

GERMANY'S PRESIDENCY OF THE COUNCIL OF THE EUROPEAN UNION
JULY DECEMBER 2020

The Federal Ministry of Labour and Social Affairs' Thematic Reader

Our Social Europe – Strong Together
Global Supply Chains – Global Responsibility
New Work – Human-centric Work



Federal Ministry
of Labour and Social Affairs







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Foreword by Hubertus Heil

Federal Minister of Labour and Social Affairs, Federal Republic of Germany

Dear Readers,

Germany's Presidency of the Council of the European Union comes at an exceptional time for Europe. In addition to Brexit, digital transformation and climate change, the coronavirus pandemic poses major challenges for our continent. We can only overcome these challenges by working together in a spirit of solidarity. Priority must be given to protecting people's health in Europe as best we can. And as soon as possible after the end of the crisis, we must return to a focus on securing decent jobs, inclusive growth and a sustainable economy. In Germany and across Europe.



HUBERTUS HEIL

has been Federal Minister of Labour and Social Affairs since March 2018. Having studied political science, he is particularly committed to using his office to give everyone the

chance to lead a self-determined life while providing protection and security in times of change.

Since December 2019, Hubertus Heil has been Deputy Chairman of the Social Democratic Party of Germany (SPD), of which he has been a member since 1988. Since 1998, he has also represented the Gifhorn-Peine constituency in Lower Saxony with a direct mandate in the German Bundestag.

Photo: BMAS/Dominik Butzmann

The European Union (EU) unites different countries that all have their own traditions, histories and economic backgrounds. “United in diversity” was therefore the right choice for the motto of our continent’s community of common values. The EU is based on the conviction that peace, democracy and prosperity are indivisible. That is why the upward convergence of living conditions within and between Member States continues to be one of the EU’s core commitments.

During Germany’s Presidency, we will do our part to continue to realise this aspiration.

Enhancing the social dimension of Europe

The economic and financial crisis of 2008/2009 was a turning point for the EU and had significant social consequences. Young people, the low-skilled and those in precarious employment suffered the most. Precarious employment increased in many countries. The gap

between the rich and the poor is still wide. The consequences of the coronavirus crisis now threaten to widen the social and economic gaps between the Member States further. This is one of the greatest threats to the social and political stability of the EU.

One of the important goals of Germany’s Presidency will therefore be to enhance the social dimension of Europe. To achieve this we must establish common minimum standards in social and employment policies in the EU. All Europeans must know that they can rely on basic social protection and the right to participate in society.

Two issues are particularly important to me. First, that we establish a European legal framework for appropriate national minimum wages, also strengthening the role of the social partners; and second, that we agree on minimum income schemes everywhere in Europe that facilitate participation in society and guarantee a dignified life for all EU citizens.

Minimum wages and minimum income schemes already exist in almost all EU Member States. But the disparities between countries are still too great – and the respective minimum wages and social benefits are often insufficient. There is a great need for action in this area.

Wage floors and strong minimum income schemes are also of particular importance in times of crisis. They secure workers' incomes, prevent social exclusion and stabilise overall economic demand. If, in the future, all EU Member States meet European minimum standards, it would be a big step towards a socially responsible Europe.

Shaping the future of work in Europe

The second major issue of Germany's Presidency is the future of work. Europe is undergoing a structural change that is transforming our economy, the labour market and society.

We can already see this transformation in the world of work. New technologies and business models are changing how and where we work. New digital forms of work such as teleconferencing and working from home are being used more and more often. The coronavirus pandemic has significantly accelerated this trend.

The digital transformation will not cause us to run out of work; in fact, it is likely that more new jobs will be created than old jobs lost over the next few years.

The digital transformation will not cause us to run out of work; in fact, it is likely that more new jobs will be created than old jobs lost over the next few years. However, the work itself is changing and will demand new qualifications and skills from employees. Workers in Europe must be able to adjust to this fact.

Technological change is more of an opportunity than a risk. It is important, however, that we do not simply stand by and watch this change, but that we fashion policies to influence it – at national, European and international level. Digital technology can then spark new growth and make our lives better overall: for example, by doing monotonous, unhealthy tasks for us. It is important to me that this does not undermine our high European social and data protection standards. We must ensure that technological progress becomes social progress. Because of its size and prosperity, Europe is in the best possible position to ensure that digital transformation is socially sustainable.

This includes having common rules for the European labour market, fair employment conditions, more skills acquisition and high common standards with regard to artificial intelligence (AI). I would like to use Germany's Presidency to take a big step forward on these issues.

Continuing vocational education and training plays a central role in this context. That is why in future, we will exchange more information at European level on the respective national continuing education and training systems. There are innovative approaches to this in several Member States already. We should learn from these approaches together. During Germany's Presidency, I would therefore like to have a discussion on which European solutions are needed in terms of continuing vocational education and training, how we can develop a European skills strategy and how we can ensure access to digital skills acquisition.

We must ensure that technological progress becomes social progress.

Another important topic for our European agenda is the creation of a socially responsible platform economy. Digital platforms hold great potential for consumers, for those working on the platforms and for companies using them. At the same time, we must ensure better regulation and more transparency in responsibilities. Because the use of innovative technologies and business models must not come at the expense of our labour and social standards – we must not let digital transformation mean exploitation. That is why we will actively support the European Commission in its efforts to develop new solutions to ensure that platforms are fair.

We will also put the issue of artificial intelligence on the agenda during our presidency, because AI is fundamentally changing our private and professional lives. For me, the European path toward the development and application of AI is to shape policies to ensure AI is used in a way that makes people's lives better. That is the standard that provides orientation for our policy making. To achieve this, we need a European AI regulatory framework that meets existing protection standards in the areas of security, liability and data protection, while at the same time promoting the innovative use of AI. We will hardly be able to achieve this as individual nation states, but the EU is ideally suited to such an immense, cross-border challenge. If we act together, we Europeans can set standards worldwide.

Decent work in global supply chains

Europe is about more than self-reflection; it also bears responsibility all over the world. As one of the world's most important markets, we have a major influence on ensuring that our imports are not produced, for example, by child labour or under inhumane working conditions. I believe that it is our duty to use this influence, because more consumption for us must not mean less human dignity for others. Some of our European neighbours have already adopted regulatory measures at national level to require companies to have fair supply and value chains.

Germany and the EU as a whole must live up to their responsibility to ensure that supply chains are fair. I will therefore use Germany's Presidency to promote an ambitious joint approach. At its heart is an EU action plan on "Human Rights and Decent Work in Supply Chains". Our goal is Europe-wide binding due diligence concerning decent work in global supply chains based on the United Nations Guiding Principles on Business and Human Rights.

Such an EU-wide standard would prevent human rights abuses in supply chains, create a level playing field and provide legal and operational certainty for our European businesses. Consumers in Europe will be able to be sure that their products have been produced fairly and sustainably. And it will help workers and manufacturers outside Europe by improving their working and living conditions.

If we act together, we Europeans can set standards worldwide.

The coronavirus crisis is making us aware of the interdependence in global value networks in brutal fashion. It is also exposing the deadly consequences of inadequate occupational safety, unhygienic conditions and intolerable housing for workers in manufacturing countries. The global crisis caused by the virus should thus make us reflect on how we want to shape the future course of globalisation. Fair globalisation is built on social safety nets for all, health standards and occupational safety worldwide.

Europe is facing major challenges. We will not be able to deal with the consequences of the coronavirus crisis at national level, but only by joining forces as Europeans. In these exceptional times for Europe, we will do everything in our power during Germany's Presidency to ensure that we succeed in this and that we successfully overcome the crisis.

Nicolas Schmit

Commissioner for Jobs and Social Rights at the European Union

Germany will take on the Presidency of the Council of the European Union at a critical moment for employment and social policy issues, at a time when overarching global trends have a marked impact on the way we live and work in the EU today.

We are currently facing a crisis that no one imagined we would have to go through just a few months ago. And as we are working together in the EU to get on top of it, the global transformations continue and are even accelerating. On the one hand, the EU aspires to make Europe the first climate-neutral continent by 2050, with the European Green Deal as our flagship strategy towards a fair and socially just environmental transition. On the other hand, digitalisation and new technologies continue to profoundly transform workplaces, industry and many business sectors throughout Europe. The massive use of teleworking during the home confinements further underlines the trend. Further, demographic change will have serious implications for our care and pension systems. Grassroots activism for sustainable globalisation is on the rise, demanding a guarantee of decent working conditions in supply chains, for example. In order to protect our values and promote our European way of life, we must be at the vanguard of shaping fair, socially equitable policies. In other words, to get out of this crisis and reap the benefits that emerge from the current transformation processes, they must be fair and socially responsible for everybody.

Commission President Ursula von der Leyen, herself a former Federal Minister of Labour and Social Affairs, is a firm advocate of a strong social Europe for just transitions. The implementation of the European Pillar of Social Rights – the set of 20 principles and rights that all EU institutions and the Member States



NICOLAS SCHMIT

has been European Commissioner for Jobs and Social Rights since December 2019. Prior to this role, he held various positions in Luxembourg. He served as Minister for

Labour and Employment from 2009 to 2018.

From 1998 to 2004, he was the Permanent Representative of Luxembourg to the EU. In May 2019, he was elected a Member of the European Parliament for Lëtzebuenger Sozialistesche Aarbechterpartei, a social democratic party. Nicolas Schmit holds a doctorate in international economic relations and a master's degree in French literature from the University of Aix-Marseille.

Photo: European Union 2020 – EC/Claudio Centonze

proclaimed in November 2017 – remains our compass for better working and living conditions throughout the EU to overcome the crisis and master the transitions. In this vein, in January 2020 the Commission outlined its vision for a Europe in which nobody gets left behind and initiated a broad consultation among all stakeholders – the Member States, regions, civil society, social partners, and industry – on how to reinforce and implement the Pillar.

The EU and Member States must all take the economic and social implications of the crisis-response, as well as the green, digital, and demographic transitions into account from the outset. We must apply all possible instruments to mitigate adverse consequences. But in order to make the Pillar work, national, regional and local authorities, social partners and relevant stakeholders on all levels must play an active role. In parallel and in conjunction with our international partners, the EU strives to ensure decent working conditions across the world. We will only succeed by working together. Germany's priorities in the areas of labour and social policy for its 2020 Council Presidency closely mirror those of the Commission.

1. The future of work along the dimensions of platform economy, reskilling and upskilling, and artificial intelligence

If we really want to make sure that no one is left behind, we must empower people and give them the tools they need to succeed in our changing world. The Commission attaches very high importance to skills: it is no coincidence that the first principle in the European Pillar of Social Rights concerns education, training, and lifelong learning. In order to bring those people who have unfortunately lost their jobs during the crisis back into work and to ensure that workers stay employed in regard of the ongoing transformations, skills are key. There is a significant gap between the skills of the workforce and the demands by the companies. This trend is further reinforced in the significant recovery efforts that many companies have to go through and by the parallel transition towards a greener and more digital economy. In the digital economy alone, around a million vacancies remain unfilled. The Paris Climate Agreement could lead to global job losses of around six million and job gains of 24 million,¹ although certain sectors, businesses and sometimes entire regions would be affected more than others. We must address these challenges by investing in training and research on which skills are needed.

1. ILO, 2018

Workers must not only be equipped to take the new jobs created in a new, greener economy or to move from one job to another. We must support them as they embrace changes in the jobs they have now as well. Our Skills Agenda will support all actors in making sure that when it comes to the provision of skills and training, supply meets demand.

As a case in point and clearly demonstrated during the crisis, the platform economy reveals a gap between technological evolution and social conditions which must be closed. We need to address the working conditions and social protection in this part of the economy and actively address new forms of precarious work. During the Covid-19 crisis, some platforms have introduced policies which give some protection to their workers. This should not be limited to crisis situations and more widely adopted. Before that, California, the birthplace of platform work, was showing the way by adopting a dedicated law to protect such workers. The EU Directive on transparent and predictable working conditions and the Council Recommendation on access to social protection for workers and the self-employed were also first steps in the right direction. We have to make sure that these rights are strengthened and developed further. Platform economy workers should have the same social rights as other employees, including a right to collective bargaining.

Workers must not only be equipped to take the new jobs created in a new, greener economy or to move from one job to another. We must support them as they embrace changes in the jobs they have now as well.

2. Minimum standards for national minimum wage setting and schemes of minimum income protection at EU level

Workers in Europe should have a fair minimum wage that enables them to have a decent standard of living. Commission President Ursula von der Leyen committed to a legal instrument to this effect, and I will actively work to ensure its adoption and implementation. I am therefore extremely pleased that Germany earmarked this as a priority for its Presidency. In our view, minimum wages protect workers with low wages and low bargaining power. Adequate minimum wages reduce in-work poverty and wage inequality at the lower end of the wage

distribution. Since more women than men earn wages at or around the minimum wage, improvements in the adequacy of the minimum wage also support gender equality. Some Member States already have high standards when it comes to wage setting through strong social dialogue and collective bargaining, for example. What we would like to see is upward wage convergence for the benefit of everyone. Promoting high wage standards could lead to the kind of upward economic and social convergence – the race to the top – that will help to boost the EU’s social market economy.

What we would like to see is upward wage convergence for the benefit of everyone.

Our initiative is based on this approach and any Commission proposal will be faithful to this objective. The collective bargaining systems in countries where they work well will remain protected, for example. The EU will not oblige any country to introduce a statutory minimum wage. Rather, the framework will also strengthen the collective bargaining system in the Member States in which it is weak – with positive effects for countries where it is a key part of the economic and social structure as well.

Much still needs to be done to ensure adequate income support, inclusive labour markets and access to quality services to support those who need them most. This will require us to apply all the instruments we have at our disposal – from legal instruments to policy coordination and funding. The EU needs an anti-poverty strategy, even more now in the context of the crisis, which, despite strong actions has substantial negative impacts on the livelihoods of many Europeans/ has left many Europeans worse off. The European Pillar of Social Rights states that “everyone lacking sufficient resources has the right to adequate minimum income benefits ensuring a life in dignity at all stages of life, and effective access to enabling goods and services”. The Commission sees Germany’s focus on this issue, which is now more relevant than ever, as an opportunity to reflect on the most appropriate way to implement this principle, within the limits of EU competencies and in line with the principle of subsidiarity.

3. Human rights and decent work in global supply chains

The crisis has shed public light on the truly global nature of our supply chains, but has also called them into question by showing their vulnerability and Europe's dependence when it comes to the most essential goods such as vital medicine. But beyond these considerations, the Commission fully supports the German EU Council Presidency in its engagement for decent labour in global supply chains, which complements our plan to reinforce the EU's unique brand of responsible global leadership by promoting international labour standards as part of a rules-based global order. Due to its solid involvement in global trade, the EU has a strong interest in supporting a global level playing field. The fact that some trade partners do not implement their labour rights commitments appropriately is a cause for concern. We must work together with our international partners to promote decent work for all and foster new multilateral governance mechanisms.

The EU closely cooperates with the International Labour Organization (ILO) and is active in all important debates and initiatives within ILO tripartite meetings. We are strong advocates for the Sustainable Development Goals under Target 8.7, which aims at ending child labour in all its forms by 2025 and forced labour by 2030 – a battle that is far from being won. After all, there were 152 million child labour victims and 25 million people trapped in forced labour worldwide in 2016. The Commission will ensure that every new concluded agreement will contain a dedicated sustainable-development chapter and the highest standards of climate, environmental and labour protection with a zero-tolerance policy on child labour. International labour standards should be at the core of our trade agreements, multilateral and bilateral work, and measures promoting corporate responsibility in supply chains. Millions of workers around the globe put their hope in the EU's responsible leadership. We must ensure that 'decent work for all' also becomes a reality for them. I will work with the Commissioner for Trade to create an adequate framework.

I am very much looking forward to working with the German Council Presidency on all of these issues. The Commission has kicked off work on an action plan for implementing the European Pillar of Social Rights. We invite all partners to join the debate and/or pledge concrete commitments as a Member State, region, city or organisation until 30 November 2020.² The German Presidency will be instrumental in helping to build momentum for the action plan in the second half of 2020. The next six months will open a clear window of opportunity to drive our common agenda forward.

2. <https://ec.europa.eu/social/yoursay-social-europe>

Guy Ryder

Director-General at the International Labour Organization (ILO)

The three priorities chosen by the German Presidency of the Council of Europe are timely. They also echo important themes in the ILO's Centenary Declaration for the Future of Work, which was adopted at the International Labour Conference by all EU Member States and others in attendance in June 2019. Since then and since this article was initially penned, the world of work has been profoundly disrupted by the COVID-19 pandemic. This experience has implications for the priorities of the German Presidency.

Digitalisation, automation and other technological advances are changing the world of work everywhere. These advances are creating countless opportunities to generate new jobs, improve the quality of working lives, expand choices and much more. Yet these developments will also destroy jobs and may lead to deteriorating working conditions. The growing platform economy, for instance, could create future generations of “digital day labourers”, as Chancellor Merkel has described,¹ and exacerbate regional and gender inequalities. COVID-19 has precipitated a sudden shift to widespread teleworking and has highlighted both the advantages and challenges of this modality. In terms of the latter, it has thrown into relief the situation of millions of

1. Speech by Federal Chancellor Merkel at the 21st Ordinary DGB Federal Congress, Berlin, 15 May (Berlin, Federal Government of Germany, 2018). Available at: www.bundesregierung.de/breg-de/aktuelles/rede-von-bundeskanzlerin-merkel-beim-21-ordentlichen-dgb-bundeskongress-am-15-mai-2018-in-berlin-1008658 [6 Jan 2020].



GUY RYDER

Director-General of the International Labour Organization (ILO) was first elected in 2012 and started a second term of office in 2017. He has served the ILO in various

capacities including as Executive Director for labour standards and fundamental principles and rights at work. From 2006-10 he was General Secretary of the International Trade Union Confederation (ITUC). Photo: ILO/Marcel Crozet

workers particularly at the lower end of the gig economy who are highly vulnerable, on low incomes and without social protection, leaving them without a buffer. They simply cannot afford to stop working. Their plight mirrors the situation of workers in the traditional informal economy who must work to survive.

The future of work will have to be about assuring decent work for all workers in traditional and non-traditional forms of work.

However, the future of work is not all about technology. Demographic change is shaping labour markets differently in different parts of the world. Population ageing in some regions could compromise the sustainability of social security systems yet at the same time, it could also create new employment oppor-

tunities in the silver economy and contribute to the creation of more inclusive and lifelong active societies. Growing populations in other parts of the world are leading to a huge youth employment challenge, which could translate into positive economic and social outcomes if addressed properly. Climate change threatens the livelihoods of many people and communities across the globe. Policies to address the situation will require many people to transition into new jobs or occupations, yet adaptation and mitigation measures could also create millions of decent jobs globally.

We can and must shape the future of work. It is not pre-determined. The ILO Centenary Declaration calls on the EU and its Member States to put people and the work they do at the heart of economic, social and environmental policies. It also calls on all of us to shape the future of work by designing human-centred policies that create decent work for all and deliver economic security, equal opportunity and social justice. The sobering experience of COVID-19 is an opportunity to take stock, and build a better future that is safer, fairer and more sustainable.

The human-centred agenda is about:

→ **Strengthening the capacities of people to benefit from the opportunities of a changing world of work:**

This requires the effective realization of gender equality in opportunities and treatment, effective lifelong learning and quality education for all, universal access to comprehensive and sustainable social protection, and effective measures to support people through the increasing number of transitions they may face in their working lives.

→ **Strengthening the institutions of work to ensure adequate protection for all workers:**

All workers should enjoy adequate protection in accordance with the ILO Decent Work Agenda, which entails respect for their fundamental rights, an adequate minimum wage (statutory or negotiated), maximum limits on working time and measures for safety and health at work.

→ **Promoting sustained, inclusive and sustainable economic growth, full and productive employment, and decent work for all:**

These objectives should be at the heart of all macroeconomic policies, and trade, industrial and sectoral policies must promote decent work and enhance productivity.

In October 2019, the Council of the European Union – a steadfast partner of the ILO – adopted conclusions for implementing the ILO’s Centenary Declaration and its human-centred agenda. These conclusions encourage EU Member States to ratify and effectively implement ILO Conventions in order to ensure decent work for all.

We can and must shape the future of work. It is not pre-determined.

Economic and social upward convergence in Europe

Germany’s second priority lies at the heart of the ILO’s mandate. The Preamble to the ILO Constitution not only proclaims that “universal and lasting peace can be established only if it is based upon social justice”, but also that “the failure of any nation to adopt humane conditions of labour is an obstacle in the way of other nations which desire to improve the conditions in their own countries”. The creation of closer European integration through the Treaty of Rome in 1957 was based on the same philosophy, and it remains the strongest rationale for closing existing economic and social gaps within the EU.

Work still needs to be done. With significant differences in income growth rates between Member States, economic and social convergence in the EU is a “tale of two speeds”. Achieving more broadly shared income distribution across EU Member States could provide a major boost to achieving upward convergence in Europe. Developing an EU framework for minimum wages and minimum income benefits could provide a path towards greater convergence and contribute to making societies more equal. The European Pillar for Social Rights provides the

basis for such a framework. It calls for adequate minimum wages “that provide for the satisfaction of the needs of the worker and his / her family [...], whilst safeguarding access to employment and incentives to seek work”². Harmonising incomes from work can play an important role in reducing inequalities because most households of working age rely on labour incomes – wages and earnings from self-employment – as their main source of income. However, in itself this will not be enough. Increased investment in other institutions of work, such as in safe and healthy workplaces and the promotion of collective representation and social dialogue are also necessary to ensure equality in the labour market.

If the production and distribution of goods and services do not stop at national borders, neither does the responsibility to respect working conditions and human rights.

Redistribution and transfer policies have important roles to play. Social security transfers are essential to decrease inequalities and promote social mobility. The ILO Centenary Declaration calls on governments to work towards universal, comprehensive and sustainable social protection. This should include a social protection floor that affords a basic minimum level of protection to all in need, complemented by social insurance schemes that provide increased levels of protection against all risks from birth to old age.

In the final analysis, we have to expand opportunities for people and enable them to manage the increasing number of labour market transitions they will experience over the course of their lives. The implementation of effective lifelong learning systems along with universal social protection would enable workers to acquire skills, upskill and reskill throughout their working lives. A transformative agenda for gender equality is urgently needed to ensure equal opportunities for all. The COVID-19 virus knows no boundaries. At the same time the most vulnerable are the most exposed and will render preventive measures for the wider population less effective. Beyond the health impact, they are also more exposed to the socio economic fallout. In the spirit of the ILO’s Constitution, promoting convergence and reduction of inequalities means enhancing resilience and improving the prospects of recovery for all.

2. European Pillar of Social Rights, Principle 6.b. Available at: https://ec.europa.eu/commission/publications/european-pillar-social-rights-booklet_en [6 Jan 2020].

Sustainable supply chains

As the ILO Resolution on Decent Work in Global Supply Chains recognizes,³ global supply chains have created millions of jobs and are a major contributor to development. At the same time, participation in global supply chains has also exacerbated existing decent work deficits. If the production and distribution of goods and services do not stop at national borders, neither does the responsibility to respect working conditions and human rights. International frameworks such as the UN Guiding Principles on Business and Human Rights and the ILO Tripartite Declaration of Principles Concerning Multinational Enterprises and Social Policy recognize the distinct but reinforcing responsibility of governments and private actors to achieve coherence between economic outcomes and decent work in global supply chains.

Germany has insisted on the importance of achieving decent work in global supply chains, notably during its G7 and G20 presidencies in 2015 and 2017 respectively. The creation of the Vision Zero Fund attests to Germany's leadership on these issues in multilateral policy dialogues. The EU and its Member States also played an important role in the ILO's Meeting of Experts on Cross-Border Social Dialogue in February 2019, which generated relevant conclusions for global supply chains.⁴

Germany's Presidency of the Council of the European Union in 2020 will provide it with another important opportunity to explore solutions and build on the relevant EU work in progress. The EU is already promoting the responsible, sustainable management of global supply chains and can help to drive further policy coherence. An increasing number of governments are adopting national action plans on business and human rights, and supply chain due diligence laws are evolving beyond a reporting obligation. Public procurers have increasingly focused on the role that they can play in promoting decent work through supply chain responsibility. Efforts by EU-based companies to strengthen responsible business conduct are also an important tool.

The focus on human rights in global supply chains, including labour rights, is an opportunity to drive broad-based change and demonstrate that economic and social development go hand in hand.

3. ILO Resolution concerning decent work in global supply chains. Adopted at the 105th Session of the International Labour Conference (10 June 2016). Available at: https://www.ilo.org/wcmsp5/groups/public/---ed_norm/---relconf/documents/meetingdocument/wcms_497555.pdf [12 Jan 2020].

4. See Report of the Meeting of Experts on Cross-border Social Dialogue (Geneva, 12–15 February 2019), GB.337/INS/12/2. Available at: https://www.ilo.org/gb/GBSessions/GB337/ins/WCMS_721421/lang--en/index.htm [12 Jan 2020].

We are all responsible for the governance of decent work in global supply chains – it is a shared responsibility between governments, enterprises, trade unions, civil society and international organizations. Governments are responsible for enacting and enforcing the necessary legal frameworks at the national level and ensuring compliance with labour regulations. Business accountability for respecting human rights can help integrate the private sector as a responsible partner in development. At the same time, governance gaps will not be closed by due diligence processes alone, as they often do not reach the lower levels of the supply chain where most decent work deficits exist.

In the wake of the havoc wreaked by COVID-19 on the global economy, global supply chains have been broken. As demand dwindles, as transportation challenges arise, as orders are cancelled, workers and enterprises along the supply chain and particularly at the lower end are struggling for survival. It remains to be seen if the necessary solidarity will emerge to give them a chance for the future.

Final remarks

Drawing on the lessons of the crisis that we are currently living, progress on these priorities would go a long way toward reducing the widening inequalities we are witnessing within countries – in the EU as well. Through proactive policies and their effective implementation, and adjustments to legal frameworks, we can and we must shape a human-centred future of work with freedom, dignity, economic security and equality.

A strong partnership between the European Union and the ILO is essential to make progress towards our common goal: a brighter future with social justice for all.

Angel Gurría

Secretary-General of the Organisation for Economic Co-operation and Development (OECD)

The OECD welcomes the priorities of the German Presidency of the EU, which address the future of work, economic and upward convergence in Europe and human rights and decent work in global supply chains. The COVID-19 crisis brings new challenges for achieving these goals, but also highlights the importance of these areas and calls for reinforcing the engagement between Germany, the EU and the OECD.

Germany continues to take the lead in discussions around the future of work

Germany has been at the forefront of discussions around the future of work, notably with *Industrie 4.0*, and its *Strategie Künstliche Intelligenz* (Artificial Intelligence Strategy), and it has been instrumental in bringing these issues to the top of the international policy agenda. During its Presidency of the G20 in 2017, Germany made important strides putting the future of work on the G20 agenda, including through the adoption – by G20 Employment and Labour Ministers – of a set of priorities on the future of work. Leaders recognised the need to ‘educate and train people with the necessary skills for the future of work, the importance of opportunities to re- and upskill throughout their



ANGEL GURRÍA

has been Secretary-General of the Organisation for Economic Co-operation and Development (OECD) since 2006. He has firmly established the Organisation as a pillar of the global economic governance architecture. Under his watch, the OECD is leading the effort to reform the international tax system, to enhance anti-corruption and transparency efforts, to improve education and to develop digital strategy. He has scaled up the OECD contribution to the global agenda, including the Paris Agreement on Climate Change and the adoption of the Sustainable Development Goals. Photo: OECD/Hervé Cortinat

working lives, and assist them to successfully adapt to change, in accordance with each member's domestic social framework'. The OECD and Germany worked closely together on this agenda and the OECD provided the analytical input for the technical debate.

This legacy was taken up by the Presidency of Argentina in 2018, which made the future of work a cross-cutting theme and endorsed a menu of policy options for the future of work. It was further built upon by the Presidencies of Japan (2019) and Saudi Arabia (2020). The Saudi Presidency has prioritised adapting social protection to changing patterns of work. I congratulate Germany for these efforts in raising the level of ambition at the international level, and Germany can count on the OECD's support on this topic under the German EU Council Presidency, and explore synergies with the G20 and G7 agendas.

The world of work is changing profoundly

Rapidly changing technologies, including artificial intelligence but also new business models, ageing societies and the evolution of international connections, are changing our societies and labour markets. They bring exciting opportunities for creating new and better jobs, boosting productivity and efficiency and raising living standards.

They also bring new risks such as precarious work and job loss through automation. Moreover, as highlighted in the *OECD Employment Outlook 2019*, the risks and benefits that megatrends bring will not be equally distributed. Groups that have already been left behind in the labour market are likely to bear the brunt of the adjustment costs, while groups that are already better off are best placed to benefit from new opportunities.

The COVID-19 crisis is exacerbating many pre-existing challenges. Overnight, strong labour markets have suffered the largest increases in unemployment benefit claimants on record. The crisis is affecting the most vulnerable in particular and it is laying bare gaps in the fabric of our social protection systems. More than ever, it will be important that countries support individuals through these difficult times: first, by protecting jobs and providing income support, but later also through other measures (e.g. training) to ensure that laid-off workers can return to work as soon as the epidemiological situation allows.

Promoting a future that works for all

Ensuring that the future works for all will require a whole-of-government approach that targets interventions on those who need them most. Governments should ensure that adult learning, social protection, labour market regulation and social dialogue continue to achieve the goals for which they were intended.

Adult learning and skills, in particular, will play a critical role in shaping the future of work. The extent to which individuals, firms and economies can benefit from the changes in the labour market will depend on the readiness of each country's adult learning system to help people develop relevant skills.

Ensuring that the future works for all will require a whole-of-government approach that targets interventions on those who need them most.

In 2016, the OECD prepared a report on the future of work and skills – in support of Germany's G20 Presidency priority to shape the future of work through skills development. Our report put forward policy priorities for governments that mitigate the disruptive impact of megatrends while enhancing opportunities for workers to benefit from them. As shown in the 2019 OECD report *Future-Ready Adult Learning Systems*, all countries have room to improve, although for some the challenges are bigger and more pressing than for others. Germany has recognised the importance of adult learning to address the challenges posed by digitalisation and launched a *Nationale Weiterbildungsstrategie* (National Skills Strategy) in 2019. Efforts should even start at a lower rung on the education ladder. Key competencies such as adaptability and self-regulation, as well as socio-emotional skills, values and open-mindedness, should be part of the early efforts to equip individuals to cope with a highly changeable and inter-connected world.

The OECD will continue to work with Germany, the European Union and global fora like the G20 and G7 to improve international efforts to shape an inclusive future of work. This includes adapting our policy tools to the new digital reality.

New challenges to convergence

Despite rapid technological change, rising education levels and increasing participation of firms and countries in global value chains, productivity growth has slowed across nearly all advanced economies. Following the financial crisis – and before the COVID-19 crisis – productivity growth was particularly slow in some Southern European countries and so-called lagging regions. Moreover, several countries experienced a slowdown in real average wage growth relative to productivity growth, which has been reflected in a falling share of wages in GDP. At the same time, growth in low and middle wages has been lagging behind average wage growth, contributing to rising wage inequality. Technological change and the exposure to income and employment risks as a result of the COVID-19 crisis risk further widening these divides.

Further convergence will require action on multiple fronts

Keeping Europe's convergence machine going requires action on multiple fronts. Fostering productivity growth in all European countries and regions is the first priority. However, just re-igniting productivity growth will not be enough as productivity gains do not necessarily translate into improvements in living standards. A good set of European and national policies can help ensure that they do.

Stronger competition in some markets will reduce the excessive gains of a few, while benefiting all consumers and opening new opportunities for businesses. Investment in skills will ensure that the fruits of technological progress are broadly shared. Active labour market policies help workers find new and better jobs. Adequate minimum wages and well-functioning collective bargaining systems, together with effective minimum income schemes and balanced employment protection rules, will also help ensure that benefits are spread fairly throughout society.

Promoting sustainable growth and improving the economic and social well-being of people has been the *raison d'être* of the OECD since its foundation. The European Pillar of Social Rights, the recent communication on a strong social Europe for just transitions, the directive on posted workers, the new instrument for temporary support to mitigate unemployment risks in an emergency (SURE) and the ongoing work on fair minimum wages are clear signs that the EU is committed to building a fairer and more united Europe. Moreover, the COVID-19 crisis represents a unique opportunity for Europe, and in particular the euro area, to consolidate its economic and financial architecture, and to promote Europe as the engine of "shared prosperity". Germany's Presidency of the Council of the European Union can ensure that this happens, building on the unique success of its reunification and its role as the leading economic power in the European Union.

Germany is an influential advocate for promoting human rights and decent work in global supply chains

Germany put sustainable and inclusive supply chains at the core of its G7 Presidency (2015) and its G20 Presidency (2017). At the G20 Labour and Employment Ministers Meeting in Bad Neunahr in 2017, Ministers committed to action on eradicating modern slavery, forced labour and human trafficking, and to end child labour in all its forms. They mandated international organisations, including the OECD, to provide proposals on how to accelerate actions, which were delivered last year under Japan's Presidency. The OECD, with its due diligence work and in partnership with champions like Nobel Peace Prize Laureate Kailash Satyarthi, has made the safety of children a priority. The OECD's Business for Inclusive Growth Initiative (B4IG), launched through the French G7 Presidency, also incorporates the fight against child slavery.

Almost all EU governments adhere to the OECD Guidelines for Multinational Enterprises while under Germany's presidency, G20 leaders committed to fostering these Guidelines and welcomed others to follow. A range of international tools to help business implement those standards is also in place, notably the OECD Due Diligence Guidance for Responsible Business Conduct (RBC) and associated sectoral guidance, as well as access to non-judicial grievance mechanisms such as the National Contact Points (NCPs) for the MNE Guidelines.

Significant scope remains for strengthening human rights and decent work in global supply chains

Many of the existing policy tools are still not sufficiently known or implemented by governments, while the voluntary implementation of global standards of RBC by companies also remains weak. As a result, serious human rights abuses are still present across global supply chains.

There is an increasing expectation that governments support the implementation of international standards through policies involving a mix of voluntary and mandatory, domestic and international measures. The COVID-19 crisis is having unprecedented impacts on workers and on companies' own operations or in their supply chains, highlighting the need to protect human rights and decent work as business and government responses to the crisis continue to intensify. For a company, observing RBC standards and implementing due diligence in its response to the COVID-19 crisis will help ensure that its business decisions avoid and address potential adverse impacts on people and the planet, including in its supply chain.

For governments, ensuring that their response to the COVID-19 crisis is guided by RBC standards is essential to ensure that measures do not exacerbate the adverse socio-economic impacts of the crisis, but rather incentivise companies to mitigate any potential harms and maximise the positive impacts of their response.

Government measures on RBC should be reflected in trade agreements, public procurement policies, development aid and export finance, but they can also serve as a standard to condition government support to businesses in response to the COVID-19 crisis, so that benefits are not creating further negative impacts nor being abused. EU governments should also ensure that their National Contact Points (NCPs) effectively provide secure non-judicial avenues to raise complaints against irresponsible business practices.

Just re-igniting productivity growth will not be enough as productivity gains do not necessarily translate into improvements in living standards. A good set of European and national policies can help ensure that they do.

Mandatory due diligence expectations

With this in mind, it may be time for the EU to consider introducing stronger incentives, including regulation requiring companies to carry out due diligence.

If introduced, mandatory regulation should align with standards like the OECD Due Diligence Guidance for RBC. This would contribute to a level playing field and help companies to streamline cross-border processes and avoid conflicting laws and unnecessary compliance costs. Furthermore, RBC and due diligence in global supply chains is inherently connected to appropriate environmental protection, which could drive a “just transition” and support the vision for a European Green Deal.

The OECD will continue to provide its expertise to support Germany and the EU in leading global efforts to promote RBC, human rights and decent work in global supply chains.

Ana Mendes Godinho

Minister of Labour, Solidarity and Social Security of the Portuguese Republic

In these challenging times our main goal must be focusing on halting the spread of the epidemic, saving lives and keeping our health systems afloat. At the same time, we cannot lose sight of the disruptive situations this pandemic is already generating in our Member States and in the European Union. This crisis will have deep and long-lasting consequences, particularly in terms of employment. Economic and social recovery will be very demanding and prolonged. Europe must stay focused and act together. This will be a determining factor for our future.

The world of work will no longer be the same. We need to strengthen our efforts to meet the challenges that lie ahead with a main objective of protecting our citizens and their jobs. The phenomenon of globalization in conjunction with accelerated technological progress has facilitated the emergence of global supply chains. These in turn have contributed to the worldwide transformation of work, characterised by profound changes in formal, standard organisational and productive work arrangements and in labour force skills, working conditions and wages. We will have to be innovative and make use of all possible instruments to keep existing jobs and to ensure that others will emerge. Anticipating the impacts of this crisis is crucial to define the political action to face recovery and at the same time valorise decent, high-quality work and defend strong social protection systems. Digitalisation and new communication and manufacturing technologies represent opportunities for both employers and workers. More than ever we will need that decision-makers, companies and social partners adapt to changes and are willing to be innovative when it comes to new forms of work organization,



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job creation and maintenance, and the development and adaptation of qualifications and skills. This will be key for our recovery. This crisis cannot be used as an argument to stop the debate we were having. We must continue to discuss and question the model of industrial relations that we seek for our society. It is essential to improve the quality of work, expand the opportunities for choice, close the gender gap, fight poverty and reduce inequalities, invest in lifelong learning, and ensure equality of access to work and social protection for all workers irrespective of their employment status.

Our role is to shape, frame and regulate a socially just future of work properly adapted to changes and able to face unforeseen crisis. I believe that the change underway should be an opportunity and not a threat. An opportunity to create a more prosperous future that guarantees economic security, equal opportunities and social justice. And these are common challenges for the European Union and its main objective of convergence. Now, more than ever!

It is also very important to consider the role of fair minimum wages. I believe that ensuring minimum wages that guarantee a decent life for and their families will be crucial to combat inequalities and contribute to a more equal income distribution. By guaranteeing fair minimum wages for all Europeans according to the standard of living in each country, we will promote a more social, cohesive, fair and competitive Europe.

This crisis cannot be used as an argument to stop the debate we were having. We must continue to discuss and question the model of industrial relations that we seek for our society.

Since the future of work is today, we should leverage the momentum and be creative. Whether as policy makers, scholars, employees, economic operators, social partners, or simply as citizens, reflexion on the multiple dimensions of the future of work is bound to happen. I hope that the next European semesters with the incoming trio of Presidencies by Germany, Portugal and Slovenia will constitute a huge opportunity to discuss all these essential issues. It is vital to make an impact on the implementation and evolution of the European Pillar of Social Rights and to jointly contribute to the development of its action plan. We need the European Action Plan to overcome this crisis and to show our citizens that standing together will be key to our future.

Janez Cigler Kralj

Minister of Labour, Family, Social Affairs and Equal Opportunities of the Republic of Slovenia

It has been said before: Europe is one of the best places to live and work. Putting people and their well-being at the forefront of endeavours has been, is and will be our common objective. European women and men are an incredible force of progress and with our policies we aim to meet their needs from the earliest stages of their lives. Any policy in the future should always take into account the well-being of people.

Unfortunately, Europe is facing unprecedented and unexpected challenges caused by the Covid-19 pandemic. Our responsibility has become even greater. We are all mandated to act in order to limit the consequences of the virus and guarantee that nobody is left behind in these difficult times. This has been our commitment before and it will remain for the time to come.

The European Pillar of Social Rights will stay our compass, gaining even more importance than before. While most challenges remain unchanged, some are becoming more visible and even more pressing. While we should not lose sight of already identified challenges, we should especially concentrate on those that guarantee a decent life and work for all in an uncertain future.



JANEZ CIGLER KRALJ

is Minister of Labour, Family, Social Affairs and Equal Opportunities of the Republic of Slovenia. He holds a master's degree in political sciences from the Faculty of Social

Sciences at University of Ljubljana. Prior to his political career he worked for a media company and the national scholarship fund. Between 2012 and 2020, he worked as a senior advisor for the political group of Nova Slovenija – Christian democrats (NSi) in the national assembly. He also presided the NSi employee association. A father of four, he is a former scout leader and active in several associations.

Photo: Polona Avanzo, Demokracija

The European Union has chosen its priorities for the so-called twin transition: stronger efforts towards climate neutrality and digitalisation. Our industry and companies – big and small – will have to adapt to these new realities on top of coping with the consequences of the pandemic. We will have to be smart; our work force will have to keep up with the changes. We should not lose time, but plan our future on solid ground instead.

First, we have to help our economy and workers to progressively regain activity after the pandemic. Solidarity and mutual understanding are the key words. Every moment spent for discussion on common and specific problems of the Member States and finding fair solutions is a moment well invested.

Second, and even more important, we should guarantee better skills as well as healthier and safer working environments for all workers. Decent work should be the focus of our actions.

We should not forget the most vulnerable in the labour market.

We will put a particular emphasis on the older workers, whose adaptability to new circumstances could be the hardest to guarantee. Improving the accessibility of work places for persons with disabilities should remain our priority.

The Covid-19 pandemic showed that our social protection and social security systems work, but we can further improve them. There are individual cases when our safety net does not hold. We have understood this before, however, addressing this challenge in the future proves to be as important as ever. We are looking forward to future discussions that will lead to better understanding and acting on this issue. No worker should be in a worse position because of her or his employment status.

Tackling all the issues mentioned above will be constructive only in the environment of strong social partners. A strong social dialogue contributes to long-lasting and effective solutions, which take account and guarantee the compromise of all parties involved. Further, capacity and involvement of social partners have to be promoted.

Our social protection and inclusion systems should guarantee smart support to the most vulnerable, especially in times of crisis. Older persons, people with health problems or disabilities, victims of violence, ethnic minorities and homeless people should receive the attention and support they deserve. An enforced corporate responsibility and stronger social entrepreneurship could increase the visibility of these topics.

Despite the difficult times our citizens and economy are facing, we should not put aside our efforts to continue achieving gender equality in all aspects of life. We are given an excellent chance to replace old practices and provide equal opportunities for everyone in society. We are already aware of the impact of increased participation of women in the labour market. Every measure contributing to this goal should be supported and implemented further.

Our social protection and inclusion systems should guarantee smart support to the most vulnerable, especially in times of crisis.

Children and the youth are the driving force of our future. Therefore, we should concentrate our efforts on finding positive messages and measures that will support every child's development and give additional strength to young people to fully contribute to our society.

Past and current circumstances emphasise challenges that we have been discussing for some time. Some of them are becoming very clear. Now, we have the opportunity to find good common solutions to come out of the crisis stronger, and especially stronger together.

I am convinced that the Trio Presidency of Germany, Portugal and Slovenia will contribute to this goal. The sailing might not always be smooth, but the ship will certainly be under reliable and efficient command. All welcome aboard!

Our Social Europe – Strong Together

Upward Convergence

“Towards a Union of Strong Welfare States”

A conversation between
Frank Vandembroucke and
Rolf Schmachtenberg

Former Belgian Minister of Labour and researcher Frank Vandembroucke and State Secretary Rolf Schmachtenberg discuss the challenges for social upward convergence in Europe. They make the case for a Union of strong welfare states in the wake of the coronavirus pandemic and outline an ambitious agenda for implementing the European Pillar of Social Rights.

PROF. FRANK VANDENBROUCKE is a professor at the University of Amsterdam and also teaches at the University of Antwerp. His research focuses on the impact of the EU on the development of social and employment policy in the EU Member States. He was Minister for Social Security, Health Insurance, Pensions and Employment in the Belgian federal government (1999–2004), and Minister of Education and Employment in the Flemish regional government (2004–2009).

DR ROLF SCHMACHTENBERG has served as Permanent State Secretary at the Federal Ministry of Labour and Social Affairs since March 2018. His responsibilities include the area of European employment and social policy. After graduating with a degree in mathematics and research periods in the United States and Norway, he completed his doctorate in economics. Since 1990 he has held various leading positions in the field of labour and social affairs in national and federal functions.

For a long time, it was assumed, that social progress would – in good as well as in bad times – more or less automatically occur alongside economic integration in Europe. Was this assumption justified?

VANDENBROUCKE: The pioneers of the European project were deeply convinced that if you integrate markets, countries that are lagging behind will get opportunities to catch up. Second, that we should not be worried about internal domestic social cohesion when markets are integrated, because governments and trade unions will push for fair redistribution on the national level.

SCHMACHTENBERG: This assumption was confirmed in the beginning. In the post-war period, the European economies developed well despite differences in economic policy strategies. Thanks to this growth, each year there was more to go around and it was possible to expand the welfare state. This created trust in the idea that economic success and social progress were compatible.

Is this assumption still valid today, and can we rely on it when managing the current crisis?

VANDENBROUCKE: Let me, again, first return to past experience. In the 2000s cracks appeared in the optimistic model presumed by the pioneers. On the one hand, it became more difficult to maintain a high level of performance in social policy for the most advanced welfare states. On the other hand, even though there has been a steady process of upward convergence between the new Member States and the EU-15, when you look closer, within some of the new Member States there is a growing regional disparity, which is socially and politically a very serious issue.

SCHMACHTENBERG: I believe that polarisation between those Member States and regions with successful growth and those with less successful growth is one of the greatest risks to the cohesion of the EU. In view of the economic downturn caused by the coronavirus pandemic, we need to redouble our efforts to protect workers and firms across countries and regions in order to avoid a widening prosperity gap as we saw it during and after the euro zone crisis. The EU Member States will not manage the pandemic alone as the economies are far too closely linked via supply and distribution chains.



*For a union of strong welfare states: the former Belgian Minister of Labour Prof. Frank Vandenbroucke (left) and BMAS State Secretary Dr Rolf Schmachtenberg.
Photo: Dirk Enters*

VANDENBROUCKE: The corona crisis underscores that we must increase the resilience of our systems. And we have been warned! The last and most dramatic crack to the initial assumption that social and economic convergence would more or less automatically progress with European integration appeared during the euro zone crisis. This was the opposite of convergence. Hence, we know very well that the original assumption is not fit for purpose today. We do not need to reinvent the fundamental aspiration – which is still about upward convergence and cohesion within and between countries. But we urgently need to reconsider the ways and means to achieve this, the instruments. Otherwise, the fall-out of the coronavirus crisis will be a very sad repetition of the euro zone crisis: dramatic social and economic divergence.

What should be the approach to tackle the current challenges?

SCHMACHTENBERG: Especially in the current situation, I hope that in the EU we will commit ourselves to the model of a Union of strong welfare states. A union of strictly separate welfare states risks disintegrating directly into national risk-sharing communities in the event of a threat such as the pandemic. The challenges ahead can no longer be met with the old mantra that social issues are solely the responsibility of the Member States. First and foremost the economic fallout of the coronavirus pandemic is testing the resilience of European social security systems and brought the idea of mutual reinsurance on the agenda.

Moreover, to pave the way for a strong and sustainable recovery, we need to deliver on our promise to be not only a frontrunner in the green and digital transformation but also to manage it in a humane way, a way that puts people first. These aspirations require a high degree of policy coordination. That is why we need bold investments but also minimum social standards to make sure we are embarking on the right path. We need this to promote growth and innovation, on the one hand, and on the other to strengthen the capacities of the welfare states, for example, in terms of stabilisation, activation but also peoples' confidence as regards the future.

Should there be a single European welfare state one day?

VANDENBROUCKE: My answer is no. There is an enormous diversity in architecture, in design of the welfare states and this is a legacy of the past. You could not convince an Irish citizen that the Belgium healthcare system is better nor the other way around. But what does this vague notion of “Social Europe” actually mean? We should come up with a more precise and operational idea. This is why I am rather using the expression of a “European Social Union”. A union of welfare states that provides systemic support to national governments in pursuing social policies, but leaves the ways and means as much as possible to the national level. To follow this path, we need a basic consensus what welfare states are about. We need to agree on what we value.

“High social standards are a part of Europe; we must constantly remind ourselves of this fact and we must continue to fight for – and where needed to rebuild – those standards.”

ROLF SCHMACHTENBERG

SCHMACHTENBERG: Each Member State should be able to keep its tried-and-tested welfare state institutions and conventions that have evolved over time. At the same time, in Europe, we have a common understanding of what constitutes a good life. The idea of social solidarity is part of our inheritance from European history. I believe that common basic principles can be built on this foundation, also in times of crisis. High social standards are a part of Europe; we must constantly remind ourselves of this fact and we must continue to fight for – and where needed, rebuild – those standards. With the European Pillar of Social Rights (EPSR), we have successfully formulated these common principles and

we can use them as guidance, in times of crisis and for the future. The phase we are in now is crucial for successfully translating the abstract nature of the EPSR into concrete results, i.e. to measurable minimum standards in individual areas – of course with due regard to what may urgently be needed at the moment, and what may be implemented later on.

What long-term social policy goals should the EU set for itself? Is the European Pillar of Social Rights a good guide for the future?

VANDENBROUCKE: The European Pillar of Social Rights is an excellent initiative, but it is also a high-risk initiative. If there is no tangible delivery, it will come back as a boomerang in our face and we will not be able to seriously talk about Social Europe for the next 20 years. Consequently, there must be delivery now. As you mentioned, we need to translate the abstract into the tangible. For that reason, Ursula von der Leyen is right to announce an action plan on the European Pillar of Social Rights in 2021. In my view, an action plan means that you really set out priorities, and that you show how you will fully exploit the instruments that already exist, such as legal instruments, benchmarking, the European semester and European funding. To deliver on the Pillar we also need to improve the way these instruments support each other,

How should the political agenda for the next couple of years look like?

VANDENBROUCKE: For the next couple of years, it is important to make progress on parallel tracks, like minimum wages, minimum income protection, and, last but not least, access to social protection, including unemployment insurance, for all. The latter should be the top priority for the implementation of the Pillar of Social Rights. Let me explain why. It is my fundamental conviction that one day, the monetary union must be an insurance union like all monetary unions in the world are. Universal access to social protection is one of the essential ‘nuts and bolts’ of a well-functioning welfare state: for social insurance to function well, everybody must be covered, no matter in which sector or in which type of employment relationship one works. Therefore, ensuring access to social protection in each of the Member States is a basic building block for a social union which, one day, should be a true insurance union.

This was my conviction before we ever heard about COVID-19. Today, it is abundantly clear that the lack of social protection for precarious categories of workers and self-employed is a major problem in some countries when they are faced with a sudden economic shock. Also, it would be good for all countries to implement systems like Kurzarbeit (short-time work). A European unemployment re-insurance scheme could promote and support the establishment of Kurzarbeit in those Member States where it is still lacking.

Can you elaborate on your idea of an insurance union and its role in a monetary union?

VANDENBROUCKE: When a monetary union is hit by a large-scale shock, the risk of contagion is very high. For these situations all monetary unions in the world – except the European one – have a higher-level support scheme that kicks in when stability is in danger. The idea of European reinsurance for national unemployment insurance schemes is attractive because it organises support only when it is needed, not at all times. With such a scheme the EU would not have to intervene with the details of the national systems but only set some common standards. And insurance is not redistribution, it can be organised in a way that there are no transfers in the long-term. This is why reinsurance is a good example of what a union of welfare states should be about.

From the abstract to the specific – where should we start in the current situation?

SCHMACHTENBERG: In the current economic crisis, we should reinforce our commitment to the European Pillar of Social Rights. We need real flagship projects. People all over Europe must feel that something is getting done in the social realm. From my point of view, we should consider the following points: First, solidarity within and between member states should be our guiding principle. Second, we must make progress in areas where there is already a broad consensus among the people, namely in the fields of securing livelihoods and fair wages.

During Germany's EU Council Presidency, we therefore want to focus on making progress on an EU framework for fair minimum wages and another for national minimum income schemes. Both initiatives become even more relevant as we face an economic downturn. Reliable standards for minimum wage setting protect not only workers but also employment. And minimum income schemes act as stabilisers and foster rapid reintegration into the labour market. These objectives are already laid down in the EPSR. Member States would, of course, be free to decide how to meet the minimum standards. Minimum wages are one example: there are various models for setting good minimum wages in Europe.

What can be the contribution of the German Council presidency?

VANDENBROUCKE: The German EU Council Presidency can definitely play an important role. I might surprise you a little bit by saying that for me the role should be a combination of insisting on continuity and innovation. It is understandable that political actors are always keen to put forward new ideas. But obviously we should first deliver on the ideas that have been launched. In the past, some promising initiatives, such as the Social Investment Package, were

not followed through simply because they were seen as ‘the ideas of the previous team’. Hence, it is important that you stress the continuity in the work of the Commission. The Pillar must lead to delivery and for initiatives like the one on access to social protection, there needs to be a tangible follow-up process. It would be good for the German Presidency to underscore the importance of universal access to social protection, and to link it to the idea of a European unemployment re-insurance scheme. On top of that, you can indeed give new impetus to the debate by becoming much more concrete on minimum income protection and the minimum wage issue. If Germany talks about it, it is credible, because Germany is always cautious but also has an immense fund of experience. So even on a sensitive and difficult topic like minimum income protection, you might be able to make progress. My expectation is high.

“It would be good for the German Presidency to underscore the importance of universal access to social protection, and to link it to the idea of a European unemployment re-insurance scheme.”

FRANK VANDENBROUCKE

How can we build consensus for an ambitious social policy agenda in a Union of 27 very different Member States?

VANDENBROUCKE: Public opinion data shows that in many new Member States a considerable segment of public opinion believes that more European social policy initiatives would lead to improvements on the national level. This segment is less large in Member States where social standards are already relatively high, as in France or Germany. So on the one hand, among the new Member States there is a desire to further accelerate social policy developments. On the other hand, in the old Member States there is a genuine concern about unfair competition in the single market, whilst the new members are keen to valorise their actual wage-cost competitiveness. So let us agree on fair competition and free movement, decent social standards and support for upward economic and social convergence.

Which role does economic policy play for upward convergence?

SCHMACHTENBERG: There needs to be both a short- and long-term strategy to protect and support people as well as firms across all EU regions. To facilitate the recovery after the current health crisis we should consider broad investment programmes. In parallel, in order to safeguard as well as promote progress in the convergence of living conditions, we need targeted economic development for certain regions. For example, regions in areas that are on the periphery geographically often find it more difficult to integrate themselves into the established value chains of places where industry is located. This challenge will be exacerbated by the crisis. That is why I believe that a Europe made up of strong welfare states also needs to have an active European industrial policy. Airbus is the best-known example of this. It is an important growth factor and driver of innovation for the regions of Toulouse and Hamburg. This shows that local industrial clusters can be promoted through targeted investments. In a similar spirit, I would like to see projects for the regions on the EU's external borders in order to strengthen the periphery and spread growth. In this way we can achieve a convergence of living conditions through value creation in the regions. Redistribution can help in a complementary way. This is why, for me, minimum social standards and the promotion of investment go hand in hand when it comes to targeted policies for cohesion, recovery and growth in Europe.

Analysis

Upward Convergence in the EU: Definition, Measurement and Trends

TEXT: MASSIMILIANO MASCHERINI, EUROFOUND

The economic crisis has brought the concept of upward convergence, namely improving the economic and social performance of Member States while reducing disparities between them, once more to the centre of European policy debate. Despite this renewed interest, the meaning of upward convergence and how to measure it remains unclear to many observers.

Prior to the unfolding of the economic impact of the COVID-19 crisis, Europe recorded seven years of uninterrupted growth, with the employment participation rate reaching the highest level ever recorded in the history of the European Union. While these numbers point to positive developments for European societies, not all Member States benefited equally from the recovery. Among the peripheral countries, those that suffered the most during the crisis and recorded trends in their economic and social performance that diverged from those of core countries, the recovery was more muted than in other parts of Europe.

Upward convergence, meaning the improvement of Member States' performance economically and socially combined with a reduction of disparities among them, is key for sustaining the

cohesion and legitimacy of the EU. Convergence towards better living and working conditions has always been an EU political promise, and failure to deliver is likely to feed political discontent against the European project.

From as far back as the 1960s to the end of the 2000s, Member States made substantial progress regarding upward convergence in their economic and social performance, particularly in the wake of progressive EU enlargement processes. According to the World Bank, the EU has become the modern world's greatest "convergence machine", given its capacity to propel poorer and newer Member States towards becoming high-income economies (Gill and Raiser, 2012).

However, upward convergence trends stalled with the onset of the global financial crisis, when the socio-economic heterogeneity of Member States increased. As a result of the economic crisis and of subsequent austerity measures, there was concern that divergence could lead to an erosion of European models of the welfare state. This would call into question the EU's continued ability to provide its citizens with some of the highest living standards and lowest income inequality in the world.

Whether or not convergence is achieved may also have an impact on the trust placed in European and national political actors and institutions, potentially undermining political support for maintaining or deepening economic and political EU integration. In fact, with increased disparities among Member States, citizens are certain to lose confidence in the ability of the EU and their own governments to deliver on the promises of better working and living conditions. For these reasons, while the EU should embrace the logic of upward convergence, monitoring convergence is crucial if policymakers are to be provided with the knowledge and information necessary to identify the areas that are in the greatest need of policy intervention.

Renewed debate on convergence

While in the EU treaties the term “convergence” is explicitly mentioned only in reference to the common currency, in the last decade and as a consequence of the asymmetric impact of the economic crisis, promoting convergence has returned to the top of the EU agenda. There is now a greater emphasis, however, on social convergence and its link with the economic domain (Eurofound, 2018a).

The renewed debate around convergence began in 2012 with the Four Presidents’ Report, which discussed economic as well as social and structural imbalances within the Economic and Monetary Union (EMU). This report represented an important paradigm shift in the policy debate as it recognised that the EMU has to be reformed in order to sustain the euro and to reconcile its proper functioning with broader EU economic and social objectives (Van Rompuy et al, 2012).

The subsequent Five Presidents’ Report, in 2015, highlighted for the first time the need for convergence in the economic and social dimensions of both the EU and EMU within the same agenda.

Since unemployment – and particularly long-term unemployment – fuels inequality and social exclusion, efficient labour markets and welfare systems that can absorb shocks and avoid divergence are essential for the smooth functioning of the EMU and for building more inclusive societies (Juncker et al, 2015).

European Pillar of Social Rights and the Social Scoreboard

The European Pillar of Social Rights, proclaimed in 2017 by EU leaders at the Social Summit for Fair Jobs and Growth in Sweden, is one of the major initiatives launched in recent years to reimburse the EU’s economic aspirations with a strong social dimension. Its overarching aim is to serve as a compass for a renewed process of upward convergence economically and socially among Member States. With the aim of building a fairer Europe with a strong social dimension, the Pillar aims to deliver new and more effective rights for citizens, structured around three people-centred categories:

- equal opportunities and access to the labour market, covering aspects of fairness related to education, gender equality and equal opportunity
- fair working conditions, covering labour force structure, labour market dynamics and income
- social protection and inclusion, covering fair outcomes through public support and social protection.

The Pillar builds on ideas introduced in the 2013 Social Investment Package (European Commission, 2013), which placed more emphasis on social investment, human capital and equal opportunities and is often said to have consolidated the important paradigm shift initiated by the 2012 Four Presidents’ Report (Vandenbroucke, 2017). The European Pillar of Social Rights is accompanied

by the Social Scoreboard, which is designed to track the performance of Member States in the three broad measurable policy dimensions of the Pillar via headline and secondary indicators. The Social Scoreboard complements existing monitoring tools and feeds into the economic policy coordination within the European Semester.

Upward convergence in the socio-economic dimension

In this section, we investigate whether economic and social upward convergence has been restored among Member States since the economic crisis, taking into consideration the period 2008 to 2018 and the performance of the EU27 Member States.

DEFINING UPWARD CONVERGENCE

Despite the increased political significance of upward convergence, lack of clarity over its exact meaning persisted and a formal definition was still missing. To fill this gap, Eurofound defined upward convergence as “the improvement of Member States’ performance in moving closer to a policy target, combined with a reduction of disparities among them”. Furthermore, Eurofound provided a formal mathematical definition to enable the design of monitoring strategies (Eurofound, 2018a).

Upward convergence, or moving closer together in an upward trajectory, is therefore the union of two concepts: an improvement in performance towards a desirable target and convergence itself, in other words reducing disparities in performance.

The concept of “performance improvement” is ultimately related to making progress towards a policy target of better living and working conditions, as, for example, those defined in the Europe 2020 strategy. This makes upward convergence a normative concept related to a political consensus on the desirable direction of the indicator in question.

Eurofound’s work on monitoring upward convergence in the EU takes account of several dimensions: socio-economic, employment, working and living conditions. This research also investigates convergence in the headline indicators of the Social Scoreboard accompanying the European Pillar of Social Rights (Eurofound, 2019b; European Commission 2019). Further information on the measurement of upward convergence is provided in the [box](#) at the end of this article. Here we examine upward convergence in the following six indicators:

- real GDP per capita
- nominal wages
- income inequality
- employment rate
- unemployment rate
- AROPE (risk of poverty and social exclusion) rate.

These indicators measure in a consistent way the main economic and social developments in Europe over the period under consideration. Some (income inequality, employment rate, unemployment rate and AROPE rate) are headline indicators of the Social Scoreboard.

Real GDP per capita

The investigation of dynamics in real GDP per capita is often adopted as a good proxy for whether upward convergence in the economic dimension is occurring. The data show that, despite the impact of the economic recession, between 2008 and 2018 real GDP per capita in PPS (purchasing power standard) increased in all 27 Member States. Depending on the measure of convergence used, however, convergent and divergent trends in this indicator can be identified (see the [box](#) at the end of this article). Critically, while overall variability may have increased, poorer countries caught up

substantially with richer countries, and the relative variability among Member States decreased considerably in this period. On average in the EU, real GDP per capita grew from 25,614 PPS in 2008 to above 31,000 PPS in 2018 (unweighted averages). In this period, all the Member States apart from Greece increased their real GDP per capita. Patterns vary, however, in levels and gaps over different phases of that time span: in 2008 and 2009, a step backwards was recorded against the backdrop of the economic crisis.

A European minimum wage policy could more generally support greater convergence in wages and disposable income among countries, regions and population groups.

After this initial reversal, upward convergence has been restored in the EU, driven mostly by the rapid catch-up of Malta and the Eastern European Member States – the Baltic states, Bulgaria, Croatia, Hungary, Poland, Romania and Slovakia. These showed faster growth rates than other countries that had higher initial levels of real GDP per capita. Conversely, the Mediterranean Member States displayed an opposite trend. While Cyprus, Spain and Italy increased their real GDP per capita during this period, they have now slipped below the EU average, indicating a relative deterioration in their performance. Furthermore, real GDP per capita decreased in Greece in this period; this is the only decrease recorded in the Member States during 2008–2018. Convergence is particularly evident since 2008 among non-euro zone Member States, which exhibited higher levels of disparity at the beginning of the 2000s. In the euro zone, the positive trend in real GDP per capita was accompanied by increased variability among Member States.

Nominal wages

Wages play an essential part when it comes to the well-being and living standards of individuals. At the macro level, concerns about disparities in wage levels between European regions and Member States already emerged with the enlargement of the EU towards the east; these disparities have been aggravated following the uneven impact of the economic crisis among European countries. Upward convergence in wages is studied through nominal wages, measured in euros adjusted to reflect purchasing power parity (PPP) and inflation differences among EU countries. The analysis confirms a clear process of upward wage convergence that took place within the EU in the period 2008–2018. This was mainly due to strong catch-up growth in Eastern European Member States, as well as low growth or small declines in virtually all the pre-2004 Member States (the EU15) that record the highest relative wage levels.

Two distinct periods can be identified. In the first period, 2008–2011, upward convergence came to a halt because of the severe impact of the financial crisis. This effect was felt more in the countries of the European periphery, where a notable fall was registered in relative wage levels in several lower-wage Eastern European and Mediterranean countries, such as the Baltic states, Romania, Greece and Portugal. By contrast, wage levels were generally more resilient in higher-wage countries.

Upward wage convergence between EU countries re-emerged strongly after 2011. This period recorded a strong process of wage catch-up by Eastern European countries. Exceptions were Hungary and Croatia, which registered a relative decline, while in Slovenia wage levels remained stable. Among higher-wage countries, the evolution of wage levels in relation to the EU average was generally comparable to that of the previous period.

Income inequality

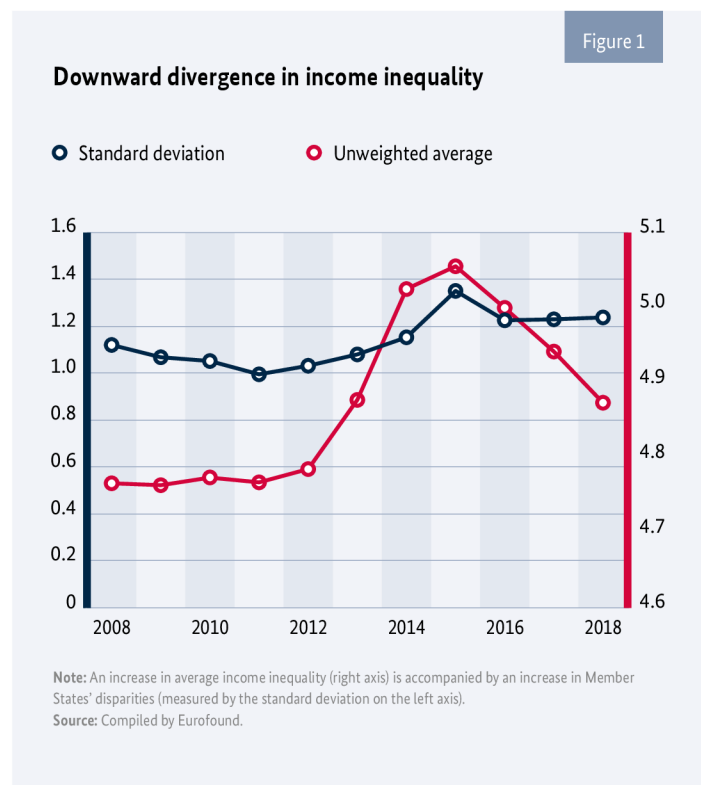
The increase in inequalities is of great concern to policymakers. The Social Scoreboard monitors trends in income inequality through the income quintile share ratio. This measures the inequality of income distribution, calculated as the ratio between the total income received by the highest-earning 20 per cent of the population (the upper quintile) and the 20 per cent of the population with the lowest income. (Figure 1) During the period 2008–2018, income inequality increased in the EU, as did disparities among Member States. Hence, the trend has been one of downward divergence. Income inequality increased from 4.8 in 2008 to 4.9 in 2018 (unweighted averages), though the trend was not constant over time. The indicator remained almost unchanged until 2012, but was then followed by an increase over 2013–2015. Since 2015, income inequality has decreased steadily.

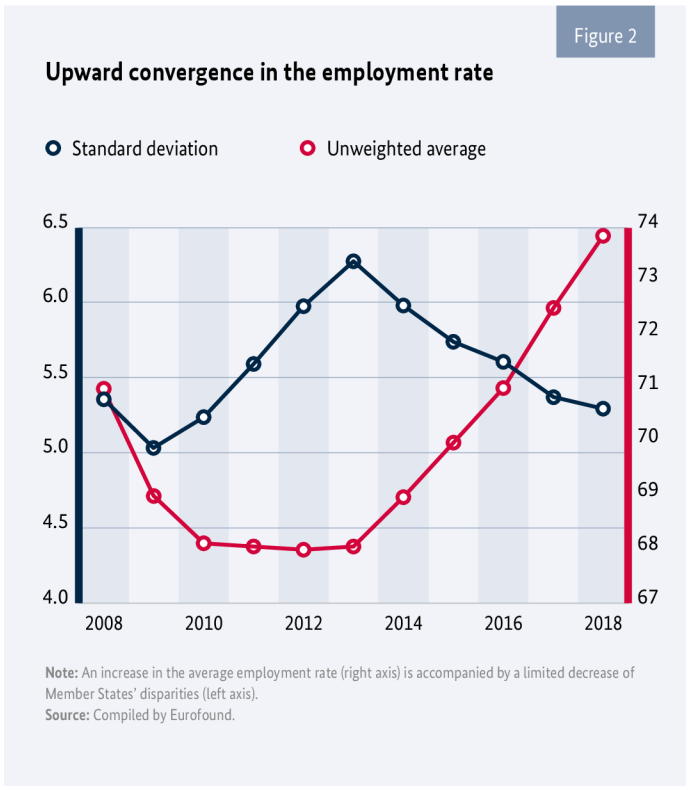
Overall, income inequality has increased in half of the Member States. Between 2008 and 2018, Lithuania and Bulgaria had the biggest increases (from 6.1 to 7.3 and from 6.5 to 7.6, respectively). These were already among the worst-performing countries in 2008, and inequality continued to rise even when the rest of the EU saw a decrease. Nevertheless, not all the Member States saw an increase: there were reductions in Poland (from 5.1 to 4.2) and Portugal (from 6.1 to 5.2). These countries, however, followed different patterns. Poland had a higher level than the EU average in 2008 but then caught up – reaching 4.2 in 2018, lower than the EU average. Portugal, on the other hand, was higher than the EU average in 2008, and it remained above the average in 2018, at 5.2.

Employment rate

Europe 2020 set a target of increasing the employment rate of the working age population (20–64 years) to 75 per cent by 2020. The employment rate is a headline indicator of the Social Scoreboard. This indicator increased from 71 per cent in 2008 to 73.8 per cent in 2018, despite a decrease recorded in 2008–2013, when it fell to 68 per cent (unweighted averages). Overall, there was a decrease in variability across the Member States, with the poorest-performing countries catching up strongly with the best-performing countries. Therefore, the pattern showed upward convergence from 2008 to 2018. (Figure 2)

Overall, upward convergence was driven by the good performance of the Eastern European Member States – which generally showed strong catch-up trends, especially Hungary, Poland, Romania and

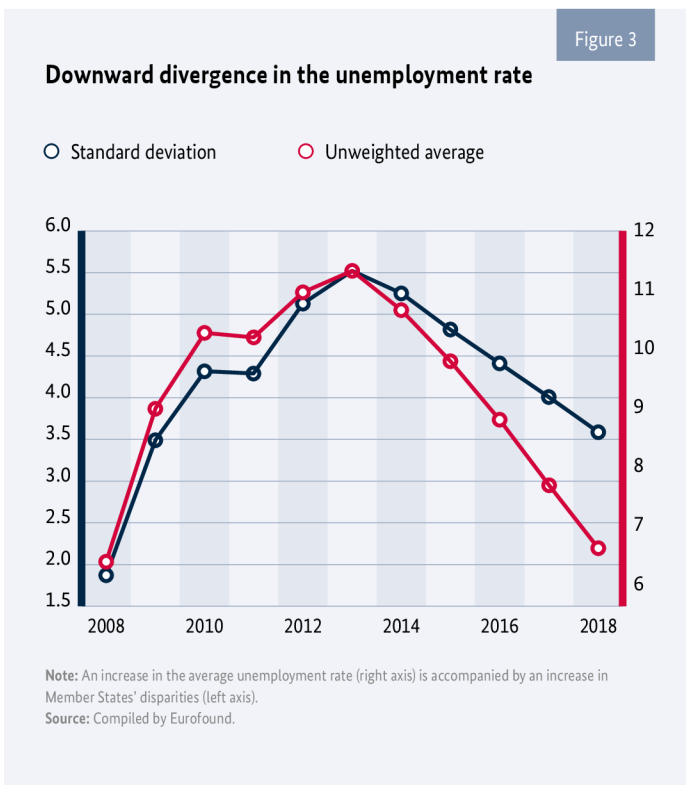




Slovakia – as well as Malta. In particular, Hungary’s employment rate rose steadily by as much as 12.9 percentage points between 2008 and 2018. Starting below the EU average in 2008, it finished above the average in 2018, at 74.4 per cent. The Mediterranean Member States showed the opposite trend and, in some cases, the employment rate actually fell over the period of observation. Greece recorded the sharpest employment decrease (–6.8 percentage points), followed by Spain (–2.6) and Cyprus (–1.5).

Unemployment rate

The unemployment rate is another headline indicator of the Social Scoreboard. It was 6.6 per cent in the EU27 in 2018 – still slightly higher than in 2008, when it was 6.4 per cent, but much better than the 11.2 per cent rate in 2013 (unweighted averages). A positive trend has been recorded in all Member States since 2013. While some countries with a higher level of unemployment caught up with those that had a lower level, the overall variability of Member States was still substantially higher in 2018 than in 2008, as the performance elsewhere markedly deteriorated in that period. As a result, the overall trend is one of downward divergence. (Figure 3)



Despite the strong recovery in more recent years, the unemployment rate in Greece was three times the EU average in 2018. It rose from 7.8 per cent in 2008 to a striking 27.5 per cent in 2013, falling to 19.2 per cent in 2018. Cyprus, which had one of the lowest unemployment rates in the EU in 2008, and Spain experienced comparable developments. Some positive patterns also emerged. The most significant decreases were observed in countries such as Germany and Hungary, where unemployment fell 4 percentage points from 2008 to 2018. These were followed by Poland and Slovakia (–3.2 and –3.1, respectively).

In general, the decline in the unemployment rate was driven by a catch-up of Eastern European Member States such as Croatia, Hungary, Poland and the Baltic states, which converged towards the best-performing countries. On the other hand, Mediterranean countries such as Greece, Italy and Cyprus deteriorated from their initial level and recorded considerable increases in the unemployment rate, which drove a divergence in performance overall.

AROPE rate

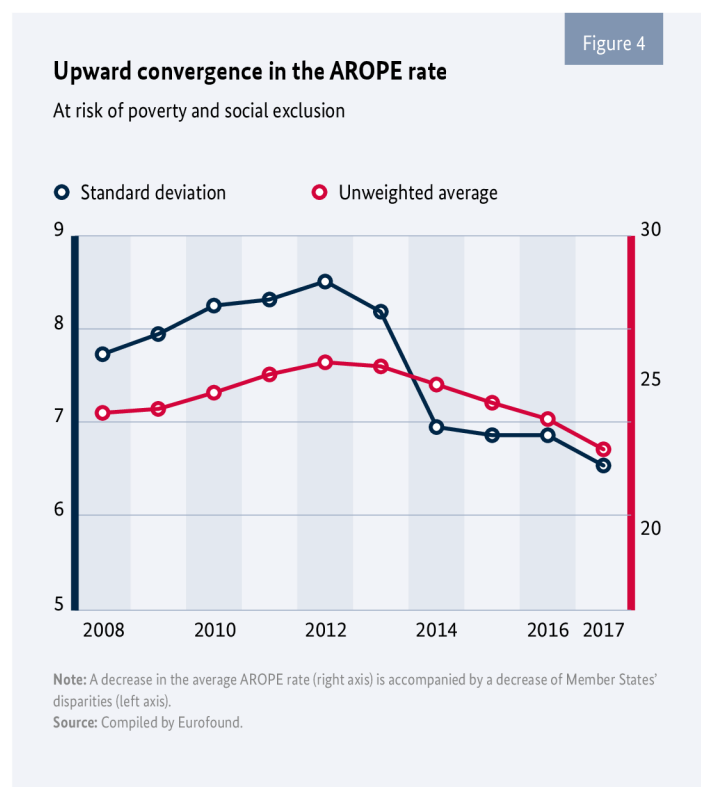
Reducing poverty and social exclusion is one of the targets of Europe 2020, and the AROPE indicator is a headline indicator of the Social Scoreboard. The share of the population at risk of poverty and social exclusion, as measured by the AROPE indicator, decreased from 24 per cent in 2008 to 22.8 per cent in 2017, despite peaking in 2012 at 25.7 per cent. The disparities in the performance of Member States decreased at the same time, so the trend for the period is one of upward convergence. During 2008–2017, the worst-performing countries, including Romania, Bulgaria and Latvia, caught up with the best performers. Poland is especially noteworthy: the AROPE rate was above the EU average in 2008 (30.5 per cent compared to 24 per cent) but decreased steadily by 11 percentage points up to 2017, falling below the EU average. (Figure 4)

Not all countries showed a decrease. In Greece, for example, there was an increase of 6.7 percentage points, starting from a higher level than the EU in 2008. Similar patterns of divergence are observed in Spain, Italy and Cyprus. Luxembourg and Denmark also recorded a deterioration in their performance.

Upward convergence prone to setbacks during recessions

The analysis presented in the previous section shows that during the period 2008–2018, upward convergence took place in the majority of the social and economic indicators examined: real GDP per capita, nominal wages, employment rate and AROPE rate. Only two showed downward divergence: the unemployment rate and income inequality. These findings are consistent with those of other studies performed on a broader set of indicators, including on all the headline indicators of the Social Scoreboard (Eurofound, 2019a, 2019b).

This is very good news, as it indicates that the impact of the financial crisis has been absorbed by most Member States and that Europe is back on the right track. However, the instability of these upward convergence trends should ring alarm bells



about their sustainability in any future recession. These unstable patterns imply that upward convergence is recorded when the economy is growing, with improvements in performance and a reduction in disparities among Member States. But when the EU goes into recession and the economy takes a downturn, downward divergence is recorded, meaning a deterioration in the indicator in question and an increase in disparities across the Member States. Eurofound (2019b) found that this dynamic of upward convergence affects most trends in the headline indicators of the Social Scoreboard, in particular those related to employment participation, poverty and social exclusion. The strong cyclical component of these trends suggests that the upward convergence of Member States is unstable and unsustainable. Member States therefore need to strengthen their resilience in the economic and social policy domains to achieve sustainable upward convergence and to avoid a descent into divergence with the next downturn.

