



ECONOMIC POLICY COMMITTEE

Brussels, 25 October 2002
ECFIN/EPC/511/02

Opinion by the Economic Policy Committee on the Commission Communication of 16 October 2002 on Structural Indicators

1. The Commission Communication of 16th October 2002 proposed revisions to the list of indicators for use in the Spring Report, and outlined progress made over the past year in developing structural indicators. Overall, the EPC welcomes the progress made by the Commission and the Member States, as presented in the Communication, and the lists of indicators proposed. The Committee also welcomes the substantial progress in improving the availability and quality of structural indicators for the candidate countries. The aim should be to ensure that these countries can be incorporated effectively in the 2003 Spring Report, in line with the mandate of the Göteborg European Council.

Comments on Progress

2. The EPC supports the application of clear general principles by the Commission to determine revisions to the list of indicators for the Spring Report for the Spring 2003 European Council. In general, these principles accord with those of the EPC. In particular, the EPC welcomes efforts to keep the list focused, whilst accommodating new indicators as they are developed, and new priorities set by the European Council. It is desirable to keep a core body of indicators such that meaningful conclusions can be drawn on historic progress of structural reform, while bearing in mind the need to update the list so as to be able to take into account new or changing political and economic priorities. The EPC broadly supports the balance which the Commission has been striking in its Communication.

3. The EPC agrees with the Commission that “any new indicators should also meet the criteria used for the original choice of indicators” and it must be assured that new indicators are developed in a way that does not place excessive administrative burdens on enterprises and Member States.

4. With these guiding principles in mind the EPC makes three key points in particular:

- **more intensive and systematic use of the indicators** is encouraged;
- in view of the Ecofin Council endorsement in December 2001, the Commission is encouraged to make use of the **headline indicators** ; and
- **composite indicators** should not form a priority in the Commission's development programme.

5. The Commission's 2002 Spring Report made good use of the indicators. The EPC would like to see the Commission continue in its efforts to make more intensive and systematic use of the indicators so that they become central to the process of monitoring progress and directing policy action to areas where it is needed, as was their original intention.

6. The EPC wishes to stress, however, the original intention that indicators should not be seen as specific targets. The relation between the numerical values of an indicator and the achievement of policy goals is often complex and requires further interpretation, e.g. to take account of the institutional context, the general level of development and the cyclical position of the economy. In such cases, it can be misleading and counterproductive to take individual figures and interpret them literally as policy benchmarks.

7. The Commission Communication does not make use of the headline list of key indicators, despite its endorsement at the December 2001 Ecofin Council. The EPC recommends that the Commission should use the headline list of indicators in the 2003 Spring Report.

8. Given the Ecofin Council's reservations towards composite indicators, as expressed in the Council Conclusions of December 2001, the EPC is slightly surprised that the Commission continues to devote resources towards developing synthetic 'composite' indicators. The choice of components, and the way in which they are weighted together, is to some extent subjective. A different choice of components, or of weights, could give different results, and hence the resulting measures are somewhat arbitrary constructions that could result in misleading conclusions. Their use may therefore be detrimental. Composite indicators may, if carefully selected in some specific areas, be of use if normal quantitative indicators are not available. Examples are indices of product market competition and employment protection. Generally, however, the EPC considers that headline indicators present an alternative, more transparent and comprehensive picture than composite measures.

9. The EPC gives its recommendations for all areas covered by the structural indicators while acknowledging the responsibility of other council formations for indicators in their respective areas of competence. Accordingly, the EPC has entered into close co-operation with relevant committees with a view to providing the council with a joint opinion.

Indicators for the Spring Report

10. The views of the EPC can be summarised as follows:

- The EPC entirely agrees with 34 of the 42 indicators as proposed by the Commission.

- Of the 8 indicators with which it disagrees:
 - 2 indicators should be merely renamed while their definitions remain unchanged (from *venture capital* to **venture capital investments** and from *early school leavers* to **deficit of qualifications**).
 - 3 require some adjustment before they are included in the 2003 Spring Report (**unadjusted gender pay gap, at risk of poverty** and **persistent risk of poverty**).
 - 3 indicators are recommended for deletion:
 - Spending on human resources;
 - Convergence of interest rates; and
 - Company registration.
- The EPC recommends the inclusion of 3 further indicators:
 - Enrolment of 15-24 year olds in education;
 - Trade integration; and
 - Business investment (*also recommended for deletion by the Commission from last year's list*).
- Therefore, in total, the EPC recommends **42** indicators for use in the 2003 Spring Report.

