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"It's the social model, stupid!"

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Faced with major security crises, the loss of certainty about long-term allies, and the massive competition of Chinese and US technology champions on both electric and digital revolutions, the European Union (EU) needs to fundamentally reinvent its policies. [Mario Draghi's 2024 Report on Competitiveness](#) has rightly put front and center the need for a major new impetus on economic and investment capacity, a necessary condition without which neither security, nor prosperity nor the transition would be possible. But the EU also faces the need to relaunch the social model of which the continent has been a pioneer and a major example. The assumption that reindustrialization investments, already a massively challenging objective, will suffice to solve crises in Europe is extremely fragile. Opening a European scale conversation on the social model is necessary, if we want to preserve democracy, prosperity, solidarity, as well as sustainability.

Priority to investments as an absolute necessity

Mario Draghi's words, "*We have reached a point where, without action, we will have to compromise on our prosperity, our environment, or our freedom*", are significant: without massive renewal of investment capacity in Europe, we will not reach our decarbonization objectives in time without becoming dependent on imported technologies; and rebuilding a Europe-based arms industry is also needed. Investment for economic transformation is hence a priority for economic growth and prosperity, but also for security and sustainability.

In the face of [the recently issued US national security strategy](#) that directly attacks European democracies, as well as the massive dominance of Chinese technologies in renewables, batteries, electric vehicles, this diagnosis seems always clearer: either we speed up economic transformation and the corresponding investment capacity, or we lose strategic autonomy and security, as well as economic prosperity. This basic but critical call to prioritization of investments has now become common sense in Brussels and in EU capitals.

Some steps go in the right direction, for instance the draft of the new multiannual European budget for 2028-2034 presented by the President of the European Commission, Ursula von der Leyen, and particularly the idea of creating a European Competitiveness Fund ([IDDRI, 2025](#)), which was largely inspired by the theses of the "Super-Mario Report". Changing the priorities of the European budget and allocating about one third of the funds to investments in the competitiveness of European industry and new technologies is certainly a step in the right direction.

It is important that we catch up with the technological gap between European companies and their global competitors, that we generate as much added value as possible in Europe. The speed of the transition to climate neutrality in Europe should not depend on the production capacity of the People's Republic of China.

[Enrico Letta's 2024 Report on the Future of the Single Market](#) also complemented this vision with its emphasis on bringing European savings back to investments in Europe. It is better for us to finance jobs and GDP in Europe rather than elsewhere. But currently European savings continue to be heavily invested in US financial instruments, financing US companies who in return dominate EU markets, for instance on digital. Building a Union of savings is hence a major next step on which very little progress has been made.

Overall, the definition of a European economic sovereignty policy is on its way, but seems to be very slow, due to a lack of political leadership and championship among Member States (MS) leaders. Bargaining between sectors and between MS slows down every step, when a big leap forward would be fundamental. The EU has been able to change gear and innovate in terms of instruments and decision-making processes during the COVID crisis or at the beginning of the Russian war in Ukraine. But it lacks a clear political vision and impetus to unlock critical economic decisions, without which neither security, nor prosperity nor sustainability will be possible.

The lack of political vision for Europe reinforces citizens' mistrust

This is also a problem with regard to its citizens, who express their need for more protection in turbulent times, and the degradation of their agency and capacity to decide and act. Too often in the political debate, the lack of autonomy of citizens or companies to decide on their future is blamed on international cooperation treaties, while it is actually linked to the fact that our interdependencies with other regions of the world (as resources providers, technological partners, future markets, political allies) are inevitable, and that they need to be managed and organized very actively and carefully in order to ensure strategic autonomy and sovereignty.

Cooperation with other countries is a much safer way to ensure security than trying to cut links. There is a major necessity to demonstrate that common EU decisions on very concrete supply chain dependencies, for instance on regulations that incentivize but regulate the conditions of Chinese foreign direct investments in Europe, are the only way to ensure strategic autonomy. But EU MS are not united, as some play a zero-condition game to attract Chinese

investments. And would they be united, the lack of strong European voices and the political interplay between parties do not enable to properly discuss interdependencies and conditions for cooperation, as is apparent in Poland or France on the difficulty to objectively assess the strategic advantages and not only the risks and losses linked to the free trade agreement with Mercosur. More local content, more investments in Europe are a necessity, but they need to be carefully balanced with maintaining relevant linkages to partners outside of Europe, for security as much as for prosperity reasons.

The political blaming game is also on the ecological transition, supposed to be the source of the lack of competitiveness or of the loss of jobs, as expressed by economic lobbies in European debates. This issue of jobs is extremely critical and would need much more attention both in terms of analysis and of policy proposals.

The necessity to discuss the changes in labor and the whole social model

It would be naive to believe that investments in production capacity will guarantee the creation of new jobs. Today, halfway through the third decade of the 21st century, the key to gaining an edge in the global competitive race between industrial giants is increasingly automation of production, as machines and robots can work 24 hours a day, 7 days a week, and 365 days a year, do not get sick, do not demand inflation-indexed pay raises, do not need lighting in production halls, and can work in unheated and un-air-conditioned rooms, which means they are much, much cheaper.

If so, then European decision-makers are faced with a completely new and more serious problem. While the political conversation has relevantly but still insufficiently centered on investment for industry in Europe, it is very uncertain that, even if we achieve a renewal of competitiveness in the European industry, this industry would be labor intensive enough to provide jobs to the level promised in political discourses.

Until now, the basis for the functioning not only of Europe, but indeed of democracy on the Old Continent, has rested on the capacity to provide decent jobs and income to employees in industry and services.

How can we maintain the European welfare state in a situation where European industry is undergoing automation of production processes, and where productivity increases in industry and services are going to change drastically the number and quality of today's known jobs? Could the creation of a "*Made in Europe*" industrial policy be enough to achieve the goals of social prosperity and climate neutrality? As the foundations of the economy are facing threats, and as jobs might be lost, the European middle class might want to turn its back on the modernization agenda and want to return to the "good old" recipes already proposed since the 1980's and ask for pure "deregulation" of the economy, as if this would be the solution to jobs creation.

The unstoppable changes in jobs quantity and quality under technological advances are also putting a further strain on public revenues. The automation of production processes and the simultaneous decarbonization of the economy (reducing the revenues from tax on fossil fuels) will dramatically change/reduce the structure of public revenues.

Therefore, not only do we have to figure out how Europeans are going to earn their living, but we also must redesign the public revenue system, especially since the decarbonization process itself assumes that a significant part of public revenues currently based on fossil fuel taxation will simply cease to exist.

The social model and the role of labor need to be redefined, not abandoned

Taking into account these potential drastic challenges on jobs, it is essential to strive to maintain some form of social protection, some form of stability for a majority of the workers and employees that were once crucial for European

social democracies and market economies in the form of a middle class. That might necessitate to redefine the role of labor in our lives, in terms of access to income, but also to protection, to security, to dignity and a role in societies, but also at a more collective level in financing the welfare system, all of which make up the "social contract" ([IDDRI, 2024](#)): all this is not only a prerequisite for the success of the transition process, but in fact a prerequisite for the survival of democracy and the European Union as we know it.

Our democracies are at stake not only because of deliberate military hybrid attacks, of the interference of foreign governments, from all sides, but also because of the transformation of labor, that has been so central to our social model, prosperity and solidarity. Europe needs to find a new impetus to reinvest in its economy, as well as a critical new impetus to at last redefine its endangered social model.

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