



EUROPEAN SOVEREIGNTY AND THE SOCIAL DIMENSION

REASSERTING EUROPE'S SOCIAL-DEMOCRATIC MODEL IN TURBULENT TIMES

ABSTRACT

Decades of neoliberal policies have produced economic imbalances, social polarisation and political instability. The transatlantic rupture, since the return of Donald Trump, adds considerable pressure on European integration. Building European sovereignty and reasserting our social model based on a sustainable development regime are three sides of the same complex agenda.

Today, the US-inspired blueprint of the conservative-far right policy agenda focuses on deregulation and a dilution of European regulatory autonomy. This contradicts the European policy decisions that produced the European Pillar of Social Rights, and its Action Plan adopted in Porto, and the La Hulpe declaration.

European sovereignty demands a social foundation, not a US blueprint. A strong Europe abroad depends on resilience at home. Sovereignty must therefore include a renewed and reinforced social dimension, with enhanced investment capacity and safety nets. This also means protecting citizens, strengthening solidarity, and ensuring democratic control over economic power.

This policy brief offers to revive the progressive thrust of EU governance amidst this new geopolitical reality. It proposes a new EU socioeconomic steering agenda around the following points: promote the social model as a key dimension of the European sovereignty agenda; build EU borrowing capacity; tighten economic steering and social rights; revive public services; and restore social targets at the heart of the European integration agenda and its governance.

This Road to Porto 2.0 would deliver the pillars needed for European sovereignty to gain political legitimacy and strengthen the social democratic features of European integration.



AUTHORS

LÁSZLÓ ANDOR
Secretary General, FEPS

ROBIN HUGUENOT-NOËL
Researcher, Freie Universität Berlin (FU)

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FOUNDATION FOR EUROPEAN PROGRESSIVE STUDIES (FEPS)

Avenue des Arts 46
1000 Brussels (Belgium)
www.feps-europe.eu
@FEPS_Europe



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Content editor: François Balate (FEPS)

Project coordinator: Vanessa Zwisele (FEPS)

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1. Introduction – The transatlantic challenge

Neoliberalism, which became a dominant paradigm of political economy and the international order in the 1990s, delivered unprecedented financial crises and global imbalances. Since the return of Donald Trump to the White House, the USA decisively turned away from liberal internationalism and unleashed a regime of unilateralism and economic nationalism.

This turn in US politics has emboldened far-right forces in Europe, which had already started to make electoral gains in the past decade. From Viktor Orbán in Hungary to Nigel Farage in the UK, through Giorgia Meloni in Italy and Jordan Bardella in France, leaders have pledged to shrink civic spaces, cut non-governmental organisation funding, rollback women's rights and hijack public media, in the hope of enlisting US financial firepower. After the publication of the new US National Security Strategy in December 2025, risks have heightened that homegrown political forces could be used to weaken the Union's external agency and internal cohesion.¹

The response of the EU leadership to the transatlantic challenge has been wrapped in the language of 'European sovereignty', yet its operationalisation has been inconsistent. In the defence and security domains, Europe is tangibly moving towards 'strategic autonomy' and started to organise a collective defence capacity. On the economic and social front, however, the alliance of conservatives and the far right has embraced a US-inspired agenda of financialisation and deregulation – casting the welfare state and environmental protections as the culprits behind every economic malaise.

In January 2026, leading scholars – Dominique Méda, Thomas Piketty, Katharina Pistor and Jonathan White among them – warned that "as empires grab resources and discard international law, the EU must forge a New Social Federalism—or become a vassal".² This policy brief takes up that challenge: it sets out what such a project could entail and identifies concrete priorities for EU action.

Asserting this vision must start with a more comprehensive definition of European sovereignty: one that not only articulates an alternative to the Hobbesian logic of global relations but also embeds its external ambition to resist subordination in a renewed commitment to its own normative foundations. We argue that a credible European sovereignty agenda must have a clear social dimension, reasserting the welfare state's role as a *democratic stabiliser* in post-industrial economies.

This agenda relies specifically on three propositions:

- 1. European sovereignty is fundamentally about defining and defending Europe's own model**, that is, its values, rules, and distinct sources of political legitimacy and social cohesion. This begins with breaking away from mimicking foreign templates – whether it be Beijing's export-driven factory or Washington's deregulatory predatorism – and reaffirming, instead, the role of the social democratic model as a cornerstone of its own growth regime.
- 2. To be strong outside, Europe must first be solid inside.** This requires building macroeconomic and social resilience as the bedrock of sovereignty, ensuring that the EU can weather crises – whether these are economic shocks or wars of aggression – without sacrificing its core values or relying on external bailouts. In an era where crises seem to be the 'new normal', sovereignty means designing institutions and policies that protect citizens, preserve solidarity and prevent fragmentation for when the time comes.
- 3. True sovereignty demands that democratic politics prevail over market power.** When capital concentrates in the hands of a few, risks increase that information flows, economic decisions and security priorities come to follow private interests in ways that narrow democratic choice. As oligopoly concerns heighten, Europe must take pride in its regulatory tradition of prioritising public services (from healthcare to schools) beyond private profit-making, while standing up to citizens' demands for a better use of their own contributions.

Not so long ago, EU institutions themselves charted a progressive course that relied on concrete targets and policy solutions to reconcile economic ambition with social progress. With the European Green Deal, the EU had become a global leader in putting its climate ambition as the driver of its development model. The orientation followed by the EU after 2014 resulted in EU leaders committing to high-level political commitments via the European Pillar of Social Rights (EPSR) and the Porto Action Plan.³

Five years after the Porto Summit (2021), Europe's half-hearted implementation of its own commitments have now left its social contract frayed. To course-correct, we propose a road map for Porto 2.0, starting with a hard look at where Porto targets are falling short. After exposing the flaws of the 'US-style competitiveness blueprint' and the EU's added value, we outline five priorities for a new EU socioeconomic steering agenda:

1. **Promote the social model** as a key part of Europe's fight for strategic autonomy;
2. **Build EU borrowing capacity** to unlock investment and expand fiscal space to affront geopolitical tensions and climate imperatives and help social stabilisation;
3. **Tighten economic steering and social rights** by using public procurement rules to promote a high road to competitiveness;
4. **Revive public services to fight social deprivation**, by removing EU constraints and adding resources for subnational action; and
5. **Restore social targets** at the heart of the European integration agenda and its governance tools to ensure effective implementation.

2. Towards a US-style decoupling?

After the debacle of the eurozone crisis, EU economic policy making has been known to operate a progressive 'social turn' in the last decade. Of these initiatives, the adoption of the EPSR in November 2017 proved most symbolic, as it defined a clear road map setting out 20 principles to advance equal opportunities in the labour market, fair working conditions and social inclusion. The Porto Declaration signed in May 2021 proved another watershed moment, as EU leaders and social partners committed to a shared and more concrete 'Action Plan' for EPSR deployment. Specifically, the Action Plan set new social targets to be met by 2030. By this date, 78% of people aged 20 to 64 should be in employment, with at least 60% of adults participating in training every year, and the number of people AROPE should be reduced by at least 15 million – including at least 5 million children.

Ahead of the Porto Social Summit, we saluted this initiative but also warned against the widespread assumption that employment tout court would 'trickle down' on social welfare.⁴ As the Porto targets are almost five years old, we first need to take stock of progress achieved on these targets since then.

2.1 Employment on the rise

The quantitative improvement in the level of employment in Europe is a welcome development. According to latest Eurostat estimates, the EU is currently on track to achieve its headline 2030 employment target. In 2024, the number of employed people aged 20-64 in the EU had reached 75.8% – a historical high and a noticeable increase since 2017 (where it stood at 70.9%). Adult learning is also on the rise, with 47% of adults aged 25-64 participating in learning in 2022 (a rise of 2.9 percentage points (pp) since 2016).

At first glance, rising employment rates are good news: besides its social function at the individual level, higher employment in ageing societies helps stabilise dependency ratios; eases labour shortages; and broadens the tax base needed to

finance pensions, healthcare and long-term care.⁵ But the headline rate can also mask high disparities and hard trade-offs.

Firstly, the proceeds of the EU's recent economic revival have not been shared widely. A cross-country look at employment performance shows a widening divergence: while some member states have already met their national 2030 targets, others – such as France, Italy, Belgium, Bulgaria and Finland – would need faster annual employment growth than they achieved before the pandemic to stay on track.⁶ As for education and retraining, zooming in on basic digital skills in fact shows persistently weak outcomes in some countries and a growing disparity among them.⁷

As part of its 'secondary targets', the EU set itself the goal to halve the gender gap by 2030.⁸ The gap reduced a little (–0.6 pp since 2019) but it remained as high as 10 pp in 2024. In several member states, the gap also appears to have widened slightly since 2019, reflecting familiar structural drivers: women's overrepresentation in part-time and low-paid work; the unequal distribution of unpaid care; and cumulative disadvantages that carry into retirement.⁹ The last employment-related Porto target sought to reduce the share of young people not in employment, education or training (NEETs) from 12.5% in 2019 to 9% in 2030. In 2024, 11.1% of young people still found themselves in this situation.

