

WELFARE, WEALTH AND WORK – A NEW GROWTH PATH FOR EUROPE

A European research consortium is working on the analytical foundations for a new socio-ecological growth model



NEW DYNAMICS FOR EUROPE - REAPING THE BENEFITS OF SOCIO-ECOLOGICAL TRANSITION

Karl Aiginger

Final Conference Brussels

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- Starting situation 2016
- Misperceptions
- Vision, benchmark and goals
- Guiding reform principles
- Seven drivers of change
- Facilitators of implementation
- Summary



Starting situation

- Europe (EU) is a long run success model
 - from 6 to 28 (+), largest economic area
 - from trade to common market and common currency
 - catching with to technology frontier, export surplus
- New challenges
 - Globalisation, ageing, heterogeneity, new technologies
 - Climate change, political instability, **refugees, polarization**
- **Weakness signs**
 - **Lost decade, unemployment, R&D gap, poverty**
 - **Governance, euro crisis, imbalances, exit parties.**



2016: Decisive phase for the EU project

In 7 dimensions

- Economically (Recovery or lost decade)
- Solving internal disequilibria: S-Europe (not only Greece)
- Lacking support: unemployment, income spread, populism
- Conflicts in neighbourhood: from Ukraine to IS, Kosovo
- Closing technology gap to the US with high road strategy
- Use or lose technological lead in renewables, energy efficiency
- Refugees, Brexit

⇒ Business as usual and muddling through no longer possible

⇒ Needed: vision ⇒ strategy ⇒ synergies.



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Distracting misperceptions

- Growth will return and solve unemployment
- Debt should be reduced quickly at any price
- EU lacks money for future investment
- Low profits drag on restarting dynamics
- Labour productivity rises too slowly
- Ageing reduces labour supply and dynamics in EU
- Cutting labour costs and standards needed for dynamics

⇒ Wrong conclusions, prevent optimism and success.



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The WWWforEurope vision in a Nutshell

- Europe as role model for successful regions 2050:
 - Stronger **dynamics** based on innovation and human capital
 - **Less differences** in incomes, higher employment
 - World leader in environmental **technology**
 - **Stable** due to a modern, regulated financial system
 - Heterogeneous **preferences, pluralistic**
 - Open area, **enjoying globalization**; inviting neighbours

⇒ A genuine European model of wellbeing

⇒ Different from US or Asian models

⇒ It needs political will plus scientific support.



A new benchmark of success

- The vision calls for a new benchmark of success
 - High and rising Wellbeing
- This benchmark substitutes GDP and GDP growth
- Theoretical underpinnings: Beyond GDP concept
 - Stiglitz – Sen – Fitoussi Commission 2009
- Operationalisations
 - Three strategic goals
 - With objectives within each goal
 - Measurable by Better life indicators OECD, EU.



The vision in operation

- Vision starts from goals not from problems
 - Fiscal consolidation is necessary, but not sufficient; dynamics, employment plus sustainability are the goals
 - Taxing financial transactions supports the real economy
 - Distribution matters for growth and stability
 - 20% youth unemployment is intolerable
 - Europe has to deal with - and enjoy - internal heterogeneity
- ⇒ The growth path will be less steep than before
- ⇒ The welfare content of growth gets higher.



Three strategic goals

- Economic dynamics
- Social inclusiveness
- Ecological sustainability

⇒ The three goals have the same priority

- Each goal is underpinned with sub-goals
- Measurable by Better Life Indicators.



The three goals promoting Wellbeing



- Income growth
 - Specifically incomes under the median income
 - Regions with low incomes
- Structural change, mobility, opportunities
- Contrast to petrification and barriers

⇒ Sustainability constraint:
low debts.



Objectives:

- To halve unemployment, specifically for young people
- To reduce inequality (starting chances, gender inequality)
- Differentiation: country preferences
- Public responsibility for risks
- Empowerment and activation are goals

⇒ **Sustainability constraints:**
political stability, absence of polarisation.



Strong absolute reduction of fossil energy (-80%)

- Doubling energy efficiency/renewables
- Reduction material consumption
- Decreasing waste and use land use
- Biodiversity and respecting the limit of the planet

⇒ Sustainability constraint:
chances for next generation.



