



Sustainable Prosperity made in Europe

Thesis paper for the Policy Lab

Ten leverage points to focus
European economic policymaking
on well-being and sustainability

Date

29 November 2019

Authors

Jonathan Barth, Jakob Hafele, Christoph Gran

Summary

The agenda of the new Commission displays the intention to adjust the concept of prosperity by focusing political action on sustainability and well-being. We have defined ten leverage points that can assist the pursuit of sustainable prosperity, through ensuring that ecological and social objectives hold the same weight as economic policy objectives. In doing so, the EU can lead the way in reducing the dependency of policymaking on economic growth.





The window of opportunity is now: Redefining prosperity to tackle today's challenges

Today, the European Union faces historically unique challenges. In the coming years it will have to increase the rate of decarbonisation of the European economy five-fold in attempting to reach the European climate goals¹. At the same time, the pressure on European natural capital, ecosystems and biodiversity continues to increase despite the goals that have been set². However, proposals to implement the required changes hit on an increasingly polarized society, which significantly limits the scope of environmental action³ as the Yellow Vest in France have shown. Even if unemployment may be falling and disposable incomes may be rising across the EU⁴, inequality is still stagnating at high levels⁵, precarious work forms are widely spread⁶, more people face social isolation⁷ and a higher portion of income goes to basic goods and services such as (health, education, child-care)⁸.

To tackle these challenges simultaneously will require a transformation of the European economic system⁹ and urgent political action¹⁰. The next Commission will be of particular importance, since fair change takes time and decisive political action coupled with creative solutions beyond mere technology are needed. Action needs to be taken early on if it is to overcome the existing path dependencies of the fossil-fuel-based economic model, given that the development of new technologies takes 20 to 70 years¹¹. Investment in new infrastructure, the deconstruction of fossil-based infrastructure and necessary changes in lifestyles and norms are sluggish and generate lock-ins¹².

The new Commission has put forth a bold agenda to pave the way to a sustainable and green economy¹³. If the agenda is intended seriously, it means adjusting our current understanding of prosperity. With the European Green Deal (EGD) at the top of the agenda, it is now the environmental objectives that the EU is pushing to the forefront. At the same time, the new president calls for focusing the European semester on the sustainable development goals (SDGs) and ensuring that economic policy “works for the people”. The agenda creates a unique opportunity to define prosperity as something other than merely by increasing material opportunities. Rather, a sustainable prosperity can result from a new balance in material and non-material well-being: The capability of people to flourish is not only accessed through income gains, but through healthy social networks, a sense of purpose, leisure time and finding meaning¹⁴. At the same time, the associated environmental impacts must remain safely within ecological boundaries, for this prosperity to be sustainable.

The success of this agenda and the future of the EU will be determined by how well its economic policy responds to conflicting political goals and future uncertainties. The multitude of objectives among the SDGs and EGD presents economic policy with mounting complexity. Trade-offs and interactions between individual goals, the prioritization of goals and the integration of policy measures are gaining importance. The limited predictability of policy measures in the age of complexity calls for new ways of dealing with this uncertainty without falling into a mode of inaction.



The freedom to choose: Reducing the dependency on economic growth

Political processes are needed to address this complexity and to focus EU economic policy action on well-being and ecological preservation. The EU can build on activities that go beyond GDP, such as the mainstreaming of health policy and gender and the current conclusions within the Finnish EU Presidency¹⁵. Furthermore, political examples of the OECD and some of its member states provide first examples for inspiration how to effectively align policymaking towards wellbeing and sustainability¹⁶.

However, adjusting political processes will not be sufficient as long as the EU's economic policy still mainly centres around economic growth¹⁷. This is no surprise, as economic growth still remains a necessary condition for achieving different policy objectives and ensure economic and thereby social stability. Growth seemingly makes it easier to fight inequality, generate jobs and sustain fiscal balances. Increasing tax revenues are closely linked to economic growth and thus decrease conflicts between political objectives, as additional revenues can be invested in different policy areas.

This necessity of maintaining continuous economic growth to ensure political and economic stability is increasingly becoming a structural challenge. Many member states are confronted with declining and stagnating growth rates¹⁸. Trade-offs between economic growth and the environment are becoming increasingly apparent raising the question of whether growth is in fact "uneconomic", once future costs are taken into account¹⁹. More holistic welfare metrics as the Genuine progress indicator show a growing disconnection between economic growth and welfare²⁰. Additionally, the internalization of environmental externalities may well slow down economic growth.

