

The key role of social investments to build a more sustainable, resilient and fair Europe in turbulent times¹

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1. Introduction

The European Pillar of Social Rights (EPSR)², agreed upon in 2017, identified the key priorities of the European Union (EU) in terms of social outcomes. The EPSR is built around three main principles: equal opportunities and access to the labour market, fair working conditions and social protection, and inclusion. To implement the EPSR an Action Plan was launched by the European Commission (EC) in 2021³. The Action Plan reaffirmed that well-functioning and inclusive social investment welfare states are a vital component of a socially and economically resilient society, identifying three key targets: at least 78% of the population aged 20 to 64 should be in employment by 2030; at least 60% of all adults should participate in training every year; the number of people at risk of poverty or social exclusion should be reduced by at least 15 million by 2030.

These targets are consistent with the Sustainable Development Goals (SDGs) embedded in the 2030 Agenda of the United Nations⁴ and taken as a key reference by the European Union with the endorsement of the 2019-2024 political program "A more ambitious Union" in the plenary session of the European Parliament (EP) on 16 July 2019⁵. Since then, the Commission's annual work programmes have placed the SDGs at the heart of policymaking, adopting a 'whole-of-government' approach, i.e. integrating the 17 SDGs into all its proposals, policies and strategies⁶.

Over the last five years, an impressive number of Strategies, Regulations, Directives and secondary legal acts have been agreed to address the different EU policy priorities, including the implementation of the EPSR, under the overall 2030 Agenda policy framework⁷. Moreover, unprecedented decisions have been made to respond to recent crises (COVID-19 pandemic, war in Ukraine, etc.) as well as to address key challenges, such as the digital and the green transitions, the growth of migration flows,

¹ "This study was carried out on request of the Belgian Federal Public Service Social Security (PO 4500961734). It is an independent scientific study and does not necessarily reflect the views of the Federal Public Service Social Security".

² <https://ec.europa.eu/social/main.jsp?catId=1226&langId=en>

³ <https://op.europa.eu/webpub/empl/european-pillar-of-social-rights/en/>

⁴ <https://sdgs.un.org/2030agenda>

⁵ In 2023, the Resolution of the European Parliament (15 June) and the Conclusions of Council (20 July) confirmed the EU institutions' support for the acceleration of political processes necessary to achieve the SDGs as a response to the growing geopolitical instability. See https://www.europarl.europa.eu/doceo/document/TA-9-2023-0250_EN.html and <https://www.consilium.europa.eu/en/press/press-releases/2023/07/20/eu-priorities-at-the-78th-un-general-assembly-council-approves-conclusions/>

⁶ In particular, the SDGs, which cover economic, social, environmental and institutional dimensions of sustainable development, were included in the "European Semester" cycle, as well as in the "better regulation" framework, i.e. the process that drives the preparation of new legislative proposals, to ensure that each of them contributes to the implementation of the 2030 Agenda. See https://ec.europa.eu/commission/presscorner/detail/en/ip_23_3801

⁷ "The six policy priorities of the von der Leyen Commission. State of play in Autumn 2023", European Parliamentary Research Service, September 2023.

[https://www.europarl.europa.eu/RegData/etudes/IDAN/2023/751445/EPRS_IDA\(2023\)751445_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/IDAN/2023/751445/EPRS_IDA(2023)751445_EN.pdf)

the tensions among key geopolitical areas, with the general aim of building “a more sustainable, resilient and fair Europe”⁸.

Unfortunately, as described in the “2024 Global Risk Report” published by the World Economic Forum⁹, the future will potentially be full of crises, coming from a multiplicity of factors, including the environmental and the geopolitical ones¹⁰. In this perspective, the “2023 Strategic Foresight Report” published by the EC in July 2023¹¹ clearly stated that if the EU wants to achieve a successful and fair socio-economic transformation in a context of “permacrises” and “policrises”, it is essential to recognise the links between the environmental, social and economic dimensions of sustainability, but also to reinforce its “open strategic autonomy”, its economic security and the long-term competitiveness, preserving and improving its social model¹².

A welfare state and social investments are vital to successfully manage our socioeconomic system in turbulent times. Namely, when a crisis occurs, inclusive and adequate social protection schemes turn out to be the most important feature in predicting the absorptive capacity of a country¹³. Moreover, according to the “transformative resilience” framework developed by the Joint Research Centre (JRC) of the EC¹⁴ and adopted as the “new compass” of European policies¹⁵, to stimulate the capacity of countries to “bounce forward” when a shock occurs, well-designed and targeted active labour market policies, as well as inclusive early childhood education and care policies, are key to ensure social sustainability and to increase potential growth and employment.

⁸ See “A roadmap for recovery. Towards a more resilient, sustainable and fair Europe”. <https://www.consilium.europa.eu/media/43384/roadmap-for-recovery-final-21-04-2020.pdf> and [https://www.europarl.europa.eu/RegData/etudes/ATAG/2020/651981/EPRS_ATA\(2020\)651981_EN.pdf](https://www.europarl.europa.eu/RegData/etudes/ATAG/2020/651981/EPRS_ATA(2020)651981_EN.pdf)

⁹ See <https://www.weforum.org/publications/global-risks-report-2024/>

¹⁰ According to the expert’s survey carried out by the WEF in September 2023, “the majority of respondents (54%) anticipate some instability and a moderate risk of global catastrophes, while another 30% expect even more turbulent conditions. The outlook is markedly more negative over the 10-year time horizon, with nearly two-thirds of respondents expecting a stormy or turbulent outlook”.

¹¹ See “Strategic foresight report sustainability and people's wellbeing at the heart of Europe's open strategic autonomy”, COM(2023) 376 final. https://commission.europa.eu/strategy-and-policy/strategic-planning/strategic-foresight/2023-strategic-foresight-report_en.

¹² The Report proposes ten actions to build a more sustainable and resilient EU: ensuring a new European social contract fit for a sustainable future; leveraging the Single Market to champion a resilient net-zero economy; strengthening the interlinkages between the EU’s internal and external policies, also to boost the EU’s offer and narrative on the global stage; supporting shifts in production and consumption towards sustainability; moving towards a ‘Europe of investments’ by increasing private financial flows in support of strategic investments for the transitions; making public budgets fit for sustainability; further shifting policy and economic indicators towards sustainable and inclusive wellbeing; ensuring that everyone can successfully contribute to the sustainability transition; strengthening democracy, including by increasing citizens’ agency; reinforcing the EU’s toolbox on preparedness and response to complement civil protection with ‘civil prevention’.

¹³ Alessi L., Benczur P., Campolongo F., Cariboni J., Manca A., Menyherth B. and Pagano A. (2018), “The resilience of EU Member States to the financial and economic crisis. What are the characteristics of resilient behaviour”, Publications Office of the European Union, Luxembourg. <https://publications.jrc.ec.europa.eu/repository/handle/JRC111606>

¹⁴ See Manca A., Benczur P. and Giovannini E. (2017) “Building a Scientific Narrative Towards a More Resilient EU Society Part I: a Conceptual Framework”, Publications Office of the European Union, Luxembourg. <https://publications.jrc.ec.europa.eu/repository/handle/JRC106265>. Giovannini E., Benczur P., Campolongo F., Cariboni J. and Manca A. (2020), “Time for transformative resilience: the COVID-19 emergency”, Publications Office of the European Union, Luxembourg. <https://publications.jrc.ec.europa.eu/repository/handle/JRC120489>

¹⁵ “2020 Strategic Foresight Report. Charting the Course Towards a More Resilient Europe” (2020), European Commission. https://commission.europa.eu/strategy-and-policy/strategic-planning/strategic-foresight/2023-strategic-foresight-report_en

From this perspective, the existing literature shows that over the last 15 years, EU Member States demonstrated different levels of vulnerability and resilience to crises. In some cases, social protection systems were ill-equipped to protect vulnerable groups, such as low- or unskilled employees in low-paid sectors, the ‘false’ self-employed, ‘flexible’ workers and casuals and platform workers, while other countries with better designed social security schemes were able to successfully absorb the impact of the shock¹⁶.

The EU monitors national social and employment policies within the “European Semester”, but it is fair to say that the recommendations developed within this process to strengthen national welfare systems remained ultimately subordinated to the rules of the Stability and Growth Pact (SGP) and of the Macroeconomic Imbalance Procedure (MIP) provisions. Furthermore, various authors stressed that during the crises occurred between 2008 and 2019, the European fiscal rules indirectly led to pro-cyclical policies which negatively affected the level of public investment¹⁷, including social investment¹⁸. On the contrary, with the Recovery and Resilience Facility (RRF) new political and institutional opportunity windows were opened for the multi-level co-production of social policies and the strengthening of the resilience of national welfare systems.

To overcome the limitations demonstrated by the “old” EU fiscal framework, the reform of the SGP was launched in 2023. In particular, the Commission presented a package of three legislative proposals: two Regulations aiming to replace (preventive arm) or amend (corrective arm) the two pillars of the SGP adopted in 1997, and an amended Directive on the requirements for Member States’ budgetary frameworks. On 21 December 2023, the Council formally approved a mandate for negotiations with the European Parliament (EP) on the preventive arm regulation and an agreement in principle with a view to consulting the EP on the package. Finally, the new rules were agreed in February 2024 with the aim of finalising the reform process in April 2024.

The objective of the reform is to establish rules able “*to promote sound and sustainable public finances, sustainable and inclusive growth and resilience through reforms and investments, and prevent the occurrence of excessive government deficits*”¹⁹. In a nutshell, according to the agreed text, the EC will submit a “reference trajectory” to Member States where government debt exceeds the 60% of gross domestic product (GDP) or where the government deficit exceeds the 3% of GDP, to be discussed between the Member States (MSs) and the Commission beforehand. The reference trajectory has to show how MSs ensure that, by the end of a fiscal adjustment period of four years, government debt is on a plausibly downward trajectory or stays at prudent levels over the medium-term. Moreover, two additional elements have to be defined: the “debt sustainability safeguard”, to ensure a decrease in debt levels, and the “deficit resilience safeguard”, to provide a safety margin below the Treaty deficit reference value of 3% of GDP, in order to create fiscal buffers.

The new rules strongly encourage structural reforms and public investments for sustainability and growth. Namely, MSs will be allowed to benefit from an extension of the four-year fiscal adjustment period to a maximum of seven years, if they carry out certain reforms and investments that improve resilience and growth potential, support fiscal sustainability and address common priorities of the EU. These include achieving a fair, green and digital transition, ensuring energy security, strengthening

¹⁶ See, for example, Spasova S. and Regazzoni P. (2022) “Income protection for self-employed and non-standard workers during the COVID-19 pandemic”, *International Social Security Review*. <https://onlinelibrary.wiley.com/doi/abs/10.1111/issr.12292>

¹⁷ See Heimberger P and Kapeller J. (2017), “The performativity of potential output: pro-cyclicality and path dependency in coordinating European fiscal policies”, *Review of International Political Economy*. https://econpapers.repec.org/article/tafrripxx/v_3a24_3ay_3a2017_3ai_3a5_3ap_3a904-928.htm

¹⁸ Bouget D., Frazer H., Marlier E., Sabato S. and Vanhercke B. (2015), “Social Investment in Europe A study of national policies”. <https://www.ose.be/publication/social-investment-europe-study-national-policies>

¹⁹ <https://data.consilium.europa.eu/doc/document/ST-15874-2023-REV-4/en/pdf>

social and economic resilience and, where necessary, building up defence capabilities. In particular, as far the social dimension is concerned, the agreed text underscores that: *“As part of its integrated analysis of employment and social developments in the European Semester, the Commission assesses risks to upward social convergence in Member States and monitors progress on the implementation of the principles of the European Pillar of Social Rights on the basis of the Social Scoreboard and of the principles of the Social Convergence Framework”*²⁰. Moreover, the text foresees that the national medium-term fiscal-structural plan has to explain how the delivery of investment and reforms helps in *“responding to the main challenges identified within the European Semester, in particular in the country-specific recommendations, and explain how it will address the following common priorities of the Union: (i) a fair green and digital transition, including consistency with the European Climate Law; (ii) social and economic resilience, including the European Pillar of Social Rights; (iii) energy security; and (iv) where necessary, the build-up of defence capabilities”*.

