Annex 2 to Item 8

Evidence and Facts that supports the "ETUC for Recovery and Social Progress" in Semester 2022 (after the RETHINKING session 2021)

Adopted at the virtual Executive Committee Meeting of 5-6 October 2021

The EU Semester 2022 is an opportunity for the EU to move toward a narrative that looks beyond GDP and to adopt a development model that combines environmental and social sustainability in a logic of just transition. It means that the Semester will finally commit the EU and all member states to achieving Porto's headline targets on employment, education and training, and poverty. Bottlenecks that impede a quick deployment of the RRF have to be removed. Social imbalances, detected also thanks to the upgraded social scoreboard, should be addressed and resolved in a logic of upward convergence of working and living conditions of European workers.

It is urgent to design a strategic plan that would set the EU on a sustainability track as set in the UN2030 agenda. Investments will set the green and social objectives in a synergic position and a digital revolution that is job-rich, human-centred and respectful of workers' rights. **Still, the ETUC considers that the European Semester should help push the social sustainability agenda upward, giving full implementation to the EPSR Action plan.** Having regard to economic well-being, inclusiveness of labour market, workers' vulnerabilities, green objectives and technological advancements (the ETUC #EU_SDG8 index monitors these policy area).

All investments under the RRF should be financed under the conditions that lead to a net job creation and protect workers that are involved in job transitions. We need an EU vision to allocate investments in sectors that are strategic for the achievement of all SDGs. In this regard special attention has to be paid to women's position in the labour market.

Social dialogue and collective bargaining are crucial to ensure equality, social cohesion, social mobility and sustainable growth. This is particularly urgent in this historical moment, when a larger part of the aggregate income and wealth (as a consequence of the pandemic and the green and digital transformations) is transferred with uncertain redistribution effects that may penalise population groups and workers who risk being underrepresented in the absence of well-balanced industrial relations.

As the national plans set a detailed roadmap for investments and reforms it is urgent that the new Annual Sustainable Growth Strategy (ASGS) will set rules to integrate the European Pillar of Social Rights (EPSR) Action plan in the NRRPs and in particular will update targets and milestones to the achievement of the Porto Summit headline indicators. The EU Council has adopted the National Recovery and Resilience Plans (NRRPs) and financial resources begins to be delivered and this should speed up the green and digital transformation of the EU economy. While the RRF Regulation ensures that the NRRPs are assessed also against their social objectives they pursue, the current grid of assessment of NRRPs does not include the outcomes of the Porto Social Summit and in particular the EPSR Action Plan, the Porto headline indicators, the EASE Recommendation and the updated social scoreboard.

The macroeconomic outlook presents several elements of uncertainty. The macroeconomic outlook is set on economic growth even if it may take time to re-align economic trends to the baseline scenario estimated in pre-CoViD times.

Fiscal and monetary policies should remain expansionary to give leeway to government expenditure in support of employment, to fight poverty and to create a good environment for real economy development. The ECB and the European Commission should have in their policy landscape investment and job creation and the urgent need to protect people who are affected by either the pandemic crisis or by transition of the accelerating green and digital transformations.

The ETUC would also stress that economic growth will reward countries in different manner. A lot depends on today's policy decision but it depends on how national economies stepped into the pandemic crisis as well. The EU internal market has recorded one of the highest levels of inequality before social transfers[1], while the pandemic showed all the fragilities of the EU development models as it was deepening social gaps and segmenting the labour market[2]. Short-sighted fiscal and macroeconomic rules of the SGP undermined the resilience of the EU economy, social and health systems. It means that the recovery phase, even in a situation of sustained growth, may not be able to eliminate disparities and inefficiencies in the internal market and may lead to higher inequalities or social fractures that would divide the EU and its population in winner and looser. This has to be avoided having a reliable mapping of social risks threatening the recovery phase.

In this regard, **it is important that the EU will finally fill the investment gap estimated in €430 billion per year only for the green transition**. The RRF is finally delivering and member states are receiving the first tranches of resources (€50 billion in favour of 9 countries) to activate their investment projects. In this regard the ETUC asks **the EU Commission to be vigilant that the RRF and the MFF will generate a real gain in net public investments in each single member state**. In this regard, the fiscal rules should not prevent member states with higher debts to integrate the EU investment effort with own resources, especially to empower a just-transition approach. It is important that such vigilance is done in a way that green and social objectives mutually support each other promoting a concept of just transition and job creation.

The resurgence of inflation should be monitored and it exercises pressure on wage earners. The inflation rate is now around the 2% target of the ECB. The ETUC tends to share the view of those that consider the resurgence of inflation a temporary effect that should not endanger the sustainability of government debts, as far as the ECB and the EU institutions will shelter the debt position of national governments. However, surging inflation trends may pose problems to workers. In particular, to a more granular analysis, the ETUC is worried that the quick soaring of energy and food price and the inflation rates above 3% (as in Germany) or 4% (as in Poland, Hungary, Estonia) can create excessive pressure on purchasing power of wages. Households depending on wage earners can be exposed to difficulties and also poverty and this should be considered in the next European Semester. Wage dynamics must remain positive thanks to revamped collective bargaining institutions and practices. In particular, low-wages have to catch up with inflation and productivity and at levels that drastically reduce in-work poverty in all member states.

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[1] *See RETHINKING 2021 Session 6, in particular Rolph Van Der Hoeven.*

[2] *See RETHINKING session 2, in particular Anne Juliette Lecourt*

The current demographic context requires a strong anti-poverty strategy, and the guarantee for all EU citizens and residents to "age in dignity". Higher public expenditure for social transfer and safety nets to prevent poverty is necessary. Pension systems across Europe have already undergone comprehensive cost-cutting reforms, that have not significantly proposed solutions for public budgets, nor have improved pension adequacy for retirees. The pandemic proved how insufficient and ineffective the public expenditure has been for health and long terms care for decades. The contrast to the possible downturns of an ageing population cannot prescind from the implementation of the EPSR and the pursuit of its social targets. Increasing public expenditure according to demographic projections is necessary to satisfy the rights and the needs of present and future elderly people. The sustainability of adequate pensions to all generations is achievable through better labour market integration of people of working age, in quality jobs. Evidence[3] shows that achieving a level of employment integration that already exists in the best performing EU Member States in EU 27 would reduce the expected future increase of the 'economic dependency ratio' over the 2019 to 2070 period to less than one third.

Social partner's involvement in social protection reforms at national level, including those to be funded by the NRRPs and the ESIFs, **must be enhanced**, especially in a context of old age unmet needs, raising inequalities for certain age groups (namely young and elderly), uncertainties for the future of an ageing workforce. With the European Agreement on active ageing and intergenerational approach, social partners play a crucial role in enhancing a sustainable life-cycle approach to work, including an intergenerational perspective. In spite of the results that are achieved by national SPs in increasing chances for a healthy life in employment of 50+, the strategic involvement of social partners in reform design is very rare, or ineffective, or merely formal.

The implementation of the RRF should give a greater impulse to social partners involvement in the EU Semester and in the implementation of NRRPs. The ETUC alerts that to build a full narrative of upward convergence of working and living conditions in Europe, indicators cannot replace, but can eventually integrate, a solid dialogue between the policy makers and the social partners. Unfortunately, social partners' involvement was sporadic, fragmented and almost never do NRRPs treat social partners as co-regulator of the labour market and work conditions at the workplace. The ETUC remarks that the NRRPs analysis from the EU Commission checks if social partners have been heard together with other stakeholders but is unable to understand if such stakeholders have a role to play in the implementation of the NRRPs and if social partners will be able to contribute. The next EU Semester should remedy this, because without the social partners, the greatest part of economic and social reforms in the NRRPs will likely fail.

The fight against poverty should be a priority of the Semester 2022 and the Porto poverty targets should be better detailed at EU level. The 2019 data used to set the Porto target underestimate the poverty rates because statistics do not factor in the effects of the pandemic crisis on some population groups. We are aware that, unfortunately, the pandemic crisis will lead to much higher and dramatic poverty rates in the EU especially among households depending on low-skilled wage-earners, workers earning the minimum wage, single women with children, workers with migrant background, and households with low work intensity. This requires an additional effort to increase

[3] *https://spa1.etuc.org/2021/08/23/the-impact-of-labour-markets-on-economic-dependency-ratios-and-on-pension-adequacy-and-sustainability/*

granularity in data collection, identification of groups at risk and designing the correct policy response. The ETUC thinks that poverty needs an action plan that addresses all aspects of poverty, including in-work poverty.

A closer dialogue with trade unions will improve the capacity of the EU Semester to detect social risks and take into account the pandemic divergent employment effects across industries and long-term unemployment must be minimised as much as possible. The fiscal and macroeconomic position of member states have to be assessed against the contribution of each single member states wants to offer to the achievement of Porto's targets on employment, poverty and education/training. The EU coordination should help the definition of specific policies aimed at ensuring progress already this year, having in mind the need to tackle social risks that should now be better detected thanks to the new Social Scoreboard. However, the adoption of the new headline indicators is a step forward but insufficient because the full picture of social risks that the EU and member states have to address (also thanks to social country-specific-recommendations) need the secondary indicators to play a role. Semester 2022 should give way to a **social imbalance procedure** to engage member states in removing social shortages identified in the EU Semester and have sufficient fiscal space to activate investments, reforms and policy framework that trigger upward convergence of working and living conditions as envisaged in the conclusions of the Porto Social Summit in May 2021.