Even as labour demand rises, the issue of job quality remains a cause for concern for many today. Although the Porto Summit did not set target on labour rights, the *La Hulpe* Declaration – brought to the fore by the Spanish and Belgian presidencies of the Council in 2024 – sought to complete the Porto targets by setting a stronger focus on adequate working conditions, fair wages and the role of collective bargaining. However, major challenges remain. Today, around one in ten workers still live in poverty; in-work poverty is especially prevalent among households with low work intensity, people on fixed-term or part-time contracts, workers with limited formal qualifications, migrants and single parents;¹⁰ in the private sector, algorithmic management and the generalisation of subcontracting practices

have worsened working conditions. Meanwhile, public-sector workers in health, care and education increasingly report lacking the resources needed to deliver critical services and facing greater exposure to hostile behaviour.¹¹ This transforming world of work raises expectations on the Quality Jobs Act (foreseen for the end of 2026) to enhance workers' protection, voice and ownership in this transition.

2.2 Social indicators stalling

Comparatively to employment targets, progress on social inclusion targets is lagging behind. In the context of Russia's invasion of Ukraine in February 2022 and the resulting energy crisis, it wasn't guaranteed that commitments to poverty reduction would be maintained. Notwithstanding this, national governments' commitments surpassed the Action Plan ambitions and committed to bring down the number of people 'at risk of poverty or social exclusion' (AROPE) by at least 15.6 million by 2030.¹² Of these, at least 5 million children should be lifted from poverty.

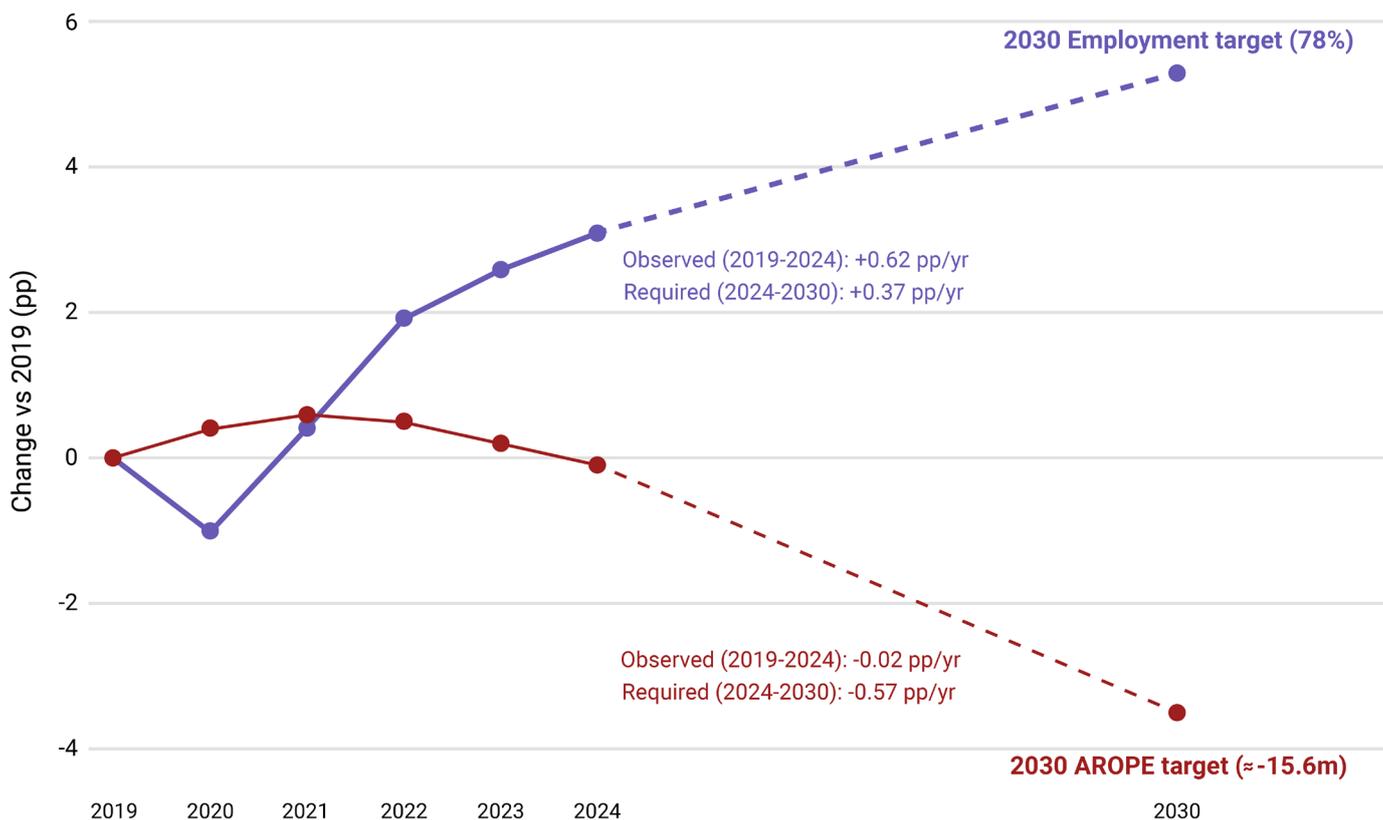
However, the latest indicators highlight a risk of backtracking on these promises. In 2019 (the reference year for the Social Pillar Action Plan), 92.235 million people were AROPE – accounting for 21.1% of the EU population. AROPE data shows that the EU remains far away from achieving its poverty reduction target.¹³ Child poverty trends are more dramatic still. In 2024, 19.524 million children aged under 18 were AROPE, amounting to 24.2% of all children. Strikingly, this reveals a worse performance than in 2019 (where it reached 23.7% or 19.126 million children).

Comparing these trends with progress on the employment target underscores how much greater the effort required on the poverty front will have to be to avoid a decoupling (Figure 1). Between 2019 and 2024, employment among 20-64 year olds increased by around 0.6 pp per year, a pace that – if kept constant – would allow the EU to reach its 2030 employment target (and even allow some deceleration to 0.4 pp per year). By contrast, the AROPE rate declined by only 0.02 pp per year. Closing

the gap to the 2030 poverty-reduction target would therefore require a sustained decline of about 0.6 pp per year through 2030, that is, an acceleration in the

pace of reduction of roughly 28 times, compared to the pre-2024 trend.

Figure 1. Progress towards the Social Pillar Action Plan's 2030 targets.



Note: the lines show changes since 2019 in percentage points (pp). Dashed segments show the remaining distance to the 2030 targets. The *observed slope* reports the average annual change in each indicator between 2019 and 2024 (pp per year). The *required slope* shows the average annual change needed from 2024 onward to reach the EU's 2030 social targets. Values are expressed in pp per year.

Employment – for all its merits – cannot be equated to lifting people out of poverty (for further evidence, see Kyriazi et al.¹⁴). Poverty is hardly ever a purely monetary phenomenon: it is closely linked to unmet healthcare needs, the inability to keep homes adequately warm, arrears on rent or mortgages and inadequate social protection. For women, it is often compounded by the hidden costs of unpaid care and the insecurity of discontinuous careers.

Together, these pressures shape young people's life chances and undermine equality of opportunity, raising questions of intergenerational fairness and social cohesion.

Many young Europeans today are facing considerable challenges in meeting their aspirations for a good life. Compared to previous generations, youth income has stagnated, with low-paying jobs,

poverty risk and within-generation disparity having all increased at younger ages.¹⁵ Housing is a major hurdle: the increase in purchasing and rental prices in particular have skyrocketed in the last decades (see Kohl et al. for a long-term view¹⁶). This development led to a decline in homeownership at younger ages and to reported affordability concerns now being three times as high as they were 20 years ago.¹⁷ These trends – particularly prominent in countries affected by the Great Recession (such as Ireland, Italy, Spain and Greece) but also in Germany – bear major risks of lasting intergenerational inequalities.

Academic studies abound on how the closure of public services and the deterioration of working conditions fuel votes for far-right parties.¹⁸ The surge of the radical right across the EU is assuredly a multidimensional phenomenon. But it is not hard to reconstruct the mechanisms whereby, in a Union where a quarter of children are at risk of poverty, the deterioration of intergenerational justice aspirations fuels political resentment. This ‘social state of the European Union’ thus raises the question of whether the EU is willing to move to a similar decoupling of economic and social performance characteristics of the US ‘model’.

In declaring Europe adrift and lacking self-confidence, Trump’s US National Security Strategy may have struck a painful truth. But the proper response to criticism from a supposed ally should not be fear or surprise; it should be strategic differentiation. To avoid throwing out the baby with the bathwater, Europe should learn from the US’s strength (its federation), while guarding against its Achilles’ heel: social cohesion.

3. The strengths of the European social model

Welfare models in Europe are diverse, but EU economic integration has also generated a convergence of welfare systems and industrial relations. The EU – especially since the Lisbon Strategy and the Europe 2020 Strategy – itself started to play a role in steering national welfare systems towards common standards of delivery.¹⁹

Today, rather than looking to Washington DC or Beijing, EU leaders should reassert the European social democratic model and underline that strong welfare provisions are a precondition for the continent’s economic vitality and political cohesion.

