A Transition to Just and Green Societies in the EU Requires Fixing Economic Policy

A suggestion for implementing the Economy of Wellbeing
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Foreword

This publication is about the concept “Economy of Wellbeing” – an approach that seeks to aid the transformation towards just and fair societies in the European Union.

A core sentiment in the publication is that there is a lack of shared understanding on the problems that hinder the transformative capabilities of the EU Member States. Without this shared understanding, also lacking are a common direction and actions.

Writing this publication primarily for economic thinkers and decision-makers within the EU, we at the think tank Demos Helsinki propose that the explanation of why transformation is slow or nonexistent lies within the current economic policy paradigm.

To fix economic policy, a new macroeconomic approach based on broader goals is required. These goals should be people-centric (aiming to increase wellbeing) and forward-thinking (sustainable)¹. This is the basis for the

“Economy of Wellbeing”, a new policy approach that focuses on taking wellbeing into account in all policies. Advocated by multiple EU and OECD countries and civil society actors, the Economy of Wellbeing was also one of the priorities during the Finnish EU Council’s Presidency 2019. During the presidency, conclusions by the Employment, Social Policy, Health and Consumer Affairs (EPSCO) Council configuration of the European Union laid down a shared understanding of the approach’s basic principles. This publication builds on these insights and aims to contribute to the discussion.

At the core of the Economy of Wellbeing is the goal of taking wellbeing into account in all policies. This is vitally important to the EU’s economic growth, productivity, long-term fiscal sustainability and societal stability. Thus, Demos Helsinki proposes that the Economy of Wellbeing approach has the potential of becoming a new guiding paradigm for economic policy.

Building on the EPSCO Council conclusions on the Economy of Wellbeing, this publication proposes a shared problem, a shared direction and shared actions for the EU and the Member States. The proposed shared problem is the inability of the EU to transform towards just and green societies because of the constantly less effective economic policy. The proposed shared direction is the Economy of Wellbeing as a new paradigm for economic policy. Further, a shared action plan, consisting of seven tracks of action, is proposed in the publication.

Europeans deserve an economy that works for them. The Economy of Wellbeing can help the EU and the Member States to create such an economy.

Demos Helsinki
Introduction: identifying obstacles on the way to a just and green European Union
In 2014, as the European Union (EU) was recovering from its third recession in five years, the European Central Bank (ECB) announced the beginning of a massive asset purchasing programme. The scheme was intended to counter the threat of deflation and stimulate economic growth but in the 5 years since, inflation has remained well below the bank’s 2% target and growth across the Eurozone has remained low.

With fiscal stimulus constrained by the EU’s Stability and Growth Pact and monetary policy proving ineffective, some parts of the Eurozone have fallen into a state of inertia. There is a widespread sense of disconnect between the citizens and the decision-makers of the EU: despite Eurobarometer showing an increase in trust towards the EU, in a survey across 10 countries, 62% of participants said the EU does not understand the needs of its citizens.

The upstarting European Commission, lead by President Ursula von Der Leyen, has the opportunity to rejuvenate the economy through a transformation that puts citizens and sustainability at the centre of policy making. The European Commission has identified the need to reset its commitment to tackle climate and environmental-related challenges and incorporate its actions within the UN Sustainable Development Goals.

Frans Timmermans as the executive vice-president for the European Green Deal, Margrethe Verstager as the executive vice-president for Europe fit for the Digital Age and Valdis Dombrovskis as the executive vice-president for An Economy that Works for People, are all well positioned to coordinate a collective change across the union.

But establishing widespread support for any single approach will be challenging in the current environment.
Some Member States are pushing for a new industrial policy programme while others are advocating reform through digitalisation. Northern and Southern states are divided on the best approach for rewriting fiscal investment rules. Outgoing president of the ECB, Mario Draghi, has weighed in on the debate over French president Emmanuel Macron’s proposal for fiscal transfers between countries.

The previous decade should serve as a warning that efforts to create change within the EU rarely succeed without the support of each of its members. Member States need to develop an understanding of why past approaches to policy making have proven ineffective in tackling problems across the union.

This would establish a shared problem definition: a consensus on what the barriers are that have inhibited transition towards an economy that works for EU citizens. They must then reach alignment on a shared direction: what defines effective policy intervention and how should the outcomes of policies be measured.

Demos Helsinki believes that the primary barrier preventing transformation is an outdated approach to macroeconomic policy. As an alternative, we advocate the Economy of Wellbeing, an approach to policy making that puts the wellbeing of citizens at the heart of every decision.

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10 “Draghi backs calls for fiscal union to bolster eurozone”. Financial Times. September 2019 https://www.ft.com/content/1d702afe-e2ad-11e9-b112-9624ec9edc59
Demos Helsinki believes that the primary barrier preventing transformation is an outdated approach to macroeconomic policy. As an alternative, we advocate the Economy of Wellbeing, an approach to policy making that puts the wellbeing of citizens at the heart of every decision\textsuperscript{11}.

Furthermore, during the era when digitalisation disrupts the traditional material conditions of life and society, we suggest that current policies underserve crucial immaterial elements of wellbeing\textsuperscript{12} such as the vibrancy of local communities, mental health and a sense of purpose. A focus on short-term objectives undervalues the importance of green and sustainable economic activity and therefore threatens the wellbeing of future generations.

These disparities result, among other reasons, from unsophisticated measures of economic progress. For example, increases in Gross Domestic Product (GDP) are often used to demonstrate the successfulness of policies. We suggest that the success of policies should instead be judged by measuring how they impact the wellbeing of citizens now and in the future. This means that the quality, as well as the quantity, of economic activity must be measured.

By taking wellbeing into account in every decision, policymakers are directed to invest in their most valuable asset: people. We suggest that the Eurozone’s over-reliance on

\textbf{PICTURE 1.} Creating an economy that works for people within the EU requires alignment on three levels: 1) on the level of analysis in terms of which are the challenges of the existing economic system, 2) on the level of what is the desired direction for economic policies within the EU and 3) on the level of a roadmap of actions and time scopes to achieve identified changes.
monetary policy to stimulate economic progress has left the economic benefits of developing human potential through fiscal investments in wellbeing unrealised.

Furthermore, this underinvestment is most prevalent in the talents, skills, knowledge and security of the most disadvantaged and vulnerable people, as well as in left behind regions\(^{13}\), and thus policymakers are missing an opportunity to stimulate growth that would simultaneously reduce inequality.

Finally, this publication sets out the necessary practices and next steps required to facilitate wellbeing-centered policymaking. These recommendations form a roadmap for developing synchronised, shared action across the EU.

If the Economy of Wellbeing approach is to be legitimized and accepted, policies must be based on cross-sectoral and multi-level collaboration. This publication focuses on how policymakers can increase resilience, cohesion and wellbeing in the EU through the Economy of Wellbeing. However, implementing the Economy of Wellbeing requires a whole-of-society approach. Thus, it is also important to acknowledge that civil society, business, academia and the media (among others) play a significant role in defining the concept and implementing the Economy of Wellbeing.


"By taking wellbeing into account in every decision, policymakers are directed to invest in their most valuable asset: people."
What is the Economy of Wellbeing?

Creating growth by investing in the future wellbeing, judging policies based on their wellbeing impacts, measuring the quality of growth and taking wellbeing into account in every decision form the basis of the Economy of Wellbeing, an approach to policy that is people-centric (aimed to increase wellbeing) and forward-thinking (sustainable)\(^\text{14}\).

Most importantly regarding the concept of Economy of Wellbeing, OECD research has highlighted the cyclical relationship between wellbeing and economic progress: increases in wellbeing create positive outcomes for the economy, which creates greater revenue for the government to invest in further increases in wellbeing. In an economy of wellbeing, policies focus on utilising this relationship to create quality growth, increasing participation and equality of opportunity\(^\text{15}\).

