



WORKING PAPER No.34

Enhancing the well-being of Europe's citizens: hard choices?

Fabian Zuleeg with Claire Dhéret
and Benedetta Guerzoni

December 2010

In strategic partnership with the King Baudouin Foundation
and the Compagnia di San Paolo

**EUROPE'S POLITICAL ECONOMY
PROGRAMME**

WORKING PAPER No.34

Enhancing the well-being of Europe's citizens: hard choices?

December 2010

"The Union's aim is to promote peace, its values and the well-being of its peoples".

The Treaty on European Union¹

Fabian Zuleeg with Claire Dhéret
and Benedetta Guerzoni

well being 2030

'Well-being 2030' is a two-year research project, co-funded by the EPC and the European Commission, which started running in April 2009. Based on a belief that policy can shape our future, the project is seeking to establish a strategic vision for the long-term development of social policy in Europe. To that end, the project investigates what policy choices are most inclined to deliver a higher level of well-being for European citizens by the year 2030. The reflection on the future of Europe's economic and social models including the trends, challenges and constraints framing policy choices for improving citizens' quality of life are at the core of the project.

The reflection of this forward-looking project is stimulated through a range of activities, from analysis to research, panels and communication activities, which aim to deliver three key outputs:

- to bring the insights of the research on well-being definition and measurement into the policy debate over the long-term future of Social Europe;
- to analyse Europeans' values and preferences in order to sketch a picture of a future society delivering higher level of well-being for its citizens;
- to identify the strategic policy choices (social, economic and environmental) reflecting Europeans' preferences and considering the current challenges as well as resources available to deal with these challenges.

The project analyses the main policy areas that impact on citizens' quality of life, with a particular emphasis on areas where there is a specific European policy interest. This includes labour market policies, health/lifestyles, education, demographics/migration, integration and inequalities, and public finances/financial sustainability. The key question of how to 'measure' well-being, the challenges and factors which influence social conditions, and what kind of social provision citizens want in the European Union of the future is also addressed. Moreover, the project pays particular attention to highlighting trade-offs or synergies among policy areas.



With financial support from
the European Commission

TABLE OF CONTENTS

Foreword	6
Executive summary	8
I. Introduction	12
II. Background	17
III. Social policy outcomes	22
IV. Challenges, opportunities and resources	34
V. The choices we have...	49
VI. The win-wins - and why they are not happening	59
VII. What does this mean for Europe?	64
Endnotes	68

About the authors

Fabian Zuleeg is Chief Economist, Claire Dhéret is a Policy Analyst and Benedetta Guerzoni is a Programme Assistant at the European Policy Centre.

Foreword

By Hans Martens

This European Policy Centre paper on “Enhancing the well-being of Europe’s citizens: hard choices?” is a crucial step in the Well-being 2030 project, a joint initiative of the EPC and the European Commission, and will provide the basis for debate for the remainder of the project.

The issue of well-being, and the more general debate about what constitutes progress, has moved up the political agenda. The European Union strategies and decisions are driven by the objective of maximising European citizens’ well-being, now anchored in the Lisbon Treaty. We have also seen efforts to improve the measurement of social progress beyond the traditional focus on GDP, attempting to include all factors which contribute to enhancing citizens’ quality of life.

A holistic approach to social and economic policies will not only allow the EU to promote “smart, sustainable and inclusive growth” – the overarching objective of the Europe 2020 Strategy –, but also re-launch Europe’s social model as a source of future competitive advantage.

However, Europe faces significant long-term challenges, including those posed by globalisation and demographic change, and this puts a question mark over the future of the European welfare state as we have known it for many years. This is further exacerbated by the consequences of the economic and financial crisis. Policy-makers are increasingly facing constraints, and the pressure to establish long-term priorities is growing. Every policy choice we make now may limit or enhance the resources available to us in future – and both citizens and policy-makers must always bear this in mind.

This paper analyses the context, the challenges and the potential societal outcomes of different social policy choices, focusing specifically on the trade-offs involved. Only if we are fully aware of these connections and constraints, will Europe be able to translate strategic vision into action and maximise the long term well-being of its citizens.

We hope that this paper will be a starting point for a lively debate between policy-makers, stakeholders and experts which will highlight both areas of

broad agreement and where there are significant differences. As a think tank committed to increasing debate on crucial EU policy issues, we look forward to receiving your reactions!

Hans Martens is the Chief Executive of the European Policy Centre.

Executive summary

What mix of policies can best enhance the well-being of Europe's citizens in a sustainable manner? That is the central question which 'Well-being 2030', a two-year research project co-funded by the European Policy Centre and the European Commission, is seeking to answer in order to develop a strategic vision for social policy in Europe.

This project is investigating the options available to policy-makers in this area, against the backdrop of severe constraints on public spending in the wake of the economic crisis and the challenges posed by a rapidly-changing globalised world – constraints and challenges that policy-makers will have to take into account when making the hard choices that lie ahead.

This paper aims to highlight the implications of different policy choices. It investigates which are most likely to deliver a higher level of well-being, identifies the trade-offs involved in these choices, and considers current and future challenges as well as the resources available to address them.

Before analysing the policy options, the paper identifies the social outcomes Europe will need to achieve if its goal is to increase people's life satisfaction – outcomes which are directly related to citizens' well-being or have a crucial role in shaping it. The extent to which they are achieved will determine how much policy-makers will be able to do to maintain a high level of citizens' life satisfaction in the long run. These social outcomes fall into three broad categories:

1. Economic resources and opportunities (decent income per household/GDP *per capita*, less inequality, greater labour-market participation).
2. Social progress (social cohesion/diversity, security, work-life balance, good health, good education).
3. Characteristics of the welfare state (public services, social safety nets, the affordability and availability of care, sustainable public finances).

The following chapter discusses some of the broad trends affecting EU economies and societies in the coming decades, and considers what impact these trends will have on social policy and social outcomes. Although there are significant differences between Member States, the trends highlighted here are very broad challenges and opportunities which are relevant across the EU.

The paper then highlights the choices which will have to be made in shaping a vision for future social policy. Key questions which need to be answered include:

- should policy-makers aim for economic dynamism or for maintaining high levels of equality?
- Should the focus be on the individual pursuit of improved material consumption or enhanced well-being for the community as a whole, even if this implies lower consumption?
- Should Europeans try to build a 'Fortress Europe' to try to prevent jobs being lost to non-EU countries or accept the labour-market changes globalisation brings, and seek to benefit from the opportunities arising from global trade and investment?
- Do Europeans want a state with relatively high public spending (with high levels of public service and redistribution), or 'small' government (with fewer public services and less redistribution)?
- Should public services be targeted at the most vulnerable or be provided for everyone?
- Should public policies favour sustainability and preserving choice for future generations, or focus more on meeting the needs of current generations?
- Should labour-market policies focus on higher levels of protection or a more dynamic labour market with more career choices and less people excluded?
- Should the focus be on facilitating the creation of large numbers of jobs, with lower average incomes but more people active in the labour market, or on the creation of a smaller number of high-quality jobs, with higher wages but within a smaller labour market?
- Should Europeans opt for higher levels of migration, or accept increasing gaps in labour markets and more pressure on public services?

As well as the difficult policy choices outlined above, there are some areas where it appears that we can have the best of all worlds: i.e. an improvement in social outcomes and well-being without compromising other policy objectives. The paper examines some of these potential 'win-win' situations, and identifies a number of reasons why it has been difficult to introduce them:

1. The initial investment required: often these solutions require significant upfront investment.
2. Path dependency: many can only be introduced if prior steps have already been taken.

3. Resistance to change: many see change as a threat, making it difficult to take away public provisions, once granted.
4. Transition costs: many reforms result in winners and losers, creating significant transition costs for some sections of society.
5. Doubts over the feasibility of some of the proposed solutions: there is significant uncertainty over the effectiveness of certain policies.
6. Vested interests: there are many groups which will resist change as they have a vested interest in maintaining the *status quo*.
7. Lack of policy instruments to drive change: many of the key outcomes are not directly deliverable by public policies.
8. Variations in national and regional circumstances and in traditions/cultures: these create different conditions which can make a solution feasible in one place but not in another.
9. Risk/uncertainty: this is pervasive in many social policy areas, as the unintended consequences of policies can negate positive impacts.
10. Lack of positive incentives to change: many public organisations and public budgets are not geared towards delivering such change.

Finally, this paper considers what role Europe can and should play in developing policies to enhance well-being. It suggests that the EU could:

- encourage debate on the policy choices open to Europeans to enhance well-being, and thus contribute to more informed decision-making;
- help to disseminate good practice, and collect and analyse data;
- help to find consensus on promoting win-win situations in some key areas and to overcome the barriers to implementing them;
- influence national and regional policy in a number of areas, not only through policy coordination but also through labour legislation and the EU Structural Funds;
- assess EU spending from a well-being perspective; and
- re-examine the social dimension of the Single Market.

Better information on what citizens actually want in this area is essential. While this will not necessarily provide all the answers, it will provide a good pointer to the direction European policy should move in to enhance citizens' well-being.

This paper is intended to serve as a basis for discussion, and thus does not contain any final recommendations, but rather highlights the key issues which need to be addressed. In its final phase, the Well-being 2030 project will

debate the propositions and choices outlined in this publication with stakeholders and experts, and develop policy recommendations, not only to identify policy solutions which can enhance well-being in the long term, but also to contribute to creating a vision of a future social Europe which is realistic but ambitious and delivers what European citizens want.

I. Introduction

This publication is a core element of ‘Well-being 2030’, a two-year research project co-funded by the European Policy Centre and the European Commission which is seeking to establish a strategic vision for the development of social policy in Europe.

The project is investigating the main developments and the available options that will help Europe to choose the right policies to enhance the well-being of its citizens in a sustainable manner by the year 2030, in line with the objectives laid down in the Lisbon Treaty, which states that: “The Union’s aim is to promote peace, its values and the well-being of its peoples.”²

The purpose of this consultation paper is to highlight the trade-offs within and across policy areas which will have an impact on those choices. It is intended to serve as a basis for discussion and to this end, throughout the paper, certain propositions and policy choices have been highlighted in boxes as an aid to focus the discussion.

As implied by its name, the focus of the Well-being 2030 project is on the long term and on the key policy responses needed to tackle Europe’s long-term challenges by using the resources at its disposal. This is not to say that short-term challenges are not important: the global economic crisis is a relatively recent phenomenon, but its long-term implications in terms of, for example, structural changes in Europe’s industries and labour markets, and its implications for public finances will influence well-being far into the future.

Well-being is a concept which is increasingly referred to in the European policy debate, but it is often not well-defined. This is, in part, due to its very nature, as it encompasses a wide range of different elements.

There are, in essence, two broadly different concepts: quality of life and subjective well-being (or happiness). ‘Quality of life’ is based on measurements of objective determinants of people’s quality of life such as the material resources available to them. Subjective well-being is based on measurements of how people feel. The two are obviously related, as a higher quality of life should correlate with higher subjective well-being – and yet, on the basis of the available evidence, this relationship is far from straightforward.