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Three guiding principles

- **Simultaneity** between goals and instruments
 - Instead of silo strategies
 - The latter are expensive and inefficient
- **High-Road-Strategy**
 - Forfeiting low costs and standards
 - Based on capabilities, ambitions
- **Two-stage strategy**
 1. Consolidation and reprogramming
 2. Socio-ecological transition

⇒ **First stage not business as usual
but investment in change.**



It has to be a high-road strategy

- Productivity more important than costs
 - Enlightened version of cost competitiveness:
- Competitive advantage:
 - Quality, sophisticated products, technology
- Growth drivers:
 - Innovation, education, universities
- Ambitions/Institutions:
 - Social empowerment, ecological excellence, trust
- Objectives: Beyond-GDP goals in general

⇒ Europe has to go for a high road strategy.



It has to be a two-stage strategy

- In the very long run (rich countries) may have lower growth
 - Supported by decreasing marginal utility of income
 - Increasing non material values with rising income
 - Burn outs are neither warranted nor necessary
- But over the **next 10 years** we have to have decent growth
 - For returning to full employment, paying back public debt
 - Favouring redistribution
 - Jobs for migrants and refugees
 - Driven by investment in decarbonisation and social innovations

⇒ **Tripling GDP up to 2100 (1.5% p.a.) neither feasible nor warranted.**



Even the first stage **cannot be** business as usual but **investment in change**

- New infrastructure much less dependent on fossils
- Social innovations prepare for second stage
- Changing institutions, behaviour, awareness
- Redefine competitiveness towards Beyond GDP goals
- Reduce dominance of GDP, address goals directly
- Start **double** decoupling (emission **and** labour)
- Support industry moving towards 4.0 (lower material/ energy)

⇒ Energy Roadmap 2050

⇒ Zero Net Emission Goal (OECD, Paris 2015).



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Seven drivers of change

- **Innovation:** boosting and redirecting
- **Dynamics:** reducing inequality, investment in change
- **Welfare:** from protection to social investments
- **Employment:** symmetric flexibility + upgrading skills
- **Energy:** decoupling and decarbonisation
- **Public sector:** halving taxes on labour
- **Finance:** recommitting towards real economy and aligning to societal needs.



The seven drivers of change



Major game changer: Tax structure shift

Halving taxes on labour (20% \Rightarrow 10% of GDP)

Revenue neutral compensated by:

- Energy, emissions: +4,6%
- Inheritance, property, financial transactions: +2,5%
- Tobacco, alcohol: +1,3%
- Improving compliance: +1,6%

\Rightarrow Moderate variant: cutting labour tax by one third
needs less international cooperation.



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Why it should **work this time**:

- Going for compromises, not corner solutions
- Bundling, partial compensation, fairness
- Pluralistic, polycentric, bottom up
- Taking business, social partners, NGO on board
- Inviting youth, migrants, new actors
- Monitoring progress by indicators
- Sharing, circular economy, replanning of cities
- Declaration by parliament, Commission, Council
- Vice president for sustainability.



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A new Strategy is necessary and feasible

- EU: 'not in a good state': economically, public opinion
 - Driven by problems e.g. banking, Greece, Brexit, refugees
 - Populism will phase out if there is a shared vision
 - dynamics, employment, lead in decarbonisation
 - Europe is a success model
 - needs a new strategy and
 - investment into and exchange with neighbours
- ⇒ Europe can have the best model for dynamic high-income regions.