Originally, the concept of Economy of Wellbeing stems from the need to understand the impacts of economic activity better. First, the global discussions around the concept of wellbeing intensified around ten years, and the concept of Economy of Wellbeing was established at the SOSTE Finnish Federation for Social Affairs and Health\(^\text{16}\). In the EU and OECD, the discussion was shaped e.g. by the Stiglitz–Sen–Fitoussi Commission\(^\text{17}\), and its continuation within the High-Level Expert Group on the Measurement of Economic Performance and Social Progress. Further, the European Statistical System Committee (ESSC) has now developed a set of indicators on quality of life and wellbeing for the EU\(^\text{18}\).

Work by SOSTE shaped the discussion internally in Finland and in 2019 the Economy of Wellbeing was put forward by the Finnish Government to coincide with its presidency of the EU council. During this period of the presidency, the work continued in the Employment, Social Policy, Health and Consumer Affairs (EPSCO) Council configuration, where they were adopted as the EPSCO Council conclusions. This publication presents the view from the think tank Demos Helsinki on how to move forward with the Economy of Wellbeing in the EU and within its Member States. The publication aims to aid especially the upstarting European Commission and the EU Member States, but also other organisations, companies and civil society to continue discussion and implementation of the Economy of Wellbeing.


01 INTRODUCTION: IDENTIFYING OBSTACLES ON THE WAY TO A JUST AND GREEN EUROPEAN UNION

Problems in the Current Economic System

A Roadmap Towards the Proposed Direction

The Proposed Direction for the Economic System

The EU should become an Economy of Wellbeing, where Member States invest in the capabilities of the people, evaluate wellbeing impacts in all policies and use these means to create measurable economic development.

In this project to become an Economy of Wellbeing, all domains of the society can participate.

In addition to measuring quantity of growth, also quality of growth should be measured.

Should be conducted via fiscal policy by making investments for the future that increase wellbeing and create upwards convergence.

PICTURE 2. The problems of the current economic system vs. the proposed direction for the system and a roadmap towards it.
The changing world in numbers

The graphs tell a story. What you see is various trends in the EU. But trends can change. It is crucial to ask where do we want these graphs to develop in the future.

For example, we already know that the graph indicating the yearly CO$_2$ emissions will have to look very different in the near future$^{19}$ (graph 1).

If this is what should happen to CO$_2$ emissions, imagine how these other key metrics of society can behave if the EU makes a successful transition to just and green societies.

GRAPH 3. Standardised death rate (SDR) from Mental and behavioural disorders.\textsuperscript{21}

GRAPH 4. Income inequality and growth in Europe: Growth incidence curve, 1980–2017.\textsuperscript{22}

GRAPH 5. Share of age group 25–64 with at least upper secondary attainment in the EU.\textsuperscript{23}


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As President-elect Ursula von der Leyen said in her speech to the European Commission:

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All of this has left people with a feeling of losing control. Of looser ties within our communities. None of these challenges will go away. But there have been different ways to react to these trends. Some are turning towards authoritarian regimes, some are buying their global influence and creating dependencies by investing in ports and roads. And others are turning towards protectionism.

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The EU needs to understand what is blocking the transition to just and green society
During the forthcoming era of digitalisation and demographic change, the challenges faced by the EU Member States will become increasingly complex and interconnected. For example, structural unemployment caused by the technological revolution and various structures of the Eurozone will increase, the strain placed on occupational services, mental health and social care and educational reskilling services, and will drive demographic change as citizens seek new opportunities for work. In turn, these consequences will have further implications for other areas of the economy.

This greater complexity makes establishing a shared understanding between the EU’s members, each with their own perspectives and priorities, more challenging. But for many problems, the EU’s multilateral approach is also a virtue. While all challenges require responses at regional and national levels, tackling many of the problems created by a more connected global economy requires supra-national cooperation.

On climate change, a truly global problem where no single state can achieve sufficient progress on their own, the EU could lead the way in demonstrating how coordinated policies at regional, national and international levels can bring about an effective green transformation. Such a response would have democratic legitimacy: according to the Eurobarometer, 92% of Europeans support making the EU climate-neutral by 2050.

The Member States have pledged to reduce carbon emissions under the National Energy and Climate Plans and some governments have adopted ambitious climate change

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mitigation programs such as as Sweden's 2018 Climate Act\textsuperscript{31} and the Finnish governmental program\textsuperscript{32}. The Member States also participate in the EU emissions trading system (EU ETS).

And yet, efforts to develop support for effective EU-wide initiatives have proven ineffective and in December 2019, the European Environment Agency announced that the union was set to miss its 2030 target of reducing emissions by 40\%\textsuperscript{33}, let alone the more ambitious target of 55\% proposed by the European Parliament\textsuperscript{34}.

The EU is missing an opportunity to lead the way on tackling climate change and it is not clear what is the underlying reason. Politicians espouse the importance of action but progress has been slow. The EU needs to develop a shared understanding of the barriers that are inhibiting effective transformation.

Demos Helsinki believes that efforts to tackle these problems have so far proven ineffective because they conflict with the outdated aims of economic policy.


THE EU NEEDS TO UNDERSTAND WHAT IS BLOCKING THE TRANSITION TO JUST AND GREEN SOCIETY
A suggestion for shared understanding: economy does not work for people

The EU has successfully responded to various crises in the past. But the transition to just and green societies is more than an economic crisis. It requires ambitious climate plans that place a heavy burden on industries as varied as car manufacturing and tourism. Furthermore, these plans will need to provide people who work in these affected industries with just subsistence, opportunities for re-education and meaningful lives.

Thus, the underlying problem is that the EU treaties offer little or no flexibility to coordinate investments regarding social aspects of people. The EU’s budget is small and it cannot demand Member States to invest or direct their pension funds towards green technology or other missions. Outside its economic policy, the EU has little means to increase wellbeing in Europe.

Nevertheless, few would oppose the idea that the purpose of the economy is to work for the people. If the EU does not have the mandate to instigate just and green transition, perhaps a shared problem definition for the EU Member States should not be about increasing the EU’s mandate, but changing the EU’s economic paradigm.

This chapter illustrates how the current economic paradigm has three issues. First, the promise of the economy is to provide people with merely material wellbeing. Second, the current paradigm has lead to politics that are based on optimising GDP, even though GDP is too imprecise a metric for wellbeing. And third, the means of the current economic approach that prioritises monetary policy despite the secular stagnation is increasingly inefficient.
Economic growth was central to the European welfare state in the industrial era. The core idea was that rising incomes and wealth would provide citizens with the security required to improve their own lives. Rising GDP provided governments with revenue which they could use to liberate society of the five giants - squalor, ignorance, want, idleness, and disease - as outlined in the British Government's seminal 1942 Beveridge Report.

For many years, this was an effective approach, but as countries have become richer, additional material wealth and financial prosperity have become less meaningful to citizens. Recent research looking at subjective levels of life satisfaction in Australia, UK, Germany and the USA concluded that income levels explain less than 2% of the variation in wellbeing in each country.

With technological change poised to revolutionise labour markets and the growing threat of climate change, a new debate on what purpose the economy should be guided towards has emerged. Is the traditional growth-orientated approach to economic policy still suitable for the new era? A hypothetical analysis of British household survey data by VOX EU suggests that eliminating depression and

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36 “Social insurance and allied services.” NCBI - NIH. https://www.ncbi.nlm.nih.gov/pmc/articles/PMC2560775/.
anxiety would reduce misery (again based on self-reported levels of life satisfaction) by 20% while eliminating poverty would reduce misery by only 5%. Although this result probably does not hold in the whole EU, it underlines the fact that immaterial matters.

There are less abstract signs that people care about factors other than income and wealth. In Hong Kong, by demonstrating people have expressed their priorities in life that they are prepared to take risks for: all five of the protestors’ demands relate to democracy and justice, none make reference to economic prosperity\(^{40}\)\(^{41}\). Where protests do have a material element, in Chile and in the gilets jaunes movement in France, it is not poor economic growth, but inequality, economic injustice and a sense of not being heard that have convinced citizens to take to the streets\(^{42}\)\(^{43}\). Further, the middle class people cannot be as sure as before that their children will live better and more prosperous lives than they did\(^{44}\).

