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# Europe's Societal Challenges

An analysis of global societal trends to 2030  
and their impact on the EU

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## 1. Objectives and approach of this study

The European Strategy and Policy Analysis System (ESPAS) is an inter-institutional EU initiative involving the European Commission, the Council, the Parliament and the External Action Service (EEAS). It was launched in 2010 and aims to develop cooperation through common strategic thinking on the long-term trends and policy challenges likely to face Europe over the next institutional cycle (2014–19) and beyond. RAND Europe was commissioned on behalf of the ESPAS Task Force to investigate further the societal changes that will affect the EU until 2030.

Several reports have attempted to describe, assess and determine which trends are likely to shape the international strategic landscape, or the landscape of a specific region. The objective of this study is not to replicate these existing efforts but rather to assess the available evidence base and bring the existing uncertainty surrounding these trends to the policymakers' attention. The findings presented in this report are based on two main phases of research: 1) analysis of the available literature and data; and 2) expert consultation through an online Delphi exercise and in-depth interviews.

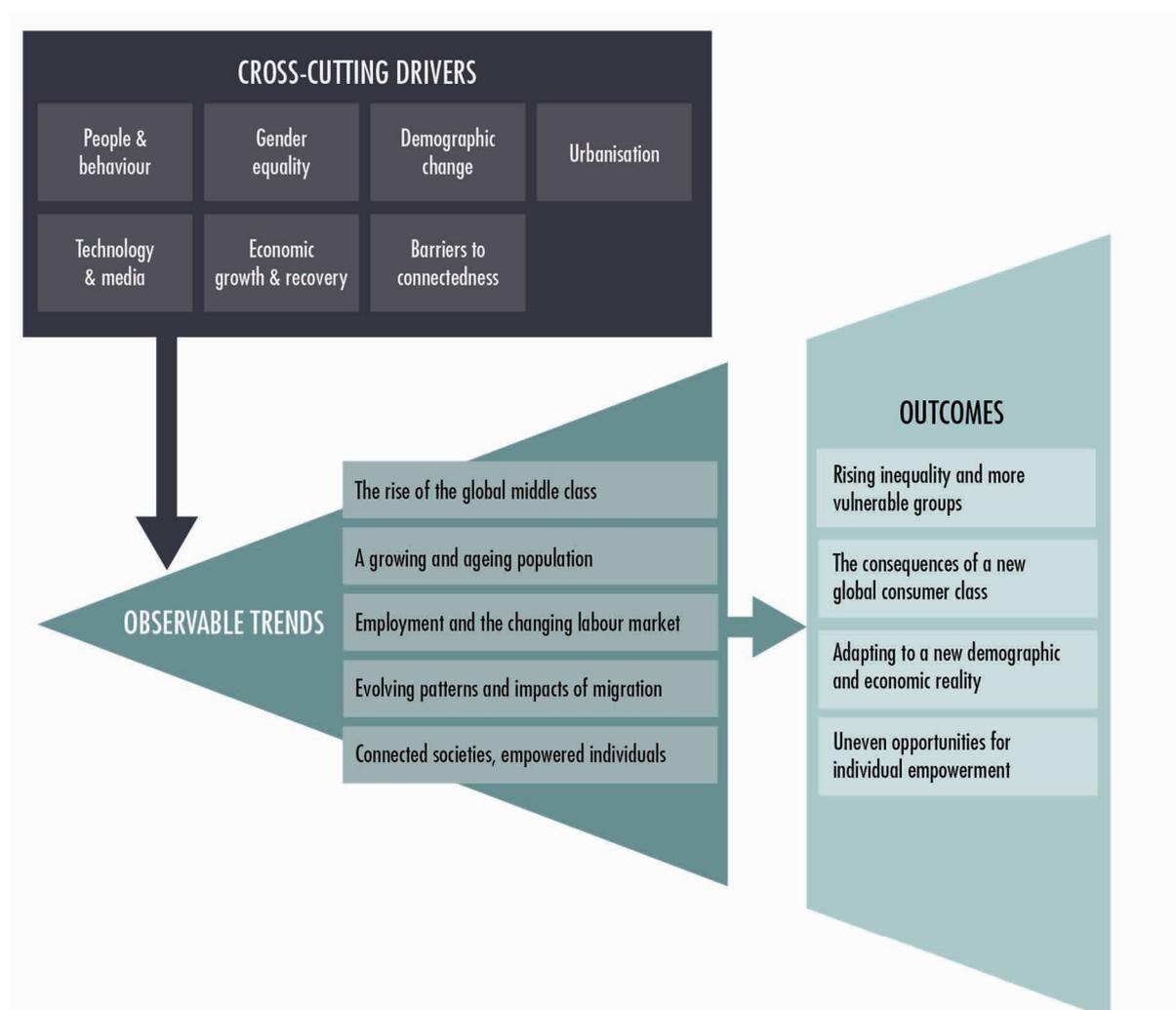
This report presents a series of identified trends related to the rise of a new global middle class, a growing and ageing population, employment and the changing labour market, evolving patterns and impacts of migration, connected societies and individual empowerment. Many of these trends are uncertain and their very direction and magnitude depend on the future course of exogenous drivers beyond the control of decision makers. Each of these trends, in turn, could have various types of consequences for the European Union's long-term landscape.