In conclusion, the agreed text clearly takes into account one of the key lessons coming from the COVID-19 crisis and the EU policy response to it, i.e. the need to foster reforms and investments, including the social ones, not only after the shock, but prior to it. In particular, investments must also be aimed at reducing the vulnerabilities of European socio-economic systems and strengthening their capacity to react to future shocks according to the “transformative resilience” policy framework proposed by the “2020 Strategic Foresight Report” and adopted in the design of the Recovery and Resilience Facility (RRF). However, a possible restrictive interpretation of the “reforms and investments” foreseen by the new EU fiscal framework could limit the potentially innovative approach recently agreed upon, while analytical tools for the implementation of the new fiscal framework must be carefully developed in order to fully assess how reforms and investments may contribute to achieve its goals.

The aim of this paper is threefold: first, discuss how the EU has developed an original approach to “transformative resilience” which is especially useful to prepare the European socioeconomic system to face future shocks. Second, show how social investments contribute not only to the medium-long term “sustainable and inclusive growth”, but also to the structural development of a more resilient economy and society. Third, analyse how the implementation of the new EU fiscal framework should fully take into account the resilience framework and the role of social investments.

The next section presents the key characteristics and the importance of “transformative resilience” as a guiding principle for European and national policies, especially the economic and social ones. The third section tackles how public policies, especially social policies and investments, should aim at stimulating transformative resilience, given the relationships between them and the short and medium-term performance of the socioeconomic system. The fourth section analyses how the RRF-funded reforms and investments (including the social ones) can strengthen the “structural transformative resilience” of the EU, but also how its innovative approach creates a significant challenge for a comprehensive evaluation of its effectiveness due to the limitations of existing statistical data and econometric models. The last section analyses how the new European fiscal framework should be implemented both to allow Member States to manage large or repeated shocks,

²⁰ This important result was achieved also thanks to the contribution provided by the EPSCO Council. For example, the July 2023 meeting of the EPSCO Council stressed the importance of “social investments”. In particular, the paper submitted by the Belgian presidency to the meeting stressed that: *“Enhancing the socio-economic resilience of a society entails multiple actions, from absorption of the shocks, adaptation as the time of exposure to shock and its intensity increases, to transformation to ensure that the system not only avoids collapses but also finds its new sustainable development path (bouncing forward). In times of crises, inclusive and adequate social protection schemes turn out to be the most important feature in predicting the absorptive capacity of a country. It is easier to fight a pandemic with an inclusive welfare state that possesses ample automatic stabilizers, such as broad and well-organised access to sickness and unemployment benefits and short-time working arrangements”*.

and to build resilience and sustainability of the socio-economic system in the medium-long run, also taking account the key transitions (ecological, digital, etc.) that will occur in the next 20 years.

2. The role of public policies to build more resilient economies and societies

2.1 Key concepts

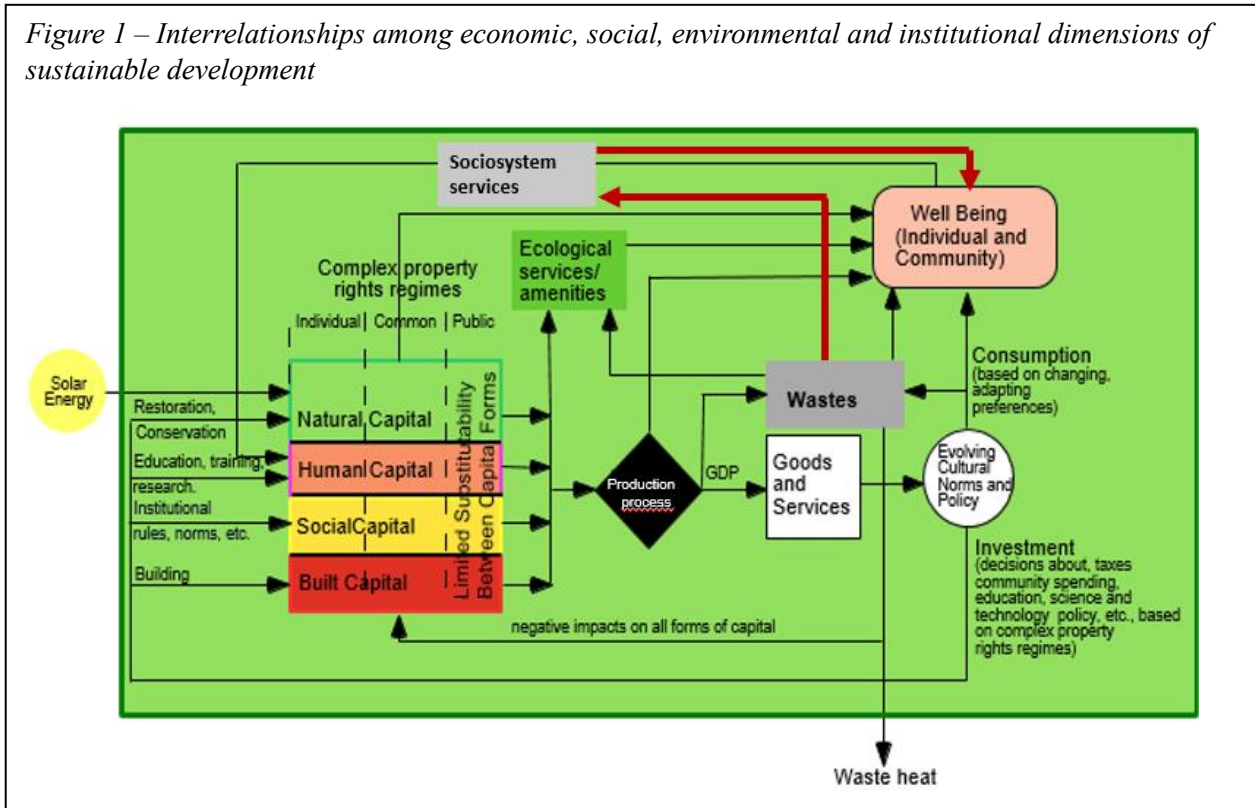
According to the principles embedded in article 3 of the EU Treaty:

- 1. The Union's aim is to promote peace, its values and the well-being of its peoples.*
- 2. The Union shall offer its citizens an area of freedom, security and justice without internal frontiers, in which the free movement of persons is ensured in conjunction with appropriate measures with respect to external border controls, asylum, immigration and the prevention and combating of crime.*
- 3. The Union shall establish an internal market. It shall work for the sustainable development of Europe based on balanced economic growth and price stability, a highly competitive social market economy, aiming at full employment and social progress, and a high level of protection and improvement of the quality of the environment. It shall promote scientific and technological advance. It shall combat social exclusion and discrimination, and shall promote social justice and protection, equality between women and men, solidarity between generations and protection of the rights of the child. It shall promote economic, social and territorial cohesion, and solidarity among Member States. It shall respect its rich cultural and linguistic diversity, and shall ensure that Europe's cultural heritage is safeguarded and enhanced.*
- 4. The Union shall establish an economic and monetary union whose currency is the euro.*
- 5. In its relations with the wider world, the Union shall uphold and promote its values and interests and contribute to the protection of its citizens. It shall contribute to peace, security, the sustainable development of the Earth, solidarity and mutual respect among peoples, free and fair trade, eradication of poverty and the protection of human rights, in particular the rights of the child, as well as to the strict observance and the development of international law, including respect for the principles of the United Nations Charter.*
- 6. The Union shall pursue its objectives by appropriate means commensurate with the competences which are conferred upon it in the Treaties.*

To implement such a vision and achieve the aims of the EU, public policies must be designed and evaluated according to a holistic and “systems thinking” approach, able to encompass all relevant economic, social, environmental and institutional dimensions mentioned in Article 3. Such an approach is fully coherent with the overall framework described in the 2030 Agenda aimed at achieving the 17 interconnected Sustainable Development Goals (SDGs) and able to address intra-generational and inter-generational inequalities that affect most European countries. Manca et al. (2017) use a visualization of the “systems view” that links four forms of capital used in socio-economic systems (natural capital, human capital, social capital and economic capital) and the GDP, based on the “materially closed Earth system” model proposed by Costanza et al. (2007)²¹. The original framework was augmented in two aspects: first, the concept of “socio-system services” was

²¹ Costanza R., Fisher B., Ali S., Beer C., Bond L., Boumans R., Danigelis N. L., Dickinson J., Elliott C., Farley J., Gayer D. E., MacDonald Glenn L., Hudspeth T., Mahoney D., McCahill L., McIntosh B., Reed B., Rizvi S. A. T., Rizzo D. M., Simpatico T., and Snapp R. (2007) “Quality of Life: An Approach Integrating Opportunities, Human Needs, and Subjective Well-Being”. *Ecological Economics* 61.

Figure 1 – Interrelationships among economic, social, environmental and institutional dimensions of sustainable development

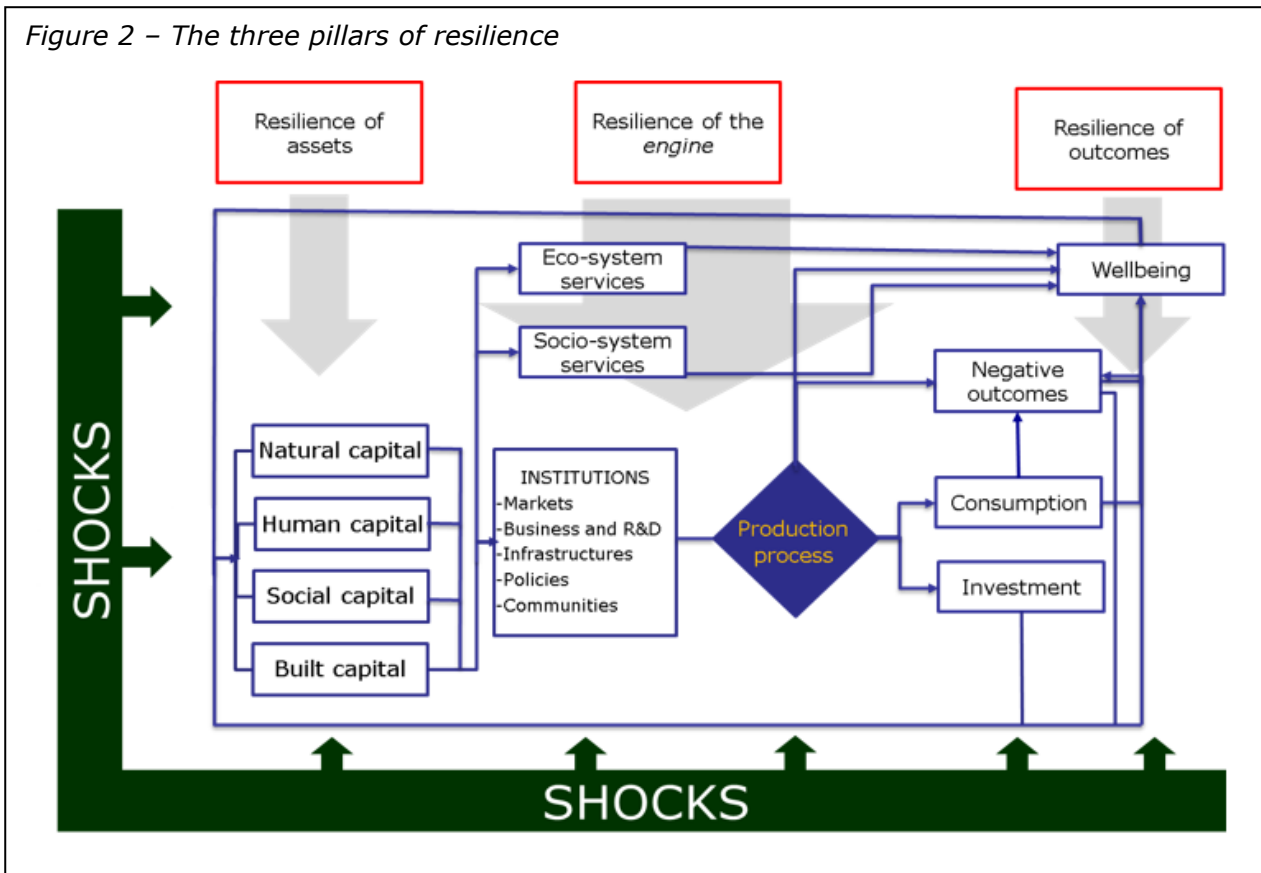


introduced in order to capture the direct influence on wellbeing by the state of the social system through its services (peace, trust, effective governance, etc.), a relationship (see the red arrows in figure 1) similar to that existing between ecosystems/amenities' services and human wellbeing.

