

Position Paper 2021/135

An economic governance supporting a ‘better green and digital normal’ that works for all

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A fair and inclusive recovery from the COVID-19 crisis to a green and digital economy depends on a successful exit from the measures put in place to safeguard the economy since the outbreak of the pandemic. But a complete green and digital transformation of the whole European industry needs a progressive and forward-looking reform of the EU’s economic governance system. The macroeconomic rulebook of the EU must be progressively reformed in order to ensure the necessary investment capacity of Member States. Austerity will not deliver the decarbonisation and the digitalisation agendas in a fair and inclusive way.

The European Commission is expected to launch the debate on reviewing the macroeconomic governance framework of the eurozone in autumn 2021. The European Parliament [called](#) for this review in July 2021. The debate must go beyond the eurozone and include the entire EU economic governance system.

On the one hand, some political voices are in favour of making parts of the temporary support measures permanent. For example, France and Italy want to keep the flow of EU investments by making jointly backed debt permanent. On the other hand, voices from influential conservative and liberal political leaders are speaking in favour of a return to the harsh economic and fiscal pre-pandemic rules. They want to see fiscal orthodoxy put back in place as soon as possible and, indeed, the European Commission has announced for now the deactivation of the general escape clause already for 2022. This means that the supportive fiscal policies which are required for transforming the European industry into a green and digital global leader could end in 2023. Needless to say, the transformation praised by all political voices is impossible without a supportive fiscal framework that allows investments to flow where needed.

A quick return to the economic and monetary discipline would be a huge mistake and would threaten to make many of the recovery and transformation efforts redundant. State intervention has delivered for all. We must avoid the trap of returning to a fully market-driven economic policy. Europe needs to show that it has learned from the mistakes of the previous 2008-2009 financial crisis when the harsh austerity and fiscal orthodoxy threw the European economy into a deep recession. We cannot afford to make the same

mistakes at a time when anti-democratic movements and populism are growing, and the climate crisis is intensifying.

The pandemic has been increasing the already existing inequalities in Europe, regardless of whether we speak about economic inequality, access to education, or the state of the digitalisation and the decarbonisation of the industry in different European countries. The recovery was presented by political leaders as a promise to “build back better”. European workers want to see this promise fulfilled by getting their fair share of the recovery through good quality jobs and access to life-long learning and adequate social services.

In this position paper, industriAll European Trade Union warns against a too early exit from the supportive measures that kept the economy running and argues for a progressive reform of the EU economic governance system. We highlight the paradox between the discourse full of promises of a better future displayed by many policymakers and the threat of a potential austerity from the backdoor through the required reforms of the National Recovery and Resilience Plans. We highlight the dangers of booming inequalities which threaten to create a polarised society of winners and losers of the recovery and the transformations. We present best practice solutions to these challenges put in place by and/or together with the social partners in some Member States. Finally, we conclude with our demands for policymakers and employers to alleviate the threats and achieve a fair recovery and just twin transitions. It is a common responsibility of all actors in society to build back a greener, digital and more inclusive economy that will create a better ‘normal’ that works for all.

Unravelling the paradox

The unprecedented [Recovery Plan](#) raised many hopes for a better future across Europe by bolstering the financial means for Member States to realise the ambitious climate and digital targets put forward by the EU Industrial Strategy and the Green Deal. A return to the pre-pandemic normal, where precarious jobs and inequalities had been [reported](#) to be on the rise, was not part of these hopes. In-work poverty, as one of the strongest indicators for job precariousness, has increased continuously since 2005, with young people and workers in atypical jobs most likely to be affected. Moreover, a drop in transition rates from temporary to permanent contracts has been [registered](#) in most EU countries, while the transition from temporary jobs to unemployment rose dramatically.

Positive signals were given when policymakers decided on a common European instrument to finance the recovery across the block. In a similar fashion, at the [Porto Social Summit](#), leaders even recognised the need to move away from GDP as the only instrument to measure growth and to orient towards other indicators which take social and environmental wellbeing into account. Collective bargaining and social dialogue were on everybody’s lips, as policymakers finally rediscovered these two instruments which ensure a fairer redistribution of profit.