The relationship between macroeconomic numbers and people’s lives is becoming increasingly blurred. Fully 61% of British Leave voters think that significant damage to the British economy is a price worth paying for bringing Britain out of the European Union\(^{45}\).

All this is not to say that material welfare is not important anymore. For example, despite the various positive developments, one in four children in the EU are living at risk of poverty or social exclusion\(^{46}\). The point made in this publication is not that material welfare does not matter: it matters a great deal. Instead, the point made here is that the material element is only one part of wellbeing. Economic policy that only considers material welfare misses important opportunities to improve the wellbeing of people. While there is still poverty and homelessness in Europe, to understand everything that matters to people requires understanding that they value also immaterial aspects of life, such as a sense of inclusion, meaning and recognition.

The current economic paradigm has not provided people with the vision of immaterial aspects of the future that they were promised. The correct solution would be to draw a new goal-line. What people actually want is what comes

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\(^{40}\) "Now or never: Hong Kong protesters say they have nothing to lose". Reuters. August 2019 [https://uk.reuters.com/article/uk-hongkong-protests-radicals/now-or-never-hong-kong-protesters-say-they-have-nothing-to-lose-idUKKCN1VH2K4].

\(^{41}\) "Why are there protests in Hong Kong?" BBC. 4 Sep. 2019, [https://www.bbc.co.uk/news/world-asia-china-48607723].

\(^{42}\) "France yellow vest protests" BBC News. [https://www.bbc.co.uk/news/topics/cpzzd6e0/06/france-yellow-vest-protests].

\(^{43}\) "Chile is a rich country and that is why its people are so angry". Quartz. November 2019 [https://qz.com/1754400/protests-in-chile-are-about-wealth-as-much-as-inequality/].


\(^{45}\) "The ‘extremists’ on both sides of the Brexit debate". YouGov. 1 Aug. 2017, [https://yougov.co.uk/topics/politics/articles-reports/2017/08/01/britain-nation-brexit-extremists].

from growth: better lives, security, improved technologies, more free time, better capabilities, new opportunities to participate, improved health... These are the outcomes, partly delivered via increased material wellbeing, which we should be striving for.

Today, successful economic and societal systems cannot reduce people into material beings. This publication proposes a solution on how to incorporate immaterial goals into the realm of economic policy tools.

This means broadening the scope of outcomes of economic policy that are directly pursued. Today we have a better understanding of the immaterial components of people’s wellbeing. The level of democratic agency really does have a meaningful impact on life satisfaction, as does the vibrancy of the local community. We know that emotional health is a stronger predictor of a child’s future subjective wellbeing than academic qualifications. We also know of the non-financial consequences of unemployment; job loss is often as painful as bereavement, particularly for people whose self-identity is closely related to their profession47.

Academics and researchers have provided a valuable contribution by developing an understanding of the relationship between socio-economic factors and people’s wellbeing. However, the current approach to economic policy makes accounting for these immaterial factors difficult because success is determined based on unsophisticated measures such as GDP.

The American economist Simon Kuznets, whose work on national income accounting allowed for the first calculations of a country’s economic output, warned against the use of GDP as a proxy for wellbeing. In a report to the US congress in 1934, Kuznets wrote, “The welfare of a nation can scarcely be inferred from a measurement of national income as defined by the GDP.”

But in the years following the Second World War, GDP was closely associated with increased living standards, and so it became the single measure through which the success and failure of societies were assessed. For this reason, it was more than a metric: it was a goal-line that all economies aimed at.

Between two countries that adopt similar policies, greater economic output remains a good predictor of greater

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overall wellbeing. However, when considering a transformative agenda, GDP becomes a less valuable measure. This is partly because of what it does not capture; GDP does not include unpaid care work, housework or volunteering. It is very difficult to measure the value of items that do not have a price. And of course, a price is what people pay — value is what they get and that is a different number altogether.

Furthermore, GDP cannot account for the future wellbeing of citizens. Due to climate change, aging populations and fears over intergenerational income inequality (across 10 EU nations surveyed in 2019, 58% of participants believed that today’s children would be financially worse off than their parents), the responsibility of policymakers to consider the long-term consequences of their decisions has never been greater.

GDP also fails to distinguish between different forms of economic activity. Clearly, the legacy of Jonas Salk’s polio vaccine should not be judged solely based on its impact on GDP (improved health drove greater productivity but the widespread eradication of polio also removed the need for polio’s palliative care industry, lowering economic activity). Equally, economic growth created through mental health treatment or building infrastructure to aid a green transformation is more valuable than growth created by depletive and unsustainable means, like the production of oil and gas.

As Kuznets argued in 1962, “Distinctions must be kept in mind between quantity and quality of growth.” If policymakers focus only on the quantity of growth, they will be guided towards ineffective solutions.

GDP cannot account for the future wellbeing of citizens. Due to climate change, aging populations and fears over intergenerational income inequality, the responsibility of policymakers to consider the long-term consequences of their decisions has never been greater.

There is a further problem inhibiting reactive and transformative policymaking: the tools that the EU has traditionally used to direct economic activity are increasingly ineffective.

Historically, central banks were able to keep economies stable and create jobs through inflation targeting. Economic downturns would result in high unemployment and low inflation. Central banks would then use expansionary monetary policy, primarily by lowering interest rates, to boost demand. This approach capitalised on the Phillips curve, the inverse relationship between inflation and unemployment. Inflation targeting has proven an especially important technique for the EU, where fiscal spending rules have limited the capacity of governments to stimulate economic growth through counter-cyclical fiscal policy.

But since the financial crisis, the relationship between unemployment and inflation has gone missing. The number of people seeking jobs in the EU is at the lowest point this century, and yet quantitative easing and negative bond

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yields have been ineffective in stimulating borrowing\textsuperscript{59, 60}. There are even concerns that the EU will fall into a Japan-style liquidity trap, where high savings rates become insensitive to expansionary monetary policy because both investors and consumers anticipate further stagnation in price levels and choose to defer investments and consumption\textsuperscript{61}. Germany’s household saving rate is 11%, 4 percentage points higher than in the US\textsuperscript{62}. The EU’s projected average inflation rate between 2025 and 2030, according to futures markets, fell below 1.2% in 2019\textsuperscript{63}.

The more the situation resembles a secular stagnation (a permanent situation with low or no growth and a chronic lack of demand), the more ineffective monetary policy becomes as a tool for directing economic activity\textsuperscript{64, 65}.

However, as long as the Member States do not agree on a shared fiscal policy direction or make coordinated investments, the pressure increases to use the only tool in the toolbox – monetary policy. So far, the ECB has solved this problem with quantitative easing. Arguably, such quantitative easing needs to be combined with fiscal policy to maintain spending and investment in the economy and to direct investments to build desired futures. This, however, would be outside the current ECB mandate.

\begin{quote}
As long as the Member States do not agree on a shared fiscal policy direction or make coordinated investments, the pressure increases to use the only tool in the toolbox – monetary policy.
\end{quote}

THE EU NEEDS TO UNDERSTAND WHAT IS BlockinG THE TRANSITION TO JUST AND GREEN SOCIETY
Making the economy to work for people
If further cuts to interest rates are ineffective in the current landscape, why has monetary policy remained the central instrument in Europe’s economic policy toolkit?

Unlike fiscal policy, where it has proven difficult to reach consensus on what constitutes effective and responsible investments, there has been a long standing consensus that targeting inflation is the core component of good monetary policy. Further, neither the EU nor the Eurozone has a mandate that extends beyond monetary policy. Inevitably, the Eurozone has relied more on the area of economic policy for which there is greater alignment.

