CEPS EXPLAINER

A 'GOOD JOBS COMPASS' FOR THE EU'S INTERNAL MARKET

Creating its human face for the mid-21st century

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Summary

The EU and its workforce are experiencing a polycrisis, encompassing many geopolitical, economic, social and climate challenges. Resilience and open strategic autonomy are being increasingly emphasised by EU political leaders and there has been wave of support in favour of greater European solidarity and a 'whatever it takes' mentality since the pandemic and the start of the war in Ukraine. At the same time, European workers are reeling from years of austerity, deregulation, employment insecurity and deteriorating working conditions.

This CEPS Explainer takes a deep dive into the development and current state of the EU's internal market. It argues that returning to the laissez-faire solutions of the past are now no longer viable or desirable, and that another way is possible. The EU should instead strengthen its internal market by implementing a real European industrial investment plan for clean technology value chains and a 'good jobs plan' for every EU region. This is how the internal market can contribute to solving, rather than prolonging, the polycrisis.

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In 1988, Jacques Delors famously addressed the British TUC's Congress in Bournemouth aiming to convince Eurosceptic trade unionists to see the potential of European integration. He stressed that the 1992 internal market plan centred on 'mastering our destiny', to achieve greater social and economic progress, and called on trade unionists to engage in building it. The European social dialogue between employers and trade unions was launched and allowed legislation to be negotiated through collective bargaining. People don't fall in love with markets, we were told, and therefore a 'human face' for the internal market was essential to ensure fair trade-offs, characterised by solidarity and the European values underpinning our welfare states.

The speech was also directed towards the rest of the European working class, setting out for the first time the internal market's 'social dimension', based on solid employment rights, upward social convergence, worker participation and individual rights to training. In response, then-British Prime Minister, Margaret Thatcher, delivered her Bruges speech at the College of Europe which set out a Eurosceptic vision of pure market integration based on liberalisation, free enterprise and individualism – in short, a market without a face. There has always been a compromise between these two positions at the heart of the internal market over how to organise the freedom of doing business within Europe.

Much water has flowed under the bridge in the intervening 30-odd years – both protagonists are now long gone. But its basic aim remains, '*to ensure free movement of goods, services, capital and persons in a single EU internal market. By removing technical, legal and bureaucratic barriers, the EU also allows citizens to trade and do business freely*'. Of course, the EU's remit is not limited to the basic rules of the single market, such as competition law and restrictions on state aid. There is also legislation setting out environmental, social and sanitary standards. But there remains a fundamental lack of policy coherence with the European Pillar of Social Rights and the European Green Deal.

In 1988, the great preoccupation underlying Delors' speech was high unemployment rates and the need for greater integration to stimulate economic growth. The plan brought many macro-economic benefits, which should not be downplayed, in terms of jobs created, consumer protection, or economic resilience, as demonstrated recently during the pandemic or after the Russian invasion of Ukraine.

However, the European economy and workforce are confronted today by a complex set of geopolitical, economic, social and environmental challenges – a polycrisis. Consequently, we've embarked on an industrial transformation that will challenge the rules of the EU's internal market in many ways.

A REGULATORY WITCH-HUNT IS A CUL-DE-SAC FOR EUROPE

In March 2023, the European Trade Union Confederation (ETUC) decried the current European Commission's Communication on its 30th anniversary and plan for the future of the single market as it '*puts the EU on course for a race to the bottom and takes it even further away from Jacques Delors' vision of a social Europe*'. A technocratic focus on lifting administrative burdens and indiscriminate 'one-in-one-out' deregulation has come to dominate a debate on the internal market that's focused on cost competitiveness. It's a case of old wine in even older bottles.

Furthermore, there is an inherent contradiction in the renewed EU Better Regulation agenda – those pushing for a reduced 'burden' to strengthen the EU are fuelling the fragmentation of the internal market they claim to champion. Making procedures more efficient is always welcome, but a quantified objective to reduce reporting obligations without a clear methodology to ensure that this won't undermine the EU's wider policy objectives raises, once again, the threat of amplifying the polycrisis.

