friends of europe

10 policy choices for a Renewed Social Contract for Europe

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Contents

Foreword

The release of this report is an important waypoint along Friends of Europe's long-term journey to revitalise the European Project. It is based on our belief that a Renewed Social Contract based on peace, prosperity, inclusion and sustainability is a necessity for policymaking and thinking, and will be the only way to succeed in the transitions ahead.

We embarked on this journey years ago, using foresight and data to begin to understand what the future holds. These findings were contained in 'Vision for Europe', published in 2019, where we surveyed and engaged policymakers, thinkers and experts across all sectors, to devise a policy toolbox for governing institutions in Europe. Building on that foundation, we now make this humble offering – 10 policy choices that we believe can play a role in renewing Europe's social contract.

The process has been dynamic and multifaceted. We have crowdsourced ideas from our far-reaching community, relying on their collective intelligence and expertise to identify options for getting Europe through the challenges it faces today – and those that will only become more important to overcome in future. Ideas and solutions have been proposed by experts, policymakers, thinkers and doers from across the public, private and civil society sectors.

At the same time, the discussions held and ideas proposed have made clear that there remain gaps in what leaders are thinking about. Often the absence of ideas says a lot about the policymaking environment in which we find ourselves. That said, where we have found innovations lacking, we have proposed additional ideas or ways of thinking.

This report is framed around 10 policy choices – not 10 recommendations or solutions. This word choice is intentional.

The objective of this report is as much about shifting mindsets and behaviours towards addressing social problems as it is about offering ideas. Identity politics, vulnerability and insecurity – together with a very changed world order to that of the last century – will shift and shape our shared future. Policymakers should be reminded to take these issues seriously and to act on them with a prevention mindset. Leaders must choose to think differently, to innovate and to move beyond the status quo, as the models and institutions crafted post-WWII will simply not see us through the years and transitions ahead. Rising to future challenges will require a move from 1950s to 2050s thinking.

This publication, therefore, is our earnest appeal to policymakers at all levels to stand-up and have a more honest reflection about the challenges ahead of us. These ideas, which will guide our work through 2030, are open to criticism, debate, intellectual challenge and improvement. Our aim in this exercise is to generate the space to ask difficult questions and dare to craft bold answers. While we believe that these policy choices are called for based on current circumstances, we know that circumstances change. Just as we expect flexibility and adaptability from Europe's leaders in the face of new developments, so too will we remain flexible – ready to review and update our policy choices in function of new realities and based on Europe's forward progress.

Dharmendra Kanani
Chief Operating Officer & Chief Spokesperson

Context for a Renewed Social Contract for Europe

Defining our times: the digital, green and demographic transitions

Europe's 20th-century social contract, forged in an era of post-war European integration, introduced ground-breaking concepts – such as welfarism, the social protection net, a new multilateral order to uphold and maintain peace, free flows of trade and global finance – which were intended for the betterment of society.

But times have changed, and mounting challenges and crises have brought societal concerns, confusion and frustrations to a breaking point in the new millennium, widening social inequality and leaving many groups feeling excluded. There is a deepening sense of disenfranchisement and cynicism as people and communities increasingly feel overlooked in the policies, politicians and politics of now.

Created in very different times, post-war institutions, regulations and laws are no longer able to keep pace with the societies they are meant to serve. Macro trends – namely the digital, green and demographic transitions– will define our times and demand new approaches to rise to the challenges of the age.

Digitalisation has already had a significant impact on our production and consumption cycles, fundamentally altering the functioning of societies. Artificial intelligence (AI), in particular, has become a significant facet of digitalisation that will go even further in determining how societies function – from capabilities and infrastructure to culture itself. Set to outstrip our current understanding of its impact within very little time, AI will be its own kind of technological revolution. Much like previous revolutions, this will require different regulatory governance and oversight; those with the power to do so will need to create global, national, regional and local structures that offer the adequate levels of protection against abuse, while also nurturing AI to harness its power to support a good society. They will also need to engage earlier with those who know the field best, bringing hackers and software engineers in to contribute to policy thinking on AI. That said, it is of the utmost importance to keep a constant eye on its development and make no assumptions. This may involve the development of a new policy discipline akin to 'AI awareness' and its potential effects on livelihoods, behaviours, opportunities and societal outcomes.

As AI emerges as the new *god of all things*, the European Union stands at the forefront of a global effort to harness its potential while upholding principles of sovereignty, control and ethical responsibility. The ongoing developments in AI governance underscore the imperative of striking a delicate balance between innovation and safeguarding the fabric of our societies in the face of this technological deity.

The EU has set out its ambition to become the first climate-neutral continent by 2050 and is implementing its Fit for 55 package to reduce greenhouse gas emissions by 55% by 2030. Despite the urgency, the transition to a carbon-neutral future must also be fair, inclusive and people-centred. Any and all actions taken as part of the green transition must have citizens at their heart, ensuring that citizens not only understand the importance of such fundamental changes but also that they are not left behind and do not become the losers of the transition.

The demographic changes taking place in Europe will reshape the make-up of the continent. A declining birth rate, longer life expectancy and a shrinking working-age population are new realities of European life.

A smaller workforce means fewer contributions to pensions and social funds – financial resources that older generations will find sorely missing. To counterbalance these trends, Europe will need to strive for better inclusion of women, youth, older citizens and migrants in the labour force. It will also need to ensure that new systems and structures are in place to provide increased opportunities for reskilling throughout a person's lifetime to facilitate longer careers and for genuine longevity literacy, including financial literacy, to help citizens plan for old age without the generous pensions that Europeans have been used to.

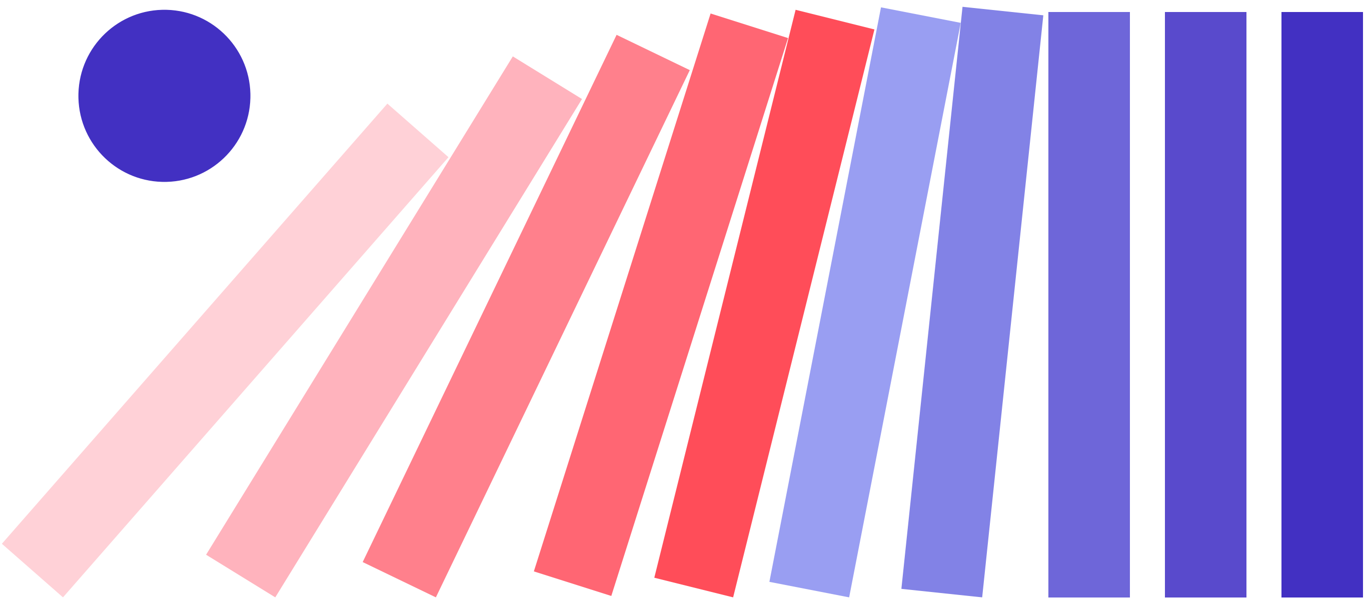
A Europe of equal shareholders and decision-makers

As Europe prepares to head to the polls to elect a new European Parliament in 2024, and for a new European Commission mandate to take over thereafter, the moment is ripe to radically rethink the ways in which citizens, the private sector, civil society and public institutions interact. In order to engender greater trust, hope and confidence, all parties must become equal shareholders and active participants in decision-making processes.

Europe's social contract should improve equality of opportunity and equity and promote meaningful engagement and fair inclusion of all members of society. Doing so will require better serving the needs of increasingly diverse communities that now comprise European populations, while at the same time recognising the multitude of benefits that arise from having an inclusive, sustainable and forward-thinking Europe.

It will also require an awareness that Europe is a small player in a big world. Decisions in Europe are being made in a time of tectonic geopolitical shifts. Brussels is not a vacuum nor is Europe. Leaders must look beyond the continent to acknowledge their roles and responsibilities in the wider world.

Friends of Europe believes that, ultimately, a Renewed Social Contract offers a path towards the inclusive and fair transitions, peace and security, and social prosperity that are needed for Europe to play its part in the world and care for its citizens in the 21st century.



Friends of Europe and the Renewed Social Contract

Building upon years of work connecting voices from a diversity of backgrounds, the decision to focus our work on a Renewed Social Contract has been the logical next step for Friends of Europe.

In 2018, Friends of Europe published its #EuropeMatters report, arguing that Europe needs a Renewed Social Contract. The following year, we published our Vision for Europe report, setting out a first policy toolbox to help establish one.

At the time, we engaged in a foresight exercise to see where the EU might be in 2030. Would the Union be strong, making it a market maker as it fortified the economy, or a value setter with a stronger emphasis on its global ambitions to play a leading role in the world? Or would its member states insist on ever greater sovereignty, weakening the EU and leaving it to act only as a transactor internally or as a balancer on the geopolitical scene?

For Europe to succeed in renewing its social contract by 2030, it cannot afford to be one or the other. The EU must focus on domestic affairs while keeping sight of its role and impact in the wider world. The Union must be strong but so too must be the elements that make it up – all working together in unison.

Inspired by the debates and discussions of Friends of Europe's activities since launching its work on the Renewed Social Contract, the policy choices set out in this report have been refined through a multistakeholder and multisectoral consultation exercise, through which we have invited stakeholders from our Board of Trustees and European Young Leaders (EYL40) network, the private sector, civil society, as well as European and global coalitions and platforms active in the fields of citizen engagement, development, sustainable economy and more, to reflect on what Europe's people need in order to live a safe, healthy and good life.

In concert with this report, we are releasing '2024 Voices: Citizens speak up!', which shares insights gathered from citizens across Europe via focus groups and surveys led by Debating Europe, Friends of Europe's citizen engagement unit. Revealing what citizens are really thinking about the challenges facing Europe, these insights have been included throughout this report to ensure that the policy choices account for the lived experiences of Europe's people.

For these policy choices to take root, we believe there is a need for a set of building blocks that set the tone, drive the culture and form the foundation of a Renewed Social Contract, as set out in the next section.

Building blocks for a Renewed Social Contract

The Renewed Social Contract requires a mindset and policymaking discipline tilted towards and anchored in principles of fairness, equity, social justice, redistribution, co-production and policy power-sharing. To be successful, these policy choices must rest on a firm foundation that supports a good society and ensures safe, healthy, sustainable, prosperous and good lives. The building blocks of that foundation are:

An implementation-focused mandate.

The next European Commission mandate must cut red tape, going further, being bolder, structuring itself for policy coherence and focusing on implementation and delivery. In practice, it should prioritise the implementation of policies already set out during the previous mandate as a priority, ensuring coherence of any new policies that may be required with the flagship approaches to climate and digitalisation. This will require the EU to make a virtue of speaking early enough to the sectors that will enable it to deliver its agenda.

The diversity of the Union celebrated as an economic, cultural, social and political asset.

Europe can only succeed as a place that celebrates differences, values everyone's contributions and where people of all backgrounds can thrive. Public and private institutions will be better, more creative and innovative in what they do if they harness the benefits brought on by different perspectives, experiences and ways of thinking. Europe's diversity and cultures are its biggest assets – both at home and abroad.

Collaborative, open access crisis preparedness.

Crisis preparedness should be treated as a way of working, a discipline and a capability in the face of extreme events. The EU should establish a facility for crisis preparedness that is open to multiple stakeholders. This should become a key facet in the future of how institutions work.

Foresight and data as virtues for progressive change and effective policymaking.

Europe must have the ability to harness data insights for increased foresight and preparedness, making use of AI and its critical role in modelling futures and providing analysis at a quicker pace and with greater granularity. When governments, institutions and businesses are able to take an anticipatory approach, they can look ahead and examine the ways in which systems can be designed to be more equal, inclusive and resilient. While having a dedicated vice-president on foresight and data analysis has been a good start, the current Commission has made little political or strategic use of this significant repository. The multiple crises lying ahead will necessitate a stronger backbone of data and foresight to ground policymaking in reality; the next mandate must go further and place this institution at the heart of policymaking.

Coherence and alignment of large-scale EU funding streams.

There is a multitude of very grand policy initiatives on issues like digitalisation and climate action that are underpinned by money – including the Resilience and Recovery Fund (RRF), REPowerEU, Horizon Europe and innovation funds – which must connect more as funding streams to underpin a coherent, combined and joint approach under the next Commission.

An increased role for cities in European-wide policymaking and delivery.

The EU should forge a closer, more interactive relationship with cities, which are often the highest contributors to economic growth, host the most critical national infrastructure and have the highest population density. They are also the most likely to be hit by devastation in a crisis. Cities should be regarded as essential drivers and accelerators of change, as well as partners in the delivery of the goals and objectives of the new mandate.

1. Tax for a good society

On average, corporate income tax accounts for only **6% to 7%** of tax revenues in EU member states.

There is a significant imbalance in the distribution of tax responsibility and burden across different groups. On average, corporate income tax accounts for only 6% to 7% of tax revenues in EU member states[1]. At the same time, the very wealthy have found ways to reduce their tax liability, despite their higher income levels.

Meanwhile, the bulk of tax revenues comes from indirect taxation; personal income tax also contributes more than corporate income tax. Individuals and middle-income earners, therefore, end up shouldering a disproportionately large share of the tax burden and are ultimately the ones who pay for a well-functioning society.

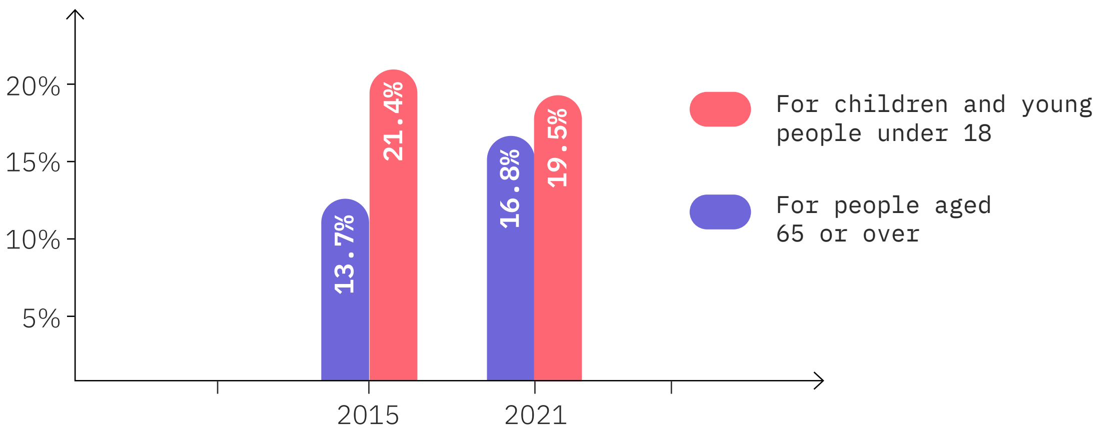
This inequitable distribution of the tax burden is a concern, as it goes against principles of fairness and means that not all groups are contributing according to their capacity.