But this approach is becoming untenable. In 2019, the former IMF economist Ashkoda Mody described the ECB as “completely powerless” in the current economic environment. Outgoing ECB president Margio Draghi is understandably more measured but acknowledged that, “we are in a situation where low interest rates are not delivering the same degree of stimulus as in the past.” Draghi has repeatedly called for coordinated fiscal investments to boost demand.

While the EU has been unable to coordinate its fiscal policy and form a collective understanding of the need for shared fiscal policy, the union is running out of alternative options. It must now bravely face the reality that fiscal policy has an important role to play, especially when the economy’s principle ailment is a lack of demand. This is not a radical idea nor a complete rewrite of economic thought. It can be achieved by clarifying the goals of economic policy and improving the systems of measurement by which policies are judged.

The European Semester, which is the main economic coordination process of the EU, has a crucial role in establishing consensus on precisely what the role of fiscal policy should be. The European Semester is an annual cycle of macro-economic, budgetary and structural policy coordina-

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tion. The Economy of Wellbeing conclusions adopted by the EPSCO Council of the European Union propose a horizontal analyses within the European Semester in order to enhance broad long-term policy perspectives and provide socially balanced policy recommendations. This proposal is reflected in the new structure for the European Semester. Additionally, joint task forces and mutually agreed upon frameworks can help in building momentum in a shared direction.

National investments have cascading financial benefits throughout the single market, and so a coordinated and collaborative approach is important. Because EU legislation makes it difficult for countries to implement transformative policies, a collective approach is required to ensure opportunities for positive investments are not missed.

Any discussion of budgetary rules will be challenging, so this debate needs an anchor, a concept that Member States can rally around and that provides a basis for building consensus on what constitutes responsible and effective fiscal policy.

What is the Capability Approach?

The Capability approach is a theoretical framework for assessing wellbeing which was first articulated by the economist Amartya Sen and developed by philosopher Martha Nussbaum.

In Sen’s approach, an individual’s wellbeing is evaluated based on their capabilities and opportunities. In other words, a person’s wellbeing is defined based on what they are able to be (e.g. healthy) and to do (e.g. acquire skills).

Unlike many categorisations of wellbeing, the capability approach looks at people’s potential to live a life of their choosing rather than focusing on subjective life-satisfaction. It is about what people do and can do rather than about how they feel. Defining wellbeing in terms of objective rather than subjective criteria allows for a comparison of wellbeing between people and different timelines. This makes it a particularly useful approach for considering the long-term environmental implications of policy.

When defining wellbeing in terms of capabilities and opportunities, it can be said that economic growth is of high quality when it increases the opportunities and capabilities of people more than it limits them. People’s long term capabilities and opportunities are maximized in a sustainable, fair world.
A suggestion for the direction: the Economy of Wellbeing

This publication proposes that basing policy decisions on their impacts on the wellbeing of citizens is an ideal anchor for these discussions. This idea is the basis for the Economy of Wellbeing, a policy approach advocated by the Council of the European Union that puts people at the centre of policy making.

At the core of the Economy of Wellbeing is of course the concept of wellbeing. In this publication, wellbeing has a well-defined meaning: it refers to people’s capabilities, that is what they are able to be and to do.

In addition to shifting the aim of economic policy from wealth and stability to focus directly on people’s wellbeing, the aforementioned issues of measuring growth and means of economic policy also need to be fixed.

Regarding measuring, this publication proposes a way to measure quality of growth in addition to the mere quantity of it. Regarding means of economic policy, this publication proposes a coordinated approach to fiscal policy in the EU under a concept of investments for the wellbeing.

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The Economy of Wellbeing puts people at the center of economic policy by emphasizing improving people’s capabilities, by providing new opportunities for people to use these capabilities and by advocating inclusive growth.

The Economy of Wellbeing increases people’s capabilities by taking wellbeing into account in all policies. In an economy of wellbeing, policymakers recognise the importance of the immaterial aspects of life. In order for individuals to actively take part in the society, they not only require material prosperity and the fulfilment of their basic needs but also health, a sense of belonging, talents, skills, tools and opportunities.

According to OECD research, improved access to childcare, early education programmes, life-long learning and acquisition of skills; ensuring access to quality health services, housing and infrastructure; and building social capital at a local community level not only improved wellbeing, but also lead to economic growth76.

This illustrates the economic potential of the Economy of Wellbeing approach. The OECD has recently drawn attention to this virtuous cycle, the cyclical relationship between wellbeing and economic progress, where increases in wellbeing produce economic growth, which creates further revenue for governments to reinvest in even greater increases

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in wellbeing. It’s still unclear when these conditions are fulfilled, and thus more research, experiments and policy is needed to learn about the necessary conditions for the Economy of Wellbeing.

Moreover, in an economy of wellbeing, policymakers are also guided towards more sustainable interventions. While many methods for stimulating economic growth use more resources than the environment regenerates, long-term investments in the wellbeing of citizens, for example in preventive health care, are sometimes economically sustainable and their environmental impact can be relatively small compared to more traditional forms of care.

The virtuous cycle of the Economy of Wellbeing is important also because it illustrates how an economy of wellbeing can create opportunities directly. For example, investing in decent aging increases the size of the Silver Economy, creating jobs and volunteering opportunities. These are opportunities for people to put their capabilities to practice in a meaningful way.

The Economy of Wellbeing supports markets that help people to become more capable. Although people becoming more capable creates a feedback loop that feeds back to the economy, the investments to support more capable

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people also help directly by creating jobs and markets for wellbeing.

Thus, by investing in the talents, skills, wellbeing and security of its citizens, government’s provide the capability and opportunities for people to engage more effectively in further economic activity. Early education programmes create a more skilled and innovative workforce; life-long learning provides the opportunity for people to dynamically adapt to changing labour markets. Investments in health and housing provide the security needed to encourage entrepreneurship.

Enabling new opportunities can also produce more capabilities for people. Due to technological innovation, many opportunities that would allow the most disadvantaged citizens to more actively engage in the economy, for example educational tools and resources that would allow people to expand their skills and talents, are cheaper and easier to provide en masse than ever before.

The capabilities and opportunities illustrate the demand and supply side of the Economy of Wellbeing. Inclusive growth naturally follows from successful economic policy that implements this approach.

In recent years, several international organizations, such as the ILO and the OECD, have put emphasis on the importance of inclusion and equality and raised the discussion on inclusive growth to the top of the economic policy agenda in developed
countries. The most critical issues related to inclusive growth are income inequality, gender inequality, inequality in health and wellbeing and inequality in the availability of services.

The OECD’s Framework for Policy Action on Inclusive Growth (see image) places particular emphasis on the opportunity to stimulate growth through investments in places and people otherwise left behind. Capabilities and opportunities are most constrained for the most disadvantaged and vulnerable citizens, and so investments in their wellbeing have the biggest potential upside.

Important aspects that are brought up from this perspective are work, investments to people and places otherwise left behind (to support work creation), and government that is efficient and responsive.

Still, if economic policymaking is to be focused on improving the wellbeing of citizens, the impact on economic growth cannot be the only benchmark for success. Improving the capabilities and opportunities for the most disadvantaged has other benefits, it reduces inequality and creates greater social cohesion as communities gain a sense of shared prosperity. Policies that may not stimulate economic activity far beyond the jobs they create could remain beneficial because they produce significant increases in wellbeing.

Investments in a wide range of capabilities and creating new opportunities for people in supporting everyone’s wellbeing stimulate growth that is inclusive and provides upwards convergence.

While the EU is primarily an economic union that has only certain responsibilities regarding the social affairs, health or education of Europeans, advocating an inclusive economy that works for people is within the EU’s mandate.
To date, we have failed to create a model of long-lasting economic growth that can be decoupled from growth of emissions that cause climate change and other forms of ecological harm. Globally we are running an ecological deficit with 1.7 years worth of the Earth’s biocapacity of resources used each year. Climate change is strongly connected to people’s wellbeing.

For decision makers to account for the quality as well as the quantity of economic activity, more sophisticated approaches to measuring the impacts of policies are required.