Policies to promote upward convergence

Upward economic and social convergence is increasingly seen as fundamental for the stability of the single currency and for fostering further integration among Member States. In her policy guidelines, Commission President Ursula von der Leyen has advocated for the full implementation of the European Pillar of Social Rights (von der Leyen, 2019). Doing so would constitute a decisive step in strengthening the economic and social resilience of Member States against future macroeconomic shocks and their uneven knock-on effects in the social domain.

Policy interventions to achieve the goals of the Pillar could include transnational automatic stabilisers that would act as fiscal shock absorbers by limiting the impact of idiosyncratic negative shocks on sustainable upward convergence. One widely

discussed stabilisation mechanism is a European unemployment reinsurance scheme, which ties into the right to unemployment benefits of reasonable duration as set out in the Pillar. While there are several ways in which such a scheme could be designed, in principle it would comprise a central EU fund that would pay out to national unemployment schemes during an economic downturn, providing some slack for national public finances and helping Member States rebound from economic crises. This would reduce macroeconomic risk and, at the same time, support convergence in the socio-economic conditions of the unemployed. It would additionally prevent divergence among Member States by acting as a rapid automatic counter-cyclical mechanism.

Pay, in contrast, is explicitly excluded from the areas on which the EU has a mandate to intervene (as per Article 153(5) of the Treaty on the Functioning of the European Union). Nevertheless, there is a precedent for such interventions – most recently in the form of the country-specific recommendations issued to some Member States within the European Semester (see also Eurofound 2014a and 2014b). Following Ms von der Leyen’s commitment in the political guidelines to ‘ensure that every worker in our Union has a fair minimum wage’ in order to ‘allow for a decent living wherever they work’, the Commission is currently considering a legal instrument to ensure that minimum wages are ‘adequate’ and set in a transparent and predictable way on traditional national lines.

While this announcement and the consultation document for the first phase of consultation with the social partners suggest a shift of focus towards employees, there are hopes that a European minimum wage policy could more generally support greater convergence in wages and disposable income among countries, regions and population groups. It might also contribute to reducing the number of working poor, shrinking wage inequalities within Member States and preventing social dumping.

The implementation of this policy proposal would, however, be politically sensitive and have to carefully balance the positive effects on wages with potentially negative effects on employment and working hours. It would also have to take into account the crucial role of the social partners in wage setting. The implementation of both these policy options could equip Member States with additional tools to increase their resilience to shocks and to head off diverging trends in employment and socio-economic conditions. Furthermore, implementing the provisions of the Pillar – and the social convergence they are designed to support –

could itself highlight the need for new legislative initiatives in the EU. It could also encourage Member States to act on their own to reach a higher level of convergence not only in labour market policy but, especially, in the capacity and quality of institutions. This joint effort would further contribute to building both resilience and sustainable upward convergence in living and working conditions among European Member States.

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MEASURING UPWARD CONVERGENCE

Measuring upward convergence involves the measurement of two concepts: improvement and convergence.

Improvement is usually measured through changes in unweighted averages of Member States' performance. Unweighted averages are used to give to each Member State the same representation and importance in computation of the overall trend.

Eurofound distinguishes between two types of upward convergence.

- Strict upward convergence occurs when all Member States improve their performance while the disparities between them are reduced. In this case, no country is left behind.
- Upward convergence occurs when an improvement is recorded in the EU average while disparities are reduced. In this case, the EU average is improving, but not every Member State records an improvement.

In addition to these two cases, and following the same logic, Eurofound (2018a) defines three other possible situations: upward divergence, downward divergence and downward convergence. A downward trend indicates a movement away from the desirable direction of an indicator, while divergence describes a rise in disparities.

Convergence is usually measured through three statistical measures: beta, sigma and delta convergence. The three measures investigate different aspects of the convergence process, such as the catching up of poorly performing countries with the best performers and the reduction of the overall disparities among Member States.

Beta-convergence is used to measure whether countries starting from initially low performance levels grow faster than better performing countries. This process is also referred to as catching up.

Sigma-convergence refers to the overall reduction in disparities among countries over time and is measured by the evolution of the statistical measures of dispersion, such as the standard deviation or the coefficient of variation. A decrease in the standard deviation or coefficient of variation over time indicates convergence.

Delta-convergence is used to analyse countries' distance from the best performing country. Delta convergence is usually measured through the sum of the distances between the Member States and the top performer.

To access Eurofound's work on upward convergence, visit its EU convergence monitoring hub at <http://eurofound.link/convergencehub>

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Opinion and Comment

The German Social Partners Discuss the Future of Social and Employment Policy in Europe

INTERVIEWS: ERIC BONSE, JOURNALIST

What role should the EU play in social and employment policy in the future, and what do the social partners expect from the German EU Council Presidency? Trade union representative Annelie Buntenschach and employers' representative Steffen Kampeter talk about these issues in an interview.

Annelie Buntenschach: Germany must put social affairs at the very top of the agenda¹

How do you see the European Union's role in labour market and social policy – is it a topic for the EU at all?

BUNTENSCHACH: It has to be a topic for the EU, because for far too long the EU has been a more economic policy-focused community. Now it

needs to show that it can also achieve something in terms of social justice and regulation of the labour market. But for that we need a change of course. To date, the single market and the freedom to provide services have always been at the top of the agenda in Brussels. The main focus was freedom for businesses. If we want to build trust in the EU, then it has to bring about progress in the fields of labour market and social policy as well.

What do you expect from the German EU Council Presidency, in this context?

BUNTENSCHACH: Germany needs to put these issues at the very top of the agenda. We need to address the crisis of trust affecting not only the EU, but also many national governments, as is shown by the rise of right-wing extremism and right-wing populism, also in Germany. It is important to make clear that there is a social perspective which we are developing together in the EU. It's about fair minimum wages, minimum income benefit schemes, fair working conditions and social protection for platform work.

1. Interview from 28 January 2020

You have already mentioned the minimum wage, which also exists in Germany. Do you support the aim of an EU-wide framework for minimum wages?

BUNTENBACH: Yes. We support an EU-wide framework for minimum wages. This also means that national collective bargaining systems must be strengthened.

What would be important in the implementation process?

BUNTENBACH: A directive would be the appropriate legal form. The formula would be that national minimum wages must reach 60 per cent of the median for a full-time employee as quickly as possible. In addition, it is also important to establish that minimum wages cannot be reduced improperly. We have had many bad experiences, not just in the transport sector, but also in the catering and food industry where tips suddenly are being counted towards the wage. The framework also needs to be compatible with national legislation and national traditions. And in any case, we are demanding the involvement of the social partners.

However, resistance is growing, especially in northern Europe. Even the trade unions there are opposed to the idea of EU-wide regulation.

BUNTENBACH: In the Scandinavian countries, collective bargaining coverage is better than in Germany. If collective agreements are generally binding, then there's no need for a minimum wage: that's what trade unions are saying in Sweden, for example. But this is not the case anywhere else in Europe. That is why we have to balance the different interests.

Can Germany serve as a model for adequate minimum wages? The European Commission is warning of a risk of poverty...

BUNTENBACH: What is good in Germany is the involvement of the social partners in the adjustment mechanism for the minimum wage. I think it is right to draw on the expertise of the social partners. But that aside: we neither invented the minimum wage nor are we at the level I would like to see for Europe as a whole. That is why Germany is not really a model.



ANNELIE BUNTENBACH was a member of the National Executive Board of the German Trade Union Confederation (DGB) from 2006 to May 2020. She was responsible for the areas of labour market and social policy at national and European level, legal affairs, and migration and anti-racism policy. She believes that social justice and opportunities for all are a vital part of a living and democratic community.
Photo: Dirk Enters

Presumably you would like to take up the EU Commission's suggestion that the German minimum wage should be raised?

BUNTENBACH: Yes, and there is also a lively debate on this subject in Germany. If we want the minimum wage to be truly poverty-proof, and leap towards 12 Euros, that will require a political decision in Parliament. This cannot be achieved via the adjustment mechanism.

„We need to address the crisis of trust affecting not only the EU, but also many national governments.“

ANNELIE BUNTENBACH

Let us turn to minimum income benefits. Do you support the aim of creating minimum income benefit schemes in all EU countries?

BUNTENBACH: Yes, I think that is urgently needed. We need adequate and effective systems of minimum income benefits. This means that minimum income schemes in all EU countries must be designed to avoid people being pushed into poverty. Here again, we need a European directive, but we will not create a single European minimum income benefit scheme. The national traditions and systems are simply too different for that.

Can Germany serve as a model in this area?

BUNTENBACH: That is difficult to say. What certainly helps is an individual legal entitlement like the one in Germany; that is needed for a minimum income benefits scheme. We also need non-discriminatory access and an adjustment based on the size of the household – these are

important points, in our view. On the other hand, the German mechanism is certainly in need of a refurbishment. For example, we only rank in the middle of the table in comparison with other EU countries when it comes to the level of our minimum income benefits. And then there are other points which I do not like at all. Excluding EU foreigners from the entitlement in the first three months is completely unacceptable. That is really not a European approach.

You emphasise the good cooperation between the social partners in Germany. What about the employers, do they share your views on a social Europe?

BUNTENBACH: Of course, there are different interests and perspectives which clash. But there is also common ground. The involvement of the social partners is genuinely important to both sides; that is undoubtedly one aspect we have in common. Otherwise, we have very different views on the question of how much regulation we need for a social Europe and to ensure that dumping does not take place in the labour market. In our view, it is absolutely essential that the standards we have are also monitored and enforced – when it comes to the Posting of Workers Directive, the transport sector, but also A1 certificates and much more. I would be delighted if we could work together to support a European social security number. That would be a first step towards putting a stop to wage and social dumping. If there is opposition to the A1 certificate, we should at least say when it comes to the social security number: fantastic, that's it!

Steffen Kampeter: The Member States must remain the key actors in social policy²

German employers are opposed to an active social policy at EU level. Why?

KAMPETER: That suggestion is completely wrong. The fact is: there is hardly any area today which is not covered by a sensible European minimum standard, for example the whole field of occupational safety and health. Employers have played a constructive role in this and in some cases have also reached agreements with trade unions, for example on parental leave. For good reason, the Member States remain the key actors in social policy under the EU Treaty and the EU has been expressly excluded from certain areas, such as issues relating to pay. We show a stop sign to those who disregard these requirements.

Yet the new European Commission has sprung into action...

KAMPETER: Yes, through a creeping assumption of competence. The European Pillar of Social Rights, which does not change any competences in the field of social policy, is being misused and overstretched in this context. The general rule is: anyone who disregards clear legal provisions or constructs crutches to push through what is politically desired does not build trust in the lawfulness of European decision-making processes.

What do you expect from the German EU Council Presidency, in this context?

KAMPETER: We think of Europe in European terms. Of course, it is great that we have a German President of the European Commission and that Germany is taking over the Council Presidency. But the country holding the Presidency acts as more of a moderator. I expect the German Presidency to assume a professional and integrative role in bringing about results – but I do not expect any specific German priorities. The important thing is for the EU to speak with one voice.



STEFFEN KAMPETER has been CEO of the Confederation of German Employers' Associations (BDA) since July 2016. Since August 2019, he has also been Alternating Chairman of the Board of Directors of the Federal Employment Agency. Kampeter was the spokesman on budget policy for the CDU/CSU parliamentary group in the Bundestag from 2005 to 2009, and Parliamentary State Secretary to the Federal Minister of Finance from 2009 to 2015. Photo: Dirk Enters

2. Interview from 13 February 2020

The European Pillar of Social Rights should not be developed further, in other words?

KAMPETER: We are not available for interventions in collective bargaining autonomy through EU legislation.

You are arguing primarily from a legal perspective. Isn't the aim also to ensure socially acceptable conditions in Southern or Eastern Europe?

KAMPETER: I'm not arguing from a legal perspective, but I am pointing out that EU law follows sensible regulatory principles, such as the right of way for the social partners. Much of what is now being considered appears to be social in nature, but is hindering the economic catch-up process in Southern or Eastern Europe, which is also the prerequisite for more effective social security systems.

Wages in Eastern Europe are nonetheless comparatively low, perhaps even too low?

KAMPETER: Differences in wage costs have been and continue to be a major driver of convergence, throughout the EU's history. Wage differentials have made Poland interesting for economic activities, which in turn has led to convergence, i.e. the alignment of wage levels. Eliminating wage competition may sound socially beneficial, but in essence it is directed against those countries which have used wage differences to promote convergence. Not every measure labelled as being socially beneficial actually is.

Can Germany serve as a model regarding the minimum wage?

KAMPETER: Germany's minimum wage is based on the development of collectively agreed wages. To me, the crucial issue is not the wage level in

the various countries, but rather the wage-setting mechanism. In Germany, we do not rely on the state, but on the social partners. Politics and party tactics should be kept out of the wage-setting process. That is my advice to all EU Member States. In that respect, Germany can serve as a model.

What is your view of the aim of upward convergence?

KAMPETER: The EU's history is a history of successful upward convergence. Of course, there have also been setbacks. But if you look at developments in Spain and Portugal, for example, but also in Poland, Europe is an economic success story.

“The EU's history is a history of successful upward convergence.”

STEFFEN KAMPETER

Do you support the goal of creating minimum income benefit schemes in all EU Member States? Can Germany serve as an example in this context?

KAMPETER: Germany has one of the most comprehensive and effective social safety nets. It is up to each country to decide whether it would like to implement a similar system, if it has a similar level of economic performance. I think it would be presumptuous to propose that all of Europe should adopt the German minimum income system.

You argue against European regulations in the social field. Are there any areas where German employers would like to see more action at European level?

KAMPETER: Once again: the existing European social minimum standards are reasonable. I am by no means opposed to these regulations.

But the Member States remain the key actors in social policy. Anyone who fails to respect that can expect resistance from us. There are two issues which are particularly important to me in terms of Europe's development. First, we have to turn the Green Deal into a market-oriented undertaking. The emissions trading system is a positive development, but one swallow doesn't make a summer. We will need to do much more in terms of climate protection. Second, the EU Commission should make competitiveness a bigger priority again. There are immense opportunities in this area, particularly in the context of the Digital Single Market.

Should the EU also do more to encourage investment, as the German trade unions, for example, are calling for?

KAMPETER: Nine out of ten investments come from the private sector. The political discussion concentrates on the remaining tenth – I think it is better to improve the conditions for private investment.

Would you be willing to take up the issue of a European social security number together with the German trade unions?

KAMPETER: I like the basic idea. It makes sense for us to be able to determine unbureaucratically whether someone is properly registered in a social security system. It remains to be clarified how this can best be achieved. But we share the basic idea.

Analysis

Benchmarking on Minimum Income Principle to Facilitate Upward Convergence

TEXT: OLIVIER BONTOUT, KATALIN SZATMARI
DIRECTORATE-GENERAL FOR EMPLOYMENT, SOCIAL AFFAIRS AND INCLUSION, EUROPEAN COMMISSION¹

While the social situation was improving in Europe when the Covid-19 crisis hit, remaining and emerging challenges call for continuing effort to ensure effective national social safety nets conducive of cohesive societies and just transitions. The EU-level benchmarking framework on minimum income supports mutual learning and the upward convergence of national systems.

Europe has some of the highest standards of living, best working conditions and among the most effective social protection systems in the world. While the 2008 financial crisis negatively impacted Europe's social situation, this negative trend had been broadly reversed when the Covid-19 crisis hit: the number of people at risk of poverty or social exclusion steadily declined for a sixth consecutive year in 2018.² Employment continued to increase, although at a slower pace, and unemployment reached a record low of 6.3 per cent in

the third quarter of 2019. These trends however mask a lack of substantial improvement among lower income households. Income inequality remains at a high level compared to the pre-crisis period: on average, in the EU, the income of the richest 20 per cent of the population is about five times higher than that of the poorest 20 per cent. The poverty gap, which measures how poor the poor are,³ has also shown an overall deterioration in the last decade. In addition, the persistence of poverty⁴ – how likely a poor person is to stay poor – shows a similar trend over the past ten years.⁵

For those furthest away from the labour market, namely those living in households with very low work intensity, the at-risk-of-poverty rate remains persistently high and increased for a fifth consecutive year in 2018. This shows that the relative income situation of the most vulnerable was not improving, indicating possible gaps in the adequacy and coverage of social safety nets.

1. The views expressed in this article are those of the authors and may not be interpreted as stating an official position of the European Commission.
2. Proposal for a Joint Employment Report from the Commission and the Council accompanying the Annual Sustainable Growth Strategy 2020 COM(2019) 653.
3. Indicator of relative median at-risk-of-poverty gap, calculated as the difference between the median equivalised disposable income of people below the at-risk-of-poverty threshold and the at-risk-of-poverty threshold, expressed as a percentage of the at-risk-of-poverty threshold.
4. The indicator measures the share of people who are poor and were also poor in two out of the three previous years.
5. See further details in the 2019 Annual Report of the Social Protection Committee.

Large differences between Member States in all these indicators underscore the challenge of achieving upward convergence across the EU, which is exacerbated by the COVID-19 crisis. In this context, the role of social benefits to cushion the impact of the crisis will be key. Given the extent of the expected pressure on households' income and poverty, it is essential that automatic stabilisers fully play their role to support households and that additional measures are taken to fill existing gaps in social protection systems.

Policy response – the Pillar and the active inclusion approach

A safety net that ensures a life in dignity is key to addressing risks of poverty and social exclusion. It also gains relevance when labour market transitions become more challenging to an increasing number of people, making the need to leave no one behind ever more pressing. To this end, Principle 14 of the European Pillar of Social Rights stipulates that 'everyone lacking sufficient resources has the right to adequate minimum income benefits ensuring a life in dignity at all stages of life, and effective access to goods and services. For those who can work, minimum income benefits should be combined with incentives to (re)integrate into the labour market'.

The 1992 Council Recommendation on common criteria concerning sufficient resources and social assistance in social protection systems⁶ sets out a number of principles and guidelines such as fixing the amount of resources considered necessary to cover essential needs, taking into account living

standards and price levels for different types and sizes of households; safeguarding the incentive to seek work; and regularly updating the amounts to ensure that needs continue to be covered.

Building on the 1992 recommendation, in 2008 the Commission adopted a Recommendation on active inclusion of people excluded from the labour market⁷. The Recommendation argues for a review of social protection systems as part of a comprehensive, consistent drive to combat social exclusion. In 2013, the European Commission's Social Investment Package⁸ (SIP) reiterated this integrated approach, underlining the key importance of empowering and supporting people at all stages of their lives. This approach was confirmed by Council Conclusions in 2016.⁹ This policy guidance calls for a three-strand approach that, in turn, was fully endorsed in the Pillar Principle 14 on minimum income:

- The first strand (adequate income support) recognises the basic right of an individual to resources and social assistance sufficient to lead a life that is compatible with human dignity.
- The second strand covers labour market integration for people who are fit for work so that they receive effective help to enter or re-enter employment that corresponds to their work capacity. This is well reflected in the 2016 Council Recommendation on the integration of the long-term unemployed into the labour market,¹⁰ emphasising the need for an individual approach and coordinated service provision. Policies should ensure quality jobs and tackle labour market segmentation by helping

6. OJ L 245 of 26.8.1992, p. 46.

7. OJ L 307, 18.11.2008, p. 11.

8. Communication from the Commission on Towards Social Investment for Growth and Cohesion.

9. A Commission Staff Working Document was published in 2017 together with the Pillar package taking stock of the implementation of the 2008 Active Inclusion Recommendation and concluded that the Recommendation has acted as a driver for structural reforms in many Member States, still with overall uneven impact.

10. OJ C 67, 20.2.2016, p. 1–5.

people to stay in work, prevent in-work poverty and improve employment prospects.

→ The third strand calls for appropriate social support for those concerned through access to quality enabling services that support active inclusion policies. It also underlines various common principles, including coordinated and integrated delivery, which should be taken into account as much as possible.

The integrated guidelines for the employment policies¹¹ set out policies for fighting poverty and social exclusion in line with the active inclusion approach and integrated the elements of the European Pillar of Social Rights. These guidelines form the legal basis for the European Semester process,¹² providing a framework for the monitoring and coordination of economic and social policies across the European Union.

Benchmarking framework on minimum incomes

In accordance with the principle of subsidiarity, Member States set income support and the related policy mix. All Member States have some minimum income schemes in place but the designs vary greatly, and challenges remain at national or local level. The shortcomings can relate to limited coverage, gaps in the adequacy of benefits, financial incentives to take up work and limited availability of social or activation services.¹³ Improving the effectiveness of such schemes can make a substantial difference, contributing to

upward convergence and better protecting the most vulnerable, including from the labour market and societal transitions to come.

In order to strengthen the analytical work of the European Semester, the Social Protection Committee¹⁴ agreed to develop a benchmarking framework on minimum income that was finalised in 2019 and has supported the analysis in the Joint Employment Report, the Country Reports and Country-Specific Recommendations (CSR). In 2019, 14 CSRs were adopted in the area of social inclusion and social benefits; of those, four are directly related to Principle 14 of the European Pillar of Social Rights and focus on minimum income support.

Through this benchmarking exercise, relevant high-level outcome and performance indicators were identified. Indicators and/or quality principles were also agreed for the policy levers, which affect performance (see [box](#)). A key emphasis was given to the active inclusion approach: the need for strong links between adequate minimum income support, the delivery of inclusive labour market policies and access to high quality enabling services so that they are mutually reinforcing. Three policy levers have been identified in line the active inclusion approach,¹⁵ and in particular, a twofold indicator has been developed to assess the adequacy of minimum income schemes.

11. OJ L 224, 5.9.2018, p.4–9

12. https://ec.europa.eu/info/business-economy-euro/economic-and-fiscal-policy-coordination/eu-economic-governance-monitoring-prevention-correction/european-semester_en

13. See further details in the Commission Staff Working Document on the implementation of the 2008 Commission Recommendation on the active inclusion of people excluded from the labour market 2017.

14. The Social Protection Committee (SPC) is an advisory policy committee to the Ministers on the Employment and Social Affairs Council (EPSCO). The SPC was established by Council decision under Article 160 of the Treaty on the Functioning of the EU.

15. Namely concerning adequate income support, accessibility of benefits and access to social services and the labour market.

Adequacy of benefits

The level of financial support provided under a minimum income scheme has a direct impact on the ability of the scheme to alleviate poverty. However, the impact on poverty cannot be considered separately from other features of the tax-benefit systems. Benefit levels need to be analysed based on the net disposable incomes received by the minimum income recipients and their household members.

In particular, minimum income benefits interact with other benefits (notably unemployment, family or housing benefits), but also with the design of tax systems (as regards work incentives). This is why it is important to have a twofold indicator that captures the income of a beneficiary household and compares it to the national poverty threshold (60 per cent of the median income) or to the income of a low wage earner household.¹⁶

INDICATORS OF THE BENCHMARKING FRAMEWORK

Outcome indicators

- Relative at risk of poverty gap of the working age population (18–64)
- Material and social deprivation rate of the working age population (18–64)
- At risk of poverty rate of the population living in (quasi-)jobless households (18–59)

Performance indicators

- Impact of social transfers (excluding pensions) on the poverty of the working age population (18–64)
- Persistent at risk of poverty rate of the working age population (18–64)
- The benefit recipient rate for people at risk of poverty in (quasi-)jobless households (18–59)
- Gap in self-reported unmet needs for medical examination (18–59)
- Gap in housing cost overburden rate (18–59)
- Gap in non-participation in training related to professional activity

Policy levers

- Income of a minimum income beneficiary as a share of the at risk of poverty threshold
- Income of a minimum income beneficiary as a share of the income of a low wage earner

Access to benefits: eligibility rules

A second policy lever relates to access: the capacity of minimum income schemes to reach those in need. The coverage of minimum income schemes can be defined on the basis of eligibility criteria, showing the potential number of beneficiaries. The take-up of benefits refers to the share of those actually receiving the benefits among those entitled to the benefits. Coverage and take-up rates do not necessarily match, and the available evidence shows that the gap between the two can be large. Complex or restrictive eligibility rules can also lead to exclusion errors or non-take-up, or the inability of the system to reach the most vulnerable groups (such as the homeless or migrants). For this policy lever, no specific indicator was identified but some quality context information was collected on means testing and residence requirements.

16. The calculations are based on the OECD tax and benefit model that is validated by Member States.

Labour market activation and access to services

As a third policy lever, the benchmarking framework focuses on inclusive labour market policies and access to affordable and quality services. The design of minimum income schemes should prevent inactivity traps,¹⁷ lowering disincentives to take up work for those who are able to do so. The entitlement to minimum income benefits is also generally coupled with activation requirements.¹⁸ To support labour market transitions, beneficiaries need to have access to adequate activation and enabling services. Access to services such as health-care, housing and training is not only an essential precondition for successful labour market integration, but also guarantees an adequate standard of living and social participation for those who cannot work. For this third policy lever, specific indicators were not identified. It was agreed to rely on three performance indicators in the areas of access to healthcare, housing, and education (see [box](#)).

In the Joint Employment Report, this benchmarking framework is reflected in the analytical part of Guideline 8 on promoting equal opportunities for all, fostering social inclusion and combatting poverty. There is a mutual understanding that it should not be applied mechanically in assessing country policy responses and should be followed by country-specific analysis.

Conclusion

Social safety nets are critical for ensuring cohesive societies and just transitions. While the financial crisis negatively impacted Europe's social situation, this negative trend had been broadly

reversed when the Covid-19 crisis hit. There are, however, some remaining challenges which call for concerted action to ensure an effective minimum level of social protection in all EU Member States to further upward social convergence.

In this context, the joint exercise with Member States' representatives of the Social Protection Committee to develop a benchmarking framework on minimum income has been highly relevant. By establishing a basis for cross-country comparisons, the framework supports various mutual learning and monitoring processes such as the European Semester and peer and thematic review activities. Building on this framework, mutual understanding and upward convergence in the design of national systems can be facilitated along the related Pillar principle.

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17. Inactivity trap refers to the monetary disincentive to return to employment after inactivity. It is often referred to as the participation tax rate and refers to the part of the additional gross wage that is taxed away in the form of increased taxes (personal income taxes, employee social insurance contributions) and withdrawn benefits (unemployment, social assistance and housing benefits) in the event of an inactive person taking up a job.

18. Such as registration with public employment services, active job seeking, contracts for individual integration/activation plan, acceptance of offered job and participation in active labour market policy measures, including training schemes and community work.

Analysis

How Reliable Are Social Safety Nets? Value and Accessibility in Situations of Acute Economic Need

TEXT: HERWIG IMMERVOLL, RAPHAELA HYEE, RODRIGO FERNANDEZ,
ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT (OECD)

Social protection systems in Europe use a range of entitlement criteria – first-tier support typically requires contributions, while safety-net benefits are granted on the basis of need. This article shows stark cross-country variations in both the accessibility and generosity of safety nets in practice. It discusses drivers of these differences and their implications for policy learning and benchmarking.

Social protection systems in Europe employ a broad range of entitlement criteria. For instance, workers acquire entitlements to first-tier earnings-replacement benefits such as unemployment insurance, accident insurance or disability benefits through contributions. Individuals who lack the necessary employment history, who have exhausted their entitlements, or whose first-tier benefits are insufficient to secure their livelihood, may have access to minimum-income benefits. A principal purpose of these “safety-net benefits” is benefits of last resort. They therefore are means-tested and employ a low-income criterion

as a central entitlement condition; benefits are not conditional on past employment or contribution histories.

In the policy debate, minimum-income cash benefits (MIB) are occasionally characterised as income floors. But not all low-income individuals receive support. While benefit levels are important, the impact of MIBs on family incomes (and on poverty, inequality and work incentives) depends crucially on their accessibility in practice (Immervoll, Jenkins and Königs 2014, Immervoll, 2010). In some cases, access to services (e.g. employment services) or in-kind support (e.g. social housing) may also be tied to MIB receipt.

Heightened uncertainties about the pace and extent of current and future labour market changes are one reason for renewed attention to MIBs in the policy community. On the one hand, increasingly unstable careers and incomes, paired with a greater availability of

“non-standard” employment (self-employment, quasi-self-employment and casual employment) may result in a greater need for income support. On the other hand, non-standard work and an accelerated reallocation of jobs can also make it more difficult to qualify for first-tier insurance-based benefits (OECD 2019). As a result, MIBs may become more crucial as one element of governments’ strategies for stabilising family incomes, tackling inequality and preventing hardship.

This article takes stock of the income-support packages that are available to working-age individuals (18–64 years) in acute economic need. It adopts the perspective of the families concerned and focuses on jobless individuals with no or very limited access to market incomes or to first-tier income support. Drawing on existing data sources and new empirical work, the aim is to compare the accessibility and the levels of income support across European countries.

How many people receive minimum-income benefits?

Securing subsistence and providing poverty alleviation are central objectives of MIB. This article employs commonly-used relative thresholds for identifying “low-income” or “income-poor” households: households whose income (adjusted for household size) is below 50 or 60 per cent of the national median household income. As relative measures, the resulting low-income cut-offs are higher for richer countries. They should, however, not be interpreted as an explicit judgement on the amount of income that would be needed to reach an “acceptable” standard of living.

The significance and role of MIB in the overall social protection system vary across countries. **Figure 1** compares MIB recipient numbers, as reported by countries’ benefit administrations, to commonly used poverty headcounts.¹ Recipient numbers in France are very close to the number of income-poor households, and they are above 75 per cent in Germany, the Netherlands and the Slovak Republic. In most other countries, the ratios are 50 per cent or lower – and below 20 per cent in Latvia and Estonia. Italy introduced a new programme in September 2016 but did not operate a generally applicable national MIB prior to that. On average across countries, the number of MIB recipients in the database is less than one half compared to the number of low-income households (see figure notes). However, social protection strategies differ across countries and low-income households may have access to other non-contributory benefits in addition to MIB. For instance, Belgium and many other countries operate universal or means-tested child or family benefits. Comparing support across countries therefore requires a broader look at the overall benefit packages that may be available to those in acute economic need.

Statutory entitlements: composition of the benefit package

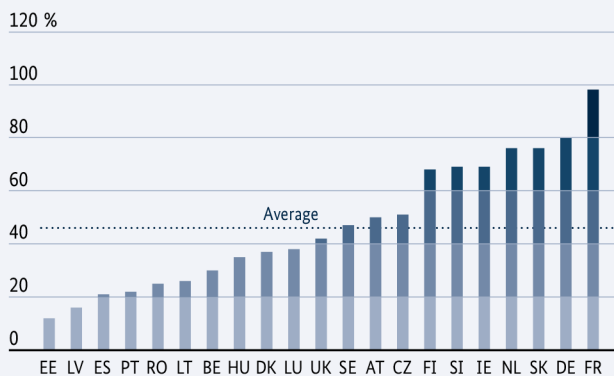
Families with no or little income from other sources may be entitled to support from a number of different programmes. Their income levels and poverty risks depend on the size of that overall benefit package, including notably MIB but also cash housing benefits (for those living in rented accommodation) and family benefits (for families with children). The statutory rules affecting these

1. MIB are targeted to low-income households but non-poor households may also receive them in some cases (e.g. if they combine MIB with low-paid work), while many income-poor households may not qualify (e.g. because income ceilings are often much lower than poverty thresholds, see Section 3 below). Recipient totals as a share of poverty headcounts therefore should not be interpreted as a measure of benefit take-up.

Figure 1

Minimum-income benefits: What role in poverty-alleviation strategies?

Households receiving MIB as % of income-poor working-age households, 2016



Note: "Income poor" refers to households with income below 50 % of the national median. Recipient numbers refer to the main MIB in each country plus specific lone-parent benefits (in Ireland, and the United Kingdom) and non-contributory unemployment benefits (in Denmark, Germany, Ireland, Spain and the United Kingdom). Greece, Poland: comparable recipient data were not available. The denominator for Ireland is poor individuals, as MIBs are awarded at individual level. The ratio of benefit recipients to income-poor households could in principle exceed 100 % if recipients include large numbers of non-poor households.

Source: OECD SOCR database (www.oecd.org/social/recipients); EU-SILC for poverty headcounts.

entitlements are complex. This section draws on the OECD TaxBEN model to assess statutory entitlements in specific policy-relevant, but hypothetical, household circumstances.²

Support for workless households

Support for single-person households without any other resources is well below commonly used low-income cut-offs in most countries (Figure 2, Panel A). On average across the countries shown, statutory rules translate into entitlements of less than one-third of median income. Only two of the countries – Ireland and the Netherlands – provide support exceeding 50 per cent of the

median for this household type. At 11–12 per cent, entitlements in 2019 were lowest in Bulgaria, Italy and Romania.

Most countries provide additional support for families with children.³ MIB (and also housing benefit, if available) are typically higher than for childless adults. Some countries also provide specific top-ups for lone parents (e.g. in the form of a state guarantee for child-support payments or as a specific measure to alleviate child poverty). In most, but not all, countries, child-related top-ups are big enough to cover the extra income needed to support a larger household (that is, "equivalised" income, after adjusting for household size, is higher for a lone parent than for a childless adult). For instance, comparatively generous family benefits allowances boost the benefit packages of lone parents in Poland, Slovenia and Lithuania. But equivalent incomes in a few countries can be lower for lone parents than for childless adults (Figure 2, Panel B).

Support for low-wage, part-time workers

Do existing benefit systems encourage take-up of employment? To reduce the risk of poverty, MIB recipients need to seek income from other sources. But income gains from taking up low-paid work are often small. On average, across the countries listed in Figure 3, a part-time job with an hourly wage at the 10th percentile of the national wage distribution (a value that is often close to the national minimum wage) does move benefit recipients closer to the 50 per cent threshold but with an income gain of 8 per cent of median household income. Market income goes up significantly (+37 per cent of medi-

2. The OECD tax-benefit model (TaxBEN) incorporates detailed policy rules for tax liabilities and benefit entitlements as they apply to working-age individuals and their dependent children. The model's policy scope includes the main taxes on employment income and social security contributions, as well as the main cash benefit programmes. See <http://oe.cd/taxben> for details.

3. The main family benefit in Italy is contribution-based and therefore limited to those with an employment history. In addition, a means-tested allowance for large families is available to larger families, but not to parents with two children.

an income before tax, +32 per cent after tax), but this is largely offset by reduced benefits (-23 per cent of median income) when moving into work. When income gains from work are small, this also complicates governments' efforts to tackle in-work poverty. Net gains in four countries are sufficient to lift the low-paid worker above 50 per cent of median income (Denmark, Finland, France and Germany). In all four, net incomes are close to or above 40 per cent of the median even without any income from work, and taxes and social security contributions are relatively low in this earnings range. Low-paid, part-time workers in these countries can also keep some entitlements to MIB or housing benefits. In Finland and France they receive in-work benefits. Taking up a low-paid part-time job brings particularly large in-

come gains in Italy and Romania. While in-work benefits do not play a role in these cases, labour earnings from even a low-paid job are comparatively high relative to median incomes. And since out-of-work benefits are very low to start with, low-paid workers stand to lose very little from benefit withdrawals.

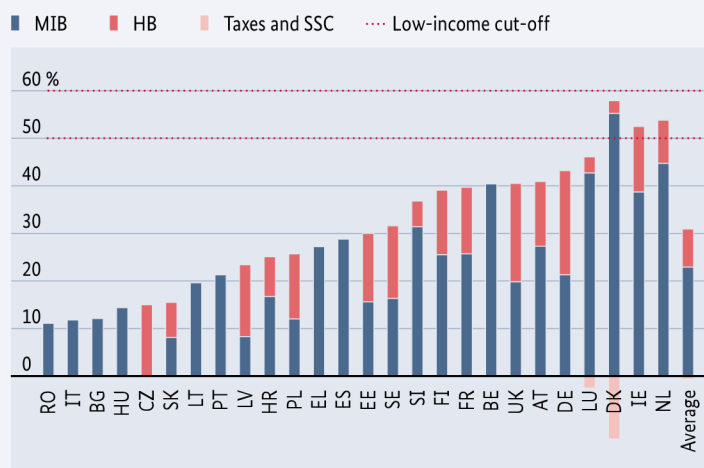
Benefit recipients in six countries would see no significant income gains from low-paid part-time work. Indeed, Austria, Croatia, Ireland, Latvia and the Netherlands fully withdraw minimum income benefits against employment income at these low earnings levels (i.e., benefits are reduced by one euro for every euro of net earnings). Lone parents experience a much milder decline in benefit payments when taking up low-paid work

Figure 2

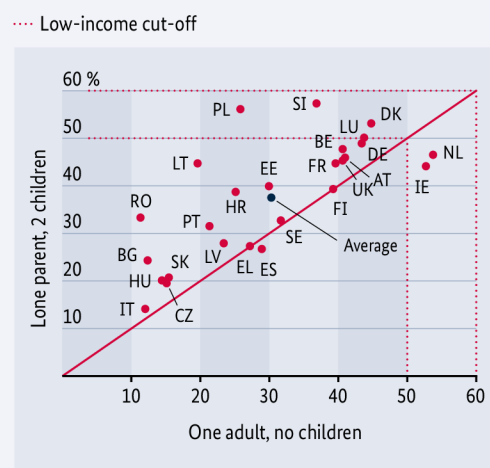
Those relying on minimum-income support face sizeable poverty risks

Value of total benefit package for a jobless household without any other income, percentage of median household income, 2019

A: Support for one-person households



B: Support for lone-parent households (vertical axis) compared to one-person households (horizontal axis)



Note: All incomes adjust for differences in household size. Housing-benefit entitlements are calculated for privately rented accommodation with rent equal to 10% of the national average full-time earnings, irrespective of income or household size. Any dedicated housing components of Social Assistance schemes are also identified as housing benefits. Data for the UK are for 2018, i.e., prior to the rollout of Universal Credit to all new claimants. Panel B: The two children are aged 7 and 9.
Source: OECD. (2019). Tax and Benefit Models. <http://oe.cd/TaxBEN>

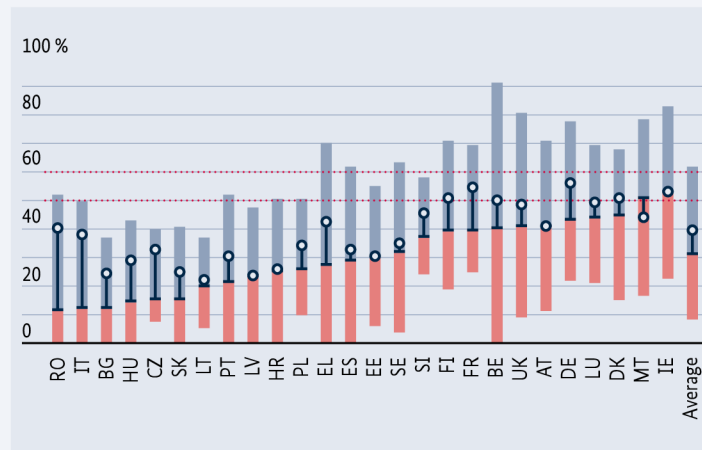
Figure 3

Income gains from low-paid work are small in many countries

Incomes of part-time low-wage workers, percentage of median household income, 2019

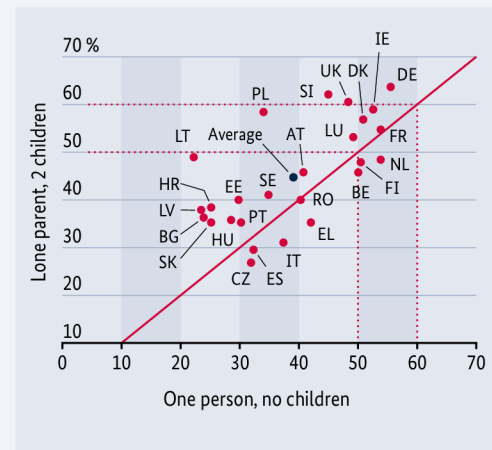
A: One-person household: With / without employment

■ Labour income gain ○ Net income (works 18 h/w, low wage) Low-income cut-off
 ■ Benefits loss | Net income (no earnings)



B: Support for working lone-parents (vertical axis) compared to working one-person households (horizontal axis)

..... Low-income cut-off



Notes: See Figure 2. Results refer to part-time work at 18 hours per week and with hourly wages at the 10th percentile of the national wage distribution. Source: OECD. (2019). Tax and Benefit Models. <http://oe.cd/TaxBEN>.

than households without children. Combined with the fact that their earnings increase adjusted for household size is lower than for workers without children, their overall income gain is broadly the same as for childless households (+7 per cent of median income, Figure 3, Panel B). It should be noted, however, that these calculations do not account for childcare expenses and other work-related costs, which can be a major barrier for low-income parents (OECD forthcoming).

Income support in practice: accessibility and generosity

A people-centred policy discussion requires information on the actual support people receive in policy-relevant circumstances. Legal entitlement rules, such as those presented above, are crucial

determinants of support payments. But, for a number of reasons, comparing countries' benefit packages based on statutory provisions alone gives an incomplete picture of the support that is available in practice. First, the strictness of asset tests and behavioural requirements, such as active job search, differ between and within countries (Immervoll and Knotz 2018, Marchal, et al. forthcoming).

These targeting provisions limit access to MIB for one low-income people directly; they may also make eligible households less likely to apply for support in the first place. Second, the implementation of these regulations may also vary across countries and groups of (potential) beneficiaries. Finally, the characteristics of low-income households differ between countries, affecting patterns of benefit receipt.

This section complements the information on legal entitlement rules with results on observed benefit payments and support gaps. It presents new results on the likelihood of receiving benefits, and on the amount of benefit payments in selected European countries that employ different types of social protection and for which good-quality household data were available: Austria, Belgium, the Czech Republic, Germany, Greece, Spain, France, Italy, the Slovak Republic, and the United Kingdom.

These countries indeed operate very different social protection regimes (Figure 4). Some rely very strongly on non-contributory benefits for working-age support (e.g. the United Kingdom, where three-quarters of transfers to the poorest 10 per cent of households are means-tested). Others provide the majority of support in the form of contributory insurance-type transfers (e.g. in Italy, where 73 per cent of spending on the lowest-income households is in the form of insurance-based benefits). Many continental European countries use “layered” systems that combine insurance-based first-tier out-of-work benefits with universal support for families with children and MIB as a lower-level safety net (e.g. Austria, France and the Slovak Republic). While this is also true for Germany, support for the lowest-income households is mainly provided by means-tested benefits. The circumstances of households relying on non-contributory benefits can therefore vary considerably across countries.

A model of MIB accessibility and generosity

The empirical approach consists of summarising the complex patterns of observed benefit receipt using a detailed statistical model. The main variable of interest is the value of the total package of non-contributory benefits received during the

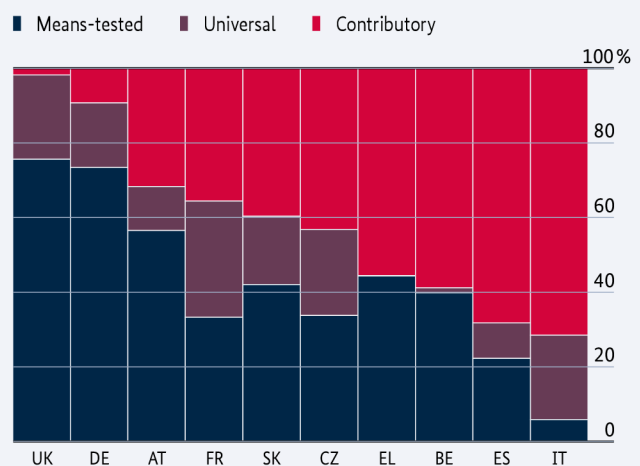
entire year 2015. It therefore accounts for both the average generosity of monthly benefit payments and the duration of payments during the year. It includes MIB as well as any related means-tested transfers (e.g. housing benefits) or universal transfers (e.g., child benefits), reflecting the fact that countries provide support through a number of different channels and programmes.⁴ The box summarises the main steps of this empirical analysis.

The results serve as shorthand summaries of support accessibility and generosity in a comparative perspective. In particular, they quantify the support that is available to households in situations of acute economic need, with income from other sources, including market incomes and contributory earnings-replacement benefits, in the bottom 10 per cent or bottom 20 per cent of the population, depending on the scenario.

Figure 4

Some countries rely heavily on non-contributory benefits

Expenditure on working-age benefits received in the bottom income decile, 2015



Note: Working-age households. Income decile refers to income before benefit payments.
Source: EU-SILC and GSOEP, 2016 waves.

BENEFIT LEVELS AND ACCESSIBILITY: A STATISTICAL MODEL ACCOUNTING FOR KEY POLICY LEVERS

The empirical work proceeds in two steps. The first step estimates the relationship between household benefit receipt and key structural drivers of income support from the 2016 waves of the German Socioeconomic Panel (GSOEP), and of the European Union Statistics of Income and Living Conditions (EU SILC) for the remaining European countries. The second step uses the estimated relationships for inference on benefit receipt in concrete household circumstances (“vignettes”). All results refer to 2015 incomes and therefore do not account for any reforms implemented post 2015 (e.g. the introduction of a national MIB scheme in Italy and Greece, Bulman et al. (2019), OECD (2020)).

STEP 1: ESTIMATING STATISTICAL MODELS OF BENEFIT RECEIPT

The dependent variable is total non-contributory cash benefits received during the entire year 2015 (net of any old age and survivors’ benefits) by households with at least one non-retired working age member (“working age household”). Independent variables include the following key determinants of benefit receipt: family composition, household income (other than non-contributory benefits), work intensity and volatility during the year, housing tenure and costs and health status.

Effective sample sizes range from about 4,000 households in Austria, Belgium and the Slovak Republic to more than 14,000 in Italy. Separate models are estimated for benefit receipt (yes/no) and benefit amounts (estimated only on observations with positive benefits) using a generalized Hurdle approach, as the process that determines whether a person receives social benefits is not necessarily the same as the process that determines the amount received (Wooldridge 2010, Cragg 1971).

STEP 2: “PREDICTING BENEFIT RECEIPT IN SPECIFIC CIRCUMSTANCES (VIGNETTES)

“Marginal effects” (i.e. statistics computed from model predictions for different values of the independent variables) allow summarising the entire vector of estimated parameters into a single value using the same metric as the dependent variable (here the probability of receipt and the benefit amount). Vignettes are defined by fixing specific values of some key characteristics (e.g. single with no children, couple with children, etc.) and each vignette yields a probability of receiving non-contributory benefits (stage one) and the expected average amount (stage two).

Source and further details: Hye, Fernández and Immervoll (forthcoming)

Results

Workless, low-resource households in Greece and Italy were least likely to receive non-contributory benefits (receipt probability of 15 to 20 per cent, [Figure 5, Panel A, left-hand figure](#)). Both countries had no generally applicable MIB schemes in 2015, but both have since introduced them (Bulman, et al. 2019). Access was also relatively limited in Spain: social assistance recipient numbers are low, and there is significant regional variation (for instance, not all regions operate housing benefits (OECD 2020)). MIB were most accessible in France and the UK.

For those receiving support, benefit levels ranged between under 20 per cent of median household income in Greece, Italy and the Slovak Republic to around 40 per cent in Belgium and the United Kingdom ([Figure 5, Panel A, right-hand figure](#)). Overall, there appears to be no general trade-off between accessibility and generosity. While benefit support in the Slovak Republic is comparatively accessible but modest, other countries combine broad access with higher benefit levels (United Kingdom and, to a lesser extent, Austria and France). In Italy and Greece, both accessibility and benefit amounts are low. In some countries, empirical benefit amounts are broadly in line

with the statutory entitlements for selected model households (Belgium, Slovak Republic and United Kingdom), whereas in others, even the higher end of the confidence intervals falls short of the results indicated by [Figure 2](#) (e.g., Austria, France and Germany). Reasons for differences between empirically observed support payments and statutory entitlements for model households include (i) average receipt durations under 12 months, as empirical benefit receipt is measured on an annual basis (e.g. if claimants move onto MIB after exhausting their entitlement to first-tier benefits or if time lags delay entitlements for those experiencing low-income spells), (ii) benefit sanctions (e.g. if claimants do not comply with job-search requirements), and (iii) regional variations in benefit rules or implementation. Regional variations are especially important in the case of housing benefit, as housing costs vary across regions – indeed, in all three above-mentioned countries, empirically observed benefits amounts are broadly in line with statutory entitlements net of housing benefit ([Figure 2](#)).

However, in many cases, differences between statutory payments for model households ([Figure 2](#)) and empirical amounts ([Figure 5](#)) are caused by the withdrawal of benefits for households with some income. [Figure 2](#) shows the statutory entitlement of households with no income except MIB benefits, whereas [Figure 5](#) (Panels A and B) shows expected amounts for low-income households who might nevertheless receive some income from work or insurance-based benefits. Indeed, in Austria and France, about half of all households in the bottom decile have some labour income during the course of the year, whereas in the UK it is less than one-third. Households also receive insurance-based benefits that likely enter the means tests for other

benefits (and hence lower overall non-contributory entitlements). This is likely to play a role in Austria (42 per cent of households receive insurance-based benefits), and France (30 per cent).⁴ In Germany, low-resource households are less likely to work and less likely to receive insurance-based benefits, so lower entitlements are possibly linked to regional variations in housing costs or temporary benefit sanctions or short benefit durations in some cases. Further research is needed to analyse and monitor the factors behind observed benefit amounts across countries.

Working part-time, or part of the year, makes benefit receipt significantly less likely. But a gradual phase-out of MIB (as in Austria, France, Germany) or in-work benefits (as in France and the United Kingdom) can provide continued support to low-paid workers and those in intermittent employment as well as strengthening work incentives ([Figure 5, Panel B](#)).

In a number of countries, families with children receive family benefits regardless of their income (Austria, Belgium, France, Germany, the Slovak Republic and for all but very high incomes, the United Kingdom).⁵ As a result, all low-income families with children received at least some non-contributory benefits in these countries ([Figure 5, Panel C](#)). In Spain, a means-tested child allowance provides support to most, but not all, low-income families. Results also indicate that low-income lone parents in Italy had partial access to non-contributory benefit in Italy, even though no universal or means-tested national child benefit or MIB schemes existed in 2015; this likely reflects preferential treatment of families with children in regional MIB schemes.

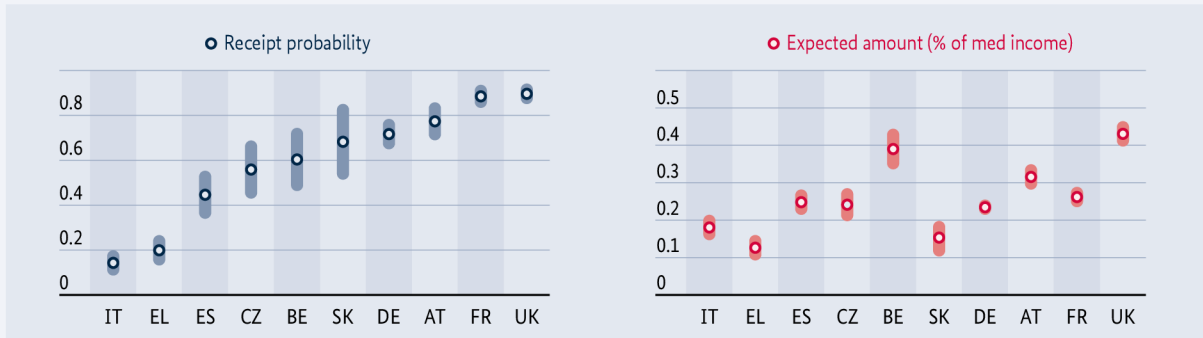
4. Thus, MIB in Austria and France serve as a top-up to low earners and recipients of insurance-based income replacement benefits, whereas in the United Kingdom, they are the main source of income for mainly workless households without other resources.

5. While child benefit is universal in the UK, there is a child benefit surcharge in the income tax schedule for parents earning more than GBP 50,000, resulting in its effectively being taxed away for those earning GBP 60,000 or more.

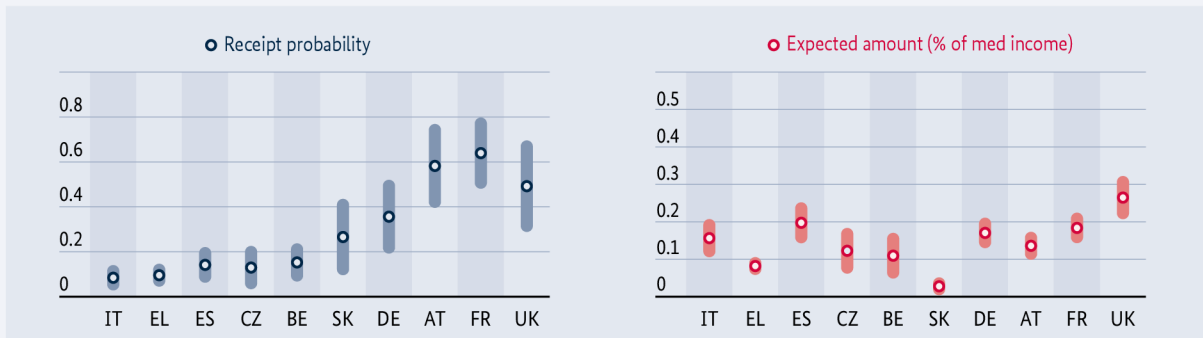
Figure 5

Accessibility and value of non-contributory benefits, 2015

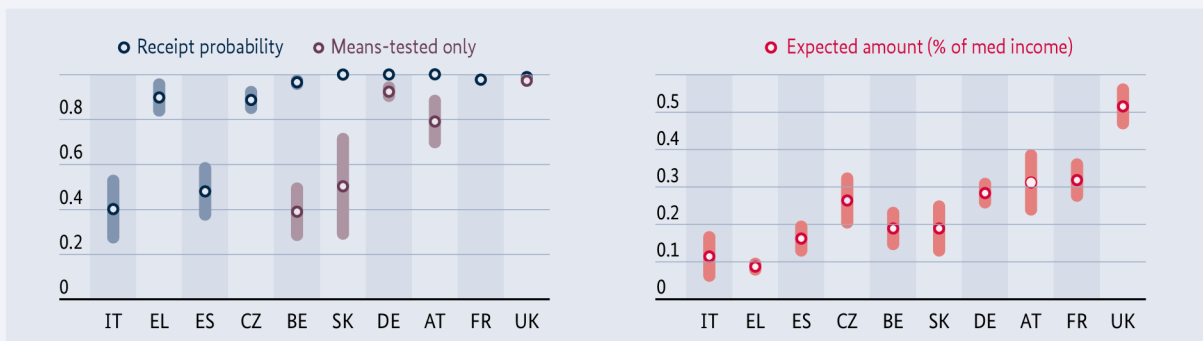
A. Low-income adult living alone



B. Part-time worker on low pay living alone



C: Low-income lone parent



Notes: Bars indicate 90% confidence intervals. Predicted non-contributory benefit receipt for able-bodied low-income working-age adults in privately rented accommodation and paying a "low" rent (bottom quintile of the national rent distribution). Benefits include refundable means-tested tax credits. "Low income" corresponds to the bottom 10% of income from market sources and contributory benefits. Panel B: worked 10-30% of potential full-time hours during 2015, with income in the second income decile. Panel C: children are aged 4-17. Purple dots indicate that the probability of receiving means-tested benefits is significantly lower than the probability of receiving any non-contributory benefits (means-tested and universal). Where relevant, universal child benefits were imputed using observed household composition and statutory regulations, see Hyye, Fernandez and Immervoll (forthcoming) for details. Source: Estimates based on EU-SILC and GSOEP, 2016 waves.

Conclusions

All EU and OECD countries operate safety-net programmes for working-age individuals, either as lower-tier programmes alongside primary income replacement benefits, or as a principal instrument for delivering social protection. As benefits of last resort, these transfers play a vital role in alleviating poverty and social exclusion and they typically employ strict means-testing to target households in acute economic need. A key objective of these programmes should be to provide meaningful income protection for groups with no or very limited access to other resources.

However, the accessibility and levels of these income transfers differs enormously across countries. The country disparities illustrated in this article are partly due to differences in the

overall architecture of social protection systems. But they also indicate substantial scope for upwards convergence and policy learning, through impact assessments and through policy monitoring and benchmarking across and within countries. People-centred policy indicators based on statutory entitlement rules provide a useful starting point for such an exercise. In addition, identifying policy challenges, and solutions, requires granular results on observed patterns of benefit receipt among low-income households.

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Opinion and Comment

An EU Directive on Adequate Minimum Income. Enabling People to Thrive and not just Survive

TEXT: PIOTR SADOWSKI, SILVANA ROEBSTORF, SOCIAL PLATFORM

All EU Member States provide some form of minimum income scheme. However, most fail to guarantee the individuals concerned a decent standard of living at all stages of life. Social Platform, a network uniting 47 pan-European civil society organisations advocating for social justice and participatory democracy in Europe, calls for an EU framework directive translating the right to an adequate minimum income into a legally binding commitment for all Member States.

Europe is one of the most prosperous regions in the world. From a global perspective, people living in the European Union enjoy some of the best living and working conditions and the most comprehensive social protection systems. Taking it outside the global context, the situation looks different. In 2018, more than 109 million people in the EU were living at risk of poverty and social exclusion.¹ This amounts to 21.7 per cent of its population – approximately one in five people. Certain groups are disproportionately at risk of poverty, such as

persons with disabilities, single parent families, women, young adults, people with low educational attainment or long-standing health problems, the unemployed,² migrants and ethnic minorities, particularly Roma.³

The good news is that the benefit of living in one of the most prosperous regions in the world also means that people can, in theory, be lifted out of poverty. It is indeed possible to guarantee every person in the EU a decent standard of living. How? Alongside other measures, by ensuring each country has an adequate minimum income scheme as the foundation of a well-functioning, comprehensive and universal social protection system. An EU Framework Directive on Adequate Minimum Income is an essential step towards guaranteeing a decent life for all.

There is increasing awareness that economic growth does not benefit everyone in society equally. Furthermore, understanding the need to make the economy work for people instead of the other way around is growing.

1. Eurostat, Living conditions in Europe – poverty and social exclusion.
2. Ibid.
3. European Commission, Joint Employment Report 2020.

In addition, the EU is facing an unprecedented challenge with the recent COVID-19 outbreak, declared a pandemic by the World Health Organisation in March 2020. This crisis is already having a significant socio-economic impact on people, and as with every crisis, those in vulnerable situations are hit the hardest. EU action is therefore more crucial than ever to guarantee a decent life for all and to mitigate the immediate and long-term socio-economic impact resulting from the COVID-19 outbreak.

New impetus was given to the EU's social agenda in November 2017 when the Council of the EU, the European Parliament and the European Commission jointly proclaimed the European Pillar of Social Rights (Social Pillar), which establishes 20 principles and rights as a compass for a more social Europe. Principle 14 lays the foundation for the right to an adequate minimum income. It is now time to translate this right into a legally binding commitment for all EU Member States.

Why we need minimum income schemes

Minimum income plays a key role in preventing and reducing poverty. It forms the basis on which high-quality social protection systems should be built and is key to enabling people to participate fully in society. For individuals with insufficient means of financial support, minimum income is a last-resort safety net aimed at guaranteeing them a minimum standard of living. It is targeted in particular towards people who are unable to work or access a decent job and are excluded from other types of social benefits or where these benefits have expired (such as time-limited unemployment benefits).

In the past 30 years, the EU institutions have built a policy framework for tackling poverty and social exclusion and emphasised the importance of adequate minimum income support. Key milestones include the 1992 Council Recommendation on Common Criteria Concerning Sufficient Resources and Social Assistance in Social Protection Systems and the 2008 Commission Recommendation on Active Inclusion. The Social Pillar builds on these commitments, establishing the right to adequate minimum income at all stages of life and proper access to enabling goods and services.

The close involvement of organised civil society organisations is crucial in this process as it allows for a better understanding of people's real needs.

While all EU Member States provide for some form of minimum income scheme, the support provided varies considerably. Only in Ireland and the Netherlands are the levels enough to lift people out of poverty. In most countries the situation is different, for example in Bulgaria and Romania where the level of minimum income is below 20 per cent of the national poverty threshold.⁴ The European Minimum Income Network (EMIN), of which Social Platform is a partner and which is led by a Social Platform member, highlighted the fact that minimum income schemes represent a very small percentage of social spending while having a high return on investment. They act as cost-effective economic stimulus packages as the benefits are generally spent locally on goods and services. They also

4. European Commission, Joint Employment Report 2020.

act as automatic stabilisers, enabling countries to better resist the negative impacts of economic crises and thereby reduce deleterious effects that undermine social cohesion.⁵

Adequate, accessible and enabling minimum income

EMIN established three essential criteria for a decent minimum income: it must be adequate, accessible and enabling. Only then does it provide the individuals concerned with the security they need to feel empowered and to engage in pathways to employment, while at the same time ensuring the inclusion and participation of those for whom employment is not an option.

At EU level, the notion of adequacy is understood as the right to the resources and social assistance needed to lead a life that is compatible with human dignity. This somewhat vague definition leads to a fragmented approach at national level. The European Commission uses the national at-risk-of-poverty threshold (AROPE), according to which people falling below 60 per cent of the national median income are considered to be at risk of poverty, as a benchmark for adequacy. To avoid trapping people in poverty, only a minimum income that is at least at the level of the national poverty threshold can therefore be deemed adequate. However, this relative benchmark needs to be linked to the actual costs of a basket of goods and services in each country. A common EU-wide framework and methodology for reference budgets would place the AROPE threshold within the reality of poverty in each country.⁶

For minimum income to be accessible, it must be available to anyone in need for as long as it is needed. While most minimum income schemes are designed universally, they do in practice exclude certain groups of people and/or restrict duration. Those often affected are asylum seekers and undocumented migrants due to resident requirements, homeless people for failing to provide a registered address and young people due to age requirements. In 2019, the European Annual Meeting of People Experiencing Poverty recognised accessibility as a key issue and called on Member States and EU institutions to take action.⁷ Moreover, it is reported that an average of 40 per cent of people entitled to social benefits do not claim them.⁸ This is due to various reasons, including the lack of awareness of the types of entitlements, restrictive and complex administrative procedures and the perceived stigmatisation attached to needing social assistance. The high level of non-take-up means that social benefits often fail to reach those most in need, generating increased societal costs as people fall further into hardship and deprivation.

For minimum income to be enabling, it must have people's empowerment, participation and well-being at its core and facilitate access to quality services and inclusive labour markets. Above all, it is crucial to ensure that the voices of people experiencing poverty and social exclusion are heard and taken into account as part of a regular dialogue with service providers and the state. Additionally, the increasing trend in all Member States to make the receipt of minimum income conditional on obligatory participation in activation programmes (such as imposing community work, enforced volunteering, or accepting

5. EMIN, Guaranteed Minimum Income – Nobody deserves less, everybody benefits.

6. EMIN, Report and Recommendation from the Peer Review on use of Reference Budgets for policy purposes.

7. EAPN, Voices of Poverty.

8. Dubois H. and Ludwinek A. (2015). Access to benefits, reducing non-take-up, Eurofound.

any kind of job or training offer – even if of poor quality) in order to avoid cuts to benefits needs to be mitigated. Taking such a punitive stance undermines a rights-based approach, leading to extreme deprivation, further isolation and exclusion among individuals who already find themselves in particularly vulnerable situations.

An EU Framework Directive on Adequate Minimum Income is therefore a much-needed, legally binding tool for establishing common definitions, principles and methods to improve existing fragmented national minimum income schemes, which all too often leave the individuals concerned with means below the national poverty threshold, and provide a level playing field supporting upward convergence to help mitigate social dumping. In addition to the need for minimum income to be adequate, accessible and enabling, a positive hierarchy with minimum wages must be ensured to stimulate active inclusion in the labour market and reverse the destructive trend of rising in-work-poverty.

Conclusion

It is no longer viable to develop national social policy without taking on board the European perspective. Common challenges require common solutions; a realisation that is especially gaining traction in times of crisis, such as the current COVID-19 outbreak. With the Social Pillar, the EU has the necessary tools at its disposal for making the European Union more social for its people and to substantially improve their living and working conditions. Now the political will for its comprehensive and ambitious implementation is required. At the beginning of 2021, the European Commission will present its Action Plan on the Implementation of the European Pillar of Social Rights and most of 2020 will be used to consult all relevant stakeholders. The close involvement of

organised civil society organisations is crucial in this process as it allows for a better understanding of people's real needs. As the voice of civil society organisations working in the social sector, Social Platform stands ready to contribute to this work to ensure that the upcoming reforms and initiatives reflect the realities, lived experiences and needs of people and contribute towards building a more social Europe that leaves no one behind.

As a foundation for high-quality social protection systems, an adequate minimum income is indispensable. The current levels of minimum income schemes across the EU do not match actual needs and leave the individuals concerned stigmatised, isolated and trapped in a cycle of poverty. Soft law on its own is not enough to enforce people's right to a minimum income. By adopting an ambitious EU Framework Directive on Adequate Minimum Income, European leaders have the chance to establish minimum standards for well-functioning and comprehensive national social protection systems and allow everyone in the EU to thrive and not just survive.

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ADDITIONAL INFO ON SOCIAL PLATFORM

Social Platform unites networks of civil society organisations advocating for social justice and participatory democracy in Europe. Driven by a membership of 47 pan-European networks, Social Platform campaigns to ensure that EU policies are developed in partnership with the people they affect, respecting fundamental rights, promoting solidarity and improving lives.

www.socialplatform.org

Perspectives

The European Minimum Income Network: Promising Examples of Minimum Income Protection

TEXT: EUROPEAN ANTI POVERTY NETWORK (EAPN)¹

The European Minimum Income Network (EMIN), coordinated by the European Anti-Poverty Network (EAPN), is committed to achieving the progressive practical enactment of the right to minimum income schemes (MIS) which are adequate, accessible and enabling. EAPN monitors progress on MIS through its Poverty Watch² reports and the European Semester. We highlight six promising practices – although only the Netherlands and Ireland have MIS which exceed the national income poverty threshold.³

→ **Netherlands:** The Netherlands devolved social policy to local authorities with some pioneering experiments in positive activation including lowering the conditions attached to receiving benefits. The active inclusion approach in Zwolle offers integrated support to entering

employment as well as tackling issues like childcare, disabilities and debt.⁴ As minimum income is pegged to minimum wage rates, pay rises have reacted positively to adequate levels of minimum income (MI). This was increased in July 2019 to €1,030 p.m. for a single person and €1,472 p.m. for a family (with or without children). For a lone parent it is set at €1,284 p.m. The level is above the at-risk-of-poverty (AROP) threshold.⁵

→ **Estonia:** In 2017, Estonia introduced a significant increase in basic minimum income benefits and in equivalence scales for dependent family members, substantially boosting the income of large families. Minimum income levels are now above absolute poverty but still far below AROP.⁶

1. This is a contribution by EAPN, written by Sian Jones, EAPN Policy Coordinator.
 2. EAPN (2019) National Poverty Reports 2018 – EU synthesis report.
 3. 60% median equivalised disposable household income.
 4. EMIN (2018) Report and Recommendations from the Peer Review on Active Inclusion, Frazer Hugh.
 5. EAPN Netherlands (2019) Poverty Watch.
 6. EMIN2 (2018) Final Report.

→ **Finland:** In 2017, basic social assistance was transferred from local councils to Kela (Social Security Agency) to harmonize delivery, leading to a decrease in non-take-up. However, the new system has proven difficult for people with poor digital skills, such as elderly people and mental health patients in rehabilitation, to navigate. The level of basic social security has fallen as a result of index changes.⁷ The new government has undertaken measures to raise benefit levels and discard the unemployment activation model.

→ **Portugal:** In 2015, the government increased social insertion income (SII) reference values, restoring the 25 per cent cut of 2012 and increasing the percentage paid to extra adults in the household from 50 per cent to 70 per cent and to children from 30 per cent to 50 per cent. Despite increases in 2016 and 2017, the value of SII (€189.66 for an adult) remains well below the risk of poverty threshold.⁸

→ **Croatia:** In Croatia, time limits to the MIS were eliminated and benefits could be combined with paid work. However, the benefit does not cover the cost of a healthy diet and reaches just 38% of the poverty threshold.⁹

→ **Spain:** Due to a fragmented model of minimum income with regional inequalities, Spain is examining the possibility of introducing more cohesion and greater coordination between social and employment services. The Ingreso Mínimo Vital (minimum or subsistence income) was put forward in 2019 by the ruling Socialist Party to replace a variety of regional schemes. It would be a new, non-contributory benefit aimed at

households with no earned income and in need for whatever reason (not only unemployment), and combined with unemployment protection to maintain coverage.¹⁰

Despite these promising practises, most minimum income schemes in Europe remain inadequate. A binding European framework would help all countries implement Principle 14 (adequate minimum income) of the Pillar of Social Rights.

7. EAPN Finland (2019) Poverty Watch.

8. EAPN Portugal (2019) Poverty Watch.

9. EMIN2 Final Report Ibid.

10. EAPN Spain.

Perspectives

The Introduction of a Universal Social Safety Net in Greece

TEXT: GEORGE PLANITEROS, MINISTRY OF LABOR AND SOCIAL AFFAIRS, GREECE

Greece recently implemented a nationwide minimum income scheme called Social Solidarity Income (SSI). The programme consists of three pillars: income support, promotion of social inclusion and labour activation measures. While evaluations have confirmed the proper targeting and efficiency of the programme, measures regarding labour market activation still need to be fully implemented.

Notwithstanding the fact that political debate on the need to implement a guaranteed minimum income scheme (GMI) that began in 2000, it was only with the onset of the economic crisis that such a programme was introduced into Greek legislation. In the context of the 2nd Memorandum of Understanding that was signed (March 2012) between the Greek authorities and the “Troika” – the European Commission, the European Central Bank, and the International Monetary Fund – the Greek government went ahead with a means-tested income support programme for the first time¹.

The adoption of the GMI was dictated by a twofold rationale. First, the programme would serve as a typical social safety net, aiming at direct help for households falling below a specified extreme poverty threshold due to the negative consequences of the fiscal adjustment and consequent austerity measures. Second, a nationwide universal programme would act as a vehicle towards the rationalization of existing social welfare programmes that had long been criticized as fragmented, poorly targeted and ineffective in terms of poverty alleviation and inequality reduction.

Implementation

The first GMI scheme was piloted in November 2014 for a period of six months in 13 selected local authorities across the country. After an impact assessment of the pilot, which revealed significant shortcomings, the programme’s parameters and operational procedures were revised and adjusted.

1. See Matsaganis 2018, for a discussion on the political background of the GMI introduction in Greece

In July 2016 the first phase of the GMI, renamed Social Solidarity Income (SSI), launched in 30 local authorities across the country while national implementation began in February 2017. SSI is based on an innovative IT system, which constitutes the very backbone of the programme and cross-links electronically, in real time, information from several government databases. This results in a substantial reduction in the administrative burden for applicants and speeds up decision-taking on eligibility².

Following the basic principles of typical GMI schemes, the programme aims at combining income support (first pillar) with fostering social inclusion (second pillar) and labour activation measures (third pillar). As regards the second pillar, a bouquet of complementary social services and goods is gradually offered to SSI beneficiaries. Implemented both at national and municipal level, the second pillar includes material assistance provided by the Fund for European Aid to the Most Deprived (FEAD), socially adjusted tariffs in electricity and water, discounts or exemption from municipal taxes, access to counselling, referrals to support structures such as social groceries and pharmacies, free access to museums, etc.

As far as third-pillar implementation is concerned, since August 2018 all unemployed benefit recipients capable of working must register with the national employment organization (resulting in a 15 per cent increase in registered recipients). Moreover, a pilot project for the interconnection of SSI recipients with the social support and labor market activation pillars took place during 2019. SSI recipients were linked to OAED's (Employment Agency) new profiling methodology, aimed at producing an individualised action plan and participating in active labour market policies.

Regarding basic figures on the scale of the programme, according to the latest monitoring report (Ministry of Labour and Social Affairs 2019), 245,737 households, or a total of 464,620 individuals, approximately 4.3 per cent of the Greek population, receive the benefit. Of the accepted applications, 53.5 per cent come from single-member households and 8.6 per cent from single-parent families. About 45 per cent are registered as unemployed, constituting the pool of beneficiaries for third pillar activation measures. The overall annual budget amounts to €850 million.

Evaluation

Throughout the period of implementing the programme and until mid-2019, technical assistance was provided by the World Bank. In this setting, the impact of the programme has been evaluated after one-and-a-half years of nationwide implementation. The impact assessment, delivered to the Greek authorities in January 2019, highlights strengths and innovative qualities and identifies specific weaknesses of the Greek programme (The World Bank, 2019).

In particular, distributional analysis shows that almost 60 per cent of SSI recipients belong to the lowest decile³ while 80 per cent of them are classified as poor when Eurostat's extreme poverty definition⁴ is adopted. What is more, the programme's budget is allocated effectively, as almost 85 per cent of funding resources reach poor households. As far as adequacy is concerned, the level of benefit significantly contributes to household budgets, given that 70 per cent of these assessed its importance as "very significant". Not surprisingly, the SSI does not have much of an impact on poverty incidence and inequality, but it does reduce quite significantly the severity of poverty.

2. The applicants are notified upon submission whether they are eligible or not.

3. The bottom 10 per cent of households income distribution.

4. Threshold of 40 per cent of the median equivalised household income.

On the other hand, even though the eligibility threshold almost coincides with that of the poorest decile, less than 40 per cent of the households within the decile receive the benefit. Another alarming issue is the proportion of single-member households in comparison with the general population. This highlights the difficulty in identifying the real household composition to be eligible for the programme. Finally, the limited implementation of the third pillar was pinpointed as key to the programme's overall impact.

It is among the Greek authorities' main priorities to rapidly and comprehensively implement projects that will boost beneficiaries' employability.

Future challenges

Effective activation and consequent return to the labour market – the objective of the third pillar – provides recipients with a ticket to independence from social assistance and is therefore a key indicator for SSI success.

At the same time, the implementation of the third pillar also constitutes the ultimate challenge for the programme. It is among the Greek authorities' main priorities to rapidly and comprehensively implement

projects that will boost beneficiaries' employability and bring together all implementing authorities: local OAED offices, community centres and local authority social services. When fully developed, recipients will be able to engage in job search programmes, skills training and other support activities.

Furthermore, noting that the level of benefit has remained stable since the start of the programme, it is important for the scheme to be continuously adapted to households' needs and a benefit rate adjustment mechanism is required. Such a mechanism could be activated every two years, enriching the dynamic features of the programme, and could be anchored either to the poverty threshold as defined by the Hellenic Statistical Authority or the minimum wage.

Last but not least, an improvement in benefit tapering (currently, the only analogous provision disregards 20 per cent of earned income from income used to calculate eligibility) would further reduce work disincentives. The ongoing debate and rich experience of many European countries can serve to highlight sound practices in this regard (see for example European Commission 2019).

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Perspectives

The Importance and Trajectory of the Minimum Wage in Portugal

TEXT: REINHARD NAUMANN, MARIA DA PAZ CAMPOS LIMA

The minimum wage is a success story in Portugal and has proven to be a central element in wage-setting and in combatting in-work poverty. On the other hand, collective bargaining is in deep crisis and must be re-stored as a relevant factor for the redistribution of wealth. It is essential to re-establish collective bargaining as a key factor of wage regulation.

The minimum wage in Portugal is an achievement of the 1974 Carnation Revolution that put an end to the dictatorship of the so-called Estado Novo. As the first of a set of obligations on the state in relation to labour relations, the revolutionary Constitution of the Portuguese Republic (April 1976) stipulated the 'establishment and actualization of a national minimum wage'. This constitutional precept has remained unaltered until today, and there is a broad consensus in Portuguese society that the national minimum wage is a central element of socio-economic governance.

Convergence towards one general minimum wage for all

At the time of its creation, the national minimum wage (SMN) covered almost all workers, with some important exceptions (Decree-Law 217/74). In 1977–78, the government created lower minimum wages that applied to workers in agriculture and domestic service, who were initially excluded from the SMN. In the years thereafter, their minimum wages gradually converged with the general SMN,

reaching its level in 1991 for rural workers and in 2004 for domestic workers (Naumann 2019). The universal minimum wage is now called “Guaranteed Monthly Minimum Wage” (Retribuição Mínima Mensal Garantida – RMMG).

Decline and recovery in purchasing power

From the 1980s, governments kept SMN increases at a low level and the minimum wage lost purchasing power (GEP-MTSSS 2019). This trend was reversed in 2006, after all social partner organisations represented on the Standing Committee for Social Concertation (CPCS) signed a tripartite agreement to increase the RMMG from €385.90 (2006) to €500 by 2011 (CES-CPCS 2006). The recovery in the RMMG’s purchasing power was interrupted by the economic crisis and the intervention of the Troika (European Commission, European Central Bank and International Monetary Fund). The Memorandum of Understanding (European Commission 2011) forced the Portuguese government to freeze the RMMG until the end of the adjustment programme in summer 2014. In line with two tripartite agreements regarding the years 2016 and 2017, the RMMG rose again at an annual rate of five per cent, thus increasing its purchasing power (Naumann 2019).