An added complication is that individual factors which enhance quality of life are not necessarily linked in a straightforward manner to overall quality of life. Here, it is useful to borrow the concept of resilience from psychology. People's resilience against shocks – for example, losing their job – depends on a wide range of factors, including their assets/wealth, family situation, educational status and mental health. In general, the impact of such a shock is felt most keenly when a number of resilience factors are missing at the same time. Applied to well-being, this implies that social policies need to aim at strengthening individual resilience and attempt to tackle issues of multiple disadvantage.

All this demonstrates that a broad range of factors influence quality of life and well-being, including some – such as relationships, stress and mental health levels – which will crucially influence well-being but are not easily amenable to social policy interventions. Hence, they are not discussed in great detail in this paper.

Not everyone will agree with this approach: some argue that we should make a clear distinction between quality of life and well-being, with the latter crucially influenced by factors such as mental health, stress and the ability to cope with the multiple demands of modern life. However, the authors of this paper believe that the concept of quality of life and well-being are inextricably linked and that social policy can have a significant impact on an individual's well-being.

There is also a need to be focused: while there are many factors which can influence well-being, it is important to highlight the most significant ones, highlighting those which have a negative influence on the quality of life and well-being of the most disadvantaged groups in society.

The concepts of well-being and quality of life are related to the notion of sustainable development – or what should more accurately be termed sustainable *progress*. This is a general goal of public policy.

The notion underlying the concept of sustainable development is that societies should aim to make progress in economic, social and environmental fields simultaneously while at the same time respecting inter-generational equity; i.e. preserving the well-being of future generations by, for example, avoiding a legacy of large public debt or environmental degradation. However, as with the concept of well-being, the constraints and trade-offs, and the need to

prioritise, must also be taken into account. Investing resources to achieve successful outcomes in one area generally implies that fewer resources are available to focus on others.

It is also important to recognise the potential for conflict between an individual's well-being and the aggregate well-being of a community.

An individual's well-being is influenced by the well-being of others; i.e. by the level of well-being in the community as a whole. The cohesiveness of a community has a significant impact on reported levels of well-being, and dissatisfaction within certain groups in society can also have a direct impact, for example through crime or conflict. Governance also influences well-being: for example, participation in democratic processes can directly enhance well-being.

This implies that there are circumstances in which individual sacrifices and a focus on the community can increase well-being overall, providing a key justification for social policy interventions.

Context

European societies are experiencing fast-moving, profound changes in both the economic and social spheres. These changes are driven by powerful external forces such as globalisation, as well as by internal forces such as demographic and social developments.

In this context, social policies both at EU and Member State level are currently facing unprecedented challenges that policy-makers cannot ignore in shaping their choices and strategy. These include a changing labour market, new family structures, persistent inequalities, the requirements of the knowledge-based economy, demographic change and its impact on pensions and care, immigration, and increased ethnic and cultural diversity. The impact of the economic and financial crisis on incomes, wealth and employment is also posing a serious threat to the well-being of European citizens.

The concept of well-being includes the full range of factors that influence individuals' satisfaction with their lives, going beyond economic growth alone and including, for example, health, work-life balance and the quality of the environment.

The question of how the well-being of all Europe's citizens can be advanced is becoming increasingly important in the debate over EU policy choices. A key objective of the European project was to create an area where free movement of goods, services, capital and people would improve economic growth. However, in more recent years, the focus has shifted, with an increased emphasis on the social and 'quality of life' dimensions.

There are a range of EU policies, programmes and coordination processes that affect quality of life, from employment conditions and education and equal opportunities to social inclusion and public health.

Public policy imperatives, such as the drive for greater competitiveness, are not ends in themselves but rather the means to an end – namely, the well-being of European citizens.³ The social dimension has thus been given greater prominence in the Europe 2020 Strategy than in its predecessor, the Lisbon Agenda, and policy instruments such as the European Commission's Renewed Social Agenda⁴ (2008) explicitly seek to enhance European citizens' well-being and quality of life through a broad range of measures.

Social policies affect citizens' well-being in a number of ways. The options available to policy-makers often involve trade-offs or synergies between different aspects of quality of life. For instance, a general increase in working hours may result in greater long-term sustainability, while a strategy aimed at increasing growth will probably exacerbate inequality but increase the resources available. Thus, to assess the effectiveness of policy instruments in enhancing citizens' well-being, the related trade-offs need to be clearly identified and the potential achievements prioritised.

Policy-makers may seek to pursue a range of objectives – such as boosting economic growth, tackling inequality, increasing health and education levels, promoting cohesion, enhancing public safety and ensuring sustainable public finances – through social policies. But while there is evidence of interactions between different areas in shaping citizens' well-being, there is not much evidence as yet of how different policy choices involving different combinations of trade-offs would affect citizens' well-being and life satisfaction.

In order to achieve desired social-policy goals, policy-makers must assess the resources available – including savings, human capital, technology, innovation – and consider the best ways to use them. The right policy

choices may increase these resources over time and generate potential future benefits such as productivity growth, the creation of new areas of competitive advantage, and the development of social models in a way which enhances competitiveness.

At the same time, a range of challenges and constraints may intensify the trade-offs facing policy-makers in seeking to address citizens' main concerns: the economic crisis is, for example, affecting long-term growth and the sustainability of public finances, and globalisation and demographic change are having a profound impact on labour markets, societal cohesion and social structures.

The purpose of this paper is to investigate which policy choices are most likely to deliver a higher level of well-being in the long term, identify the trade-offs involved in these choices, and consider current and future challenges as well as resources available to address them. It analyses the context and issues raised by social policy choices, as well as their potential outcomes for society as a whole. It also assesses the trends and constraints which impact on social-policy achievements and whether their effects on citizens' quality of life can be cushioned.

II. Background

Recent stock-taking exercises at EU level have suggested that most Europeans believe that the lives of today's children will be more difficult than theirs have been.⁵

The results of a Eurobarometer survey, along with a 2007 study on 'Europe's Social Reality',⁶ have prompted a series of consultations and communications by the European Commission suggesting a 'new social vision' for 21st century Europe.⁷ These consultations culminated in the launch of a 'Renewed Social Agenda' in 2008, whose proposed areas for action span the fields of employment and social affairs, youth and education, health, the information society and economic affairs.

This consultation paper aims to highlight the trade-offs within and across policy areas arising from the opportunities and challenges facing policy-makers in defining and shaping this new social vision for 21st century Europe.

To do this, we first need to understand the diverse context within which European policy-makers operate. This arises largely from the different social models which exist across Europe; differences in values and in demographic and socio-economic groups; the different stages countries are at in relation to the well-being of their citizens; the reforms already undertaken to ensure the sustainability of these models; and the state of public finances.

Different social models across Europe

Social policies and the welfare state are intimately involved in shaping EU citizens' well-being, amid evidence that aspects of quality of life such as work, health, education and retirement are strongly associated with life satisfaction.

Commentators often refer to the 'European Social Model' as if it is a uniform model that spans north and south, east and west. While this is a helpful way of differentiating Europe from the United States, it is far from accurate to treat the various welfare state configurations across Europe as one.

EU Member States have different ways of insuring against various social risks (such as unemployment, illness and old age) involving the state, the private

sector and family to varying degrees. These differences are rooted in historical, institutional and political traditions, informed and reinforced by values.⁸

Since the 1970s, mature welfare states in Europe have come under a variety of pressures. A slowdown in productivity, gradual de-industrialisation, globalisation and demographic ageing have all forced governments to reform their welfare states to adapt to new risks and improve the sustainability of their systems. This has often involved reducing the generosity of the system in various ways and rationing benefits to focus on those in most need.

However, the reforms introduced in response to these pressures have also varied. Despite initial claims that common pressures such as globalisation would lead to the convergence of Europe's welfare systems, this has not happened.

The EU's new Member States in Central and Eastern Europe have faced a different challenge: to re-construct their social models while at the same time making the transition from centrally-planned to market economies. Again, despite their common starting point, differences have emerged within this group of countries as well.⁹

The playing field for maximising European citizens' welfare therefore is far from uniform and is likely to remain diverse for good reasons.

Different values/attitudes

The differences in social models across Europe partly reflect differences in values and in people's attitudes towards issues that shape social policy preferences. Research had suggested that these values were changing in the wake of the transition to post-industrial societies,¹⁰ but this has not led to the predicted convergence.

Not only do surveys suggest that there are no uniform values and attitudes across the Member States, but in several areas, it is even difficult to cluster countries according to the well-known Esping-Andersen 'worlds of welfare'.¹¹ Esping-Andersen identified four types of welfare regimes – Continental/Christian Democratic; Nordic/Social Democratic; Anglo-Saxon and Mediterranean – based on public spending patterns and who bears the main responsibility for providing insurance against risk (e.g. the family, state).

Attempts to group countries in this way have been further complicated by the accession to the EU of the countries of Central and Eastern Europe, which neither fit easily into the groups described above, nor show homogeneous characteristics when compared with each other.

Different starting points

EU Member States are at very different stages not only in terms of the well-being of their citizens, but also in the options available to policy-makers at national level to help increase well-being in a sustainable manner. This includes significantly-different GDP and income levels, labour markets, social protection and public service levels, levels of inequality and so on.

Different political conditions and preferences also help explain the different policy responses to the challenges facing Europe, with the diversity in social models across the EU contributing to divergent approaches to reform over time, with varying degrees of emphasis on different elements.

Last but not least, the current crisis has affected Member States' public finances to different degrees, thus leaving governments with varying room for manoeuvre to use public and social resources to gear social models towards maximising the well-being of citizens.

Democracy/choice

In measuring subjective well-being, it is clear that the focus cannot be on aggregate progress indicators such as average GDP per head, given that well-being depends on individual circumstances and resources. In that sense, thinking of social progress in terms of well-being instead of focusing only on output growth places greater importance on the issue of inequalities, given that inequalities in access to healthcare, education and other resources that enable individuals to increase their quality of life have interconnected effects on their well-being.

In democratic societies, making policy choices likely to maximise aggregate well-being may be even more complicated than making choices that aim for output growth, as the former have to be targeted carefully according to individual circumstances to be effective, whereas the latter can work effectively at the aggregate level. But increased targeting can make it difficult to find a broad political consensus and may also lead to significant administrative costs.

Global issues beyond the EU's control as major defining trends

The context within which European policy-makers have to operate is also shaped by global issues over which they only have partial influence, if any, such as the rise of new economic powers in Asia and Latin America, higher capital and labour mobility around the world, climate change and the increased competition for natural resources.

These global trends present both challenges and opportunities for maximising the well-being of European citizens.

Competition from new economic powers such as China, India and Brazil may put pressure on the resources available to finance Europe's social policies by, for example, eroding the corporate or income tax base if economic activity shifts to new locations. At the same time, increased global competition increases the demand for social policies because of the higher uncertainty it creates for output and incomes.¹² Social and economic policy options can thus be seen as inter-connected, but are not necessarily mutually reinforcing.