Many policy instruments require a robust reporting system to work properly (e.g. corporate sustainability due diligence, the ban on forced labour, CBAM). Employment rights and health and safety standards need enforcement and reporting requirements for effective worker participation.

Meanwhile, the 'innovation principle', built on fragile legal grounds, is driving the Better Regulation agenda, whereas the 'precautionary principle', which is enshrined in the EU Treaty, has been cast out of the narrative. In the witch-hunt for 'barriers to the single market', recently relaunched in the name of 'competitiveness', there are no apparent social and environmental guardrails or safeguards. As such, there's now a strong argument to make that the internal market has lost both its shine and its vision.

THE CHEERLEADERS OF THE BETTER REGULATION AGENDA HAVE FAILED TO UNDERSTAND THAT EU LAW-MAKING MUST DELIVER FOR EVERYONE, INCLUDING TRADE UNIONS, WORKERS, CONSUMERS, COMMUNITIES, PUBLIC AUTHORITIES, AND THE ENVIRONMENT.

The cheerleaders of the Better Regulation agenda have failed to understand that EU law-making must deliver for everyone, including trade unions, workers, consumers, communities, public authorities, and the environment. Quality regulation is a long-term investment in the general interest and cannot be reduced to a burden or cost for business. Labour and environmental laws (whether European or national), as well as human rights (including the right to strike), should never be seen as obstacles to the functioning of the internal market.

Rather than this technocratic approach to the internal market, there is an urgent need to breathe new life into the European project and a new chapter for the internal market should be a key part of the story.

THE INTERNAL MARKET IN A PERIOD OF POLY-CRISIS

As we mark the passing of the internal market's architect and champion, it's time to reassert and update the original vision promised to working people across Europe – at its heart should be a new social 'face', supported by a proactive industrial strategy to maintain and transform our economies, and a new political compass aimed at the creation and maintenance of 'good jobs' – that is, well-paid, secure and sustainable jobs.

Instead of trying to out-compete China and the US by lowering costs and weakening rules and standards, the EU must up its ambitions to 'master our destiny' today (to again quote Delors' speech to the TUC). At the centre, a genuine European industrial policy is crucial for taking greater control of our technological destiny in a period of rapid ecological transition, but also to (re)make salaried work one of the main vectors of wealth redistribution and social cohesion. This means we need to reshape the rules of the internal market.

The internal market must be seen as a means but not the final objective. Free markets can't be the only European answer to the challenges of our time. An industrial policy fit for the challenges of our time and bound with social conditionalities that ensure the maintenance and creation of quality jobs and regulated fair trade, free from exploitation, must steer the internal market's future.

Over recent years, European manufacturing and its workforce have faced unprecedented waves of crisis. These include the pandemic's social and economic impact, industrial supply chain disruptions that exposed our heavy dependence on others for vital raw materials, components and goods, war in Europe, and an energy crisis that crippled households and our foundation industries. The result was a polycrisis which needs holistic responses.

The ongoing cost of living crisis and rising societal polarisation in Europe are socially and economically corrosive. The labour share of wealth created in our economy has continued to fall, with dividends and profits rising quicker than real wages. Recent Eurobarometer surveys indicate the increasing social anxiety created by rising prices, high inflation and the cost of living have been among EU citizens' top most important concerns in 2022 and 2023.

According to the autumn 2023 Eurobarometer, '*73 % think that their standard of living will decrease over the next year, of which 47 % say that they have already witnessed a reduction. Over a third of Europeans (37 %) have difficulties paying bills sometimes or most of the time*'. Rising levels of poverty and precarious work are increasing social inequalities. A lack of control and enforcement of the few minimum social rules that exist in the internal market are intensifying the situation. Even in countries with higher income equality, simply having a job is now no longer enough to avoid poverty.