A look at the wider picture makes this discrepancy even clearer. While rising inflation and the cost of living have led to deteriorating living standards for everyone in Europe, the hardest hit are poorer, younger and less qualified households, which tend to spend a higher portion of their income on food and energy and whose finances already took a hit during the COVID-19 pandemic. On average, the richest 20% receive 5.4 times more income than the poorest 20 in OECD countries[2]. The at-risk-of-poverty rate for people aged 65 or over increased from 13.7% to 16.8% between 2015 and 2021, and stood at 19.5% in 2021 for children and young people under 18[3]. Moreover, rising energy and food prices, spurred by the 2022 Russian invasion of Ukraine, could push around 11mn Europeans below the poverty line[4].

At the same time, demographic changes in Europe – including an ageing population and declining birth rate – mean that population growth in the EU is expected to peak at 453.3mn in 2026[5], then gradually decrease, with 27.3mn fewer people living on the continent. Europeans are set to comprise less than 5% of the global population by the end of the century[6].

Income disparity in OECD countries

At-risk-of-poverty rate in the EU



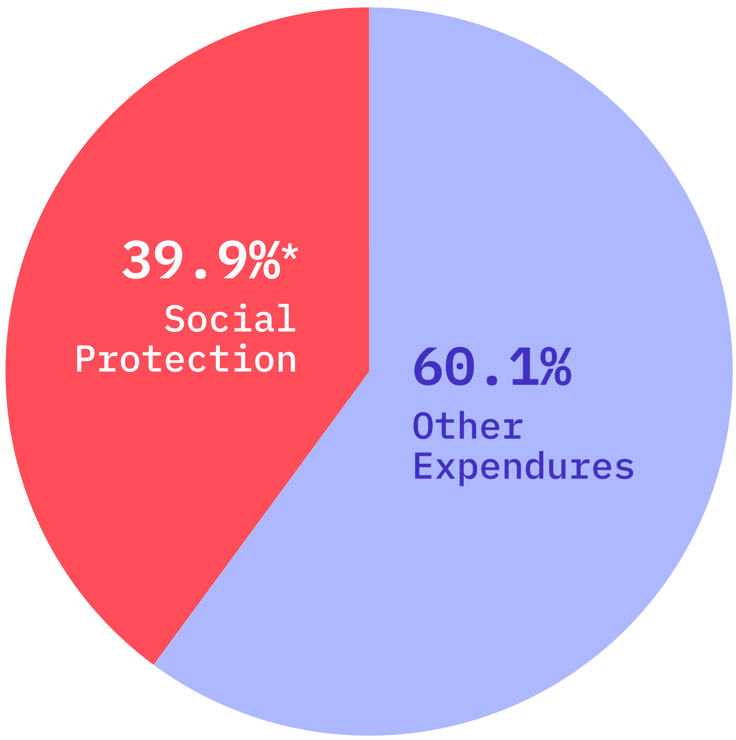
Design an EU fiscal strategy to address intergenerational unfairness

With far fewer taxpayers than in the past and tax revenues soon to become too small to sustain Europeans' social safety nets, a fundamental review of longstanding taxation practices will be key to tackling the impact of ageing on European society. At 39.9% of total expenditure, social protection accounted for the highest proportion of government expenditure among EU member states in 2021 – including an increase of €41bn over the year prior due primarily to old age expenditures[7].

Although the EU itself has little or no tax competence, it could nevertheless conceive an ambitious fiscal strategy for member states, playing a central role in shaping and coordinating tax changes that address intergenerational unfairness. The EU also has a pressing need to protect the Union from the disintegrating pressures that demographic change is exerting. As some of the poorer, more recent member states are disproportionately vulnerable to declining birth rates and the emigration of their young people to richer EU countries, new fiscal arrangements are needed to compensate for this.

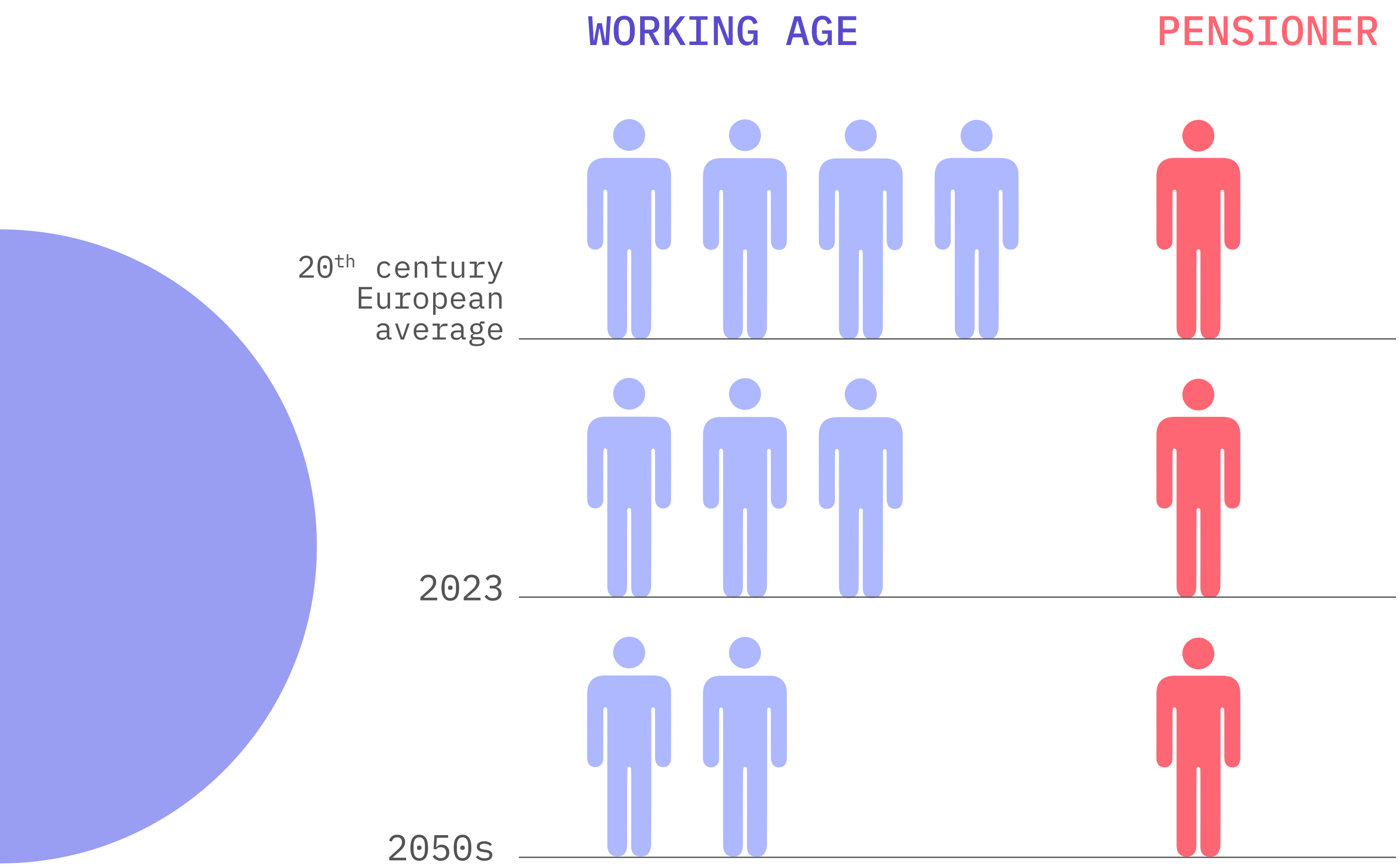
Far-reaching tax reforms to alleviate ageing's impact should focus on housing, jobs, wages, pensions and the widening wealth gap between older and younger Europeans. Young people on average own only a small and still shrinking proportion of any EU country's asset wealth, while the share held by pensioners is overwhelmingly large.

Measures could include shifting tax burdens from younger to older people, reviewing inheritance taxes that protect richer families, overhauling property taxes to favour first-time buyers, reducing taxes on labour and increasing them on capital, taxing the land that properties stand on, introducing tax incentives to encourage pension savings and levying less tax on small businesses and more on larger ones.



Government Expenditure in EU Member States (2021)

* Including an increase of **€41bn** over the year prior due primarily to old age expenditures



The EU could also tackle the elephant in the European room on migration and lead a bold debate that is not focused on burden-sharing and any risk to values but rather on economic growth and the importance of migration for Europe's economic development. Of the EU's 446.7mn inhabitants, 23.8mn are non-EU citizens – 5.3% of the total population – with non-EU citizens making up 5.1% of those employed in the EU's labour market who are aged 20 to 64[8].

The European Commission set out a 25-point plan, entitled 'Fair and Simple Taxation', in mid-2020 with its own suggestions. Where it has had less impact is in warning of the fiscal bottom line if tax reform remains pushed to the sidelines by EU governments wary of what they believe to be Brussels' 'super-state' ambitions.

The Commission's own forecasts point towards an unimaginable fiscal collapse around mid-century if Europe's ageing crisis is not confronted. The 20th-century European average ratio of four working-age citizens to every pensioner has now shrunk to less than 3:1 and on present trends will settle in the 2050s at less than 2:1[9]. Put simply, there are already far fewer taxpayers, and soon tax revenues will be too small to sustain Europeans' social safety nets. It is a message that the Commission has long been whispering but should now be shouting from the rooftops.

Use behavioural taxation to support those who need it most

In the context of where Europe finds itself today, grappling with budgets and public debt, norms such as the universality of benefits should be re-assessed in the face of high levels of fragmentation and inequality across groups.

Governments must instead create targeted income and welfare support that addresses the different needs of those in both poverty and in-work poverty, as well as those who face a lack of opportunity. This should be supported by a new approach to taxation that makes a dent in the fight against inequality and ensures work pays for all.

This could be financed through behavioural taxation, including that which supports resolutely combatting tax evasion, and by enacting carbon taxes accompanied by carbon dividend funds. Careful design will be required to balance multiple objectives like health, environmental and social goals through a combination of incentives, disincentives and funding mechanisms, as well as to avoid negative impacts on business and investment in the EU.

To be effective, behavioural taxation should ‘nudge’ the behaviour of individuals and companies through transparency and predictability. Increasing transparency through measures such as public registers of beneficial ownership and automatic exchange of information on ownership across countries can reduce incentives for entities to move assets to secretive jurisdictions. It increases the likelihood of misbehaviour being exposed and makes it more difficult for entities to misbehave or deceive authorities when their actions are visible.

At the same time, when tax frameworks and rules are unclear or unpredictable, it is difficult for companies and individuals who wish to comply with regulations to know what the right course of action is. Greater clarity and consistency in rules across jurisdictions would make it easier for taxpayers to understand their obligations and reduce incentives for non-compliance due to uncertainty over how actions will be treated.

Tax credits could be one way to incentivise green behaviour, but their design and implementation also pose challenges. When used properly with the goal of financing activities that would not otherwise occur, tax credits can be effective. However, it is difficult to ensure they only support additional green investments and do not become windfall gains for companies. While the EU has previously considered introducing green tax credits, political agreement could not be reached, but their ability to drive change depends on market factors like competitiveness that determine whether added costs can be passed on.

Carbon taxes could be another way to influence behaviour. Although many EU countries have introduced them in recent years, the bulk of carbon taxes in Europe are regressive in nature and fail to account for consumers’ ability to pay when faced with such a charge. Indeed, low-income households spend proportionally more on their energy payments in comparison with higher-income households. As a result, the introduction of – or increase in the level of – carbon taxes can have the unintended effect of increasing inequality, leading to poor public perception as was the case with the *gilets jaune* movement in France.

Indeed, Debating Europe's 2024 Voices project showed that while taxing major polluters is favoured by citizens as an option for achieving the green transition, there are also serious concerns about the transition's impacts. These concerns vary regionally, with northern Europeans focused on the economic impacts and southern Europeans more concerned with the social inequality that could arise.

One solution is for member states to implement carbon taxes accompanied by carbon dividends that are returned to low-income households. This would serve the dual purpose of ensuring that carbon taxes generate funds for those in need, while at the same incentivising producers to change their behaviour and reduce emissions.

Such carbon dividend funds would recycle the proceeds of a carbon tax directly to low-income households, creating a positive feedback loop: the more that carbon is levied, the greater the dividends to low-income households. Such a feature would inject a significant amount of cash into the economy, at the same time spurring innovation as incentives for producing low-carbon products at the consumer level grow in tandem with an increase in the carbon tax.

2. Accelerate carbon reduction

In 2024, the planet is far off-course from the global warming targets agreed by the 193 signatories of the Paris Agreement. Without immediate, deep and sustained measures to reduce emissions across the entire economy, global surface temperatures will exceed 2°C in a matter of decades. When global warming crosses a temperature threshold – a tipping point – ecosystems will experience irreversible change.

As the crisis of climate breakdown accelerates, its impacts exacerbate social, political and environmental challenges in several contexts. This is a global crisis that has wide-ranging and cross-cutting implications for organised society. Almost 4 in 10 EU citizens consider themselves to be personally exposed to environmental and climate-related risks and threats[10]. They are also ready to take action, with citizens participating in the 2024 Voices project expressing a willingness to adapt their lifestyles, with a significant emphasis on recycling and reducing consumption. Younger citizens, in particular, show a greater willingness to embrace new technologies.

The implementation of the REPowerEU plan was a robust and strategic vision both in response to the 2022 Russian invasion of Ukraine and the corresponding disruption in global energy markets and also in charting a path for a more affordable, secure and clean energy future for Europe. Since its adoption in May 2022, the EU has significantly reduced its dependency on Russian pipeline energy imports and introduced a temporary gas price cap and a global oil price cap, while also doubling the additional deployment of renewables.

This considerable recalibration in EU energy policy shows what is possible in a short period of time when there is a collective will to address a crisis. It also highlights that the twin aims of enhanced energy security and accelerated decarbonisation are complementary and can be pursued in tandem.

Almost 4 in 10 EU citizens consider themselves to be personally exposed to environmental and climate-related risks and threats.

Unblock the EU Energy Taxation Directive (ETD)

The Council should unblock and take forward the revision of the EU Energy Taxation Directive (ETD). The achievement of 2030 and 2050 climate targets must ensure solid safety nets, accompanied by social measures. Well-designed environmental taxes, complemented by other reforms, can promote employment, economic growth and social fairness – especially if part of a broader tax shift. In the interests of growing the economy, member states could shift from labour to environmental taxes. While not a panacea, low-income households could be compensated for increased taxation of fossil fuels used for heating by being given access to financing for low-carbon and energy-efficient goods and appliances. Revenues from environmental taxes could also be recycled through targeted lump sum transfers, which have been shown to boost disposable income in poorer households. The Commission should encourage member states to make use of such tools. The Commission proposal for the revision of the ETD is an example of the EU's clever thinking and leadership role in addressing climate change, but most importantly, it enables a tax structure that speaks to its original values, while taking into account social and economic impacts, as well as the need for a smooth transition.

Adaptation to clean energy and increasing energy efficiency requires greater thought to be given to methodology and impact on poor and low-income households. Consideration must be given to increasing subsidies for these communities to make the switch. The EU must also prioritise the interoperability of systems, whether energy grids, supply or access.

Reduce energy consumption through long-term vision

Conscious consumption across the EU supports the twin aims of enhancing energy security on the continent and accelerating the shift to a carbon-neutral future. In a cleaner and more secure energy future, we will need a clear framework for sustainable investment to support these policy aims in particular and the green economy more broadly.