The European road to wellbeing



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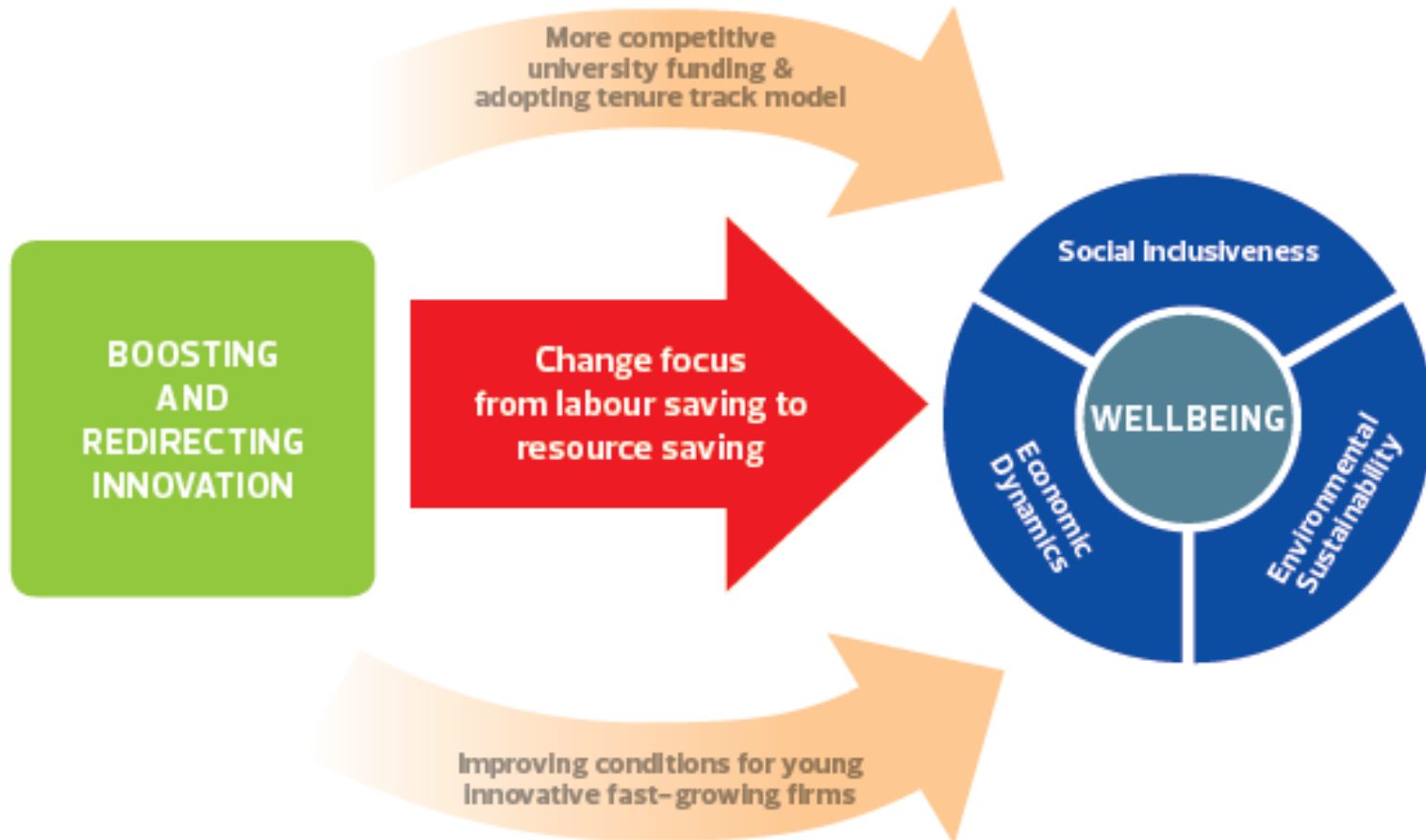