3.1 Public support for EU social policy

Historically, the European social model has demonstrated that economic and social progress can go hand in hand and that they often have to operate in synch. Macroeconomic demand stabilisation needs adequate unemployment insurance provision; we know this from Keynes, but also from Europeans’ own experience during the COVID-19 pandemic and – detrimentally – of the costs of its absence during the eurozone crisis. Healthy public finances won’t be achieved without increasing support from so-called labour market ‘outsiders’ (from women to migrants through youth and the elderly). Yet to reduce labour market mismatches and smooth job transitions, effective labour market support policies are also needed – including (well-staffed) public employment services and adequate training. Tomorrow’s productivity (a much better proxy than ‘competitiveness’ alone) finally rests on quality childcare today and its long-lasting impact on cognitive development and socialisation.

Europe also once strove to *do better*. After the Great Recession, great intellectual efforts were brought together to develop the concept of a ‘European Social Union’ into a concrete agenda.²⁰ During the COVID-19 pandemic, welfare provisions were considered part and parcel of EU’s crisis management. In March 2020, the Council adopted the SURE programme, which helped protect workers from the risks of unemployment and income losses. A few weeks later, EU member states agreed on NextGenerationEU (NGEU), a fund raised via common borrowing to support investments in social infrastructure and services across the Union. Major EU legislative initiatives were also adopted to promote fairer wages and support collective bargaining, ensuring a better work-life balance or the working conditions of platform workers.²¹ In 2024, the Spanish and Belgian presidencies of the Council worked hard to

adopt the *La Hulpe* declaration, which reaffirmed the EPSR as a guiding compass, and to systematically map out the various mechanisms whereby social policies enhanced productivity.²² Even Mario Draghi himself emphasised, through the presentation of his report, that the European welfare state was “critical to provide strong public services, social protection, housing, transport and childcare” and rejected the old idea of boosting competitiveness by suppressing wages.²³

Europe’s synergic approach to growth and welfare was not only in line with the new growth model followed by the EU since Jean-Claude Juncker proclaimed the EU’s ambition to follow a ‘social AAA’ approach²⁴ and the subsequent adoption of the Social Pillar.²⁵ It also brought about tangible gains for European integration – and a dynamic of popular support that encouraged more collective action in this area: EU Treaties do limit the role of EU institutions in wage matters and poverty mitigation. Yet the adoption of the minimum wage directive changed this reality: symbolically, it showed that the EU could stand up for labour market re-regulation, beyond employment promotion. Practically, it was used by member states throughout the EU to concretely improve the situation of workers. Institutionally, the subsequent clarification by the Court of Justice of the EU helped clarify what the EU could do to promote adequate wages and collective bargaining,²⁶ legitimising wage-promotion efforts on both economic and social grounds in ways that could allow more ambitious action still.

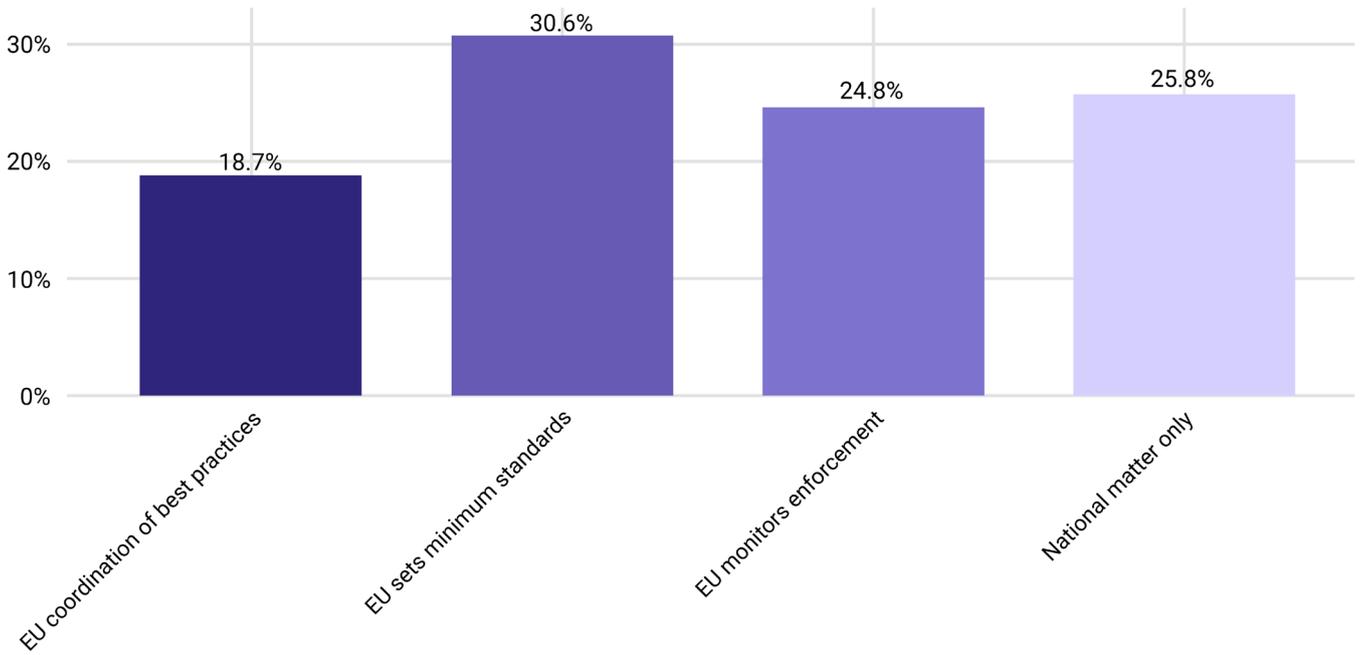
Importantly, its impact was also political. Recent survey evidence suggests that awareness of the Minimum Wage Directive (like that of the NGEU programme) has contributed to increased support for European integration, including among constituencies traditionally sceptical of its benefits.²⁷ Besides, when asked about what role the EU should play in wage setting, Europeans overwhelmingly support EU institutions doing more – not less – to ensure that their labour rights are respected in their home country. Data from an academic survey fielded in 2025 shows that a clear majority of EU citizens favour some form of EU involvement in improving wages (74.1%), compared to 25.8% who

believe that wage policy should remain exclusively a national matter. Among the four response options (Figure 2), the most common preference is for the EU to set basic rules, such as minimum standards (30.6%), followed by closer EU monitoring of how governments ensure compliance with labour rules (24.8%). By contrast, fewer respondents support a more limited EU role focused solely on coordinating the exchange of best practices among governments (18.7%).

All in all, after the adoption of ambitious legislation linked to the regulation of platform work, minimum wages and transparent working conditions, or to workers work-life balance, the EU had a unique opportunity to push the transposition of this agenda ‘on the ground’.²⁸ This agenda could also have helped EU institutions find new allies in collective bargaining forces to reduce inequalities and promote democracy at work in the face of intensive uses of technology. Instead, the path of forbearance followed by the new leadership increases the risk that new waves of welfare state retrenchment across the EU sets it on a path of social repression and macroeconomic depression.

Figure 2. Public support for EU action in the field of wages.

What role should the EU have in improving wages?



Note: own compilation based on data gathered in Wave 2 of the ERC SOLID survey, fielded in March 2025. The second wave of the ERC SOLID survey draws on over 20,000 respondents across 12 eurozone countries: Austria; Belgium; Finland; France; Germany; Greece; Ireland; Italy; Latvia; the Netherlands; Portugal; and Spain. The ERC SOLID project, of which one of the authors took part, examined the transformation of EU sovereignty, solidarity and identity in the post-2008 crisis context.

3.2 EU versus USA - Comparative welfare performance

The transatlantic crisis following Donald Trump's return to office has reopened a fundamental debate about the American and European social models. Welfare outcomes are increasingly assessed not only as indicators of domestic economic success, but also as components of geopolitical credibility, as reflected in recent US-EU engagement over Greenland. In this new era of intensified global competition, inequality, social rights and crisis responsiveness have become benchmarks through which political systems signal their capacity to deliver stability, cohesion and legitimacy.²⁹

The transatlantic comparison is often reduced to gross domestic product (GDP) per capita, where the USA outperforms the EU. But GDP is not a good proxy for welfare. Across most social indicators, Europe continues to stand first. References to the 'European social model' or the EU as a 'lifestyle superpower' remain grounded in empirical differences in income distribution, life expectancy and social protection. However, it is also true that the EU does not outperform the USA on all accounts. We provide here a snapshot of available evidence on indicators worthy of comparison (Table 1).

Income inequality remains substantially higher in the USA than in the EU. European welfare states have historically been built on a broader fiscal base and stronger systems of collective bargaining and labour representation, supported by the emergence of mass social democratic and Christian democratic parties across countries such as Germany, Sweden, Austria and the Netherlands during the 20th century. By contrast, redistribution in the USA has remained more limited. Several factors played a central role against redistribution in the USA³⁰: institutionally, the two-party system and suppression of the labour movement until the 1930s prevented the rise of a strong nationwide socialist party (while social democratic parties were formed all across Europe); structurally, beliefs in social mobility and individual responsibility and persistent racial cleavages, shaping public attitudes toward welfare spending, made this a shift unlikely.

Labour market regulations and wages also give a primer to the EU. Since the Reagan era, real wage growth in the USA has occurred only episodically, reflecting the comparatively weak bargaining power of organised labour. Trade union density remains sharply lower than in most European countries, particularly when compared to the Nordic states and parts of continental Europe. Within the EU, territorial differences in productivity and income remain pronounced – between, for example, Germany and Romania or the Netherlands and Greece – but the institutional framework for collective bargaining and worker protection remains more consistent across member states than across US regions (e.g., north versus south). These institutional differences translate into measurable social outcomes. The gender pay gap is about 5 pp higher in the USA than in the EU (16% vs. 12%), and the risk of workplace death is twice as high in the USA than in the EU – which partly reflects differences in regulatory enforcement and occupational safety regimes.

