

WORKSHOP The European Lisbon agenda and the national diversity
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KEY ISSUES PAPER

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**THE LISBON AGENDA
AND THE NATIONAL DIVERSITY**

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After a mid-term review in 2005, the Lisbon strategy was translated into national reform programmes by all Member States. Several assessments of these programmes are already available (COM, 2006), but a more fundamental analysis seems still missing. The variety of capitalist economies co-existing in the European Union should not be overlooked. To what extent can a common European agenda for structural reforms be implemented and adapted to specific national conditions? Is the Lisbon strategy suggesting a kind of meta-reference for a certain convergence and cross-fertilization of different types of capitalism? In this case which are the critical points for a transition in each type of capitalism?

Before addressing the intriguing issues, let us recall briefly where we are in the Lisbon strategy after the mid-term review undertaken in 2005.

The key issues to be addressed by the workshop “The Lisbon Agenda and the national diversity” are located in the final pages of Section 2.

1. OVERVIEW OF THE LISBON STRATEGY AFTER ITS MID-TERM REVIEW

The Lisbon strategy launched by the European Council of March 2000 was the elaboration of a European development strategy in face of the new challenges: globalisation, ageing, faster technological change. Its central idea is to recognize that, in order to sustain the European social model, we need to renew it as well as to renew its economic basis by focusing on knowledge and innovation. This should be the main purpose of an agenda for structural reforms (Rodrigues, 2002). This strategy should also comply with the general principles of sustainable development, as emphasized since the Swedish Presidency in 2001.

Over the last five years, this strategy was translated into an agenda of common objectives and concrete measures, using not only the traditional instruments, such as directives and the community programmes but also a new open of coordination, which had already been tested in the employment policy and which then extended to many other ones: the policies for the information society, research, enterprise, innovation, education, social protection and social inclusion (Rodrigues, 2003).

The general outcome in 2004 was clearly very unequal across policy areas and countries. A progress seemed quite evident in the connections to Internet, the networks for excellence in research, the one-stop shops for small business, the integration of financial markets, the modernisation of the employment services or in some social inclusion plans. However, some important bottlenecks were evident in fostering innovation, adopting a Community patent, opening the services market, developing lifelong learning or reforming social protection. Besides that, some Northern countries displayed better performances than some Southern ones, whereas some smaller countries seemed to perform better than most of the bigger ones. This is, of course, a very rough assessment.

In the meantime, the implementation gap was worsened by a communication gap, due to the absence of a communication policy able to connect some existent progress on the ground with this European agenda. In face of these shortcomings, the mid-term review in 2004-05, under the Luxembourg Presidency, came up with some answers to the main problems which had been identified (Kok, 2004, Sapir 2004):

- blurred strategic objectives;

- inflation of priorities and measures;
- lack of implementation, coordination and participation mechanisms;
- lack of financial incentives.

1.1. Clarifying the strategic objectives

The first problem to address was about the very relevance of the strategy. Taking into account the new challenges, was the Lisbon strategy still relevant?

The world landscape was changing. The emergence of new competitive players coupled with more evident ageing trends should fully be taken into account by the Lisbon strategy, but its approach remained valid and was becoming even more urgent – this was the position adopted by the Spring European Council under the Luxembourg Presidency. “Europe must renew the basis of its competitiveness, increase its growth potential and its productivity and strengthen social cohesion, placing the main emphasis on knowledge, innovation and the optimisation of the human capital“ (Council 7619/05, § 5). Stepping up the transition to a knowledge-intensive society remains the central direction. The need to improve the synergies between the three dimensions of the strategy - economic, social and environmental – is also underlined in the more general context of the sustainable development principles (Council 7619/05).

Still, it was considered that the strategy should be re-focused on growth and employment, with some implications for the definition of the political priorities, as we will see below.

1.2. Defining the political priorities

The major political priorities of the Lisbon strategy for growth and jobs, after the mid-term review concluded in July, are three:

- Knowledge and innovation – engines of sustainable growth;
- Making Europe a more attractive place to invest and to work;

- More and better jobs.

These three political priorities were specified into a list of 24 guidelines using the Treaty-based instruments called “broad economic policy guidelines” and the “employment guidelines”. Moreover, an additional strand was included dealing with the macro-economic policies, under the label “Macroeconomic policies for growth and jobs” (see next Table and Council 10667/05 and 10205/05).