Macroeconomic outlook, Fiscal measures and Euro Area Recommendations

The economic outlook for the years to come is still very dependent on the state of the pandemic. However, as vaccination campaigns are developing, the economic situation is being positively affected. Since Spring 2021, the European Commission has revised its main growth forecast both for the euro area and the European Union, for 2021 from 4.3% and 4.2% respectively to 4.8% and for 2022 from 4.4% to 4.5%. Inflation has also been revised, upward for the year 2021, and downward for the year 2022 (see table 1). This is consistent with the views expressed by the European Central Bank (ECB) stating that the recent upswing in inflation in the euro area is due to idiosyncratic factors such as the end of temporary VAT rate reduction in Germany or higher energy price inflation[4]. If the inflation rate surges as a hypothetical consequence of a post-Covid recovery, major Central Banks have given indications that they could allow, for some years, a situation where inflation would exceed their usual 2% target without raising their key short-term interest rates. The US Federal Reserve have already stated this by adopting an average inflation targeting framework that allows for higher inflation offsetting prior underperformance[5]. The ECB has made a similar move by recently adopting a symmetric 2% inflation target over the medium term as part of its new monetary policy strategy[6].

Economic activity has been recovering in recent months, picking up the pace throughout the second quarter. In the second quarter of 2021, seasonally adjusted GDP increased by 2.0% in the euro area and by 1.9% in the EU, compared with the previous quarter, according to the most recent flash estimate published by Eurostat. The number of employed persons increased by 0.5% in the euro area and by 0.6% in the EU in the second quarter of 2021, compared with the previous quarter (Figures 1 and 2).

[4] C. Lagarde and L. de Guindos (2011) "Introductory statement to the press conference", 11 March, ECB.

[5] J. H. Powell (2020), "New Economic Challenges and the Fed's Monetary Policy Review", speech at the Jackson Hole annual conference.

[6] "The ECB's monetary policy strategy statement", July 2021.

These are the flash estimates and are still subject to changes. However, labour market participation, employment rates and worked hours are still below pre-pandemic times and far from the EU targets.

Nonetheless, the massive impact of the Covid-19 pandemic and the attempts to mitigate its social and economic effects have led to significant increases in government deficits and debt levels in a number of Member States[7] (Figure 3). Consequently, debt to GDP ratios have increased very quickly, but interest charges as shares of GDP have continued their decreasing trends, although GDP experienced a huge drop in 2020 (Figures 4 and 5). Given the active support of the European Central Bank, through its quantitative easing programme, the Pandemic Emergency Purchase Programme (PEPP) (figure 6), and the activation of the General Escape Clause of the Stability and Growth Pact, interest rates on sovereigns remain low while growth expectations are set at higher rates, despite reported delays in input delivery due to disruptions in supply chains that suggest some speed limits to the growth momentum in certain sectors, Nominal yields are currently negative over large portions of the yield curve for the euro area in Member States as a whole (Figures 7) as aggregated by Eurostat. As of August 2021, German yields were negative for maturities up to 30 years, French yields for maturities up to 12 years, and Spanish yields for maturities up to 8 years, and Italian yields are below 1 percent for maturities up to 15 years and converge to less than 2 percent at 30 years[8].

The fiscal stance, stemming from national budgets and the EU budget, has to remain supportive in almost all Member States as it will be in 2021 and 2022 on average (Figures 8). The RRF will provide financial support to Member States of up to €312.5 billion in grants and €360 billion in loans in the period to 2026. Headline deficits are expected to remain markedly above pre-pandemic levels (figure 9). In 2022, deficits are set to decline sharply, as the economic recovery strengthens, and the temporary measures put in place during the pandemic are scaled back. Overall, the EU's headline deficit is projected to increase to 7.5% of GDP in 2021 and decrease to 3.7% of GDP in 2022, according to the Commission 2021 forecast. The Stability and Convergence Programmes (SCPs), which reflect Member States' plans, envisage a slightly higher aggregate deficit of 8% of GDP in 2021 and 4% in 2022. More than half of Member States will remain above the Treaty's 3% of GDP threshold in 2022[9].

However, both the IMF[10] and the European Commission[11] state that debt to GDP ratios should stabilise in the short to medium term, thanks to low interest rates

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[7] *"The average cyclically adjusted primary deficit of advanced economies jumped to 7.6 percent of GDP in 2020. The United States provided assistance equivalent to 16.7 percent of GDP in 2020 to households, firms, and state and local governments. Japan and the United Kingdom provided 15.9 percent and 13 percent, respectively, of GDP of above-the-budget-line support in 2020. Similarly, national fiscal policies in the euro area (totaling more than 5 percent of the region's GDP) and sizable automatic stabilizers (amounting to about 5 percent of GDP) have provided critical support for workers and firms", in IMF Fiscal Monitor April 2021. See also figure 5.*

[8] *World Government Bonds database.*

[9] *The 2021 Stability & Convergence Programmes, An Overview, with an Assessment of the Euro Area Fiscal Stance, European Commission, July 2021.*

[10] *"Favourable interest–growth differentials and projected fiscal adjustment plans—likely to occur at a faster pace than projected before the pandemic— are expected to stabilise the debt-to-GDP ratios in most advanced economies over the medium term", in IMF Fiscal Monitor Reports, April 2021.*

[11] *"Importantly, such interventions [i.e ECB policy], together with decisive EU actions in 2020 [i.e SURE, NGEU/RRF and the ESM PCS], contributed to stabilising sovereign financing conditions, lessening risks of*

and increased growth rates. Both institutions share the same assessment and prevent against a too rapid withdrawal of EU and national fiscal support measures[12], the IMF even arguing for a fiscal stimulus package for advanced economies, with positive effect on growth and debt to GDP levels (figure 10).

Therefore, while the ETUC welcomed the various fiscal and monetary measures taken to mitigate the effects and the pandemic and to support the socio-ecological transformation of our economy, guaranteeing full employment, high quality jobs and just transitions, we still see the need and the possibility to continue supporting the economy through favourable fiscal policies, with positive result on growth and without endangering debt sustainability. The pandemic has had disproportionately adverse effects on poor people, youth, women, minorities, and workers in low-paying jobs and the informal sector and we urge the European Commission to continue assessing the differentiated impacts of the crisis especially on these groups, ensuring the coverage of social safety nets and increasing social transfers favouring social and tax justice and just transitions, also by a swift implementation of international agreements against tax avoidance and tax competition.

Finally, the ETUC urges the Commission to resume debates and discussions following the launching of its consultation on EU Economic Governance in February 2020, for reforming the Stability and Growth Pact and subsequent legislation to prevent a return to austerity with great detrimental economic and social effects, protect and strengthen public investment and provide flexible and country-specific debt adjustment paths. The ETUC also asks the Commission to put forward country-specific guidelines for transition periods until its full implementation, during which time no excessive deficit procedure should be activated and with the possibility to use the “unusual event clause” on a country specific basis.

The fall in economic activity in the first quarter of this year was accompanied by a small drop in employment. In the EU, the number of employed persons declined by 0.2% q-o-q, reversing about half of the previous quarter’s net job creation. Total hours worked fell by the same amount, leaving average hours worked unchanged (Figure 11). In the euro area, the decline in headcount employment and total hours worked was slightly more pronounced, at -0.3% and -0.8%, respectively. The number of unemployed slightly decreased in both the EU and the euro area in the first months of this year. The unemployment rate in the EU was 7.3% in April (8% in the euro area). At the same time, the job vacancy rate has steadily increased from its trough in 2020-Q2 to 1.9% in the first quarter of this year, still below the 2.1% seen in 2019-Q4. Overall, the number of

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short-term fiscal stress”; “Favourable snowball effects should allow a progressive reduction of the aggregate debt ratio, despite primary deficits (…) favourable interest rate – growth rate differentials (snowball effects) are expected to more than compensate for the positive contribution from the primary deficits towards the end of the projection period, and allow a progressive reduction of the debt ratio.”, in Debt Sustainability Monitor, European Commission, February 2021; “While fiscal stances differ significantly across Member States, the projected aggregate fiscal stance in 2022 appears broadly appropriate.”, in The 2021 Stability & Convergence Programmes, An Overview, with an Assessment of the Euro Area Fiscal Stance, European Commission, July 2021.

[12] “In this context, the needed fiscal support should be primarily achieved by accelerating investments (and reforms) financed by the RRF and by preserving nationally-financed public investments” and “A tightening of Member States’ fiscal positions in their 2022 budgets might lead to a contractionary stance, while a premature withdrawal of fiscal support should be avoided”, in The 2021 Stability & Convergence Programmes, An Overview, with an Assessment of the Euro Area Fiscal Stance, European Commission, July 2021.

employed persons in the EU in the first quarter of this year was about 4 million (or about 1.7%) shy of its level in the fourth quarter of 2019 while labour market slacks remain higher than before the pandemic (Figure 12). A large number of people exited the labour market (especially women), as the number of unemployed persons in April exceeded its average in 2019-Q4 by some 1.3 million and still above its pre-pandemic level (Figure 13). In addition, total hours worked and average hours worked per person remain well below their pre-crisis levels. In particular, hours worked per employed person in contact-intensive sectors, which also bore the brunt of job destruction (about 4 out of 5 employment losses come from these sectors), remained nearly 10% below its pre-pandemic level[13].

However, in August 2021, employment growth remained at a 21-year high for the second month in a row as businesses increased staffing to meet expanding order books. Eurozone business activity expanded at nearly its fastest pace for 15 years in August according to a widely watched survey that indicated the bloc is on course for strong third-quarter growth (Figure 14).

Figures regarding public investment are more worrisome. Although public investment (financed by both national sources and RRF grants) is forecast to increase from 3.0% of GDP in 2019 to 3.5% of GDP in 2021 and 2022 each, according to the Commission 2021 spring forecast. This level is just reaching the share of public investment before the Great Financial Crisis of 2008/2009, without European support at this time (Figures 15). Indeed, comparing the average government investment rate of 2015-2019 with the pre-crisis average (2005-2009) 20 out of 27 Member States saw their rate decline, for some by as much as 50%[14], to such an extent that the value of the stock of public capital, marked by negative net public investment, deteriorated between 2013 and 2017 in the euro area. For Europe to meet its 2030 climate and environmental targets, the European Commission recently estimated the overall funding gap to be around EUR 470 billion a year until 2030[15]. However, gross fixed capital formation in Q2 2020 was still an important impediment to growth (Figure 16). As rightly emphasised "mobilising the necessary scale of finance will be a significant policy challenge", and clearly public investment will have a critical role to play, not least also in order to trigger private investment. The reform of the EU fiscal framework has to take these considerations into account.

