A European Wellbeing Economy

Avenues for Political Action

STUDY & DEBATE

GREEN EUROPEAN FOUNDATION

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Table of Contents

Introduction

The relevance of a wellbeing economy, in 1992 and today

The Treaty on European Union sets out that 'the Union's aim is to promote peace, its values and the well-being of its peoples'[1]. These values are respect for human dignity, freedom, democracy, equality, the rule of law and respect for human rights, including the rights of persons belonging to minorities. They are common to the Member States, and are central to the prevailing of 'pluralism, non-discrimination, tolerance, justice, solidarity and equality between women and men'[2]. They are also profoundly linked to the respect of planetary boundaries, as this is the only way to effectively and sustainably deliver wellbeing.

Promoting 'peace, its values and the well-being of its peoples' implies different actions today than in 1992, when the Treaty was signed. The EU has, in the last 30 years, made significant progress in relation to several of the Sustainable Development goals[3]. Recently it has taken concrete steps towards a just and green transition, not least in the form of the European Green Deal (EGD) and its associated legislation. Yet, contradictions between goals remain, and findings on planetary boundaries still show a dangerous breach of six out of nine planetary boundaries[4], undermining the aims of the Treaty stated above.

Europe meanwhile stands at a crossroads, reshaped by geopolitical turmoil, war, energy crises, and black swan events that have altered its global position. In this new reality, investment is not just necessary – it is existential. But the kind of investment Europe needs is not a return to old models of resource grabs or sterile geopolitical rivalries. Instead of a continued focus on Gross Domestic Product (GDP) growth and a narrowly defined competitiveness agenda, we have an opportunity to build an alternative, one rooted in the concept of a wellbeing economy.

This is not just a project for idealists or green voters in prosperous times. It is a real, pragmatic alternative that acknowledges the need for prosperity – though not in the limited sense of GDP, but through a model that values wellbeing, sustainability, and resilience. Europe's competitive edge should not be measured solely in economic output but in its ability to offer a better, safer, and more sustainable future for its citizens – while taking also external impacts into account.

See endnotes page 9

The EU's starting point

Our key point of departure is the EU's 8th Environment Action Programme (EAP), which set objectives guiding environmental policy to deliver the long-term aim of living well within planetary boundaries by 2050 at the latest. In the most recent stocktake on the goals of the 8th EAP, the European Environmental Agency (EEA) assessed the outlook of meeting key targets by 2030. Out of the 28 targets, they found that it is *very likely* for the EU to reach 5 targets, *likely but uncertain* to reach 3 targets, *unlikely but uncertain* to reach 15 targets, and *very unlikely* to reach 5 targets. The goals that are very likely to be met include increased eco-innovation, increased share of green employment, reduced premature deaths from air pollution, and increased spending on environmental protection. The goals that are currently looking very unlikely to be met include greater carbon storage from land use, land-use change, and forestry efforts, reduced energy consumption, area of organic farmland, doubled circular material use rate, and decreased consumption footprint[5]. The indicators for biodiversity and ecosystems are also deemed unlikely to be met.

This stocktake shows a clear need for continued and intensified action, and the EEA concludes that

> *the extent and speed of the change required to meet the targets should not be ignored: several of the indicators point to a required increase in pace of between twofold and ninefold in the years leading to 2030, compared to the pace of the last 10 years*[6].

This is also true for Greenhouse Gas (GHG) emission reductions. Net GHG emissions in the EU have decreased by 37% compared to 1990 levels[7], but a triple annual reduction rate is needed compared to the last decade to reach the 2030 targets, which may not be sufficiently ambitious to align with climate science and the precautionary principle themselves[8]. Looking at the EU's consumption footprint, irrespective of whether goods are produced within or outside the EU, paints a bleaker picture: it increased by 4% over the last decade[9, 10]. There is clear overshoot of several planetary boundaries, including an 8-time transgression of the climate change boundary[11]. Other sources estimate an average 1245% overshoot for climate change, a 512% overshoot for biochemical flows, and a 70% overshoot of the biodiversity loss boundary[12].

While it is worth celebrating progress made on reducing territorial emissions and the efforts made in the past years, the speed and scale of action to get the EU and global economy back within planetary boundaries in a just way needs to be ramped up massively. And this needs to happen in a rapidly changing world that comes with additional challenges.

The EU is currently facing a number of existential challenges, including an ongoing war on the continent following Russia's invasion of Ukraine, rising cost of living and wealth inequality, and geopolitical uncertainties, personified by the recent re-election of Trump in the US. This creates a breeding ground for misinformation, fear and polarisation, which are together hindering our capacity to enact change at the required speed and scale to address the triple planetary crisis of climate change, biodiversity loss and pollution.

At the same time, the European and global population are overwhelmingly supportive of increased climate action[13], while European business pioneers stand ready to act as well[14]. EU policymakers should therefore be cautious about accepting a narrative of green backlash, and rather focus more on the multiple social, economic and environmental dimensions of the transition.

Aligning incentive structures of the green transition with the goal of shared wellbeing within planetary boundaries is a key political

See endnotes page 9

opportunity. There are several potential avenues for the EU and the world moving in this direction, none-of which include business as usual. To quote Buckminster Fuller: 'You never change things by fighting the existing reality. To change something, build a new model that makes the existing model obsolete'[15].

Mapping areas of a wellbeing economy

This publication is a product of a knowledge community of experts that aims to approach these challenges and inspire the European Commission and other decisionmakers in the delivery of their ambition to '*work towards an integrated framework for wellbeing*'[16]. We started by mapping topics within the sphere of wellbeing economics to inform the discussion in interrelated thematic chapters.

The first two chapters of this report cover the key aims of a wellbeing economy. Chapter 1 explains both the critical importance of placing the economy within planetary boundaries and the means and ends for a wellbeing economy, with an agnostic approach to GDP growth. Chapter 2 examines equity and just transition as levers for wellbeing in the EU policy context. Chapters 3 and 4 zoom in on the role of more relevant indictors and policy modelling in enabling the new economic paradigm of an EU wellbeing economy. Chapter 5 addresses the inevitable global elements of respecting planetary boundaries. Finally, Chapter 6 discusses avenues for transforming key economic actors.

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Definitions

This report adopts the following definition of a **wellbeing economy**:

> *The term wellbeing economy is used to refer to various ideas around economic system change that pertain to the purpose and design of the economy in line with what people and the planet need*[1].

This rather wide definition was purposefully chosen, as 'wellbeing economy' is one of multiple related global schools of thoughts and movements towards economic systems change for people and the planet. This includes, but is not limited to Doughnut economics, Post-growth, Ecological economics, and Regenerative economics.

System change refers to 'a fundamental, transformative and cross-cutting form of change that implies major shifts and reorientation in system goals, incentives, technologies, social practices and norms, as well as in knowledge systems and governance approaches'[2].

Wellbeing refers to the ability for all people to flourish and enjoy a good quality of life in harmony with the natural environment. The concept encompasses three interconnected spheres of personal wellbeing (e.g., life satisfaction, subjective wellbeing, wellness), community wellbeing (e.g., social capital, social cohesion), and societal wellbeing (social progress, inequalities, current and future generations)[3]. Another way of portraying the social dimension is through the internationally agreed Sustainable Development Goals as adopted in the social foundation in Doughnut Economics.

Gross Domestic Product (GDP) measures the size of an economy as 'the sum of the final uses of goods and services (all uses except intermediate consumption) measured in purchasers' prices, minus the value of imports of goods and services'[4].

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Means and Ends to a Wellbeing Economy

Aligning with Planetary Boundaries

1

There is still time to mitigate the worst impact of planetary overshoots – but the window is rapidly closing. The latest UN Emissions Gap Report reiterated the stark warning that global Greenhouse Gas (GHG) emissions reached a record high in 2023, and that failure to increase ambition sets the world on a path to a disastrous temperature increase of 2.6 to 3.1 degrees[1]. This prospect exposes the global and EU population to risks including extreme heat, extreme precipitation and floods, severe and prolonged droughts, and hardship due to loss of biodiversity and ecosystem services[2].

The European Green Deal (EGD) and its green transition legislation has been a significant step in fighting this devastating scenario. Yet, both the EGD and current debates in the new EU legislative cycle• still put Gross Domestic Product (GDP) growth as a key goal, prompting questions about their consistency with, and ability to truly bring our economy within, planetary boundaries. These concerns feature prominently in New Economic Thinking, which questions the 'growth of *what*, and *why*, and *for whom*', as well as 'who pays the *cost*, and how long can it *last*, and what's the cost to the *planet*, and how much is *enough*?'[3].

• As demonstrated by the dominance of narratives about strengthening the competitiveness of the EU economy, promoted in influential publications such as the Draghi report.

Indeed, these questions open the debates on what a smarter, more sustainable future economy can look like. Our knowledge about both the causes and the current and projected impacts of crises demands a shift in our thinking about the future; a future economy will heavily rely on its capacity to innovate, to be circular and sustainable, and aligned with planetary boundaries. Failing to adopt these new practices will ultimately result in missed opportunities for both business and society, leaving the planet with irreversible costs. Recalibrating our economic systems, and establishing a clear distinction between its means and ends is not a far-fetched political theory, but a necessity for the wellbeing of current and future generations. To reflect this in practice, it is vital to view wellbeing not as an afterthought, but as the primary goal, ensuring that both people and the planet thrive within sustainable limits.

In what follows, we dive deeper into these considerations, before suggesting potential policy pathways to deliver change.

State of play

Understanding means and ends

Key to diversifying the means from the ends in our economic systems is addressing the interconnections between wellbeing economy and economic growth. Whether or not continued GDP growth is feasible, desirable, and compatible with planetary boundaries in high-income economies is fiercely debated[4]. While some highlight there is currently no evidence of fast-enough, equitable and Paris-compatible decoupling between environmental pressures and GDP[5,6], others emphasise that we have not yet implemented the necessary policies, making historical data a poor tool for predicting the future[7].