In view of today's goals and challenges, the question of how to unbind economic and social stability from economic growth arises. This is essentially a question of how to reorientate towards what matters: well-being and sustainability. Independence means being free to decide whether the economy grows or not, as long as the EU achieves its social and environmental goals. Economic growth will then become one means among many to meet certain objectives. To this end, the EU needs to find ways of decoupling economic and political stability from long-term economic growth.

The expertise of European stakeholders and the results of current research offer a variety of ideas on how to answer this question. We have conducted over thirty interviews with people involved in EU politics and spoken with numerous experts. This has resulted in the identification of ten leverage points for sustainable prosperity. This list does not provide final answers. It is intended as an invitation to discuss what is needed to achieve four goals on the path to sustainable prosperity in the course of the EGD, Horizon Europe, the implementation of the Social Pillar and the Agenda 2030 for Sustainable Development:

1. Environmental and social objectives have the same importance as economic policy objectives.
2. Trade-offs are weakened and the achievement of social and environmental goals is facilitated.
3. Policy processes are designed so DGs coherently contribute towards common goals.
4. Economic policy decouples economic and social stability from economic growth.

10 Leverage Points for Sustainable Prosperity

1. **Establish a sustainability and well-being framework for the European economy by defining enforceable limits on resource extraction and targets for well-being and inequality to give value to what people value.**²¹

It has already been successful to set binding limits for carbon emissions in the fight against climate change. The next step is to extend these limits, for example in the EGD, to resources and their impacts in order to avoid the loss of biodiversity. The associated price signals will boost innovation in resource productivity gains and at the same time decrease the pressure for business to grow.²² For a just transition, the ecological goals should be supplemented by social goals that ensure that burdens and benefits are distributed more equally.

2. **Lift social and environmental indicators to the same level as GDP by prioritising associated SDGs in the European Semester, by accelerating the publication of necessary data and by anchoring them more firmly in the policy process.**²³

The establishment of regular debates on the monitoring of SDGs in the College and EU Parliament, the allocation of responsibilities at the highest political level and the coupling of budget allocation to these indicators are suitable for this purpose. Further ideas include an action plan to introduce a System of Global and National Accounts in the EU, develop a comprehensive environmental index and define an interdepartmental SDGs strategy, as well as to improve methods in forecasting SDGs.

3. **Increase the consideration of ecological and well-being aspects by complementing the better regulation toolbox with further tools for policy assessment.**²⁴

Currently, there is a bias of available tools and guidelines for assessing economic impacts (9 tools) compared to assessing the environmental impacts (1 tool) or social impacts (4 tools). New tools can help to overcome disagreements over methodology and a perceived lack of theoretical foundation underpinning new indicators. To provide a better understanding of the impacts, the tools should explicitly address the weaknesses of cost-benefit analysis and include approaches from system thinking and multi-criteria analysis.

4. **Improve coherence between policy areas and the achievement of environmental and social policy objectives by adjusting policy design and decision processes.**²⁵

The EU already performs better than many member states with regard to policy coherence. However, further options to increase exchange between DGs include a more frequent use of task forces and inter-service groups for legislative processes or the granting of veto rights to certain DGs for environmental or social policy measures.

5. **Move from evidence-based to transformative policymaking by creating co-creative innovation spaces for policy development and involving different stakeholders from all fields of society.**²⁶

Incremental changes will not be enough to meet today's challenges. Innovation spaces can be used to identify measures for systemic change and experimental fields for bold policy proposals. Due to the necessary paradigm shift in society as a whole, past evidence on actors' behaviour is only able to support a narrative for the future to a limited extent. Rather, this evidence may even reinforce existing path dependencies.

6. **Decouple well-being from material consumption by supporting the diffusion of sustainable and non-material lifestyles.**²⁷

Consumption beyond the satisfaction of basic needs has various drivers such as participation, status, efficiency, comfort. However, the extent to which more consumption translates into greater well-being is controversial. Sustainable and sufficiency lifestyles are a central lever to reduce today's environmental pollution and growth dependencies. Proposed measures include, for example, labels for assessing the absolute energy consumption of goods compared to a per capita consumption benchmark, strengthening the provision of alternative goods or services for satisfying needs (e.g. car-sharing instead of individual transport), a support of regenerative practices through a right to repair, or a ban on advertising environmentally dangerous goods.