Finally, a look at **wage shares developments at current factor costs** show a peak at the beginning of the crisis follow by a sharp decrease below pre-pandemic level (Figure 16). Such developments are not welcome, since it means that the recent recovery is not shared equally between labour and capital.

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[13] European Economic Forecast, Summer 2021, European Commission. For a forecast on employment perspectives (hours worked, persons employed, by social groups, by sectors…) and policy recommendations under different scenario see S. Jestl & R. Stehrer (2021) "EU employment dynamics: the pandemic years and beyond ", ETUI Working Paper 2021.09, Brussels, ETUI Publishing.

[14] European Fiscal Board (2019): "Assessment of EU fiscal rules. With a focus on six and two-pack legislation".

[15] Commission Staff Working Document (2020), "Identifying Europe's recovery needs - Identifying Europe's recovery needs", SWD (2020) 98 final.

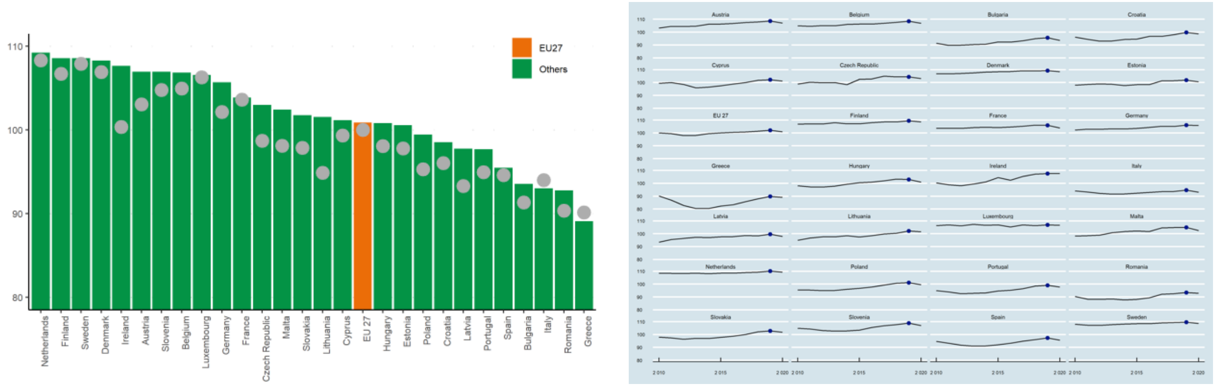


Figura 1: #EU_SDG8 index: composite indicator of sustainable growth and decent work (2010-2020)

It is time to Rethink our recovery model introducing new indicators that better catch the sustainability of the economic and social model of the EU. The OECD is also working in this direction[16]. European Social Partners have agreed on a narrative and a set of indicators that should complement GDP to better catch environmental, social and economic progress. The ETUC has built a set of composite indicators to monitor and orientate policy making in order to increase the sustainability potential of the EU and of its member states.

The *Sustainable Growth and Decent Work index* of the ETUC shows that the EU is averagely far from unleashing its sustainability potential (#EU_SDG8 index, ranging from 70 to 130)**.** This is due to a structural delay in the employment and decent work agenda that slowed down the green and digital transformation. Reinforcing fairness aspects of transitions will speed up the implementation of investments under the EU Recovery plan and will more likely achieve the productivity gains that are necessary to achieve a greener advanced economy with job-rich and quality work recovery. Compared to 2019 results it is becoming evident that the COVID-19 crisis has reversed a lot of the progress made during the last decade. The #EU_SDG8 index shows with statistical evidence the decline anticipated during the RETHINKING session in July 2020.

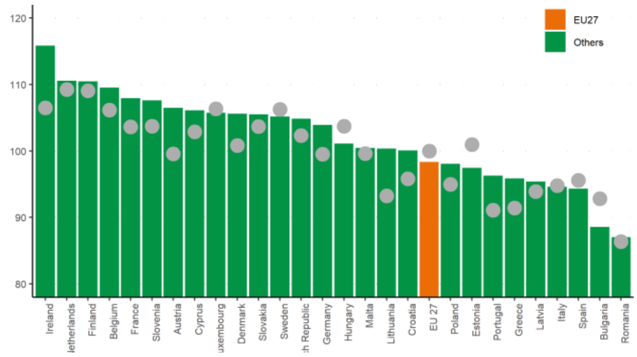


Figura 2: #EU_SDG8 index, Economic well-being 2010-2020

Performances of member states under the Economic well-being indicators deteriorate mostly because of abrupt GDP losses that were hardly mitigated by social transfers and subsidies for workers, the self-employed and enterprises. As Figure 2 documents, Ireland has ascended the economic well-being performance thanks to an increase of GDP determined by exports of big multinationals. This hides a decline in internal consumption and investments which is kept by the GNI per capita performance

[16] *See RETHINKING 2021 Session 1.*

instead. Indeed, Irish performances under the other two #EU_SDG8 sub-composites remain less spectacular. Losses in GDP are at the origin of the poor performance in 2020 but it remains astonishing as the last decade saw too many member states underperforming in terms of economic wellbeing because of rising inequalities, low participation of women in apical positions, lack of opportunity for young generations and difficulties in eradicating poverty. Average inequality in EU27 remain higher than in 2010 and negatively affecting countries with strong social models (such as Scandinavian countries). Low wages, people at risk of poverty and rate of women in apical positions are also at the origin of low performance in the Economic Well-Being indicator. These results are in line with the lack of upward convergence of working and living conditions as results in many indicators observed by the social scoreboard of the EU.

Progresses made in the last decade to improve quality of employment and inclusiveness of the labour market were undone almost everywhere in Europe. The sub-composite in figure 3 shows the effects of the pandemic on the labour market. We may aspect that the situation will worsen in 2021 to improve with the materialisation of the economic recovery even if many uncertainties remain on the capacity of the revamped economic growth to produce new quality jobs. The sector dimension is estimated to be relevant. Surely job creation will not restore pre-crisis job positions but there will be a redistribution of jobs between economic sectors, population groups and geo areas that exacerbate social risks. Labour market policies are crucial to protect workers and create efficiency in the allocation of new jobs. Immediate action is needed to make progress toward the Porto headline indicators.

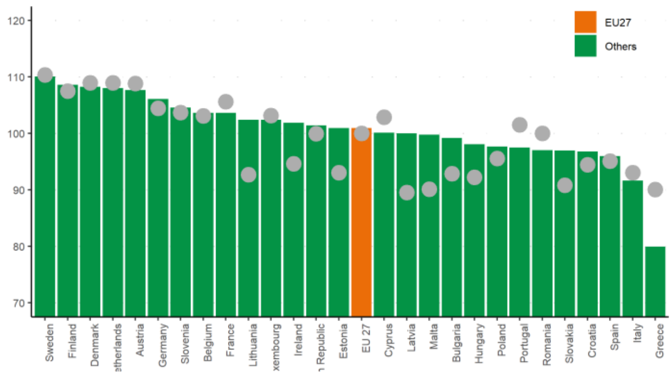


Figura 3: #EU_SDG8 index, employment quality and inclusiveness, 2010-2020)

This is while workers' vulnerability remains a factor of risk for the sustainability of the EU economy. Conditions of poverty among elderly people, lack of opportunity for young generations and gender based discriminations remain a burden on the sustainability potential of many member states. Accidents at work will likely diminish because of reduced numbers of hours worked but the repercussions on the safety of workplaces are still a stigma on the EU development model. The contagion experienced by vulnerable workers during the pandemic show how the health of workers is negatively correlated to their more precarious position, and to a lower position in the wage scale. Poverty among elderly people (countries like Italy, Spain and Germany are above 20%) show vulnerability during working lives. The EPSR action plan only partially addresses the

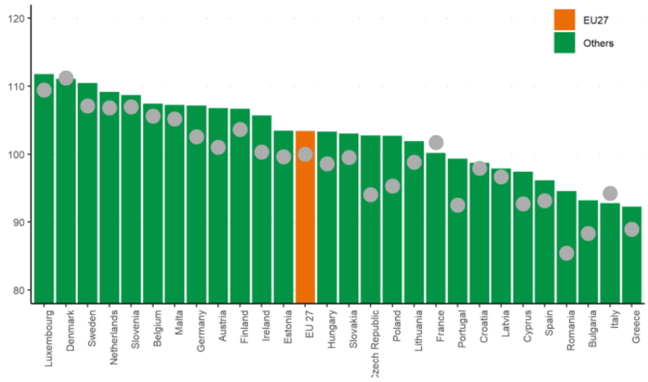


Figura 4: #EU_SDG8 index: Workers' vulnerability

issue of vulnerability of workers. A specific action is needed to neutralise risks, and remove dangers that make EU workers excessively vulnerable.

Growth and job creation in Europe can still be at odds with the achievement of the green agenda, however some countries and economc sectors are showing the way ahead creating a positive correlation between economic expansion, job creation and reduced environmental impact (See also environmental and just transition outlook). Such aspects were addressed in detail in the ETUC inputs for national Recovery and Resilience Plans. The RRF is crucial to convert the EU economy to fight climate change and reduce environmental impact. While the RRF implementation should be monitored together with social partners to catch the just transition needs, the NRRP alone cannot fulfil the needs of the European workforce to go through the green transition. The EU Semester should help allocating structural funds in a way that they are complementary to the NRRPs to provide skills and activation measures for workers in order to ensure continuation of employment or quicker transitions to new jobs and shelter those that are hit by the green transition.

The ETUC inputs for NRRPs also showed how a SDG8-centred approach would support the digital transformation creating a positive correlation between #EU_SDG8 index and the DESI indicators. The next semester should take into account that this correlation is stronger for countries that are both late in the sustainability agenda and late in the modernisation of their economies. Investments in decent work can help speed up the digitalisation agenda so it is important that strong protections are established for workers engaged in platform workers or the digital economy as in the big web companies.

