

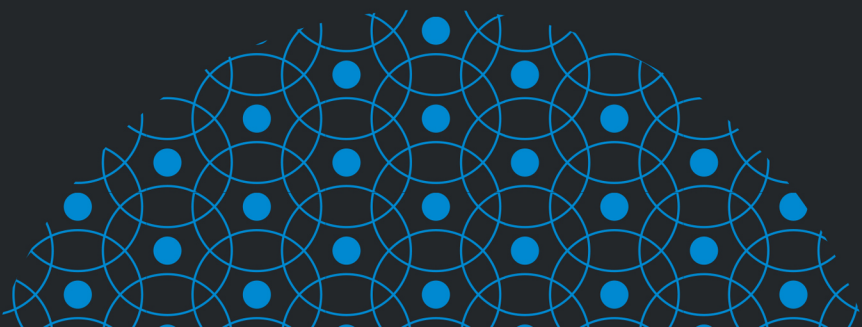


EMERALD POINTS

**ACHIEVING
SUSTAINABLE
ECONOMIC
GROWTH IN EUROPE**

Progress toward the UNSDGs

**PHILIP VON BROCKDORFF
STEFANO PALMIERI
JONATHAN SPITERI**



ACHIEVING SUSTAINABLE ECONOMIC GROWTH IN EUROPE

In a world where everything is upside down, this is an urgently needed book that gives some guidance how to achieve sustainable economic development and what contribution the European Union could make. I recommend that you do not only buy this book but that you actually read it.

—*Stefan Collignon*, Professor of European Political Economy,
London School of Economics and Harvard University

In an environment of rapidly deteriorating multilateral cooperation and of increased geopolitical instability, long-term societal goals are progressively disappearing from the radar.

The cost for our societies of neglecting social and environmental sustainability would be unbearable. This book helps keeping us focused. It is a welcome and extremely useful reminder of what the priorities of policy makers should be, regardless of the short-term noise of an increasingly chaotic policy arena

—*Francesco Saraceno*, OFCE-Sciences Po,
Paris and LEAP-LUISS, Roma

It is not easy to talk about growth today without confronting enormous contradictions. We all want Europe to grow – to keep Europe competitive, invest in the future, save jobs and social systems. But we also recognize that how we grow is every bit as important as whether or not we grow at all.

This book, *Achieving Sustainable Economic Growth in Europe*, authored by Stefano Palmieri and Philip von Brockdorff with Jonathan Spiteri, could not be more timely. It avoids political slogans and goes straight to the point of how Europe can shift to a more sustainable and forward-proof pattern of growth. The authors are asking the right questions – what we are benchmarking progress against, what kind of investment we desire, and whether our current economic governance structures are actually designed for the future.

Perhaps the most compelling message in the book is that sustainability needs to be woven into the very fabric of economic policymaking – not as an afterthought, but as a necessity. I wholeheartedly agree. In the EESC, we've been calling for a broader definition of economic success – one that includes well-being, equity, and environmental responsibility.

What I most appreciate about this book is that it is realistic. It does not attempt to pretend there are easy answers, but it outlines a clear direction: a competitive and stable European economy that is sustainable and fair. It reminds us that policies must work for people and the planet – not just for short-term indicators.

I hope that this book will provoke open and frank discussion – between institutions, specialists, workers, companies, and citizens – about what type of Europe we want to build. And I’m grateful to Stefano, Philip, and Jonathan for putting it together.

—*Oliver Röpke*, President of the European Economic
and Social Committee

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ACHIEVING SUSTAINABLE ECONOMIC GROWTH IN EUROPE

Progress Toward the UNSDGs

BY

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INVESTOR IN PEOPLE

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FOREWORD

It is a privilege to have been asked to write this foreword on a theme that I endorse and which in today's economic climate, clouded by uncertainty and impacted by geo-political tensions, is not only relevant but should serve as the guide for economies in the European Union (EU).

The Union is at a difficult phase of its existence, faced by two economic powers, the USA and China, on one side, and a belligerent Russia at its doorstep. These are decisive times, and Europe must act speedily to gain lost ground with both the USA and China. In doing so, however, and as the authors have argued strongly, Europe cannot forget its roots as a market system economy or backtrack on either social rights, such as the European Pillar of Social Rights or environmental targets that should help mitigate some of the impacts of climate change.