The rise of new economic powers and the resulting increased demand for natural resources, especially energy, has led to greater competition for these gradually dwindling resources and is likely to push up their cost in the future. This, coupled with the climate-change phenomenon, means that European policy-makers will be looking to maximise the well-being of their citizens in the context of an economic and social model or models that use greener sources of energy and are more sustainable in the long run.

The increased competition for energy resources is also likely to create a new form of social inequality. This will pose further challenges to maximising the well-being of citizens, particularly among vulnerable groups, as inequalities tend to have a widespread impact on aspects of quality of life, such as health and education.

Lack of EU competence in crucial areas

The policy choices available to help maximise well-being are, from the EU policy-makers' perspective, somewhat limited because of the Union's lack of competence in crucial areas such as education, health, pensions and employment. This raises questions over subsidiarity and the effectiveness of European policy, if the aim is to maximise European well-being in the long run.

However, as the Internal Market has moved slowly but surely into new areas, especially in the services sector, cooperation in these areas has gradually been extended. Cooperation – including on reforms of pensions systems and employment – has come under a specific Open Method of Coordination (OMC) process which, although non-binding, encourages Member States to share best practices and learn from each other. Other areas, such as education, have recently been included in the Europe 2020 Strategy and will therefore be part of the annual policy cycle.

Methodological limitations require flexibility

All the dimensions of European policy relating to citizens' well-being are, of course, subject to change, especially over the long term. Some of these changes are predictable, because they are governed by long-term trends that are already evident (such as demographic change), while others will stem from policy choices and events that cannot be predicted at the moment. The current economic crisis is a case in point. That is why, in thinking about the context within which policy can help to maximise well-being, some flexibility must be maintained to allow for unexpected developments.

III. Social policy outcomes

What is the focus on well-being designed to achieve? This section outlines the social goals Europe will have to achieve if its objective is to increase people's life satisfaction. These outcomes are directly related to citizens' well-being or are characteristics of a well-functioning society which also have a crucial role in shaping citizens' well-being.

The extent to which they are achieved will determine how much policy-makers will be able to do to maintain a high level of citizens' life satisfaction in the long run.

The outcomes selected here are the ones which the literature suggests are critical factors in determining well-being *and* which can be influenced by social policies. Other parts of the Well-being 2030 project are examining the measurement and determinants of well-being in more detail¹³ as well as looking into the values underpinning social policies.¹⁴ The Well-being 2030 project team is also feeding into a qualitative Eurobarometer survey to be carried out by the European Commission which will investigate how Europe's citizens make social policy choices in light of the constraints and policy options available.

This paper aims to present relevant social policy choices in relation to key determinants of well-being in light of existing constraints, highlighting important trade-offs which have to be made. There are also a range of other factors which have a significant impact on well-being (for example, relationships with family and friends) but as they are only indirectly and weakly related to policy, they are not covered in this paper.

The social outcomes under consideration can be grouped into three broad categories¹⁵:

1. Economic resources and opportunities (decent income per household/GDP *per capita*, less inequality, greater labour-market participation).
2. Social progress (social cohesion/diversity, security, work-life balance, good health, good education).
3. Characteristics of the welfare state (public services, social safety nets, the affordability and availability of care, sustainable public finances).

The social outcomes listed above are either direct determinants of citizens' well-being or reflect policy choices which aim to positively influence those determinants. As mentioned earlier, it is clear that policies can influence people's well-being – the table below shows which of the policy outcomes listed above policy-makers need to achieve in order to have a positive impact on the determinants of well-being.

Table 1. Relationship between well-being determinants and policy outcomes

Direct determinants of individual well-being	Policy choices with a positive impact on well-being determinants
Decent income	Social safety nets, sustainable public finances
Labour-market participation	Affordability and availability of care, social cohesion/diversity
Good education	Higher-quality public services, sustainable public finances
Good health	Higher-quality public services, sustainable public finances
Work-life balance	Higher-quality public services, affordability of care, security
Less inequality	Higher-quality public services, affordability and availability of care, security, social cohesion/diversity, social safety nets

Resources and economic opportunities

Decent income per household/GDP per capita

Individuals' standards of living and well-being are closely linked to the economic wealth of the country in which they live, i.e. the level of national outcome.

Generally, Gross Domestic Product (GDP) *per capita* is the indicator used internationally to measure macroeconomic output. This allows for a comparative analysis of each country's ability to generate growth and income.

The data shows that although the gap between European countries has been narrowing in recent decades, there are still big differences in the level of economic development within the Europe, and hence in the level of output *per capita*. If the EU average is set at 100, some well-performing countries (such as Luxemburg, the Netherlands, Ireland, and Austria) had a GDP *per capita* (in purchasing power standards) above 120 in 2008, while others like Bulgaria, Romania and Latvia were still below 60.¹⁶

These economic disparities help to explain the differences in levels of life satisfaction between countries, as a clear linear relationship emerges between the two. Countries with high level of GDP and therefore with a high average income per household tend to have higher than average levels of life satisfaction.

This relationship is replicated at the national level: richer individuals in a given country are generally more satisfied with their lives than poorer ones. Nonetheless, this appears to have only a limited effect: income tends to matter more for life satisfaction when material needs are not met, be it at the national or individual level.¹⁷

Proposition: Growth and increased household incomes have a diminishing impact on people's life satisfaction. This means that an increase in income has a bigger impact on life satisfaction in poorer countries and households.

Less inequality

As previously shown, there are not only large differences in the level of output *per capita* between EU Member States, but there are also strong income inequalities *within* countries.

Income inequality is normally measured in one of two ways: the S80/S20 ratio or the Gini coefficient.¹⁸ The first is the ratio of the total income received by the 20% of the country's population with the highest income to

the amount received by the 20% of the country's population with the lowest income. The higher the ratio, the greater the inequality. While the S80/S20 ratio only looks at the top and bottom tiers, the Gini coefficient looks at income distribution across the whole of society. The higher the coefficient, the greater the inequality in a country. The two indicators usually produce similar rankings.

As with GDP *per capita*, there are significant differences in the degree of income inequality within EU countries. In 2007, the average value for the S80/S20 was 5. Slovenia (3.3), Sweden (3.3), Slovakia (3.5), the Czech Republic (3.5) and Denmark (3.7) had the least income inequality, while Latvia (6.3), Portugal (6.5), Bulgaria (7), and Romania (7.8)¹⁹ had the most. Generally, the level of income inequality in a country also indicates the level of poverty, as the most equal societies in Europe also tend to have the lowest levels of poverty.

Today, nearly 80 million Europeans – i.e. approximately 16% of the total population – are at risk of poverty. However, the situation varies from one EU Member State to another. While some well-performing Member States (such as the Czech Republic, Denmark, Netherlands, Slovakia, and Sweden) had poverty rates of between 9% and 12.2% in 2008, in others (such as Greece, Latvia, Portugal and Romania) 20% of the population, or even more, is at risk of poverty.²⁰ There are also significant differences in the severity of poverty. Generally speaking, the larger the share of the population affected by poverty, the more severe it is.

Income inequality is not the only factor influencing poverty and social exclusion. Inequality of opportunity, which is much more difficult to measure, is also a major determinant. Although inequality of opportunity may result from the actions of an individual, it may also be caused by circumstances beyond an individual's control – such as difficulties in accessing the education system – which can be corrected by policy-making.²¹ Inequality of opportunity can, therefore, hamper citizens' social participation and have multiple effects on their well-being.

Proposition: The low level of inequality in some European countries proves that nothing is inevitable. Political choices can make a difference, providing mechanisms to reduce income inequality and eradicate poverty.

Labour-market participation

The unemployment rate has risen considerably in Europe, crossing the 10% threshold in the euro zone in 2010, as a direct consequence of the economic crisis. From an individual perspective, being in work is a crucial determinant of subjective well-being, as it is an important source of income and contributes to material self-sufficiency.

The results of the first European Quality of Life Survey (EQLS) show that job security and adequate pay are not only strongly and positively associated with job satisfaction in the EU, but also with life satisfaction. Being in work can also provide opportunities to socialise, and contribute to skills' development and enhanced self-esteem, depending on how satisfied people are with their working conditions.

From a policy point of view, active employment policies are also a fundamental element of the fight against poverty and social exclusion. High labour-market participation rates are all the more important given the ageing of Europe's population, which puts increased pressure on pension and healthcare systems.

Proposition: Labour market participation is a key determinant of well-being, both from an individual and community perspective. It remains a key source of income and thus is crucial to prevent poverty and exclusion.

Social progress

Social cohesion/diversity

The challenges confronting Europe today stem not only from developments beyond its borders, but also from its own internal difficulties in adapting to them.

In today's fast-changing world, with increasingly globalised economies, competition with the rest of the world is intensifying and Europe is now experiencing slower growth than emerging economies. In this context, some regions of Europe are innovative enough to compete with the rest of the world, but others are lagging behind, thus endangering Europe's territorial and social cohesion. The recent economic crisis has accelerated these divisions, with

some more immediately and directly affected by the downturn than others. In short, these changes are affecting some regions and groups of people disproportionately and increasing the diversity of our societies.

However, this diversity is not only the result of an unequal distribution of wealth, with significant differences in earnings and standards of living. It also stems from rising immigration. The combination of an ageing society and a contracting domestic labour force means Europe will need immigrants to tackle future skills and labour shortages. This may have significant consequences for our ability to manage societal integration, particularly given that Europe is already facing serious problems in this area.

Immigration is often perceived as a burden and a threat to the cohesion of our societies. If governments want to turn immigration into an opportunity for everyone, not only for the migrants themselves but also for the society in which they live, more active integration policies will be required. If the overall cohesiveness of communities can be enhanced, this will have positive impact on well-being.

Proposition: Both the economic disparities emerging from the globalisation process and rising immigration are increasing the diversity of European societies. These challenges need to be turned into opportunities to preserve societal cohesion and therefore citizens' well-being.

Security

The new multipolar system which has emerged over the past 20 years has given rise to new forms of insecurity in today's increasingly globalised and interdependent world.

The unstable environment in which we live (with financial instability, environmental degradation, energy dependence, organised crime and terrorism) has significant consequences for Europeans' quality of life. Over the past decade, Europe has witnessed terrorist attacks in Madrid and London, an energy crisis, severe natural disasters, and, last but not least, a financial and economic crisis which has increased our vulnerability. Social failures have been developing inside our borders, leading to increasing levels of cross-border crime, such as human trafficking,

the smuggling of persons and illegal substances, cyber-crime and intellectual piracy.

All these security challenges are interrelated, with poverty and inequality acting as a breeding ground. They also represent a growing concern for EU citizens: in 2006, 24% of Europeans mentioned crime as one of the two most important issues facing their country while 10% mentioned terrorism.²²

Proposition: Feelings of insecurity are a growing concern among Europeans and are a challenge in modern societies which need to be tackled.

Good education

The European Quality of Life Survey has shown that those who have an upper secondary level education or lower are less satisfied with life than those with higher qualifications.