At the risk of simplification, we summarise these trends, drivers and outcomes in Figure E.1. The consequences for the EU have been grouped under four topics:

- rising inequality and more vulnerable groups
- the consequences of a new global consumer class
- adapting to a new demographic reality
- opportunities for individual empowerment but risks of a divide.

This executive summary is structured along these four topics.

Figure E.1. Summary of the main findings for cross-cutting drivers, trends and outcomes



## 2. Rising inequality and more vulnerable groups

The challenge that cuts across many of the areas we analysed is the increasing level of inequality between EU citizens. The gap between rich and poor in the EU has widened in recent crisis years. Austerity packages tend to have a disproportionate effect on lower incomes and seem to exacerbate the differences. The expectation is therefore that inequality in the EU will increase further in the coming years. Not only would this represent a break in trends for the EU – income inequality, for instance, has declined in most member states in recent decades – it is also at odds with the EU's foundation: inclusive growth. We conclude that inequality will be the single most prominent societal challenge for the EU in the coming decades. Changes in the structure and direction of inequalities are likely to pervade all policy areas, resulting in a need for innovative approaches.

Forecasts suggest sluggish economic growth, with the response of the labour-market lagging behind in the next few years. This indicates that the trend of rising long-term unemployment and an increasing labour market mismatch will continue to dampen employment prospects, for low-skilled workers particularly, over the next decades.

### *Middle class set to grow worldwide; rising within-country inequality*

The global population in income groups that are considered middle class is projected to grow considerably. This is largely driven by Asia, which has seen its middle class double over the past two decades as lower classes become wealthier. At the same time, inequality within countries is rising, particularly in the United States and Europe, as the income share of those in the top decile increases. In emerging economies, growing inequality may be attributed to the rich becoming richer at a faster rate than the poor become wealthier. Much uncertainty remains as to the future relation between inequality and middle-class growth.

Tackling rising inequality is likely to be the most pervasive policy challenge for the EU in the coming decade

### *Labour demand may affect vulnerable groups*

Although there are prospects for long-term growth on the demand side of the labour market, the jobs created, especially in new technology sectors, may displace workers rather than create demand for new workers. On the supply side of the labour market, a global shortage of medium- and high-skilled workers is projected over the next few decades. However, at the same time there is likely to be a surplus of low-skilled workers, which could lead to long-term and permanent joblessness among young people without secondary training and older workers who cannot retrain to meet requirements for new skills. As a consequence of this skills mismatch, income inequality is projected to expand. It is expected that young workers, female workers and workers aged 55 and over will be hardest hit. Workers from immigrant backgrounds will also be disproportionately represented among those affected.

Inequalities that arise from economic stress, distorted expenditure on welfare and healthcare and changing population structures may result in particular groups within populations becoming increasingly vulnerable. There is a risk of greater poverty and disenfranchisement among these groups, with important consequences in a range of areas. These groups include vulnerable households facing higher poverty risks as well as vulnerable (elderly or low-skilled) workers, migrants and their children, and NEETs (young people not in education, employment, or training), in both industrialised nations and emerging countries.