11. The EPC's proposed list, disregarding at present unforeseen progress in developing or refining certain indicators, is set out below in Table 1. The EPC's specific recommendations for the indicators, taking each of the domains of indicators in turn, are set out in appendix 1. Definitions and sources for these indicators are presented in appendix 2.

Table 1: EPC's recommended list of 42 indicators for use in the 2003 Spring Report

General economic background indicators <ul style="list-style-type: none"> i. Real GDP growth and GDP per capita ii. Labour productivity (per person and per hour worked) iii. Employment growth iv. Inflation rate v. Unit labour cost growth vi. Public balance vii. General government gross debt 	Economic reform <ul style="list-style-type: none"> i. Relative price levels and price convergence ii. Prices in network industries iii. Market structure in the network industries iv. Trade integration (including sectoral breakdown) v. Public procurement vi. Sectoral and ad hoc state aids vii. Business investment
Employment <ul style="list-style-type: none"> i. Employment rate (total and by gender and for older workers) ii. Effective average exit age iii. Tax rate on low earners iv. Unemployment rate (total and by gender) v. Lifelong learning (adult participation in education and training) vi. Unadjusted gender pay gap vii. Accidents at work 	Social cohesion <ul style="list-style-type: none"> i. Inequality of income distribution ii. At risk of poverty before and after social transfers iii. Persistent risk of poverty iv. Dispersion of regional employment rates v. Deficit of qualifications vi. Long-term unemployment rate vii. Jobless households
Innovation and research <ul style="list-style-type: none"> i. Enrolment of 15-24 year olds in education ii. R & D expenditure iii. Level of Internet access (household and business) iv. Science and technology graduates v. Patents vi. Venture capital investments vii. ICT expenditure 	Environment <ul style="list-style-type: none"> i. Greenhouse gases emissions relative to Kyoto targets ii. Energy intensity of the economy iii. Volume of transport (tonnes and passenger km) iv. Modal split of transport v. Urban air quality vi. Municipal waste vii. Share of renewables

Priorities for future development

12. The EPC welcomes that the Commission services have made significant progress on a number of indicators over the past year: potential output, marginal and average effective tax rates, childcare facilities, e-commerce, e-government, business demography, company registration, financial integration, consumption of toxic chemicals, resource productivity, recycling of selected materials and hazardous waste. A number of these indicators were contained on the 2001 EPC list of priorities for future development.

13. The EPC believes that the following are high priorities for further development:

- i. market structure in network industries (in addition to progress already made in electricity);
- ii. ICT expenditures;
- iii. adjusted gender pay gap;

- iv. public procurement;
- v. efficiency of public administration;
- vi. regulatory environment;
- vii. cost of capital;
- viii. social cohesion at the regional and local level;
- ix. benefit dependency ratio;
- x. childcare facilities;
- xi. financial integration;
- xii. employment growth measured in full time equivalents;
- xiii. sectoral and ad hoc state aid;
- xiv. taking account of efficiency gains in environment indicators (transport and modal split); and
- xv. company demography (business dynamics)

14. The EPC also wishes to underline the importance of establishing more euro area indicators and ensuring that international comparisons, whenever meaningful, are possible. Reflecting the global dimension of progress towards the Lisbon goals is considered important.

Appendix 1: The EPC's comments on the list of indicators proposed by the Commission for use in the Spring Report (where different from the 2002 Spring Report)

Table 2: General economic background indicators: EPC recommendation
Real GDP growth and GDP per capita
Labour productivity (per person and per hour worked)
Employment growth
Inflation rate
Unit labour cost growth
Public balance
General government debt

- The EPC agrees with the Commission that whereas recent progress with the development of an **output gap** indicator is welcomed, its inclusion in the list should await further clarification.
- The EPC considers that the indicator for **employment growth** should be calculated in full time equivalents, however this indicator is not yet available. The Committee strongly urge the Commission to make progress with this indicator so that it can be used in the 2004 Spring Report. For the 2003 Spring Report the EPC recommend remaining with employment growth definition proposed by the Commission.