See endnotes page 16

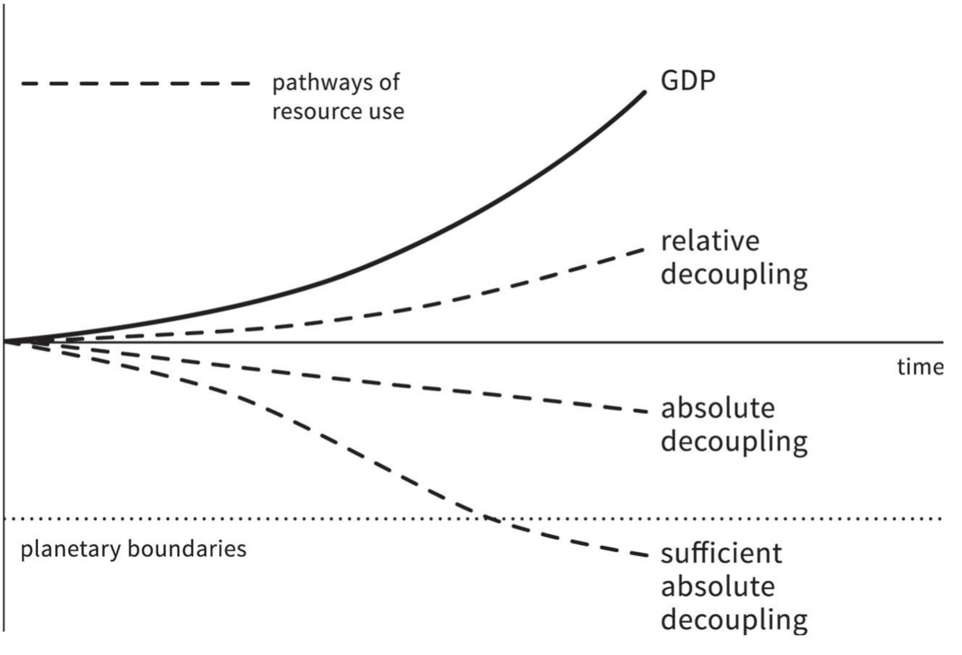
Importantly, any claim about decoupling needs to be understood in relation to whether it is considered *relative* (moving together with GDP but at a slower pace), *absolute* (moving in a different direction than GDP at an insufficient pace and scale), or *sufficiently absolute* (moving in a different direction than GDP at a sufficient pace and scale to get back within planetary boundaries), as illustrated in **Figure 1**. Only the latter is compatible with the resilient Earth systems that underpin a wellbeing economy[8].

Furthermore, there is a point where the marginal utility of additional GDP growth is lower than the marginal disutility. Increased production and consumption go from economic to *un*economic when the disadvantages (e.g., in the form of leisure time loss and resource depletion) exceed advantages[9].

It is also important to recognise that there is a difference between sectoral and aggregated growth. Indeed, growth in certain sectors, such as in renewable energy, generally contributes towards wellbeing within planetary boundaries, while GDP growth from oil and gas has significant negative contributions, undermining wellbeing for current and future generations.

Although this is a complex, nuanced and technical debate, consensus exists regarding the main message. Linking back to the required increase of transformation pace and efforts as outlined in the introduction, it is safe to say that in its current form, endless GDP growth – whether labelled 'green' or not – is unlikely to align with planetary boundaries, thus threatening the foundations of a wellbeing economy. Certain types of GDP growth can be understood as means to

Figure 1: Relative, absolute, and sufficient absolute decoupling between GDP and pathways of resource use.



Source: Raworth, K. (2017). Doughnut Economics: seven ways to think like a 21st century economist. London: Penguin Random House

See endnotes page 16

an end, but aggregated GDP growth should not be pursued as an end in and of itself. Our baseline is quite clear, and no one puts it better than Kate Raworth:

> *We have an economy that needs to grow, whether or not it makes us thrive. We need an economy that makes us thrive, whether or not it grows*[10].

The complexity of the issue at hand combined with the lock-in aspects of our current socio-economic systems make meaningful changes extremely challenging. It is therefore important to keep in mind a set of critical questions, which include: how to create an economy that in the long term is no longer structurally dependent on GDP growth, while controlling for socially disruptive effects? Which policies can decouple economic security and employment from a linear understanding of GDP growth? And how can we tackle GDP growth dependencies of welfare funding[11]?

EU political context

The current political context at the EU level is arguably not conducive to system thinking and transformative change. On the contrary, the results of the European elections of June 2024 and the rise of conservative forces in many EU Member States appears more conducive to weakening the EGD in the name of productivity, economic growth and a conservative reading of competitiveness rather than doubling down on environmental considerations. The recent turmoil around the EU deforestation regulation, the potential reconsideration of the ban of Internal Combustion Engine (ICE) cars in the EU, or the reopening of the landmark EGD legislations to foster Environmental, Social and Governance (ESG) criteria in private companies' operations (i.e. the Corporate Sustainability Reporting Directive [CSRD], the Corporate Sustainability Due Diligence Directive [CSDDD] and the Taxonomy Regulation) through an omnibus procedure, all seem to reflect a similar trend.

However, alongside think tanks, academia and progressive policymakers, a significant share of private companies oppose such weakening of sustainability legislations, as they hinder the necessary clarity that the private sector requires for its long-term investment decisions[12,13]. Moreover, citizens at both the European and global level are clearly supportive of the action needed and want politicians to do more. Being clear that people's wellbeing is the end goal of European policies would strengthen further this support. 'Decoupling' wellbeing and GDP growth considerations when it comes to EU policymaking would therefore not only bring planetary boundaries in sight but also come with considerable political opportunities.

Recommendations

Instead of introducing confusion for businesses and further hindering our capacity to achieve environmental goals in a just way, EU policymakers should strive to align the competitiveness discourse with concepts such as innovation, circular economy and sustainable resource use within planetary boundaries – supportive of a transition to a wellbeing economy.

The EU Horizon MERGE project, for instance, suggests defining productivity as 'efficient and effective use of economic, human and natural resources for the provision of goods and services necessary for sustainable and inclusive wellbeing and expanding human capabilities'[14] – delivering a useful starting point.

The European Commission itself, moreover, has already conducted a significant part of the work in recognising the unsustainability of our current level of resource use. The Circular Economy Monitoring Framework (CEMF)[15], for example, outlines a number

See endnotes page 16

of relevant indicators, including two overarching Material and Consumption footprint indicators (along with resource productivity, green public procurement, waste generation and management as well as private investment, jobs and gross value added related to circular economy sectors). Parallel to the steering of European debates around key concepts, we need a combination of effective implementation of existing legislation and novel initiatives.

Promising legislation on circular economy and resource use was passed in the last mandate and must now be fully implemented[16]. The deployment of the delegated acts under the Ecodesign for Sustainable Product Regulation (ESPR), for instance, including requirements for durability, reparability, and environmental footprint brings potential to drive down our resource consumption. But we cannot stop here. More needs to be and can be done to rebalance means and ends of our European economy.

A critical entry point is the major political flagship of the 2024-2029 European Commission: the Clean Industrial Deal, and its thematic pillars. This guiding framework for the EU's economic course towards industrial decarbonization is an essential agenda-setting opportunity, or risk. The debates about means and ends need to be held and put at the centre of this strategic, high-level initiative.

One of the thematic areas of the Clean Industrial Deal is represented by the Circular Economy Act, announced for the last quarter of 2026; a file that carries particular potential to support the transition towards a wellbeing economy within planetary boundaries[17]. But recent signals given by the Commission are worrying, as they suggest the Act will focus solely on downstream considerations through end-of-waste criteria, harmonised EPR schemes or material recollection for secondary use. All of these aspects are of course important. Yet limiting the Act in this way will undermine its capacity to be transformational and be a glaring missed opportunity to introduce an overall material resource target (based on the CEMF indicators listed above) that addresses the entirety of our unsustainable consumption footprint to complement the thematic or product specific legislations brought forth under the EGD[18]. Progressive and green voices should have this on their radar and strengthen the ambition and potential of this critical initiative.

See endnotes page 16

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Centring Equity and Fairness

Three Dimensions of Justice

2

Ultimately, the transition to an economy that respects planetary boundaries will positively affect equality and justice. Vulnerable households, population groups, and regions are disproportionately impacted by climate change and environmental degradation while contributing the least to it.

However, the scale of the transition will be disruptive, especially in the short-term. As pointed out by the IPCC[1], mitigation of climate change requires unprecedented action from all sectors of society. Inevitably, this will impact the distribution of wealth, opportunities and privileges across societal groups[2]. Transitions involve trade-offs that may trigger unintended outcomes disproportionately affecting vulnerable territories and social groups, which in turn can exacerbate existing inequalities and generate resistance to change. Indeed, climate and environmental policies are unlikely to gain support if they do not sufficiently account for a just distribution of burdens and benefits. Equity aspects are therefore, apart from their ethical importance, key to the success of a transition to a sustainable economy and society. The wellbeing economy brings these concepts together and tackles planetary boundaries, equity and justice simultaneously. In this chapter, we set out how this can take shape in practice in the EU context.

State of play

The European Commission acknowledges the strong correlation between social justice and planetary boundaries. In the 2023 Strategic Foresight report, it identifies 'increasing cracks in social cohesion', and 'threats to democracy and existing social contract' as two of the six key challenges for the EU's sustainability transition. The report points out that widening wealth inequality feeds political polarisation and concludes that 'failure to address the health of European democracies will challenge both the roll-out of sustainable policies and the transition itself'[3]. As a result, the institutions have worked on policies to tackle these challenges. However, data shows that there is much room for improvement. 81% of Europeans think that income differences are too great and the need for more intergenerational solidarity is shown through 90% of young Europeans agreeing that stronger action on climate change would increase their wellbeing and health[4].

When exploring the concept of social justice more granularly, it is essential to consider three dimensions, namely:

- Distributional justice
- Procedural justice
- Recognitional justice

Distributional justice refers to how positive and negative impacts of decisions are distributed, procedural justice looks at governance procedures and the level of inclusiveness when making decisions, and recognitional justice tackles 'the acknowledgement of and respect for pre-existing governance arrangements as well as the distinct rights, worldviews, knowledge, needs, livelihoods, histories and cultures of

See endnotes page 23

different groups in decisions'[5]. Eventually, the most powerful social justice policies are those that deliver on all three dimensions at the same time, showcasing the need for a comprehensive multilevel approach to equity and fairness.