However, this positive rhetoric must be translated into political action. Policymakers must resist the temptation to resort to short-sighted fiscal orthodoxy and harsh economic prudence when disbursing the money from the [Recovery and Resilience Facility](#) to Member States. The money must continue to encourage the economic recovery initiated thanks to the current support measures, and provide the investments

needed for the twin green and digital transitions. Under no circumstances should the recovery money be conditioned by measures that resemble a hidden policy of austerity from the backdoor, that would threaten to increase inequality by once again putting the burden on workers and citizens. In times of crisis, increased social spending is behind fiscal deficit, as this is an automatic fiscal stabiliser. This must be recognised as part of the solution to the crisis and part of ensuring the necessary productive investments to deliver the twin transitions.

However, the threat of austerity from the backdoor is visible in some Country Specific Recommendations of the European Semester, which are meant to guide the Commission in the assessment of the National Recovery and Resilience Plans. A couple of examples are worth highlighting: Almost all Member States are recommended to reform their national pension systems in order to make them more sustainable. Concretely, this can mean several things, from making private pensions more attractive (recommendation for Germany) to increasing the retirement age (recommendation for France, Lithuania, Romania, etc.). In some cases, the recommended increase of the retirement age is absurd, like for [Lithuania](#), where the Commission is asking a country whose life expectancy for men is 71.5 years to increase the working age to 72.

Some reforms are already underway. In [Greece](#), the government has already passed a highly controversial labour law that increases working time and limits workers' fundamental right to strike. In [Slovakia](#), the government is also in the process of dismantling the welfare state and of rolling back on the social rights of citizens. In Italy, the government backpaddled on the redundancy freeze that avoided massive unemployment, but luckily the social partners managed to achieve another extension until the end of October 2021.

Romania is a good example of the urgent need to move away from GDP towards indicators like the ones [proposed](#) by the European social partners. The country paradoxically [registers](#) the highest GDP growth in the Commission's summer 2021 forecast (7.4%), while around 30% of its citizens are [reported](#) to be at risk of poverty and around 15% [suffer](#) from severe material deprivation. Romania's National Recovery and Resilience Plan, as well as the Commission's Country Specific Recommendations, do regrettably little to address this paradox and to ensure more social justice in order to pave the way towards upward convergence in the EU. Similar paradoxes can be observed across Central and Eastern Europe. A progressive reform of the EU governance system and economic policies is needed in order to allow the necessary investments to achieve European integration through upward convergence.

Unfortunately, the Country Specific Recommendations of the European Semester either ignore or have no teeth for the progressive social reforms much needed in most EU countries. Ignoring the social dimension of the recovery and of the green and digital transformations is a recipe for disaster that will throw Europe into social unrest and populist turmoil. Progressive social reforms are needed, among others, to build, rebuild and strengthen social dialogue and collective bargaining structures across Europe. Both are key to ensuring quality jobs and Just Transitions and a good life for workers. Not only did many Member States ignore the Commission's recommendation to improve social dialogue, but they have also disregarded the requirement to involve social partners in the drafting of the National Recovery and Resilience Plans. The involvement has been superficial in most countries, in a process that looked more like the governments

informing, rather than consulting the social partners. So much for leaders praising social dialogue and collective bargaining at the Porto Social Summit!

The EU must reform its economic governance system in a progressive manner in order to ensure a successful recovery to a green and digital economy. Fairer taxation systems are needed that ensure a redistribution of profits in the countries where workers help produce them. Fairer redistribution is essential to ensure that investments take place across Europe and not only in concentrated headquarter regions. The recent political agreement on a minimum corporate tax rate of 15% reached within the framework of the OECD is a step in the right direction. However, the EU should follow with even more ambitious measures that are urgently needed in order to prevent a polarised society of winners and losers.