Second, the overall scheme was divided into three main blocks to analyse the different aspects of resilience related to individual elements of the system (figure 2). The first block concerns assets (the four capitals), the third deals with outputs and outcomes (societal wellbeing, investment, consumption, physical waste and “human” waste, etc.), while the central one represents the “engine” of the socio-economic, political and environmental part of system that connects assets with outcomes. The “engine” produces both ecosystem and sociosystem services, and includes the activities carried out by “institutions” (markets, infrastructures, businesses and research, policies and communities), which shape the production process and utilize the available capitals to produce economic outputs (i.e. consumption and investments), as well as social outcomes.

If we introduce the possibility that shocks of different nature (economic, social, natural and institutional) may occur, it is easy to see that these can either affect the inputs (capital stocks, as in the case of an earthquake or a flood), the engine (for example, economic downturns, technological innovations, political crises or revolutions), or both. The way in which shocks affect assets and the engine, as well as their “resilience capacity”, determines the final result caused by the shocks on the final outcome, i.e. people’s wellbeing.

Figure 2 – The three pillars of resilience



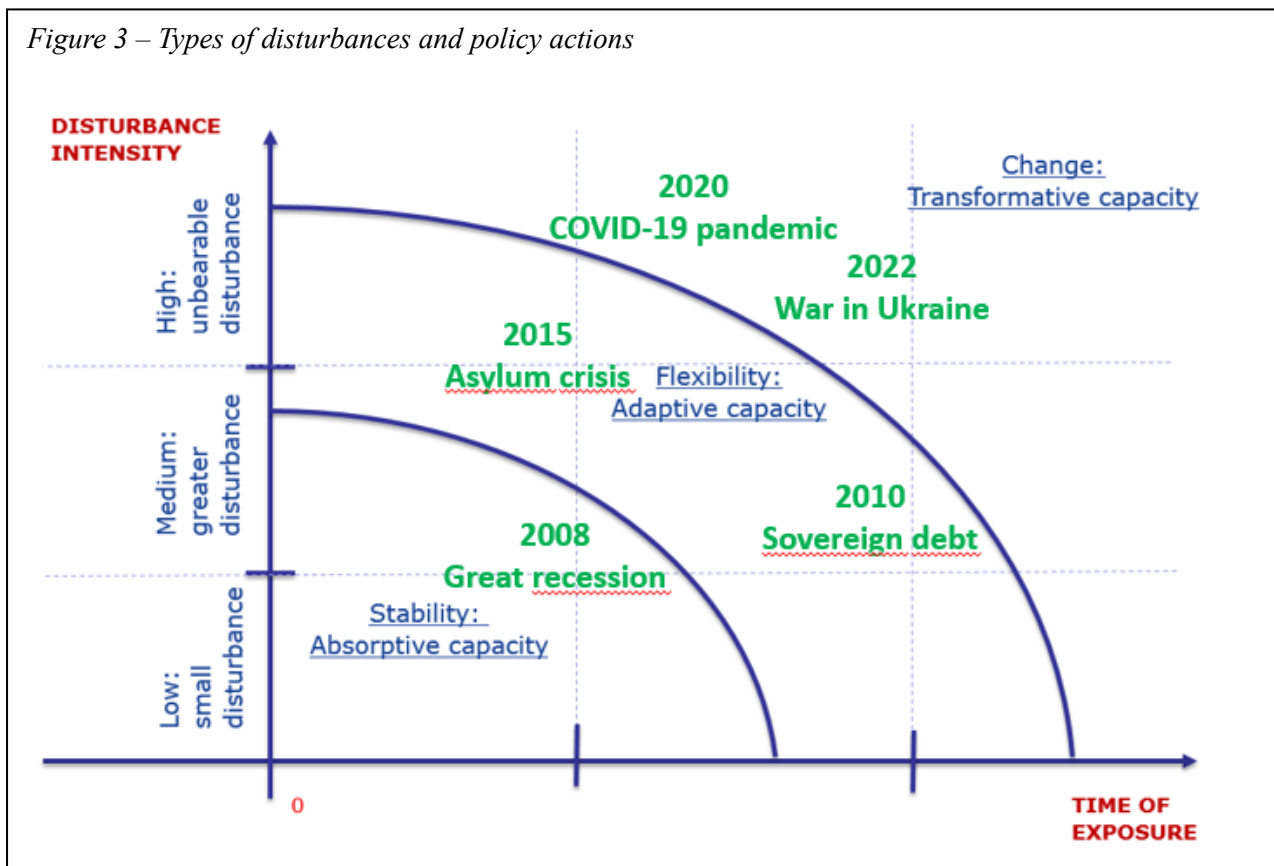
2.2 The European approach to “transformative resilience”

The several shocks that hit the EU over the last 15 years (financial crises in 2008-2009 and 2011-2012, asylum crisis in 2015, COVID-19 pandemic in 2020-2021, war in Ukraine and the related inflation surge in 2022-2023) have challenged public policies to both sustain the socio-economic system in the short run and to stimulate its transformation towards more sustainable conditions. Due to these crises, European policy makers and the public opinion have fully understood that it is necessary not only to design strong responses to shocks when they happen, but also to prepare our countries to face a turbulent future. In doing that, political leaders should adopt a “systemic view”, based on the concepts of resilience and sustainability, when they design and agree on specific economic, social and environmental policies, as well as on the overall governance rules.

The concept of resilience has evolved from various disciplines like psychology and psychiatry, ecological science, physics and engineering. Over the last twenty years, it has found applications in many other different areas, such as environmental management and disaster risk reduction, transport systems, infrastructures, ICT systems, economic dynamics, etc. More recently, resilience has been seen as a multidimensional phenomenon with important cross-cutting aspects²². From a socio-economic perspective, a “resilient society” must be able to cope with and react to shocks or persistent structural changes either by resisting them (absorptive capacity) or by adopting a degree of flexibility and making small changes to the system (adaptive capacity). At the limit, when disturbances are no

²² After the Conference organised in October 2015 by the European Commission on the resilience of the EU in the context of the 2030 Agenda for sustainable development, in 2016 a network of experts in resilience was established with the leadership of the JRC and the European Policy Strategy Centre (EPSC). See https://ec.europa.eu/regional_policy/en/newsroom/news/2015/09/how-to-build-a-resilient-europe-in-a-globalised-world and https://joint-research-centre.ec.europa.eu/scientific-activities-z/resilience_en

Figure 3 – Types of disturbances and policy actions



longer manageable within the existing functioning rules, the system needs to engineer bigger changes, which could lead to its transformation (transformative capacity).

As the recent EU experience demonstrates, shocks can be of different nature and duration. For example, a large but short-term shock can cause an acute “discomfort” on individuals, communities, regions or countries, while even a mild disturbance can affect them if it is very persistent. Figure 3 shows the joint role of the two dimensions (intensity and duration) in identifying the capacity required to sustain a resilient behaviour. When the time of exposure is not too long and the intensity is not too large, the main ingredient of the “response mix” is the *absorptive capacity*, largely due to the capacity of individuals or of a socio-economic system to absorb the impact of shocks without changing their behaviour. As the time of exposure and its intensity increase and the absorptive capacity is exceeded, the *adaptive capacity* gets into the picture. It requires *flexibility* and involves incremental changes that are necessary to allow agents to continue functioning without major qualitative distress in response to disturbances. When the disturbance becomes ultimately unbearable notwithstanding the adaptations of existing institutions and behaviours, a *transformation* happens. This can derive both from a deliberate decision and action of agents, like a regime change through a democratic election process, or a forced change due to, for instance, deeply changed environmental or socio-economic conditions.

As already mentioned, the multiple crises that affected the EU over the last 15 years have been quite different in terms of intensity and duration. Therefore, they led to very different responses. For example, the 2008-2009 “Great recession” started in the United States and affected the EU through the fall of international financial and real trade: the recession was contrasted by the ECB, that lowered interest rates and carried out an expansive monetary policy, while “most European governments swiftly adopted measures to support the financial system in a coordinated action. These included

increasing deposit insurance ceilings, guarantees for bank liabilities and bank recapitalisations”²³. This crisis was addressed in a quite “standard” way by monetary and fiscal policies, with the aim of “absorbing” the shock, rebuilding confidence among financial agents and stimulating economic recovery²⁴. However, to “adapt” the system to the new conditions, new instruments for sovereigns in severe financial distress were established, such as the European financial stability mechanism (EFSM) and facility (EFSF) as temporary crisis resolution mechanisms providing financial assistance.

The 2015 so-called “asylum crisis” derived from the migration of over a million people (mainly refugees) towards the EU, due to conflicts in Syria, , Iraq and Eritrea. The response at the EU level was relatively uncoordinated, as some Member States unilaterally closed their borders and others, like Germany and Sweden, maintained a relatively welcoming stance. The European Commission tried to harmonise the different policies through the Common European Asylum System (CEAS) and negotiated an agreement with Turkey to manage 2.2 million Syrian refugees in that country. In this case, EU policies were mainly aimed at adapting existing systems to the new emergency conditions, but these were not deeply transformed²⁵.

During the “sovereign debt crisis” the European Monetary Union faced a huge risk of collapse, due to the weak financial conditions of a few MSs and the inadequate institutional frameworks that were driving the behaviour of the European Central Bank (ECB) and EU countries’ fiscal policies at the time. The crisis led to significant changes in the fiscal framework and in the behaviour of the ECB (with Mario Draghi’s famous sentence “whatever it takes”) that helped to reinforce the confidence of capital markets in the European currency and in the sustainability of public finance conditions in several MSs. This was a case where a combination of adaptive policies made the Eurozone stronger and prevented similar risks from occurring in the following years.

The COVID-19 outbreak in 2020 pushed European institutions and MSs to take unprecedented measures, leading to a real “transformation” in the functioning of the Union. Actions undertaken to build a common European health policy, to orderly manage the flow of people and freights across Europe and with the rest of the world, exceptional economic and financial measures to sustain households and businesses in the short-run, the suspension of the European fiscal framework and of State-aid rules, the establishment of the “Next Generation EU” were indeed transformative measures, albeit carried out within the institutional limits provided by the European Treaties.

Finally, the Russian Federation’s invasion of Ukraine at the beginning of 2022 caused, among other things, a huge increase in energy prices, on top of their high volatility experimented since mid-2021. The large increase in inflation rates in all EU countries led the ECB to raise interest rates and carry out a restrictive monetary policy. On the other hand, national governments adopted a wide range of fiscal measures to minimise the impact of the increase in energy prices on households and businesses, as well as actions to reduce energy consumption and diversify the countries from which oil and gas were imported. Overall, the response of the EU was a combination of absorption, adaption and transformation measures. For example, with the Versailles Declaration adopted in March 2022, European leaders agreed to progressively cut imports from Russia by reducing the overall reliance on fossil fuels, diversifying energy supplies and routes, including for liquefied natural gas (LNG),

²³ See https://www.ecb.europa.eu/press/key/date/2009/html/sp091016_1.en.html

²⁴ Szczepanski M. (2019) “A decade on from the crisis. Main responses and remaining challenges”, European Parliament. [https://www.europarl.europa.eu/thinktank/en/document/EPRS_BRI\(2019\)642253](https://www.europarl.europa.eu/thinktank/en/document/EPRS_BRI(2019)642253)

²⁵ See Guiraudon V. (2018) “The 2015 refugee crisis was not a turning point: explaining policy inertia in EU border control”, *European Political Science*, 17.

speeding up the development of renewables and hydrogen, improving interconnections between EU energy networks, increasing energy efficiency²⁶.

These examples clearly show the importance of correctly interpreting the origins of a crisis and its potential effects, and then choosing the best possible responses and the most appropriate combination of instruments to make them effective. But they also effectively demonstrate that a crisis can be addressed either by trying to go back to the point where the socio-economic system was before the crisis (i.e. “bouncing back”, as foreseen by the classical concept of resilience applied to economics) or by using the crisis as an opportunity to “bounce forward” towards a more sustainable and less vulnerable condition.