LISBON STRATEGY

THE INTEGRATED GUIDELINES FOR GROWTH AND JOBS

Macroeconomic policies for growth and jobs

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

Knowledge and innovation –engines of sustainable growth

7. To increase and improve investment in R&D, in particular by private business;
8. To facilitate all forms of innovation;
9. To facilitate the spread and effective use of ICT and build a fully inclusive information society;
10. To strengthen the competitive advantages of its industrial base;
11. To encourage the sustainable use of resources and strengthen the synergies between environmental protection and growth.

Making Europe a more attractive place to invest and work

12. To extend and deepen the Internal Market;
13. To ensure open and competitive markets inside and outside Europe and to reap the benefits of globalisation;
14. To create a more competitive business environment and encourage private initiative through better regulation;
15. To promote a more entrepreneurial culture and create a supportive environment for SMEs;
16. To expand and improve European infrastructure and complete priority cross-border projects;

More and better jobs

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

Source: Council of the European Union, 10667/05 and 10205/05

1.3. Fostering the implementation

The aim of defining coordinated guidelines for economic and social policies in the EU comes from the nineties, with the preparation of the Economic and Monetary Union. During the Lisbon European Council in 2000, the political conditions were still not ripe to achieve the adoption of an economic and social strategy using more compulsory instruments such as Treaty-based guidelines. Hence, a new method was defined, called “open method of coordination”, based on (Council SN 100/00 and Presidency 9088/00):

- identifying common objectives or guidelines;
- translating them into the national policies, adapting to national specificities;
- organising a monitoring process based on common indicators, identifying best practices and peer review.

The development of this method in eleven policy fields since 2000, in spite of some shortcomings (such as bureaucratisation, simplistic benchmarking, etc.), had been quite instrumental in building the necessary consensus about the strategic challenges and the key reforms to be implemented. In 2005, the arguments regarding the implementation and the coordination gap were already enough to ensure a transformation of some of the most important of these “soft” guidelines into “harder” ones, by turning them into Treaty-based guidelines (Council, 10667/05 and 10205/05).

Hence, the open method of coordination did play a role in building a European dimension, organising a learning process and promoting some convergence with respect by the national differences. Does this mean that this method is now over? This is not at all the case (see Council 7619/05 § 39 d/ and Commission, SEC 28.04.2005). It can pursue its role, when this is needed which means that the policy making process can work at two levels, one more formal and precise than the other, ensuring the necessary political re-focusing in the implementation.

A second important development regarding the instruments for implementation concerns the national reform programmes for the next three years, to be prepared by all the Member States in the autumn 2005 (Commission, SEC 28.04.2005).

These programmes should be forward-looking political documents setting out a comprehensive strategy to implement the integrated guidelines and adapting them to the national situation. Besides presenting the political priorities and measures, these programmes were also expected to point out the roles of the different stakeholders as well as the budgetary resources to be mobilized, including the structural funds with a link to the stability and convergence programmes. The preparation, implementation and monitoring of the national programmes should involve the main political institutions as well as the civil society and, when appropriate, a national coordinator should be appointed. An annual follow-up report is also supposed to be provided by all Member States, leading to a general report to be presented by the European Commission to each Spring European Council.

These programmes were all prepared until November 2005 and they are available, together with the assessment made by the European Commission, in the site http://europa.eu.int/growthandjobs/index_en.htm

A last important piece to foster the implementation is the recently adopted Community Lisbon Programme, putting together, for the first time, all the regulatory actions, financing actions and policy developments to be launched at European level regarding the Lisbon strategy for growth and jobs, and organising them by the three main priorities already mentioned (Commission, COM (2005) 330). Some of its key actions are underlined:

- the support of knowledge and innovation in Europe;
- the reform of the State aid policy;
- the better regulation for business operation;
- the completion of the internal market for services;
- the completion of an ambitious agreement in the Doha Round;
- the removal of obstacles to physical, labour and academic mobility;
- the development of a common approach to economic migration;
- the support to manage the social consequences of economic restructuring.

As well as the national programmes for growth and jobs will require a stronger coordination within the governments, this Community Lisbon Programme will require the same from the European Commission and also from the Council of Ministers in its relevant formations: Ecofin, Employment and Social Affairs,

Competitiveness, Education and Environment. Regarding the European Parliament, an internal coordination procedure is already under way between different EP commissions and the same should be considered by the national parliaments, as some of their commissions can be concerned.