On *gender equality* indicators, a similar trend can be observed. The female employment rate is close to 71% in the EU³¹, while it stands at just 57% in the USA³². To be sure, the picture is not all so rosy. In the EU, a quarter of employed women work part time, and the average female unemployment rate tends to be higher than the male one (especially in Spain, Greece and Italy). Cultural differences certainly matter. Yet the EU-US gap is also reflective of the more extensive European framework for maternity and parental leave, childcare provision, and work-family reconciliation. To start with, the USA has never enacted the right to paid maternity leave. The average maternity leave is 10 weeks in the USA (while it averages 23 weeks in EU) and the average US paternity leave is 17 days (as opposed to 21 days in the EU).

Table 1. EU-US comparison: Key social and fiscal indicators.

Indicator	EU	USA
Life expectancy	81 years	78 years
Income inequality (Gini)	0.29	0.41
Maternity leave	Minimum 14 weeks of paid job-protected maternity leave	Up to 12 weeks of unpaid, job-protected leave (for eligible workers)
Buffering strategy	National automatic stabilisers, social rights & services	Cash transfers
Federal fiscal capacity	~1% of GDP	~23–24% of GDP

Sources: World Bank World Development Indicator (WDI) for life expectancy (2023)³³; Eurostat³⁴ and WDI for GINI (2023)³⁵; OECD Family Database for maternity leave; Council of the European Union and Congressional Budget Office (CBO) for federal fiscal capacity (2024)³⁶.

Comparing *living standards* offers a more mixed picture, which may not be surprising given the subjective dimension of this indicator. The USA indeed has a higher GDP per capita than the EU, both in nominal terms and in purchasing power parity. While Europe lags behind the USA in production and geopolitical weight, it stands as a global leader in terms of quality of life.³⁷ Over the past 15 years, the EU had weaker GDP growth than the USA, but our living standards have been converging with the USA, rising from 88% to 94% of US levels (2009–2023). Europe’s slower economic growth masks the fact that EU living standards are almost on par with those in the USA, thanks to better life expectancy and income equality. EU citizens live longer, healthier and more equal lives, which boosts welfare beyond what GDP suggests. Accordingly, Europe continues to lead in quality-of-life indicators.

When focusing on *economic security* – ranging from protection against unemployment, illness or (child) poverty – it is fair to say that European households tend to be better protected when shocks hit than those in the USA, where politics can easily radicalise under pressure.³⁸ The COVID-19 shock highlighted

different strengths and weaknesses in *buffering capacity* on both sides of the Atlantic.³⁹ At the EU level, the policy response prioritised investment regeneration (including the NGEU programme) and job preservation both via national job retention schemes and the establishment of SURE, a re-insurance scheme building on the short-time work schemes pioneered in Germany. In the USA, stabilisation took the form of unprecedented income support, which prevented a sharp rise in poverty, despite a steep decline in market incomes. Both approaches proved effective in the short term, yet in neither case were these emergency instruments fully transformed into permanent pillars of economic governance.

Lessons from the pandemic thus revealed blind spots at the federal level in both the USA and the EU. While the US welfare state is less sophisticated than most European models, it retains a key institutional advantage relative to the EU level: the capacity to deploy *federal fiscal power as a systemic stabiliser*. The asymmetry in fiscal firepower is stark: the EU’s annual budget amounts to roughly 1% of EU gross national income (GNI; about 1.06% in 2024), whereas

US federal outlays are around 23% of GDP. Effective transfers between federation members are taken for granted, and all know that the system could not function in any other way. Federal unemployment insurance – rooted in Franklin D. Roosevelt’s Social Security Act (1935) – is widely accepted as a core component of this multitier system of economic governance.

For the EU, the central lesson is not to replicate the American welfare model, but to develop a comparable capacity for crisis management and investment mobilisation. Without a stronger and more permanent fiscal architecture at the EU level, Europe’s ability to sustain its social ambitions – and to project them as a component of European sovereignty – will remain structurally constrained.

4. Macroeconomic steering beyond the US blueprint

The geopolitical debate today often highlights the long-term growth differential between North America and Europe. Macroeconomics, though, matters much more than just for statistical comparisons. The EU’s economic power plays a role in global strategic competition but also internally, when it comes to shaping the social fabric.

This is where the EU can draw some lessons from the US government, especially concerning the use of macroeconomic tools at the federal level. To match current pressures, the EU needs, first, a macroeconomic agenda that addresses its growing investment needs, starting with the creation of a permanent EU borrowing capacity. To preserve its political viability and social identity, the EU employment agenda should then also reinforce its socioeconomic steering arsenal, by ensuring that governments’ purchasing and spending tools are more systematically used in line with its core development aims.

4.1 From Draghi light to Draghi plus

For most EU economic policymakers, all essential ingredients for Europe’s aspiring growth model seem to be contained in the report prepared by former Italian Prime Minister and ECB president Mario Draghi.⁴⁰

Mario Draghi’s report was not about competitiveness as such, but about the need for EU-level industrial policy. His assessment was clear: Russia’s war in Ukraine and China’s economic slowdown have had grave consequences for Europe, which were aggravated by Trump’s re-election. Meanwhile, structural challenges of digitalisation and decarbonisation imply that the EU’s investment share will have to rise by around 5 pp of GDP to levels last seen in the 1960s and 1970s. Today, limited budget resources at the EU level and fiscal rules largely constrain public investment at the national level. Without a quantum leap, the EU will not cope. As a remedy, Draghi called to repeat (and consolidate) the practice of common borrowing implemented during the COVID-19 pandemic and to consider which new (EU) resources could be found to decarbonise and digitalise Europe’s economy. Additionally, the report identified financialisation, innovation and bureaucratic simplification as areas where the EU should do a better job, while paying lip service to the welfare state.⁴¹

Overall, Draghi’s wake-up call had the merits of pushing Europeans to think big again about how to address major shortcomings in the EU’s current economic and budgetary toolkit. Of all his priorities, the Commission’s new ‘competitiveness agenda’ did not pick up on Draghi’s identified need to boost the EU’s financial power to address pressing investment gaps. Instead, it opted to follow Draghi on the deregulatory angle, setting aside the comparative advantage of the European social model, which helps it outperform the USA on most social statistics.

The main cause for this U-turn has partisan roots. It not only rested on the political decision of the new Commission but also on that of the recently elected European Parliament to deliberately favour an alliance with the far right over the long-term alliance

with progressive forces. Today, the effects of these decisions are already visible in latest EU strategic governance and coordination policy guidelines. At the level of strategic goals, the Annual Growth Survey (which is meant to define the EU's 'vision' underlining economic coordination in the European Semester) was set aside in 2026, to the benefit of a 'Competitiveness Compass'. At the governance level, while the Joint Employment Report is now required to assess progress on the 20 principles of the EPSR, the social dimension was reduced instead almost entirely to skills – sidelining poverty, health, minimum income and essential services – in a move essentially reversing a recent shift to the holistic approach characteristic of the previous term.⁴²

Overall, this 'Draghi light' agenda falls short of articulating the 'vision' of a desirable future that could meaningfully engage an anxious younger generation. More dangerous still, this discourse has added pressure on many European governments (Belgium, France, Finland, Germany etc.) to follow such deregulatory mantra, opting – again – for social dismantlement on top of lived anxieties. And threatening, thereby, not only Europe's very own social fabric, but also a key foundation of its economic strength.

4.2 Becoming a sovereign issuer

The EU faces a historically challenging moment, marked by geopolitical aggression, mounting strategic vulnerabilities, and accelerating climate and biodiversity crises, alongside an increasingly multipolar global economy in which Europe's wealth and industrial position are increasingly contested by rising powers.

Enumerating 27 domestic cost mitigation strategies will not suffice to save what are – after all – ever smaller member states on a global scale. Instead, European states must learn to wield their economic strength and focus on collective resource generation.

Meeting these challenges will, in particular, require a scale of public investment that far exceeds current levels. A recent FEPS study estimates that, between

now and 2030, the EU faces a public investment gap of around 1.5% of GNI at the EU level, in addition to a 2% gap at the national level across member states.⁴³ With economic growth remaining weak, existing EU fiscal rules make it increasingly difficult for member states to close these gaps. Today, nearly two thirds of EU countries are subject to significant fiscal consolidation pressures. Without a major change of direction, these dynamics risk further depressing economic activity and widening the gap between the EU and other major economies (including the USA and China), which continue to pursue far more assertive, pro-investment strategies as part of their geo-economic statecraft.