However, after controlling for the increased income and reduced risk of deprivation associated with higher education levels, differences in life satisfaction according to education appear less significant. While people with low levels of education still generally have lower levels of subjective well-being, there is no additional benefit to subjective well-being from being educated beyond the secondary school level.

This suggests that much of the satisfaction associated with education arises from the positive impact it has on people's living standards. Thus, in mature economies like those in Europe – where obtaining greater knowledge and skills is essential to find a job and remain competitive in the labour market – access to good education and life-long training become critical, as this facilitates labour market participation and tends to reduce inequality and poverty.

Proposition: A good level of education is an important factor for increasing individuals' life satisfaction as it tends to raise income levels and provides the skills required to improve their opportunities and enable them to access public services.

Good health

Good health has also been identified as a key determinant of individuals' life satisfaction, both directly and indirectly. Poor health is not only associated with lower life satisfaction, but can also constrain people from participating in education and the labour market.

The European Quality of Life Survey suggests people's perception of their health has a substantial impact on their life satisfaction. At national level, longer 'healthy life years' – i.e. the number of years a person can expect to live without disability at birth – are associated with higher than average levels of satisfaction, although the link is clearer in the new Member States than in the EU-15.

All EU Member States have national health services that, along with social security, make the largest call on tax revenues.²³ However, despite ever-increasing spending on healthcare, good health is still distributed very unevenly. Between and even within EU Members States, there are significant differences in health outcomes that are closely linked to degrees of social disadvantage and to difficulties in accessing health services. Various factors can discourage people from using health services, such as financial difficulties, their distance from medical premises, time pressures or fears of being in the presence of medical professionals.

Proposition: Tackling health inequalities between and within EU countries is essential to improve European citizens' health, which is a key determinant of well-being.

Work-life balance

The balance between work and the time left for other activities (e.g. family, leisure) has also received particular attention in the well-being research literature. The number of hours worked determines how long individuals can spend on other activities that are important for their subjective well-being.

Paid employees work an average of 38.5 hours a week in the EU-27, but here again, there are significant differences between countries. For example, average weekly working hours for men range from around 45 hours in

Greece and Poland to less than 40 hours in countries such as Denmark, the Netherlands and Sweden.

The European Quality of Life Survey shows that long working hours have a direct, negative impact on the amount of time available to dedicate to other activities: 48% of Europeans say they are too tired to do household chores and 29% say they have difficulties in fulfilling family responsibilities because of work.

Proposition: Work-life balance has a strong impact not only on people's job satisfaction, but also on their life satisfaction in general.

Welfare state

Public services

Citizens' life satisfaction not only depends on personal choices and individual behaviour, but also on the quality of the public services available to them. This has a significant impact on a number of determinants of life satisfaction, including work-life balance, levels of education and health status. For example, the quality of the education system and its capacity to reduce the number of early school leavers is crucial to deliver a good level of education for all.

More generally, the European Quality of Life Survey suggests that the *perceived* quality of public services has a substantial impact on life satisfaction. By comparing people's perception of the quality of public services²⁴ with overall life satisfaction, the survey has shown that people who perceive the quality of public services positively are more satisfied with their lives than those with a negative perception.

Proposition: The quality of public services has a strong impact on the determinants of people's life satisfaction.

Social safety nets

In general, European countries have extensive social safety nets which provide their citizens with a source of income through government transfers.

These social protection mechanisms include unemployment benefits, payments to low-income households, universal health coverage and minimum state pension systems.

These social systems are the backbone of the European Social Model, based on the principle of solidarity – between citizens and between generations. Safety nets are used to protect the most vulnerable groups in society, aiming to guarantee a minimum wage level sufficient to cover individuals’ basic needs. They can also help to mitigate future generations’ disadvantages by ensuring that children born into disadvantaged families grow up with a certain minimum standard of living and have access to education and, eventually, employment opportunities.

But the purpose of social safety nets goes beyond this. They are also a form of insurance for all sections of society, providing protection against future uncertainties, such as illness or the loss of a job. This represents an outcome in its own right, as citizens value protection and, conversely, high levels of uncertainty reduce quality of life. Research has indeed shown that low levels of resources lead to conflicts within a person’s life, are harmful to health and social relations, and can accelerate social exclusion.²⁵

Proposition: Social safety nets are important to people, as they provide protection and security and tend to reduce the risk of social exclusion.

Affordability and availability of care

The goal of health and social policies in Europe is to make care services available to, and affordable for, everyone, and particularly those who need them most. However, it is not always easy to access these services and individuals can encounter many obstacles, such as a lack of resources, geographical distance, difficulties in fulfilling the eligibility criteria, and a limit on the capacity of services to deliver in the face of growing demand.

The affordability and availability of care has a significant impact on households and individuals, as this affects people throughout their lives: childcare services are of particular importance for younger families, care for the elderly is predominantly an issue for older households, and healthcare is important for all age groups.

The importance of affordable and readily-available care goes beyond the impact it can have on individuals' health. It can also affect other aspects of their lives: for example, a household's work-life balance may suffer if it has difficulties accessing childcare services.

However, entitlements to care services and high levels of public spending are not sufficient to increase individuals' life satisfaction. Although countries with high levels of public expenditure generally have better-quality public services, this is not always the case. For example, the European Quality of Life Survey suggests that public services in France and Hungary are perceived to be of rather low quality relative to the high level of public spending. Therefore, as well as considering how much public money is spent, it is also crucial to examine how it is spent and whether citizens are able to access the care they are entitled to.

Proposition: Affordability and availability of care have multiple effects on the determinants of well-being and affect citizens throughout their lives.

Long-term sustainable public finances

The recent financial crisis, whose economic and social consequences are still unfolding, has revealed the shortcomings of our economic and social model. Some crucial policy constraints have been neglected, such as the long-term sustainability of our public finances. In addition to the risk that this poses to solidarity between generations and to guaranteeing the well-being of future Europeans, it may also have repercussions in the short and medium term. Indeed, it could hamper the capacity of the welfare state to deliver public services and to provide support for the most vulnerable groups in society.

While growth is projected to be sluggish for some time to come, European governments will have to give priority to steering public finances back onto a sustainable path. Admittedly, public debt was already persistent in most EU Member States before the crisis, but the downturn has aggravated the situation, showing clearly that the situation was unsustainable.

Governments will have to perform a delicate balancing act to tackle all these challenges at a time of slow growth, high unemployment rates and increased demand for public services, and given long-term liabilities such as pensions. On

the one hand, they need to contain the consequences of weak demand and slow recovery for public revenues by fostering medium to long-term growth; on the other, they need to steer public finances back onto a sustainable path by cutting public spending in order to preserve macroeconomic stability.

The quality of public spending will be a crucial consideration in this process. Structural reforms – including, for example, an end to special employment conditions for public servants – will need to be given prominence in decision-makers' deliberations on how best to address this issue.

Proposition: In the context of high public deficits, governments will have to act carefully and find the right distribution of spending cuts and tax rises in order to maintain a high level of well-being among citizens.

IV. Challenges, opportunities and resources

This section discusses some of the broad trends that will impact on EU economies and societies over the next couple of decades. The emphasis is primarily on the impact of these trends on social policy²⁶ and the outcomes which have been listed and described earlier in this paper. The authors acknowledge that there are significant differences between Member States and that not all trends will impact equally on every country. However, the trends highlighted here are very broad challenges and opportunities which, in our view, are relevant across the EU.

By its nature, such an exercise can only focus on broadbrush trends rather than charting precise future outcomes. This is not only because predicting the future is fraught with difficulty, and uncertainties multiply over a longer period, but also because policy choices can change the trajectory.

This section focuses not only on the challenges, but also on the resources and opportunities available to Europeans. It is clear that these challenges have been aggravated significantly by the economic crisis, but the resources and opportunities available to address them are also significant.

There are still policy options available which can enhance European citizens' well-being in the long term. But this does not mean that they can have something for nothing: all policy choices involve trade-offs and face constraints. This paper aims to highlight the implications of different policy choices.

We have deliberately chosen not to present the future in terms of scenarios. Given the multi-faceted nature of the policy areas involved and the resulting choices (as illustrated by the wide range of outcomes mentioned in the previous section), it is impossible to find a sufficiently small number of plausible scenarios which can be used to highlight the implications of contrasting choices. Given the need to limit the number of scenarios to keep them manageable, this approach would inevitably result in lumping many decisions and choices together in one single scenario.

Charting the different challenges and opportunities separately also presents an inherent danger. It is clear that these trends are all inextricably linked. Choices made in response to one challenge will determine the capacity to deal with others; investment in certain areas will expand freedom of movement to deal

with challenges, as it will increase the resources available in future; and so on. This needs to be borne in mind in the analysis which follows.

This section inevitably highlights certain challenges and opportunities while neglecting others. For example, climate change is not explored in detail, even though it constitutes a major challenge for the EU. We have concentrated on the challenges and opportunities where we see the clearest and most significant impact on social policy choices. This is not to say that climate change and climate change mitigation policies do not impact on social outcomes: for example, increasing energy prices can be a critical exclusion factor for low-income households. Climate change also influences the overall availability of resources. However, it is less clear that these policies have a major direct influence on the social policy choices which are explored in this paper. For example, while climate change mitigation policies might have a disproportionately negative impact on low-income households, the relevant social policy choice is the degree to which we believe inequalities should be tackled, regardless of what causes this inequality.

Furthermore, in line with the overall focus of the Well-being 2030 project, the focus here is on long-term challenges and opportunities. However, this does not mean that current challenges such as the financial and economic crisis can be ignored, given their likely long-term impact on, for example, labour markets and public finances.

Challenges

The financial and economic crisis

There is still significant uncertainty about what impact the financial and economic crisis will have on Europe's economies in the long run. In part, this is because it is not yet clear how deep the recession is and whether we are on the road to recovery. It is also not yet clear how and when the financial sector will recover.

Risk/uncertainty: The recovery might prove to be fragile and the positive signs seen in some European economies (driven by the recovery of global trade) could be reversed. The financial liquidity crisis could re-occur.

The immediate impact of the crisis has been clear: a recession with deteriorating labour markets and significant increases in public debt as a result of the fiscal stimulus packages launched by governments across Europe.

While it is clear that these developments will affect Europe's economies in the short and medium term, the long-term impact is much more uncertain. This largely depends on the effect of the economic crisis on growth rates. Low growth rates would make it unlikely that labour markets will recover. The imbalance between public expenditure and revenues, and the overall debt burden (measured as a percentage of GDP), are also likely to remain high.

How likely is it that Europe will continue to be plagued by low growth rates? This depends significantly on the competitiveness of European businesses and on policy choices. This suggests that the success or failure of the Europe 2020 Strategy will have a significant impact on social policy choices in the future, alongside a range of other policy choices such as, for example, Member States' spending and taxation decisions. Boosting the long-term growth rate in a sustainable manner would make it easier to deal with social challenges more effectively.

Proposition: Europe must focus on boosting its long-term growth rate. This means public policy must prioritise activities which boost the long-term growth rate, including investment in human capital and innovation as well as the creation of a framework which enhances the competitiveness of European firms. A starting point is the Europe 2020 Strategy.

