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PART 1/8

COMMISSION STAFF WORKING DOCUMENT

Employment and Social Developments in Europe 2019

Sustainable growth for all: choices for the future of social Europe

Executive Summary

SUSTAINABLE GROWTH FOR ALL: CHOICES FOR THE FUTURE OF SOCIAL EUROPE

In 2018, the EU economy saw a continuation of the improvements that began in 2013 when economic activity started to recover from the financial and economic crisis. Employment in the EU reached new record highs, while unemployment and the risk of poverty and social exclusion continued to fall. These developments provide grounds for confidence and show that EU policies over the last years have had an impact. These developments are materialising, however, at a time of accelerating change. This change particularly concerns the demographic ageing of our societies as well as technological transformation and the fast digitalisation of our economies and societies. Together, these mega-trends are leading to new forms of work requiring new skills, as well as to labour shortages in some areas and new challenges for the European social model. ⁽¹⁾

Last year was also rich in reminders of the fragility of the recent achievements in the medium and long term. At global level, new risks such as protectionist tendencies in trade and increased international economic and geopolitical uncertainties contributed to a slowdown in global and EU growth in 2018 and led to further downward corrections of economic forecasts. ⁽²⁾ In addition, while domestic dynamics are generally set to support the European economy, major challenges need to be addressed to ensure a protective, competitive, fair and sustainable Europe. ⁽³⁾ These challenges include low productivity growth,

⁽¹⁾ For further detail on the employment and social impacts of these changes and mega-trends, see the 2017 and 2018 *Employment and Social Developments in Europe* annual reviews, with their respective focus on "Intra-generational fairness and solidarity" and the "New world of work: Beyond digitalisation". For further analysis of skill shortages, labour mobility and migration, also see the 2015 *Employment and Social Developments in Europe* annual review, notably the chapter on "Mobility and migration in the EU: Opportunities and challenges".

⁽²⁾ European Commission (2019), *European Economic Forecast: Spring 2019*, European Economy Institutional Paper 102, May 2019.

⁽³⁾ See European Commission (2019), *Europe in May 2019: Preparing for a more united, stronger and more democratic Union in an increasingly uncertain world*, The European Commission's contribution to the informal EU-27 leaders' meeting in Sibiu (Romania) on 9 May 2019.

persistent gender gaps in employment and pay, significant investment shortfalls, concerns regarding energy costs and housing affordability and a reduced yet substantial burden of public and private debt.

Climate change, environmental degradation and inefficient use of natural resources also weigh on sustainable development prospects in the EU and the world. Europeans are increasingly demonstrating a keen awareness of these challenges and of the importance of addressing all three dimensions of sustainability – economic, social and environmental – together. The aim is to make all of Europe’s achievements — its competitive economy, high living standards, valued welfare state, and pioneering engagement with the environment — sustainable in the long term for future generations. In particular by participating in weekly ‘climate marches’ across Europe since the second half of 2018, students and other EU citizens have requested accelerated action against climate change. Meanwhile, other parts of the population voiced their anxiety about the cost of the economic transition necessary to combat climate change and the fairness of sharing that cost.



The EU has comprehensive Treaty foundations and long-standing experience with policy agendas that pursue economic, social and environmental objectives simultaneously. It also had a leading role in the formulation of the United Nations’ Sustainable Development Goals (SDGs) in 2015. Moreover, in December 2018, at the sidelines of COP24,⁽⁴⁾ the EU and 20 Member States signed the Silesia Declaration on Solidarity and Just Transition. In it, they underlined that considering the social aspect of the transition

towards a low-carbon economy is crucial for gaining social approval for the changes taking place. The EU and its Member States hence are key actors in shaping policy answers to the complex challenges of our time not only at national and European levels but also at global level. The Reflection Paper “Towards a Sustainable Europe by 2030”, issued on 30 January 2019, sets out in particular options for internalising the Sustainable Development Goals in the EU’s strategic policy framework. The Paper reminds us that “sustainable development is about upgrading people’s living standards by giving them real choices, creating an enabling environment” and leading to “a situation where we are living well within the boundaries of our planet through a smarter use of resources and a modern economy that serve our health and well-being.” It highlights the links between the three dimensions of sustainable development, including the importance of the social-environmental nexus, which is the crux of the sustainability puzzle,⁽⁵⁾ and warns that, “no matter how tumultuous the coming years will be, not losing sight of our goals for the future will be the most important task.”⁽⁶⁾

As regards the social dimension of sustainable development, often referred to as “social sustainability”, the EU has confirmed its policy commitments through the proclamation of the European Pillar of Social Rights by the European Parliament, the Council and the Commission at the Gothenburg Social Summit of 17 November 2017. The Pillar is at the very heart of the European project, not least in the light of the sustainability challenges that social Europe is facing. Its proclamation also reflects the growing concern that the scars of the crisis may not yet have healed evenly. In fact, there is a contrast between the enduring recovery and improvements in the employment and social situation in the EU overall and less favourable developments for some income groups, Member States and regions. The latter include slowing convergence between Member States in certain domains and increasing divergence within some Member States as well as persistent unemployment, growing income inequality and in-work poverty in several Member States.

These contrasts in the employment and social domain have important repercussions for how Europeans perceive the economic and social situation in the EU. In recent Eurobarometer surveys, Europeans

⁽⁴⁾ COP24 stands for the 24th Conference of the Parties to the United Nations Framework Convention on Climate Change.

⁽⁵⁾ See in particular European Commission (2019), *Europe’s Sustainability Puzzle: Broadening the Debate*, European Political Strategy Centre paper, 8 April 2019.

⁽⁶⁾ European Strategy and Policy Analysis System (ESPAS), *Global Trends to 2030: Challenges and Choices for Europe*, April 2019

mention social concerns related to rising prices, health and social security, pensions and the financial situation of their household as the most important issues they face at a personal level. Concerns relating to environment, climate and energy issues and housing are gaining ground over time. Europeans increasingly demand action to address the evident contrasts, while continuing efforts to address other important challenges - notably migration and security - and combat climate change and environmental degradation.

The policy challenge is multiple and requires simultaneous responses: to those who face difficulties making ends meet, who feel uncertain about their employment prospects, who enjoy lower levels of well-being or feel left behind; to those who believe that climate action is currently too limited and too slow; to those who fear that it is happening faster than they can afford, or adjust to or that it is diverting resources away from other investments or innovation; and also to those who caution that unilateral climate action might hurt the EU's productivity and competitiveness.

Finally, there is an increasing sense of urgency to make common, concrete and effective policy choices that promote sustainable growth and development in the EU. This was recognised in the Sibiu Declaration of May 9 2019, which committed the EU and its Member States to "always uphold the principle of fairness, whether it be in the labour market, in welfare, in the economy or in the digital transformation, [...] further reduce disparities between us and [...] help the most vulnerable in Europe, putting people before politics" and "safeguard the future for the next generations of Europeans, [...] invest in young people and build a Union fit for the future, able to cope with the most pressing challenges of the 21st century".⁽⁷⁾

The 2019 Employment and Social Developments in Europe (ESDE) Review contributes to analysis of and reflection on this problematic. It is titled "**Sustainable growth for all: choices for the future of social Europe**" and examines the following topics:

Chapter 1 – Main Employment and Social Developments

Chapter 2 – Sustainable Growth and Development in the EU: Concepts and Challenges

Chapter 3 – Economic and Social Fundamentals: From Productivity to Fair and Sustainable Growth

Chapter 4 – Investing in People and Social Sustainability: Short-Term Costs and Long-Term Benefits

Chapter 5 – Towards a Greener Future: Employment and Social Impacts of Climate Change

