

Welfare, Wealth and Work for Europe at a glance

From individual policy lines towards a strategic European Approach



Background of the project

After an extremely successful process of unification, culminating in a joint currency for 330 million people, to which 59 countries and territories have pegged their currencies, Europe needs a new strategy. The long-lasting financial crisis, problems in neighbouring countries and the handling of the Greece situation have exacerbated the need for a consistent, longer-term strategy. Governance, processes of decision-making and conflict solving have to be improved. Broader support of citizens for the European project is needed, as well as proactive cooperation with Europe's neighbours.

The four-year research programme WWForEurope presents research results relevant for these challenges. It uses a network of 33 European research groups as well as high-ranking policy and scientific boards to produce evidence and discuss the options. It discusses the results with the scientific community, international organisations (OECD, European Commission), European-based and national policy makers as well as stakeholders representing social partners and civil society.

By mid-2015 more than 100 scientific papers, 7 policy briefs, and 22 policy papers have been prepared. Research findings have been published in numerous academic journals and presented at national and international scientific conferences and policy discussions. Stakeholder, consortium and feedback conferences and press conferences have been organised.

The results of own research and policy conclusions for Europe developed in communication with policy makers, the research community and stakeholders will be summarised in the Synthesis Report of the project and presented to the European Commission, the media, academia and interested stakeholder groups in Brussels on February 25th, 2016.



A vision for Europe 2050

WWFforEurope has drafted a tentative vision for Europe in the globalised world of 2050:

By 2050 Europe will have become a role model for a dynamic, open and pluralistic economic area characterized by limited income differences, absolute decline of emissions and resource use and positive spillovers to neighbours and the world at large.

*Dynamics include that a broad set of economic and social values will have been reached for more and more people and that economic choices are widening. People are learning (including changes in preferences, behaviour and institutions) how to reach welfare goals and life satisfaction individually as well as within society. **The limits of the planet are respected**; absolute emissions are significantly reduced to a greater extent than needed from an individual European perspective, so as to allow developing countries to have more scope for economic development and poverty prevention. **Unemployment is low**; life chances, education and capabilities are distributed more equally and income spreads are limited to democratically determined levels.*

*Income is growing slowly, but more quickly in countries and regions with lower per capita income and for individuals with lower incomes. **Working time is reduced**, mainly on an individual basis, so that personal choices can be pursued, but with a general downward trend. **More money and time are spent on education, societal goals and leisure and cultural activities.***

Summarising the strategy lines delivers the following central focal points of the project:

- Stronger dynamics based on innovation and skills, measured by Beyond GDP goals
- Less income disparity, higher employment
- Europe as a world leader in environmental technology and renewables
- Stable and regulated financial sector, smart governments promoting transition
- Open area, enjoyment of globalisation/heterogeneity, inviting neighbours to share elements of the European model to develop their own models

The two-stage strategy

Europe (and other industrialised countries) will experience lower growth in the very long run. This will happen for several reasons:

Marginal utility of income decreases and costs of congestion and agglomeration increase. The tripling of European output up to 2100 (as implied even by a modest annual growth rate of 1.5%) will probably not be compatible with the planet's bio capacity, specifically if the economies of developing countries have to catch up with industrialised countries. The goal of decarbonisation is difficult to achieve, even for an output at the current level and all the more for an output five times as large as today. Last but not least, history shows that phases of high growth rates (more than 1% per year) are the exception. Lower growth for high-income countries in the very long run is not necessarily a problem if goals of poverty reduction are addressed continuously and wealth is distributed more equally.

Stage 1: Consolidation and Reprogramming

In the short and medium run, however, our economies are not prepared for slow growth. Current unemployment is about 10% in Europe (with youth unemployment near 20%). Technical progress is labour saving, so that growth below 2% tends to raise unemployment. Government (and private) debt is high and needs to be reduced by growth. Poverty is not yet erased and income differences and inheritance of life chances and education are still considerable – problems which can be tackled more easily in growing economies. Therefore, for the next ten or twenty years, industrialised countries need to restart growth in the direction of 2% or more. We call this first phase "Consolidation and Reprogramming".