In the abovementioned 2017 JRC paper we proposed to apply a “systems thinking” approach to public policies, as well as an innovative view of what “transformative resilience” means for a socio-economic system, in order to design the policy responses with the aim of strengthening their overall capacity to minimise the vulnerability to shocks and maximise the capacity to respond to them²⁷. The proposed framework has five main ingredients:

- **it is “individual centric” but also considers the societal perspective.** Actually, even if the final goal of resilience is to maintain or increase the societal and individual wellbeing, the main contributors to resilience are individuals (people, companies, etc.), with their interactions, social ties and power structures;
- **it takes a dynamic perspective.** Shocks can differ in their chronicity and intensity and these differences influence the relative importance of stability versus flexibility (the absorptive, adaptive and transformative capacities). Moreover, during the dynamic response to shocks, changes could occur in the most relevant capacity, in the most affected entities, or both at the same time;
- **it emphasizes interactions, feedback loops and possible nonlinearities** among various entities and layers of the system. This ‘system view’ helps to explain how shocks spread among the different segments of the system, how they interact with each other and with the actors and, based on all these, where to intervene;
- **interventions should actively contribute to the resilience of the system by enhancing the entities’ own abilities to cope with disturbances.** This could require policies and interventions aimed at helping entities to use their capacities (e.g. incentivizing people to

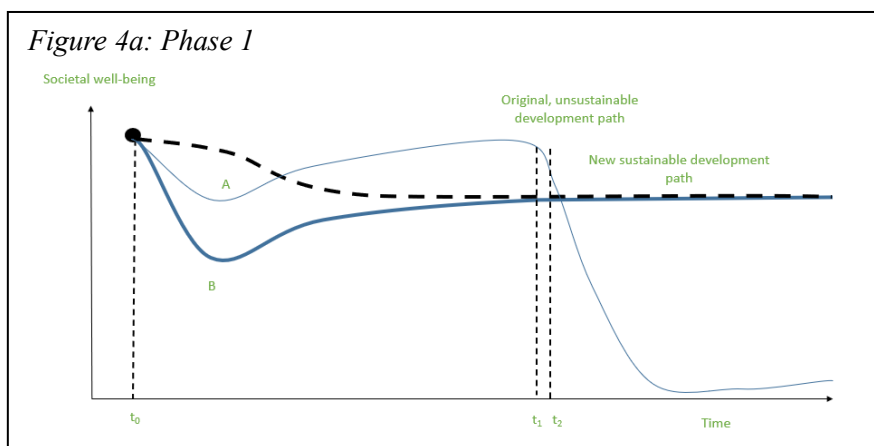
²⁶ To implement the European Council’s decisions in response to the crisis, in May 2022 the EC Commission presented the “REPowerEU plan”. Under the plan, the EU has established the voluntary “EU Energy Platform”, which supports coordinated common purchases of energy for all EU countries and some European partners. In June 2022, the Council adopted a new regulation on gas storage which aimed to ensure storage facilities were filled before the cold season. The new rules also established solidarity arrangements between member states to help those countries that do not have storage facilities on their territory. In August 2022, EU countries agreed to reduce the overall gas demand in the EU by 15% in the period between August 2022 and March 2023, compared to their average consumption in the previous five years. The decision was adopted in record time, since the Commission had presented its proposal just two weeks before. In March 2023, the Council moved forward on a number of proposals of the “Fit for 55” package which aims to reduce net greenhouse gas emissions by at least 55% by 2030.

²⁷ The “transformative resilience” is the means of learning from past events and engineering changes ideally to a better condition given the current constraints. Such a shift of the *status quo* is nevertheless difficult. Moreover, learning from past or current disturbances is the opportunity to handle better future crisis (the steeling effect put forward by Rutter, 2012). Since the ultimate goal is to maximize societal wellbeing, any distress, no matter how painful, is also the mean for improvement in managing future disturbances. This is a continuous process, where ex-post and ex ante evaluations follow each other in a circular fashion. See Rutter M. (2012) “Resilience as a dynamic concept”, *Development and Psychopathology*, Volume 24, Issue 2, Cambridge University Press.

accumulate savings to cope with a potential job loss) or support these capacities directly (e.g. unemployment benefits and other economic and social investments);

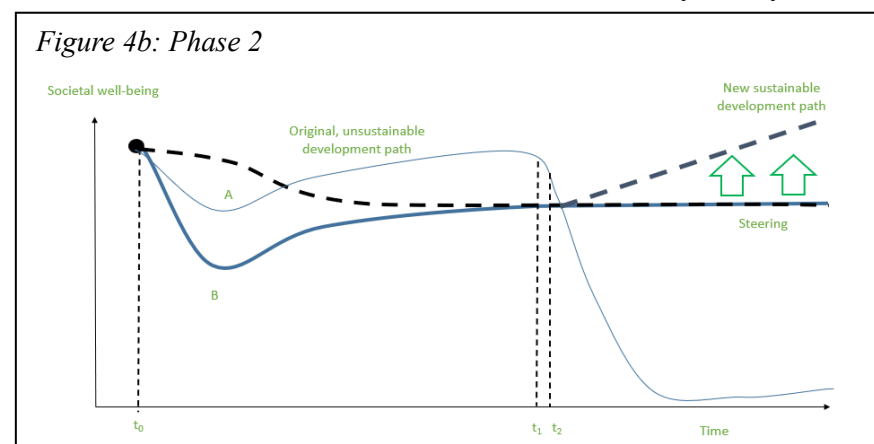
- **being able to ‘bounce forward’ (instead of ‘bouncing back’)** is key to learn from past difficulties and to come out stronger from a witnessed storm. This means being able to use shocks as “windows of opportunity” and thus translate the negative narrative of a ‘stormy future’ into a positive one.

To underline the difference between the classical approach to resilience and the new one, let’s consider the example of two countries, which at time t_0 enjoy the same level of wellbeing²⁸ (figure 4). A shock occurs and in both countries the level of wellbeing is reduced (Figure 4a). At time t_1 , country A goes back to the pre-crisis level of wellbeing, while country B does not. The classical economic analysis would say that country A is more resilient than country B and that the latter should put in place public policies and make the structural reforms adopted by country A²⁹.



This conclusion would be correct if the two countries faced a one-off shock. But if the two countries are exposed to a second shock in time t_2 then the story could become quite different (Figure 4b). For instance, let’s suppose that policies carried out by country B between t_0 and t_1 make it immune to the second shock, while country A faces a large reduction of wellbeing, which remains in the medium term significantly lower than the one typical of country B, which reached a new sustainable level³⁰. What would a classical economic analysis say? Which country implemented the best policy?

Of course, the optimal pathway for country B would have been the dotted one (the cumulative loss of wellbeing would have been lower than the original one), but it is quite clear that the economic analysis of the “full story” (i.e. after two shocks) would conclude that country B



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²⁸ We prefer to use here the concept of wellbeing instead of referring only to GDP, as the first one is more comprehensive than the second one, which does not consider several elements that are especially relevant in times of crisis, including economic and social security.

²⁹ This is, in a nutshell, what the IMF, OECD and EC literature on “structural reforms” preached since 2005, when the first OECD “Going for growth” Report was published. <https://www.oecd.org/publication/going-for-growth/2023/>

³⁰ Suppose that, after the first shock, country A runs a very expansionary fiscal policy, with a very high level of public deficit on GDP, which leads it to a vulnerable position vis-à-vis financial markets, while country B manages public finances in a more prudent way. When the second shock occurs, country A does not have any margin of manoeuvre, while country B could run a more expansionary policy, making the socio-economic system able to absorb the second shock.

performed better than country A and that the latter should imitate the policies implemented by the former, and not vice versa.

Being more “transformatively resilient” to shocks cannot be the only goal of public policies. Actually, we are interested in both building a resilient socio-economic system and in improving the long-term conditions of the socio-economic system, to achieve a level of wellbeing higher than the initial one, like country B does in Figure 4b.

According to the JRC framework, before and when shocks occur it is extremely important to identify the optimal combination of actions needed to build or strengthen the “transformative resilience” capacity of a socio-economic system. This capacity mostly depends on individuals’ and businesses’ characteristics, conditions and behaviours, but it is also affected by the way in which institutions (in a broad sense) react or prepare the socio-economic system to future shocks³¹. In particular, the available literature clearly shows that resilience (at both individual and collective levels) can be enhanced by various interventions, starting before the disturbance has materialized.

In the proposed framework these actions can be classified into five categories, overcoming the classical “stovepipe approach” to economic, social and environmental policies³²:

- **prevention measures**, aimed at reducing the incidence and size of shocks and, in the best case, to avoid them;
- **preparation measures**, aimed at putting in place arrangements that would reinforce the necessary resilience capacities in case a disturbance materializes;
- **protection measures**, which are required to mitigate their impact, and to provide relief from potential deprivation or loss of the standard of living;
- **promotion measures**, that serve to invoke the adaptive capacity (flexibility) necessary to cope with longer and/or more severe disturbances;
- **transformation measures**, which facilitate this process, to avoid unnecessarily abrupt changes.

If we focus on social policies and social investments, for each of these categories it is easy to identify existing or new tools to be designed and used in different contexts. For example, temporary measures like unemployment support schemes fall under the category of “protection” measures, while education programmes (aimed at reskilling, upskilling, etc.) help to “prepare” and “transform” the labour force to technological shocks. Early childhood education measures, promoting female labour force participation, simultaneously help to prevent negative impacts of shocks on households’ wellbeing and promote the adaptive capacity of the society in coping with shocks.

According to this approach, it is easy to see how social policies and social investments not only play a vital role “during” the crises, allowing for a better and quicker reaction of the socio-economic system, but also help in building a “structural transformative resilience” capacity of the system, in the same way appropriate macroeconomic or microeconomic policies can both minimise the impact of a crisis on GDP, speeding up or strengthening the recovery, and produce a higher potential GDP in the medium-long term.

The optimal combination of these measures depends on the specific situation of the socio-economic system when the shock occurs (Figure 5). For example, when limited disturbances happen the focus should be on preparation, protection and promotion measures, whereas when shocks are vast or very

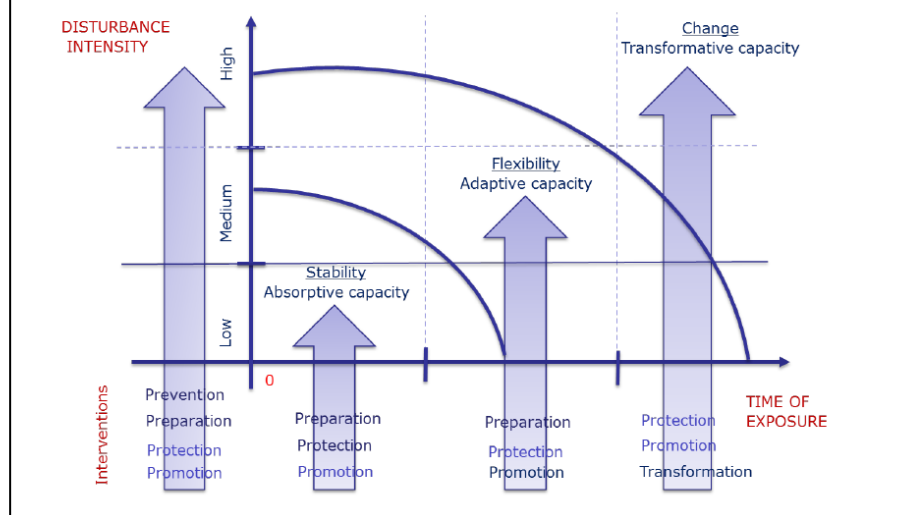
³¹ See Alessi, L. et al. (2020).

³² This approach is widely used for social protection measures. See Guhan S. (1994) “Social security options for developing countries”, *International Labour Review*, ILO, n.133, vol.1, and Devereux S. and Sabates-Wheeler R. (2004) “Transformative social protection”, *IDS Working Paper*, n.232.

persistent, policies should mainly be focused on measures that protect from the disturbance, promote a positive reaction by economic and social agents and, in particular, that transform the system³³.