The EU's long-term financing strategy to rising investment needs has so far been modest, if one judges by its last Multiannual Financial Framework (MFF) proposal. The EU budget proposal advanced by the Commission in July 2025 is less ambitious than the current budget in real terms if one adjusts for current prices.⁴⁴ To compensate, the Commission has proposed several large loan-based, off-budget instruments that rely on implicit interest-rate subsidies: Catalyst Europe (€115 billion to support national reform and resilience plans); a Crisis Response Mechanism (€350 billion to be activated in times of crisis); and Security Action for Europe (€50 billion for defence financing). In addition, the Commission's budgetary proposal seeks to streamline existing EU funds under a multifund, with the aim of allowing its loans and grants to be better linked to EU priorities (as defined under the European Semester), thus providing new incentives for member states to follow them. While this approach has some merits, the size of the proposed EU budget, the limits on current proposals to leverage additional national investment and the persistence of fiscal rules continue to represent too high a constraint to address current investment gaps.

Reviewing the EU's current fiscal apparatus in its entirety, it should be clear to all that EU rules, resources and coordination tools need comprehensive reform to address current investment gaps. Current EU fiscal rules – limiting debt and deficit to, respectively, 3% and 60% of GDP – are and remain unfit for today's

investment needs. Recent reforms that assess national budgets against broader sustainability pathways were a step in the right direction. However, the reintroduction of strict minimum debt and deficit reduction safeguards under the Stability and Growth Pact continue to undermine the objective of expanding national fiscal space. While Germany (which insisted on these safeguards) relaxed its own national rules to finance higher defence and infrastructure spending, other EU countries lack comparable leverage.

To reform EU fiscal rules, a broad consensus has now emerged in the macroeconomic community on the necessity of an 'augmented golden rule', whereby all EU institutions – in connection with European budget negotiations – would agree on future priorities of the Union and make a list of areas or expenditure items exempted from deficit calculation for subsequent years.⁴⁵ Should political agreement appear unrealistic, a useful starting point would be to at least exempt EU budget contributions and national investments aligned with common European priorities, such as those foreseen under the Multifund Regulation and the European Competitiveness Fund for the example of the SAFE instrument, from safeguard clauses.⁴⁶

National investment alone will not suffice to meet the scale of today's challenges; this means that growing attention must be paid to reviving EU macroeconomic activism and sustaining it. 'Made in Europe' can't remain a rhetorical tool. Drawing on the example of the NGEU programme, proper resources should be mobilised to advance the industrial revitalisation of the continent in ways that harness the green and digital transitions and contribute to the creation of quality jobs across regions.⁴⁷ Similarly, the positive externalities of EU solidarity have to be reasserted. Today, the Crisis Response Mechanism proposed by the Commission would provide loans to member states in financial distress with strict conditionalities (as under the European social model).

A more assertive alternative would seek to transform the European (Monetary) Union into a holding environment for welfare states, providing additional economic security and prompt more entrepreneurial

behaviour across the EU, with benefits for all member states.⁴⁸ The current European Commission has made no direct references to further work on the subject, yet the popular success of the SURE programme shows that much could be gained – including in gender terms – from its automatic activation in case of emergencies.⁴⁹ Recent studies also show that an EU unemployment reinsurance mechanism activated by a 1% rise in unemployment could have absorbed up to 18% of the income losses historically incurred by EU countries during deep downturns.⁵⁰ In their comprehensive review of possible reinsurance schemes, Fischer et al. show how such a scheme could be concretely designed to maximise macroeconomic and social benefits, including by drawing lessons from the US unemployment insurance tool.⁵¹

Ultimately, it should be clear to all that EU-level investments will bear short-term costs that will eventually have to be funded; in the current context, remaining barriers to raising common European debt act as a costly liability for the EU's sustainable development ambition. Funding a higher level of EU-wide investment in a politically sustainable way requires strengthening the EU's capacity to act as a sovereign issuer, able to raise its own resources to back EU bond issuance.⁵²

At present, the EU's borrowing capacity is constrained by the rule that outstanding liabilities must broadly correspond to the size of the EU budget. Expanding the Union's borrowing capacity will thus require introducing new categories of EU own resources. Options include a solidarity contribution, such as a windfall profit tax on fossil fuel companies to recoup excess gains from energy price inflation or a Financial Transaction Tax agreed under enhanced cooperation and revived by Franco-German initiatives. Other revenue sources with a stronger fairness profile would include a greater coordination in the taxation of capital gains (via wealth taxes or surcharges on top incomes) or the introduction of excise duties on corporate share buybacks.

4.3 Industrial renaissance beyond the US blueprint

Europe lost almost 4 million jobs in the manufacturing sector between 2000 and 2025. Recently, job-shedding measures in strategic industries – ranging from automotive to steel production – have added concerns to the continued erosion of industrial employment in Europe.⁵³ These jobs were often ‘male-breadwinner’, unionised jobs, with associated benefits meant to guarantee an entire household’s income. There is no returning to this period, yet there are different pathways to how a post-industrial economy can be shaped.

To strive in the services economy, the US model has pursued a competitiveness strategy ready to suppress workers’ wages and a productivity approach relying on capital over labour gains. Thriving through digital platforms has been associated with major capital gains for a few tech giants, yet the nature and pace of technological development (robotisation, info-communication, platformisation, artificial intelligence etc.) has also been accompanied by deteriorating labour conditions, rising income and territorial inequality, and heightened concerns about its impact on economic security. These factors have contributed to the societal collapse that the USA is observing today.

It is a dire reality that, to maintain geopolitical relevance and living standards, EU countries will need to adapt to global economic trends, advance towards a ‘Savings and Investment Union’, and advance towards the completion of the European single market.⁵⁴ But the EU’s reliance on strong and effective welfare provisions should be seen as a comparative asset in this transition, a mediating factor contributing to reduced political polarisation and safeguarding the stability of its democratic systems.

To exercise meaningful macroeconomic power, the EU needs to more actively mobilise EU-level economic tools and normative frameworks. This holds for the EU’s relationship with the outside world. In the a new, geoeconomic era, ‘third generation’ trade agreements can be conceived as a way to build new

alliances to advance shared goals in collaboration with like-minded allies, from Canada to Brazil and India, and – obviously – the USA, where and when its leaders reject pure forms of predatory capitalism. Here, the EU in fact relies on considerable expertise in having developed not only the world’s most developed form of regional economic integration (with the single market), but also one that seeks to accommodate the regulatory diversity and other normative priorities of its members.⁵⁵

5. Driving the economy with a social compass

The revival of industrial policy and the re-militarisation of European economies mark a return of economic steering in Europe. If used strategically, these shifts can create new opportunities to drive the economy with a social compass. To do so, the EU and its member states must start by upholding the value of their regulatory tradition.

5.1 The ‘Better Life Horizon’ of European regulation

The USA is a country built around resistance to constraints, and it has long tended to view regulation as antagonistic to its prosperity. Europe’s growth model is distinct. Today, more than ever, it seeks to go beyond GDP growth and capital accumulation alone, by incorporating planetary constraints and – when it remembers its Enlightenment aspirations – making space for human emancipation. For many beyond its borders, Europe stands for measure, balance and a sustainable model of individual and collective development. It is this prospect of a better life that has historically made Europe attractive to young people around the world and that has recently encouraged the return of some US-based Nobel Prize holders. What is often forgotten, however, is that Europe’s ability to assert this happy horizon against the darker, zero sum game view of the Trump administration is deeply tied to an increasingly scarce word: regulation.

Public regulation provides a fundamental common good to European citizens. Food- and product-

safety regulation is meant to preserve nothing less than our own health. Banking and financial regulation is critical to prevent households falling into a homelessness trap of predatory capitalism. The digital regulation of GAFAs (Google, Apple, Facebook, Amazon) is necessary to preserve our individual rights and the fundamental principles of our democracies, starting with that of equal representation. Labour regulation is fundamental to respect human dignity and avoid creating the kind of backlash faced by the platformisation of working conditions. Environmental regulation, finally, is existential as it acts as a condition for the survival of our species and our ecosystem.

Reasserting the social dimension of the European sovereignty agenda is needed to guarantee citizens quality of life against the five giant evils of Want, Disease, Ignorance, Squalor and Idleness, but also against excessive commodification today and in the future.⁵⁶ Beyond their protective functions, effective welfare provisions contribute to upholding a social contract of intergenerational fairness throughout life,⁵⁷ vivifying democracy at work and making every 'other' visible and valued.⁵⁸

Key components of any effective welfare response are adaptation, investment and regulation. European countries have demonstrated a capacity to modernise, but at both national and EU levels this adjustment has often been partial and insufficiently attentive to job quality and poverty risks. Adaptation is essential for workers and firms alike; yet it must be complemented by robust regulatory frameworks that guide technological change and align innovative investments with social objectives.

5.2 The strategic power of public procurement

A government's buying power takes centre stage in the EU's economy today, yet it could gain further relevance with a more strategic use of public procurement. Today, public procurement accounts for 14 % of EU GDP and, in some member states (such as the Netherlands), close to 50% of total public spending. Until the mid-2010s, both the EU

and its member states largely limited their own capacity to use this instrument strategically by treating procurement as a purely operational tool.⁵⁹ The 2014 Public Procurement Directives marked an important normative shift by explicitly opening the door to the pursuit of broader goals, including environmental sustainability, social inclusion and innovation beyond price considerations. Yet, in practice, the reliance on the lowest price award criterion too often remains the default approach at the national level, resulting in suboptimal outcomes in quality, sustainability, innovation and social value.⁶⁰

The ongoing revision of the 2014 directives was initially intended to unlock this untapped potential. Initial discussions evoked the possibility of making social, environmental and innovation criteria compulsory. However, in September 2025, conservative forces in the European Parliament aligned with the far right to block a stronger inclusion of workers' rights and environmental protections in the Parliament's report.

