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Competitive, Green, Social: Can Europe Have All Three?

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The EU has placed competitiveness, industrial renewal, and strategic autonomy at the centre of its agenda. But will these ambitions support the green and social transition, or become a pretext for deregulation and a weakening of Social Europe? The General Director of the European Trade Union Institute (ETUI), Andrew Watt, explains what this changing political landscape could mean for workers and trade unions and social policy – and for the kind of economic model Europe is building.

Seden Anlar: Competitiveness, strategic autonomy, industrial policy and deregulation are rising up the EU's political agenda, while the bloc is also navigating war, energy shocks, trade tensions, competition with China, and growing uncertainty around the United States. Where do you see Europe within these overlapping pressures, and what kind of transformation are they driving within the EU?

Andrew Watt: Europe is changing because the world is changing. There are longer-term trends driving that change, like demography, decarbonisation, technology, and now AI. Then there are shorter-term developments: war, the dislocation of the global political system, the behaviour of powers like Russia, but also our erstwhile ally, the United States, and renewed inflationary shocks.

For populations, policymakers and trade unions, most of these changes are initially perceived as threats. They constrain our fiscal resources, for instance. We spent a lot of public money getting out of the Covid crisis and dealing with the inflation crisis. That reduces the size of the cake available today, for example for social policy.

Then there is the demand from the US and from many Europeans for a more autonomous European defence policy, and that is going to cost money. We also have the burdens associated with ageing. So if you take the fiscal situation as a focal point for all these things, you can see how pressure is building in the system. We are going to have to face up to some trade-offs and make some difficult decisions.

But I don't think it is all negative. Some of the responses we are seeing – industrial policy, a more critical attitude towards trade, a greater role for governments and perhaps, hopefully, for the European Union itself – are things that some of us have wanted for a long time.

There is that old story about Europe progressing through crises. It is often only when crises come that the political space opens up to take steps we think are anyway necessary .

How is this broader transformation affecting Europe's economic model? Are we moving towards a genuinely different model of EU economic governance, or are older political-economic cycles returning in new language?

We have seen some considerable changes, and we are seeing pressure for further change. The open question is whether it is going to be enough.

If we understand economic governance as both what the EU itself can and cannot do in economic policy, including through the EU budget, and the framework within which national governments conduct economic policy, then there have been important changes. We had NextGenerationEU and the Recovery and Resilience Facility, which was a substantial investment package. It broke new ground in terms of European-level borrowing, with money distributed to member states to enable them to invest when they otherwise would not have been able to, and the debt being paid back at the European level.

This was actually a big deal, but it was temporary. What we need is something like that, or even something more ambitious, on a permanent basis, and there is considerable resistance to that. We just about managed to get political support for NextGenerationEU on the understanding, in some capitals – I won't mention any by name – that it had to be temporary. Making something like that permanent is really a sort of Rubicon. There are some decisive member states – all member states are important, of course, but some are more important than others – where there is resistance. I would hope that we take that step, but whether we do or not remains to be seen. The fact that the market for US government bonds has come under considerable pressure could, and I believe should, serve as a window of opportunity here.

We have also seen changes to the national fiscal rules. They have been revised in a good direction, but still not enough. The decisive thing we still do not have is the ability for governments to invest and to borrow in order to invest without coming up against legal constraints.

There is now an opening for more spending, but it is for defence spending. Defence may also be necessary, but we do not have that same opening for other forms of investment, and the multipliers from defence spending are much lower than for civilian public investment projects.

When you say Europe needs more investment, what kind of investment are you talking about? What is holding it back, and how could Europe unlock it?

The first distinction is the most basic one, between public investment and private investment. Public investment is much smaller, but it is important because, if it is done intelligently, it can drive private investment. We are no longer in the bad old days after the euro crisis when public investment was very depressed. Things have improved slightly, but still not enough to really move the dial.

Business investment is much bigger, so we also have to think about what gives the private sector an incentive to invest. The message we are getting is that there is a heavy regulatory burden and, if we cast that off, companies will invest. I don't think that is going to happen.

What is holding back investment in the short term? Energy prices are a huge problem. The breakdown of trading relations is another. We also have a genuine competitiveness issue, which is with China.

But what I think is less well discussed is the internal situation, particularly internal demand. Investment that expands productive capacity will only happen if entrepreneurs are convinced there will be demand for the additional products. Europe's population is now hardly growing at all and is set to shrink, so that is another structural factor holding companies back from investing. We are unfortunately getting locked into a pessimistic, self-reinforcing cycle. That is why the public sector can sometimes kick-start a more virtuous circle and get us out of a vicious one; public investment "crowds in" private investment.