Chapter 6 – Sustainability and Governance: The Role of Social Dialogue

Chapter 1 reviews key employment and social developments of the last year in the EU and its Member States, focusing on trends in employment, unemployment and income distribution across the Member States as well as on vulnerable groups. Chapter 2 reviews the main concept of sustainability and the definitions of its different dimensions, including the social dimension. It identifies sustainability's main drivers and related risks, it discusses the challenges on the EU's path to sustainable development as well as the synergies and potential trade-offs between its social, economic, and environmental dimensions. Chapter 3 addresses one of the major sustainability challenges, notably sluggish productivity growth despite accelerating technological change and the increasing qualification levels of the EU labour force. It explores the preconditions for sustained economic growth, based on region-level and firm-level data analysis, focusing on complementarities between efficiency, innovation, human capital, job quality, fairness and working conditions. The chapter further identifies policies that could boost productivity without increasing inequality. Chapter 4 focuses on social investment in selected areas and its role for social sustainability. It analyses the potential of policies to raise activity, employment and productivity, while alleviating unfavourable social situations. This chapter identifies childcare and long-term care, education and training, skills, mobility and housing as key areas where policy intervention could enhance the sustainability and upward convergence of Member States' socio-economic performance. Chapter 5 reviews the impact of climate action on the economy and on employment, income and skills. It also

⁽⁷⁾ The Sibiu Declaration, declaration of the informal EU-27 leaders' meeting in Sibiu, 9 May 2019; accessible at: <https://www.consilium.europa.eu/en/press/press-releases/2019/05/09/the-sibiu-declaration>

analyses aspects of energy poverty as a distinct type of poverty in the EU and discusses the effects of environment-linked health risks, such as air pollution, and the policies that would have a beneficial impact on both the environment and people. Finally, Chapter 6 discusses what the social partners and social dialogue, including wage bargaining, can do and are doing to promote sustainable growth and development.

1. MAIN EMPLOYMENT AND SOCIAL DEVELOPMENTS

In both the EU and the euro area, the expansion of economic activity continued in 2018, although more slowly than expected. This reflects a slowdown in the global economy, after sustained economic growth over the last six years. Economic forecasts have been corrected downwards as uncertainties have increased and as low productivity growth, persistent labour market segmentation and social and territorial disparities continue to constitute challenges to sustainable growth in the EU.

Robust economic expansion slowed down in 2018 in the midst of increasing uncertainties.

240.7 million

Europeans were employed in Q1 2019

EU employment continued to grow to reach the highest level ever recorded: in the first quarter of 2019, 240.7 million people were in employment, ⁽⁸⁾ 13.4 million more than when the Juncker

EU employment soars to new heights but gender gaps persist.

Commission came into office in November 2014.

The EU employment rate also registered a new record, reaching 73.5% at the end of 2018, and the employment rate gap with the US keeps closing. The employment rate in full-time equivalents (FTE) also grew for the fifth consecutive year and in 2018 stood at 67.2% - 2.2pp higher than in 2008. However, the pace at which the employment rate increased has slowed down. At the current pace of employment growth in the EU (1.3% per year vs. 1.6% in 2017), the EU employment rate in 2020 would slightly undershoot the 'Europe 2020' target of 75%. Moreover, despite earlier convergence between men's and women's employment rates, progress in closing the gender gap in employment has also slowed down. In 2018, the gender employment gap stood at 11.6 pp, almost unchanged since 2013.

The EU employment rate reached 73.5% and the employment rate gap with the US is closing.

6.4%

is a new historical low for EU unemployment

The annual EU unemployment rate stood at 6.8% in 2018, down 0.8 pp from its 2017 level. In April 2019, unemployment reached a new historic low of 6.4%. Several Member States are now close to

EU unemployment recedes to historical lows without substantially reducing differences between Member States.

full employment. Youth unemployment continued to decrease to 15.2% in 2018 (and to 14.2% in April 2019), 0.7 pp lower than the pre-crisis level in 2008, as did long-term unemployment. However, differences in employment and unemployment rates at Member State and regional level remain very large. The dispersion of employment rates across national and subnational territories is gradually narrowing, while the dispersion of unemployment rates has continued to widen since 2007.

53%

of middle-class Europeans feel vulnerable

The size of the middle class – the backbone of EU societies defined as the income group between 75% and 200% of median national

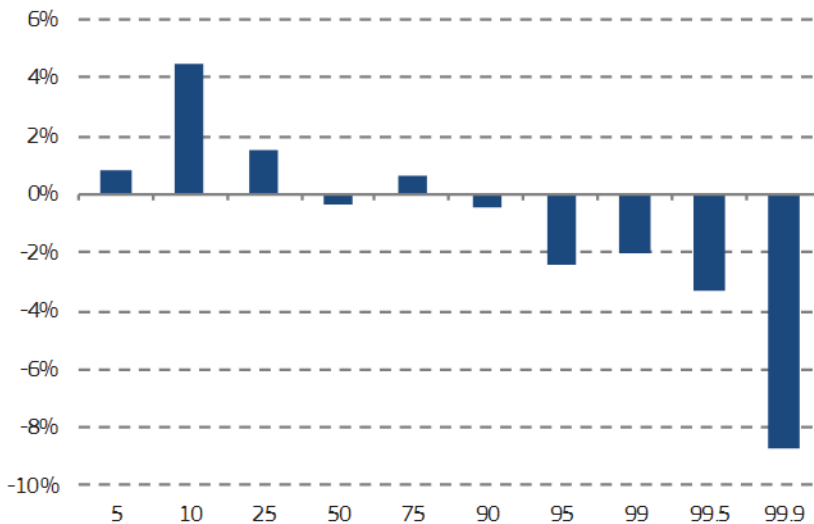
The size of the middle class is increasingly similar across Member States...

(*) Eurostat, namiq_tv_pe

income – is increasingly similar across countries. While this does reflect some upward convergence, data also show a tendency for the middle class to grow in size in eastern Member States while shrinking in the EU's West. At EU level, more than half (53%) of people in the middle class report a feeling of vulnerability and difficulty in making ends meet, financially.

The poorest income groups in the EU-28 have improved their conditions compared with their pre-crisis level

% change of real disposable income in 2008-2015, selected percentiles, EU-28 income distribution. Source: DG-EMPL calculations. EU-SILC UDB and data series produced by the World Inequality Lab (see chapter 1).



4% higher income

for poorer people in the EU, relative to before the

In 2018, the real annual growth of the gross disposable household income (GDHI) was 2% in the EU and 1.5% in the euro area. In the latest year for which data is available (2017), GDHI per capita in the euro area surpassed the pre-crisis 2008 level (which, in the EU, had already been surpassed in 2015). However, GDHI per capita has still not recovered to its 2008 level in eight Member States (notably in Greece, Cyprus, Italy and Spain). After increasing in the wake of the economic and financial crisis, income inequality within Member States began to decline in some of them in 2017. Analysis of income in the EU as a single distribution shows an improvement in the position of lower income groups and convergence among subsets of EU Member States from 2007 to 2015. Those at the 10th percentile of the population gained over 4% in real terms, compared to their pre-crisis income. This was mostly a result of the rising income of some of the poorest in the eastern Member States. Meanwhile, the income of the poorest in the southern Member States deteriorated.

...and the income of lower income groups in the EU has risen.

As much as 90%:

highest gap in median income between EU cities and rural

Incomes in cities are usually higher than those in rural areas. The most notable gaps exist in Romania and Bulgaria, where median income in cities is around 90% and 60% higher respectively. Nevertheless,

Incomes in cities usually exceed those in rural areas.

the likelihood of being in income poverty and severe material deprivation is higher in cities than in rural areas in most western Member States.

Some population groups (notably people with disabilities, people with a migrant background and ethnic minorities) are more vulnerable than others in terms of access to education, services and the labour market. This translates into poorer employment outcomes, lower well-being and a higher risk of poverty and social exclusion. For instance, in 2016 about 48.1% of people with disabilities were employed in the EU compared with 73.9% of people without disabilities. The European Pillar of Social Rights establishes principles that should guarantee rights to these groups and guide related policy action at EU and Member State levels.

Vulnerable groups' access to education, services and the labour market remains challenging.