In this regard the narrative proposed by social partners in their joint Statement Supplementing GDP as welfare measure provides a relevant framework to have a well-being approach based on the 3 dimensions of the sustaibaility agenda economic, social and environmental (link).

The ETUC considers that it is time to make the UN2030 agenda an overarching strategy shaping the investment strategy of the EU. It means that new narratives and new metrics have to be elaborated to establish what makes the EU economy stable, job-rich, devoted to social progress and conducive to a productive fabric that is fully compatible with the environmental constraints. The sustainability pattern of member states has to be measured on the capacity to ensure economic well-being, to increase jobs and quality of employment and inclusive labour market, to identify and remove factors of vulnerability of workers. The ETUC #EU_SDG8 index (link) offers in a composite indexes the start position of member states. ETUC reporting in November will point out policy proposals to set, country-by-country the economic and social policy on sustainability, resilience and fairness.

The sustainability agenda should be driven by a reinforced commitment to promote sustainable growth, full employment and decent work. In this regards the ETUC wants to attract attention to the fact that the EC analysis of the recovery and resilience plans focuses on the advancement on the SDGs using Goal 8 as a conjunction ring between Digital transition, Fairness and Macroeconomic stability. While the SDG8 is not yet in positive correlation with the Green Transition. This message is quite compatible with the conclusions drawn from the ETUC's SDG8-centred approach to development. This SDG8-centred approach should be reinforced during the next EU Semester and become a real compass to select and prioritise investments under the

RRF and also orientate the EU framework for sustainable investments so that the private sector could also align to the objectives of public investments. Social dialogue should be considered an asset for a policy approach that promotes a holistic approach to sustainability.

Workers are often worried by technological advancement and the spreading of Artificial Intelligence as it is able to make many intellectual activities obsolete. There is a lack of trust in the fact that productivity gains will be equally distribute among productive factors and polarisation of wages will impoverish households depending from wage earners. If investments have to ensure net job creation, the employment policies should reinforce quality of work in digitalised workplaces having in mind at least the following 3 points:

- Working time erodes leisure time, an increasing part of people feel that working time covers leisure time and this happens mostly among young workers that are digital natives.
- An increasing number of workers feel at mercy of technology at work. They feel their jobs depend on technology.
- Meaningfulness of work influences the working experience. Workers feeling that they are influent in their jobs also the technology is perceived like increasing the attractiveness of their job.

The JER should help identify a policy mix that, in the framework of the digital transition, protect health of workers, balance work and leisure time, improves work-life balance and ensure professional careers to warrant a motivated workforce for a sustainable economy.

Several surveys report an increasing demand for social justice among people, current social transfers and taxation arrangements are perceived as a source of economic unfairness. The European Commission should continue assessing the differentiated impacts of the crisis especially on vulnerable groups, ensuring the coverage of social safety nets and increasing social transfers favouring social and tax justice and just transitions, also by a swift implementation of international agreements against tax avoidance and tax competition.

The democratic reinforcement of national and European institutions is a key element of the sustainability agenda. In this regard, we are profoundly convinced that the economy cannot thrive, and a national socio-economic model cannot be reliable if it is not able to preserve the freedom and dignity of every single person living in its territory and communities.

Countries that discriminate and cannot understand the value of diversity are countries that are doomed to social backwardness that will inevitably stop the smooth development and progress of that community. As part of the EU community, countries hold an additional responsibility to share the destiny of a wider community. The ETUC asks that the rule of law be monitored in the EU Semester and all instruments used to ensure that all member states are aligned to the EU rule-of-law requirements.

IMPLEMENTING THE EPSR

The ETUC would like to stress that the next Semester phase should give legs to the Action Plan Implementing the European Pillar of Social Rights (EPSR Action Plan) as endorsed in Porto by all EU institutions and Members States. In this regard the implementation of the RRF is crucial. Currently, the EU has disbursed 50 billion Euro to 9 countries. The ETUC welcomes the speediness with which the EU is implementing the RRF but is also worried by the fact that some bottlenecks may delay the full allocation of resources for investments. Such bottlenecks can be identified in concerns on the debt position of member states, capacity of governments to allocate huge amounts of resources for investments in a relatively short time lapse, the rise of populistic forces that are reluctant to embrace objectives that go beyond the electoral cycle, and lack of social dialogue.

Social dialogue can ensure a more effective allocation of resources and the full implementation of the RRF is crucial to create new and quality jobs. Creation of quality jobs means the elaboration of a plan that directs investments in strategic sectors with higher potential of job-creation and simultaneous progress in all 20 principles of the EPSR. Social dialogue is an overwhelming tool to manage such a complexity. The ETUC appreciates the effort made by the European Commission to assess job creation in the evaluation of NRRPs but outcomes are worrisome. To date, the involvement of social partners has varied according to the willingness of national government to commit. The map on the left shows that the greatest majority of ETUC members were not involved or declare that they were unsatisfied with the level of involvement. In the absence of a clear framework for social partner involvement at EU and national levels, it won't be possible to establish a stable and fruitful cooperation between policy makers and social partners, so feeding risks of diverting the EU Recovery plan from its overall social purposes (as for instance social and green objectives envisaged by the RRF Regulation). The TSI is also an instrument that should be bound to social partners involvement when supporting member states to implement policies that are relevant to the economic and social development of the target country.

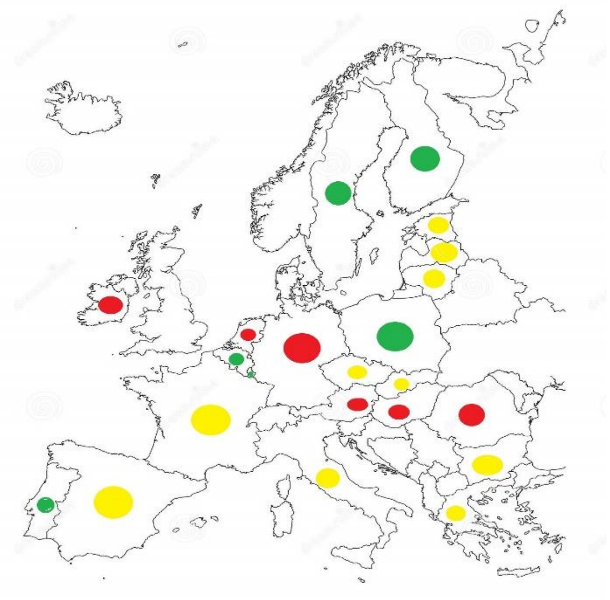


Figure 1: Assessment of Trade Union Involvement in the drafting of NRRPs (based on reporting of ETUC members)

Still, the RRF, also in combination with the MFF, should also boost sustainable growth and productivity so giving room for improvement of working conditions. Productivity gains should come from efficiency generated by new solutions that have less environmental impact or adapt production and workplaces to climate change. It should also come from marketisation of technological and innovative solutions and compensate for the lack of commodities or semi-finished products caused by the breaking of global supply chains. Some sectors, such as tourism, or transport and other services, will be completely redesigned in a post-covid economy (see also inputs for the JER)

Growth and productivity gains need more collective bargaining. Growth and productivity gains increase trust in the future and give way to innovative and stable collective bargaining, so triggering a shift from "defensive" forms of collective bargaining (aimed at mitigating adverse effects of economic crisis) to more constructive forms of collective bargaining. NRRPs should show governments' willingness to reinforce social dialogue and collective bargaining at all levels, according to national practices and in strict cooperation with European social partners and their national affiliated organisations.

The investment agenda has to be supported by an ambitious social agenda. The Action Plan adopted in Porto addresses many but not all the social challenges that the next EU Semester has to deal with.

Regional disparities (concerning income, wealth, education, health social mobility) are seen as a reason of increasing inequality and unrest among EU people. They cannot be treated as exclusive competence of member states but EU policies should better take into account the effects of EU decisions on regional disparities.

Wage earners may suffer in the upcoming economic phase: Rising inflation may affect the purchasing power of wage earners already impoverished by prolonged stagnation in periods of economic growth. CSRs aimed at reinforcing wage formation remained unattended. The marketisation of digital and technological solutions in the European economy is also polarising wages to the detriment of lower segments of the wage scale. Increasing unemployment levels may also generate downward pressure on wages. Underperformance of wages trends are clearly showed in labour share of GDP, low wage trends, gender pay gaps, and earning gaps between EU regions. This is reflected in the poor performances of many countries under the Well-Being Sub-Composite indicator of the #EU_SDG8 index of the ETUC.

Women's position on the labour market remains a challenge as gender gaps widened during the pandemic[17]. There is a sector effect because women were

[17] *See RETHINIKING Session 5.*

overrepresented in sectors that were strongly and permanently hit by the COVID Crisis and because the digital and green transition is directing investments in sectors where men are overrepresented. Beside the “sector” factor care giving is also observed as a factor of exclusion of women from the labour market. Not all countries in the EU experience the same worsening of the gender gap showing that, beside the economic structure (for instance weight of tourism and services in the overall economy), the policy mix matters and is able to increase the resilience of women’s position in the labour market (legal framework, adequacy of social protection schemes, design of emergency measures). Also the investment strategy should take a gender dimension into account.

Then, **collective bargaining coverage has to be increased, having respect of national systems.** Collective bargaining is key to ensure that in this period of big changes, income and wealth is fairly redistributed. Collective bargaining is not only a wage setting mechanisms. The next semester cycle should promote collective bargaining for the impact it can have on working conditions, working-time organisation, work-life balance, skill development, occupational welfare, protection of jobs, adaptation to climate change, anticipating change and supporting transition. In many countries collective bargaining is also a labour market regulator. All these elements contribute to pursue the social objectives of the EU as set in the RRF and in the CSRs in 2019 and 2020. Collective bargaining factually contributes to the achievement of the EPSR and builds on the SDG8-centred approach to the sustainable development agenda as advocated by the ETUC. While manging the COVID-19 economic consequences, investing in collective bargaining means building a strategic asset for long-standing, fair recovery that will enable a smoother, and thus more effective, transitions toward a greener and digital economy.

