International Journal of Business and Economic Affairs (IJBEA)
2(3), 173-182 (2017)
DOI: 10.24088/IJBEA-2017-23002
ISSN: 2519-9986

This Can Still be Europe's Century

KARL AIGINGER *

Policy Crossover Center, Vienna University of Economics and Business, Vienna, Austria

Abstract: The European integration process has been a long-run success model. Europe created an area of peace in a formerly conflict-ridden continent and at the same time the largest common Market of the world and a currency union for most of its countries. However, Europe has suffered from low dynamics since the financial crisis, and some of the consequences of this are high youth unemployment, the Brexit and the opposition to European solutions for dealing with migration. The study summarizes and evaluates research documents gathered by 28 European research institutions using historical analysis, models, and econometric techniques. One crucial result is that the European integration process has lost its narrative, and as a result also the enthusiasm of citizens for common solutions as needed for a currency union. Consequently, the article develops a new vision for Europe 2050 with seven required game changers. Taking more responsibility in shaping globalization and in stabilizing its politically unstable neighbourhoods would additionally be essential to regaining public support, as well as to boosting investment and consumption. The paper is intended as a contribution to an evidence-based design for Europe and the strategy discussion initiated by the White Paper of the European Commission. Europe still has a narrow window of opportunity for introducing reforms, combating Euro-scepticism and creating a role model for high well-being and broader societal goals.

Keywords: Reforming Europe, Responsible globalization, Evidence based policy design, Brexit

Received: 15 February 2017 / Accepted: 23 April 2017 / Published: 30 June 2017

INTRODUCTION: THE EUROPEAN NARRATIVE AND ITS SUCCESS

Over the past sixty years, European integration has been a successful model. Intentionally, we cite non-European economists and international organisations as witnesses for this assessment. Europe is the only large economic area in history created by neither military force nor expansion to uninhabited territories (Arrow, 2016). Instead, European integration is based on the voluntary decision of (at this time) 28 independent countries with their histories, cultures, traditions and governance systems.

What began as a peace project became a long-run success story, leading to a single market of 28 countries and a currency union for 330 million Europeans, with about ten more countries applying for membership or close relations with the EU 28. Although European integration has never been a smooth process, Europe is a "convergence machine" (Gill & Raiser, 2012), not least due to the historically unprecedented pace of former communist countries catching up with Western Europe in per capita GDP.

And Europe is a peace project, which was awarded the Nobel Peace Prize in 2012. It is no small achievement. After centuries of war among European nations, no military conflict has occurred between any member countries since the start of the integration process. This development has borne fruit. To name only three developments: Europe has high life expectancy and low child mortality, and Europe can be proud of its environmental achievements (Sachs, 2008). The European Union succeeded in raising the quality of life not only for a few but for the vast majority of the European citizens. This achievement is what sets Europe apart from the other large economic and cultural regions of the world.

The long run success of Europe has been less visible for the last two decades. The catching-up process vis-a-vis the leading US economy in per capita GDP stalled in the nineties, and economic dynamics have been slow in Europe since the financial crisis. Unemployment has increased, specifically youth unemployment. The Euro is in principle a success, but it is built on a European governance system that is inadequate for a currency union, and this has led to several country crises followed by murky reforms.

*Corresponding author: Karl Aiginger
†Email: karl.aiginger@querdenkereuropa.at

The research objective of this paper is to analyze the causes of the change from a successful model to the disappointment experienced in the last decades. Section 2 reports problems arising from greater diversity due to two enlargement rounds and the financial crisis. The loss of the old narrative of a peace union is another reason for reform fatigue. We, therefore, develop a vision for where Europe should go in section 3. Following the research of 34 partners in a four-year research program, we define seven game changers and three principles for reform (section 4). Since not all problems are purely economic, in section 5 we stress the importance of reconnecting the European project with citizens and of investing in the potentially dynamic European neighbourhood, where political, environmental and economic problems dominate today. The last chapter summarizes the main findings of this evidence-based research and how they could influence the current strategy discussion in the EU.