We now have decades of research looking at different ways in which GDP could be improved or supplemented to guide policymakers, including the French government’s highly influential Stiglitz-Sen-Fitoussi Commission. Many national statistical offices have developed approaches to measuring wellbeing from a multidimensional angle and the European Statistical System Committee (ESSC) now publishes a set of indicators on quality of life and wellbeing across the EU.

Three distinct approaches have emerged, each attempting to account for the quality as well as the quantity of economic activity.

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Fixing measurement: From quantity of growth to quality of growth

The first takes performance indicators such as GDP and national savings rates and adjusts them based on monetised valuations of the impacts on environmental and social factors. Metrics that follow this approach include the Measure of Economic Welfare, the Index of Sustainable Economic Welfare and Green GDP.

The second approach seeks to replace GDP with more direct measures of wellbeing. The most established examples are the Happy Planet Index, the Environmental Sustainability Index and the UN’s Human Development Index (HDI), created by Amartya Sen and Pakistani economist Mahbub ul Haq in 1990.

The HDI measures each country’s average years of schooling, life expectancy and income, combining them into a single metric. In 2010, the index was updated to account for each country’s inequality of wellbeing.

The third approach aims to complement GDP by providing a measure of the factors that it fails to account for the most. For instance, the System of Economic Environmental Accounts measures each country’s stock of natural capital. Similarly, the World Bank advocates Human Capital Index (HCI), which measures the amount of human capital that a child born today can expect to attain by age 18, given the risks of poor health and poor education that prevail in the country where she lives86.

Many countries now use these measurements to guide decision making and inform budgetary policies. In 2019, the New Zealand government unveiled their first wellbeing-orientated budget with the biggest boost in funding going to mental health treatment.87

The European Commission is working towards including measures from the UN’s Sustainable Development Index in macroeconomic decision making.89 These indicators track progress against the Sustainable Development Goals and are therefore good proxies for changes in people’s capabilities and opportunities.

In a world with abundant data and analysis capabilities, increasing the number of indices and metrics that are monitored is trivial. Measuring quality of growth in addition to the quantity of growth provides a necessary approach to guide policies towards wellbeing and estimate their successfulness.

“A TAKEAWAY:
Measure the quality of growth in the EU

For decision makers to account for the quality as well as the quantity of economic activity, more sophisticated approaches to measuring the impacts of policies are required.

Supplementing GDP with measures of progress against the various indicators covered by the Sustainable Development Index would allow policymakers to identify the policies that have the largest positive impacts on citizens wellbeing and on economic sustainability.

Inevitably, many of these policies will include investments because fiscal spending is the most precise method for targeting specific regions, people and components of wellbeing.

Monetary policy can stimulate private sector investment, but without complementing fiscal spending these policies will be indiscriminate: companies that are persuaded to borrow money may choose to invest in areas that reduce wellbeing or increase carbon emissions.

On the other hand, fiscal spending allows governments to boost demand in areas of high quality growth, and guide investments towards innovative sectors that aid transformation such as green energy and digitalisation.

The ability to direct investments towards the areas where they are most needed is especially important for governments in the current political landscape. Across 15 EU countries surveyed in 2018, 70% of respondents believed government should be doing more to ensure their economic and social security.

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Dissatisfaction with government handling of the economy is in part a result of the EU’s reliance on monetary policy. The ECB is a centralised institution led by economists, not elected politicians. Its task, to maintain price stability, is crucial to the economy, but the central bank has little mandate or scope for igniting economic transformation in response to the needs of European citizens. Someone else – the EU or the Member States themselves – need to do this. And while the EU does invest in the future e.g. by aiming to cure cancer and mitigating climate change via its research instruments, these investments pale in comparison with even individual Member States’ national budgets for healthcare or industrial subsidies.

Moreover, the ECB has developed a reputation as indecisive. When the financial crisis hit, the ECB was slow to react; by the time it reduced interest rates to 2% in January 2009, interest rates in the USA were just 0.25%\(^2\). The ECB did not start its asset purchasing programme until 2014, 5 years after the US Federal Reserve and the Bank of England\(^3\).

The European Union needs to learn from these pitfalls and ensure governments can respond quickly, decisively and in synchronicity to future challenges. With the EU on the brink of recession, it is likely that the union will be confronted with new economic challenges in the near future.

On top of these sits the long, ever more acute threat from climate change.

In her opening statement to the European Parliament, president of the upstarting European Commission, Ursula von der Leyen said\(^4\):

“The whole world is being challenged by disruptive developments that have not passed Europe by. Demo-

Due to climate change, aging populations and fears over intergenerational income inequality, the responsibility of policymakers to consider the long-term consequences of their decisions has never been greater.

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graphic change, globalisation of the world economy, rapid
digitalisation of our working environment and, of course,
climate change. None of these meta-developments is new:
science predicted them a long way back. What is new is
that we, as citizens of Europe — irrespective of the country
in which we live — are feeling and experiencing their effects
first hand."

The EU and its Member States' legitimacy is dependent
on how effectively governments can respond to challenges
with actions that resonate with their citizens. Furthermore,
social cohesion requires that citizens have a say in shaping
policies. This can be achieved by creating conditions that
allow for the better application of fiscal tools at a national
and local level.

If Member States can agree on what constitutes respon-
sible and effective policy, it will create a shared direction
that allows governments to set in motion economic trans-
formation towards just and green societies. Without such
an agreement, the potential benefits of fiscal policy will
be left unrealised and citizens will continue to believe that
economic decisions are not being made with a focus on
their best interests. In this second scenario, the stability of
the EU is at risk with a serious danger of rising populism and
anti-European sentiment.

A TAKEAWAY:
Coordinate fiscal
policy around investments
for wellbeing

Not all public investments create long-term gains. Investments
for wellbeing are investments that have a proven contribution
to both people’s wellbeing and sustainable economic growth.
A shared fiscal policy in the EU is needed to do a just and
green transition in the EU. The bottlenecks of such transition,
including but not limited to increased resilience, cohesion and
carbon free industries, are where such investments need to be
directed.
Shared action to transform the economy to work for people
The shared direction provided by the Economy of Wellbeing approach can inspire shared action. But the shift also requires practical measures that facilitate evidence-based and wellbeing-focused decision making. Establishing a shared framework for action across the EU allows the Member States to benchmark and compare progress and learn from successful policies elsewhere. Furthermore, a shared plan of action ensures that policies are consistently coordinated across the continent and that mutually agreed timescales are met despite governmental turnover.

“Any collective approach must be flexible: a shared direction cannot simply describe a set of policy measures, it has to describe a broad framework that guide the Member States in tailoring policies to the specific needs of their citizens.”
### A Suggestion for shared action

#### Adopt seven tracks to drive the Economy of Wellbeing onwards in the Member States and in the EU

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### Benefit from the three opportunities to integrate the Economy of Wellbeing into EU decision-making:

| OPPORTUNITY 1 | Use the position of the Commissioner for the Economy that Works for the People as a platform for the Economy of Wellbeing. |
| OPPORTUNITY 2 | Study if Economy of Wellbeing could function as a basis for a new EU treaty |
| OPPORTUNITY 3 | Allow investments for wellbeing within the Stability and Growth Pact |
A roadmap towards an Economy of Wellbeing

The EU is a diverse union. Each country faces different challenges and therefore each country will require different policies to transform the economy to work better for its citizens. Therefore, any collective approach must be flexible; a shared direction cannot simply describe a set of policy measures, it has to describe a broad framework that guide the Member States in tailoring policies to the specific needs of their citizens.

The Economy of Wellbeing provides a roadmap towards a more people-centric and forward-thinking approach to economic policy. In an economy of wellbeing, all policies seek to capitalise on the cyclical relationship between increased wellbeing and economic growth. As first steps in this direction, policymakers should establish the necessary conditions for measuring the quality of growth and impacts to wellbeing. With this in mind, they should be looking for areas where previous decisions have undervalued the importance of wellbeing. In these areas where latent human potential is lying unrealised, small investments yield the most significant returns, both in terms of increased wellbeing and economic activity.