7. Reduce the energy- and resource requirements for the EU economy to flourish by redirecting innovation towards improving life quality.²⁸

Work is by far the most expensive production input. Therefore, despite many EU strategies for a circular economy and efficiency, technical progress is largely aimed at increasing labour productivity. This goes hand in hand with more capital and thus higher consumption of energy and resources, thereby reversing the reductions in energy and resource consumption through efficiency gains. Breaking through this dynamic holds great potential for sustainability. As measures, the member states can shift the tax burden from labour to resources and energy or create incentives for companies to promote innovations that go beyond compliance with minimum environmental standards. This also reduces the imperative of businesses to grow their material throughput to be competitive.

8. Enlarge the understanding of green jobs by supporting job creation in labour intensive sectors and promoting work-sharing.²⁹

Work is necessary for social participation, recognition and the generation of income. However, in addition to existing measures like re-education schemes for green industries, jobs in resource-light but labour-intensive and „well-being sectors“ (care, craft, culture) are also green jobs. These offer high welfare potential for the EU. Furthermore, while a termination of jobs with high environmental impacts is needed, unemployment can be combated not only by creating new jobs, but also by strengthening work-sharing and reducing working-times. This is of special importance for regions faced with rapid structural change. Policies for sustainable prosperity must therefore aim to stimulate investment in labour-intensive sectors, simplify work-sharing or support the reduction of working-times in EU member states. With regard to addressing growth dependence, this frees policymakers from the need to reduce pressures on the labour market resulting from labour-productivity gains by expanding economic activity.

9. Harmonize environmental and social objectives by moving beyond market-based solutions.³⁰

Efficiency is a key strength of market-based economic policy instruments. However, this applies only to a specific set of assumptions about human behaviour. Once long-term consequences, norms, time-inconsistent preferences, habits and path dependencies are included, other instruments can produce better welfare outcomes. This is particularly true when market-based instruments have high distributional effects and higher prices restrict access to basic goods and services with low price elasticities. This applies, in particular, to carbon prices and taxes. Regulations, targeted industrial policy, changes in ownership structures or other non-monetary provisioning systems (commons, community based) can help to promote alternatives, prevent unsustainable practices and ensure access to basic entitlements.

10. Rethink taxation by taxing and redistributing rents.³¹

The pursuit of more economic activity is closely linked to the fact that many economic actors benefit from increasing rents. On the other hand, the lack of taxation of these rents undermines public revenues and thus increases the pressure to grow. Rents, however, are not only a problem from an egalitarian perspective. High rent seeking even stands against market-liberal ideas that income should be assessed according to the effort. Such rents come from land, resources, innovations or inheritances. The EU could recommend that member states tax rents to make them available for the public. This creates new sources of fiscal revenues, which on the one hand reduce the pressure for more economic growth to increase the state budget. On the other hand, these revenues are used to support those hit hardest by environmental policy and help fight inequality.