This development mirrors a broader pattern visible in the EU's recent deregulation agenda pursued under the 'Omnibus package', foremost among which the dilution of the Corporate Sustainability Due Diligence Directive (CSDDD). By extending responsibility across global supply chains, the CSDDD aimed to ensure that companies actively prevented labour rights violations, including those linked to complex subcontracting practices. Under sustained political pressure from both corporate interests and the US administration,⁶¹ this ambition was substantially weakened: the scope was narrowed through higher employee thresholds, large parts of the mid-sized corporate sector were excluded, and enforcement was softened through weaker liability rules and reduced access to justice. As a result, abusive recourse to subcontracting practices in the telecoms or construction sectors, for example, continue to undermine health and safety standards and allow labour violations to persist.

These decisions go against the opinion of a vast majority of Europeans, who believe that public authorities should further use this tool to promote

good working conditions and collective bargaining in public procurement contracts.⁶²

Revising EU public procurement rules would provide a pragmatic corrective to the weakened due-diligence framework. Leveraging the scale of public purchasing power enables governments to enforce social objectives *ex ante*, before violations escalate into legal disputes. In recent months, much attention has been granted to the valuable aim of using procurement clauses to more actively support 'made in Europe' products and services by establishing a genuine European preference in some strategic sectors. Yet a truly strategic approach should go beyond selection criteria and assess compliance with strategic – that is, innovation, green or social goals – throughout public purchasing.

To start with, EU legislation should make the Most Economically Advantageous Tender (MEAT) criterion the default approach in public procurement. Reliance on the lowest price criterion as the sole basis for award decisions often undermines service quality, particularly in labour-intensive sectors where staff costs account for a large share of total expenditure.⁶³ In the social services sector, for example, labour costs typically represent 60-70 % of operational expenses, meaning that cost-cutting frequently translates into poorer working conditions and diminished service quality. Recent scandals in child and elderly care services (where corporate savings were made on staff working time and food portions) in countries such as France and Romania illustrate these risks clearly. At the EU level, the Commission already applies a weighting that prioritises quality over price (typically 30% cost and 70% quality), taking into account life-cycle costs as well as social and environmental benefits. This approach could be generalised across the EU in ways that also reflect their positive social externalities.

Horizontal clauses targeting innovation, environmental and social goals throughout the procurement process would also benefit from following a more systematic approach. Today, legal uncertainty and risks of litigation often lead contracting authorities to adopt a cautious approach, limiting the use of such clauses. Both regulatory

and governance reforms could help address this issue. Contractors should be held responsible for the performance of subcontractors lower down the supply chain. Meanwhile, the Commission and member states should more actively support contracting authorities by providing legally robust template documents for socially responsible public procurement (SRPP) and issuing more detailed guidance on the use of SRPP, including concrete examples of good practices. While procurement conditionalities are, in principle, compatible with a broad range of social objectives,⁶⁴ mandating compliance with collective agreements within selection criteria would constitute a simple baseline requirement to uphold the respect of these objectives throughout companies' business activities.

The introduction of social conditionality in the allocation of Common Agricultural Policy funding has shown that linking public spending to quality standards is feasible.⁶⁵ Building on these practices, systemising a more straightforward use of socially responsible procurement practices in Cohesion Policy would help subnational authorities advance the EU 'social *acquis*'. In an era where global and local dynamics are increasingly linked, the concrete organisation of these multidimensional governance dynamics deserves greater attention.

5.3 The democratic value of public services

The single market can be a strong driver of growth and prosperity, but it can also deepen inequality and poverty when it fuels races to the bottom in terms of social standards. The EU's economic integration logic ('fewer, bigger, more efficient firms') once tilted the balance in favour of economic freedoms over social rights. And one should acknowledge that the combined effects of EU fiscal rules, state aid and competition policy, and – indirectly – financial regulation, continue to make the financing of essential public services challenging for public authorities, especially in less-affluent regions.

These constraints have had political consequences, contributing to the economic dimension of the backlash against European integration. They have

also left lasting social scars.⁶⁶ Extensive use of public procurement in the social economy sector, privatisation pressures and market-oriented reforms have exposed childcare services, elderly care, social housing, local transport and even parts of primary healthcare to cost-cutting strategies and the aggressive behaviour of predatory firms.⁶⁷ This trend has translated into higher user fees, deteriorating service quality, labour shortages and growing territorial inequalities – precisely in those sectors that are central to social cohesion in the EU.⁶⁸

In response to these realities, the new EU leadership has recently sought to double-down on a rationalisation of EU funding and a centralisation of its governance. In late 2025, the budget proposal submitted by the European Commission proposed a restructuring of its multiannual financial strategy, which was primarily marked by a renationalisation of existing practices. The proposed *national and regional partnership plans* (NRPPs) best embodies this move: in this approach, the European Commission proposes that national plans be negotiated at the level of member states; 14% of the envelope for NRPPs or around €100 billion would in turn be dedicated to EU social objectives; finally, the NRPPs are designed to primarily follow the transactional, ‘cash for reform’ logic pursued in the Recovery and Resilience Facility (RRF) with national funds being more strongly linked to EU-wide objectives, while conditioned on national compliance with EU fiscal rules. By contrast, Cohesion Policy and the ESF+, which currently represent the pillars of the EU’s socioeconomic development agenda, are no longer considered as standalone funds, facilitating their use to serve other EU objectives. Lastly, while ESF+ rules for the current EU budget required member states to ring-fence minimum shares for social priorities (at least 25% for social inclusion, 3% for the most deprived and in some cases 5% for tackling child poverty), the Commission’s MFF 2028-2034 proposal would shift towards a broader minimum 14% spending target for social objectives.

Centralising the EU toolkit to ‘eradicate poverty’ by 2050 (as President von der Leyen stated in September 2025) might be well-intentioned. However, poverty alleviation in the EU is a heavily localised reality,

which requires a stronger contextual approach than contractual agreements allow for. Today, the social inclusion challenges prompted by EU economic integration are tightly linked to the *territorial* concentration of economic and social inequalities. As of 2025, 120 million EU citizens live in ‘less developed regions’; 60 million of these also live in regions with a GDP per capita lower than it was in 2000, while some 75 million people hail from regions with near-zero growth.⁶⁹ In a series of academic publications and policy reports, LSE Professor Andrés Rodríguez-Pose (2017)⁷⁰ has evidenced how this “geography of discontent” contributed to the recent surge in far-right votes.⁷¹ Reports by the High-Level Group on the Future of Cohesion Policy further showed that, although new EU instruments have expanded the Union’s role in social and economic governance, they have often done so via centrally defined priorities and uniform benchmarks, leaving limited scope for territorial adaptation.⁷²

Economic, social and territorial cohesion are viewed as one goal in the EU Treaties, but more could be done to ensure dedicated instruments are aligned. An alternative approach to fight social deprivation would focus on setting fewer constraints and providing stronger support to help subnational authorities deliver results on the ground, while ensuring an effective EU monitoring of these developments.

EU heads of states and governments have so far been reluctant to endow EU institutions with the capacities and resources necessary to attain the poverty targets agreed at Porto. As a result, the social policy agenda of the second von der Leyen Commission is much less ambitious than the first one.⁷³ Admittedly, important symbolic steps have been taken to put EU action on Europe’s housing crisis on a firmer footing, notably via the appointment of a dedicated Commissioner for housing and the publication of a European Affordable Housing Plan in December 2025. However, the lack of emphasis on young people and older citizens, requiring investments in nurseries, student housing, care homes, adapted and assisted housing, or intergenerational living arrangements, remains blatant. EU action on child and long-term care points to a similar trend: while

the EU has shown strong agenda-setting power, the EU Child Guarantee would require an estimated €20 billion to be effectively implemented;⁷⁴ meanwhile, the right to quality long-term care still awaits a dedicated European Care Guarantee. The disappointing poverty trends highlighted above also reflect the weaknesses of European strategies in tackling poverty. The inability of EU governments to agree on a directive to support national minimum income schemes that would establish specific and common parameters for member states is one example.⁷⁵ Addressing these shortfalls will require a stronger commitment to supporting public services in the upcoming Anti-Poverty Strategy (expected in May 2026), alongside a strengthening of the Child Guarantee.

The good news is that EU instruments exist that, if better mobilised, would provide a more fertile ground to support a better achievement of EU goals. In another report that stirred debates in Brussels after the Commission's appointment, former Italian Prime Minister Enrico Letta argued that the EU should develop a "freedom to stay" as a fifth fundamental freedom of the single market.⁷⁶ Most Europeans do not move across borders. For them, EU action must begin at home: by easing investment and strengthening public services where unmet social needs are most acute.

To start with, revising the *de minimis* regulation and the framework governing Services of General Economic Interest would give local and regional authorities greater flexibility to guarantee access to services of general and economic interest, without being unduly constrained by state-aid rules. Going beyond, a positive agenda would consider how national and regional plans can earmark the preservation and strengthening of public services at different levels of governance, guaranteeing a more territorial delivery to the plans adopted in the context of the RRF.