THE PROBLEMS CALLING FOR NEW ANSWERS

Greater diversity without shared narrative

Today there is no common vision of where Europe should go, what goals are to be achieved together, and how Europe should improve its own model. A concept is needed for how Europe could shape globalisation by cooperating with neighbours and fast-growing countries in the multipolar and heterogeneous world.

The European Union has become more heterogeneous through its two enlargements, the first leading to membership of Greece, Portugal and Spain and the second the former socialist countries in the East. There is no longer a common "project" or "narrative" for Europe. The once unifying peace mission is taken as given, even if peace is more endangered than in the past two decades. And "no one falls in love with a common market", a statement repeatedly made by former president Jacques Delors. The four freedoms are welcomed most of the time, specifically freedom to travel, to work in other countries or to study anywhere in Europe. But if unemployment is rising in a country, political parties are quick to call for restrictions of labour mobility. This anti-immigrant stance was a strong argument in the Brexit referendum, in a country which had opened borders to Eastern European labour ahead of all other countries. According to the Eurobarometer survey, the number of EU citizens who are completely positive about the EU is decreasing. Furthermore, trust in European institutions is waning fast before the Financial Crisis about half of EU citizens tended to trust the institutions of the European Union, while nowadays it is less than one third. According to a Brinke, Gnath and Ständer (2016), young people think more positively about Europe, but this declines when they enter the labour market.

The social and economic models became more heterogeneous in Europe over the last decades. Before the two enlargement rounds, there was a difference between an all-encompassing Nordic model and a less ambitious continental model calling for limiting social risks. Now a southern version was added with paternalistic elements, a strong position of vested interests and very low entries and competition. The eastern countries were primarily eager to catch up, and to limit social and ecological costs from the beginning. Then they were opposed to financially assisting southern European countries during the crisis, specifically if per capita GDP in the crisis countries was higher than their own and fiscal discipline had been lacking. Now new member countries are reluctant to take up shared duties related to migration.

Economic problems revealed by the financial crisis

From an economic perspective Europe "is not in a good state" (Juncker, 2015). Indeed, catching up in productivity with the leading US had already stopped in the nineties. After that economic growth was slow from 2000 onward and only regained pre-crisis output in 2016; unemployment is about 10% (marginally decreasing in 2016/17). The unemployment rate is twice as high among young people, in some countries close to 50%. Mobility between regions with high unemployment and those with a labour shortage is far too slow for an economic union, much less for a monetary union. Inequality is rising in most member countries-specifically, top income is booming, while the share of labour income is decreasing. The European policy response is slow and passive; policy priorities differ between the North and the South, but also between western European and former socialist countries and even between France and Germany. The reaction to the crisis, in particular, lacked a proactive component of innovations and business start-ups, neglecting distributional issues and young people, ignoring chances for new firms and new technologies, and completely failing to connect with citizens.

The European neighbourhood, which could have the potential to surround Europe with a ring of high-growth countries, is suffering from political instability, some of these problems aggravated by environmental problems, others by dreams of Russia and Turkey of regaining past strength. Migration to Europe is increasing pushed by problems in countries of origin, rather than pulled by the needs of European countries.

Governance problems

Despite some reforms, the European governance structure is still dominated by the European Council and the partial interests of its members, whose priority is their success as national leaders. The agenda of the European Commission is not adequately controlled by European Parliament. Governance does not address the complexity of 28 (or 27) countries, while at the same time heterogeneity and polarisation are increasing. It is therefore almost impossible to find common responses to issues such as trade and investment agreements or the refugee crisis.

To summarize: The European success model is in the throes of a severe midlife crisis. It has lost economic momentum, while unemployment and inequality are high. Europe has become very heterogeneous, and its emotionally adhesive power is fading.

VISION 2050: WELL-BEING BASED ON THREE PILLARS

A vision should be demanding, but realistic and feasible. It has to be built on existing strengths and preferences, and define a common project that takes precedence over short-run individual idiosyncrasies.