In the light of all this, collective bargaining will be key to set immediate adequate and targeted response to it. The Semester 2022, starting from the Autumn Package should promote collective bargaining at all levels together with European and national social partners.

Employment support schemes must remain in the toolbox ready to be prolonged or reactivated if a new pandemic wave materialises. Countries that are not well equipped should be asked to introduce these instruments in cooperation with social partners, adapted to national or regional situations. The European Semester needs to put particular emphasis on the long-term unemployed. This will require particular attention to certain age groups (such as older workers), regions (for instance those reliant on tourism) and workers lacking skills that are likely to be increasingly important in the post pandemic world.

The Employment Headline target adopted in Porto can only be achieved by adopting ambitious targets at national level to include women in the labour market, creating incentives, infrastructures and removing barriers and discriminations. Childcare facilities and adequacy of social protection schemes also have to be designed having in mind the need to increase a stable, qualified women participation in the labour market.

Universal provision and equal access to high-quality public education and training is central to the full realization of the European Pillar of Social Rights, the UN 2030 Agenda for Sustainable Development, and the UN Universal Declaration of Human Rights. It is also imperative for Europe’s recovery, and to meet demands for a highly educated and highly skilled workforce. The lasting effect of **severe investment cutbacks** in education throughout the last decade, and the economic shock created by the COVID-19 pandemic, have negatively impacted the working conditions of education personnel, vulnerable and socio-economically disadvantaged people, as well as education and training infrastructures.

Existing inequities are deepened as lower public investment is compensated with a **growing reliance on private sources of funding**. According to the OECD, private funding is steadily increasing in countries such as Italy, Estonia, and Latvia. Whereas moderate increases are persistent across countries and education levels. Policies intended to increase public investment in education, and to reinforce public accountability and non-discriminatory delivery of education as a public good are vital to address issues of fairness for current and future generations, and to boost Europe's overall growth potential. In this light, it is important to safeguard the public provision and governance of education from the influence of private sector investment and actors.

Workers and the unemployed urgently need support not only in accessing upskilling and reskilling training, but also in validating their skills and competences. ETUC welcomes that the EPSR sets a new target that at least 60% of all adults should participate in training every year by 2030. However, trainings must lead to quality jobs and just transition of the workforce. The COVID-19 pandemic, digitalisation and decarbonisation are having an enormous impact on the European workforce. While only 10.8% of adults are reported to participate in learning and training in the EU, the OECD forecasts that by 2030 up to 20 million jobs could be created worldwide due to transformation of tasks and jobs within the green transition of industries, and Cedefop reports that 46.1% of the adult population, approximately 128 million adults in Europe need upskilling and reskilling who are low-skilled or who are medium- or high-skilled but their skills will soon become obsolete**. Innovative and flexible learning pathways that incentivise participation in vocational education and training** (VET), apprenticeship and adult learning should be developed to meet the needs of learners, and to ensure professional mobility for all. Although most education and training institutions are seeking to return to in-presence activities as vaccination rates continue to increase, issues regarding unequal access to distance teaching and learning remain. Full digital literacy of all teachers, trainers and workers should be achieved. To this end, public funding for modern equipment, digital services, and the continuous professional development (CPD) of teachers and trainers, is still to be prioritised.

The implementation of the EPSR should ensure that all workers have the right to employee training, paid educational leave, full qualification, validation of informal and non-formal learning, and guidance and counselling. The target can be achieved if every EU country legislates

a. the right and access to adult learning for all, including the unemployed;
b. right and access to employee training with sustainable investment by the employers;
c. right and access to different types of paid education leave.

In order to reach the target, it is essential to monitor participation and financing of adult learning and employee training provided within and outside of the companies on company-related training needs.

ENVIRONMENTAL AND JUST TRANSITION OUTLOOK

This chapter tries to draw some preliminary consideration from the investigation that the ETUC launched to highlight correlations between the #EU_SDG8 index and some green variables. The ecological indicators are those proposed by the European Social Partners in their common document on indicators that complement the GDP as measure of well-being.

At this stage it is opportune to stress that **ETUC supports the objective of the Fit for 55 package to rapidly reduce the EU's greenhouse gas emissions.** The increasing frequency and intensity of extreme weather events, such as the floods currently affecting some countries in Europe, reminds us of the urgency to act. In that regard, it is fair to say that the Fit for 55 package, as currently proposed, concretely delivers on reaching the 55% emission reduction enshrined in the Climate Law and that has been supported by ETUC.

National Plans allocate huge financial resources to this objective even if for the transition to happen, it needs to be inclusive and socially fair. The burden of the transition should not be supported by low-income households or vulnerable groups and no worker should be left behind in this process. On those aspects, some elements of the Fit for 55 Package remain disappointing, worrying or insufficient.

<u>Greenhouse gas emissions per capita</u>

Linear model estimating the effect of greenhouse gas emissions per capita on SDG8

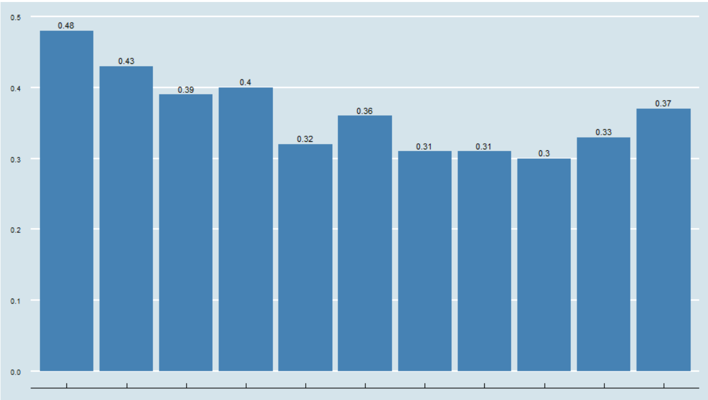


Figure 2:Correlation between SDG8 and greenhouse gas emissions per capita.

Data partially confirms the evidence shown in the ETUC Report providing inputs for NRRPs. Time correlation between EU27 countries and greenhouse gas emissions per capita fell between 2010 and 2018 but in the last two years, there is an increase. This mean that in the last two years the improvements in the SDG8 composite indicator came at the expenses of higher emissions.

Most of the "mature" EU countries are already showing a negative correlation (in some case strong) between the two dimensions, coherently with a development model where economic growth and labour market effectiveness are consistent with a "relatively" low-carbon production system. This seems to be true for Germany, Denmark, Malta, Austria, Sweden and Finland, among others. Other countries, such as Italy, Portugal and the former transition economies of Eastern Europe, are still characterised by a clear trade-off between SDG8 and Environmental/climate issues. While in the last group of countries

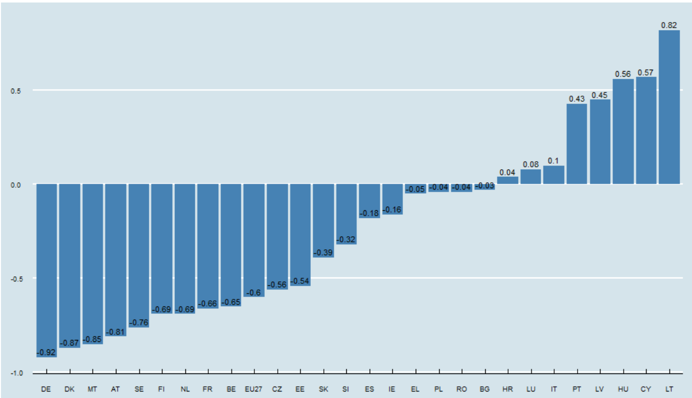


Figure 3: Average countries correlation

(eastern European economies) the need to catch up with the level of production and well-being of other European countries can – in the transition phase – lead to a misalignment between the Targets of SDG8 and SDG13, the situation in other countries is more worrying.

Share of energy from renewable sources

Correlation between SDG8 and share of energy from renewable sources. Years 2010 – 2020

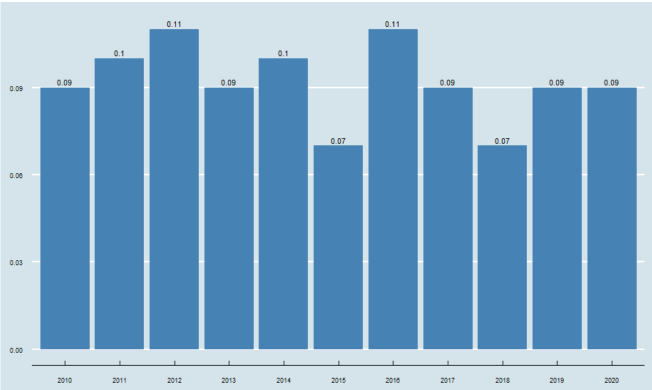


Figure 4: Average time correlation

Data show no evidence of time correlation between SDG8 and share of energy from renewable sources meaning that between 2010 and 2020 there was no clear trend all countries considered.

Correlation between SDG8 and share of energy from renewable sources. Years 2010 - 2020

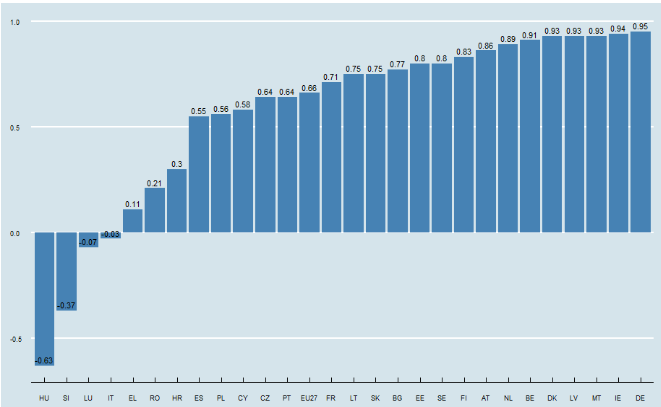


Figure 5: Average countries correlation

Correlation between SDG8 and share of energy from renewable sources at country level shows that for most countries an improvement in SDG8 is linked to a greater use of energy from renewable sources. Nevertheless this is a spurious correlation because, as shown by the model presented later, the use of energy from renewable sources has no effect on SDG8 when controlled by other variables.