Next, seven tracks to realise the Economy of Wellbeing in the Member States and in the EU are provided. These seven tracks are inspired by the Economy of Wellbeing conclusions of the EPSCO Council of the European Union. Collectively, these tracks create a framework for decision makers to implement the Economy of Wellbeing via the design of evidence-based policies and measurement of the wellbeing impacts of these policies. After the seven principles, we propose three actions that the European Commission should do to push the Economy of Wellbeing onwards.

Seven tracks
to drive Economy of Wellbeing onwards in Member States and in the EU

The seven tracks to realise the Economy of Wellbeing are based on the broad conclusions on Economy of Wellbeing adopted by the EPSCO Council\(^\text{97}\). The Council conclusions offer a broad view on the necessary actions from the EU Member States, European Commission, and the Employment Committee and the Social Protection Committee. The seven tracks presented here highlight some broader actions and their linkages. Each short segment ends with three questions: Who should advocate this? What difference does it make? How to implement this?

The seven tracks are holistic approaches that help to advocate the Economy of Wellbeing. In other words, they are not narrow actions within one policy segment such as education or care. Together, they create an opening for the public sector to move away from silos towards societies where wellbeing is supported by all policies, and also by everyday actions of all companies, other organisations and civil society.

Track 1:
IMPROVE DATA COLLECTION AND USE

Member States should be strongly encouraged to improve the pace of data gathering and analysis. In most cases, this can be done using the current structures, procedures and practices. Missing or untrustworthy data prevents policymakers from assessing the impacts of policies on wellbeing and pushes them to rely on unsophisticated alternatives such as GDP.

Any data collection and analysis needs to be done according to the human rights and privacy concerns need to be taken into account. Public sector should be especially cautious in not losing the trust of the citizens in their ability to handle private data according to laws and good governing principles.

Automating frequent data collection (with data collected and analysed each month where possible) would allow for time-series analysis of changes in wellbeing. For the policymakers to be able to identify challenges and respond quickly, the delay between the collection of data and its conversion into information that policymakers can easily interpret should also be less than one month.

Further, a key aspect of data collection and use is to allow for disaggregation of data by different sectors. All this can be realised by strengthening the current initiatives for cross-border exchange of health and social protection data, and by deploying innovative data technologies, including artificial intelligence.

For the most part, this conversion should turn raw data into a variety of indicators that reflect the quality of economic activity and impacts on wellbeing. Furthermore, policymakers require guidance on how indicators relate to different forms of economic activity.

WHO NEEDS TO IMPROVE DATA COLLECTION AND USE?
1. The European Commission in collaboration with the European Statistical Office (Eurostat).
2. Member States with their respective statistical agencies.
3. The Council advisory committees linked to the European Semester that are responsible for indices.

WHAT DIFFERENCE WILL IT MAKE TO IMPROVE DATA COLLECTION AND USE?
When various health and social indices are as useful as GDP and provide trustworthy time series for impact analysis, decision-makers can rely on these sophisticated indices when making decisions.

HOW SHOULD IMPROVED DATA COLLECTION AND USE BE IMPLEMENTED?
The Council’s advisory committees linked to the European Semester that are responsible for indicators should create a mutually agreed framework for monitoring well-being impacts and quality of growth in the EU. Eurostat should monitor country-level implementation, providing support and responding to anomalies when required.
**Track 2:**
**ENHANCE CROSS-SECTORAL COLLABORATION**

Economy of Wellbeing is an opportunity to create permanent procedures for cross-sectoral collaboration both within the Member State governments and across the agencies and Member States in the EU.

This is because wellbeing is not created in separate silos. Instead, different components of an individual’s wellbeing interact significantly. For example, mental health conditions can often be traced back to childhood instability (according to the OECD, the median age of onset mental illness is 14) or the dominance of work at the expense of social activities (causing burnout and depression).

These conditions cannot, therefore, be treated adequately through palliative methods alone: investments in education (particularly focusing on emotional and social development in early childhood) and actions to improve work-life balance are also required.

Finally, effective policies will have impacts that ripple across the various components of wellbeing. The successful treatment of mental health increases people’s capabilities to live a life of their choosing; many will choose to develop better family relationships, get involved in their local community or embark on entrepreneurial endeavours like starting a business.

A cross-sectoral approach is easier than ever before because digitalisation helps in breaking silos in the public and private sectors. To ensure that policymakers search for solutions outside their areas of responsibility and consider the holistic impacts of their decisions, greater cross-sectoral communication and collaboration is required.

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**Track 3:**

**ESTABLISH EVIDENCE-BASED POLICY PRACTICES**

To borrow the Economy of Wellbeing terminology, the actions outlined above provide policymakers with the capabilities and opportunities to engage in evidence-based decision making.

Still, there is no guarantee that they will adopt this approach. Institutionalising the use of wellbeing-based evidence, for example by incorporating it into the budgetary process, steers policymakers in the right direction.

Policymakers are also more likely to make evidence-based policies if they have access to the highest quality evidence. Therefore, Member States should invest in policy experimentation, such as randomised controlled trials, that tests the effectiveness of different approaches.

The impacts of legislative and major policy initiatives on wellbeing should be assessed carefully during the legislative process and policymakers should be provided with feedback, based on measures of wellbeing, at regular intervals following key decisions.
Who needs to establish evidence-based policy practices?
1. The European Commission.
2. Member States.

What difference will establishing evidence-based policy practices make?
An evidence-based approach helps design policies ex-ante and evaluate their effectiveness ex-post. With such an approach, Member States can push political discussion towards values and goals instead of speculating on the effectiveness of different means.

How should establishing evidence-based policy practices be implemented?
The European Commission should strengthen the framework for evidence-based policy practices by strengthening the assessment of the impact of legislative initiatives and of major policy initiatives, including economic policy initiatives, in order to ensure the positive impact of the EU initiatives to people's wellbeing or at least to eliminate the possible negative impacts.

Countries should also increase the share of the budget dedicated to evidence-based policy interventions each year. Further, they should create collaborative procedures that facilitate cross-border communication between policymakers, allowing them to quickly learn about and adopt policies that prove to be effective in other countries.

Track 4:
Invest in equal opportunities and capabilities for upward social mobility

Equal opportunities and capabilities are an area where current policies undervalue the economic importance of wellbeing. For example, according to OECD analysis of the EU, improving gender inequality could lead to an increase in GDP of 9.6% by 2050.100 Wellbeing and economic benefits are mutually reinforcing. But investments are needed to kickstart this victorious cycle.

Creating conditions for equal participation in society and work for women, ethnic minorities, people with disabilities and people from disadvantaged regions does not only have economic benefits, it also leads to better political representation, which should in turn produce more inclusive and diverse decision making.

While this document advocates primarily predistributive investments to accelerate the victorious cycle of Economy of Wellbeing, redistribution also plays a role. It's a good policy to design taxation in a way that supports participation to the society and helps in increasing both individual and collective capabilities while limiting various externalities to environment and health. Such redistributive structures are crucial e.g. in overcoming generational poverty.

WHO NEEDS TO INVEST IN EQUAL OPPORTUNITIES AND CAPABILITIES?

Member States.

WHAT DIFFERENCE WILL INVESTING IN EQUAL OPPORTUNITIES AND CAPABILITIES MAKE?

Investing in equal opportunities is a win-win: they improve diversity in decision-making and participation, leading to better decisions and broader viewpoints. Simultaneously, they also increase the capabilities of the Member States, leading to economic development.

HOW SHOULD INVESTING IN EQUAL OPPORTUNITIES AND CAPABILITIES BE IMPLEMENTED?

There are many ways to invest in equal opportunities. For example, the EU Member States should create a high-level Gender Equality Strategy. The scope and scale of gender mainstreaming and gender budgeting should be increased in all areas of policy. In addition, concrete measures to close the gender pay gap and the gender gap in pensions should be implemented.