The following vision was agreed upon by 34 research organisations in the course of the WWWforEurope project (Aiginger, 2016). Its empirical findings and tentative conclusions are fitted to the latest development such as rising populism, political instability, and election results in this paper.

"By 2050, Europe will be a region with high and increasing well-being, including ambitious social and environmental standards. It will be a dynamic, open and pluralistic economic area. Unemployment will be low, inclusion high and income differences limited. Emissions and resource use will have declined absolutely to a level compatible with environmental resilience, biodiversity protection, and mitigating climate change. Europe will learn from other regions and offer its improved model to neighbouring regions and the world at large".

This vision demands important changes in policies and mindsets: First of all, the overall economic performance benchmark has to be changed from GDP and its rate of growth to "high and increasing well-being". This concept is well elaborated and underpinned by data sets in the "Beyond GDP" literature (Stiglitz, Sen & Fitoussi, 2009). It connects economic policy with individual needs (like income, health, employment opportunities and upward mobility), which together establish well-being. Switching from GDP to well-being as the overarching benchmark of success does not imply "degrowth" rather, it stresses the desire for mobility and a good life built on capabilities, personal efforts, and gainful employment. It requires rising income for a large share of European citizens.

Well-being is derived from three strategic goals: economic dynamics, social inclusiveness, and ecological sustainability.

Economic dynamics, on the one hand, imply rising incomes, but in contrast to business as usual with the priority placed on the lower segments and the poorer regions. On the other hand - and even more importantly - structural change and mobility should be fostered, as to make dynamics the opposite to petrification, new borders and inherited privileges.

Social inclusiveness calls for a reduction of unemployment, specifically youth unemployment, but also for the employability of elder persons. Life chances should be distributed more equally, while income differences should decrease and be based on merit. Investment in education and abilities is as important as ex-post protection. Migrants should be integrated into the labour market as quickly as possible, specifically in regions and occupations where labour supply has been too low.

Finally, environmental sustainability addresses the containment of climate change and respecting other planetary boundaries. Emissions need to decrease absolutely and strongly in line with the targets of COP 21 (Paris Climate Agreement 2016), both due to a historical responsibility and as the base for a European technology leadership.

To develop the best socio-ecological model for a rich but heterogeneous region could be the new narrative for Europe. The problems currently dominating the political discussion, such as Brexit, TTIP, and the refugee crisis, have to be solved from the perspective where Europe wants to go. A reformed Europe should first increase its economic dynamics, second, connect European policy with individual and societal needs and, third, give citizens greater leverage to co-determine reforms and control their delivery.

THE NEW STRATEGY: SEVEN GAME CHANGERS MADE OPERATIONAL BY THREE PRINCIPLES

A new strategy putting high and increasing well-being at the top of a reform agenda and for reconnecting citizens with the European model requires fundamental reforms, which we now characterize with seven game changers.

Game changer 1: Boosting and redirecting innovation

Innovation is the crucial link that can turn negative trade-offs between economic dynamics, social inclusiveness, and environmental sustainability into synergies. Boosting innovation is vital for closing the technology gap to the USA as the frontier economy and for sustaining the competitive advantage of Europe relative to emerging countries.

However, innovation should also be redirected. Today, the focus of innovative activity is primarily to save labour, which can aggravate social problems in a phase of already-high unemployment. Instead, Europe should focus on increasing total factor productivity, mainly by improving energy and material productivity. This can be done through carbon pricing or taxation, specific R&D incentives, and public procurement.

Game changer 2: Technological leadership in renewables and energy efficiency

Absolute reductions in the use of energy and material resources are necessary in order to limit climate change. While domestic resource use has stopped increasing or even declined in most European countries since the early 1970s (Fischer-Kowalski, 2011; Schaffartzik et al., 2014), global CO_2 emissions have risen significantly in the past two decades. In 2014 the International Energy Agency (IEA) for the first time reported a stabilisation of greenhouse gas emissions in a year of a fast-growing global economy. As a very first step, distorting subsidies for fossil fuels should be phased out. As a second step, incentives for boosting energy efficiency and standards for housing, offices, and transport should be continuously raised. Combined with green innovation and a higher share of renewables, this game changer would involve Europe taking the technology lead in new energy and energy efficiency (Aiginger, 2013; Antal & Van Den Bergh, 2013).