Ingrained in this socio-economic model is the concept of sustainable development and sustainable economic growth, which is, after all, the underlying theme of this book. The authors define and trace the historical developments of sustainable development and explain why economic governance plays a crucial role in achieving sustainability in European economies.

The arguments and reference to the threats that Europe faces today, and which, as the authors stress, could derail the progress achieved so far for economies to transit toward a more sustainable economic growth model, are all eloquently put.

The transition toward sustainability and hence more efficient economies cannot ignore two elephants in the room: competitiveness and the completion of the EU single market, now hotly debated in Europe (though not for the first time) and requiring an effective response from European leadership. That response, as argued by the authors, cannot ignore what distinguishes the EU from its global competitors.

Embracing an economic model that threatens the social fabric of the Union or sacrifices workers' rights at the altar of deregulation cannot be the chosen path that leads to enhanced well-being for European citizens.

As the authors conclude, the transition toward sustainability will make Europe more competitive without compromising its social and environmental

achievements thus far. That said, the authors are under no illusion. Europe faces formidable challenges, but unity, further harmonization of its policies and a determination to renew itself while maintaining what makes it strong as a Union, is what will make economic sustainability more achievable.

Dr Enrico Letta
Dean of the IE School of Politics, Economics,
and Global Affairs, IE University

DEFINING SUSTAINABLE ECONOMIC GROWTH

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ABSTRACT

This chapter aims to unravel the various, and at times contradictory, definitions of sustainable development that have been used over the years. The primary motivating factor for this analysis is that if we, as a society, truly believe that sustainability for current and future generations is indeed a desirable outcome, then it makes sense to understand what this actually entails, and therefore, the parameters that will enable us to measure our progress toward this outcome. The economic definition of sustainable development and related concepts are first explored, navigating their nuances, implications, and potential controversies, particularly when it comes to the role of government in facilitating a sustainable future. This is followed by a detailed look at the United Nations' Sustainable Development Goals (SDGs), which have popularized the concept of sustainability and driven academic, policy, and activist work across the globe. Once again, although the SDGs have become the de facto criteria for what constitutes sustainable development in recent years, various potential shortcomings and issues are highlighted in the chapter,

as evidenced by a global impasse in reaching these goals. Finally, the chapter looks into the work of the European Union (EU) and the extent to which sustainability has permeated European policy, regulatory initiatives, and rules over the last few years, with varying degrees of success amid a growing backlash against over-regulation in favor of a renewed focus on competitiveness. The chapter concludes by reiterating the need to reconcile all three pillars of sustainability – environmental, social, and economic – if we are to truly embrace the concept of sustainable development, both from a policy and societal perspective, particularly in the face of rising geopolitical uncertainties.

Keywords: Sustainable development; economic growth; environmental protection; social capital; sustainable development goals; European Union

INTRODUCTION

Over the last decade, almost every single politician or world leader across the globe has stressed the need for sustainable economic growth, just before explaining why they are best positioned to deliver such growth to their electorate. “Sustainable” has become the adjective of choice to describe economic growth in today’s world, perhaps as a counterbalance to the increasingly negative reputation that unfettered economic growth has garnered in recent years and the clamor for more equitable, well-being-oriented policies. And of course, this choice of adjective has filtered down to practically every aspect of our lives, from personal finances to marriages – everyone insists on using the word “sustainable” to describe their end goal across these myriad domains. Sustainability has well and truly taken over our world, at least from a lexicological perspective. Nonetheless, there is a small catch – does anyone truly know what sustainable economic growth actually entails, or indeed what it should look like? In many respects, the concept of sustainability bears more than a passing resemblance to another enduring, ethereal mystery, namely the Holy Grail, coveted by knights, fedora-bearing explorers and middle-aged pseudo-scientists alike, and the subject of endless books and YouTube videos. Despite the passage of time, many are still enamored by the search for the grail, and as at the time of writing no fewer than 200 vessels across Europe, from Valencia to Genoa, have been claimed as the real grail. A truly miraculous feat befitting such a magical object and its apparent multiplicative capabilities, but which may have more to do with overzealous prelates eager

to claim a slice of the lucrative religious tourism market and the (sustainable?) economic growth that ensues for local businesses. And yet a key contributor to this anomalous situation is the fact that no one really knows what the grail is supposed to be – is it a cup, or perhaps a plate, or even a person? With this buffet of choices, no wonder everyone claims to possess the grail, because nobody knows what it actually is, so to put it mildly, the audit trail is somewhat flawed.