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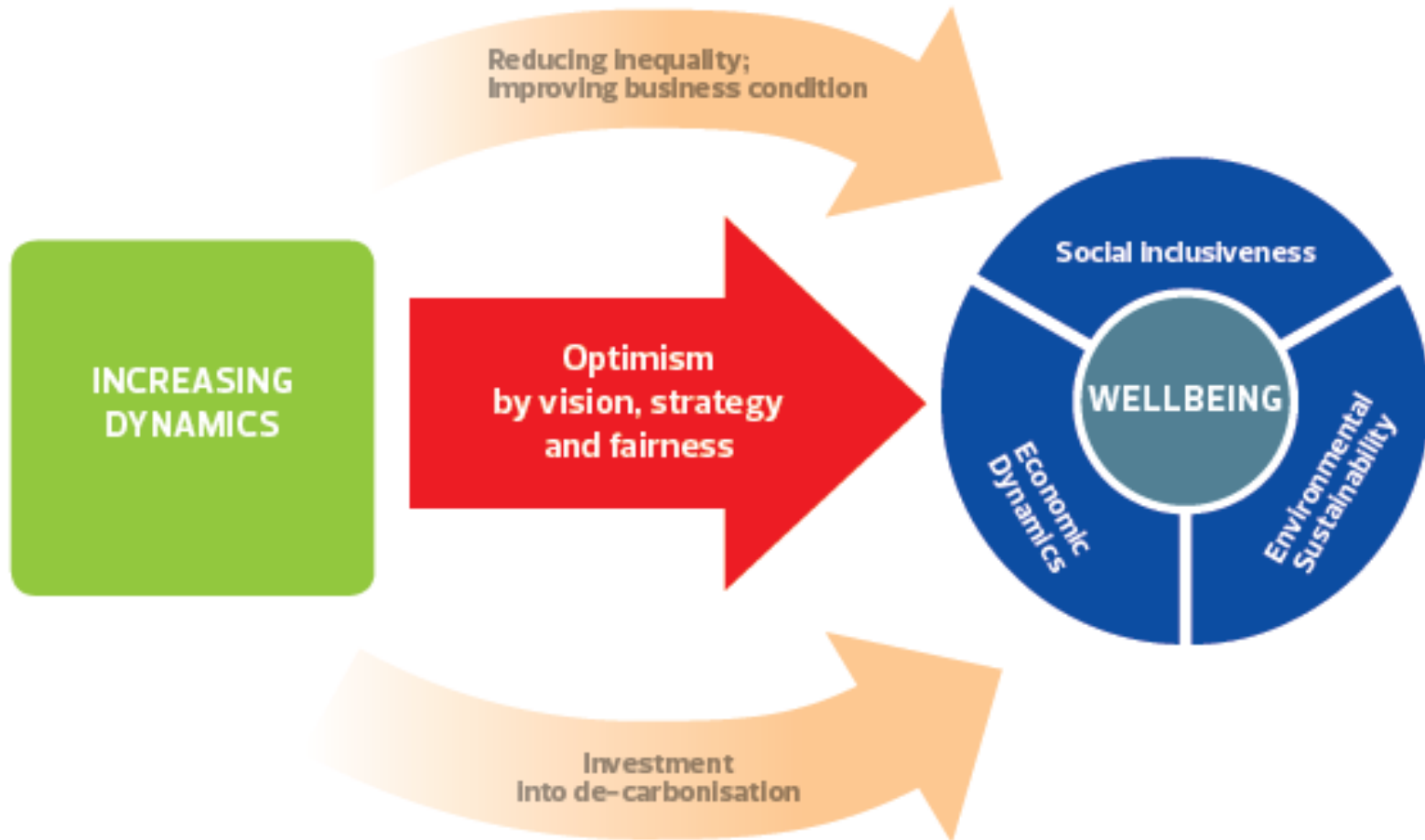