One of the promising EU initiatives when it comes to the three dimensions of social justice – and thus to transitioning towards an equity-centred wellbeing economy – is its broader Just Transition policy framework. Just transition is a key theme in the EU Green Deal and the 8th Environmental Action Programme (EAP) sets out that 'the green transition is to be achieved in a just and inclusive way, whilst contributing to reducing inequalities'[6]. In recent years, an EU framework for a just transition has progressed, including with the Just Transition Mechanism, the Social Climate Fund and policies linked to re- and upskilling of people. These initiatives aim to reduce inequalities[7] but, from the perspective of each of the three dimensions, are insufficient to tackle the challenges at hand.

In terms of **distributional justice**, the European Social Observatory, for example, finds gaps in the EU framework for a just transition relating to (amongst other, non-distributional issues) scope, mainstreaming and coherence, comprehensiveness and integration and funding[8]. In the Green European Foundation's previous publication 'Boosting Participation in the Energy Transition', it is similarly stressed that the current framework is lacking in coordination between just transition-related policies, in sufficient funding and in the regulatory certainty of binding legal frameworks[9].

These issues in the design of the EU's approach to delivering a just transition – mostly linked to scope, size and integration with other policy domains – prohibit benefits and burdens from being shared equitably. For example: insufficient funding within the Just Transition Mechanism has resulted in only a fraction of the most affected regions and workers receiving support in their job-to-job transitions; a lack of policy coherence when it comes to clean mobility has led to support not reaching people who need it most, with subsidies for electric vehicles being accumulated by higher middle class or richer households; and a lack of binding legislation has prevented the comprehensive 'Council Recommendation on ensuring a fair transition towards climate neutrality' from delivering more than just a fraction of its distributional potential.

In terms of **procedural justice**, gaps are exposed by indigenous peoples, such as the Sámi people. When evaluating the EU Green Deal, the Saami Council inter alia highlight the need for updated consultation methods and increased comprehensiveness when assessing EU policy impact on Sámi way of life and culture[10].

A key issue with procedural justice when it comes to the just transition framework, but also regarding EU policies more broadly, is the lack of involvement of civil society organisations, including in national reporting mechanisms, such as the Just Transition Plans. This despite the political guidelines from the European Commission that state the objective to embed citizens' participation across the EU. Meeting this objective is necessary to answer the recurring criticism of the democratic deficit of the EU[11].

Many examples and lessons learned can be mobilised from past and existing initiatives launched in some Member States such as France. Here, it is important that the outcome of the participation is embedded in the institutions they are to inform[12]. This is potentially problematic at the EU level since existing participatory mechanisms such as the right of petition, the request for access to documents, the complaint to the European Commission and European

See endnotes page 23

Ombudsman, or the European Citizens' Initiative are deemed 'variously flawed in terms of accessibility, responsiveness and effectiveness' by our Knowledge Community experts. A key aspect of any holistic strategy to embed a wellbeing economy at the EU level is therefore to reflect on innovative ways of engagement with citizens, possibly based on the various governance systems and opportunities that are offered in the different Member States.

From a **recognitional justice** perspective, the above shortcomings are coupled with a general issue of EU policies that aim to deliver an equitable transition. Certain social aspects – notably jobs, skills and disposable income – are much more prominent than others. While these are important, an increased understanding and reflection around intersecting inequalities and vulnerabilities in the climate transition (e.g., race, gender, sexuality, disability, wealth, rural/urban), as well as synergies and trade-offs between social and environmental policies is important in light of the transformation needs. This is noted by the European Scientific Advisory board, which says that:

> *EU climate policies should be accompanied by more systematic ex ante and ex post measurements of their distributional and wider socioeconomic impacts in specific contexts. Co-benefits of climate mitigation policy measures such as health, well-being and climate resilience, as well as trade-offs, should be duly considered and better integrated in the EU's policymaking*[13].

An illustrative example of where green policy may unintentionally increase inequality is urban greening, which may contribute to higher property prices in an area and displacement of marginalised communities by pricing them out[14].

The 8th EAP sets out that reaching the EAP's objectives requires authorities from local to European governance levels to reinforce an integrated approach to policy making by:

> *…systematically screening and, where appropriate, assessing synergies and potential trade-offs between environmental, social and economic objectives for all initiatives, so as to ensure that people's well-being, and in particular their need for a healthy environment, clean air and affordable, accessible and high-quality food, water, energy, housing, green infrastructure and mobility are met in a sustainable way that leaves no one behind*[15].

Recommendations

Positively, the concept of 'just transition' is still very much present in the new EU governance cycle, with an Executive Vice-President of the Commission for a Clean, Just and Competitive Transition. Within von der Leyen's political guidelines, moreover, 'protecting our democracy' and 'putting citizens at the heart of our democracy' are two priority areas[16]. Concretely, this continued focus is set to take shape in announced policy efforts, such as a new Action Plan on the Implementation of the European Pillar of Social Rights, a Quality Jobs Roadmap, a Pact for European Social Dialogue developed together with trade-unions and employers, and a first-ever EU Anti-Poverty Strategy. These initiatives introduce critical opportunities to streamline and expand the EU's just and fair transition framework towards a systemic, equity-centred wellbeing economy. Seizing those opportunities will require intentional action on each of the three dimensions of justice.

Distributional justice

Distributional justice strongly relates to investment needs. Well-targeted investments must ensure that the benefits of the transition are shared equitably across society,

See endnotes page 23

preventing further economic fragmentation and social inequality. This requires a focus shift from short-term economic gains to long-term resilience, prioritising sectors that enhance collective wellbeing, such as healthcare, education, and environmental sustainability. The upcoming Multiannual Financial Framework (2028-2034) must reflect this by meeting the immense investment needs through an increased overall budget, and by scaling up investments in key sectors, ensuring that a larger share of the EU budget is directed toward building long-term resilience, and thus wellbeing.

More broadly, all public and private investments should align with social and environmental objectives through the integration of wellbeing indicators into fiscal and policy frameworks. Submissions by Member States for the European Semester as well as their National medium-term fiscal-structural plans (MTPs) under the reformed EU fiscal rules are thereby an important lever. These plans should monitor and foster wellbeing, going beyond the current objective of 'sustained and gradual debt reduction and sustainable and inclusive growth'[17] and steering national policymaking towards strengthened equality and distribution of costs and benefits of the transition. New sets of quantitative indicators and metrics can be integrated in such reporting mechanisms, as discussed in Chapter 3. The forthcoming review of the European Pillar of Social Rights Action Plan provides another opportunity to strengthen distributional justice. By integrating a stronger emphasis on fairness and equity of the transition into the Action Plan, social and energy transition policies can become better connected – improving the design of policies and facilitating a fairer sharing of benefits and burdens for a just transition. Innovative social-ecological concepts, that in essence centre wellbeing, fairness and sustainability, should also be introduced through this new Action Plan (e.g. work-time reduction and universal basic services and dividends)[18, 19, 20, 21].

Procedural justice

On procedural justice, the implementation of civil and social dialogue and co-creation approaches must be strengthened in the development of future EU policy reforms and investment plans. Lessons can be learned from the Recovery and Resilience Facility (RRF) where, due to the need for quick development of National Recovery and Resilience Plans (NRRPs), Civil Society Organisations (CSOs) and social partners were insufficiently involved[22]. The same counts for the development of the MTPs for which Member States are not even required to consult stakeholders.

Beyond allocating sufficient time and resources, improving access to funding for CSOs and encouraging bottom-up civic participation, in order to ensure meaningful involvement in the development of national plans and reporting mechanisms, binding criteria for involvement must be introduced. The European Commission should develop quality criteria along with clear guidance on how Member States can structurally and meaningfully involve stakeholders in policymaking. Furthermore, greater involvement of the European Parliament in contrast to its relative insignificance in the RRF would increase democratic oversight[23].

But involvement of citizens goes beyond the multiplication of consultation mechanisms at the design stage of a policy or a national plan. Embedding participation and inclusion in policymaking will require a proper innovative representative participatory process, and further experiments with potential platforms, such as citizens' assemblies[24].

Recognitional justice

Key to recognitional justice is an intergenerational approach, making sure that the wellbeing of future generations is

See endnotes page 23

recognised and accurately accounted for. Embedding long-term thinking in the EU policy cycle – including in modelling, scrutiny processes, and investment – is indeed crucial[25]. In this regard, the inclusion of intergenerational fairness in a Commissioner's portfolio is an encouraging step in a positive direction[26], which we need to build on. The expected publication of a Strategy on Intergenerational Fairness by Commissioner Micallef to 'map out how we can strengthen communication between generations and ensure that interests of present and future generations are respected throughout our policy and law making'[27] will be a crucial milestone and will define the scope of the EU's intergenerational approach. This strategy must entail a holistic attitude that can truly deliver on the acknowledgement of and respect for rights and wellbeing of current and future generations alike, and not be limited to a dialogue between old and young people today. One example to learn from here is the Wellbeing of Future Generations Act and Future Generations Commissioner in Wales (see case example 1 page 22).

The deployment of the EU Strategy on Intergenerational Fairness must be a milestone to reflect on innovative ways, such as those deployed in Wales, to recognise and act in favour of the interest of future generations in the EU.

CASE EXAMPLE 1

The Well-being of Future Generations Act in Wales

In 2015, Wales adopted the groundbreaking Well-being of future generations act, setting out seven well-being goals for Wales. Importantly, the goals were developed through extensive citizen consultation, which is key for the justice dimensions and effective implementation. Public bodies are required to act to maximise impact towards achieving the goals. The seven well-being goals and their descriptions are:

- A prosperous Wales
- A resilient Wales
- A healthier Wales
- A more equal Wales
- A Wales of cohesive communities
- A Wales of vibrant culture and thriving Welsh language
- A globally responsible Wales[28]

Progress is tracked through annually assessed national indicators; ministers are required to set time-bound milestones and produce reports on future trends. Importantly, the act also sets out mechanisms for accountability, including a Future Generations Commissioner for Wales who is tasked with 'acting as a guardian of the ability for future generations to meet their needs' and 'encourage public bodies to take greater account of the long-term impact' (ibid, p. 11).

The act has changed decision-making in Wales in hands-on ways. For example, the Act was foundational for enabling the use of Doughnut Economics as key strategic framework in Bannau Brycheiniog national park[29], and guided the Welsh government to discard plans to build a motorway extension and redirect funds towards active and sustainable modes of transport[30]. Changing the goal and adding mechanisms tracking progress, clear duties, ways of working, and accountability can be powerful levers of change and embedding long-term thinking in decision making.