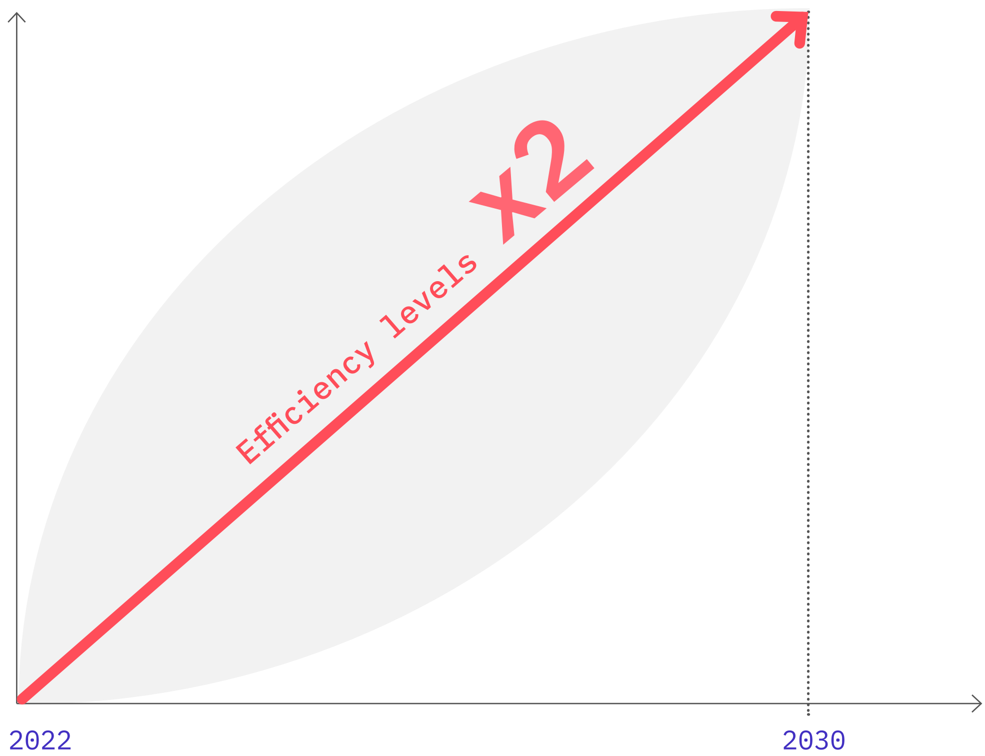
The EU can play an important role in shifting the energy status quo by prioritising energy efficiency policies. The *2023 World Energy Outlook*, published by the International Energy Agency, makes it clear that the world needs to double energy efficiency levels by 2030 to meet climate and energy targets[11].

To meet the EU's clean energy targets for net-zero and to enhance energy security, European energy consumption must be reduced through a long-term vision for energy consumption reduction that does not hinder growth but rather involves the development of better buildings, more efficient technologies and higher levels of digitalisation. A longer-term approach will in turn provide much-needed certainty and stability for the private sector and investment from venture capital.

The Commission and Council should ensure that future regulations on energy demand reduction are set over a longer period to provide a clear and predictable direction of travel for the EU. The changed energy landscape in Europe means that policymakers will need to integrate and institutionalise demand reduction measures that were originally introduced as emergency procedures.

To support the achievement of these goals, the next European

Doubling energy efficiency levels by 2030



Commission mandate must strengthen the Energy Union, which was turned into law in 2018 with the passage of the Regulation on the governance of the energy union and climate action. This regulation is based on long-term national energy and climate plans in which member states outline how they will implement the five pillars of the Energy Union.

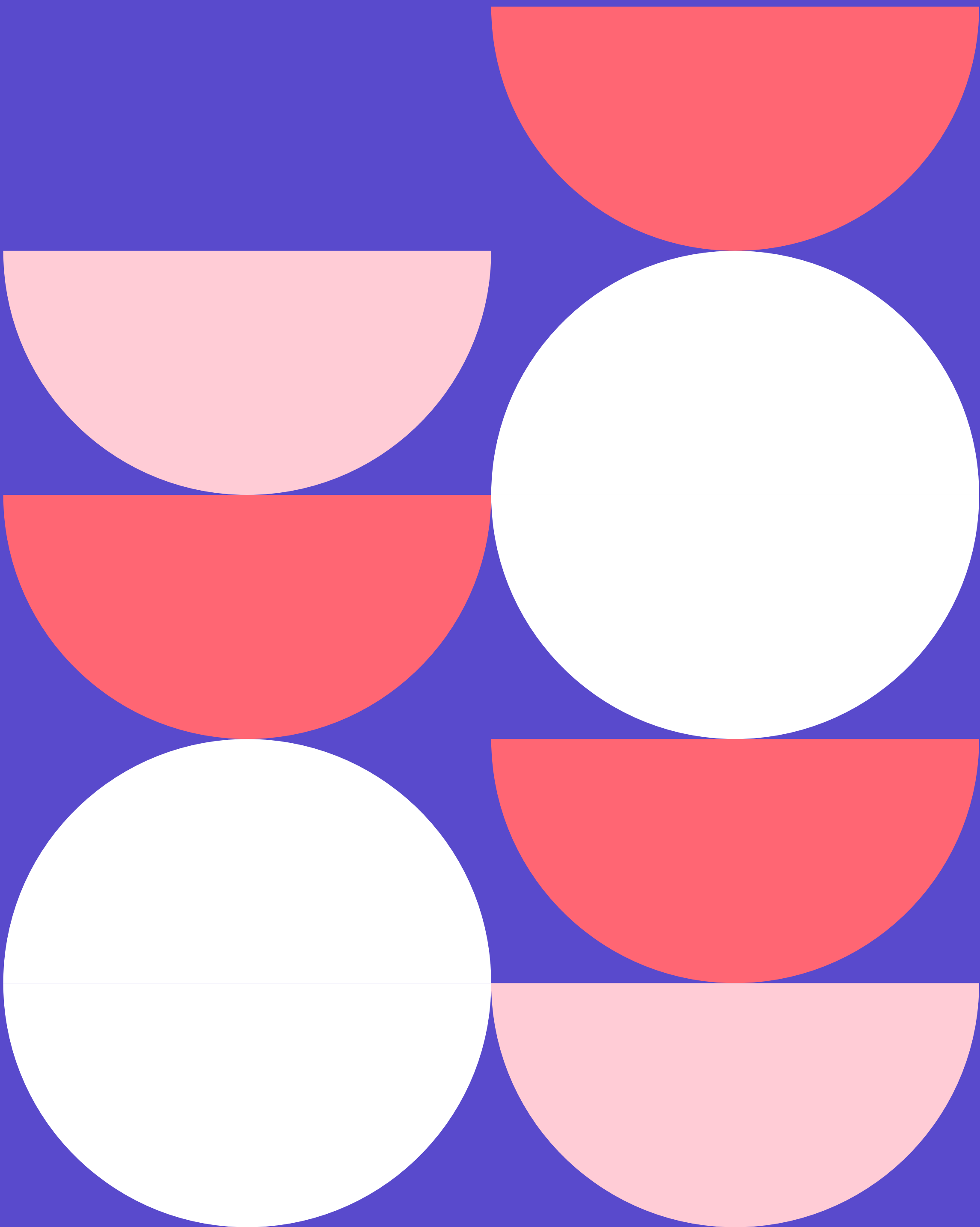
Future regulations will need to build upon this and be advanced in tandem with a more ambitious European strategy on energy efficiency.

Stronger energy efficiency measures are instrumental in reducing energy consumption, energy prices and emissions. They can alleviate energy poverty, reduce levels of air pollution and spur employment in clean sectors of the economy, such as in the retrofitting of buildings.

In the past, the EU has set global standards when it comes to the implementation of new frameworks to help tackle societal challenges, including through the General Data Protection Regulation (GDPR) and the EU Emissions Trading System (EU ETS). The EU should take a similar leadership role in crafting a framework for energy consumption reduction that helps stabilise energy prices, improve energy security and accelerate the transition to a net-zero future.

In the context of huge geopolitical shifts over the course of the most recent mandate – Brexit, COVID-19 and the Russia-Ukraine and Israel-Hamas wars – there are expectations that the next institutional cycle could be more conservative in outlook, with energy increasingly politicised. By strengthening the Energy Union and reviewing the Regulation on the governance of the energy union and climate action, institutions will be able to set laws that mandate energy consumption reduction and consider a longer time horizon for broader efficiency measures.

3. Make democracy work for all



There is a growing “mass-class divide” with high-earning individuals more trusting than those with lower incomes, creating different “trust realities”.

Trust, the foundation of a functioning democracy and society, helps underpin social cohesion. It plays a crucial role in maintaining stable communities, economies and governments, as well as the legitimacy of the democratic institutions designed to serve citizens. In the context of national elections and the European elections in 2024, it is vital that citizens have trust in both the process and the outcomes.

The OECD 2021 Trust Survey finds that only about 4 in 10 people trust their national government[12], while Eurobarometer notes that 47% of the EU population tends to trust the EU – 16% above trust in national governments[13]. At the same time, the Edelman Trust Barometer points to a “mass-class divide” with high-earning individuals more trusting than those with lower incomes, creating different “trust realities”[14].

In such an environment, the decision-making tools that liberal democracies have inherited are no longer sufficient to govern today’s societies. The EU and its member states should create conditions and processes that motivate and empower citizens to participate in significant strategic and policy decisions that will impact their lives and the lives of generations to come.

Improve and update European civic education and citizen capacity-building

The decline in civic engagement throughout Europe is a long-standing trend that originated several decades ago, coinciding with the crisis faced by mainstream political parties and trade unions.

Only 1 in 3 people in OECD countries feel that they have a say in what the government does[15].This perception, matched with slowly declining levels of voting, demonstrates the evolution of democracy and society and, therefore, the need to revitalise civic engagement.

By equipping ourselves with knowledge and tools – for instance, to identify misinformation and disinformation – we can empower individuals, strengthen social bonds, create trust in society and contribute to positive transformations.

Due to lacking investment in education, underprivileged areas and groups are most likely to suffer from a lack of access to materials or learning opportunities suited to their needs. In particular, young people from marginalised and minority groups often have a poor understanding of their rights and powers. Awareness-raising, mentoring and capacity-building can make an important contribution to their future path and integration into society. Resources and policies must, therefore, be devised to cater for, in particular, young people who are not in formal education, employment or training (NEET), older people, the unemployed and migrants. Emphasis on these marginalised groups will be central to any action.

This could be achieved by improving and updating European civic education and citizen capacity-building. Indeed, citizens participating in the 2024 Voices project generally support the idea of mandatory civic education, viewing it as essential for informed citizenship. Younger citizens, in particular advocate for a more interactive approach, while older ones stress its importance for understanding democratic processes.

Civic education and citizen capacity-building should be provided via up-to-date, tailored and age-appropriate curricula and delivered EU-wide through educational institutions and to those not in formal education as a universal resource, which could be accessed either independently or via employers, organisations, social clubs and so on. To be successful, gamification and fun should be an integral part of this pedagogical approach. In addition, cultural institutions need appropriate support to deliver participatory programmes that bolster cultural democracy and cultural rights.

A good example of work already underway that could be built upon is the Erasmus+ ACTIon project. Bringing together partners from Belgium, Bulgaria, Germany, Greece and North Macedonia, the initiative engages youth from socially underprivileged groups and trains them as role models to engage with others in their community. The project makes use of online tools to facilitate digital youth participation. Aimed to inform policy recommendations at the wider European level, such a project could be leveraged to engage more young people across the continent.

Only 1 in 3 people in OECD countries feel that they have a say in what the government does.

Extend the right to vote

Young people aged 15 to 29 make up 16% of the EU population.

With an ageing European population, the relative political power of young people decreases, locking them out of decision-making that will impact their futures. This not only generates a sense of disempowerment and lack of trust towards democracy, but it is also unfair if we consider that many political choices will have a long-term impact on their lives.

Voter turnout, one of the most important forms of political participation, has been declining globally since the 1950s. In particular, young people have been the largest group to abstain. In the EU, young people aged 15 to 29 make up 16% of the EU population[16]. And yet, they feel neither heard nor seen.

An important step in channelling greater participation of young and underrepresented people in the democratic process should come by extending the right to vote to 16-year-olds for all elections and giving European citizens the right to vote in regional and national elections in any EU member state where they are resident.

Voting is a habit. Getting into that habit at an early age will help people become lifelong voters. At the ages of 16 and 17, nearly all young people are still in formal education, training or vocation programmes, with increased access to information about elections, how to vote and how to find out what each party stands for. Arguably, 16-year-olds are more likely to get into the habit of voting than 18-year-olds, who are more likely to be graduating or moving out of their homes, thereby making it more difficult to vote or register to vote.

There was a resurgence of the youth vote in the last European elections, with a higher number of young people aged 16 to 30 voting in 2019 compared to the 2014 European elections[17]. In 2024, a younger set of citizens from Malta, Austria, Belgium, Greece and Germany will be voting in the European Parliament elections[18]. In Belgium alone, 270,000 teenagers will be added to the voting pool, raising the hope for an increased number of voters[19]. If 16- and 17-year-olds were extended the vote across all EU countries in 2024, it can be estimated that more than nine million young people would be joining the voting pool for the European elections.

The 2024 Voices project has shown that younger citizens are – not surprisingly – more in favour of the change, while older participants expressed concern about political maturity at that age. Such concerns could be assuaged if the changes were accompanied by appropriate civic education schemes as outlined in the previous section.

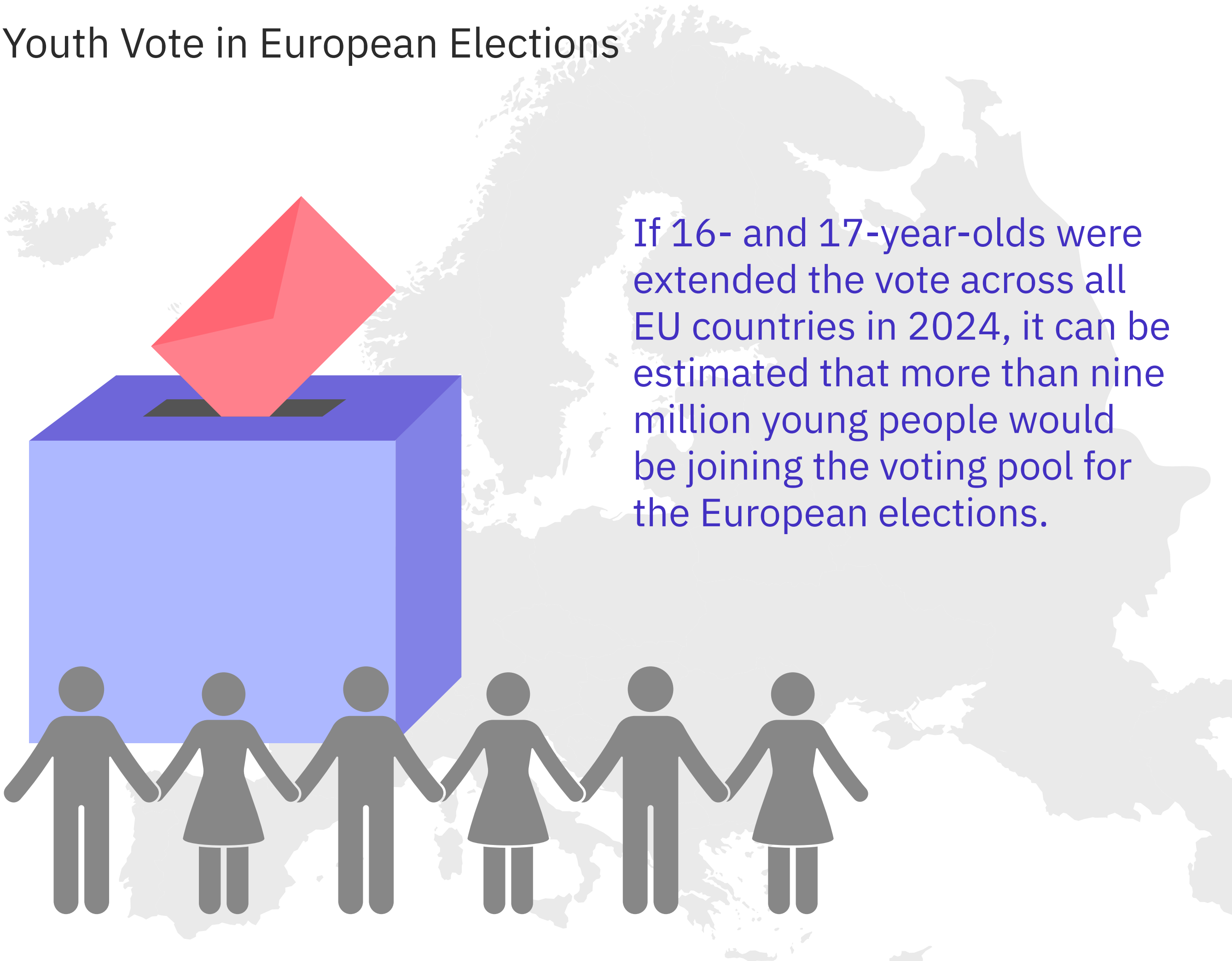
Institutions and political parties should also commit to binding and ambitious diversity and demographic targets and strategies so that European and local politics more accurately reflect today's European society. As more citizens are encouraged to become active in public life, the role and form of government need to adapt by coming up with novel ways to structurally involve citizens in official decision-making and finding ways of relating to each other. Governments should institutionalise and empower deliberative and participatory democracy – such as the Conference on the Future of Europe – by creating formal structures and participatory methods, ranging from a permanent citizens' assembly to one-off citizens' panels, where recommendations on complex issues are developed on an informed basis and citizens are given genuine decision-making and agenda-setting powers.