It seems clear, however, that even with the immense efforts being made by governments to get public finances under control and policies targeted at returning to higher growth, public finance sustainability will remain a significant issue for a number of years to come, particularly as European public finances are expected to continue deteriorating in the short term.²⁷

Proposition: Public finances will remain under severe pressure in the future. Significant structural changes will be needed in public sector activities to not only re-balance expenditure and revenues, but also to start reversing the accumulation of debt, which will be a burden for future generations. Expenditure and taxation decisions will profoundly affect public services and social protection systems, directly affecting citizens' well-being.

The crisis is also likely to have a long-term impact on the labour market. While some of the recent rise in unemployment is likely to be reversed by the economic recovery, European labour markets are generally not efficient in matching labour supply with demand, with many citizens who are able to work either unemployed or economically inactive. This is likely to mean that some of those who lost their jobs in the crisis will remain outside the labour market, adding to the proportion of the population in a permanently precarious employment position. The weak recovery from the economic crisis is likely to aggravate the situation, as not enough new jobs will be created to get everyone back to work.

Proposition: Without significant reform, labour markets will struggle to provide employment opportunities to those who are currently excluded, even when the economy improves. This means a certain proportion of the labour force will find it difficult to gain a permanent foothold in labour market, increasing uncertainty and thus reducing well-being.

Transformation of the economy

European economies have been gradually transformed over the last few decades. The most visible sign of this shift has been the reduction in employment in, and GDP generated by, agriculture and manufacturing, while the service sector has been growing strongly and the number of jobs in this sector have increased.

This transformation is not a negative development in itself, but it creates an ongoing challenge of transition. Coupled with the quickening pace of economic transformation (in part caused by globalisation, discussed later), this creates an ongoing need for people to move between jobs and sectors. However, the transformation of the economy is only indirectly influenced by governments, which should focus on encouraging high levels of employability to ease the transition as well as ensuring that there is no discrimination in the labour market.

Proposition: European economies are undergoing an ongoing, long-term transformation towards a more service-based economy. Governments must help employees to retain high levels of employability and ensure that no one is discriminated against to help ease the transition.

As part of the longer-term transformation, European economies are also becoming 'greener', with climate-change targets now firmly established and embedded in the Europe 2020 Strategy. In the long run, the goal of a virtually carbon-free economy by 2050 will further increase the challenge. However, while creating new jobs and growth, this transformation will also entail a shift away from 'old' industries.

Risk/uncertainty: The number of new jobs generated in 'green' sectors will mean a long-term transition to new employment patterns, with casualties inevitable in terms of unemployment and underemployment, as the growth in 'green' jobs might be insufficient to balance out the decline in jobs in 'old' industries.

Globalisation

Globalisation is another long-term trend which is impacting on European labour markets, with the internationalisation of economic processes, including the emergence of global competitors in developing countries. While globalisation undoubtedly poses many challenges, it is also clear that Europe has benefitted significantly from the globalisation process, not least as an impetus for European growth. The solution is thus not to try to stem the tide of globalisation, but rather to ensure that the negative impacts of globalisation are managed.

Proposition: Globalisation has had a positive influence on Europe's economies. The response is not to close off Europe's economies, but to manage the downsides.

What are the downsides, or negative impacts, of globalisation? Competition on a global level means that factors, such as whether jobs can be outsourced/off-shored or not and how competitive Europe is, will be crucial. There are a range of jobs which are difficult to outsource, such as personal care jobs and many services. These are likely to be 'safe' as long as the wider economy is growing and/or they are given priority in public funding, for example in the context of the demographic transition. However, even here, more and more aspects of these jobs can now be outsourced, so over time, there will be fewer jobs which do not face global competition to some extent.

Risk: More and more jobs – or elements of jobs – will be exposed to global competition, even in areas which were previously hard to outsource.

In those areas where competition is global, it will be increasingly difficult for Europeans to be competitive on wage levels. While in recent years, the new EU Member States have benefitted from having comparatively low wage levels, this advantage is unlikely to persist. The implication is that Europeans must compete on productivity; i.e. their output must be worth the higher wages. To achieve this, Europeans cannot only rely on higher levels of accumulated capital – labour productivity also has to increase, resulting in either lower per-unit costs or enhanced quality/high value-added. This entails much higher investment in education and skills as well as innovation.

Proposition: Europeans will need to compete globally on productivity. This entails significant investments in education and skills, as well as innovation. It also requires a focus on productive industries.

To maintain competitiveness, Europe must focus on areas where it has a comparative advantage. This involves investing in specific skills in sectors where the EU can bring an added value in the globalised market.

Proposition: Europe will need to identify what skills require further investments and could bring long-term returns.

Global competition and pressure on wages in low-skilled jobs can lead to rising inequalities, as those at the lower end of the labour market are unable to compete with better-educated sections of society, with fewer jobs available for unskilled workers. In countries with significant social security systems, many of these workers will end up exiting the labour market as benefits can be a more attractive option, while others will end up in precarious employment relationships or will receive very low wages for their work (joining the ranks of the working poor).

Risk: Globalisation could lead to increasing inequality and negative outcomes for lower-skilled workers in Europe.

Globalisation also impacts on the price of energy, commodities and food. Over the medium to long term, it is likely that there will be upward pressure on prices as some resources (e.g. oil) become more scarce and demand from developing countries increases, making them less affordable for people on low incomes.

Risk: Global increases in the price of energy, commodities and food will increase material deprivation for those on lower incomes, thus increasing inequality.

Another aspect of globalisation is the global movement of people. Europe's labour force is shrinking due to demographic trends, so migration offers the only potential route to maintain a high inflow of young people into the labour market. This does not only concern the inward-migration of low-skilled workers – it also relates to the opening-up of global labour markets across all skills groups. Europe is likely to remain an attractive destination for certain low-skilled migrants, but for higher and scarce skills (for example in the medical field), it will need to compete on a global level, not only to attract new talent but also to retain its own.

Proposition: Europe will need to compete globally to attract and retain talent. This will require the EU to be open to migration and to have active policies to attract and retain talent.

Demographics

Population-ageing and demographic change is a major trend which will impact on all European countries. In general, European fertility rates are low and life expectancy has been increasing. As a result, the average age of Europe's population is increasing. This has a number of major implications for social policy. Most obviously, it poses a challenge for Europe's pension systems, whether publicly or privately funded. Over time, there will be more people in older age groups who will rely on pensions. However, it will not be sufficient simply to change the pension-age threshold, as this is meaningless unless people work until that age – i.e. the employment rate across all ages needs to remain high instead of falling very significantly in older age groups,

as it currently does. EU Member States must also address the significant costs connected with special pension arrangements for public workers.

Proposition: European pension systems need to be reformed to ensure their sustainability. The focus must be on increasing people's active working life. Special arrangements for public-sector employees must be phased out to maintain affordability.

Demographic change will also impact significantly on European labour markets. A shrinking labour force will necessitate activating a number of groups which are still under-represented in the labour market, including older workers, women, those from ethnic minority and/or migration backgrounds, those with disabilities or work-limiting illnesses, and those with caring responsibilities. Given the overall contraction in the labour force, the solution is not to restrict labour supply, but to increase it.

Proposition: European labour markets must become more efficient in increasing labour-market participation across all groups in society. Policy options which result in reduced labour supply need to be avoided.

Increasing labour-market participation among older age groups will require a number of significant changes to Europe's labour markets. Work must be organised differently, with new career structures, and changes to the work-life balance and to working terms and conditions. Wages must be determined by productivity, not seniority, and pensions must be based on lifetime contributions.

Proposition: European labour markets need to adapt to an older workforce, with a wide range of associated labour practices and policies to make such labour productive.

Europe's ageing population will also have a major impact on Europe's health systems. At the same time, wages have been increasing in many health systems, not necessarily driven by increased productivity. Ageing will not

only increase demand for health services, but over time it will also necessitate a reorganisation in how they are delivered, with, for example, more emphasis on providing care rather than on medical services.

Proposition: European public services will increasingly come under pressure from ageing populations. Increasing spending will not suffice to maintain current levels of services. Containing the costs will entail a reorganisation of services if rationing is to be avoided.

An ageing population, with correspondingly lower labour-market participation rates, also risks reducing growth rates. As discussed above, the challenges facing Europe will become even more difficult to deal with against a backdrop of low growth.

Risk/uncertainty: Without significant increases in labour-market participation, demographic trends will reduce growth in Europe.

To balance out the gaps in the labour market which will arise from the ageing of the population, it will be necessary to continue bringing in migrants. This includes not only temporary and circular migration to plug specific gaps, but also permanent migration. However, the limited scale of migration regarded as acceptable by some European citizens is not going to reverse the demographic trend.

Proposition: Migration will be necessary to help balance out some of the impact of demographic change, but it will not be sufficient to cancel out its impact.

It is also important to recognise that governments only have limited control over migration flows. While they can manage certain sources of migration, by, for example, establishing a system to allow in a certain number of highly-skilled migrants, other sources, including illegal migration or family reunifications, are more difficult to control. It is also crucial to take into account the increasing global competition for migrants with sought-after skills.

Link to cohesion/diversity: changing societies

Migration (and past migration) are changing European societies. They are inevitably becoming more diverse, in terms of both ethnicity and national backgrounds. EU citizens' freedom of movement is also contributing to the changing nature of European societies. But this is creating significant challenges. Many migrant communities are insufficiently integrated, with particular problems in the education – and subsequent labour-market participation – of migrants' children, and women from certain traditional cultures.

Proposition: To fully benefit from migration, there is a need to fully integrate migrants and their dependents in education and labour markets. In the long run, Europe's societies must become more integrated despite being more diverse.

However, societal change goes deeper than simply having a more diverse population. Household structures are also changing, with fewer traditional families and more single households. The average size of households has been decreasing in the EU and this has significant implications for care services (e.g. relating to illness or old age). The notion of family carers will be much less prevalent, thus necessitating more formal types of care provided by society.

Proposition: Care, especially of the elderly, will continue to change significantly, with more services being provided by society rather than by individual families.

Differences in lifestyles and incomes/wealth are also likely to increase over time as national economies and the incomes of different groups grow at different speeds, with those at the lower end being left behind. The gap is likely to increase not only *within* countries but also *between* countries, with living standards in some EU Member States well below those in the most well-off countries. Increasingly, greater mobility means European citizens will compare their situation with similar people in other countries.

Risk/uncertainty: Income and other inequalities will continue to increase unless corrected, creating tensions in European societies.

In addition to material inequalities, it is also likely that health and education outcomes in different groups in society will continue to diverge. Lifestyles and behavioural differences are likely to be a major cause of this increasing inequality in relation to health.

Proposition: Health and education outcomes for the least well-off in society are likely to continue to decline relative to those who are more affluent.

Opportunities and resources

While European societies undoubtedly face a range of significant challenges, there are also many resources available to them to address these challenges.