Stage 2: Socio-ecological Transition

Long-term forecasts for industrialised countries predict lower growth than in the past, maybe between 1% and 2%. The predicted growth rates furthermore decrease with the forecast horizon. This may be caused by saturation of demand (declining marginal utility of income), technological pessimism, a lack of new generic technologies or ageing. Lower growth is welcomed by that part of literature which stresses the bio-physical



boundaries of the planet, and which is pessimistic about the possibility of decoupling of emissions from output.

For this longer run the first priority is to get higher welfare (employment, health, capabilities) out of probably lower growth rates. The spread between high and low incomes has to decrease, people preferring leisure will be able to work fewer hours, welfare payments will change from transfers to social investment, and higher energy efficiency and new energy sources will allow to reduce emissions radically. We call this second stage "Socio-ecological Transition". It is characterised by double decoupling: emissions from output and employment from output growth.

Reprogramming is all-important

Even if industrialised countries have to go for growth over the next ten to twenty years, the first stage cannot be *business as usual*, but has to be *investment in change* (reprogramming). This implies building a new infrastructure (less dependent on fossil energy), developing social innovations (e.g. sharing instead of buying), and changing institutions and behaviour. For economic policy the dominance of GDP has to be replaced by addressing welfare goals directly (as represented by Beyond GDP indicators). It is important to target (and "bias") technical progress from labour saving to resource and material saving, and to change tax systems as well as public procurement and social systems. Country reports by the OECD and the European Commission should stress the "reprogramming task", even in annual analyses and recommendations.

Towards "high road" competitiveness in Europe

Europe's challenge is to pro-actively prepare for an ambitious "high road to competitiveness". In contrast, a low road approach consisting of lowering wages, reducing other costs (including social and environmental standards) and opening a second labour market, is not feasible for a high-wage region surrounded by neighbours with low wages, an abundant work force and own efforts to catch up with richer countries via an export-led strategy. A "high road strategy" is based on high quality, structural change, education, innovation and social and ecological ambitions. Five "capabilities" have been identified as drivers of success: education, innovation, institutions, activating social policy and ecological ambition. The performance of an economy (outcome competitiveness) is measured by the attainment of a set of economic, social and ecological goals (not by the export surplus). This radically changes the content of the term "competitiveness" from price (or cost) competitiveness to the "ability of a region to reach Beyond GDP goals". This redefinition may at first glance appear to be of academic interest only, but is a game changer from an inadequate backward-looking strategy to a forward-looking one.

Strengthening Ecological Capabilities: Low-Carbon in a Low-Growth Environment

The so-called period of great moderation (1980s to the mid-2000s) was accompanied by a progressive decline in environmental quality across the world, in particular regarding global climate change, biodiversity loss, deforestation, desertification, and the over-exploitation of mineral resources. Some countries witnessed a relative decoupling from economic growth, but on a global level GHG emissions are notably increasing strongly. And however drastic, absolute reductions of emissions are necessary if a safe concentration of CO₂ in the atmosphere is to be achieved. Even without growth, emissions would have to be reduced by 3% per year by 2050. The dilemma is embodied in an economy still too dependent on growth. Therefore, growth conventionally measured by GDP may be unsustainable, but de-growth appears to be unstable. In the WWWforEurope project, a broad range of research work has been done on these topics, from rather "traditional" economic modelling to analysis of stakeholder behavioural change.

Some tentative conclusions are the following:

- Welfare systems have to be adapted to low economic growth and higher attention to other well-being indicators (not waiting for the "perfect" alternative to GDP growth)
- Simultaneously solving unemployment and unsustainability directly instead of assuming that growth will solve the unemployment problem – one suggestion would be to reduce working hours and thereby share work among more people
- An environmental policy mix of price signals, regulation and technological support with high mutually enforcing synergies



- Taking into account the bounded rationality and social interaction of stakeholders by means of the intelligent use of both intrinsic and extrinsic motivation, and by setting norms which change behaviour and prevent negative conduct.

Strengthening Industrial Capabilities: Ecological and Social Innovation

In the last decades industrial policy has largely been defined by supporting technological progress and increasing the cost efficiency of production. As a consequence, entrepreneurial dynamics have to be re-oriented toward smart and sustainable activities. Based on these insights, WWWforEurope provides the following re-definition of industrial policy:

"Industrial policy is an economic policy to promote the competitiveness of a region, where competitiveness is defined as the ability to deliver the Beyond GDP goals."