Comparing the speed and the type of measures undertaken by the EU at the occasion of the 2008-2009 and the 2010-2012 crises with those agreed to face the pandemic and the war in Ukraine, the difference is simply striking. While in the first two cases the reaction was mainly left to individual MSs according to the European fiscal rules, the historical decision to react to the pandemic shock using EU-wide tools attests a

Figure 5 – Optimal combination of policies depending on the type of shocks



radical change of approach to policy making. Putting the aim of building a stronger “structural transformative resilience” capacity of the EU to future shocks at the core of the Next Generation EU was a sort of “revolution” vis-à-vis the approaches followed during the previous crises. In this respect, the recent mid-term evaluation of the Recovery and Resilience Facility (RRF) published by the EC in February 2024 noted that:

“the RRF, set up to help Member States recover and become more resilient after the COVID-19 crisis, contributed to supporting the EU economy in critical times. In contrast with previous macroeconomic shocks, public investment remained robust during the COVID-19 pandemic and the energy crisis ... Data on the common indicators point to positive results in improving social, economic and territorial resilience following the pandemic. With support received through the RRF, 13 Member States have reported that over 1.3 million people have either found employment or engaged in job searching activities and 20 Member States reported that over 8.7 million have participated in education and trainings to improve their skills. In addition, classroom capacities of

³³ In 2020 the Italian Alliance for Sustainable Development (ASviS) carried out an in-depth analysis (article by article) of the first five decrees taken by the Italian government in response to the pandemic outbreak using the JRC framework. In the five decrees analysed, 436 articles (54%) were oriented towards protection, 158 (19%) towards promotion, 98 (12%) towards transformation, 73 (9%) towards preparation and 43 (5%) towards prevention. Based on this analysis ASviS concluded that “The governmental decrees have prioritised immediate action to deal with the worst effects of the crisis, with only a few provisions aimed at creating “transformative resilience” in our country. Moreover ... many emergency measures adopted up to August 2020 have above all looked towards economic and social recovery in the short term without investing in a more sustainable and resilient future for our country”. See “Italy and the Sustainable Development Goals: ASviS Report 2020. [file:///C:/Users/lenovo/OneDrive/Documents/Report_ASviS_2020_ENG_final%20\(1\).pdf](file:///C:/Users/lenovo/OneDrive/Documents/Report_ASviS_2020_ENG_final%20(1).pdf)

The approach developed by the JRC was also adopted by the High-level Commission established by the Italian government in April 2020 to look into the possible measures to be taken beyond the emergency phase. Not surprisingly, and contrary to the measures taken in the first six months after the pandemic outbreak, mainly focused on “protection” actions, the 102 proposals made by the Commission were classified as “transformation” (41%) and “promotion” (46%) measures, while the remaining 13% were concerning the other three categories. See “Iniziativa per il rilancio “Italia 2020-2022”, June 2020. See https://www.governo.it/sites/new.governo.it/files/comitato_rapporto.pdf

childcare and education facilities have increased by over 246,000 persons per year across the seven Member States who reported on this”³⁴.

In conclusion, the progressive attention paid since 2020 by the EU to the “transformative resilience” framework as the new compass of European policies contributed to design and agree on a quite different set of economic, social and environmental policies compared to the previous ten years. With the RRF investments (including the social ones) and reforms, the objective of reacting to the pandemic crisis while strengthening the capacity of the socio-economic system to cope with future shocks was mainstreamed in European public policies, without forgetting the more usual policy instruments, such as those aimed at protecting people from the shocks. For example, for the first time, measures as unemployment benefit schemes were also supported by EU-wide instruments, such as the temporary “Support to mitigate Unemployment Risks in an Emergency (SURE)”, which provided financial assistance to address sudden increases in MSs’ public expenditure for the preservation of employment³⁵.

3. The role of social investments to strengthen the “transformative resilience” of the EU

As stated in the preamble of the Interinstitutional Proclamation of the Social Pillar, social investment welfare states contribute not only to social cohesion, but also to competitiveness and economic growth. The Pillar, in this respect, is conceived as part of “*wider efforts to build a more inclusive and sustainable growth model by improving Europe’s competitiveness and making it a better place to invest, create jobs and foster social cohesion*”, and as a pre-condition “*to increase resilience and deepen the Economic and Monetary Union*”.

In recent years, the notion of “social investment”³⁶ has gained purchase as a policy compass for recalibrating welfare states and making them more effective. The objective of public policies is not only to protect from social risks *ex-post*, but to enhance individuals’ opportunities and capabilities to address *ex-ante* risks and crises, like those experimented by the EU over the last 15 years, while ensuring the high employment needed to sustain the fiscal “carrying capacity” of the welfare state, which relies on the number in employment and their productivity. As recognised in ILO (2019)³⁷:

“Investing in people’s capabilities will provide them with the opportunity to realize their full potential and to achieve the lives that they have reason to value. It is the cornerstone of a reinvigorated social contract and goes far beyond investing in human capital, to the broader dimensions of human development, including the rights and entitlements that widen people’s choices and improve their well-being. This has four core elements: a universal entitlement to lifelong learning, support to people through transitions, a transformative agenda for gender equality and stronger social protection. These are not policy afterthoughts or social benefits only possible once a country reaches a certain level

³⁴ European Commission (2024) “Mid-term evaluation of the Recovery and Resilience Facility”, SWD(2024) 70 final.

³⁵ SURE acted “as a second line of defence, supporting short-time work schemes and similar measures, to help Member States protect jobs and thus employees and self-employed against the risk of unemployment and loss of income. As an ancillary, SURE could also finance some health-related measures, in particular at the work place, used to ensure a safe return to normal economic activity”. See https://economy-finance.ec.europa.eu/eu-financial-assistance/sure_en

³⁶ See “Social Investment Package. Key facts and figures” [file:///C:/Users/lenovo/Downloads/SIP_facts-and-figures2_en%20\(1\).pdf](file:///C:/Users/lenovo/Downloads/SIP_facts-and-figures2_en%20(1).pdf)

³⁷ See ILO (2019) Work for a brighter future. Report of the Global Commission on the Future of Work, Geneva. See https://www.ilo.org/wcmsp5/groups/public/---dgreports/---cabinet/documents/publication/wcms_662410.pdf

of development. Rather, all countries need to make investment in people's capabilities a central priority of economic policy, so that work can fully contribute to human development".

At the core of the modern social investment paradigm is the idea of “life-course multiplier”³⁸, whereby welfare benefits and services generate a cycle of ever greater well-being (in terms of higher employment, gender equality, etc.) and reduce the transmission of poverty from one generation to the next³⁹. Looking at a life-course perspective in the current and likely future turbulent times, the welfare state is called to foster the lifelong development of human capital, as described in figure 3, helping people to develop the skills they need to thrive in a knowledge economy, easing the flow of family life-course and labour market transitions, especially in view of ecological and digital transitions, and sustaining inclusive social protection buffers. Beside their long-term positive effects on medium-term productivity through a better human capital, social investments may also play a key role, according to the “transformative resilience” framework, in building, before the crises occur, more resilient socioeconomic systems.

The evidence about the importance of social and political factors in building resilience is confirmed by the UNDP findings, as described in the 2014 Human Development Report⁴⁰:

“While it is natural to respond to a crisis when a shock occurs, there is equally a need to follow up by developing a more comprehensive response to future crises. Policies to prevent, respond to and recover from crises must become an integral part of human development policies and strategies, especially in noncrisis settings, rather than relying on ad hoc emergency relief in affected communities. When policies are oriented towards emergency response, mitigation can be overlooked, and shocks can re-emerge with potentially larger impact and greater subsequent costs of protection. Emergency response efforts are important and necessary, but comprehensive efforts to enable communities to better prepare for and recover from shocks and crises are a fundamental building block of resilience”.

Roca and Ferrer (2016)⁴¹ find that higher levels of expenditures on social protection were able to stimulate better performances during the 2008-2009 crisis in 16 developing countries. Similarly, the OECD studies on “Inclusive Growth”⁴² and “Growth-Fragility”⁴³ highlight that government expenditures on social protection are a source of socio-economic resilience of a country or community. Moreover, raising social standards and institutionalizing social protection may be

³⁸ Hemerijck, A. (2013) *Changing Welfare States*. Oxford: Oxford University Press.

³⁹ At the micro-level (individual/household) the multiplier indicates the way social investment, from early childhood on, improves material well-being (employment and income) and helps mitigate social risks later in life. At the macro-level, the multiplier indicates the cumulative benefits to the society as a whole. These include improved productivity, higher employment, reduced gender gaps, less poverty, and later retirement – all crucial to economic growth and the fiscal sustainability of the welfare state.

⁴⁰ <https://hdr.undp.org/content/human-development-report-2014>

⁴¹ Roca T. and Ferrer H. (2016), “Resilience to crisis through social protection: Can we build the case?”, *Working Paper Series*, n. wp-2016-96, World Institute for Development Economic Research.

⁴² See <https://www.oecd.org/inclusive-growth/>

⁴³ <https://www.oecd-ilibrary.org/sites/9789264267213-7-en/index.html?itemId=/content/component/9789264267213-7-en>

indispensable for social stability and sustainable development, while income inequality, especially inequality at the bottom, hampers economic performance⁴⁴.

In a first attempt to use such a framework to evaluate the “transformative resilience” of European countries during the 2008-2009 economic crisis, a number of economic and social variables were analysed by Alessi et al. (2020) looking at the impact of the crisis, the recovery, the medium-run and the “bouncing forward” phases. The authors concluded that:

“countries have been generally able to bounce forward more as far as monetary aspects of wellbeing (GDP, consumption and income) are concerned, compared to nonmonetary aspects of wellbeing (e.g. happiness, inequality, social exclusion and the share of young people not in employment, nor education, nor training). This latter finding confirms the need to consider the social dimension. High values of pre-crisis government expenditures on social protection are associated with a less dramatic crisis impact. The importance of the expenditure on social protection is in line with results obtained in a previous JRC analysis on the quality of life”.

The study also concluded that looking only at the economic performance, several of the apparently most economically resilient countries are much less so if the whole socio-economic perspective is taken into account⁴⁵. Moreover, expenditures on social protection are very important in explaining the overall impact of the crisis, as high pre-crisis levels of social expenditures are associated with a good absorption capacity of the shock. Finally, the medium-run resilience performance of countries largely (positively) depends on the political stability and the extent to which wages are perceived to be linked to productivity, and (negatively) on the size of financial sector liabilities.

A similar exercise for the 2020-2023 period, as well as a full analysis of the impact of the NGEU, have not been carried out yet, also because the latter still has to be fully implemented. A study on the effect of the NGEU on key macroeconomic variables carried out by the ECB in 2022⁴⁶ concluded that it can produce positive effects on the euro area economy via a risk premium channel, a fiscal stimulus channel and a structural reform channel. Overall, the authors estimated that *“the NGEU programme is expected to increase GDP in the euro area by up to 1.5% by 2026, with inflationary pressures over the medium term contained to the extent that the inflationary effect of additional public expenditure is offset, at least to some degree, by the disinflationary effect of greater productive capacity resulting from the planned structural reform and investment measures”.*

The results obtained by the ECB concern a very limited set of economic variables, such as GDP, public investments, deficit and debt, and show that, if fully implemented, the Programme should have a significant positive effect on output, helping to reduce some of the divergences caused by the crisis and boosting potential output in the euro area by 1.4% by 2030, with a visible impact on the growth rate (almost 0.2 percentage points in 2030). However, the ECB results do not address the key aims of the NGEU, which are *“to restore employment and job creation and restore health care systems; ... to*

⁴⁴ See Cingano F. (2014) “Trends in Income Inequality and its Impact on Economic Growth”, *OECD Social, Employment and Migration Working Papers*, No. 163, OECD Publishing, Paris. and Ostry, J. D., Berg A, and Tsangarides C. G. (2014) “Redistribution, Inequality, and Growth”, *IMF Staff Discussion Note* 14/02.

⁴⁵ In the cases of Malta, United Kingdom and Hungary the “full picture” is not as good as that based on purely economic and financial variables. For example, based on the latter, Hungary appears to have performed better than some other countries (Finland, the Netherlands, Slovakia, Bulgaria and Belgium), but considering also variables with a more social connotation it has done worse. Moreover, *“in the case of Belgium and Bulgaria, the recovery is more marked when expenditures on health and changes in the income distribution (inequality and social exclusion) are taken into account, compared to when they are not. As for the United Kingdom, the crisis brought about a worsening in self-perceived health of citizens and wages. When these aspects are taken into account, on top of the core economic indicators, the impact of the crisis looks more sizable”.*

⁴⁶ See Bańkowski K. et al. (2022) “The economic impact of Next Generation EU: a euro area perspective”. <https://www.ecb.europa.eu/pub/pdf/scpops/ecb.op291~18b5f6e6a4.en.pdf>

reinvigorate the potential for growth, to strengthen cohesion among Member States and to increase their resilience; ... to support measures for increasing the level of Union's crisis preparedness and for enabling a quick and effective Union response in the event of major emergencies”.