Game changer 3: New dynamics through less inequality, uncertainty, and pessimism

Europe is suffering from insufficient demand. Consumption is low since wage shares have been falling. Real wages increasing in line with labour productivity should be the rule. Decreasing the income spread could boost consumption. Low wages could be boosted by reducing taxes on labour in the short and upgrading skills in the long run.

Private investment can be stimulated by incentives for investment in low carbon infrastructure, and by reducing bureaucracy for new and fast-growing firms. Re-establishing a growth agenda in general while decreasing taxes and regulation would improve the business climate and encourage firms to invest out of the available cash flow.

Game changer 4: Shift from physical to intangible investment

Investment is important for economic dynamics and employment. However, the type of investment changes with the income level of economies. Today, Europe should focus much more on intangible rather than physical investment, ranging from preschool education to top universities, from broadband to innovation. These kinds of investments should be exempted from the upper spending limits in the fiscal pact (Aiginger, 2014) and prioritised in the European Fund for Strategic Investments (EFSI).

Game changer 5: The public sector as an engine of reforms and new dynamics

Almost one-half of the output of Europe's economies is re-allocated through the public sector. A better structure of taxes and expenditures can boost well-being.

The current tax system functions in a completely wrong direction, when assessed in light of employment, equity and sustainability. Instead of being boosted, employment is heavily taxed (20% of Europe's GDP arises from this source). Taxes on property and inheritances are low, thereby perpetuating differences in wealth and life chances. Taxes on emissions are low, emission trading broke down and is not restored, and subsidies for fossil energy persist, thus decelerating decarbonisation.

A major game changer would be to halve taxes on labour (from 20% of GDP to 10%) and substitute the revenue loss through the following four sources (Aiginger, 2016):

- increasing environmental taxes; introducing a carbon tax, and ending subsidies for fossil energy;
- tax increases on property, inheritance and financial transactions;
- taxes on alcohol and tobacco;
- increasing tax compliance, and preventing revenues flowing to off shores.

Models indicate that this tax shift could boost employment by approximately 10% in the long run and reduce greenhouse gases by 65% (Kratena & Sommer, 2014). If the "rest of the world" does not shift taxes at all, there is a marginally negative effect on European GDP growth. If non-European countries increase taxes on energy or emissions as well, at least to some extent, or if some part of the efficiency gains by the tax shift is spent on innovation, European GDP will rise as compared to the no-change scenario. It yields a win-win-win situation, with higher growth, lower unemployment and emissions.

Expenditure structures should also be shifted at the EU level as well as at the national level towards social or environmental innovations. Procurement policy can reduce the path dependency of technologies.

Game changer 6: Switching from ex-post protection to ex- ante investment

Welfare costs are higher in Europe than in any other part of the world. Nevertheless, new challenges stemming from family disruption, mobility-driven non-insurance and longevity are often not covered. The answer is to shift the focus from ex post protection to ex ante investment (Leoni, 2015; Hemerijck & Vandenbroucke, 2012).

Investment in early education, school and training systems can enhance the ability to adapt to change. These measures have the highest individual and societal "rate of return". Preventing unemployment or health problems instead of curing them is cheaper and increases well-being.

Game changer 7: A social contract providing symmetric flexibility

Europe does not have a quantitative shortage of labour due to aging over the next 10 to 20 years. It does have a double matching problem: First, Europe has an oversupply of low-skilled people and a shortage of highly qualified ones. Second, many workers would prefer to work longer hours, while others would prefer shorter hours.

The answer to the first mismatch is to upgrade skills. The second mismatch calls for new bargains between firms and employees based on "symmetric flexibility" (Aiginger, 2016; Leoni, 2015). Firms should be given the ability to adapt labour input to demand more flexibly by varying working time cyclically. In exchange, employees should be given the right to temporarily or permanently change their working time based on work-life balance and individual preferences. A new social contract could combine these two types of flexibility. If the "exchange" is symmetrical, it increases profits for European firms as well as well-being for employees. In the aggregate, this will support economic growth, but also reduce total hours worked which is necessary if growth is not high enough to absorb the labour supply or migration flows. This reduction is superior to any enforced general working time reduction because it fits preferences and prevents poverty (which rises as a result of a general reduction without income compensation).