See endnotes page 23

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Measuring what Matters

Indicators for a Wellbeing Economy

3

Gross Domestic Product (GDP has, since the end of the Second World War, increasingly been used as the dominant indicator of prosperity and progress in the EU and its Member States[1]. While GDP has clear benefits in terms of international comparability, operationalizability in policy, and relative ease of measurement, it fails to distinguish between 'good and bad' economic activity. Aggregate GDP says little about more granular impacts, including the distribution of the burdens and benefits of GDP growth. This is for example the case when it comes to ecological impact. Environmental damage, such as an oil spill, introduces economic activities, e.g. of cleaning processes, which increase GDP, while the destruction of natural capital is not negatively accounted for[2]. There are also social blind spots to GDP, with the value added from activities that are not necessarily monetized but crucial for the EU economy and wellbeing of its people – such as unpaid care work – being disregarded. Across OECD countries, women earn less but work longer hours compared to men when factoring in unpaid work[3], an important issue for gender equality which remains invisible if we only focus on GDP.

Because of these shortcomings, there is a need to develop and trial new comprehensive indicators to adequately monitor progress made by the EU economy towards wellbeing within planetary boundaries.

State of play

Key considerations

When designing metrics beyond GDP, some key considerations must be kept in mind. Firstly, we need to acknowledge that indicators hold, in their guiding role for policy making, significant power and that they are underpinned by narratives and ways of understanding the world[4, 5]. The process thereby matters, and indicators are closely aligned with aspects of procedural, distributional, and recognitional justice (see previous Chapter 2). Key questions we need to ask are: Who is represented by the indicators? Does progress in the indicator represent progress in the population's lived reality? Whose idea and understanding of progress are reflected by the indicators? A good understanding of the answers to these questions is the first critical starting point to define metrics that fit in a wellbeing economy.

Second, indicators of sustainable wellbeing should successfully link up social, ecological, and economic concerns. This relates to the previously discussed understanding of means and ends for a wellbeing economy. One example is the Doughnut framework, where the ecological ceiling and the social foundation set the frame: the 'safe and just operating space' for the economy. Another example is the Strong Environmental Sustainability Index (SESI), which allows limited substitution between natural and other forms of capital[6].

See endnotes page 33

Moreover, indicators should relate to the EU's external geographical and temporal context. A wellbeing economy means aiming not only to increase the wellbeing of today's EU citizens, but also takes into account impacts on global social and ecological progress, and future generations' prospects for sustainable wellbeing. The four lenses used in Doughnut Economics, looking at the social and ecological aspects through a local and global lens, is again a good example[7]. The sufficiency threshold in the Sustainable Development index and the spillover environmental and social impact of the Spillover index are two other frameworks to learn from[8, 9].

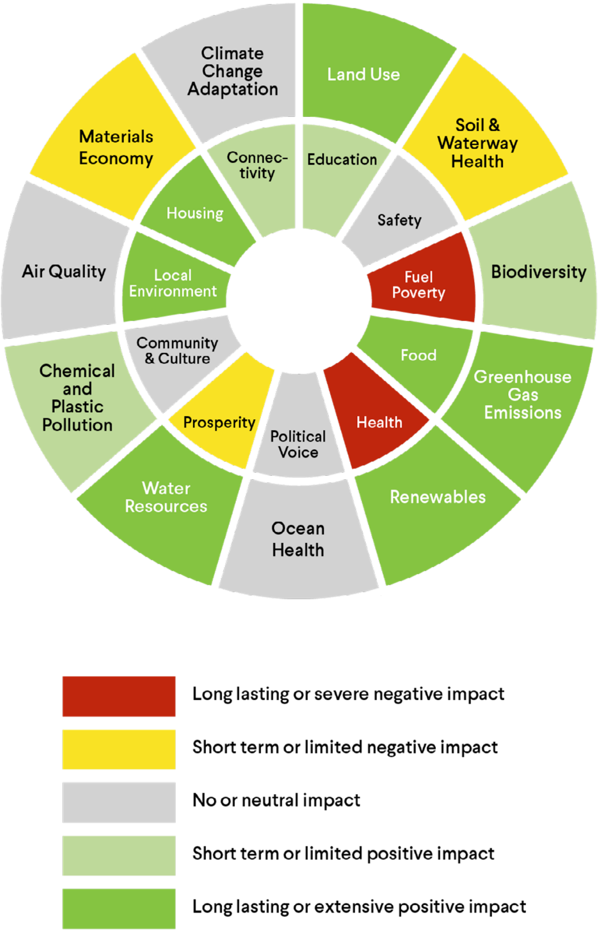
Finally, wellbeing economy indicators must be operationalizable in the sense that they can be used to guide policy making. They should also be structurally included in relevant institutional and policy processes and include mechanisms of accountability. A best practice example that combines all of these considerations is the Cornwall Development and Decision Wheel[10], as elaborated below in **case example 2**.

This case study shows how social and environmental goals and indicators can be embedded in decision-making processes in a structured way: making sure economic activity is in service of social and environmental goals. It is also an example of how to visualise impacts in a more accessible way to citizens and communities, thereby facilitating wider conversations about complex topics and providing a way to complement statistical data with community and citizen insights[11].

See endnotes page 33

CASE EXAMPLE 2

The Cornwall Development and Decision Wheel[12]



Cornwall Council in the UK departed from Doughnut Economics and developed a tool – a Development and Decision Wheel – for more long-term decision making. The wheel contains questions for 21 social and environmental aspects to help classify if a decision will have long lasting or severe negative impact, short term or limited negative impact, no or neutral impact, short term or limited positive impact, or long-lasting or extensive positive impact in a traffic light categorisation. The Doughnut shaped wheel then gets coloured according to these evaluations of environmental and social impact, making visible a holistic evaluation of the decision.

The wheel is utilised in early stages of new projects and has also been used to assess the impact of Cornwall Council's budget decisions.

See endnotes page 33

Beyond this concrete example, we note an ongoing exponential growth of the number of indicators being developed to measure wellbeing within planetary boundaries over the past decade[13], including in the EU. A selection of these initiatives are exemplified in **Table 1**.

Recent EU developments

The limits of GDP as an indicator for progress have long been recognised within EU institutions as well. Already in 2009, the Commission published a communication on ‘GDP and beyond – Measuring progress in a changing world’[14]. The 2019 Annual Sustainable Growth Survey, moreover, clearly states that ‘economic growth is not an end in itself. An economy must work for the people and the planet’[15]. Several ongoing European research projects are focused on the topic[16, 17, 18, 19, 20]. The topic was also largely discussed during the cross-party 2023 Beyond Growth Conference in the European Parliament[21].

Concretely, the European Commission estimates in its 2023 Strategic Foresight report that EU GDP in 2040 would also ‘benefit’ from the integration of wellbeing considerations. EU GDP is estimated to be higher in an ‘adjusted’ scenario (i.e. GDP calculations taking into account different aspects of quality of life) than in a baseline, business-as-usual scenario[22]. The model shows that the EU’s adjusted GDP would be 15.5% higher than the unadjusted GDP in 2040, while its compound annual average growth rate in the period 2000-2040 would be 1.57% instead of only 1.33% in the baseline scenario. Furthermore, in the current political context where the competitiveness of the EU economy is literally the compass of the European Commission[23], it is worth noting that the same strategic foresight report estimates that the boost provided by an adjusted GDP would be higher in the EU than in other major economic powerhouses such as the US (12.0% boost), China (11.7%), or India (1.3%).

Table 1: Selected initiatives expanding measurement of progress towards wellbeing within planetary boundaries.

Initiative
New Zealand Wellbeing Budget
Doughnut Economics ecological ceiling and social foundation, for example used in Bannau Brycheiniog national park
Doughnut Economics four lenses, for example used in Amsterdam
Wellbeing of Future Generations Act, Wales’ national wellbeing indicators
The 8th Environmental Action Programme headline indicators
Spillover Index assessing countries’ social & environmental spillovers from economic activity
Sustainable Development Index introducing a sufficiency threshold
Strong Environmental Sustainability Progress Index
Index of Sustainable Economic Welfare adjusting GDP for inter alia unmonetized activities, income concentration, and environmental degradation

See endnotes page 33

These findings introduce questions around the dominant narrative which assumes that the introduction of wellbeing related considerations would impact negatively the EU economy. Eventually, the Commission's 2023 Strategic Foresight report sets out that:

> *…beyond-GDP metrics should be further developed and progressively embedded into EU policymaking. This will help monitor progress towards wellbeing, facilitate the communication of political challenges, and design the strategies to address them in a people- and planet-centred manner, while ensuring that economic growth does not destroy its very foundations*[24].

The European Commission is currently also developing Wellbeing metrics under the Interservice Working Group on Sustainable and Inclusive Wellbeing. This group has worked toward the development and publication of a 'prototype multidimensional sustainable and inclusive wellbeing (SIWB) framework and indicator dashboard'. The initiative includes a selection of around 140 indicators, deemed most advanced SIWB monitoring tools, and their first mapping, and was presented in a report from the JRC published in July of 2024 on 'Sustainable and Inclusive Wellbeing, the road forward' [25]. The Joint Research Center also published a condensed headline dashboard, more suited for communication but also for reporting in a context of scarce capacities of many administrations[26]. This condensed dashboard can easily be integrated in a number of EU and Member State reporting and accountancy milestones.

Finally, this European Commission Working Group also published a preliminary study proposing headline 'GDP+3'-indicators to complement GDP for the environmental, social, and institutional dimensions in May 2024[27] and is currently exploring 'medium-term activities'. This includes developing new and timelier indicators through surveys and nowcasting techniques, studying and measuring social capital, or developing integrated assessment models for EU policies.

These initiatives represent advanced work and outputs by the European Commission. It is time to turn these preparatory studies and understandings into policies and politics.

International initiatives

Beyond these intra-EU efforts, another interesting development is the global movement to update the United Nations System of National Accounts (SNA), of which the EU is already part. The UN SNA is the international standard for measuring economic activity – including at EU level in the European system of national and regional accounts – which was last reformed in 2008.