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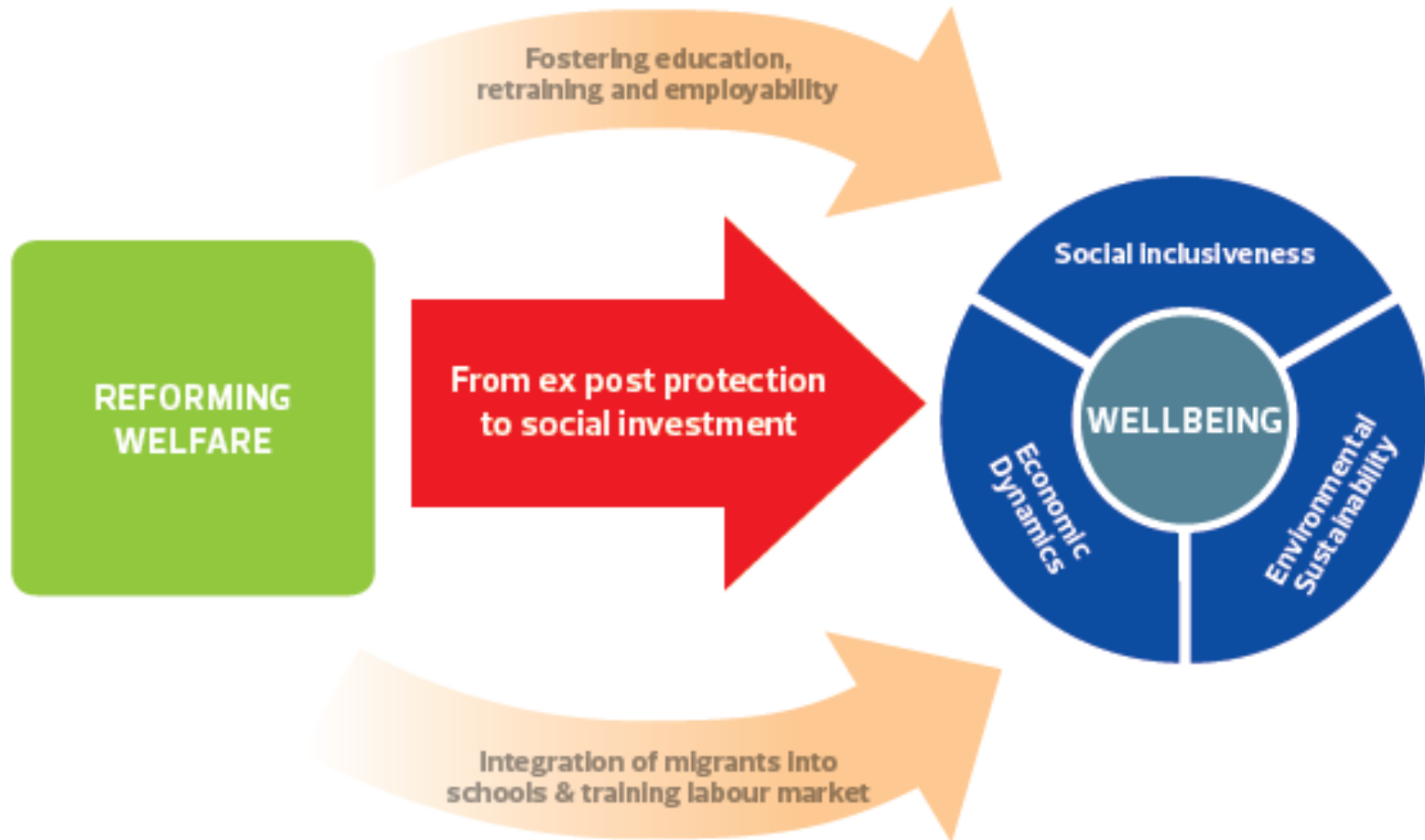
Driver 1: Innovation