4.2 million people fewer

at risk of poverty or social exclusion in 2017 than in 2008

The number of people 'at risk of poverty or social exclusion' (AROPE) has been falling slowly below its pre-crisis level. By 2017, 4.2 million fewer people were at risk of poverty and social exclusion

The number of people at risk of poverty and social exclusion declined below its pre-crisis 2008 low point...

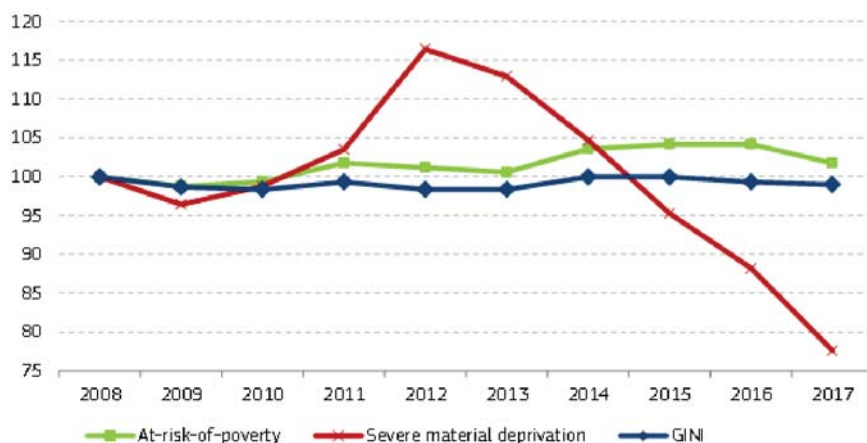
than at the 2008 low point in the EU-27 (excluding Croatia, which joined after the target was set). This decline reduced the AROPE share from 23.7% in the pre-crisis year 2008, or from 24.8% in the peak year 2012, to 22.4% in 2017. All three components of the AROPE indicator declined: people at risk of poverty, those in severe material deprivation and those living in very low work-intensity households.

Severe material deprivation has declined continuously since 2012, indicating improvements in standards of living. It affected 4.7 million people fewer in 2017 than in 2016. After remaining broadly unchanged between 2014 and 2016, the proportion of people at risk of poverty declined from 17.3% to 16.9% in 2017. The proportion of people in very low work-intensity households decreased from 10.5% in 2016 to 9.5% in 2017, i.e. by around 3.8 million people.

...supported by decreases in absolute poverty, relative poverty and low work intensity.

Living standards have improved despite persistent poverty and inequality

Poverty threshold (in real terms), at-risk-of-poverty rate, Gini coefficient of disposable income, severe material deprivation rate (cumulative change – index 2008=100), EU. Source: Eurostat, EU SILC, DG EMPL calculations (see chapter 1).



Selected Macroeconomic, Labour market and Social indicators for the EU28

	2008	2013	2017	2018
Real GDP (annual growth)	0.5	0.3	2.5	2.0
Employment				
annual growth	1.0	-0.3	1.6	1.3
number of employed (000)	231 181	224 442	235 898	239 040
Employment rate (total, 20-64)	70.2	68.4	72.2	73.2
rate (men, 20-64)	77.8	74.3	78.0	79.0
rate (women, 20-64)	62.7	62.6	66.5	67.4
Labour productivity (annual growth)				
per person employed	-0.5	0.6	0.9	0.6
per hour worked	-0.3	1.0	1.3	0.8
Unemployment				
rate (total, 15-74)	7.0	10.9	7.6	6.8
rate (men, 15-74)	6.6	10.8	7.4	6.6
rate (women, 15-74)	7.5	10.9	7.9	7.1
rate youth (15-24)	15.9	23.8	16.8	15.2
long-term unemployment rate	2.6	5.1	3.4	2.9
very long-term unemployment rate	1.5	2.9	2.1	1.8
number of unemployed (000)	16 768	26 334	18 774	16 887
Real Gross Household Disposable income per capita (2008=100)	100.0	97.9	103.5	105.3
At-risk-of-poverty or exclusion rate	23.7	24.6	22.4	
Inequality				
Income quintile share ratio S80/S20	5.0	5.0	5.1	
GINI coefficient of disposable income	31.0	30.5	30.7	

Source: Eurostat (National Accounts, LFS, SILC)

Note: EU27 for At-risk-of-poverty or exclusion rate, S80/20 and GINI in 2008

2. SUSTAINABLE GROWTH AND DEVELOPMENT IN THE EU: CONCEPTS, DEFINITIONS AND CHALLENGES

Sustainable development is defined as “meeting the needs of the present without compromising the ability of future generations to meet their own needs”. This was the vision underlying the Lisbon agenda of June 2000. It was developed further in the Europe 2020 agenda with its ambitious targets in the economic, social and environmental domains. In 2015, the United Nations adopted a resolution on the 2030 Agenda for Sustainable Development, which set a comprehensive global agenda for sustainable development covering its social, economic, environmental and governance dimensions on an equal footing.

The EU has been supporting sustainable development goals at EU and global level.

The top 5 concerns of Europeans are socio-economic and environmental

The Treaty on the EU includes sustainable development in its economic, social and environmental dimensions as a fundamental Union objective and considers inclusive growth as an integral part of sustainability. The social dimension

The economic, social, and environmental dimensions of sustainability are anchored in EU law and embraced by Europeans.

covers the promotion of employment, good working conditions and well-being, the improvement and harmonisation of living and working standards, the fight against social exclusion and discrimination, social

justice, human capital development, gender equality and social dialogue. Evidence from Eurobarometer surveys indicates that all three dimensions of sustainable development are high on the list of European citizens' preoccupations. According to the latest Eurobarometer survey of autumn 2018 the top five concerns of EU citizens "for them personally" are socioeconomic and environmental issues: rising prices (32%), health and social security (17%), pensions (16%), the financial situation of their household (13%) as well as taxation, education, the environment and climate and energy issues (all at 10%).

The EU ranks very well in international comparisons in terms of social progress, as confirmed by the indexes developed to monitor progress towards the Sustainable Development Goals. Nonetheless, the track records and challenges vary significantly across Member States. Moreover, the challenges emanating from the mega-trends of ageing, digitalisation, globalisation and climate change risk undermining the sustainability of these achievements.

less than 2 workers

per person over 65 years of age by 2060, as opposed to over 3 today

Demographic change results in a growing number of older people and a shrinking working-age population: between today and 2060, the number of people aged over 65 is expected to increase from 30.5 to 51.6 per 100 people of working age

(15-64). This implies that for economic growth to be sustainable, it has to rely increasingly on productivity gains and their wider distribution. In addition, inter-generational fairness and the financial sustainability of the welfare state are at stake. Digitalisation has opened the way for new forms of work organisation, including platform work, as well as for the increasing automation of work. Digitalisation also brings considerable job creation potential, especially in innovative, high-productivity businesses and for well-educated, highly skilled people. The legal framework and social protection systems need to evolve in order to cover these new forms of work better.

Challenges to social sustainability include still large disparities within Member States and persistent inequalities, which have emerged since the economic crisis and result from labour market segmentation and the polarisation of skills and income. In some cases, the convergence patterns of regions differ from those of Member States. For example, while there was convergence of Member States in relation to the employment rate over 2004–2016, divergence was recorded at regional level. Containing geographical disparities depends on the ability of national and subnational territories to converge upwardly and to guarantee equal access to services in different areas. Tackling divergence calls for a mix of policies that accompany both people and places in the transition to new ways of producing and working, while respecting local specificities. Such a policy mix includes support from EU Structural and Investment Funds, notably the European Social Fund, and can benefit from increasing attention to EU action that supports industrial competitiveness and innovation.