A recent paper by Hemerijck et al. (2024)⁴⁷ analyses the wellbeing returns of social investments across the life course from both a microeconomic and a macroeconomic perspective. Looking at the 2009-2019 data for the EU countries, the study finds a significant positive correlation between social investments (education, vocational training, active labour market policies, early education and childcare and inclusive buffers) and GDP ($r=0.66$), employment rates ($r=0.66$) and competitiveness ($r=0.90$), as well as a negative correlation with the child poverty rate ($r=-0.68$). Moreover, using microdata coming from the EU Statistics on Income and Living Conditions (EU-SILC), the study highlights the importance of complementary social investment policies, such as active labour market measures, and classical social protection measures. For example, parents of children with higher national early childhood education and care efforts *“are more likely to find and keep a job, but this probability is substantively higher at more elevated levels of active labour market policies efforts to up-skill and ease transition into employment. This reinforcing policy effect shows for all working-age individuals with children, particularly among women”*. Finally, looking at the German case and using longitudinal individual-level data for the years 2002-2018, the study finds that policy reforms aimed at strengthening social investments, early childhood education and care, and adult education have been able to promote the wellbeing of the most vulnerable groups to poverty.

These results demonstrate that social investments can provide powerful leverages to increase resilience and wellbeing, especially when paired with effective more classical social protection measures. On the other hand, the abovementioned study does not find *“any substantial evidence for the so-called ‘Matthew effect’ argument where social investment measures might be expected to diminish the poverty-fighting effectiveness of social protection”*. Therefore, social investments and social protection can go together, as highlighted in the “transformative resilience” framework, as they differ in terms of impact on people’s and society’s behaviours related to shocks. Namely, social investments mainly prevent shocks, as well as prepare and transform people and society before the shocks occur, while classical social protection policies aim at protecting people when the shocks happen.

This way of looking at social investments and social policies may help in understanding why empirical results demonstrate that they do not conflict with economic performance: on the contrary, they help in building what we could call the **“structural transformative resilience”** of the socioeconomic system to future shocks in the same way in which innovative social policies, such as those aimed at increasing the efficiency of the labour market, help to achieve a higher potential GDP in the medium-long run.

In conclusion, the available research underscores the importance of social investments for both stimulating the medium-long term economic growth and building more resilient economies. Moreover, resilience is not only determined by how public policies and private strategies and decisions are carried out and taken when a crisis occurs, but also by what happened before the crisis, i.e. the investments made to prepare the country to the shock in terms of human, social, natural and economic capitals, as well as to improve the functioning of the “engine” (see figure 3), since only resilient assets and a resilient engine can produce resilient outcomes in terms of people’s wellbeing. In this perspective, we should recognise that:

- resilience analyses that only look at the economic side of the system can lead to wrong conclusions on the effectiveness of public policies in response to shocks;

⁴⁷ Hemerijck A., Burgoon B., Fernandes D., Lehmus-Sun A., Plavgo I. and Poylio H. (2024) “Social investment returns across the life course”.

- models used to run sustainability and resilience analyses must consider the abovementioned elements to provide correct recommendations to policy makers;
- the current definition of “investment” adopted by the System of National Accounts is insufficient and biased for an overall evaluation of the impact of public policies on wellbeing and on the sustainability of the socioeconomic system, as they do not cover all the expenditures, especially those related to social investments, aimed at increasing the four forms of capital, but only focuses on the economic one.

4. The Recovery and Resilience Facility: an innovative way to build a more sustainable, resilient and fair Europe

As already mentioned, the general objective of the Recovery and Resilience Facility (RRF) is to promote the Union’s economic, social and territorial cohesion by:

“[...] improving the resilience, crisis preparedness, adjustment capacity and growth potential of the Member States, by mitigating the social and economic impact of that crisis, in particular on women, by contributing to the implementation of the European Pillar of Social Rights, by supporting the green transition, by contributing to the achievement of the Union’s 2030 climate targets [...], by complying with the objective of EU climate neutrality by 2050 and of the digital transition, and by increasing the resilience, security and sustainability of the Union’s energy system through the necessary reduction in dependence on fossil fuels and diversification of energy supplies at Union level, including by means of an increase in the uptake of renewables, in energy efficiency and in energy storage capacity, thereby contributing to the upward economic and social convergence, restoring and promoting sustainable growth and the integration of the economies of the Union, fostering high quality employment creation, and contributing to the strategic autonomy of the Union alongside an open economy and generating European added value.”

To achieve this objective, a wide range of reforms and investments (including social ones) have been included in national Recovery and Resilience Plans (RRPs). Several instruments have been established to monitor the implementation of the RRPs, and a set of 14 “common indicators” on economic, social and environmental aspects was agreed upon to produce an overall evaluation of the achieved results⁴⁸. Four of them clearly refer to possible outcomes of social investments, confirming the important role they play in the RRF: number of participants in education or training; number of people in employment or engaged in job searching activities; capacity of new or modernised health care facilities; classroom capacity of new or modernised childcare and education facilities; number of young people aged 15-29 years receiving support.

With the inclusion of social investments in the broader category of the “investments” considered in the RRF, the EU made a very important conceptual and practical step forward in the recognition of

⁴⁸ Savings in annual primary energy consumption; additional operational capacity installed for renewable energy; alternative fuels infrastructure; population benefiting from protection measures against floods, wildfires, and other climate related natural disasters; additional dwellings with internet access provided via very high-capacity networks; enterprises supported to develop or adopt digital products, services and application processes; users of new and upgraded public digital services, products and processes; researchers working in supported research facilities; enterprises supported (of which small – including micro, medium, large); number of participants in education or training; number of people in employment or engaged in job searching activities; capacity of new or modernised health care facilities; classroom capacity of new or modernised childcare and education facilities; number of young people aged 15-29 years receiving support.

the need to ensure the sustainability and the resilience of the socioeconomic system, as well as to invest on all forms of capital, according to the model proposed in section 2. On the other hand, such an inclusion creates a serious statistical problem, as the expenditures linked to social investment measures are not classified as “investments” by the 2008 System of National Accounts (SNA)⁴⁹ and by the European version ESA⁵⁰, as investments (“fixed capital formation”) are defined as expenditures in “*produced assets (such as machinery, equipment, buildings or other structures) that are used repeatedly or continuously in production over several accounting periods (more than one year)*”.

This narrow approach to the definition of investments has been criticised by several scholars over the last twenty years, especially when the focus shifts from the measurement of economic production (GDP) to the evaluation of people’s wellbeing and sustainability. While national accountants have not found a reliable way to properly measure the evolution of human and social capital yet, the issue has been recognised as extremely important in the context of the revision of SNA currently underway. In the draft introductory chapter of the forthcoming 2025 SNA, it is recognised that:

“the scope of measurement reflected here does not encompass all possible areas of measurement with regard to wellbeing and sustainability” ... “Assessing the role of human capital in the economy is gaining increasing prominence in discussions on productivity and sustainable development. Generally speaking, there is a need for a better understanding of the role of human capital in production and its relationship to other knowledge-based capital included in the SNA. How human capital is created, how it affects labour markets, and how it relates to the sustainability of future growth paths are all key topics of interest. As an important asset for households, it provides career opportunities, and benefits day-to-day activities”.

As discussed in the next section, this inconsistency between the concept of investments adopted in the RRF and that incorporated in the SNA/ESA will be an issue also for the implementation of the new EU fiscal framework and it is not by chance that the agreed text contains a recital which asks Eurostat to calculate additional tables to reconcile expenditures linked to EU-funded policies and the standard ESA data. Moreover, this inconsistency already represents a challenge to evaluate the overall impact of the RRF on the economic, social, institutional and environmental conditions of the EU (and will especially be so in 2028). Namely, the RRF supports a wide range of measures contributing to the objective “*to improve the resilience, crisis preparedness, adjustment capacity and growth potential of Member States*”, including those normally classified as social investments by the literature and the EU documents⁵¹ (from health- and long-term care to education and training measures, such as interventions concerning active labour market policies and early childhood education and care) which are not officially recorded by Eurostat as investments.

In the Mid-term evaluation published by the EC in February 2024 the overall evaluation of the implementation of the RRF is, so far, quite positive. The Report recognises that:

“There has been significant progress in implementing measures related to resilience and growth potential, with over 40% milestones and targets contributing to these RRF objectives reported as completed by Member States or assessed as satisfactorily fulfilled

⁴⁹ <https://unstats.un.org/unsd/nationalaccount/docs/sna2008.pdf>

⁵⁰ <https://ec.europa.eu/eurostat/documents/3859598/5925693/KS-02-13-269-EN.PDF/44cd9d01-bc64-40e5-bd40-d17df0c69334>

⁵¹ “The social investment approach rests on policies to raise the human capital *stock* (through early childhood education and care, vocational training, education and lifelong learning) and *flows* (through policies supporting female and single-parent employment, active labour market policy and other activation policies, as well as policies aimed at facilitating access to the labour market across the life course)”. See Bouget D., Frazer H., Marlier E., Sabato S. and Vanhercke B. (2015) “Social Investment in Europe. A study of national policies”, European Commission.

by the Commission. 962 of 2,317 milestones and targets contributing to resilience and 1,152 of 2,780 milestones and targets contributing to growth are reported as completed by Member States or assessed as fulfilled by the Commission (680 milestones and targets for reforms and 282 for investments contributing to resilience; 591 milestones and targets for reforms and 561 for investments contributing to growth), which yields a progress rate of 41% (over 20% assessed in payment requests) for both pillars combined.

Moreover:

“13 Member States have reported that over 1.3 million people have either found employment or engaged in job searching activities and 20 Member States reported that over 8.7 million have participated in education and trainings to improve their skills. In addition, classroom capacities of childcare and education facilities have increased by over 246,000 persons per year across the seven Member States who reported on this. The RRF has helped in addressing social, economic and territorial challenges, in line with the relevant European Semester CSRs. For example, Spain, France, Italy and Croatia have included ‘Active Labour Market Policies’ (‘ALMP’) that address a number of key labour market challenges in line with their CSRs in 2019 and 2020”.

Beside the significant results achieved, the language used in the Report is especially important as it witnesses the change of approach used to design the EU response to the pandemic crisis in comparison with the past experiences, namely the inclusion of resilience as key element of the policy framework adopted in the EU policies.

Published jointly with the Mid-term evaluation carried out by the EC, a parallel study has been prepared by a group of European research institutes to assess the impact of the RRF. Using the National Institute of Economic and Social Research’s Global Econometric Model (NiGEM), the study finds that: *“The RRF disbursements have raised EU GDP in 2022 by 0.4 per cent. That is, GDP was 0.4 per cent higher in 2022 than it would have been in the absence of RRF spending. ... The initial disbursements lowered unemployment in the European Union by around 0.2 percentage points relative to what it would have been in the absence of the RRF”.*

On the other hand, looking at the effects of reforms aimed at increasing labour force participation and improving education, the authors find that:

“a rise in participation leads to greater GDP over time as the increased labour force is gradually assimilated into employment. The size of this effect depends on the elasticity of potential output with respect to the size of the labour force but is somewhere between roughly 0.5 and 1.0 per cent of GDP per percentage point increase in the participation rate.

Education reforms have been introduced in a number of MSs, including Bulgaria and Croatia. In addition, the Spanish reforms mentioned earlier include the introduction of new training/apprenticeship contracts, which should lead to upskilling within the existing labour force. In all three cases, these reforms will raise labour productivity in the long run, in turn raising potential output and GDP. The size of this effect will again depend on the elasticity of potential output with respect to labour productivity but is somewhere between roughly 0.5 and 1.0 per cent of GDP for a one per cent increase in labour augmenting technical progress”.

Another supporting study of the Mid-term evaluation published by the EC discussed the impact of ECEC measures financed by the RRF. The investments in this field are aimed at expanding the coverage of services (i.e. number of places available), in particular among children in need or who are socio-economically disadvantaged, to enhance participation and promote children’s development as well as parents’ opportunities to access the labour market. The number of measures focusing on

ECEC, included in the pillar concerning policies for the next generation, is quite limited: out of the 218 measures considered in this pillar, 32 are allocated to the primary policy area “early childhood education and care” and 14 to the “youth employment support” and “youth job creation”, with the largest number of measures foreseen by Romania, Italy, Hungary and France.