The minimum wage today

Since 1 January, the RMMG is €635 per month. Taking into account that the Portuguese Labour Code stipulates that 14 monthly wages must be paid each year, the RMMG corresponds to an average of €740 per month. According to the OECD, the RMMG represented 43.9 per cent of the average wage and 61.4 per cent of the median wage in 2018, and a report by the Portuguese Ministry of Labour showed that the RMMG covers approximately 24 per cent of private sector employees (Schulten and Lübker 2020, GEP-MTSSS 2019).

The role of tripartite negotiations

The 2006 tripartite agreement was the decisive step in starting the process of the RMMG’s recovery, namely by allowing the de-indexation of the RMMG in relation to the evolution of other welfare benefits. This averted any automatic increases in public social expenditures resulting from the evolution of the RMMG. The tripartite agreements of 2014, 2016 and 2017 linked RMMG increases to allowances for employers, thus transforming the RMMG into a kind of bargaining chip in tripartite negotiations. This kind of trade-off generated some controversy and the increases for 2019 and 2020 were set by the government after consultations with the social partners but without being subject to a tripartite agreement (Naumann 2019).

The national minimum wage has proven to be a central element in wage-setting, namely in combatting in-work poverty.

Minimum wage and the crisis in the wage-setting system

The extensive coverage of the RMMG (24 per cent of all employees in the private sector) underlines the persistent crisis in collective bargaining that began about two decades ago and reached dramatic proportions during the years of the financial crisis and Troika intervention (2011–2014). Many collective agreements no longer effectively govern wages, and collective bargaining is now hardly capable of playing any role as a relevant redistributive mechanism.

The national minimum wage has proven to be a central element in wage-setting, namely in combatting in-work poverty. This is an important function

that is recognized by all social partners, and the RMMG has strong backing from Portuguese society as a whole. Furthermore, there are signs that the minimum wage's upward movement stimulates wage bargaining in areas with a large proportion of employees earning the minimum wage, thus boosting the average increase in nominal wages in those sectors. The reason for this is that in many collective agreements, the positions at the bottom of the pay tables have been surpassed by the fast-growing RMMG. This raised the pressure on employers to accept trade union demands for increases in collectively agreed wages.

Nevertheless, the crisis in collective bargaining persists and it is imperative to restore it as a major factor in wage-setting, thus re-establishing the balance between mandatory and voluntary parts of the regulatory framework: between the statutory minimum wage and collectively agreed wages.

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Perspectives

How Are Wage Floors Set in Swedish Collective Agreements?

TEXT: MINISTRY OF EMPLOYMENT, GOVERNMENT OFFICES OF SWEDEN¹

In practice, minimum wages set by collective agreements appear to affect the lowest wage levels of all employees, including those whose employers are not bound by collective agreements. In areas where minimum wages have not been set by collective agreements, there are very few employees with low wages.

Collective agreements regulate terms and conditions for around 90 per cent of employees in the Swedish labour market. These agreements also regulate lowest wage levels, primarily for blue-collar workers. However, most collective agreements do not specify a set wage for prospective employees. Unlike many other countries with statutory minimum wages, pay in Sweden is generally negotiated individually upon recruitment – at times based on the lowest wage levels specified in an agreement.

Of the approximately 680 collective agreements on wages in Sweden, fewer than 250 have specified levels for the lowest wages. Minimum wages or tariff wages are primarily specified in agreements concluded by the member organisations of the Swedish Trade Union Confederation (LO), which organise blue-collar workers within both the private and the public sectors, and some of the unions belonging to the white-collar Swedish Confederation of Professional Employees (TCO), such as Unionen, the largest private sector white-collar trade union. Minimum wages exist in those areas deemed necessary by the trade union organisations. See [Figure 1](#), which shows a sample of minimum wages per wage level.

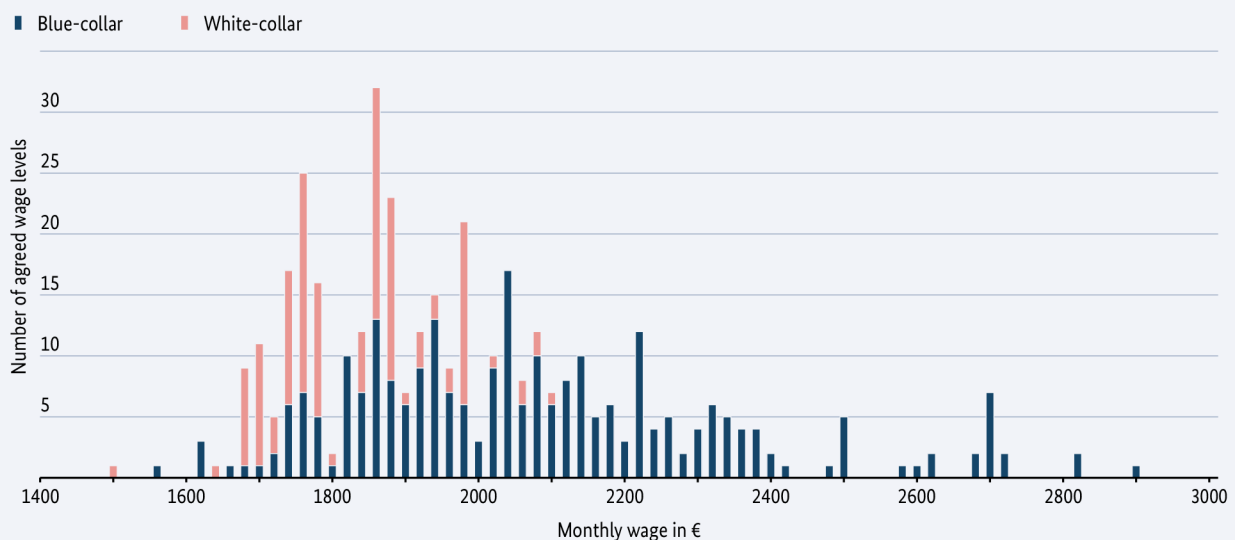
The agreements of the Swedish Confederation of Professional Associations (Saco), which organises white collar graduate workers in the private and public sector, in general specify no minimum wages. This also applies to some TCO-affiliated unions in

1. This text by the Ministry of Employment is based on a report from the National Mediation Office – a Swedish government agency responsible for mediating in labour disputes, overseeing the provision of official wage statistics and promoting an efficient wage formation process. The authors of the report are statistician Petter Hällberg and economist Christian Kjellström. The social partners in Sweden have been consulted in the preparation of this text.

Figure 1

Sample of negotiated minimum wages per wage level

Full-time equivalent monthly wage, rounded off to the nearest EUR 10



Note: Refers to 396 minimum wages from 168 agreements concluded between 17 trade unions and 46 employer organisations.
Source: Swedish National Mediation Office.

the public sector. Instead, these trade unions may unilaterally provide their members with recommended starting wages. Accordingly, there is no minimum wage that employers must take account of when it comes to employees at workplaces where there is no collective agreement or where the collective agreement does not specify a set minimum wage.

What determines the level of minimum wages in agreements?

Minimum wages in agreements are the lowest possible levels an employer bound by a collective agreement can pay employees in the labour market. As employees grow older and gain more experience and/or expertise, their pay rises even if they initially started their job on a minimum wage. There is no uniform pattern as to how the

social partners choose to design the minimum wage system in the various agreements. One trade union can conclude agreements with two different employer organisations where the minimum wage is significantly higher in one of these.

Pay can be lower than the negotiated minimum wage

In some cases, the social partners have concluded agreements on types of employment with training components that allow pay lower than the collective minimum wage for a short period – usually less than one year. These cases primarily deal with agreements on labour market policy measures for people with a lower attachment to the labour market and younger people who lack relevant vocational experience or knowledge. It is usually a matter of fixed-term employment at a wage that

may not fall below 75 per cent of the collectively agreed minimum wage. Some collective agreements also include minimum wages for very young people (16–17 years old) that are often very low, but these cases primarily concern part-time or holiday work.

Increase in minimum wages

How the minimum wage alters over time is determined in wage agreements. There is no direct link between the benchmark (i. e., the normative level for the agreements' increase in costs) and increases in minimum wages. Instead, it is up to the social partners to decide how these should be changed within the framework of the agreement's total labour cost increase. Almost without exception, there is an annual minimum wage increase in any collective agreement that includes minimum wages.²

Wages below 60 per cent of the national median wage are unusual

From an international perspective, Sweden has a low wage dispersion. Despite the absence of a statutory minimum wage, the country has a rather small low-wage sector. A common threshold for a low wage in international contexts is 60 per cent of the median wage. For Sweden, with a median wage of SEK 29,500 per month for a full-time equivalent basic wage in 2018, this would give a low wage of SEK 17,700. Such a low wage is uncommon in Sweden. Only 0.9 per cent of employees earned a wage lower than 60 per cent of the median wage in 2018. Wage levels below 50 per cent of the median wage (SEK 14,750 for a full-time equivalent

basic pay in 2018) are extremely rare. According to official statistics, just under 0.1 per cent of employees were on such a low wage.³

Almost without exception, there is an annual minimum wage increase in any collective agreement that includes minimum wages.

Majority of low-wage workers are young or work few hours

Among the 0.9 per cent of those in the labour market who earn less than SEK 17,700, 0.6 per cent were either under the age of 20, worked less than 40 per cent of full time or received additional variable pay that meant that their total wage exceeded 60 per cent of the median wage. Three occupational groups can be identified where employees with wages under 60 per cent of the national median wage were over-represented – restaurant staff, cleaners and customer service staff. For 0.3 per cent of employees in Sweden, none of the above-mentioned criteria were met. Accordingly, this 0.3 per cent of employees had a low wage level although not under the age of 20, not on limited working hours, nor on significant supplements from variable pay.

2. The National Mediation Office's annual report, appendix 2.

3. The figures are based on the official wage statistics. The wage structure statistics are an annual survey where most of the material is collected by the employers' organizations. Complementary selection is made for statistics that are not covered by statistics for employers' organizations. The survey is a comprehensive survey for the public sector. For the private sector, wage structure statistics are a sample survey that covers approximately 50 per cent of the total number of employees in the private sector.

The lowest wages in line with negotiated minimum wages

To assess the impact of minimum wages in collective agreements, they were compared to a breakdown of actual wages in occupational groups covered by the collective agreement.⁴ As expected, agreed minimum wages have a greater impact in areas characterised by high staff turnover and with many young employees, and/or in occupations that do not require lengthy formal education. This applies to occupations in areas such as the retail sector, restaurants, customer service and cleaners in the private sector. There, distinct clusters of employees with basic wages close to or just above the negotiated minimum wage applying to the occupations concerned can be observed.

Some incidences of employees whose pay falls below minimum wages can be seen. This may be because there are individuals who in reality come under a different collective agreement than the one the analysis is based on because employees have been classified in the wrong occupation or the collective agreement has not been applied. In general, however, there are few individuals with wages below the agreed minimum in the various occupational segments.



*In Sweden, only very few employees earn less than 60 per cent of the median wage.
Photo: luckyraccoon/
Shutterstock.com*

4. The official wage statistics are not designed to compare actual wages with agreed wage levels since the statistics are based on grouping by occupation, not agreement. For an individual occupational group and an individual collective agreement, the methods applied entail some degree of uncertainty.

Opinion and Comment

Two Realistic Proposals for a Social Internal Market

TEXT: MIRIAM HARTLAPP

Against the backdrop of the current institutional and political dynamics within regulatory social policy, this article presents two feasible problem-solving proposals for building a fair and social internal market: administrative cooperation in providing social protection for freedom of movement and a new instrument for a social minimum income scheme are promising.

European social policy differs in form and content from national social policy. Transfer payments for social issues play a minor role in the EU's already limited budget and a "soft" coordination approach prevails at European level when it comes to core areas of national social policy such as pensions and employment. Therefore, the nature of EU social policy has initially been described as "regulatory". [Figure 1](#)

Two areas of regulatory EU social policy with different dynamics and thematic focus can be identified here: regulations that support the free movement of persons within the single market for the most part and gradually grow in number, and directives that aim to establish minimum standards that correct market outcomes. Their growth starts later and is more volatile – with peaks in the Delors era (1985–1995) and the

early 2000s – and seems to be more marked by conflicts of interest and dependent on political majorities (cf. Hartlapp 2019).

Social Union: limits and potential scope for development

The dynamics of these two forms of regulation provide twin insights into the limits to and potential scope for developing a Social Union. First, the development of a common social policy is limited by the treaties. For this reason, more social policy directives were adopted only after the transfer of competences and following the introduction of qualified majority voting through the Maastricht treaties (1993). To this day, however, core areas of national social policy are not covered by the treaties. One example is the explicit prohibition of a minimum degree of harmonisation with regard to pay or the right to strike (Article 153.5 TFEU). When the legal basis for common standards is not in place or unanimous support is required, policy-making in this field can at best be delivered via soft coordination measures. Second, the development of social policy in Brussels is characterised by a complex decision-making process with divergent interests that receives increasing public attention. The heterogeneity of

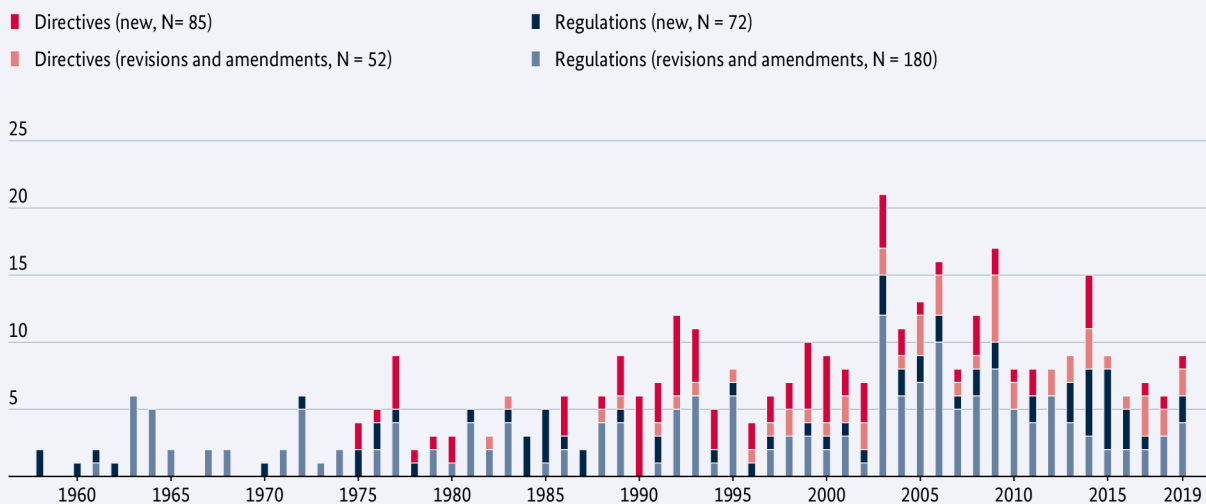
the Member States' interests has increased, particularly with the most recent EU enlargements (2004–13). While countries in Western Europe are worried that minimum harmonisation could erode national standards, Eastern Europe sees high standards as an unfair limitation of a core competitive advantage in the single market. In particular, these structural conflicts of interest make it difficult to formulate minimum social policy standards. This is reflected in a drop in the number of new directives since 2004. By contrast, regulations that aim to support free movement of persons are dynamically growing even in a more heterogeneous EU.

Overall, the development of regulatory social policy suggests that promising new initiatives for a Social Union are those that are geared towards the fundamental concept of the single market and ensure an internal market that is fairer and more social.¹ Freedom of movement is one of the EU's central achievements but it also presents social policy challenges for countries, businesses and citizens. In the next section, I will describe two of these challenges in further detail and outline how a Social Union could reduce the number of those who see European integration as the reason for growing inequality, income disparities and social injustice.

Figure 1

Social policy legislation

Number of legislative acts from 1958 to 2019



Note: Legislation that extends the geographical reach of application of existing legislation or is based on the EURATOM treaties not included.
Source: Own figure based on EurLex.

1. This applies as long as scope for national labour and social policy-making is maintained and is not limited by economic integration objectives as was the case in the judgements of the European Court of Justice Viking (C-438/05), Laval (C-341/05) and Ruffert (C346/06), for example.

Proposal 1: Administrative cooperation for the social dimension of freedom of movement

Free movement of persons and services primarily offers advantages for workers and employers and helps reduce shortages of (skilled) labour. Overall, roughly 20 million EU citizens live or work in another Member State, with 1.4 million cross-border workers and 2.8 million posted workers per year – all groups showing an upward trend (European Commission 2019). In some cases, mobile workers such as posted workers or self-employed persons switch regularly between the social and labour legal systems of different Member States. They face challenges in claiming pension and unemployment insurance entitlements. Businesses, on the other hand, can easily take advantage of loopholes, as can be seen in the transport industry or construction sector.

National authorities such as customs, labour inspectorates and audit services within social insurance administrations can address this problem with an active policy of enforcement, such as in the form of documentation requirements and checks. However, the competent authorities, with their structures and powers, are solely empowered to enforce national standards on national territory. With the increasing mobility of workers, they are facing new challenges such as the imposition of cross-border sanctions and penalties or the portability of occupational pension entitlements. Ultimately, the abolition of borders in the common market has increased the interdependence of administrations. Inefficiencies within an administration² can facilitate social dumping, which in turn influences other Member States as they compete to remain an attractive business location.

Implementation: few prerequisites but room for improvement

A Community initiative for the social protection of free movement via administrative cooperation could address this issue. It presents few preconditions in terms of institutions and policy. It is about cooperation that preserves national autonomy of action. And as it relies on effective enforcement of existing *acquis communautaire* as regards coordination of social security systems and posting of workers, lengthy policy-making processes or new majorities are not required. Furthermore, the EU already has a competent institution in the form of the new European Labour Authority, which began operation in Bratislava in 2019. Its role is to consolidate information on cross-border mobility for employers and workers, improve coordination among national authorities, particularly with regard to fighting abuse, organising joint inspections and mediating in cases of cross-border conflict over enforcement. Given growing levels of mobility, it would make sense in the short term to increase the Labour Authority's funding above the envisaged annual budget of €50 million and strengthen its competences and scope for intervention to enforce existing European law, particularly the new Posted Workers Directive, but also rules on service provision and foreign establishments. In the longer term, linking the Authority with a digitalisation agenda for better dovetailing databases, procedural standards and mutual assistance measures, for example, should prove equally attractive as greater cooperation in placing people in employment and basic/further training. While administrative cooperation at EU-level might not on the whole sound very exciting, it does have direct and indirect distributional implications when it comes to free movement of persons and services. Fostering it is therefore a political task for a Social Union.

2. For example, the ratio of labour inspectors per 100,000 workers ranges between six and 21 among the EU-15 Member States. The ILO is concerned if the ratio is less than 10 (https://www.ilo.org/global/about-the-ilo/newsroom/news/WCMS_077633/lang--en/index.htm). Furthermore, very different national structures and powers also apply; e.g. in relation to the ability to impose fines and the extent of the fines.

Proposal 2: New EU instrument for a social minimum income scheme

A second challenge for a social internal market arises with regard to the interplay between large differences in prosperity and free movement of people. Prosperity is unequally distributed between and within the Member States. Extreme poverty is particularly apparent in the economically weakest countries in Southern and Eastern Europe, as the European Union's Social Scoreboard³ indicates. In these regions, an above-average proportion of the population does not have access to basic supplies in daily life (Benz 2019) and minimum income schemes fail to provide the degree of protection that prevents poverty (Höpner 2019). Therefore, it should come as no surprise if not only well-qualified workers and job-seekers take advantage of the mobility available in the single market but also that the poorest of the poor follow on their heels. Empirical studies show that the number of those claiming generous welfare benefits remains relatively small where the labour market also offers low-skilled workers sufficient employment opportunities (Martinsen and Werner 2018). Nevertheless, the relationship between the prosperity differences and free movement is a politically charged issue, as illustrated by discussions in Germany on alleged "benefit tourism" and "poverty immigration" or debates on welfare benefits (supposedly) claimed by EU nationals within the Brexit referendum. To be clear: extreme poverty primarily affects those who lack the most basic of life's requirements. When it comes to free movement, however, the lack of prospects faced by many EU citizens also becomes a common EU challenge.

A new EU instrument for a minimum income scheme could be the answer to both these issues. Such a scheme would offer protection at the bottom level of existing schemes if no income can

be earned and other welfare benefits do not apply. It therefore aims to prevent extreme poverty. There have been poverty reduction initiatives in the EU since the mid-1970s. With the Europe 2020 strategy, the Member States committed to lifting at least 20 million people out of poverty and social exclusion and the open method of coordination is used to pursue the reduction of poverty (measured on the basis of 60 per cent of the median equivalised income) as a Community objective. These efforts have by and large failed to propel progress (Copeland and Daly 2012), not least because the poorest Member States bear a disproportionate amount of the costs of adjustment. To address this problem, a new initiative for a minimum income scheme should go beyond minimum standards and include solidarity-based fiscal transfers. Concrete proposals have been put forward in this connection. For example, Martin Höpner (2019) is in favour of cross-border help in developing minimum income schemes in the poorer Member States in the form of a new structural fund or as part of the ESF+. Benjamin Benz (2019) proposes legal minimum standards that are based on international agreements and ILO conventions and could be implemented as a package with funding from the ESF.

Favourable institutional and political conditions

Admittedly, a solidarity-based instrument for a minimum income scheme would come with many more preconditions than the proposal for administrative cooperation. That said, from a governance perspective the conditions appear favourable. First, an instrument of this kind is feasible from an institutional standpoint. The actual treaty basis would depend on the exact formulation. For example, Article 175 Treaty on the Functioning of the European Union (TFEU) provides a basis for fiscal transfers, and minimum standards

3. <https://composite-indicators.jrc.ec.europa.eu/social-scoreboard/>

could be justified through the active integration of persons excluded from the labour market (Article 153.1 h TFEU, cf. Benz 2019). For short- or medium-term implementation, funding would need to be set aside within the Multiannual Financial Framework (2021–27) such as through the ESF. Second, there is political potential in accommodating different interests – despite all the difficulties involved in mobilising support for transfer instruments. For example, in the Council, some of the countries in Eastern Europe that have recently been critical of higher EU social standards might welcome a guaranteed subsistence minimum in their country. They would also indirectly benefit from the solidarity-based transfer of funds via improved automatic stabilizers and activation. An instrument for a minimum income scheme could therefore counter increasing inequality between the Member States. In the European Parliament, the current party-political make-up could deliver new and potentially fluctuating majority coalitions in which the (pro-European) Greens and Renew Europe would be key when it comes to social policy initiatives. Such majorities seem likely given

current findings of comparative opinion research. They demonstrate that a substantial proportion of the population in the Member States is strongly in favour of social policy instruments based on the principle of solidarity. This also applies to transnational solidarity and holds sway in economically strong Member States (cf. Baute in this volume).⁴

Combined, the initiative to support enforcement through administrative cooperation and a new instrument for a minimum income scheme would result in a fairer and more social EU single market. They build on the free movement of persons as a central accomplishment and offer institutionally and politically realistic answers to concrete problems. They are therefore suitable solutions to strengthening cohesion and upward convergence in Europe.

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4. These studies work with different groups of questions and survey methods: Baute in this volume, Genschel and Hemerijck (2018) or Ferrera and Pellegata (2018). While attitudes always need to be checked against the costs of the specific policy proposals, overall these analyses do demonstrate that a substantial proportion of the European population is in favour of more solidarity in the EU than current EU policy offers.

Intra-EU Mobility of Workers: Argue on Facts, not Beliefs

TEXT: HOLGER BONIN, HERBERT BRÜCKER

Intra-EU labour mobility raises output in the Common Market as a whole, yet it may not be mutually beneficial for receiving and sending countries. Better knowledge about its welfare and distributional effects is essential, given the types of migrants involved as well as structural features and institutions of the economies concerned.

These days, it appears that the achievement of free movement of workers as a core element of the Single European Market is increasingly under question. Many citizens, as well as some policy-makers and analysts now seem sceptical about the role free flows of workers can play in promoting upward economic and social convergence of the Member States. In particular, they show concerns that intra-EU labour mobility could be detrimental to growth and development and come with an unequal distribution of welfare gains and losses both within and across countries.

In Germany, decision-making concerning free mobility of workers was long governed by fears of mass immigration triggered by huge wage differentials, as well as negative self-selection by immigrants pulled by the magnet of the generous German welfare state. As a result, the country was one of the last to remove obstacles to labour market access for workers from the new Eastern and Central European Member States of the 2004 enlargement round. Since opening up its labour market in 2010, Germany has in fact experienced very substantial inflows of workers from Central and Eastern Europe. The trigger for these migrants has mostly been strong labour demand. They help overcome shortages in a heated labour market, exhibiting high employment and low welfare

dependency rates. Hence, Germans on the whole quite likely benefit from increased economic growth and higher net revenue for public coffers. Similar gains were experienced earlier on in the United Kingdom, one of the few countries that granted workers from the new Member States of 2004 immediate access to its labour market. However, concerns that incumbent workers and social cohesion suffered from the European free movement policy prevailed, becoming a key factor in Brexit.

On the whole, case studies indicate that immigrants contribute positive – if quite small – net payments to government budgets.

Impact of migration on government budgets

Meeting such concerns requires a balanced view of the costs and benefits of free labour mobility in all its facets. On the one hand, empirical studies in general suggest that labour mobility between low- and high-wage regions has contributed to higher productivity and economic output in the Common Market as a whole. Yet on the other hand, economic theory and the evidence tell us that the welfare and distributional effects of international labour flows can be very different, depending in particular on the types of migrants involved, as well as on the institutional frameworks and structural features of the economies affected. Moreover, migration across borders does not necessarily yield mutually beneficial trade-offs between sending and receiving countries. We illustrate these issues via two examples. First, consider the impact of immigration on government budgets. Quite a number of case studies exist on the subject. On the whole, they indicate that immigrants contribute positive – if quite small –

net payments to government budgets. Yet the direction and size of the estimated fiscal effects crucially hinge on qualification levels and the degree of labour market integration among incoming migrants. Budgetary gains for receiving countries also tend to be larger where demographic ageing or tax-benefit linkages within the welfare state are stronger. A serious shortcoming is that available fiscal impact studies scarcely consider the fiscal position of the sending countries. These could suffer for example from sunk public spending on the education of the emigrants but could equally benefit if temporary migrants returned with enhanced earning capability or if emigrants sent remittances. Given this gap in the literature, it is not yet possible to judge whether total fiscal gains from cross-border mobility in Europe are positive, respectively whether any fiscal gains from worker flows accruing to the receiving countries are sufficiently large to compensate for any concomitant fiscal losses in the sending countries.

Brain drain or brain gain?

With regard to the labour market, human capital and growth outcomes in sending and receiving countries, there is no guarantee at all that worker mobility fosters convergence. Take unemployment rates as the second example. If workers suffering from unemployment in particular are pushed to emigrate and prefer to move to countries with comparatively strong labour markets, cross-country differences in unemployment rates tend to decline. However, it may be the case that emigrants are positively selected such that especially well-qualified agents in employment choose to leave. These workers can then help overcome labour market shortages in receiving countries but at the same time, their loss can create bottlenecks in the country of origin.

Spillover onto demand for other types of workers can lead to larger unemployment and employment rate differentials and correspondingly, a larger disparity in economic output. This constitutes “brain drain”, a possibility much discussed in the context of emigration from developing countries but also warranting attention with regard to worker flows from Eastern and Central European to Western European Member States. In doing so, one should not over-look its potential companion: “brain gain”. In various contexts, it has been observed that the simple option to emigrate (even if never used) or transfers from emigrants to those left behind can foster human capital formation in comparatively poor countries of origin.

Well-qualified emigrants can then help overcome labour market shortages in receiving countries but at the same time, their loss can create bottlenecks in the country of origin.

This all means that one always needs to evaluate the effects of worker mobility within specific settings, at particular points in time and from the perspectives of both destination and source countries. In the European context, this is quite a daunting task. The directions and composition of worker flows across the entire EU27 are constantly changing, the maps of comparative advantage or disadvantage that prompt them are complex, and data suited to isolating migration effects at the national and even more so at pan-European level is sparse. Yet it is a necessary task. Of course, serious discourse about the future of intra-EU labour mobility ought to start from facts, not just beliefs or assumptions.

On the initiative of the German Federal Ministry of Labour, a pan-European body of migration researchers will meet to review both facts and knowledge gaps as regards the contribution of free flows of workers to upward economic and social convergence in the EU. Follow their discussion and insight here: www.bmas.de/eu2020

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Analysis

Public Support for a Social Europe: A Basis for Political Action?

TEXT: SHARON BAUTE

The question of what kind of Europe citizens want and whether they support a more active EU role in social policy is a subject of intense debate in European welfare states. An analysis of public opinion about an EU initiative on minimum income protection reveals challenges and opportunities for the development of a Social Europe. The hopes that less developed welfare states put in EU policies and societal concerns in the most developed can constitute a common basis for political action.

The multidimensional nature of Social Europe

Over recent decades, the European Union has gradually taken a more active role in social policy. As a result, social policy is no longer an exclusively national matter and European welfare states are embedded within the multi-level governance of the EU. Simultaneously, calls to establish a “Social Europe” have become more prominent in political debate. If we are to make progress here, it is crucial to know and understand citizens’ attitudes; this is the focus of this contribution. However, before drawing conclusions about public support, it is important to be aware that Social Europe is multidimensional in nature: as used in academic and political debate, the concept embraces different

policy principles and instruments. Drawing on survey data from Belgian voters, we found that Social Europe is not only a multidimensional concept at the policy level, but also in the minds of citizens (Baute, Meuleman, Abts, & Swyngedouw, 2018). In practice, different EU policy principles and available instruments, as well as new policy proposals, were translated into survey items. For instance, respondents had to indicate to what extent they agree or disagree with specific statements about the preferred decision-making level for social policy areas (EU versus national), EU social regulations in the area of health and safety at work, social rights for EU migrants, transfers between Member States, interpersonal solidarity and the establishment of a “European welfare state”.

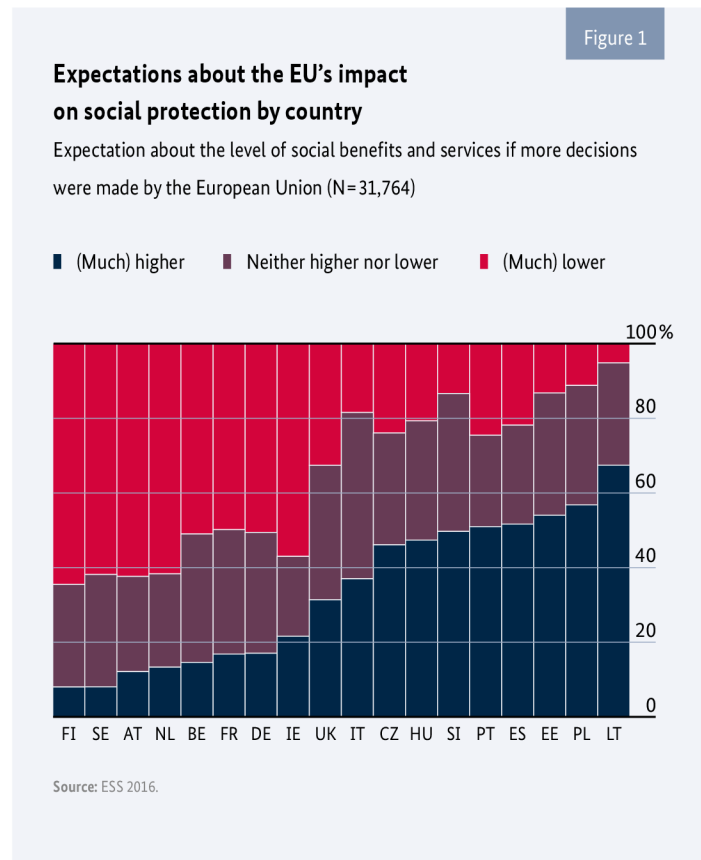
Of course it is likely that support for these different dimensions of Social Europe varies across countries. However, by analysing attitudes towards all these facets simultaneously, the study sheds light on the structure of citizens’ attitudes and reveals that public attitudes towards such different dimensions of EU-level social policy cannot be reduced to a single pro- versus anti-Social Europe attitude. Public support is likely to vary strongly depending on the specific constellation of Social Europe put forward.

Therefore, the really interesting debate is not so much about the expansion or compression of EU social policy-making, but about what kind of Social Europe is desirable in terms of policy objectives and which instruments can be used to achieve it.

Diverging expectations about the EU's role in providing welfare

One of the key question in understanding whether and why Europeans support specific interpretations of Social Europe is whether they perceive European integration as an opportunity or threat to their national welfare arrangements. According to data from the 2016 European Social Survey (ESS) collected in 18 EU Member States, strongly diverging expectations about the EU's future impact can be found among European citizens. About 30 per cent of survey respondents believe that the level of social benefits and services in their country will increase with more EU decision-making, whereas about 37 per cent expect it will decrease and about 33 per cent expect neither. This finding suggests that the EU's renewed ambition to strengthen its social dimension, as reflected in the proclamation of the European Pillar of Social Rights, triggers hope as well as concerns among Europeans.

Behind this general pattern lie large cross-national differences. **Figure 1** shows public expectations within each individual country, ranked from least to most positive. Few people in Northern and Western Europe expect more EU decision-making to increase the level of social protection in their country. In those regions, people are particularly susceptible to the idea that European integration might pose a "threat" to the national welfare state. Populist parties have seized upon this idea to appeal to voters concerned about their social protection. In contrast, people in Eastern and



Southern Europe have far more optimistic expectations about the EU's impact on the domestic level of social protection. The further development of EU social policy in these countries will be watched with hope rather than fear and seen as an opportunity to enhance social systems while catching up with the EU's more developed welfare states.

Towards a European minimum income benefit?

Whereas in 2018 more than 86 million Europeans were at risk of poverty, adequate minimum income has been set as a priority in the European Pillar of Social Rights. Principle 14 states: "Everyone lacking sufficient resources has the right to adequate minimum income benefits

ensuring a life in dignity at all stages of life, and effective access to enabling goods and services.” One possibility for giving meaning to the Pillar and improving the adequacy of minimum incomes across the EU would be to establish an EU-wide minimum income scheme. This raises the salient question of whether citizens are willing to support such an initiative.

New empirical research based on the 2016 European Social Survey sheds light on public support for a European minimum income benefit (Baute & Meuleman, 2020). Respondents in 18 countries were asked to indicate the extent to which they support an EU-wide social benefit scheme for all poor people. Hereby, it was mentioned that the

purpose is to guarantee a minimum standard of living for all poor people in the EU, the level of social benefit people receive will be adjusted to reflect the cost of living in their country, and the scheme would require richer EU countries to pay more into such a scheme than poorer countries. This proposal is notably more revolutionary than a regulatory EU framework on national minimum income schemes, since it is also redistributive across countries. The transfers are designed to compensate Member States with the least generous systems for the unequal financial efforts imposed by a binding EU framework on minimum income schemes. On average, two in three respondents expressed support for an EU-wide social benefit scheme that would guarantee a minimum standard of living for the poor. This signals that Europeans are definitely open towards more EU initiatives on minimum income protection. Yet, behind this relatively strong support in general, public opinion varies across EU member states. How can this be explained?

Country means of support for an EU-wide social benefit scheme by generosity of the national minimum income



Source: ESS 2016, CSB-MIPI.

The really interesting debate is not so much about the expansion or compression of EU social policy-making, but about what kind of Social Europe is desirable in terms of policy objectives.

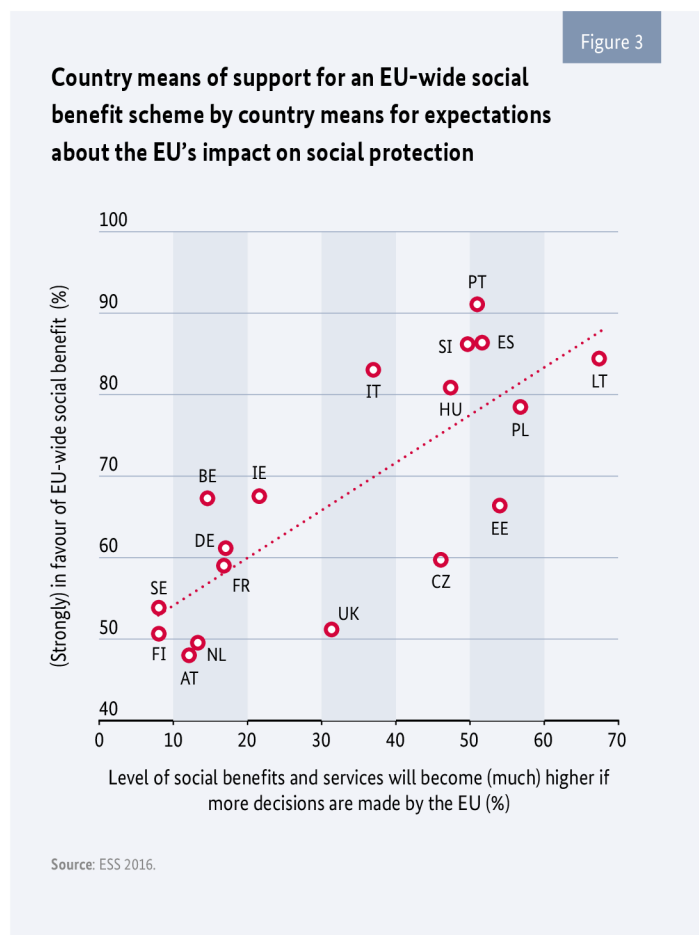
At first glance, the generosity of national welfare systems seems the crucial driver of cross-national differences in support. As Figure 2 shows, in countries where the minimum income is more generous, people are more opposed towards creating a European minimum income scheme. However, more sophisticated data analyses reveal that the generosity of national minimum income benefits

only has an indirect effect on citizens' support. The underlying mechanism behind the effect of national policy and citizens' support is precisely public expectations about the EU's domestic impact. In other words, more generous welfare systems create lower expectations about the EU's role in achieving certain social standards, which in turn decrease the level of support for an EU-wide minimum income benefit. To visualise this relationship, **Figure 3** plots the level of support in each country against average expectations, almost producing a mirror image of the generosity of minimum income benefits. These insights suggest that expectations about the EU's potential to enhance national social protection are an important driver of public support for Social Europe. They are also a key element behind the arguments over further extending EU social policy.

In interpreting these results, we should be aware that interstate transfers – which are part and parcel of the policy that was examined in this study – can as such decrease the level of support in rich Member States while raising it in less affluent member states. This hypothesis has been confirmed in the context of public support for European unemployment risk-sharing (Vandenbroucke et al., 2018). Polarization in European public opinion may thus be smaller when it comes to establishing EU minimum standards for income protection without any such transfers between the Member States.

Challenges and opportunities for Social Europe

In general, Europeans take a positive stance towards EU efforts to improve the adequacy of minimum incomes. In almost all countries in the ESS study, there is potential majority support for an EU policy proposal on minimum income protection which includes transfers between Member States.¹ Behind this overall positive viewpoint, levels of support diverge within countries as well as between countries, although the latter divergence might be less



1. Some caution is warranted when deriving majority support from survey results. The respondents considered a proposed EU policy framed in terms of guaranteeing a minimum standard of living for all poor people in the EU. The result of an "actual vote" after a (polarizing) political campaign might deviate from the survey results because of the different framing in which opinions are formed.

pronounced if the policy examined had not included interstate transfers. These observations signal an interesting basis for political action.

First, people in less developed welfare states favour a European minimum income benefit more strongly because of their high hopes for upward social convergence. In those countries, citizens expect European integration to result in social progress, while in more developed welfare states, concerns about social dumping from Southern and Eastern Europe exist. To accommodate both the social aspirations in less developed welfare states and the social concerns in the most developed ones, the EU should take further steps. EU-level initiatives on minimum income protection can go hand in hand with EU efforts to fight social dumping, for instance by developing a European framework on decent minimum wages.

Second, besides cross-national differences, support for a European minimum income benefit varies significantly within countries, depending on one's socio-economic background, ideological values and sense of European identity. Interestingly, groups with a lower socio-economic status, such as people with low educational levels and incomes, and social benefit recipients, most strongly favour a European minimum income benefit. This is an important observation, given that such vulnerable

groups have typically been found to be more Euro-sceptic. An EU initiative on minimum income protection may thus constitute an opportunity to increase the EU's social legitimacy among those groups that generally feel left behind by the European project.

Europeans take a positive stance towards EU efforts to improve the adequacy of minimum incomes.

Although the EU's role in social policy is a sensitive issue, we can conclude that public opinion points to multiple levers for constructive dialogue between and within Member States on strengthening the European social model.

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Analysis

Satisfaction with Democracy and Perceived Performance of the Welfare State in Europe

TEXT: TOMÁŠ SIROVÁTKA, MARTIN GUZI, STEVEN SAXONBERG

Aligning government policy with the expectations of citizens strengthens satisfaction with the political system. These are the results of a study examining the link between welfare state performance and satisfaction with democracy. The authors show that government intervention aimed at poverty reduction during crisis periods helps to maintain the legitimacy of democratic political systems.

Within democratic countries in the industrialized world, social policy and welfare issues have become a key issue and the source of democratic political contestation (Offe, 1987). Because satisfaction with democracy (SWD) reflects how the political system appears in the eyes of citizens (Quaranta and Martini, 2016), the welfare state can also stimulate satisfaction with the way democracy works by strengthening the sense of economic security. In this regard, contemporary European democracies are running a certain risk: the austerity policies that emerged during the economic crisis of 2008 and beyond reduce overall welfare state capacity in most countries and can thus lead to a drop in SWD (Armingeon and Guthmann, 2014).

In this context, it is worth investigating whether satisfaction with democratic institutions can be increased through improvements in welfare state performance (WSP).

How welfare state arrangements may affect satisfaction with democracy

Subjective assessment of welfare state performance is a critical factor in forming the degree of satisfaction felt among citizens with how democracy is working in their country (Offe, 1987; Rothstein, 1998). If a persistent discrepancy emerges between citizens' expectations and the actual policies implemented by the government, rising levels of distrust will likely result (Oskarsen, 2007: 127).

People with a lower social status feel less economically secure and, therefore, less satisfied with democracy than those with a higher status (Schäfer, 2013). Correspondingly, increases in social inequality lead to lower satisfaction with how democracy is working in their country (Anderson and Singer, 2008). Thus, SWD decreases when welfare states decrease their protection against economic fluctuations. In contrast, strong

WSP can reduce poverty and social inequality (Lühiste, 2014), thereby preventing disappointment with democracy.

A strong welfare state performance can prevent disappointment with democracy.

This, however, does not directly imply that more generous welfare support ensures high SWD: the welfare state also has a “formative effect” in that it influences the attitudes and expectations of citizens (Dallinger, 2010) and their political and ideological beliefs (Jaeger, 2009). Thus, liberal countries may attain relatively high levels of SWD because the welfare regime meets residents’ somewhat lower expectations of what the state can and will do. In contrast, demands for social protection in post-communist countries

may be high because people’s expectations were formed by the paternalism of the communist regime and these expectations continue to exist in the post-communist era (Dallinger, 2010; Lipsmeyer and Nordstrom, 2003).

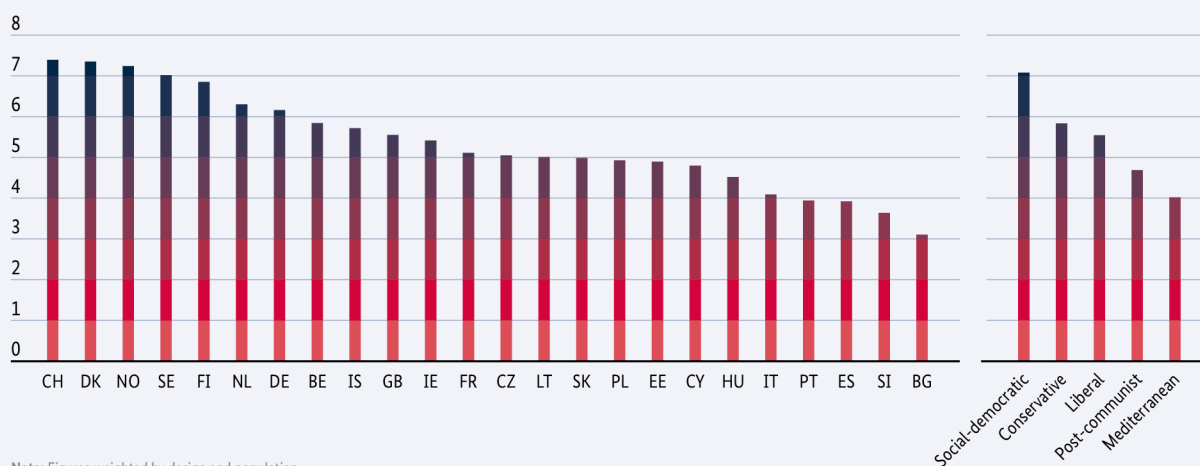
Satisfaction with democracy and experienced policy deficit vary strongly between welfare systems

Figure 1 shows average values of SWD. A clear divide emerges here between Northern and Western Europe on the one hand and Southern and Eastern Europe on the other. We observe favourable assessments of the functioning of democracy (around 7 or above 6 on a scale of 0–10) in almost all social-democratic countries. Mean values for the conservative group are around 6, except in the case of Switzerland (which scores above 7) and France (with a score close to 5). Scores are above average in the liberal group and below average in

Figure 1

Satisfaction with democracy

Country averages, 0–10 scale (10=extremely satisfied)



Note: Figures weighted by design and population.
Source: European Social Survey, 2012.

the post-communist and Mediterranean groups. Mean satisfaction in most post-communist countries is around 5 but falls below 4 in Slovenia and Bulgaria. Several countries in the Mediterranean group score around 4 except Cyprus (which comes close to 5).

METHODOLOGY

We investigated empirical data from the 2012 round of the European Social Survey, which contains a special module with questions on the performance of the welfare state and of democracy.

Our dependent variable **satisfaction with democracy** is based on the question: 'On the whole, how satisfied are you with the way democracy works in [country]?' Responses on the 11 point scale vary from extremely dissatisfied (0) to extremely satisfied (10). We proposed new indicators of welfare state performance that combine an objective measure with subjective assessments. The subjective measure is the **policy deficit**, which captures the gap between one's expectations about the actual performance of the welfare state and one's assessment of that performance. The policy deficit in reducing poverty is constructed by taking the difference between two survey questions as measured on an 11 point scale: (i) 'Thinking generally rather than about [country], how important do you think it is for democracy in general that the government protects all citizens against poverty?'; and: (ii) 'To what extent do you think the following statement applies in [country]: the government in [country] protects all citizens against poverty?' For constructing the policy deficit in reducing inequality we used the corresponding two questions.

The objective indicator, **policy efficiency**, measures the percentage of persons lifted out of poverty by social transfers (excluding pensions) and is sourced from the Eurostat database.

Figure 2 shows preferences and assessments as regards government efforts to reduce poverty (this article leaves out the results for preferences and assessments of efforts in reducing inequalities). The gap between the north-west and the south-east of Europe is again clearly visible. In Northern and Western Europe, expectations for the reduction of poverty and inequality are lower than in Southern and Eastern Europe. For reducing poverty, expectations in the north-west are 8.50 compared to 8.71 in the south-east; while for reducing inequality, expectations are 7.75 in the north-west compared to 8.50 in the south-east.

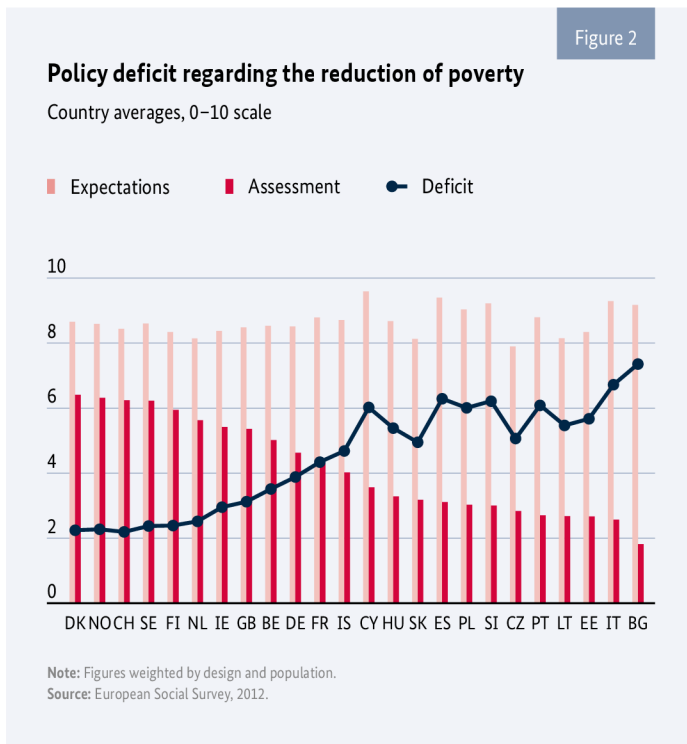
It is worth noting that country differences in expectations about poverty reduction are less pronounced than the differences in inequality reduction. We assume that the formative effect of the welfare state builds a consensus on poverty reduction even in liberal countries because such governments claim that one of the goals of liberal, means-tested policies is precisely to fight poverty by targeting the neediest.

When it comes to the assessment of social policy performance the results are very different, with the Mediterranean countries and the post-communist countries showing very low scores compared to Europe's northern and western regions. The policy deficit is thus larger in the south and east of Europe.

How can satisfaction with democracy be explained?

We investigated which individual- and country-level factors, including the WSP indications mentioned before, affect SWD.¹

1. Multilevel modelling was used for controlling reliably the effects of the individual factors.



First, at individual level, people from privileged backgrounds (those with higher levels of education and larger incomes) appear to be more satisfied with democracy than people from less-privileged backgrounds.

Second, people in richer countries express higher SWD and consistent with this finding, the economic/business cycle also matters. The fall in GDP and increase in unemployment between 2007 and 2011 influenced SWD negatively in the European countries affected.

Third, WSP matters greatly in several respects. Policy efficiency (that is, the amount of poverty removed by income redistribution) is positively correlated with SWD. Similarly, a cut in spending on social benefits² during the crisis is associated with lower levels of SWD. And, finally, subjective

assessments of the policy deficit – on the reduction of both poverty and income inequality – are the most significant predictors of SWD levels. In addition, policy efficiency mediates the negative impact of policy deficit on SWD more significantly in countries with large policy deficits.

Taking conservative countries as our reference category, we find higher satisfaction in social-democratic, liberal and post-communist countries. Conversely, Mediterranean countries – with their under-protective welfare regimes – show lower levels of satisfaction. The legacy of communism in Central and Eastern Europe may contribute to a slightly more positive assessment of the state of democracy than expected when controlling for other country-level variables such as economic level, unemployment and welfare state performance. We assume that this is because people in these countries are more satisfied with their current governments than they were with the previous communist dictatorships. The higher level of SWD in liberal countries is likely due to lower expectations about redistribution and welfare support.

Policy implications: How can the welfare state help to increase satisfaction with democracy in European countries?

First, it seems vital for increasing SWD to reduce the subjective assessment of policy deficits in reducing poverty and social inequality among citizens. Because subjective assessments of policy deficits are due less to the formative effect of the welfare state (learned expectations) than to the assessment of the WSP in these respects, improvements in WSP are the key to increasing SWD.

2. We use the total welfare state expenditure measure after deducting expenditure on unemployment and old-age benefits, which often mirror only the demographic structures and unemployment level in the country and not welfare state generosity.

Second, there are apparently objective policy realities behind subjective assessments of WSP. In particular, policy efficiency in reducing poverty matters for SWD and on top of this, the effect is more significant in countries where the policy deficit is large. Thus, increasing policy efficiency leads to higher SWD.

Third, welfare state capacity and generosity indicated by spending is positively correlated with SWD while cuts are correlated negatively. This means that avoiding welfare cuts but improving welfare state capacity can bring higher SWD. Finally, the above policy implications seem to be more important in less affluent countries and in times of economic downturn. This means that not only for economic reasons but also for political reasons as well, WSP should be improved rather than reduced in poor economic times.

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Perspectives

Expectations of Alignment and Experiences of Difference: The Challenge of Social Upheaval in Eastern Germany

TEXT: CLAUDIA NEU, BERTHOLD VOGEL

The upheavals experienced in the 1990s still shape society in eastern Germany. The east-west divide appears wider than ever despite the fact that not only have living conditions and social welfare provisions fundamentally improved in eastern Germany, but some eastern regions have overtaken the west in terms of the quality of infrastructure and prospects for the future.

When everything gets better and worse all at once

In the course of the past 30 years, living conditions in eastern and western Germany have aligned in various ways. Incomes in the east have risen and infrastructure has been fundamentally and comprehensively modernised to high quality standards. Living conditions and welfare levels have significantly improved. The former ‘new’ German states are barely recognisable compared with how things were at the time of reunification in 1989/1990. Even spatial differences no longer conform to a simple east-west divide. While Leipzig and Jena are becoming towns with magnetic pull, especially for

the younger generations, infrastructure in western Germany’s Ruhr region is decaying and people are moving away from rural areas, even in the country’s economically prosperous south. Expectations of alignment have certainly been fulfilled, but nonetheless experiences of difference still dominate both public discourse and the self-identity of many of those affected. The effects of social upheaval are still being felt – even though German reunification occurred some 30 years ago. And this is not without justification. In terms of both structure and lifestyles, east and west are often even more divided than they might appear at first glance. In almost all parts of eastern Germany, outward migration and an ageing society characterise life. And in many places, the breakdown of economic structures in the wake of the radical de-industrialisation of the post-1989 period can still be seen. It defines the east’s collective memory. The social polarisation between post-reunification winners and losers is still palpable in everyday living. Paradoxically, over the course of the past 30 years, everything has got both better and worse – in some cases in the same place, or even within the same family.

But the paradox of upheaval also gives rise to interesting new social constellations. Via the example of the Saalfeld-Rudolstadt district, we can show how people – even in deteriorating, economically tough conditions – create social spaces for coming together. Social spaces can stimulate social balance and new forms of cohesion. They respond to experiences of difference.

Social spaces can stimulate social balance and new forms of cohesion. They respond to experiences of difference.

Fields of tension caused by social change

What are experiences of difference based upon? There are four main areas of social change which reflect not only polarisation, but also the many mutually reinforcing micro-inequalities that exist. These include fragmentation of the world of work, expansion of ageing social spaces, successive disappearance of civic institutions and erosion of the social heart of local life. The fragmentation of the world of work embraces not only the new range of short-term project-based or temporary work-related employment relationships, which stand in stark contrast to stable careers in industry and the public sector. It also includes the fact that in eastern Germany many employees have to commute great distances to their work. The ageing workforce and lack of young skilled workers also contribute to experiences of fragmentation. Study centres such as Leipzig and Jena attract the young people being sought in less-dynamic rural areas. What remains is a population of elderly people for whom the necessary social structures are absent.

This highlights the third trend in experiences of difference: the gradual disappearance of civic institutions and infrastructure, such as healthcare provision and mobility services as well as pharmacies and local council hubs. With this retreat of civic institutions, the very heart of social life also disappears – skilled workers who not only work during the day as teachers or public service employees, but also train youth football teams or sing in local choirs in the evenings. Against this backdrop, the political principle of equivalent living conditions emerges in even starker light.

Equivalence as a guiding principle

To mitigate social and territorial differences or even prevent them from ever coming to pass, the German government has set the political and constitutional goal of establishing equivalent living conditions for all (Article 72 (2) of the German Basic Law (GG)).¹ Here, equivalent does not mean that public goods or services should take the same form nationwide. Rather, it means enabling the same functions, access and opportunities for participation. Civic institutions should be structured in such a way that they meet the very different needs of local people and businesses. Even so, regional differences persist.² Despite all the public and private investment in infrastructure, despite beautifully restored inner cities and modernised suburbs, despite newly-developed and affordable industrial parks – many small towns simply serve as picturesque backdrops for fewer and fewer people. As the population dwindles, so does the area's economic and tax-generating pull; faltering economic drive results in infrastructural decline. Equivalent living conditions are thus a core policy and constitutional element both in terms of guaranteeing social participation and equal opportunity and of ensuring social and territorial cohesion.

1. On this and the following, see Kersten, J., Neu, C., Vogel, B. (2012). Demografie und Demokratie. Zur Politisierung des Wohlfahrtsstaats. Hamburg. 47 et seq.

2. Fink, P.; Henricke, M., Tiemann, H. (2019). Ungleiches Deutschland. Friedrich-Ebert-Stiftung. Bonn.

*The University of Leipzig
attracts young people being
sought in rural areas.
Photo: Randy Kühn*



Social spaces as a response to social change: examples from the district of Saalfeld-Rudolstadt

Shifts in demographics, a breakdown in economic structures and changing public services also impact upon people's private lives. Social change calls for new approaches and solutions. Social spaces are one such response. But how do meeting places that give people the opportunity to communicate and give shape to civic life come about? The project "Das Soziale-Orte-Konzept" (the social spaces model) launched in two administrative districts – Waldeck-Frankenberg and Saalfeld-Rudolstadt – by the Federal Ministry for Education and Research in 2017 sets out to study and analyse how those spaces function and discover how such places of encounter are created or "produced".

Two initiatives from the district of Saalfeld-Rudolstadt in south Thuringia serve by way of example. In terms of settlement structure, the district is highly fragmented: there are many rural communities along with the triangle of the traditional retail and industrial centres of Saalfeld, Rudolstadt and Bad Blankenburg. Between 1989 and 2016, the district lost around one-third of its population (27.5 per cent) – approximately 104,000 people live there today. Since the 19th century, traditional industry and trade has revolved around the steel industry and mechanical engineering, and, in rural areas, glass, ceramics and porcelain manufacture. However, since 1990, in the course of transformative structural change, the district's seven biggest industrial enterprises have reduced their workforces by between 50 and 80 per cent³. In addition

3. <https://www.statistik.thueringen.de>



Revitalise the region: the “Tag der Sommerfrische” organised by the future lab Schwarzatal brings the people of the region closer together. Photo: Thomas Müller

to the trends seen in industry, crafts and trades, tourism also played an important economic role for many decades. It too suffered a heavy decline after the fall of the Berlin Wall. A dwindling population and low business tax revenue severely limited the district municipalities’ scope for action – especially as regards voluntary social assistance and services.

Since 2009, the citizens’ initiative “Rudolstadt blüht auf” (RBA) – which roughly translates as “Rudolstadt is blossoming” – has been working to counter the experiences of dramatic structural change such as de-industrialisation, outward migration and infrastructural decay which have had such a tremendous impact on Rudolstadt. Participants include local people, institutions, nursery schools and schools, clubs and associations, businesses and the Rudolstadt town council – all of whom are working to make Rudolstadt greener and more vibrant.⁴ In recent years, plant containers

have been placed around the town centre, wine festivals have been held in local vineyards and clean-up week campaigns have taken place around the town. Over the course of time, not only have public spaces been spruced up but a process has evolved in which environmental protection, landscape maintenance and monument preservation have come to be seen as a social responsibility and job for locals. Despite difficult conditions, the town has succeeded in creating new networks of stakeholders which support the RBA initiative up to the present day. On the one hand, this is thanks to close links to the town council, which promoted the RBA by providing both financial and planning support. On the other, the broad support received from local people and businesses can be seen as an early factor in making the RBA a lasting success.

The tiny, 500-strong community of Schwarzburg has taken a different approach. Hard-hit by structural change, especially in the tourism sector, the community is taking a proactive stance – redesigning local tourist attractions and addressing job vacancies (through collaboration with architecture students and the International Trade Fair for Building and Construction). Local and regional stakeholders participate in the “Zukunftswerkstatt Schwarzatal” (a future lab), which organises a wide range of activities for regional regeneration, such as the “Tag der Sommerfrische” – a festive gathering promoting Schwarzatal as a summer holiday spot – with exhibitions, guided walks and regional dishes being offered throughout the entire area. There are also a wide range of contacts with other (wider-area) networks that focus on regional history and democracy. These include the “Schwarzburger Gespräche” (conversations), a super-regional, scientific and social policy-focused discussion forum, and the “Denkort Democracy” initiative, promoting the town as a place in which democracy is valued and upheld. In this way, the newly-created social spaces not only provide for

4. <http://www.rudolstadt-blueht-auf.de>

meeting others and sharing experiences but also address problems (vacancy, tourism, loss of public spaces) and offer scope for action at regional level. What is unusual is that these social spaces are not just about a particular place or project, but initiate processes that go beyond the original intention by addressing a variety of participants and forming networks – and that they rely upon functional civic infrastructure and a local administration that is both efficient and effective.

*Local is the keyword in all of this.
This is why the presence of widely-available civic institutions is so important.*

New institutional impetus for policy that promotes cohesion

Going one step further and moving beyond best-practice examples, we should look at the institutional prerequisites and conducive framework that ensure that social spaces become an everyday reality. First, local people need support to develop their local environment into a needs-based, process-oriented and sustainable place to live. The vital prerequisites here are robust local and democratic institutions that enable local citizens to gain access to public services and be socially included, and make public infrastructures a positive experience – one that gives people space to develop their own ideas so they can then build up new, future-focused, local-level structures of social cohesion and democracy.

Local is the keyword in all of this. This is why the presence of widely-available civic institutions is so important. It is the only way that the underlying

principle of equivalence can be given any substance. The new debate on the common good and equivalence should not get caught up in the assessment of minimum requirements, basic provision, availability, citizens' buses and village shops. Rather, it is more about reviving the promise of social integration and inclusion enshrined by this guiding principle. De-linking the issue of equivalent living conditions from a policy focus on what is an absolute necessity in the here and now enables a fresh form of cohesion to be put into practice that strengthens both society and democratic thinking.⁵ Authoritarian nostalgia for uniformity and exclusion must be countered with policy that recognises the need for strong democratic institutions which enable all citizens to participate in social life and give them space to develop their own ideas. This renders public infrastructure a positive experience. A liberal, social and democratic state thrives on the very conditions it must create for itself.

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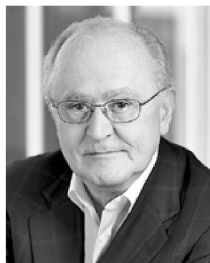
5. See Kersten, J., Neu, C., Vogel, B. (2019). Politik des Zusammenhalts. Über Demokratie und Bürokratie. Hamburg.

Global Supply Chains – Global Responsibility

Sustainable Supply Chains

Human Rights and the Social Sustainability of Globalisation

The father of the United Nations Guiding Principles on Business and Human Rights, Professor John G. Ruggie, provides insight into the spirit of these 31 decisive Principles and looks at how they can be implemented effectively at European Union level.



PROF. JOHN G. RUGGIE

is Berthold Beitz Research Professor in Human Rights and International Affairs at Harvard Kennedy School. He served as UN Assistant Secretary-General for Strategic Planning in

the cabinet of Kofi Annan from 1997 to 2001, and was Special Representative of the Secretary-General for Business and Human Rights between 2005 and 2011. A Fellow of the American Academy of Arts & Sciences, he has received numerous awards from academic and professional societies for his contributions to social science and international law. He chairs the Board of Shift, a non-profit organisation.
Photo: John Ruggie

Ours is an increasingly turbulent world that challenges foundational premises we had been able to take for granted. Leadership with respect to the people and the planetary challenges faced by all is in short supply. The European Union is one of the most significant governance innovations in modern times. It all began modestly in the wake of World War II. Today, it constitutes an economic and social superpower. Now more than ever, the EU needs to think of itself in those terms.

The German Presidency of the Council of the EU will take place at a critical inflection point, with complex and far-reaching issues at stake. My subject here is business and human rights, with a focus on how we can most effectively advance action at the EU level.

Making globalisation socially sustainable

Let me begin with the most basic question: what is business and human rights all about? The answer varies depending on vantage point. In big-picture terms, it is about the social sustainability of globalisation. Some years ago, my favourite boss, Kofi Annan, said: “If we cannot make globalisation work for all, in the end it will work for none.” Today, people around the world are telling us that we have fallen short, that the benefits and burdens of globalisation have been unequally distributed within and among nations. The result is public resentment and loss of trust in institutions of all kinds.

When seen from the perspective of enterprises, business and human rights is about ways they can recover trust and manage the risk of harmful impacts. Undeniable progress has been achieved by individual firms, business associations, and even sports organisations. But not enough, and not by enough of them.

For governments, business and human rights is at the core of new social contracts they need to construct for and with their populations. This includes decent work and living wages, equal pay for work of equal value, social and economic inclusion, education suitable to the needs and opportunities of the 21st century, and effective social safety nets to buffer unexpected shocks to the economy or the person.

For the individual person whose rights are impacted by enterprises, business and human rights is about nothing more – but also nothing less – than being treated with respect, no matter who they are and whatever their station in life may be, and to obtain remedy where harm is done.

The birth of the UN's Guiding Principles on Business and Human Rights

My second point is to remind us that formal international recognition of business and human rights as a distinct policy domain is relatively recent. At the UN level, the first and thus far only formal recognition dates to 2011, when the Human Rights Council unanimously endorsed the Guiding Principles on Business and Human Rights (UNGPs).

The Guiding Principles rest on three pillars: the state duty to protect against human rights harm by third parties, including business; the responsibility of enterprises to respect human rights, regardless of whether states meet their own obligations; and the need for greater access to remedy by people whose human rights have been abused by business conduct. The OECD Guidelines for Multinational Enterprises quickly incorporated Pillar II virtually verbatim.

The UNGPs comprise 31 Principles and commentary on what each means and implies for all actors: states, enterprises, as well as affected individuals and communities. They are not merely a text. They were intended to help generate a new regulatory dynamic, one in which public and private governance systems, corporate as well as civil, each come to add distinct value, compensate for one another's weaknesses, and play mutually reinforcing roles – out of which a more comprehensive and effective global regime might evolve.

A considered combination of voluntary and mandatory measures

That brings me to the key issue of strategy: how to reinforce and add to this transformative dynamic. The Guiding Principles embody two core strategic concepts: advocating a “smart mix of measures” and using “leverage”. I will take them up in turn.

We often hear the term “a smart mix of measures” being employed to mean voluntary measures alone. But that gets it wrong. Guiding Principle 1 says that states must have effective legislation and regulation in place to protect against human rights harm by businesses. Guiding Principle 3 adds that states should periodically review the adequacy of such measures and update them if necessary. They should also ensure that related areas of law, for example corporate law and securities regulation, do not constrain but enable business respect for human rights. So, a smart mix means exactly what it says: a combination of voluntary and mandatory, as well as national and international measures. Several EU Member States, including Germany, as well as the EU as a whole, are considering or have already put in place mandatory measures that reinforce what

previously was voluntary guidance to firms on corporate responsibility. These include reporting requirements regarding modern slavery, conflict minerals, and non-financial performance more broadly, as well as human rights and environmental due diligence. Such initiatives are aligned with the spirit of the UNGPs, and they are important steps in adding “mandatory measures” into the mix. Still, many leave a lot to the imagination – the imagination of company staff, consulting firms and civil society actors, among others. More should be done to specify what meaningful implementation looks like, in order to avoid contributing to the proliferation of self-defined standards and storytelling by firms. Also, with limited exceptions currently no direct consequences follow from non-compliance. Nevertheless, the ascent of Pillar I is underway.

The German Presidency of the Council of the EU will take place at a critical inflection point, with complex and far-reaching issues at stake.

Effective implementation of the Guiding Principles at EU level

A second key strategic concept embedded in the UNGPs is “leverage”. Here are three examples of how leverage can play into the core question of how to most effectively advance implementation at the EU level. First, individual Member States and the EU as a whole are economic actors: they procure goods and services, provide export credit and investment insurance, issue official loans and grants, and so on. Each agency involved has particular objectives of its own, to be sure. But in all cases, they should consider the actual and potential human rights impacts of beneficiary enterprises with which they engage.

Second, the UNGPs state that the responsibility of enterprises to respect human rights requires that they avoid causing, contributing to, or otherwise being linked to adverse impacts, and to address them when they occur. This extends throughout their value chains. Of course, all firms, including the suppliers of goods and services within global value chains, have the same responsibility to respect. But parent companies and companies at the apex of producer- or buyer-led value chains should also use whatever leverage they have in relation to their subsidiaries, contractors, and other actors in their network of business relationships. They should establish clear policies and operational procedures that embed respecting rights throughout their entire value chain system. Where leverage is limited it may be possible to increase it, for example by providing incentives or collaborating with other actors.

Balancing requirements

In turn, home as well as host states of multinational enterprises have significant roles to play through laws and regulations that enable and support private international ordering of this sort. Global value chains are exceedingly complex. If parent or lead companies fear that they may be held legally liable for any human rights harm anywhere within their value chains irrespective of the circumstances of their involvement, it would create the perverse incentive to distance themselves from such entities. It is important that regulation gets the balance right.

ESG investing – first and foremost, the “S” is about human rights

A third way in which leverage can play into effective implementation at the EU level is by reinforcing positive trends already underway in the business community, but which need strengthening. Perhaps the most important instance today is ESG investing – investment decisions that combine environmental, social and governance criteria with financial analytics. ESG investing now accounts for \$31 trillion of all assets under management worldwide, or one quarter of the global total. And while it may not be known to many investors themselves, the “S” in ESG is all about human rights. It seeks to assess how firms conduct themselves in relation to the broad spectrum of internal and external stakeholders – workers, end users and communities. It typically includes such categories as health and safety, workplace relations, diversity and social inclusion, human capital development, responsible marketing and R&D, community relations, and company involvement in projects that may affect vulnerable populations in particular.

But here is the problem: it is now generally agreed that a major impediment to the further rapid growth in ESG investing is the poor quality of ESG data provided by raters. Common taxonomies and templates are still in their infancy and evolving haphazardly even as demand for ESG products is increasing. This poses problems for investors who seek ESG opportunities and may be paying a high price for flawed data as well as for companies striving to improve their practices that go unrecognised. The problem is especially severe in the S category – addressing human rights-related issues. The EU has developed a comprehensive taxonomy for investment on climate-related standards, indices and disclosure. That should have a significant impact for strengthening the E in ESG. Also issuing official guidance to the S in ESG investing, making clear its human rights bases, could have a transformative effect on global capital markets. In short, a great variety of opportunities exists for exercising leverage in order to generate further positive developments in business and human rights.

Business and human rights as a crosscutting theme at EU level

Allow me briefly to add two provocative thoughts in closing. The first is that business and human rights, by definition, is a domain that requires horizontal vision and cross-functional collaboration – whether within companies, governments, or the EU. Within the European Commission the task has been largely left to the External Action Service, with the support of other Directorates-General. That is too narrow a lens to do justice to the broad array of challenges, and to have the impact that could be achieved. One of the singular contributions of National Action Plans for implementing the Guiding Principles is that they have required the whole of governments, for the first time ever, to consider business and human rights as a single policy space. The same holds true at the EU level.

For the individual person whose rights are impacted by enterprises, business and human rights is about nothing more – but also nothing less – than being treated with respect, no matter who they are and whatever their station in life may be, and to obtain remedy where harm is done.

Strategic and coordinated action across the EU institutions requires an overarching and shared policy framework to move forward. Developing it should involve a range of relevant DGs – including Justice, GROW, Employment, Trade and Development. Such a framework would ensure coherence for specific initiatives, among which human rights due diligence should be a high priority.

Geneva negotiations for a binding business and human rights agreement

My second and related concluding thought concerns the ongoing Geneva negotiations on a binding business and human rights treaty. International regulation is both inevitable and desirable to help level the playing field in a world of global business. In fact, at the conclusion of my mandate in 2011, I proposed that governments negotiate a targeted legal instrument addressing business involvement in gross human rights violations, coupled with the need for greater cooperation between states to provide remedy. However, some parties objected on the grounds that this did not go far enough, others that it went too far.

And so, it went nowhere. The current treaty process began in 2014. From the outset, I expressed serious doubts about attempting to shoehorn the entire business and human rights domain into a single, overarching treaty. In my judgment, it is far too complex and too contested a domain for such an endeavour to produce meaningful results. Indeed, the risk is that if it were to “succeed” in the sense of being adopted by some minimum required number of states, it would be by locking in lower expectations and fewer incentives for innovative practical approaches than exist today. Nothing I have seen in the five years of negotiations suggest otherwise.

Having said all that, I do find it puzzling that the EU has taken no substantive position in these treaty negotiations, allowing them to drift along. The next negotiating session will take place during Germany’s Council Presidency. Perhaps Germany can help the EU find its voice on business and human rights, so that it can be expressed in Geneva.

Strategic and coordinated action across the EU institutions requires an overarching and shared policy framework to move forward. Developing it should involve a range of relevant DGs – including Justice, GROW, Employment, Trade and Development.

Conclusion

The coronavirus has made painfully clear the fragility of our economic as well as governance systems. One hopes that appropriate lessons will be drawn from the experience of the pandemic. Walls will not protect or sustain societies in the long run. Better governance and greater cooperation are required, private and public, national and international. That is precisely what the business and human rights agenda has been all about from the beginning.

Analysis

Child Labour and Trafficking for Forced Labour in Global Supply Chains – Current Understanding and Opportunities for Actions¹

TEXT: BEATE ANDREES, INTERNATIONAL LABOUR ORGANIZATION (ILO)

Beate Andrees summarises results and insights from the Alliance 8.7 Report on child labour and forced labour in global supply chains and points to opportunities for action by the EU and its Member States.

The growing integration of the global economy through trade and private investments has created unprecedented growth in production and employment, enabled the transfer of new technologies and stimulated innovation in many parts of the world. Small and medium-sized enterprises, farmers and small producers are now connected to global markets through often complex supply chains.

This economic integration does not come without risks. In many countries, particularly in countries with a large informal and rural economy, violations of fundamental principles and rights have been widely documented. These violations encompass hazardous or other forms

of child labour, forced labour and human trafficking, discrimination at work and the prohibition of or lack of access to freedom of association and collective bargaining. This article focuses on the risks of child labour and trafficking for forced labour in global supply chains.

According to the latest estimates, there are still 152 million girls and boys in child labour; more than 70 million work under hazardous and dangerous conditions. 25 million men, women and children are estimated to be in a situation of forced labour, which may entail debt bondage, trafficking and various forms of coercion. At the same time, global commitment to end these egregious human rights violations has grown significantly. Child labour has been reduced by more than 90 million since the ILO started measuring it in 2000. On forced labour, or what is often called “modern slavery”, trends cannot be measured as yet but the understanding of the problem has grown.

1. The views expressed in this article are those of the author and do not necessarily reflect those of the ILO. The author would like to thank ILO colleagues for review and input, in particular Michaëlle de Cock, Lieve Verboven, Irene Wintermayr and Githa Roelens.



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Photo: rb fotostudio, Konstanz

The COVID-19 pandemic has a major impact on global supply chains, particularly in sectors where demand is plummeting due to restrictive measures to safeguard public health. It also threatens to reverse decades of progress against child labour, forced labour and human trafficking. These gains have benefited the poorest and most disadvantaged working people and families. Experience from previous crises has shown that unemployment and loss of livelihoods will push many families into debt bondage, force them to resort to child labour and aggravate the risk of trafficking. Policy measures therefore need to be tailored to the needs of these vulnerable groups. As countries recover, social protection measures and universal quality basic education play a key role in preventing child labour and forced labour. These measures should be designed on an equitable and inclusive basis.

The Sustainable Development Agenda and the Alliance 8.7 Report

In 2015, UN Member States adopted the Sustainable Development Agenda (SDG Agenda for short), thereby committing to end all forms of child labour by 2025 and to take measures to end forced labour, modern slavery and human trafficking by 2030. In 2017, participants of the IV Global Conference on the Sustained Eradication of Child Labour adopted the Buenos Aires Declaration, which outlines a detailed strategy for reaching Target 8.7. A year prior to the IV Global Conference, international organisations, social partners, NGOs and other actors created Alliance 8.7 with the joint objective to accelerate action against child labour, forced labour, human trafficking and modern slavery at national, regional and global levels. Today, the Alliance is convening more than 200 partners from all parts of the world.

In 2017, Labour and Employment Ministers of the G20 called for a global report on child labour and forced labour; and one year later, they adopted an action plan to end child labour, forced labour and modern slavery in the world of work. Following the 2017 G20 Declaration, ILO, OECD, IOM and UNICEF created a research consortium under the Alliance 8.7 to analyse data and policy responses on child labour and trafficking for forced labour. The report (henceforth the Alliance 8.7 Report)

was released at the Paris Peace Forum and the UN Forum on Business and Human Rights in November 2019. Its key findings are summarised in this article.

Data on child labour and forced labour in global supply chains

By combining data from the partners of the Alliance 8.7 Report, it was possible to estimate the presence of child labour in global supply chains in different sectors and regions. The same was done, albeit on an experimental basis, for trafficking for forced labour. The results indicate that 26 per cent of child labour in Eastern and South-Eastern Asia contributes to exports to other regions (directly or indirectly). The percentage is somewhat lower for the other regions: 12 per cent for Sub-Saharan Africa, 9 per cent for Northern and Western Africa, 22 per cent for Latin America and the Caribbean and 12 per cent for Central and Southern Asia.² While most child labour is still linked to domestic production and consumption, the above figures demonstrate that there is a considerable risk of child labour affecting global supply chains. The risks can be associated in particular with agriculture, manufacturing and mining. Most importantly, the analysis showed that a significant share of child labour associated with global supply chains can be found downstream or at the lower tiers of resource extraction or the production of agricultural commodities.