### *Migration could allay long-term labour demand but could also raise issues of integration*

Economic growth, notably in Europe, may affect global migration patterns. Findings point to the importance of specific (political, social or economic) factors in both sending and receiving contexts, such as economic growth and employment prospects that influence individual decisions to migrate. Any long-term projection of international migration flows is characterised by high levels of uncertainty but shift patterns are likely as migration transitions occur in countries that are transforming into destination countries in their own right, for example Turkey.

Migration may help allay labour market demands in Europe, but it also adds the issue of integration to the political agenda, with implications for social cohesion. In addition to European attitudes towards migration, the extent to which the EU is able to recover from the crisis will also contribute to its attractiveness as a destination for migrants. Although it has been suggested that the crisis has caused a

reduction in migration flows to the EU, it is too early to assess the impact of the financial crisis on the EU environment and migration flows.

### 3. The consequences of a new global consumer class

Economic growth in emerging economies, the rise of a global middle class, population growth, changing population structures, the use of natural resources and environmental damage will all affect global consumption levels and patterns.

#### *Low- and middle-income population growth will affect consumption and pollution patterns*

Global population growth and changing population structures will affect consumption levels and patterns. An expanding 'consuming class' may have significant impact on future demand for certain goods and services. These changes may push the EU to ensure that the supply of natural resources such as water or energy remain stable in the future.

The rise of the global middle class and associated consumption levels may also lead to increasing pollution. The bulk of carbon emissions appears to be attributable to energy consumption in cities and global population growth and the rise of the middle class are associated with increasing urbanisation. The effects are global. Changes on one side of the world might lead to effects on crop yields, migration, infectious disease, flood risk and vulnerability to extreme weather conditions on the other. While the science of climate change is relatively undisputed, there is still some debate over the timescale and severity of climate change impacts.

#### *These trends are highly dependent on long-term economic recovery*

In this period of economic crisis, tensions and distortions, many suggest that economic recovery and stability will be the long-term solution to many of the issues currently facing both mature and emerging economies. In the longer run, the key question lies in determining the possible transformative effects of economic growth – or lack of it – on the EU landscape. Our analysis shows that the projections of the future size of the global middle class are highly sensitive to assumptions about long-term economic growth. On the other hand, a growing consuming class, which to some extent has been lifted out of poverty, can also be an important engine for the economy. This is particularly true in Latin America, India, China and Africa. Degrees are likely to vary, however, as this process remains vulnerable to income inequality. On the other hand, as our analysis shows, the projections of the future size of the global middle class are highly sensitive to assumptions about long-term economic growth.

A 1.5% point lower GDP growth in India until 2050 will exclude over 150 million Indians from the middle class

### *Are global values diverging or converging?*

It has been argued that globalisation and the rise of a new consumer class acts as an integrative and harmonising force across the globe. The expectation is that we should witness a convergence of values affecting how people think and behave. The emergence of such a common ethos will, in turn, influence some of the themes discussed above, particularly the lifestyle and values of the urban middle class, the diffusion and use of new media and technologies and migration flows. However, such statements should be analysed with caution. While there is some evidence of the emergence of a common ethos in certain areas and strata of the global population, much is still down to speculation. There are several examples of the opposite trend – a global divergence of values and attitudes – revealed by radicalisation and religious extremism, the emergence of grassroots or populist political movements, and the mobilisation of internet freedom activists.

## 4. Adapting to a new demographic reality

Many middle- and low-income countries are experiencing a demographic window of opportunity through relatively high fertility combined with a decline in infant mortality. The resulting youth bulge will grow and become part of the country's active population in the long term, provided that states are able to generate work opportunities for younger generations.

On the other hand, having started in high-income countries, population ageing will eventually reach the developing world as well. The consequence in the next two decades is that the working-age population in developing countries will continue to grow quickly, while that in Europe and other advanced economies will shrink.

### *A demographic deficit could lead to stagnation of economic output*

Changes in population size and structure may have implications for economic growth, domestic savings, investment, consumption, labour markets and intergenerational transfers, among others. Europe may face

Retirement ages have remained more or less unchanged, while life expectancy has increased by 15 years since the 1950s

increasing immigration pressure from Africa and parts of Asia where the youth bulge may outweigh the demand for labour. In countries with a shrinking working-age population, economic output will decline if productivity per capita does not grow to compensate for the smaller workforce. Member states with very low fertility rates and large numbers of young people emigrating to find work will be particularly affected by this phenomenon.