Another way to advocate equal opportunities is through labour market programmes that provide the right health interventions for people with health-related barriers to work or interventions aiming to improve the quality of work, such as accreditation schemes. Such interventions can promote labour market inclusion to help people develop their skills and talents and remain in good employment.

Lastly, redistributive policies should be designed to help overcoming for example generational poverty and guide consumption away from negative externalities to environment and health.

Track 5:

INCLUDE WELLBEING IN ALL POLICIES TO MAKE A PREVENTIVE TURN

With health services under strain from slow growth (and hence low government spending) and aging populations, policymakers have focused on clinical treatment. This is leaving the potential benefits of preventive measures unrealised. From 2010 to 2017 the share of preventive care in total health spending decreased from 2.75% to 2.55% on average in the EU Member States. Of this relatively small figure almost half goes to health monitoring101.

It is politically difficult for decision makers to reallocate spending away from critical and immediate clinical treatment to fund the mitigation of future illnesses; instead, pre-

In addition to health, preventive approaches can also be used in e.g. social affairs, education and job markets.

Preventive treatment needs to be funded by new investments. Preventive measures and health promotion can reduce high long-term costs and improve health outcomes by mitigating a substantial number of premature deaths and chronic diseases. Prevention can also tackle behavioural risk factors, for example alcohol consumption.

While prevention is most often discussed within the context of health, it spans the total sphere of wellbeing. Preventive approaches can also be used in social affairs, education (especially regarding continuous learning) and job markets (actions to reduce time in-between jobs and to increase participation).

Track 6:
ENSURE THE WHOLE-OF-GOVERNMENT APPROACH TO WELLBEING BY SETTING UP INTERVENTIONS AROUND PEOPLE’S LIFE EVENTS

All approaches are in vain if there is a lack of social support, such as kindergartens, to help parents regardless of gender to freely choose lucrative careers or spending more time with kids.

The whole-of-government already contributes to the wellbeing of people. However, too often interventions to support wellbeing are sporadic and one dimensional.

A novel approach to support people’s wellbeing more holistically when the preventive approaches have failed, is to concentrate on the various life events of people. This life cycle based approach helps to identify different agencies and responsibilities across public and private sector, and coordinate them effectively to help people in their actual need.

Life event based interventions are not only about organising the actual service by connecting different actors that help people overcome or adapt to the new life event, but also about the rights of people supported by the public sector. A severe illness that might affect the life of any of us is one of the main reasons of poverty worldwide. Pension systems and universal care structures that help to avoid such fate are part of the life event based intervention systems.

Holistic wellbeing, often including opportunities to learn, should be prioritised especially when people go through major shifts in their lives. This does not only mean new costs due to increased quality of care. Life event based whole of government approach can also reduce administrative burdens and costs that derive from waiting interventions and coordinating wellbeing resources.

→ WHO NEEDS TO MAKE THE PREVENTIVE TURN?
    Member States and the European Commission

→ WHAT DIFFERENCE WILL THE PREVENTIVE TURN MAKE?
    Preventive approaches will significantly cut health, social and re-education costs and reduce the individual burden from changes in life.

→ HOW SHOULD THE PREVENTIVE TURN BE IMPLEMENTED?
    Member States should experiment with prevention practices in health, education, social affairs and work. It is crucial, for example, to research the impact of drop-in guidance points105 for young people’s wellbeing. Economies of wellbeing should also ensure yearly budget increases for these kinds of experiments.

Track 7: Respond to Technological Change in Labour Markets

Current approaches to economic policy misunderstand the complex relationship between people and the work they accomplish. Research has shown that the impact of job loss on an individual’s life-satisfaction far exceeds the fall in income, it is losing their sense of purpose that can be the most traumatic.106

Therefore, interventions in the labour market should primarily not seek to protect jobs from automation. Instead, they should support people in acquiring new skills and talents and discovering new, more fulfilling ways to contribute to society.

Societies face serious problems at local, national and global levels; when automation displaces individuals from menial employment, it frees people up to tackling these problems. This approach requires a concept of work that is broader than full-time permanent jobs and includes other forms of participation that create societal value.

One goal of the EU is to enable job mobility. So far, the changes in job structures due to automation, digitalisation

among other reasons have treated the Member States in various ways. To better understand the phenomena of the changing world of work and to come up with efficient policies to benefit from it in the EU, further research is required. Further, current and new indicators of wellbeing should be used to also investigate the impact of the change and usefulness of new employment policies.

When automation displaces individuals from menial employment, it frees people up to tackling other problems. But a concept of work is required that includes all forms of participation that create societal value.

WHO NEEDS TO RESPOND TO TECHNOLOGICAL CHANGE IN LABOUR MARKETS?
1. Member States’ ministries of employment and education.
2. Trade Unions.

WHAT DIFFERENCE WILL IT MAKE?
As the old promise of permanent jobs is giving way to a new promise of available work, the old model for educating people for jobs becomes deprecated. Instead, the role of continuous education and available jobs becomes more important.

HOW SHOULD RESPONDING TO TECHNOLOGICAL CHANGE IN LABOUR MARKETS BE IMPLEMENTED?
Ministries of education need to implement plans for continuous education. The ambition of these plans should match the other historically important education reforms such as the introduction of free primary schools.

Ministries of employment need to start implementing structures for societies, where work is becoming much more abundant and available107.

Unions should take notice and propose models which protect the employees’ rights in the changed environment.

Three opportunities for the European Commission to integrate Economy of Wellbeing in the EU decision-making

Demos Helsinki suggests that the Economy of Wellbeing approach should be integrated into the everyday practices of the EU’s macroeconomic policy.

The timing is right: one of the key ideas defining the Economy of Wellbeing approach – that economic policy should be people-centric – ties in with the mandate of the newly appointed executive vice-president for An Economy that Works for People, Valdis Dombrovskis.

The second key idea – that economic policy should be forward-thinking – is ever more important as the EU seeks effective, multilateral action in response to climate change.

There are encouraging signs. The upstarting European Commission has already promised to integrate the UN Sustainable Development Goals into the European Semester process\(^{108}\), an important part of the coordination of economic policies across the EU\(^{109}\).

Three opportunities should be considered to integrate the Economy of Wellbeing to the EU level. First, the recently established position for the Commissioner for the Economy that Works for the People should be used as a platform for the Economy of Wellbeing. Second, an investigation could be started to identify if the Economy of Wellbeing could function as a basis for the new EU treaty, when the time comes to revise the current treaty. And third, investments for wellbeing within the Stability and Growth Pact should be allowed.

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Opportunity 1:
USE THE POSITION OF THE COMMISSIONER FOR AN ECONOMY THAT WORKS FOR PEOPLE AS PLATFORM FOR THE ECONOMY OF WELLBEING

The structure of the upstarting European Commission supports advocating the Economy of Wellbeing. For example, the position for the Commissioner for an Economy that Works for People provides a promising platform for the concept. Indeed, although the idea of "social Europe" has experienced a series of setbacks in the past decades – particularly through the euro crisis – there is an increasing demand to incorporate social goals into the EU’s economic policy.

The Economy of Wellbeing provides a framework with several common tools, concepts and indices for a common approach between the Member States. At the expiration of the Europe 2020 strategy for smart, sustainable and inclusive growth, the Economy of Wellbeing could operate as a structure for the new long-term strategy of the EU. This strategy should seek to make the EU the most competitive and socially cohesive economy in the world.

The Economy of Wellbeing provides incentives for the reform of at least two developments: the renewal of the European Semester focused on macroeconomic risks and imbalances and the ongoing reform of the Economic and Monetary Union (EMU). EMU would require more equal processing, using social and employment indicators more broadly than today, and a more long term view on the well-being implications of the Union. These again do not require new frameworks; the current frameworks and plans are sufficient if their opportunities are put into practice. Questions of social justice and fairness as well as the capability-oriented approach to economic reforms are at the heart of these developments; the Economy of Wellbeing provides several useful tools for this pursuit.