Another factor is regulatory uncertainty. Look at the constant debates in the automobile sector about whether, from 2035, petrol and diesel engines are going to be allowed or not – backwards and forwards. That sort of uncertainty is killing investment.

Other issues include the way investment is financed in Europe and the lack of a venture-capital market. So it is not a simple matter where you pull one lever and suddenly get investment.

What is holding back investment in the short term? Energy prices are a huge problem. The breakdown of trading relations is another. We also have a genuine competitiveness issue, which is with China.

We need to do several things. We need a bigger role for the public sector at the national level, and major European initiatives on the green transition, technology, and infrastructure. We also need investment in schools, hospitals and care services, in addition to classical infrastructure, grids, and interconnections between countries. In technology, we need to build up our own indigenous tech sectors. That is where we really need investment.

We also need more regulatory certainty and, in some cases, support for companies. If European industries need protection from aggressive Chinese competition based on excessive subsidisation, then I would support that. I am not a China basher, but we do need to protect our industries where those distortions exist. And this is where I think we need to see the different orders of magnitude. The whole political system, the media, and the Brussels bubble are investing so much time and energy in the deregulation agenda, which is of more marginal importance.

Even if regulatory simplification is successful on its own terms, I don't really think anybody believes – and I certainly don't believe – that it is going to deliver the scale of investment Europe needs. It might reduce some costs, but it is not going to move the dial.

The main point of the Draghi report was that we need around 750-800 billion euros a year in additional investment. Even if we got half of that, it would make a big difference if it were done effectively, in the right places, and in the right sectors. How is regulatory simplification going to deliver that investment? I don't think it will.

The EU's growing focus on competitiveness, strategic autonomy, and security is arguably putting its social agenda at risk. Do you see these agendas as compatible? And is it still realistic to think of Social Europe as a structuring political project in this new context?

There are certainly political forces using the competitiveness argument to make Europe less social and to weaken it. But that doesn't have to be the case.

Let me say a few words about competitiveness. If you use the word in a businesslike sense, Europe is competitive. We have had a current-account surplus for many years. We have no problem paying our way in the world. So this chain of thought that goes, "Europe is not competitive, therefore we have to cut pensions, cut childcare allowances, or make people work longer hours" just doesn't fly from a very basic point of view.

The more useful understanding of competitiveness – the one Draghi and most sensible economists use – is really about productivity. We should not get obsessed with the idea that a country is like a company, because it isn't. Competitiveness is about productivity, living standards, and what we can afford as societies. If we don't have productivity growth, the cake is not growing. And if the cake is not growing, we

will have distributional conflicts that are very difficult to resolve.

I very much believe the labour movement and trade unions need to play a role in the debate about how to raise productivity, and many of them do. We have evidence in our research that when you involve workers in decision-making – through work councils, at board level, through collective bargaining, or at sectoral and national level – you get better outcomes. It is not hard to understand why. If you involve people in processes of structural change, for example restructuring or the green transition, the outcomes will be better. There will be less resistance and less conflict, and productivity can grow faster. That is one example of how a sensible competitiveness or productivity agenda goes hand in hand with good social policy.

There are numerous other examples. Think about childcare, education, and healthcare. It is perhaps an instrumental way to think about these things, but from an economic perspective they also affect how productive workers are, how often they can go to work, how much work they miss because they are ill, and how productive they are when they are working.

One of the main ways the competitiveness agenda is manifesting in this mandate is through the simplification-deregulation agenda. What risks do you see this creating for Social Europe, workers' rights, and labour protections? And how should trade unions respond?

I think we can have a debate about simplification in some cases, but deregulation should be out of the question. That is essentially also the line the trade unions take. We have sectoral bodies and interprofessional bodies where business and labour are represented and can work through the issues that make regulation unnecessarily complex. European Parliament committees can do that as well. That is all fine.

What concerns the trade unions, and us at the ETUI, is the speed with which these things are now being pushed through. There can be over-regulation, or cases where the same thing is covered by two different directives. Nobody wants things to be more complicated than they have to be. But we need to understand that regulation was put there for a purpose.

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It could be that that purpose no longer exists. For instance, we do not need a regulation for steam trains if we no longer have steam trains. Some regulations simply become obsolete. But usually the public purpose is still there, whether it is health and safety, or protecting the environment, workers, or pregnant women. So if you want to weaken or remove a regulation, you need to answer the question: what about that public purpose? How is it still going to be achieved?

Unfortunately, I don't think we are really having that detailed debate at the moment. It would have to be a very granular, detailed, and time-consuming debate, and instead these things are being pushed through the institutions very quickly. It also makes no sense to talk about regulation simply in quantitative terms. Business lobbies champion ideas like "one in, one out": every time you introduce one regulation, you have to throw out an old one. That is absurd.