Table 3: Employment indicators: EPC recommendation
Employment rate (total and by gender and for older workers)
Effective average exit age
Tax rate on low-wage earners
Life long learning (adult participation in education and training)
Accidents at work (index)
Unadjusted gender pay gap
Unemployment rate

- The EPC welcomes the Commission's proposal to add an indicator for the **effective average exit age** and to include the indicator for the **employment rate of older workers** as part of the employment rate indicator, provided that the employment rate of older workers is clearly shown as a separate sub-indicator. The EPC agrees with the Commission that an indicator for effective average exit age is

required to monitor the Barcelona European Council's objective of an increase of some 5 years in the average effective exit age by 2010 and attaches high importance to this new indicator in an area where progress is clearly behind schedule and where political action may be called for urgently.

- The EPC can agree with the proposed indicator for the tax rate on low wage earners. However, the Committee wishes to stress the need for further refinement of this indicator so as to account for the complexities of different tax systems.
- The EPC reiterates its strong support for the policy goal of **combating gender pay discrimination**, and the related concept of 'equal pay for equal work', which is also an important indicator when measuring quality in work. The indicator suggested by the Commission is an indicator for average hourly earnings of females as a percentage of average hourly earnings of males. Earnings differences between genders are likely to stem from either wage discrimination ("unequal pay for equal work") and/or from women and men holding different jobs with resulting different wages ("unequal work"). Accordingly, the unadjusted gender pay gap indicator should be interpreted as an indicator of the combined effect of these two underlying causes. The indicator is suitable for comparisons over time within a given country, but is less appropriate for comparisons between countries. The EPC would have welcomed an indicator allowing a disentangling of the two causes, i.e. an indicator, which would adjust for differences in job choices and would reveal any wage discrimination. The EPC strongly urges the Commission to strengthen its analytical work, which can take into account progress already made in a number of Member States, so as to allow the inclusion of such an adjusted indicator from 2004.
- The EPC welcomes the inclusion of appropriate quantitative indicators to reflect quality in work, such as the **lifelong learning** indicator. It also supports inclusion of an appropriate quantitative indicator to reflect the dimension of quality based upon accidents at work, in the form of an index.

Table 4: Innovation and research : EPC recommendation
Enrolment of 15-24 year olds in education
R & D expenditure
Level of Internet access (households and business)
Science and technology graduates
Patents
Venture capital investments
ICT expenditure

- As stated in last year's report, the EPC believes that **public expenditure on human resources** has several disadvantages, since it excludes the contribution of private expenditure on education and

training, and, importantly, since it focuses excessively on inputs and not on performance. The EPC's preferred indicator shows education participation rates and constitutes a more result-oriented measure of education. Therefore, the EPC recommends the inclusion of an indicator on the **education participation rates of the young population** as an illustration of Member States' performance in investing in human capital. For this indicator the EPC proposes to consider the enrolment in education by 15-24 year olds. If it is to be included, at a minimum the indicator of public expenditure on education should include public expenditure on training.

- The EPC can agree with the Commission's proposed changes in the definition of R&D expenditures; the amended definition is a direct response to the call from Barcelona to ensure that two-thirds of R&D investment come from the private sector.
- The venture capital indicator should be renamed **venture capital investments**, to reflect more accurately the data presented.
- The EPC considers it important to include an indicator on **ICT expenditure**. While the Committee can accept the Commission's proposal to include (as already done in the Barcelona list of indicators) such an indicator, it reiterates the high priority, which should be given to resolve the outstanding problems of quality.

Table 5: Economic reform: EPC recommendation
Relative price levels and price convergence
Prices in network industries
Market structure in the network industries
Trade integration (including sectoral breakdown)
Public procurement
Sectoral and ad-hoc state aids
Business investment

- With regard of **market structure of network industries**, the EPC notes that there are specific deficiencies with respect to the definitions used by the Commission. A qualitative assessment should accompany the use of this indicator. Additionally, the Commission could also be invited to provide a forward looking scenario and strategic view of the evolving European energy market, particularly in the context of the target agreed upon in Barcelona on electricity interconnections, to assist intelligent interpretation of the indicators to be used in the Spring Report.