"The Economy of Wellbeing could operate as a structure for the new long-term strategy of the EU. This strategy should seek to make the EU the most competitive and socially cohesive economy in the world."
Opportunity 2: STUDY IF ECONOMY OF WELLBEING COULD FUNCTION AS A BASIS FOR A NEW TREATY FOR THE EU IN THE FUTURE

While the next revision of the EU treaty is not urgent, at some point the Member States need to update the Treaty of Lisbon to reflect the changes in the world and in their own priorities since 2007. It would be wise to investigate beforehand if the Economy of Wellbeing could function as a basis for such a new treaty.

Such a basis in the EU would guide policymakers towards evidence-based, wellbeing-focused decisions, and allow for scaling up good decisions around the EU after those policies are proven to have increased the opportunities and capabilities of their citizens.

Making the Economy of Wellbeing a central concept in the EU would help fix some of the practical issues that the EU has, including the occasional political indifference towards social affairs, health and education.

It takes a long time to come up with a new treaty for the EU. There is still a lot that can be done within the current structures and frameworks. For example, both the previous and upstarting European Commissions have already included a reference framework to monitor ‘societal progress’ in the European Semester, monitoring equal opportunities, access to the labour market, dynamic labour markets, fair working conditions, social protection and inclusion\textsuperscript{110}.

These monitoring frameworks can be used more extensively to allow for a transition towards Economy of Wellbeing in the EU, but emphasizing the role of Social Protection Committee via reinterpretation of the article 160\textsuperscript{111} of the Treaty on the Functioning of the European Union would help further.

\begin{quote}
It takes a long time before it even makes sense to come up with a new treaty for the EU. There is still a lot that can be done within the current structures and frameworks.
\end{quote}


Opportunity 3:
ALLOW INVESTMENTS FOR WELLBEING WITHIN THE STABILITY AND GROWTH PACT

The Stability and Growth Pact (SGP) aims to safeguard the stability of the economic and monetary union and its fiscal credibility. However, challenges remain: in the eurozone especially, the SGP doesn’t pay attention to the sources of economic growth. Further, the SGP has been applied inconsistently and it does not provide solutions for the challenges mentioned in this publication.

Therefore, there needs to be room for the Member States to make profitable investments for wellbeing and practice economic policy towards the social and ecological goals of the economies of wellbeing. Such an economic policy has a positive effect on long-term fiscal sustainability: sound economic policy includes making profitable investments for wellbeing. In other words, the EU legislation should not prevent responsible and effective investments in people’s future wellbeing. Instead, the EU could allow in specific cases countries to make exceptions from the debt ceiling based on their verified, growth supporting investments in Economy of Wellbeing goals.

At a Member State level, governments could ensure future budgets have a component that focuses on investments in future wellbeing by creating a new category of public investment in national accounting. This category would separate investments for wellbeing from current expenditures and be ring-fenced during times of austerity. It is also possible to create new financial instruments for the EU or to create a distinct budget for the Eurozone, in line with the proposal by the French president Emmanuel Macron112, to make investments for wellbeing.

There needs to be room within the Stability and Growth Pact for members states to make profitable investments for wellbeing and practice economic policy towards the social and ecological goals of the economies of wellbeing.

Next steps: resilience and prosperity from investments for wellbeing
What is the purpose of the EU? While every citizen can have their own answer to this question, the EU has undoubtedly increased the resilience and prosperity of its Member States by creating peace and functional markets within the continent.

Indeed, the creation of the European welfare states, starting late in the 19th century and accelerated following the Second World War, began a period of unprecedented societal progress. Institutions were created to provide health and education to all, and to support the most vulnerable people. Living standards rose and inequality of income from labour, which had been rising since the industrial era, began to fall quickly.

These successes were built on the premise that permanent jobs and rising wages could be sustained through economic growth. Citizens provided labour; companies provided jobs with rising wages; the government collected revenue from both and invested it in health and education, or used it to fill in gaps in wellbeing that companies failed to meet, for example by providing social security.

This model was falling into decline by the time the European Monetary Union was born in 1999. Despite productivity continuing to rise, wages in many countries have stagnated since the 1980s. Furthermore, social security has fallen under increasing strain; despite figures showing higher employment than at any point in the past 30 years, less than half of the population in OECD countries actually work, in part due to aging populations. Moreover, many previously stable and permanent jobs are at risk of disappearing due to automation and digitalisation, potentially leaving millions of people dependent on the state for their subsistence.

The rules and orthodoxies that have dictated EU macroeconomic policy for the past two decades are, therefore, outdated and poorly suited to the challenges of this day.

The French economist Jean Monnet, who is often referred to as the “Father of Europe”, once said “Europe will be forged

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in crises, and will be the sum of the solutions adopted for those crises.\textsuperscript{116} And yet, a decade after the financial crisis, the EU still lacks a shared, transformative approach to find a way to maintain its purpose in this new era.

With the European Commission cutting growth forecasts to the lowest levels since the ECB first began its asset purchasing programme in 2014\textsuperscript{117}, and with even Germany on the brink of recession amidst a slow down in its industrial sector\textsuperscript{118}, Europe may be on the verge of another economic crisis.

Since its inception, the European project has had to balance creating multilateral approaches to policymaking with maintaining independence and the democratic legitimacy of governments. This legitimacy is most fragile during periods of economic decline, the precise moments when current EU rules make fiscal investments particularly difficult.

If Europe falls into a new economic recession and governments still do not have the fiscal capacity to respond, particularly since the ECB has minimal scope remaining for a response of its own, citizens across Europe will once again feel as if their voices are not being heard and the stability of the union may be at risk.

In this publication, Demos Helsinki puts forward the Economy of Wellbeing, an approach that offers an alternative future for the EU where economic policy is realigned to strengthen resilience, environmental sustainability and the wellbeing of citizens to guarantee peace and prosperity.

Three core aspects of the Economy of Wellbeing are especially highlighted to accomplish this: inclusive growth, measuring quality of growth and investments for wellbeing.

Investments in a wide range of capabilities and creating new markets and opportunities for people in supporting everyone’s wellbeing stimulate growth that is inclusive and provides upwards convergence. While the EU is primarily an economic union that has only certain responsibilities regarding the social affairs, health or education of Europeans, advocating an inclusive economy that works for people is within the EU’s mandate.

\textsuperscript{117} “Brussels cuts growth forecasts as ‘protracted’ slowdown bites” Financial Times. November 2019 https://www.ft.com/content/1c5d9b0c-0156-11ea-b7bc-f3fa4e7dd47.
In a world with abundant data and analysis capabilities, increasing the number of indices and metrics that are monitored is trivial. Measuring quality of growth in addition to the quantity of growth provides a necessary approach to guide policies towards wellbeing and estimate their successfulness.

Investments for wellbeing are investments that have a proven contribution to both people’s wellbeing and sustainable economic growth. Such investments strengthen the social cohesion and capabilities of people. By doing that, they create conditions in which it is easier for Europeans to do different kinds of economic activities.

A shared fiscal policy that is based on investments for wellbeing in the EU is needed to ensure a just and green transition in the EU. The bottlenecks of such transition, including but not limited to increased resilience, cohesion and carbon free industries, are where such investments need to be directed.

With people’s wellbeing at the centre of a new consensus on what constitutes responsible and effective policy, Member States would have the necessary freedom to respond to the needs of their citizens in times of hardship. This would allow national and regional representatives to invest in the futures of their communities. Where they are forward-thinking and sustainable, these policies would reassure citizens that both their own and their children’s futures are being looked after. Where they prioritise inclusion, participation and investments in the most disadvantaged regions and citizens, these policies would develop a sense of shared prosperity and community, increasing resilience. Most importantly, where they focus on improving the wellbeing of their citizens, these policies would ensure people feel valued, that they have the opportunities to transform their own lives and the best chance of building a life full of purpose and prosperity.

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