Principles for making reforms effective

For realising these game-changing reforms, the following three principles have to be observed: simultaneity, high-road ambitions and two-stage implementation.

Simultaneity: If strategic goals like dynamics, inclusion and sustainability are addressed separately, policies become inefficient. Let us take the example of a tax-induced increase in energy prices: Trade unions will oppose it because of its regressive effect on low-incomes. Manufacturing will oppose it based on fear of reduced price competitiveness. However, if simultaneously net income rises relatively to gross income (specifically for low incomes), trade unions will favour such a tax shift. If the manufacturing sector simultaneously gets better-trained people and additional funding for R&D, it can invest in drivers of growth and improve its technology lead. In the aggregate, the positive effects outweigh the costs, as inefficiencies are eliminated (e.g., parallel subsidies for fossils and renewables).

High-road ambitions: Focussing on cost issues may be necessary for situations where cost competitiveness has been temporarily lost. In general, however, a high-road strategy focussing on quality over cost, structural change, improved skills and boosted innovation will more effectively support economic dynamics and quality of life.

Two-stage implementation

Restarting dynamics in a period of low growth of consumption and investment requires new stimuli: consumption could be increased by boosting low incomes and investment by incentivising a low carbon infrastructure. Individual working hour choices could reduce the labour hours supplied, which is essential today given the high unemployment rate. All these changes prepare for a future second stage in which growth in industrialised countries is expected to be lower (secular stagnation hypothesis; Gordon 2015, Summers, 2016a). Unemployment could thus be prevented in the second stage, even if growth rates are low, but first, it has to be reduced from its high level, public debt has to be cut, and migrant flows absorbed.

RECONNECTING WITH THE CITIZENS AND THE NEIGHBOURHOOD

Economic reforms are necessary but not sufficient for regaining support for the European project. European institutions have to transport the new narrative into their actions, and new agents have been invited to take part.

Regaining stability after the crisis

After the financial crisis, governance reforms focussed on regaining stability. It has to a certain extent been achieved by the European Stability Mechanism (ESM), the European Fund for Strategic Investments (EFSI) and the Banking Union, which is by and large on track.
However, there is a need for further improvement: A debt redemption fund involving temporary and bounded mutualisation of debt could reduce costs for highly indebted countries. The EFSI and the Youth Employment Initiative should be implemented quickly, and investment into decarbonisation should boost demand and achieve a technology lead for Europe. It is all important to restart growth quickly, with first results up to 2020.

Connecting reforms to individual needs and values

Instead of overemphasising fiscal balances, the European Semester and its "country-specific recommendations" should be better aligned with goals valued directly by citizens, such as employment, fairness, and equity, enabling the pursuit of different life scripts, or higher energy efficiency. The Annual Growth Survey of the European Commission should be converted into a Report on Growth and Well-being, monitoring also on the founding of firms, social and environmental innovations, but also addressing problems like the individual fear of status loss through disruptive immigration. The social dialogue has to be revived, addressing unemployment, the quest for work-life balance and old age security, as well as gender issues, flexibility and highest-qualified human resources for firms.

Governance reforms
Both the European Council and the European Commission should be subject to stronger control by the European Parliament. It should communicate more directly with national parliaments and stakeholders. Members of the European Commission should report to citizens on work done and future plans and be open to their feedback. The nexus between the different policy levels has to be strengthened for example, Commissioners could become non-voting members of their national parliament or members of national parliaments could become non-voting members of the European Parliament.