If seen as an opportunity and not a risk to the current structures of democracy, democratic innovation could sustain engagement and reduce cynicism and extremism. Collective intelligence can inspire fresh approaches to the practice, evolution and comprehension of politics. It can also lead to collaborative policymaking. Democratic institutions should constantly be exploring new voting technologies such as e-voting, blockchain and AI as means to ensure equal access to the ballot box and increase voter turnout. Reform of electoral systems and the rules governing political parties, both national and European, is necessary to enable them to act as bridges between national and European policies and citizens.

CASE IN POINT

Austria allowed voting in federal elections from the age of 16 in 2007. Sixteen is now the standard voting age in the country. Research shows that in the 2012 local elections, 16- to 17-year-olds turned out in higher numbers compared to 18- to 20-year-olds in the capital city of Vienna and mid-sized city of Krems. This case of Austria offers a positive model for other EU countries to enfranchise the youth at an earlier age and build stronger confidence in the democratic exercise of the vote[20].

Youth Vote in European Elections



If 16- and 17-year-olds were extended the vote across all EU countries in 2024, it can be estimated that more than nine million young people would be joining the voting pool for the European elections.

4. Foster inclusive and sustainable growth

Classic economics, free or managed markets and received wisdom about the roles of government and businesses must be rethought for the years ahead. Agility, good governance and adaptive capabilities should be the order of the day, alongside new relationships based on mutuality, interdependency, shared risks and opportunities, in order to reduce inequality, improve social mobility, enhance the ability to absorb shocks and better plan for a just climate and digital transition.

Some of the economic theories brought about in the last century will not cut it in the journey to 2050. Citizens agree, with the 2024 Voices project finding that some of their key concerns include the economic system's excessive focus on growth – which exceeds planetary limits – and a capitalist model that encourages inequality.

Using foresight, we know that we will encounter parallel and sequential crises with a greater call and demand for the public sector to be the actor responsible for the safety and security of communities – whether in terms of health, safety or economic well-being. The question to governments, therefore, is how to craft a different model of economic growth that is attuned to the challenges to come in the 21st century.

Build economies around long-term goals, not short-term political objectives

Governments rely on the received wisdom of fiscal and monetary policies that have been based on economic theories hatched in the past century. To thrive in a future that does not resemble the times which have come before, we cannot rely on the standard theories of supply, demand and market behaviour. We must also de-politicise – if at all possible – the approach to fiscal and monetary policy, which should be based on a longer-term view of how economic change actually takes place and in what timeframe, which is longer than the typical political term.

This is a radical approach but entirely feasible if governments and the EU establish mechanisms and institutions that are independent, accountable and prioritise sustainable and inclusive economic growth in the long term; they should use data to understand what is happening in economies and present independent advice and expertise on fiscal and monetary levers.

This means moving away from a 'boom and bust' cycle, an emphasis on inflation as a single target for managing economies, a hyper-focus on percentage changes of interest rates and a myopic obsession with minuscule changes in markets.

The EU's longstanding approach of austerity and frugality is particularly flawed and has paralysed investment.

It is investments that drive savings, not the inverse. In the corporate sector, businesses obtain financing from banks to fund their investments, which generate returns that later result in savings.

A policy approach that encourages building up savings before making investments does not accurately represent how the economy functions. It is unduly restrictive to insist that investments can only be made after accumulating sufficient domestic savings.

States have access to the resources to invest through central bank financing. When spent wisely on areas like skills training, green infrastructure and reducing inequality, such investments drive tax revenues that can balance budgets over time. Breaking free of the 'savings before investment' ideology will be key to enabling necessary public and green investments.

Public institutions at the international, national, regional and local levels should focus on creating a conducive environment for innovation and sustainable development and prioritising the green, digital and demographic transitions in investment strategies. Encouraging long-term investments in these areas will drive sustainable growth and address pressing societal challenges.

Make competitiveness work for social good

The EU's focus on competitiveness and exports has led to growing inequality, as profits have disproportionately benefited the wealthiest in society. This has created a detrimental imbalance of overproduction and underconsumption.

Rather than orienting its policies around maximising exports and competitiveness on the global stage, the EU should concentrate on redistributing wealth more evenly among its citizens. Those participating in the 2024 Voices project highlighted the need for actions such as guiding more people into jobs – especially older individuals and those with disabilities – and investing in education and training. Younger participants, aged 18- to 40-years-old, emphasised the need for innovation and education, while older groups focused more on practical economic reforms.

Ensuring a stronger domestic market would better support inclusive, sustainable growth by boosting wages and consumer demand within Europe. Such a reorientation is necessary to remedy the inequality and economic flaws created by the current export-focused model.

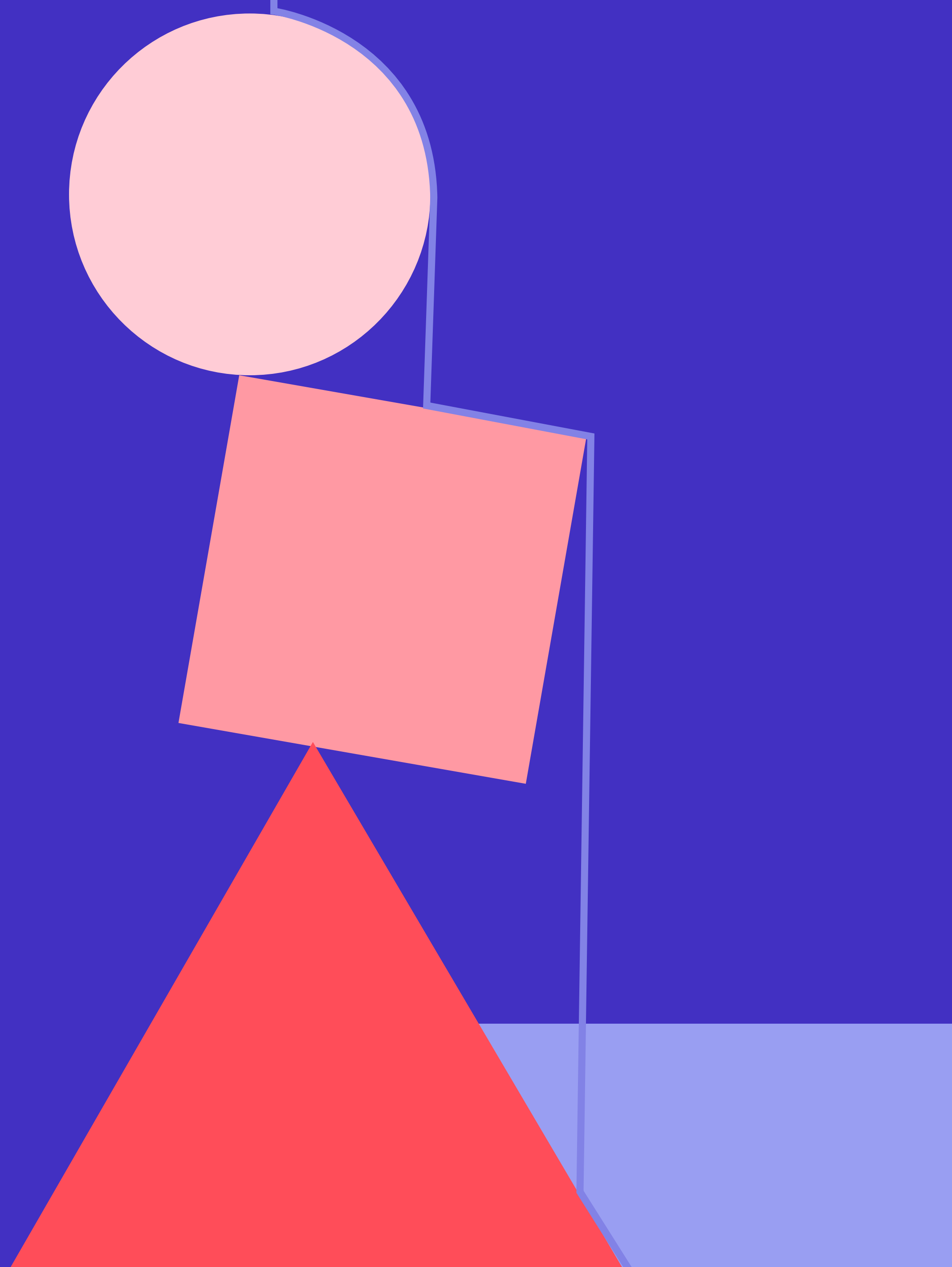
As citizens rightly note, the EU also needs higher levels of secure, well-paid employment to generate more tax revenue and balance public budgets. When workers have skilled, well-paid jobs, they end up paying more in taxes, ultimately increasing tax revenues for governments. Higher tax incomes could then be used to fund important public services and investments. It could also help cover budget deficits in a sustainable way. This should be balanced with an appropriate approach to tax on the private sector to also generate revenues and social value, as set out in Chapter 1.

It is also important to recognise and act proactively on the importance of digitalisation and AI and shape it to enhance skills development, increase the number of digital entrepreneurs and enable creative ownership models of businesses and services.

By prioritising full employment of workers in quality jobs with decent wages, the EU can address inequality while still financing its social and economic goals. Well-paid workers participating in the formal economy mean governments have fiscal resources to invest in areas like education, infrastructure and the transition to renewable energy.

Such a model focused on redistribution and serving domestic needs could enable more sustainable and inclusive growth.

5. Reform EU institutions to improve coherence



Recent crises have shaken to the core how governments function at all levels. They have been made to think differently and question whether systems as they stand are ready to service needs and to create stability and certainty. To face up to the future, public structures will have to be more adaptable, cooperative, collaborative and crisis-ready.

Culture is as important as strategy.

Combine and group portfolios for more policy coherence

The green, digital and demographic transitions represent horizontal domains that impact other fields of policymaking and require greater coherence and coordination in order to avoid duplication of efforts, optimise resource allocation and foster technological advancement. While the last European Commission's attempts to cluster portfolios under an executive vice-president was a first step towards increasing cross-working, the next mandate should go further by combining portfolios and grouping them in a way that facilitates coherent approaches to policy issues.

From the outside looking in, there appears to be an absence of strategic communication across these transition points. While policy measures, developments and proposals are released on a regular basis, they often appear disjointed and seem to lack sufficient impact assessment on the implications and consequences of their adoption. When and if these steps are taken, they are not sufficiently communicated externally.

The funding streams created to support these grand projects and transitions also appear to be disconnected, which reinforces a lack of consideration for their impacts on people's livelihoods and displays a sense of disjointed thinking by separating how people make sense of climate change, digitalisation and ageing.

The new mandate should ensure that the green, digital and demographic transitions are treated as headline issues for the duration of its tenure, ensuring there is conscious and measurable progress to reduce inequalities, improve social mobility and enhance redistribution.

Ambiguity of political consensus can lead to making concessions and competing perspectives which can undermine the discipline required to achieve reform of behaviours and policymaking. Culture is as important as strategy, and "how" you are matters as much as "what" you are. The new commission needs to establish a culture of integrity, collaboration and accountability.

In doing this, the new Commission president's mission letters to each commissioner must make explicit expectations of cross-silo working to ensure greater policy coherence amongst portfolios. This should include a monthly cross-portfolio check-in on progress being made to ensure coherence and to track and align policy measures, regulations and communications in relation to these three points of transition.

There should be one executive vice-president responsible for all three of these transition points, with a cross-discipline cluster of commissioners underpinning the work and responsibilities. This, in turn, would create a structural design and default position within the actual European Commission structure to think and behave differently and to increase the opportunities for policy coherence.

Make more and better use of the enhanced cooperation facility

Enhanced cooperation allows a minimum of nine member states to move forward with cooperation even if unanimity cannot be reached across all EU members. The procedure aims to allow member states to function at different paces and to overcome stalemates caused by the requirement of unanimity.

It is a 'last resort' tool, based on European Commission proposals with the consent of the European Parliament, and has been used on issues such as financial transaction tax, patents and divorce law, as well as in setting up the European Public Prosecutor's Office (EPPO) to protect the EU's financial interests.

Member states should make more and better use of the enhanced cooperation procedure. This would be an excellent basis to further policies and practices that do not have unanimous agreement but that could trial new ways of working within the EU that could have a greater lasting impact across the entirety of the EU.

Enhanced cooperation could help the EU make progress on tax issues by allowing a group of member states to move forward with tax legislation even if unanimity cannot be reached across all EU members. The procedure could put 'traction' behind tax proposals related to both direct and indirect taxation, as well as a range of policies within member state competence, and could be the 'worm' in the system to seed innovation and progressive policies.

Improve coherence through the establishment of interinstitutional boards

Global challenges require new forms of cooperation. As policy areas become more deeply intertwined, transversal domains that impact other fields begin to stand out. New forms of governance are required, where policy fields are not addressed in silos but rather inform one another.

As such, the EU should identify and implement levers to increase and improve intra-EU institution coherence and communication. This should be done through the establishment of interinstitutional boards on issues such as space, oceans, culture and energy.

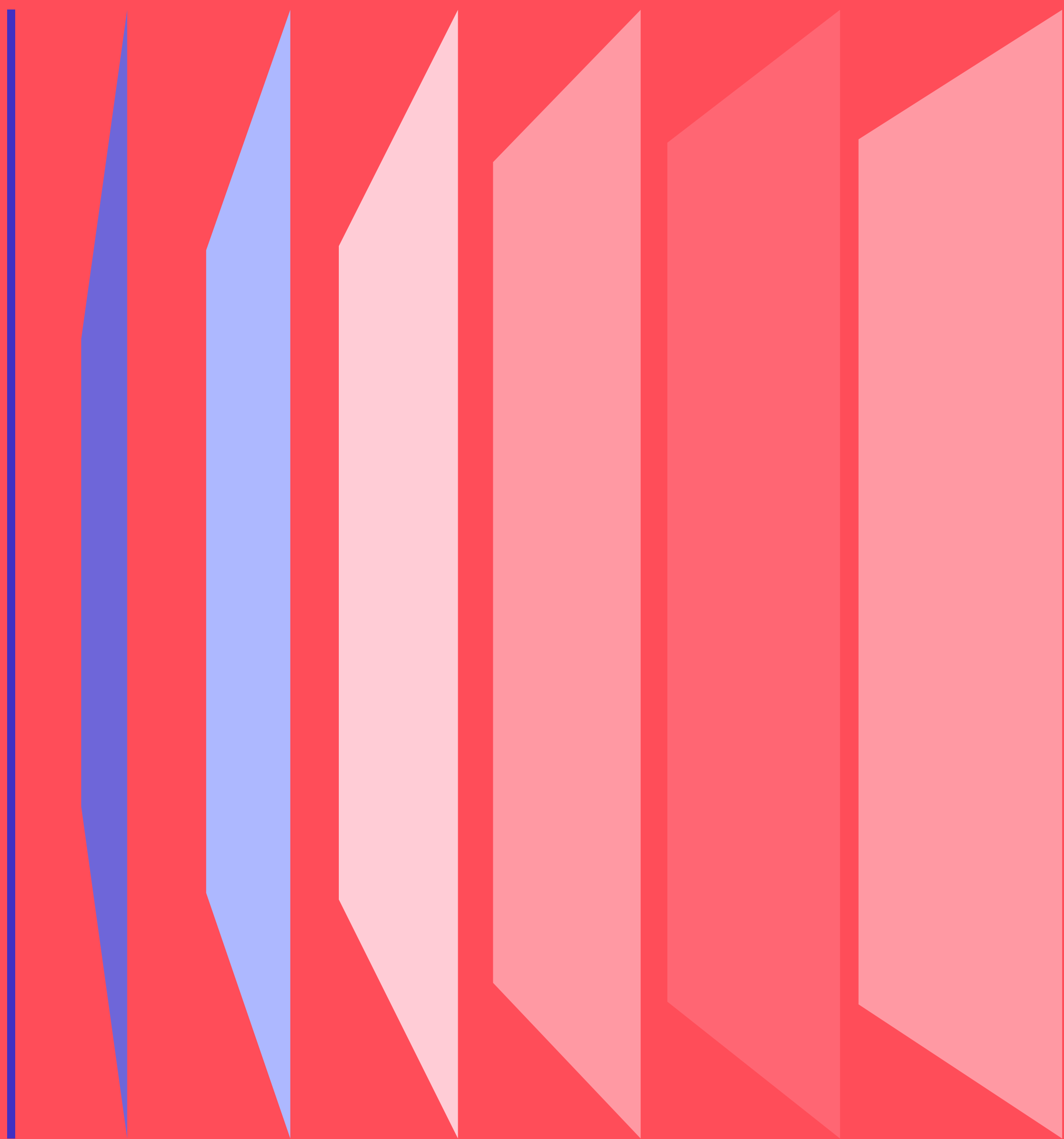
These represent horizontal domains in which greater coherence and coordination are required in order to avoid duplication of efforts, optimise resource allocation, tackle global challenges and foster technological advancement. Without such cooperation, member states may waste resources on redundant projects, miss out on economies of scale and lag behind globally.