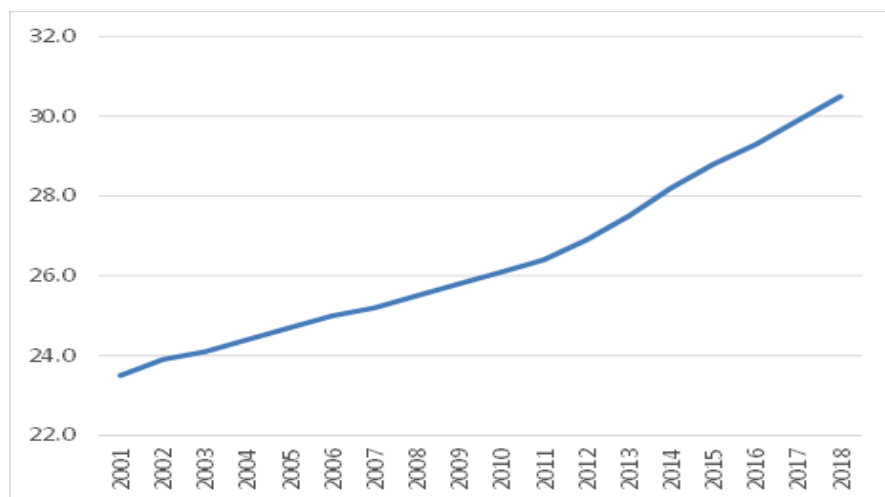
There are ever more people of retirement age relative to those of working age

Old age dependency ratio (population aged 65+ over population aged 15-64), EU-28. Source: Eurostat [demo-pjanind] (see chapter 2).

While the EU ranks high in international comparisons, further progress is needed towards a sustainable social Europe ...

... that promotes productivity growth and its wider distribution in an increasingly digital economy ...

... as well as equality of opportunities, including in places undergoing difficult industrial transition, with the support of EU funds and industrial policy tools.



A factor analysis identified four principal components (factors) which reinforce each other and linking the different dimensions of sustainability. These motivate the four main chapters of this report. The first component regroups factors contributing to a virtuous circle of sustainable development by promoting productivity and efficiency through policies focusing on human capital (skills and social welfare in general) and institutions (functioning collective bargaining and trust in the work of government institutions). The second factor revolves around labour market efficiency as a precondition for sustainable development. It reveals structural weaknesses in product and labour markets that undermine sustainable development and hence competitiveness, wage increases and employment prospects. A third factor reflects favourable social conditions and relates to the efficiency of the welfare state in lowering poverty rates and inequality. Finally, a fourth factor represents limitations to growth potentially linked to high labour taxes.

A skilled workforce, labour productivity, efficient labour markets, trust in institutions and effective social welfare are key ingredients of sustainable development.

A cluster analysis points to significant sustainability challenges and persistent structural labour market problems in the South of Europe, with high unemployment, poor labour market performance of vulnerable groups and low bargaining power of employees. Most North-Western Member States, on the other hand, are found to have solid sustainability foundations: investment in skills which supports higher productivity, reinforced by effective and trustworthy institutions. These countries also invest more in social welfare and display higher efficiency in the use of natural resources. Eastern Member States have been catching up with the other Member States in GDP per capita and labour productivity, even though their tradition of social dialogue is less developed, trust in their institutions remains lower and they often lag behind in the implementation of skills and environmental policies.

Member States are not all on a sustainable development path.

3. ECONOMIC AND SOCIAL FUNDAMENTALS: FROM PRODUCTIVITY TO FAIR AND SUSTAINABLE GROWTH

19% Total Factor Productivity growth in the EU since 1995 vs. 24% in the US

Given the limitations on human resources imposed by demographic ageing, and scarcity of natural resources, growth in the EU has to rely increasingly on changing the modes of production and consumption and on a more

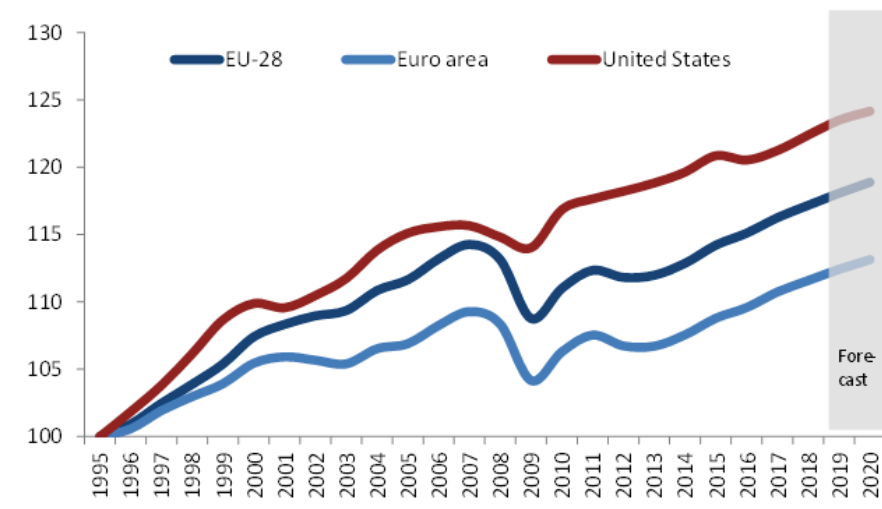
Sluggish TFP growth and its widening dispersion is one of the EU's main sustainability challenges.

efficient use of existing resources. One of Europe's chronic challenges

relates to Total Factor Productivity (TFP), which measures that part of economic growth that is due not to an increase in factor input but to higher efficiency in production. TFP is an important indicator of the sustainability of growth. TFP growth in the EU is low relative to other major economies. Its increase between 1995 and 2020 (including forecasts for 2019 and 2020) is estimated at 19% in the EU, compared with 24% in the US. There is considerable dispersion in TFP performance both between and within Member States as well as between sectors and companies of different size. TFP levels in Eastern European countries have been converging towards the EU average, albeit from low levels.

EU TFP grows more slowly than before the crisis

TFP between 1995 and 2020, 1995=100. Source: Commission services AMECO database (see chapter 3).



A region's capacity to innovate and the education level of its labour force raise total factor productivity and efficiency. The further away a region is from the so-called 'technology frontier', the higher tends to be its TFP growth, and hence the faster its convergence. At the same time, a region's TFP growth potential depends on its capacity to adopt new technologies from advanced, "technological benchmark" regions, and this in turn depends on the skills of the workforce. The better educated a region's workers are, and the higher its R&D expenditure, the stronger is its capacity to adopt new technologies. Effective government institutions and citizens' and companies' trust in those institutions also play a key role in raising productivity.

Innovation based on R&D, human capital and efficient institutions drives up TFP in European regions...

Analysis at firm-level shows that firms with high TFP usually invest in high-quality, innovative capital as opposed to simply increasing previous-standard capital stock. By becoming more competitive in this way, they create more jobs and pay a productivity premium to their workers so that higher wages accompany efficiency in production. Exporting firms also tend to exhibit higher TFP, mainly because their exposure to global competition forces them to become more efficient.

...as well as in firms, producing a higher-wage dividend for workers, too.

Efficient labour markets, innovative capital, equal opportunities and good working climate foster

Labour market imperfections weigh on economies' growth potential. Examples include entry barriers for certain workers, uneven job protection, or low bargaining

Excluding people from important resources and equal opportunities limits growth potential.

power of certain groups of workers relative to others. This underlines the importance of equal opportunities in the labour market. Labour market segmentation due to discrimination or exclusion from job or training opportunities distorts wage setting and in turn leads to the sub-optimal use of labour, eventually lowering the growth potential.

According to the European Working Conditions Survey (EWCS), managers consider that a good working climate, greater workers' autonomy and workers' regular access to training favour productivity growth, including through improved motivation and a lower incidence of sick leave, greater attraction of skilled workers and higher retention rates. According to managers, firms that create new products or introduce new production processes also enjoy higher productivity.

Productivity is higher in firms with a good working climate and training opportunities.

GDP: +1%
in the long term in less developed regions through 2021-27 ESF+

EU instruments and policies play a key role in promoting competitiveness and raising productivity. A tentative simulation exercise shows that the EU's Cohesion Policy has a long-lasting positive impact on the economy.