As its main economic development tool, the EU relies on Cohesion Policy, a policy initially designed to compensate territories negatively affected by the impact of European economic integration. Over time, Cohesion Policy has been increasingly

used as the EU's main investment tool to achieve a variety of goals linked to its wider developments goals.⁷⁷ Historically, Cohesion Policy has also shown a strong commitment to the principle of 'shared management', according to which the EU and regions should implement the policy priorities in concert.

Recent debates have highlighted the Cohesion Policy's uneven performance in addressing economic inequalities and effectively adapting past practices to changes in the socioeconomic context.⁷⁸ However, it is difficult to conceive how replacing it with a more centralised tool would support the EU's contribution to territorial inequalities. Given its objectives, shared-management logic and on-the-ground visibility, the central challenge thus lies more in how to reform the Cohesion Policy.

Contributions to the debate on the future of the Cohesion Policy have suggested possible ways forward. This involves clarifying how Cohesion Policy programmes can be more closely intertwined with the social regulatory arsenal developed by the EU in recent years. The next MFF could benefit from mechanisms allowing for enhanced detection and assessment of social imbalances and new arrangements to monitor progress on EU social targets at disaggregated levels of governance.⁷⁹ Social investment initiatives undertaken at the subnational level could adopt a more differentiated delivery model in Cohesion Policy, allowing for more bottom-up experimentation where coordination capacity is strong and more closely coordinated approaches where capacity is weaker.⁸⁰ To promote upward economic and social convergence, the EU could finally be supported by adopting *territorialised* milestones and targets or by linking earmarking thresholds in EU (social) funds to achieve social results in specific territories. In this approach, 'social results' would be defined in territorial terms, using a limited set of comparable outcomes measurable at the NUTS2/3 level (e.g., in terms of childcare coverage, early school leaving, access to primary care and waiting times, social housing availability, or long-term unemployment).⁸¹

6. Conclusion – Reasserting Europe’s social democratic model

Geopolitical developments are pushing the EU towards a more explicit agenda for European sovereignty. It would, however, be shortsighted to translate this momentum into defence and security initiatives only. If it wants to be politically meaningful, European sovereignty must also rest on an ability to sustain a distinctive model of sustainable development – both internally and in its engagement with the wider world.

The reaction to the transatlantic challenge should be reassertion of Europe’s social democratic model. In this policy brief, we proposed to provide the European sovereignty agenda with its missing social dimension. With the Draghi report, the EU started to redesign its growth model, but with a light approach, which does not suffice under the circumstances of the new – and possibly lasting – transatlantic rupture. Draghi’s proposals offered a new possible pathway for EU policymakers, including an EU-level fiscal capacity that could support common innovation and investment objectives and provide counter-cyclical stabilisation. But its uptake by the EU’s new political leadership has been reduced to a ‘competitiveness agenda’ that has so far fallen short of articulating how the European social model could help guarantee that industrial transformations also contribute to social prowess and economic inclusion.

History warns that growth built on social confrontation and unfettered capital accumulation carries high political costs. Trump’s elections and the Brexit strategy of British ultra-conservatives are two examples. The re-emergence of authoritarian practices in the transatlantic sphere further shows that democracy itself and the respect of our political freedoms are often next in line. Fascism, in this world view, is no longer seen as a mere curiosity of the 1920s and 1930s, but as a political strategy that can be reactivated in diverse periods and regions, whenever a capitalist crisis intensifies.

Against this backdrop, the US National Security Plan poses an existential challenge to the EU, to

its economic integration model, its social security legacy and the way it organises political exchange. Recent developments have shown that while radical right parties often mobilise around pledges to curb immigration, their record in office is primarily centred on systemic efforts to dismantle labour protections and weaken welfare states. But the main risk facing Europe under such MAGA-MEGA alliance is one of ‘Englandisation’ – a scenario of subordination beyond existing dependencies. Similarly to the UK in the 1980s, national and EU leaders today who demonstrate a readiness to appease Donald Trump are in fact moving the EU towards a peripheral rather than autonomous position. Helping out the USA in its deficit-reduction efforts via weapons purchases and the dilution of EU policies to promote deregulation and financialisation may serve a MAGA agenda and the interests of its Big Tech networks. It should however be clear that this comes at the expense of European sovereignty and strategic autonomy ambitions, hollowing-out the EU’s real economy and social models.

This agenda should, on one hand, confront the most conservative and liberal Europeans, asking whether they are indeed ready to face the political aftermath of socio-economic decoupling, from the restrictions of their own political freedoms to the fading prospect of sustaining the collective integration steps needed to navigate this increasingly hostile geopolitical environment. Progressives, on the other hand, should not resign themselves to letting the EU play defence or copycat; instead, a new agenda is needed to play offense and reassert Europe’s social democratic model. Until recently, the EU still appeared to be moving in a more progressive direction, building on the policy innovations of the post-crisis and pandemic years to combine economic ambition with social advancement.

Europe’s social democratic model was once embodied in the Social Pillars and the Porto Action Plan. As this course was questioned by the new von der Leyen Commission,⁸² progressives rightly sought to preserve this *acquis* by defending the necessary ‘consolidation’ of this agenda.⁸³ Today, the rise of a conservative–far-right alliance in the European Parliament and the Commission’s abandonment of

a 'new Porto Social Declaration' signal that a new move is required.

Political commitments matter. Setting targets is sometimes considered a politically contentious tool, as it projects ambitions that are hard to match. But European targets in particular serve highly useful functions: they help establish a common language (as in the case of the AROPE target, which was first resisted by many); they force the articulation of shared ambitions; and, most importantly perhaps, they provide highly practical means to measure progress towards political commitments taken on matters as essential as how to enhance quality standards of life and improve social cohesion.

Today, delivering on the long-term objectives outlined in Porto can only succeed if the economic policy path is also corrected. This programme requires deepening (including via a much larger common budget and risk sharing), allowing for some further form of enlargement and mutually beneficial cooperation with our broadening neighbourhood, combining development and stability. Additionally, delivering on the long-term commitments articulated in Porto will require social objectives and indicators to be brought back to the core of strategic coordination, providing a compass for macroeconomic policy making,⁸⁴ but also, and above all, a clear *vision* of how a Social Europe may effectively contribute to these goals.⁸⁵

Europe possesses many of the assets the world increasingly seeks. It remains a major industrial and regulatory power, anchored in one of the most highly educated and skilled populations globally. Its social market economies provide a strong foundation for long-term investment. Coupled with the EU's collective fiscal capacity and regulatory reach, these combined resources should give Europe the means to act in ways that align economic strength with social cohesion and democratic legitimacy.

Yet it is also true that, in an era marked by uncertainty and pressure, sovereignty today can no longer rely on global rules alone. Instead, Europe's response must be guided by a shared resilience, defined as the readiness to constantly adapt its institutional

architecture in ways that take due care of historical legacies. As one allied leader recently observed, this form of risk management may carry higher costs than efficiency alone. But those costs can be pooled – reducing the leverage that enables coercion. Ultimately, national investments in Europe's collective resilience are both a more effective and just alternative to building a continent of isolated fortresses.

The response to unfettered liberalisation ultimately rests on the strength of the social contract that European societies have built over generations. By placing social cohesion at the heart of its European sovereignty agenda, the Union would help show European citizens that this agenda is at least as much about insulating the Union from external turbulences as about enhancing its own capacity to address their everyday concerns.

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ABOUT THE AUTHORS



LÁSZLÓ ANDOR

László Andor is the Secretary General of FEPS. An economist and former EU Commissioner for Employment, Social Affairs and Inclusion (2010-2014), Andor has been head of the Department of Economic Policy at Corvinus University (Budapest), Senior Fellow at Hertie School of Governance (Berlin) and a Visiting Professor at ULB (Brussels) and Sciences Po (Paris). He was the editor of the journal *Eszmélet* and a regular columnist for *Figyelo* and *Népszava*. He has authored, edited or co-edited a dozen books. Andor has also taught at Rutgers University as a Visiting Fulbright Professor, worked as an Advisor for the World Bank on SAPRI, the Budget Committee of the Hungarian Parliament (1998-1999) and the Prime Minister's office (2002-2005), and was also a Member of the Board of Directors of the EBRD. He holds a degree in Economic Sciences from Karl Marx (now Corvinus) University, an MA in Development Economics from the University of Manchester and a PhD from the Hungarian Academy of Sciences. He was awarded Doctor Honoris Causa at Sofia University of National and World Economy and the Legion of Honour by the President of France (2014).



ROBIN HUGUENOT-NOËL

Robin Huguenot-Noël is a Researcher at the Freie Universität Berlin (FU). Trained in economics and political science, he holds a PhD from the European University Institute in Florence. He has previously worked between 2014 and 2020 as advisor to the UK Treasury, the German co-operation and development agency (GIZ), and the European Policy Centre (EPC) and has held various teaching positions in France, Germany, and the United States. His academic work has been published in several academic outlets, and he has published several reports for the European Commission, the Council and the Parliament on the EU economic governance, cohesion policy, and social policy in the EU. He is also co-author of the book *Resilient Welfare States in the European Union* (with Anton Hemerijck).