Interinstitutional boards should facilitate exchanges on all related matters and streamline concerns and considerations pertaining to the role of these domains across sectors, ensuring that issues are taken up across different policy areas by creating a bridge between the various stakeholders. For example, while the EU's 2023 Strategic Foresight Report emphasises the importance of the twin digital and green transitions, there are very few references to space, an area that plays a crucial role in almost every aspect of life on Earth.

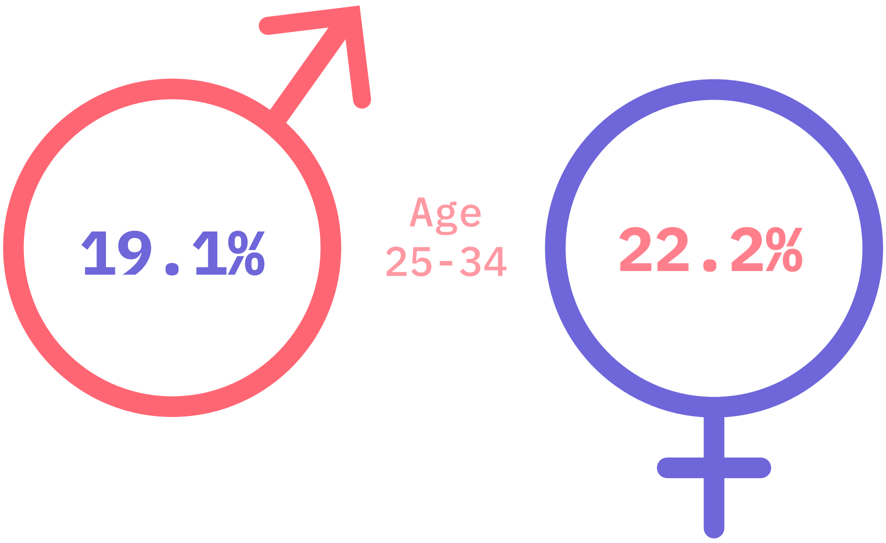
Representation in the boards should include representatives of relevant institutions, cities, as well as civil society and the private sector. The inclusion of civil society could go a long way towards making citizens more aware of these domains and how they impact their everyday lives. Meanwhile, the presence of key industry representatives would be essential to ensure a coherent approach to the integration of these domains into the relevant policy areas. The private sector has invaluable insights and expertise that can inform the development of policies across various sectors. Moreover, involving the private sector would promote transparency and accountability in decision-making processes, ensuring that policies are not only effective but also responsive to the evolving needs of these domains.

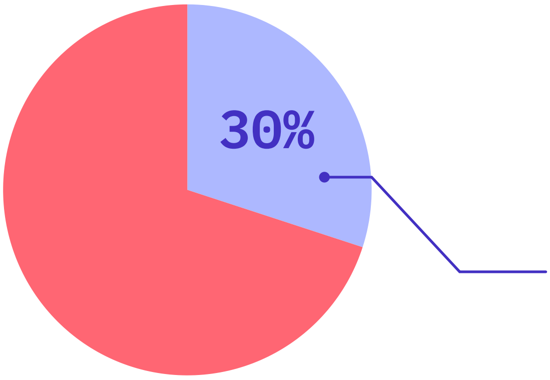
Boards created at the EU level could also maintain international connections to accelerate the ratification of global treaties – such as the High Seas Treaty and Global Plastics Treaty in the case of oceans – in close cooperation with forward-looking partners to reinforce multilateralism.

6. Reduce inequality, improve social mobility



Percentage of Individuals in the EU with Temporary Contracts (End of 2018)





EU Regions at Risk of Talent Trap

EU regions are at risk of a talent trap due to the shrinking workforce, brain drain, depopulation or the risk of losing talent as a result of the digital green transition

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Years of economic crises have seen the development of more marginal work situations. Due to an increase in temporary contracts, employment has become more precarious. A significant proportion of working people from poor backgrounds – often migrants, large families, women and single parents – in many EU member states face severe social challenges compared to the general population, and the increase in low-paid, low-skilled occupations and the reductions in collective bargaining power for workers have put many citizens at risk of in-work poverty. At the end of 2018, 19.1% of men and 22.2% of women between the ages of 25 and 34 had a temporary contract[21].

At the same time, in her September 2023 State of the European Union speech, European Commission President Ursula von der Leyen cited labour and skills shortage as one of the top three challenges to European industry. Indeed, 30% of EU regions are in or at risk of a 'talent trap' due to the shrinking workforce, brain drain, depopulation or the risk of losing talent as a result of the digital green transition[22].

The European workforce requires massive upskilling, reskilling and reconversion for those losing jobs. At the same time, other actions must be taken to address the changing nature of jobs caused by digitalisation, AI and automation.

Make social protection span a lifetime

The risk of child poverty in Europe is 19.5%, representing a grave danger to Europe's economic growth and social peace.

Modern social protection policies must emphasise service provision to enable participation in social and economic life, boost employment and adopt a lifetime perspective. This starts with supporting families and children, as well as youth. In this regard, a new approach to education and labour market entry is needed in order to help prevent the occurrence of risks, reduce the demands on society to respond to them and enlarge the tax base.

A fundamental priority must be investing in children. The risk of child poverty in Europe is 19.5%, representing a grave danger to Europe's economic growth and social peace[23]. Moreover, supporting children is crucial for their integration into the educational system and their entry into the labour market, leading to better pensions and more stable health. An important goal is to guarantee affordable or free access to education and healthcare services for children under the age of three and at risk of or currently living in poverty.

Policies for the working-age population are the next step. Social investment measures during working life must include active labour market policies, reskilling and short-time work schemes that are integrated into social protection systems and employee ownership.

New policies for self-employed and non-standard workers, as well as lifelong upskilling and reskilling methods, must serve as the main active labour market policies; they should take place horizontally and, most importantly, focus on green, digital and care skills.

Necessary active labour market policies include activation measures for the unemployed and other target groups, such as training, job rotation and job-sharing, employment incentives, supported employment and rehabilitation, direct job creation and start-up incentives. While investment in training tends to be initially more expensive than helping people find jobs, it has a significant long-term impact.

FOCAL POINT

Particular focus is needed to address workforce shortages in the healthcare sector, with citizens participating in the 2024 Voices project highlighting tight budgets in nursing as a significant challenge to Europe.

Member states must expand places in medical and nursing education programmes to train significantly more professionals and meet objective needs. At the same time, the EU should promote responsible and legal migration of healthcare professionals from third countries as a solution by supplementing domestic workforces in a way that does not deplete

The impact of ageing on Europe's population and society must be a part of policymaking impact assessments. We need longer careers, with flexible working time arrangements, adequate pensions and adjusted workplaces and training. We need new policies for their healthcare and empowerment, with the development of public long-term care systems as a prerequisite.

While efforts to obtain the long-term benefits of social investment regularly come up against short-term pressure for fiscal consolidation, policymakers must recognise the long-term economic and social gains of a fully-fledged social investment strategy and put EU fiscal support for social investment reform on a more permanent basis – not confined to mitigating the socioeconomic aftershocks of crises such as the COVID-19 pandemic.

In particular, the EU should support and promote the social economy sector, which combines profit with social purpose and social return. The social economy sector has the potential to engage and support entrepreneurs by crafting models of businesses, training and services that generate both profits and social return on key societal challenges.

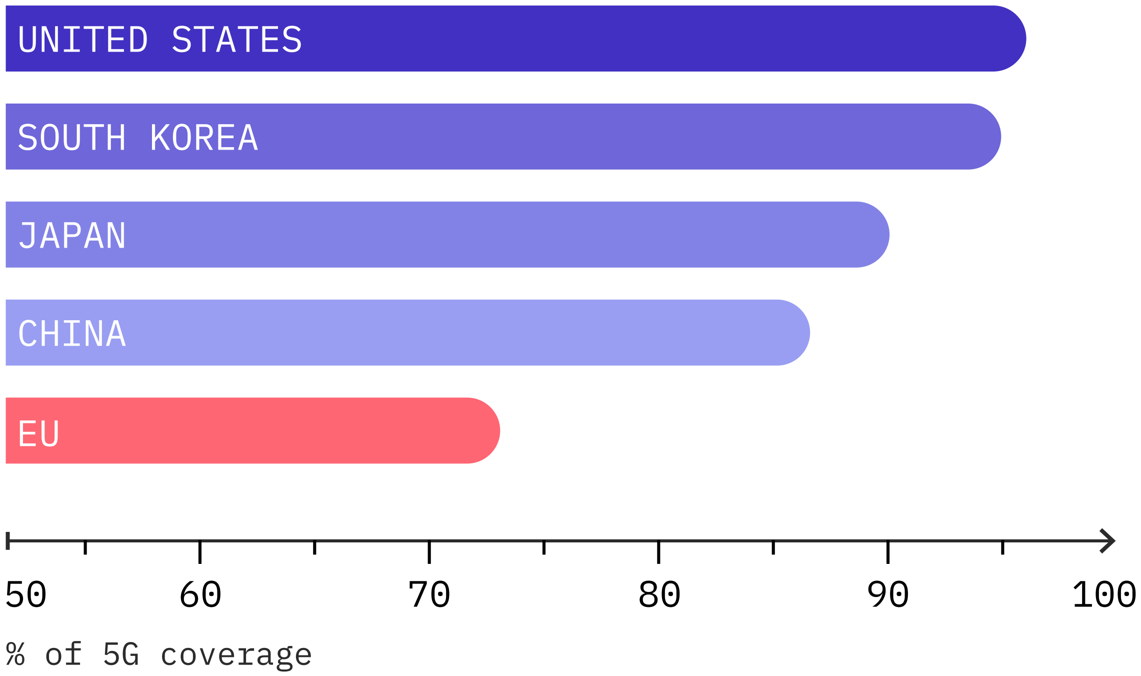
Member states should implement the Council Recommendation on developing social economy framework conditions. In doing so, they will do their part to improve labour market access and enhance inclusion by integrating the social economy into policymaking at the national level.

Philanthropy plays a major role in addressing market failure in Europe. It is worth billions, not necessarily connected to the efforts of the public sector and cherishes its independence. However, in the context of a crisis-laden society, philanthropic leaders should consider how the impact of their funding could have greater and lasting impact if connected to social policy goals and pooled together.

The EU should also put forward the revision of the 2021 European Pillar of Social Rights Action Plan, which would address all remaining gaps in implementation and support member states in achieving the 2030 headline targets on employment, skills and poverty reduction.

The prospect is that these social investment measures will lead to a double dividend in the medium term. They should reduce public spending on income protection, thanks to increased employment in better jobs and more active, healthy lifestyles, while at the same time enlarging the tax base to fund social protection.

other nations' human resources. Any mobility framework needs to ensure salaries and working conditions do not decline as a result. There also needs to be a review of the delineation of roles between doctors and nurses to allow nurses to take on additional tasks currently reserved for physicians, optimising skillsets. Combined, these measures can boost the attractiveness of healthcare careers, enhance gender equality and alleviate pressures on national health systems from labour and demographic challenges.



Boost digitalisation to improve connectivity, reduce inequality and enhance competitiveness

Connectivity is essential for the economic well-being of society. A foundation of basic connectivity that is not bound by geographic differences will be essential in the digital transition to ensure equality.

However, citizens have mixed feelings about technology. While younger participants in the 2024 Voices project view it as a critical tool for efficiency and transparency, there are concerns across all age groups about the potential increase in inequality due to technological advancements.

Indeed, greater efforts to meet the EU's Digital Decade objectives are required to avoid rising inequality – despite the €1.21tn allocated by the EU towards achieving its digital objectives. Europe still lags significantly behind in terms of 5G coverage, with only 73% coverage as opposed to 96% in the United States, 95% in South Korea, 90% in Japan and 86% in China[24].

In 2021, only 60% of rural households in the EU had high-speed internet access compared to the EU's total average of 86%. The same connectivity divide is present in education. Prior to the pandemic, only 8% of students in schools in villages or small towns were able to access high-speed internet[25].

CASE IN POINT

In Spain, the issuance of direct grants, of up to 90% of total costs, to telecom providers aims to facilitate the development of 'last mile' connections to rural households in municipalities of less than 10,000 inhabitants.

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For every 10% increase in school connectivity in a country, GDP per capita could increase by 1.1%.

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While digital access to key public services in Europe has substantially increased, there are still significant inequalities between EU member states, with some countries scoring more than 90%, while others like Romania and Greece lag behind with only 60% access[27]. There is also a significant intergenerational digital divide – the elderly, comprising 30% of the EU population, must be on board with the digital transition.

To increase connectivity across the EU, a number of actions could be taken, for example: providing public funding for network infrastructure through the revised state aid rules for broadband networks and the yet-to-be-adopted Gigabit Infrastructure Act; enacting policies to encourage private sector investment; and offering demand-side incentives by developing digital skills in underserved communities and encouraging the adoption of higher quality broadband.

The EU's worst-performing member state, Romania, has also benefited from extensive support from the EU. The Ro-Net project, which started in 2009, aimed to connect over 700 towns, villages and cities in rural areas where a structural lack of economic viability had dissuaded private investment. Financial support of around €66mn has supported extended coverage, transforming Romania into one of the EU's leaders in rural connectivity.

Ensuring that citizens have the skills they need not just to live but to thrive requires ensuring access to the training necessary to cope in our rapidly changing world. Increasing digital literacy and skills is vital to providing citizens with essential skills for the world of work throughout their lifetime, as well as to support their civic engagement.

The percentage of individuals reaching at least basic digital skills was only 54% in 2021, compared to the target of 80%, while the number of information and communication technology (ICT) specialists was 8.9mn rather than the target of 20mn[28]. Policy action must be strengthened to support these Digital Decade goals, underpinned by a bold motivation to ensure specific targets on a range of equality indicators.

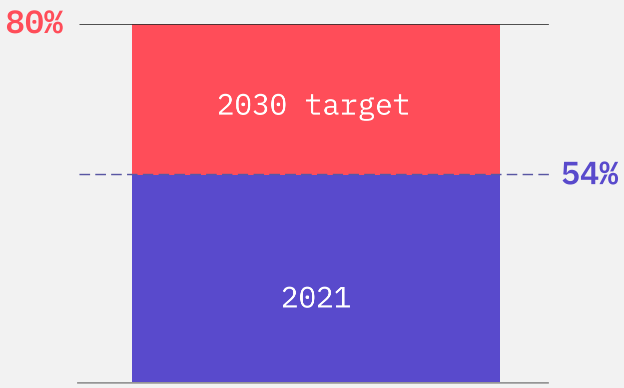
However, measures are fragmented throughout the EU, which can only result in fragmented outcomes and perpetuate inequality in basic and advanced literacy and levels of economic prosperity and opportunity. While SMEs benefit from digital skills training in Spain and vulnerable groups have dedicated digital skills courses in France, Sweden prioritises additional ICT education opportunities and computational thinking is included in a reviewed curricula in Slovakia.

Concerning industry, more than 60% of EU enterprises that recruited or tried to recruit ICT specialists in 2021 had difficulties in filling these vacancies. The situation differs between countries, with 1 in 15 workers in Sweden, Finland and the Netherlands employed as an ICT specialist, while in Bulgaria or Poland, they account for only 1 in every 30 workers[29].