Trafficking for forced labour also contributes to global supply chains, although further regional- and industry-specific research is required to produce reliable estimates. Regional variations related to the share of trafficking for forced labour that

can be associated with global supply chains are between 4 and 17 per cent. Trafficking for forced labour occurs frequently in non-export-related services and industries, such as domestic and care work and construction. It is also prevalent in agriculture, where systems of servitude have mutated into new forms of coercion, often affecting migrant workers, indigenous people and other groups of people who face discrimination in the labour market. Various forms of labour-related trafficking have been widely documented in EU Member States.³

Risk factors and additional research needs identified

The Alliance 8.7 Report identified a number of risk factors which are important for the development of policies by governments as well as private and public enterprises. For example, in countries that insufficiently or inconsistently implement and enforce international standards pertaining to the prohibition of child labour, human trafficking and forced labour, enterprises will be faced with a permissive culture of certain exploitative practices. Private compliance initiatives can partially mitigate this risk, but they are no substitute for effective statutory regulation and enforcement. Another structural risk factor pertains to socio-economic pressures which require comprehensive government responses, such as the extension of social protection floors and access to finance for small producers. Finally, risk factors are also directly related to the business environment and the extent to which responsible business conduct is being promoted in a particular country and sector. This requires strong social dialogue and collective bargaining mechanisms to mitigate undue competitive pressure.

2. For further details, see Alliance 8.7 Report: <https://www.alliance87.org/news/child-labour-and-human-trafficking-remain-important-concerns-in-global-supply-chains/>
3. https://ec.europa.eu/home-affairs/sites/homeaffairs/files/what-we-do/policies/european-agenda-security/20181204_data-collection-study.pdf

The Alliance 8.7 Report has pioneered a methodology for measuring fundamental rights violations in global supply chains and developed an analytical model for better understanding risk factors and effective responses. Despite the limitations of data, it has shown a way forward to stimulate further research and data collection, particularly with a view to developing a better industry- and sector-specific understanding of the risks of child labour and forced labour in global supply chains.⁴

Growing awareness has paved the way for regulatory measures

The growing awareness and understanding of fundamental rights violations, such as child labour and forced labour, has paved the way for enhanced policy and legislative measures in all parts of the world. EU Member States have ratified all fundamental ILO Conventions and efforts are underway to accelerate ratification of the Protocol of 2014 to the Forced Labour Convention, 1930.⁵ The Protocol has a ground-breaking legal provision that requires ratifying Member States to “support due diligence by both the public and private sectors to prevent and respond to risks of forced or compulsory labour”. Some EU Member States have introduced supply chain transparency and due diligence legislation that require companies to publicly report on actions taken to address the risk of adverse human rights impacts across their supply chains.⁶ While it is too early to assess the full impact of such legislation, a greater sensitisation of businesses along the supply chain can

be observed. These laws can also have a potentially positive impact on businesses in developing countries if their implementation is promoted through a bottom-up process. The ILO Resolution (2016) concerning decent work in global supply chains sets out further action that governments can take in this area.⁷

While most child labour is still linked to domestic production and consumption, the above figures demonstrate that there is a considerable risk of child labour affecting global supply chains.

There are opportunities to harmonise legislative and other approaches to promote due diligence in supply chains across the European Union, to create a level playing field for companies and to improve a common understanding of benchmarks and good practices.

Opportunities for promoting due diligence at EU level

While it is beyond the mandate of the ILO to put forward an EU approach, a number of initiatives might provide an additional opening for the promotion of due diligence in supply chains at EU

4. For further information about the data and methodology of the Alliance 8.7 Report, see: https://www.ilo.org/wcmsp5/groups/public/---ed_norm/---ipecc/documents/publication/wcms_733916.pdf

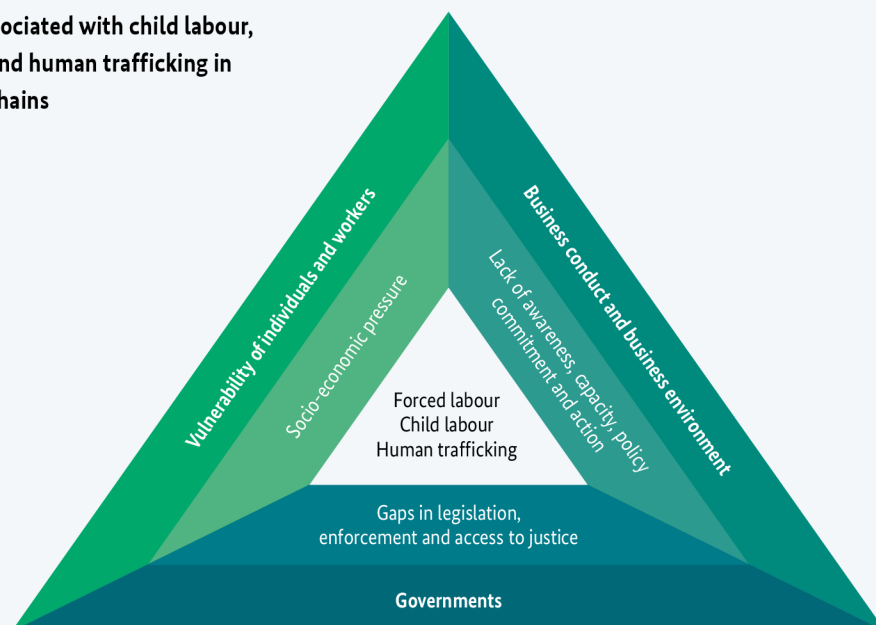
5. In January 2020, 17 out of 28 EU Member States had ratified the Protocol.

6. See for example: France, Loi de vigilance n° 2017-399 du 27 mars 2017 relative au devoir de vigilance des sociétés mères et des entreprises donneuses d'ordre (1), NOR: ECFX1509096L (<https://www.legifrance.gouv.fr/affichTexte.do?cidTexte=JORFTEXT000034290626&dateTexte=20200117>); United Kingdom, Modern Slavery Act 2015, UK Public General Acts 2015 c. 30 (<http://www.legislation.gov.uk/ukpga/2015/30/contents>); and Netherlands, Child Labour Due Diligence Bill, https://www.eerstekamer.nl/behandeling/20170207/gewijzigd_voorstel_van_wet

7. https://www.ilo.org/ilc/ILCSessions/previous-sessions/105/texts-adopted/WCMS_497555/lang--en/index.htm

Risk factors associated with child labour, forced labour and human trafficking in global supply chains

Figure 1



Source: ILO, OECD, IOM, UNICEF. (2019). Alliance 8.7 Report "Ending child labour, forced labour and human trafficking in global supply chains". Geneva.

level, such as the drafting of the EU Action Plan on Human Rights,⁸ and the announced review of the Non-Financial Reporting Directive 2014/95/EU. Lessons might also be drawn from the implementation experience of relevant EU policies, such as the EU strategy on corporate social responsibility (which expired in 2014) and existing EU legislation such as the EU Conflict Minerals Regulation 2017/821.

The 2014 Protocol refers explicitly to the role of the public sector by setting standards of responsible business conduct. Some governments are already reviewing their public procurement practices with a view to developing standards to

prevent fundamental rights violations, notably forced labour and human trafficking.⁹ The UN has recently started a sustainable procurement initiative, supported also by the Inter-Agency Coordination Group against Human Trafficking (ICAT). Further exchange of lessons learned could be promoted among EU Member States and multilateral organisations. The European Commission, which also has a sustainable public procurement policy, could play a leading role.

ILO and UN standards on child labour, forced labour and human trafficking are complemented by the EU Anti-Trafficking Directive 2011/36/EU and the Council of Europe Convention on Action

8. The previous one included actions to promote due diligence.

9. Australia, Modern Slavery Act 2018, No. 153, 2018 (<https://www.legislation.gov.au/Details/C2018A00153>).

against Trafficking in Human Beings. In its many reports on the implementation of the Convention, the Group of Experts on Trafficking in Persons (GRETA) has called on ratifying parties to develop measures to prevent trafficking of children and trafficking for the purpose of labour exploitation.

Approach within the scope of development work and trade policy

Effective measures to mitigate the risk of child labour and forced labour in global supply chains are also embedded in development cooperation and trade policies. Several EU Member States as well as the European Commission support efforts to eliminate child labour and forced labour through comprehensive development cooperation projects, focusing for example on cotton picking, mining (including small-scale artisanal mining) and agriculture and food products such as cocoa, coffee, fish and palm oil.¹⁰ Many lessons have been learnt through the ILO's International Programme on the Elimination of Child Labour and Forced Labour (IPEC+). For example, for these development cooperation projects to be effective, they have to be linked to broader upstream policy development which goes beyond a specific sector or industry. Such policies should focus, for instance, on extending social protection floors to small-scale farmers and informal-sector workers, expanding access to education in rural communities with a particular focus on girls, establishing fair recruitment practices for migrant workers in export- and non-export-related industries and promoting trade unions and other forms of collective engagement.

Such policies can also be promoted through trade-related dialogue. The scope and reach of trade policies and arrangements are increasing and so are provisions related to international labour standards. According to one recent assessment, there are 85 regional trade agreements that include labour provisions, representing about one-third of all trade agreements in force.¹¹

There are opportunities to harmonise legislative and other approaches to promote due diligence in supply chains across the European Union, to create a level playing field for companies and to improve a common understanding of benchmarks and good practices.

Most of these trade agreements refer specifically to the ILO's fundamental principles and rights at work, including child labour and forced labour and the promotion of corporate social responsibility/responsible business conduct through the trade for sustainable development (TSD) chapters. These chapters promote the ILO Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy (MNE Declaration), the OECD Guidelines for Multinational Enterprises (OECD MNE Guidelines) and the UN Guiding Principles on Business and Human Rights.

10. For example, Clear Cotton Project on Child Labour and Forced Labour. Eliminating child labour and forced labour in the cotton, textile and garment value chains: an integrated approach, Ship to Shore Rights Project, Accelerating action for the elimination of child labour in supply chains in Africa (ACCEL AFRICA) Project, Work in Freedom: Preventing trafficking of women and girls in South Asia and the Middle East

11. ILO. (2019). Labour Provisions in G7 Trade Agreements: A Comparative Perspective. Geneva.

Coherent international instruments for globally operating companies

All three international instruments promote business respect for the fundamental principles and rights at work and invite businesses to take measures to eliminate child labour and forced labour. Coherence is particularly important to avoid a proliferation of expectations at the international level and across countries, which can create challenges for businesses operating globally. The three organisations are therefore actively working to ensure alignment among their instruments and implementation programmes. Each instrument refers to the others and builds on each other's important added value. For example, the due diligence approach set out in the UN Guiding Principles was subsequently incorporated in the OECD MNE Guidelines and the ILO MNE Declaration. More recently, the 2018 OECD Due Diligence Guidance for Responsible Business Conduct promotes a common understanding on due diligence for responsible business conduct.

Both ILO and OECD have also developed sector-specific guidance for minerals, extractives, garment and footwear, agriculture and other sectors, which could be further disseminated among EU Member States.

Measures as part of trade-related dialogues

Through trade-related dialogues between the EU and its trade partners, specific expectations can be articulated in relation to legislation and promoting responsible business conduct, thereby preventing

the exports of goods or services tainted by child labour, forced labour, or other human rights violations. An important aspect of these trade and investment agreements is to ensure access to remedies for victims of human rights violations, particularly in countries where judicial institutions are weak and freedom of association and peaceful assembly are not protected by law.

Coherence is particularly important to avoid a proliferation of expectations at the international level and across countries, which can create challenges for businesses operating globally.

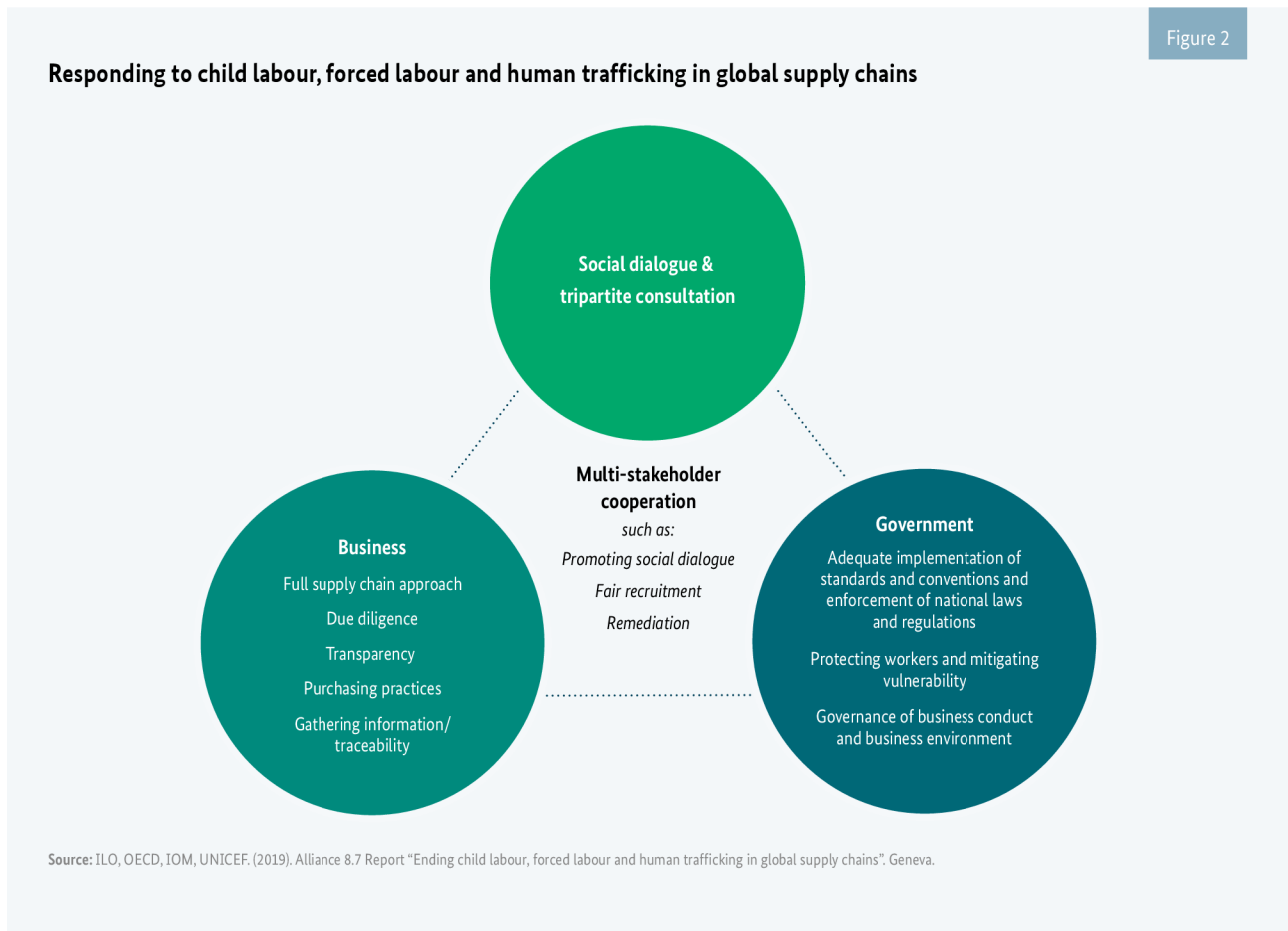
In September 2019, the then-candidate for EC President, Ursula von der Leyen, issued political guidelines for the new European Commission, which included a “zero tolerance policy on child labour”.¹² This has since been communicated to various EC Directorates. The implementation of this new policy could encompass new trade-related measures and it would be important to combine such measures with political dialogue, development cooperation and private sector engagement.

12. Political Guidelines. Ursula von der Leyen, Candidate for the European Commission President at https://ec.europa.eu/commission/sites/beta-political/files/political-guidelines-next-commission_en.pdf, see page 17.

Coordinated approach to combating child and forced labour

Finally, there are opportunities to accelerate action at national levels in line with the SDG Agenda/Target 8.7 and to create synergies across sectors. The Alliance is currently chaired by France, with Argentina acting as deputy, and many EU Member States are actively engaged in this multi-stakeholder partnership. Countries can become pathfinders of Alliance 8.7 if they demonstrate enhanced measures against child labour and forced labour at home and abroad.¹³

Regional organisations can also join the Alliance 8.7. Through the Alliance, coordinated action to address child labour and forced labour in supply chains has also been stimulated through new collaborative initiatives. The Alliance is also connecting with business networks, notably the Child Labour Platform, the Forced Labour Business Network (which also includes the Consumer Goods Forum and many other business associations). Enterprises, employers' organisations and business associations engaged in these networks are keen to discuss and develop concrete solutions on the ground; in this context, they work with



13. For further information, see Alliance 8.7 Pathfinder Country Guidance Note: https://www.alliance87.org/wp-content/uploads/2019/05/Pathfinder-Countries_Final_English-1.pdf

governments, trade unions and other actors. These business engagement opportunities could be promoted more widely across the European Union and its trade partners. Furthermore, the international community will commemorate the International Year for the Elimination of Child Labour in 2021 and concrete measures could be presented by EU Member States and institutions.

To paraphrase the famous slavery abolitionist William Wilberforce, businesses and governments ‘may choose to look the other way, but they cannot say they didn’t know’.

To paraphrase the famous slavery abolitionist William Wilberforce, businesses and governments ‘may choose to look the other way, but they cannot say they didn’t know’. The prevalence of child labour and forced labour has been widely documented, including in the most recent Alliance 8.7 Report linking these human rights violations to global supply chains. This growing understanding has created a new momentum for action: now is the time to seize these opportunities and to act.

Opinion and Comment

We Must Take Action Before the Situation Makes That Impossible

INTERVIEW: CASPAR DOHMEN, JOURNALIST

In global supply chains, human rights violations continue to occur. Nina Elomaa, who is responsible for CSR at the Finnish Fazer Group, and Filip Gregor, Chair of the European Coalition for Corporate Justice, both advocate binding EU due diligence standards to improve the situation in producing countries.

Why are there still modern slavery, child labour, starvation wages and other human rights violations in the supply chains of European companies?

GREGOR: Supply chains have become longer, making companies more susceptible to such risks.

ELOMAA: This has much to do with systemic problems in the countries where European companies buy raw materials or produce products. But companies may also be focussing too much on monitoring rather than on addressing causes of the problems. It goes without saying that you have to check whether child labour is being used. But we will only eliminate child labour if we end the poverty that forces parents to make their children work.

GREGOR: Some companies are genuinely trying to address these problems on a voluntary basis, while others are content to benefit from lax environmental and social standards by locating production far away from Europe. As long as this is the case, problems such as child labour, forced labour or deforestation will remain unsolved as a whole.

Many globally active companies have long acknowledged their responsibility to practice business in a sustainable fashion. What have voluntary approaches done for the people who produce our cocoa, textiles and smartphones for us?

GREGOR: Nobody knows exactly because nobody keeps track of the results systematically. In some cases, companies have improved the situation with their local activities. There is also more discussion of the problems in the countries where production takes place, which is positive. But on the whole, voluntary approaches have not solved the problems. Look at deforestation in Southeast Asia due to the cultivation of palm oil. Despite various programmes, we aren't seeing any improvement – quite the contrary.



According to a survey by Germany's Federal Government, only one in five companies in Germany complies with its obligations of human rights due diligence in the supply chain. Ms Elomaa, do you, too, think that the voluntary approach has failed? Do we need binding regulations?

ELOMAA: Yes, experience to date shows that far too few companies implement voluntary initiatives or follow the UN Guiding Principles on Business and Human Rights. That has to change. We therefore advocate binding regulations. Managing our supply chains would also be easier if the same rules applied to everyone.

What are the main obstacles to binding regulations?

ELOMAA: Such rules must be practicable, and they have to work – we must not create a bureaucratic monster. How this can be done, I myself don't know. All stakeholders must discuss this openly.

Ms Elomaa, your industry is often in the headlines, for example because of child labour in cocoa production in West Africa. Why are these problems so persistent? Is it because of the international cocoa processing companies or the governments in the producing countries?

ELOMAA: Both sides are responsible. But companies alone cannot eliminate abuses such as child labour; they must work together with the governments in the countries where production is located.

1. NINA ELOMAA was Sustainability Director of Fazer Group at the time of the interview (January 2020). The Finnish family-owned company is best known for its chocolate and other food products, especially in Scandinavia, the Baltic States and Eastern Europe. Nina Elomaa has wide experience in different businesses, such as energy, sourcing and sustainability. Her area of responsibility covered sustainability in the Fazer Group, including the bakery, confectionery, food service, milling and café businesses.
Photo: Juha Rahkonen

2. FILIP GREGOR is Chair of the European Coalition for Corporate Justice (ECCJ) and head of Frank Bold's Responsible Companies Section. Since 2007 he has represented Frank Bold within the Steering Group of ECCJ. With 19 member groups representing over 450 organisations from 16 countries, ECCJ is the only European coalition bringing together campaigns and national platforms of NGOs, trade unions, consumer organisations and academics in order to promote corporate accountability.
Photo: Jiri Hloušek

Are European companies responsible for child labour and the deforestation of the rainforest in cocoa producing regions?

GREGOR: It is really more complicated than that, and we should rely on the UN Guiding Principles on Business and Human Rights, where the responsibility of companies is clearly laid out. By their guidance, every company bears responsibility both for and beyond its own actions. That means it is responsible for abuses of human rights that result from its activities. However, a company is also responsible for seeking to prevent and mitigate adverse human rights impacts that are linked to it even if it has not contributed to those impacts directly.

Do you think that the industry's focus with regard to improving the situation of small farmers has been too long on increasing productivity?

ELOMAA: When I travelled through West Africa and asked small farmers what they needed, I expected them to ask for higher prices. Instead, they most often asked for training to be able to grow cocoa better. They want to be able to read, write and do maths and to save money for their children. We have forgotten how to listen to the small farmers about what they want and need. We have to change that.

In the UK, there is the Modern Slavery Act, in France there is due diligence legislation, in the Netherlands they are working on legislation to combat child labour and other countries are pursuing similar legislative projects. What does this mean for you as a company that operates internationally? Are you worried about a patchwork of regulations?

ELOMAA: This is a central question for us because it is difficult and costly for us as a company to comply with every single law. The problem is not

limited to human rights – it can also be seen in other areas of sustainability. I would therefore welcome uniform European regulations.

What expectations do you have of the European Commission with regard to supply chain legislation?

GREGOR: EU standards should take three elements into account: first, a multilateral regime should bring together the various national standards. Second, rules should apply to all sectors, all kinds of raw materials and all human rights. Third, the standards should include liability and enable injured parties to access remedy. It would then be the task of the member countries to monitor and enforce human rights due diligence.

Should EU legislation also prescribe living wages in supply chains?

GREGOR: I am all for it and morally it is as important as the abolition of forced labour and child labour in the supply chain, but the devil is in the details.

What is so difficult?

GREGOR: I'm not talking about practical implementation, but about the legal enforcement – legislation with extraterritorial impact can be applied insofar as similar rules are applicable domestically. Moreover, it raises many questions that need to be answered: what is a living wage? Which method is used to determine what that is? Who defines it? Nevertheless, a general human rights due diligence law by definition encompasses all human rights, including living wage. The enforcement caveats aside, this is important because it gives companies guidance to include it in their due diligence.

Would it be possible at a practical level for your company to pay a living wage?

ELOMAA: A living wage is important. On moral grounds alone, we cannot take money from the pockets of farmers. But with long supply chains, companies cannot guarantee that the paid higher price reaches all farmers.

When it comes to living wages, we usually look at workers or farmers in Africa or Asia and Latin America – but there are also problems in Europe, for example in the textile industry in Eastern Europe.

ELOMAA: When we talk about human rights in Europe, we sometimes tend to say that the problems lie outside Europe. However, it would be a mistake to leave human rights-related issues such as living wages in the EU out of the discussion.

GREGOR: We need to discuss both things. But the approach of binding obligations for human rights due diligence is about enforcing human rights in their entirety in the value chain, and not picking out a single aspect.

Would comprehensive legal regulations lead to a situation where companies would in future only orient themselves towards the minimum legal standards?

GREGOR: Has that ever happened?

That is an argument put forward by companies.

GREGOR: That's nonsense. What would prevent companies from doing more? And even if that happens, it would be a massive improvement compared to the current situation. As the Federal Government's survey shows, today there are still even large companies that are not doing anything at all.

I think what is really behind the question is the concern that corporate responsibility might extend to everything related to their supply chains. Such a debate is misleading, however, because that is not what human rights due diligence calls for.

ELOMAA: Small and medium-sized enterprises, in particular, are worried about complicated regulations that would take up a lot of resources, which might leave them with no capacity for voluntary programmes. But I hope that the legislation will not be complicated.

GREGOR: However, there is no alternative to binding regulations because voluntary programmes do not solve major problems such as child labour, deforestation, climate change and poverty. We continue to destroy the foundations of our livelihoods and endanger the future of human civilisation.

Many supply chains are complex and dynamic. Would companies be overburdened if they had to take responsibility for their entire supply chain?

ELOMAA: No company can monitor its entire supply chain. For example, our company has around 10,000 direct suppliers in the first tier and we draw cocoa from 15,000 to 20,000 farmers. So we cannot know what is happening at every moment everywhere.

The Fazer Group is part of the Finnish "Ykkösketjuun" multi-stakeholder initiative. The stakeholders advocate mandatory human rights due diligence by companies at national level. The companies Mars and Mondelez are among the world's largest cocoa processing companies and are demanding EU-wide regulations on human rights due diligence. The manufacturers Barry Callebaut and Nestlé already supported the Dutch law on the prevention of child labour.

But when I look at the UN Guiding Principles on Business and Human Rights, I have a sense of security. I am not worried that our company would be overburdened if we were bound to act according to those principles.

Should supply chain legislation apply to all companies?

GREGOR: It should apply to all companies whose activities are affected. That is not a question of size, but a question of what you do as a company.

ELOMAA: From the management perspective, it would be important to have all companies – regardless of size – on board. All companies would then have to make every feasible effort, which would be in keeping with the spirit of the UN Guiding Principles on Business and Human Rights.

Would legislation have to provide for sanctions and if so, what kind of sanctions?

GREGOR: Companies should be sanctioned if they do not comply with their reporting obligations. But it would be even more important for companies to be liable for damages.

ELOMAA: That is the only way such legislation can be effective. However, in Finland we debated whether a softer solution might be possible in cases where there were no major damages or where there was no gross negligence.

“From the management perspective, it would be important to have all companies – regardless of size – on board. All companies would then have to make every feasible effort.”

NINA ELOMAA

Perhaps, for example, there could be a forum which would organise that companies pay injured parties compensation before legal action is taken against companies. I think that such an arrangement is sensible.

GREGOR: I think that would be difficult. It is important to have clear liability mechanisms for the areas that businesses can monitor. For example, with respect to a subsidiary that drills for oil and thus may have a negative impact on the groundwater of local communities or direct suppliers that may systematically abuse workers’ rights. While not limited to these, the conditions for liability will occur much more exceptionally in complicated supply chains. In any case, companies should be able to identify such aspects and cease or prevent the impact, and if they do not do so, it must be clear how they can be held accountable.

Would such legislation distort competition for European companies vis-à-vis non-European companies importing manufactured goods into the EU?

ELOMAA: Usually, as a company representative I don’t necessarily advocate for regulation, but in the case of supply chain legislation, I make an exception: human rights are so important that we must take action, even if that means some competitive disadvantages for us. Of course, international rules would be better. It’s not fair if we have to play by different rules. Europe should still lead the way.

GREGOR: Already today, companies that are tackling the problems are competing with those that are not. This is also true in the competition between small and medium-sized companies with production in Europe and large European companies with production in high-risk countries. EU standards could also cover all companies

exporting to the common market. And once we have standards in Europe, we can negotiate at UN level with other countries for them to establish similar regulation. But today Europe is paralysed in these debates.

Would child labour, modern slavery and starvation wages in the supply chains of European companies be eliminated if legislation were passed?

ELOMAA: The problems would continue, but we would have taken an important step to reduce them. Then problems such as child labour and poverty, for example in cocoa farming in West Africa, would probably decrease but not disappear.

GREGOR: Right. There would still be companies from other parts of the world that would not respect human rights when buying raw materials and producing in areas where human rights are at risk. But Europe is the largest economy in the world. We should use that power to achieve a

“It is important to have clear liability mechanisms for the areas that businesses can monitor.”

FILIP GREGOR

reduction of the problems and set a global standard. If the climate crisis continues, conflicts will increase, for example over scarce resources such as water. In such situations, there will be many more cases of child labour and forced labour. By using our positive influence, we can mitigate the consequences of such conflicts and strengthen the stability of the societies at risk. I would say that in future the risks will be greater than they are today, and we must therefore take action before the situation makes that impossible.



Casper Dohmen's conversation
with Filip Gregor and Nina
Elomaa via video-telephony.
Photo: Scholz & Friends Berlin/
Anneke Wulf

Opinion and Comment

Companies Need Scope for Solution-Finding not Binding Human Rights Due Diligence Obligations

TEXT: PIERRE GATTAZ, BUSINESSEUROPE

Pierre Gattaz, President of BusinessEurope, recognises the responsibility businesses carry for human rights, but sees the risks associated with a binding EU-wide regulation aimed at creating a mandatory due diligence obligation for companies. Instead, he calls for companies to be supported in their endeavours to find solutions involving all actors.

Business acknowledges its moral duty and responsibility to respect human rights. Companies work continuously to find solutions to the complex human rights challenges they face by engaging in practical initiatives to implement the UN Guiding Principles on Business and Human Rights (UNGPs) and other standards. Actions include having a clear policy commitment to respect human rights, conducting human rights impact assessments, engaging with stakeholders and affected communities, as well as providing and participating in remediation processes.

The UN's Guiding Principles on Business and Human Rights must be implemented consistently worldwide

To allow companies to continue to act in a responsible way towards societies and throughout their supply chains, it is essential to clearly distinguish between the state responsibility to protect and the business responsibility to respect. States have to put in place and enforce laws to protect human rights, and companies' obligation

is to comply with these laws. The EU has a role to encourage states around the world to improve legal and judicial systems so that they are able to implement and enforce their international obligations. This is essential in order to create a global level playing field for protection of human rights and to implement the UNGPs in a harmonious way. In this respect, future EU free trade agreements could put more emphasis on the parties promoting, realising and implementing certain international human rights frameworks, including the UNGPs.

The EU has a role to encourage states around the world to improve legal and judicial systems so that they are able to implement and enforce their international obligations.

No new binding EU legal requirements

While supporting the objective of protecting and respecting human rights, BusinessEurope does not favour new binding EU regulation on mandatory human rights due diligence. Making human rights due diligence mandatory, especially on a select number of European-based companies, would hamper foreign direct investment by discouraging companies from engaging in challenging environments. However well-intentioned a due diligence law may be, taking a prescriptive and punitive approach could also have unintended consequences for rights-holders by dampening crucial investment flows to countries that face systemic development challenges, including conflict and corruption.

Commitments to human rights and labour conditions on voluntary basis

The focus should rather be on encouraging and supporting companies to work with stakeholders in a constructive way to create solutions to promote sustainable development, among other things in the area of voluntarily placing obligations on subcontractors and suppliers in their supply chains regarding human rights and working conditions. This has to be done in



PIERRE GATTAZ became President of BusinessEurope in July 2018. BusinessEurope, the Confederation of European Business, founded in 1958, represents European businesses and employers. It speaks on behalf of around 20 million small, medium and large companies from both manufacturing and service sectors throughout Europe. It is the umbrella organisation for the leading national business federations of 35 European countries. Photo: BusinessEurope/Christophe Guibbaud

a way which does not put excessive burdens on small and medium-sized enterprises (SMEs). BusinessEurope advocates for support and measures which encourage companies to invest in countries, and through their investment contribute to improvements there, despite complex and systemic issues. Binding human rights due diligence laws may have the opposite effect of companies actually moving out of countries where risks are more acute and no longer sourcing from them due to a fear of being seen as complicit in abuses. Support for and promotion of sectoral, including multi-stakeholder initiatives, is welcomed, as they can help improve conditions on the ground regarding common challenges.

Support for and promotion of sectoral, including multi-stakeholder initiatives, is welcomed, as they can help improve conditions on the ground regarding common challenges.

Compliance with standards can be best achieved through work at international level

Large enterprises operate in complex supply chains, often with thousands of suppliers, and therefore may not be in a position to ask all suppliers or subcontractors to comply with their standards and to monitor this. The international level is the best place to deal with this, where the UNGPs are the appropriate framework for companies to put in place due diligence measures to operationalise their responsibility to respect human rights.

Companies need to have scope for finding solutions

For companies to continue to conduct themselves in a responsible and sustainable way, they need space to devise solutions which fit their size, sector, operating markets, business model and diverse stakeholder needs. They need to be able to focus where the risk of adverse impacts is highest. Overly prescriptive rules would hamper this flexibility. Whilst overlapping or contradicting legal requirements in different Member States can be burdensome for companies, binding EU-level measures would likely add to this patchwork of rules and, where measures are not taken by other world players, could harm the competitiveness of EU companies. Companies also need better provision of information on the situation locally regarding enforcement (or lack thereof) of human rights and social legislation.

Opinion and Comment

An Ambitious European Directive on Mandatory Human Rights Due Diligence and Responsible Business Conduct

TEXT: ISABELLE SCHÖMANN, EUROPEAN TRADE UNION CONFEDERATION (ETUC)

Isabelle Schömann, Confederal Secretary of the European Trade Union Confederation (ETUC), advocates for a European directive to regulate companies' human rights due diligence obligations. In her view, the involvement of trade unions and workers' representatives and coherence with Europe's industrial, social, environmental and climate policy will be decisive.

Corporations operate across borders. Complex corporate structures and supply and value chains enable parent companies to circumvent responsibility for violations of human rights or social and environmental standards. It is difficult to trace the negative social and environmental impacts of their global operations and to make them accountable.

Human rights violations as a result of companies' business operations must stop

Violations of human rights, including workers' and trade union rights, continue to take place in companies', in particular multinationals', direct activities and in their supply and value chains. The freedom of association, the right to bargain collectively, the right to information, consultation and participation and to take collective actions are at the core of such violations.

Violations also concern the right to fair remuneration, decent working conditions, non-discrimination, health and safety in the workplace and child labour. This must stop. Intolerable situations like the Rana Plaza disaster cannot be part of the business model of any sustainable multinationals and supply chains. This is definitively not what the EU stands for. The European trade union movement calls for ambitious and urgent actions at European level to introduce binding and effective due diligence mechanisms.



ISABELLE SCHÖMANN is Confederal Secretary of the European Trade Union Confederation (ETUC), heads ETUC policy on workers' participation and European Works Councils, industrial policy, internal market legislation, digitalisation and artificial intelligence. The ETUC speaks with a single voice on behalf of 90 national trade union confederations in 38 countries, plus 10 European trade union federations, for stronger participation of workers in EU decision-making. Photo: ETUC/Tim Buelens

Voluntary route has proven insufficient and ineffective

A voluntary framework to promote business respect for human rights has proven insufficient and ineffective for workers, society and businesses. The main international and European tools, like the UN Guiding Principles on Business and Human Rights, the ILO Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy, the Council of Europe's Recommendations on Human Rights and Business and the OECD Guidelines for Multinational Enterprises, do not provide binding requirements and do not include effective, proportionate and dissuasive sanction mechanisms to force businesses to live up to their responsibilities.

The European trade union movement calls for ambitious and urgent actions at European level to introduce binding and effective due diligence mechanisms.

Robust European directive on human rights due diligence and responsible business conduct including supply chains

A robust, binding European due diligence framework with legal certainty and predictability is needed instead of a patchwork of ineffective voluntary measures that creates unfair competition at European and global level and leads to a race to the bottom in terms of human rights enforcement and the protection of environmental and social standards. Furthermore, in the current situation there is no stable ground for investors to evaluate and to compare companies' sustainability and due diligence processes.

The EU must act, and it must act now! There is a clear and concrete political responsibility to live up to the EU principles and objectives, its commitment to the values of liberty, democracy and respect for human rights as laid out in the Treaty on the European Union and the Treaty on the Functioning of the

European Union (the so-called Lisbon Treaty) and the EU's Charter of Fundamental Rights. The EU must provide for a legally binding environment based on a sustainable and stakeholder-oriented corporate governance model which fully respects human rights, including workers' and trade unions' rights, and recognises and values the necessity of workers' contributions and interests. The ETUC calls for an EU directive on human rights due diligence and responsible business conduct.¹

Active involvement of trade unions and workers' representatives, as well as other stakeholders, should be guaranteed in the European directive

A European directive should ensure the full and active involvement of trade unions and workers' representatives in the whole due diligence process, as workers' and trade unions' rights are at the core of sustainable businesses, including the management of their value chains. Effective remedies and access to justice should be available for workers and trade unions as well as to victims of human rights violations. Companies should be held accountable for the adverse impacts of their operations: liability must be introduced for cases where companies fail to respect their due diligence obligations, without prejudice to joint and several liability frameworks.

Coherence with European industrial, environmental and climate policy

This initiative should go hand in hand with the efforts to ensure more transparency of business activities, including through a European business register and public country-by-country reporting. Sustainable corporate governance should include fair taxation principles, making multinational companies pay taxes where profits are generated with the aim of preventing global supply chains that are based on tax avoidance and aggressive tax planning. It should also provide for consistency with European industrial policy as well as environmental and climate policies.

A robust, binding European due diligence framework with legal certainty and predictability is needed.

1. https://www.etuc.org/sites/default/files/document/file/2019-12/ETUC%20Position%20for%20a%20European%20directive%20on%20mandatory%20Human%20Rights%20due%20diligence%20and%20responsible%20business%20conduct%20adopted_0.pdf

Perspectives

“Voluntary Commitments Alone Won’t Make a Difference!” – A Petition to Foster a Fairer Textile Industry

TEXT: KATHARINA DIPPOLD, JOURNALIST

Low wages, precarious employment, poor occupational safety: conditions in the global textile industry are often problematic. Lisa Jaspers, who runs a start-up for fairly produced fashion and design in Berlin, has launched an online petition for legislation on human rights due diligence.

Are voluntary measures based on commitments made by companies sufficient? Berlin entrepreneur Lisa Jaspers thinks the answer is no. She says too little has changed in global value creation since the collapse of the Rana Plaza textile factory in Bangladesh in April 2013. She goes on to say that price is still often the decisive purchasing criterion for the textile market: “Large fashion chains in particular rely on fast fashion, a business model based on rapidly changing collections at the lowest possible retail prices.” But even when purchasing expensive clothes, buyers cannot be sure that the rights of the workers that make them are being respected. Confusing, complex supply chains with many sub-contractors and suppliers make it increasingly easy for manufacturers to evade their responsibilities. In order to take effective action against these



*Petitioner and entrepreneur Lisa Jaspers.
Photo: Victoria Kämpfe*

change-resistant structures, Jaspers launched a petition for legally binding regulations on human rights due diligence two years ago. “As consumers, we in Germany assume that the state will protect our human rights. In the clothing market, however, we absurdly accept the fact that companies only make commitments to comply with certain labour standards globally and thus protect the human rights of workers in developing countries. This is crazy and needs to change.” Jaspers believes that the possibility of being held legally accountable will

encourage companies to proactively improve monitoring in their supply chains and address potential risks for human rights and the environment.

Raising awareness through social media

Because nothing changed at the political level after the launch of her petition via the online platform change.org in April 2018, she launched a second appeal a year later, on the occasion of the sixth anniversary of Rana Plaza, and mobilised a broad network for this purpose. Jaspers was not only supported by Renate Künast, Member of the Bundestag for the Greens, but also by founders of start-ups, activists and influencers, as well as the Berlin branches of the Fridays for Future and Scientists for Future movements. For the launch of the campaign, she published a video in which many of the prominent supporters give the demands a common voice. In parallel, the initiative has spread across social media under the hashtag #fairbylaw. Jaspers regards German legislation as just an intermediate step. “Of course, at the end of the day we need a European solution. But a European solution is more likely to be accepted the more countries adopt national legislation.”

Jaspers primarily used digital means such as social media, but also podcasts and interviews with bloggers and online magazines to raise awareness of her grassroots initiatives without a media budget. “I think many people around me only became aware that the problem of fast fashion can also be tackled politically through the online campaign,” said the 36-year-old.



Delivery of the petition #fairbylaw by Lisa Jaspers (left) to Parliamentary State Secretary Kerstin Griese (right) at the Federal Ministry of Labour and Social Affairs. Photo: BMAS



Lisa Jaspers presents a colourful kilim carpet that women in eastern Anatolia knot by hand with wool from the region. Photo: Victoria Kämpfe

Over 154,000 people have already signed the petition. On 27 November 2019, she and a group of her fellow campaigners presented the petition to Kerstin Griesse, Parliamentary State Secretary at the Federal Ministry of Labour and Social Affairs.

Fair trade products for a younger, design-oriented target group

With her own company, Jaspers has already proven that it is possible to successfully change how people think and work: seven years ago, just a few months after Rana Plaza, she founded Folkdays, a label for fairly produced fashion and design. The idea for this came to her on journeys which took her to remote regions of the world in her then-function as a management consultant for development cooperation, but also in a private capacity: “The poverty I saw there shocked me.” At the same time, she discovered

a wealth of beautiful and sophisticated craftwork. Jaspers, who studied development economics, was motivated: why not bring this expertise to Europe? “In the end, I have always been concerned with the question: How can we get the money we spend here to very poor areas in an intelligent way?”

Her target group is a younger clientele that pays particular attention to aesthetics and quality when shopping. “The label was also born out of the realisation that until now, there were few fair-trade products that I found beautiful.” However, it is not only rising demand that makes Jaspers believe that her business model is sustainable. Rather, it is something else that is most important to her: a comprehensive paradigm shift in the economy and society. This brings us full circle: “My business model allows people around the world to live decent lives. And with the petition I am fighting for that to become the aim of entrepreneurialism in general.”



*Carpet weaver working
in eastern Anatolia.
Photo: Lisa Jaspers*

“Trade unions welcome the fact that the Federal Ministry of Labour and Social Affairs has put the issue of sustainable supply chains on the agenda for Germany’s Presidency of the Council of the European Union. A legal framework is necessary to ensure respect for universal and inalienable human rights, as well as labour, social and environmental standards in global value chains.

The 82 organisations from all areas of civil society that are part of the “Initiative Lieferkettengesetz” (Initiative for a German Human Rights Due Diligence Act) are calling on the Federal Government to implement this proposal for legislation, which is long overdue. Trade unions, environmental, human rights and development organisations and the representatives of fair trade and church organisations are joining forces in an initiative in Europe as well. By providing clear legal requirements for companies, Germany and France could be the driving force behind a European solution.

This would be an extremely positive contribution to making globalisation fair and a decisive step towards ensuring that human rights and the rights of workers are respected in global value chains.”



REINER HOFFMANN is President of the German Trade Union Confederation (DGB), the country’s largest umbrella organisation of individual trade unions. Reiner Hoffmann has a degree in economics. After working for the Economic and Social Committee of the European Community and the Hans Böckler Foundation, he became Director of the European Trade Union Institute in 1994. Hoffmann was subsequently elected to the position of Deputy General Secretary of the European Trade Union Confederation. He became president of the DGB in 2014. Photo: DGB/Detlef Eden

Analysis

Respect for Human Rights in Global Value Chains: Risks and Opportunities for German Industries

TEXT: BIBIANA GARCÍA, DANIEL WEIß

For the purpose of developing sectoral dialogues, a study has identified 11 industries in the German economy which exhibit particularly relevant human rights risks along their value chains. Two of the study's authors explain the methodology applied, summarise their results and formulate recommendations.

The German Federal Government adopted the National Action Plan for Business and Human Rights (NAP) in 2016. This plan lays down German companies' responsibility to respect human rights. In addition, it provides for a bundle of measures to assist companies with implementing and organising their due diligence with regard to human rights. The study "Respect for Human Rights in Global Value Chains. Risks and Opportunities for German Industries"¹ is one of these measures. It analyses human rights risks found in the value chain of various German industries.

As part of the implementation of the NAP, the aim of this study is to provide a basis for the German government's decision on which industries will be offered assistance in the form of sectoral dialogues. The entire German economy was examined from a human rights perspective and 11 "focus industries" were identified. Data on national and international activities already being undertaken by these industries to exercise corporate due diligence with regard to

1. Weiß, Daniel; Garcia, Bibiana; van Ackern, Pia; Rüttinger, Lukas; Albrecht, Patrick; Dech, Marlene; Knopf, Jutta. (2019). Die Achtung von Menschenrechten entlang globaler Wertschöpfungsketten. Risiken und Chancen für Branchen der deutschen Wirtschaft. Federal Ministry of Labour and Social Affairs: Berlin. This study was conducted by adelphi in cooperation with EY on behalf of the Federal Ministry of Labour and Social Affairs.

human rights was collected in the course of interviews and background discussions with sectoral representatives, trade unions and stakeholders from civil society. The project team developed potential starting points for sectoral dialogues and further activities for the 11 focus industries. Cross-sectoral recommendations were also formulated.

Preliminary considerations regarding methodology

According to the OECD Due Diligence Guidance, industry-specific risks are risks that are ‘prevalent within a sector as a result of the characteristics of the sector, its activities, its products and production processes’.²

One of the project team’s primary tasks was to bundle and operationalise the individual industry’s specific perspective with regard to human rights due diligence in a way that would make the process of analysing and narrowing down input in order to prepare in-depth examinations of the focus industries not only manageable but also comprehensible. The tiered methodological approach (Figure 1) takes into account both qualitative and quantitative data. In order to be able to make statements about individual German industries, information on risks to human rights and structural industry data were additionally combined and examined. Similar approaches have been used in industry-specific studies and analyses conducted in other countries, including the Netherlands and Belgium.³

Main steps in the analysis and narrowing-down stage

The starting point for the study was a general survey of all of the approximately 100 industries that make up the German economy. As a first step, a structured analysis of several data sources⁴ was conducted to identify those industries which, from an international perspective, exhibit risks to human rights. Similar industries were then grouped together. By using databases to identify risks and grouping industries together, it was possible to ascertain human rights risks for 29 industries. Industries where this was not the case, such as libraries, archives, museums, botanical and zoological gardens, were disregarded. This does not mean, however, that risks to human rights do not exist in those industries that were not subject to further analysis. Rather, they display less empirical evidence of risks compared to other industries.

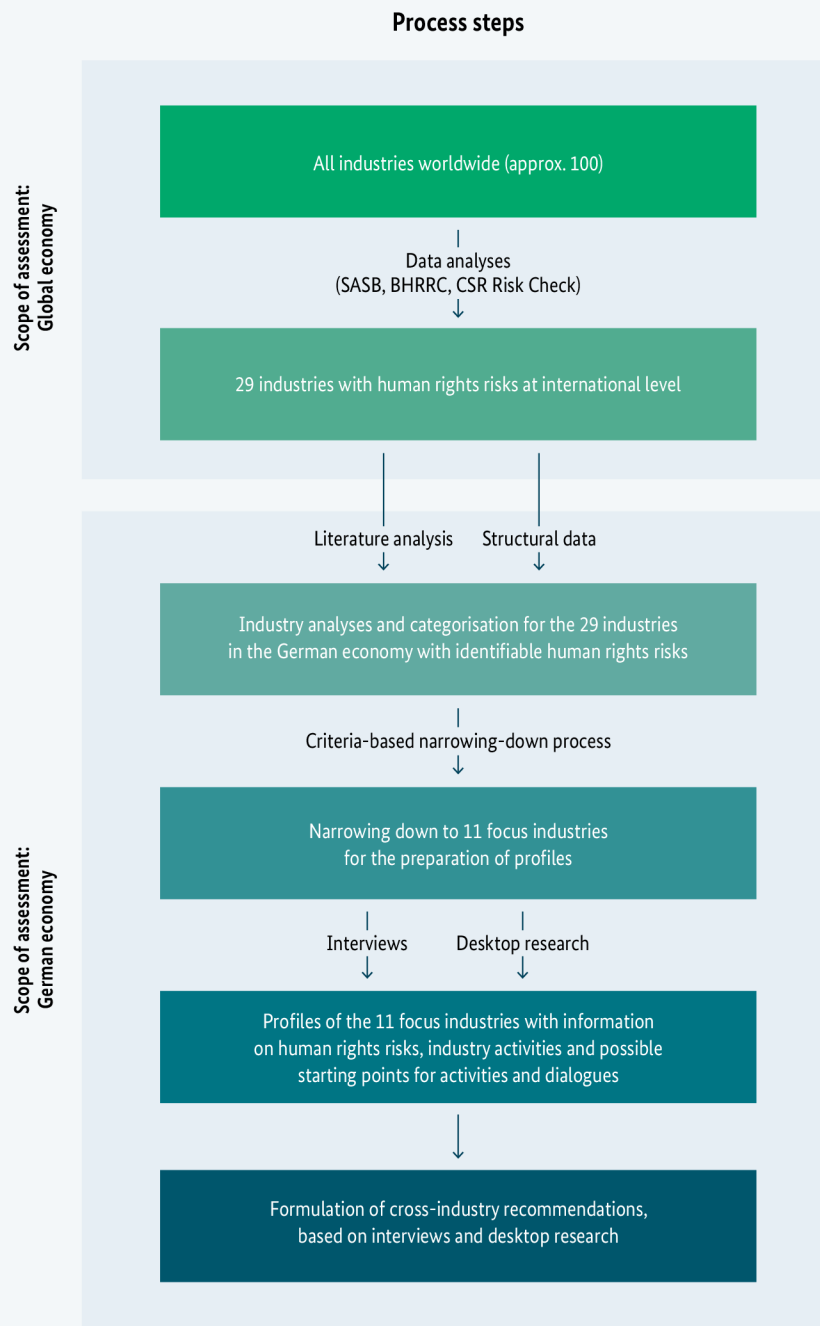
Narrowing the number of industries down to 29 (Figure 2) made it possible to conduct, in a second step, a detailed examination of the individual industries. This not only revealed which human rights risks exist in a particular industry, but also where in the value chain these risks occur, the degree of the industry’s international integration and the industry’s economic importance for Germany. During the narrowing-down process, industries with little international integration and which, compared to other industries, have less evidence of human rights risks of special relevance were disregarded. These included mining and minerals, waste management, forestry, real estate

2. OECD Due Diligence Guidance for Responsible Business Conduct. Organisation for Economic Cooperation and Development. Paris, p.62.

3. In Belgium for example, companies can use the Human Rights Toolbox from the Belgian Federal Institute for Sustainable Development to inform themselves about risks to human rights in their business activities. In the Netherlands, two ministries commissioned the consultancy KPMG to conduct a study analysing human rights risks in Dutch industries. The study used a methodological approach that is similar to the Belgian toolbox. The Dutch approach went into much greater detail, however.

4. This approach was based on the analysis of three comprehensive, publicly available data sources: The Materiality Map and the industry standards of the Sustainability Accounting Standards Board, the complaints database of the Business and Human Rights Resource Centre, and the CSR Risk Check from MVO Netherlands. The first step focused on ascertaining the existence of clearly recognisable industry-specific risks in the three aforementioned data sources.

Overview of the methodology used



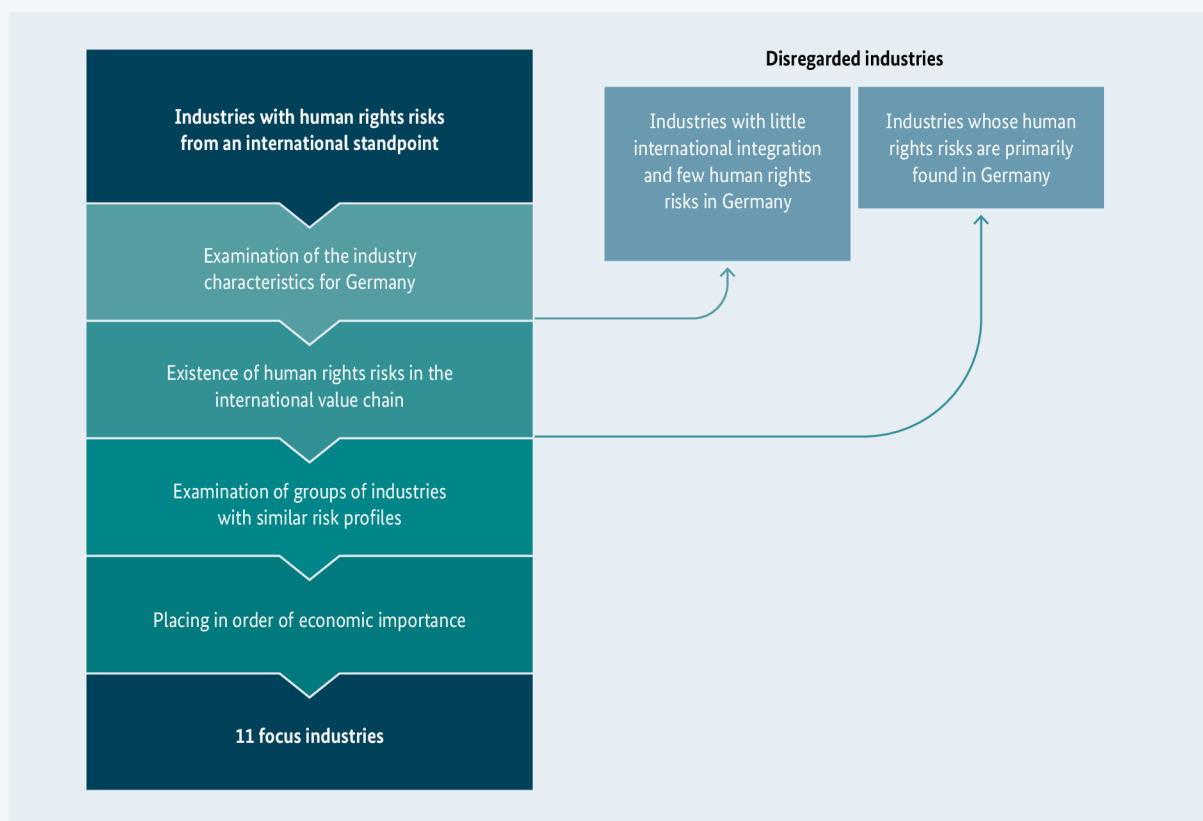
Source: Weiß, Daniel; Garcia, Bibiana; van Ackern, Pia; Rüttinger, Lukas; Albrecht, Patrick; Dech, Marlene; Knopf, Jutta. (2019). "Die Achtung von Menschenrechten entlang globaler Wertschöpfungsketten. Risiken und Chancen für Branchen der deutschen Wirtschaft." Federal Ministry of Labour and Social Affairs; Berlin.

activities and water supply. Other industries that were disregarded include those with a low level of international integration and a strong focus on using their own production sites in Germany for their value chain. This is the case for “construction”, “agriculture and fishing”, “personnel, cleaning and security services” and “transport and logistics”. However, the analyses conducted on the individual industries made it clear that these industries can be linked to risks to human and labour rights in a national context as well.

For the final selection of the focus industries, industries with similar risk profiles were examined together for the purposes of the study (the electronics industry was combined with telecommunications and digital products and services to create the category “electronics, telecommunications and digital products and services” while gastronomy and hotels was combined with travel and recreation to create “tourism and recreation”) and the remaining industries were arranged in order of their economic importance.

Figure 2

Narrowing down the focus industries



Source: Weiß, Daniel; Garcia, Bibiana; van Ackern, Pia; Rüttinger, Lukas; Albrecht, Patrick; Dech, Marlene; Knopf, Jutta. (2019). "Die Achtung von Menschenrechten entlang globaler Wertschöpfungsketten. Risiken und Chancen für Branchen der deutschen Wirtschaft." Federal Ministry of Labour and Social Affairs; Berlin.

German focus industries

The results of the analysis suggest that a comparatively large number of human rights risks relating to fundamental rights and freedoms exists in these focus industries. In addition, many human rights risks of particular relevance can be found in the first tiers of the value chain (extraction of raw materials). These industries also have human rights risks that are (directly) related to their business activities in the value chain.⁵

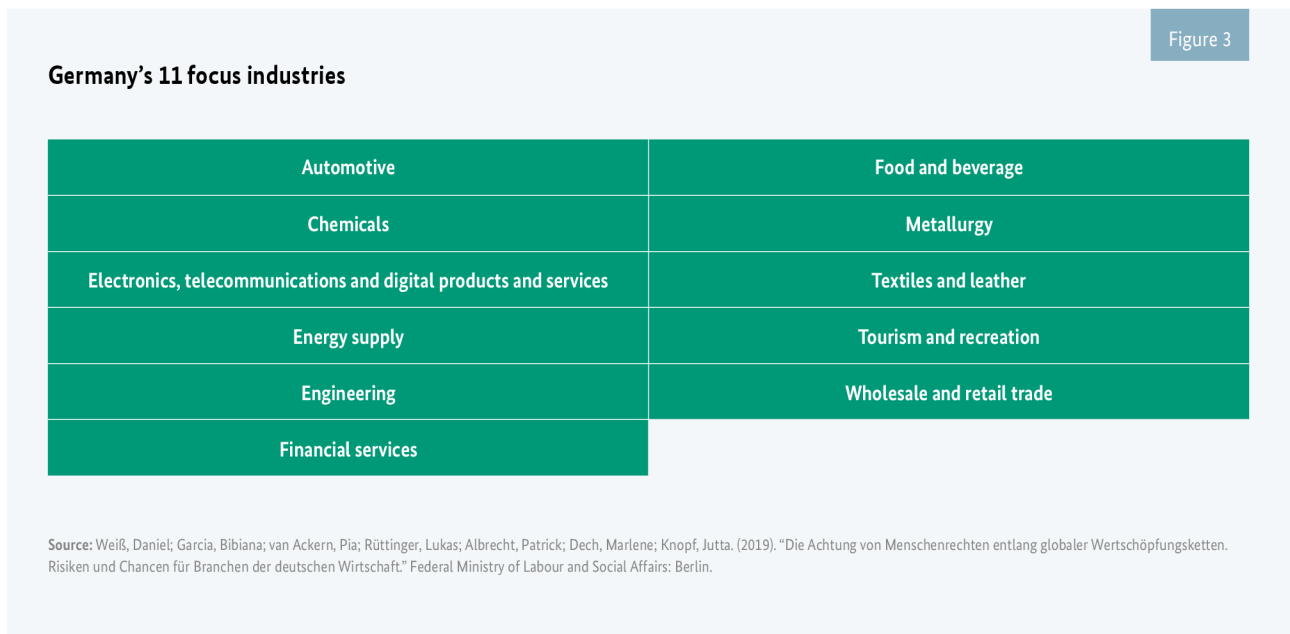
From a structural standpoint, the findings show that these industries have a high level of international integration (import penetration rate). With regard to their upstream value chains, these industries are resource-intensive and/or import, in some instances, raw materials from countries with significant governance and human rights challenges. (Figure 3)

Case study: Automotive industry⁶

With €482 billion in sales, the automotive industry is the industry with the highest revenue in Germany. It is characterised by a very complex supply chain and high level of international integration.

Outline of industry-specific human rights risks

Significant human rights risks exist in particular in the international upstream value chain (Figure 4). Human rights risks were identified especially in connection with the extraction and processing of raw materials. The automotive industry requires large amounts of raw materials such as bauxite and natural rubber that are often obtained under precarious conditions in countries with challenging governance contexts. This can lead to human rights violations such as damage to the health of



5. Not every industry exhibits all of the human rights and/or structural characteristics.
6. Industry profiles were prepared for the 11 focus industries. These profiles outline the identified risks and examine the human rights risks and regions where human rights are at risk in connection with goods and products that are exemplary for the industry. The profiles also list current activities pertaining to the industries' human rights due diligence obligations. The section which follows is an excerpt from the profile for the automotive industry.

Figure 4

Heat map of the automobile industry



Source: Weiß, Daniel; Garcia, Bibiana; van Ackern, Pia; Rüttinger, Lukas; Albrecht, Patrick; Dech, Marlene; Knopf, Jutta. (2019). "Die Achtung von Menschenrechten entlang globaler Wertschöpfungsketten. Risiken und Chancen für Branchen der deutschen Wirtschaft." Federal Ministry of Labour and Social Affairs; Berlin.

workers and the local population, land grabbing, violence against indigenous peoples and precarious working conditions. In the wake of the shift to electric mobility, the risk of human rights violations in the supply chain for the required raw materials is growing (for example, in connection with the extraction of lithium and cobalt). Furthermore, precarious working conditions, inadequate health and safety standards, and damage to the health of workers, for example, have been documented in the automotive industry's own international value chain in the past.

Situational analysis of industry activities

Characteristic from an institutional point of view is the large number of players and issues that are related to the automotive industry. Besides the two main industry-specific initiatives – the European Drive Sustainability Initiative and the Automotive Industry Action Group (AIAG), which was founded in the USA – many automobile manufacturers and automotive suppliers participate in cross-industry initiatives. These initiatives look into a number of issues, particularly raw

materials, but also specific automotive components such as tyres and batteries. This has led to an extensive, highly complex network of initiatives that are relevant to the industry. Also striking is the strong international orientation of initiatives in the automotive industry. This corresponds to the industry's high degree of international integration.

Recommendations

As part of this study, concrete starting points for conceivable sectoral dialogues and other activities were formulated for each of the 11 focus industries, largely on the basis of the assignment of the identified industry activities to the five core elements of due diligence in the field of human rights as set forth in the German NAP. The study findings suggest that it would be fundamentally advisable for the German government to provide assistance for all five of the NAP⁷ core elements.

With regard to the design and structure of the dialogue formats, it is important to focus directly on the individual sectors' needs and to take current initiatives into account. Moreover, in addition to dialogues at industry level in Germany, consideration should be given to thematic and cross-sectoral dialogues (such as on challenges arising in connection with the extraction of raw materials) or to expanding existing formats and supporting activities at European and/or international level, as the case may be. Taking a multi-stakeholder approach is essential not only to ensure a collaborative exchange between key players, but also in order to take particular account of the standpoints of civil society. European players should be integrated into dialogues when they are relevant for German industries. The profiles of the 11 focus

industries indicate that the key players in a number of these industries are European. Looking ahead, dialogues could be established at European level as well. Using multi-stakeholder dialogues, national and European players could share views and information about activities where collective action at European level can produce the greatest leverage for implementing human rights due diligence and which should be expanded. In addition to having to take a multi-stakeholder approach as outlined above, all sectoral dialogues should be subject to minimum requirements regarding content and procedures: industry studies which cover sector-specific human rights risks and existing activities should serve as the empirical starting point in this regard. Furthermore, existing OECD and EU guidelines relating to the subject should be taken into account in order to develop an understanding for what human rights due diligence means in a particular industry or at industry level, which human rights challenges exist and which activities could be undertaken to address them. Moreover, sectoral dialogues should build on the UN Guiding Principles on Business and Human Rights (and the core elements of human rights due diligence as outlined in the German NAP).

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DANIEL WEIB is a Senior Project Manager and Cluster Coordinator Green Economy at adelphi.

7. The core elements of human rights due diligence as laid down in the NAP are: (1) a human rights policy statement; (2) procedures for the identification of actual or potential adverse impact on human rights; (3) measures to ward off potentially adverse impacts and review of the effectiveness of these measures; (4) reporting; (5) a grievance mechanism.

Perspectives

What Opportunities Would a European Sectoral Dialogue within the Automotive Industry Create?

Hiltrud Dorothea Werner (Volkswagen AG), Michelle Wen (Groupe PSA) and Iztok Seljak (Hidria Holding) discuss the significance of human rights along global supply chains for a sustainable automotive industry, their expectations of policymakers and to what extent European sectoral dialogue within the industry impacts their own competitive environment.

How important are responsible supply chains to the automotive industry on the road to sustainable mobility?

WERNER: We believe that sustainability throughout the entire supply chain is crucial to shaping the mobility of the future, especially in ecological and social terms: with an increasing proportion of CO₂-neutral electric vehicles, emissions are shifting from the use phase to the production phase and thus into the supply chain. The large amount of energy needed for the production of components such as batteries plays an important role here. This is precisely why reducing CO₂ in the supply chain is one of our strategic priorities. Another central problem is that the raw materials for batteries, such as

cobalt and lithium, are often currently mined under conditions that must be viewed critically. We see it as our responsibility to work toward the sustainable mining of the minerals while absolutely respecting human rights, and to guarantee this by implementing appropriate processes.

SELJAK: Supply chains are of enormous importance for green mobility. As a company we first of all need to make sure that we produce ecologically friendly products with carbon-neutral production processes and that we are treating our own employees with maximum respect as well. While as an international company in the automotive sector we are an important player in the supply chain, we are only one link. In order to act responsibly with respect for the planet and the environment, we need to make sure that our partners and suppliers conduct business sustainably as well: engage those applying measures already and make sure that the others apply them ASAP. This is more and more frequently also the expectation placed on us by our customers, the car manufacturers.



1. HILTRUD DOROTHEA WERNER

was appointed to the Board of Management of Volkswagen AG in February 2017, with functional responsibility for 'Integrity and Legal Affairs'. The Volkswagen Group is one of the world's leading car manufacturers and the largest car manufacturer in Europe. The Group operates 122 production sites in 20 countries on the European continent as well as in 11 in the Americas, Asia and Africa. With a graduate degree (Diplom) in economics, Werner is also a member of the Supervisory Board of Audi AG and of the Group brands Porsche AG, Seat SA and Traton Group. Photo: VW

WEN: In Groupe PSA more than 75 per cent of vehicle components are purchased material. To make a responsibly produced vehicle possible, supply chains and all our suppliers acting therein have a very important role to play. On the path to creating a sustainable automotive industry, supply chains and our suppliers are very important, if not the most important contributor in general.

How significant is compliance with human rights at foreign sites and in the automotive industry's supply chains?

WEN: The Groupe PSA's Purchasing Department has established qualification and selection processes for its suppliers that apply regardless of the country in which we buy our parts or services. In particular, we have developed an overall CSR requirements policy, which applies to all our suppliers without exception. Thus, we can guarantee the same performance indicators for all our suppliers regardless of their location all over the world. More specifically, we require our suppliers to all be assessed in CSR by an independent body, ECOVADIS, which verifies the suppliers' compliance with our expectations. The assessment process notably includes the following areas: environment, labour and human rights, ethics and sustainable procurement. A minimum score is required in each of these categories to qualify as a supplier.

SELJAK: Responsibility for human rights throughout the supply chain plays a crucial role in the success of our company. While compliance with human rights is taken for granted in our European/western production sites, where we still have a majority of our operations, this may unfortunately not be the case in some other

areas within our global presence. We will be expanding specifically those sites intensively in the future, which will require special attention and willingness to act.

WERNER: We are an internationally active group, with production in China, Russia, South Africa, Brazil, India, the USA and many other countries. All over the world, we comply with local laws and international standards, and with our own ethical standards. We don't just export cars; we also create jobs worldwide and communicate our social standards and values wherever those jobs are. We also evaluate suppliers according to their human rights record and link our contract decisions to this in the framework of the so-called "S rating". This rating evaluates sustainability in environmental and social terms, including human rights, and the integrity of direct suppliers.

What are the biggest challenges you face in implementing human rights due diligence requirements in your company?

WEN: We currently deal with more than 8,000 suppliers in more than 60 countries around the world. The range of technical and material processes is particularly wide. In addition, we must ensure control of the entire supply chain, which can sometimes include up to seven or eight levels of sub-suppliers. Our CSR requirements include a mandatory assessment of our suppliers by an independent third party, ECOVADIS, and we also require that all our suppliers confirm by their signature that they apply the recognised international standards of the ILO and United Nations in a specific CSR purchasing charter. For the most critical groups of goods, we perform audits of our suppliers' sites and we require that all of the sub-suppliers be communicated to us so that we are aware of the complete supplier mapping, from raw materials to the finished product that we buy. In the event of a CSR disruption in our supply chain, whatever the level of the chain, we must be able to react quickly. Our conditions of purchase valid for all our commercial contracts allow us to react unilaterally at any time if necessary.

WERNER: The human rights responsibilities of states were set down centuries ago. Companies' human rights due diligence obligations were only agreed in 2011 with the UN Guiding Principles on Business and Human Rights. Nevertheless, we have already put it into practice and set up a compliance management system which includes human rights. Grave human rights violations such as child labour or forced labour are taboo for us.

2. MICHELLE WEN joined Groupe PSA in 2017 as Senior Vice President, Purchasing Opel Vauxhall. On 1 June 2018, she was appointed Executive Vice President, Global Purchasing and Supplier Quality of Groupe PSA and became a member of the Executive Committee. Groupe PSA is the second-largest car manufacturer in Europe. It is present in 160 countries and possesses 16 production sites across the world. Wen is an MBA graduate of the ESCP-EAP and Executive Management Education of INSEAD Business School. Photo: Groupe PSA

3. DR IZTOK SELJAK is Managing Director of Hidria Holding, one of the world's leading corporations in automotive and industrial technologies. Among other things, he is responsible for strategic business development, innovation and EU projects. Seljak began his professional career at Rotomatika, a subsidiary of Hidria, in 1989. He holds a BSc in economics from the University of Ljubljana as well as an MBA, MSc and PhD from the IEDC-Bled School of Management. Photo: Hidria

We see it as our corporate responsibility to respect and protect human rights. There are legal reasons and also economic reasons why we are now devoting more attention to this issue. Investors are already basing decisions about which companies to invest in on sustainability ratings. Our goal is to ensure that our standards are upheld along the entire supply chain, although this presents us with major challenges – both in terms of implementation and control.

SELJAK: Back in the early 90s a number of customers started to require from us that we ensure human rights were being respected throughout our entire supply chain, including preventing “child abuse in child labour”. We complied of course and that was a good 30 years ago, long before the official endorsement of the UN Guiding Principles on Business and Human Rights. To this end, we adopted the Hidria Ethic Codex, which specifically deals with respecting human rights. It is published on our website and is available to our customers and suppliers. The guidelines it lays out form an integral part of our agreements with suppliers. Despite this, we still face many challenges, in particular how to make sure that our suppliers and in turn their suppliers are respecting human rights. In many cases, we are dealing with small companies or even individuals, who do not have access to the processes and systems needed for procurement management. On the other hand, that is exactly what we have told our customers we are committed to doing.

What support would you like to receive from policymakers in this context?

SELJAK: We would expect and strongly suggest that policymakers be more aligned and consistent in setting legal requirements for all employers to implement an ethics code and to actively monitor that it is being respected. Providing a global, or

initially at least an EU-wide standard, would help smaller companies to be able to implement it and make sure that it is then followed through. Perhaps a designated public agency should help with implementation? That would emphasise its great importance further.

WERNER: As a globally active group, we would like to see the most uniform regulations possible around the world, particularly uniform standards in Europe. The distinction between the states’ obligation to protect human rights and corporate responsibility for human rights requires a continuous dialogue between the parties involved – on both principles and implementation. It is often challenging for companies to obtain concrete, unprejudiced information that enables a genuine, comprehensive assessment of human rights-relevant situations. Policymakers and the state can provide concrete support in obtaining this information.

WEN: More collaboration at least within the EU, preferably worldwide. This would support fair trade and sustainable business practices in the most efficient way for all actors along the supply chain as well as on the OEM¹ side. In the context of free trade agreement negotiation, the EU should ensure that sustainability chapters properly address human right issues.

Do companies in the automotive industry cooperate with each other to jointly tackle human rights risks in supply chains? If so, what role do you play in this?

WEN: There are several organisations and cooperation bodies. Human rights are also handled there to some extent, however, they are not the main focus. Groupe PSA works with independent companies that operate across sectors, like the Responsible Business Alliance. For the evaluation

1. Original Equipment Manufacturer (OEM) is to be understood in the context of the automotive industry as a car producer.

of our suppliers we also work with independent parties. We do not cooperate directly with other OEMs, however; rather we rely on cross-sectoral initiatives like in the Responsible Business Alliance, which hosts the RMI² network.

SELJAK: We do cooperate with each other, in fact that is an integral part our business, specifically between the car producers and systems suppliers of tier 1 and tier 2, but also among car producers and systems suppliers themselves. However, I'm not sure what goes on at the lower levels of the supply chain.

WERNER: Our aim is to work together with our suppliers to improve sustainability. It is not in anybody's interest to ban as many companies as possible from the supply chain that are currently not yet fully compliant while endangering many livelihoods. We also want to develop the suppliers. In doing so, joint, industry-wide initiatives are crucially important. We seek out close cooperation with international organisations, for instance. As a member of the Global Battery Alliance, we want to be a catalyst and accelerate measures towards a socially responsible, ecologically sustainable and innovative battery value chain. Another key element of our activities is our involvement in the industry initiative Drive Sustainability, coordinated by CSR Europe. The development of the joint questionnaire standard for evaluating sustainability aspects of suppliers was a milestone in this respect, as was the joint training approach undertaken with other OEMs for suppliers with training events in selected countries. Moreover, we actively contribute to sectoral dialogue within the German automotive sector related to the National Action Plan for Business and Human Rights, in which manufacturers, suppliers, unions, NGOs and the German Federal Government participate.

Do you also cooperate with companies from other sectors? If so, in what areas?

WERNER: Yes, when it comes to the topic of business and human rights, it makes a lot of sense to share ideas across industries, especially on management approaches and examples of good practices. Specific risk scenarios can also affect several sectors at the same time. For example, we share information with corporate groups of similar size and structure that have also embedded the topic of business and human rights within their companies. We also exchange information with numerous companies in other industries within the Global Business Initiative on Human Rights regarding the implementation of human rights due diligence obligations.

SELJAK: The rules adopted in the automotive industry are typically being carried over to other industries. The same goes for human rights compliance. In our case, we are expanding the issue into the HVAC (heating, ventilation and air-conditioning) industry, power tools industry and others.

WEN: Our main partners for the evaluation of our suppliers as well as the Responsible Business Alliance are not solely tied to the automotive sector. Due to the variety of parts, commodities and processes that we purchase, our CSR partners might also operate in the electronics, chemical or railway business, just to name a few. Through these cross-sector benchmarks, we ensure the best solution is implemented, which may not always be from the automotive sector.

“We see it as our corporate responsibility to respect and protect human rights.” HILTRUD DOROTHEA WERNER

2. Responsible Minerals Initiative (RMI)

How has your company benefited to date from cooperation?

SELJAK: We view cooperation very positively. For instance, exchanging best practices and gaining insights into alternative approaches used by our peers in automotive and other sectors can be very enriching. Though our areas sometimes differ significantly, we are able to learn from one another and seek ways to apply experiences from other industries to our sector. Through this, we are advancing and becoming more respectful and are ourselves earning greater respect.

WEN: We work with many partners outside the automotive industry, so we are able to benefit from cross-industry benchmarking and exchange of best practices between us and other industries. Nevertheless, implementation must be individually executed. When doing so, we carefully consider national and EU legislation on anti-competitive behaviour and cartels.

WERNER: The benefit of cooperating with others is to further mainstream the issue of business and human rights, which is still a new issue. Stakeholder contacts are useful, for example, to reflect, improve and standardise concrete approaches, questions and documents. “Progress through dialogue and exchange” is the motto here.

What advantages and opportunities would a European sectoral dialogue offer – alongside the existing initiatives and efforts?

WEN: European sectoral dialogue will strengthen the position and market opportunities at least inside the EU market for all members. It may also strengthen the position of Europe as such in competing on the global market, where other growing markets are gaining more and more influence. We would welcome new EU legislation that supports our duty of due diligence by means of a single

“More collaboration at least within the EU, preferably worldwide. This would support fair trade and sustainable business practices in the most efficient way for all actors along the supply chain as well as on the OEM side.” MICHELLE WEN

European position towards importers of all kinds of goods or raw materials into the EU. This should also not be limited to specific industries inside or outside the EU. We recommend ongoing dialogue with international organisations like the OECD in order to provide guidance and standards for the respect of human rights. A silo-oriented approach from within the sectoral perspective would not be efficient. Major risks have been identified at the origin of the supply chain, i.e. at mine level or with farmed products. For example, the EU could lay out certain human rights standards in goods that contain mica. Here several industries would be affected, such as cosmetics, automotive, mining, plastics, insulations and pharmaceuticals, just to name a few.

WERNER: The exchange of ideas in the existing initiatives is ongoing, also at European and international level, for example in the Global Battery Alliance or Drive Sustainability. The advantages are obvious: German players alone cannot make the relevant supply chains sustainable; there has to be cooperation between all the companies involved. For the raw material supply chains for electric vehicles, these include, in addition to the other European OEMs, companies in the electronics industry and raw material companies, most of which are not based in Germany or on the European continent.

SELJAK: An EU-wide regulatory framework must be defined, which should then be promoted as a global standard. We first need to be an example to other nations and communities of nations. The EU and its

institutions must provide continuous support for the development and creation of policies that will be, in the context of protecting human rights, sustainable for the employees as well as the employers. These policies must be written in such a way that they support the development and competitiveness of enterprises and the economy as a whole. They must provide equal protection of human rights for all, not just for specific countries. So far the practice is as follows: countries where the level of human rights and employee rights is often lower than in the EU are still selling their goods and services to and on the EU market and competing with EU-based companies. This creates an unequal competitive framework.