EU policies and instruments have a key role: the European Social Fund can help boost productivity, especially in less developed regions.

The simulation takes the European Social Fund (ESF) as an example. The ESF in particular contributes to improving workers' employability through social investment and training. For 2021-2027, the Commission has proposed total ESF+ spending worth EUR 101.2 billion. The simulation shows that investment supported by the ESF+ is expected to have an impact on the economy of receiving countries, which lasts much longer than 2027, the last year of the programme. A particularly strong positive impact is expected in the EU's Less Developed Regions, i.e. those regions where GDP per inhabitant is less than 75% of the EU average. In those regions, investments supported by the ESF+ could raise labour productivity by 0.7% and GDP by 1% in the long term, compared with a no-investment scenario.

Policies can contribute significantly to improving the EU's productivity performance. Model simulations confirm the positive long-term macroeconomic impact notably of government training support to firms, designed to motivate their workers to take up more training. The sources of finance for training support can vary and include public, private and shared financing. This matters for its impact, especially on employment,

Training subsidies can increase productivity, notably by targeting those most in need, while supporting innovation and investment in excellence.

Public support to training and upskilling increases productivity and GDP

GDP and the wage share. Training increases workers' productivity, and, consequently, labour demand and wages. The impact of such measures also depends on their target groups. Raising the

overall qualification level requires a combination of training support specifically for the lower-qualified and incentives to encourage their upskilling through further studies. The resulting increase in the average qualification level would contribute to improving sustainability by enhancing the economy's innovation potential and labour reallocation, while improving the employability of those most in need of support.

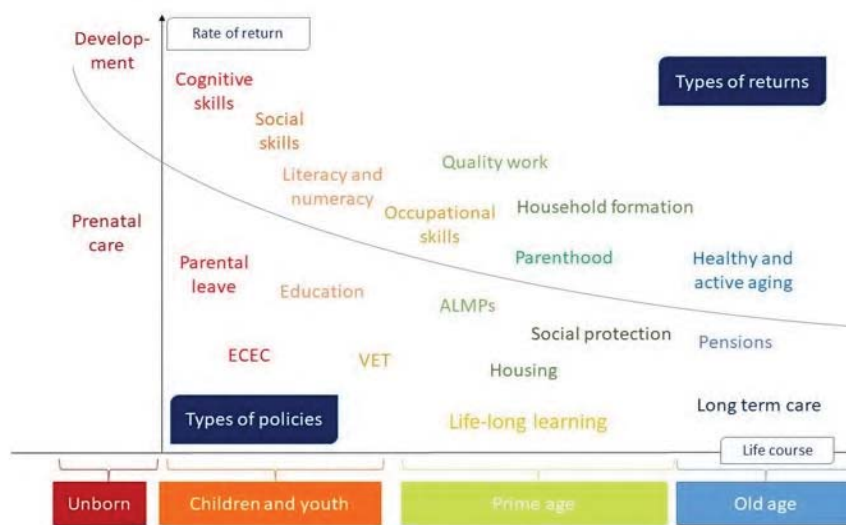
4. INVESTING IN PEOPLE AND SOCIAL SUSTAINABILITY: SHORT-TERM COSTS AND LONG-TERM BENEFITS

Enhancing the skills and qualifications of the EU workforce and strengthening its innovation potential are only a few of several areas in need of investment, in order to support sustainability. Given major demographic and technological shifts, there is a broad consensus on the need to invest in people. Such 'social investment' helps to improve individuals' well-being and prevent and mitigate social risks, by enabling citizens to acquire new skills and become or remain active in the labour market and by providing them with support during critical life course transitions. This chapter focuses on selected areas related to such transitions, notably on childcare and long-term care, education, training and skills, and housing.

Social investment enables people to reach their potential and supports them in critical life course transitions.

Returns on social investment are higher at early life stages

Expected returns on social investment and rate of return, by life stage. Source: J. Kvist (2014). "A framework for social investment strategies: Integrating generational, life course and gender perspectives in the EU social investment strategy." *Comparative European Politics*, 13(1), 131-149 (see chapter 4).



Investing in children and families and promoting equal opportunities can take different forms, including affordable and high-quality early childhood education and care (ECEC) and long-term care (LTC). Income support through social transfers can in particular help to address disadvantage stemming from inequality of opportunity among children, as well as e.g. lack of access to basic services in remote or rural areas or old-age poverty.

Investing in childcare and long-term care and access to basic services help address disadvantage.

Over 20 hrs/week
is the biggest difference in
childcare use intensity
between Member States

Between 2008 and 2016, family-related expenditure per child increased in most Member States. The use of formal childcare has increased considerably in the EU although there is room for further improvement. Half of the Member

Childcare use intensity varies widely between Member States.

States have yet to reach the two Barcelona targets on formal childcare use set in 2002, i.e. to provide childcare by 2010 to at least 90% of children

between 3 years old and the mandatory school age, and to at least 33% of children under 3. The average number of hours of formal childcare use per week in 2017 varied by more than 20 hours across Member States.

**More than 14 pps
is the employment rate
gap between mothers and
other women in the EU**

The availability of affordable and good quality childcare is important for parents as it increases incentives or enables them to work. There is evidence that the care of children plays a crucial role in mothers' and households'

Access to childcare enables parents to work.

labour supply decisions: in 2017, the employment rate of women with children aged 6 or less was 64.6% in the EU as opposed to 79% for women without children. Availability and affordability of childcare services can largely explain the different levels of mothers' employment across the EU. The higher the use of formal childcare for children below 3 years old, the higher is women's employment. Sweden and Czechia are two clear examples of this relationship at opposite ends of the spectrum. In Sweden, the high employment rate of mothers (82.8%) is accompanied by a high use of childcare services (52.6%), while Czechia has both a very low maternal employment rate (45.1%), and very low childcare use (6.5%).

**Average use of childcare
by richer families is more
than double that of poorer
families**

Childcare is not only beneficial to mothers' employment. Formal childcare services provide children with stimulating environments where they can gain new skills they can capitalise on throughout their

Poorer families tend to make less use of childcare.

life course and which can reduce inequalities at the start of school life. It is important that these services be provided for all social groups, in particular for the most vulnerable. However, poorer families use childcare services less than richer families, and lack of affordability is the main reason. At EU-level, average childcare use by the families in the lowest quintile of the income distribution is 18.3% of children aged 3 or less, whereas average use by families in the top quintile is 42.5% (measured in full-time equivalents of 30 hours a week for every child enrolled).

**Public expenditure on
long-term care will
increase
from 1.6% of GDP in 2016 to
2.7% in 2070**

Because of population ageing, public expenditure on long-term care is expected to increase substantially over future decades (from 1.6% of GDP in 2016 to 2.7% in 2070). The provision of high quality and affordable long-term care and work-life balance

Population ageing will impact public expenditure on long-term care.

arrangements (such as flexible work and care leave) may alleviate the burden on people with caring responsibilities, and therefore have a positive impact on their employment.

The European social model has historically considered skills as one of the primary tools for improving labour market participation and boosting productivity and competitiveness. A labour force with an up-to-date skill set is key to sustainable development and growth.

Skills are the key to labour market participation and future growth.