References

- ¹ European Environment Agency, 2018. Trends and Projections in Europe 2018. Tracking Progress towards Europe's Climate and Energy Targets (No. 16/2018), EEA Report. Copenhagen.
- ² European Environment Agency, 2017. Environmental Indicator Report 2017. In Support to the Monitoring of the Seventh Environment Action Programme (No. 21/2017), EEA Report. European Environment Agency, Copenhagen.
- ³ European Commission, 2019a. Reflection Paper: Towards A Sustainable Europe By 2030.
- ⁴ European Commission, 2019b. Employment and Social Developments in Europe 2019 - Sustainable growth for all: choices for the future of Social Europe.
- ⁵ European Commission, 2019. Social scoreboard. Supporting the European Pillar of Social Rights.
- ⁶ Eurostat, 2018. [Europe 2020 indicators - employment - Statistics Explained](#).
- ⁷ EU Science Hub, 2019. [How lonely are Europeans?](#).
- ⁸ Boudrot, N., Guilloton, V., Patier, B., 2018. The French economy grew strongly in 2017. Insee Réf. 31.
- ⁹ European Commission, 2019a | European Political Strategy Centre, 2019. Europe's Sustainability Puzzle. Broadening the Debate.
- ¹⁰ European Commission, 2019a | European Political Strategy Centre, 2019.
- ¹¹ European Commission, 2018. A Clean Planet for all. A European long-term strategic vision for a prosperous, modern, competitive and climate neutral economy. In-depth analysis in support of the commission communication COM(2018) 773 final. | Gross, R., Hanna, R., Gambhir, A., Heptonstall, P., Speirs, J., 2018. How long does innovation and commercialisation in the energy sectors take? Historical case studies of the timescale from invention to widespread commercialisation in energy supply and end use technology. Energy Policy 123, 682–699. | Mazzucato, M., 2015. The entrepreneurial state: debunking public vs. private sector myths. PublicAffairs, New York.
- ¹² Mazzucato, M., 2015.
- ¹³ von der Leyen, U., 2019. Political Guidelines for the next European Commission 2019-2024.
- ¹⁴ O'Neill, Daniel W., et al. A good life for all within planetary boundaries. Nature Sustainability, vol. 1, No. 2 (February 2018) | Raworth, K., 2017. Doughnut economics: seven ways to think like a 21st century economist. Chelsea Green Publishing, White River Junction, Vermont.
- ¹⁵ Hubert, A., Stratigaki, M., 2016. Twenty Years of EU Gender Mainstreaming: Rebirth out of the Ashes? Fem. Polit. 25, 21–36; Molnar, A., Renahy, E., O'Campo, P., Muntaner, C., Freiler, A., Shankardass, K., 2016. Using Win-Win Strategies to Implement Health in All Policies: A Cross-Case Analysis. PLOS ONE 11 | European Commission, 2009. [GDP and beyond. Measuring progress in a changing world](#) | Council of the European Union, 2019. [Council conclusions on the Economy of Wellbeing](#).
- ¹⁶ Treasury of New Zealand. 2018. [Living standards framework](#); OECD, 2019. [Beyond Growth: Towards a New Economic Approach](#)
- ¹⁷ See e.g. in Protocol 12 of the Treaty on European Union (TEU) | Article 3,3 of TEU | Protocol 14 TEU | European Commission, 2017. Investing in a smart, innovative and sustainable Industry. A renewed EU Industrial Policy Strategy. COM(2017) 479 final | European Commission, 2014. [Towards a circular economy: A zero waste programme for Europe](#) | Council of the European Union, 1997a. [Council Regulation \(EC\) No. 1467/97](#). | Council of the European Union, 1997b. [Council Regulation \(EC\) No. 1466/97](#).
- ¹⁸ Pichelmann, K., 2015. When 'Secular Stagnation' meets Piketty's capitalism in the 21st century. [Growth and inequality trends in Europe reconsidered](#). European Commission Economic Papers.
- ¹⁹ United Nations, 2019. [Global Sustainable Development Report 2019: The Future is Now – Science for Achieving Sustainable Development](#) | Parrique, T., Barth, J., Briens, F., Kerschner, C., Kraus-Polk, A., Kuokkanen, A., Spangenberg, J.H., 2019. [Decoupling debunked: Evidence and arguments against green growth as a sole strategy for sustainability](#). European Environmental Bureau | Daly, H., 2005. [Economics in a Full World](#). Sci. Am. 293, 100–7.
- ²⁰ Kubiszewski, I., Costanza, R., Franco, C., Lawn, P., Talberth, J., Jackson, T., Aylmer, C., 2013. Beyond GDP: Measuring and achieving global genuine progress. Ecol. Econ. 93, 57–68.