- If possible, a **trade integration** indicator should be included and should present a sectoral breakdown (as a minimum according to goods, services and financial services), but interpreted with care. This indicator is particularly useful for analysing the development in trade integration over time.
- The EPC shares the Commission's view that **public procurement** is an important factor in economic reform. However, the EPC considers that serious questions may be raised over data quality and comparability. Still, in view of the importance of this indicator the EPC prefers the inclusion of this indicator in the 2003 Spring Report. However, the EPC considers that the Commission should make quick progress towards improving this indicator.
- As regards **sectoral and ad hoc state aids**, the EPC considers that this indicator should continue to be further developed, together with other indicators listed in the paragraph *Priorities for future development*.
- The EPC has some sympathy for the Commission's proposal to include an indicator for **Convergence of interest rates** as this might offer an insight into the degree of integration of financial markets across the European Union. However, the EPC would like this indicator to be fully developed such that it has a complete set of data. The Committee also considers that convergence of interest rates in itself may not constitute a clear indication of increased financial integration. **Capital raised on stock markets** is viewed as a useful indicator, but the EPC realises the need to make room for the **business investment** indicator (see below).
- The EPC recommends strongly that **business investment** indicator should not be deleted, since this relates strongly to the concerns of the European Council. Cross-country evidence suggests a strong correlation between business investment and strongly growing economies.
- The EPC agrees with the Commission that a measure of business dynamics is an important indicator for economic reform. However, the Committee has some doubts about the use of the company registration measure proposed for this purpose and prefers to await the availability of data on business demography, expected from 2003. The Committee considers that the future indicator should measure the time and cost required to register private limited companies as well as to register sole traders.

Table 6: Social cohesion: EPC recommendation
Inequality of income distribution
At risk of poverty before and after social transfers (poverty threshold at 60% of median equivalised income)
Persistent risk of poverty (poverty threshold at 60% of median equivalised income)
Dispersion of regional employment rates (variation in employment) (EPC recommends to abstain from disaggregation by gender)
Deficit of qualifications (% of 18-24 year olds)
Long-term unemployment rate
Jobless households

- The EPC agrees that the poverty threshold should be set at 60% of the median as proposed by the Commission. By using 60% of the median it allows direct comparison with international measures based on 50% of mean, since the two measures are roughly equivalent. Furthermore using median has the advantage of being more reliable than measures based on the mean. The Committee notes that societal groups considered poor may depend critically on the exact choice of poverty line and considers that more sophisticated indicators should be developed. The EPC notes with concern the purely *relative* nature of the poverty indicators; poverty *levels* are not reflected in these indicators. Apart from these considerations, the EPC can agree with the changes to the definition of the indicators for **inequality of income distribution, At risk of poverty , persistent risk of poverty** and **population in jobless households**. As regards the data, however, the Committee wishes to point to the limitations of the European Community Household Panel data, which have as a basis income rather than consumption and do not take into account (self-)imputed rents.
- The EPC can agree with the changed definition of the indicator **for regional cohesion/dispersion of regional employment rates** towards employment rather than unemployment as the observed variable.
- The EPC proposes to rename the indicator for the percentage of 18-24 year olds not attending school **deficit of qualifications**, to clarify that while educational requirements are formally fulfilled, these 18-24 year olds may not possess the full set of required qualifications.

Table 7: Environment: EPC recommendation
Greenhouse gases emissions relative to Kyoto targets. (EPC prefers also to show indicator adjusted on a per capita basis)
Energy intensity of the economy (EPC prefers to differentiate between renewable and non-renewable energy sources)
Volume of transport (tonnes and passenger km) relative to GDP (The EPC would prefer the use of vehicle km if and when such data become available.)
Modal split of transport
Urban air quality
Municipal waste (EPC prefers to differentiate between recycled and non-recycled waste)
Share of renewables

- On **greenhouse gas emissions** , the EPC agrees with the Commission's proposal to include the policy targets set by the Kyoto protocol and the EU Burden Sharing Agreement. However, the Committee would also prefer an indicator based on a per capita basis.
- The EPC notes with some concern that indicators for **volume of transport** and the **modal split of transport** do not catch efficiency gains derived from the introduction of newer vehicles.
- The indicator for municipal waste should ideally include information on recycled waste. However, the EPC acknowledges that such data are not readily available.