Empowerment strategy
Global challenges such as climate change, migration, and new technologies need European answers. But at the same time, citizens and countries demand the re-nationalization of policy and they oppose centralism. The solution for this dichotomy is to design an economic policy which addresses the big challenges, but allows or, even better, improves the potential of countries and regions to develop innovative bottom-up strategies compatible with the European or global targets. As an example, a European policy that promotes tax transparency, defines a common tax base for corporations, closes loopholes and tax shelters, and the fictitious relocation of headquarters and economic activity into the country with the lowest tax rate enables individual countries to choose their tax system according to national preferences and goals. Currently, taxes on labour dominate, though this raises unemployment, while taxes on emissions, alcohol, tobacco, and estate are low since each country is afraid that the tax base will be shifted to the neighbor country. European tax policy in the way described thus empowers members to follow their priorities in stimulating dynamics, including social and environmental goals. Other examples of this empowerment strategy can be found in research policy, for regional subsidies in the Paris Climate Accord 2015 (see Aiginger, 2017). The empowerment strategy has some similarity with the subsidiarity principle, but it differs in not only leaving room for decentralized decisions but by making them feasible and more effective. The empowerment strategy asks all members for a contribution, in contrast to the strategy preferred by President Juncker to allow some country or country group who want to do more if they want to do (Core Europe Strategy).

High growth potential of the European neighbourhood
Europe as it is today (including the United Kingdom) is the largest economic area in the world, with a share of the output of more than 20%. However, as a low-growth area, it will soon be overtaken in output by the US and China. To maintain its geopolitical position and to expand European ideas and values Europe has to cooperate with its neighbours. It is surrounded by countries with low per capita income yet high growth potential, due to large energy and human resources. The Western Balkans, the Black Sea countries, North Africa, and the post-Soviet countries are all eager to catch up in per capita income, but they lack investment and political stability. The geopolitical area of a "Wider Europe" amounts to about 30% of world output. And this Wider Europe could grow faster than the US plus their neighbours to the North and South. It could boost European exports, provides investment opportunities, and limits European immigration.

A European Marshall plan for neighbour countries
We propose that Europe should first massively invest in its neighbourhood and initiate a political and cultural dialogue. A growth-enhancing and politically stabilising policy would require investment programs of the scope of the US European Recovery Program after World War II. Additionally, Europe should invite neighbours to study at European universities. We call these "Schumpeter programs", which should extend the successful Erasmus programs and copy the Fulbright programs which connected US elites and

future European leaders after World War II). As an additional feature, these programs should extend to vocational training, encouraging the youth of neighbour countries to study in European firms and schools, or Europe to help build up this institution in the neighbour countries. The costs of this are still lower than that of a military escalation of conflicts and a reversal of European integration. The stability of the neighbourhood will reduce migration.

An investment program in the neighbourhood countries is not only an economic opportunity of an otherwise low-growth Europe; it is also a chance to stabilise these countries politically and reduce migration flows.

Reshaping globalization

Globalization has reduced poverty and increased economic growth worldwide, but its effects are not linear. There are burdens of change, and the losers have to be compensated or even better retrained. While in the past fears dominated that the industrialized countries might profit over-proportionally from globalization, now industrialized countries complain about unfair advantages of emerging countries leading to the deindustrialization and unemployment of low skilled workers. Anti-globalization sentiment is rising in many European countries as well as in the US, and new multilateral trade and investment agreements are becoming very unpopular.

Europe up to now has not shaped the rules of globalization (Gordon, 2004; Lamy, 2016) and in the aggregate has not suffered as it could have through its positive and rising current external balances. The US has a large deficit in its current account balance, and the new US administration is opposing further globalization. It has opened a window of opportunity for Europe to play a greater role in shaping globalization, and make it more socially and ecologically inclusive. Standards could be harmonized and trade barriers removed in a way that harmonizes ecological and social goals upwards. Concepts for a responsible globalization exist (Bayer, 2016; Aiginger, 2017; Rodrik, 2016; Summers, 2016b, Cœuré, 2017) and Europe could take the lead, cooperating with other countries like China, which also wants to promote globalization and fight climate change.