Preventing a polarised society of winners and losers

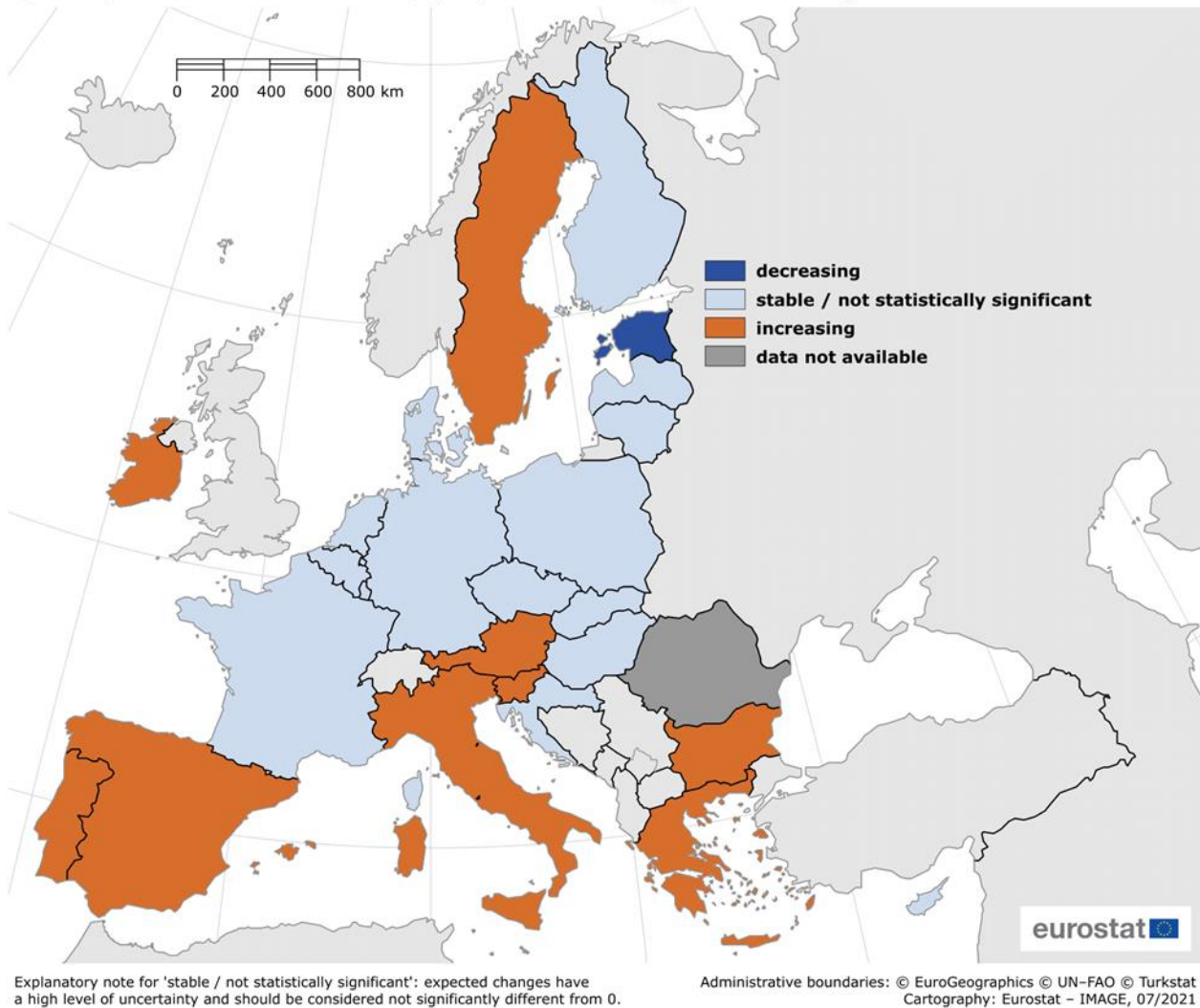
After over a year since the world was hit by an unprecedented economic and health crisis which left millions in poverty and without access to healthcare, vaccination or education, humanity is [reported](#) to have gained 5.2 million new millionaires. Moreover, dollar millionaires for the first time represent 1% of the global adult population. In simplified terms, this 1% owns almost half of the global wealth, whereas the poorest half of the population hold only 1% of it.

If these figures are not enough to draw a clear picture of the booming inequality (in all its dimensions) and the injustice in our society, then let us take a moment to reflect on the fact that the world's billionaires are flying into space in the middle of a pandemic, an economic crisis and a climate emergency. So, billionaires can offset huge amounts of carbon, while workers are losing their jobs and livelihoods due to a lack of anticipation, investments in decarbonisation, company restructurings and because sectors are shutting down in the effort to mitigate climate change. Few seem to question the system that allowed a couple of people to accumulate the wealth needed to probably achieve some of the UN's [Sustainable Development Goals](#), like ending world hunger. Such disproportionate accumulation of wealth is possible due to the lack of a fair taxation system in the global and European economy (the lack of a fair and progressive international or, at least European, taxation system favours the rich, who can avoid paying their fair share of taxes in the countries where workers help to produce the profit; meanwhile workers pay their share because they cannot escape to tax havens). Moreover, such disproportionate accumulation of wealth by the lucky few is only possible in a system where workers are exploited in a race to the bottom, through social dumping and no due diligence across the global and European value chains. We are clearly not "all in this together".