Appendix 2 – Definition and Source of the Indicators

General Economic Background

Indicator	Definition	Source
1. Real GDP growth and GDP per capita	GDP per capita in Purchasing Power Standard (PPS). Growth rate of GDP at constant prices (base year 1995).	Eurostat; National Accounts.
2. Labour productivity	GDP in PPS per person employed. GDP in PPS per hour worked relative to the EU15 (EU15=100).	Eurostat; National Accounts and OECD.
3. Employment growth	Annual percentage change in total employed population. (Total and by gender)	Eurostat; Quarterly Labour Force Data Series.
4. Inflation rate	Annual percentage change in Harmonised Index of Consumer Price (HICP). (Annual average)	Eurostat; Price statistics.
5. Unit labour cost growth	Growth rate of the ratio: compensation per employee in current prices divided by GDP per total employment in current prices.	Eurostat; National Accounts.
6. Public balance	Net borrowing/lending of general government, as a percentage of GDP, as used in the Excessive Deficits Procedure.	Eurostat, OECD.
7. General government debt	General government gross debt, as a percentage of GDP, as used in the Excessive Deficits Procedure.	Eurostat, OECD.

Employment

Indicator	Definition	Source
1. Employment rate (total and by gender and for older workers)	Employed persons aged 15-64 as a share of the total population aged 15-64. (Total, female and male population and older workers.)	Eurostat; Labour Force Survey.
2. Effective average exit age	Average exit age, weighted by the probability of withdrawal from the labour market. (Total and by gender)	Eurostat; Labour Force; Survey.
3. Tax rate on low-wage earners	Income tax plus employee and employer contributions less cash benefits as a percentage of labour costs for low-wage earners (i.e. with a wage of 67% of the average production worker's wage for a single person with no children; and 100% for a married couple with two children).	OECD; Fiscal Affairs Statistics (for the APW work).
4. Unemployment rate	Total unemployed individuals as a share of the total active population. Harmonised series. (Total and by gender)	Eurostat; Unemployment Statistics.
5. Lifelong learning (adult participation in education and training)	Percentage of population, aged 25-64, participating in education and training. (Adult participation in training over the 4 weeks prior to the survey.)	Eurostat; Labour Force Survey.
6. Unadjusted gender pay gap	Average gross hourly earnings of females as a percentage of average gross hourly earnings of males.	Eurostat; European Community Household Panel.
7. Accidents at work	Index of the number of accidents at work (serious and fatal) per 100 thousand persons in employment (1998=100). (Total and by gender)	Eurostat; European Statistics on Accidents at Work (ESAW).

Innovation and research

Indicator	Definition	Source
1. Educational participation rate (15-24 year olds)	Percentage of 15-24 year-olds in education.	Eurostat, Labour Force Survey
2. R&D expenditure (by source of finance)	Total R&D expenditure, broken down by source of finance (industry, public, or abroad).	Eurostat; OECD
3. Level of Internet access	Percentage of households who have Internet access at home. Percentage of enterprises who have access to the Internet (web).	Eurobarometer Survey Eurostat (households) Eurostat (enterprises)
4. Science and technology graduates	Share of science and technology graduates as a percentage of population aged 20 to 29 years (total and by gender).	Joint UNESCO/ OECD/ Eurostat.
5. Patents	Number of European and US patents per million inhabitants (EPO and USPTO patents).	European Patent Office (EPO) and US Patent Office (USPTO).
6. Venture capital investment	Venture capital investment (i.e. private equity minus buyouts), relative to GDP. Breakdown by investment stages.	European Venture Capital Association (for EU), Price Waterhouse Coopers (for US).
7. ICT expenditure	ICT expenditure as a percentage of GDP. Disaggregated into IT and telecommunication expenditure.	European Information Technology Observatory (EITO)