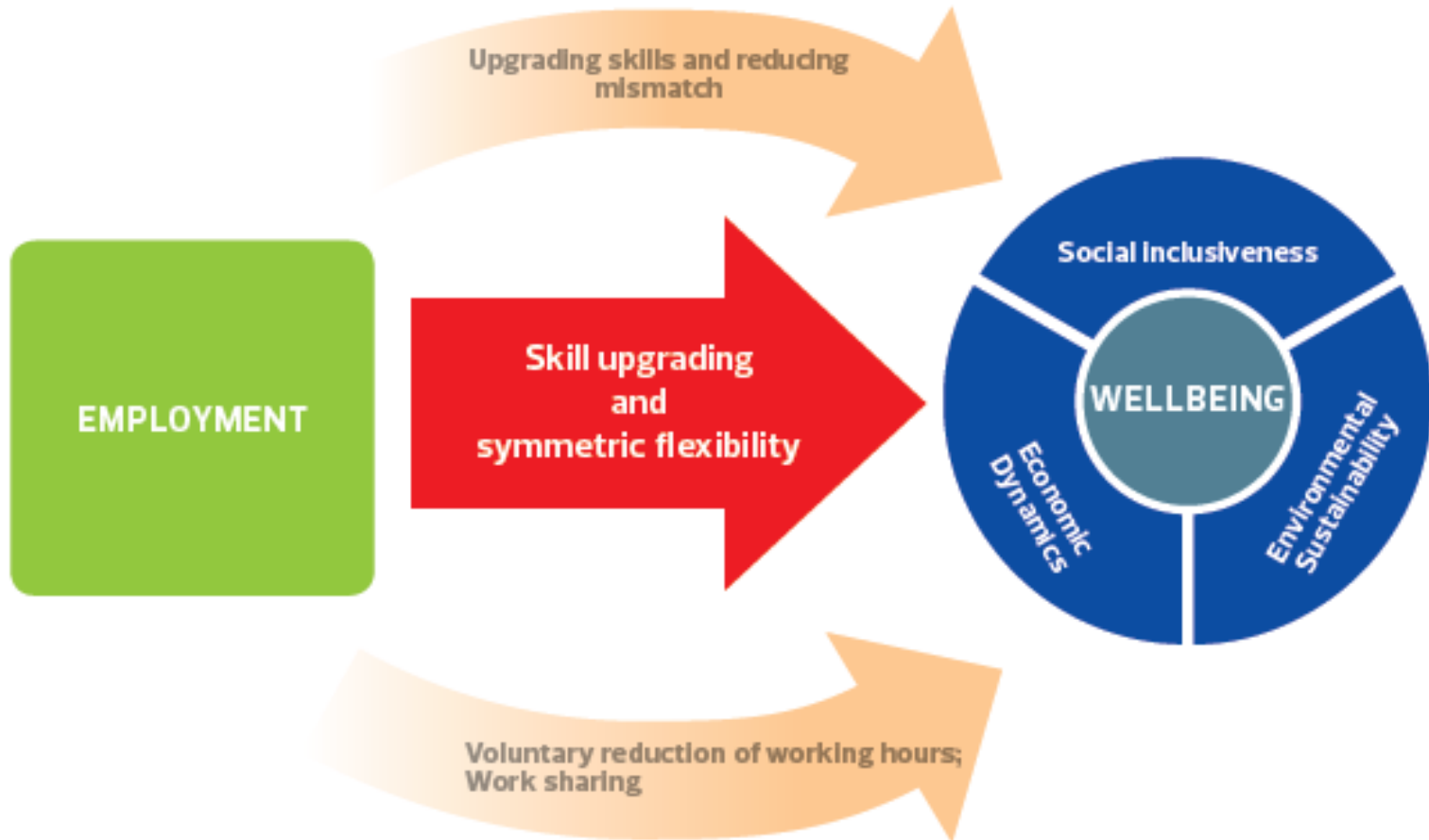
Driver 2: Dynamics



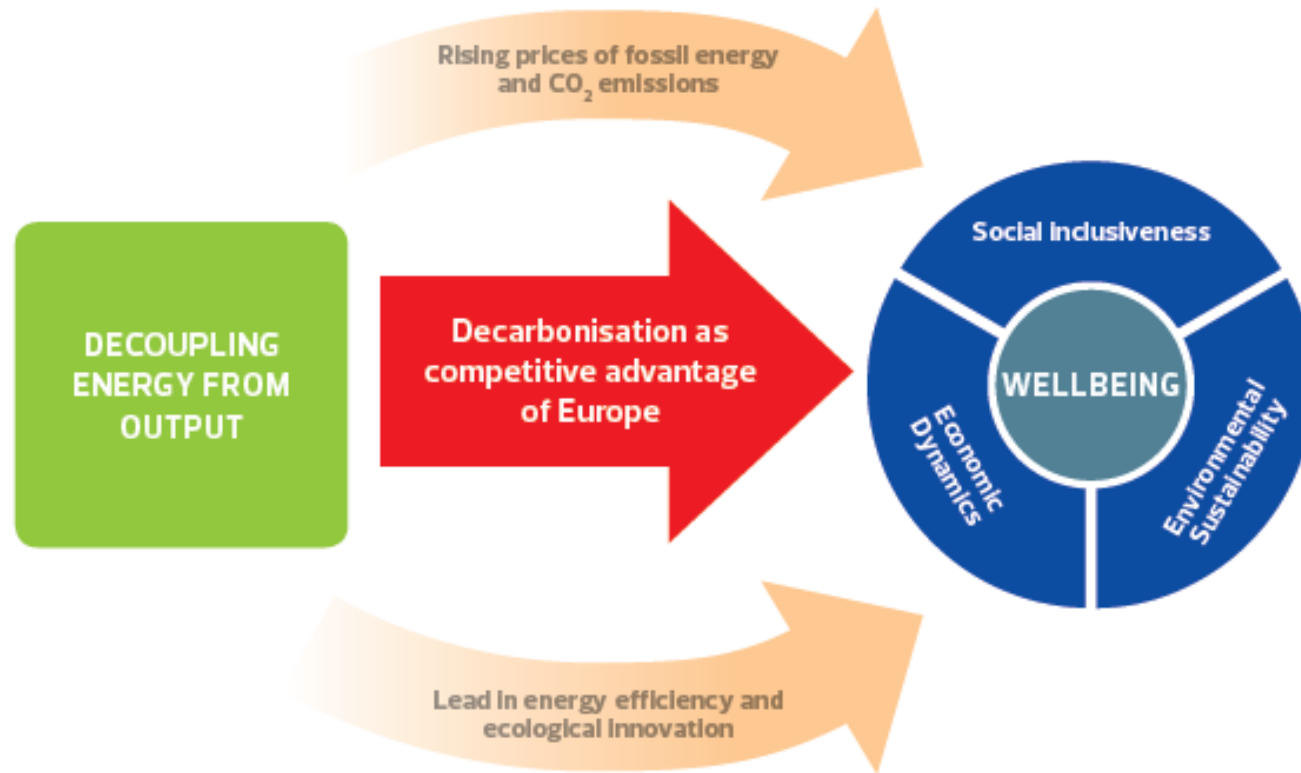
Driver 3: Welfare



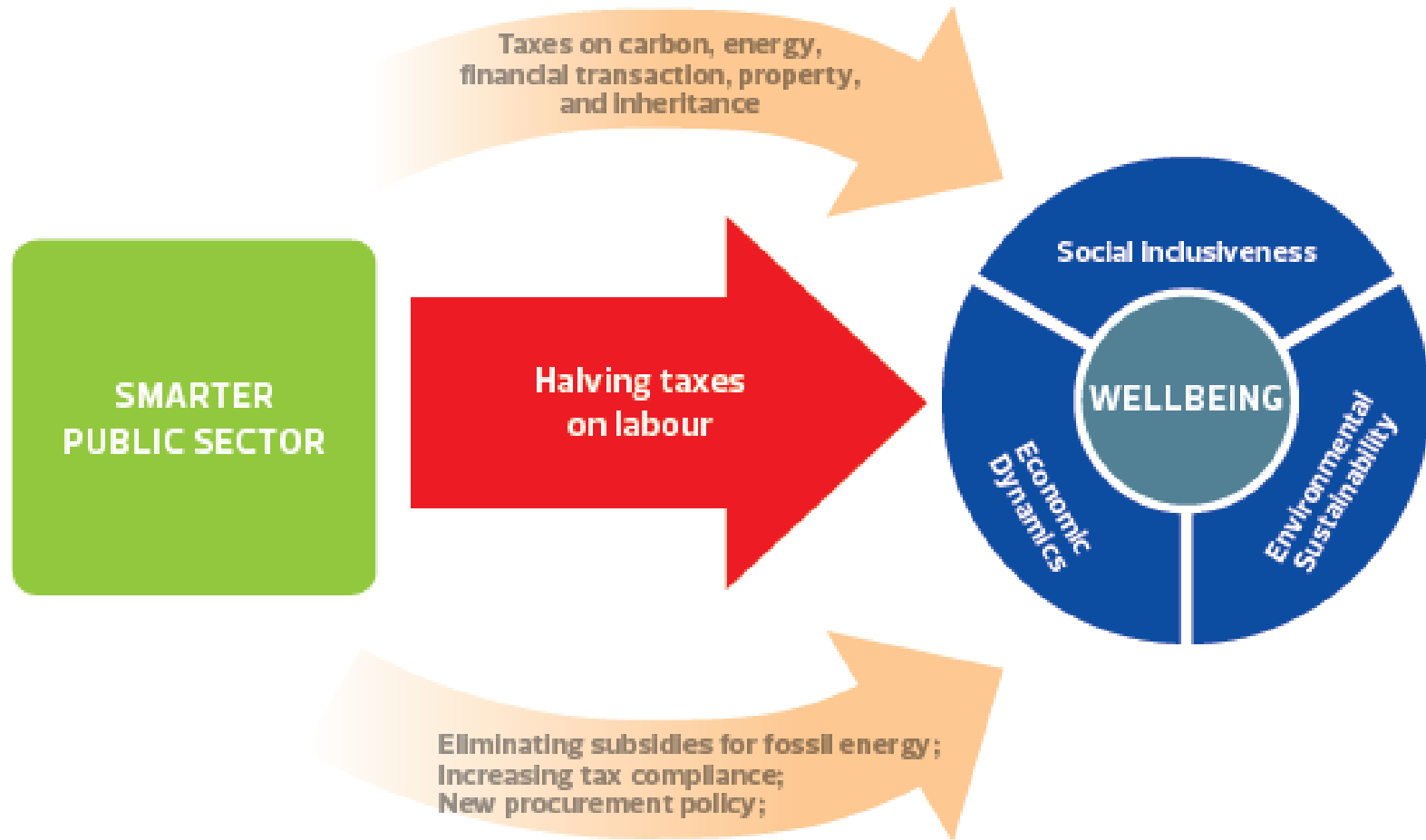
Driver 4: Employment



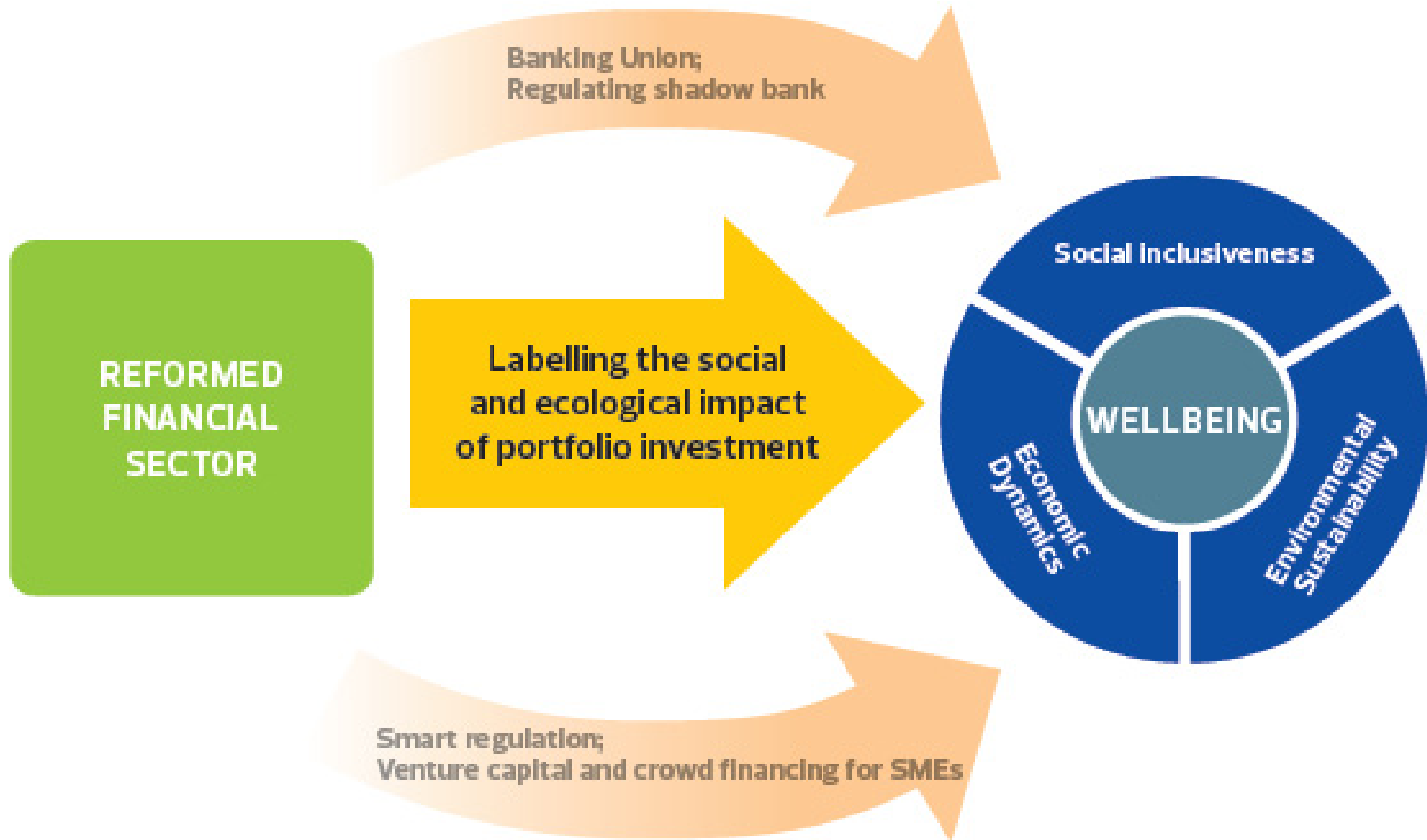
Driver 5: Energy



Driver 6: Public sector



Driver 7: Finance



The vision demands radical change

- Relative decoupling \Rightarrow **deep absolute cuts**:
 - Minus 80-90 % CO2 **emissions** up to 2050
 - **Material consumption** (incl. imports) declines
- Doubling energy efficiency; 50% renewables
- Reduction of unemployment even in phase of low growth
- Redirecting **technical progress** to resource saving

\Rightarrow The growth path will be less steep than before

\Rightarrow The **welfare content** of growth gets higher.



Vision Europe 2050

- Benchmark: region with **high** and **rising wellbeing**
 - Wellbeing substitutes GDP and GDP growth
- Dynamic, open, pluralistic
- Unemployment, income spread reduced
- Emissions decrease absolutely
- Choices, positive heterogeneity, stable finance

⇒ Theoretical base: beyond GDP concept

⇒ Operationalisation: three strategic goals

⇒ Monitored: better life indicators OECD and EU.