Diversity as a European strength

Europe had always been a region that incorporated diversity in its socio-economic models, in its work-life concepts and the size and role of governments. This diversity increased in the past decades through inward migration and then through the enlargement towards the south and the east. It is well known on the micro-level that diversity is an advantage as management theory proves for firm management. This increasing diversity involves challenges for the school system, communication and local communities and habitats (lodging), but it should be made an intentional strength of Europe. And people coming to Europe should know that there is a bounded but welcome diversity. Free choices and not uniform results are characteristics of the European value system. Different religions, including the possibility to be agnostic or atheistic, define European society. Economic policy should, therefore, favour capabilities and not results, choices and not uniformity, freedom to travel and not immobility. The possibility to choose increases well-being, but also economic dynamics and inclusiveness. Bottom-up innovations will provide better solutions to environmental problems, given the high degree of uncertainty about future sustainable technologies.

CONCLUSION: THIS CAN STILL BE EUROPE'S CENTURY

Europe has all of the resources and potential required to face the challenges of the future. But it has to make full use of these resources. If and only if Europe becomes more dynamic, can the migration problem, anti-European populism, and the upcoming opposition to free trade and globalisation be resolved. Success breeds success, and economic performance is the key to putting acute political problems into the right perspective. Europe is not a "failed" project, as often claimed by US analysts and its new administration, but rather one that has to be revived and reframed. Europe will only overcome its midlife crisis if it develops a new narrative and restarts dynamics through a new strategy. The old narrative, the peacekeeping mission, has by no means become unimportant, but in general, people feel that this mission is accomplished at least within the current border of the EU. A new narrative is still to be developed, but it could be the vision of Europe becoming the first Beyond GDP region of the world. High and increasing well-being could be set as the final yardstick of performance substituting GDP or GDP growth.

Well-being, a concept built on broad individual and societal goals, can be made operational by summarizing performance in three pillars. Europe should become a socially cohesive, environmentally sustainable and economically dynamic economy. If Europe restarts growth and lowers unemployment and inequality, economic success will put the currently overriding populist issues into perspective. We define seven game changers such as redirecting innovation, going for the technological lead in decarbonisation, lowering income spreads, switching from ex-post protection to ex-ante social investment and "symmetric" flexibility, with the linchpin of reforms to radically shift taxes from labour to emissions, property, and speculation.

The goals of the strategy have to be addressed simultaneously, rather than with "silo strategies". It should be a high-road strategy that does not depend on low wages. Dynamics should be restarted quickly since unemployment, debt, and income spreads are high and endanger public support for the European project. However, the restart should not be business as usual; it should instead make use of investment in decarbonisation, and lower income spreads as growth drivers.

Changes in governance are required, as well as democratic control of the European Council and the European Commission by European Parliament. The ability of Europe to play a decisive role in a globalised world has to be communicated and based on the participation of new actors and young people. Europe has to invest in and communicate with its lively and potentially fast-growing neighbourhood.

The new strategy may look radical, but the proposal is based on the interdisciplinary work of 34 research institutions in a four-year project. Econometric projections show that it can generate win-win situations and synergies, if followed consistently and simultaneously. The necessity of reforms is now understood by European Institutions as well as by citizens. Populist parties calling for a renationalisation of economic policy have gained momentum in many countries, and the European Commission has published a White Paper calling for a strategy discussion. Evidence based analyses are necessary to make this process successful. Looking for a new role of Europe in the globalizing world will be a trial and error process nevertheless, given the possible retreat of the US and the strive for the leadership of China.

The good news is that Europe has the best socio-ecological model for a high-income economy. With higher income the interests of individuals become more heterogeneous, the marginal utility of income decreases and other elements of well-being become more important. Lower income spreads economically result in higher consumption growth and politically in increased support from citizens. Ecological concerns increase with rising incomes, while at the same time technologies to decouple emissions from output become available. It offers the potential for Europe for a technology lead in energy efficiency and decarbonisation.

The higher priority of non-economic goals, as represented in the "Beyond GDP approach", is already a constituent part of the European model more so than in any other model, whether in Asia or the US. It could, despite Europe‘s bumpy start, still make the 21st century the "European Century".

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— This article does not have any appendix. —