Significant work has been done since 2008 on SIWB matters, notably with the design and adoption of the System of Environmental-Economic Accounting Central Framework, the first international standard for environmental-economic accounting adopted by the United Nations Statistical Commission in 2012[28]. Additionally, the UN Pact for the Future, Action 53, puts forward the aim to 'develop a framework on measures of progress on sustainable development to complement and go beyond gross domestic product'[29]. The EU reflected these evolutions notably within their EU Environmental Accounts[30], which are arguably the most advanced statistical tool at EU level aiming to describe the interrelations between the economy and the environment in a way that is consistent with the national accounts.

Yet, the methodological foundations of the SNA do not yet reflect this progress on official statistical tools. The SNA remains rather vague when it comes to beyond GDP matters and important concepts related to SIWB are still missing. This gap is also reflected in the current version of the EU Environmental

See endnotes page 33

Accounts, which despite being used for a growing number of EU policies, such as the Sustainable Development Goals, the EU monitoring framework for the circular economy[31], or the 8th Environmental Action Programme, still do not encompass direct and formal SIWB metrics.

Recommendations

The political value of alternative indicators is immense. They can drive the change in narrative needed to enable the shift to an economic system that is fit to deliver a positive future for people. As explained above, the European Commission has already endorsed sustainable and inclusive wellbeing metrics from a methodological standpoint. The EU and Member States must now formally embed them in their policy making processes.

Align reporting and monitoring with wellbeing

The clear, concrete and impactful way forward is to better integrate the European Commission's SIWB dashboard in the governance and main reporting tools submitted by the Member States.

- The most pertinent focal point is the Union's economic governance framework, which aims to detect and correct economic imbalances in Member States, and the related 'European Semester' which is the main reporting mechanism within this framework. The Semester has demonstrated potential to drive change at the national level, notably in recent years through its role in coordinating the EU response to the COVID-19 pandemic and the energy crisis stemming from the war in Ukraine. Yet the mechanism remains focused on growth, macro-economic imbalances, and to a smaller extent some social aspects. It lacks the fundamental environmental dimension and broader social concerns to adequately drive forward SIWB concepts.

- Another important governance tool is the Environmental Implementation Review (EIR), under which EU Member States report on their progress in a set of environmental thematic areas (circular economy and waste management, biodiversity and natural capital, zero pollution, chemicals or climate action). The aim is notably to identify and monitor the main challenges and achievements of each Member State in implementing key EU environmental laws and policies. Like with the Semester, the effectiveness of the EIR reporting would strongly benefit from a coherent and holistic application of the SIWB dashboard.

- The European Commission's SIWB dashboard could moreover be incorporated in other EU and Member States' governance frameworks, for example:
    - › Horizontal targets for the Multiannual Financial Framework
    - › State of the Union Address
    - › European Citizens' Panels

Enter SIWB at the foundations of policymaking

Apart from aligning reporting and monitoring tools to the SIWB dashboard, efforts should also be dedicated 'upstream'. This would enable policymakers to integrate relevant metrics during the design phase of EU policies.

A missed opportunity on this second tier of SIWB implementation was the 2021 review exercise of the better regulation framework, which does not even mention wellbeing economy[32]. With a new revision, the SIWB dashboard could be defined as the guiding framework for EU Sustainable Impact Assessments. Linked to that, policymakers

See endnotes page 33

should put the Interinstitutional Agreement on Better Law-making back on the agenda. This Agreement dates back from 2015[33] and is in need of an update to reflect our social and environmental challenges and thus to enable integration of SIWB concepts into the design of EU laws.

At a global scale, integrating wellbeing indicators into international measuring standards and their definitions is a key lever for change. The reform of the United Nations System of National Accounts SNA in 2025, which includes a task team on wellbeing[34], presents an opportunity to incorporate SIWB metrics in global, as well as EU accounting systems – since these changes would eventually be reflected in the updates of the European System of national and regional Accounts (ESA) by 2029. Policymakers that want to push forward a wellbeing economy agenda in Europe should be aware of this opportunity, especially as it would also create a level playing field with other countries and can introduce a positive wellbeing-centred alternative narrative and paradigm in a tense geopolitical context.

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- WISE Horizons that will synthesise emerging indicators and models for Wellbeing, Inclusion, Sustainability and the Economy and present these in a database and open access accounting framework. The project runs between 2023 and 2026.
- Sustainability Performances, Evidence, and Scenarios (SPES) aimed at increasing understanding interconnectedness between ecological sustainability, human flourishing, and economic growth, including measurement frameworks and methods. The project runs between 2023 and 2026.
- ToBe aims at transforming knowledge, indicators, and policies towards a sustainability paradigm. The project runs between 2023 and 2026.
- REAL "investigates the policies, politics and provisioning systems that are necessary for a just post-growth transition that enables well-being for all within planetary boundaries". The project runs between 2023 and 2029.
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The Power of Prediction

Policy Modelling

4

Models are ways to quantify and represent the real world and its systems[1, 2]. They can be used to assess the system's behaviour under certain circumstances, as well as to make projections and optimise pathways towards delivery of policy goals.

This means that the way we model the future directly shapes political decisions. If a model underestimates the cost of inaction on climate change, it can justify weak policies. If it overestimates economic growth, it leads to unrealistic expectations about the future. Significant power thus lies in what models are used, what aspects are investigated and how they are weighted, what underlying assumptions the models accept, and what perspectives are included in the process of developing the model.

Delivering a wellbeing economy requires modelling that is fit for purpose. In this chapter we set out key considerations and recommendations that EU policymakers should take into account, gathered from our Knowledge Community of experts.

State of play

The European Union has at its disposal a wide range of models which are used in all stages of the EU policy cycle to underpin decisions. The use of these models, notably for policy design through Sustainable Impact Assessments (SIAs) by different Directorate Generals, are codified by the EU 'better regulation' guidelines and toolbox[3, 4]. Specifically, models are used in EU policymaking for '1. Supporting the problem definition, 2. Providing evidence in ex-post evaluation of relevant existing policies, 3. Providing evidence for the baseline, and/or 4. Contributing to the assessment of the policy options'[5], and include *inter alia* impact assessments, cost-benefit analyses, and forecasting models.

Despite the importance of these tools, EU policy debates often rely on narrow economic models that fail to capture the full picture. This results in policies that sound good in the short term but create serious problems down the line. There are several key issues with the current models used in EU policymaking that a wellbeing approach would tackle.

A complex, instead of linear, dynamic

Our models typically outline a linear relationship between economic development that in turn has environmental and social impacts. As an example, the computable general equilibrium (CGE) modelling which is widely used by DG Trade to conduct its Sustainable Impact Assessments of Free Trade Agreements is an optimisation model that assumes perfect market conditions and rational choices by all economic actors to come up with its findings – assumptions that do not account for real-world market failures such as resource depletion, financial crises, or social inequalities. The relationship between economic, social and environmental impact is not linear. Rather, it is a complex dynamic, given that the economy is a sub-system of society which in turn is embedded in the environment with biophysical limits and feedback loops between the spheres[6, 7].

See endnotes page 40

For instance, the underestimated impact of climate change on agricultural yields, which could reduce European food production by up to 20% by 2050, is rarely accounted for in existing trade models[8]. If farmers across Europe suffer massive crop failures, food prices will skyrocket, leading to inflation, political unrest, and increased dependency on non-EU food imports. Yet, the economic models currently used to assess trade agreements barely consider these risks.

Climate risks are generally underestimated, and climate tipping points and feedback loops are not entirely included in current models[9, 10, 11]. Since these complex dynamics are not fully understood and tend to be simplified, there is a risk of overly optimistic model outcomes. This was highlighted in a report by the Institute and Faculty of Actuaries, published in January 2025:

> *Widely used but deeply flawed assessments of the economic impact of climate change show a negligible impact on GDP, rendering policymakers blind to the immense risk current policy trajectories place us in. The risk led methodology, set out in the report, shows a 50% GDP contraction between 2070 and 2090 unless an alternative course is chartered*[12].

This potential loss of half of the EU's GDP may be difficult to fathom, yet it is what we are facing. Our inability to capture such costs into our modelling and consequently within policymaking results essentially in the act of sleepwalking toward the edge. If an economic model predicts continuous growth despite increasing environmental damage, politicians may indeed be incentivised to delay necessary action. Improving the accuracy of climate risk, tipping points, and feedback loops in models is therefore critical.

The political relevance of models

Models often 'depoliticise' debates[13]. Some of their underlying assumptions are, however, highly political. For example, if a model assumes that economic growth will continue indefinitely, it justifies policies that prioritise corporate profits over environmental and social protections. But if a model includes limits to growth, it opens up a different set of policy choices – ones that focus on long-term wellbeing rather than short-term gains.

In the context of the Impact Assessment of the EU climate targets for 2040, the three scenarios that were put forward by the European Commission assume that the real EU GDP will be 40% higher in 2040 and 61% in 2060, compared to 2015 levels[14]. In the light of the background provided in Chapter 1 of this publication, the assumption of a 60% larger economy to one that is already transgressing multiple planetary boundaries is not neutral – and arguably unrealistic.

Another example is the choice of discount rates used to calculate the present value of future costs and benefits, which have significant implications for cost-benefit-analysis outcomes of policy measures. There is no approach objective, value-free approach for these rates, and *'small differences in the discount factor can result in large changes of the net present value and thus can influence the evaluation of the proposal'*[15]. This impacts how current costs and benefits are weighted in the short and long term.

A third example is the risk assumed in the climate targets modelling: they are based on carbon budgets for a 50% chance of reaching the climate targets – which are pretty pessimistic, arbitrary and highly political odds considering the stakes at play[16]. The fact that models are perceived as objective disguises these underlying assumptions, thereby hampering further – necessary – discussion and transparency, and proportionate action.

See endnotes page 40

In addition, an overview of models used by the European Commission shows an underrepresentation of key social factors, such as the Sustainable Development Goals (SDGs) on good health and well-being, quality education, gender equality, and peace, justice and strong institutions[17]. In an open letter published in February 2024, 200 economists called on the European Commission to renew their economic modelling toolbox, highlighting that the tools of Ecological Economics are practically not used by EU institutions, despite them being mature enough to be used and their potential to contribute important perspectives[18]. This was also identified in the Strategic Foresight Report:

> *Additional work should also be pursued to improve monitoring tools by developing robust model-based indicators (for instance on planetary boundaries or the social-environment-economy nexus), and better integrated assessment models for projections and scenario analysis*[19].