Stagnating economic output and GDP per capita may have a depressing impact on net wages for working-age populations, and subsequently on living standards and savings rates.

### *The transformation of the welfare state model?*

A rising old-age population and a smaller workforce will be accompanied by significant challenges to the affordability of welfare systems, for instance pensions. Retirement ages have remained more or less

unchanged in the EU from the early days of the European social model through the end of the twentieth century. In that same period, however, life expectancy in the EU increased by more than 15 years.

Moreover, the changing profile of the world's population is likely to impact on healthcare systems. Data suggest that the elderly are healthier than ever before. However, the age window where frailty is high is expanding and the prevalence of Alzheimer's, for instance, may increase significantly. While advances in medical technology may lead to longer, healthier lives, they are not only costly but also increase the risk of greater numbers of individuals eventually contracting degenerative and non-communicable diseases, adding to the burden of care. Eventually, demographic change in Europe may lead to the possible emergence of intergenerational conflicts due to changing population structures, as a larger proportion of public expenditure is dedicated to pensions and healthcare expenditure for the elderly as opposed to spending for the working-age population or children

The analysis indicates that the member states may need to tackle the range of effects generated by population changes in Europe by maintaining sustainable growth levels, reforming pension systems, stabilising the cost of healthcare linked to ageing populations and coping with a declining working-age population. Building a more inclusive labour market, particularly towards young people, women and the elderly, may become ever more important.

## 5. Opportunities for individual empowerment but risks of a divide

Empowerment refers to the process of obtaining basic opportunities to improve well being for marginalised people. On a global scale, economic development, improved access to education, gender equality and new technologies that increase connectedness are thought to help promote empowerment. However, unequal access could polarise communities and populations into those who can take advantage of these opportunities and those who are left behind. The consequences of individual empowerment are likely to be manifested in increasing access to education, and changing relationships with the state. Technology and informal educational systems can improve accessibility to education.

### *Globally widening access to education is likely to drive empowerment*

As more and more societies across the world are transitioning away from industrialised towards knowledge-based economies, access to tertiary education, and its overall quality, will become essential predictors of power and economic prosperity. The evidence suggests the gap between developing and high-income countries may close when it comes to future access to education. However, the role technology can play in this process remains uncertain.

Level of education is positively correlated with outcomes in employment, income and life expectancy

The widening access to further education is likely to drive and be influenced by increased individual empowerment. This in turn may generate greater support for increasing gender equality and the empowerment of women. As countries seek to develop knowledge-

based economies, this issue will become increasingly salient. At the same time, new technologies and learning formats, such as distance learning, Massive Open Online Courses (MOOCs) and new methods

for measuring and monitoring performance, will reduce the need to be physically located near the educational institution, offering low-cost opportunities for access and more personalised education. These mechanisms could help specific countries to increase their tertiary education attainment rates and overcome differences between regions and member states, which continue to be significant.

### *Digital divides within and between countries are likely to remain*

It is undeniable that in the last two decades the internet and mobile technologies have had a transformative impact on societies and economies. These and other technologies, such as quantum computing, nanotechnology, big data, or geno-technologies, will continue to change individuals' lives, business models, governance and democracies and their effects are likely to be manifold but are yet uncertain. Evidence from recent trends has shown that many tend to overstate the pace of influence of

The promise of truly global interconnectedness is questioned, as evidence suggests online platforms and services are mainly used locally or nationally

technological innovation. But technologies will change society only to the extent that individuals and societies understand, accept and absorb them. Diffusion of internet and mobile technologies, in particular social networks, has shown that user penetration may also outpace predictions.

Despite an anticipated trend of improved connectedness through mobile and internet technologies and a rise in social computing, digital divides within and between countries are likely to remain. Experts question the extent of truly global interconnectedness in the future, as the evidence suggests most online platforms and services are used mainly on a local or national level. Also, unequal access to e-skills may be a factor contributing to a persistent digital divide. Discrepancies in connectivity between low-income countries and middle- and high-income states may also contribute to this divide, although the gap is projected to be narrowed over the coming years. While in some parts of the world the divide in internet access and mobile technologies has is being bridged through 'leapfrogging', it is likely to be reproduced with the adoption of new technologies and applications, such as mainstreaming of ubiquitous computing or personalised medicine. The benefits of these new technologies are likely to accrue initially to the wealthier strata of society, reproducing socio-economic inequalities.