1.4. Developing financial incentives

Different reforms of financial instruments are also underway in order to put them more in line with the political priorities of the Lisbon strategy for growth and jobs:

- the Community framework for the State aids is being reviewed in order to turn them into a more horizontal approach, focusing R&D, innovation and human capital;
- the European Investment Bank and the European Investment Fund are also deploying new instruments in support of the strategy for growth and jobs, and were asked to put a special focus on the needs of the innovative SMEs in Europe;
- the Community Programmes can also play an important role, notably if they are also able to become a catalysts of the national programmes for growth and jobs. Three very relevant cases are the 7th Framework Programme for Research and Technological Development, the Community Programme for Competitiveness and Innovation and the Community Programme for Lifelong Learning. Nonetheless, their scope was badly reduced by the final agreement on the Community budget reached in December 2005. A major discussion on this budget is scheduled for 2008.
- the Community Strategic Guidelines for the Cohesion policy, which were recently proposed by the European Commission are strongly in line with the integrated guidelines for the Lisbon strategy, covering their three main strands: making Europe and its regions more attractive places to invest and to work; knowledge and innovation for growth; and more and better jobs (Commission, SEC (2005) 0299).

Beyond all this, a reform was introduced in the Stability and Growth Pact which can have very relevant implications for the Lisbon strategy (Council 7619/05). According

to this reform, macroeconomic stability remains a central concern, the limits for the public deficit and the public debt remain 3% and 60% as ratio of the GDP and pro-cyclical fiscal policies should be avoided. Nevertheless, a new emphasis is put on fostering economic growth and on the sustainability of the public debt in order to cope with the demographic trends. Against this background, the Lisbon goals, such as reforming social protection systems and redirecting public expenditure to key investments for growth potential (in R&D, innovation, human capital) are among the relevant factors to be taken into account when assessing the public deficits (either below or above 3%) or when defining the adjustment trajectories, in case of the excessive deficit procedure.

The particular combination of all these instruments in each Member State is being decided by itself. That is why the preparation and implementation of the national reform programmes deserves a more in-depth analysis. Behind these specific combinations there are different political choices but also perhaps, more fundamentally, different types of capitalism.

2. THE LISBON STRATEGY AND THE VARIETIES OF CAPITALISM

2.1. Analysing the varieties of capitalism

A quite rich tradition of analysing the varieties of capitalism is available in social sciences (see overview in Halland and Soskice, 2001). We will build on a recent elaboration which seems particularly sound and appropriate for the purpose of this paper. After taking stock of this tradition, Amable (2003:92) is presenting a comprehensive theoretical framework based on the following key institutional areas:

- product-market competition;
- the labour market institutions and the wage-labour nexus;
- the financial-intermediation sector and the corporate governance;
- social protection;
- the education sector.

These institutional areas can provide the framework to identify different types of capitalism, which can also be validated by empirical research. Accordingly, the following types of capitalism were identified by the author (Amable, 2003:104):

- market-based economies;
- social-democratic economies;
- Asian-capitalism;
- Continental European capitalism;
- South European capitalism.

The author also argues that a particular complementarity between these institutional forms can be found in each type of capitalism (p.61). Recalling the distinctions made by Hall and Soskice (2001) between the liberal market economy and the coordinated market economy, the author (p.61) illustrates: in this second type of economy *“the existence of durable relationships, and of proximity between banks and firms, enhances the implementation of long-term investment projects, and this in return facilitates the establishment of stable compromises in the labour market”*.

Analysing these interactions, it is also possible to identify a particular institutional hierarchy: as argued by an extensive research led by Boyer (1988), the nature of the wage-labour nexus seems to play a central role in the dynamics of each capitalism type, because it involves both the norms for production and for consumption.

Moreover it is also argued that the type of capitalism influences the type of competitive advantages (pp. 78-79): *“liberal market economies have a comparative*

advantage in industries where radical innovation leads to market-stealing benefits and where competitiveness stems from fast adaptation to changing market conditions. Coordinated market economies have the edge in industries where competitiveness is based on cumulative build-up of knowledge and company-specific skills and where incremental innovation matters.”

For a more in-depth analysis of this issue, another typology is also presented by the author, focusing more particularly on the social systems of innovation and production and building on the following criteria, which partially overlap with those already mentioned to analyse the different types of capitalism (p.85): science, technology, competence and skills, labour markets, competition, finance, products.

2.2. A typology of capitalisms in the European Union

The first proposal of the paper is to adapt this theoretical background for a more refined typology of capitalisms in the European Union when they are involved in a double process of structural change:

- speeding up the transition to a more knowledge intensive economy;
- adapting social protection systems to cope with the ageing trends

Hence, the following references are proposed:

1. To consider that the innovation systems and the social protection systems play a central role in the institutional hierarchy of this process of structural change;
2. Therefore, to merge the two different typologies presented by Amable: the one more general on the varieties of capitalism, with the other more specific on the varieties of social systems of innovation and production;
3. Finally, to consider a wider range of types of capitalism within the European Union: the already mentioned Anglo-saxon capitalism, the Nordic, the Central European but also the Southern and the Eastern types of capitalism. Regarding this last type, a special effort of elaboration is still needed considering the recent transition process.