Recommendations

Against this backdrop, policymakers must be more aware and transparent about the underlying assumptions in the models that underpin their policy decisions, and push for them to be updated to reflect a science-based understanding of risk, a respect for the value of future generations and consideration of the economy as a subsystem of our planet.

Reflecting complexity in models

A critical step towards updating modelling to fit with a wellbeing economy approach is to base each Sustainable Impact Assessment on the results of several models. These should include a variety of underlying assumptions to '*offer alternative perspectives and frameworks that can complement prevailing approaches, providing valuable insights and a more comprehensive understanding of policy impacts*'[20].

The use of more refined models and tools that better capture the complexity of our societies must also be contemplated. This includes integrating environmental and social feedback mechanisms to the economy and applying the precautionary principle when it comes to risk assessment[21]. Just as with indicators, there is extensive past and current work done on developing models that place the economy within planetary boundaries. Examples range from the model used in Limits to Growth in 1972[22], the Earth4All[23] model, the Eurogreen model[24], to the wellbeing, inclusion, and sustainability models that are currently being developed in the WISE Horizons research project[25].

Policy making must consider such models that assess risks aligned with Earth system science in order to make informed decisions. Their dynamics could also be better integrated in existing models. This is not an easy task, and time and budget are limiting factors, hence adequate resources must be allocated in the relevant directorate generals such as DG TRADE, AGRI, ENV, GROW, BUDG and CLIMA of the European Commission.

Creating transparency and clarity

Being clear on what models can and cannot do, policy design should further integrate qualitative assessments, best practice and lessons from social sciences[26] as a complement to the results obtained by running the models. This can be done by foresight exercises, for example. They can be designed for the participation of multidisciplinary groups of experts to check underlying assumptions and explore potential risks and consequences and identify safeguarding measures[27]. Multi-criteria decision analysis (see tool #62 in the Better Regulation toolbox[28]) also enables the assessment of a variety of criteria without the need to quantify them into monetary values (as done in cost-benefit analysis) but rather show them in their respective measurement unit.

See endnotes page 40

Similarly, shifting focus beyond monetary flows and economic indicators as determinants of social outcomes can enhance understanding of socio-ecological-economic interconnections and lead to different conclusions on policy proposals. Taking, for example, a policy proposal on work time reduction[29], a model focused on GDP and disposable income may conclude that the option is undesirable, whereas a model guided by sustainable wellbeing might reach a different conclusion, allowing for greater exploration of growth-agnostic pathways to a wellbeing economy.

Finding political entry points

All of these considerations on integration of environmental aspects, plurality of models, and complementarity of approaches (quantitative/qualitative) can be promoted, e.g. in the context of the revision of the better regulation framework mentioned in the previous section.

Ultimately, better modelling is not just a technical fix – it is a political necessity. The models we choose will determine whether Europe leads the way in building a sustainable and fair economy, or whether it continues to chase outdated economic goals while ignoring the crises unfolding around us.

See endnotes page 40

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Global Challenges Global Solutions

The External Impact of the EU

5

As discussed previously, the European Environment Agency (EEA) called for a significant increase in pace for EU environmental action in the years leading to 2030, compared to the pace of the last ten years. Taking Greenhouse Gas (GHG) emissions as an example, and despite recent progress, a triple annual reduction rate compared to the last decade is required to reach the 2030 targets of a 55% reduction[1]. The situation becomes even more challenging when taking a global perspective on the impact of the EU. But however difficult, it is a necessary exercise: the triple planetary crisis is by definition a global challenge which demands collaborative global solutions.

At the same time, the current geopolitical landscape presents both a challenge and an opportunity for the EU. The world is entering an era of intensified competition between global powers. The ability to offer a compelling international partnership model is therefore becoming even more crucial. If the EU does not step up its game and actively pursue a distinct and attractive alternative, it risks being either locked in, or sidelined by the transactional, power-driven approaches. The EU cannot afford to be a passive actor in this new global order – it must define and project a strategic vision that makes it a partner of choice for third countries.

State of play

Complex dynamics of trade

Trade is often presented as a tool, sometimes even a 'magic wand', capable of addressing various policy issues through the so-called 'Brussels effect'. This concept suggests that global partners will align with the EU's regulations, including sustainability provisions and labour standards, to ensure access to the European single market. However, these demands are often met with resistance and received negatively by non-EU countries. The relationship between EU trade policies and other policies with extraterritorial effect, and the wellbeing economy approach is therefore much more complex.

To start with, the link between trade and social and environmental progress is rather ambiguous. On the one hand, trade can foster competitiveness, enabling the global spread of lower-emission goods, services and technologies, thereby reducing emissions. On the other hand, it increases CO_2 transportation emissions, and can lead to carbon leakage – where production moves to regions with lower sustainability standards. It is well-documented that the EU's consumption patterns create significant negative spillover effects in other countries, often exceeding the planet's sustainable limits[2]. Additionally, financial and macroeconomic policies, such as tax competition and profit shifting, further contribute to these externalities. This external spillover occurs mostly through trade, although macroeconomic and financial policies (such as unfair tax competition or profit shifting) also contribute negatively.

There is also the decades-long heated debate on whether trade supports or hinders social progress, particularly in low-income

See endnotes page 49

economies. On the one hand, trade generates activities (and earnings) for lower-skilled workers in emerging economies through labour-intensive exports. However, higher exposure to free trade eventually exercises a lock-in effect into such lower-paid, export-led economic structures which can exacerbate wage inequality and hinder long-term social progress. Furthermore, competition from low-wage countries pressures social structures in high-income economies, where wage inequality tends to grow alongside participation in global value chains[3].

Imported emissions

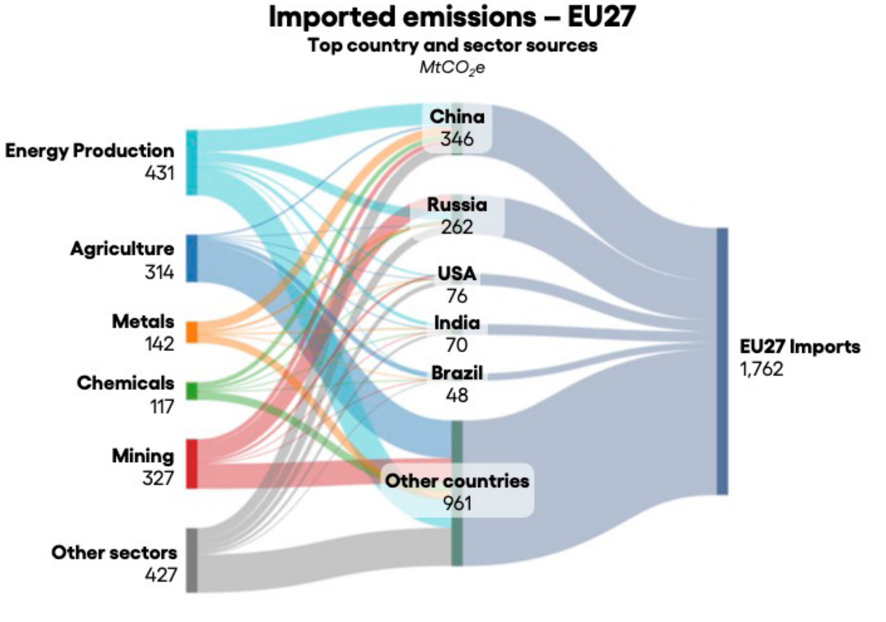
High-income countries are estimated to be responsible for ten times more climate impacts per capita than low-income countries. The EU's imported emissions account for nearly half of its total emissions, yet these are often overlooked[4, 5].

Although the EU has reduced domestic environmental impacts by 12% between 2010 and 2018 while increasing Gross Domestic Product (GDP) by 23% (appearing as an absolute decoupling), its overall consumption footprint grew by 4% between 2010 and 2021. This indicates only a relative decoupling, far from aligned withthe objective of sufficient absolute decoupling and thus insufficient to reach its environmental targets.•

• We also note that several key impacts, such as biodiversity loss of overexploitation of resources, cannot be fully captured due to lack of adequate data (JRC, ibid). The impact of the EU is therefore likely to be worse than officially accounted for. In any case, the EU is a net importer of environmental impacts occurring in third countries.

The external impact, including the identification of most impactful sectors and the consideration of inequalities between countries and in countries, remains moreover extremely difficult to measure – which hinders the design of effective and inclusive policy options.

Figure 2: imported emissions – EU27 Top Countries and sector sources (2021, $MtCO_2eq$)



Source: Carbon 4 & ECF - Imported emissions: from co-dependence to co-operative action.

See endnotes page 49

There are debates regarding the identification of the most impactful sectors and thereby the identification of a consistent policy response. The Joint Research Centre's Consumption Footprint indicator, for instance, identifies food consumption, housing and mobility as the main driver of impacts. Yet, this indicator encompasses 16 environmental impact categories (e.g., climate change, freshwater ecotoxicity, land use related impacts, water use related impacts, etc.) in a single weighed score. Meanwhile, the European Sustainable Development report 2024 identifies textile & clothing and gas extraction as the main impact areas for trade-related spillover impacts from EU demand on GHG emissions only[6] (forestry & logging and beverage crops are listed first for impact on deforestation, while food product is listed as the second impact area for water stress). The latter is consistent with recent findings on EU imported emissions that also identify energy production, agriculture and other sectors (including textiles) as the main contributor for EU imported emissions.

The EU's international sustainability efforts

Recognizing its global impact, the EU has attempted to incorporate sustainability into trade policies, notably revising its Trade and Sustainable Development Strategy in 2022, designed to improve the sustainability-related provisions in EU Free Trade Agreements (FTAs)[7], and launching initiatives such as the Global Gateway Program, the Team Europe approach as well as through a flurry of domestic policy measures[•].

[•] E.g. among others the Carbon Border Adjustment Mechanism (CBAM), Corporate Sustainability Due Diligence Directive (CSDDD), EU Deforestation Regulation (EUDR) and EU Sustainable Product Regulation (ESPR).

