour. Sound tax competition should be encouraged between member states or third countries. Unfair tax competition and the use of state aid must be critically assessed in the light of its impact on trade patterns and other distortions. The governments also have to encourage the Commission's work on erasing a number of tax obstacles to cross-border economic activity in the internal market, amongst them to introduce a consolidated corporate tax base for companies with EU-wide activities. There is a need to remake the VAT system in order to make it possible for companies in the internal market to utilize the full potential of the market. The present system makes it more difficult to sell to another member state than to a third country. Introduce a common energy tax system. Today's situation with 15 different energy tax systems creates unnecessary problems with state aid rules, quite apart from the competition problems it causes. The large areas of the economy in the public sector are often shielded unnecessarily from competitive pressure. This needs to be changed.

CREATE A GROWING AND FLEXIBLE LABOUR MARKET

- ***FLEXIBLE AND IMPROVED LABOUR MARKET***

More and better jobs: Achieving more and better jobs depends not least on more flexible labour markets, better productivity and improved conditions for entrepreneurship. Companies have to adapt their work continuously in order to meet new demands. Regulations, however, tend to remain rigid and do not support enterprise as well as they should. Member states, in particular, should improve this situation. Free movement of labour between member states must be encouraged, not least through cross-border transferability of pension rights and social benefits. This should also be the case for workers from EU candidate countries from the first day of their accession, as well as for third-country nationals. A more flexible labour market in general must be promoted, including making it easier for companies to find people with the right skills.

- ***EDUCATION AND TRAINING***

Education – Increase investments in research and higher education and training, especially in the fields of science and engineering, and provide stronger incentives to enter higher education by promoting wider wage differential.

In comparison with other OECD countries, the Swedish educational system has during the last ten years improved in several aspects. Sweden is today placed fifth among the OECD countries with regard to the costs of higher education and research as part of GDP. Moreover, the number of people with a university degree in the field of science and technology has increased. Nevertheless, much work remains in order to improve the Swedish educational system. Sweden is one of the countries with the lowest proportion of 20-year-olds enrolled in university, with only 30% starting higher-level education within 3 years after secondary education. It is also important that University educations answer to the demand of the labour market. A closer cooperation between the education and companies will help raise the quality and relevance of the education