Inequality is increasing everywhere and at higher levels since the start of the pandemic. However, compared to the rest of the world, the situation in Europe has been more or less managed due to state intervention. [According](#) to Eurostat, households' employment income dropped by 7% across the EU in 2020, but disposable income remained stable, thanks in large to the widespread use of income support and furlough schemes. This clearly shows the importance of successfully exiting the support measures in order to avoid a disaster in our society that would only favour the already growing populism. Nevertheless, lower-income groups have been worst-hit, as in-work poverty has been increasing in Portugal, Greece, Spain, Italy, Ireland, Slovenia, Bulgaria, Austria and Sweden. We need a progressive reform of the EU

economic governance system that would enable progressive social reform and encourage the investments needed to create quality jobs across Europe.

At-risk-of-poverty rate in 2020, early estimates (compared with 2019; population aged 18-64)



Young people have once again been the most severely affected. [Youth unemployment](#) is again much higher than the [general unemployment figure](#) (17.3% compared to 7.3%). The risk of scarring is huge for this category, as many could end up long-term unemployed, inactive and in poverty. The effects on young people's mental health is also disproportionate, as according to the OECD, on average 34.4% of young people aged 18- 29 reported negative mental health impacts, while the figure is 19.4% for people aged 50- 64.

Some national examples are also worth highlighting. In France, financial wealth is [estimated](#) to be €50 billion higher than it would have been without the pandemic, and about 50% of this excess money went to the top 10%. Meanwhile, for the poorest 10%, debt has increased. One of the reasons for this growing

inequality is the nature of the current pandemic crisis, which favoured the highly-skilled, who could telework and had less to spend on, while harming the middle- and low-skilled, who had to interrupt their activity. In Spain, income inequality spiked, especially during the first six weeks of the lockdowns in 2020. The job retention scheme put in place by the government, in consultation with the social partners, did provide some 70% of the previous income to some 600,000 furloughed workers. However, it is to be seen how many of them will still be in employment when the support measures end.

The polarising effect of the current crisis on society and the labour market is becoming more and more visible, especially when looking at the accelerated demand for high-skilled workers. In Belgium, two-thirds of the 600 companies [surveyed](#) in May 2021 said they were struggling to find suitable candidates. The lack of skilled workers, but also the general lack of labour force, is a widespread problem across Europe. Endemic inequalities have forced and continue to force millions of (especially young) people from the South and the East of Europe to leave their country in search of a better life. The most dramatic example is [Bulgaria](#), which is threatened by depopulation, as it is estimated to lose 25% of its population by 2040. This depopulation and brain drain further impoverishes labour markets, welfare systems and deprives their country of origin from benefiting from its investment in training and education and is further aggravating the economic and social imbalances between EU countries. We need a progressive reform of the EU economic governance system in order to effectively tackle two root-causes of inequality in Europe, namely social fragmentation and social dumping.

The polarising threat of unaccompanied green and digital transitions

The twin green and digital transitions (accelerated by the COVID-19 crisis) are increasing the already existing inequalities in Europe.

In the case of the urgently needed green transition, which is a public-led agenda, quality employment appears as a bottleneck. The jobs in green, emerging sectors (like renewable energy) are not always as good as those in carbon-heavy sectors (like oil or petroleum). In other words, due to the decentralised structure of the renewable sector, with smaller companies joining the market, it has been more challenging for workers to organise and bargain for employment conditions, hence the pay and benefits have been much lower in the former sector. Consequently, many workers face the transition with fears for their future income and working conditions, as this would mean giving up jobs in traditional sectors secured by collective agreements and high employment standards, along with uncertainty about the quality of jobs in emerging sectors and companies. Indeed, good quality jobs, with adequate wages and working conditions, are a key precondition in ensuring a socially acceptable and Just Transition. This issue is also linked to the challenge of skills shortages, which is hindering the transition. Ensuring that enough workers undergo training in order to acquire the right set of skills needed in the green sectors is currently a burning problem. The public authorities who are driving this transition have not been able, so far, to put the right public policies in place to ensure good quality training that leads to good quality jobs. Meanwhile, many companies have not yet understood that investing in life-long learning and continuous training, and granting workers the right to training, is determining the innovativeness and sustainability of a company.