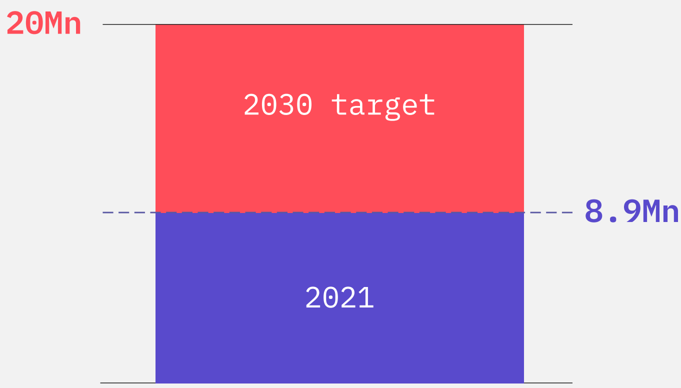
A uniform approach must be taken through which digitally savvy countries cross-pollinate with countries ranking lower in digital skills. This could include online or in-person mentorship and support programmes targeting specific groups – based on age, ability or skill level – or Erasmus programmes for digital skills so that more digitalised and digitally savvy countries in Europe can help advance the skills of lagging countries. Classes in algorithmic thinking should also be made compulsory in all schools to prepare the next generation and offer insight into digital career paths.

Using the Digital Competences Framework (DigComp), civil society organisations could work to identify needs and approaches targeting specific groups and then work with experts from the private sector, who could act as voluntary trainers to roll out various programmes of learning.

Basic digital skills

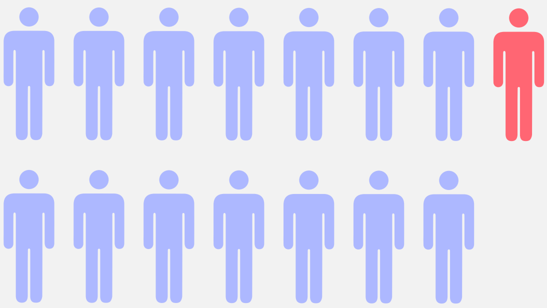


Number of ICT specialists

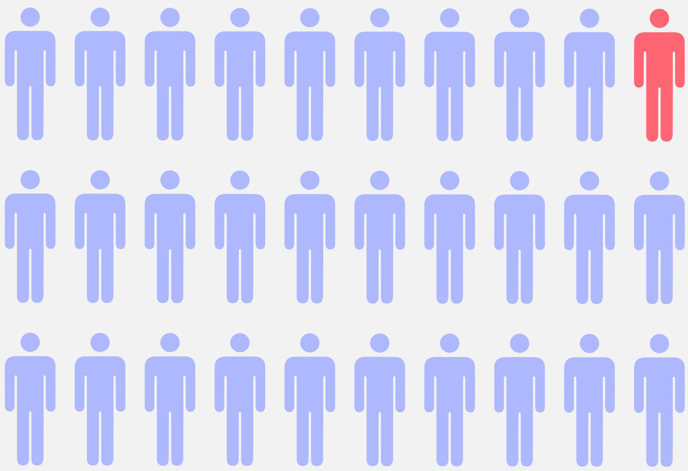


Ratio of workers employed as ICT specialists

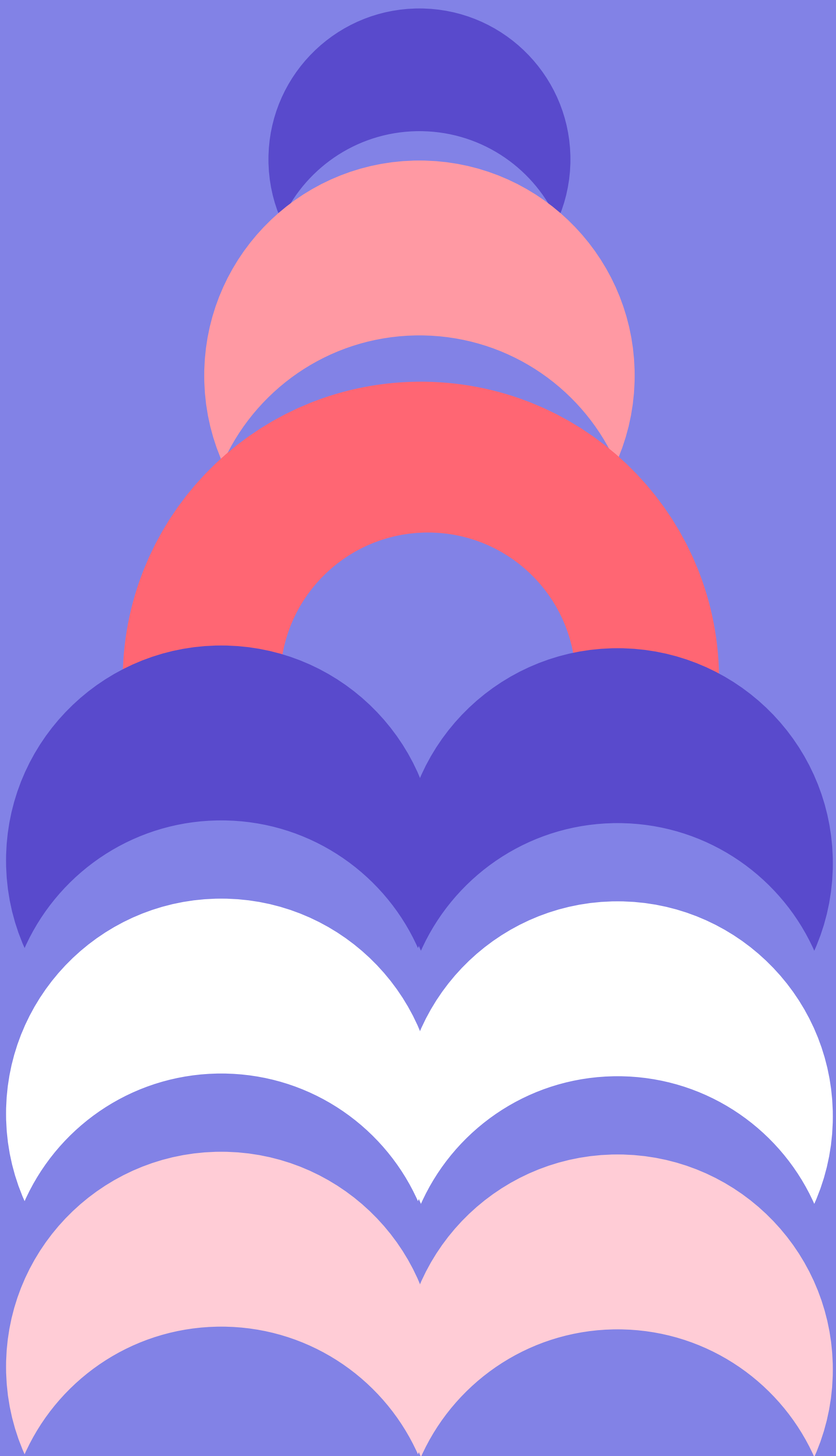
Sweden-Finland-Netherlands



Bulgaria-Poland



7. Engage the private sector for social good



Businesses play a pivotal role in driving sustainable economic growth and innovation. They also have a tremendous impact on societal health and well-being – for better or for worse. Unfettered or left to their own devices, and subject to elective processes, the private sector can have a substantial negative impact on economic livelihoods and the pace of adaptation and change required to address climate change; it can also influence and segment behaviour in ways that are potentially harmful to consumers, communities and their connection to the common good. Indeed, citizens participating in the 2024 Voices project exhibited a general mistrust or scepticism towards the private sector's ability to deliver the green transition, tackle inequalities, boost the economy and increase societal resilience.

While many businesses have great clout in the policy-influencing ecosystem, they must be actively engaged as shareholders in the social contract to leverage their capacity for change-making and counter their capacity to have a significant negative impact on social goals and fairness.

We also know that market-led or private sector-generated innovation can happen at speed and scale – and with great efficacy. The private sector's profit-driven aims make it better placed to innovate than the public sector. That said, by engaging both the public and private sectors in tandem, they can work together to generate greater social and economic dividends.

Businesses are essential problem-solving partners and should be brought in by governments early on to engage in a dialogue around society's greatest challenges.

Treat the private sector as equal partners in solving societal challenges

Governments and the EU need to craft a different deal and relationship with the private sector for social good. This means engaging private sector leaders and their innovators in earnest in conversations about social policy problems at the earliest opportunity. This should be done by taking a 'no-favours' approach and ensuring accountability in processes. At the same time, they must recognise that profit and social good – when brought together around a common purpose – can lead to better outcomes for all.

Governments and institutions often engage with the private sector with the view that they may make much-needed investments, but businesses should be seen as more than implementers. They are essential problem-solving partners and should be brought in by governments early on to engage in a dialogue around society's greatest challenges.

The public and private sectors have the ability to work together to solve skills gap problems, build up much-needed infrastructure and invest to bring life into underserved neighbourhoods. Moreover, by working together, they can innovate and do so in a way that builds communities, ensures that changes such as adapting to clean energy usage do not penalise the poorest and focuses on more than solely outcomes.

Use public money as patient capital to unlock private sector investment

When the private sector invests in technology and people, it has the possibility to reduce inequalities through sustainable, inclusive growth and improved remuneration – playing an important role in lifting people out of poverty. It is also a major player in the green transition, with the power to make substantial and far-reaching changes. According to McKinsey, such action by businesses and the market economy could generate half of the financing required to fill the global economic empowerment and net-zero investment gaps[30].

The model of public-private partnerships needs to evolve and strengthen as a policy tool for infrastructure development to address deep-seated inequalities and unequal outcomes for many in society. This will require a different kind of deal-making process between the public and private sectors in which there is a social return on investment. In the new mandate, the European Commission should work with private sector actors early on to evolve the nature of public-private partnerships. This should reflect the role of public money to lever private sector investment, acting as patient capital, which is able to accept a higher risk threshold and enable conditions for private sector investment as well. This would be a path to securing effective scale, ceding growth in jobs and improving livelihoods. Indeed, McKinsey estimates that such action could make $3tn in benefits available to those below the empowerment line, as well as unlock $17tn in private sector net-zero investments[31].

The private sector should become conscious and conscientious actors in creating a good society, assuming shared responsibility by fostering innovation not only within their business-to-business and supply-chain activities but also in their workplaces and wider communities.

In keeping with the tenor of this overall report, a bolder approach to public-private sector partnerships can be realised by creating and co-investing in large-scale funding

If done in tandem with consultative, discursive approaches with the private sector, public finance from the EU could be multiplied significantly.

and investment mechanisms, for example, scaling social impact bonds, tax and financial incentives and premiums on green and common good corporate actions. The EU should take a radical approach by looking at some of its largest funding schemes, asking themselves how the private sector should be involved in them, at what stage and with what rationale. If done in tandem with consultative, discursive approaches with the private sector, public finance from the EU could be multiplied significantly.

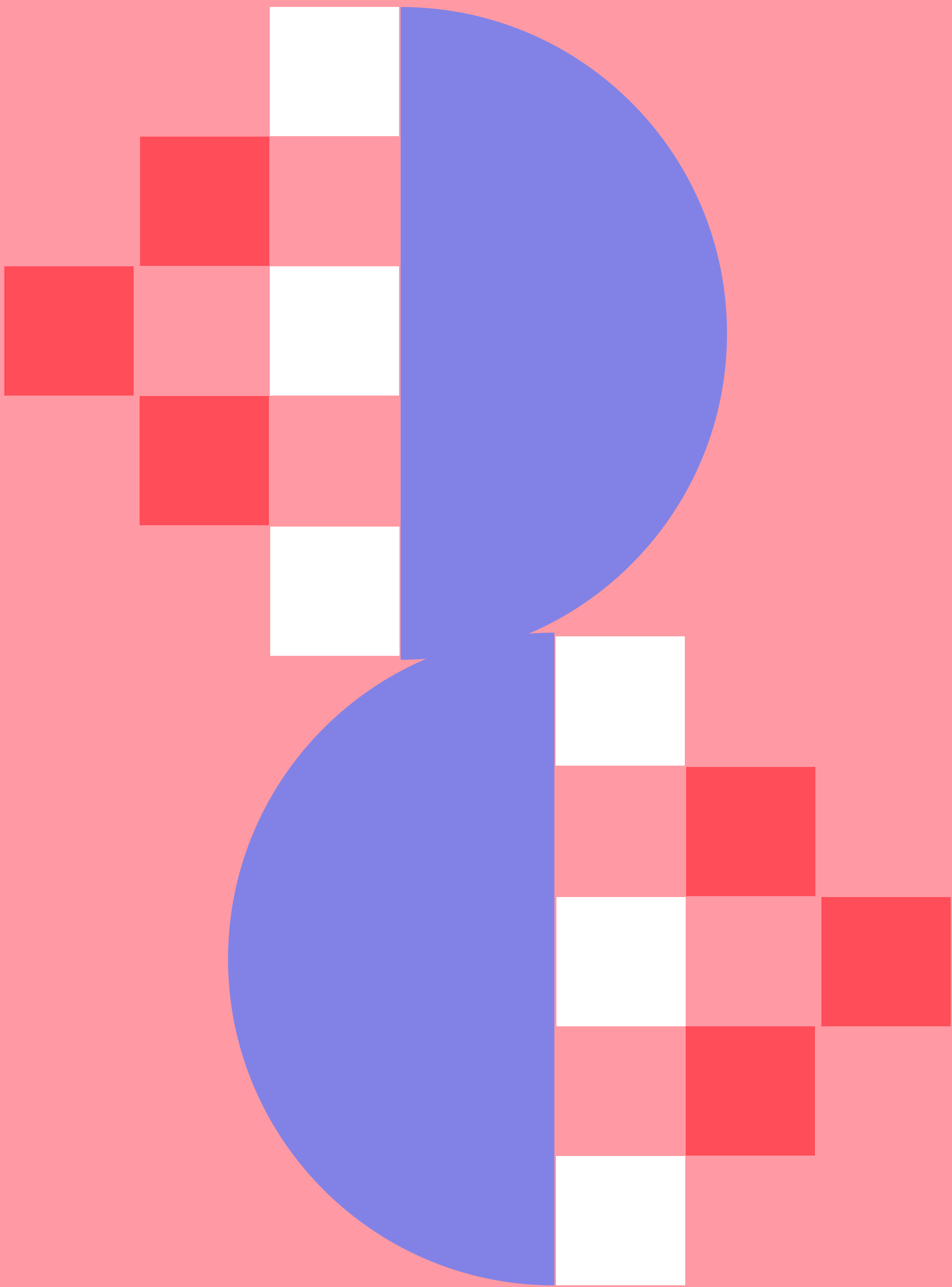
The European Investment Fund (EIF) should continue to play a crucial role in decentralising investments and supporting start-ups across the continent, focusing less on mature and more developed European markets. National diversity at the fund management level should be a requirement for EIF selection to ensure equitable distribution of resources.

The EU should implement policies to ensure that the wealth generated by successful businesses is reinvested in the European economy. In particular, policies should encourage businesses to invest in research and development (R&D) and human capital. This could include the introduction of Employee Stock Option Plans (ESOPs) with more concrete liquidity options and the establishment of an EU limited (Ltd) legal structure, which would reduce the cost and complexity of scaling for European enterprises, fostering entrepreneurship and international expansion.

Going further, pension funds should be standardised at the EU level, with an EU pension fund dedicated to investing in innovation and start-ups. This approach could mobilise significant capital for high-growth ventures and diversify public funding for innovation.

The EU and its member states should not mix start-ups and entrepreneurs with corporates and large private sector entities in their policy thinking. SMEs are the bulwark of the EU's economy. Given their scale and diversity, particular incentives should be created either through tax subsidies or one-off grants to support SMEs' adaptation to a greener business model.

8. Reconcile competitiveness and social protection



Ensuring a competitive ecosystem that drives innovation need not come at the cost of social good. A new modus operandi for the private sector must account for an ever-uncertain, unpredictable world in which governments cannot go it alone when it comes to protecting, enhancing and providing welfare and economic opportunities for citizens. Businesses must become co-supporters of a good society.

Introduce social clauses and community dividends into procurement exercises and public-private partnerships

The current approach to large-scale procurement and the establishment of public-private sector initiatives does not sufficiently address potential social and placemaking opportunities. Infrastructure programmes are too often thought through in terms of bricks and mortar but not people. As a result, they do not fully realise the consequences and impacts these may have on communities. This, in turn, can create a community disadvantage and instil a sense among citizens that they have no say in their own needs.

Governments and institutions should incentivise inward and foreign direct investment and simultaneously introduce social clauses and community dividends that ensure benefits for disadvantaged or low-income people and communities.