Wealth and capital/endowments

First and foremost, it is important to recognise that most European societies are relatively wealthy. This means that there are significant levels of private wealth available, even if public funding is more constrained. Companies also have significant levels of capital which can be invested. A return to strong economic growth would increase the available wealth and corporate capital, which would enable more redistribution or other social policies if societies decide that this is a political priority.

Proposition: European societies have significant private wealth and levels of corporate capital, which are a significant resource if they can be utilised to achieve desired social outcomes.

Investment in the future

Time

Europeans have increasing amounts of expendable time, which is an even more important resource than wealth. In recent decades, the length of their

working lives has fallen significantly (through shorter hours, more holidays, longer periods in full-time education and more absences from employment), while life expectation has increased. Potentially, Europeans could work for longer over the course of their life time and still spend significantly more of their life outside work than in previous decades. Including people in the labour market who are currently excluded would also improve social outcomes.

Proposition: Europeans could significantly increase the amount of time spent working over their lifetimes. Time is potentially the biggest additional resource available, especially if people currently excluded from the labour market can be integrated.

Human capital

The potential benefits from increased working time are multiplied if there are significant levels of human capital available, created through education and training throughout citizens' lives.

Proposition: Human capital is a significant resource for Europe's societies. Education and training can multiply the benefits from longer working lives, providing higher returns for the time invested.

Technology and innovation

Technological progress and innovation also have the potential to improve social outcomes by, for example, increasing the efficiency of public services. Much service-sector innovation will be centred on organisational-, business model- and process-innovation, potentially generating large productivity improvements. Social innovation can help increase the sustainability of Europe's public sector. Technology can decrease costs and potentially increase quality, but an increase in the use of technology in public services is not always welcomed by those who use them.

Proposition: Technological change and innovation have the potential to increase the productivity and sustainability of Europe's public sector, thus improving services for the benefit of society.

There is significant uncertainty about potential of technology, not least because public services' productivity is hard to measure. New technologies can also add to the budgetary pressures on public spending.

New sectors

Innovation and technological change, combined with increases in human capital, can lead to the development of new areas of competitive advantage and the emergence of new sectors, creating income and employment.

Proposition: Significant opportunities will arise from the emergence of new sectors and the development of new areas of competitive advantage for European economies.

Social capital

Europeans have developed a society with extensive public and 'third-sector' structures, including, for example, high levels of volunteering. Having the structures required to improve social outcomes, such as public health and education systems as well as social insurance systems, is an asset for European societies.

Proposition: Europe's social structures and public services are an asset which can be utilised to improve social outcomes. Maintaining these structures is a pre-condition for enabling Europeans to maintain high levels of well-being.

Opportunities

While it is undoubtedly true that we live in challenging times, there are also opportunities available to Europeans – and many of the challenges also provide new opportunities. For example, globalisation provides Europe with a global market for its goods and services. Ageing populations are fundamentally driven by increasing life-expectancy, which is a significant opportunity to increase well-being. Adapting to an ageing society also provides an opportunity to develop new global products and services for older people, and to benefit from the accumulated experience and expertise of older workers.

Proposition: Europe's challenges also provide significant opportunities. If realised, these opportunities can help to increase the sustainability of Europe's economic and social models.

Europe's social models can also provide new opportunities in a world driven by human capital. Education and skills' development can, for example, help to reduce social exclusion and increase competitiveness simultaneously.

Proposition: Europe's social models can provide new opportunities in a knowledge economy, driven by human capital.

A crucial opportunity for Europe is the dynamic nature of job creation. In our economies, the stock of jobs is not fixed (i.e. there isn't a fixed number of work hours which has to be distributed among the working population). Rather, more economic activity generates more jobs. But the belief that the amount of work is fixed is persistent (termed the "lump of labour fallacy" by economists). It suggests that, for example, shorter working hours, early retirement or limitations on migration can free up work which can then be distributed to other groups such as the unemployed, whereas economics suggests that the opposite is true.

Much more needs to be done to ensure a wider understanding of this phenomenon, not only by citizens but also by policy-makers. It also needs to be examined whether this holds true when demand for labour is low because of slow economic growth.

Proposition: The total available number of hours of work in Europe is not fixed. More employment and economic activity can create more jobs. Shortening hours of work or supporting individuals' exit from the labour market does not increase the labour market opportunities for other workers and dampens economic activity.

European integration itself also provides significant opportunities. Not only does peaceful cooperation increase economic opportunities, it can also enhance the effectiveness of social policies and European

integration can help to overcome some of the inequalities between regions and countries.

Proposition: European integration provides an opportunity to enhance the effectiveness of social policies and overcome inequalities between Europeans.

V. The choices we have...

This section examines the policy options in areas related to the Well-being 2030 project. However, as indicated above, it is clear that while there are significant resources available, recent and long-term challenges, including the economic crisis, have further constrained the choices available to policy-makers.

It is also clear that European countries have different starting points concerning policies related to citizens' well-being, both in terms of the choices made in the past, the resources that are available to them, and the level and types of challenges they face. For example, countries with significant levels of debt have a more limited range of options due to reduced public funding. However, they are also subject to particular societal challenges caused, or perpetuated, by such debt.

The policy choices below have been set up as dichotomous choices, i.e. they highlight the two extremes at opposite ends of the spectrum. This is clearly a simplification, aiming to highlight contrasting visions of the future. In reality, most choices are on a continuum: for example, the choice is not between high and low public spending on social policies, but rather between a range of spending levels as a proportion of GDP. It is also clear that choices made in one policy area will influence those available in others, implying that, for example, certain choices are no longer feasible.

The options outlined below also include potentially mutually-exclusive choices or those where a real choice is not available. However, they have been included because these apparent choices are prominent in the public debate.

Outlining the choices in this way highlights the broad options available. This can then point towards a general policy direction, which can be compared to the available information on the population's preferences and values. This highlights the fact that European citizens make broad choices concerning preferred policy options for social policy/policies linked to well-being through the ballot box. In practice, such choices are made implicitly or explicitly and may vary over time, even within Member States.

Societal values

One of the fundamental questions is what balance to strike between focusing on growth versus focusing on equality. While this is not a clear-cut choice – higher growth can help to ease inequality if the benefits are redistributed, and reduced inequality could help to drive growth – there is still a fundamental choice here between different ideas of what constitutes ‘progress’.

Choice: Should European society aim for economic dynamism or for maintaining high levels of equality?

Inequality – different types vs. equality of opportunities

Linked to this is the question of whether the policy-focus should be on individuals or on the community as a whole, and what importance material consumption should have in the life of Europeans.

Choice: Should European society focus on an individual pursuit of improved material consumption or improved community well-being, even if this implies lower consumption?

Attitudes to globalisation

Globalisation is perceived by many Europeans as a threat to their employment, while others highlight the benefits that Europe gains from globalisation.

Choice: Europeans could try to build a ‘Fortress Europe’ in an attempt to prevent jobs being lost to countries outside the EU, or accept the labour-market changes globalisation brings and seek to benefit from the opportunities which arise from global trade and investment.

From an economic perspective, isolationism is unlikely to be a real choice, as it is likely to reduce overall welfare significantly. However, it is unclear to what extent citizens are aware of the impact isolationism would have.

Size of government

One of the distinguishing features of Europe's different economies is the size of government, most commonly measured in terms of the proportion of GDP devoted to government spending. In international comparisons, the richer European countries tend to have high levels of government expenditure relative to GDP, but there are significant variations. However this increased everywhere in 2009 in response to the crisis, ranging from just over 40% in countries such as Bulgaria and Romania to a figure approaching 60% in Denmark (Eurostat data).

Choice: Europeans can choose between having a state with relatively high public spending and correspondingly high levels of public service provision and redistribution, or a 'small' government with correspondingly fewer public services and less redistribution.

The debate on the overall size of the public budget is often confused with the level of delivery through public organisations and/or public employment in the public debate. But these are separate issues: public services can also be delivered by private or third-sector organisations.

Whether this is a real choice remains a matter of debate. Many have argued that the 'Scandinavian model' of high public spending with significant redistribution and high levels of public service cannot be replicated in other countries. There could be a range of reasons for this, including weak public institutions, heterogeneous societies and the current level of economic development. It is also unclear how effective different systems are in delivering public goods and correcting market failures. A further debating point is whether a large state has a negative impact on growth and competitiveness.

There is, however, also a clear question of preference: if a large state could deliver high levels of quality public-service provision and redistribution, would populations across Europe favour this over growth and competitiveness?

Emphasise public services/redistribution in public expenditure

Regardless of the overall level of public expenditure, further choices relate to the emphasis within public spending; i.e. the relative emphasis on

redistribution and public services (as opposed to a greater focus on items such as defence, environmental protection, and law and order policies).

Choice: Europeans can choose the relative emphasis on public services and redistribution policies within the overall public budget.

Method of public service delivery

The level and type of public services provided is a separate issue from how public services are delivered. Here, the evidence is hotly contested. While some believe that public objectives are best met by public organisations and employees, others maintain that the private sector can, within the right framework, deliver them more effectively and efficiently. In addition, in many social policy areas, the 'third sector' has become an important delivery mechanism, often including a degree of volunteering.

Choice: Europeans can express a preference for how public objectives are delivered, including a mix between public, private and third-sector delivery.

One could argue that this is not a policy choice: if we set societal objectives, we should choose whatever delivery mechanism is best suited to achieve them. However, many Europeans associate different delivery mechanisms with different levels of quality, cost and customer focus. This choice is thus crucially influenced by people's judgement of what method is most effective, efficient and capable of meeting local needs. Political traditions might be a key influence here.

In a similar vein, populations may have a preference for insurance-based schemes or redistributive schemes funded out of taxation. While the former can be more sustainable in the long term as they should be built on the investment of members' contributions, they are difficult to scale down and are often changed by policy decisions to make exceptions for certain groups.

There is a high degree of path dependency in this choice; i.e. the options available crucially depend on prior decisions. The main reasons for this are the difficulties involved in making systemic changes. For example, insurance-based systems require the accumulation of assets, which takes time.

Choice: Europeans can choose between insurance-based public systems versus systems built on public transfers funded out of current taxes. This choice is critically influenced by the system already in place.

Technological advances also have the potential to change the delivery of public services fundamentally. However, there is some public resistance to the use of such technology, especially in the field of social policy and care, amid concerns that it might lead to lower-quality provision and given the clear preference many people have for services to be delivered face-to-face.

This has significant implications in terms of productivity. If fewer technological solutions are used, labour-market shortages will become increasingly likely. In addition, to increase productivity and cut costs in labour-intensive activities, people might be increasingly cared for in institutional settings such as care homes rather than at home, even though home care tends to be the expressed preference of most people.

Choice: Europeans can decide to accept greater use of technology in the delivery of public services, even in areas where this is contentious or labour-market gaps will start appearing. Potentially a higher degree of institutional care might be used to increase productivity and cut costs.

There is also the question of how European societies deal with increasing numbers of people requiring care. A fundamental issue here is whether care is predominantly 'informal' (provided in a family setting) or whether a more community-based approach is chosen.

Choice: Europeans can opt for a system of care based on traditional family care or a community-based approach that would deliver higher levels of well-being, bearing in mind the different cost implications, who would supply such services and changing family structures.