The social dimension of the decarbonisation agenda is not ambitious enough to make it acceptable especially to low- and middle-income households. While we welcome the emergence of Just Transition

initiatives on the EU level and in some Member States, they are not yet sufficient to address social justice and workers' rights, and policymakers even often ignore the essential need of workers' participation, social dialogue and encourage ownership of the transition. The Just Transition Fund that intends to support coal- and carbon-intensive regions in the transition and the proposed Social Climate Fund that intends to address energy and transport poverty are welcome tools to support the transition. However, they are not sufficient to address the employment dimension and to ensure good quality jobs. A genuine Just Transition necessitates workers' rights that have to be carved into a legal framework in anticipation of the change and restructuring. At the same time, reforming the EU economic governance system is key in this debate because investments need to flow to all affected areas and social partners need to be involved in managing the transition.

Digital transformation is accelerated by a private business-led agenda. Companies are seeing in the digital transformation the potential of great productivity gains and of increased comparative advantage compared to the rest of the world. However, not all the consequences for the workers are considered. Many tend to focus on the few ICT expert positions with good working conditions, while forgetting the thousands of low-skilled workers who need access to training and quality employment.

The digital transition poses a growing danger of polarisation of the labour market. On the one hand, de-skilling leads to less qualified positions and, consequently, could lead to jobs of less quality. On the other hand, there is growing demand for high-skilled workers. Overall, the consequences for good quality employment could be very negative, unless a smooth transition is ensured through public policies, workers' participation and social dialogue. The EU economic governance system is key also here, because it needs to allow for all the necessary investments in training and digital technologies across Europe. A divided EU, with hyper-digitalised and high-skilled headquarter regions and low-skilled, technologically laggard peripheries, must be avoided.

Best practice solutions from the social partners

European and national policymakers have a clear responsibility in managing the recovery and the twin transitions. However, employers also have a responsibility and must contribute to these efforts. Social dialogue has shown its worth during the current crisis. The job retention schemes which have saved millions of jobs across Europe were the result of trade union demands negotiated with employers and put in place by governments. The EU has rightly played its part through [SURE](#), by providing much needed economic support to help governments finance these schemes. SURE needs to continue as long as the huge challenges of the twin transitions lie ahead. Employers must join trade unions at the bargaining table, also in the countries where they have not yet done so, like in Central and Eastern Europe (but not only!), and find balanced solutions for a fair recovery and successful Just Transitions.

In countries where employers join trade unions and act in social partnership, best practice solutions are found and put in place to ensure that the economy is running, that good jobs are maintained and that access to training for the urgently needed green and digital skills is offered. These solutions could be the answer to some of the issues that the authorities are trying to solve in the current recovery towards a digital and green economy.

A couple of these best practice solutions put in place by and/or together with the social partners in some Member States are worth highlighting. In Germany, the recent agreement for the metal and electrical industries; concluded by IG Metall; shows solutions for safeguarding jobs and securing quality employment in the transforming industries. To safeguard employment, companies in crisis can convert the extra transformation pay won by the union in the current agreement into time off. A four-day week with partial wage compensation is also made possible. To secure the future, IG Metall has enforced framework rules for future collective agreements in the plants, in which, for example, target profiles, personnel requirements and qualifications for the work of the future are negotiated.

The reduction of working time as a solution to safeguard quality employment in times of crisis and change is also implemented in other countries, like Spain. The Spanish Government has agreed to launch a pilot project of a four-day week (32 hours). The shift has no financial impact on the companies or workers concerned, as the state will cover the wage cost of the working time reduction through a special allowance. The government will also support reorganisation of production and digital changes at companies in order to increase productivity. A budget of €50 million has been allocated to the efforts.

In Italy, the three representative unions have signed an agreement with oil group ENI, which combines early retirement and new hiring. As many as 900 workers may take voluntary retirement, whereas 500 new staff will be hired in order to facilitate the transformation to low carbon emissions by introducing new skills. The project will be accompanied by a training plan for some 20,000 workers. The procedure of ENI is part of the Italian 2021 finance law that aims to foster generational renewal in large companies.

These examples are only a few of the many solutions that social partners have put forward across Europe in order to ensure a recovery and just twin transitions. These balanced solutions offer benefits to workers, employers and the entire economy and society. We need such balanced solutions to avoid workers and their families being left behind and populism from taking over Europe. IndustriAll Europe has clear demands towards both policymakers and employers to achieve together a fair recovery towards a green and digital European economy.