### *Some factors that impact individual empowerment may affect relations between individual and state*

Empowerment and interconnectedness may result in a myriad impacts, one of which could be the increased likelihood of non-homogeneous, fragmented public opinion throughout Europe, which could in turn contribute to a degree of instability. Others argue that the pluriformity of available news and information from online sources may help nuance debates.

The public sphere will be affected by declining trust in institutions and the interaction between online and offline activism

Despite or owing to these trends, recent surveys demonstrate declining levels of trust in political (including European) institutions. This is likely to represent important consequences for policymakers seeking to maintain the legitimacy of their institutions.

The influence of new and social media on political participation and democratisation may have been overstated in recent years. The evidence underpinning its influence on individual empowerment remains to be assessed, for instance in the context of the interaction between online and offline political engagement, to understand the extent to which the former could crowd out the latter and result in 'slacktivism', or indeed be a formidable tool to mobilise young audiences.

### *Trends towards improved gender equality in the EU are not mirrored on a global level*

There are various signals that the gender gap is closing, given women's growing involvement in politics, rising enrolment rates in higher education and increased participation in the labour market. This could prefigure a trend towards improved equality between men and women. However, despite a certain convergence towards more equality in the EU and a number of highly developed countries, these trends are not mirrored on a global level. Regions such as the Middle East and northern Africa appear to lag behind, for example with regard to female political participation.

It appears that attitudes and values in relation to gender equality are likely to affect several policy areas in the future, owing to their relation with a variety of unpredictable factors, such as fertility levels, migration flows and individual empowerment. For instance, the entry of women into education, higher education and the labour force is partly made possible by a change in values regarding the role of women. In some EU member states this has materialised as the emergence of a dual-earner household model. However, in some member states with paternalistic family values, a more traditional male breadwinner model remains relatively persistent.

## 6. From strategic analysis to strategic action

In its next institutional cycle (2014–19), the EU could face a set of challenges stemming from the societal trends that our study has sought to identify and document. The trends uncovered have varying degrees of uncertainty and levels of evidence. Our assessment could inform debates about what could constitute salient policy challenges that require specific policy actions and more adaptive policy approaches that are resilient under different future circumstances. We explain how our analysis could help policymakers tailor existing EU strategies – in particular, Europe 2020 and its flagship initiatives – to the future landscape. We then look at how our research can help EU policymakers contain the institution's vulnerabilities, regardless of whether or how these materialise in the future.

### *Breaking the cycle of inequality in the EU*

We identified new and growing inequalities as the leitmotif of many trend areas. These trends could profoundly shape the EU landscape in this coming institutional cycle and beyond, by 2030. Their consequences are far-reaching and could be the source of disruption. If there is one challenge the EU should single out in the next institutional cycle, our analysis suggests it should be breaking this cycle of inequality.

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Many sources have pointed to the need for investing in human capital by equipping citizens with the skills that are in demand on the labour market: investing in formal education, vocational training and lifelong learning, and efforts to harmonise labour standards. Those too young to take part in the labour force can be targeted by early childhood education and care (ECEC), part of a broader strategy to foster the development of vulnerable children, and also effective in tackling disadvantage. The sooner children receive high-quality ECEC, the higher the returns on investment for the whole of society. The looming challenge of a lost generation can be mitigated by investing in the human capital of young people who are currently not in employment, education or training (NEETs). Investing in lifelong learning, vocational training and apprenticeships will help this generation to acquire specialised IT, science, engineering and technology skills that are required in some important and upcoming industries (such as mobile, internet or green technologies and services) or softer skills needed in sectors such as health, mental and social care.

While the Europe 2020 strategy has elements targeting these challenges (eg the agenda for new skills and jobs), the significance of these trends could require the EU to persist in its efforts to adapt its Europe 2020 strategy to tailor these better to strategic realities. While the strategy is there, the political attention seems to have been focused on fighting the debt crisis by reducing expenditure.