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FEPS
FOUNDATION FOR EUROPEAN
PROGRESSIVE STUDIES



Avenue des Arts 46
1000 Brussels, Belgium
info@feps-europe.eu
www.feps-europe.eu
[@FEPS_Europe](https://twitter.com/FEPS_Europe)

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THE SOCIAL PILLAR AND THE FUTURE OF THE EU SOCIAL AGENDA

Tommaso Grossi, Laura Rayner, Danielle Brady, Xhehmina Dervishi

Building on this definition and recognising that digital value chains are dominated by US and, to a lesser extent, Chinese Big Tech companies, the policy brief calls for the creation of a public-led, democratic, and people-centred digital value chain of stakeholders that operates within planetary boundaries. It sets out why such an alternative ecosystem is both necessary and achievable, and why the public sector should take the lead by establishing democratic, public institutions to govern it.

As the policy brief concludes, more than ever, we need technologies that empower people and respect the planet, prioritising these goals over private profit, military objectives, and the geopolitical ambitions of a small minority that undemocratically wields global power. Whether the European Union will rise to this challenge remains an open question.

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POLICY BRIEF
September 2025

FEPS
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A PROGRESSIVE ROADMAP FOR EXPANDING EUROPEAN DIGITAL SOVEREIGNTY

ABSTRACT

This policy brief outlines an ecosystemic and progressive roadmap for strengthening Europe's digital sovereignty, understood as an international endeavour that goes beyond simply expanding access to digital technologies. It argues that digital sovereignty, defined as the democratic control by states and their people of essential technologies for their lives and self-government, also requires the capacity to understand and develop technologies with full awareness of their environmental, social, economic, ethical and political implications.

Building on this definition and recognising that digital value chains are dominated by US and, to a lesser extent, Chinese Big Tech companies, the policy brief calls for the creation of a public-led, democratic, and people-centred digital value chain of stakeholders that operates within planetary boundaries. It sets out why such an alternative ecosystem is both necessary and achievable, and why the public sector should take the lead by establishing democratic, public institutions to govern it.

As the policy brief concludes, more than ever, we need technologies that empower people and respect the planet, prioritising these goals over private profit, military objectives, and the geopolitical ambitions of a small minority that undemocratically wields global power. Whether the European Union will rise to this challenge remains an open question.

AUTHOR
CECILIA RIAPAP
Associate Professor in Economics and Head of Research, University College London, Institute for Innovation and Public Purpose (IIP)

IN PARTNERSHIP WITH
Friedrich Ebert Stiftung

POLICY BRIEF
November 2025

FEPS
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PUBLIC INVESTMENT IN THE PROPOSED 2028-2034 EU BUDGET

NEEDS, GAPS AND OPTIONS

ABSTRACT

While the political debate on the Multiannual Financial Framework (MFF) has until now concentrated on the architecture of agricultural and cohesion spending, we argue that the European Commission's proposal for the next EU MFF 2028-34 should also be assessed based on its ability to address the EU's current and future challenges. Does the EU budget provide sufficient public investment for digitalisation, just transition, green economic resilience and defence to prevent rising costs threatening fiscal sustainability in the future? Based on an in-depth analysis of the Commission's proposal and contrasting it with studies on investment needs across policy fields and the current budget, we draw the following conclusions:

Firstly, contrary to the European Commission's official statements the MFF proposal is far from ambitious. When budget estimates – the proposed increase to €1.763 billion (2025 prices) compared with the current MFF of €1.254 billion (2025 prices) – are considered relative to the size of the EU economy, it becomes clear that the proposal largely just offsets inflation and the replacement of lost Generation EU (NGEU) funds. Member states would face some contribution increases in 2028, but these equally likely reflect lower expected contributions today due to the inflation crisis, rather than financing a marked growth of the EU budget. The justice system when off-budget instruments are considered – in particular, NGEU significantly boosted the financial capacity of the current budget period, a boost that is not fully captured for over when including all off-budget and loan instruments, such as Cohesion Europe, Security Action for Europe (SAFE) and the Crisis Response Mechanism.

Secondly, despite a stronger investment focus in the proposed MFF, the public investment gap remains substantial from 2028 onwards if the proposal were to pass as it stands: around 1.5% of gross national income at the EU level and over 2% at the national level in necessary additional investments remain each year. While public investment gaps in defence and resilience are likely to narrow, they widen considerably in infrastructure decarbonisation.

To address these shortfalls without raising member state contributions, we propose and discuss three concrete reform avenues to strengthen public investment during the next EU budget period:

- 1) Reform the EU fiscal rules to a more flexible national investment.
- 2) Expand EU own resources more ambitiously to fund more EU-level investment.
- 3) Use the national escape clause more comprehensively to fully unlock planned off-budget loan instruments.

AUTHORS
DR CÉDRIC KOCH
Independent Policy Analyst
DR DOMINIK BIEGON
Head of Unit for European Economic Policy at the German Trade Union Confederation

IN PARTNERSHIP WITH
Friedrich Ebert Stiftung

POLICY STUDY
February 2025

EXPECTED LABOUR MARKET EFFECTS OF THE GREEN DEAL INDUSTRIAL PLAN

A REGIONAL LABOUR POLICY APPROACH

Milan Petiš, Mikhail Sirenko, Erik Pruyt, Michael Obersteiner

Deteriorating mental health has emerged as one of the defining challenges for Europe and its citizens in the 21st century. The COVID-19 pandemic, growing digital pressures, precarious labour conditions and the rising problem of addictive behaviour have underscored the urgency of a comprehensive European strategy. This policy brief demonstrates that mental health is not just a health sector issue, but a cross-cutting priority affecting productivity, social cohesion and resilience of both individuals and our society. The analysis reviews EU policy evolution, highlights progress with the 2022 Commission communication and identifies gaps where European action is most needed. Three key domains are explored: workplace wellbeing and mental health, impact of digital technologies on mental health, and the link between addictions and mental health. Each issue is also addressed through a gender-sensitive approach. Context, existing evidence, best practices and analysis are highlighted. Recommendations are presented under each headline. The policy brief concludes that the EU must advance a comprehensive mental health strategy, mainstreaming mental health into policies, supporting prevention and early intervention, introducing adequate monitoring practices, regulating harmful practices, and fostering coordination through a harm-reduction lens.

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POLICY BRIEF
September 2025

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HEALTHY MINDS, STRONGER EUROPE: PROGRESSIVE SOLUTIONS FOR MENTAL HEALTH AND WELLBEING IN EUROPE

ABSTRACT

Deteriorating mental health has emerged as one of the defining challenges for Europe and its citizens in the 21st century. The COVID-19 pandemic, growing digital pressures, precarious labour conditions and the rising problem of addictive behaviour have underscored the urgency of a comprehensive European strategy. This policy brief demonstrates that mental health is not just a health sector issue, but a cross-cutting priority affecting productivity, social cohesion and resilience of both individuals and our society. The analysis reviews EU policy evolution, highlights progress with the 2022 Commission communication and identifies gaps where European action is most needed. Three key domains are explored: workplace wellbeing and mental health, impact of digital technologies on mental health, and the link between addictions and mental health. Each issue is also addressed through a gender-sensitive approach. Context, existing evidence, best practices and analysis are highlighted. Recommendations are presented under each headline. The policy brief concludes that the EU must advance a comprehensive mental health strategy, mainstreaming mental health into policies, supporting prevention and early intervention, introducing adequate monitoring practices, regulating harmful practices, and fostering coordination through a harm-reduction lens.

AUTHORS
TOMÁŠ PETRICKÝ
Senior Non-Resident Fellow at the Institute of International Relations and Director of European Studies Center
JANA MICHALČUKOVÁ
Assistant Professor, Institute of International Relations
ALINA BRUC
Assistant Professor, Institute of International Relations
SARA BOZARČUK
Assistant Professor, Institute of International Relations

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EAC

POLICY BRIEF
September 2025

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FOUNDATION FOR EUROPEAN PROGRESSIVE STUDIES

INTERGENERATIONAL SOLIDARITY IN EUROPE – A PROGRESSIVE VISION

ABSTRACT

Championed by progressives, intergenerational solidarity embodies the values of social justice, sustainability and democracy. It builds on the universal character of human rights, which ensure equal dignity, wellbeing and a duty towards one's community.

This policy brief analyses this concept, building on existing research and on wide consultation with academics, civil society and key stakeholders such as the Young European Socialists and the European Seniors Organisation. It constitutes a progressive contribution to the upcoming EU Strategy on Intergenerational Fairness, announced by the European Commission for early 2026.

Exploring how the question of solidarity between generations is mobilised in national contexts, but also across existing EU policies, this policy brief presents building blocks for a comprehensive approach on this matter: welfare policies, democracy and participation, policy mainstreaming and financing.

In the field of welfare policies, this policy brief addresses issues related to housing, employment and the future of work, care and healthcare, ensuring gender mainstreaming and intersectional approaches. Across all policies the European Pillar of Social Rights remains a guiding framework for action.

When it comes to intergenerational democracy and participation, this policy brief addresses issues related to civic and citizenship education, lowering the voting age, cross-generational dialogue, youth participation, citizens assemblies and digital democracy.

Finally, the policy brief explores how to mainstream intergenerational solidarity across the EU policy-making process, via youth tests, generational checks and wellbeing indicators. It also links with negotiations for the post-2027 EU Multiannual Financial Framework.

AUTHORS
FRANÇOIS BALATE
Policy Analyst & Academic Coordinator, Foundation for European Progressive Studies
MATTEO DRESSLER
Policy Analyst, Foundation for European Progressive Studies