This leads us perfectly back to the concept of sustainable economic growth, and our current quest to uncover its true nature. Unless we can agree on a set of clear, tangible, and quantifiable parameters to define the confines of sustainability, we are doomed to a grail-like existence where everyone espouses their contradictory sustainable credentials to an increasingly jaded and agnostic populace. In this regard, academics, politicians, international organizations, and opinion writers have all weighed in on the subject, attempting to define sustainability through their lens of choice and potentially muddying matters even further. In this chapter, we shall undertake a task of Arthurian (or likely, Monty Pythonesque) proportions by sifting through the plethora of definitions, descriptions and treatises in an attempt at finally uncovering the true meaning of sustainable economic growth with all of its real-world ramifications and implications for society and well-being, all in an accessible and straightforward manner. Legend has it that Sir Galahad, one of the famed Knights of the Round Table, upon seeing the Holy Grail, requested to die, overcome as he was by the sight of this hallowed object. Unfortunately, we do not make such lofty claims regarding our search for a working definition of sustainability. Nonetheless, we are determined to shed some much-needed light on this subject, since ultimately with clarity comes greater awareness and, more importantly, accountability.

A DISMAL DEFINITION

Given the subject matter, it is perhaps fitting to kickoff proceedings with the economists, not merely because all three authors are hopelessly biased as economists, but mainly because if we are to tackle the issue of sustainable economic growth, then there is no better place to start than the discipline that has claimed growth as its *raison d'être*; the fulcrum of its relevance. As you can imagine, there is much to unpack here, because although economics claims to be a science with considerable reliance on positivism, mathematics, and data analysis, the reality is that ideology and personal biases are never too far away from the equation. We start with the most basic economic concept

of sustainability, popularized by such luminaries of the field as Nobel laureate Kenneth Arrow,¹ which entails a level of current economic growth that can be sustained indefinitely into the future. In simple terms, this means that if current economic growth within Camelot stands at 4% in real terms for 2024, then this level of growth can also be attained (and potentially exceeded) in the coming years. Now, economic growth does not simply materialize but is rather the product of the output generated from the use of a country's scarce resources, be it workers or, more broadly, capital, which encompasses everything from machinery and intellectual property to natural resources. Hence, a direct implication of sustainable economic growth is that current activities cannot in any way reduce our capability to produce output, and thus must not deplete our stock of resources, since otherwise, Camelot would struggle to reach 4% growth in the future.

Therefore, the key to sustainable economic growth is the preservation of our resources and capital over time, or at least their productive capabilities. So far, so simple, and notice that this iteration of economic sustainability makes no explicit mention of the environment or indeed social issues; it focuses solely on general resource preservation. But here is where the divergences begin. On the one hand, "weak" sustainability proponents zoom in on the "productive capabilities" side of the coin, arguing that it does not matter if some resources are depleted along the way to growth, as long as they are replaced by other resources that can take up the productive mantle. Which means that, quite simply, environmental protection is not a key part of sustainability, and that actually degradation may be fully justified, as long as we're replacing our natural resources with other resources or forms of capital that are at least as productive. Is the country running out of limestone because it's been quarried to death to feed the construction boom? No problem, provided that locals are investing in cement plants and concrete batching plants. In this universe, a resource is not defined by any woolly concepts like inherent socio-cultural value, but rather by its ability to produce stuff, and if a resource is sacrificed at the altar of growth because a more productive alternative is available then so be it. On the other hand, "strong" sustainability argues that natural resources cannot be replaced by other forms of capital or investments; they are essential complements to life and the generation of economic growth. Therefore, our stock of natural resources is practically untouchable, due to the irreversible nature of such depletion, and that economic growth must necessarily work within these natural confines. A somewhat more realistic version of strong sustainability argues that there are certain critical natural assets that must be protected and preserved indefinitely since they provide the basis for life and economic activity, and hence cannot be replaced.