In more vulnerable sectors, the concern is no longer focused on social dumping but rather labour crime (forced labour and exploitation), as seen in the sub-contracting scandals exposed in Norwegian shipyards or Antwerp's chemical industry. Using extended subcontracting chains and labour intermediaries makes exploitation harder to track by austerity-hit labour inspectorates. The number of fatal work accidents increased in 12 EU Member States between 2020 and 2021, with more than a fifth of all fatal accidents occurring in the construction sector, according to new data from Eurostat. This social context is a seedbed for the far right and those who scapegoat minorities and migrants. But at its root, it's a symptom of the weaknesses of internal market's current social dimension and the lack of policy coherence with the EU Treaty aim of improved living and working conditions.

Accelerated digitalisation and decarbonisation are taking place in a global economic context of geopolitical tension, realignments, and asymmetries among major economies. The EU's trade balance fell sharply to an unprecedented trade deficit of EUR 430 billion in 2022 – driven by energy imports and manufacturing losses because of the energy crisis.

At the global level, the EU's 2022 Industrial R&D Investment Scoreboard shows the deepening of the global tech race in the four key sectors which account for more than three-quarters of the total Scoreboard R&D: ICT producers (22.6 %), health industries (21.5 %), ICT services (19.8 %) and automotive (13.9 %). R&D growth in the four key sectors was higher for US and Chinese than for EU Scoreboard companies. National subsidies, local content provisions, export restrictions, surpluses and dumping prevail over multinational rules and institutions, and are reshaping globalisation.

Even before the US Inflation Reduction Act (IRA), our industries faced energy prices structurally higher than those in the US and elsewhere. The scale of industrial policy, through the US IRA or China's five-year plan, have dramatically increased this energy price advantage, especially in clean technologies and strategic industries. A sustained under-investment in apprenticeships, education and training, as well as demographic change, have created crippling skills shortages in many industries, but are especially acute in sectors plagued by poor working conditions.

FACING THE CHALLENGE OF THE CLIMATE CRISIS

Each passing season brings more dramatic consequences of climate change and the urgent need for a socially just transition. With the European Green Deal, the EU has passed a series of laws based on this scientific imperative. In 2030, at least 42.5 % of our energy must be renewable. In 2035, cars and vans will have to be zero-emission and, after years of stagnated emissions reductions, energy intensive industries will have to reduce their emissions due to the Emissions Trading System reform.

The scale of the challenge is staggering. By 2050 we must be climate neutral from the 2021 situation in which '68.4 % of all energy in the EU was produced from coal, crude oil and natural gas'. While the road to climate neutrality is now set in law, the many social and employment impacts of this transition concern all economic activities, working conditions, professions, jobs, qualifications and skills and these are being largely left to a patchwork of different national actions. European workers are rightly anxious about their jobs, wages, working conditions and communities.

The polycrisis we're experiencing in Europe that underpins societal anxiety must be seen in a wider context. Low-cost, global supply chains have fuelled hyper-globalisation but have also been a source of vulnerability and dependence, as we have seen with gas, semi-conductors, critical raw materials and green tech. Securing supply by reshoring, diversification, and strategic measures, such as stockpiling or creating standards, will have costs. The narrow focus on cost-competitiveness is at odds with the increased investment and economic sovereignty needed for 'open strategic autonomy'.

As US Trade Representative Katherine Taï rightly assessed, '*resilient supply chains are vital for greater national and economic security. By this, we mean production that can more easily and quickly adapt to and recover from crises and disruptions. It means having more options that run through different regions. But getting there requires a fundamental shift. A shift in the way we incentivize decisions about what, where, and how we produce goods and supply services. That shift, in trade as in antitrust, moves away from a narrow focus on benefits for consumers*'.

There is increasing fragmentation and polarisation in Europe between those with the tools and means to address this polycrisis and those without. While acknowledging the merits of the EU single market, it's important to question whether its current design is still valid in this context.