Four policy recommendations follow from this approach:

- Formulation of a comprehensive, long-run, consistent and stringent industrial strategy supporting innovations in green technology and demand for eco-friendly innovations
- Diversification of capabilities to shift innovative activity to hitherto unexplored fields of social and ecological innovation by increasing researcher mobility and future-oriented R&D cooperation and funding policies
- Support of "green gazelles" and greenfield investments by fostering skilled labour, in addition to supporting entrepreneurial activities and green public procurement
- Encouragement of bottom-up and local initiatives looking for new models of business clustering and social entrepreneurship

These recommendations represent the view that a high road strategy to competitiveness is feasible but requires concerted action starting as soon as possible.

Strengthening Social Capabilities: Activation and Equal Opportunities

In the 20th century different welfare state systems have emerged in Europe, but today all of them face the challenge of financial constraints and have to find answers for improving their effectiveness. Research within the WWWforEurope project shows that a sustainable welfare state has to focus on fostering equal opportunity. People face unequal conditions, which are not dependent on effort and are beyond individual control. Over time, these advantages and disadvantages can accumulate so that factors like wealth, health or cognitive development become socially stratified and intergenerationally persistent. This is not only unfair from an ethical point of view, it is also economically detrimental, as it causes a misallocation of skills with negative consequences for overall economic performance.

There leads to several quite synergetic ways to support equal opportunities:

- Investment in education to create equal educational opportunities early on
- Employment-oriented social security policies which compensate the losers of globalisation and structural change and strengthen households' financial capacities – these policies should incentivize employment or at least not discourage it
- Reconciliation of work and family issues to foster gender equality and strengthen women's position on the labour market
- Proactive integration of migrants into the labour market with a strong focus on access to education and vocational training

These social reforms strengthen social cohesion on the one hand, thereby increasing quality of life, and on the other hand alleviate the financial strains on the welfare state, thereby acting towards sustainable public finances.

Strengthening Regional Capabilities: Involvement and Integration

Europe's regions are diverse and heterogeneous. Understanding Europe and finding future-oriented solutions to its problems also requires understanding these regional differences and their implications. The assumption is that strategies toward more sustainability will only bring feasible and effective results if



regional actors are involved and interactions between different political levels are taken into account. This is based on the important insight that there are organisational forms between market and government: On a local level, groups can work together and find their own set of rules without overstressing resources and resorting to beggar-thy-neighbour tactics.

Theoretical and empirical research suggests the following policies:

- Empowering the local level to make well-informed decisions by allowing regional policy implementation within pre-defined (supra-)national sustainable standards
- Design of labour market policies in a coherent, multi-level governance network with some degree of regional autonomy
- Incorporation of regional actors and regional administrations into the design, funding and adjustment of integration policies
- Re-design of regional funding by distinguishing between regions according to their actual needs (the PeriphEurity indicator which was developed by WWWforEurope researchers provides valuable guidance for this)

These policies promote an adequate stakeholder involvement to create the necessary impetus towards the acceptance of a socio-ecological transition.

Strengthening Governance Capabilities: Transparency and Consistency

In the aftermath of the on-going economic crisis, Europe is still quite far from a high road strategy. The EU and its member states are on the way to missing important targets set in the Europe 2020 strategy, in particular those concerning poverty, employment and research targets. This is an indication that, although the Europe 2020 strategy is based on balanced and consensual long-term goals resting on sustainability, smartness and inclusiveness, a problem of a capability-expectations gap exists. Insufficient macroeconomic and political coordination and weakness in enforcing commitments increase these deficiencies.

WWWforEurope analysis and insights suggest several measures to rebalance EU-wide policies towards comprehensive long-term goals and a socio-ecological transition:

- Revitalisation of the European social dialogue and establishment of social and ecological scoreboards, which are equally visible and transparent as macroeconomic indicators
- Provision of extra manoeuvring room for member states to invest in long-term capabilities
- Enhancement of the legitimacy of economic and social governance through enhanced transparency and larger involvement of both European and national parliaments
- Improvement of communication efforts by European institutions and member states with the European people to resolve the legitimacy crisis of the European project

Improving trust between European governments and electorates is a precondition for any step forward to a more credible governance structure. Such stronger governance would, in turn, make the EU and its member states more resilient to future shocks and more capable of reaching ambitious but necessary socio-ecological goals.

For details on WWWforEurope see: www.foreurope.eu

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