Clean air is perhaps the most obvious example of a critical natural resource – sure, we can all walk around wearing air filtration systems on our faces, but let’s be real, even the flimsy paper masks that we used to wear at the height of the COVID-19 pandemic were unbearably annoying; anything more would likely lead to widespread murder sprees.

Therefore, as with seemingly most things in life today, sustainability resides on a spectrum. Can we simply swap out natural resources for other, more synthetic variants if they provide comparable levels of productivity, or should we preserve critical natural assets at all costs and simply work around this constraint? The answer, which could not be more reminiscent of economists, is simply: “it depends,” with political, cultural, and other nebulous factors often impacting this dependency. Certainly, real-life experiences have, to some extent, tended toward the weak side of the sustainability spectrum. Take oil, the world’s favorite natural resource, one which generates the exact opposite reaction to the popular maxim “not in my backyard.” Norway is one such example that has significant quantities of this resource in its backyard. Like most oil-bearing countries in the world, Norway has understandably sought to monetize this resource, transforming its economic fortunes entirely over the last century to become the envy of many, consistently topping various well-being and prosperity indices. So far, so “unsustainable.” However, in an effort to feature on the sustainability spectrum, Norway has, since 1990, started a government-led pension fund that uses the proceeds from the sale of oil to invest in various companies, securities, and assets, which is currently valued at US\$1.7 trillion, the single largest sovereign wealth fund. And while the establishment of this fund was partly motivated by global oil price volatility and the need to smoothen income, a key driving force was also the recognition that current oil sales may be depriving future generations of the revenues potentially earned from the sale of such resources, since although oil is technically renewable, its rate of renewal is glacially slow relative to the extent of sales, which will eventually lead to potential depletion. In other words, a decidedly weak approach to sustainable economic growth by a country that many hold as a beacon of global sustainability in practically every domain. Which obviously begs the question: if this is the best that Norway can do, what hope is there for everyone else?

In any case, the moral of the story is clear: while we do have a broad working definition of what constitutes sustainable economic growth from the economists’ perspective, in reality, there is no consensus over what this entails in a practical sense, which is obviously the most on-brand economics conclusion anyone could have expected.

LAISSEZ-FAIRE?

Perhaps we're being a little unfair with our economic brethren. As you may have gathered, this concept of sustainable growth is fairly broad and "big picture," so it's inevitable that the end result would seem a little hazy. And yes, economists are often portrayed as indecisive, delighting in conditional statements, where a straight answer is harder to locate than, well, the Holy Grail itself. But dig a little deeper, and you will find several instances where seemingly indecisive economic theories or hypotheses have rather specific and pointed real world conclusions and policy implications. A clear case of such unambiguity lies in the work of Simon Kuznets,² a Nobel laureate whose work has been, for better or worse, at the forefront of our thinking in relation to development and economic growth for the best part of 70 years. Perhaps the most prominent of these contributions is his treatise on economic growth and income inequality, which spawned the eponymous Kuznets curve hypothesis. Briefly, this theory, which was borne out of statistical analysis conducted by Kuznets in the post-World War II period, states that as poor countries develop, income disparities will initially start to grow as economies start to shift from agricultural to more industrial sectors; however, beyond a certain point, as growth persists, inequality will start to fall due to social mobility opportunities provided by education, among other things, resulting in an inverted U-shaped relationship between economic growth and income inequality.

The implication of this hypothesis (depending on your political persuasion) is clear: economic growth is good for the poor, and will ultimately result in greater social mobility and lower income inequality, meaning that policy should always strive to boost economic growth, particularly in developing countries – a conclusion that has largely set the tone for the pro-growth agenda of several international institutions including the World Bank and its efforts to alleviate poverty across the world. Taken from the lens of sustainable development, since after all, social sustainability is intrinsically related to poverty and inequality, then quite simply, economic development is, *de facto*, sustainable, at least eventually, once we get past the uncomfortable initial stages of development. So, according to an admittedly somewhat obtuse reading of the seminal Kuznets curve hypothesis, economic development is the key to unlocking future social sustainability.