Namely, will it help us build a climate-neutral industry in Europe by 2050? How can the internal market help to finance the urgently needed transformation of the European economy? Will it achieve this objective without offshoring most of our industries to other places that don't play by the same rules? And if the current economic model delivers on clean industries, will it also deliver quality jobs and create the conditions for social justice by securing universal access to public services (such as transport, energy and housing)?

LAISSEZ-FAIRE ECONOMIC POLICIES, THE PRIVATISATION OF ESSENTIAL SERVICES AND INFRASTRUCTURE, FURTHER FLEXIBILISATION OF THE LABOUR MARKET AND AUSTERITY, ARE ALL A TOXIC COCKTAIL MIX THAT WILL ONLY DEEPEN OUR EXISTING PROBLEMS FURTHER.

Our assumption is that exceptional times require policy innovation and not failed recipes from the past. *Laissez-faire* economic policies, the privatisation of essential services and infrastructure, further flexibilisation of the labour market and austerity, are all a toxic cocktail mix that will only deepen our existing problems further.

BREAKING THE INVESTMENT DEADLOCK IS CRITICAL FOR THE INTERNAL MARKET'S SURVIVAL

At the ETUC's 15th Congress in Berlin in May 2023, trade unions sounded the alarm about the return of austerity measures at a time when investment and fairness is urgently needed. Therefore, policy coherence demands that any discussion on the future of the single market must go hand in hand with considering how the internal market can contribute to filling the investment gap.

Massive investment is needed to put Europe on track to reach its climate targets. According to the European Commission, '[b]etween 2021 and 2030, additional public and private investment in excess of EUR 477bn per annum will be needed to fund the green transition'. As a result of its climate ambitions and other societal trends, electricity consumption should rise by circa 60 % between now and 2030, and the Commission estimates that EUR 584 billion of investment will be needed this decade to modernise the grid. For the ECB, 'between 1 % and 1.8 % of EU GDP would be required in annual, additional green public expenditure in the period 2021-30'.

The scale of investment is staggering when specific sectors are considered, especially energy-intensive sectors, such as steel. According to a recent report published by ESTEP, new low-CO2 steel production technologies will require investment of approximately EUR 50-60 billion, with EUR 80-120 billion per year in capital and operating costs. However, ESTEP also found that '*even by combining significant financial mechanisms—such as HEU, CSP, RFCS, LIFE and IF—only about EUR 2bn would be available as grants for CO2 emission reduction in the steel sector for the period 2021-30. This is, of course, a large amount of money but unfortunately far from enough to turn breakthrough technologies into technically achievable and economically viable solutions, which would allow the sector to do its part toward achieving the objective of a climate-neutral EU by 2050*'.

ESTEP also concluded that the annual EUR 400 million in state aid provided by concerned Member States is below the transformation needs of the European steel industry. While comparing the EU and the US is a complicated exercise, EUROFER has pointed out that the US IRA will provide at least USD 85 billion of funding for steel production and upstream energy requirements.

The heavy focus today on state aid as the source for public investment means that across Europe, macroeconomic and industrial policy objectives are on a collision route. Recent research shows that only four EU Member States would have the fiscal space to invest in new industrial policies necessary to meet Paris Agreement commitments, with half of the Member States able to meet EU climate targets, according to the fiscal rules proposed.

Restrictions on debt and deficits mean governments need to keep their debt-to-GDP ratio and their borrowing arbitrarily low. Ongoing high inflation and interest rates mean that it's extremely difficult to have both a dynamic and balanced budget. Those with higher debt and deficits will not be able to benefit from green industrial policies as much as those that are less indebted. Hence, the remedy proposed to tackle Europe's industrial emergency actually threatens to make the situation worse because fiscal and industrial plans are not aligned.

Not all European states and regions have the same capacity to attract private investment to achieve the transition. North-western regions with access to the sea have more potential than continental regions where renewable energy potential is more limited and where, on top of a more carbon-intensive energy mix, these regions are more economically concentrated on industrial manufacturing.