The significance of people and community impact is too often underestimated in public-private partnerships and procurement exercises. Social clauses should be included in all public-private partnership and procurement exercise processes, contracts and agreements, bringing in the obligation to assess community impact and need, implement specific measures to address these and regard people and community impact as measurable performance indicators of any partnership or contract.

The return on this investment into people would be evident in the form of community dividends, with a direct impact on the quality of childcare, schools, healthcare, skills development and more – making locality matter.

This applies to the EU's partnerships abroad as well, where social clauses in partnership agreements should support a just transition and sustainable growth. This can, for example, involve local labour development, increased housing stock, access to finance for entrepreneurs and provision of community or educational facilities. This must be done in a way that takes into account the different starting positions of the various regions. If such agreements are not possible at the government level in all partner regions abroad, it is important to explore alternative ways of funding aligned regional organisations, the local private sector and local authorities by investing in improving, scaling up and replicating existing solutions that have a positive impact on citizens' lives.

Boost health innovation for social and economic resilience

Promoting greater patient decision-making and control over personal health information is essential for the EU to advance more people-centred healthcare. One key way to do this is by establishing schemes across member states that allow patients to willingly donate their health data to be used for research and system improvements. Such donations could vastly increase the real-world evidence available to researchers to gain new insights and train advanced analytics.

Donated data could then be aggregated at the EU level through initiatives like the European Health Data Space (EHDS) to train AI systems and predictive models with the goal of more personalised, preventative and participatory care delivered through apps or other virtual health tools. Respecting privacy through opt-in choices also addresses ethical concerns that risk undermining trust in large-scale health programmes dependent on individual participation. Combined with other modernisation efforts, patient-centred approaches can help strengthen public health systems while acknowledging individuals' crucial role in outcomes.

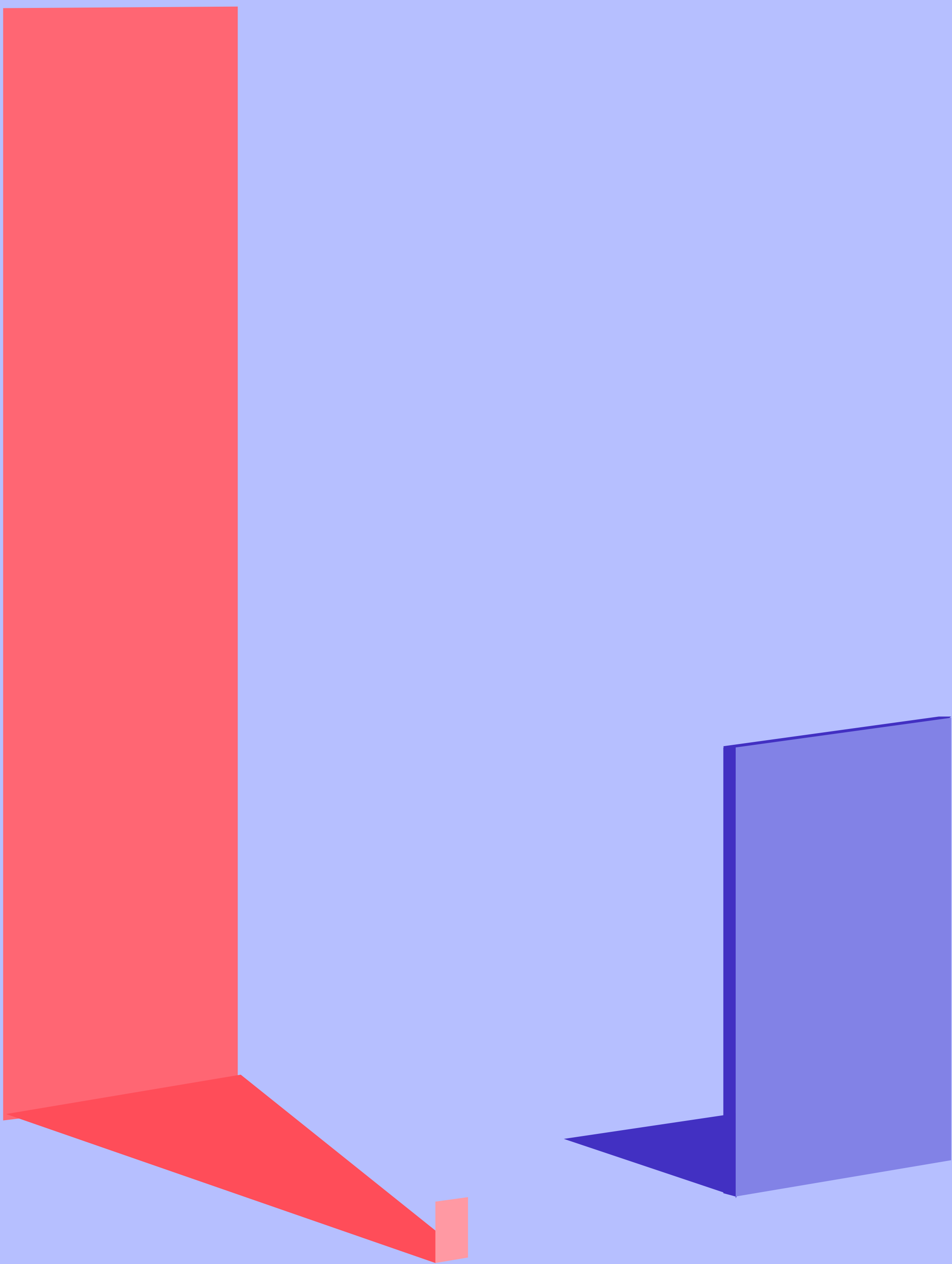
With the donation of anonymised data, health innovation has the potential to go even further, including through the responsible integration of AI. Creating 'AI sandboxes' in hospitals across Europe would be a crucial step for the effective roll-out of AI in healthcare.

Already, AI systems have been developed that can outperform humans in diagnostic tasks like cancer detection and analysis of medical images. However, these tools are not being widely adopted due to barriers around data-sharing and real-world testing. Designating certain hospitals as AI sandboxes would allow innovators access to a pool of patient data and offer the ability to test their systems side-by-side with medical practitioners. This could create a controlled environment in which to demonstrate performance and address issues before wider deployment. AI sandboxes can provide insights on integration with clinical workflows and generate real-world evidence that policymakers need to facilitate national roll-outs.

If implemented strategically across multiple healthcare systems and member states, AI sandboxes could help accelerate precision medicine and drive efficiencies to strengthen the resilience of European health systems. The EU is well-positioned to facilitate multi-country pilots and programmes that test such innovations designed to strengthen domestic health systems. With coordinated action in these areas, the EU can safeguard public health security while also enhancing the quality, accessibility and sustainability of healthcare for all its citizens.

In all of the above, it will be vital to ensure that diversity is embedded in algorithms, AI development and its application to avoid the mistakes of the past and reduce repeating discrimination or disadvantage.

9. Enhance the EU's soft power



In a time of tectonic geopolitical shifts, Europe is a small player in a big world. Europe must build new alliances to continue to pull its weight in a world in which the balance of power is rapidly shifting. India has overtaken China as the world's most populous country, with over a third of humanity expected to be living in India or China by 2030. The risk is a periphery role for the EU on the world stage if it fails to engage constructively; Europe's future will be determined by its capacity to re-engage and develop genuine partnerships, in particular with Africa given the proximity and controversial history.

Reframe global perceptions of the EU

In the face of the paralysation of the United Nations Security Council and the Organization for Security and Co-operation in Europe (OSCE), the EU must live up to its commitment to justice, the rule of law and democracy. It must pursue foreign policy, security and trade strategies that rest on cooperation among like-minded democracies and other multilateral groupings. Where geopolitics render unanimous solutions impossible under a UN umbrella, the EU should pursue 'maxi-lateralism', building the broadest possible coalitions of nations willing to develop common rules and principles, with mechanisms to enforce agreements. This will require a shift in mindsets too often dominated by an approach hatched in the 1950s, framed around lending others a hand and inadequately recognising the value of others in partnership agreements.

Troublingly, the EU is still often not seen as one actor. To overcome this problem and increase its credibility, the EU needs to increase coordination between the EU Council, Commission and member states and provide clear communication about and commitment to delivering specific results.

In the EU's relationships with third countries, it must concentrate on creating a level playing field insofar as possible, at a time when debt and the impact of climate change are preventing countries from fulfilling the role they could play in a partnership. It must also move away from a development mindset and towards an investment-based approach, incorporating an understanding of mutuality, interdependence and reciprocity.

This will require improved risk assessment and levelling up of money and support. Investment in partner countries is necessary to compensate for the circumstances these states inherit. Joint projects should be the go-to modality for future cooperation. Sustainable solutions will also require improved monitoring mechanisms and a shift in thinking towards longer project cycles. For the EU, the implementation of the value-based approach can be enhanced by more transparency at all stages of partnership arrangements, leaving room for negotiation and giving partners real choice and thus more ownership at the local level.

Member states should also fulfil official development assistance (ODA) and climate finance commitments; offer debt cancellation and financing in the form of grants, rather than primarily in the form of loans; and take partner countries' concerns over the reform of international financial institutions seriously to show that the European narrative of democratic values, decent jobs and nature preservation also comes with financial backing.

As the EU rolls out its Global Gateway and related investment plans, it is important to consider how the EU's target regions and partners, including the private sector, perceive and engage with the strategy, as well as other global development and investment frameworks. In recent years, countries have increasingly questioned the self-promotion of the EU as a role model of values. There is a lot of confusion among partner countries, the private sector, development agencies, NGOs, regional actors and other stakeholders about which existing projects will be part of Global Gateway and the exact guidelines for funding allocation. Without further clarification of the processes, the EU risks losing sight of one of the main objectives of Global Gateway – that the money is spent in a way that is most beneficial to the country or region where projects are implemented.

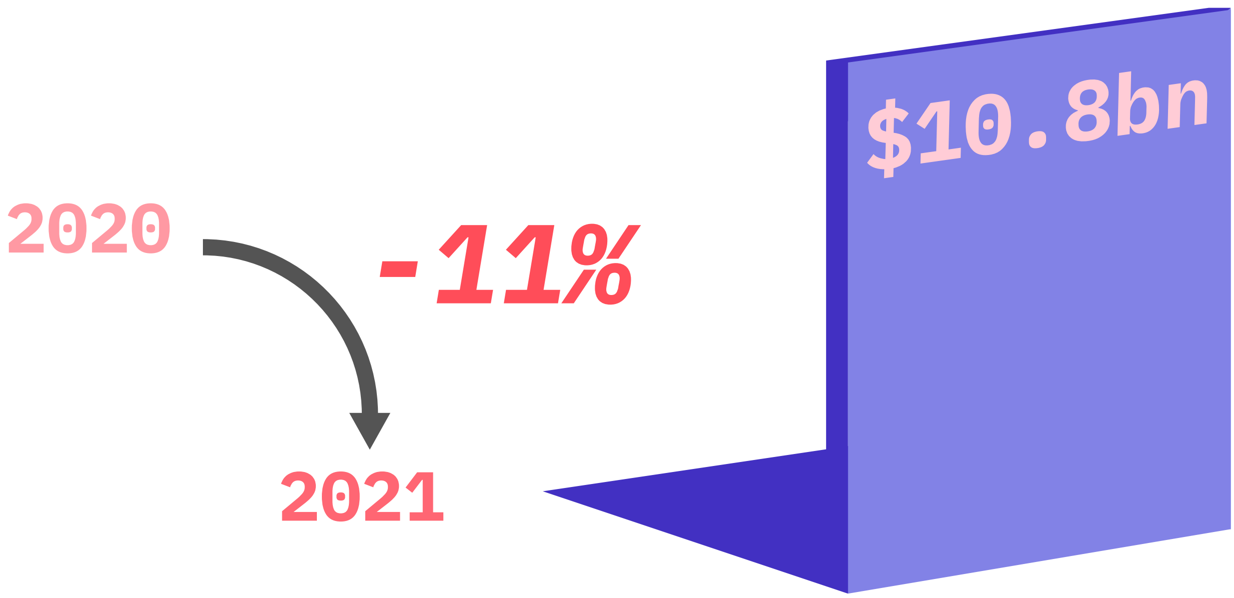
At the same time, instead of trying to rival other blocs' initiatives, the EU should focus on building partnerships based on what it is good at, such as promoting its social protection and regional integration models. The way in which the EU has developed over the last 70 years and managed to ensure the relatively equal development of all its member states is unique. Additionally, the social protection system, which allowed for growth without creating huge inequalities, is a model for the rest of the world. Europe should build partnerships to replicate those models in other regions. This will involve changing the way international development is currently led by increasing the involvement of the thematic directorates-general in the work that is currently conducted primarily by the Directorate-General for International Partnerships (DG INTPA).

Prioritise sustainable investments and partnerships

Achieving the UN Sustainable Development Goals (SDGs) will require implementing longer project cycles with sufficient follow-up and evaluation. The SDG of affordable and clean energy will, in particular, require increasing investments in renewable energy and ensuring an enabling environment for the private sector. In recent years, international financial support for green energy has declined, despite substantial needs and rhetorical commitment at annual Conferences of the Parties (COPs). International public financing for clean energy in low- and middle-income countries (LMICs) has decreased massively, reaching $10.8bn in 2021, down over 11% from 2020 alone[32]. This jeopardises energy transition goals, especially for vulnerable nations. The EU must also reassess green barriers to trade that cannot reasonably be met by partner regions in the near future. Instead, trade should be seen as a tool to support the green transition according to a timeline that is realistic for the respective partner country. This should feature prominently in the Africa-EU Post-Cotonou Agreement.

Importantly, the EU's energy transition must not replicate the destructive model of the fossil fuel sector, increasing the extractive industry in Latin America and Africa, primarily for the sake of meeting Europe's demand. The EU must support local economies and the domestic industrialisation of partner countries, adopting a clear definition and strategy of how it will create added value in partner countries. In the context of green transition, it must acknowledge that private investments, trade facilitation and large-scale infrastructure and energy projects come with risks; it should thus prioritise transparency, accountability and robust monitoring and remediation mechanisms, with meaningful involvement of civil society and indigenous peoples.

International public financing for clean energy
(low- and middle-income countries)



The EU needs to reform instruments and tailor-make comprehensive partnerships through better and more comprehensive consulting and involvement of partners from the start, removing silos and improving knowledge-sharing. Partnership agreements between the EU and its partners should be oriented towards the needs and conditions of partner regions. This could be implemented through improved funding of knowledge management teams from the very beginning of a project cycle, the adoption of ‘universal design’ for project plans, as well as increased transparency and communication between the EU and partner governments and project teams to discuss shared priorities before agreements are put down in writing. Better funded and connected knowledge management teams would allow for the necessary research and dedicated conversations with local people and organisations, including representatives from marginalised groups, needed to achieve this. Co-investment needs to lead the way of thinking and implementing partnerships.

Projects should primarily focus on common interests, with partners pooling their strengths to achieve mutually beneficial partnerships. In this way, those who are affected by projects – and ideally also benefit from them – are placed at the centre of partnership arrangements. An example of such cooperation is in the field of AI, where the EU is strong in establishing the legal framework and the partners in Africa have a robust, young and digitally savvy generation. To generally achieve this, more existing solutions need to be identified, learnings of partner countries taken seriously, sharing between different knowledge management teams enabled and improved, and upscaling of smaller solutions better explored.

Especially in countries where citizens do not feel well represented by their governments, closer cooperation with local and regional organisations and institutions is of utmost importance to find solutions that sustainably improve the lives of citizens and relations with partner regions.

10. Strengthen European defence and resilience

Keeping citizens safe and protecting democracy are fundamental parts of any social contract. There is a growing consensus that resilience, vigilance and a robust defence require a greater share of collective resources in a dangerous geopolitical environment.

Russia's aggression against Ukraine has upended the European security order and poses a threat to all Europeans. The 2024 Voices project showed that the war has significantly heightened citizens' awareness of security threats, especially in terms of energy dependence and geopolitical stability, with younger citizens more focused on direct impacts such as economic and energy security.

Unless the EU helps Ukraine prevail and strengthens its own defences and societal resilience, there is no reason to expect Russian aggression to stop. It may take the form of land grabs, as in Ukraine, or hybrid efforts to undermine European societies and economies – or both.

We also face challenges from emerging powers across the globe with fundamentally different values to ours. Our security environment is shaped by unresolved conflicts on our doorstep that have flared anew between Israel and Palestine, Kosovo and Serbia, Azerbaijan and Armenia, as well as Iran and the West. We also face the risk that Donald Trump, or a like-minded nationalist hostile to NATO and the EU, wins the US presidential election.