The Table 1 in annex, was build according to these references. The following questions are proposed to analyse this Table:

- 1. Are these the key institutional areas to distinguish the different types of capitalism?**
- 2. Are these the main types of capitalism to be considered in the European Union?**
- 3. Are these the main features to characterize these types capitalism?**

4. How can we complete this characterization by filling in the white boxes?

2.3. Characterizing the meta-type of capitalism underlying the Lisbon agenda

The same framework was used to analyse the Lisbon agenda as it is currently defined by the integrated guidelines for the national reform programmes, complemented by the Lisbon Community Programme at European level. What is at stake here is to identify a possible meta-type of capitalism underlying the Lisbon agenda.

The Table 2 in annex presents this analysis making a distinction between instruments which depend on the national level of governance and those which depend on the European level. In fact, this distinction is very often less clear because the list of the different instruments which can be used translate different degree of Europeanisation of the policy making process.

The following questions are proposed to analyse the Table 2:

- 1. How can we classify the particular mix of features which can be found in this meta-type of capitalism underlying the Lisbon agenda?**
- 2. How do we assess its internal consistency?**
- 3. What are the kinds of cross-fertilisation between different types of capitalism that we can identify in this particular mix underlying the Lisbon agenda?**

2.4. Identifying paths for transition from different types of capitalism

The Lisbon process is based on the assumption that it is possible to adapt a common reform agenda to different types of capitalism. To what extent is this an acceptable assumption? This means that a certain degree of convergence to a meta-type is possible. This might be possible due to a Europeanisation of the policy-making in many policy fields which is fostering a process of cross-fertilisation between different types of capitalism within the European Union.

Therefore, the central questions to be answered in this section seem to be:

- 1. In retrospective terms, is there evidence to confirm this hypothesis of convergence?**

**2. In “prospective” terms, which are the critical changes to converge for this meta-type from each of the capitalism types already considered?
Can we identify some transition paths?**

With a more systematic answer to this last question, some policy recommendations might be drawn for both national and European levels.

2.5. Other further questions for possible discussion

Beyond this kind of systematic exercise, other more general questions can be addressed in this workshop:

- what are the possible impact and limits of this reform agenda?
- what are the other conditions to foster economic growth?
- what are the implications of all this for governance reforms?
- what can be the content of a new social contract underlying this reform agenda?

IDEAL TYPES OF CAPITALISM

Institutional Area	Market-based economies	Central European capitalism	South European capitalism	Eastern European capitalism	Nordic European
Science	The research system is based on competition between researchers and between research institutions	Public basic research is disconnected from new-product development within firms, but there are large-scale programmes			Social needs are important in the definition of research objectives
Technology	Importance of intellectual property rights protection, patents, and copyrights as incentives towards and protection for innovation	Importance of public impetus for private research			Gradual evolution towards advanced technologies and new sectors – from natural-resources exploitation to information technology
Competence and skills	Highly segmented labour force; high skills and innovation on one side, low skills and production on the other	Internal rather than external mobility of the labour force			Egalitarian ideals in education and wage-setting; limits through public action to the adverse consequences of technical progress
Education	Low public expenditures, highly competitive higher-education system, non-homogenized secondary education, weak vocational training, emphasis on general skills, lifelong learning	High level of public expenditure, high enrolment rates in secondary education, emphasis on secondary-education homogeneity, developed vocational training, emphasis on specific skills	Low public expenditures, low enrolment rates in tertiary education, weak higher-education system, weak vocational training, no lifelong learning, emphasis on general skills		High level of public expenditures, high enrolment rates, emphasis on the quality of primary and secondary education, importance of vocational training, emphasis on specific skills, importance of retraining, lifelong learning

Institutional Area	Market-based economies	Central European capitalism	South European capitalism	Eastern European capitalism	Nordic European
Wage-labour nexus	Low employment protection, external flexibility: easy recourse to temporary work and easy hire and fire, no active employment policy, defensive union strategies, decentralization of wage bargaining	High employment protection, limited external flexibility, job stability, conflicting industrial relations, active employment policy, moderately strong unions, coordination of wage bargaining	High employment protection (large firms) but dualism: a “flexible” fringe of employment in temporary and part-time work, possible conflicts in industrial relations, no active employment policy, centralization of wage bargaining		Moderate employment protection, coordinated or centralized wage bargaining, active employment policy, strong unions, cooperative industrial relations
Labour markets	Decentralization of wage bargaining; individualized wage and labour-market segmentation	Strong institutionalization of employment rules, working hours, and social protection			Centralization of wage bargaining under the external competitiveness constraint
Social protection	Weak social protection, low involvement of the State, emphasis on poverty alleviation (social safety net), means-tested benefits, private-funded pension system	High degree of social protection, employment-based social protection, involvement of the State, high importance of social protection in society, contribution-financed social insurance, pay-as-you-go pension systems	Moderate level of social protection, expenditures structure oriented towards poverty alleviation and pensions, high involvement of the State		High level of social protection, high involvement of the State, high importance of the Welfare State in public policy and society
Competition	Limits to concentration through legal action; constant evolution of oligopolistic competition	Once moderate competition, because of public intervention or business associations, has intensified within the single market; concentration of capital			Small number of large internationalized firms and networks of small local suppliers