The RRF investments in the five countries considered by the study are expected to significantly increase the coverage of childcare services (i.e. number of places available for children under 3). Italy should register an increase of the coverage of public or publicly funded childcare availability from 13.3% to 27.6%, Spain should increase the coverage to 26.5%, Belgium to 32.5%, Poland to 29.9% and Germany to 38.1%. In all cases, RRF measures are expected to reduce existing territorial gaps in childcare service coverage, increase opportunities for women to access labour market.

In conclusion, the authors note that:

“The primary contribution of the RRF has been to infuse fresh financial resources to support the expansion of childcare facilities. In Italy and Spain, the RRF resources are completely additional, namely without the RRF these investments would have not taken place. In the case of Belgium, the RRF funds are additional and top up already existing national fundings. In Poland, RRF funding are additional and integrate other EU funding – notably from the ESF + and national funding. The exception is Germany, where all funding under the RRF was already previously budgeted for, and thus there is no EU added value as such”.

Of course, it is too early to provide a comprehensive evaluation of the impact of RRF on economic, social, environmental and institutional variables. But, as recognised by the Mid-term evaluation, to provide a better assessment of such an impact there is a need to further develop both the set of common indicators and the statistical evidence necessary to evaluate the performance-based policies foreseen by the RRF compared to baselines and target values. Furthermore, it is necessary to expand and improve the existing econometric models, since they are currently not able to capture the impact of investments and reforms on the potential GDP and the “structural transformative resilience”.

To overcome these limitations, the Commission services are developing a research plan to provide a fully-fledged *ex-post* evaluation of the RRF, especially on “*the green and digital transitions, the impact on social and economic resilience as well as convergence within the EU*”. New micro and macro-econometric methods and modelling tools need to be developed by 2028 to evaluate the causal impact of reforms and investments and their additionality.

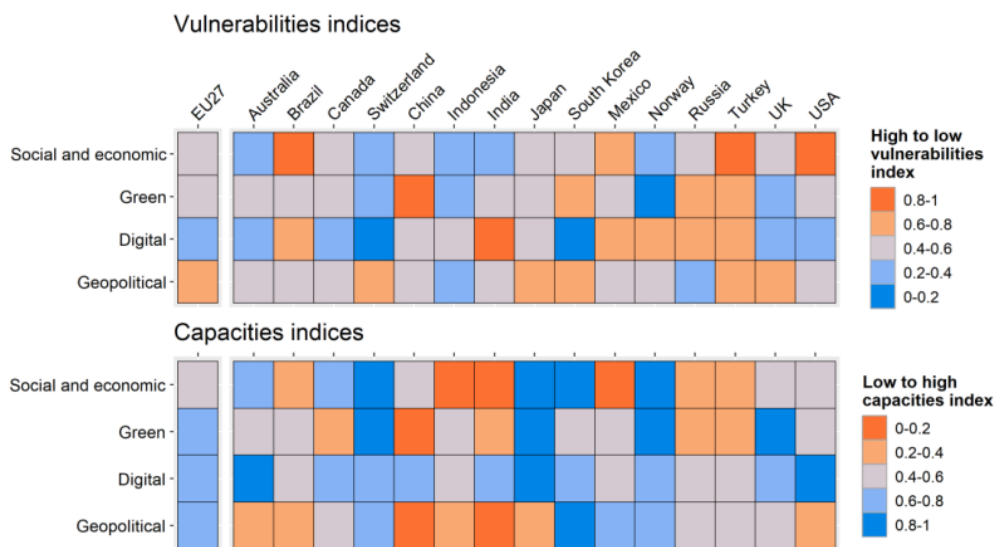
The good news is that this effort can benefit from the research already carried out by the JRC and other research centres. For example, one of the follow-up actions proposed in Manca et al. (2017) was the construction of “vulnerability and resilience dashboards”. Preliminary dashboards were thus developed in 2021, while in Spring 2022 they were aligned to the indicators used in the European Semester. Finally, they were published in a new “Resilience Annex” of the 2023 European Semester Country Reports, to complement and reinforce current and future policy efforts, also bringing in new cross-dimensional evidence to the overall assessment⁵².

The indicators are designed to provide a holistic assessment of resilience in the EU and its Member States, assessing their relative strengths and weaknesses. For a subset of indicators, the dashboards also show how the Union is doing with respect to non-EU countries in terms of “capacities” (enablers

⁵² The resilience dashboards are built in coherence with other Commission frameworks, dashboards and scoreboards, exploiting synergies and avoiding duplications. Because of their holistic perspective, the resilience dashboards link with other multidimensional monitoring tools such as the Sustainable Development Goals indicator sets, both for EU and UN, or the European Pillar of Social Rights social scoreboard, the Transition Performance Index. They also relate to monitoring tools that cover specific thematic areas, such as the Circular Economy Scoreboard or the Digital Economy and Society Index, DESI. See https://commission.europa.eu/strategy-and-policy/strategic-planning/strategic-foresight/2020-strategic-foresight-report/resilience-dashboards_en

and/or opportunities to navigate the transitions and face future shocks) and “vulnerabilities” (obstacles or aspects that can worsen the negative impact of the challenges related to the green, digital, and fair transitions). The dashboards for the EU and non-EU countries are complemented by synthetic indices that illustrate the overall relative situation of resilience capacities and vulnerabilities across the different dimensions concerned (Table 1).

Table 1 – Vulnerabilities and capacities composite indices for the EU and selected non-EU countries



The synthetic indices of the global dashboards aggregate the relative situation of the EU27 and other countries across all considered indicators. A higher capacity index indicates higher (relative) capacities, while a higher vulnerability index shows higher (relative) vulnerabilities. Differently from the dashboards, the colours for the indices are assigned by splitting the full [0,1] range of the synthetic index into five equal intervals. This ensures comparison of colours across dimensions.

The dashboards were initially developed for the social and economic dimension of resilience, and then extended to other domains (trade and value chains, security, green issues and digitalisation)⁵³. In particular, the social and economic dimension vulnerability and resilience dashboard includes elements such as: inequalities and the social impact of the transitions; health, education and work; economic and financial stability and sustainability. It considers indicators that point to individual wellbeing, social capital, economic conditions, including at the regional level, and institutional features.

Moreover, the social and economic dashboard links resilience to the social impact of the twin transitions, by pointing to vulnerable groups or conditions that emerge as a result of the green and digital transitions, such as employment in energy-intensive sectors, jobs with high automation risk, skills mismatch, or lagging regions. It also considers indicators related to mechanisms that enable countries to cope with structural changes or shocks (such as automatic stabilisers of the tax-benefit system, government expenditures on social protection, or active labour market policies), as well as aspects related to social cohesion (such as active citizenship), which represents the ability of a society to bridge and bond together by drawing on social capital.

These types of indices could be used in the context of the *ex-ante* and *ex-post* evaluation of the RRF, looking at if and how the EU is expected to reduce its vulnerabilities and increase its resilience vis-à-vis the pre-COVID period, also in comparison with other geo-political areas. Moreover, existing econometric models could be further developed to be able to predict as many vulnerability and

⁵³ “Resilience dashboards for the social and economic, green, digital, and geopolitical dimensions”, European Commission, 29 November 2021, European Commission. https://commission.europa.eu/document/download/4d542ae7-983a-492a-a691-96e236c2b6ec_en?filename=dashboard_report_20211129_en.pdf

resilience indicators as possible through a better description of the transmission channels of economic and social investments and policies, irrespective of whether National Accounts classify specific items of the public budget as fixed capital formation or current expenditure.

5. How to use the new EU Fiscal Framework to build more structurally resilient economies

The agreement reached in February 2024 on the new EU fiscal framework introduces several changes to the previous one. The Regulation clearly states that the aim of the new fiscal framework is to ensure “*effective coordination of sound economic policies of the Member States, thereby supporting the achievement of the Union's objectives for sustainable and inclusive growth and employment*”. To achieve this objective, the new Regulation “*lays down detailed rules concerning the content, submission, assessment and monitoring of national medium-term fiscal-structural plans as part of multilateral budgetary surveillance by the Council and the Commission, so as to promote sound and sustainable public finances, sustainable and inclusive growth and resilience through reforms and investments, and prevent the occurrence of excessive government deficits*”.

This language is clearly aligned to the aims of the RRF and the focus on “reforms and investments” to achieve sustainable and inclusive growth and resilience confirms the approach adopted with the Next Generation EU. On the other hand, the role of the European semester, already foreseen by the old rules, is confirmed, but the new approach stresses that the surveillance of its implementation by the Commission must include “*the progress in implementing the principles of the European Pillar of Social Rights and of its headline targets, via the social scoreboard and a framework to identify risks to social convergence*”.

The new framework sets out common rules but also a “differentiated approach” towards each MS to take account the heterogeneity of fiscal positions, public debt and economic challenges across the EU, based on the definition of multi-annual country-specific fiscal trajectories for each MS. Under the new rules, each MS, considering the results of the Commission’s analysis of the current and future evolution of the fiscal conditions, will prepare a medium-term fiscal-structural plan, spanning over four or five years, where it commits to a fiscal trajectory as well as “public investments and reforms” able to ensure sustained and gradual debt reduction and sustainable and inclusive growth.

The national medium-term fiscal-structural plan shall:

- (a) *present a multi-annual net expenditure path, as well as the underlying macroeconomic assumptions and the planned fiscal-structural measures in order to demonstrate compliance with the fiscal requirements of Article 15(2);*
- (b) *include the reference trajectory or the technical information transmitted by the Commission pursuant to Articles 5 and 7(2). Where the national-medium-term fiscal-structural plan includes a higher net expenditure path than in the reference trajectory issued by the Commission pursuant to Article 5, the Member State shall provide in its plan sound and data-driven economic arguments explaining the difference;*
- (c) *explain how it will ensure the delivery of investment and reforms responding to the main challenges identified within the European Semester, in particular in the country-specific recommendations, and explain how it will address the following common priorities of the Union: (i) a fair green and digital transition, including consistency with the European Climate Law; (ii) social and economic resilience, including the European Pillar of Social Rights; (iii) energy security; and (iv) where necessary, the build-up of defense capabilities.*

- (d) describe the action of the Member State concerned to address the country-specific recommendations that are relevant for the Macroeconomic Imbalances Procedure, and the warnings by the Commission, where applicable, or the recommendations by the Council, where applicable, made pursuant to Article 121(4) TFEU;
- (e) if applicable, explain how it will ensure the delivery of a relevant set of reforms and investments referred to in Article 13, underpinning an extension of the Member State's adjustment period by 3 years at most;
- (f) include the impact of investments and reforms already implemented, paying particular attention to the impact on fiscal sustainability through future public revenues, expenditures and potential growth, based on sound and data-driven economic evidence;
- (g) contain information related to the main macroeconomic and budgetary assumptions, implicit and contingent liabilities, expected impact of reforms and investments underpinning the extension of the adjustment period, forecasted level of nationally-financed public investment throughout the planning horizon of the national medium-term fiscal-structural plan, information on public investment needs including those related to the common priorities of the Union, information on the consultation of national parliaments and the consultation process organised in accordance with Article 9, provide information on the consistency and where appropriate, complementarity with the cohesion policy funds and the Recovery and Resilience Plan of the Member State concerned during the period of availability of the Recovery and Resilience Facility in accordance with Regulation (EU) 2021/241”.

As this text points out, the medium-term fiscal plan must address a wide range of topics and its formulation will be a tough challenge. The challenge will become even greater if the MS asks for the three-year extension of the adjustment period: in such a case, it is obliged to provide a lot of information and solid evidence to convince the Commission and the Council about the quality of the plan, the positive impact of the foreseen reforms and investments, as well as the overall compliance of the plan with the new fiscal framework.

During the trilogue, some important changes were made to the original proposal put forward by the Commission. For example, the final text states that:

- “During the lifetime of the Recovery and Resilience Facility, commitments undertaken in the national Recovery and Resilience Plans should be duly taken into account”;
- the “net expenditure” path to be included in the medium-term plan means “government expenditure net of interest expenditure, discretionary revenue measures, expenditure on programmes of the Union fully matched by Union funds revenue, national expenditure on co-financing of programmes funded by the Union, cyclical elements of unemployment benefit expenditure, and one-offs and other temporary measures”;
- “in order to make the framework more robust to uncertain developments of macro-fiscal variables, the reference trajectory should also provide for a common resilience margin relative to the 3% of GDP deficit Treaty reference value or convergence towards it. This common resilience safeguard should ensure the build-up of fiscal buffers for adverse circumstances and shocks, thereby facilitating the conduct of counter-cyclical policies in the Union fiscal framework”.