However, these efforts have also led to unintended socio-economic impacts in third countries. The EU autonomous policies with extraterritorial reach (labelled 'unilateral' outside of the EU) have triggered unprecedented backlash due to expected compliance costs and impacts on the terms of global production and supply of specific goods. Governments (such as Brazil, Indonesia or Mozambique), businesses, and civil society organisations most impacted in the Global South have been particularly vocal about their negative perception of these instruments.

A fundamental challenge lies in the EU's failure to frame its external (economic) engagement as part of a larger strategic vision. Its current external strategy is unfit to truly foster a coherent transition to a wellbeing economy that is not simply transferring detrimental social and environmental impacts to the rest of the world.

The EU's donor efforts

The EU also repeats at length that it is collectively (i.e. the EU plus its Member States) the biggest donor for international aid in the world. This is in a context where international aid from official donors – Official Development Assistance (ODA) – rose in 2023 to a new all-time high of USD 223.7 billion, up from USD 211 billion in 2022[8]. The EU and its Member States are also the world's leading providers of ODA in grant equivalent (methodology in which only the grant elements of loans are reported, instead of their full-face values). In 2020 Europe disbursed 66.8 billion EUR, 46% of the total globally[9].

Yet, behind these positive figures lies a more contrasted picture. OECD countries provide an average of 0.37% of their Gross National Income (GNI), quite far from the official target of 0.7% target which was first agreed upon by the EU and OECD members in 1970 and repeatedly reindorsed since then[10]. Norway (1.09%), Luxembourg (0.99%), Sweden (0,91%), Germany (0,79%); and Denmark (0,74%) are the only donors meeting that objective so far. France for

See endnotes page 49

instance is at 0,50% in 2023, the United States at 0,24%. And, in an extremely worrying move, many countries, including the largest donors (either in absolute value or proportion of GNI) such as Germany, Finland, Sweden, the Netherland or France, are currently decreasing their budget for ODA in a context of strained public finances and security concerns[11].

Complicating political winds

On top of the abovementioned issues, there are political winds that complicate a stronger and more positive engagement of the external dimension of EU (trade) policies. When looking at the latest developments at the EU level, reflected in the Draghi Report[12], coupled with Carbon Border Adjustment proposals examined in the US[13] and UK[14], it seems that current policy debates tend to shift further away from sustainability and external partnership considerations and towards competitiveness issues within global supply chains.

The new EU 'Clean Industrial Deal', for instance, aims to enable the deployment of clean technologies in Europe through a mix of new industrial subsidies and regulations. One might argue that this could eventually carry opportunities for exporting 'developing economies' to fuel this 'acceleration' in the EU. However, in the current political context, the EU may also be perceived as erecting further trade barriers (e.g. pertaining to local content, import restrictions) to focus its effort on domestic industrialisation processes with little consideration of the impact in exporting countries; fuelling the current worrying trend of major economic powers adopting more industrial trade distortive measures, eventually separating even more the 'West and the Rest'.

The recent re-election of Donald Trump in the U.S. is expected to worsen this. It seems clear that, for the foreseeable future, the United States will descend into transactional, bilateral relations based on economic force with third countries. The EU needs to step up and offer credible alternatives and engage in international partnerships on the multilateral stage, built on a projection of an alternative, desirable future.

Recommendations

Tinkering with trade agreements or adjusting aid flows here and there will not be enough. The EU must make a decisive shift towards a new model of international economic partnership – one that is not just about regulatory alignment but about offering a truly distinctive, compelling project for cooperation. In light of the challenges detailed above, the EU must take a fairer, more coherent and strategic approach regarding its external economic and environmental impact. This requires:

1. Taking steps to assess, recognise and act upon its external social and environmental impacts;
2. Leading by example on climate on the international stage;
3. Stripping itself from postcolonial reflexes and meaningfully engage with third countries to co-develop sets of political and policy priorities associated with concrete fundings and new forms of bilateral and multilateral agreements with its partners.

Centring global justice and inclusivity in policy design

To deliver on those steps in practice, the EU needs to improve existing metrics that evaluate the external impact of EU policies to mitigate such impact at the design stage of a policy.

This means, first of all, designing metrics that adequately measure the EU's external impact, while identifying the most impactful sectors to inform relevant policymaking (despite the difficulties explained earlier).

See endnotes page 49

Adequately identifying extraterritorial effect of European measures also means focussing on inclusivity throughout all stages of policy development. Impacted third countries must have the opportunity to engage and propose solutions to mitigate expected impacts before a policy is implemented and forced upon them. Only then can the EU understand and reflect the interests of its partners.

The role of EU FTAs must also be questioned here, and concrete measures should be taken to ensure that they do not fuel this detrimental social and environmental impact. The EU should notably reform the way it conducts Sustainable Impact Assessments (SIAs) both Ex Ante and Ex Post for its FTAs. We refer here to our recommendations in the previous Chapters to introduce a diversification and multiplication of models used to conduct these assessments, complemented by extensive qualitative analysis, and for both processes to integrate wellbeing economy indicators. Ex Ante SIAs should then feature more prominently in the negotiation stage of the FTA to ensure that identified impacts are addressed in the final text agreed upon between the partners. This could be done for instance by introducing dedicated provisions in the negotiating mandate issued by the EU council to the Commission to conduct such extensive SIAs and integrate their findings in the text before an agreement can be reached.

Climate diplomacy and international collaboration

Climate negotiations provide another major window of opportunity for the EU to project reliability on the multilateral stage and therefore deploy ambitious relations with third countries. The expected publications of the proposal for a Climate 2040 target and updated Nationally Determined Contribution (NDC) ahead of the UNFCCC COP30 in Brazil are an opportunity to demonstrate seriousness on the global stage. The EU can demonstrate that it is ready to undertake the efforts needed domestically to take its fair share in the global fight against climate change. These efforts must be coupled with an extended EU emphasis on international climate finance, accompanied by Member States' delivery of high levels of national ODA.

Some aspects of the EU Global Gateway have also borne positive fruits and should therefore be strengthened. For example, the Sustainable Cocoa Initiative[15] – a partnership with Ghana, Ivory Coast and Cameroon – which was put in place before the implementation of the Regulation on Deforestation-free Products (EUDR) – has actively contributed to building trust and transparency along the cocoa supply chain and enabling local actors to deliver the EU's requirements on issues like child labour and forest protection and restoration. Other targeted initiatives have proven efficient, such as the Just Energy Transition Partnerships or the use of the existing EU-Mozambique partnership to accelerate the access of Mozambique's aluminium producers to decarbonized sources of energy in the context of the EU Carbon Border Adjustment Mechanism (CBAM) but they have been too scattered. These initiatives should be prioritised and replicated to other sectors, particularly those affected by EU measures with extraterritorial impact or in countries that have an established bilateral agreement with the EU.

Rethinking the paradigm

Finally, systemic solutions beyond the traditional development paradigm should also be explored by bringing in a fourth dimension of justice (next to the three dimensions listed in Chapter 2): restorative justice, that 'recognises how past inequities continue to shape present conditions and aims to address these injustices, deliver resolution, and enable healing'[16]. The EU and its Member States should consider debt cancellation, notably for climate vulnerable 'Least Developed Countries (LDCs)' to ease their debt burdens.

See endnotes page 49

The fundamental objective of the EU should be to leave policy and financial space to partner countries to pursue their own strategic interest for sustainable development while aligning the EU's values and interests to fuel its own transition to a net zero, wellbeing economy[17]. New types of collaboration are key. To create those, the EU must move beyond fragmented initiatives and take a constructive, positive and distinctive approach in the international scene. The world does not need another passive trade bloc or a reactive foreign policy player – it needs an actor that is willing to collaborate based on compelling, sustainable, and fair alternatives to the dominant economic models. If the EU fails to adopt such a vision, it risks losing influence in an increasingly competitive geopolitical landscape.

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Transforming Key Economic Actors

Finance and Business

6

Following the shift in political balance brought by the 2024 EU elections, the EU institutions have adopted a language of competitiveness and productivity that risk directly opposing the transition to a wellbeing economy if interpreted in an outdated way. Yet, as noted earlier, the two objectives (competitiveness and wellbeing) are not necessarily mutually exclusive, but should rather be understood as *means* and *end*[1].

The macroeconomic incentives to transition towards a wellbeing economy are crystal clear. Costs of climate change damages already outweigh mitigation costs by sixfold[2], and 50% of Gross Domestic Product (GDP) and 40% of jobs globally depend on nature and healthy ecosystems[3,▪] .This chapter discusses how finance and businesses can be leveraged in the transition to an EU wellbeing economy.

▪ Even if it could be argued than actually 100% of our lives by definition rely on the existence of a liveable environment.

State of play

There is a misalignment between the current direction of financial flows and the goals of shared prosperity within planetary boundaries. On the one hand, far too much money continues to flow towards counterproductive activities such as fossil fuels, and needs to be urgently rediverted[4,5]. On the other, insufficient funds are flowing towards activities that support an EU wellbeing economy.

The arguments to turn this situation around are strong. The economic costs of climate change in a business-as-usual scenario range up to a staggering projected loss of 50% in GDP between 2070 and 2090[6], while rapid and ambitious climate mitigation could bring enormous economic benefits (see Figure 3 page 52 for the percentage change in net income for different scenarios of climate change compared to mitigation cost).

In short, it is indeed definitely cheaper to save the world than to destroy it. To do so, global mitigation investment needs to increase by at least sixfold[7]. In the EU, some 620 billion EUR will be needed in additional annual investment to meet the EU Green Deal objectives[8]. Finance Watch, similarly, flags massive funding gaps on the scale of 500 to 1000 billion EUR annually for climate change mitigation and adaptation alone – calling EU policymakers to rethink financial rules and examine potential solution avenues to avoid an investment crisis[9].