Institutional Area	Market-based economies	Central European capitalism	South European capitalism	Eastern European capitalism	Nordic European
Product-market competition	High importance of price competition, non-involvement of the State in product markets, coordination through market (price) signals, openness to foreign competition and investment	Moderate importance of price competition, relatively high importance of quality competition, involvement of public authorities, relatively high non-price “coordination, low protection against foreign firms and investment	Price-rather than quality-based competition, involvement of the State, little “non-price” coordination, moderate protection against foreign trade or investment, importance of small firms		High importance of quality competition, high involvement of the State in product markets, high degree of “coordination” through channels other than market signals, openness to foreign competition and investment
Finance	Market-based finance and sophistication of financial services; financial innovation; strong influence of shareholders	Importance of banks; relatively low sophistication of financial services			Bank-based financial system; no sophistication of financial services
Financial sector	High protection of minority shareholders, low ownership concentration, high importance of institutional investors, active market for corporate control (takeovers, mergers and acquisitions), high sophistication of financial markets, development of venture capital	Low protection of external shareholders, high ownership concentration, no active market for corporate control (takeovers, mergers and acquisitions), low sophistication of financial markets, moderate development of venture capital, high banking concentration, importance of banks in firms’ investment funding	Low protection of external shareholders, high ownership concentration, bank-based corporate governance, no active market for corporate control (takeovers, mergers and acquisitions), low sophistication of financial markets, limited development of venture capital, high banking concentration		High ownership concentration, high share of institutional investors, no market for corporate control (takeovers, mergers and acquisitions), no sophistication of financial markets, high degree of banking concentration

Source: Based on Amable, Barré and Boyer (1997); Amable (2000 and 2003).

THE “META-MODEL” OF THE LISBON STRATEGY

	NATIONAL	EUROPEAN
SCIENCE	<ul style="list-style-type: none"> ▪ Increase private and public investment in research ▪ Opening and connecting research institutions and creating centres of excellence ▪ Attracting more people for research careers 	<ul style="list-style-type: none"> ▪ Broad economic policy guidelines ▪ Cooperation of Member States in European agencies ▪ Research in Community institutions (JRC) ▪ Competition between European networks of excellence and integrated projects in European thematic programmes ▪ Competition between teams in basic research (European Research Council) ▪ Support to regional development by structural funds
TECHNOLOGY INNOVATION	<ul style="list-style-type: none"> ▪ Improving innovation support services ▪ Developing innovation clusters, poles and incubators ▪ Better access to domestic and international finance ▪ Efficient and affordable means for intellectual property ▪ Public procurement for innovative products and services 	<ul style="list-style-type: none"> ▪ Developing European networks of clusters for innovation ▪ Launching European technological initiatives ▪ Adopting a Community patent ▪ Support to regional development by structural funds ▪ Support by EIB and EIF instruments
ICT's	<ul style="list-style-type: none"> ▪ Encouraging widespread use of ICT in public services, SME's and households and couple with organisational change ▪ Improving access to broadband ▪ Developing content industries 	<ul style="list-style-type: none"> ▪ Completing a single European information space ▪ Achieving an inclusive European Information Society ▪ Strengthening innovation and research on ICT's ▪ Support to regional development by structural funds
ENVIRONMENT	<ul style="list-style-type: none"> ▪ Encouraging the adoption of environmental technologies by regulation, tax incentives and public procurement 	<ul style="list-style-type: none"> ▪ European strategy for sustainable development ▪ Action plan for environmental technologies ▪ Implementing Kyoto protocol ▪ Support to regional development by structural funds
EDUCATION COMPETENCES AND SKILLS	<ul style="list-style-type: none"> ▪ Inclusive education and training policies to facilitate access to vocational, secondary and higher education ▪ Reducing the early school leavers ▪ Lifelong learning open to all in schools, business, public services and households; support by working time organisation ▪ Responding to new skills needs by defining and validating new skills 	<ul style="list-style-type: none"> ▪ Employment guidelines ▪ Developing European mobility for education and training ▪ Implementing the Bologna process for convergence in high level education ▪ Adopting a European Qualifications Framework and a European list of key competences ▪ Support by structural funds