### *Preparing for what we know will happen*

In addition to rising inequality, we identified a set of other trends characterised by relatively low uncertainty and a relatively high level of evidence. These could require the European Union and its member states to begin developing today long-term policy approaches that will enable them to tackle these issues better in the future. We formulated 11 policy challenges that we know will be salient in the coming years (see Table E.1). They include tackling issues such as the consequences of demographic change for pension systems and healthcare costs. While these trends are relatively certain and their potential (mitigation) solutions are well documented, decisionmaking may still be complicated. The adoption and implementation of the necessary pension reforms, for example, requires political will and the courage to trade off a long-term perspective against potential electoral backlash. The nature and specification of these long-term policy measures will also be steered by the prevalent political colour and corresponding priorities, such as income security versus labour-market flexibility.

Many of the objectives included in Europe 2020 overlap with the policy challenges identified here, such as the focus on targets related to early school leaving or fighting poverty, and the objectives of flagship initiatives, such as Youth on the Move, New Skills for New Jobs, the Digital Agenda for Europe and the Innovation Union. Our analysis also suggests some other dimensions that the EU could include in its future strategy – in particular, a measure of the digital divide, polarisation of the labour market and a measure of inequality across the EU and within member states.

**Table E.1. Eleven salient policy challenges**

<b>1 INVESTING IN CITIZENS</b>	<b>Equipping EU citizens with the tools to seize opportunities as they come along and protecting the most vulnerable citizens against misfortune</b>
<ul style="list-style-type: none"> <li>• Addressing the increasing risk of vulnerable employment, NEETs and growing inequalities between middle-/high- and lower-income groups</li> <li>• Managing the consequences of stagnating economic growth for wellbeing and poverty</li> <li>• Addressing inequalities in access to technologies and technology-based services between different population groups</li> <li>• Completing the gender gap bridge</li> <li>• Improving education and labour market outcomes for (first- and second-generation) migrants</li> </ul>	
<b>2 PREPARING FOR A NEW GROWTH PARADIGM</b>	<b>Enabling citizens and businesses to reap economic opportunities and compete globally</b>
<ul style="list-style-type: none"> <li>• Addressing the shortage of workers with specialised STEM skills,<sup>7</sup> e-skills and skills in softer sectors such as health, social and mental care</li> <li>• Matching the migrant skills to labour market demand</li> <li>• Bridging the digital divide between member states</li> <li>• Improving the innovative capacity of SMEs</li> </ul>	
<b>3 REINVENTING GOVERNMENT</b>	<b>Recalibrating the public sector machinery and services to accommodate the realities of the 21<sup>st</sup> century</b>
<ul style="list-style-type: none"> <li>• Mitigating the increasing pressure on the affordability of welfare systems, particularly health and pensions</li> <li>• Addressing a declining institutional legitimacy and mitigating its consequences</li> </ul>	

### *Building resilience to limit vulnerability to the most unpredictable trends*

In some cases, when there is more uncertainty, the challenge of adaptation is even more critical, as it could require greater efforts from EU policymakers in terms of flexibility in response to unforeseen trajectories. The EU therefore should acknowledge the fact that it may not always be able to anticipate – let alone predict – changes in these realities, given the complexity and the uncertainty of some of these trends. This complexity and uncertainty could require EU policymakers to face more disruptive periods. As a result, in addition to adaptive policymaking, greater resilience could help the EU face these disruptive periods better, however they materialise in the future and for whatever reasons.

For example, the direction, patterns, magnitude and impacts of labour mobility and migration are to some degree still unclear. Decisionmakers would therefore be advised not to bank on one of the potential future trajectories. Rather, policies should be tested for their robustness. Instead of selecting the optimising policy effects for one scenario (eg the EU as a net receiver of migrants), robust policies should perform reasonably effectively in a variety of plausible future scenarios (eg the EU as a net receiver and net sender). Ideally these policies should be adaptable as well as robust in case any unexpected trends materialise.

Finally, some of the trends we have uncovered are characterised by high uncertainty and a low level of evidence. By 2030 these trends could constitute the most erratic and unpredictable elements of the

strategic environment. They could be the source of profoundly disruptive periods for the EU as by definition they are much harder to monitor than targets, because their underlying mechanisms and implications are poorly understood.

In order to prepare better for these, the EU could consider an introspective approach that would allow it to consider how to contain some of its most significant vulnerabilities, regardless of the scenario in which these could become threats to the institution. This could require the EU to revisit, redefine, tailor or confirm its fundamental values and model in the light of the deep, structural changes occurring at the global level. This would help the EU build its own institutional resilience.