- ²¹ Jackson, T., 2017. Prosperity without growth, Second Edition. ed. Routledge, Taylor & Francis Group, London; New York | United Nations International Resource Panel, 2019. Global Resource Outlook 2019 - Natural Resources for the Future we Want | Bringezu, S., 2015. Possible Target Corridor for Sustainable Use of Global Material Resources. Resources 4, 25–54 | Mazzucato, M., 2015. The entrepreneurial state: debunking public vs. private sector myths. PublicAffairs, New York | Vaillé, J., Brimont, L., 2016. Turning Sustainable Development Goals into political drivers, in France and other European countries. IDDRI Policy Brief.
- ²² Richters, O., Siemoneit, A., 2019. [Growth imperatives: Substantiating a contested concept](#). Struct. Change Econ. Dyn. 51, 126–137.
- ²³ European Commission, 2019a | Hoekstra, R., 2019. Replacing GDP by 2030. Cambridge Books | Vaillé und Brimont, 2016 | Whitby, A., 2014. BRAINPOOL Project Final Report: Beyond GDP - From Measurement to Politics and Policy.
- ²⁴ OECD, 2019 | Whitby, 2014.
- ²⁵ Carbone, M., Keijzer, N., 2016. The European Union and Policy Coherence for Development: Reforms, Results, Resistance. Eur. J. Dev. Res. 28, 30–43 | Kurze, K., Lenschow, A., 2018. [Horizontal policy coherence starts with problem definition: Unpacking the EU integrated energy-climate approach](#). Environ. Policy Gov. 28, 329–338. | Russel, D.J., den Uyl, R.M., de Vito, L., 2018. [Understanding policy integration in the EU—Insights from a multi-level lens on climate adaptation and the EU's coastal and marine policy](#). Environ. Sci. Policy 82, 44–51.
- ²⁶ European Political Strategy Centre, 2019 | Weizsaecker, E. von, Wijkman, A., 2018. Come On!: Capitalism, Short-termism, Population and the Destruction of the Planet. Springer-Verlag, New York | Junginger, S., 2012. [Design Concepts and Design Practices in Policy-Making and Public Management: New Challenges and New Opportunities for Policy-Makers and Public Managers](#).
- ²⁷ Jackson, T., 2017. Prosperity without growth, Second Edition. ed. Routledge, Taylor & Francis Group, London; New York | United Nations, 2019 | **European Commission, 2018.**
- ²⁸ Richters, O., Siemoneit, A., 2019 | Jackson, 2017 | Ayres, R.U., Warr, B., 2009. The economic growth engine: how energy and work drive material prosperity. Edward Elgar, Cheltenham, UK; Northampton, MA | Kümmel, R., Lindenberger, D., 2014. How energy conversion drives economic growth far from the equilibrium of neoclassical economics. New J. Phys. 16
- ²⁹ Jackson, 2017 | European Commission, 2019b | Mazzucato, M., 2018. The Value of Everything: Making and Taking in the Global Economy, 01 ed. Allen Lane, London, UK. | UNDP, 2015. [Human Development Report 2015, Work for Human Development](#) | Gough, I., 2013. Carbon Mitigation Policies, [Distributional Dilemmas and Social Policies](#). Journal of Social Policy 42, 191–213 | Bonadio J, Roland J. 2019. [Destination climate neutrality, a five year policy blueprint for Europe](#). European Environmental Bureau
- ³⁰ Schill, C., Anderies, J.M., Lindahl, T., Folke, C., Polasky, S., Cárdenas, J.C., Crépin, A.-S., Janssen, M.A., Norberg, J., Schlüter, M., 2019. [A more dynamic understanding of human behaviour for the Anthropocene](#). Nature Sustainability | Aldy, J.E., Stavins, R.N., 2012. The Promise and Problems of Pricing Carbon: [Theory and Experience](#). [The Journal of Environment & Development](#) 21, 152–180.
- ³¹ Mazzucato, M., 2018. The Value of Everything: Making and Taking in the Global Economy, 01 ed. Allen Lane, London, UK; Stratford, B., 2020. [The Threat of Rent Extraction in a Resource-constrained Future](#). Ecol. Econ. 169 | Raworth, K., 2017. Doughnut economics : seven ways to think like a 21st century economist. Chelsea Green Publishing, White River Junction, Vermont | Fuss, S., Chen, C., Jakob, M., Marxen, A., Rao, N.D., Edenhofer, O., 2016. [Could resource rents finance universal access to infrastructure? A first exploration of needs and rents](#). Environ. Dev. Econ. 21, 691–712; Segal, P., 2012. [How to spend it: Resource wealth and the distribution of resource rents](#). Energy Policy, Renewable Energy in China 51, 340–348. | Kalkuhl, M., Edenhofer, O., 2017. [Ramsey meets Thünen: the impact of land taxes on economic development and land conservation](#). Int. Tax Public Finance 24, 350–380.