IndustriAll European Trade Union's demands

IndustriAll Europe, together with its members, is fighting for a fair recovery from the COVID-19 crisis and for a Just Transition in the twin green and digital transformation processes. These can only happen if policymakers ensure a successful exit from the emergency measures put in place to keep the economy running since the start of the pandemic. Just Transitions across Europe that would avoid a surge in inequalities and populism require a progressive reform of the EU economic governance system in order to allow all the necessary investments to flow.

Demands towards policymakers:

- Maintain the emergency measures that have kept the economy running since the beginning of the pandemic, for as long as necessary, until the recovery is reached.

- Reform the fiscal rules in order to reflect the current reality and to enable Member States to meet the challenges of the twin transformations (the current fiscal rules were designed in the 1990s, as a result of the inflationary experiences of the '70s and '80s).
- Rebalance the European economic governance by not only focusing on public deficits and cost competitiveness, but by integrating the social dimension (the European Pillar of Social Rights, the UN Sustainable Development Goals), by making the European Monetary Union more resilient against future economic shocks; by addressing current account imbalances throughout; an increase of domestic demand in countries with a surplus; by integrating the objectives of full employment and sustainable development into the mandate of the ECB.
- Ensure that the financial markets play their full role in supporting long-term investments in the real economy and financing the transition to sustainability. This will require actions to promote sustainable investments, the creation of a fully-fledged European capital markets union, and a stronger role for public investment banks.
- Put an end to the suppression of social objectives under restrictive European fiscal rules that prevent the expansion of social investment and legitimise the reduction of labour standards and wage moderation, as well as restrictions on pension and social security systems. Instead of competition-based orientation, an active European social and economic policy must be pursued, based on strengthening domestic demand through wage developments in line with productivity gains and compensation for inflation rate.
- Promote internal demand (by increasing wages in line with productivity increases and compensation for inflation rate, reducing income inequalities and (in-work) poverty, increasing security throughout, reversing deregulation of labour markets and enhancing social protection.
- Rebalance the focus of structural reforms by moving away from deregulating labour markets, by promoting areas of social relevance, such as skills, collective bargaining systems, secure employment contracts, by creating a positive and predictable investment climate for companies, and by good public governance and effective public institutions.
- Step up the fight for fair taxation. All tax loopholes and tax havens need to be closed. Special tax deals inside the EU must come to an end. The European Financial Transaction Tax must be introduced without further delay. The Common Consolidated Corporate Tax Base needs to be implemented together with a minimum European company tax rate. Finally, fair models of taxation for the digital economy need to be developed.
- Develop a fairer taxation system in the EU, through a minimum corporate tax, that would ensure that companies pay taxes on profits in the countries where workers helped to produce them.
- Strengthen economies by boosting private and public investment, creating good quality jobs, supporting innovation and strengthening education and training.
- Put in place policies that are conducive to social cohesion and progress by supporting inclusive labour markets, equal treatment between workers and the creation of quality employment.
- Implement the Action Plan of the European Pillar of Social Rights in order to develop a true European social economy based on social dialogue and collective bargaining at all relevant levels.

- Minimise negative social effects for workers affected by the green and digital transformations by making the social dimension of the Just Transition a reality.
- Put in place a European legal framework on anticipation of change to deliver the promised Just Transition. This should establish a European level playing field by setting EU minimum standards promoting a pro-active and socially responsible approach to anticipating and managing change.
- Build, rebuild and strengthen social dialogue and collective bargaining structures across Europe in order to ensure workers' and social partners' involvement in the recovery and transitions.
- Strengthen and recognise the trade union organisations and their elected representatives in their prerogatives, their competences and their unavoidable role as actors in the social dialogue.

Demands towards employers:

- Prevent wage discrimination and social dumping.
- Shoulder their social responsibility towards workers and the local fabric of regions by promoting and ensuring the improvement of working conditions and offering high salaries in respect of the trade union organisations and their representatives in all their activities and along the value chain, and adequately channel their resources to step up their investment in high value-added activities and workers' competence development.
- Support and actively engage in social dialogue and collective bargaining at all levels. In particular, multi-employers' sectoral bargaining must be pursued as a priority as it is the best way to ensure fair and stable conditions for both companies and workers.