Urban population exposure to air pollution by PM2.5

Correlation between SDG8 and urban population exposure to air pollution by PM2.5. Years 2010 – 2020

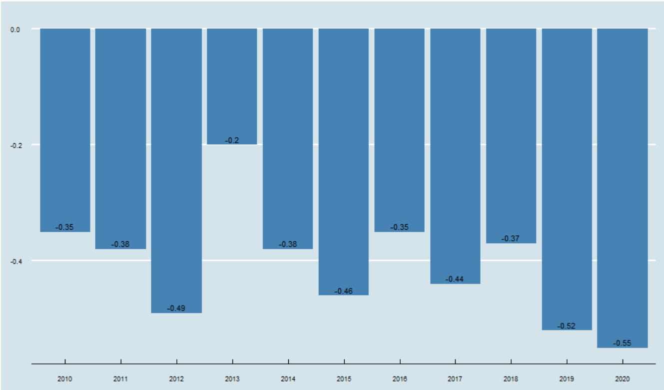


Figure 6: Average time correlation

Data shows a clear negative correlation between SDG8 and urban population exposure to air pollution by PM2.5 meaning that improving SDG8 composite is linked on average to a decrease of urban population exposure to pm 2.5. However historical data shows no clear trend.

Correlation between SDG8 and urban population exposure to air pollution by PM2.5. Years 2010 – 2020

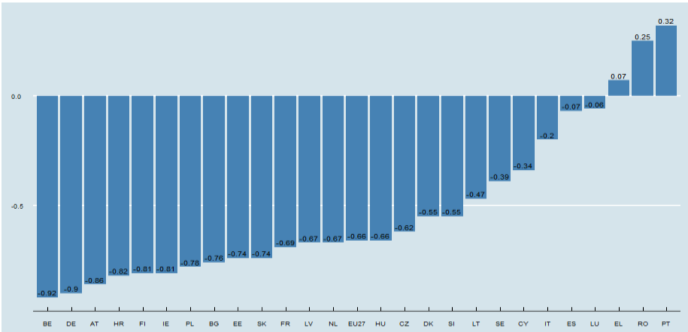


Figure 7: Average countries correlation

At country level there is a clear strong negative correlation between these two indicators. In particular in countries such as Belgium, Germany, Austria, Hungary, Finland and Ireland. The only exception being Romania and Portugal.

Domestic material consumption per capita[18]

Correlation between SDG8 and domestic material consumption per capita. Years 2010 – 2020

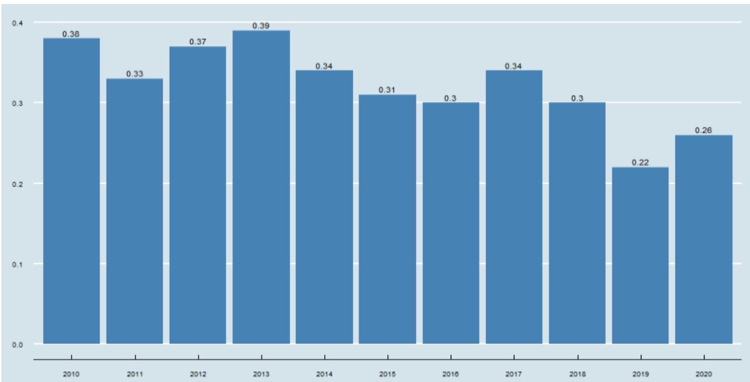
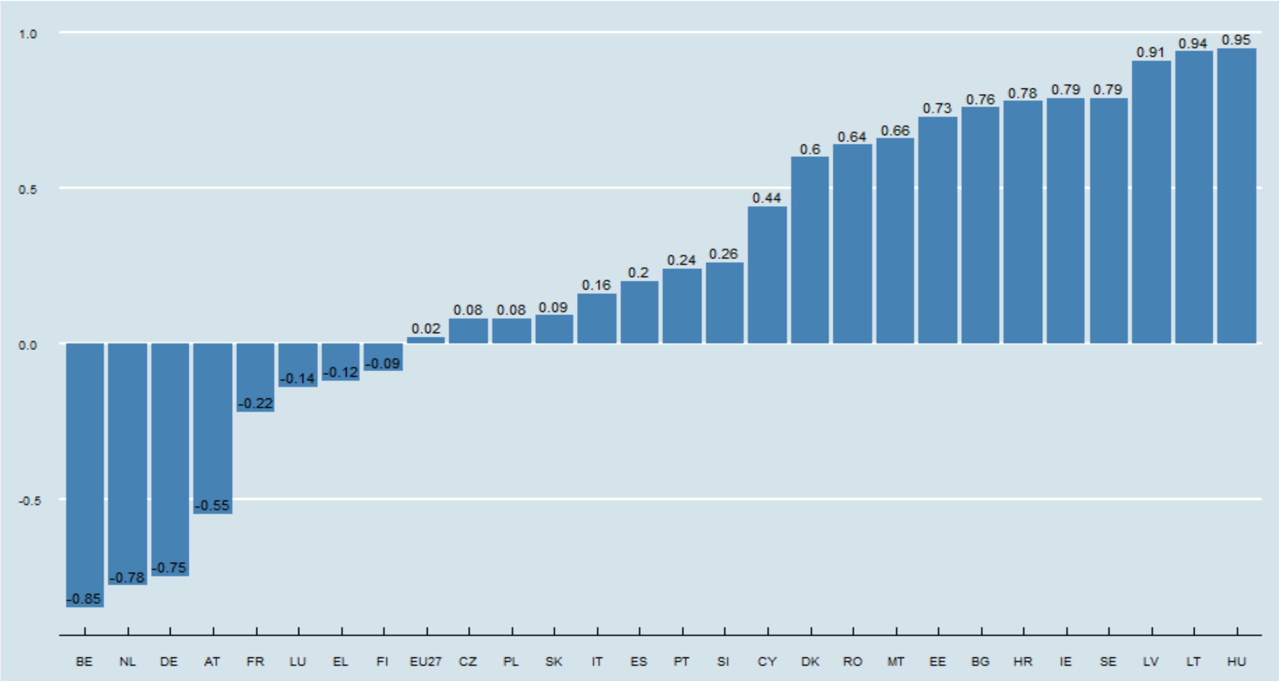


Figure 8: Average time correlation

There is a weak positive correlation between SDG8 and domestic material consumption per capita meaning that we are still far away from decoupling our economies in an efficient way. Moreover, the data shows no clear trend over the years.

[18] *The indicator is defined as the total amount of material directly used in an economy and equals direct material input (DMI) minus exports*



The only countries that show a strong negative correlation between these two indicators are Belgium, Netherlands and Germany while for most of the countries an increase in SDG8 composite indicator is correlated to an increase in domestic material consumption per capita.

<u>Some key messages can be drawn from these data</u>.

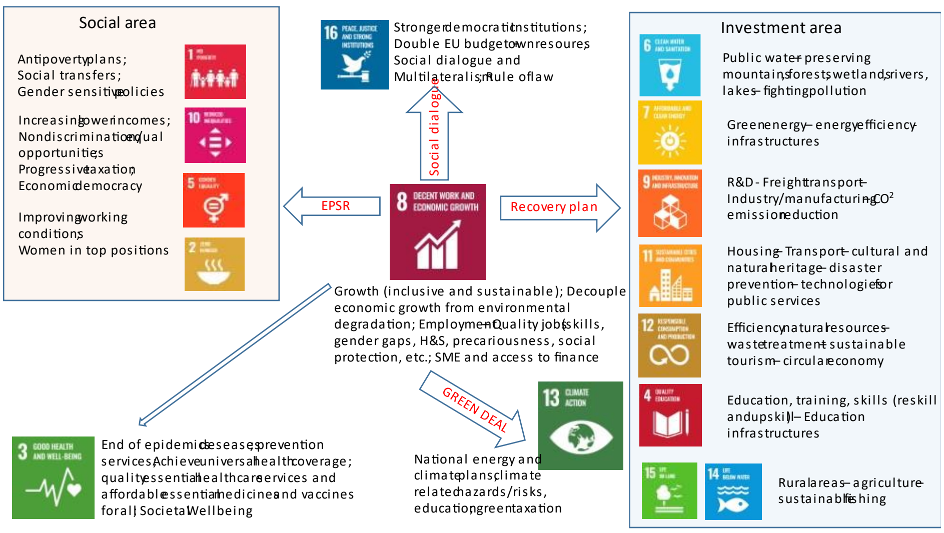
The model shows that averaging out the effects of time and countries one unit increase of SDG8 composite costs +0.37 tons of greenhouse gas emissions per capita and +0.19 tons of domestic material consumption per capita. The model also shows that the effect of share of energy from renewable sources and exposure to air pollution by PM2.5 on SDG8 composite is not statistically significant.

The figure below (Model coefficient of SDG8 per country) shows the differences between the value of SDG8 composite indicator in each country and the EU27 average. These differences are calculated taking into account the effect of all four environmental variables and time. Once we factor in the effect on the environment we see huge differences among countries. Greece is the worst performer with a difference of more 14 points compared to the EU27 average but also Romania, Bulgaria, Italy, Spain, Estonia and Portugal show differences of more than 3 points. The best performers are Denmark, Netherland and Sweden with a positive difference of more than 7 points on the EU27 average.

The RRF and next Semester cycles have to be a "game changer" to convert the EU into an economy that ensures growth, jobs and environmental sustainability. The correlation between the #EU_SD8 and indicators of green sustainability should help identify concrete measures of just transition. Such Just Transition Framework should (1) guarantee that just transition strategies are developed in all sectors and regions through social dialogue and collective bargaining, (2) guarantee workers' right to information, consultation and participation, especially in the event of restructuring processes and decarbonisation plans, (3) guarantee individuals' right to training and workers' participation in the design of training programmes, (4) secure sufficient investments as well as develop industrial strategies to create alternative quality job opportunities.