But what about the environment, which is typically where our brain goes whenever we hear about sustainability? Well, as it happens, Kuznets also has an answer for that, albeit one that was developed posthumously by others on the back of his original work. In fact, during the early 1990s, several

economists started to investigate the relationship between economic development and various forms of environmental pollution, culminating in the creation of the creatively titled Environmental Kuznets curve hypothesis. The gist sounds familiar – as economies first start to develop, environmental pollution increases due to the shift toward more industrial sectors, but as growth persists, pollution will eventually decline as the economy shifts toward cleaner, more service-oriented sectors and businesses invest in newer technology that is more efficient and less damaging to the environment, coupled with greater public awareness of, and demand for, preservation. Once again, we get that nice inverted U-shaped relationship that is so visually and intellectually pleasing, and of course, another clear-cut implication: economic growth is also the key toward unlocking long-term environmental sustainability, since its pursuance will eventually result in lower pollution. Once again, policy should focus on stimulating economic growth, with some even taking it one step further by maintaining that environmental regulations or limitations are, in this context, wholly unnecessary since growth will sort everything out. Therefore, it seems that the pursuance of economic growth is all we need to reach a sustainable future for all humankind.

At face value, this is a wonderfully reassuring finding – it essentially says that all we need is growth, and loads of it, to ensure a sustainable future for all, across social and environmental domains too. Which, if this were entirely true, would make this book rather redundant, together with all the countless other volumes, journal papers, EU-funded projects, conferences, and think-tanks on sustainability that have emerged over the last 30 years. How is it possible that we've had the solution to sustainable development right in front of our eyes for the last 30 years, and potentially 70 years, and yet we've all seemed to miss it, or willfully ignore it?

Despite what many may believe, life is in fact not always simple; and this is a prime example. In reality, both the original Kuznets curve and its environmental version have been subjected to a barrage of criticism and challenges from economists and other academics alike ever since their inception. The first and most obvious gripe stems from the static nature of these hypotheses – they portray a rather benign world with a somewhat linear growth path that yields some social and environmental teething pains at the beginning before ultimately rectifying things. The real world is a lot messier than this – things constantly change and evolve, from economic sectors to technology to institutional and political setups, all of which can have a significant bearing on both the extent and trajectory of economic growth and, crucially, the factors that these hypotheses postulate will lead to improved equality and environmental outcomes. We won't even attempt to invoke the

dreaded COVID-19 pandemic, since we can consider that to be a freak incident; but what about the rise of Artificial Intelligence (AI)? How will that impact the growth paths of different countries around the world, and will its proliferation entrench existing disparities, or will it democratize knowledge to the benefit of lower socioeconomic status cohorts? And what more can be said about the environment – at the time of writing, the general trend seems to be a renewed anti-climate change skepticism, fueled in part by the re-election of President Donald Trump in the USA, but also due to rising competitiveness concerns among European heavy-hitters like Germany amid lackluster economic performance. Recall that it was only 10 short years ago that the Paris Accord was being signed to much global fanfare and tree-hugging glee with a shared promise to combat climate change. This zeal for climate action has, since then, ebbed and flowed in all directions, depending on who is in power and shifting public perception.

Another major criticism of the Kuznets diptych, or rather its face-value interpretation, is the fact that it has nothing to say regarding the exact point beyond which economic growth will improve equality or environmental outcomes. This is the so-called turning point level of development; the inflection point in this inverted U-shaped graph, as shown in Fig. 1.

In other words, the hypotheses state that these turning points will occur at some point, but we have no idea when this will happen, or if indeed they will happen at all. Let's take a simple example – imagine that we estimate a global Environmental Kuznets curve for economic growth and carbon dioxide emissions and find that the turning point level of income beyond which emissions will drop is US\$100,000 per capita. The initial researcher excitement at empirically confirming such a controversial hypothesis would be rather

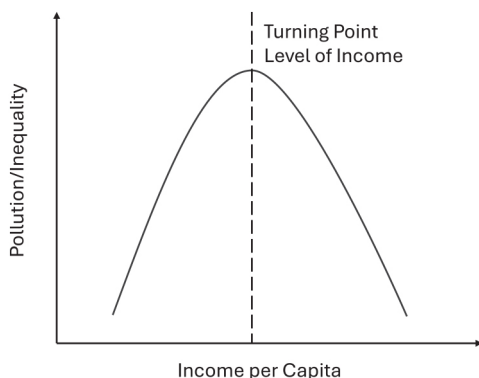


Fig. 1. The Kuznets' Curve.

Source: Author's own illustration.