These regional disparities are accentuated by governments' fiscal capacity, with not all of them able to attract industrial investment through large-scale state aid. There's a big risk of territorial inequalities widening in Europe between regions that will be able to attract tomorrow's industrial investment thanks to the quality of their infrastructures and the state aid granted, and regions that will have no choice but to propose a low-cost, authoritarian industrial policy based on excessive deregulation, the dismantling of collective bargaining bodies, and the over-dependence on labour migration, with Hungary being a good example of the latter.

A future EU budget at scale must be the financial cornerstone of the EU's transformation to ensure social and regional cohesion and the promise of upward convergence. The solidarity experienced during the pandemic must be channelled into a longer-term funding plan. To reach adequate scale, it's clear that a broader debate on new own-resources and strengthened fiscal capacity is needed, despite the political complexities involved.

Nevertheless, state aid will continue to play a role and shouldn't be considered as problematic *per se* if it's transparent and proportionate to market failures, while bound with social conditionalities underpinning good jobs, social and regional cohesion. Clearly private companies also have a role in bridging the investment gaps, especially given the extraordinary dividends that many of them have distributed in recent years, notably in the energy sector. EU Member States must be much more demanding of companies that receive state aid.

The use of social conditionalities across a wide range of internal market policies, from funding instruments, through to public procurement and lead markets initiatives, would help to create triple wins for the economy, good jobs and the environment. Strategic public procurement has the potential to steer markets towards higher quality in terms of environmental or social standards or innovative products, while at the same time underpinning Europe's industrial policy strategy.

TAKING DELORS' VISION OF DEMOCRACY AT WORK FORWARD

In 1988, Delors spoke of worker participation and – by extension – democracy at work as a critical pillar of the social dimension. It's essential that the single market guarantees full respect for trade unions and workers' rights, including the universal right to organise, union access to workplaces, the right to bargain collectively, and the right to strike. Attacks on trade unions must be prevented – union busting must be punishable as a crime. This is necessary to defend and reinforce democracy in Europe.

IT'S ESSENTIAL THAT THE SINGLE MARKET GUARANTEES FULL RESPECT FOR TRADE UNIONS AND WORKERS' RIGHTS, INCLUDING THE UNIVERSAL RIGHT TO ORGANISE, UNION ACCESS TO WORKPLACES, THE RIGHT TO BARGAIN COLLECTIVELY, AND THE RIGHT TO STRIKE.

Never has this been more important, as millions of European industrial workers are facing an industrial transformation, both green and digital simultaneously. This prospect is fuelling social anxiety among the workforce directly, as well as their communities that depend economically and socially on industrial sites whose survival could ultimately be threatened by a lack of capital investment.

Furthermore, artificial intelligence (AI) is a game changer, with the huge potential for productivity gains but also with major implications for the monitoring and control of workers, especially if left unregulated. For unions, it's important to note that AI does not automatically lead to good or bad jobs. The outcome for workers depends on how AI is shaped and used at all levels, from the legal framework, through regulation, to a tailor-made approach through social dialogue and collective bargaining, especially at sectoral and company level.

A just transition, in the face of these workplace changes, demands a legal set of rights for workers to anticipate and shape the changes underway, and an obligation on companies to negotiate transition plans with local trade unions. Negotiating labour-related issues must remain the exclusive domain and competence of social partners, with the involvement of governments in industrial relations systems where it's the rule.

As Delors recognised in 1988, all workers should have the right to quality training. Lifelong learning opportunities at all stages of a career are key to preventing skills erosion and ensuring employment security for every worker throughout industrial transitions. Training must focus on learning outcomes and, wherever possible, lead to a qualification, validated through transparent and clear recognition and certification systems that allow comparability.

RE-SETTING AND SOCIALISING COMPETITION LAW FOR GOOD JOBS

Creating an internal market with common rules for the free flow of goods, services, people and capital was the overarching objective of the EU's founding fathers. This made competition policy one of the most visible symbols of the EU's functioning. Consequently, competition policy should be a driver of an efficient internal market that delivers growth and jobs across the EU.