Fig. 1 – Model coefficient of SDG8 per country

COMPARING SDG8 approach of the European Commission (left side) and the SDG8 Approach of the ETUC (right side)



Figures and tables

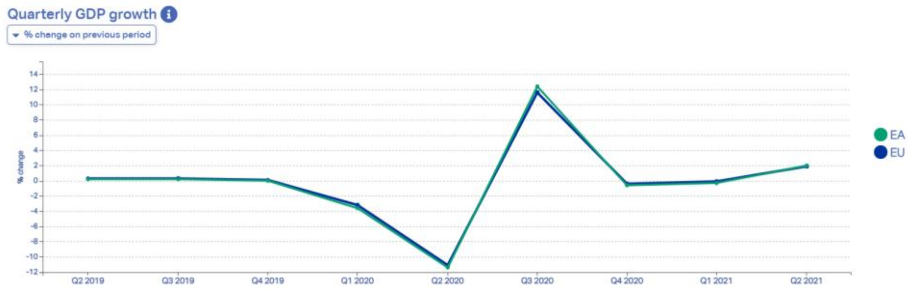
Table 1

Overview - the Summer 2021 interim forecast

	Real GDP growth						Inflation					
	Summer 2021 interim forecast			*Spring 2021 forecast*			Summer 2021 interim forecast			*Spring 2021 forecast*		
	2020	2021	2022	*2020*	*2021*	*2022*	2020	2021	2022	*2020*	*2021*	*2022*
Euro area	-6.5	4.8	4.5	-6.6	4.3	4.4	0.3	1.9	1.4	0.3	1.7	1.3
EU	-6.0	4.8	4.5	-6.1	4.2	4.4	0.7	2.2	1.6	0.7	1.9	1.5

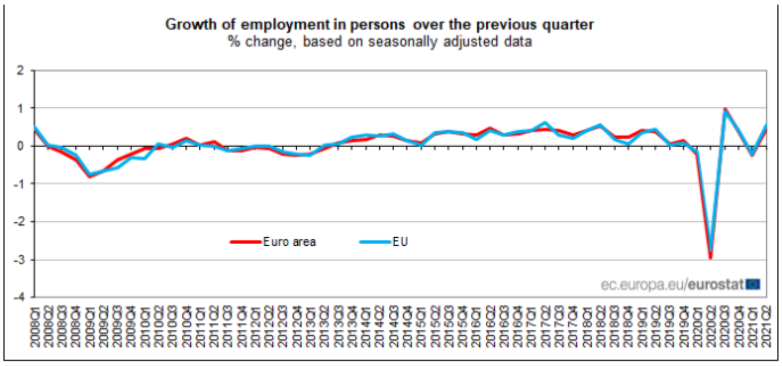
Source: European Commission

Figures 1



Source: Eurostat

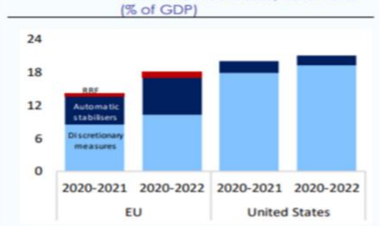
Figure 2



Source: Eurostat

Figure 3

Graph 1 **Cumulated fiscal support in the EU and the United States, 2020-2022** (% of GDP)

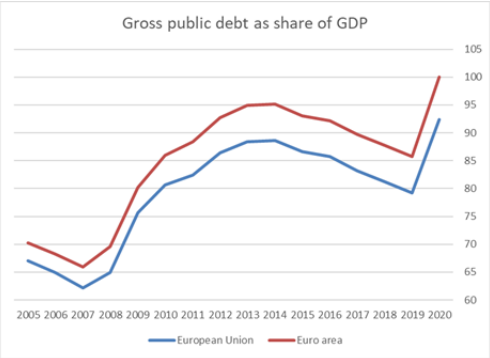


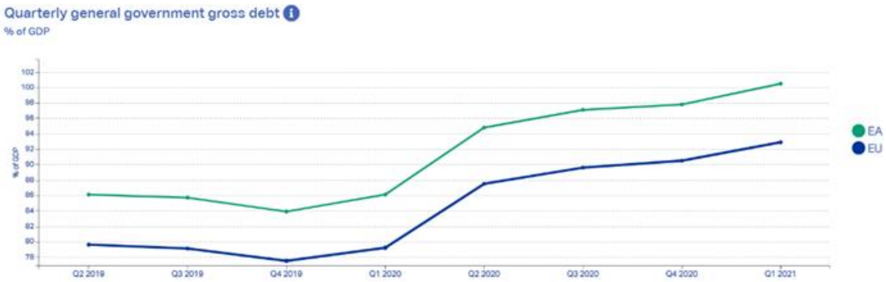
Note: In the EU, automatic stabilisers are measured as the residual between the total national support and the discretionary measures (section 2). In the United States, automatic stabilisers are assumed to provide ½ pp. of support for 1 pp. of GDP loss. The share of automatic stabilisers in the total support is subject to assumptions and estimation errors but the total figure is calculated directly from the public finance statistics.
Sources: European Commission 2021 spring forecasts, and International Monetary Fund's April 2021 forecasts.

Source: IMF staff estimates.
Note: The baseline has no additional fiscal actions relative to what was deployed in 2020. The benchmark package consists of targeted transfers to low-income households (2 percent and 1.5 percent of GDP for years one and two, respectively), public investment (0.5 percent of GDP for the first two years and declining gradually), and a delayed increase in labor income tax rates for high-income households by 0.5 percentage points at the peak (Online Annex 1.1).

Source: IMF

Figure 4





Source: Eurostat & AMECO

Figure 5

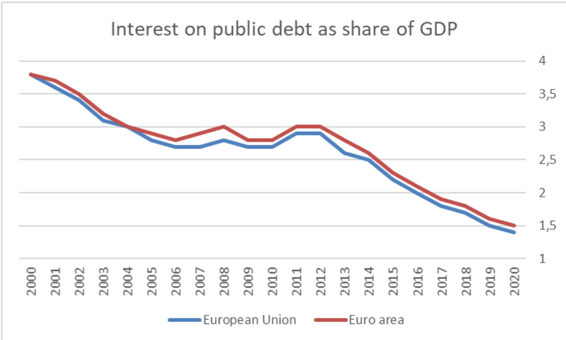
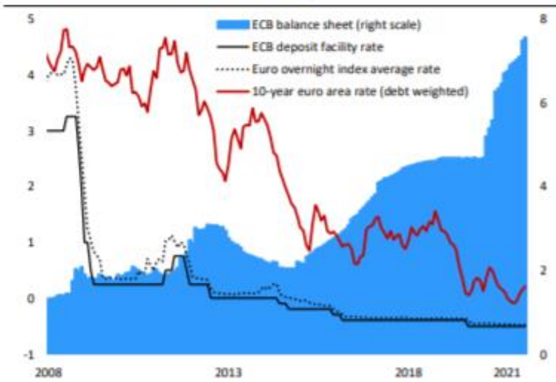


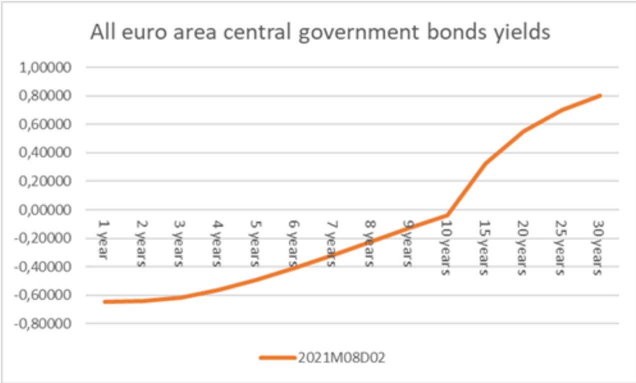
Figure 6

Graph 3.5 **Indicators of ECB monetary stimulus, euro overnight index average rate and 10-year euro area sovereign rate, 2008-2021** (left scale in %, right scale in trillions of euros)



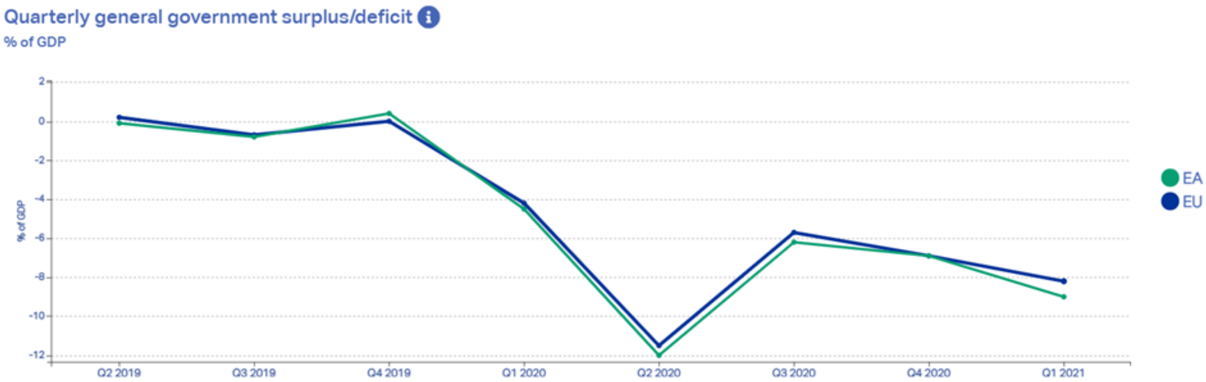
Sources: Macrobond, ECB, European Commission.