Looking at the agreed text, the recognition of the role of social investments is quite evident, also thanks to the work done in 2023 by the “Informal Working Group on Social Investment” (IWGSI) jointly established by the Spanish and the Belgian Presidencies. The IWGSI has produced a lot of evidence regarding the impact of certain social investments on labour market outcomes, productivity, and economic growth. Moreover, the Group highlighted that to achieve a stronger evaluation

framework, cooperation between policy practitioners and the scientific community must be fostered, also to underpin the implementation of the new fiscal framework, for example by developing some guiding principles regarding the evaluation and monitoring of social investment policies.

If, on the one hand, the agreed text reinforces the connections between the RRF approach and the rules of the new fiscal framework, on the other it leaves a lot of open questions on how the Commission and the Council will interpret what “reforms and investments” are about and their impact on fiscal sustainability. For example, some of the EU-funded policies cover social investments (education, training, fight against poverty, etc.): this means that the MS will be able to calculate its “net expenditure” pathway subtracting them (in addition to the “cyclical elements of unemployment benefit expenditure”) from the gross figures, while other national funds of the same type must contribute to the net expenditure pathway, although both aim at strengthening the “structural transformative resilience” of the socioeconomic system.

From this perspective, the inclusion of recital 13b in the new Regulation on the fiscal framework appears interesting, requiring Eurostat to collect additional data concerning national co-financing of programmes funded by the EU, including those foreseen by the social cohesion fund⁵⁴. This request opens the way to the development of additional public finance statistics able to capture the overall role of social investments, including those used to calculate the “net expenditure” pathway.

The joint meeting of Ministers of labour and Ministers of finance, held in March 2024, underlined the importance of better measuring social investments and evaluating their role for the implementation of the new fiscal framework. Moreover, the EMCO-SPC Opinion on the future policy priorities for the Union related to the European Pillar of Social Rights (endorsed by the Council on the 11th of March 2024) proposed to start the preparation of EU guidelines on assessing the economic returns of social reforms and investments, considering that they should be evaluated in terms of improvement of economic growth and resilience potential of the economy. Based on the available academic literature, these guidelines should support MSs in determining how investments and reforms can contribute to improve skills, labour market and social outcomes, illustrating the transmission channels through which positive effects on growth and resilience potential can materialise, in order to develop agreed indicators and methodologies for an appropriate *ex-ante* and *ex-post* evaluation of social reforms and investments.

In February 2024 also the European Economic and Social Committee (EESC)⁵⁵ called for reforms and investments in key social areas (particularly those that foster human capital) *“as social policies and social investments (also through more innovative tools and by promoting appropriate reforms and including all concerned actors) can become a productive factor, providing significant economic returns in terms of pro-growth potential and reduced future major costs”*. The EESC also noted that sustainable investments in critical infrastructures for public, health and care services, as well as for social housing, are essential to align with the objective of social cohesion, while current European instruments are not sufficiently focused on positive social outcomes.

In conclusion, the implementation of the new fiscal framework represents a historical opportunity to fully recognise the role of social investments in building a more sustainable, resilient and fair Europe.

⁵⁴ “The EU budgetary surveillance framework is based on statistical data provided by Eurostat, which is responsible, on behalf of the Commission, for ensuring the quality of the fiscal data compiled in accordance with the European System of National and Regional Accounts (ESA). Eurostat will establish a framework for Member States' reporting of statistical data on national co-financing of programmes funded by the Union, necessary for the implementation of this regulation and which are not currently collected by Eurostat. Member States may rely initially on estimates, until the framework for the collection and provision of such data is established. The format, scope, frequency and timing of data provision are to be determined by the relevant EU statistical bodies”.

⁵⁵ “Boosting long-term inclusive growth through reforms and investment”, European Economic and Social Committee 2024. <https://www.eesc.europa.eu/en/our-work/opinions-information-reports/opinions/boosting-long-term-inclusive-growth-through-reforms-and-investment>.

However, a lot of analytical, technical and policy issues need to be addressed to build a fully satisfactory set of rules, able to overcome past resistances to the adoption of a fully integrated vision of sustainable development based on economic, social, environmental and institutional pillars. For example, in Darvas et al. (2024)⁵⁶ a discussion on how to decide ex-ante whether social spending should qualify as a social investment is presented, with the aim of designing more advanced technical tools to be used in the implementation of the new fiscal framework. In particular, it is important to improve the Debt Sustainability Analysis (DSA) to make it able to effectively support the implementation of the procedure established by the new framework. The DSA is especially important to calculate possible fiscal adjustments to the baseline trends to ensure the compliance of a MS with the fiscal rules, as well as to evaluate the expected impacts of reforms and investments that are incentivised by the new framework.

First of all, the study shows that, in order to calculate potential GDP, the way in which ongoing demographic and related social expenditure trends are considered in the current DSA methodology has to be reconsidered. Similarly, to correctly evaluate the impact of possible reforms (like those linked to ageing population), some changes are needed to the models used in the past for running the DSA⁵⁷. Moreover, looking at the way in which, according to the existing DSA methodology, some social investments and reforms (childcare policy to boost labour supply, reforms to improve education quality and skills) would be evaluated in terms of fiscal sustainability, the study finds that their effects could vary *“from the substantial to the barely noticeable (or indeed negative, if reforms have significant upfront and ongoing costs). In addition, uncertainty about the growth impact is often high, and can depend on how reforms are implemented. These uncertainties apply even for reforms that have already been put into law”*.

Of course, significant uncertainties on the final impact of already implemented reforms exists, but the issue concerns how they will be quantified and evaluated by the Commission at the technical level. Moreover, it would be important to understand what happens when a reform included in the medium-term fiscal plan proposed by a MS that requires the extension of the adjustment period is considered unrealistic or irrelevant in terms of potential GDP. To address these kinds of issues, the authors suggest the development of a new version of the current “Code of conduct”, drafted by the Commission and approved by the Council.

The authors also underline that, although the new EU fiscal framework contains a powerful incentive to undertake reforms and additional investments that meet the conditions for extensions of the adjustment period, the new rules on investments, including the social ones, could produce some negative consequences. For example, *“meeting the conditions that justify an extension of the adjustment period could be tough, particularly based on investment, as this requires increasing nationally financed public investment above the average level realised during the lifetime of the RRF. Furthermore, new public investment is subject to the various requirements of the safeguards and minimum adjustment requirement under the excessive deficit procedure. In many cases, these require increases in investment to be offset by additional fiscal consolidation in the non-investment budget,*

⁵⁶ Darvas, Z., Welslau L. and Zettelmeyer J. (2024) “Incorporating the impact of social investments and reforms in the EU’s new fiscal framework”, *Working Paper 07/2024*, Bruegel.

⁵⁷ *“In the current methodology, higher levels of investment or reform have impacts on potential output, TFP and the capital stock mainly to the extent that they are forecast to impact TFP and investment in the short term, i.e. from T to T+2. From the perspective of forecasting output growth in the medium and long terms, these methods are broadly reasonable. They are also reasonable if the objective is to evaluate the longer-term impact of reforms that operate mainly through their impacts on employment and labour-market participation. However, they are clearly not suitable for the purposes of evaluating the growth impact of recently legislated reforms that are expected to raise output and growth through their effects on the capital stock and TFP. Suppose, for example, that a member state puts into law a reform that is expected to have an impact after three years, or enacts an investment programme that goes beyond the T+2 short term expert forecasting horizon. Under the current forecasting procedure, these actions have no impact on projected capital and TFP, even if large growth effects are expected in the medium and long terms (assuming no policy change)”*.

creating a significant impediment to a public investment push – as may be required, for example, to meet European Green Deal emission reduction targets”.

Given the “historical change” that the RRF represented for the EU policies, a wrong or partial assessments of its overall impact could be a very serious issue, especially given its very innovative way of defining what investments are, well beyond the ESA definitions. Since the aim of the RRF, as well as of the new fiscal framework, is to produce structural changes in key parameters that govern the evolution of the EU societies and economies, it is vital to build models and other analytical tools to correctly measure the impact of national and EU policies on “transformative resilience” in order to make them more resilient to future environmental, economic, technological geo-political shocks. To avoid the risk of using wrong or biased tools in the implementation of the new fiscal framework, the “research plan” announced by the EC must devote appropriate resources to improve the existing ones and develop new analytical instruments, also thanks to the involvement in this endeavour of the best available researchers and statisticians.

6. Conclusions

The several crises that affected the EU over the last 15 years were addressed using a wide range of economic and social policies. In some cases, the policy responses were mainly “national”, while in others, especially during the most recent ones, innovative instruments were established at the EU level. One of the lessons learned thanks to these crises is that the EU needs to both strengthen its “structural resilience” to economic, social and environmental shocks, and develop a more systemic approach when designing public policies to respond to current and future challenges. Moreover, short-term policies must be designed and implemented to also contribute to take the EU onto a sustainable development pathway, following the UN 2030 Agenda for sustainable development.

Since 2017, the European Pillar of Social Rights has been fully recognised as one of the cornerstones of the European Union, as well-functioning and inclusive social investment welfare states are vital to create a socially and economically resilient society. On the other hand, the notion of “social investment” has gained purchase as a policy compass for recalibrating welfare states and making them more effective, also to build more resilient socioeconomic systems.

This paper discussed how social investments can contribute to build a “more sustainable, resilient and fair Europe”, according to the policy orientation assumed by the EU after the pandemic outbreak. In particular, social investments can both strengthen the short-term reaction of the socioeconomic system to shocks and foster its “structural transformative resilience”, according to the policy framework developed in 2017 by the JRC and adopted in 2020 by the EC as a “new compass” for European policies.

The most recent literature demonstrated that well designed social policies and social investments are extremely important to explain the different responses to recent crises that affected EU countries. For example, looking at the 2008-2009 crisis, several of the apparently most economically resilient countries look much less so if the whole socioeconomic perspective is taken into account. Moreover, high pre-crisis levels of social expenditures are associated with a good absorption capacity of the shock.

The Next Generation EU, launched in response to the pandemic shock, adopted a groundbreaking approach to stimulate an unprecedented wave of investments and reforms in EU countries aimed not only at fostering the recovery from the crisis, but also at strengthening the resilience of the EU to future shocks. To achieve these results, social investments were fully considered as “investments”.

Coherently with this innovative policy approach, the new EU fiscal framework has been designed to promote sound and sustainable public finances, sustainable and inclusive growth and resilience through reforms and investments, preventing the occurrence of excessive government deficits. To achieve these goals, the new framework considers social investments as part of the investments that need to be considered to evaluate the medium-term fiscal and financial conditions of individual MSs. Moreover, in monitoring the implementation of the new fiscal framework, the European institutions must look at the progress in implementing the European Pillar of Social Rights and identify risks to social convergence.

The implementation of this new approach will be a challenge. It will require the development of new statistical evidence and advanced analytical tools in order to allow European institutions and MSs to fully and correctly evaluate the medium-long term impacts of investments and reforms on economic variables (such as GDP and potential GDP), as well as on the “structural resilience” of EU socioeconomic systems to future shocks.

The research programme announced by the EC for developing adequate tools to evaluate the impact of RRF could also be extremely helpful to allow a correct implementation of the new fiscal framework. As discussed in the paper, the current tools used to carry out the Debt Sustainability Analysis (DSA), a key instrument to assess the financial current and future fiscal conditions of individual MSs, as well as the impact of future reforms and investments on such conditions, need to be improved to avoid the risk of reaching misleading conclusions or of opening never-ending discussions with national governments that would make the implementation of the new fiscal frameworks extremely difficult.

In conclusion, the aim of strengthening the “structural transformative resilience” of socioeconomic systems to future shocks has become a key ingredient of the new European policy frameworks. On the other hand, the importance of social policies and social investments to achieve this result has been fully recognised not only in the European Pillar of Social Rights, but also in the New Generation EU and in the new fiscal framework. This new way of looking at public policies is an important achievement for the EU, but to effectively implement the RRF and the new fiscal framework a significant effort has to be carried out to improve the analytical and statistical tools currently used by the European Commission to evaluate the future impacts of reforms and investments, especially the social ones, on EU economies and societies.