Who should take part in an EU-wide dialogue?

SELJAK: It should be initiated by governments while including both the industry and companies' management as well as unions and NGOs as important stakeholders. Through dialogue at political level and the exchanging of positive ideas, we can find continually better solutions and paths to coexistence and development of our rights and obligations.

“Responsibility for human rights throughout the supply chain plays a crucial role in the success of our company.” IZTOK SELJAK

WEN: It is desirable that decisions regarding human rights be taken by the European institutions (Council, Commission and European Parliament) rather than EU countries individually. Furthermore, we recommend working in close cooperation with bodies such as the OECD as well as with European trading partners. Groupe PSA would be pleased to contribute to the debate either directly or via its trade associations

WERNER: Besides political, economic and civil society actors, European associations and interest groups certainly play an important role. EU countries that manufacture automobiles should also be included.

What else, in your view, could the EU do to help to improve the conditions for companies to ensure respect for human rights and decent work in their supply chains?

WERNER: The EU can create a level playing field for all actors. In terms of a smart regulatory mix, it can also recognise companies that are already active and provide incentives for those that are not yet working on supply chain sustainability to a comparable extent.

WEN: Promote uniform EU-wide legislation and standards that are valid for all sectors rather than country-specific legislations and rules.

SELJAK: The EU should invest more time and resources in helping to implement ethics codes and educate people on key areas of respecting human rights. The EU should also ensure that these codes are not then considered simply a static document companies keep on file, but rather are actually lived in everyday operations.

Examples from Practice

Towards Fair Magnets – Portrait of a Family-Owned German Company

The family-owned company Haas & Co. has, for almost a decade, committed itself to protecting human rights along its supply and value chain. It demonstrates how even smaller companies can do justice to their responsibility. Two things Managing Director Christopher Haas has never lacked are ideas and initiative.

The German family-owned company Haas & Co. Magnettechnik (Haas & Co. for short) from the city of Wiesbaden in Hesse started dealing with human rights due diligence in global supply chains systematically in 2011. The company became aware of the issue when a major customer made reporting on corporate social responsibility (CSR) activities a criterion for selecting business partners. Before that, Managing Director Christopher Haas concedes, there had been no clear understanding in the company of what CSR or human rights due diligence meant.

The first step was to identify risks to human rights

Haas & Co. began by mapping out its magnet value chain. Then the company identified human rights risks in its own business activities and quickly discovered that these were mainly in its supply chain. The company produces and sells magnetic foils, technical magnets and custom-made magnetic products, for example. Most of the raw materials come from Asian countries, where they are mined and processed into intermediate products that Haas & Co. adapts to the specific product requirements in Germany.

Available information pointed to significant human rights risks

According to Christopher Haas, the supply chain in the magnet industry was a “black hole” when Haas & Co. first began to look at the issue closely. There were hardly any reliable studies on the conditions of production and mining of the raw materials. The little information available on the working conditions in the raw material mines pointed to considerable human rights risks, for example in the areas of health protection and adequate wages. Haas & Co. identified the mining conditions of in particular the raw material neodymium, which belongs to the category of rare earths and is found almost exclusively in China, as problematic. At the same time, demand is high: currently the strongest permanent magnets are made from the raw material neodymium and are used, for example, in smartphones, loudspeakers and wind turbines.

Managing Director Christopher Haas. Photo: Marcus Steinbruecker



A new approach to human rights for suppliers

Working with its direct suppliers and business partners in China who process the raw materials, Haas & Co. has established requirements in its purchasing conditions to ensure human rights are respected. Christopher Haas has visited the production facilities regularly for several years. He says that having longstanding business relationships with his suppliers has helped to develop a relationship of trust. It has also led to a new way of thinking among suppliers regarding measures to ensure respect for human rights.

“Together with our business partner in China, we were able to develop preventative measures on site to address the human rights risks we identified. We ourselves were surprised by what we were able to achieve with our suppliers.”

Chinese New Year’s celebrations and non-returning employees

One starting point was the Chinese New Year, the most important Chinese holiday. Chinese people who work away from their home areas usually save up their entire annual holiday time and then spend several weeks with their family. In the past, many workers – sometimes up to 50 per cent of the workforce – did not return afterwards, so the company had to employ many untrained workers in the weeks after the holiday. This had a negative effect on the quality of the goods. To increase the return rate of employees and thus prevent possible customer complaints, the supplier agreed to take measures to increase the safety of employees in the workplace.

Work safety measures proved cost-effective

For example, protective clothing was made available for the first time and adapted to meet the needs of the workforce. Previously, measures for greater safety at work had been regarded as a mere “cost without return”, and the workers did not think they were in a position to demand them. The Chinese supplier saw that such measures, which hardly cost the company anything, had a great effect. The employee return rate after the New Year’s holiday rose to about 85 per cent.

Partnerships and networks as the key to human rights strategy

In order to prevent potentially adverse effects on human rights in the supply chain, the company is also cooperating on a research project with the Fraunhofer Project Group for material recycling. The aim of the research project is to use neodymium, which releases radioactive material when it decomposes, several times in the production cycle through recycling. Christopher Haas reports that there is hardly any awareness in the industry of the requirements that companies have to meet in terms of human rights due diligence. It is thus difficult to find others willing to participate in a test of neodymium recycling. In order to draw attention to the human rights risks in the metal supply chain and to further raise awareness, Christopher Haas co-founded the industry initiative Fair Magnet. The aim is to introduce a label for the fair production of magnets. The criteria for certification are currently being developed in cooperation with a Chinese university.



*Christopher Haas with an experienced employee.
Photo: Marcus Steinbruecker*

Under the patronage of the Federal Minister of Labour and Social Affairs Hubertus Heil, the CSR Award of Germany's Federal Government will be awarded for the fourth time in 2020. The award honours responsible corporate conduct.

Companies in three size categories could apply, and there are also two special awards. The jury makes its decisions on the basis of a scientifically sound, three stage analysis. Haas & Co. Magnettechnik is nominated for the special award Responsible Supply Chain Management .

Communicating expectations and values clearly

Since 2018, Haas & Co. has reported its compliance with Germany's Sustainability Code in a declaration on the Code's 20 criteria. In addition to the values and principles to which the company is committed, it also contains a policy statement on respect for human rights. The Sustainability Code declaration contains voluntary commitments on the part of the company and requirements for its business partners, which among other things follow from its conditions for suppliers and from the guidelines of the Chamber of Commerce and Industry in Wiesbaden (Leitbild Ehrbarer Kaufleute) which Haas & Co. first signed in 2017 and then in revised form in 2019. Apart from the uniform consolidation of corporate obligations, Christopher Haas sees the advantage of a Sustainability Code declaration in the fact that expectations and values can be clearly communicated – both internally and also externally to suppliers and customers.

Implementation of systematic measures feasible even for smaller companies

As a medium-sized family business with about 25 employees, Haas & Co. wants to show that the implementation of systematic procedures and measures to ensure respect for human rights is also feasible for smaller companies. Christopher Haas emphasises that cooperation and the development of partnerships and networks – with both suppliers and also research institutions and like-minded companies – is crucial for the systematic implementation of human rights measures.

Engagement along the supply chain is part of the company's future strategy

Its employees fully support the company's commitment: for them it is a unique selling proposition for the company. By doing so, Haas & Co. has been able to mitigate the lack of skilled workers to a certain extent, says the Managing Director, adding that for employees and applicants, identification with the company values is becoming increasingly important. Christopher Haas says that relationships with suppliers have also changed, with joint development of solutions increasing the reliability of business partners and significantly improving the quality of the product. He also sees his company's commitment as part of its strategy for the future. Haas is certain that to be successful in the long term, companies processing raw materials must focus more on measures to ensure that human rights are respected – in Germany and worldwide.

Christopher Haas in exchange with a young employee. Photo: Marcus Steinbruecker



Context

Fair Play Off the Pitch, too?

TEXT: SHEHAR BANO KHAN, JOURNALIST

For the European Football Championship, the ball is key. But how is the ball produced? The Pakistani city of Sialkot is considered by some the “world capital of ball manufacture” and in the 1990s it drew international attention for its child labour practices. But what are the conditions like today? An investigation.

As I drive through the congested, overcrowded streets of Sialkot, I strain to see signs of infrastructural development in this city acclaimed as the nerve centre of global football manufacturing. Roadsides teeming with vendors proudly displaying their wares and selling almost anything under the sun, from fruits and vegetables to made-in-China knick-knacks, add to the confusion. In actual fact, the city’s buildings look more like makeshift solutions than the outcome of a well-thought-out urban development plan.

This city, located in the northeast of Punjab, Pakistan, has come to possess global significance as a leading manufacturer of hand-sewn footballs, a development which has taken Sialkot from a nonentity to one of the wealthiest cities in South Asia with its own airport and home to the recently launched Sial Airlines, a private initiative of the members of the Sialkot Chamber of Commerce. It is estimated that Sialkot’s sporting goods and apparel, surgical instruments, leather products, martial arts wear and sports footwear sold to nearly 40 international and 60 regional brands together comprise up to a tenth of Pakistan’s total export revenue.

Nonetheless, this statistical prosperity is in stark contrast to the reality of a life of deprivation endured by the majority of people living there. Although the city employs roughly 400,000 people in its export-oriented units and supports around 100,000 vendor jobs all over the country, this purported affluence is restricted to only a lucky few. Most other people do not even earn the minimum wage of Rs 17,500 (€105), determined by the Government of Punjab and even that wage would be insufficient to sustain the average Pakistani family.

“Sialkot is a paradise for workers”

One of the few to benefit from the boom was Mr Adeel Tanvir¹, Chief Executive of Theta Industries², a major manufacturer of football and sports equipment in Sialkot. As we enter Tanvir’s factory premises for an interview, it is difficult to ignore a fleet of gleaming cars parked in the forecourt. Saad, the photographer accompanying me, excitedly starts clicking away and with a wink comments, “Mr Tanvir is making too many footballs.”

In no time, the two of us are whisked across the forecourt and led into a plush room dominated by a wide rectangular table. Seated behind it is Tanvir, who stands to greet us. Over lunch, served in his office, he tells us about his factory, his cars and his home, which itself spans more than an acre (4,046 square metres). “Sialkot is a paradise for workers, and at least as far as my factory is concerned, I can assure you that there’s no child labour or labour violations and women are paid the same salary as men,” says Tanvir.

After lunch I am given a tour of the factory to gauge Tanvir’s claims of a paradisiacal working environment for myself. The factory manager and Tanvir’s son show me the various rooms and halls where football and other sports-related equipment is manufactured. Mr Tanvir Jr assures me that Theta Industries maintains the highest manufacturing standards in the area. Those highest levels, as interpreted by him, mean committing to international labour standards and ensuring that those laws are not violated. “You have seen for yourself that there are no children employed here. If we hired children, our factory would be shut down and we’d be put out of business,” assures Tanvir Jr.

1. Name changed by the editors

2. Name changed by the editors

In the 1990s child labour in ball manufacturing caused international uproar

Although the football manufacturing industry of Sialkot, comprising Theta Industries and others, now asserts its commitment to inviolable labour rights, the memory of past exploitive practices and the employment of children in the manufacture of footballs still lingers.

This exploitation first drew international attention when in 1996 several trade unions and non-governmental organisations discovered the employment of children at football manufacturing sites in Sialkot supplying such international brands as Nike, Puma, Adidas, Decathlon and Reebok. The following year, an international agreement was signed by the World Federation of the Sporting Goods Industry, the International Labour Organization, UNICEF and the Sialkot Chamber of Commerce in Atlanta, Georgia, USA, to eliminate child labour in the football industry in Pakistan. Within a span of 18 months, the Sialkot football manufacturing industry had cleared itself of the allegations.

The factory of the Pakistani sporting goods manufacturer Forward Sports based in Sialkot. Photo: Saad Sarfraz Sheikh



“That was more than 20 years ago and, as I told you, we would be put out of business if we breached that law,” reassures Tanvir Sr. That may be true for his factory, but my sources, who spoke to me on conditions of anonymity, have informed me that children are still involved in making footballs – if not as regular employees at factories, definitely as part of families hired to work from home. I decide not to pursue the matter any further, however, and continue on with the manager to visit the wing of the factory where the women work.

When we meet, the woman entreats me to let the “world” know how workers, especially women, are exploited by the billionaires of Sialkot.

None of the workers dare respond to the question about working conditions

On entering, I see a group of women sitting on the factory floor brushing dust off of boxing gloves. At first, they look at me with suspicion and wonder why I am there. When I speak to them in their local dialect, some of them relax and two of them even manage a smile. When I ask if they are satisfied with the working conditions, I assume it is a relatively simple question, but for the women working there it apparently is not. Not a single one of them responds and they continue to gaze vacantly at me. After a few seconds of uncomfortable silence, Saima Kayani³, the section manager, intervenes to fill the lull. “There is no discrimination here. Men and women are treated equally. Tanvir Sahib⁴ is an extremely generous employer,” raves Kayani. I, on the other hand, wonder why, if there is no discrimination and Tanvir is ‘an extremely generous employer’, the women look so despondent. Why are they hesitating to talk to me?

Before leaving the factory, I give all the women my mobile number in the hopes that at least some of them will contact me. A short time later, I receive a call from one of them and we agree to meet at 9 p.m. after she finishes work.

When we meet, the woman from Theta Industries takes my hand and entreats me to let the “world” know how workers, especially women, are exploited by the billionaires of Sialkot. I ask her who the billionaires of Sialkot are and the Phedra woman’s quick response is: “Mr Tanvir and everybody like him.”

3. Name changed by the editors

4. A form of formal address for a man

The dilemma of child labour in poor societies

Mariam Khatoon⁵ is approximately 65 years old (she is not able to give me her exact age) and has come to Sialkot from a nearby village in the hopes of providing for her family after her husband died, leaving her and her six children on their own. Before the ban on child labour was imposed in 1997, Khatoon and the three eldest children worked at two factories in Sialkot stitching footballs for international brands. “I don’t know the names of those brands. All we did was make footballs by hand. And then suddenly I was told that my children could no longer come to the factory because the factory owner did not want children to work,” Khatoon explains. She is not familiar with the concept of forced child labour and tells me that she needs her children to work, otherwise there will be no food at home. “I was the only member of the family earning money – tell me, how else was I to feed my children?” Khatoon asks. Frankly, I had no answer to give to this woman who had never gone to school and for whom international covenants forbidding child labour are irrelevant. The essential foundation of her existence is the food that keeps her children alive.



*Arshad Mirza, Executive Director
of the non-governmental
organisation “Baidaree”.
Photo: Saad Sarfraz Sheikh*

5. Name changed by the editors

Women's wages are lower than men's

Mariam has worked at Theta Industries for 14 years. To reach the factory by 8:30 a.m., she gets up at 5 a.m. every day. She and the other women work beyond the official hours of 8:30 a.m. to 5 p.m., but unfortunately are only paid Rs 200 (€1.19) overtime, which can go as late as 8 or even 9 p.m. The men also face similar hardships and are paid poorly for overtime. In a male worker's case, the overtime rate is Rs 500 (€2.98) though this carries no healthcare benefits and certainly no social security.⁶

Most of the factory owners believe in maximising profit without complying with the international labour standards.

Mariam's biggest grievance is that women's wages are less than men's. She tells me that the average salary of a man at a factory in Sialkot is between Rs 16,000 and Rs 17,000 (about €95–101) per month, while a woman's is between Rs 10,000 and Rs 12,000 (about €59–71). After 14 years of work, her salary was recently raised to Rs 14,000 (€83), but her life's trials remained undiminished. Without any healthcare or social security benefits, it is difficult for Mariam to make ends meet. "There are other issues now. If I fall sick or someone in my home is ill, the factory owners don't help. We have to survive with our salary because they show no responsibility towards us as workers," she laments.

There are numerous labour law violations, critics say

To investigate these allegations, I arranged two meetings: the first is in Lahore with Mr Farooq Tariq, General Secretary of the Pakistan Kissan Rabita Committee (PKRC), a network of peasants' organisations in Pakistan. The second is with Mr Arshad Mirza, Executive Director of Baidaree, a non-governmental organisation (NGO) that campaigns for labour rights and women's empowerment, at his office in Sialkot. The meeting with Tariq is most informative and he does not show any restraint in admitting there are many problems with labour law violations.

⁶ The concept of social security for the labour force does not exist in Pakistan, at least not as a matter of contractual agreement between an employer and the worker. Nonetheless, in elite organisations employees are granted social security and healthcare benefits.

“One of the prime indicators is a strict proscription on trade unions and collective bargaining. At the moment, we have ‘yellow unions’ or unions which, with tacit approval from the employers, act to the detriment of the workers,” Tariq shares. “It is naive to assume that child labour is no longer a problem or that the industry, specifically football, exemplifies endorsement of international labour standards,” says Tariq.

Mr Arshad Mirza’s account is not substantially different from Mr Tariq’s. After years of working in the area of rights protection, specifically labour rights, Mirza has vast insight into the business practices of local football manufacturers. “Most of the factory owners believe in maximising profit without complying with the international labour standards.” Mirza, who besides his work also advises the local manufacturer “Forward Sports” in matters of labour law and compliance, states that there are also positive examples in the industry. Adidas, for instance, one of the clients of Forward Sports, has set up its own monitoring mechanism to investigate violations against labour law. This mechanism involves a regular survey of workers’ satisfaction as well as making a hotline available to all workers where they can lodge complaints directly.

Technological change is putting Sialkot under pressure

Mirza also talks about the consequences of technological changes which have led to a shift in the manufacturing of footballs away from hand-stitched to machine-made and how that has impacted the workers in Sialkot. “Before 2010, when footballs were hand-stitched, Sialkot provided 75 per cent of footballs to the international market. But then China started manufacturing balls by machine, which, though they were cheaper, did not have the quality of handsewn Sialkot balls. Exports of footballs from Sialkot fell by 30 to 40 per cent, and several factories had to close or reduce their workforce.”

According to Mirza, the change due to modern technology affected women most detrimentally. Some of the factories in Sialkot, however, decided to stem the decline in football exports by buying machinery to improve their production processes. The latest technology is thermo-bonded balls⁷, a technique developed by Adidas, the primary customer, and it is constantly being perfected by the local producers in Sialkot.

7. The thermo bonding technology means that the surface of the ball is not stitched, but thermally glued.



*Shazia – participant of the Adidas programme – produces sportswear in a back room.
Photo: Saad Sarfraz Sheikh*

Adidas launched an initiative for women workers who had been laid off

Still, what happened to all those workers who suddenly lost their jobs? Mirza tells me about an initiative he runs that the NGO Baidarie developed together with Adidas. In 2017, the global sports giant launched a financial support programme aimed at relocating and extending sustainable livelihood opportunities to women workers. “Adidas intends to equip a select group of women who work from their homes with locally marketable, demand-driven skills. It is a highly ambitious programme designed to create opportunities for the introduction of trained women workers into the formal sector,” explains Mirza.

One of those women is Shazia, who lives with her husband and her month-old baby in a spartan three-room home. Rocking her baby in a cradle, she tells me how she came into contact with the Adidas programme. After the initial training at Baidaree on how to start a home-based micro business, Shazia and her husband created a Facebook page to connect to international sports brands. For over a year now, Shazia and her husband have been selling sportswear they produce on three sewing machines in a back room of their house to international brands. “I am happy I can buy things for my home and clothes for my son,” says Shazia shyly.

I wondered: what is the situation like in the outskirts of Sialkot?

Still, I wondered, too, what the situation is like for untrained women workers in the informal sector and, if the focus of international attention is mainly on Sialkot, what that means for the surrounding areas. I knew that on the outskirts of Sialkot many companies subcontract their production and indirectly employ unskilled workers. How are these workers now? How are they dealing with technological change? Thus, my photographer and I decided to drive to Ugoki, a town 20 minutes by car from Sialkot.

Rundown and derelict, the town of Ugoki is in fact a clear indictment of affirmations espousing commitment to the UN Guiding Principles on Business and Human Rights. Its ramshackle tenements guard the dark secrets of Sialkot's



*Razia lives in the village of Ugoki and stiches footballs at home
Photo: Saad Sarfraz Sheikh*

football manufacturing industry. Unfortunately, the reality of the situation is not readily forthcoming, as the people of Ugoki are wary about providing information. The moment the word football is uttered, they become tense and reticent.

After walking through the narrow unpaved alleys of Ugoki, I knock randomly on a half-closed door. A few seconds later, a young boy's small head peeks through the door, quickly followed by an enquiring woman's voice in the background. I quickly step inside the extremely small courtyard where a woman is standing holding a baby a few months old. Tugging at her shirt is another little one, whose dust-smearred face looks delighted by the stranger's intervention. And just as suddenly yet another child springs out from a room squeezed into a corner of the courtyard.

The town of Ugoki is in fact a clear indictment of affirmations espousing commitment to the UN Guiding Principles on Business and Human Rights.

The village of Ugoki shows: children are still sewing footballs

Living in a dilapidated shanty home with her husband and four children, Razia's happiness seems extraordinary. She tells me that local agents of football factories in Sialkot regularly come to Ugoki to hire people to make footballs. She invites me into the room where she keeps the football material. The tiny room is taken up entirely by a huge bed where apparently the entire family sleeps. Razia tells me that her children help her with the football production. "Nearly every child in Ugoki is involved in football making. We have no choice, for how will we survive otherwise?" She proudly shows me a wooden frame and a pack of the 32 panels required to make footballs by hand. "We get Rs 50 (€0.30) for making one football. I try to make at least four every day. This is the only work around here. I am the third generation in football stitching and many who live here in Ugoki have been making footballs by hand for one or two generations," Razia says.

Before I leave, I ask Razia if there are good schools around here. "Good schools? No, there are no good schools, but even if there were, nobody in Ugoki could afford them. I want my children to go to university, but as Christians we can only find employment as cleaners," explains Razia. I leave Razia's house deeply disturbed by the legally concealed exploitation of human beings and their poverty. On the one end of the global supply chain is phenomenal profit while

on the other there is heart-wrenching poverty. While a few companies like Adidas help women like Shazia in Sialkot through specific training programmes to develop skills in order to overcome precarious working conditions, there are still thousands of women workers and their families in Pakistan for whom the situation has not improved at all in the last 20 years. Even though the issues of the informal sector and home-based subcontracting are not a recent phenomenon, it seems many global brands do not extend their auditing schemes and training programmes to the very people who are in great need of them. It is evident from my experiences in Ugoki that responsibility and accountability are in short supply.

“The UN Guiding Principles on Business and Human Rights can only be effectively implemented if workers are given a fair share of the benefits. That unfortunately is a long distance to cover.”

ARSHAD MIRZA

Any convention or law remains ineffective unless fortified by concomitant enforcement

On the drive back, my thoughts drift to the name of the official match ball of the European Championship, Uniforia, and its corresponding marketing message. The name “Uniforia” alludes to the integrative power (unity) and the euphoria that football can bring. “The European Championship is a great opportunity to show the power that is inherent in a community,” said Adidas product designer Anika Marie Kennaugh on the occasion of the first ball presentation. But how far does this ‘community’ reach? Not to Sialkot where the ball is produced, and even less so to Ugoki where there is neither euphoria nor community. How can this be remedied?

I recall Mr Mirza’s words and their great insight into why international brands choose Sialkot: “Sialkot is primarily attractive to companies because they have access to cheap labour here. The UN Guiding Principles on Business and Human Rights can only be effectively implemented if workers are given a fair share of the benefits. That unfortunately is a long distance to cover.”

Any convention or law passed to guard against rights violations and human exploitation remains ineffective unless fortified by concomitant enforcement. If Sialkot is a supposed personification of the success of the football industry’s global supply chain, Ugoki is an illustration of its failure.



*Tedious manual work:
the people in Ugoki receive
no more than 30 cents
for a football.
Photo: Sohail Shahzad*

Analysis

Six Years of GSP+ in Pakistan: Progress and Challenges

TEXT: ABDUL QADIR, KAI DITTMANN, FRIEDRICH EBERT FOUNDATION (FES)

The Generalised Scheme of Preferences (GSP+) is a key tool of the EU to promote sustainable development. In return for trade preferences, countries must ensure the implementation of fundamental labour rights, such as the International Labour Organization's (ILO) Core Labour Conventions.

Textiles and clothing account for over 80 per cent of Pakistan's exports to the EU. Since joining the special service initiative under GSP+ in 2014, Pakistan's exports to the EU have increased by 50 per cent, with 95 per cent of these exports being covered by GSP+. Pakistan's government has started to implement a national labour protection framework. Similarly, both federal and provincial authorities have improved systems of labour inspection. In the area of child labour, limited progress has been made specifically in Punjab, where the provincial government took steps to address issues in several factories.

At the same time, workers in Pakistan continue to face unemployment, job insecurity, informality and gender discrimination. Exploitative labour practices remain pervasive. Large parts of Pakistan's significant informal workforce are not issued proper contracts and are thus lacking minimum wage guarantees and social security. In the city of Sialkot, only one third of workers receive social security provisions. Child and bonded labour remain pervasive in both the formal and informal sectors of the Pakistani economy. Over three million¹ people are still

1. Country data, Global Slavery Index. Accessed 5 March 2020. <https://.globalslaveryindex.org/2018/data/country-data/pakistan/>

living under modern slavery in Pakistan, and over two million children are working as child labourers.² Unpaid family work and work in the agricultural sector account for the largest share of children in employment in Pakistan. Girls are more likely than boys to work in agriculture or non-market household production. Furthermore, no law prohibits wage discrimination based on sex or gender. At 34 per cent, Pakistan continues to display a gender pay gap that is more than double the global average.³ The workers' unionisation rate remains below 5 per cent.

Under the Friedrich Ebert Foundation⁴ (FES) regional project Core Labour Standards Plus⁵, researchers have looked at the effects of global supply chains in Pakistan and have found that the social clauses in the GSP+ have led to some early signs of positive responses from the government. In cooperation with the FES office in Pakistan, the Pakistan Workers Confederation (PWC) has been issuing annual assessment reports on GSP+ compliance status. The reports have been used for discussions with national and international actors including the European Commission and various members of the European Parliament as well as with workers to raise their awareness of how they can use GSP+ provisions in negotiations with authorities and employers.

However, speaking from his practical experience in 43 years of union work, Mr Zahoor Awan, General Secretary of the PWC and the Pakistan Workers Federation, notes: "Companies that are complying with labour standards complain about the absence of a level playing field." This situation

is exemplified in the city of Sialkot with its sporting goods industry: "The representative union of a factory in Sialkot, Punjab, which produces rucksack bags for Adidas Germany, ensures that their employer reliably implements labour laws in the company. This leads to severe problems for the plant in the face of strong competition from those suppliers who are quickly moving into the nearby export processing zone to take advantage of labour law exemptions," Awan added.

The third periodic review of GSP+ is due in 2020. If Pakistan makes positive progress in the implementation of the ILO conventions⁶, greater opportunities for trade and exports will be waiting for its business community. Lasting progress can only be made through dialogue with trade unions, multinational corporations, local employers as well as regional and national administrations. At the same time, the legal and actual implementation situation of laws in Pakistan has to improve in order for the GSP+ to fulfil its promises to Pakistani workers.

ABDUL QADIR is an advisor and programme coordinator at Friedrich Ebert Foundation Pakistan.

KAI DITTMANN is a programme manager at the Office for Regional Cooperation (Asia) at Friedrich Ebert Foundation Singapore.

2. Hossain, Jakir; Ahmed, Mostafiz; Hasan Sharif, Jafrul. (2018). Linking trade and decent work in global supply chains in Bangladesh, Dhaka.

3. International Labour Office (2018). Global Wage Report 2018/19: What Lies behind Gender Pay Gaps.

4. The Friedrich-Ebert-Stiftung (FES) is a German political foundation. The FES was named for Friedrich Ebert, Germany's first democratically elected president.

5. <https://www.fes-asia.org/core-labour-standards-plus/>

6. Pakistan has ratified all eight ILO Fundamental Conventions.

Sialkot – world capital of ball manufacture and its global relations

The city of Sialkot, located in the northeast of Punjab, Pakistan, has come to possess global significance as a leading manufacturer of hand-sewn footballs, a development which has taken Sialkot from a nonentity to one of the wealthiest cities in South Asia. However, the local market is subject, among other things, to the influences of the global players from the sporting goods industry and competition from machine football production in China. Find out more about the stark contrast between the wealth and deprivation of local people in the report by Pakistani journalist Shehar Bano Khan (p. 172)





Source: "(B)All Around The World – Can We Fair It? Spielregeln für die Sportartikelindustrie", WEED – Weltwirtschaft, Ökologie & Entwicklung e.V.

 Examples from Practice

A Fair-trade Ball Doesn't Have to Cost More

Faster, higher, further: sport is mostly about success stories. But there is something that many people don't know: sporting goods are often produced under conditions that disregard labour and social standards. Michael Jopp, specialist promoter for municipal development policy in Berlin, wants to change this. With a nationwide campaign, he is fighting for more fairness in the sporting goods industry.

You have launched the initiative Sport handelt Fair – what is it about?

JOPP: The initiative *Sport handelt Fair* (Sport Acts and Trades Fairly) is committed to more justice in sport globally. Specifically, we are concerned with improving human rights and labour conditions in the sporting goods industry and implementing sustainability aspects at sporting events. This includes, for example, mobility with a small carbon footprint, but also long-term plans for the use of sports facilities. Over 100 non-governmental organisations, sports clubs, associations and local authorities from all over Germany have already joined together. But of course, we are still hoping for even more support.

Why do you see a particular need for action regarding production conditions in the sporting goods industry and by local authorities?

JOPP: The sporting goods industry is very consumer oriented. There is an incredible amount of consumption, especially in the textile sector. But products that are “just” to be used, like balls, are also regularly replaced. The annual revenue in Germany is around €8 billion, and in 2017, the figure for Europe as a whole was

over €36 billion. So the industry is very important economically. However, many sports and merchandising items are produced under atrocious conditions in violation of people's human rights and international labour standards. There is still a lack of awareness of the problem. To counteract this, it is important to raise the awareness of consumers. Sport is firmly embedded in local communities, both in clubs and in traditionally local institutions such as schools or youth centres. As a result, local authorities and their market influence play a very important role. On the one hand, local sports clubs are basic institutions for volunteers so they reach a large number of consumers. On the other hand, local authorities also play an important role in the procurement process.

Do you have concrete goals? What exactly do you do?

JOPP: We want to make an active contribution to the 2030 Agenda and its goals for sustainable development. In addition, we want to greatly increase the proportion of fair-trade products in the sporting goods field in the next five years. Our aim is for fair trade to also be associated with industrial products such as sports balls, fan scarves and jerseys. All German federal states should offer educational programmes on the topic of fair trade, sustainability and sport. Another specific event for us, being a nationwide initiative, is the 2024 European Football Championship in Germany. Our ambition is for it to take fair trade into account more than any European Championship to date.

You advocate that people buy footballs with Fairtrade¹ certification. Why do you want them to have this certification when the “major players” also have measures in place to comply with labour standards and social standards?

JOPP: It is good for companies to voluntarily show that they take human rights and decent work into account in their supply chains, observing internationally recognised standards. But we do not want to promote anything that cannot be independently verified. In fair trade, minimum standards of transparency and accountability provide a certain degree of security. It is true that paying living wages that exceed the statutory minimum wage is not always certain, even with Fairtrade certification. There is, however, the explicit aim of gradually working towards that. That is stated in the Fairtrade standards. Furthermore, certified companies pay their suppliers additional premiums beyond just the production costs. These premiums are actively used to improve local working conditions. In addition, there is regular monitoring. Overall, this is much more far-reaching than the mere promise of companies not to violate human rights or labour rights in an ideal scenario.

1. The Fairtrade Labelling Organizations International (FLO) is responsible for the certification of the Fairtrade seal.

As long as there is no obligation to have independent inspection mechanisms such as human rights due diligence legislation that guarantees comprehensive traceability, there is no satisfactory alternative to voluntary certification.

The high level of requirements concerning the social aspects in fair trade are also associated with high costs. Can small local authorities and sports clubs even afford such balls?

JOPP: A fair-trade ball doesn't necessarily have to cost more. The cost of a ball is made up of different elements. Production is only one part of it. There are also factors such as transport, marketing and intermediate traders. Of course, Fairtrade certification costs money, but in return, companies might save on marketing, for example. It is a question of setting priorities. But here, too, there is still a need for information on the part of the local authorities and associations.

“As long as there is no obligation to have independent inspection mechanisms such as human rights due diligence legislation that guarantees comprehensive traceability, there is no satisfactory alternative to voluntary certification.”

What do you think is needed to ensure that the public sector takes sustainability criteria into account when awarding contracts? What do you want policy-makers to do?

JOPP: Policy-makers could, for example, provide support by placing greater emphasis on socio-ecological minimum requirements in public procurement, but also by integrating them into the training of administrative staff. Policy-makers must communicate clearly that price alone cannot be the decisive criterion. Premium payments, as just described, or the payment of living wages could also be included as evaluation criteria when awarding contracts. Such public procurement regulations would complement general human rights due diligence legislation well.

Why do European leagues not play with balls that are demonstrably sustainably produced? How can this be changed?

JOPP: There is no rational reason. What is lacking is awareness and basic interest. We are in close contact with larger clubs. We have received confirmation that the fair-trade balls are absolutely competitive even from Bundesliga² clubs. One problem is that many clubs are bound to equipment supplier contracts. However, this often only applies to the top team in the highest division. Nevertheless, there are companies that make the pilgrimage to the fourth and fifth division football leagues and try to bind small clubs and individual players to equipment supplier contracts through special offers. It is incredibly difficult for fair trade representatives to compete with that. For that reason, it is very important to build networks and to move forward by setting a good example. Basically, the advice I can give any club is to just try the fair trade balls!

Breakdown of the costs of a Fairtrade-certified ball

Based on the example of the BadBoyz Dynamic World Ball

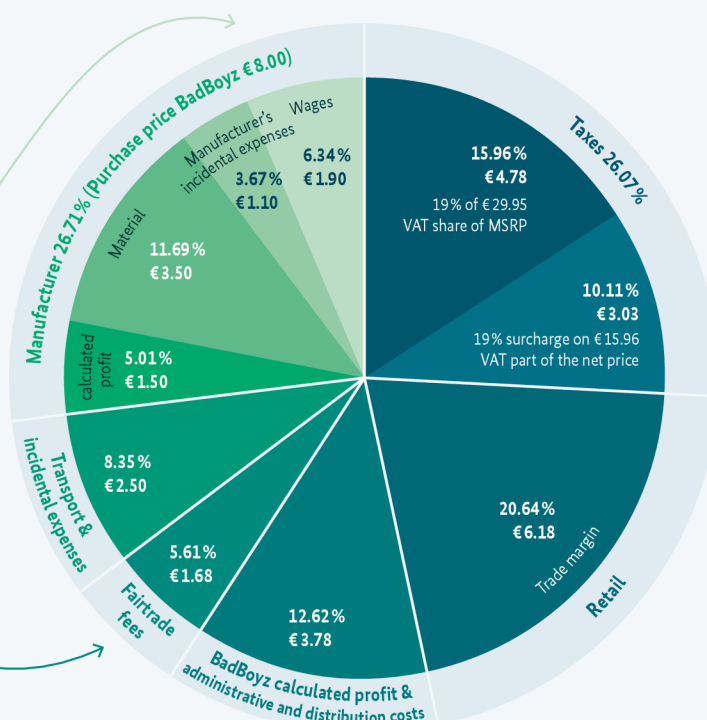
Wholesale price (€15.96) + VAT + retail markup = €29.95 (manufacturer's suggested retail price, MSRP)

Wages in Pakistan as a share:

| | |
|-----------------------------------|--------|
| of MSRP €29.95 = | 6.34% |
| of wholesale price €15.96 = | 11.90% |
| of purchase price BadBoyz €8.00 = | 23.75% |

Composition of the Fairtrade fees:

| | |
|---|--------------|
| 10% Fairtrade premium (to employee representatives) = | €0.80 |
| 5% Compliance-premium (to manufacturer) = | €0.40 |
| 2% Turnover-commission to Fairtrade Germany out of €15.96 = | €0.32 |
| Amount for FLOCERT annual fees (calculated minimum value) = | €0.16 |
| Total = | €1.68 |



Note: Manufacturers of fairly traded balls are alternative trading organisations such as GEPA, BadBoyz Ballfabrik, CAWILA and DerbyStar.

Source: "(B)All Around The World – Can We Fair It? Spielregeln für die Sportartikelindustrie", WEED – Weltwirtschaft, Ökologie & Entwicklung e.V.

2. The Bundesliga (lit. "Federal League") is a professional association football league in Germany.

New Work – Human-centric Work

Future of Work

The Future of Work

**How can we shape the future of work together?
This thematic reader provides substantial food
for thought on the issue. Björn Böhning, State Secretary
at the Federal Ministry of Labour and Social Affairs,
outlines the key areas of action at national and EU level
and provides a brief overview of the subsequent
companion contributions.**


BJÖRN BÖHNING

serves as Permanent State Secretary at the Federal Ministry of Labour and Social Affairs (BMAS).

His portfolio includes the Ministry's Directorates-General for Labour Law

and Occupational Safety and Health as well as for Digitalisation and the World of Work, including the Policy Lab Digital, Work & Society. He is also responsible for the areas of International Employment and Social Policy as well as the Task Force National Skills Strategy. Photo: BMAS / J. Konrad Schmid

The world of work is subject to profound and sometimes rapid change. Digitalisation is a crucial and decisive driver. This entails both risks and opportunities.

Some of the changes are just beginning to emerge; others have long arrived in companies and are firmly established. So, what will work look like in the future? On this, we would like to engage in a dialogue with you, our European partners, and use Germany's EU Council Presidency to agree on common needs for action.

For this thematic reader, we recruited national, European and international experts from policy-making and practice, academia and social partnerships to provide interesting insights into the future of work. We will not run out of work in the future. But in many cases, it will be a different kind of work which requires different skills and qualifications and goes hand in hand with

increasing flexibilisation in the world of work. Thus, it is no longer a question of *whether* digitalisation and artificial intelligence (AI) will change our world of work, but of *how*. We want to shape that change to ensure that technological progress also turns into social progress.

Shaping digitalisation and the digital world of work Europe-wide

The digital world of work is a core issue also for the new EU Commission. Europe has the power to shape the digital transformation. This is not just about fair digital taxation of Apple, Amazon, Google and Facebook, but also about the effects of digitalisation and artificial intelligence on the European labour market.

The impact of digital technologies on business practices in Europe is increasing. This is why purely national solutions make little sense. Against this backdrop, we are putting "the future of work" on the EU agenda for the duration of Germany's EU Council Presidency. From a labour policy perspective, we will be focusing on the core topics of AI, platform economy and continuing education and training – all of them being inextricably linked. With the digital transformation, an increasing number of new, "smart" tools and systems will be used – largely driven by advancements in AI. This has a lasting impact on the way we work. It enables new business models such as digital platforms that use new ways of organising work for the services of self-employed people on a scale previously unknown. Through digitalisation and the increasing use of AI, job descriptions and profiles are changing. Demand for new skills is on the rise. Continuing vocational education and training will thus become the key to securing jobs and addressing the lack of skilled labour.

Promoting trustworthy artificial intelligence and the use of its potential

The use of AI brings change to our private and professional worlds. We want to shape how AI is used responsibly in the workplace and in society. Useful insights into the opportunities and risks involved in workplace use of AI are offered in the contributions from AI experts Shirley Ogolla and Prof. Dr Hendrik Send, who conduct research on this subject at the Alexander von Humboldt Institute for Internet and Society (HIIG) (page 220). From Prof. Dr Katharina Zweig, Professor of Computer Sciences at TU Kaiserslautern, we learn about the classification of AI systems and their diverse practical uses in the world of work (page 238). From a labour policy perspective, we also need to discuss how best to design an EU regulatory framework for AI. Our goal is for people to benefit from machines – not the other way around.

In February 2020, the EU Commission published proposals for safe and responsible use of AI. With its White Paper, the Commission has taken a first step in the right direction. We need clear rules on what AI may and may not do, and we must ensure that those rules are enforced. We can only achieve our goals if people have the necessary level of trust in this technology. It is only right and fair that the requirements regarding security and control of AI-based products are the same as for any other product in use.

At BMAS, we have a responsibility to take the lead in shaping these processes and will assess the extent to which we need to amend the Machinery Directive in regard to the safety and reliability requirements for AI-driven systems. Here, our guiding principle must be to promote trustworthy AI and to fully use the potential of AI.

For me, taking an EU approach to developing and using AI means creating incentives in a way that ensures AI will improve people's lives. New AI regulation should not result in questioning existing protection standards in the world of work. The General Data Protection Regulation has shown that the EU can set global standards. We should do the same for AI.

Regulating quality jobs in a strong platform economy

Platform economy is increasingly becoming the topic of policy-debate. Platform work is steadily becoming a feature of everyday life with food delivery services, ride-hailing services, household-related services, and also in the form of online work such as editing, coding and creative work. At national, EU and international level, an intensive political debate is currently underway in which platform

economy is cited as a prime example of new forms of work. It is generally expected that platform work will increase as digitalisation progresses and that this increase may well be rapid.

The contributions from platform operators and crowdworkers in this reader (page 278) describe how they experience platform work and how they see the potential, the challenges and the future of the industry.

Digital platforms offer low-threshold access to work for those who either cannot or prefer not to work fixed hours at a fixed location. We want to enable businesses to use the potential within platform economy and develop new business models. We want to see “European Champions” in platform economy. This, of course, means ensuring good working conditions and social insurance coverage.

With their contribution, titled “Social protection of workers in platform economy: a cross-country comparison of good practices” (page 266), authors Dr Christoph Freudenberg and Dr Wolfgang Schulz-Weidner present innovative regulatory approaches from countries aiming to improve the social protection of platform workers, not just through legal mechanisms but also in practice, as well as combating social security fraud.

In order to foster good work in a strong platform economy, we need strong [...] rules and regulations in order for digital work not becoming synonymous with digital exploitation.

In order to foster good work in a strong platform economy, we need strong and – to some extent – new rules and regulations in order for digital work not becoming synonymous with digital exploitation. This boils down to the question of how we can place greater responsibility on platform operators who work with (solo) self-employed persons. As the contribution from Dr Monica Queisser (page 260) shows: the self-employed are a key topic in labour-policy design in the age of platform work. Their new forms of work bring the gaps in social security coverage for self-employed persons to the forefront of international political debate.

Many online labour platforms operate across borders, especially concerning off-site online work. This raises questions in regard to the applicable legal framework and how platform workers can exercise their rights, including in court if needed. There are also specific questions around platforms' business models, including questions on transparency or data portability – especially in the event of a platform worker wishing to switch from one platform to another.

This is why we are in favour of EU-level regulation. We want to use Germany's EU Council presidency to actively promote this.

Towards a European skills strategy

Continuing education and training – especially for employees – is the key response to both digital and demographic structural change. We want to continue the EU dialogue on continuing education and training and skills that was started during Croatia's Council Presidency.

Continuing education and training is not just a matter of securing jobs: the contribution from Dr Thomas Kruppe from the Institute for Employment Research (IAB) highlights the interdependence between individual continuing education and training and wage trends (page 310).

Continuing education and training is the key response to both digital and demographic structural change.

At national level, we launched the National Skills Strategy (page 286) in June 2019. To place that strategy on as broad a footing as possible, representatives from the Federal Employment Agency, the German federal states (Länder), business and industry, as well as the social partners were closely involved in its development. The experience with and expectations of that common strategy are outlined in the contributions submitted by social partner representatives Sabrina Klaus-Schelleter from the German Trade Union Confederation (DGB) and Dr Irene Seling and Dr Jupp Zenzen from the Confederation of German Employers' Associations (BDA) (page 290).

At European level, we seek dialogue on the respective national continuing education and training systems and policies in place in the Member States. Some Member States have adopted innovative approaches from which we can all learn. For example, Austria introduced its policy on training leave in 1998 and has since developed and enhanced it further – illustrated by Julia Bock-Schappelwein, Dr Ulrike Famira-Mühlberger and Ulrike Huemer (page 314).

In the European debate, we need to investigate European solutions in the continuing education and training sector to both maintain and improve the employability of people in Europe, and how self-determined employment histories can be created in times of digital transformation.

The contribution from Roman Lutz and Regine Geraedts describes the common positioning of the Saarland Chamber of Labour, the Bremen Chamber of Employees, Luxemburg’s Chambre des salariés and the Austrian Chambers of Labour, who are all in favour of a European skills strategy (page 306). In addition to greater efforts concerning continuing education and training, they also call for reliable and robust enabling conditions along with statutory regulations.

In an interview with OECD economist Dr Mariagrazia Squicciarini, we discussed the gender-specific aspects of continuing education and training, and especially the digital gender divide. In the interview, she explains how best to address gender differences in abilities and skills (page 318).

Multifaceted debate on the future of work

Last but not least, we spoke to Dr Johannes Kopf, Chair of the European Network of Public Employment Services (PES), about the (digitalisation-driven) changes in job placement and counselling services, and the challenges that come with the new digital world of work (page 200).

In addition to the digital transformation, which is the focus of this thematic reader, megatrends such as climate change are also transforming the world of work. Thus, in their contribution, Dr Frank Siebern-Thomas, Endre Gyorgy and Katarina Jaksic from the Directorate-General for Employment, Social Affairs and Inclusion (EMPL) of the European Commission outline the labour market policy impact of climate-driven structural change (page 206).

The contributions in this thematic reader are designed to provide a multifaceted picture which we can draw upon when discussing the question: “How can we work together to shape the work of the future and the future of work?”

Perspectives

The World of Work in Upheaval

An interview with Dr Johannes Kopf, Chair of the European Network of Public Employment Services (PES Network).¹

The world of work is undergoing a far-reaching and, in some respects, fast-paced transformation. Digitalisation is a very important driver of this development. For example, 1.3 million jobs could be lost in Germany alone in the next six years – although 2.1 million new jobs could be created over the same period. What challenges does this pose for the European public employment services?

KOPF: Besides the fact that people will lose their jobs as a result of digitalisation – but also as a result of necessary statutory measures against climate change, for example – the major trends in the labour market are leading to constant changes and increases in the skills that companies require of their employees. This means that our task is not only to assist people who have been made unemployed to the best of our ability and to help companies to find staff, but also to ensure that existing jobs are secure in the long term. We are therefore already supporting companies today by offering our expertise and support in the field of human resource development.

The current Labour Market Bulletin published by the PES Network states that the unemployment rate for people with low qualifications in Europe as a whole is 13.3 per cent, compared to just 4.1 per cent for persons with a higher education degree. You are quoted as having said that work for unskilled people is disappearing faster than the supply of unskilled people, and appealed to policy-makers to place more value on education in nursery and primary schools². Why?

KOPF: In all EU countries, the unemployment rate for low-skilled people is higher than for people with a higher level of qualification, usually several times higher. The difference is only smaller in countries with lower wages, where automation is not yet as widespread. What is concerning in this context is the fact that the position of low-skilled people – despite a general trend towards higher qualification levels – is continuing to deteriorate. The unemployment rate for low-skilled people has risen across Europe since 2005, while the rate has declined for people with a medium or high qualification level.

“We therefore need to significantly reduce the proportion of young people who do not continue in education or training after the end of their compulsory schooling.”

We therefore need to significantly reduce the proportion of young people who do not continue in education or training after the end of their compulsory schooling. That is exactly the purpose of the European Youth Guarantee – and we are also working hard to achieve this aim. We know from a number of studies, however, that providing more intensive support for children is even more effective. In particular, targeted support at nursery and primary school age enables more children, including those from hard-to-reach households, to achieve higher levels of educational attainment. In all honesty, the best insurance against unemployment is not unemployment insurance, but a good education.



DR JOHANNES KOPF, LL.M. *has been a member of the Board of the Austrian Public Employment Service since July 2006 and Chair of the Network of European Public Employment Services since July 2019. From 2003 to mid-2006, he was a labour market expert in the Office of the Austrian Minister for Economic Affairs and Labour, and a member of the Administrative Board of the Austrian Public Employment Service. Prior to that, he was a labour market expert at the Federation of Austrian Industries. Photo: AMS/Andrei Pungovschi*

1. Please note: This interview was held before the outbreak of the global coronavirus pandemic.
2. Die Presse: AMS Chef: unqualifizierte Jobs verschwinden schneller als Unqualifizierte, September 2019.
<https://www.diepresse.com/5685520/ams-chef-unqualifizierte-jobs-verschwinden-schneller-als-unqualifizierte>

Digitalisation is not only transforming the world of work and the labour market. It will also lead to major changes to information, communication and transaction structures between the public and companies on the one hand, and between the public and the authorities on the other. What challenges do you believe these trends pose for the public employment services?

KOPF: Digitalisation has already had a significant impact on all European public employment services. We process huge quantities of data using complex IT systems. Technology also offers a great deal of potential to boost our organisations' effectiveness. Furthermore, we already offer many services in digital form, ranging from the option of registering online and a Europe-wide job search site to e-learning services. Many customers are already comfortable using these services. Experience shows, however, that this approach is not suitable for some people and specific situations. Generally speaking, the right mix is needed.

What are the special characteristics of the individual Member States, and what are the shared labour market challenges they face?

KOPF: There are many shared challenges, but of course the situation also differs a great deal from country to country. In some respects, the individual national public employment services are organised in very different ways: they have different resources and in some cases, different tasks. There are also significant differences between the national labour markets: for example, some countries are facing huge emigration trends – a brain drain – while in other countries the labour supply is rising significantly. What we all have in common, however, is that we want to match supply and demand in the labour market to the best of our ability.

We are not going to run out of work in future. But in many cases, it will be a different kind of work requiring different skills and qualifications. How important will skills development (have to) be for jobseekers and employees?

KOPF: Continuous learning is becoming more and more important. This means that both employees and jobseekers need to be willing to undertake continuing education and training, but also to engage in self-reflection: what can I do, what are the areas where I need support? In the case of employers, meanwhile, more consideration and planning are needed with regard to their workforce's need for continuing education and training. Only by working together in this way will we all succeed at keeping Europe's economy competitive and securing jobs for the long term.

“Employees and jobseekers need to be willing to undertake continuing education and training, but also to engage in self-reflection: What can I do, what are the areas where I need support?”

How can public employment services and labour market policies help to design technology and work in a way which ensures that employees can lead a self-determined working life and do not lose out from digitalisation?

KOPF: The simple answer to this question – and to many of the other urgent problems facing us these days – is skills development. However, the public employment services also have the task of drawing attention to the emergence of structural problems in the labour market and offering our expertise and advice to policy-makers. A task which, as Chair of the PES Network, I wish to fulfil to the best of our ability at European level as well.

Austria now has more than two decades of experience with its model of educational leave for individual promotion of continuing education and training. This instrument, was significantly improved in 2008 and saw part-time educational leave added as an option in 2013. It is becoming more and more popular and has made longer programmes of skills development and continuing education and training more attractive to the general public.

What can other countries learn from Austria's experience?

KOPF: We have indeed had some interesting experiences which can certainly serve as a model for other countries. Yet we too need to continue to re-examine our approach. Our educational leave mainly reaches more highly skilled people and younger people. Conversely, this means that the rate of uptake is still too low for low-skilled people and older people. That is why we are also offering other types of support. Nonetheless, it is often no easy task to encourage low-skilled people and older people to embark on the process of obtaining a fully-fledged vocational qualification. Good ideas on how to achieve this are still very welcome throughout Europe.

Platform work is increasingly present in our day-to-day lives: in the form of food delivery services, transport services and household services, for example, but also in the form of online work such as content writing, coding and creative work. In your view, what influence do platforms which act as intermediaries for work have on the development of the labour market in general? Could such platforms potentially even lead to structural changes to the labour market?

The data available shows that platform work plays a fairly limited role at present. Nonetheless, the number of people offering their services via platforms is rising, and so public employment services increasingly need to engage with this trend. At the

moment, however, I believe it is more urgent to clarify unresolved questions in this context, for example in connection with labour law and the social insurance systems.

How is the public employment service responding to the emergence of platforms which act as intermediaries for work? Is it possible to report on what experience has been gathered so far?

KOPF: Very little experience has been gathered so far, as in such cases the matching of labour supply and demand takes place outside the purview of the public employment services. Several initiatives have already been launched by Member States regarding the labour law issues or the development of collective agreements, for example. The public employment services intend to focus more on this issue in 2020 and 2021.

What trends are you observing in Europe? Do you see any regional priorities or differences?

KOPF: In the Netherlands, Spain and Ireland, platform work has already reached a certain level of importance. Finland, the Czech Republic and Slovakia are the countries where platform work plays the smallest role at present. In general, however, it is important to take a nuanced view of the situation. There are actually still very few people who offer most of their work via platforms. For most people, platform work represents an additional source of earnings.

Would a rise in (self-employed) work on platforms have an impact on social insurance systems? What options for action could exist in this context?

KOPF: That will ultimately depend on what legal provisions are created. What is clear is that social insurance systems can only be effective for as long as they receive appropriate funding from contributions. Governments and the social partners need to take appropriate steps in this regard.



Digitalisation is changing the world of work deeply. Photo: Rawpixel.com/Shutterstock.com

Platform work is a relatively new phenomenon with far-reaching implications for the economy and the labour market. What potential and challenges do you think it holds in general?

KOPF: Again, it is necessary to take a nuanced view. For people who are earning additional income, platform work can be an interesting option. In highly skilled fields which offer good earning opportunities, this type of work brings with it a certain degree of flexibility and freedom. Whereas the poorly paid activities which are often carried out by low-skilled people are less attractive and often problematic.

In November 2018, the German government published an Artificial Intelligence (AI) Strategy which explores issues such as AI's impact on the world of work. In March 2020, a German AI Observatory will begin its work at the Federal Ministry of Labour and Social Affairs. It will help to assess

the opportunities and risks of artificial intelligence and to ensure political control over this issue. Particularly in public institutions, AI- and algorithm-based systems have to meet strict requirements. What is your view on the use of AI and algorithms in public employment services? What are the opportunities and risks?

KOPF: Some public employment services are already using algorithms to improve their services. This takes place mainly when it comes to the “profiling” of jobseekers and the “matching” of jobseekers to vacancies. If systems of this kind can help us to support jobseekers in finding a suitable job, then there is a lot to be said for using them. However, the use of genuine artificial intelligence is not much of an issue in the individual public employment services at present. In Austria, we are already using algorithms to assess the future job prospects of each individual jobseeker. It is a tool which helps

our job counsellors to identify the right support strategy. The use of such systems will play a major role in many areas of our lives in future and offers a great deal of potential, but it is important to make a distinction between useful and improper applications.

Do we need binding, uniform rules for the future use of automated decision-making processes and AI- and algorithm-based systems in public employment services, for example?

KOPF: Developments are currently moving at a fast pace, and whenever such systems are introduced it is important to make sure that we do not focus solely on technical issues and forget ethical questions, for example. To this end, a broad political and public debate is needed. When we introduced our system in Austria, we engaged with such discussions intensively and on multiple occasions, and I think that is justified given the significance of such systems.

“There are a wide range of challenges. Climate change and digitalisation, but also Brexit and its consequences, will continue to occupy the EU for a long time to come.”

What would you like to see in terms of a European labour market policy?

KOPF: Cooperation within our European network functions extremely well. In recent years we have worked very hard to develop a wealth of knowledge about the individual public employment services and used this knowledge to improve together. We also now know a great deal more about the European labour market, individual labour market policies, and what works and what doesn't. We want to offer this expertise to our European partners and

support the European Employment Strategy to the best of our ability. We hope that many partners will be willing to listen.

What are your hopes and expectations for the German EU Presidency?

KOPF: Germany is assuming the Presidency at a very exciting time. The new Commission has been in office for half a year and has begun implementing its first projects. There are a wide range of challenges. Climate change and digitalisation, but also Brexit and its consequences, will continue to occupy the EU for a long time to come. European solutions need to finally be found in the field of migration, and the economy is stuttering a little. All of these things have implications for the European labour markets. Expectations of the German EU Presidency are accordingly high. I wish Germany every success and I would be delighted if our network can contribute to a successful Presidency.

Analysis

Towards a Greener Future: Leaving No One Behind in the Transition to Climate Neutrality

TEXT¹: ENDRE GYORGY, KATARINA JAKSIC, FRANK SIEBERN-THOMAS,
DIRECTORATE-GENERAL FOR EMPLOYMENT, SOCIAL AFFAIRS AND INCLUSION, EUROPEAN COMMISSION

The green transition is creating jobs, changing skill needs and mitigating job polarisation. But it is not inclusive by default: employment and social impacts vary by group, country, sector and region. A strong social dimension is key for just transitions through reskilling, income support and access to basic needs such as energy and transport.

Like the digital transition, the transition to climate-neutrality offers many opportunities and raises significant challenges, notably in the employment and social spheres. While having substantial job creation potential, it can have a transformative impact on economic structures, value chains and skill requirements, as well as significant employment and skills impacts in the renewable energy and circular economy sectors, for example. The greening of the economy will affect jobs and occupations throughout the whole economy. Foremost, jobs and occupations in which greening leads to substantial changes in

tasks and required skills will be affected.² Moreover, new jobs and occupations will be created to meet the new demands of the green economy.³

Ambitious climate action coincides with other megatrends such as automation and digitalisation that have major impacts on future skill needs, too. New business models such as the platform economy, and new forms of work and work organisation, including teleworking, have an impact on electricity and mobility demands and related emissions. New and changing value chains in a more circular economy and technological innovation to improve resource efficiency will also have a major impact on labour and skill demands. All together, these developments require significant labour re-allocation across firms and sectors and new specifically green skills, as well as the continuous improvement of existing transversal and specific skills, including digital skills, and flanking measures that support the transitions and facilitate reskilling.

1. The views expressed in this article are those of the authors and may not be interpreted as stating an official position of the European Commission.

2. For example, electric vehicle engineers, construction workers, architects and urban planners.

3. E.g. fuel cell engineers, sustainability auditors and sustainable finance experts. For further detail, see e.g. Bowen et al. (2018), Characterising green employment: The impacts of 'greening' on workforce composition, *Energy Economics*, Vol. 72, pp. 263–275.

If not managed properly, the transitions risk increasing energy poverty and inequalities. Access to social protection and essential services is key to ensuring that the costs and benefits of the transitions are shared fairly.

This section summarises recent evidence on how the transition to climate neutrality is likely to impact the future of work. It summarises employment and social impact of climate action based on the European Commission's annual flagship review, Employment and Social Developments in Europe (ESDE),⁴ as well as related recent policy developments.

Environmental and climate policy clearly is a key element of a fair and just society. Inaction is not an option.

Climate change and environmental protection: Inaction is not an option

Environmental degradation and climate change have a direct and significant impact on the health and well-being of EU citizens, and a significant proportion of Europeans have already been affected by extreme heatwaves, severe droughts and floods. The socio-economic cost of inaction on environmental and climate issues would be considerable, reducing GDP in the EU by up to 2 per cent, and GDP in Southern Europe by more than 4 per cent in the long term (Figure 1), thereby increasing inequalities within and among Member States and regions. Environmental and climate policy clearly is a key element of a fair and just society. Inaction is not an option.

Moreover, surveys show that the vast majority of the EU population across all age groups and education backgrounds considers climate change a serious, man-made problem and feel a high level of personal responsibility to contribute to the fight against climate change.

Ambitious targets and distributional impacts: Room for policy action

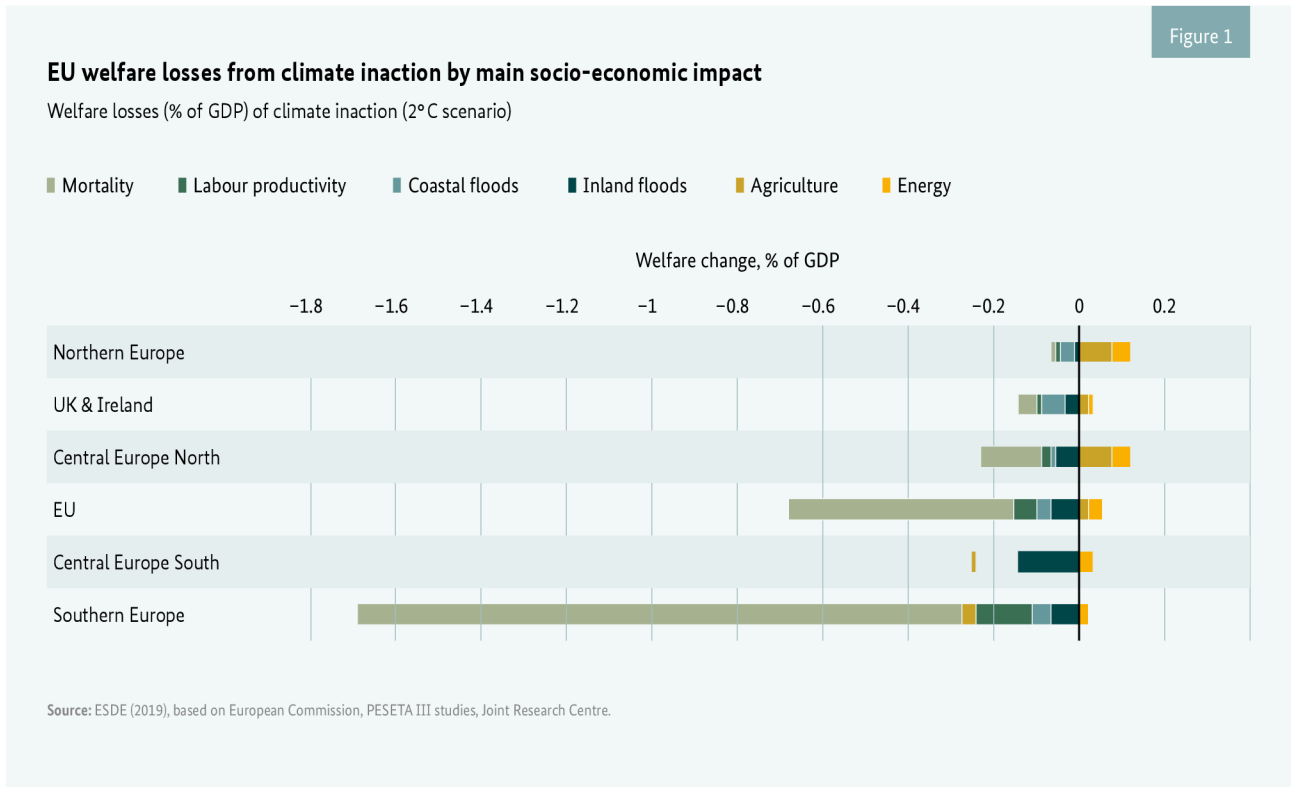
There is a broad consensus that progressing towards an environmentally sustainable and socially fair economy is a realistic goal for the EU, benefitting from its strong social foundations and its role as global frontrunner for a number of social Sustainable Development Goals. It is uniquely placed to promote sustainable economic growth that respects both social foundations and ecological ceilings (Figure 1). However, the transition to sustainability and climate neutrality is not inclusive by default. Its unequal distributional impacts could undermine social acceptance, in particular at times where some of the social foundations are under unprecedented pressure due to the coronavirus pandemic and public health crisis. To ensure wide public support, environment and climate change policies need to integrate fairness and equity considerations from the outset while strengthening social protection and social services in parallel. Employment and social policies have a key role to play in this context.

4. European Commission, "Sustainable growth for all: choices for the future of Social Europe", Employment and Social Developments in Europe, 3 July 2019, <https://ec.europa.eu/social/main.jsp?catId=738&langId=en&pubId=8219>; further referred to as ESDE (2019).

Employment and skills in the transition to a climate-neutral economy

According to latest available statistics, 4.5 million people worked in environmental goods and services sectors in the EU in 2016, up from 3.2 million in 2000. This includes jobs in waste management, environmental protection and energy preservation. Absolute employment numbers in these “green economy” sectors are relatively small and well below those of information and communications technology (ICT) specialists (almost 7.4 million in 2015) or other ICT task-intensive jobs (15.8 million in 2015). Employment shares in environmental goods and services sectors vary from around 1 per cent of total employment in Belgium and the UK to 5 per cent or more in Estonia and Finland, compared to employment shares between 5 and more than 20 per cent in ICT jobs (Figure 2 and Figure 3).

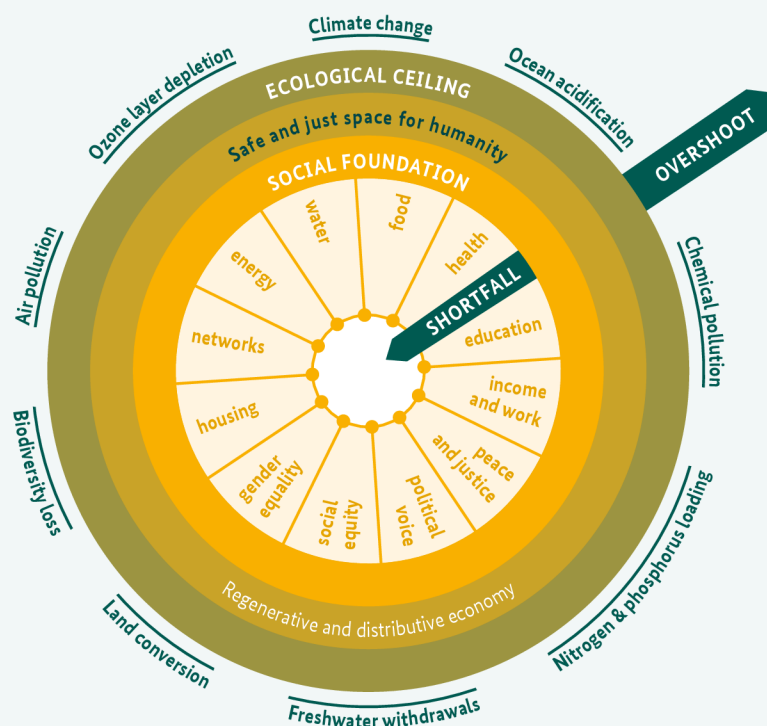
Employment and value generation in the EU are increasingly taking place in economic sectors that are relatively low in carbon emissions and material inputs. Electricity production, transport, extractive industries, agriculture and manufacturing together produce close to 90 per cent of all CO₂ emissions yet account for less than 25 per cent of employment and gross value added in the EU. Decarbonisation of these sectors, including through innovation and new technologies, will be key for achieving climate targets and greening value chains overall. Low-carbon industries and service sectors produce less than 10 per cent of all CO₂ emissions, but employ more than 70 per cent of the EU workforce. At the same time, they are also the sectors with the strongest employment increases: 7.5 per cent increase in the period 2013–2018 (1.5 per cent annually) compared to 3.4 per cent (0.7 per cent) in the other sectors. Yet progress is not automatic, as service sectors also increasingly rely on electricity.



Illustrating the policy space for the transition to a sustainable Europe: the 'Doughnut Economy'.

Inextricable links

Abbildung 2



Source: European Commission. (2019). "Europe's Sustainability Puzzle", European Political Strategy Center; adapted from K. Raworth. (2017). "Doughnut Economics".

Projections of the impact in 2030 of a full implementation of the Paris Agreement show that the transition could raise GDP by an additional 1.1 per cent and employment by 0.5 per cent compared to a scenario without climate action policies.⁵ Job creation is projected mostly in growing green(ing) sectors, both in industry and services, including construction, waste management and sustainable finance. The positive impact on GDP and employment is largely due to the investment required in the transition, together with lower spending on fossil fuel imports.

In these projections, employment impacts vary considerably among sectors. Job gains in services, construction, renewable energy sectors and agriculture would be partly offset by job losses in fossil fuel-related mining and temporary job losses in the utilities sector. In the latter, employment is expected to decrease temporarily, as increased energy efficiency in buildings and households in particular would lead to lower production activity and output in the electricity and gas supply sectors.

5. Eurofound. (2019). Future of manufacturing – Energy scenario: Employment implications of the Paris Climate Agreement, Eurofound Research Report.

On the 2050 horizon, demand for electricity and thus employment in the sector is projected to grow strongly, as industry, transport and other services become increasingly electrified. Energy production and energy-intensive sectors such as steel, cement, car manufacturing, machinery and chemicals will have to transform and shift to new production processes as part of the transition – which will require new skill sets.

Expected employment impact further varies across Member States and skill groups (Figure 4 and Figure 5). Countries and regions with high value added and employment shares in declining or transforming sectors, many of which are in Central and Eastern Europe (including Germany), are particularly affected. For some of them, labour or skill shortages remain a major challenge, while all of them face low participation rates in adult training (Figure 2), posing an additional challenge to successfully managing transitions.

At Member State level, positive and substantial employment gains are expected notably in Belgium, Spain and Germany, where employment would increase by up to 1 per cent of total employment (equivalent to some 60,000 additional jobs in Belgium, 200,000 in Spain and 350,000 in Germany). By contrast, there would be small effects only in Denmark, since the country is already well advanced in the uptake of renewables and energy efficiency. The impact on overall employment growth in Poland would also be small, as job losses in the coal production sector are expected to offset gains in other sectors.

In addition, climate change policies are expected to affect job quality. Job creation due to climate change policies would in particular mitigate further job polarisation expected under the baseline scenario and contribute to more inclusive job growth, unlike job creation driven by digitalisation and further integration in global production

networks and value chains, which are expected to increase further job polarisation. Instead, if accompanied by effective reskilling and labour market policies, job creation due to climate change policy is expected to mitigate these tendencies by adding middle-skilled, middle-paying jobs, notably in the construction sector and in services sectors more generally (Figure 5).

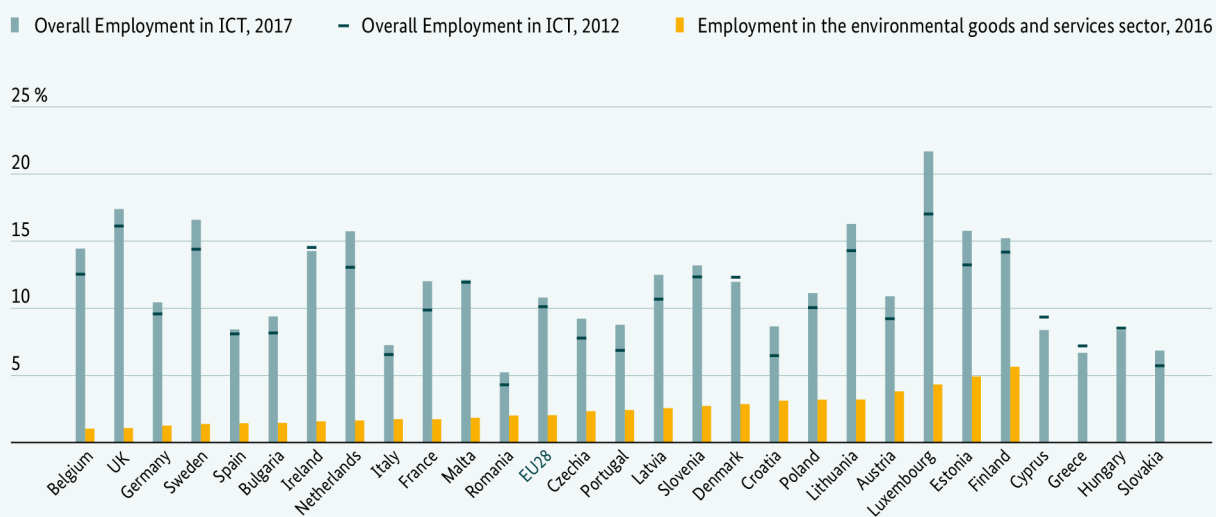
To ensure wide public support, environment and climate change policies need to integrate fairness and equity considerations from the outset while strengthening social protection and social services in parallel. Employment and social policies have a key role to play in this context.

However, these effects also vary across Member States. In particular in Germany, climate action favours job creation for all skill groups, in contrast to the further expected employment polarisation overall. In Spain, Ireland, Estonia, Lithuania and Slovakia, climate action is expected to mitigate job polarisation somewhat by creating middle-skilled, middle-paying jobs. In other countries, including Poland, climate action is more likely to support low-skilled job creation, thereby counteracting the generally observed trend of skill upgrading in those economies.

Figure 3

Employment in the green and digital economy in the EU-28, 2017

Environmental and Employment in ICT



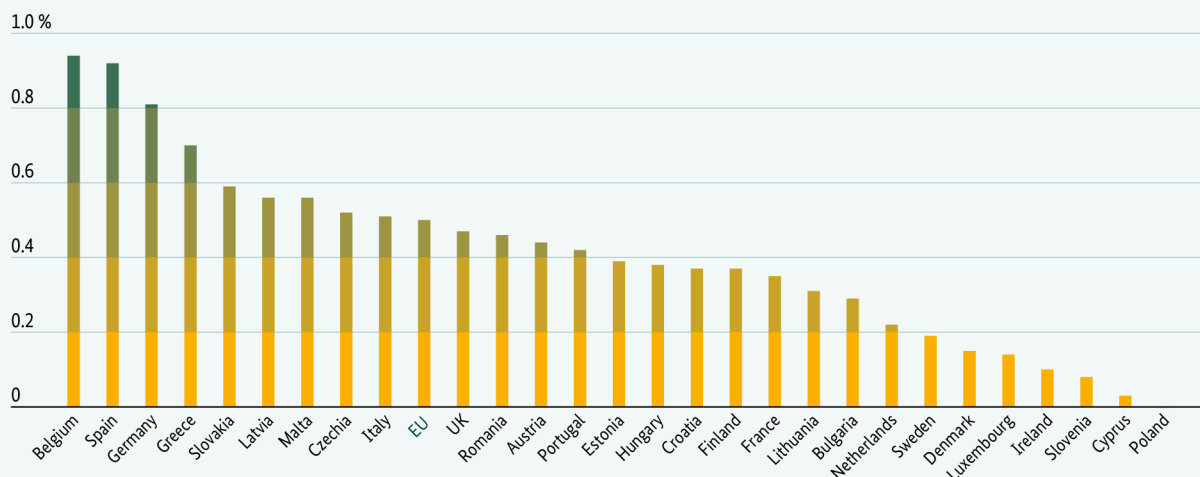
Notes: Employment in the environmental goods and services sectors (EGSS), Employment as ICT specialist and in other ICT intensive occupations.

EU28 is a weighted average. The 2017 data refer to 2015 for Denmark, Ireland, Portugal and the EU28.

Source: Eurostat, <https://ec.europa.eu/eurostat/data/database>, OECD calculations based on Eurostat data.

Figure 4

Employment gains from climate action in the EU by Member State, 2030

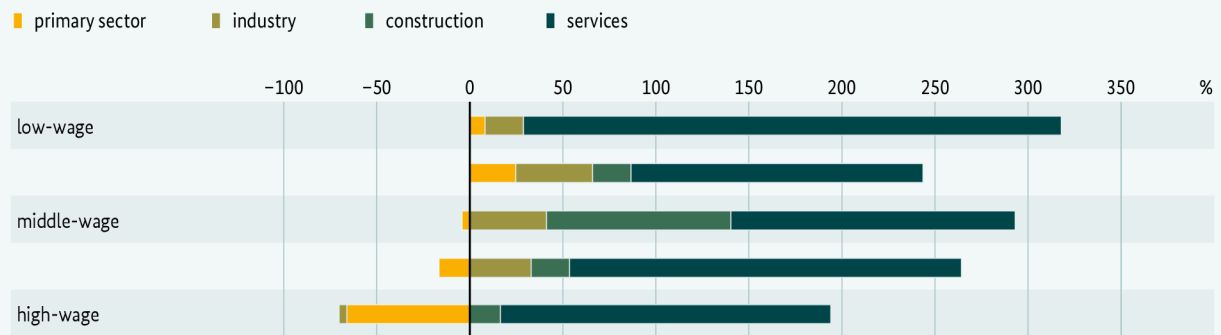


Note: Employment impacts by country, skill group and sector; deviation from the baseline in %, in 2030.

Source: ESDE (2019), based on Eurofound (2019), Future of Manufacturing in Europe (FOME) - Energy scenario: Employment implications of the Paris Climate Agreement, Eurofound Research Report, February 2019.

Figure 5

Employment gains from climate action in the EU by skill group and sector, 2030



Note: Employment impact by country, skill group and sector; deviation from the baseline in %, in 2030.
Source: ESDE (2019), based on Eurofound (2019), Future of Manufacturing in Europe (FOME) - Energy scenario: Employment implications of the Paris Climate Agreement, Eurofound Research Report, February 2019.

Other co-benefits and challenges of climate policy

Access to affordable energy, mobility and quality housing is key for social fairness. However, irrespective of the slump of oil and energy prices as a result of the corona pandemic, energy costs are set to increase over the next decade in the transition to climate-neutrality. One risk related to decarbonisation therefore is increasing energy poverty, with growing shares of households at risk of being unable to afford heating, cooling or other energy services due to a combination of low income, high expenditure on energy and poor energy efficiency of their homes. Energy poverty in turn has impacts on health, productivity and the environment.

A key driver of energy poverty, energy prices have risen substantially over the last two decades, increasing financial pressure on households; notably low-income households but in some

Member States also a significant proportion of middle-income households. Recent developments have been positive in the EU overall, however, as the proportion of households subject to this type of energy poverty has on average decreased below its 2010 level. Well-targeted social benefits, social housing and energy-efficiency measures can mitigate energy poverty.