The question should be: what public priorities do we want that the market will not provide without

regulation? And then, of course, we can discuss how we achieve those objectives without imposing unnecessarily high costs.

Europe is again talking about strategic industries and reindustrialisation – areas in which trade unions historically played an important role, both in industrial development and in shaping workers' rights. At a time when collective-bargaining coverage has declined considerably, what might this renewed industrial agenda mean for trade unions and their capacity for renewal and mobilisation?

Following the Covid-19 pandemic and the energy shocks and highly politicised trade relations of recent years, we are simply in a different world. In this context, the renewed focus on industry is welcome, but we should not take it too far because most European workers are in services. That said, industry still has an outsized economic importance. It matters for exports, it is often where productivity growth is generated, and a lot of service employment is built around the industrial sector. It also has strategic significance, including in relation to defence.

For trade unions, industry matters because it is a big part of their history and, in many countries, where they remain relatively strong. Large workplaces are easier to organise than many fragmented service-sector workplaces, and practices of industrial relations have developed over decades – even centuries to some extent – in which trade unions have a recognised voice at the table. You have national and European works councils as well as board-level representation. Union density tends to be higher than in services, although the public sector is of course now extremely important for the trade-union movement as well.

The unions want to play a role in this new industrial-policy debate, and we as a research institute want to support that. This is also closely linked to trade and China. I said before that Europe does not really have a classical competitiveness problem except vis-à-vis China. We have a very large trade deficit with China – roughly one billion euros a day, or around 360 billion euros in 2025. Germany, for instance, had trade surpluses with China for many years but now also runs deficits.

That is partly linked to Chinese policies which, in my view, need to change. China needs to import more and address over-subsidisation in some industries, such as the car industry. It needs to pay its workers more or revalue the currency. There are lots of different steps it could take, and Europe should be negotiating with China about them. But I do not want to bash China. China is also very important for the green transition. I am fine with cheap solar panels coming in and, to some extent, cheaper cars. But we also need a chance to export. That is what trade is for: countries import things others are good at producing and export things they themselves are good at producing, and everybody benefits. But China deliberately restricts imports.

We have been losing manufacturing employment. We lost around 220,000 manufacturing jobs between the average of 2024 and 2025. That is a lot, and that can't continue.

At the same time, we do not wantFortress Europe. We do not want to stop the green technologies we need from coming in. What has changed is the naïve faith that was dominant in Brussels for decades that we simply need free trade, and everything will be fine. That is gone, and that also creates opportunities for trade unions.

Unions are worried about forced labour, deforestation and the oppression of organised labour in some of our trading partners. They want to use trade as a lever to improve conditions in other countries. That has become more possible, and I think that is an important development.

There has long been a wider debate about the limits of GDP as a measure of economic and social progress, including whether it adequately captures dimensions such as wellbeing, care, and ecological sustainability. Given your point about how the economic "cake" is distributed, how should we think about growth and productivity in an era of extreme wealth concentration and weak redistribution?

Let me split that into two things and first focus on the beyond-GDP question.

We have a long tradition at the institute of work on just transition, and I intend to continue that. Growth is not the solution to everything. What we need, I think, is qualitative growth and investment-driven growth, because that is also a path to decarbonisation. It is easy to become depressed about the climate crisis, but if we have a hope, I do think technology is an important part of it. Technology comes through scientific processes and research, but it only changes economic outcomes if it is actually invested in and becomes part of the capital stock of the economy.

So I am not a "go-for-growth" person in a traditional sense. But I am also very clear that I am not in the degrowth camp. Whether we like it or not, if the cake is not growing, distributional conflicts build up. Politics becomes poisonous: it is you against me; either you have it or I do. If we want decent pensions and we want to take care of elderly people with a shrinking labour force, we need productivity growth and some economic growth.

But the distribution question is absolutely central. Think about comparisons between the United States and European countries. Even if GDP per capita in the United States is higher, people work longer hours and have shorter holidays, and income is much more unequally distributed. So, the benefit for the average person – or, more precisely, the median citizen or median worker – can look very different. How GDP is distributed is therefore absolutely vital.

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We are seeing rising concentrations of wealth and income within the corporate sector, more in the US than Europe, but increasingly here too. That is not only an economic problem; it is a political problem. People with enormous amounts of money have outsized political influence. Europe has stricter rules around party financing than the United States, but wealthy people still have influence. They buy newspaper publishers, for example.

Digital services and technology also tend towards monopoly, and wherever you have a monopoly you tend to get concentrations of wealth. That is bad socially, but it can also be bad economically.