**45% greater likelihood
of having a job for people
with tertiary education**

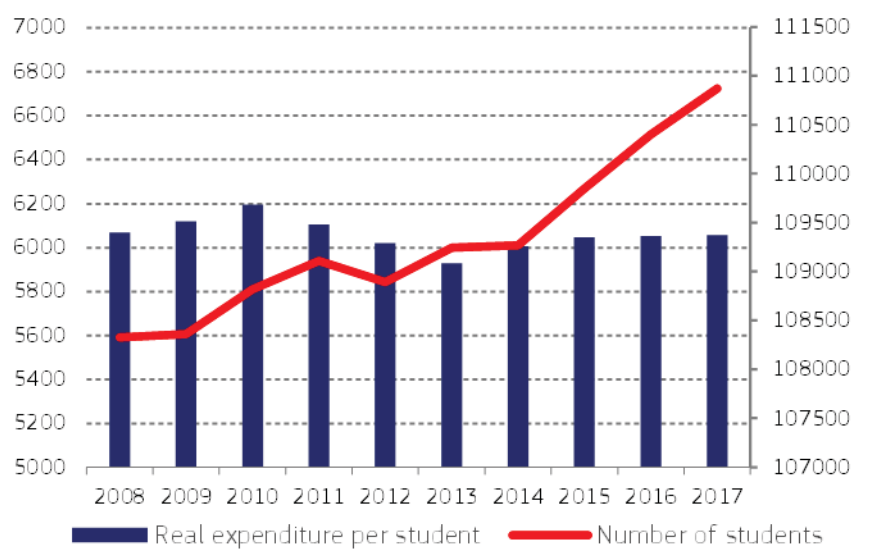
EU governments fund more than 80% of education spending. Nominal investment in education and training systems grew in the last decade, albeit less than GDP. Real education expenditure per

Higher qualifications have important individual and social benefits, yet education expenditure is falling behind.

student has remained fairly stable in the EU overall and fallen in some Member States, notably Ireland, Greece and the UK. Investing in education has several positive spillovers. Higher qualifications are linked to higher employment rates and higher wages (+16% for people with secondary education, +45% for those with tertiary education,) and to better health conditions for individuals. Benefits for society include higher tax revenues and social security contributions, lower social expenditure and more active citizens. Yet, since tertiary educational attainment is correlated across generations, there is a risk of accumulated advantage (the so-called 'Matthew effect'), i.e. public spending on education ultimately conferring more benefit on families that already have a good level of education than on those that do not.

While the number of students has gradually increased, real expenditure per student is around pre-crisis levels

Evolution of number of students and real expenditure in education per student in the period 2008-2017; number of students (in thousands) on rhs, and real average expenditure (in EUR) by student on lhs. Source: DG EMPL calculations based on Eurostat data (see chapter 4).



Work experience during studies as part of the curriculum increases the chances of subsequent employment. Europeans with paid working experience during their studies had a roughly 9% higher likelihood of working compared with those without such experience. Vocational pathways at secondary level are also linked to higher employment. These effects apply to all groups, although the employment probability is generally higher (by up to 6%) for EU mobile citizens and lower (by up to 11%) for people with a non-EU migrant background.

Work experience and vocational education improve the chances of finding a job.

Adult education and training are increasing in the EU, driven by non-formal training. This most likely reflects the higher flexibility of non-formal training, its lower costs, and the limited transferability of the skills acquired

Adult education and non-formal training are increasing.

from such training: all these characteristics commend it to employers who fund it.

Housing as a sector and policy field is distinct from enabling social policies that directly invest in people. Access to affordable and adequate housing, including social housing, is an important factor enabling Europeans to access education and training opportunities and to enter and stay in the labour market, where they can best fulfil their potential and participate in community life and relevant social networks. By doing so, it contributes, both directly and indirectly, to skills formation, increased productivity, sustained growth and social cohesion. Affordable housing is a decisive factor in accessing enabling public services and facilitates mobility and labour market transitions. Inadequate housing can have adverse long-term effects on health and social inclusion. The housing situation differs markedly across EU Member States with regard to such key features as affordability, quality, ownership status and average tenure.

Access to affordable housing is key for access to education and employment, and participation in society overall.

28% of tenants spend more than 40% of their income on housing

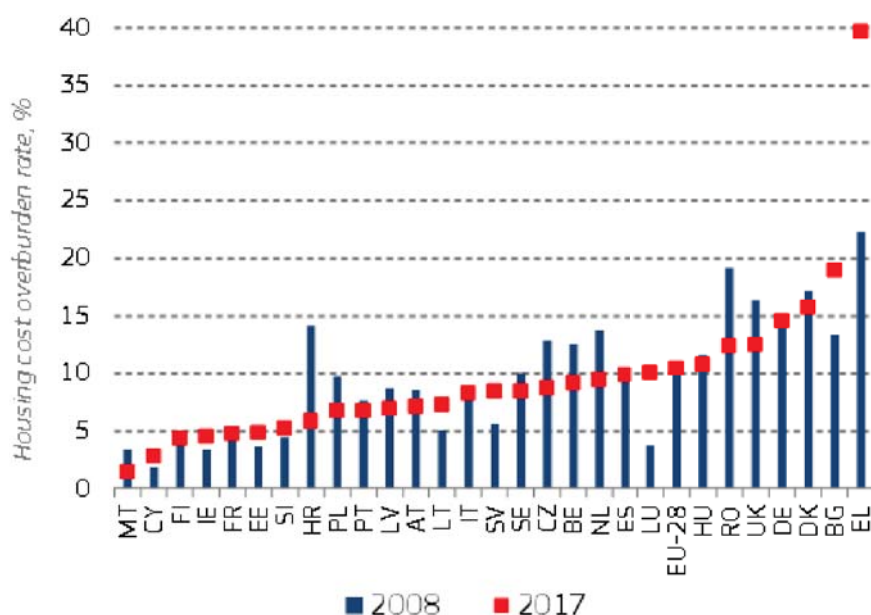
'Daily living costs' depend on housing expenses for the main dwelling, which include the cost of the home (mortgage or rent) and the costs of utilities and insurance. Several indicators point to positive

While on average housing costs and financial overburden have declined in the EU, housing affordability is an issue for tenants and single parents, notably in cities.

developments in the EU since the economic recovery. Housing costs as a percentage of disposable income decreased on average from 22.7% of disposable income in 2014 to 21.4% in 2017. The self-reported heavy burden of housing costs declined from a peak of 38% of households in 2013 to 31% in 2017. At the same time, the share of households that spend more than two fifths of their income on housing costs declined from 11.6% to 10.4% of the population, although the situation varies across Member States. Despite these positive trends, there are specific groups, which are more likely to face housing affordability issues: tenants, single people, particularly those with children and those living in cities.

One in ten Europeans spends 40% or more of household income on housing costs

Housing cost overburden rate, 2008-2017. Source: Eurostat, EU-SILC (see chapter 4).



Severe housing deprivation is declining, particularly in Central and Eastern Europe. However, approximately one out of seven Europeans lives in a dwelling that has a leaking roof, damp walls, floors or foundation, or rot in window frames or floor. These issues predominantly affect tenants, including those in social housing. Owners with mortgages tend to be the least vulnerable group, both in terms of affordability and housing deprivation. Despite certain general improvements in the affordability and quality of housing, extreme forms of housing exclusion such as homelessness are growing in many countries.

Severe housing deprivation is declining in the EU, while homelessness is increasing in many Member States.

Beyond social cohesion, housing plays an important role in promoting sustainable economic growth, enabling mobility and efficient labour allocation. Housing is also an important sector for environmental sustainability. Long commutes to the workplace create negative environmental spillovers, while residential buildings are responsible for one quarter of the EU's overall energy consumption.

Housing impacts labour mobility, energy use, pollution and therefore economic and environmental sustainability.