However, competition policy has also been (ab)used to serve a liberal agenda. Indeed, free competition to create benefits for consumers also means driving down costs (labour costs included), the deregulation of labour markets, not taking externalities into account (i.e. the environmental impact of economic activities) in the price mechanism, and the privatisation of public monopolies in network industries. Often the concept of the reference market has remained too focused on Europe, when markets are more often global in nature.

In the transformation underway, competition policy needs 'to get with the programme' – European strategic industrial interests and infrastructure assets must be factored into state aid, with decisions on mergers and acquisitions safeguarding strategic industrial capacity and autonomy. More socially responsible competition policies are needed, with enforcement priorities more attentive to the needs of workers and the public interest.

IN THE TRANSFORMATION UNDERWAY, COMPETITION POLICY NEEDS 'TO GET WITH THE PROGRAMME' – EUROPEAN STRATEGIC INDUSTRIAL INTERESTS AND INFRASTRUCTURE ASSETS MUST BE FACTORED INTO STATE AID, WITH DECISIONS ON MERGERS AND ACQUISITIONS SAFEGUARDING STRATEGIC INDUSTRIAL CAPACITY AND AUTONOMY.

Beyond the social and economic consequences of lost industrial capacity, competition policy also questions the EU's drive towards open strategic autonomy. A pure *laissez-faire* approach would significantly deteriorate the trade balance in a series of sectors that are instrumental to Europe's industrial and technological sovereignty, including the clean technologies championed in the Green Deal that all depend on foundation industrial value chains. An industrial policy must not only be about rolling out the red carpet for 'clean tech' investors, but also supporting the transformation of existing industrial assets in the less attractive parts of the strategic value chains.

Furthermore, applying the competition principle in a growing number of sectors raises equity and social fairness issues when universal access for citizens to quality public services is no longer guaranteed. In a society that is highly polarised around very marked social inequalities and faced with an immediate ecological transformation, the 'free competition' model is not able to reconcile social justice and environmental efficiency while securing universal access to clean water, sustainable energy, or mobility. With the transition underway, a strengthening of universal rights to essential services (e.g. electricity, water, public transport, digital networks) should be asserted and protected within the internal market. For instance, the right to energy for all, at home and at work, must be delivered through European energy policies that secure access to decarbonised, affordable energy, and a deep reform of energy sector regulation that guarantees the needs of households and our industries.

CONCLUSION: GETTING THE ECONOMIC COMPASS RIGHT – GOOD JOBS, SECURITY AND PROSPERITY

As this European electoral cycle gets underway, the EU's economic compass seems schizophrenic at times. On the one hand, the pandemic and the war in Ukraine have inspired a wave of solidarity and a 'whatever it costs' approach, with making the EU less dependent on foreign suppliers driving decisions. On the other hand, a vague concept of competitiveness has emerged, with a return to the toxic medicine we've taken before without success. In the context of austerity, deregulation, employment insecurity, inequalities, deteriorating working conditions through intense structural change driven by well-intentioned political decisions, are the perfect ingredients for shattering the European project.

Another way is possible. In a tight labour market, the EU should use all available means to improve the quality of employment, strengthen collective bargaining, increase purchasing power and boost the up-skilling and re-skilling of the existing workforce, ensuring just transitions within and between industries.

A real, sufficiently large European industrial investment plan for clean technology value chains, with built-in solidarity, and a good jobs plan for each region should underpin the internal market. Social conditionalities must ensure that support provided through policy tools, state aid or EU funds leads to quality jobs, underpinned by strong and stable industrial relations.

This is the way that the internal market can contribute to solving rather than amplifying the polycrisis in which we find ourselves. But the policy compass must be set in the right direction, or we'll find ourselves going around in circles or even backtracking, doomed to repeat the mistakes of the past.

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