Targeting of public services

A key decision is whether the state delivers public services for the whole population (universal services) or focuses on specific vulnerable target groups, with the latter clearly intended as a form of redistribution.

Choice: Public services can be targeted on the most vulnerable or be provided for the entire population.

This is not necessarily a choice which needs to be made for a policy area as whole. For example, in health policy, the aim might be to guarantee access to medical services throughout a person's life, but also to target services at the most vulnerable by, for example, tackling the social determinants of health inequalities.

The choices made here are linked to the overall size of the budget and/or the emphasis on public services within the budget, as universal services are likely to require higher levels of public expenditure. Societal choices in this area are based on a range of factors, including political choices and the types of social model in different societies, often for reasons linked to culture and tradition.

Inter-generational choices

Public spending decisions often come down to prioritising different groups for public services. This can be seen, for example, in policy choices which target specific age groups or levels of deprivation and distance from the labour market. This can manifest itself in a variety of ways: are public spending choices largely focused on policies which will benefit future generations (such as education investment or childcare/child benefits), or those which benefit current, older generations (such as generous pensions for the elderly)?

This also relates to the policy choice between prioritising the consolidation of public finances or expecting future generations to deal with high levels of debt. As noted above, such policy choices are not mutually exclusive in practice, but addressing these 'tough questions' demonstrates the policy priorities which come into play.

In short, to what extent should public finances be focused on investment rather than current spending? Are policy choices economically, financially, socially and environmentally sustainable?

Choice: Should public policies favour sustainability and preserving choice for future generations, or should the focus be more on meeting the needs of current generations?

It is often difficult to identify clearly what policy choices offer greater long-term sustainability, not least because decision-makers often emphasise the positive elements of a policy for all groups but do not highlight the inevitable trade-offs.

The implications of choices made in these policy fields are not easy to determine. At times, meeting the needs of current generations could also help future generations: for example, if public spending maintains growth and employment, this could reduce future limitations on government budgets. However, it could also be argued that investment now – in, for example, structural reform and fiscal consolidation – will give future generations a better starting position.

A related choice is whether there is a need for public finance consolidation now or whether to defer this until later. This choice is always made in an environment of uncertainty. A case in point is the current dilemma facing European economies, with some arguing that consolidation needs to start now, while others argue that this could jeopardise the economic recovery.

Choice: Europe faces a choice between starting public finance consolidation now or deferring the process until later.

In either case, credible plans for consolidation are needed if the problem is to be addressed for future generations.

Time allocation

As noted in the previous section, time is a crucial commodity which can be invested in different ways. Europeans have, over time, chosen to allocate

more and more time to activities outside work, with, for example, longer holidays, more time in education and earlier retirement than in many other countries. In general, more time is being spent outside productive economic activity (although education is potentially an exception if it can significantly increase lifetime productivity).

At the same time, economic growth has enabled relatively generous provisions for those not in employment. However, even before the crisis, it was clear that this trend of generous provisions and increasing time out of work could not be sustained. Now, in the current difficult public finance situation, a clear choice is emerging between the generosity of provisions and eligibility to access them – which is being addressed, for example, by increasing the pension age.

Choice: Europeans can choose between extending the time spent working during their lifetime or reducing the public provisions available for periods out of work (including retirement, low weekly working hours and holidays).

Labour market characteristics

Many of the choices Europeans face in the social policy field are closely linked to the labour market. At the heart of many policy dilemmas lies an apparent wish among the population for employment security and stability, even accepting implicitly that this might mean lower dynamism in the labour market as a whole.

Choice: Europeans can choose between higher levels of protection in the labour market versus a more dynamic labour market with more career choices and less people excluded.

This choice is, however, disputed. Many would challenge the basic premise which underlies it; i.e. that there is a trade-off between higher levels of protection and a dynamic labour market. While some argue that high levels of protection will lead to long-term stagnation and thus lower levels of job security for all, others would deny that high levels of protection reduce the dynamism of the labour market. Furthermore, a dynamic labour market could also still exclude significant parts of the population.

In a similar vein, there is a debate about whether the focus of policy should be on attempting to facilitate the creation of a large quantity of jobs or whether it is better to focus on a smaller number of high-quality jobs.

Choice: The focus of labour market policies could be on facilitating the creation of large numbers of jobs, with lower average incomes but more people active in the labour market, or on the creation of a smaller number of high-quality jobs, with higher wages but within a smaller labour market.

Many would question whether this choice can realistically be made by public policies, as the dynamics of the labour market are determined by a wide range of factors. Also, this might not be a real choice – there is some evidence to suggest that you can have both more and better jobs.

The inclusion of marginalised groups in the labour market can also create a dilemma. Those furthest from the labour market tend to have lower than average productivity – i.e. they do not tend to work in high value-added jobs, and have lower wages and worse working conditions – also potentially impacting on well-being.

Choice: Including marginalised groups in the labour market versus a labour market with high productivity per worker.

There are also key choices to be made in the labour market in relation to migration. Given the ageing of Europe's population, migration is a potential way to increase dynamism in European labour markets. Migrants are also often key providers of employment in areas where Europeans are reluctant to take the available jobs, including in the care sector.

Choice: Europeans can choose between having higher levels of migration or increasing gaps in labour markets and more pressure on public services as the number of people paying into the system diminishes due to population ageing.

At European level, it is not only international migration which is shaping European labour markets but also the mobility potential of European citizens themselves. However, cross-border mobility remains relatively low, which means that Europeans do not, in reality, benefit from an integrated labour market.

Choice: To enhance labour-market mobility, policies need to supplement the passive promotion of mobility, for example the right for people to freely move within the EU, to an active promotion of mobility through, for example, an increase in programmes promoting exchanges and by ensuring full portability of pension rights.

Circular/temporary migration

Many Europeans fear that increased migration will mean that there will be fewer jobs available for those already living in the country.

Choice: Should jobs predominantly go to nationals or should they be open to increased migration?

From an economic perspective, this is a false choice, as it assumes that there is a fixed level of jobs available in an economy. Nevertheless, this so-called 'lump of labour fallacy' still influences public opinion and policy choices.

VI. The win-wins – and why they are not happening

In addition to the difficult policy choices outlined above, there are a number of areas where it appears that we can have the best of all worlds: i.e. an improvement in social outcomes and well-being, without compromising other policy objectives. However, on closer examination it becomes clear that these policy choices are also crucially influenced by the constraints explored in previous sections. Below, we examine some of these potential win-win situations,²⁸ and consider why, despite their apparent desirability, progress is still slow.

1. *Green jobs: creating employment opportunities in new emerging sectors linked to environmental sustainability.*

While there are clear economic opportunities in new sectors linked to economic sustainability, it is not necessarily clear that the number of extra jobs which will be created will outweigh the potential job losses in other sectors, especially if these new sectors are relatively capital intensive. This transformation is also likely to impose transition costs on certain groups of workers in society.

The extent to which governments can effectively influence this transition is also questionable. While much can be done to create the framework conditions for green growth, including for example environmental standards or the provision of appropriate skills, this is likely to have only an indirect, long-term effect.

2. *Flexicurity: achieving a high degree of flexibility in labour markets while at the same time providing a level of security for all workers and using training, etc., to upskill those who need to improve their employability.*

Flexicurity seems to offer the best of both worlds - flexibility for employers and security for workers, based on active rather than passive protection; i.e. increasing the employability of those in the labour market who are in transition. This underlies the promotion of the concept at the European level.

However, it is far from clear that all social partners in all countries share the same enthusiasm for this concept, amid fears that this is simply a way of introducing flexibility through the backdoor. It also relies on a high overall

level of labour demand, which may be severely tested in the current crisis. It is also not clear that the employability of all groups in society can be enhanced sufficiently to boost labour-market participation. Finally, flexicurity is expensive for the public purse, at least in the short run before potential long-term savings from higher labour-market participation are realised.

3. *High investment in innovation and education: providing a long-term return which benefits society as a whole.*

While it is clear that investment in education and innovation can improve an economy's long-term performance – and that education also has the potential to improve social cohesion – this is far from a straightforward relationship. Quality, access and outcomes matter, and these are not necessarily linked to the level of input. They also require high upfront investment.

4. *Integration of marginalised groups in the labour market: reducing the need for public intervention while at the same time enhancing these groups' well-being.*

Bringing marginalised groups into the labour market clearly not only results in positive outcomes for those concerned, but also reduces the need for public intervention, both directly (for example, in terms of social transfers) and indirectly (in terms of dealing with some of the wider social consequences). However, achieving this goal tends to be difficult, not least as these groups' distance from the labour market can be significant, requiring high investments in employability. As well as the cost implications, it is far from certain whether all people excluded from the labour market will be able to re-enter regular employment even with high levels of support.

5. *Encouraging preventative action in healthcare and behavioural change with regard to lifestyles: to reduce significant long-term negative impacts for individuals and society.*

Managing demand for healthcare services is crucial to make Europe's public health systems more sustainable as well as increasing citizens' quality of life. It is clear that preventative action, such as health screening, and lifestyle changes, such as stopping smoking, could provide significant benefits. However, these are difficult to achieve without significant reform of public health systems to provide more incentives for these activities. The effectiveness of policy levers is also uncertain and this is likely to require high upfront investments.

6. *Increased efficiency and effectiveness (and quality) in public services: ensuring high levels of delivery despite a reduction in the resources available.*

Boosting the productivity of public services offers a way to maintain high levels of service despite resource pressures. But this is easier said than done. Often, this will require significant reform and tackling a number of vested interests. The outcome of reform measures is also often uncertain, with many unintended consequences. Initial investment costs also tend to be high.

7. *Making better use of data and knowledge: utilising the full potential of the opportunities offered by ICT.*

The wealth of data and knowledge available, combined with ICT capabilities, makes it much easier to determine what policies work and to better target interventions. While this involves a certain upfront cost, this is likely to be relatively small. However, legal restrictions and data-protection rules limit the possibility to exploit these opportunities.

8. *Technological progress: steadily introducing new technologies to address societal challenges.*

Introducing new technologies to address societal challenges can overcome constraints, for example by making it easier for people to be cared for at home. However, there are question marks over the impact of this on quality, and many public services struggle to accommodate technological change in their budgeting mechanisms. It also requires upfront investment.

9. *Removing public-employment security and privileges: to ease the pressure on public finances.*

While many employees in the public sector do not have better employment conditions than those in the private sector, there are some areas where public employees still have significantly better job security and employment conditions, such as early retirement and generous pension provisions. Removing these would ease the pressure on public finances, but this will mean confronting vested interests which will resist change.

10. *Reforming the tax system: to reward work and discourage unsustainable activities.*

Despite the expressed desire of many governments to reduce the tax burden on labour and income by shifting taxes to unsustainable activities such as CO₂ emissions, this requires a fundamental reorganisation of taxation which could well have unintended consequences. In the transition, certain groups in society are also likely to lose out, creating resistance to change.