And that brings us to AI. If AI improves productivity and those gains are distributed through the economy, then it can be a very good thing. We become more productive, living standards rise, and maybe some boring tasks that people do not like doing can be done by AI. If the gains are shared, people have higher wages and use that income to buy other services, and you can maintain full employment. That is more or less how the positive scenario works.

But that won't happen if the gains from AI become concentrated among a handful of billionaires or trillionaires, some tech workers, and shareholders. In that case, aggregate demand breaks down, you do not get the corresponding expansion in other services, and you can expect unemployment and social strife.

There is also a more specific labour-market issue beginning to emerge. It looks as if AI may be hitting entry-level jobs – not only in coding, but office positions, skilled jobs, and some professional occupations. Some studies point to this outcome, and there is evidence that fears around AI are quite concentrated among people who are just starting their careers. At the same time, those who already know the ropes may benefit from AI. They can use it to become more productive and perhaps increase their earnings.

So, once again, the question is about distribution: who benefits from the technology and who carries the costs?

Earlier you touched on the challenges posed by Europe's changing demographics. While ageing societies and shrinking workforces are usually framed as a crisis, tighter labour markets could actually also give workers greater bargaining power, perhaps even strengthen collective bargaining. How do you see those two sides playing out, both now and in the future?

There is a joke going around about a young person who goes to a job interview. At the end, instead of the employer saying, "We'll call you," the candidate says: "I'll put you on my shortlist." It is a joke, but for certain sectors and skills there is something to it. People can afford to be a bit more choosy. For teachers and healthcare workers, for example, large cohorts are leaving, and employers need people. The same applies to some parts of industry.

This can be good for job quality as well. Even in countries we think of as having high standards, there are sectors – notably care – where working conditions are pretty bad: low pay, long hours, and physically demanding work. We are already seeing that employers who want to keep people in these sectors or attract new workers have to pay higher wages and offer more flexible arrangements, including working hours that make it easier for people with caring responsibilities to remain in the labour market. So, tighter labour markets can also bring positive changes.

We are still relatively early in this EU mandate, and political agendas are likely to evolve over the coming years. Looking ahead to the next few years, what do you think is likely to happen? What would success for Social Europe look like from the ETUI's perspective? What concerns you most, and where do you see reasons for optimism?

We have to get through some short-term issues first, and they are going to be decisive. If geopolitical conflicts drag on or relations between the major powers deteriorate further, things are going to get very hard. We already face big challenges, and I don't think we should be under any illusions about that.

We have done some scenario analysis that actually looks beyond five years, towards 2040. Even some of the "muddling through" scenarios for Europe and Social Europe, to be very frank, do not look great. So we need to do things. We cannot simply continue with the status quo.

In that sense, I think Draghi did us a service, even though I don't agree with everything in his report. He essentially said: look, if we don't get our act together and move beyond the status quo and the constant "I can't agree to this, I can't agree to that," the outlook is not good. We need some kind of social pact: agreements between member states with different views, between capital and labour, and across

political divides.

Maybe it sounds slightly naïve, but people need to recognise that things can get worse and find ways of overcoming some of their differences and making concrete proposals for moving forward. Because if we don't, things will go downhill. I do think there is scope for a more positive scenario. If we get some tailwinds at the global level and international tensions decline, some of the pressure around huge increases in defence spending could ease.

Technology is another source of optimism. Look at how dramatically the price of solar panels and batteries has declined. I think the price of electric vehicles will also come down considerably. If AI is managed well and fulfils its expectations, I think it can be a force for good. It may not be, but it can be. Higher productivity growth could help us address some fiscal problems and some of the problems connected with demographics.

There are avenues forward. But to be frank, most of them require a stronger European level. Unless we get something like what we had with NextGenerationEU – some sort of central capacity to invest in our common future – it is going to be hard. We need to face up to the fact that even quite large European countries are small on a global scale, and they are becoming smaller in terms of their share of global GDP and their political influence. We need to overcome that fragmentation.

We have seen some positive signs of that happening, but also some limits. We are pushing up against those limits now with the idea of a common European fund or a bigger EU budget. There is a lot of resistance, but we need to overcome it.

So, I am always cautiously optimistic. There is the famous Gramsci quote, "pessimism of the intellect, optimism of the will". That is certainly a sort of motto for me personally and, I think, for the institute. We need to do what we can. We need to point things out, make proposals and hope they are picked up by trade unions, political parties, opinion-makers and the media. That is what we do. That is the game we play every day. And it is the game we are trying to win.

This interview has been edited and condensed for clarity and length. Some answers have been reordered thematically.



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