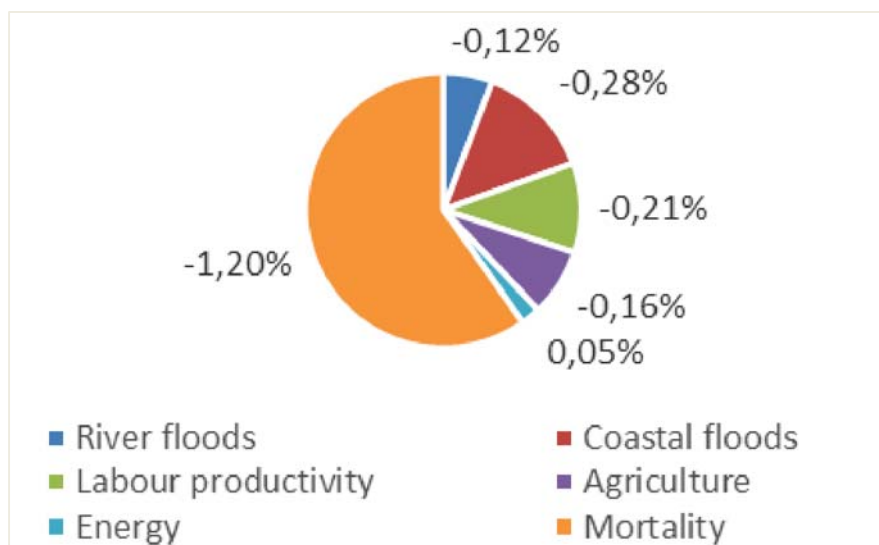
5. TOWARDS A GREENER FUTURE: EMPLOYMENT AND SOCIAL IMPACTS OF CLIMATE CHANGE

Environmental sustainability is one of the main dimensions of sustainability. There are many synergies between environmental sustainability and economic performance, from the impacts of production and consumption patterns on employment, through effects on job quality and health and safety at the workplace, to new opportunities for innovation. The socio-economic cost of inaction on environmental and climate issues would be huge, leading to frequent severe weather events and natural disasters as well as reducing EU GDP by up to 2% and GDP in southern Europe by more than 4% in the long term. Making progress towards a Sustainable Europe 2030 and achieving the ambitious vision defined in the Commission Communication "A Clean Planet for All" of November 2018 requires a broad policy mix. It also requires timely implementation of measures, at EU, national and regional levels in energy and transport, taxation, research, industrial and competition policy as well as employment and social policies. Like social investments, climate-related investments bring long-term, largely universal benefits while having short-term and largely concentrated costs.

Progressing towards Sustainable Europe 2030 requires a broad policy mix and has many benefits.

EU welfare losses from climate inaction by main socio-economic impact

% of GDP. Source: European Commission, PESETA III studies, Joint Research Centre, Seville.



**75% of EU workers
are employed in sectors
producing less than 10%
of CO₂ emissions**

Employment and value generation in the EU economy are taking place increasingly in economic sectors that are relatively low in carbon emissions and material inputs. Electricity production, transport, extractive industries, agriculture and

Low-carbon sectors spearhead structural change and job creation, but progress is not automatic.

manufacturing, together produce close to 90% of all CO₂ emissions by business sectors, yet account for less than 25% of employment and gross value added in the EU. These sectors have to reduce their emissions and expectations are growing in this respect. Research and innovation as well as new technologies can help meet these expectations. On the other hand, low-carbon industries and service sectors produce less than 10% of all CO₂ emissions, but employ more than 70% of the EU workforce and are also the sectors with the strongest employment increases. Yet progress is not automatic, as service sectors also rely increasingly on electricity. This means that targeted policies are needed to steer the process of decarbonisation.

**1.2 million more
jobs
may be just one of
the benefits of the**

Overall, projections of the impacts of a full implementation of the Paris agreement ⁽⁹⁾ show that the transition to a low-carbon economy could raise GDP by an additional 1.1% and employment by 0.5% compared to a scenario without climate action

The low-carbon transition contributes to GDP and employment growth and mitigates job polarisation.

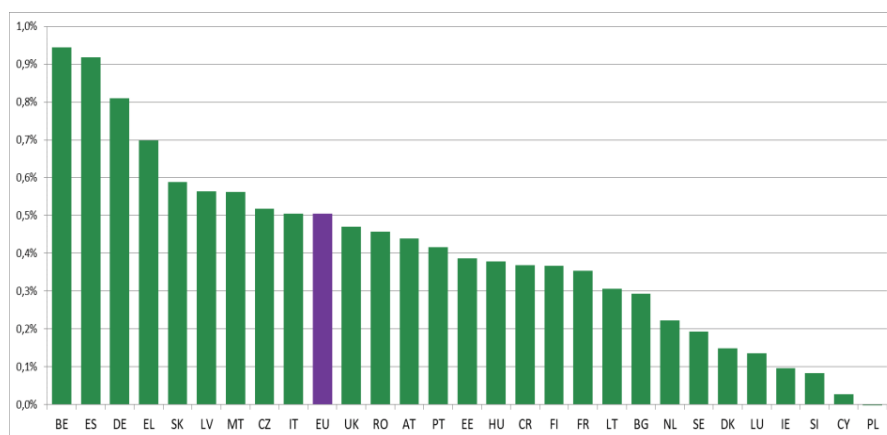
policies. This amounts to an additional 1.2 million jobs in the EU by 2030, on top of the 12 million new jobs already expected. Job creation is projected mostly in growing green(ing) sectors, both in industry and services, including construction, waste management and sustainable finance. The positive impact on GDP and employment is largely due to the investment required to achieve such a transition, together with lower spending on fossil fuel imports. Furthermore, lower consumer prices, notably of solar photovoltaic electricity, would increase disposable incomes, consumer expenditure and consequently the demand for (generally labour-intensive) consumer services. The low-carbon transition could also somewhat mitigate ongoing job polarisation resulting from

⁽⁹⁾ Eurofound (2019), Future of manufacturing - Energy scenario: Employment implications of the Paris Climate Agreement, Eurofound Research Report, February 2019

automation and digitalisation by creating jobs in the middle of the wage and skill distributions. These impacts, however, vary considerably among sectors and countries but, overall, are positive. Projections undertaken for the longer term (2050) confirm a similarly positive impact on total employment, in particular if carbon revenues are used to generate a tax shift away from labour and towards environmental taxes.

Employment gains from climate action in EU Member States, 2030

Employment impacts by country, deviation from the baseline in %, in 2030. Source: Eurofound (2019), Future of manufacturing - Energy scenario: Employment implications of the Paris Climate Agreement, Eurofound Research Report, February 2019 (see chapter 5).



The transition to a low-carbon, circular, climate-neutral economy will not be inclusive by default as it implies potentially significant costs and risks for specific sectors. Necessary measures and reforms may have a substantial impact on people and regions, including significant labour reallocation across sectors and occupations and profound changes in future skill requirements. EU instruments such as the ESF and the European Globalisation Adjustment Fund (EGF) as well as the European Social Dialogue can contribute to a just transition by supporting workers and families who have been dependent on work in energy-intensive sectors during the transition, including through retraining, reskilling, individualised job search counselling and potentially income replacement.

However, the transition to a low-carbon economy is not inclusive by default and comes with risks, too, including labour reallocation.

Adequate warmth, cooling, lighting and energy to power appliances are essential for ensuring a decent standard of living. One risk related to decarbonisation is energy poverty, where a growing share of households is unable to afford heating or other energy services due to a combination of low income, high expenditure on energy and poor energy efficiency of their homes. Energy poverty has impacts on health, the environment and productivity. This highlights the importance of affordable and quality housing, including social housing, for social fairness and for securing acceptance of climate action. Energy prices, one of energy-poverty's key drivers, have risen substantially over the last two decades, increasing financial pressure on households. Well-targeted social benefits, social housing and energy bill support, as well as energy-efficiency measures, can mitigate energy poverty. Overall, there have been some recent positive developments in the EU and the ability to keep one's home warm, has on average decreased below its 2010 level. However, not only low-income

Another potential risk is energy poverty, which has decreased in the EU but still affects low and middle-income households in several Member States.

households but in some Member States also a significant proportion of the middle income households are still not able to keep their homes warm, particularly in towns and rural areas. The Clean Energy for All Europeans package brings a new and holistic focus to energy poverty in the EU climate and energy framework – addressing it in electricity market legislation, energy efficiency legislations and in National Energy and Climate Plans. This represents a key component of ensuring a just transition.