Figure 7



Source: Eurostat

Figure 8



Source: Eurostat

Figure 9

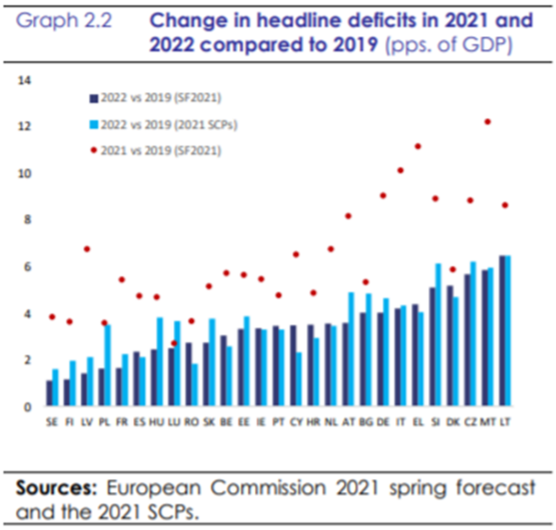
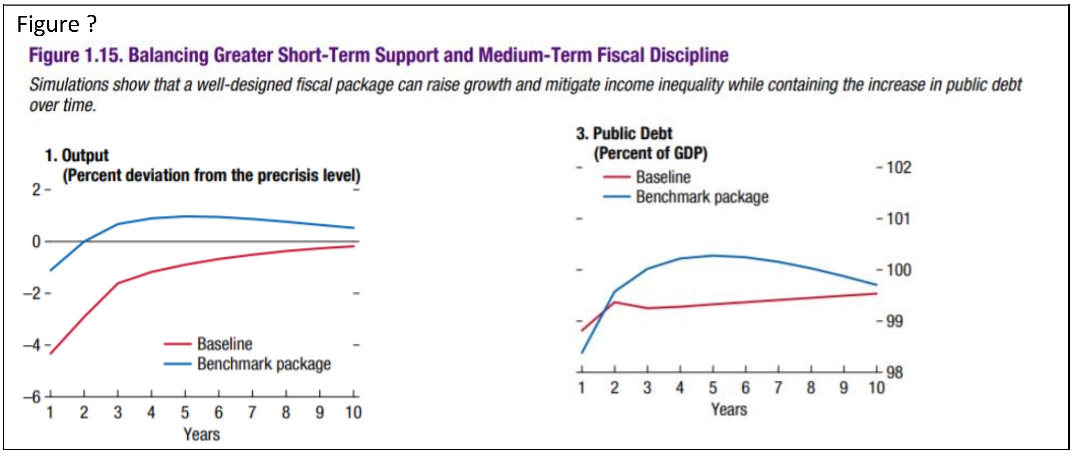
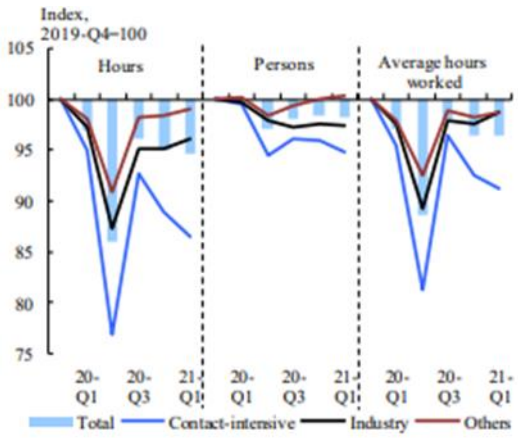


Figure 10



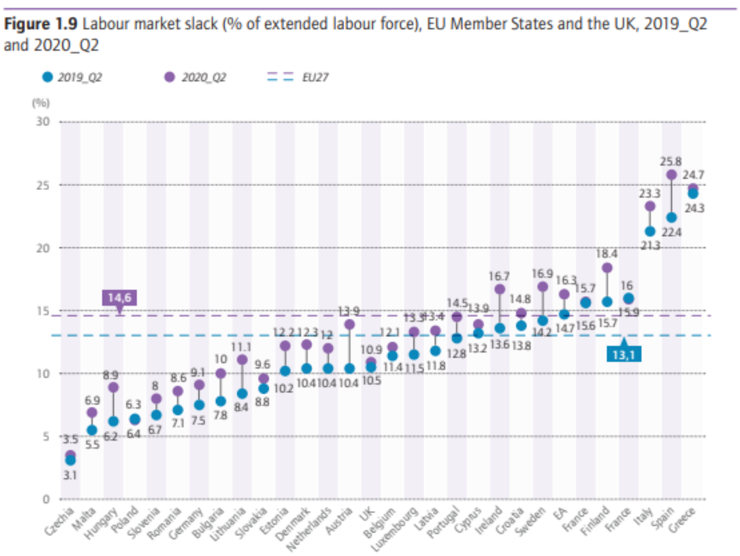
Source: IMF

Figure 11



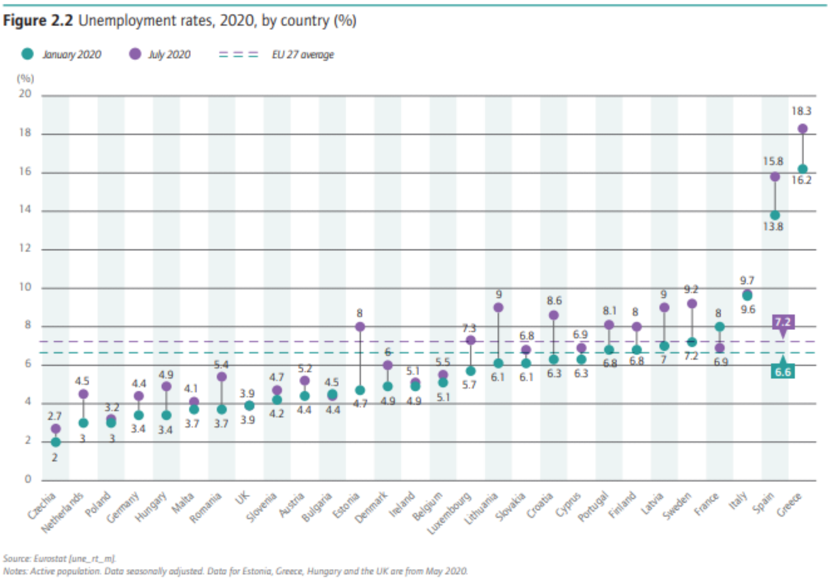
Source: European Commission

Figure 12



Source: ETUI Benchmark 2020

Figure 13

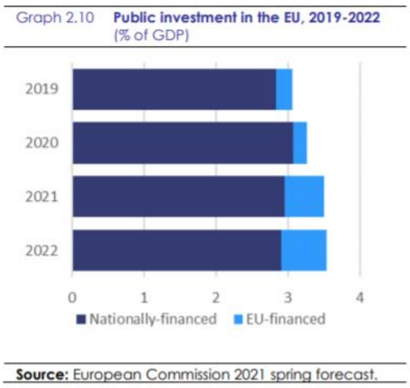


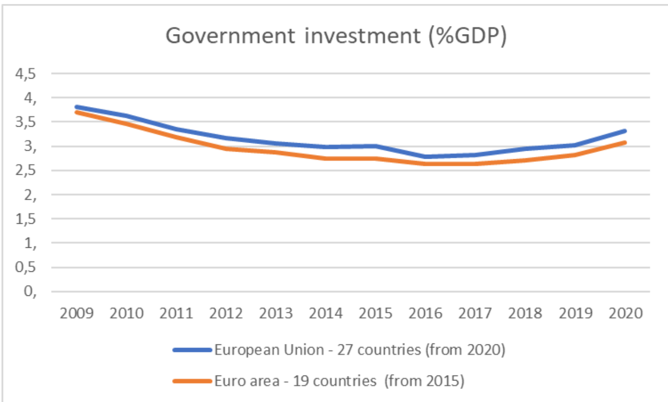
Source: ETUI Benchmark 2020

Figure 14

Source: FT

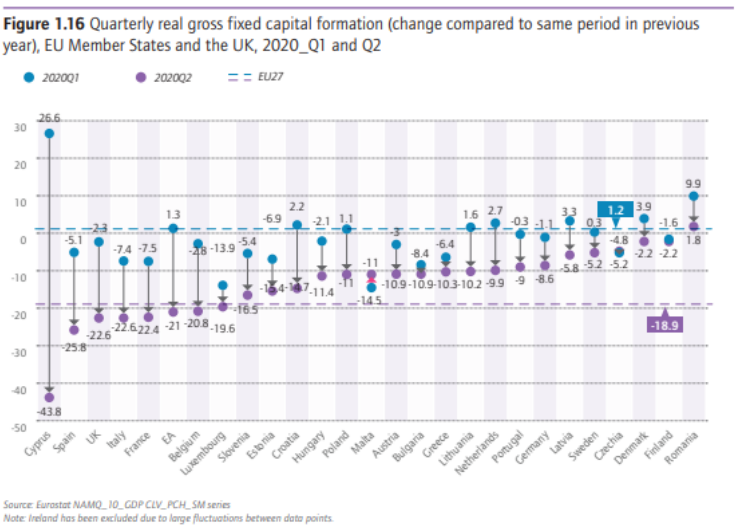
Figures 15





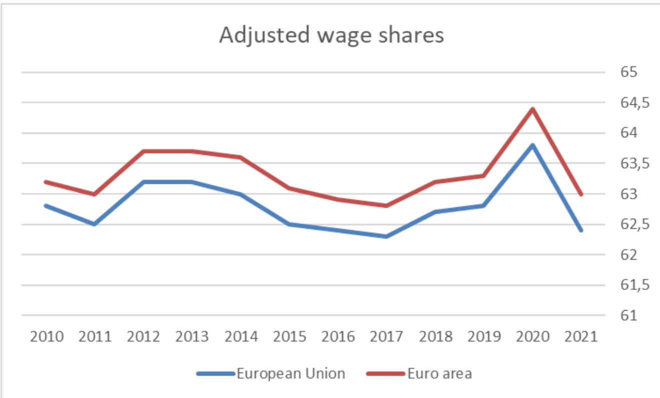
Source: Eurostat

Figures 16



Source: ETUI Benchmark 2020

Figure 17



Source: AMECO