Carbon pricing policies such as carbon taxes and emission trading can have important distributional implications, too, which depend on the income elasticity of emissions: the percentage increase in emissions as income increases by 1 per cent. The share of energy consumption within total consumption decreases for higher-income households, while their indirect emissions associated with goods like food and durable consumer goods are significant. There is mounting evidence that the overall income elasticity of emissions is close to 1.⁶

6. See e.g. Chancel and Piketty. (2015). Carbon and inequality: from Kyoto to Paris – Trends in the global inequality of carbon emissions (1998–2013) & prospects for an equitable adaptation fund, Paris School of Economics; and Oswald et al.. (2020). Large inequality in international and intranational energy footprints between income groups and across consumption categories, Nat Energy 5, pp. 231–239

A significant burden of carbon pricing would have to be borne by better-off households while using some of the revenues for compensating low-income households.

A tax shift from labour to energy consumption – waste and pollution in particular – can help internalise social and environmental externalities, avoid the setting up of “pollution havens” and set incentives for “greening” production and consumption patterns and promoting inclusive growth, productivity gains for firms and increased well-being for people.

Finally, one of the most important co-benefits of climate action is its positive effect on reducing air pollution, which remains one of the main environmental health risks in the EU, causing around 400,000 premature deaths per year. It affects vulnerable groups disproportionately, including children, the elderly, those with pre-existing health problems and those from lower socio-economic backgrounds. Furthermore, the

immediate gains from reducing air pollution are visible on a local level and short-term scale, compared to the benefits of a more abstract climate mitigation action.

Outlook: The European Green Deal and a strong social Europe for just transitions

With its European Green Deal,⁷ the European Commission presented a new strategy for the EU to cut emissions while creating jobs and well-being and promoting environmental protection and respect for planetary boundaries. It rolls out an ambitious action plan in line with the EU’s commitments under the Paris Agreement.⁸ To succeed, the transition to climate-neutrality will have to be fair and inclusive, leaving no one behind, by providing targeted support to the workers, sectors and regions most affected.

Both the European Parliament and the European Council have endorsed the climate-neutrality objective and underlined the importance of a just transition. In its resolution of November 2019,⁹ the European Parliament declared a climate and environment emergency and urged the Commission to ensure full alignment of all proposals with the climate and environment objectives. The European Council has set building a climate-neutral, green, fair and social Europe as one of the main four priorities of its Strategic Agenda for 2019–2024.¹⁰ In its conclusions of December 2019,¹¹ it highlighted that the transition requires significant public and private investment and further called upon the Commission to regularly report on the socio-economic impacts of the transition to climate-neutrality.

A tax shift from labour to energy consumption – waste and pollution in particular – can help internalise social and environmental externalities, avoid the setting up of “pollution havens” and set incentives for “greening” production and consumption patterns.

7. COM(2019) 640 of 11 December 2019

8. http://www.ec.europa.eu/clima/policies/international/negotiations/paris_en

9. European Parliament resolution on the 2019 UN Climate Change Conference in Madrid, Spain (COP25), 2019/2712(RSP) of 28 November 2019

10. <http://www.consilium.europa.eu/media/39914/a-new-strategic-agenda-2019-2024.pdf>

11. EUCO 29/19 of 12 December 2019, <http://www.consilium.europa.eu/media/41768/12-euco-final-conclusions-en.pdf>

A number of instruments have been developed in response, and as part of the Green Deal, to promote investment, empower citizens, ensure a just transition, and align action in all policy areas:

- a proposal for a first European Climate Law¹²
- a Green Deal Investment Plan¹³
- a new Circular Economy Action Plan¹⁴
- integration of environmental sustainability aspects in the European Semester
- attention to energy poverty in the EU climate and energy governance framework
- a future European Climate Pact.¹⁵

Stepping up efforts to reduce greenhouse gas emissions by at least 50 per cent by 2030 will require frontloading efforts in a number of sectors. Careful monitoring is needed of the impact this may have on specific sectors, labour markets and social outcomes.

To succeed, the transition to climate-neutrality will have to be fair and inclusive, leaving no one behind.

To cope with the multiple transition challenges and accompany firms and workers in the twin transitions to a digital and climate-neutral sustainable economy and society, the European Union needs an ambitious social policy moving forward, underlining the importance of pursuing the implementation of the European

Pillar of Social Rights. Since the endorsement of the Pillar in 2017, the Commission has taken a range of concrete initiatives to put the 20 rights and principles of the Pillar to support fair and well-functioning labour markets into practice at European level.

To cope with the multiple transition challenges and accompany firms and workers in the twin transitions to a digital and climate-neutral sustainable economy and society, the European Union needs an ambitious social policy moving forward.

In its Communication of 14 January 2020 on A Strong Social Europe for Just Transitions,¹⁶ the Commission outlined additional initiatives to take the list of achievements further and launched a broad consultation with a view to presenting by early 2021 an action plan to implement the European Pillar of Social Rights and an action plan for the social economy. Other EU instruments such as the ESF+, the European Globalisation Adjustment Fund (EGF) and European Social Dialogue also contribute to a just transition by supporting workers and families who are dependent on work in energy-intensive sectors during the transition.

12. COM(2020) 80 of 4 March 2020

13. COM(2020) 21 of 14 January 2020. The plan aims to mobilise at least € 1 trillion in public and private sustainable investments until 2030, and at least € 100 billion of investments over 2021-27 through a Just Transition Mechanism to protect the most vulnerable citizens, workers and regions.

14. COM(2020) 98 of 11 March 2020

15. http://ec.europa.eu/clima/policies/eu-climate-action/pact_en

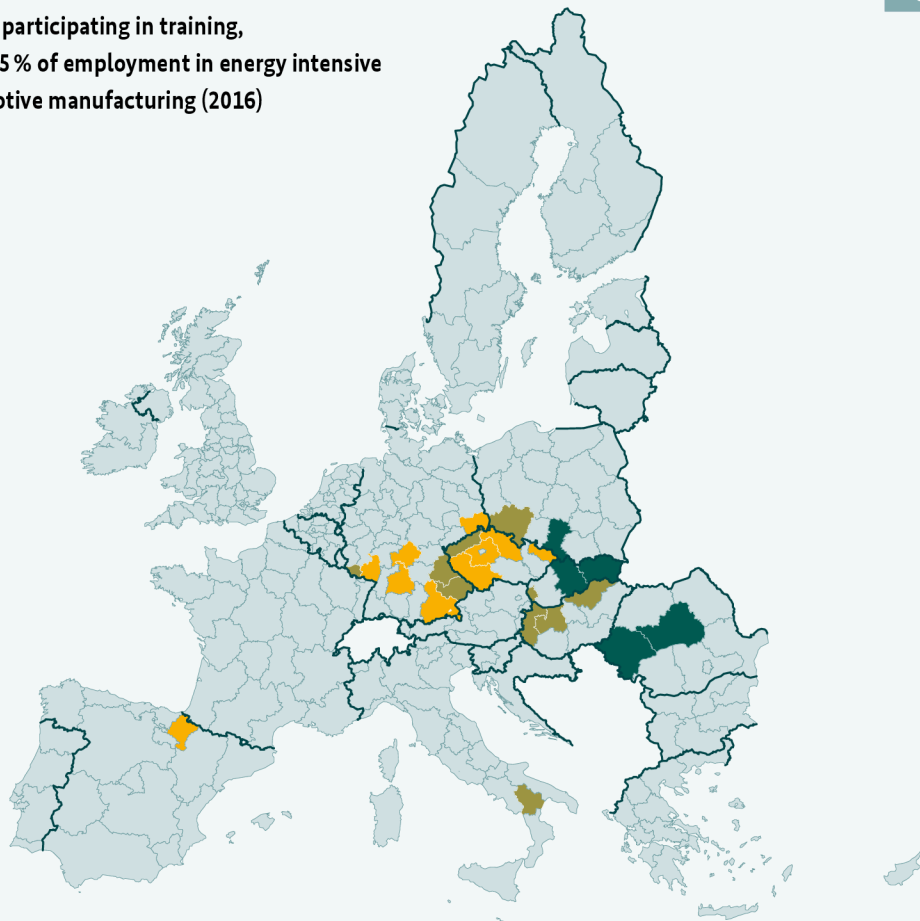
16. COM(2020) 14 of 14 January 2020

Figure 6

**Percentages of adults participating in training,
in regions with above 5 % of employment in energy intensive
industries and automotive manufacturing (2016)**

- 1.0–3.9 %
- 4.0–7.9 %
- 8.0–12 %

EU28 = 10.8 %



Note: Some regions not highlighted in the map due to the lack of sector-level employment data at NUTS-2 level.
Source: Eurostat, trng_ifse_04.

Together with the important measures taken in response to the challenges stemming from the coronavirus pandemic to protect people, reinforce public health sectors and mitigate the socio-economic impact, these actions and instruments will help keep the course towards an even stronger social Europe, strengthening economic and societal resilience and providing an enabling framework for successful, just transitions to a sustainable future for all.

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DR FRANK SIEBERN-THOMAS is Deputy Head of Unit at European Commission, DG EMPL, Social Affairs and Inclusion, Thematic Analysis unit (EMPL/A4).

Infographic

Facts and Figures: Digitalisation

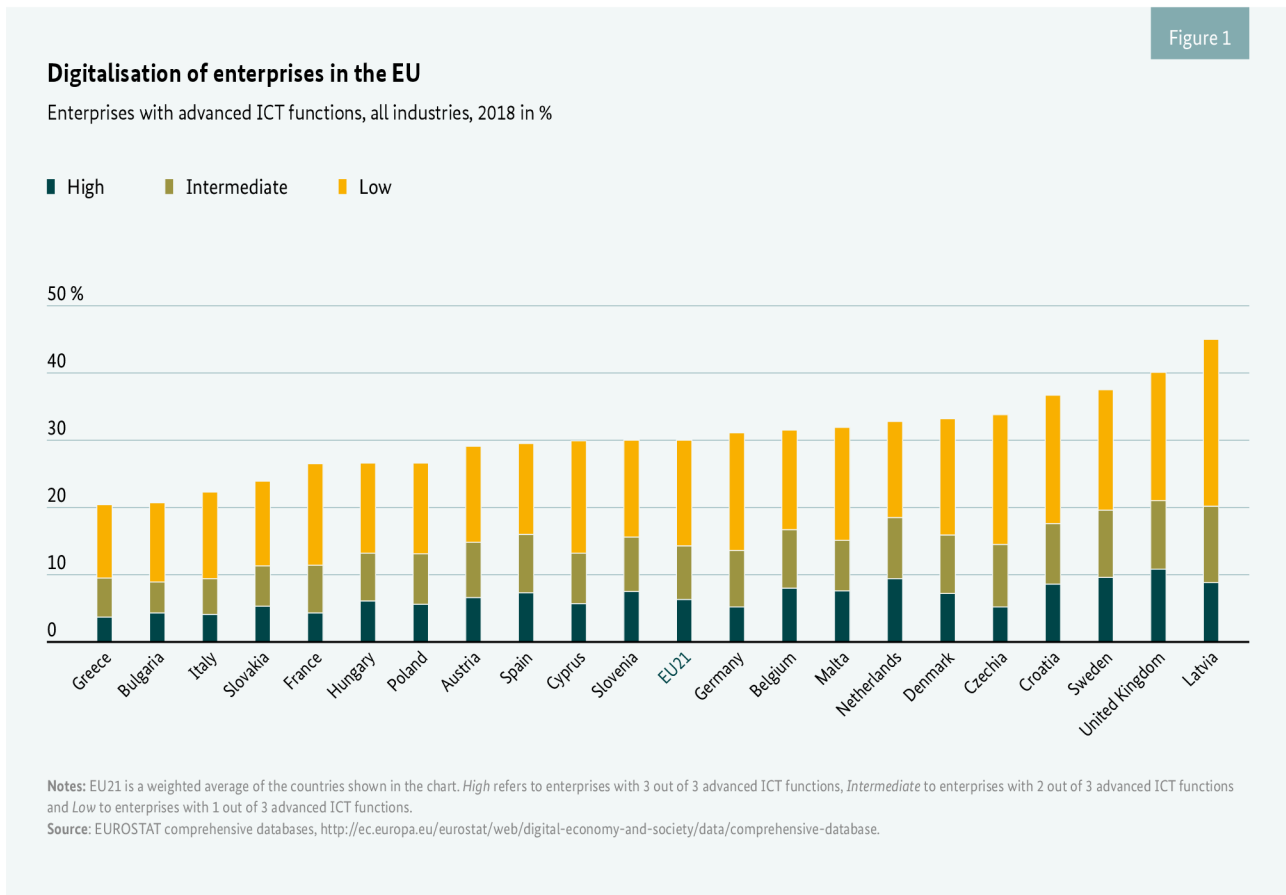


Figure 1 The average share of enterprises with advanced ICT functions, (i.e.: ICT security and data protection activities, tailoring of business management software and the development of web solutions) is 30 per cent across EU countries. Only 6.3 per cent of enterprises, on average, have a “high” advanced ICT functions.

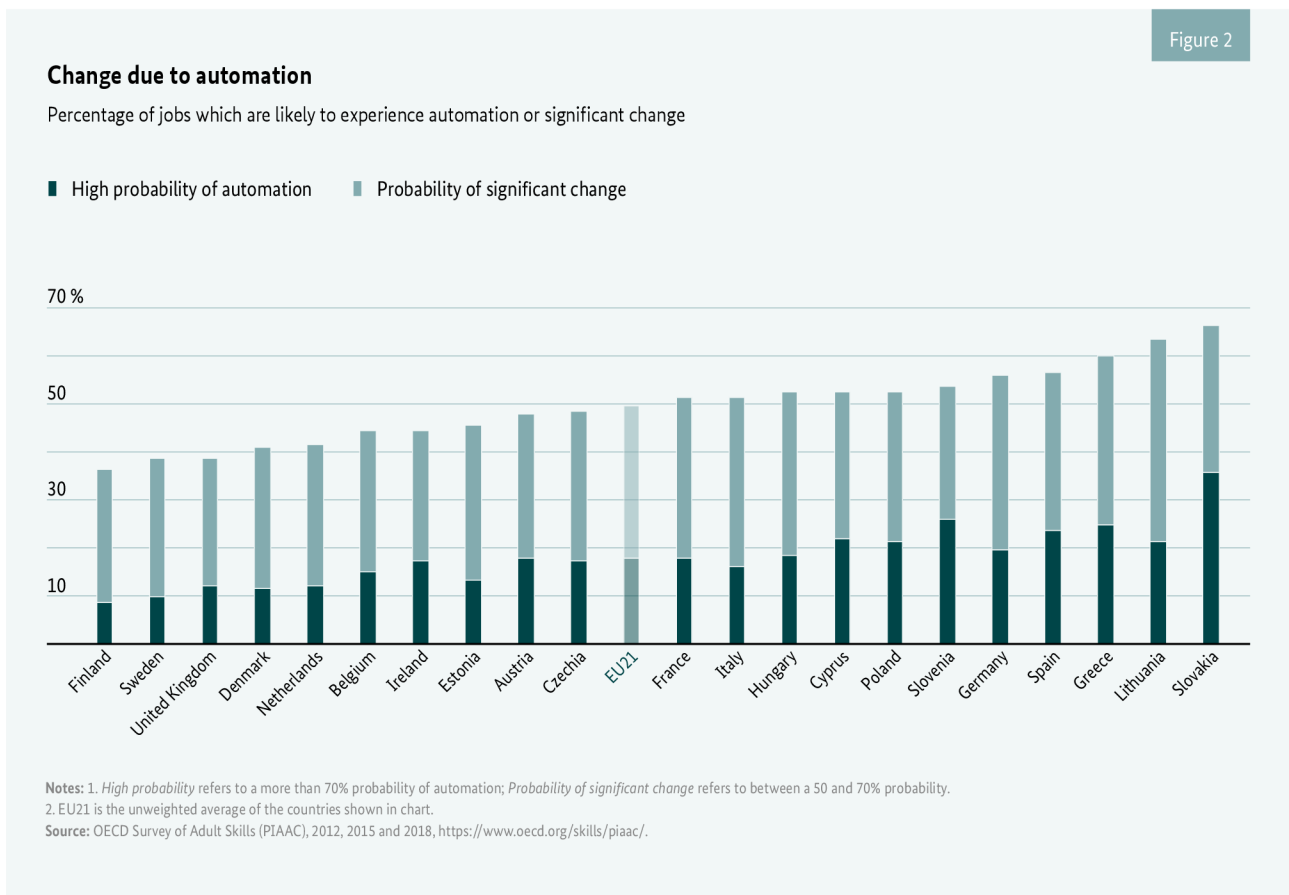


Figure 2 On average, around 50 per cent of jobs in EU countries with available data are likely to be significantly affected by automation over the next 10–20 years. 18 per cent of jobs are at highly likely to be affected by automation, and a further 32 per cent of jobs are likely to experience significant change.

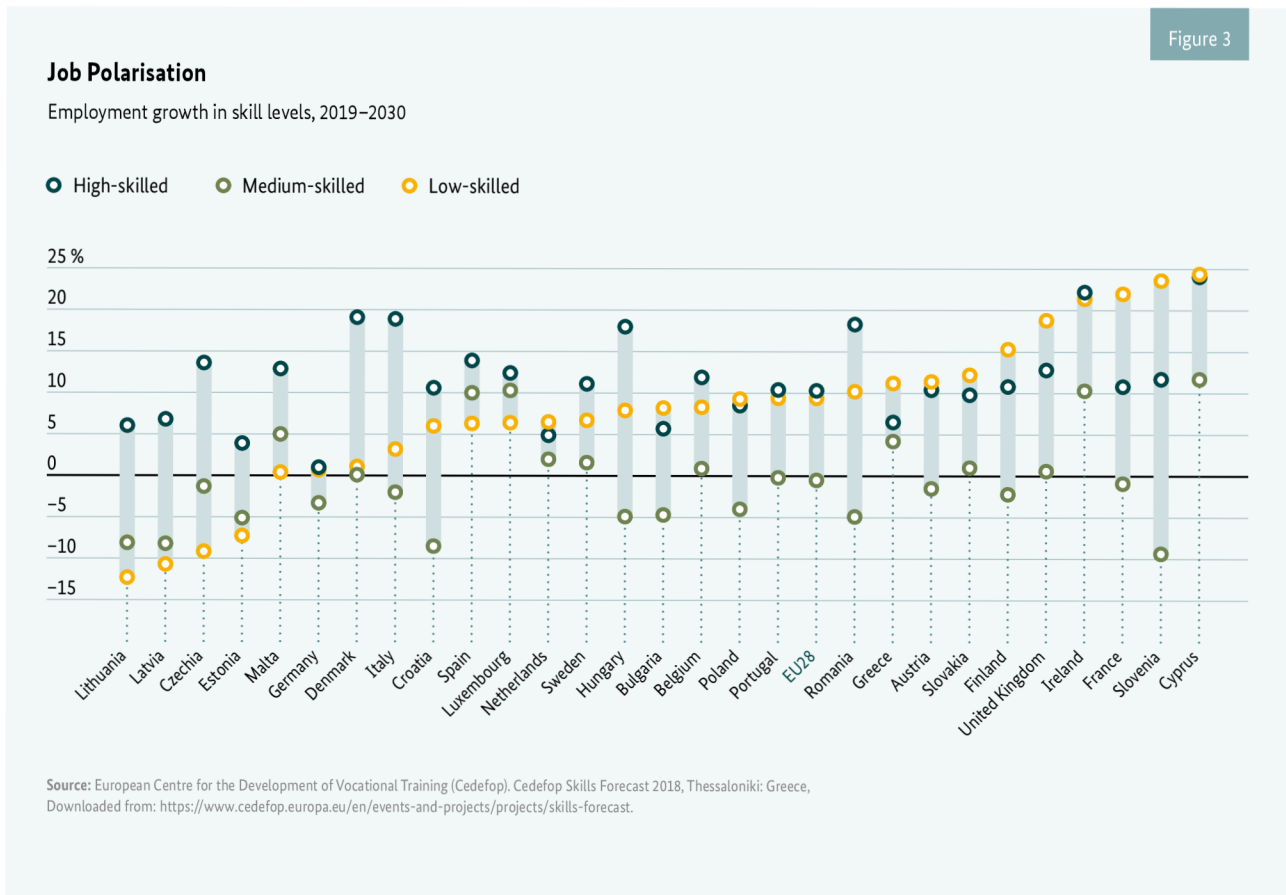
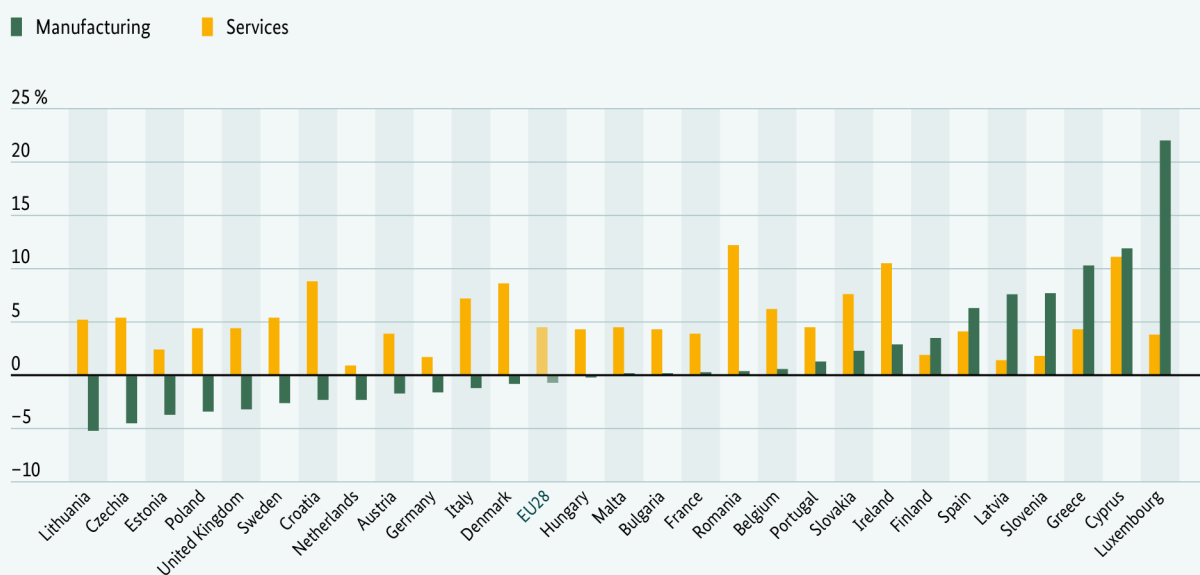


Figure 3 On average, OECD forecasts predict that labour markets will continue to polarise, with growth in high- and low-skilled jobs, and the share of medium-skilled jobs declining.

Figure 4

Employment growth services/manufacturing

Employment growth in the manufacturing and services sectors, 2019–2025



Note: Services includes "Business & other services" and "non-marketed services".

Source: European Centre for the Development of Vocational Training (Cedefop), Cedefop Skills Forecast 2018, Thessaloniki: Greece, Downloaded from <https://www.cedefop.europa.eu/en/events-and-projects/projects/skills-forecast>.

Figure 4 On average across EU countries, employment in services will continue to grow between now and 2025. Employment in manufacturing is expected to slightly decline in many EU countries. However, some are still expected to experience significant growth in manufacturing.

AI and Knowledge Work: Implications, Opportunities and Challenges

In the following interview, Prof. Dr Hendrik Send and Shirley Ogolla discuss the HIIG research project “AI and Knowledge Work – Implications, Opportunities and Risks”, financed by the AI Observatory of the BMAS (German Federal Ministry of Labour and Social Affairs). By studying specific applications of smart and autonomous systems, they aim to identify the implications, opportunities and risks for workers and businesses.

You conduct qualitative research into the implications of AI for business practice. Why did you choose this particular subject?

Artificial intelligence (AI) technologies enable better solutions for many tasks of knowledge-based work than previous technologies have allowed. They provide radically new tools for workers for a very broad range of applications. At the same time, many people are voicing concerns about the risks of AI applications. To be able to shape technologies in a way that they meet the requirements of quality jobs and enable effective solutions in business, we need a solid understanding of the application scenarios of AI technologies.

What does your research project involve exactly?

The starting point for our project is how people who already work with AI applications perceive their work. Three topics are of particular interest to us in this regard: the intention of the companies introducing the applications, the development and implementation processes, and the individual and organisational skills associated with the application. Existing research into the use of technology in the workplace gives grounds



to assume that the use of AI in knowledge-based workplaces presents an important field of research with new implications.

Which approach do you take exactly and why?

In the first phase of the project, we collect many examples of AI in practice and get a better understanding of the range of AI application scenarios that can currently be found in the German business landscape. This also involves examining which topics are raised with particular frequency by stakeholders in the context of AI. In the second phase, we conduct interviews with various experts to get a better insight into the application scenarios and the organisational context.

As part of the third phase, we go to the business organisations to carry out in-depth case studies. Here, we work closely with AI users and also involve developers, project managers and other relevant stakeholders. In the final phase, we will organise pilot workshops with representatives of organisations, AI users and other disseminators to discuss the findings from our research with practitioners.

“The starting point for our project is how people who already work with AI applications perceive their work.”

1. SHIRLEY OGOLLA is a Research Assistant at the Alexander von Humboldt Institute for Internet and Society (HIIG) where she examines the use of artificial intelligence in the workplace. She studied media studies at Humboldt-Universität zu Berlin, the Sorbonne University in Paris and New York University. Away from the ivory tower of academia, she translates her academic work into interactive art installations for the general public. Photo: Alexander von Humboldt Institut für Internet und Gesellschaft

2. PROF. DR HENDRIK SEND is Professor for Business Studies, especially marketing, at Anhalt University of Applied Sciences, where he directs the master's programme in online communication. He did his doctorate on innovation communities and idea generation on the internet at the University of St. Gallen and conducts research on digital innovation at the Alexander von Humboldt Institute for Internet and Society. Photo: Hendrik Send



Researchers expect the role of artificial intelligence in the world of work to increase significantly in the coming years. Photo: SFIO CRACHO/Shutterstock.com

What insights have you already gained?

There are two primary motivating factors behind most of the projects of our interview partners: first, many cite the overwhelming workload of knowledge-based workers as the reason for the project. Second, many explain that AI applications are part of the process of taking their business model digital and are intended to make a key contribution to their competitiveness in the future.

Most companies in our sample report that they have been pursuing a digitalisation strategy for quite some time and benefit from it when using

AI. In many cases, they began recruiting specialists, such as data scientists, several years ago and have concentrated digitalisation skills in teams. In our real-life case studies, the initiative for the AI projects very often came from precisely these teams. It is remarkable how frequently these teams do not use solutions from third-party providers, choosing instead to develop their own AI applications, often using open-source software. Overall, it can be said that our companies have already deployed AI successfully and we have not heard any accounts of failed AI projects or encountered businesses with serious internal discussions or challenges.

What do you see as the most important future developments for AI in the working world and what should policy-makers, trade unions, businesses and workers bear in mind?

AI applications are already supporting, changing and replacing human work in many complex tasks. First of all, we can say that the application scenarios in our collection of cases all concern rather specific and clearly demarcated fields of activity and not combinations of multiple different tasks. In contrast, usually job profiles specifically involve combinations of different tasks. It will be important to monitor which job profiles are more affected in order to support the workers at an early stage. Second, we are seeing some AI application scenarios in which the new technology enhances the skills of the knowledge workers, and others in which sub-tasks are being automated entirely

As scientists, we have a hard time with predictions for the future. If, however, AI applications follow the diffusion pattern of other technologies like PCs, mobile phones or the internet, after a few years of slow growth we will see an acceleration in take-up if additional innovations that can be used to complement AI applications enter the market.

“AI applications are already supporting, changing and replacing human work in many complex tasks.”

and the need for the corresponding human skills is decreasing. If possible, businesses should try to implement the use of AI in a way that the applications support human skills and contribute to further skill development. Thirdly, many of the companies surveyed in the context of AI are making explicit efforts to train existing staff in order to cover their demand for experts in the field of data science and machine learning. If businesses use the efficiency gains from AI for the benefit of everyone involved by investing the additional resources in training, then the potential for conflict associated with the further expansion of applications is minor. The high demand for experts in the field is another argument for life-long learning.

 Examples from Practice

Examples of Artificial Intelligence in Business Practice

TEXT: SHIRLEY OGOLLA, VIVIEN HARD

The following selection of real-life case studies provides examples of smart and autonomous systems and illustrates their growing relevance in very different application areas of business practice. The case studies come from the research project “AI and Knowledge Work – Implications, Opportunities and Risks” (known as the KIWI project in German) conducted by the Alexander von Humboldt Institute for Internet and Society (HIIG) and financed by the AI Observatory of the BMAS (German Federal Ministry of Labour and Social Affairs).

Assistance in the analysis of documents for mortgage loans

Context:

The ING Bank wants to offer its customers a simple and clear digital experience – anytime and anywhere. Since summer 2019, all organisational units of ING in Germany have followed agile work practices. Agility is the business culture’s response to the digital transformation. The strategy is to become a data-driven business, boost customer satisfaction and remain a digital market leader. In the area of mortgage loans, ING is developing applications for computer-assisted document analysis.

Deployment scenario:

With the help of machine learning, the application is to extract information from documents such as payslips that are submitted by customers applying for property financing. Using natural language processing, this information can then be classified and organised into relevant information fields such as information on the applicant's actual net income.

Initial situation:

When customers apply for a mortgage loan, they are required to submit an array of documents to provide information about their creditworthiness. The aim is to increase the level of automation in the data processing production processes.

Specific problem:

Originally, the data from these (PDF) documents was entered manually into corresponding tables by staff in the mortgage lending division. This was a very time-consuming process.

There is a need for internal further training programmes for staff, including opportunities for those who wish to change career and enter IT.

Initial question: How can we automate simple sub-tasks in document analysis in the area of mortgage lending?**Successes:**

- The application could offer promising support in data processing for simple sub-tasks in the mortgage lending service.
- Mortgage lending staff would therefore be able to invest more time in the decision to provide a loan.
- Against the backdrop of potential machine learning bias, the decision to grant a loan is ultimately always taken by the members of staff.

Lessons learned:

- Internal data science expertise is a key prerequisite for the successful implementation of such projects and can pose a challenge in light of the shortage of skilled professionals.
- The financial sector is already highly regulated and the possibilities for the large-scale deployment of artificial intelligence (AI) applications are limited accordingly. ING is therefore pursuing an augmented intelligence approach.
- There is a need for internal further training programmes for staff, including opportunities for those who wish to change career and enter IT.

Assistance in filtering out toxic social media comments

Context:

“Readers of ZEIT ONLINE, the online version of the DIE ZEIT weekly newspaper, like to discuss topics, adding thousands of comments to our articles on a daily basis. While the vast majority of these contributions are constructive, about 200 comments each day are classified as having harmful content and are either abbreviated or removed.”¹ (Andreas Loos, Data Scientist ZEIT ONLINE)

“Our community team is responsible for moderating the comments. We monitor content 24/7 to ensure that discussions on ZEIT ONLINE are respectful and constructive. All readers should feel welcome on our site. No-one should prevent others from sharing their opinion and knowledge by posting insulting or ostracising comments. This is the ideal scenario – by definition unattainable – which we are striving for.”² (Julia Meyer, Community Team Lead ZEIT ONLINE)

Deployment scenario:

The ZEIT ONLINE community editing department develops and tests an AI moderation tool called “Zoe” for online comments. On the basis of natural language processing, the AI moderation tool recognises toxic German-language content.

Initial situation:

The ZEIT ONLINE community editing department has a team of moderators who monitor online comments manually around the clock and filter out all comments that breach netiquette³/discussion rules.

Specific problem:

The ZEIT ONLINE community editing department receives up to 80,000 comments per week. 20,000 readers a week post several hundred comments, which are also processed simultaneously by the community editing department. Having an AI application that helps flag comments that probably need to be filtered out would be an enormous help for the moderation team.

Initial question:

How can we use AI to provide round-the-clock assistance to the moderation team, particularly during peak loads?

1. <https://www.zeit.de/digital/2016-09/kuenstliche-intelligenz-kommentar-bot-zeit>
 2. <https://blog.zeit.de/glashaus/2018/03/02/wie-wir-leserkommentare-moderieren/>
 3. <https://www.zeit.de/administratives/2010-03/netiquette/seite-2>



AI can help to filter online comments that violate netiquette and discussion rules. Photo: Apichon_Tee/Shutterstock.com

Successes:

- Using historical comment data, the AI application has already been trialled and tested, and is currently being trained and undergoing continued development.
- The tool allows the moderation team to invest more time in difficult comment-related decisions.

It is much easier for the AI application to filter out toxic comments than particularly good comments, as research has already developed a number of applications to detect toxic content.

Lessons learned:

- It is much easier for the AI application to filter out toxic comments than particularly good comments, as research has already developed a number of applications to detect toxic content.
- The AI application can certainly help the moderation team to maintain the comments on ZEIT ONLINE and foster a respectful culture of debate. Far from making the moderation team redundant, the tool allows the team to concentrate on the more acute cases.
- A high degree of pragmatism together with technical in-house expertise is a key factor in the success of this project.

Assistance in the evaluation of ideas in improvement management

Context:

“The process of digitalisation affects all business segments at Volkswagen. In addition to the car itself and various mobility-related services, we are also going digital with development, vehicle production and the entire factory and office working environment.”⁴

Deployment scenario:

- Idea management is a department within HR where employees submit ideas for the improvement of all business processes and where these ideas are processed and evaluated on the basis of applicable rules.
- Between 2017 and 2019, idea management was supported by the IdeenOnline Playground (IOP) software, which analyses the database containing all the improvement ideas already submitted and in doing so allows idea management to see this data from a new perspective. For example, this software enables a real-time search for known improvement ideas and can also compare ideas and assess their similarity. This helps to speed up processes in idea management significantly, as suitable evaluators for these improvement ideas can be found far more quickly, for instance.
- A few facts about IdeenOnline Playground:
 - IOP was developed entirely by an employee of the strategy and innovation department in the HR division and is built with cutting-edge open-source technology.
 - It uses natural language processing (NLP) to linguistically analyse the database currently containing over one million improvement suggestions, and also deploys unsupervised machine learning techniques to find the relevant improvement ideas in this context from the stock of data in less than one second.
 - Currently, IOP is not fully utilisable due to a change of system in Volkswagen’s IT infrastructure. As the advantages of IOP are indisputable and the change can produce new useful functions, plans to adapt the software are already in place.

A pragmatic approach to administrative requirements and effective networking with other staff members can facilitate swift progress and prevent developments from failing before they even get off the ground.

4. <https://www.volkswagen-newsroom.com/de/digitalisierung-3711>

Initial situation:

Over 20,000 new ideas for improvement are submitted each year, with the result that every member of staff in idea management needs to process over 1,000 new ideas per year.

Specific problem:

In addition to the ideas that already exist, each member of staff in idea management has to process new ideas constantly. To assess an improvement idea, for example, it is necessary to identify suitable evaluators who are experts in their field. Given the size of the company and the wide range of topics, finding these experts is a very time-consuming process.

Initial question:

How can we simplify the search for evaluators to assess the ideas?

Successes:

- In the case of new improvement ideas, the search function coupled with similarity analysis helps idea management staff to find earlier, similar ideas and the idea evaluators. Suitable evaluators for new ideas can therefore be identified far more quickly.
- Combined with additional, useful functions, the administrative workload of idea management staff can be reduced, and the time saved can be used to support the actual implementation of ideas even more effectively.

Lessons learned:

- The freedom to develop innovative projects is based on the support and trust of management. A pragmatic approach to administrative requirements and effective networking with other staff members can facilitate swift progress and prevent developments from failing before they even get off the ground.
- The integration of applications into the existing IT landscape often poses a significant challenge given the broad range of requirements to be met. When developing new applications, particular attention should therefore be paid to application integration from the outset in order to facilitate subsequent production roll-out.
- Technology-savvy staff members and employee representatives should be the first to be brought on board, as they are open to experiments and are happy to give very useful feedback for the further development of the application. Furthermore, they also act as disseminators and can convince any sceptical colleagues of the benefits of the new technology.

Assistance in answering HR-related questions in HR management

Context:

The HR systems department at Siemens has been using a smart chatbot in human resources since 2017. The chatbot is included in a single point of contact (SPoC). The chatbot component in CARL, as the SPoC is known (named after the son of Werner von Siemens), was co-developed with IBM and uses the IBM Watson components IBM Watson Assistant and IBM Watson Discovery. It provides Siemens staff with round-the-clock information on HR-related topics in an anonymised format in five languages.

“The fact is that the new technologies are now part of our lives and the pace of technological advancement continues to accelerate. As HR, we also have to take an innovative approach and try out, understand and deploy and/or provide new technologies in order to offer new solutions for our own use cases and also to be able to keep pace with our business and deliver effective support in this transformation process.” (Sabine Rinser-Willuhn, HR systems, Siemens AG)

An agile mindset and team are factors of success, as so much was changed and adapted in the course of the project and the team acts like a start-up within the actual company.

Deployment scenario:

CARL is an international AI project that uses AI functions of IBM Watson in the project's chatbot component: IBM Watson Assistant technology is the basic capability for the natural language processing. It is based on a supervised learning model which experts must populate with both potential questions and the answers to these questions. The system's intelligence lies in its ability to answer variants of questions in the same context in future on the basis of a few initial questions.

Watson Discovery is a cloud-native insight engine that combines data ingestion, storage and preparation using natural language processing in order to extract insights from structured and unstructured data with AI-assisted queries.

Initial situation:

The computer-assisted provision of advice on HR-related issues, such as sick leave, vacation planning, performance management processes, business trips or information on continuing and further training measures, is to be introduced. The aim is to provide 24/7 support for members of staff on all kinds of terminals, and also to reduce the workload of HR departments, giving HR more time and resources to address complex issues by having a machine answer simple, recurring questions.

Specific problem:

The German Siemens HR department alone receives questions on some 360 HR-related topics from around 120,000 employees. Many of these questions are easy to answer.

Initial question:

How can simple HR-related questions be answered automatically?

Successes:

- Currently, the SPoC CARL is contacted over one million times per month.
- The chatbot gives staff round-the-clock information on around 290 HR-related topics from all devices. It currently reports an average of 60,000 interactions per month.
- It now speaks five languages, has gone live in 20 countries and therefore currently reaches around 280,000 employees. The goal is for the majority of Siemens' 350,000 staff worldwide to communicate with CARL by the end of 2020.
- With their workloads eased thanks to the chatbot, HR staff have more time to dedicate to more in-depth questions.
- Staff at Siemens can get answers to their questions more quickly.

Lessons learned:

- An agile mindset and team are factors of success, as so much was changed and adapted in the course of the project and the team acts like a start-up within the actual company.
- The chatbot launch was very open; project management addressed users' questions directly.
- The trust of management is very important in order to have the necessary freedom and flexibility in the development and implementation process.
- The successful implementation of a project of this size requires stamina, patience and willingness to experiment considering that completely new technologies are used and supported by new methods (such as Design Thinking, Agile, SCRUM, etc.).

Assistance in image searching in the production of education media

Context:

The Cornelsen Group is one of the leading providers of education media in German-speaking countries, with publishing companies such as Cornelsen Verlag, the Bibliographisches Institut (Duden), VERITAS or Verlag an der Ruhr. People have used Cornelsen education media to teach and learn for over seven decades. Cornelsen fosters educational potential from early childhood through to adulthood and working life. In the development of educational processes, the group is relying on the potential of digital technologies.

Deployment scenario:

Cornelsen has been using an image search technique in its editorial work since 2018. On the basis of a specific image, the image search function searches the internal image database for a similar image without having to rely on indexing.

- Image search is integrated into the existing editing software, allowing editors to search through the database of images which Cornelsen has purchased for the closest possible match for another image.
- Based on an open-source image recognition model and using a neural network and a clustering algorithm, the image search function suggests the images that are the closest possible match.

Initial situation:

Educational products, such as schoolbooks, are illustrated in a manner that effectively supports the learning process.

Specific problem:

Editors often already have a particular image in mind and are looking for a similar image the rights to which Cornelsen has ideally already purchased.

The development of AI applications requires digital business understanding, experimentation and pilot phases, extensive data access and exchange with domain experts.



*The faster way to get the right picture: AI applications can help to find similar pictures which helps in the process of producing didactically meaningful educational media.
Photo: S_L/Shutterstock.com*

Initial question:

How can the closest possible matches for a particular image be identified in the Cornelsen image database?

Successes:

- AI-assisted image searching accelerates the process of producing educational material.
- This gives editors more time to invest in content.

Lessons learned:

- The development of IT products in general and AI applications in particular requires digital business understanding, experimentation and pilot phases, extensive data access and exchange with domain experts.
- Therefore, constant exchange with the expert users – in this case the media managers and editors – is crucial in order to understand the work processes and be able to support them effectively.
- Here, it helps to prioritise according to potential time savings for routine tasks in order to get the necessary time for support from the expert users.
- The use of open-source models can significantly speed up the development of AI applications.
- Early exchange with IT administrators and developers is important for subsequent production roll-out to existing systems. One challenge in this context is to be able to offer approaches and prototypes as quickly as possible as the basis for discussion.

Assistance in the digitisation of historical library collections

Context:

“As Germany’s biggest academic universal library, the Staatsbibliothek zu Berlin (Berlin State Library, SBB) is a central source of national and international literature. More than 11 million volumes of printed material alone have accumulated since the library was founded over 350 years ago. Furthermore, the collection comprises over 2.2 million additional printed works and other, often unique, materials in the special collections – including western and oriental manuscripts, music manuscripts, autographs, unpublished works and papers, maps and historic newspapers. The library’s collection also contains more than 10 million microforms and, in the photographic archive, over 12 million motifs.”⁵

Since 2010, the SBB has been digitising its public domain collections in the Digitisation Centre specifically created for this purpose in Berlin. Here, the SBB creates digital collections from analogue documents (manuscripts, prints, maps, sheet music, etc.) and makes them available to the public online.

Deployment scenario:

A total of three AI applications are being developed in the QURATOR project. A layout analysis of documents is performed using deep learning procedures for image recognition (1); text recognition is performed using neural networks (2); and semantic analysis is performed using natural language processing (3), e.g. for named entity recognition.

Initial situation:

The aim is to apply the promising approaches of AI to the particular challenges of historical documents. The SBB’s repository contains around 2.5 petabytes of data, providing a vast quantity of training material.

Specific problem:

The SBB is digitising all the documents that are free of copyright in its collection (15th century–1920) and making them available online⁶. However, several complex processing steps and technical challenges need to be overcome before digitised sources are just as convenient to work with as digital-born documents. Existing AI solutions are not suitable for the historical particularities of writing styles and spelling, as they contain many distinctive features and differences compared with the standardised language of today.

5. <https://staatsbibliothek-berlin.de/die-staatsbibliothek/portraet/>

6. <https://digital.staatsbibliothek-berlin.de/>

Initial question:**How can the quality of the digitised content be improved by AI-based processes?****Successes:**

- Thanks to the AI processes, it has been possible to make a decisive quality improvement in the further processing of digitised content, both with regard to the quality of layout and text recognition and the semantic enrichment of the documents.
- In future, more documents can be made accessible more quickly and effectively and will therefore also be more easily searchable.
- The scholars can now apply methods from digital humanities, such as text mining, as in terms of text accuracy the quality of the digitised content is close to the analogue originals and the digitised objects are available globally online.

Lessons learned:

- The SBB has been involved in the research field of document analysis and text processing for many years, so it had developed a good foundation for this project.
- It is difficult to scale how much computing power will be needed for the project on the long term. For example, the training of AI models will place considerable demands on specialised hardware at times.
- The machine learning engineers can incorporate the necessary domain knowledge such as knowledge of certain types of handwriting from the Middle Ages into the AI development process directly from the scholars and experts on site at the SBB.

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For more information on the research project Artificial Intelligence & Knowledge Work – Implications, Opportunities And Risks visit the KIWI project website on the Alexander von Humboldt Institute for Internet and Society website.

<https://www.hiig.de/das-institut/>
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Infographic

Facts and Figures: Artificial Intelligence

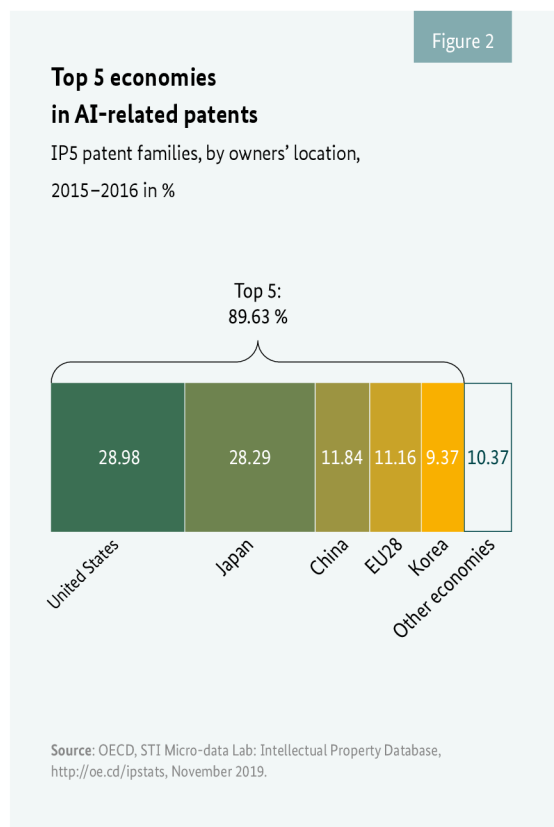
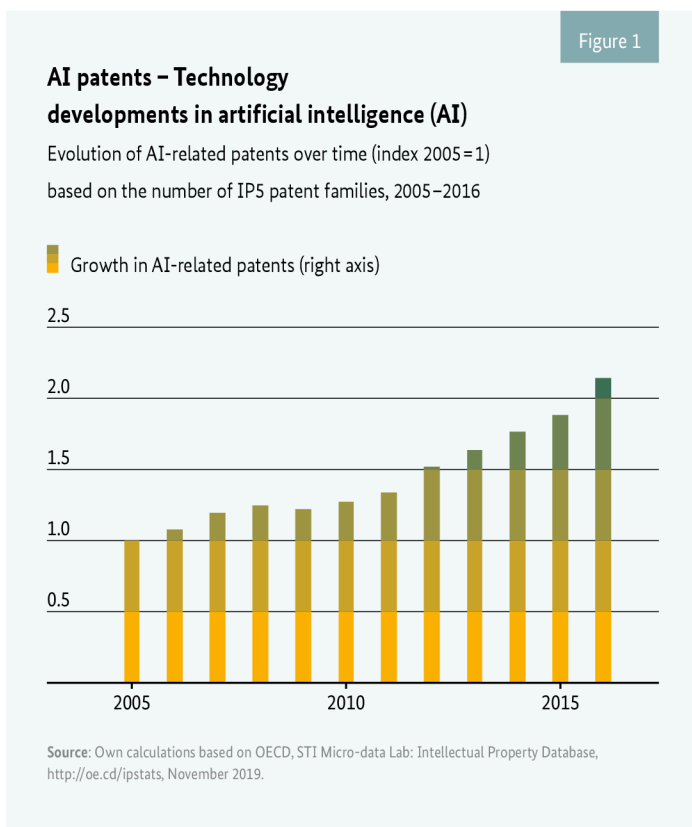


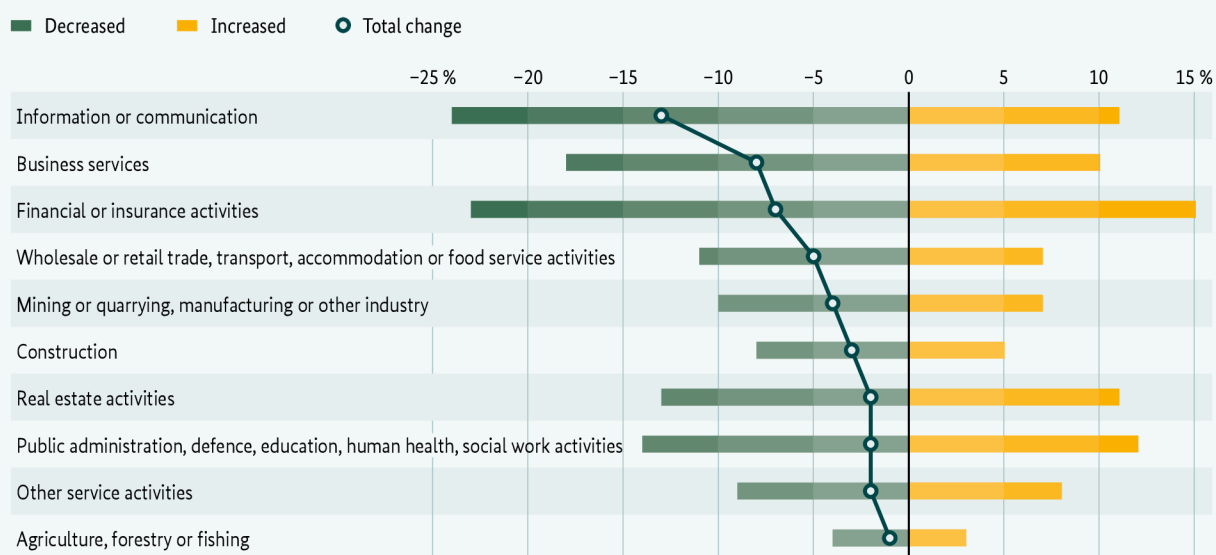
Figure 1 AI-related patents have grown by an average of 7.8 per cent annually between 2005 and 2017. The increase in growth of AI-related patents is a sign for the growing importance of the technology.

Figure 2 While the EU region is among the top 5 economies in terms of its share of overall AI-related patents, it lags far behind the United States and Japan.

Figure 3

Change in time on repetitive tasks resulting from new software at work

Change in time spent on repetitive tasks, EU average, at work by sector, 2018. As a share of all individuals at work.



Note: The EU average excludes Finland and Luxembourg.
Source: Eurostat, <https://ec.europa.eu/eurostat/data/database>.

Figure 3 Technology can also have a positive impact on job quality. On average, across 26 EU countries, the share of individuals who say that the adoption of new software at work has reduced the average time they spend on repetitive tasks exceeds the share of individuals who say that it has increased the time they spend on such tasks. This is true regardless of the sector considered, although the next effect is largest in the Information and Communication sector.

Analysis

Artificial Intelligence in the World of Work: The Use of Artificial Intelligence Requires a Great Deal of Human Expertise

Ms Zweig, do the political decision-makers you meet in Germany and Europe understand the changes that artificial intelligence (AI) will bring?

ZWEIG: I think it differs a great deal. The members of the Bundestag's Study Commission on Artificial Intelligence are, of course, exactly the parliamentarians who have already engaged with this issue. Otherwise, I see the full spectrum: a district government has shown interest in these issues, and the governments of some of the German federal states (Länder) are sitting up and taking notice. Together with Gerald Swarat from Fraunhofer, we have just set up an AI initiative for municipalities which essentially aims to begin by educating them – we're concerned that otherwise AI systems could be purchased too quickly and without an understanding of how the technology functions.

Are there typical misconceptions about AI that you encounter again and again?

ZWEIG: There is this vague idea that AI is intelligent. Very often, people don't understand the basic mechanism – namely, that the methods

which are so often discussed today are simply statistical processes which look for patterns in data. And many people don't realise how many control options exist in this context. They have the impression that the machine calculates an optimal and objective solution. But some issues are still too complex for that, especially when it comes to people.

In what sense?

ZWEIG: In the case of complex issues, we have no algorithms which could actually find an optimal solution – only what are known as "heuristics". These heuristics try to find patterns in the data which are as meaningful as possible – but they can't guarantee that they have found the best patterns. This means that, depending on the dataset and the question asked, errors are possible. Most people don't realise that, and so in some areas too much is expected of AI while in other areas this confidence is justified.

Does this excessive confidence in the capabilities of AI result in policy-makers and businesses being overly concerned about AI systems – and keen to regulate it too strictly?

It can go either way. If the capabilities of artificial intelligence are blown out of proportion, this can also give rise to a feeling that AI offers opportunities for businesses which absolutely have to be unleashed. And on the other hand, there is the desire for strict regulation – and we really need to be careful in that respect.

Why?

ZWEIG: AI is not a singular technology. It is a set of methods which are used to try to extract patterns from data. My field of research concerns those AI systems which then make decisions using the identified patterns. And these decisions are as diverse as the decision-makers they are intended to replace or support. It has to make a difference, when it comes to regulation, whether someone is recommending a book to me in a public library, whether a doctor is offering me a diagnosis, or whether a judge is deciding on the length of my prison sentence. It's the same for AI systems.

“AI is not a singular technology. It is a set of methods which are used to try to extract patterns from data.”

Is there a rule of thumb regarding which AI systems should actually be regulated?

ZWEIG: Really only the systems which are used in areas regulated by law. Broadly speaking, these are AI systems which take decisions about people or people's belongings, or which grant access to social or natural resources.



PROF. DR KATHARINA ZWEIG

is a professor in the Department of Computer Science at TU Kaiserslautern, where she heads the Algorithmic Accountability Lab. She is the founder of the consultancy Trusted AI, which advises institutions and companies on how to deal with artificial intelligence systems, and a member of the Bundestag's Study Commission on Artificial Intelligence. Photo: TU Kaiserslautern

What resources, specifically?

Access to the labour market, access to the housing market, access to oil, energy, education – any resource which is not infinitely available. But when it comes to the question of how I can produce the best paper clips, if I develop an AI system which removes paper clips from the production line if they are not properly folded – surely that's a case where no regulation is needed.

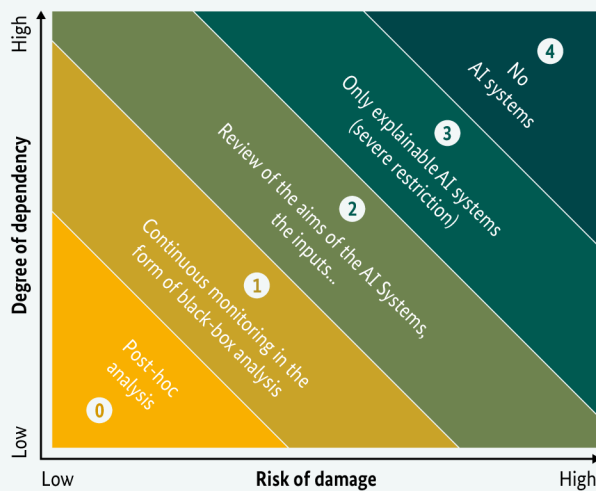
What criteria should be used to assess whether or not regulation should be introduced and how strict it should be?

ZWEIG: We are researching this issue at the moment – it's not easy to develop simple rules for this because as I already mentioned, there are a wide variety of application contexts. When it comes to AI systems which take decisions or support decision-making processes, the main issues are how high the potential for harm is when an AI system is used and how dependent people are on the decision. Take an evaluation system for job applicants and staff, for example: it makes a difference whether I, as an applicant, write to 200 companies which all have their own system – because even if 10 per cent of the systems reject me, I can still hope that the other 90 per cent use different criteria.

However, if the same system is used to evaluate internal applicants, the degree of dependence is much higher because I can't simply change companies in order to be evaluated differently. So as you can see, the same system integrated into different social processes requires different levels of oversight.

Risk matrix

The risk matrix by Tobias Krafft and Katharina Zweig distinguishes five criticality levels of decision-making or decision-supporting AI systems. The five levels are linked to increasing regulatory requirements respectively with regards to transparency and explainability of the decision logic.



Source: Algorithm Accountability Lab [Prof. Dr. K. A. Zweig], <http://aalab.cs.uni-kl.de/resources/>.

What is the situation like in the field of labour and social affairs? Is there interest in the changes that AI will bring?

ZWEIG: Works councils have been involved in examining AI systems for a very long time already, more than five years, I'm sure. We do a lot with works councils, and we are now almost on the point of creating a workshop system through which we can provide regular training. I have also already given talks at employment agencies, and we've also done some work in the field of consumer protection. I think in every field there are people who realise: we should actually take a look at this issue.

“The same system integrated into different social processes requires different levels of oversight.”

Are there positive examples, in your view, of how AI is already being used today by public administrations which should be looked at more closely?

ZWEIG: On the whole, it is a difficult area, but it can't be ruled out that such systems could be of assistance to agencies. It is important for the use of these systems to be observed and assessed by experts to determine how accurate and effective they are. In addition, the process in which the system is to be used must also be carefully prepared.

With this in mind, there is a positive example of how a pilot project can be set up when a public authority introduces AI: the algorithm used by Austria's public employment service (AMS). Actually, it's only a heuristic, but let's stick to the more common term "algorithm". The system assigns unemployed people to one of three groups.

The first group consists of people who will definitely get back into work. The third group consists of people who have been out of work for a very long time already and might not return to work. And there is a second group between the two for everyone who doesn't fall into either of these groups. The intention is that this second group will receive greater support in the form of continuing education and training. Obviously, this is a very sensitive task and so it must be properly evaluated.

How does it function in concrete technical terms? How does the AI sort the claimants?

ZWEIG: The heuristic used is what is known as a logistic regression, which is a very, very simple form of machine learning. Unlike other machine learning methods, the result is still very easy to follow: a human being can understand how the various factors affect the outcome.

And what was learned from this process?

It turned out that there is a kind of penalty if you are a woman, over 50, or a caregiver. This resulted in a huge outcry in the media and claims that the software is discriminatory. But that's not quite right – because the heuristic which was used learned from the labour market.

The software exposes discrimination, so to speak, but does not discriminate itself?

ZWEIG: Yes, it exposes discrimination. Does it discriminate itself? Well, first of all, the software has absolutely no agency of its own, it doesn't "do" anything in the sense of taking autonomous action. But in certain circumstances, depending on how the software is used, the identified discrimination can be perpetuated. According to the head of Austria's public employment service, the expected effect is that people who face discrimination in the labour market are more likely to be sorted into the second category by the algorithm – and as a result they will receive greater support. That would almost be a form of positive discrimination, a kind of compensatory approach.

What can be learned from the Austrian example?

ZWEIG: I believe there is only one way to find out whether such systems are helpful or not: they must receive expert support from the outset and the system as a whole must be evaluated to determine whether performance really improves or not. But that is often impossible simply because we don't know how good the human decision-making was beforehand. There is often a feeling – in the field of HR, for example – that the decisions taken by people are not good enough. And so the decision is made to do something about it.

What's the problem with that?

ZWEIG: It results in action for action's sake. A system is purchased which is supposedly good and it is often pre-trained on external data. I have a good example of this from the medical field: many German hospitals ran pilot projects trialling an AI system to support diagnosis in cancer cases – and it did quite a good job at that, in and of itself. However, the system also made strange suggestions. One reason for that might be the fact that the system was trained in the United States, where doctors have a financial stake in the medication they prescribe. Of course, that fed into what the system learned, and so the system chose specific drugs. What I'm saying is that these systems can't be trained just anywhere and then simply purchased.

Is it good that you can't simply buy whatever pre-trained AI system is available?

ZWEIG: Yes, I personally find that reassuring. I'm often asked whether we in Europe have already been completely left behind, because the United States and China are supposedly so far ahead of us. But all of these examples show, again and again, that if anyone wants an AI system for Europe, it has to be trained on European data. Europe is an important market – but only when taken together! And that means we are in a powerful position in this context: if we decide that our data has to be handled differently, then there are few alternatives for anyone who wants to develop systems for Europe concerning Europeans' behaviour. The most important change I'm calling for is that our digital behavioural data should no longer be allowed to be collected centrally in order to learn from it. Decentralised machine learning processes should have to be used instead. So far, there is still a lack of infrastructure in this field and additional research is needed.

If the power of the market is to work, however, AI systems must be subject to oversight – but there are no central agencies for this yet. In your view, who should be responsible for the oversight of AI systems?

ZWEIG: I believe that we already have arbitration organisations for most social processes: the works councils where workers are concerned, the consumer protection authorities where consumers are concerned, and the supervisory authorities for private broadcasters where the private media are concerned. But of course the AI literacy of these bodies and agencies would need to be developed.

“If anyone wants an AI system for Europe, it has to be trained on European data. Europe is an important market – but only when taken together!”

From the perspective of employees, many of the issues in the field of labour and social affairs – from the hiring process, to bonuses, assessments, and even automated processes to discard applications, like those already tested by a large American e-commerce company – fall into what you have described as a sensitive area. Is it realistic to develop AI literacy on a decentralised basis?

ZWEIG: It's completely realistic. Works councils have been thinking about these issues for years already. And in fact we run quite a lot of workshops and, in all honesty, even in 45 minutes you can achieve a certain level of literacy on the subject of AI systems. That is why I'm relatively optimistic that we can fairly easily and quickly

ensure a widespread basic understanding of how machine learning functions, in particular, and what it can and can't do.

And then the works council will look at whether an AI system is discriminatory? And whether the data has been properly prepared?

ZWEIG: No, the works council itself can't do that. Experts are of course needed for that. But they will be available when the market exists and there are services available.

What would these bodies and institutions need to be able to ensure actual oversight of artificial intelligence systems?

ZWEIG: On the one hand, they need the specialists I mentioned. Above all, though, they need – depending on how great the system's potential for harm is – access to data and interfaces which enable them to understand exactly what is happening and whether, for example, discrimination is taking place. That is why we have proposed regulation which establishes various transparency and explainability obligations based on the potential for harm and the degree of dependence on a decision. (Figure 1)

What could that look like in practice?

ZWEIG: My colleague Michael Wagner-Pinter in Austria, who developed the algorithm used by the Austrian public employment service, offers his software together with a set of social responsibility rules, for example. Rules on how the system is to be used in practice.

What do these rules require?

ZWEIG: For example: a decision on what category a person ends up in must always be discussed with the jobseeker. The individual is allowed to

“Jobseekers thus have a right to be forgotten; poor performance need not follow them into old age.”

contest the decision. An individual can see and change his or her basic data at any time. This means that if the machine has taken a decision on the basis of inaccurate data, the decision can be overridden. If it is overridden, it is necessary to document why it was overridden. And the system is updated each year, using only data from the previous four years. Jobseekers thus have a right to be forgotten; poor performance need not follow them into old age. We now call for additional technical access options which enable lawyers to identify systematic differences in treatment – in cooperation with specialists, of course.

What are the arguments against an association for technical inspection to oversee AI systems?

ZWEIG: The point is that it is not the system in and of itself which needs to be reviewed. The system is just one part of the review. And after all, we don't have a single authority which simultaneously determines whether doctors have made mistakes or whether lawyers are performing their work correctly – instead, there are separate institutions people can contact if they have the feeling that wrong decisions are being made systematically in either of these professions. In addition, we need an approach which always looks at the overall process, as was shown by the example of the algorithm used by the Austrian public employment service. In my opinion, we need an approach which, rather than signing off on the software, monitors the quality of the overall process and certifies that it meets certain quality standards. Another advantage is that it would remove the need to certify different

versions of a software. Instead, the quality assurance procedure of the overall process would have to be certified – and so long as the evaluation always takes place on the basis of certain criteria and in view of the potential for harm, the company will then be able to operate. In addition, however, we need an independent institution when it comes to AI in the public sector.

“But whether we ultimately let machines take decisions about people in these sensitive areas – that is a question which requires broad discussion!”

In your view, could the field of labour and social affairs in the public administration be a testing ground for seizing the opportunities of AI?

ZWEIG: Labour is a tricky field. It's one field where I'm not sure whether today's AI systems are complex enough to take into account the context dependence that we'd ideally like to have. It is often claimed today that there is no alternative to using AI systems. But of course alternatives exist: employing more and better job counsellors, for example. So yes: on the one hand, it would be an interesting field, because we could learn a great deal about how to provide better support for human decision-making. That is because the computer forces us to define things more clearly: what actually constitutes success? Getting more people into work? How do we subsequently want to measure success? I believe that this process, in itself, could have a very positive impact. But whether we ultimately let machines take decisions about people in these sensitive areas – that is a question which requires broad discussion!

Analysis

Work in an Era of Intelligent Tools and Systems: Finding the Path to an Equitable Economy

TEXT: MARTIN KENNEY, JOHN ZYSMAN, DAFNA BEARSON, CHRISTOPHER ELDRED

Intelligent digital tools are transforming economies, creating crucial challenges for today's leaders. Most significantly, platforms are fundamentally redefining work, value creation, and value capture, as factories did in centuries past. But technology is not destiny; policy can shape how intelligent tools are designed and deployed, which will determine outcomes.¹

The BRIE (Berkeley Roundtable on the International Economy) / CITRIS (Center for Information Technology Research in the Interest of Society) team on the future of work addresses a crucial question facing communities and societies across the globe: what is the impact of new intelligent tools on jobs and economies? Will they exacerbate economic inequality and spark widespread social unrest? Or can they facilitate abundance and rising living standards in communities and societies?

This question is not new. As the computerization of workplaces in the 1980s shows, intelligent tools have been shaping jobs and economies for decades.^a But over the last two decades, abundant computing power, storage, telecommunications bandwidth, and data have given rise to a new generation of intelligent tools and systems that are far more powerful and pervasive than before.^{2,b} These new tools include a range of technologies from basic IT and software to advanced robotics and sensors, 3-D printers, platforms, artificial intelligence (AI), interconnected cyber-physical systems, and many others. Together, they are transforming employment and competition in all sectors of the economy, including services, manufacturing and agriculture.^c They have likewise intensified fears and hopes about what the future has in store for the global economy and social order.

1. A Project of the Berkeley Roundtable on the International Economy and the Center for Information Technology Research in the Interest of Society and the Banatao Institute
2. Zysman, John and Kenney, Martin. (2018). "The Next Phase of the Digital Revolution: Intelligent Tools, Platforms, Growth, Employment." *Communications of the ACM* 61, no. 2, 54-63.

In this note, we highlight three points that have emerged from our work with BMAS (German Federal Ministry of Labour and Social Affairs) and several German research institutes.^d

First, digital platforms are reshaping the economy and redefining work and value creation and are central to any discussion of the impact of intelligent tools. *Second*, while narrow artificial intelligence (AI) applied across all domains is indeed very powerful, fears about general AI replacing human beings are unfounded. *Third*, the impact of platforms, AI, and other intelligent tools on work and workers is not inherent or predetermined but depends on how and for what purpose the tools are deployed.

While nobody can project the ultimate impact of intelligent tools, they bring disruptive challenges such as changing skill requirements, worker dislocation and reorganization of industries, as BRIE co-founder Laura Tyson and Susan Lund of the McKinsey Global Institute wrote in a recent editorial.^e However, a hypothesis of our research is that intelligent tools can also be harnessed to promote the equitable and prosperous communities that make a healthy society. The trajectory of intelligent tools' impact is malleable, and will be shaped by choices; in turn, policymakers must consider who has the power to make these choices, and their goals and incentives.

The rise of the platform economy

Digital platforms' reorganization of the economy is the most significant transformation of the era of intelligent tools. Diverse in structure and function, multi-sided digital marketplace platforms

are online "places" where participants can act, interact or transact; they rest on cloud computing, big data, advanced algorithms and a vast and ever-increasing number of connected devices.³ Using platforms, companies like Amazon, Apple (App Store), Facebook, Google, Microsoft, Salesforce, Uber, Flexport, Airbnb and Spotify are radically changing how we work, create value and compete for the resulting profits.

Digital platforms' reorganization of the economy is the most significant transformation of the era of intelligent tools.

Platform firms are pervasive, challenging sectoral boundaries and transforming the architecture of industries from automotive and retail to aviation and health care. Fully understanding the extent of platforms' reach across the economy is critical. BRIE is developing strategies for measuring platforms' impact and our recent work estimates that 31 of the most significant digital platform firms theoretically affect 70 per cent of business establishments in the United States.⁴ The impact is profound: to illustrate, Amazon has remade publishing, retail and logistics; Google Maps has changed how we think about location; Google Search has changed the roles of the library and the press; and restaurants depend on favourable reviews on Google Search and Yelp to attract diners.

3. Kenney, Martin and Zysman, John. (2016), "The Rise of the Platform Economy." *Issues in Science and Technology* 32, no. 3, pp. 1.

4. Kenney, Martin, Bearson, Dafna, and Zysman, John. (2019). "The Platform Economy Matures: Pervasive Power, Private Regulation, and Dependent Entrepreneurs." BRIE Working Paper Series, pp. 10. Retrieved from https://brie.berkeley.edu/sites/default/files/platform_economy_matures_final.pdf

Platforms transform firm strategy

BRIE has studied three major aspects of platforms' effects on the economy. *First, platforms remake how firms create and capture value.* With their scale and ease of use, platforms are becoming the default intermediaries for a massive and growing number of business transactions. This trend is accelerating the services transformation, wherein firms that once captured value by selling products increasingly differentiate by embedding services with products. For example, consider how a company selling port cranes now provides "port management services" to clients, using digitally-enabled sensors, analysis and user interfaces, or how a farm equipment company now adds on sensor-enabled "crop management services".^f In addition, platforms are reshaping economic geography from local communities to the global map, akin to how factory development in Midwestern states defined the United States' economic map. Within this geographic reorganization, corporate decisions shaping global work and value creating activities are being made in a few hubs on the US West Coast.⁵

Platforms redefine work

Second, platforms are redefining work and income generation. To illustrate this transformation, BRIE has developed a taxonomy of work and value creation in the platform economy.⁶ The taxonomy separates the platform firms and their employees, who enjoy high compensation and relative job stability, from other workers and businesses operating over platforms, the preponderance of which

receive relatively low levels of compensation, whether they sell goods on marketplaces such as Amazon or Etsy, perform in-person services through Uber or Eldercare.com or receive a share of ad revenue for posting original creative content to platforms such as YouTube or SoundCloud. Meanwhile, billions of people post content to services such as Google, Yelp and Facebook, providing essentially free value to the world's largest companies. Altogether, BRIE's taxonomy demonstrates how platforms' impact on work extends far beyond the much-discussed "gig economy".

With their scale and ease of use, platforms are becoming the default intermediaries for a massive and growing number of business transactions.

Digital platform firms have exacerbated the long-term trend of workforce fragmentation and the rise of precarious work.^g Increasingly, platform firms employ workers core to their mission as traditional employees while employing often heavily-monitored and distributed networks of peripheral workers in non-standard arrangements, opening a divide between "insiders" and "outsiders" in the labour market.^h It seems certain that many of the workers in non-standard work contracts have been undercounted, possibly because much platform-mediated work is done on a part-time basis. Growth in IRS 1099-K tax filings in the United States (tax filings for workers that are

5. Kenney, Martin and Zysman, John. (2020). "The Platform Economy and Geography: Restructuring the Space of Capitalist Accumulation." Forthcoming in the Cambridge Journal of Regions, Economy and Space, pp. 1.

6. The taxonomy describes platform firm workers, platform-mediated workers, platform-mediated content creators, and platform-mediated funding recipients. Bearson, Dafna, Kenney, Martin, and Zysman, John. (2019). "Labor in the Platform Economy: New Work Created, Old Work Reorganized, and Value Creation Reconfigured." BRIE Working Paper Series. pp. 38. Retrieved from https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3363003

paid electronically) compared to other tax filings is one indicator of the rapid growth in platform workers relative to the overall workforce.¹

Platforms' redefinition of work and value creation challenges the goals of social equity. The increasing number of well-paid jobs at platform firms remain a small share of all platform-enabled work. Moreover, it is unclear whether platform-mediated jobs, though they may at times offer flexibility, independence and opportunities for creativity, will pay a living wage in any but a few cases. Finally, the free provision of value by users to platforms in the form of data and content warrants examination for its impact on shared prosperity.

Platforms' redefinition of work and value creation challenges the goals of social equity.

Platforms amass regulatory power

Third, platform firms are by default becoming private regulators of large swathes of economic activity. Within their ecosystems, platforms' terms and conditions and the computer code implementing them, are effectively law. Consider the example of ride-hailing services. Taxis are legally prohibited from discriminating against potential passengers based on race. Does this law apply to Uber drivers? If so, who should enforce it: Uber or the state? If, as Larry Lessig observed, code is law,^j how to represent social, political and economic goals and values in that code is unresolved.

Amazon's marketplace exemplifies the challenges that private regulation poses for workers and entrepreneurs. While millions of vendors can find

Private regulation by platforms raises complex issues of public economic governance, in general, and of digital marketplace platforms.

immediate markets for their products on Amazon, the platform can monitor their activities and introduce competitive products that it can favour in terms of page placement, rankings or various other stratagems. They can also change the independent vendors' selling fees, control their product displays and terminate their accounts. Platform decisions can be announced or unannounced, immediate and difficult to appeal – a Kafkaesque environment for any business. BRIE has termed the plight of those dependent upon a platform for their business as “platform-dependent entrepreneurship”. For a platform-dependent entrepreneur, the next “paycheck” and indeed the very existence of their job, is always uncertain.^k

Private regulation by platforms raises complex issues of public economic governance, in general, and of digital marketplace platforms, in particular:

- What public entity, if any, should determine the goals and values that should be represented in code, and how?
- Should platforms be allowed to change their terms and conditions indiscriminately or access the data of businesses with which they may compete?^l
- Is new legislation required, such as California's AB5 and the UK's proposed “dependent contractor” classification?^m Or should existing policies and regulations, such as minimum wage laws and benefits, apply to platform ecosystems.ⁿ

Policy approaches to platform challenges

Governments have a role to play in promoting good jobs and social equity with private regulation of entire industries by a small number of firms. Some of the proposals currently circulating include:

- **Terms and conditions:** Governments could limit the terms platforms may impose on participants. They could also loosen the platform's ownership over customer-seller relationships by requiring that a platform-dependent entrepreneur's private contact information be shared with clients as a part of transactions.
- **Data:** Many of the issues turn on the rules about data. Some propose portability of data, for example, to ensure that fair competition is protected against the platform economy's monopolistic tendencies.
- **Antitrust:** Does antitrust need to be rethought in platform ecosystems where winner-take-all strategies, network effects and powerful lock-ins are common?
- **Ownership models:** Governments could support the development of platform cooperatives, a potential alternative to platform firms.⁹

In any case, platforms' status as private regulators in the economy requires governments to act as a counterbalance.

Taken together, the power of platforms calls for a reconsideration of competition policy, from the perspectives of what harms must be addressed and how market power is measured. In any case, platforms' status as private regulators in the economy requires governments to act as a counterbalance.

Platforms are to the early 21st century what factories were to the 19th: a new model for organizing work and value creation built on our era's new core technologies. This analogy frames the scale of our challenge. The rise of industrial production reorganized societies, creating new economic and social hierarchies that demanded considerable innovation in governance. With platform owners achieving power that is perhaps even more formidable than that of early factory owners, similarly bold thinking and action from stakeholders is called for today.

Addressing AI fears

One of the tools used by platforms is AI, which has attracted enormous attention in recent years. Recent technical advances have led to excitement and anxiety about AI's possibilities. But while AI has transformational potential, the hype surrounding AI in its current form has outstripped reality.⁷ To assess the near-term effects of AI, it is essential to understand both its promises and fundamental limitations.

AI is indeed powerful: advanced robots, drones, image and voice recognition software and other AI-enabled tools are changing life all around us. It has had an enormous effect on our economy and society, significantly affecting domains as broad-ranging as agriculture, retail and criminal justice. AI's progress raises critical questions as to

7. Nitzberg, Mark, Seppala, Timo, and Zysman John. (2019). "The hype has eclipsed the limitations of third-wave artificial intelligence." ETLA: The Research Institute on the Finnish Economy. Retrieved from <https://www.etla.fi/en/latest/the-hype-has-eclipsed-the-limitations-of-third-wave-artificial-intelligence/>

its transparency, robustness and accountability, in addition to its workforce impact. Shaping this technology so that it is trustworthy remains an important ongoing concern.

AI's progress raises critical questions as to its transparency, robustness and accountability.

But AI has fundamental limitations. Most importantly, the basic function of most AI systems remains rooted in statistical inference. For the foreseeable future, AI will be limited to solving problems in narrow domains.^p Human-level artificial general intelligence, which has been an inspiration for much fear about the impact of digital technology, is not on the immediate horizon. In addition, AI is only one of a great many powerful digital tools that have a profound impact on work and the economy; we caution against too much focus on one at the expense of others.

Deployment of intelligent tools

The impact of any intelligent tool is not predetermined or guaranteed. Despite the hype and despair surrounding intelligent tools, both positive and negative outcomes for workers and economies are possible.⁸ The crucial question shaping which possibility transpires is how tools are developed, deployed and used. This is the subject of our ongoing research.

Intelligence augmentation: using tools to enhance workers

The potential power of intelligent tools to replace workers has received outsized attention. A common narrative is that as soon as a worker's task can be performed more cheaply and quickly by a tool, he or she can no longer add value to an enterprise. But the mere deployment of new tools does not mean workers will be replaced or marginalized: depending on how deployment unfolds through corporate strategy and management philosophy, intelligent tools can make workers more essential while making firms more productive.