	NATIONAL	EUROPEAN
LABOUR MARKETS WAGE LABOUR NEXUS	<ul style="list-style-type: none"> ▪ Raising the employment level, attracting more people into the labour market ▪ Developing a life-cycle approach adapting labour market and social protection policies to young, adult and old workers ▪ Strengthening active labour market policies ▪ Regular review of the contributions and benefits systems to make work pay ▪ Appropriate management of economic immigration ▪ Ensuring employment-friendly labour costs developments by social partners ▪ Promoting innovative and adaptable forms of work organisation ▪ Improving the management of restructuring process ▪ Developing better combinations of flexibility with security ▪ Ensuring adequate accessible, financially sustainable, adaptable and efficient social protection systems and social inclusion policies ▪ Social partnership for change, social pacts 	<ul style="list-style-type: none"> ▪ European Social Agenda ▪ Directives on ▪ European social dialogue ▪ Community programme for Social Policies (PROGRESS) ▪ Support to regional development by structural funds ▪ Globalisation fund
COMPETITION	<ul style="list-style-type: none"> ▪ Promoting trade in a multilateral context ▪ Speeding up the transposition and enforcement of Internal market directives ▪ Applying EU public procurement rules ▪ Removing trade barriers ▪ Developing infrastructures, if necessary by using public-private partnerships ▪ Reducing and redirecting state aids ▪ Reducing administrative burden on enterprises and improve the quality of regulations ▪ Encouraging enterprises in developing their corporate social responsibility ▪ To support entrepreneurship by providing support services, strengthen the economic incentives, improving access to finance and facilitating the transfer of ownership ▪ Implementing the directives for financial market integration 	<ul style="list-style-type: none"> ▪ Common trade policy aiming at agreement on free trade with promotion of basic standards ▪ Internal market directives on products, workers mobility and services, aiming at opening the markets while preserving the European social model including the services of public interest ▪ Building Trans European networks ▪ Support to regional development by structural funds ▪ State aid regulations aiming at reducing and redirecting them to research, innovation and human capital ▪ Competition policy (European statute, take-over, etc.) ▪ Improving the quality of regulations ▪ Broad economic policy guidelines ▪ New industrial policy to improve framework conditions and advanced competitive factors ▪ Financial Services Action Plan aiming at faster financial market integration and large diversification and access in financial services

	NATIONAL	EUROPEAN
MACROECONOMIC POLICIES	<p>Stability:</p> <ul style="list-style-type: none"> Member States should respect their medium-term budgetary objectives and take the necessary corrective measures to achieve them <p>Sustainability:</p> <ul style="list-style-type: none"> Undertake public debt reduction Reform pension, social insurance and health care systems to ensure they are financially viable, socially adequate and accessible <p>Quality:</p> <ul style="list-style-type: none"> Redirect the composition of public expenditure towards growth – enhancing categories in line with the Lisbon Strategy, adapt tax structures to strengthen growth potential <p>Wage developments</p> <ul style="list-style-type: none"> To ensure that they contribute to macroeconomic stability and growth and to increase adaptability Wage-bargaining systems, while fully respecting the role of the social partners, should promote nominal wage and labour cost developments consistent with price stability and the trend in productivity over the mid-term taking into account differences across skills and local labour market conditions 	<ul style="list-style-type: none"> Stability and Growth Pact Multilateral surveillance Broad economic policy guidelines <ul style="list-style-type: none"> Monetary policy defined by the European Central Bank <ul style="list-style-type: none"> Eurozone Member States need to ensure better co-ordination of their economic and budgetary policies <ul style="list-style-type: none"> Policy mix that supports economic recovery and is compatible with price stability Structural reforms that increase euro area long-term growth potential Euro area's influence in the global economic system

Source: *Integrated guidelines for growth and jobs (2005)* and *Community Lisbon Programme (2005)*

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ANNEX

The Lisbon Strategy for Growth and Jobs

Integrated Guidelines

“The Economic Guidelines (2005-2008)

(Integrated Guidelines Nos 1-16)

SECTION A – MACROECONOMIC POLICIES FOR GROWTH AND JOBS

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

Guideline No.1. To secure economic stability for sustainable growth

1. in line with the Stability and Growth Pact, Member States should respect their medium-term budgetary objectives. As long as this objective has not yet been achieved, they should take all the necessary corrective measures to achieve it. Member States should avoid pro-cyclical fiscal policies. Furthermore, it is necessary that those Member States having an excessive deficit take effective action in order to ensure a prompt correction of excessive deficits;
2. Member States posting current account deficits that risk being unsustainable should work towards correcting them by implementing structural reforms, boosting external competitiveness and, where appropriate, contributing to their correction via fiscal policies.