Yet, in this current economic reality, businesses are still facing an apparent tension between profitability and sustainability. Short-term financial interest and growth demand constitute barriers for sustainability-oriented businesses[10], and so do the currently dominating business models and the concentration of market power in the hands of few actors. For instance, Hinton[11] sets out that the prominent profit maximisation motive of many businesses is driving feedback loops of political capture, inequality, and consumerism. A wider argument can be made against the current financial system and business models that are 'privatizing the benefits and socialising

See endnotes page 55

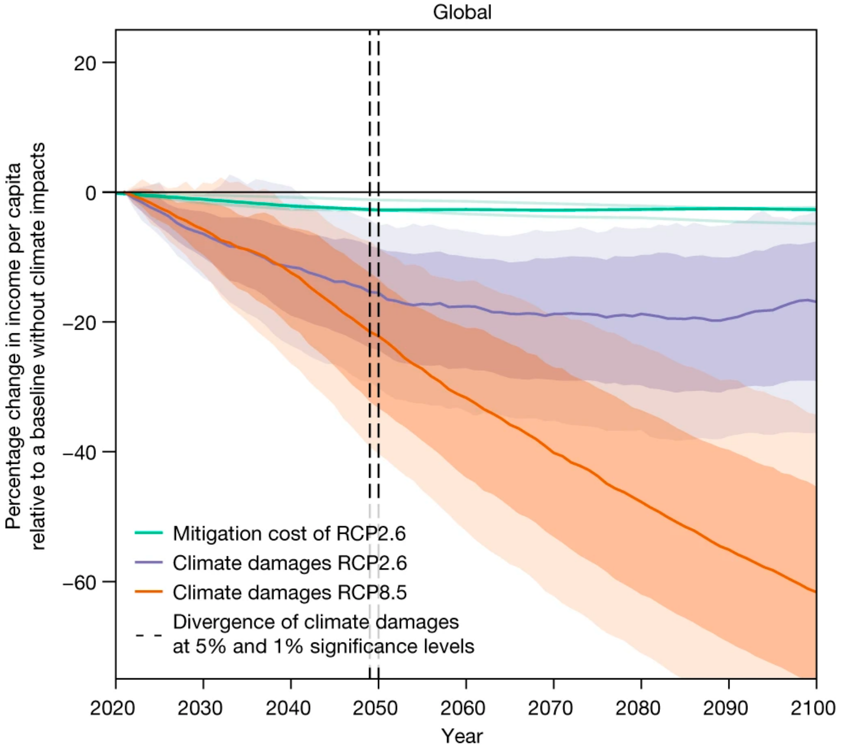
the costs', which creates further burden on strained public finance. Any notion of system change would need to include a fair share of the risks and costs of private activities that have negative impacts on the wider society[12].

New economy actors and thinkers are therefore calling for a rethink of key design aspects of business to deliver systemic shifts for wellbeing within planetary boundaries.

The Club of Rome, e.g., identified six main barriers for change[13]:

1. A misplaced purpose in the role of finance,
2. Narrow notions of value in the goal of finance,
3. Out-dated analytical frameworks underpinning the tools of finance,
4. Flawed mathematical models in the methodologies of finance (compare to the modelling chapter),
5. A passive mode of operation in the agency of finance,
6. A lack of relational finance.

Figure 3: Climate damages as change in income per capita for two scenarios of climate change compared to mitigation cost



Source: Kotz, Levermann, and Wenz[14] (Creative Commons Attribution 4.0 International License).

See endnotes page 55

These resonate with the IPCC's identified barriers, including underestimation of climate-related financial risk, short-term bias in decision-making, and missing externality pricing[15].

Doughnut Economics Action Lab points to key aspects to change the deep design of business to become regenerative and distributive *by design*. These aspects are:

- Purpose (from profit driven to purpose driven),
- Networks (from extractive to collaborative partnerships),
- Governance (from serving finance and shareholders to serving purpose and stakeholders),
- Ownership (from extractive to generative), and
- Finance (from serving financial returns to serving purpose)[16].

Looking specifically at the EU context, there are many exciting ongoing initiatives to align businesses with the goals of a wellbeing economy. The EU's sustainable finance and business framework includes non-financial reporting legislation such as the Corporate Sustainability Reporting Directive (CSRD), the Corporate Sustainability Due Diligence Directive (CSDDD) labels and benchmarks for environmental, social and governance (ESG), the EU Taxonomy classifying what activities can be seen as environmentally sustainable, and standards for green bonds[17, 18].

Unfortunately, and in complete disregard of the interest of not only citizens, but private operators as well, the integrity of these laws is being questioned with the help of an omnibus legislation (i.e. a policy tool designed to 'streamline' or water-down already-adopted legislation). Several influential actors, including Member States such as France, pushed for a rollback of these key pieces of legislation, despite a call by over 160 civil society organisations (CSOs)[19] and a number of private companies (including Nestlé, Ferrero and Primark)[20] to preserve the legislative framework on account of the clarity that is required for businesses to adapt their operations and make investment decisions.

Recommendations

While the abovementioned landmark regulations are set to drive down the environmental impact of major private operators (if they are implemented), there is an additional need for systemic solutions from public authorities to counter unsustainable dynamics that the current functioning and design of finance and businesses are contributing to.

The negotiations for the post 2027 EU Multiannual Financial Framework (MFF) and successor of the Recovery and Resilience Facility (RRF) will reach their peak in 2025 and 2026. They constitute the main window of opportunity to support the transition to a wellbeing economy through the EU budget and spending plan. The implementation of both funding frameworks must then be adequately monitored through the European Semester and National medium-term fiscal-structural plans (MTPs).

Importantly, people, groups or regions that are negatively affected by the various transformations should be compensated, where needed, through the EU cohesion funds.

Reforms in Member States but also at the international level will be crucial to support these efforts as the EU budget will not be sufficient on its own to conduct the necessary changes. Solutions such as taxes on wealth and fossil fuel profits and improving tax collection should be deployed to mobilise public funds.

See endnotes page 55

These new EU and national financial capacities should then aim to redirect investments away from policies and projects that are ecologically or socially harmful and toward activities favouring wellbeing through a reform of the criteria used for assessing and conditioning funding. We detail in Chapter 3 the type of indicators that could be developed and how they could be embedded in EU policy making, implementation and monitoring. This directing of investments with environmental and social benchmarks or conditionalities should be integrated widely, including in public procurement processes. The expected review of the EU public procurement directive in particular must be seized as an opportunity to integrate sustainable and inclusive wellbeing (SIWB) criteria in offer evaluations[21].

The current economic system is fixated on short-term private financial interest while social and environmental impact are left for public authorities to address, creating further burden on strained public finance. The EU's sustainable finance and business framework is therefore a key tool to curb detrimental economic activities and boost beneficial ones, and must be strengthened.

The EU and Member States must also implement measures to facilitate mainstream private businesses transitioning to social economy entities. Comprehensive strategies are needed to set enabling frameworks to support social economy entities that do not first and foremost seek to maximise profits but rather create positive societal outcomes. For such emerging future-fit business models to be competitive, there needs to be a levelled playing field for sustainable businesses and changed market and financial incentive structures that can be supported by EU policy. This includes creating and broadening legal forms of businesses across Member States[22]. The Club of Rome also proposes for 'an over-arching, collective strategy and financial regime that mobilises transformative and innovative power of people and business'[23]. Support measures could entail favourable financial, administrative and legal environments that take account of the specific features of their business models in terms of governance, profit allocation, working conditions and impact.

To conclude, public and private finance underpins the transition to a wellbeing economy, both in terms of aligning with planetary boundaries and enabling the proper equity aspects of procedural, distributional, and participatory justice. Finance flows should therefore support rather than hinder our common objective.

See endnotes page 55

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Postface

by Antoine Oger (Executive Director IEEP)
and Laurent Standaert (Director GEF)

The starting point of this publication is that the EU's economy is ultimately embedded in cultural and social systems, which in turn are sub-systems of the Earth's biosphere. As Fullerton[1] notes, "the history of economic theory is [therefore] not over with Keynes and Hayek". Instead, we need to be more critical, more systemic, and more daring. A wellbeing economy addresses this need – it aims at delivering quality of life for people, while pulling our economy back within planetary boundaries.

In the face of the triple planetary crises, hope can be found in the creative nature of humanity, and our species' collective ability to rethink and improve. Great strides in natural and social science have indeed already provided us with knowledge and tools to progress in the right direction. But the implementation of these understandings is dramatically lagging behind. Obstructed by short-termism and tunnel visions of how our economies work and will evolve, the wellbeing economy agenda has not materialised in concrete terms. This is further cemented through path dependency surrounding how we measure prosperity, and how we project policy options.

This context conceals not just the necessity, but also the huge opportunity for Europe to pioneer a wellbeing approach to its economy. The EU can find in the wellbeing agenda a framework and strategy that is fit to tackle social-ecological risks linked to the triple planetary crises, to increase fairness, and to transform towards a quality-focussed economic strategy. It can inform a sustainable and transformative policy and investment agenda, that goes beyond crisis-after-crisis-response. Learning from the past five years of Covid-pandemic, energy and cost of living crises, and at the start of the new mandate, EU leaders have the opportunity to carve out an offer that truly delivers for their citizens.

Our publication is a call to action for EU policymakers across the political spectrum to make the crucial years ahead count for the wellbeing of current and future generations on our planet. This requires brave leadership to go beyond vested interests in the status quo and challenge the power dynamics that are currently upholding it; and importantly, to build alternatives. Many of the elements are already there, ready to be implemented and to accelerate the emerging paradigm shift. The previous chapters offer political recommendations for EU policymakers to, in the service of people, turn these elements into action in the next years.

Ultimately, we aim with this publication to clarify that a wellbeing economy is not an abstract utopia; it is a strategic response to the lessons of history and the need for long-term security. In a world increasingly defined by great power competition, Europe's best bet is not to be trapped between rival blocs but to define a distinct path – one that prioritises security and protection in the broadest sense. After all, what is security if not the health of people, the resilience of our environment, the strength of education systems, and the assurance of a safe and stable future?

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A European Wellbeing Economy

The Treaty on European Union sets out that 'the Union's aim is to promote peace, its values and the well-being of its peoples'. The EU undertook significant steps in this direction, notably under the European Green Deal. Yet, the ongoing triple planetary crisis warrant further efforts. This is not just an environmental imperative but a fundamental necessity for economic resilience, stability, and security.

A wellbeing economy approach can tackle these needs. It is a real, pragmatic agenda that acknowledges the need for prosperity – though not in the narrow sense of GDP growth, but through a model that values wellbeing, sustainability, and resilience. This publication offers political recommendations for EU policymakers to, in the service of people, turn this – already well-developed agenda - into action.

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