This is because workers often possess value-adding capabilities that go beyond narrow task performance. These include well-defined technical skills, deep informal knowledge and experience, understanding of the immediate context in which work is done, the ability to explain the function and/or output of tools to others and many other abilities that tools cannot replicate. If managers ignore these capabilities, tools that replace workers may not work as well as intended. In a well-known example, production problems in Tesla's highly automated factory resulted in managers acknowledging the value of humans' adaptability to unforeseen circumstances in complex environments.⁹ Conversely, if tools are deployed to augment and amplify these human capabilities, workers can add more value and firms can be more productive.

Firms that aim to augment worker capabilities tend to observe certain strategic practices. Often, these firms will engage workers early and often in the process of deployment, integrating their input into how and where tools could add value. These firms might also invest in workforce development

8. Zysman, John, Kenney, Martin, and Tyson, Laura. (2019). "Beyond Hype and Despair: Developing Healthy Communities in the Era of Intelligent Tools." Munk School of Global Affairs & Public Policy, University of Toronto, Innovation Policy White Paper Series 2019-1. Retrieved from <https://munkschool.utoronto.ca/ipl/files/2019/02/IPL-White-Paper-2019-01-Updated.pdf>

or other human capital services to make sure workers have the right skills to use new tools. And they tend to view the deployment of intelligent tools as an iterative process, testing small solutions and seeking feedback from workers before expanding, rather than procuring a static, vendor-defined solution.^f Both the complexity and positive potential of such deployments are evident in Danish construction equipment wholesaler AO Johansen, whose case of digital transformation was researched and documented by our collaborator in Denmark.

Beyond firm strategy and practice, the design of tools' user interfaces affects whether they augment workers. Intelligent tools, based as they are on the flexibility of programmable computers, are likely to be more malleable than earlier waves of technology. In many cases, these malleable interfaces can be shaped to amplify and extend the value-creating abilities of workers. Research by BRIE collaborators has found evidence of digital tools adding intuitive features which enhanced worker capabilities compared to older interfaces.^g

Worker augmentation may benefit firms as well as workers. Preliminary research in the automotive industry from BRIE collaborators has shown that firms viewing workers as complements to information technology tend to obtain better performance from robots compared to firms that view information technology as a worker substitute, achieving greater cost reduction and faster changeovers. Conversely, on average, firms that

see information technology as a labour substitute have \$10,000 less in productivity per worker than firms that view information technology as a complement.^h These initial results appear to indicate the "win-win" possibilities of intelligent tools deployment.

Encouraging intelligence augmentation: approaches for policymakers

What can stakeholders do to encourage win-win outcomes from automation? One effective measure could be to change the narrative about how intelligent tools can be used by firms to succeed in the market. The value of investing in workers as assets, rather than simply viewing them as costs to be cut, must be featured more prominently in business literature. As the next steps in our project, we will create and promote a library of cases illustrating scenarios where workers become more valuable and firms prospered as AI tools are deployed. Governments and philanthropists could also fund prize competitions encouraging intelligence augmentation and foster improved dialogue between those who study the human brain and those creating intelligent tools. Further policies that could support positive deployments include well-tailored R&D incentives, tax laws that focus on capital and evasion, workforce development investments and policies to better encourage a worker voice in deployment decisions through unions or other mechanisms.ⁱ

Some displacement of workers will almost certainly transpire, and investments in training will be a part of many effective instances of worker augmentation. But a new narrative about the positive possibilities of deployment can help minimize worker substitution while highlighting the path towards effective reskilling for those who need it.

One effective measure could be to change the narrative about how intelligent tools can be used by firms to succeed in the market.

The variable possibilities of automation illustrate an important overall feature of intelligent tools: their impact is not predetermined. And while in some cases, such as that of platforms, it is reasonable to conclude that intelligent tools are contributing to economic inequality, they also create opportunities.

Conclusion

The transformations in the era of intelligent tools are profound. Platforms are reorganizing the economy, redefining value creation for both people and firms and becoming private regulators of their growing domains. AI, while a powerful technology, has been somewhat overhyped. And the impact of platforms, AI and other intelligent tools is not predetermined, but depends heavily on exactly *how* they have been deployed and regulated and will continue to be in future.

The growth of inequality in advanced economies is driven by a skein of interconnected factors: certainly, the deployment of intelligent tools is widely considered to replace worker tasks, if not whole jobs, to the benefit of those with certain skills and the detriment of others; trade pressures encourage the search for quick productivity solutions; the weakening of unions creates conditions for firms to take the easy approach of replacement by automation rather than the more difficult, but potentially more productive, approach of augmentation; and tax policies encourage investment in capital rather than workforces.

But platforms are already concentrating societal wealth in the hands of the few, not just workers but companies as well. Jobs enabled by platforms are highly polarized, whether it is a technological and economic necessity or a social, political and economic choice. Moreover, with platforms' winner-take-all tendencies, increasing portions

of the economy are being mediated by a few pivotal firms and these dominant firms capture an increasing share of economic value through rent extraction and superstar effects. In fact, nearly all of the recent gains in equity markets have been concentrated in five platform companies.^v These tendencies, unless addressed by policy, have and will continue to play a role in furthering economic inequality.

At the same time, there is a wealth of positive possibilities for jobs and economies in the era of intelligent tools. New forms of work and value creation offer the opportunity for more people to work with more flexibility, independence and creativity than has ever been possible before. New forms of entrepreneurship are appearing. Firms and workers can partner in using technology to raise productivity and prosperity for all.

The impact of platforms, AI and other intelligent tools is not predetermined, but depends heavily on exactly how they have been deployed and regulated and will continue to be in future.

We can shape the development and deployment of intelligent tools and platforms. They can be allowed to benefit a narrow slice of citizens and workers at the expense of everyone else, or they can be harnessed to create good jobs, equitable communities and healthy societies in the coming decades. Research, policy and corporate governance all have a role to play. The future of intelligent tools may not be possible to predict, but it is ours to create.

The future of intelligent tools may not be possible to predict, but it is ours to create.

* Because of space limitations, alphabetical references can be viewed at brie.berkeley.edu/bmaseupresidency

** This note draws from BRIE/CITRIS work, much done in collaboration with BMAS, including see footnotes two to eight.

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Why the Self-Employed Present Challenges for Labour-Policy Design in a Changing World of Work

TEXT: THE POLICY LAB DIGITAL, WORK & SOCIETY AT THE FEDERAL MINISTRY OF LABOR AND SOCIAL AFFAIRS

In an increasingly digitalised labour market, the lines between working as an employee and as a self-employed person are often blurred. For this reason, the design of labour and social policy provisions in relation to solo self-employment is increasingly becoming a focus of labour policy debate, especially where the platform economy is concerned.

The distinction between employees and the self-employed has become established in the labour policies of industrialised countries either as a basic decision or as the central point of access to workers' protection rights. In addition, a number of legal systems have extended certain rights to certain groups of self-employed which are normally afforded to employees. The distinction between dependent employment and self-employment is not always clear and is usually the result of an interplay between legislation and case law. Under German law, the characteristic of the individual's status within the (work) organisation – including whether they are required to take instructions from a third party, the employer – is of key importance when determining their classification either as an employee or as self-employed. This is of central importance because the status of employee or worker is, as a rule, linked to the application of regulations for the protection of employees as well as the provisions of social security law at national and EU level.

Platform-based work

For some time now, there has been evidence of an ever-increasing grey area between the two classifications in practice. Most work activities can be carried out on both a self-employed and an employed basis.¹ Often these are activities ‘which were originally carried out in the context of an employment relationship and are now outsourced or procured elsewhere as a result of new technological possibilities’.² And when it comes to crowdworking, elements of market-based and organisational management do not merely mix but can potentially interact with each other in such a way that it gives rise to something new.³ In the literature, there are thus increasing indications that the group of self-employed active in the platform economy should not be equated with the traditional self-employed groups such as doctors, lawyers or engineers.⁴

In addition to digitalisation as the basis for the business model, a special feature of the platform economy is its many different manifestations. This raises the question of the labour and social security law classification of individuals who either work on or are placed via platforms.

Mostly, platforms do not want to act as employers. On the contrary, they usually expressly reject being classified as an employer, as in their opinion employer status is not compatible with their chosen business model or would even lead to its collapse due to a lack of economic profitability.

Mostly, platforms do not want to act as employers. On the contrary, they usually expressly reject being classified as an employer, as in their opinion employer status is not compatible with their chosen business model or would even lead to its collapse due to a lack of economic profitability. At the same time, platforms that broker work or services or which themselves use (solo) self-employed persons via subcontracting generally set out the contractual conditions for the service providers unilaterally in the form of general terms and conditions. They thus influence the way the contract is performed; the degree of influence being fluid and varying depending on the platform concerned. Also, the nature and scope of the interaction between the service providers is often prescribed. In this respect, the activities of many platforms go beyond the mere brokerage activities of providers who, in their own estimation, offer a purely intermediary service – for example, by making stipulations as to pricing and also as to other details such as task placement, processing and quality assurance.

Apart from a few cases with a clear tendency to go beyond the norm and in which bogus self-employment is at least probable, most platform work is likely to involve self-employed people – often in the form of solo self-employment, meaning the individual works alone and has no employees. Certainly, in cases where platforms do not limit themselves to a pure intermediary activity, the question arises as to whether, given the particularities of the platform economy, the platforms’ activities in fact lead at least in part to platform workers needing comparable protection to that of employees and whether the legislator should take appropriate action.

1. Eva Kocher, Crowdworking: Ein neuer Typus von Beschäftigungsverhältnissen?, in: Isabell Hensel et al., Selbstständige Unselbstständigkeit. Crowdworking zwischen Autonomie und Kontrolle, Baden-Baden, p.179.

2. Olaf Deinert/ Amélie Sutterer-Kipping. (2019). (Exkurs): Solo-Selbstständige, in: Olaf Deinert et al, Die Rechtspolitik des Sozial- und Arbeitsrechts, Frankfurt/Main, p. 312f.

3. Kocher, loc. cit., p.190.

4. Deinert/ Sutterer-Kipping, loc. cit., p.313.

Although platform workers are not directly bound by instructions as would be the case in an employment relationship, in many cases they are subject to external influence in a similar way to employees, with the work and placement processes often being managed with the support of technological applications. As a result, responsibilities and hierarchies become blurred, and classic direct instruction is replaced by an indirect app-based management process. The work reality and work processes of a platform worker thus often differ only slightly from those of dependent employees working on platforms with a comparable range of services. The legal literature thus stresses that, in practice, the different type of employee status does not go hand in hand with a clear difference in the need for protection.⁵

Markets and platforms

This lack of autonomy is reinforced by the special features of the platform economy business model. Platforms create markets and market access by digitally pooling supply and demand in certain areas of activity and by ensuring, through scaling and network effects, that much of the work performed in the platform economy can be offered to platform workers in sufficient volume. But at the same time, they stipulate the conditions for participation in the relevant market. They organise access and take over the sale and use of the work results.⁶ In extreme cases, this can lead to a situation where other than on platforms, platform workers have no independent access to the respective goods and services market: although in theory it would be

possible for them to engage in work outside platforms or via platforms that play a less dominant role in the market, in practice this option is not (or ceases to be) viable, due to the lack of sufficient demand.

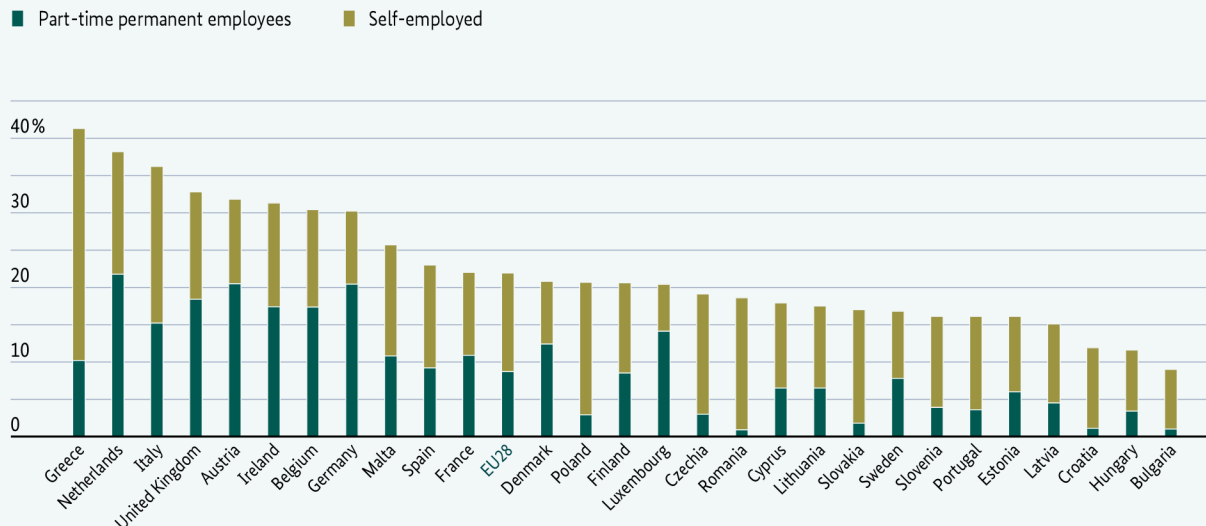
This is reinforced by platform operators' tendency towards market dominance, which is at least in part already inherent in the platform economy business model and is structural in nature:⁷ for platforms to fulfil their central economic function of bringing together supply and demand, the amount of data available on both suppliers and purchasers, for example from previous transactions, is of key importance. The greater the platform's reach, the better the match. Above a certain size, competition may no longer be possible in a meaningful way, as new platforms entering the market may not be able to provide a qualitatively equivalent or competitive service due to their lack of access to the data required.⁸

Although platform workers are not directly bound by instructions as would be the case in an employment relationship, in many cases they are subject to external influence in a similar way to employees.

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5. Preis/Temming (2017), p.309: [Die] Schutzbedürftigkeit ist insbesondere zu bejahen, je näher die Vergleichbarkeit des Schutzbedürftigen mit einem Arbeitnehmer gegeben ist. [The need for protection is especially to be affirmed the more the individual needing protection can be compared with an employee.]
 6. Kocher, in Hensel/Schoenefeld/Kocher/Schwarz/Koch, p.24.
 7. In economics one speaks of monopsonistic tendencies: the demand side (platforms) can exert greater than usual market influence on pricing to the extent that a purchaser (platform) is confronted with multiple suppliers (platform workers and clients). See Monopsony in Online Labor Markets, Arindrajit Dube, Jeff Jacobs, Suresh Naidu, and Siddharth Suri, NBER Working Paper No. 24416.
 8. Prufer, Jens and Schottmüller, Christoph, Competing with Big Data (February 16, 2017). TILEC Discussion Paper No. 2017-006; Center Discussion Paper 2017-007. Available at SSRN: <https://ssrn.com/abstract=2918726> or <http://dx.doi.org/10.2139/ssrn.2918726>

Figure 1

Non-temporary non-standard forms of employment as a percentage of total employment, 2017



Notes: On average, more than 20 percent of people in EU countries are in non-temporary non-standard work (i.e. part-time permanent and self-employed). Data for the groups of part-time permanent employees and self-employed were selected under the assumption that these two groups best represent the group of platform workers. EU28 is an unweighted average. Data exclude students. Part-time status is based on persons working 30 hours or less per week.

Source: Own calculations based on OECD calculations based on the European Labour Force Survey (EULFS).

The triangular relationship inherent in the platform economy, irrespective of the specific business model, also has an amplifying effect. This relationship increases the uncertainty for platform workers as they run the risk that the client position is adopted – or at least shared – by a third party who is not party to the contract.

Finally, platforms generally have the power of disposal over data arising in connection with work performed – in particular customer-bases and evaluations of the platform worker’s services, which are essential in the event that a platform worker moves to another platform or leaves the platform economy business model. This results in a lock-in effect, which can lead to dependence on a specific platform.

Diverse platform types from a European perspective

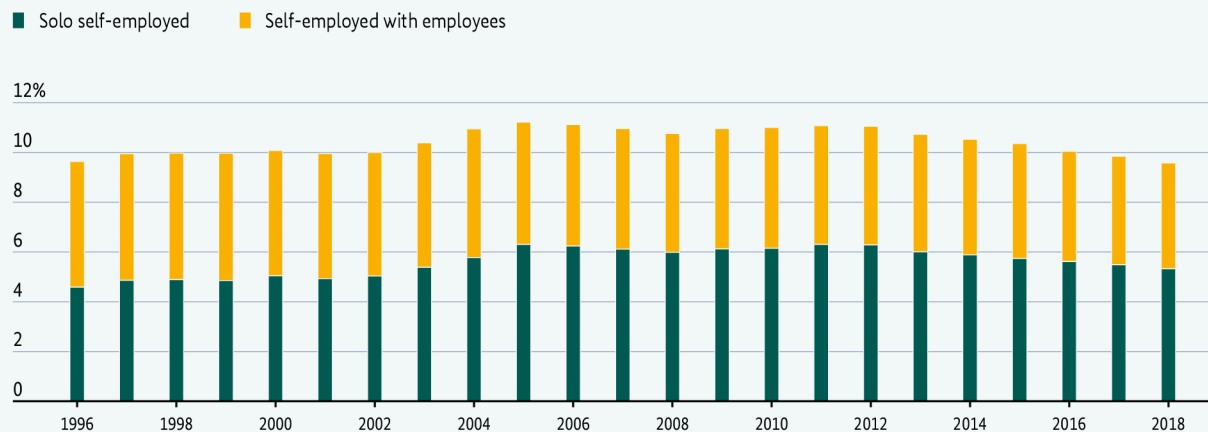
Issues concerning labour and social protection for solo self-employed when performing platform work are now being widely discussed at international level.⁹ Self-employment is a relevant factor in the world of work in countries across the European Union (Figure 1). This includes the German labour market (Figure 2).

The importance of platform work in terms of its prevalence is still being researched. In 2017, the Joint Research Group (JRC) of the EU Commission conducted a Europe-wide survey on the prevalence of platform work. A total of 32,409 people from 14 EU Member States took part in the online survey which targeted internet users. Figure 3 presents

9. See ILO/ Global Commission on the Future of Work, *Work for a brighter future*, Geneva 2019; and the ILO report “Digital labour platforms and the future of work. Towards decent work in the online world”, Geneva 2018.

Figure 2

Share of self-employed, as a percentage of all employed persons in Germany



Note: Although the total number of self-employed has risen over time, the share of self-employed among all those employed in Germany has essentially remained constant. As a result of the increased number of solo self-employed, the ratio between the shares of solo self-employed and self-employed with employees has reversed.

Source: Labour Force Survey, Eurostat, updated calculations from: "Selbstständige Erwerbstätigkeit in Deutschland", ZEW, 2018.

different measures of the prevalence of platform work. About 10 per cent of respondents stated that they have offered platform work at some time or other. Across the various countries, the proportion varies between twelve and six per cent. When it comes to online work at least, taking up platform work is not subject to any major requirements. Further research is therefore needed to assess the extent to which such platform work makes up a significant part of the respondents' employment. Measured by the number of hours and the income level, platform work only plays a more significant role for a relatively small number of platform workers. In total, less than six per cent of respondents spend at least one quarter of a 40-hour week on platform work and just under six per cent earn at least one quarter of their income from platform work. Finally, around two per cent of respondents say that platform work is their main source of income.

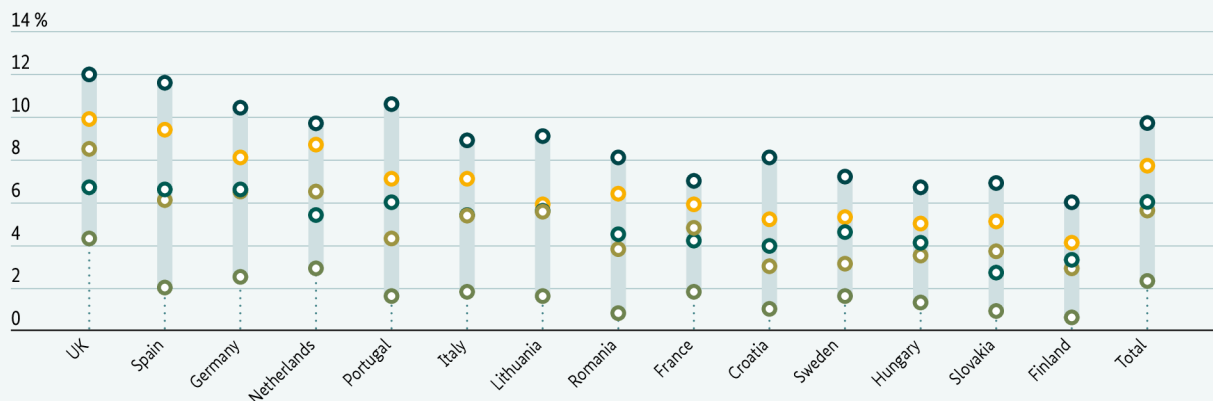
Societal aspects

In addition to the comparable need for protection as a justification for specific regulatory provisions in relation to the platform economy, there are also societal aspects that must be taken into account. Platforms that work with self-employed service providers can exploit competitive advantages over platforms with comparable business models that use dependent employees as they have higher operating costs, not least due to the social security contributions they pay for their employees. This can be a decisive competitive advantage: the lower (labour) costs in operating the platform mean that they can offer a more favourable service to customers and thus gain a bigger market share than their competitors. Greater market shares in turn lead to a larger dataset, thus increasing the chance of developing better algorithms – a key criterion in the platform economy. Increased platforming could also reinforce the trend described above of outsourcing work that used to be carried out in employment

Figure 3

Different estimates of platform workers (PW) using COLLEEM data

● PW ever ● Frequent PW ● Signif hours PW ● Signif income PW ● PW as main job



Note: Almost ten percent of the respondents have ever done platform work. But for only slightly more than two percent platform work is their main job.

Source: Figure 1 from Pesole, A., Urzì Brancati, M.C., Fernández-Macías, E., Biagi, F., González Vázquez, I., Platform Workers in Europe, EUR 29275 EN, Publications Office of the European Union, Luxembourg, 2018, ISBN 978-92-79-87996-8, doi:10.2760/742789, JRC112157.

The mere fact that the platform economy has not (yet) become a mass phenomenon does not prevent the legislator from creating specific rules for this new way of matching labour market supply and demand.

relationships to the solo self-employed, thus having a negative impact on both the contribution base and the stability of social security systems.

Even if platform workers are often officially seen as self-employed for the purpose of labour and social security law provisions, and are thus deemed to officially enjoy contractual freedom, this is often not matched by real (substantial) contractual freedom due to the issues described above. The opposite is actually the case in that the factors described earlier lead to a structural shift in the balance of power in favour of the platform operator, causing platform

workers to appear similarly in need of protection in certain circumstances. This raises the question as to what, if any, consequences the legislator might draw or should draw from this analysis. The mere fact that the platform economy has not (yet) become a mass phenomenon does not prevent the legislator from creating specific rules for this new way of matching labour market supply and demand, thereby creating legal certainty for platform operators and taking appropriate account of the special features of this specific business model.

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Why We Should Focus on the Self-Employed in the World of Platform Work

TEXT: MONIKA QUEISSER, RAPHAELA HYEE, ORGANIZATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT (OECD)

Which challenges for Europe's traditional social security systems are currently emerging as a result of the new forms of self-employment?

The social security systems in place in Europe were mostly designed with the archetypal (male) full-time worker in mind. Those who do not fit that profile – because, for example, they are self-employed or offer services via an online platform – are often poorly covered.

This potentially affects many workers in Europe, where around 15 per cent of all people who work are self-employed. New technologies could further increase that figure as the internet makes it both easy and cheap to outsource work.

The new forms of work that are emerging as a result are bringing the gaps in social security provision for the self-employed to the forefront of international policy debates. Work on digital platforms – so-called gig jobs – has grown rapidly in recent years,¹ and most of the gig workers involved are, at least formally, self-employed.

Self-employment: a social security challenge

Self-employed people do not necessarily fit the profile for contribution-funded social security schemes – they have no employer and would thus have to pay both employer and employee contributions, which is often difficult for those on low incomes, especially as self-employed workers are not covered by minimum wage policies and collective bargaining agreements. The income earned by self-employed workers often varies greatly, making it difficult to calculate contributions and entitlements. Plus, self-employed people can more easily hide their income or spread it out over time in a way that either minimises their contributions or maximises their entitlements. For some areas of social security, there is also a “moral hazard”. The concept and meaning of unemployment is not easy to define for the self-employed: how can and should employment offices check whether self-employed people are putting “reasonable” effort into seeking jobs? This is what makes unemployment the worst-insured risk for the self-employed – only in 11 out of 29 OECD countries surveyed are self-employed people insured against unemployment in the same way as employees.²

The self-employed also have more influence on their work environment than employees and can thus, in theory, influence the risk of occupational accidents. The self-employed are thus also poorly protected against the risk of accidents in the workplace – only in 11 out of 29 OECD countries surveyed are they covered in the same way as employees. Occupational accidents can therefore seriously endanger the livelihoods of the self-employed. By contrast, when it comes to disability insurance, self-employed people are treated in the same way as employees in 23 of the 29 countries surveyed.³

The self-employed also have poorer access to pension insurance. In some countries there is no compulsory insurance provision at all, but there is the option to make voluntary pension contributions.

The self-employed also have poorer access to pension insurance. In some countries there is no compulsory insurance provision at all, but there is the option to make voluntary pension contributions (as in Germany, aside from the various professional pension funds). In some countries, the self-employed pay lower contributions and have lower benefit entitlements as a result, while in Japan, the Netherlands and Switzerland, for example, they only have access to one pillar of a multi-pillar system.⁴

In contrast, family-related transfers such as child benefits are often universally available or means-tested and are thus also available to the self-employed – the “risk” of motherhood or parenthood is not related to the individual’s form of employment.

Self-employment: a challenge to social security systems

Gaps in social security coverage for the self-employed are not only a problem for the self-employed, they also threaten the financial sustainability of social insurance systems. When lower benefits are offset by lower contributions, employers have an incentive to shift work to cheaper forms of labour. And employees who either underestimate their risks or want to rely on (tax-funded) benefits provided by the basic pension scheme in cases of loss of income may prefer to pay lower contributions by switching sides and becoming self-employed.

This incentive can be illustrated by the difference in non-wage labour costs for the self-employed and for employees (income tax, social security contributions and other compulsory payments). In the Netherlands, for example, for a full-time employee earning the average wage, the non-wage labour costs amount to 51 per cent of their gross pay. This compares with only 22 per cent for a self-employed person. Most of this difference is due to the lower social security contributions for the self-employed. In the Netherlands they are excluded from unemployment insurance; all other benefits are either only partially covered

1. Job vacancies on four major online platforms (Freelancer, Upwork, Peopleperhour and Amazon Mechanical Turk) grew by more than 20 per cent between 2016 and 2019, Online Labour Index (<http://labour.oii.ox.ac.uk/online-labour-index/>).
2. OECD. (2019). “Left on your own? Social protection when labour markets are in flux”, in OECD Employment Outlook 2019: The Future of Work, OECD Publishing, Paris, <https://doi.org/10.1787/bfb2fb55-en>
3. Spasova et al. (2017). “Access to social protection for people working on non-standard contracts and as self-employed in Europe”, European Commission, Brussels, DOI: 10.2767/700791; OECD (2019): Employment outlook, see above.
4. OECD. (2019). Pensions at a Glance 2019: OECD and G20 Indicators, OECD Publishing, Paris, <https://doi.org/10.1787/b6d3dcfc-en>



In Europe around 15 per cent of all working people are self-employed. This number could further increase. Traditional social Security systems face challenges. Photo: pixelstock/Shutterstock.com

or self-employed persons can only insure themselves voluntarily. In Sweden, on the other hand, the difference is only three percentage points: the self-employed have access to almost the full range of social security benefits.⁵

For employees, self-employment is particularly attractive when contributions are lower but benefits hardly differ. It is thus particularly important that contributions and benefits for self-employed and employed persons are aligned as fully as possible. If society wishes to offer more favourable conditions of access to social security for certain groups, such as cultural workers in some countries, this should be done in a transparent way by means of subsidies, without affecting system financing or distorting incentives.

Gaps in social security coverage for the self-employed are not only a problem for the self-employed, they also threaten the financial sustainability of social insurance systems.

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5. OECD. (2019). "Left on your own? Social protection when labour markets are in flux", in OECD Employment Outlook 2019: The Future of Work, OECD Publishing, Paris, <https://doi.org/10.1787/bfb2fb55-en>

Analysis

Online Labour Platforms in Europe

TEXT: THE POLICY LAB DIGITAL, WORK & SOCIETY AT THE FEDERAL MINISTRY OF LABOR AND SOCIAL AFFAIRS

Why a distinction between location-independent activities (“cloud work”) and location-bound activities (“gig work”) is useful, as well as between platforms that award contracts to individuals and those that invite bids from the crowd.

The term “platform” has yet to be conclusively defined. In reports published by the European Commission, the following definition is used: “Online platform” refers to an undertaking operating in two- (or multi-) sided markets, which uses the internet to enable interaction between two or more distinct but interdependent groups of users so as to generate value for at least one of the groups. Certain platforms also qualify as intermediary service providers.¹ The German Monopolies Commission describes platforms simply as an ‘intermediary that brings together different user groups so they can interact economically or socially’.²

On online labour platforms – platforms that process work and services themselves or via subcontracting to (solo) self-employed – a common distinction is made between location-independent activities, known as “cloud work”, and location-bound activities, known as “gig work”.

Location-bound gig work

Gig work can be awarded to all users registered on a platform by means of an invitation to bid in the “crowd” or as a contract to individuals. Gig work is used in areas such as passenger transport, logistics and delivery services, household-related services and crafts services. Public debate currently tends to focus on gig work: What kind of working conditions do food delivery services offer, and what are the pay rates like for cleaning staff placed via platforms?

1. European Commission. (2016). Public consultation on the regulatory environment for platforms, online intermediaries, data and cloud computing and the collaborative economy, URL: <https://ec.europa.eu/digital-single-market/news/public-consultation-regulatory-environment-platforms-online-intermediaries-data-and-cloud>
2. Monopolkommission. (2015). Sondergutachten 68: Wettbewerbspolitik: Herausforderung digitale Märkte, URL: http://www.monopolkommission.de/images/PDF/SG/SG68/SG68_volltext.pdf

Location-independent cloud work

Subdivision into tasks placed with the “crowd” and the commissioning of individuals under contract is also a meaningful approach when distinguishing between forms of cloud work. Examples of tasks placed with the crowd involve “micro tasks”, meaning small-scale activities such as describing or classifying images according to specific questions. Contracts awarded to individuals generally involve design or text work, and also IT work.

Types of platform work

Platform design and the way in which the relationships between the platform, clients and platform workers are handled can vary greatly. Platform operators are constantly developing their business models, while platform workers are seen to belong to different groups of people with different interests. Thus, there is work available for the lower-skilled as well as the highly-qualified, there are tasks that offer both low and higher earning opportunities, and there are people for whom platform work is a secondary income and those who earn their living from it.

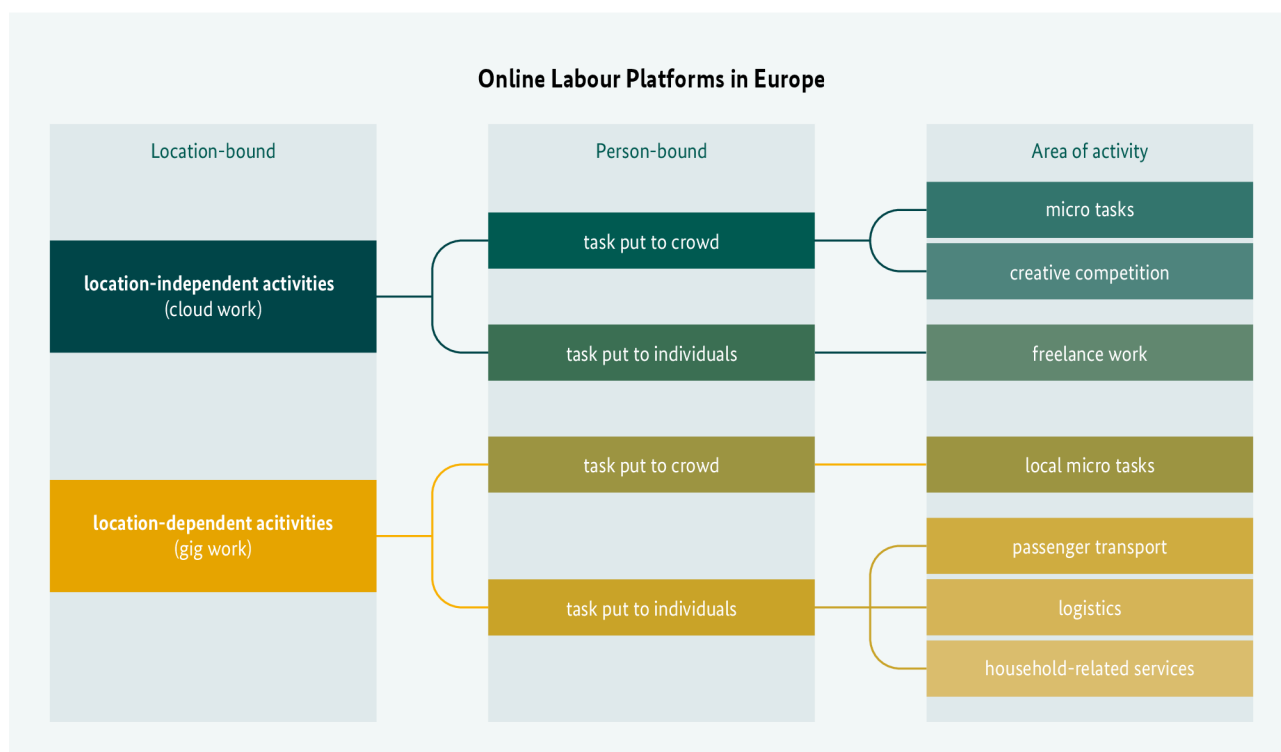
Agreeing on a uniform definition of the term “platform” is an important task in the debate on policy design for work performed on or via platforms. And given that platforms and platform workers often operate across borders, a uniform EU definition would also seem useful.

For many people, platforms offer good opportunities to take on work that suits their personal skills, abilities and availability.

The starting point for possible regulation of the platform economy could be to focus solely on platforms that make stipulations on, and thus in some way exert influence on, contract terms and performance and to exclude pure marketplaces from regulation. This stems from the fact that in the case of a pure marketplace, which does not influence contractual provisions in any way and leaves pricing completely up to the contracting parties, there is no activity on the part of the



*Room to think: From here, the team from the Policy Lab Digital, Work & Society looks into the future.
Photo: Konrad Schmidt*



platform that would justify it being assigned a corresponding responsibility for platform workers' work and earning opportunities. Thus, it is not a situation in which the special features of the platform economy business model are present.

Online labour platforms are developing at pace. For many people, platforms offer good opportunities to take on work that suits their personal skills, abilities and availability. At the same time, it is obvious that platforms are often not only intermediaries but also have a direct and indirect influence on the way work is done and the remuneration that is paid. The aim should be to promote both the new individualised opportunities offered by the platform economy and its economic potential, while at the same time ensuring that the platform economy brokers and fosters "decent work".

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Social Protection of Workers in the Platform Economy: A Cross-Country Comparison of Good Practice

TEXT: CHRISTOPH FREUDENBERG, WOLFGANG SCHULZ-WEIDNER

Platform work can have negative implications for the individual protection of workers and the financing of social security systems. This article provides an international overview of measures for the social protection of workers in the platform economy.¹ It is based on recent surveys of social security institutions worldwide. The analysis focuses on innovative regulatory approaches of countries that seek to provide better protection for platform work not only legally but also in social practice, as well as to tackle social security fraud.

Increasing digitisation and its implications for the “future of work” constitutes one of the central challenges for social protection worldwide. A survey of European social security institutions conducted in 2019 actually identified it as the greatest challenge – even more so than

demographic change. The phenomenon of increasing platform work² – also known as gig work, crowd work or click work – is a particular cause for concern in this context. Negative consequences for the individual protection of workers and the financing of social security systems are feared.

Various countries have already undertaken measures to prepare their social protection systems for an anticipated further increase in platform work. This is the finding of an analysis based on surveys of 35 social security institutions worldwide, which were conducted within the context of studies for the “International Social Security Association” (ISSA) and the “European Social Insurance Platform” (ESIP).³

Two reform approaches to ensure better social protection for platform workers can primarily be observed in this context: first, many countries

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1. This article is a summary of the following essay by Freudenberg et al. (2019). “Social Sicherung von Plattformarbeit im internationalen Vergleich – Gute Praxis und Handlungsoptionen für Deutschland”, published in the *Deutsche Rentenversicherung* magazine, 4/2019, p.365–398. Please refer to this article for bibliographical references.
 2. In this article, the term “platform worker” includes work provided via digital platforms such as Uber or Helpling. Therefore this term not only refers to dependent employment within the meaning of German social law but very often also to self-employment.
 3. See Freudenberg et al. (2019) in Footnote 1.



must first ensure that as self-employed persons, platform workers have sufficient social protection by law. The German Federal Government's plan to introduce compulsory old-age provision for all self-employed persons is essentially aligned with this goal. Protection by right, however, is no guarantee that platform workers also enjoy social protection in practice. Lack of knowledge regarding compulsory insurance, inadequate financial resources and the intentional failure to declare income subject to compulsory social security contributions in order to avoid taxes and social charges (social security fraud) are just some of the reasons for the gaps between protection by law and effective social protection. Second, countries have to ensure that platform work also enjoys social protection in practice. In this article, we will focus on this goal and present innovative regulatory approaches taken by other countries to increase effective protection and tackle social security fraud. The article will also demonstrate that new opportunities, but also new challenges for social security, arise precisely because of the high degree of digitisation in the platform economy.

Good practice: contribution monitoring and data transfer by the platforms

In most countries, platform workers are responsible for reporting those earnings which are subject to compulsory social security contributions. It can be assumed that a considerable proportion of workers do not comply with this reporting obligation. For example, a survey of citizens in France revealed

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 Photo: Christoph Freudenberg

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is a legal expert and, as an employee of the German Pension Fund (Deutsche Rentenversicherung Bund), acts as representative for statutory pension insurance in the European Representation of the German Social Security System in Brussels. In this role, he deals with issues relating to European law as well as European policy developments and strategies, focussing on social security and old-age provision.
 Photo: Dr Wolfgang Schulz-Weidner

that only 15 per cent of respondents would declare income from platform work to the state. The majority (59 per cent) would refrain from doing so, and 25 per cent were still unsure. Thus, it makes sense to obtain information about platform activities directly via the individual platforms. As the studies indicate, this is already good practice in several countries.

In **Belgium**, for example, platforms have been able to benefit from more favourable tax rules on a voluntary basis since 2017 under the condition that they inform the tax authorities about income earned on their platform. The tax authorities then forward this information to the institutions responsible for providing social security. In return for the higher administrative burden, annual income of up to €6,250 (2019) earned through the platform is exempt from tax and social security contributions. In practice, this communication of data in Belgium is limited to platforms that provide local services on-site. By contrast, platforms that operate internationally and provide digital services do not participate.

France is considered a pioneer when it comes to the regulation of the platform economy. As early as 2014, the country decided that the agencies responsible for the collection of social security contributions (ACCOS) and the tax authorities have the right to demand information from platform providers at any time regarding the names of individuals active on the platform and the income these individuals have earned (if this exceeds certain thresholds). Initial experience has shown, however, that here, as in Belgium, platforms domiciled abroad rarely meet this reporting obligation. At the end of 2018, a new law was adopted in France that from 2019 requires platforms to disclose detailed information on the income of their platform workers (above certain thresholds) to the French revenue authorities once a year. This information is forwarded

to the social security agencies (ACCOS). Any platforms failing to comply with this reporting obligation face a penalty of 5 per cent of the non-declared income.

Uruguay also offers an interesting approach. Since 2017, drivers on transport platforms (like Uber) in Uruguay have been required to register as a small business on a public mobile phone application. This registration is filed with the social security institutions and the tax authority. A winner of the ISSA regional social security award, this model's success lies in the fact that all stakeholders have an incentive to take part: drivers have access to a far bigger pool of potential clients via the digital platforms. For many, this advantage outweighs the costs of tax and social security associated with working via platforms. The platforms themselves check whether the drivers provided through their platform have registered correctly on the application; any platforms failing to run a thorough check risk losing their licence to operate on the Uruguayan market. The social security institutions and tax authorities receive information about activities subject to compulsory social security and tax payments at relatively low cost. Furthermore, the decline in the volume of undeclared work also results in higher social security revenue and a higher level of protection. The example of Uruguay demonstrates that the platform economy offers new opportunities for public administration to improve effective social protection through new technologies (applications) and smart

Thus, it makes sense to obtain information about platform activities directly via the individual platforms. As the studies indicate, this is already good practice in several countries.

incentives for everyone involved. The scope of this model is limited, however, as it is not suited to global platforms operating across borders. Denial of access to the national market is not an effective threat for these platforms, as they can recruit workers in other less regulated countries without suffering any major losses.

The government of **Estonia** has opted for a more gradual introduction of income reporting. In 2016, the Estonian tax authorities started a pilot project with the platform Uber (and later with Taxify) involving automatic reporting of drivers' income. This enables drivers to authorise Uber on a voluntary basis to send their income data to the Estonian tax authorities. The data is then automatically entered into the Uber drivers' tax returns. The taxpayers can then include costs incurred as a result of their work as an Uber driver in their tax return. This automatic income reporting system makes it easier for platform workers to prepare their tax returns and can help public authorities curb tax fraud. In theory, this data could also be useful for the social security authorities.

Good practice: payment of contributions via platforms

The examples above illustrate that platforms already send income data to government authorities in a number of countries. Should it then not also be possible for platforms to transfer social security contribution payments directly? Such a centralised contribution collection system could significantly reduce the administrative burden for platform workers (particularly important for those only earning small amounts through

platforms, as is often the case).⁴ While there are examples of contribution payments via platforms, these are mostly on a voluntary basis or are only implemented by a handful of platforms.

While there are examples of contribution payments via platforms, these are mostly on a voluntary basis or are only implemented by a handful of platforms.

In **France**, for example, platform workers (as micro-entrepreneurs) can, under certain conditions, authorise the platform to withhold and transfer the contribution payments for them. This task is also performed by some platforms in **Switzerland**, such as gigme.ch. In the case of gigme.ch, the service is provided for everyone working on the platform; there is no opt-out option for those wishing to pay the contributions individually. The collection of contributions is limited to platform workers who live in Switzerland. In **Indonesia**, the GoJek (motorcycle) taxi platform automatically transfers contributions to the accident insurance system for each taxi ride. A similar system is in place in **Singapore** and **Malaysia**, where a number of platforms transfer contribution payments to the social security institutions on a voluntary basis. **Chile's** innovative contribution payment model also deserves a special mention. Here, the government deducts 10 per cent of the gross amount of each electronic invoice of self-employed persons – regardless

4. The direct transfer of social contributions by the platforms does, however, require subsequent correction procedures if the profit income of the platform workers, rather than the turnover, forms the assessment basis for social contributions; the platform does not have this information, however. An example of such a subsequent correction procedure is provided in the paragraph below (Chile).

of whether this is for a platform-based activity or not – and directs it to a pension account for the self-employed individual. In effect, the contributions are transferred by the commercial customers. Overpayment or underpayment of pension insurance contributions is taken into consideration at the end of the year when the self-employed person files his/her tax returns (including business expenses). Data exchange under the system of electronic invoicing for taxable businesses forms the basis for the Chilean model. This system is also used in other countries, such as **Mexico** and **Ecuador**, to obtain information about activities in the platform economy.

Good practice: digital information campaigns

The digital platform economy also offers new opportunities for targeted information campaigns, as the **French** example shows. Since 2016, platforms in France have been required to inform platform workers about their obligations with regard to social security contributions and taxes, and provide a direct electronic link to the government authorities involved. Platform workers can therefore get more information about social security and tax requirements at a simple click of the mouse. In this way, information and awareness raising campaigns can reach the target audience much better than in the analogue world.

Conclusion: new opportunities and challenges for social protection

To conclude, it is important to highlight two key characteristics of platform work that demonstrate the particular potential the platform economy offers for social protection:

- 1) In the platform economy, all business transactions are digitally recorded (and saved). Consequently, data on the income earned by platform workers can be communicated to the government authorities with relatively little effort compared with the traditional economy and can be used to curb social security fraud.
- 2) Furthermore, data on business transactions of platforms can now be saved centrally for a large number of self-employed persons. For example, the largest platforms collect information for several million self-employed workers. If these data are forwarded by the platform – rather than being reported individually by each self-employed person – it can considerably reduce the administrative burden for self-employed persons and for the authorities.

All the country-specific examples studied have one common denominator: they are successful in collecting information on income earned (mostly) through physical platform work performed locally in each country. However, the national models show their limitations when it comes to platform activities carried out online across borders.

Alongside the opportunities offered by the platform economy, however, the new digital world of work also poses challenges which are not seen on such a scale in the traditional

economy. All the country-specific examples studied have one common denominator: they are successful in collecting information on income earned (mostly) through physical platform work performed locally in each country. However, the national models show their limitations when it comes to platform activities carried out online across borders.

How platforms domiciled abroad can be encouraged to cooperate remains largely uncharted territory. Any action will require international regulatory frameworks, also to set single data transmission standards and therefore limit the administrative burden for platforms which have workers from dozens of countries. The introduction of globally uniform and lower social security contribution rates, as put forward in Enzo Weber's 2019 model⁵, offers valuable food for thought in relation to recording cross-border platform activities, but is nevertheless problematic, as it would create an incentive to replace traditional jobs with platform work that is less well protected.

The solutions currently being discussed at EU- and OECD-level offer a more promising approach, whilst taking a central aspect of the Weber model into consideration: namely the global exchange of data. These ideas can be expected to take shape as early as 2020. The social security institutions and socio-political actors should therefore closely follow and support the process launched by the EU and OECD given that this will lay important foundations and set standards for the future of social protection.

5. Weber, Enzo. (2019). "Digital Social Security: Outline of a concept for the 21st Century," Working Paper No. 138, May 2019, Hans-Böckler Stiftung.

Analysis

Taxing Earnings from the Platform Economy: An EU Digital Single Window for Income Data?¹

TEXT: DAISY OGEMBO, VILI LEHDONVIRTA

Ever more financial transactions in the platform economy are settled online, posing new challenges to tax and social security systems. Are options for an EU-wide reporting system already available? And are there any other issues that need to be included in the extended discussion?

Digital transaction platforms such as Uber, Airbnb, Deliveroo and Upwork have emerged as a new source of income for private individuals. It is difficult to estimate the size of the platform economy for various reasons, including the fact that it is often a source of secondary income and the income earned is not consistently reported to tax authorities.² According to some estimates, the gig economy³ in the European Union alone generated €3.6 billion in revenue in 2015, while the online outsourcing was projected to grow to \$4.8 billion in 2016.⁴ Some platforms offer work in exchange for income, while others allow people to provide services or rent out property. These new income sources present new challenges for tax and social security systems. This is especially the case for gig economy or labour platforms.

1. This chapter is an abridged version of an article published as Ogembo, D., and Lehdonvirta, V. (2020) Taxing Earnings from the Platform Economy: An EU Digital Single Window for Income Data? *British Tax Review* (2020) (1): 82–101. Reproduced with permission from the publisher."
2. Otto Kässi and Vili Lehdonvirta, 'Online Labour Index: Measuring the Online Gig Economy for Policy and Research' (2018) 137 *Technological Forecasting and Social Change* 241, 242.
3. Comprising crowd funding, asset sharing, transport, on-demand household services, and on-demand professional services.
4. See Abigail Hunt and Emma Samman, 'Gender and the Gig Economy' (2019) ODI Working paper 546 10 (<https://www.odi.org/sites/odi.org.uk/files/resource-documents/12586.pdf>) and Siou Chew Kuek and others, 'The Global Opportunity in Online Outsourcing' (World Bank 2015) Report No ACS14228 3 (<http://documents.worldbank.org/curated/en/138371468000900555/pdf/ACS14228-ESW-white-cover-P149016-Box391478B-PUBLIC-World-Bank-Global-OO-Study-WB-Rpt-FinalS.pdf>) accessed 9 January 2020.



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Platform work refers to “all labour provided through, on, or mediated by platforms, and which features a wide array of standard and non-standard working arrangements/relationships”.⁵ It is typically ‘a way of working that is based on people having temporary jobs or doing separate pieces of work, each paid separately, rather than working for an employer’.⁶ Platform work includes both localized gig work such as taxi and food delivery services provided through platforms like Uber and Deliveroo, and web-based platform work such as graphic design and data entry through platforms like Fiverr and Upwork.

While it is not a main source of employment, platform work is growing rapidly. According to one study, platform work is the main source of income for approximately 2 per cent of adults across 14 EU Member States, while up to 8 per cent earn occasional income from it.⁷ Platform work has thus gained a foothold in European labour markets.

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Photo: Philippa James

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5. Sacha Garben, ‘Protecting Workers in the Online Platform Economy: An Overview of Regulatory and Policy Developments in the EU – Safety and Health at Work – EU-OSHA’ (European Agency for Safety and Health at Work (EU-OSHA) 2017) European Risk Observatory Discussion paper ISSN: 1831-9343 13 (<https://osha.europa.eu/en/publications/protecting-workers-online-platform-economy-overview-regulatory-and-policy-developments/view>) accessed 23 December 2019.
6. <https://dictionary.cambridge.org/dictionary/english/gig-economy>
7. Annarosa Pesole and others, ‘Platform Workers in Europe’ (Publications Office of the European Union 2018) EUR 29275 EN 3 (ISBN 978-92-79-87996-8, doi:10.2760/742789, JRC112157) accessed 23 December 2019.

Taxation of and social security protection for platform work

The rapid development of platforms presents policymakers with new challenges: these novel ways of organising work are challenging how we collect taxes and social security contributions. Consequently, there is a risk that a significant amount of platform work is not fully taxed and that platform workers are not adequately covered by social security systems, with future adverse consequences to individuals and public finances.⁸

Part of the difficulty of taxing and extending social security coverage to platform workers stems from their complicated employment status. In most, but not all, instances, platform workers are classified as self-employed contractors.⁹ The self-employed tend to be significantly less tax compliant than employees whose salaries and wages are subject to employer withholding scheme, a fact that is well-documented in tax evasion literature.¹⁰ Non-compliance by the self-employed is often a result of a combination of factors including high compliance costs and inadvertent underreporting. The self-employed often have little tax knowledge, struggle to navigate complex compliance rules, and cannot afford high compliance costs such as the cost of a qualified accountant or tax advisor. They also have an increased opportunity for outright evasion because they can more easily

under-declare their income, exaggerate their deductible expenses or operate wholly in the shadow economy.

In addition to these general challenges, tax and social security compliance by platform workers is complicated by the fact that they are often involved in multiple simultaneous engagements, possibly on different terms, and therefore may have different employment statuses even within one country. Platform workers can, moreover, provide labour in multiple jurisdictions thereby earning income that may be taxable in more than one state and subject to different rules on deductibility of expenses in those jurisdictions. A further complication arises when one attempts to apply a progressive income tax to platform income earners – even within a jurisdiction – and more so across borders. Finally, in the European Union, these complexities are compounded by the fact that companies operating the platforms are often based outside the EU.

Consequently, there is a risk that a significant amount of platform work is not fully taxed and that platform workers are not adequately covered by social security systems [...]

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8. High-Level Expert Group on the Impact of the Digital Transformation on EU Labour Markets. (2019). 'The Impact of the Digital Transformation on EU Labour Markets'. Report Commissioned by the European Commission ISBN 978-92-76-02072-1 doi: 10.2759/586795 KK-01-19-339-EN-N 43 (<https://ec.europa.eu/digital-single-market/en/news/final-report-high-level-expert-group-impact-digital-transformation-eu-labour-markets>) accessed 23 December 2019.
 9. For purposes of this paper, we assume that the vast majority of platform workers are regarded as self-employed under the law. However, we acknowledge the limits of this assumption because of the diversity of employment categories in various countries.
 10. Milka Casanegra de Jantscher and Vito Tanzi, 'Presumptive Income Taxation: Administrative, Efficiency, and Equity Aspects' (International Monetary Fund 1987); Benno Torgler, 'The Importance of Faith: Tax Morale and Religiosity' (2006) 61 *Journal of Economic Behavior & Organization* 81; Joel Slemrod, 'Cheating Ourselves: The Economics of Tax Evasion' (2007) 21 *Journal of Economic Perspectives* 25; Benno Torgler and Neven T Valev, 'Gender and Public Attitudes Toward Corruption and Tax Evasion' (2010) 28 *Contemporary Economic Policy* 554; Henrik Jacobsen Kleven and others, 'Unwilling or Unable to Cheat? Evidence from a Tax Audit Experiment in Denmark' (2011) 79 *Econometrica* 651; Christoph Kogler, Stephan Muehlbacher and Erich Kirchler, 'Testing the "Slippery Slope Framework" among Self-Employed Taxpayers' (2015) 16 *Economics of Governance* 125; Ana Cinta G Cabral, Christos Kotsogiannis and Gareth Myles, 'Self-Employment Income Gap in Great Britain: How Much and Who?' *CESifo Economic Studies* (<https://academic.oup.com/cesifo/advance-article/doi/10.1093/cesifo/ify015/5032456>) accessed 12 October 2018; Arun Advani, William Elming and Jonathan Shaw, 'The Dynamic Effects of Tax Audits' (2017) IFS Working Paper W17/24 39; Daisy Ogembo, 'Are Presumptive Taxes a Good Option for Taxing Self-Employed Professionals in Low and Middle-Income Countries?' (2019) 5 *Journal of Tax Administration* (<http://jota.website/index.php/JoTA/article/view/233>) accessed 25 August 2019.



Platform work, such as food delivery services, is growing rapidly. With regard to taxation and social security this presents political decision-makers with new challenges. Photo: Daisy Daisy/Shutterstock.com

Thus, proliferation of platform work and other types of platform income pose significant revenue mobilisation challenges for tax and social contribution agencies and, if improperly managed, could contribute to an increase in the shadow economy. Non-compliance could also result in an unfair competitive advantage for firms utilising platform work and platform-based models of providing accommodation and other services. Moreover, '[i]f a sizeable segment of the population does not pay social contributions or insurance and underpays on tax and pensions, this will eventually negatively impact the ability of national social protection systems to provide public goods and social benefits, while the demand for those benefits will increase'.¹¹

Modelling a digital single window at EU level

To address these challenges, some EU member states have embarked on initiatives to obtain data on platform users' earnings directly from the platform companies. The objective of the authors in this paper is to construct case studies depicting the efforts by three Member States to obtain income data from platforms and then assess the viability of upscaling those national initiatives by developing an EU-level digital single window that would facilitate the automated reporting of income data by platforms and the forwarding of that data to national tax and social security agencies for taxation and collection according to national rules.

The case studies aim to highlight the most salient aspects of each case and identify the history, motivation, objectives, design characteristics and functionalities of the data reporting systems, as well as the relevant stakeholders, administrative

and infrastructure requirements, costs and any evaluation results. Cross-case analysis was then conducted to identify potential gains that could be achieved and difficulties or risks that would be encountered if the individual national efforts were replaced with an EU-level approach. Based on the findings, the authors put forward two alternative models of an EU digital single window.

The three countries selected for case studies were Denmark, Estonia and France. These countries were selected for study because of the unilateral initiatives that they had taken to set up reporting systems for obtaining income data from platforms for the purposes of taxation and social security contributions.

Findings

Based on the case studies, the authors take the view that there are several benefits of developing an EU-wide income reporting system. First, collecting income data from foreign platforms without a registered presence or permanent establishment in the country is a challenge for all three case countries and is likely to be a significant hurdle for all the member states. With a digital single window, Member States can pool their power and clout to exert pressure on foreign platforms to comply with an EU-wide requirement.

A digital single window would allow Member States to pool their financial and technical resources for a more cost-effective system.

11. R Florisson and I Mandl. (2018). 'Platform Work: Types and Implications for Work and Employment – Literature Review'. Working paper WPEF18004 Eurofound 100.

Second, developing a sophisticated, automated API-based reporting solution that presents low compliance and maintenance costs is an expensive venture. While the costs and technology may be within the reach of higher income-earning Member States like Denmark, it may not be easily affordable or accessible for some other Member States. A digital single window would allow Member States to pool their financial and technical resources for a more cost-effective system.

The most workable avenue for the time being may be for each Member State to continue developing its own solution.

Third, it is evident that the case countries are already at advanced stages of designing different income reporting systems and it is likely that other Member States will begin similar initiatives. While this approach may not pose a challenge for platforms that operate only domestically, a digital single window would benefit platforms that operate cross-jurisdictionally by saving them from having to use and comply with 28 different reporting systems. Further, lower compliance costs could encourage the growth of smaller domestic platforms and nudge them towards expanding to other Member States without experiencing higher compliance costs. This growth and expansion would benefit innovation in Europe.

However, the authors are also cognisant of the significant barriers to achieving such an ambitious system. The most significant barrier remains the lack of harmonisation of income taxation and social security systems in the European Union and the fact that income taxation is not

an EU competence. Further, if taxpayers' data are being shared more widely or stored more centrally, there is a risk of more frequent or more serious data breaches.

Conclusion

The most workable avenue for the time being may be for each Member State to continue developing its own solution. In time, some data sharing resembling the network model is likely to develop spontaneously between competent authorities under the auspices of existing data sharing arrangements, such as the mandatory Automatic Exchange of Information scheme. The FP/097 Working Group's efforts to develop standard data schema will help drive this forward. While a hub-and-spoke digital single window would allow the pooling of resources and clout and could simplify compliance, it would require the creation of a new legal basis in EU law – a more distant prospect. It may also be that the network model would eventually lead to a Member State serving as a hub, a scenario that may only require amendments to existing tax co-operation and information sharing arrangements rather than new EU legislation.

 Examples from Practice

Challenges and Opportunities in Platform Work: Perspectives from Practitioners

TEXT: BENEDIKT FRANKE, SARAH JOCHMANN, ARNE-CHRISTIAN SIGGE, IRINA KRETSCHMER

In this contribution, four experts describe their views on platform work. They participated in platform-work “labs” held by The Policy Lab Digital, Work & Society at the German Federal Ministry of Labour and Social Affairs (BMAS) in May 2019.

Platform work labs

The labs held by The Policy Lab Digital, Work & Society at the German Federal Ministry of Labour and Social Affairs (BMAS) brought together two interdisciplinary groups, each comprising 15 experts from academia and practice. The participants included platform workers from the gig- and online economy, CEOs/board members from various work-related platforms, union representatives, social insurance experts, labour- and social law specialists, business IT specialists, sociologists and experts from the Organisation for Economic Co-operation and Development (OECD).

In running the labs, BMAS had three goals:

- To bring external viewpoints and expertise from differing areas into the Ministry’s processes from an early stage.
- To gain input and ideas from practitioners on designing decent platform work.
- To test a new format for participative policy design.

In the course of a four-day process, the groups drew up descriptions of the challenges faced and developed recommendations for action. In contrast to traditional-style workshops, the format of the labs encouraged participants to be more open to the standpoints and views of their fellow participants. Based on the jointly derived description of the challenges faced, they came up with consensual solutions and ideas. The Ministry limited its input to setting a general topic for the labs and deciding on the composition of the groups. The two groups were then free to decide on their key areas of focus and the approach to be taken in their recommendations for action.

Challenges faced in the platform economy

Despite the differing methodological approaches, the labs identified largely similar challenges in the platform economy and developed overlapping recommendations as a result. With regard to labour law, discussions centred on the better enforcement of existing law and more accessible procedures for clarifying whether platform workers have employee status. The lab participants agreed that social partnership and/or government “seals of approval for decent platform work”, as well as recommendations for minimum fees, would be useful additions. With regard to more far-reaching provisions on minimum fees and the organisation of self-employed persons under collective bargaining law, the participants pointed to the restrictions laid down by EU competition law. In matters concerning social insurance law, the recommendations focused on the possibility of including self-employed persons in the statutory pension insurance scheme and providing financial assistance towards pension contributions for those in the low-income segment. Other issues involved greater transparency in and monitoring of ratings processes on platforms, and greater data sovereignty for platform workers to reduce lock-in effects and dependency on specific platforms.

In the following section, four experts who participated in the labs give their views on platform work.



BENEDIKT FRANKE is a co-founder of *Helping GmbH & Co. KG*, Europe's leading online platform for household cleaning and domestic services. After graduating from the University of Bayreuth, ESCP London and the EGADE Business School in Monterrey, Mexico, he initially worked as an associate with Boston Consulting Group. He joined Rocket Internet in 2009, working in business development and as Head of Human Resources. In the role of managing director, he co-founded *Helping* in 2014 and has remained in that role ever since. He is also an active member of the Business Angels network, a signatory to the Entrepreneur's Pledge and a fan of the FC Cologne football club.
Photo: Benedikt Franke

BENEDIKT FRANKE: Digital platform potential

In 2014 we founded *Helping*, one of the first digital platforms for household cleaning and domestic services in Europe. We now operate in ten countries. In the past few years, our platform has been used by millions of households and suppliers to find the services and customers they need. This shows that platforms are now integral to everyday life.

But what potential do platforms offer for the organisation of work, something on which *Helping's* business model is based? Platforms use a form of organisation that offers a high level of efficiency: most of all, platforms are a highly efficient way of organising. They make it easy to search and communicate, help with arranging services and fixing appointments, provide access to electronic payment methods and create a sphere of mutual trust. Platforms thus significantly reduce transaction costs for those involved. Through the use of technology, the organisational costs of smaller businesses are suddenly lower than those of large companies. *Helping* is essentially the small business owner's SAP that also happens to provide them with clients.

As a business enterprise, our key challenge is to structure *Helping* as a platform that offers our users the greatest possible value. We are convinced that the availability and quality of the service providers are key to a platform's success. That's why a successful platform should always aim to be the service providers' platform of choice. And for users of our platform, the deciding factors are absolute autonomy and flexibility in how they organise their work – including the prices they charge – and independence from individual clients. We ensure the latter in that we advertise the platform to households and thus generate constant demand.

The state could also benefit significantly from the technological opportunities harboured by platforms. There is potential, for example, in the automatic transfer of contributions or automatic granting of tax credits.

The platform work debate

So, why do platforms come under fire from policy-makers despite their obvious potential? The debate is sparked by two issues which to all intents and purposes are not platform-specific. Platforms in low-income sectors are accused of brokering precarious work, even if the amount that can be earned is above the industry average. This is the case, for example, in the taxi business or in the household-related services sector. And if platforms also broker work to self-employed service providers, the social security coverage of the self-employed

and their access to social insurance come to the forefront of the debate. This is an area where we also see huge potential and we are working to make our findings from ten different markets available so we can serve as a discussion partner. In this way, a social partnership for the future can be created, which also includes platforms.

SARAH JOCHMANN: Trade union challenges in representing platform workers

The use of new technologies has made it possible for platforms to act as work brokers in the digital working world. Right now, around five per cent of work in the labour market is organised via platforms. That share will increase in the future and other work models will be displaced. Platform workers, especially the solo self-employed, have a high need for protection because the awarding of contracts creates dependency. This in turn will lead to structural inequality and an imbalance of power as platform workers have no direct contact with the clients awarding the contracts. How can regulation be used to ensure that working conditions are not undermined if work is offered for sale on platforms in the same way as goods? How can we ensure that platform jobs are created that can benefit society?

Digital right of access for trade unions

The bicycle couriers' fight for improved working conditions has shown how difficult it is to organise sectors that use platform work. Only a quarter of Lieferando's 40 locations in Germany have an office where couriers can meet and the union can display notices. If platform workers are to become organised and take collective action, they need places where they can gather and meet. This decentralisation of jobs and work is exploited by employers. What is missing is a digital right of access for trade unions so they can provide information to their members on digitally organised platforms.

Promote collective bargaining

Many bicycle couriers only work for periods of between one and three months. They neither know what a trade union is, nor do they know that a union can represent their interests and protect their rights. Language barriers are an additional problem. In the beginning, the couriers' trust of and loyalty towards the employer remains intact. If they have a bad experience or run into problems, they tend to change their employer rather than fight for their rights.



SARAH JOCHMANN obtained a master's degree in geography with her thesis on the "Platform Economy in the Example of Bicycle Couriers". She previously worked as a bicycle courier for Deliveroo. In February 2018, she teamed up with co-workers to launch the Facebook campaign "Liefern am Limit" (deliver till we drop) about working conditions for platform workers in the food delivery sector. Since autumn 2019, she has been a full-time trade union secretary in the German Food, Beverages and Catering Union (NGG).
Photo: Sarah Jochmann

The subsidiary system of codetermination, negotiation processes and social partnerships needs to be further underpinned and expanded. Collective bargaining coverage must become more attractive again. One possibility would be to provide tax concessions to reward companies that adhere to collective agreements.

Support the organisation of fixed-term employees, clarify employee status

Many couriers struggle with repeat or ungrounded fixed-term contracts. These make it difficult for couriers to form a workers' organisation or a works council. In Germany, for example, there are no protection mechanisms for bodies with fixed-term workers. This was one of the key reasons for the couriers deciding to form an independent workers' organisation.

Added to this was the circumvention of the minimum wage via non-payment for work equipment that couriers had to provide themselves: a mobile phone with sufficient data volume, work clothes and a bike. Further, wages often go unpaid or are not paid in the right amounts.

If ex officio investigation proceedings were to be implemented at EU level, trade unions would be able to initiate a status clarification process to ascertain employee status and platforms would not be able to duck their responsibilities as an employer to the extent they do right now.

DR ARNE SIGGE: On equal footing: Turning crowdworkers into long-term, stable business partners

The world of work has changed significantly in recent years and not only due to digitalisation. Shifts in social structures, urbanisation, home-based care/nursing requirements and changing leisure and consumer patterns call for the labour market to respond with flexible employment models.

But many sectors are still in an alarming state of standstill. In some respects, hybrid employment models collide with the much-acclaimed but somewhat outdated provisions of social and labour laws introduced a century or so ago. Currently, many contemporary employment models are hampered by legal uncertainty, lengthy status-clarification processes, high administrative costs and legal provisions that are not in keeping with the times.

Crowdworking platforms: Challenges and opportunities

On the one hand, contemporary models such as brokering microtasks to the solo self-employed via a crowdworking platform offer many opportunities. They give people the chance to participate in working life if they are unable to sit in an office for 40 hours per week because they provide home-based care, look after children or are themselves so seriously ill that a permanent job with regular working hours is either not desirable or completely out of the question.

The appeal for contractors/clients is, amongst other things, that projects can now be completed that were previously not possible because experts could not be found using traditional means or project-related capacity building was not economically viable.

On the other hand, solo self-employment calls for a high degree of self-discipline and self-responsibility that not everyone is born with. And the platforms themselves are challenged, too. A platform can only hold its own in the market if it manages to retain good crowdworkers. This is the only way that customers using the platform can be supplied with reliable, high-quality work.

Crowdsourcing Code of Conduct

If platform operators are to retain crowdworkers, they must adopt respectful, “equal footing” communication practices and provide transparency in relation to ratings and pay grades.

Fair pay which allows for adequate social security coverage, clear contract specifications, appropriate processing times and meaningful tasks ensures a positive environment in which people enjoy working and can be hired without hesitation. These are all things which signatories to the Code of Conduct for Paid Crowdworking in the German Platform Economy¹ (Crowdsourcing Code of Conduct) are trying to establish as standards. The affiliated ombudsman’s office ensures that the Code of Conduct is not just a paper exercise, but instead becomes the common, real-world understanding of fair working conditions on the signatory platforms.

What remains important is that everyone involved – clients/contractors, platform operators and crowdworkers – constantly remind themselves that there is a person sitting at the end of the shortened channels of online communication.



DR ARNE-CHRISTIAN SIGGE is a Member of the Board at content.de AG. Founded in 2010, the crowdworking platform operates a marketplace for search engine-optimised texts. The marketplace is used by some 7,000 authors to publish product descriptions, advisory/self-help texts, blog entries, e-books and more in line with customer-specific requirements. content.de is a signatory to the Crowdsourcing Code of Conduct, plays a proactive role in its further development and provides the platform representative in the affiliated Ombudsman’s Office. Photo: Marius Ahlers

1. <http://www.crowdsourcing-code.de/>



IRINA KRETSCHMER has worked as a copywriter and author since 2013, selling her work via crowdworking platforms like content.de. She studied economics in Leipzig and as an insurance specialist, worked as a self-employed insurance broker for about 20 years. Forced to take a change of direction for health reasons, she seized the opportunity to fulfil her long-held dream of becoming a writer. Her main topic of interest involves the societal challenges brought about by megatrends like digitalisation.
Photo: Irina Kretschmer

IRINA KRETSCHMER: Everyday reality in the platform economy

Crowdworkers, clickworkers, platform workers – there are many ways to describe people who work in this new world of work. There are also vast qualitative differences between the various platforms and in some cases their poor reputations are really justified. But there are some shining beacons – and these should be declared as the benchmark.

Log in, search for suitable jobs and start the working day: crowdworking can take self-employment to a completely new level. That's what it's done for me. I've had only good experience working on my platform of choice. But starting up as self-employed does have its difficulties – and this is where misunderstandings begin.

Self-employed or not self-employed

In Germany, prevailing law is gradually coming around to a common, contemporary understanding – for example, as shown by the recent Munich District Court (LAG) judgement on crowdworking¹. As a general rule, crowdworkers can be self-employed – something I see as extremely important. I want to decide when I work, how much work I do and which jobs I take on. Then it is also up to me to decide how much I earn. This is where platform work is just the same as traditional business life: the better and more successful I am at what I do, the more I can charge for my work. There are good opportunities for upward mobility, but they call for hard work, discipline and perseverance. In turn, there is no guarantee that the platform can offer me a constant supply of work – but then that's never a given for people who are self-employed. Why should it be any different where crowdworking is concerned?

The fact is:

- The platform is merely a marketplace where I can conveniently generate work.
- I decide for myself whether and which jobs I take on.
- The price to be charged is based on quality, although this is also negotiable.

1. https://www.lag.bayern.de/imperia/md/content/stmas/lag/muenchen/pressemitteilung_-_crowd.pdf

Many pros, few cons

Of course, I can also become proactive and acquire orders myself, thus saving the not inconsiderable portion of my fee that the platform charges me. But when it comes down to it, that doesn't pay off because as a crowdworker I can:

- Save my time and concentrate entirely on my work.
- Rely on the fact that my fee has already been paid to the platform the moment I accept the job and will be credited to me as soon as the client accepts my work.
- Benefit from the fact that in Germany, the platform contributes to my Artists' Social Insurance Fund (Künstlersozialkasse) contributions, thus halving my health insurance costs.

In return, I refrain from contacting clients personally. All relevant information can, however, be exchanged via the internal messaging system. What seems like a disadvantage at first glance soon proves to be the opposite in practice: if discrepancies arise or conflict occurs, the platform steps in and mediates. For me, this type of work is the optimal solution because it is perfectly possible to perform anonymised platform work and still provide extremely friendly, personal service.

National Skill Strategy: For a New Culture of Continuing Education and Training in Times of Digital Transformation

TEXT: TASK FORCE NATIONAL SKILLS STRATEGY, FEDERAL MINISTRY OF LABOUR AND SOCIAL AFFAIRS

The Federal Republic of Germany's first-ever National Skills Strategy was presented in a strategy paper on 12 June 2019. The strategy contains strong new ideas and concrete measures for designing policies in the fields of continuing education and training and the labour market for continuing vocational training, lifelong learning and skills development.

Digital and demographic structural change is drastically changing our world of work. The proportion of employees subject to social insurance contributions who are working in occupations with high potential for being replaced is increasing. Automation may affect one in four employees in Germany in the coming years and they will have to re-orient themselves professionally.¹ Profound changes can be expected even for employees in occupations that will continue to exist. The Organisation for Economic Co-operation and Development (OECD) expects that more than 35 per cent of all occupations will undergo fundamental transformations by 2030.² Increasingly complex job profiles also require the acquisition of new skills: social-communicative skills, systemic thinking, a capacity for abstract thinking and the ability to process information and select data quickly will become more important. Creativity, interdisciplinary thinking and the ability to change are in demand.

Digital technology is changing our lives and how we work. It opens up a wide range of opportunities to influence the world of work, but at the same time also brings risks. That is why we must ensure that

today's workers can do tomorrow's work – not least to counteract the shortages of skilled workers that are already apparent today in some sectors and regions.

Continuing education and training is a response to structural change caused by digital technologies

Continuing education and training is the central response to this structural change, which is driven primarily by digital technologies. It is more important than ever for continuing education and training policy-makers to take early and preventative action, to reinforce skills throughout the entire course of people's careers and to develop their talents.

It is more important than ever for continuing education and training policy-makers to take early and preventative action, to reinforce skills throughout the entire course of people's careers and to develop their talents.

The basic goal is to invest strategically in continuing education and training and use the productivity gained from digital technologies to secure individuals' employability in the long term and provide career stability. In this context, continuing education and training policy must be geared to the needs of both employers and employees. Now more than ever before, continuing education and training as well as skills development are necessary to enable people to control their own professional lives. Everyone should have enough choices to make starting a job uncomplicated, changing jobs successful and advancement possible in their working lives.

In the middle of the last decade, there was discussion of expanding and maintaining continuing vocational training and skills acquisition in the course of the Work 4.0 dialogue conducted by the Federal Ministry of Labour and Social Affairs. This resulted in calls for a 'comprehensive, long-term skills and continuing education and training strategy'.³ In its coalition agreement, the new government that took office in March 2018 accordingly agreed that a National Skills Strategy was to be developed 'together with the social partners in close consultation with the German federal states (Länder) and all other stakeholders'. The aim was one of 'bundling all continuing education and training programmes of the Federal Government and the Länder (federal states), gearing them to the needs of employees and companies and establishing a new culture of continuing education and training'.⁴

Managing change together

Expanding participation in continuing education and training and skills acquisition opportunities in Germany will only succeed if everyone pulls together. The development of the National Skills Strategy was therefore supported by a new body consisting of a wide variety of stakeholders. The Federal Ministry of Labour and Social Affairs and the Federal Ministry of Education and Research are in charge of the project. A further 15 partners from fields of politics, trade unions, employers' and business associations, the German federal states and the Federal Employment Agency are actively involved. On 12 June 2019, only seven months after the kick-off meeting, the jointly developed strategy paper was presented by the partners. This is the first time in the history of the Federal Republic of

1. Dengler, Katharina; Matthes, Britta. (2018). IAB-Kurzbericht 04/2018, p.7.

2. Nedelkoska, Ljubica; Glenda, Quintini. (2018). Automation, skills use and training, OECD Social, Employment and Migration Working Papers, No. 202, OECD Publishing, Paris, p.49.

3. BMAS. (2016). Weißbuch Arbeiten 4.0, p.106.

4. CDU/CSU/SPD. (2018). Koalitionsvertrag für die 19. Legislaturperiode, p.50.

Germany that there has been a National Skills Strategy with the basic goal of reforming, systematising and enhancing a continuing education and training policy that supports lifelong learning. It is jointly headed by the Federal Ministry of Labour and Social Affairs and the Federal Ministry of Education and Research. The main emphasis is on acquiring qualifications and developing skills as well as maintaining employability in the long term. The focus is on continuing vocational training.

From strategy to reliable implementation

The strategy paper contains 10 goals and lists concrete measures and commitments, projects and review mandates from all partners.⁵ Among other things, the Federal Ministry of Labour and Social Affairs is working to ensure that an internet landing portal provides a better overview of opportunities for promoting individual continuing vocational training than what is available now and simplifies application procedures in this regard. In response to the sweeping transformation processes taking place in the course of the digital revolution, the Federal Ministry of Labour and Social Affairs will look at various mutually complementary collective and individual measures to promote continuing education and training in order to improve the employability of the labour force in the long term. For the transformation process towards a digital and decarbonised economy, flanking structural instruments – such as the further development of the short-time work allowance in conjunction with continuing education and training measures – are to be considered. The need for individual continuing vocational training support for skills development and retraining, including across sectors and professions, will also increase significantly. The Federal Ministry of Labour and Social Affairs will therefore

examine additional government-subsidised training periods and part-time training periods that help employees to take advantage of their professional development opportunities in a self-determined manner.⁶ In addition, model projects support employers with organising continuing education and training in a network at regional level.

When drafting the strategy paper, the partners in the National Skills Strategy were particularly concerned not to simply formulate declarations of intent, but instead to create the basis for a new continuing education and training culture in Germany with strong new ideas, clear mandates for review and concrete measures. Motivating low-skilled workers to participate in continuing education and training is a particular priority. This is because their jobs tend to be most affected by the transformation brought about by digital technology. Their participation rate in continuing education and training measures is, however, lower. For this reason, in addition to the existing possibilities for promoting continuing education and training, the Federal Ministry of Labour and Social Affairs will use legislation to create a legal entitlement to support subsequent acquisition of vocational qualifications in accordance with personal aptitude and labour market orientation. The legislation should also prolong the payment of continuing education and training bonuses for successful intermediate and final exams in the context of retraining, an idea that has been tested since 2016.