See also integrated guideline “To contribute to a dynamic and well-functioning EMU” (No.6).

Guideline No.2. To safeguard economic and fiscal sustainability as a basis for increased employment, Member States should, in view of the projected costs of ageing populations

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

See also integrated guideline “Promote a lifecycle approach to work” (No.18, and 4, 19, 21).

Guideline No.3. To promote a growth- and employment-orientated and efficient allocation of resources Member States should, without prejudice to guidelines on economic stability and sustainability, re-direct the composition of public expenditure towards growth-enhancing categories in line with the Lisbon strategy, adapt tax structures to strengthen growth potential, ensure that mechanisms are in place to assess the relationship between public spending and the achievement of policy objectives and ensure the overall coherence of reform packages.

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

Guideline No.4. To ensure that wage developments contribute to macroeconomic stability and growth and to increase adaptability Member States should encourage the right framework conditions for wage-bargaining systems, while fully respecting the role of the social partners, with a view to promote nominal wage and labour cost developments consistent with price stability and the trend in productivity over the medium term, taking into account differences across skills and local labour market conditions.

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

Guideline No.5. To promote greater coherence between macroeconomic, structural and employment policies, Member States should pursue labour and product markets reforms that at the same time increases the growth potential and support the macroeconomic framework by increasing flexibility, factor mobility and adjustment capacity in labour and product markets in response to globalisation, technological advances, demand shift, and cyclical changes. In particular, Member States should renew impetus in tax and benefit reforms to improve incentives and to make work pay; increase adaptability of labour markets combining employment flexibility and security; and improve employability by investing in human capital.

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

A.2 Ensuring a Dynamic and Well-Functioning Euro Area

Guideline No.6. To contribute to a dynamic and well-functioning EMU, euro area Member States need to ensure better co-ordination of their economic and budgetary policies, in particular

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

SECTION B – MICROECONOMIC REFORMS TO RAISE EUROPE'S GROWTH POTENTIAL

B.1 Knowledge and innovation– engines of sustainable growth

Guideline No.7. To increase and improve investment in R&D, in particular by private business, the overall objective for 2010 of 3% of GDP is confirmed with an adequate split between private and public investment, Member States will define specific intermediate levels. Member States should further develop a mix of measures appropriate to foster R&D, in particular business R&D, through:

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

Guideline No.8. To facilitate all forms of innovation, Member States should focus on:

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

Guideline No.9. To facilitate the spread and effective use of ICT and build a fully inclusive information society, Member States should:

1. encourage the widespread use of ICT in public services, SMEs and households;
2. fix the necessary framework for the related changes in the organisation of work in the economy;
3. promote a strong European industrial presence in the key segments of ICT;
4. encourage the development of strong ICT and content industries, and well functioning markets;
5. ensure the security of networks and information, as well as convergence and interoperability in order to establish an information area without frontiers;
6. encourage the deployment of broad band networks, including for the poorly served regions, in order to develop the knowledge economy. See also integrated guideline “Promote flexibility combined with employment security and reduce labour market segmentation, having due regard to the role of the social partners” (No.21).

Guideline No.10. To strengthen the competitive advantages of its industrial base, Europe needs a solid industrial fabric throughout its territory. The necessary pursuit of a modern and active industrial policy means strengthening the competitive advantages of the industrial base, including by contributing to attractive framework conditions for both manufacturing and services, while ensuring the complementarity of the action at national, transnational and European level. Member States should:

1. start by identifying the added value and competitiveness factors in key industrial sectors, and addressing the challenges of globalisation;
2. also focus on the development of new technologies and markets:
 - a/ This implies in particular commitment to promote new technological initiatives based on public-private partnerships and cooperation between Member States, that help tackle genuine market failures;
 - b/ This also implies the creation and development of networks of regional or local clusters across the EU with greater involvement of SMEs.