The greatest environmental health risk in the EU is air pollution, causing around 400 000 premature deaths per year. Emissions of the main air pollutants in the EU have decreased but still exceed relevant EU and World Health Organisation guidelines. Certain groups are more vulnerable than others to the negative effects of air pollution, including children, the elderly, those with pre-existing health problems and those from lower socio-economic backgrounds. More urban than rural dwellers report being exposed to pollution and other environmental problems. Tackling air pollution through climate action is an opportunity for raising popular and political support for climate change policies because the gains from reducing air pollution are local, visible and short-term compared with more abstract climate mitigation action. Targeted measures, including those under climate change action, could prevent one third of premature deaths by 2050.

Finally, “greening” production and consumption patterns and supporting green job creation also foster opportunities for climate-smart and inclusive growth with innovation and productivity benefits for firms and increased well-being for people. Environmental taxation, notably a tax shift from labour to energy consumption, waste and pollution in particular, could help internalise social and environmental externalities, avoid the setting up of ‘pollution havens’ and incentivise the reallocation of resources and re-orientation of global value chains towards low energy-intensive and low carbon production.

Air pollution is the greatest environment-linked health risk in the EU, affecting particularly the elderly, children and poorer people.

Climate action offers new opportunities for technology and process innovation, fostering firms’ productivity.

6. SUSTAINABILITY AND GOVERNANCE: THE ROLE OF SOCIAL DIALOGUE

Social dialogue plays an important role in promoting sustainability in all its dimensions, economic, social and environmental. Given the substantial challenges related to a just transition to a green economy and sustainable growth, engaging social partners is crucial in order to take into account relevant information and to reach consensus on action. Social dialogue can bring considerable experience in facilitating cooperation and synergies between key players. Social partners contribute actively to the implementation of the European Pillar of Social Rights and EU policy agendas. They also contribute to progress towards some of the Sustainable Development Goals (SDGs), especially by a) fostering equality at work and good working conditions, b) promoting inclusiveness and c) agreeing on steps towards more environmentally friendly ways of running our economies and d) by strengthening the democratic foundations of our societies.

Social partners contribute to sustainable development by promoting good, inclusive workplaces and multi-stakeholder governance.

Trade union density in the Member State with the lowest in-work poverty is 45 percentage points higher than in the Member State with the highest in-work

Core tenets of social dialogue such as fairness at work, satisfactory working conditions and workers’ rights are at the heart of the social

Wage bargaining correlates with positive social outcomes, including lower income inequality.

and economic dimensions of sustainability. Evidence suggests that collective bargaining reduces wage dispersion, that higher centralisation of wage bargaining is associated with lower income inequality and that higher trade union density is associated with lower in-work poverty rates. Employee representation, in general, tends to improve the quality of the work environment. For instance, employees represented by a trade union or works council are 34% less likely to consider that their work affects their health negatively. This suggests the importance of employee representation in ensuring high standards in work environments, particularly given the projected changes in work quality associated with the low-carbon transition.

Social partners also promote inclusiveness, which is key to both social and economic sustainability. Examples can be found in the areas of social protection and transnational activities, where social partners defend the extension of social protection and other social rights to all workers in a specific sector, beyond their own membership. Social partners have also become increasingly active in the environmental dimension of sustainability. However, their approach to the low-carbon transition differs markedly across sectors, from defensive attitudes in those that are at risk of

Employees with some form of representation have a **66% higher chance** of receiving paid training

job loss, such as mining and fossil fuel extraction, to whole-hearted promotion in sectors where the transition is expected to generate employment, such as construction. Essential for this low-carbon transition is facilitating workers' reskilling and upskilling. Education and training can help sectors at risk and help social partners to formulate responses that ensure a fairer transition. Employee representation is associated with more training opportunities within companies. For instance, employees represented by a trade union are 66% more likely to receive paid training.

In addition to facilitating the transition to sustainability, the processes of social dialogue, such as bipartite+ or tripartite+ partnerships, strengthen democratic participation in EU society. They allow workers and employers to influence the choices on the way to a greener economy, giving them some leverage in the midst of the megatrends transforming the world economy. Relying on social partners for the management of transitions, in consultation with experts and with the support of governments, can result in the least disruptive solutions. By integrating environmental aspects into a traditional socio-economic agenda, social partners are becoming crucial actors in fostering green and inclusive growth.

CONCLUSIONS

For the sixth consecutive year, improvements in employment and social outcomes have accompanied the economic recovery. Nonetheless, persistent risks and emerging uncertainties at global and EU-level raise questions about the prospects for further growth. Meanwhile, the continuing expansion of the EU economy has shifted attention to long-term sustainability issues. The urgency of the situation and increasing awareness of environmental degradation and the effects of climate change has intensified pressure on policymakers to accelerate the transition to a low-carbon, more circular, environmentally sustainable and inclusive economic model. The EU can already boast an innovative, highly

Social partners promote inclusive social protection and, more often than not, a transition to the low-carbon economy...

...and encourage upskilling with a view to a just and socially fair transition.

Social dialogue supported by expert advice and governments can identify the least disruptive solutions to sustainability issues.

performing economy, as well as high levels of social and environmental protection. The objective is to make these achievements sustainable over time so that future generations can avail themselves of the same resources that current generations enjoy, and to improve people's lives today, by ensuring their social rights and equal opportunities. Employment and social policies in particular should help to ensure social sustainability in a world reshaped by demographic ageing, digitalisation, globalisation and action against climate change. A generalized, upstream integration of social and environmental concerns in future policies is essential and would contribute to promoting social acceptance of necessary reforms.

Robust economic expansion in the EU cannot be sustained without higher total factor productivity growth, which relies more on the efficient use of productive factors, rather than just expanding their use. Total factor productivity thrives in Member States and regions with strong labour market institutions and in firms that invest in workers' training and innovative capital and processes. Policies that help to develop human capital and facilitate workplace innovation are most effective in increasing productivity in the long term, provided labour markets do not discriminate and firms can access the necessary capital.

Given major demographic and technological shifts, social investment contributes to sustainability by preventing and mitigating social risks. It enables citizens to be active in the labour market and acquire new skills, and provides support during critical life course transitions. It thus raises activity and employment rates and lowers social risks. Childcare and early childhood education stand out among such investments, supporting mothers' labour market participation and employment, while fostering skills and equal opportunities early on in children's lives. Investment in skills, qualifications, and formal adult training supports firms' competitiveness as well as wages. Access to affordable and adequate housing is an important factor enabling Europeans to fulfil their potential in the labour market and to participate in society on more equal footing.

The transition to a low-carbon economy is generally expected to have positive effects on GDP, total employment and well-being. Early preparation for this transition through better and new skills can mitigate job losses in occupations, sectors and regions still linked to the high-carbon economy and better avail of the job-creation potential in green sectors. However, the transition to a climate-neutral economy is not socially inclusive by default. Integrating the social dimension from the outset is fundamental to the success of the EU's climate and energy strategy. Where appropriate, compensatory measures, including those aiming to reduce energy poverty, can contribute to a socially fair transition and should be part of necessary reforms. Environmental taxes also offer an opportunity to generate a tax shift away from labour taxation, with positive implications for total employment and earnings. Policy and investments should also target environment-linked health hazards, such as air pollution, and can help gain public support for climate action and reforms.

Finally, the multi-stakeholder governance of social dialogue is eminently suitable for building a broad consensus to promote more sustainable economies and societies. Well-functioning social dialogue enhances social fairness by improving working conditions without hampering long-term economic performance. Trade union and employer organisations could accelerate their efforts to manage the transition to a low-carbon economy,

despite persisting differences in positions, linked to the uneven sectoral impact of the “greening” of the economy.

Mainstreaming and integrating social and environmental objectives in the design of all EU policies, as opposed to addressing social and environmental risks through ex-post remedial action, is the only credible way of pursuing a truly balanced, multi-dimensional sustainable development model. This might not be the silver bullet for all of the EU’s challenges, but it will guarantee a green and social Europe that is committed to its global responsibilities.