Focused and committed until 2021 and beyond

The partners of the National Skills Strategy maintain a continuing dialogue and are pursuing the goal of moving forward with implementation of the strategy. The implementation work is coordinated by a committee that meets every six months. There are

5. BMAS/BMBF. (2019). Nationale Weiterbildungsstrategie, Strategiepapier, Berlin, p.6 ff.

6. cf. BMAS. (2019). Zukunftsdialog, Ergebnisbericht, Handlungsempfehlungen, Berlin, p.39.

topic-specific labs to deal with individual goals in greater depth. In these labs, the partners responsible for the content of the National Skills Strategy are taking a closer look at individual priority topics in order to develop proposals for solutions for further implementation. Among other things, priorities such as basic skills, reading ability, quality control in continuing education and training, the development of consulting structures and the development of instruments for strategic foresight and analysis with regard to skills development will be discussed in the topic-specific labs. The thematic labs open up the process of the National Skills Strategy even more to other social, corporate and academic actors. An initial report on the status of implementation is planned for the middle of 2021. The OECD will provide support for the implementation process of the strategy in the form of a country report on continuing vocational training in Germany.

The partners of the National Skills Strategy are working on a new culture of continuing education and training in Germany, which sees continuing

education and training not as a necessary evil but as a natural part of working life. Preventative and empowering social and labour market policies which specifically combine collective and individual approaches in the promotion of continuing education and training can be the decisive factor in turning technological progress into social progress. Digital transformation can thus also be seen as an opportunity for more individual freedom and new personal opportunities for skills acquisition, employment and development.

THE TASK FORCE NATIONAL SKILLS STRATEGY at the Federal Ministry of Labour and Social Affairs, together with the Federal Ministry of Education and Research, is responsible for developing and implementing the National Skills Strategy, a joint initiative with 15 other partner institutions. Within the Federal Ministry of Labour and Social Affairs, it coordinates interdepartmental CET policy issues and contributes to political and technical dialogue and the international exchange of experience.

Presentation of the National Skills Strategy on June 12th 2019; from left: Elke Hannack, Deputy President, German Trade Union Federation (DGB); Stefanie Drese (SPD), Minister for Social Affairs, Integration and Equality Mecklenburg-Vorpommern; Hubertus Heil (SPD), Federal Minister of Labour and Social Affairs; Anja Karliczek (CDI), Federal Minister of Education and Research; Dr Gerhard F. Braun, Vice President, Confederation of German Employers' Associations (BDA); Detlef Scheele, Director Executive Board, Federal Agency of Employment; Photo: BMAS/Plambeck



Two German Social Partners Share Their Views on the Implementation of the National Skills Strategy

TEXT: SABRINA KLAUS-SHELLETTER, GERMAN TRADE UNION CONFEDERATION (DGB),
IRENE SELING AND JUPP ZENZEN, CONFEDERATION OF GERMAN EMPLOYERS' ASSOCIATIONS (BDA)

The German National Skills Strategy (*Nationale Weiterbildungsstrategie*) was elaborated by a broad alliance of social partners and German federal states (Länder) and presented in summer 2019. Sabrina Klaus-Schelleter (German Trade Union Confederation) and Dr Irene Seling and Dr Jupp Zenzen (both Confederation of German Employers' Associations) were actively involved in this process.

Sabrina Klaus-Schelleter (DGB): Successful transformation requires the right to continuing education and training

In light of ongoing structural changes, the importance of continuing education and training in ensuring employability for all groups of workers is undisputed. It is amazing that in spite of this, almost half of all companies in Germany have no strategy for coping with transformation or an

insufficient one, according to the results of a survey by IG Metall (*Transformationsatlas 2019*). Likewise, half of the companies surveyed do not conduct long-term, systematic personnel planning or identify training needs. In other industries the situation is usually even worse. Another challenge is to reach those employees who would particularly benefit from continuing education and training, but who have so far hardly participated. These include in particular low-skilled workers, but also employees with a high proportion of routine activities.

When we asked what conclusions should be drawn from the developments on the labour market for companies, the expectations of the partners regarding the National Skills Strategy diverged to a great degree. The socio-political ideas of the respective partners are very different. At the heart of the debate was the dispute about the extent to which employees' rights and works council participation at company level should be bolstered in the area of continuing education and training. In other words, preserving the status quo and tax gifts to companies on the one hand and the right to continuing education and training and strategic human resource planning on the other hand.

We need a new culture of continuing education and training

The central goal of the trade unions concerning transformation is to make possible or maintain decent work and personal development opportunities for all. We believe that the primary responsibility for the continuing education and training of employees lies with employers. They must maintain the skills they need their workforce and management to have. The individualisation and collectivisation of the burden of continuing education and training must be avoided. It is therefore essential to increase the role of the partners in companies and their cooperation. However, in times of strong disruption, preventative approaches to avoid unemployment are also needed beyond the workplace. To this end, labour market policies must be enhanced and there must be a sounder basis for individual opportunities and wishes for continuing vocational training, but also better social security.

In addition to various approaches to strategic personnel planning with improved rights of participation for works and staff councils, the strategically relevant commitments of the trade unions include in particular

- further development of short-time allowances in conjunction with training
- improvements to employment promotion, such as the right to subsequent acquisition of vocational qualifications
- review of state-subsidised training (part-time) periods for employees
- improvements to the Upgrading Training Assistance Act (Aufstiegsfortbildungsförderungsgesetz)
- project funding to train trade union representatives and members of works councils to be continuing education and training mentors with the aim of establishing low-threshold training guidance in companies for the long term
- continuation of the ESF social partners guideline to try out innovative company approaches in interaction with collective bargaining
- more support for personnel in the continuing education and training sector.



SABRINA KLAUS-SHELLETER

is head of the Company-related labour market policy and qualifications unit of the German Trade Union Confederation's National Board and is on the Implementation Committee of the National Skills Strategy. Photo: Simone M. Neumann

It is important for the Federal Government to provide legal and financial security in the implementation process now to address the challenges in the field of labour market policy and empower individuals to make their own decisions on the course of their education and employment.

Indicators of success

It is now important for work to continue on swiftly implementing the joint commitments. There is still a lot to be done to implement a real strategy – both in companies and at legislative level. The real measure of success will be whether it is possible to master the challenges step by step in a way that demonstrates solidarity so that a successful transformation of the labour market with decent work for all employees is achieved. For trade unions, one thing is clear: successful transformation is only possible if there are legal entitlements to continuing education and training and strategic human resources planning with an even stronger role for works councils and staff councils. We also need stable security mechanisms in the event of unemployment, enabling upward mobility. We will continue to work on this, also in contexts other than the National Skills Strategy.

Ideas for Germany's EU Council Presidency

In the strategy paper there are good ideas for the new funding period of the European Social Fund, for example the social partners guideline. These ideas could also be transferred to other member states. The core of the National Skills Strategy is the expansion and improvement of labour market policy instruments to promote skills acquisition. In her Agenda for Europe, Ursula von der Leyen spoke of European unemployment reinsurance. That could function as an automatic stabiliser

in country-specific economic downturns and strengthen national unemployment insurance systems in times of crisis. However, refinancing of the systems during economic downturns must also be accompanied by the introduction of European minimum social standards in unemployment insurance. The National Skills Strategy can provide a crucial boost in this respect, with the right to subsequent vocational qualifications and other preventative elements. The same applies to the debate on a European framework directive on minimum standards for basic incomes, in which the right to a minimum of material security must be combined with a legal right to continuing education and training. Finally, the transformation process we are facing also requires maintaining and improving the living and working conditions of each individual and making progress in the convergence of the member states.

The transformation process we are facing also requires maintaining and improving the living and working conditions of each individual and making progress in the convergence of the member states.



Dr Irene Seling and Dr Jupp Zenzen (BDA): Ten objectives – almost 80 commitments

The seven-month process of negotiating the National Skills Strategy resulted in a 22-page document, 10 objectives for action and almost 80 intensively discussed commitments – which were presented to the public in June 2019. This marked the starting point for the implementation phase that is scheduled for completion early in 2021. What expectations do employers have of the implementation process that is now being launched?

Problem-solving approach instead of ideology

One thing should be clear from the outset: the partners in the National Skills Strategy should understand that the strategy paper is not a document to be worked through like a government coalition agreement. Slavishly following the letter of the strategy and undertaking only what it specifies will not bring the desired results. It will be essential to initiate expedient measures that benefit both employees and businesses and meet their needs for continuing education and training (CET). The motto has to be: “Less ideology and more focus on generating solutions”.

1. DR IRENE SELING is Head of the Marketing and Organisational Development Department of the Confederation of German Employers' Associations (BDA). Photo: Irene Seling

2. CO-AUTHOR DR JUPP ZENZEN is Senior Advisor in the Labour Market Department of the Confederation of German Employers' Associations (BDA). Photo: Jupp Zenzen

The state should not regulate the continuing education and training market

The fundamental principle of the policy on company-based CET should be to strengthen individual accountability and not to add burdens through bureaucracy or overregulation, because the companies are proactive stakeholders in this regard. It is the companies that invest more than € 33 billion in continuing education and training every year – which is double the budget of the Federal Ministry of Education and Research! Likewise, individuals act on their own responsibility when choosing a path of vocational education. The companies and employees themselves are best placed to assess which qualifications will be required in the future. The diverse range of individual educational goals and needs is mirrored by the various forms of continuing education and training provided by companies. Starting from education-policy or social-policy motives for building up an excessively school-like system of certificates, data-bases, government portals, frames of reference, framework curricula and recognition bodies – which then hamper the innovative drive of the education service providers – will jeopardise the plural CET market and the competitiveness of businesses. We cannot afford to take such risks just when the economy is cooling off.

Conditions for a general entitlement to a second chance for vocational qualification

It is right to assist low-skilled people in acquiring a qualification. But the Strategy's partners acted correctly in not planning an unconditional entitlement to a qualification, and instead have linked it to two conditions: acquiring the qualification must be realistic for the individual, and there must be a need for it on the labour market. Ideally, the short-term unemployed for whom it will be relatively easy to find work should be

placed in jobs whilst receiving training alongside their employment with a view to obtaining a qualification. For low-skilled people already in employment, priority should be given to obtaining a partial qualification alongside employment, which has proven valuable as a CET instrument for helping the semi-skilled and unskilled to become skilled workers. In the case of the long-term unemployed, often other barriers which block the path to successfully obtaining a qualification have to be removed first. This also has to be taken into consideration. A general legal entitlement without any restrictions would be contrary to the basic principle that company-based CET must always take account of both parties: the interests and aptitudes of the employees and business requirements.

Facilitate continuing education and training promotion by the Federal Employment Agency

Irrespective of which other new legal regulations – if any – will apply to the promotion of continuing education and training, it will be crucial to facilitate its implementation. This means, first, eliminating unnecessary administrative obstacles to funding for larger, homogeneous groups (e.g. when applying for funding, accounting procedures). Second, the authorisation procedure for continuing education and training measures must be simplified and accelerated so that employees can be offered tailored measures. This includes aspects such as greater flexibility concerning the permissible cost framework and the sizes of groups.

Partial qualification represents an efficient instrument for quickly acquiring and retaining skilled workers.



Continuing education and training enables employees to maintain and expand their qualifications and skills in the changing world of work. Photo: Fauxels/Pexels

Promoting literacy and building up basic skills

The number of people either with severely limited basic skills or without such skills did indeed fall from 7.5 million to 6.2 million between 2011 and 2018, but it is still far too high. In terms both of employment policy and education policy, it makes sense to prioritise this area within the field of continuing education and training. It is a fundamental duty of the state to ensure that its citizens acquire a basic education. The relevant measures and projects must therefore be financed from tax revenue and not through contributions.

Partial qualifications: Targeted training for the low-skilled whilst in employment

Partial qualification represents an efficient instrument for quickly acquiring and retaining skilled workers. Flexible, low-threshold modular learning provides unskilled and low-skilled

employees with selected expertise for occupations that require formal training. It is therefore both right and important that this should be prioritised in the implementation of the National Skills Strategy. The educational organisations of businesses, the employers, have been running the large-scale training initiative “Eine TQ besser!,” which successfully trains semi-skilled and unskilled workers, since 2013. At present, however, there is a large number of training providers with varying partial qualification strategies and skills assessment methods. Furthermore, there is no standardisation of the conditions for obtaining authorisation to take part in final examinations without prior enrolment in a regular vocational training course. At the same time, a huge demand exists for trained employees and for tailored CET. Both the employers and the participants in partial qualification schemes will benefit from a standardised modular system that enables the broad spectrum of partial qualifications on offer to be compared and makes them transparent and accessible to all those involved.

Infographic

Facts and Figures: Continuing Education and Training

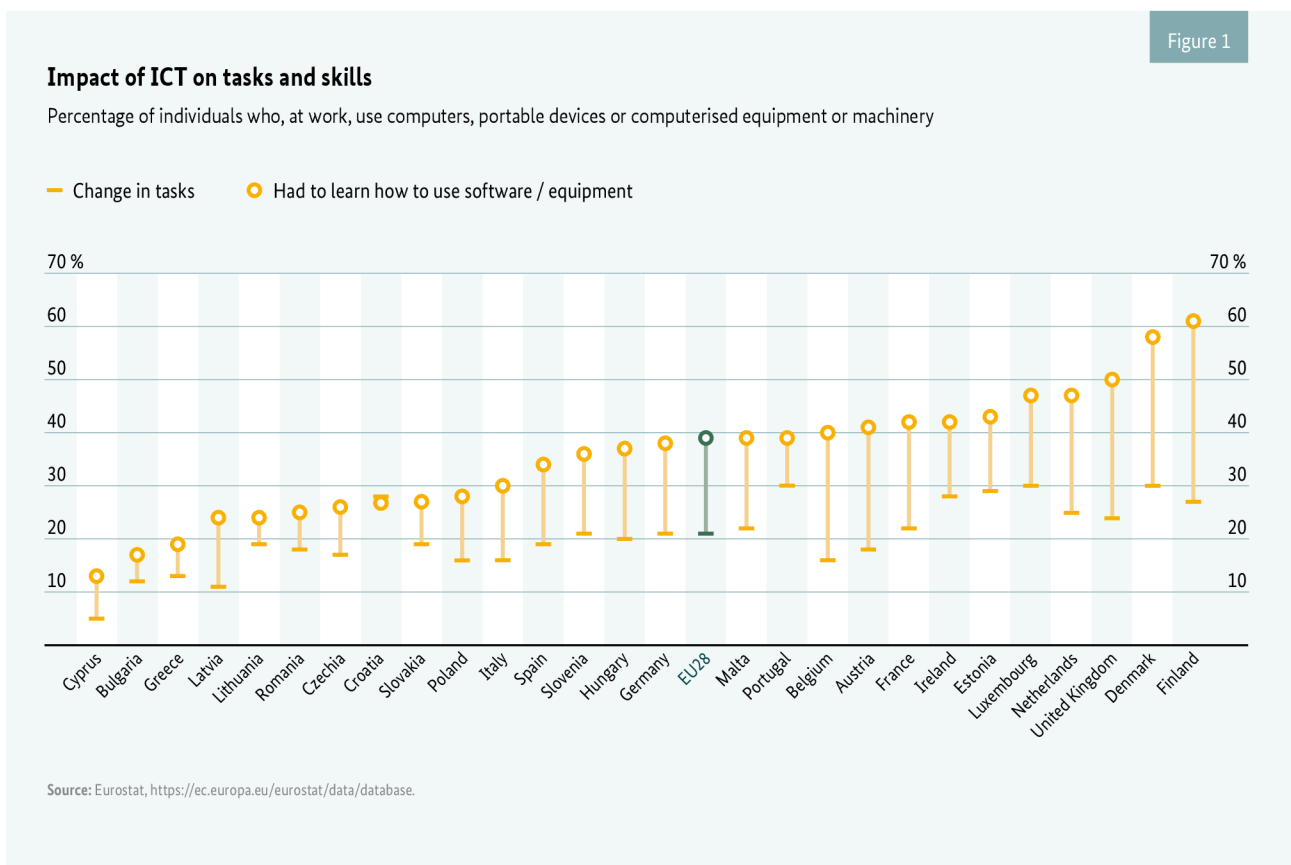


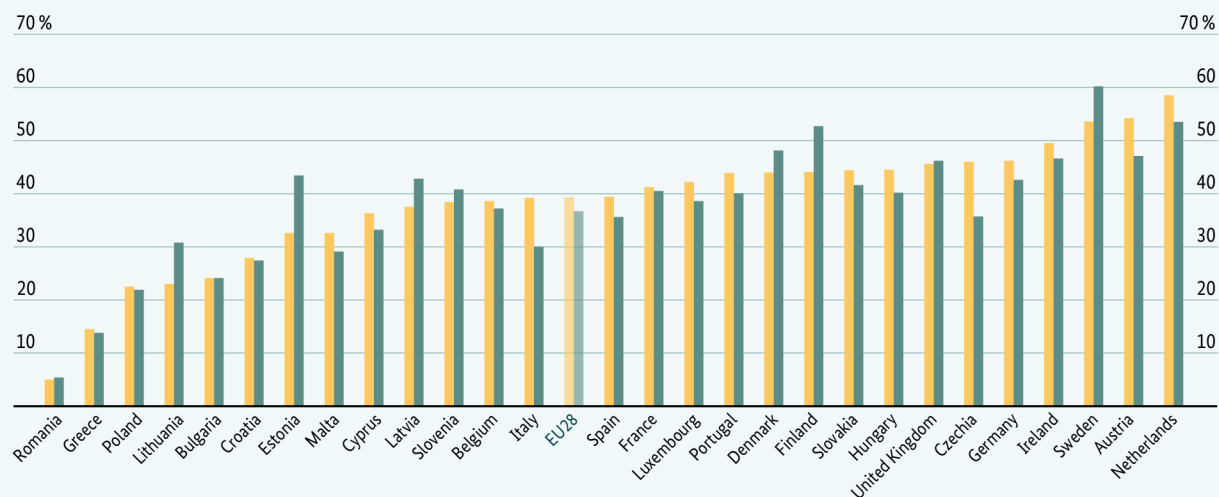
Figure 1 Technology is having an important impact on how people work. On average in the EU, 39 per cent of individuals using computerised equipment had to learn to use new software and equipment, 21 per cent experienced a change in tasks.

Figure 2

Participation in job-related training by gender:

Participation rate in job-related training by gender, persons aged 25–64, 2016

Men Women



Source: Eurostat, Adult Education Survey, 2011 and 2016.

Figure 2 In some EU countries, a difference in the participation rate in job-related training between men and women can be observed for the year 2016.

Analysis

Continuing Education and Training: Key to Labour Market Participation, Productivity and Inclusion

TEXT¹: JÖRG PESCHNER, SIMONE ROSINI, DIRECTORATE-GENERAL FOR EMPLOYMENT, SOCIAL AFFAIRS AND INCLUSION, EUROPEAN COMMISSION

While educational performance in the EU has improved since 2010, there are still skill mismatches and shortages. The lack of skill is often the result of social disadvantages that still exclude many from acquiring the human capital necessary. In a fast-evolving digitalised environment, this may bear new social risks. Ensuring access to education, continuing education, training and retraining for all remains a top priority even more in light of the corona crisis.

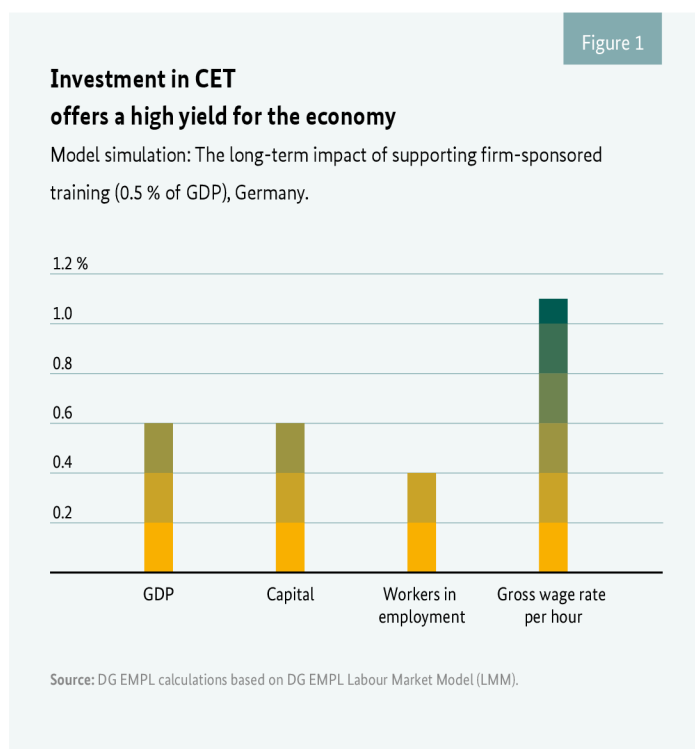
The European social model aims to improve the skills base in order to boost employment and competitiveness and improve living conditions. While efforts to strengthen human capital have been made throughout the history of the European Union, the need to further develop and modernise continuing education and training (CET) remains crucial for tackling skills shortages and mismatches and ensuring just transitions.² Skills development plays a key role in the implementation of the European Pillar of Social Rights.

The merits of skills and qualifications

Investment in education and skills yields significant returns for the economy, for workers and for society overall:

- **From an economic perspective through higher productivity and higher GDP.** For instance, simulation results for Germany show that improving workers' employability through firm subsidies that incentivise the provision of training at the workplace yields high returns from a macroeconomic perspective, including increases in employment, GDP, capital investments and wage rates. The increased training enhances workers' skills and their productivity, leading to higher labour demand, employment and hours worked. Wages go up significantly, rewarding workers for their higher productivity (Figure 1).
- **From an individual perspective through higher returns to skills and education**

1. The views expressed in this article are those of the authors and may not be interpreted as stating an official position of the European Commission.
2. See the European Commission Communication on the assessment of progress on structural reforms (2019 European Semester).



(Figure 2). In 2018, the average hourly wage for highly qualified workers in the EU was twice as high as for their low-qualified colleagues. Likewise, when it comes to the level of skills required on the job,³ workers on elementary jobs (level 1) earn a third of what managers and professionals (level 4). The respective premiums are particularly pronounced in Germany.

For example, in an increasingly digitalised environment, people need a minimum level of digital skills not only at work, but also to participate in social life more generally.

→ **From a societal perspective through higher participation and engagement.** For example, in an increasingly digitalised environment, people need a minimum level of digital skills not only at work, but also to participate in social life more generally. Individuals without the necessary digital skills may face significant barriers to full participation in everyday life.

Structural problems related to skills and qualifications

While formal qualifications keep improving in Europe, a number of major problems arise from the economic point of view:

→ **Qualification mismatches weigh heavily on growth.** Several education-related indicators have improved during the last decade. The proportion of early school leavers stands at 10 per cent in the EU, down from almost 14 per cent in 2010. Over the same period, the proportion of 30 to 34 year-olds holding tertiary degrees has increased from 33 per cent to 40 per cent. Women in particular have improved their educational attainment significantly.

The main problem with formal qualifications in the labour market is not their level. It is the fact that workers' qualifications often do not match the tasks they have to perform. According to the Organisation for Economic Co-operation and Development (OECD), about one-third of EU workers between 15 and 64 are either over- or under-qualified in the sense that their formal qualification is higher or lower than that most commonly observed in their occupation (Figure 3).⁴ For younger workers

3. See International Labour Office, International Standard Classification of Occupations (ISCO-08), Geneva 2012.

4. <http://stats.oecd.org/Index.aspx?QueryId=77595>

Figure 2

Significant wage premium for better formal qualification and higher skills

Average hourly wage in EUR by educational attainment (25 EU countries, 2018).

■ EU (25 countries) ■ Germany



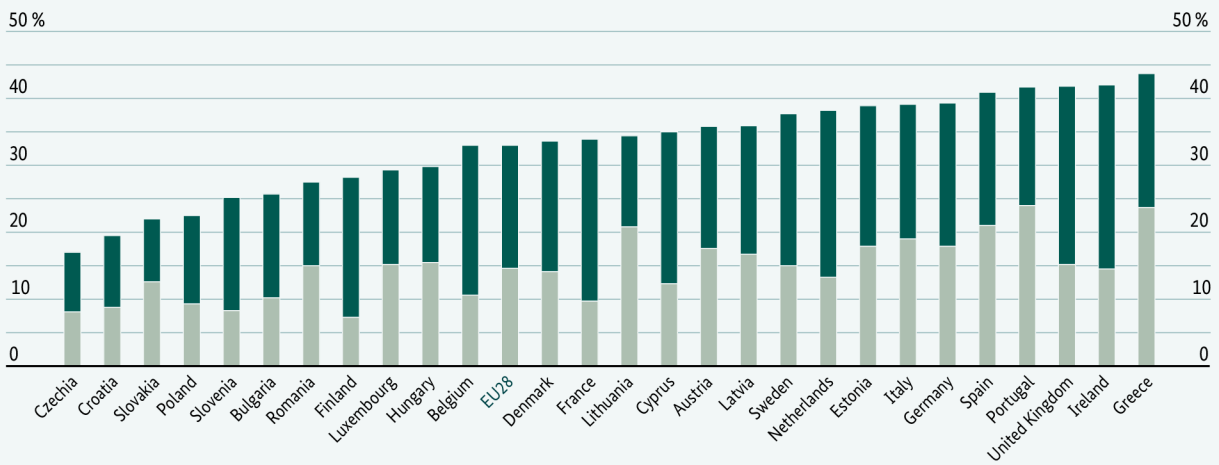
Note: The ISCO-08 International Standard Classification of Occupations classifies jobs into different categories with respect to the type of work performed. The basic criteria used to define the classification are the skills levels and skills specialization required to competently perform the tasks and duties of occupations (ILO, 2007). ISCO-08 classification uses four levels of skills to designate the extent of skills demand in jobs, ranging from lowest in elementary occupations (skills level 1) to highest in managers and professionals (skills level 4). These skills level attributions are also used here.
Source: EMPL calculations based on Eurostat EU SILC.

Figure 3

Formal qualifications often don't match the tasks workers have to perform.

Qualification mismatch by qualification level, 2018

■ Underqualification ■ Overqualification



Source: Skills for Jobs: Mismatch and OECD Skills for Jobs database. Qualification mismatch arises when workers have an educational attainment that is higher or lower than that required by their job.

(15–34) Eurostat confirms that 28 per cent experienced a skill-mismatch in 2018 (19 per cent in Germany).⁵

Over-qualification, in particular, has been a drag on economic growth as it represents an underuse of valuable resources that could be more productively used in the labour force.⁶ In the EU as a whole, over-qualification has increased slightly over the last 10 years. It is a particular problem for women, as well as for a number of vulnerable groups in the labour market: young workers, migrants from third countries, and intra-EU migrants from eastern Member States living and working in western Member States. They tend to be very well qualified but fail to achieve an adequate return on their qualifications in EU host countries.

→ In addition to these vertical mismatches, the OECD reckons that around one-third of workers in the EU face the problem that the field of study (of their highest education obtained) is not appropriate for their occupation.⁷ This seems to be a particular problem especially for tertiary education. There is evidence that vocational elements as part of the study reduces that risk substantially. **There is a substantial skill shortage – going well beyond formal education levels.** Firms struggle to find workers with the right competencies. Almost all EU Member States face serious shortages in basic skills such as reading and writing, elementary maths, sciences and cognitive skills (Figure 4). By the same token, more than one in five young Europeans are underachievers, according to the 2018 PISA assessments, and evidence strongly suggests that low-performing students often

become low-performing adults. Inadequate skills performance, in turn, has a strong negative impact on the labour market. There is a dynamic employability threshold that many Europeans do not manage to pass. The dynamics of the threshold stem from the expected rapid changes and fast evolving skill needs of increasingly digitalised economies.

→ **Social disadvantage is a major reason for skill shortages.** The impact of parental background on education and skills outcomes is a major concern from the perspective of equal opportunities. A large proportion of potential skills and talent in the workforce is de facto excluded as a consequence of disadvantaged socio-economic background. If a person's father or mother is tertiary-educated, this more than doubles her chance to attain tertiary education levels herself. This finding holds under “all other things being equal” conditions (Figure 5). This takes into account the role of all other factors that may influence a person's educational success, including migration status. But social exclusion in the education system is by no means only a problem of migrants. The social disadvantage tends to persist in the labour market even if, against all odds, disadvantaged people manage to succeed in the education system in the first place.⁸

→ **While CET helps to mitigate these challenges, governments can do more to support training opportunities for workers.** The effectiveness of CET is well documented (Figure 1 above). However, only half of the EU's participants in training courses seem to receive financial support for that purpose. These

5. <https://ec.europa.eu/eurostat/web/experimental-statistics/skills>

6. Employment and Social Developments in Europe 2015, p. 75.

7. OECD Skills for Jobs: OECD Skills for Jobs database.

8. Employment and Social Developments in Europe 2018, p. 99.

Figure 4

OECD Skill Needs indicator (x 10), 2015, index points

positive values (yellow colour) indicate a shortage

| | Basic Content Skills | | | | | | Other Skills | |
|-----------------|----------------------|-----------|---------|----------|-------|---------|---------------|-------------------------|
| | Reading | Listening | Writing | Speaking | Maths | Science | Social Skills | Complex Problem Solving |
| Finland | 6.96 | 5.06 | 6.00 | 5.20 | 4.90 | 4.29 | 3.19 | 4.98 |
| Italy | 4.87 | 3.77 | 4.52 | 3.70 | 2.90 | 2.74 | 1.90 | 3.41 |
| Netherlands | 4.30 | 3.63 | 4.39 | 3.75 | 1.50 | 3.38 | 2.87 | 3.60 |
| Spain | 4.75 | 3.35 | 4.33 | 3.64 | 2.69 | 1.75 | 1.87 | 2.56 |
| Bulgaria | 4.38 | 3.25 | 3.83 | 3.37 | 2.07 | 3.06 | 2.17 | 3.23 |
| Ireland | 3.67 | 4.13 | 3.98 | 4.44 | 1.76 | 1.88 | 3.72 | 4.14 |
| Greece | 3.84 | 3.87 | 3.73 | 3.75 | 1.04 | 2.64 | 1.91 | 2.41 |
| Portugal | 3.70 | 2.39 | 3.87 | 2.92 | 1.23 | 2.50 | 1.75 | 2.83 |
| Denmark | 3.44 | 2.33 | 3.09 | 2.60 | 2.43 | 2.34 | 1.46 | 2.74 |
| Luxembourg | 3.59 | 3.02 | 3.19 | 2.84 | 1.58 | 1.53 | 1.35 | 2.03 |
| Germany | 3.20 | 2.79 | 3.00 | 2.63 | 2.35 | 1.56 | 2.28 | 2.44 |
| Austria | 3.52 | 2.42 | 3.21 | 2.55 | 1.83 | 1.59 | 1.08 | 1.87 |
| Sweden | 3.21 | 2.66 | 2.98 | 3.09 | 0.89 | 0.83 | 2.27 | 1.74 |
| Romania | 3.06 | 1.62 | 2.60 | 1.97 | 2.88 | 1.14 | 1.58 | 1.78 |
| Belgium | 2.51 | 2.23 | 2.48 | 2.37 | 0.75 | 2.05 | 1.51 | 1.47 |
| Slovak Republic | 2.54 | 2.06 | 2.07 | 2.11 | 1.60 | 1.26 | 1.56 | 1.86 |
| Czech Republic | 2.39 | 1.90 | 2.05 | 1.97 | 1.70 | 1.37 | 1.07 | 2.18 |
| Latvia | 1.98 | 1.67 | 1.88 | 1.83 | 1.41 | 1.37 | 1.20 | 1.53 |
| France | 1.73 | 1.67 | 1.82 | 2.20 | 1.09 | 1.53 | 1.58 | 0.94 |
| Cyprus | 2.32 | 1.96 | 2.36 | 2.14 | -0.28 | 1.32 | 1.05 | 0.90 |
| Lithuania | 2.00 | 1.54 | 1.89 | 1.57 | 1.55 | 0.59 | 1.01 | 1.79 |
| Slovenia | 1.52 | 1.33 | 0.96 | 1.14 | 0.69 | 1.19 | 0.81 | 0.21 |
| Estonia | 1.71 | 1.39 | 1.96 | 1.73 | -0.30 | 0.00 | 1.05 | 0.97 |
| Hungary | 0.70 | 1.28 | 0.97 | 1.36 | -0.44 | -0.59 | 1.28 | 0.28 |
| Poland | 0.09 | 0.04 | 0.42 | 0.04 | -0.07 | 0.73 | -0.35 | 0.74 |

Note: Positive values indicate a shortage, negative values a surplus. The index is composed of five sub-indices that take into account how the long-term trend in wages, employment, hours worked, (the reverse of) unemployment and under-qualification deviate from economy-wide averages for each occupation. In a second step it looks at what skills are needed in the same occupation in order to derive the shortage index for these skills. Source: OECD.

contributions come from firms themselves rather than governments. In many Member States, financial support from the state is relatively low.

→ **Future wage premiums for higher skills may be at risk.** Increasing job polarisation has been observed in all Member States since the start of the decade (Figure 7). The number of jobs in low and highly paid occupations have increased steadily, while mid-paid jobs are on a declining path. This finding is compatible with “routine-biased technological change”. Mid-paid workers include office clerks, trade workers or machine

operators – activities where routine tasks often predominate and where fast technological progress can therefore accelerate displacement of workers by machines.

However, despite higher demand for highly skilled workers, the significant wage premium for skills and qualifications reported above (Figure 2) may decrease in the future, both nominally and relative to other skill groups. Demand for highly well-trained, well educated workers has increased even for tasks that do not necessarily require high skills or qualifications.

Outlook

When it comes to the development of skills and the acquisition of relevant qualifications, both national and EU-level action should concentrate on ensuring opportunities for everyone. The positive impact of CET on both workers and the economy is well documented. It is thus in the interest of everyone that all people, independently of their current work status, occupation or social status have access to continuous education and training.

The social disadvantage tends to persist in the labour market even if, against all odds, disadvantaged people manage to succeed in the education system in the first place.

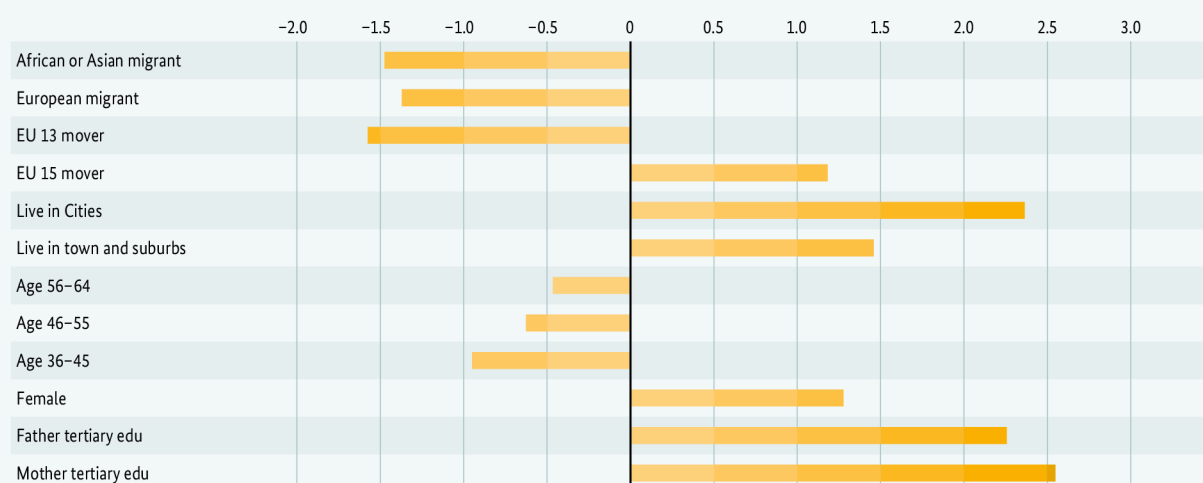
Even in terms of basic skills, many young people face difficulties in reaching the employability threshold. If they do not succeed, they stand a high risk of underperforming as adults in the labour market, not least because the employability threshold is by no means static. It is increasing fast as digitalisation is favouring increasingly higher-skilled jobs. The skills profile needed today may have to be adjusted tomorrow. It is therefore of utmost importance that workers have the chance to adapt to change and transitions through CET. No one must be left behind, and in particular inherited social disadvantages need to be overcome.

The need for an increased focus on continuing education and training and for strengthening digital literacy and skills has become even more prominent in light of the coronavirus pandemic. Skills are key to reintegrate people who have lost their jobs during the crisis into the labour market

Figure 5

Success in education depends a lot on one's parental background

The odds of having attained tertiary education (age 25–64) in the EU, 2017

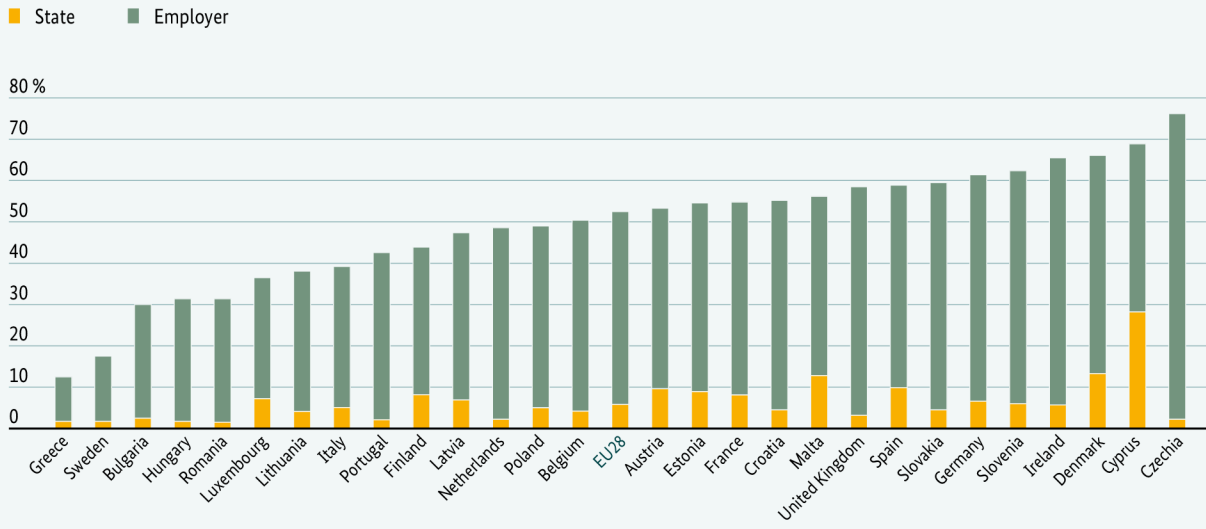


Source: European Commission, (2019), Employment and Social Developments in Europe 2019, p. 149 (based on Eurostat LFS microdata)

Figure 6

Financial support to CET from governments could be more significant.

Share of participants in CET receiving financial support for it, by provider 2016

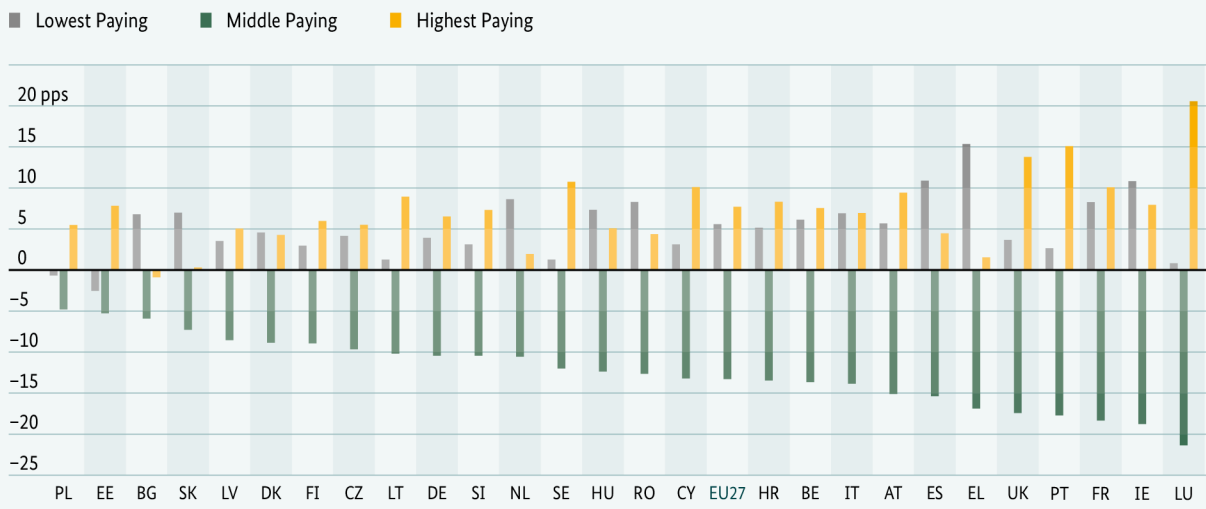


Source: Adult Education Survey 2016, Eurostat.

Figure 7

The proportion of middle-wage workers is shrinking everywhere.

High, middle, and low-paying jobs in the EU, change from 2002 to 2016.



Source: Employment and Social Developments in Europe 2018, p. 60.

and to prepare the workforce in view of the ongoing transformations. Skill shortages need urgent addressing to enable companies to participate in full in the recovery and the parallel transition towards a greener and more digital economy. Fast policy action is warranted to enhance the digitalisation of education and training systems and ensure access to online education and training facilities for all. Moreover, proactive provision of digital training and reskilling opportunities by companies is necessary to prepare the labour force to remain competitive and resilient also in future labour market situations.

The skills profile needed today may have to be adjusted tomorrow. It is therefore of utmost importance that workers have the chance to adapt to change and transitions through CET.

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Ensuring Good Training, Bolstering Continuing Education and Training, Shaping the Future: For a Right to Continuing Vocational Training!

TEXT: REGINE GERAEDTS, BREMEN CHAMBER OF EMPLOYEES, ROMAN LUTZ, SAARLAND CHAMBER OF LABOUR

The Saarland Chamber of Labour, the Bremen Chamber of Employees, the Luxembourg Chambre des salariés and the Austrian Chambers of Labour have drafted a joint, transnational position paper calling for a European continuing education and training strategy. Alongside stepped-up continuing education and training efforts, they expect reliable and robust framework conditions and legal regulations.

The proportion of the population aged 25 to 64 participating in initial and continuing education and training currently averages 11.1 per cent in the EU, clearly falling short of the EU's target of 15 per cent.

This means that we need a European continuing education and training strategy that responds to the challenges of the structural changes the European Union is currently undergoing as a result of the digital transformation. A forward-looking

culture of continuing education and training (CET) needs to be established in Europe. For employees, initial and continuing vocational education and training is an important key to being able to cope with and shape changes in the world of work.

This is what a joint position paper entitled “Gut ausbilden, Weiterbildung stärken, die Zukunft gestalten: Für ein Recht auf berufliche Weiterbildung!”¹ [Ensuring good training, bolstering continuing education and training, shaping the future: For a right to continuing vocational training!] drafted by the Saarland Chamber of Labour, the Bremen Chamber of Employees, the Luxembourg Chambre des salariés and the Austrian Chambers of Labour calls for. These employee advocacy organisations represent and promote the social, economic, professional and cultural interests of workers and employees in their respective countries and federal states.

1. Saarland Chamber of Labour; Austrian Chambers of Workers and Employees; Bremen Chamber of Employees; Luxembourg Chambre des salariés (2020). Gut ausbilden, Weiterbildung stärken, die Zukunft gestalten: Für ein Recht auf berufliche Weiterbildung. Viewed on February 2, 2020, on <https://www.csl.lu/bibliotheque/publications/8fba842d85.pdf>



Good continuing education and training takes time and money

In spite of the importance of continuing vocational training to society as a whole, employees currently foot a large share of the costs themselves. The time and money individual employees have to invest is often a challenge and discourages many from participating at all. This is why policies are needed to ensure that the costs of continuing education and training are shared. Funding for individual continuing education and training for employees needs to factor in both the loss of earnings incurred and the costs of the training measure itself. Groups that are currently less involved in continuing vocational training need to be particularly supported. These include low-paid, low-skilled and part-time or precarious workers. These are also the groups that can benefit the most from participation. This is why they need privileged access so that continuing education and training can make its contribution to reducing social inequality. A wage replacement benefit for the period of continuing education and training to compensate for loss of earnings makes sense. The wage replacement benefit should be based on previous income and be proportionally higher for low earners. But continuing education and training also takes time, so a right to continuing education and training must guarantee statutory provisions to exempt employees from work. Only then can workers find the time they need to engage in continuing vocational training if they cannot secure the support of their employer or if this does not align with the employer's interests. Here, either a temporary exemption from work or a reduction in contractual working hours should be enshrined in law. A right for employees to return to their previous job or working hours is also key.

1. REGINE GERAEDTS is Labour Market and Employment Policy Officer at the Bremen Chamber of Employees.
Photo: Stefan Schmidbauer

2. ROMAN LUTZ is Head of the Education and Science Policy Department at the Saarland Chamber of Labour in Saarbrücken.
Photo: Peter Jacob

Austria, Germany and Luxembourg all have interesting approaches that should be further developed in this vein. In Austria, there is educational leave, part-time educational leave and the scholarship for skilled workers, which need to be further developed into a standardised instrument to ensure people a living during continuing education and training phases and which also supports multi-year education and training courses.

In addition to financial support to compensate for loss of earnings, the Upgrading Training Assistance Act (Aufstiegsfortbildungsförderungsgesetz) in Germany also provides grants to cover continuing education and training costs. This needs to be further developed into a general continuing education and training assistance act which not only promotes career advancement but also switching to a different occupation, and finally enables unskilled workers to obtain their first professional qualification. The option of going on temporary part-time work is an important step towards a right to an exemption from work.

In Luxembourg, the law on individual educational leave guarantees a wage replacement payment and exemption from work for one-third of the duration of training. To provide better access to expensive education and training courses spanning multiple years, the amount of leave should be increased, and financial support possibilities should be created.

Proactive CET for employees

Changing professional demands and requirements are nothing new. In the past occupations have disappeared and completely new ones have emerged elsewhere, whilst others have been adapted to align with these changes. Many experts assume that this process will accelerate as a result of digitalisation and the structural transformation.

This means that a growing number of employees will be confronted more frequently with situations where they have to change careers. To ensure that switching careers and sectors does not cause major disruption to people's professional lives and phases of unemployment for the individual in question, there needs to be a greater focus on a preventive CET policy with the aim of preparing employees to switch lanes in a forward-looking and targeted way. Sector or occupation-specific models such as Austria's labour foundations, which combine elements of collective labour law with public employment promotion schemes and focus on counselling and continuing education and training, provide interesting input for meeting this challenge.

Future-oriented, company-based CET

The continuing education and training activities of companies are often designed to realign employees' skills with technical or organisational changes. From the point of view of the companies, they are a means of meeting specific in-house skills needs, increasing productivity and employee retention. But if the predictions that job profiles and requirements are set to change more quickly in the future prove true and in turn that the half-life of acquired knowledge and skills will be considerably shortened, preventive CET will also play an important role at companies as part of forward-looking HR policy. This will require the business community to step up and invest more in company-based CET in the future. But even now, there are already major disparities in company-based CET. For example, smaller businesses offer their employees continuing education and training less frequently than larger ones; and which employees they offer it to depends on their professional status at the company. This makes it all the more important to ensure that works and staff councils are involved. They play an important role when it comes to early

warning, support, negotiations and mediation. Collective and company agreements are important instruments in ensuring that company-based CET is decided and designed democratically in tandem with the workforce in a way that reflects the interests of employees. The extent to which inter-company fund models can ensure more equal participation of employees in continuing education and training should also be examined.

Employment promotion

The objective of employment promotion is to organise a balance between labour supply and demand in the market, to reduce imbalances in regional, sectoral and skills-specific sub-markets, to improve the skills match and finally, to increase workers' chances of permanently re-entering the labour market and improve their position in the labour market. This makes it predestined for shoring up phases of structural change with targeted skills development.

But for this to happen, continuing vocational training needs to be reinstated at the heart of funding policy. Employment promotion focuses its funding mainly on workers who have already lost their jobs. In the future, the aim is for job seekers to not only have the costs of continuing education and training measures refinanced, but also for them to be paid a continuing education and training allowance to compensate for loss of earnings which is higher than the unemployment benefit during the training measure. Here too, social disadvantages must be compensated for by providing specific support to groups facing special difficulties on the labour market.

The Saarland Chamber of Labour and the Bremen Chamber of Employees believe that the continuing education and training approaches cited in the position paper of the European Chambers of

Employees provide a foundation for further developing continuing education and training at European level and in turn, learning from each other.

The Saarland Chamber of Labour and the Bremen Chamber of Employees welcome the National Skills Strategy (Nationale Weiterbildungsstrategie) adopted last year in the Federal Republic of Germany, as it incorporates demands formulated by the European Chambers of Employees in their position paper. For example, the Skills Strategy sets forth improvements in employment promotion – as called for by the Chambers. These improvements include official reviews that explore options such as giving workers the right to catch up on professional qualifications or state-subsidised (part-time) training and education periods, but also the improvement of continuing education and training promotion for job seekers and the further development of short-time work in conjunction with skills development. The Work of Tomorrow Act (*Arbeit-von-morgen-Gesetz*) prepared by the Federal Ministry of Labour and Social Affairs builds on the Skills Development Opportunities Act (*Qualifizierungschancengesetz*). This makes it possible to combine short-time work to a greater extent with skills development. In addition there is a second funding line to the Skills Development Opportunity Act, thus enabling higher grants for skills development and wages from the Federal Employment Agency.

The Saarland Chamber of Labour and the Bremen Chamber of Employees continue to see a need to further develop the support and promotion of employees' own personal continuing education and training ambitions independently from those of their company, as well as instruments for employee transfers with a right to continuing education and training in order to be able to shape the transformation of sectors and professions strategically and preventively.

Analysis

Participation in Continuing Education and Training in Germany: An Analysis

Labour market researcher Dr Thomas Kruppe's current study¹ examines the relationships between qualifications, skills and personality traits. In this interview, he emphasizes that continuing education and training activities, in particular those leading to recognized qualifications, can improve a person's chance of employment and higher incomes in the long term.

Mr Kruppe, you are an expert in the field of employment and its promotion. What role does the topic of continuing education and training (CET) play in this context and what does it mean to you?

KRUPPE: In my research I am mainly concerned with the effects of active labour market policies on employment and unemployment. The focus is on those persons receiving support from unemployment insurance. For example, I am looking at whether it is worthwhile for unemployed people to participate in measures funded by the employ-

ment agency. This can be in the form of a placement voucher, but also continuing education and training. Education and training play a central role in the German labour market. Vocational qualifications were an important element for successful integration into the labour market. And since some of what people learn loses relevance over time and people want to develop professionally, continuing education and training – especially continuing vocational training – plays an important role. An example would be short computer courses to refresh office skills, language courses or a complete training course to become a specialist in care for the elderly.

One of your latest publications deals with participation in continuing education and training in Germany. What was the occasion for this study?

KRUPPE: People's biographies are shaped by a large number of decisions. Individual educational and CET decisions play a particularly important role in the world of work today. Educational decisions

1. The interview is based on the following publication and other sources: Kruppe, Thomas; Baumann, Martina. (2019). Weiterbildungsbeteiligung, formale Qualifikation, Kompetenzausstattung und Persönlichkeitsmerkmale. IAB Forschungsbericht, 01/2019, Nürnberg. URL: <http://www.iab.de/897/section.aspx/Publikation/k190107301> (English)

lay the foundation at an early age and strongly influence the future course of people's lives. In Germany, school children (or their parents, teachers etc. for or with them) have to decide on a type of secondary school at the end of primary school. A few years later, they decide either to go into training, higher education or directly into the labour market. After initial education and training comes continuing education and training. This is because investment and decisions on education and training are also made in middle age and old age. Part of this is supported by active labour market policies, especially in the case of unemployment. But that is only part of the story. And in order to understand this part better, we have mapped an overview of CET-participation in Germany. We were also able to analyse correlations between qualifications, competencies and personality traits. This was possible because the data source – the starting cohort six of the National Education Panel Study (NEPS) – also contains information on these aspects.

In your study you distinguish between formal, non-formal and informal CET. Is there a clear trend with these forms regarding the number of participants or in terms of personal characteristics?

KRUPPE: Formal CET includes all investment in education and training after the end of initial training with the aim of obtaining formal qualifications or certified, generally recognised qualifications. This includes vocational training, courses of study leading to vocational qualifications and the subsequent acquisition of school leaving certificates. Since such continuing education and training courses take a correspondingly long period of time to complete, participation rates are relatively low and decrease with age. While eight per cent of the group of people up to 34 years of age stated that they received formal CET last year, for people over 55 years of age this form is no longer that relevant, with only two per cent having done so. Overall, women participate slightly more often than men.

Non-formal CET takes place in courses or training courses: there is a certain degree of organisation. However, unlike formal CET, they do not lead to generally recognised degrees or qualifications. On average, 40 per cent per year participate in at least one such continuing education and training course. Again, the participation of women is slightly higher than that



DR THOMAS KRUPPE is a Research Associate at the Institute for Employment Research (IAB) and private lecturer at the Institute for Sociology of Friedrich-Alexander University Erlangen-Nuremberg. Photo: Photo-fabrik/Wolfram Murr

of men, but age hardly has an effect here. And if you look at a seven-year period, almost everyone (97 per cent) has actually had at least one non-formal training course.

Informal CET includes all further education activities that do not take place in organised courses and do not lead to a certificate, e.g. attending congresses and lectures or reading specialist literature. The proportion of those who use informal channels for continuing education and training is almost two-thirds per year. In contrast to formal and non-formal CET, more men than women make use of this form of continuing education and training. Here, too, participation decreases only slightly with increasing age.

Not every type of continuing education and training is equally relevant for every person or group of people. For example, formal CET is inappropriate for a person who wants to acquire new knowledge but not a completely new profession. Is there a form of continuing education and training which you think should receive particular support or which has a prominent role in promoting employment?

KRUPPE: Continuing education and training in and of itself is especially important in the labour market. The labour market is becoming more technology driven, for example through the use of digital technologies. Individual activities, but also entire job profiles are being transformed. Continuing education and training is indispensable. Especially unemployed people and those threatened by unemployment whose qualifications are no longer in demand on the labour market need support from labour market policy. However, what exactly this involves in each individual case can only be decided in each individual case. That is why providing advice plays an important role.

In your study, you pay particular attention to the low-skilled. Why does this group of people deserve special attention in the field of continuing education and training?

KRUPPE: Formal education and training, i.e. a vocational qualification or university degree, is very important in the German labour market. People without such qualifications, those with low formal qualifications, have a particularly difficult time in the labour market. This is where the subsequent acquisition of recognised vocational qualifications within the framework of continuing education and training can help. If you compare the subsequent employment history of unemployed people who have taken part in continuing education and training with that of other unemployed people who differ from the former only in that they have not taken part in continuing education and training, clear effects are apparent. In particular, continuing education and training leading to the acquisition of qualifications in an occupation requiring recognised training increases the chances of both employment and higher income in the long term. At the same time, however, it is also important that there is a good fit between the person and the continuing education and training; in this case the desired occupation. That is why continuing education and training advice also plays an important role.

“Especially unemployed people and those threatened by unemployment whose qualifications are no longer in demand on the labour market need support from labour market policy.”

Is there another group of people who should be the particular focus of continuing education and training measures?

KRUPPE: There is a clear difference between the employed and the non-employed in participation in continuing education and training. The reasons for this include the fact that doing courses, training courses and informal CET is often linked to a person's actual job. For this reason, continuing education and training is often also financed by employers. However, we also know that part-time employees participate in continuing education and training much less frequently. There are several reasons for this. Among other things, it is less profitable for a company to invest in the continuing education and training of employees whose increased productivity is only used a few hours a day. Care responsibilities, as in the case of school-age children or people in need of care in the household, can also make it difficult to participate in continuing education and training. Support should therefore focus in particular on those groups with below-average participation in continuing education and training. The support should also cover expenses such as childcare.

In the above-mentioned publication, you not only look at participation in continuing education and training in general, in this context you deal in particular with the question of how this is related to competencies, formal qualifications and personality traits. What is the difference between competencies and qualifications and why is this distinction important in the context of participation in continuing education and training?

KRUPPE: In the National Education Panel Study that we looked at, the competencies of respondents were recorded in the areas of reading, mathematics, science, information technology and communication technology. We analysed how

these are distributed among different groups of people, taking into account, among other things, whether or not they had vocational qualifications. Simply put, one might assume that a lack of competencies is the reason why people do not have qualifications. It has been shown that those with low formal qualifications differ significantly from those with formal qualifications in terms

“In particular, continuing education and training leading to the acquisition of qualifications in an occupation requiring recognised training increases the chances of both employment and higher income in the long term.”

of their competencies. Interestingly, however, it also shows that a rather significant proportion of people who do not have vocational qualifications have average, high or even the highest levels of basic competencies. At the same time, about one-third of those with formal qualifications have low or even the lowest levels in basic competencies. This is important for participation in continuing education and training in two ways. On the one hand, there is a significant proportion of people who have sufficient competencies to successfully complete continuing education and training. On the other hand, we have to recognise that a lack of competencies may be a barrier to participation in continuing education and training. Increased support to acquire basic competencies could lower this hurdle.

Perspectives

Educational Leave and Part-Time Educational Leave in Austria

TEXT: JULIA BOCK SCHAPPELWEIN, ULRIKE FAMIRA MÜHLBERGER AND ULRIKE HUEMER

Initial and continuing education and training cost time and money. Educational leave (training allowance) and part-time educational leave (part-time training allowance) are two schemes available to employees in Austria. They combine a training-related leave of absence from work or a training-related reduction in working hours with partial compensation for loss of earnings.

The educational leave scheme¹ was introduced in Austria in 1998. Employees can be released from work for continuing education and training purposes in exchange for relinquishing their pay and receive financial support during this time in the form of the training allowance. Since then, the educational leave has been modified in several steps (see for example Lassnigg, Unger, 2014).² The scheme underwent a major realignment just before the outbreak of the international financial and economic crisis in early 2008, when the benefit was increased significantly from a fixed amount of €14.53 per day to the level of notional unemployment benefit³ and the required periods of pre-employment were reduced from the original three years (Bock-Schappelwein, Huemer, Pöschl, 2006)⁴ to one year, or since the 2013 reform, to currently half a year.

In the middle of 2013, educational leave was extended to include the part-time educational leave, so that employees no longer have to be fully released from work during continuing education and training. The reduction in working hours during part-time training must be between 25 per cent and 50 per cent of the previous normal working hours, but employees must continue to engage in at least 10 hours of gainful employment per week. The wage replacement benefit paid (part-time training allowance) depends on the extent to which working hours are reduced; the daily rate is €0.83 for each full working hour by which the normal weekly working hours are reduced or a maximum of €498 per month.

What kind of courses are eligible? What evidence has to be provided?

The aim of both schemes is to provide financial support during continuing vocational education and training, such as catching up on school or university qualifications or foreign language courses, so that workers can preserve or improve their employability in a changing economic and structural environment.

During educational leave, evidence of at least 20 hours of training per week has to be provided (16 hours for employees with children under the age of 7 years requiring care), and 10 hours in the case of part-time training. In the case of a higher-education degree, after one semester (6 months) educational leave requires the presentation of proof of 4 hours of courses per week per semester or proof of 8 ECTS points per semester or confirmation of progress on the final thesis (e.g. diploma thesis) or confirmation of preparation for a final examination. In the case of part-time educational leave, proof of 2 hours of courses per week per semester or 4 ECTS per semester or confirmation of progress on the final thesis have to be presented. The Employment Service (Arbeitsmarktservice – AMS) is in charge of the recognition of these requirements and award of the benefit.

Who is eligible?

In addition to the employer's consent, the eligibility requirements⁵ include satisfying the qualifying period under unemployment insurance law and an uninterrupted minimum period of employment above the marginal earnings threshold (2020: 460.66/month) of six months in the current employment relationship (special provisions apply to seasonal workers). In addition to this, the Employment Service must be notified of the details of the continuing education and training project and evidence has to be provided of the required weekly continuing education and training hours.

How long is financial support provided for? How often can it be requested?

Educational leave has to last at least two months and can last a maximum of one year and part-time training between four months and a maximum of two years. Educational leave can also be taken in separate blocks, with one block lasting at least two months. Part-time educational leave can also be split up, with a minimum duration of 4 months. All the training must be taken within four years from the start of the first training phase.

It is also possible to combine educational leave and part-time educational leave (one day's training allowance equals two days' part-time training allowance). Educational leave and part-time educational leave can be applied for again four years after the start of the first training phase.

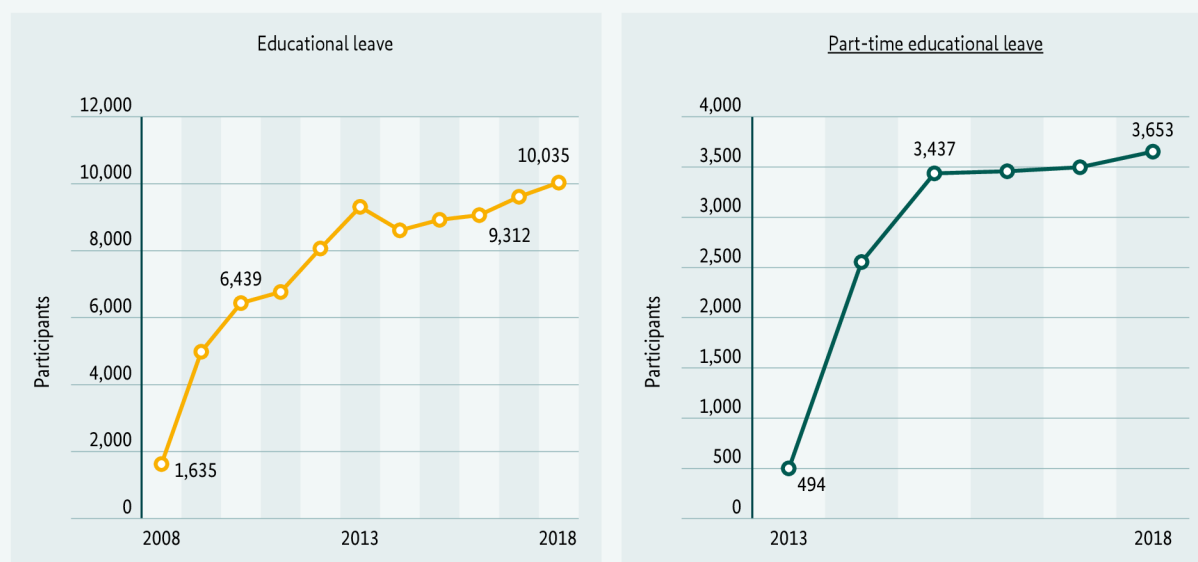
Who makes use of the schemes?

In 2018, a total of 10,035 people received training allowances under the educational leave scheme and 3,653 received part-time training allowances under the part-time educational scheme (Figure 1). These are financed from unemployment insurance; the total annual expenditure including social security for educational leave amounted to € 190.5 million in 2018 and € 21.6 million for part-time training (Federal Ministry of Labour, Social Affairs, Health and Consumer Protection – BMASGK, 2019)⁶.

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1. This paper is an updated version of excerpts from WIFO Monthly Report 90(5) (Bock-Schappelwein, J., Famira-Mühlberger, U., Huemer, U. (2017). Instrumente der Existenzsicherung in Weiterbildungsphasen in Österreich, WIFO-Monatsberichte 90(5), pp. 393–402).
 2. Lassnigg, L., Unger, M. (2014). Die Bildungskarenz als Lückenbüßer der sozialen Absicherung von Studierenden? Ein ambitioniertes Programm findet seine Ziele, WISO-Sonderheft. 37, pp. 15–45.
 3. 55 per cent of the calculated net amount as a general principle. Employees on educational leave are covered by health, pension and accident insurance (Vienna Chamber of Labour, 2017).
 4. Bock-Schappelwein, J., Huemer, U., Pöschl, A. (2006). Teilstudie 9: Aus- und Weiterbildung als Voraussetzung für Innovation, in: Karl Aiginger, Gunther Tichy, Ewald Walterskirchen (Projektleitung und Koordination), WIFO-Weißbuch: Mehr Beschäftigung durch Wachstum auf Basis von Innovation und Qualifikation, WIFO-Monographien, Vienna.
 5. Sections 11 and 11a AVRAG (Act amending employment contract law), Section 26(1)(1) ALVG (Unemployment Insurance Act), Section 26a ALVG, SRÄG (Social Law Amendment Act) 2013, Landarbeitsgesetz (Agricultural Labour Act) Section 39e (Vienna Chamber of Labour, 2017).
 6. BMASGK. (2019). Aktive Arbeitsmarktpolitik in Österreich 2014–2019, Vienna. <https://broschuerenservice.sozialministerium.at/Home/Download?publicationId=447>

Figure 1

Use of the schemes



Source: Employment Service.

Women and people of prime working age make use of educational leave and part-time educational leave disproportionately often;⁷ people without Austrian citizenship or with a migration background (first generation) and people aged 50 and over less frequently. Almost half of all those participating in the scheme have passed at least the Matura (higher education entrance qualification) (BMASGK, 2019).

This means that the schemes are used disproportionately often by people with higher qualifications or those with a high propensity for (continuing) education and training, whilst both educational leave and part-time educational leave are hardly ever used to obtain basic qualifications (compulsory school-

leaving qualifications, apprenticeship and finishing vocational secondary school). The reasons for this are likely to be the fact that the funding period is restricted to one or two years and the disparately poorer level of financial security the scheme offers the low-skilled. Not only is their income often markedly lower than that of the higher-skilled prior to using the scheme, the wage replacement payment during the training phase is as well.

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7. It was only in the crisis year of 2009 that the proportion of women dropped to below 50 per cent, when many businesses introduced educational leave as an alternative to short-time work.

8. Ministry of Social Affairs. (2017). *Bildungskarenz und Bildungsteilzeit. Ein Leitfaden für die Ausübung der Bildungskarenz und Bildungsteilzeit*, Vienna.

Figure 2

The schemes compared

| | <u>Educational leave</u> | <u>Part-time educational leave</u> |
|-----------------------------|--|---|
| Since when? | 1998; realigned in 2008, reformed in 2013 | 2013 |
| Aim | Improving the skills and qualifications of the labour force | |
| Target groups | Employees | |
| Awarded by | Employment Service | |
| Employer consent | Agreement with the employer required | |
| Eligibility requirements | Six months of employment subject to unemployment insurance contributions with the same employer (special provision applies to seasonal workers); entitlement to unemployment benefit | |
| Age limit | None | |
| Maximum additional earnings | Marginal earnings threshold (2020: €460.66) | --- |
| Reduction in working hours | 100% | At least 25% or maximum of 50% of the previous normal working hours; at least 10 remaining working hours and income above the marginal earnings threshold |
| Training measure | No definition of the content of eligible training measures (hobby or leisure courses are not eligible) | |
| Duration | At least two months, maximum of one year; if split up: each block at least two months | At least four months, maximum of two years; If split up: each block at least four months |
| Framework period | Four years from the start of the first phase of training; new application after expiration of the framework period | |
| Financial benefits | Notional unemployment benefit (at least €14.53 per day); health, pension and accident insurance | €0.83 (2020) per day for each hour of work the normal working hours per week are reduced by; maximum of €498 for a 50% reduction (from 40 to 20 hours) or maximum of €249 for a 25% reduction |
| Evidence to be provided | Higher education: 8 ECTS points, 4 course hours per week, confirmation of progress on the final thesis / preparation for final examination Other training: 20 hours per week, employees with children under seven years of age requiring care 16 hours per week | Higher education: Diploma thesis, 4 ECTS credits, 2 course hours per week, confirmation of progress Other training courses: 10 hours per week |

Source: Employment Service, Ministry of Social Affairs (2017)⁹. <https://www.ams.at/arbeitsuchende/aus-und-weiterbildung/so-foerdern-wir-ihre-aus-und-weiterbildung-/weiterbildungsgeld>. <https://www.ams.at/arbeitsuchende/aus-und-weiterbildung/so-foerdern-wir-ihre-aus-und-weiterbildung-/bildungsteilzeitgeld> (downloaded on 2.1.2020)

Continuing Education and Training and the Digital Gender Divide

The economist Mariagrazia Squicciarini (OECD) presents the results of current studies on the digital gender divide¹. She describes the key role of continuing education and training, gender-specific differences with reference to IT skills and provides her take on the “gender skills gap”.

What role do continuing education and training play from your point of view in the ongoing digital transformation in the world of work?

SQUICCIARINI: We already see and will continue to see a lot of change in the world of work. Digitalisation is changing jobs the way we know them – their nature and tasks. Some jobs may disappear entirely due to automation. More importantly, however, most workers will see changes in the tasks they are required to perform on the job. As the content and nature of jobs change, so will the skills that workers need to possess to perform them. It thus becomes important to understand what types of skills are needed and how workers can acquire them. Continuing education and training therefore play a crucial

role. The important question is no longer whether training is important or not. Instead, we need to ask which types of training are needed for whom and at what point in time.

You were one of the authors of several OECD reports about the so-called “digital gender divide” in which you take a closer look at gender differences in access to and the use of digital technology...

SQUICCIARINI: ... Yes exactly. In the reports, we show that women are not benefitting from the digital transformation as much as they could be. We can see that the digital gender divide affects women of all ages and across different countries. Based on analyses of a variety of data sources, we show that there are a range of gender differences for example in access to digital technologies and services, digital literacy as well as in the confidence to use digital technologies, but also in access to educational opportunities, including those related to information technology.

1. OECD Bridging the Digital Gender Divide: include, upskill, innovate (2019). URL: <http://www.oecd.org/internet/bridging-the-digital-gender-divide.pdf> as well as OECD The Role of Education and Skills in Bridging the Digital Gender Divide – Evidence from APEC economies (2019). URL: <http://www.oecd.org/sti/education-and-skills-in-bridging-the-digital-gender-divide-evidence-from-apec.pdf>

Is there such a thing as a gender skills gap?

SQUICCIARINI: Men and women differ, on average, in the level of the skills they possess. This is due to different educational and occupational choices and opportunities and may be further reinforced during working life. Also, different types of skills appear to matter to different extents in different occupations. In general, with regard to the labour market, men tend to display relatively better numeracy as well as advanced numeracy skills, but also management and communication skills and problem solving skills in technology-rich environments. Concerning management and communication skills, these differences arise mostly because men have management roles more often than women and thus, in the long run, also more opportunities to further develop these skills as they are usually acquired through on-the-job training. But some of these differences have more deeply rooted causes. In fact, especially with regards to STEM²- and ICT³-related fields, to a large degree the gender gap in skills is a confidence gap before it becomes an actual skills gap.

What do you mean by confidence gap?

SQUICCIARINI: There is evidence showing that gender differences in self-confidence emerge as early as childhood and they persist at later stages. Stereotypes and role models contribute significantly to gender segregation in different fields of study and work and to undermining the self-confidence of girls in general, and in particular in mathematics. This is one of the main reasons for the lack of women in STEM-related fields, including in information and communication technologies (ICT).

What role can continuing education and training play in addressing these gender differences?

SQUICCIARINI: First, let me stress again that continuing education and training throughout one's working life is beneficial for all workers – that is, men and women alike – in order to acquire the types of skills that they need to continuously participate in the digital transformation of the world of work. However, there



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at the Organisation for Economic
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Her work encompasses the dynamics
of innovation, economic performance,
jobs and skills, the digital transformation
and the gender gap. Photo: OECD/
Michael Dean

2. STEM = Science, technology, engineering, and mathematics

3. ICT = Information and communication technology

are several reasons why opportunities for continuing education and training are especially important for women. One of them concerns the confidence gap I just described and the resulting lack of women in STEM- and ICT-related fields. While the issue of confidence needs to be addressed at a very early stage – especially within the educational system – continuing education and training opportunities can offer an important additional tool to do so for women who are already in the workforce. This is particularly important, as even in non-ICT occupations workers are increasingly required to be endowed with ICT-related skills. Another reason why continuing education and training opportunities are particularly important for women is that women are usually the ones taking family-related breaks from work in order

to take care of children or elderly relatives, for example. Given the level and the speed of changes we see in the labour market due to digitalisation, training and upskilling opportunities become extremely important for women – or men for that matter – returning to their job from such breaks in order not to lose touch with the latest changes and developments in the workplace.

What about bigger changes, such as having to move to a new occupation because of automation?

SQUICCIARINI: This is a very important question, as we will definitely see some jobs disappear due to automation and thus some workers will have to change occupations. In some recent studies on job mobility, we have taken a closer look at the

Women are not benefitting from the digital transformation as much as they could. The digital gender divide affects women of all ages and across countries. Photo: Mangostar/Shutterstock.com



question of what kinds of skills workers need to acquire in order to move from an occupation with a high likelihood of automation to another occupation, which is comparable in important aspects such as income level, but which is less at risk of being automated. We find that such occupational transitions are generally possible given the right kind of training. We have subdivided training needs into three categories based on how big the differences are between occupations: small training needs of up to 6 months, moderate training needs lasting up to 1 year, and important (re)training spells, which can take up to 3 years. Our analyses also indicate that female workers would generally need to bridge greater skills gaps than men in order to move to different occupations and thus potentially require more training. There are many reasons for this difference, including the type of jobs that women have or their educational choices and skills endowment (especially in the case of relatively older women). This leads to women having to upskill more in order to move into a different occupation which is less at risk of automation.

How can we ensure that workers receive the necessary training and what do we need to take into consideration with regard to women in particular?

SQUICCIARINI: At the moment, and this is true across countries, companies often use training as a reward mechanism. This is problematic because workers with relatively low skills and thus with bigger training needs are often not considered for training opportunities by their employers. For women this can be problematic in two ways: first, many women and older workers are among those workers with relatively low skills. And second, reward mechanisms often work based on visibility and portrayed level of self-confidence of workers. We know from various studies that women on average appear less self-confident in

their workplace and are generally less demanding with regards to rewards such as salary increases, promotions and also training opportunities. One thing employers could do is to take a closer look at who receives training in their company and maybe proactively approach women and encourage them to participate in training opportunities. However, we also need to think about ways to make training opportunities more widely available and how

“At the moment, and this is true across countries, companies often use training as a reward mechanism.”

to move away from training being an exception towards it being more of a normality throughout one’s working life. Furthermore, we also need to think about how training opportunities should be designed so that workers as well as employers will benefit from them. In addition to questions of content and curriculum, this also includes organisational questions and the time needs of workers. Again, the aspect of time is particularly important for women. This is because women spend 2.6 times more time than men on unpaid care and domestic work, which restricts not only the time they can spend in paid work but also to participate in training. In general, there is a need for more flexible opportunities for adults to upgrade their skills and for co-ordination across institutions and actors, including education and training institutions, employers, but also social and labour market policy institutions.

 Examples from Practice

New Opportunities in Times of Digital Transformation for Future-Oriented Professions

TEXT: DIRECTORATE-GENERAL DIGITAL TRANSFORMATION OF THE WORLD OF WORK, FEDERAL MINISTRY OF LABOUR AND SOCIAL AFFAIRS

Digital transformation and rapid technological progress are changing the world of work in fundamental ways. But there are examples of how professional reorientation can be successful in times of digital transformation.

Simone Hinz, who is 56 years old, has experienced career changes and reorientation more than once in her professional life. She learned her first trade – exhibition designer – in a small retail business. After her training, she had to leave that business and worked in different printing houses. She also trained as a rotary printer while working. However, technological changes also affected the printing industry. The branch of the company where Ms Hinz worked was shut down. She and other employees became part of an outplacement service company and then she started looking for a job.

The printing industry has seen profound structural changes over the past 20 years, and the changes are still ongoing. A reduction in the number of newspapers, supplements and catalogues printed has led to the closure of many printing plants and to the loss of jobs. The profession of rotary printer no longer exists in its previous form. Its job description has adapted to the modern world of printing and is called “media technologist”.

Ms Hinz had to start over. She decided to learn a new profession. After 27 years in the printing industry, she wanted to stay in the technical field and has been training to become a professional technical product designer since 2018. Due to the difficult employment situation in the printing industry, her advisor at the Federal Employment Agency thought it made sense to provide support for a new

vocational training programme. It was important to him that Ms Hinz be able to build on her previous professional experience and her thorough understanding of technical processes. In addition, her high level of motivation also played an important role because in the case of retraining supported by the employment agency, the regular training period is reduced by one year and thus lasts two instead of three years. This places increased demands on the participants.

Ms Hinz is one of many examples that show how professional reorientation can succeed in an era of digital transformation.

Retraining to become a technical product designer begins with 15 months of schooling with an educational institution, followed by 10 months of practical training in a company. After working for so many years in her professional life, Ms Hinz finds it challenging to deal with the learning process again and it demands a great deal of stamina. She is completing the practical part of her training at a company: Jensen in Harsum. There, she creates technical drawings for laundry machines and custom-made products for industrial laundries. Simone Hinz likes her new job. If she successfully passes the final exams, she can receive a further training bonus of €1,500 from the Employment Agency as a reward. Ms Hinz is one of many examples that show how professional reorientation can succeed in an era of digital transformation. She is certainly also a role model for others.



*Enjoying to learn:
after 27 years in the printing
industry Simone Hinz enjoys
her new professional path as
technical product designer.
Photo: Stefan Othmer*

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