The discussion of these apparent win-win situations demonstrates that there are a number of recurring reasons why it has been difficult to introduce them:

1. The initial investment required – often these solutions require significant upfront investment. This investment is required in the short term, but will only bring returns in the medium and long term. This often contrasts with a short-term focus among decision-makers.
2. Path dependency – many solutions can only be introduced if prior steps have already been taken. (For example, including marginalised groups in the labour market requires action in the education system.)
3. Resistance to change – many see change as a threat, particularly if there are significant social guarantees that people take for granted. There is a ratchet effect, where public provisions, once granted, are difficult to take away. This can create an entitlement/dependency culture.
4. Transition costs – many reforms result in winners and losers, creating significant transition costs for some sections of society.
5. Doubts over the feasibility of some of the proposed solutions – with significant uncertainty over the effectiveness of certain policies
6. Vested interests – there are many groups which will resist change as they have a vested interest in maintaining the *status quo*.
7. Lack of policy instruments to drive change – with many of the key outcomes not directly deliverable by public policies.
8. Variations in national and regional circumstances and in traditions/

cultures – creating significantly different framework conditions which can make a solution feasible in one place but not in another.

9. Risk/uncertainty – which is pervasive in many social policy areas. Unintended consequences of policies can negate positive impacts.

10. Lack of positive incentives to change – with many public organisations and public budgets not geared towards delivering such change.

The various (and often polarised) policy options outlined in this paper and the barriers to the implementation of win-win situations serve to demonstrate that these kind of questions are rarely debated openly. But such a debate is critical: Europeans live in societies which reflect a choice between different social models, and this is largely determined by democratic choices. To fully exercise their democratic rights, citizens need to be at the forefront of social policy debates.

VII. What does this mean for Europe?

The debate over the EU's role in addressing key challenges is increasingly focusing on where the Union can add real value. In this spirit, there appears to be a role for the EU to make this explicit and to encourage debate and awareness of the policy choices open to Europeans to enhance well-being. Understanding these choices will help Europeans to better understand the various public policy trade-offs which have been made, and will need to be made in future.

Such debate and awareness could serve to generate more informed decision-making. The EU can also help to disseminate good practice and to bring together and analyse data, showing what solutions can be transported across borders. In some key areas, the EU should aim to find consensus to promote win-win situations. Much more widespread acceptance of flexicurity could be an example of this.

While the EU level can play an important role in fostering this debate, it also requires that national policy-makers play their role. The success of the EU in this regard will depend on the political will of national decision-makers. It is their responsibility to inform citizens about trade-offs and about the necessity to introduce reforms in order to preserve their country's social model. This means that it is not only European governments which have a role to play – opposition parties must also support this process. In short, we need a shift of focus in policy-making and the success of politicians must be measured by their capacity to be forward-looking and to enhance the sustainability of Europe's economic and social models.

Beyond fostering debate and helping to find consensus, what specific role can the European institutions play? Given that many of the key policy levers are in the hands of Member States, is this an area where the EU can and should act? The answer must be 'yes' if we follow the logic of the Lisbon Treaty, which makes enhancing citizens' well-being a central objective of EU policy.

While European spending is limited, many of the choices highlighted above can also be applied to decisions on how to allocate EU resources. While this will require better information on Europeans' values, attitudes and preferences, it is already clear that there is a need to assess spending from a well-being perspective.

The EU also aims to influence national and regional policy in a number of areas, not only through the Open Method of Coordination but also through other direct and indirect routes – for example, labour legislation and the EU Structural Funds. To decide in what direction the Union should seek to influence these processes, the choices noted above could highlight where common European preferences exist on the type of action required and where there are still significant differences between countries.

In areas with a distinct cross-border element – most notably, European labour markets – the EU must try to deliver what citizens want to make European integration deliver for the individual. In areas where there are significant divergences between Member States, a degree of harmonisation or a common EU approach might be necessary. Here, it is especially important to re-examine the social dimension of the Single Market.

Finally, the EU can help to overcome some of the barriers to help implement the win-win solutions highlighted above. This could be done, for example, through investment funding from the European Investment Bank or by creating a legal framework which encourages private investment in innovation and education. The barriers noted above, as well as the policy choices charted in this paper, could be used to devise a toolkit which could highlight where the EU can add most value in enhancing its citizens' well-being and what actions need to be prioritised.

One possibly fruitful avenue to pursue is to develop Europe's social model as a source of future competitive advantage. In a global economy increasingly dominated by human capital, with knowledge becoming the key driver and asset of the European economy, well-designed social policies can increase productivity and attract/retain high-quality human resources. If this becomes a guiding principle, it suggests a number of policy directions. For example, Europeans generally express a preference for living in more equal societies without high levels of deprivation and the associated social impacts, such as crime. Similarly, bringing marginalised groups into the labour market increases GDP and reduces public outlays, and increased mobility helps to maximise economic potential and could help to mitigate the impact of economic crises.

Given the importance of human capital, the development of education and skills becomes crucial. Competitive advantage will only be achieved in the knowledge economy if we invest in education and skills. This requires improvements in pre-school, primary, secondary and tertiary education as well

as using active labour market policies to continuously upgrade the skills of those outside the labour market, fostering lifelong learning for those in employment and bringing marginalised groups into the labour market. Social policies can thus help Europe to compete in a globalised world and at the same time increase social cohesion and well-being. But this will require fundamental reform and significant investment, as well as prioritisation.

Next steps

Before developing such policy recommendations, it is, however, crucial to recall the function of this paper, which is intended as a starting point for debate rather than to present final recommendations.

What is critically missing is better information on what citizens actually want in this area. Other research strands of the Well-being 2030 project are addressing this question. This information will not provide an answer to what should be done at European level; even if citizens want certain policy actions, they might not maximise well-being in the long run, for example if they reduce the ability of future generations to enjoy a high quality of life. However, it will provide a good pointer to the direction European policy should take and reveal whether more information and debate on some of the more difficult questions are necessary.

There is also a need to examine critically the arguments presented in this paper before developing final recommendations:

- Are the policy outcomes it identifies the right ones to aim for to enhance citizens' well-being?
- Have the challenges and resources/opportunities been identified correctly and comprehensively?
- Are all relevant policy choices included and do the options presented reflect the real-life choices we face?
- Have the barriers to delivering 'win-win' situations been identified correctly and comprehensively?
- Has the role for the EU been correctly identified?

In its final phase, the Well-being 2030 project will debate these questions with the stakeholders and experts it has engaged in the process. The results of that discussion and the information on what citizens want will be used to revise the arguments presented in this paper and develop policy recommendations.

This process of debate will help not only identify policy solutions which can enhance long-term well-being, but will also make a small contribution to creating a vision of a future social Europe which is realistic but ambitious and delivers what European citizens want.

Endnotes

1. <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:C:2010:083:0013:0046:EN:PDF>
2. Amendments to the Treaty on European Union and to the Treaty establishing the European Community. <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:C:2007:306:0010:0041:EN:PDF>
3. R. Liddle and F. Lerais (2007) 'Europe's Social Reality: A Consultation Paper from the Bureau of European Policy Advisers'.
http://ec.europa.eu/citizens_agenda/social_reality_stocktaking/docs/background_document_en.pdf
4. European Commission, (2008), 'Renewed social agenda: Opportunities, access and solidarity in 21st century Europe', Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of Regions, Brussels, COM(2008) 412 final.
5. See Eurobarometer on European Social Reality (EB 273, February 2007).
http://ec.europa.eu/public_opinion/archives/ebs/ebs_273_fiche_el.pdf
6. R. Liddle and F. Lerais (2007), op.cit.
7. European Commission, (2008), Report on the public consultation on Europe's social reality and on a new social vision for 21st century Europe, SEC (2008) 1896.
8. G. Esping-Andersen (1990) *Three Worlds of Welfare Capitalism*, Polity Press.
9. D. Lane and M. Myant (eds.) (2006) *Varieties of Capitalism in Post-Communist Countries*, Palgrave Macmillan.
10. R. Inglehart (1977) *The Silent Revolution*, Princeton: Princeton University Press.
11. G. Esping-Andersen (1990); op.cit. G. Esping-Andersen, (1999) *Foundations of Post-Industrial Societies*, Oxford: Oxford University Press.
12. D. Rodrik (1998) 'Why Do More Open Economies Have Bigger Governments', *Journal of Political Economy*, Vol. 106(5), October 1998 .
13. www.epc.eu/documents/uploads/601674494_EPC%20Issue%20Paper%2059%20%20What%20do%20citizens%20want.pdf
14. Forthcoming.
15. The focus here is on concrete, measurable outcomes, broadly linked to quality of life. Issues such as rights (for example, equality rights) also play a crucial role but the connection to quality of life is more difficult to determine. For example, does a certain right increase well-being, even if it does not lead to a concrete change in outcome? The authors would argue that rights should be seen in this context as an instrument to achieve such an outcome rather than focusing on its intrinsic value.
16. See Eurostat (GDP *per capita* in PPS, 2008).
17. R. Layard (2005) *Happiness: Lessons from a New Science*, London: Penguin.
18. See http://www.eapn.org/index.php?option=com_content&view=article&id=56&Itemid=56&lang=en
19. See Eurostat (S80/S20 income quintile share ratio, 2007).
20. See Eurostat (People at-risk-of-poverty after social transfers, 2008).
21. A. Lefranc, N. Pistoiesi, A. Trannoy, 'Inequality of opportunities vs. inequality of outcomes: are western societies all alike?', *Review of income and wealth*, Series 54, Number 4, 2008.
22. See Eurobarometer Standard (EB 65, July 2006).
http://ec.europa.eu/public_opinion/archives/eb/eb65/eb65_en.pdf
23. See EQLS 2007 (Evaluating the quality of society and public services).
24. The perceived quality of public services has been measured by the average value of the perceived quality of six public services - health services, education system, public transport, childcare services, care services for elderly and state pension system.
25. E. J. Brunner, 'Stress and the biology of inequality', *British Medical Journal*, Vol. 314, 1997, pp. 1472-6.
26. When assessing the challenges, climate change was taken to be a challenge which does not primarily have an impact on social-policy choices. There are specific areas where there is a link, for example in the area of green jobs or in the impact on public finances. Where there is a link to climate change, it is discussed in the text.
27. Climate-change mitigation and adaptation might also add to the pressure on public finances.
28. There are, of course, a much wider range of potential win-win situations, for example improving resource efficiency or effective coordination of economic policy. The focus here is on those win-wins which seem to have the greatest relevance for social policy and which have been raised in this context in the European debate.

Mission Statement

The European Policy Centre is an independent, not-for-profit think tank, committed to making European integration work. The EPC works at the 'cutting edge' of European and global policy-making providing its members and the wider public with rapid, high-quality information and analysis on the EU and global policy agenda. It aims to promote a balanced dialogue between the different constituencies of its membership, spanning all aspects of economic and social life.



European Policy Centre

Résidence Palace

155 Rue de la Loi

1040 Brussels

Tel: 32 (0)2 231 03 40

Fax: 32 (0)2 231 07 04

Email: info@epc.eu

www.epc.eu



With financial support from
the European Commission