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

Guideline No.11. To encourage the sustainable use of resources and strengthen the synergies between environmental protection and growth, Member States should:

1. give priority to energy efficiency and co-generation, the development of sustainable, including renewable, energies and the rapid spread of environmentally friendly and eco-efficient technologies:
 - a/ inside the internal market on the one hand particularly in transport and energy, inter alia in order to reduce the vulnerability of the European economy to oil price variations,
 - b/ towards the rest of the world on the other hand as a sector with a considerable export potential;
2. promote the development of means of internalisation of external environmental costs and decoupling of economic growth from environmental degradations. The implementation of these priorities should be in line with existing Community legislation and with the actions and instruments proposed in the Environmental Technologies Action Plan (ETAP), inter alia, through:
 - a/ the use of market-based instruments;
 - b/ risk funds and R&D funding;
 - c/ the promotion of sustainable production and consumption patterns including the greening of public procurement;
 - d/ paying a particular attention to SME;
 - e/ a reform of subsidies that have considerable negative effects on the environment and are incompatible with sustainable development, with a view to eliminating them gradually.
3. pursue the objective of halting the loss of biological diversity between now and 2010, in particular by incorporating this requirement into other policies, given the importance of biodiversity for certain economic sector;
4. continue to fight against climate change, while implementing the Kyoto targets in a cost-effective way, particularly in regard to SMEs;

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

B.2 MAKING EUROPE A MORE ATTRACTIVE PLACE TO INVEST AND WORK

Guideline No.12. To extend and deepen the Internal Market, Member States should:

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

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

Guideline No.13. To ensure open and competitive markets inside and outside Europe and to reap the benefits of globalisation, Member States should give priority to:

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

Guideline No.14. To create a more competitive business environment and encourage private initiative through better regulation, Member States should:

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

Guideline No.15. To promote a more entrepreneurial culture and create a supportive environment for SMEs, Member States should:

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

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

Guideline No.16. To expand, improve and link up European infrastructure and complete priority cross-border projects with the particular aim of achieving a greater integration of national markets within the enlarged EU. Member States should:

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

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

In: Council of the European Union, Integrated Guidelines: Broad Economic Policy Guidelines, Ref. 10667/05, 2005.06.28.

“The Employment Guidelines (2005-2008)

(Integrated Guidelines Nos 17-24)

- **Guideline No.17:** *Implement employment policies aiming at achieving full employment, improving quality and productivity at work, and strengthening social and territorial cohesion*
- **Guideline No.18:** *Promote a lifecycle approach to work*
- **Guideline No.19:** *Ensure inclusive labour markets, enhance work attractiveness, and make work pay for job-seekers, including disadvantaged people, and the inactive*
- **Guideline No.20:** *Improve matching of labour market needs*
- **Guideline No.21:** *Promote flexibility combined with employment security and reduce labour market segmentation, having due regard to the role of the social partners*
- **Guideline No.22:** *Ensure employment-friendly labour cost developments and wage-setting mechanisms*
- **Guideline No.23:** *Expand and improve investment in human capital*
- **Guideline No.24:** *Adapt education and training systems in response to new competence requirements*

Guideline No.17: Implement employment policies aiming at achieving full employment, improving quality and productivity at work, and strengthening social and territorial cohesion.

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

Guideline No.18: Promote a lifecycle approach to work through:

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

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

Guideline No.19: Ensure inclusive labour markets, enhance work attractiveness, and make work pay for job-seekers, including disadvantaged people, and the inactive through:

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

Guideline No.20: Improve matching of labour market needs through:

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

Guideline No.21: Promote flexibility combined with employment security and reduce labour market segmentation, having due regard to the role of the social partners, through:

1. the adaptation of employment legislation, reviewing where necessary the different contractual and working time arrangements;
2. addressing the issue of undeclared work;
3. better anticipation and positive management of change, including economic restructuring, notably changes linked to trade opening, so as to minimise their social costs and facilitate adaptation;
4. the promotion and dissemination of innovative and adaptable forms of work organisation, with a view to improving quality and productivity at work, including health and safety;
5. support for transitions in occupational status, including training, self-employment, business creation and geographic mobility.

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

Guideline No.22: Ensure employment-friendly labour cost developments and wage-setting mechanisms by:

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

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

Guideline No.23: Expand and improve investment in human capital through:

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

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

Guideline No.24: Adapt education and training systems in response to new competence requirements by:

1. raising and ensuring the attractiveness, openness and quality standards of education and training, broadening the supply of education and training opportunities and ensuring flexible learning pathways and enlarging possibilities for mobility for students and trainees;
2. easing and diversifying access for all to education and training and to knowledge by means of working time organisation, family support services, vocational guidance and, if appropriate, new forms of cost sharing;
3. responding to new occupational needs, key competences and future skill requirements by improving the definition and transparency of qualifications, their effective recognition and the validation of non-formal and informal learning."

In: Council of the European Union, Guidelines for the employment policies of the Member States, 10205/05, 2005.07.05.