Invest in defence at the European level

Europe will need a decade of defence investment to rebuild deterrent capabilities run down since the Cold War. Europeans must invest to protect critical infrastructure, cyber-security, information ecosystems and space assets from hybrid threats and the security risk multipliers of climate change.

The North Atlantic Treaty Organization (NATO) and the EU should thoroughly assess the balance in spending priorities between emerging and disruptive capabilities, such as drones, missiles, autonomous systems, cyber and space assets, and legacy-heavy capabilities, including tanks, artillery, warplanes, aircraft carriers and submarines. While taking due account of Russia's military doctrine, we should avoid preparing to fight the last war.

While NATO will remain Europe's central collective defence organisation, as long as the US remains committed to defending its European allies, the EU must use its broader toolbox – from collective borrowing and joint purchasing to joint investments in defence industry capacities – to meet European countries' commitments to stronger defence and to be able to act in crises in which NATO or the US choose not to engage. This includes building on the successes of collective vaccine purchases during the pandemic and ammunition procurement for Ukraine by using the European Defence Fund and European Peace Fund to develop and procure key military enablers to fill existing capability gaps. These include air and space-based intelligence, surveillance and reconnaissance, remote sensors to protect critical infrastructure, strategic and tactical airlift, as well as command, control and communications. The scale of investment required would best be achieved by using collective borrowing, as for the pandemic recovery fund.

It also requires strengthening

defences in 21st-century domains. The EU should develop space defence capabilities focused on space situational awareness and passive defences such as sensors and manoeuvrability of satellites. It should revamp the AI Act to address the challenges and threats stemming from generative and conversational AI technologies, while also integrating AI tools into its risk preparedness policies and planning and enforcing high standards for development and deployment. It should also invest in developing a secure quantum computing infrastructure and supporting the development of quantum-safe cryptography to protect European cyber-infrastructure in the quantum age. Such policies with multiple social and economic spin-offs would help preserve Europe's technological edge and boost security.

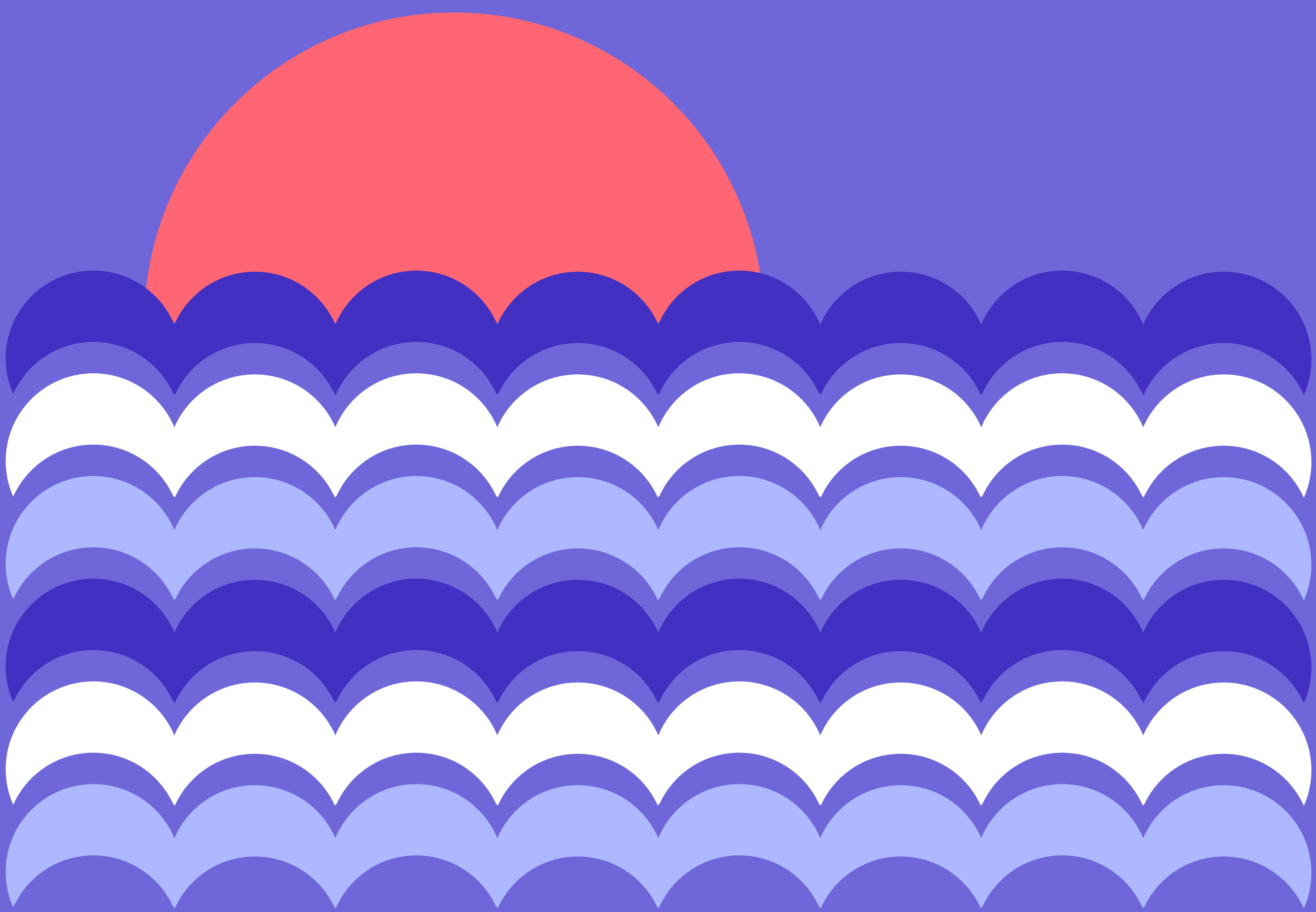
Enlarge the EU and establish a 'total defence strategy'

Enlargement has been and remains one of the EU's most effective foreign policy tools to stabilise its strategic environment. Member states must seize the geopolitical moment and give high priority to bringing Ukraine, Moldova, Georgia and all the Western Balkans countries into the Union, provided that they meet EU standards durably.

The new mandate should rethink the accession process by taking a more collective approach to the region; this will enable better collaboration and joint work on justice and democratic reform, as well as economic development. There are economies of scale to be achieved for all concerned, including the EU, in reduced administration costs and efforts by moving away from a meritocratic approach, which can be divisive in a volatile region and increase the influence and impact of malign actors.

In keeping with a whole-of-economy, whole-of-society approach, the EU should adopt a 'total defence' concept inspired by the Finnish and Swedish models to enhance societal resilience in all spheres of private and public life and take a new approach to citizens' responsibility for collective defence and resilience. This may also mean reintroducing compulsory military service or training and/or compulsory civil defence service in peacetime. In order to build resilience against hybrid warfare, the EU should create forums for regular public-private-military consultation to anticipate hybrid threats, develop systematic information-sharing and strengthen advance planning. It should run regular mandatory resilience audits of public services, transport, energy and supply chains. All measures adopted by the EU to make critical infrastructure and essential services more resilient should be inclusive and gender-sensitive, and should also mitigate existing inequalities and gaps within society.

Conclusion



It is clear from the experience of the first 23 years of this century that the received wisdom on economic, social and security approaches hatched in the last century will neither help guide us nor respond to the challenges of this century; we need a 2050s mindset.

Prevention matters and should underpin all future policymaking; we have the data and foresight thanks to social, scientific and digital progress and research over the last 30 years. It should be used to bolster sustainable livelihoods in the future.

Politicians and the nature of politics and political systems need to be reformed to avoid social schisms and tipping points, as well as reduce deep-seated cynicism and disaffection amongst people and communities.

People and communities matter and should be at the heart of all processes. Easily said, especially during an election cycle, but easily forgotten in delivering the work of government. Whilst a bottom-up, citizen-engaged approach to policymaking and power-sharing seems whimsical, it should be an essential mantra in navigating the troubled and crises-riven times ahead. We need more ‘we’ in our collective thinking and less ‘I’. The European Project was built on the idea of not repeating the tragedy of the early part of the last century. In the most turbulent times encountered since then, we should not forget the ideals and passion with which the world community moved together to avoid another such tragedy.

The current intergenerational and community divides and tensions will only increase every decade if we do not address the increasing inequalities and inequity in our societies, regions and systems. The generations that will inherit the planet in the next 30 to 50 years will have digital lives, and their early childhood development and conceptualisation will be entirely different to that of today. This need not be dystopian if we are to understand this and prepare accordingly.

Endnotes

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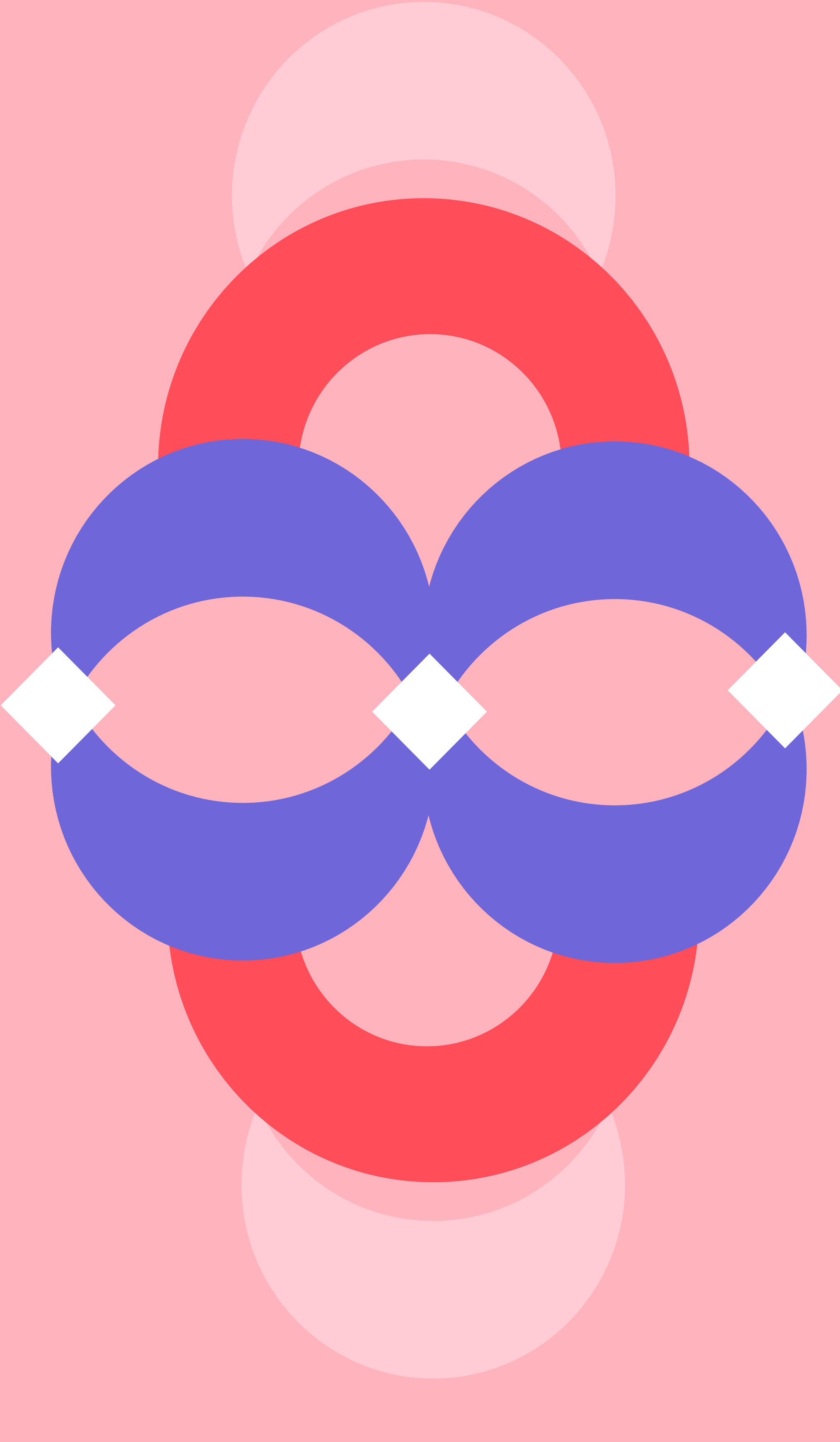
Cast list



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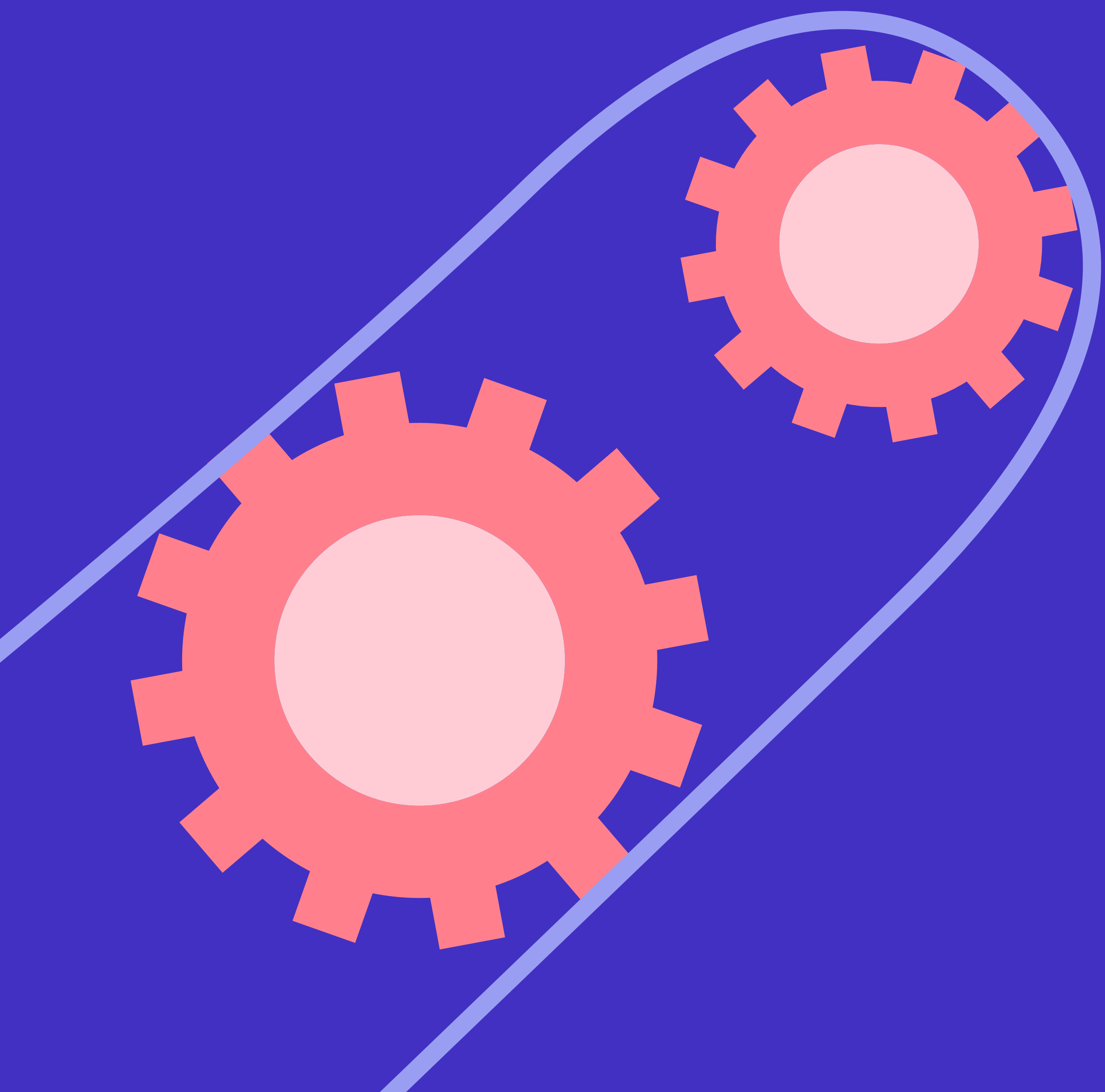
Support list



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Friends of Europe is a leading think tank that connects people, stimulates debate and triggers change to create a more inclusive, sustainable and forward-looking Europe.