Economic Reform

Indicator	Definition	Source
1. Relative price levels and price convergence.	Relative price levels of private final consumption including indirect taxes (EU=100).	Eurostat / OECD (price statistics: PPP indicators)
2. Prices in the network industries	Price level and evolution in the telecommunications, electricity and gas markets.	Eurostat; Energy statistics. DG INFSO for telecommunications data.
3. Market structure in the network industries	Market share of the incumbent in the fixed and mobile telecommunications markets. Market share of the largest generator in the electricity market.	Eurostat for electricity data/ DG INFSO for telecommunications data.
4. Trade integration	Total exports of goods plus total imports of goods divided by 2*GDP (with sectoral breakdown if possible).	Eurostat
5. Public procurement	Value of public procurement which is openly advertised as a percentage of GDP.	DG MARKT; Eurostat
6. Sectoral and ad hoc State aid	State aid (sectoral and ad hoc) as a percentage of GDP.	DG COMP
7. Business investment	Business investment expenditure as a percentage of GDP.	Eurostat, national accounts

Social Cohesion

Indicator	Definition	Source
1. Inequality of income distribution	Ratio of the total income received by the 20% of the country's population with the highest income to that received by the 20% of the country's population with the lowest income. The income distribution is calculated using the equivalised total income.	Eurostat; European Community Household Panel (ECHP).
2. At risk of poverty before and after social transfers	Share of population below the poverty threshold before and after social transfers. Poverty threshold defined as 60% of the median-equivalised income. (Total and by gender)	Eurostat; European Community Household Panel (ECHP).
3. Persistent risk of poverty	Share of persons with an equivalised disposable income below the risk-of-poverty threshold in the current year and in at least 2 of the preceding 3 years. The threshold is set at 60% of the median-equivalised income after social transfers. (Total and by gender)	Eurostat; European Community Household Panel (ECHP).
4. Dispersion of regional employment rates	Coefficient of variation of employment rates across regions (NUTS 2 level) within countries.	Eurostat, Regional Statistics.
5. Deficits in qualifications	Share of the population aged 18-24 with only lower secondary education and not in education or training. (Total and by gender)	Eurostat; Labour Force Survey.
6. Long-term unemployment	Total long-term unemployed (over 12 months) as a share of total active population – harmonised series. (Total and by gender)	Eurostat; based on Labour Force Survey.
7. Jobless households	Persons aged 0-65 (and additionally 0-60) living in households with no member in employment as a percentage of all persons living in eligible households. Eligible households are all except those where everyone falls into any one of these categories: (1) aged less than 18; (2) aged 18-24 in education and inactive; (3) aged 65 (60) and over and not working. (Total and by gender)	Eurostat LFS.

Environment

Indicator	Definition	Source
1. Greenhouse gases emissions relative to Kyoto targets	Progress in emissions control relative to targets. Aggregated emissions of 6 main greenhouse gases (CO ₂ , CH ₄ , N ₂ O, HFCs, PFCs and SF ₆) expressed in CO ₂ -equivalents.	European Environment Agency.
2. Energy intensity of the economy	Gross inland consumption of energy divided by GDP, if possible adjusted for renewable sources.	Eurostat; Energy Statistics.
3. Volume of transport relative to GDP (freight and passengers, with modal split)	Index of (freight and passenger) transport volume relative to GDP, with modal split. Measured in tonne-km / GDP and, if possible, vehicle-km / GDP.	Eurostat / DG TREN / US Bureau of Transportation Statistics.
4. Modal split of transport	Modal split of freight transport (percentage share of road in total inland freight transport) and passenger transport (percentage share of car transport in total inland passenger transport).	Eurostat / DG TREN / US Bureau of Transportation Statistics.
5. Urban air quality	Indicators based on the concentrations of ozone and particulates in urban areas (number of days of pollution exceeding standards for each of the two selected air pollutants).	European Topic Centre / Air Quality
6. Municipal waste	Municipal waste (collected, landfilled and incinerated), adjusted for recycled waste. Measured in kg per person per year.	Eurostat; Environment Statistics.
7. Share of renewables	Contribution of electricity from renewables to total electricity consumption.	Eurostat; Energy Statistics