STUDIO

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Industrial Policies in Europe: Crises and Perspectives

Germany, Italy and European Trends

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Contents

1. Introduction

Europe's industrial and economic landscape faces mounting pressures that threaten competitiveness, social cohesion, and long-term prosperity. Structural challenges – including chronic underinvestment in infrastructure and clean production technologies, increasing global competition from heavily subsidized foreign industries, high energy prices, and disrupted supply chains – have intensified in recent years. These factors place European industrial and service sectors under growing strain, raising concerns over a shrinking industrial base that risks economic independence in key sectors and the loss of thousands of high-quality direct and indirect jobs - with potential long-term consequences for European prosperity. Geopolitical tensions, trade disputes, and the threat of punitive tariffs are creating further uncertainty that complicates business planning and investment decisions across the continent.

A glance at the economic situation in Germany and Italy, two of Europe's core industrial economies, exemplify these pressures. Industrial value creation and union jobs in sectors such as automotive, chemicals, energy and basic materials are increasingly threatened. In Germany, 10.000 of industrial jobs are lost every month, while declining manufacturing output and rising unemployment are weakening domestic demand. These developments not only erode economic resilience but also contribute to growing economic insecurity and political dissatisfaction, reflected in the rising electoral support for far-right parties. In Italy, the manufacturing sector is experiencing a broad contraction, reflecting a wider and deepening industrial crisis. In 2025 alone, nearly 560 million hours of short-time work were authorised, marking a 10 % increase compared to 2024. At the same time, 103 companies in crisis, involving around 131,035 workers, are currently under discussion for short-time work at the Ministry of Enterprises and Made in Italy, highlighting the scale and persistence of the difficulties affecting the industrial sector.

The dire situation of European industry, increasingly volatile trade relationships and competitiveness pressures have necessitated a partial paradigm shift in the European Union's approach to industrial policy. After decades of limiting state intervention and prioritizing market liberalization, the EU has begun to adopt instruments that are no longer limited to correcting market failures but instead actively guide economic transformation. The Green Deal and its successors, the Green Deal Industrial Plan and the Clean Industrial Deal (CID), as well as instruments such as IPCEIs, exemplify a new more interventionist and strategic approach to EU economic policy. While horizontal policies pursued by the European Commission over recent decades have inadvertently increased dependence on foreign goods and neglected the development and strengthening of Europe's own productive base, the new measures – e. g. strategic sector targeting, European preference criteria and a renewed state aid framework –, try to safeguard European based production, boost European innovation and enhance resilience in strategic sectors.

Although support for greater state steering and a strategic approach to EU industrial and trade policy has grown in recent years, market-liberal competitiveness narratives still dominate European policy debates. These narratives are often narrowly equated with deregulation and administrative relief, rather than with a comprehensive investment, industrial and trade strategy, although there is little scientific evidence that deregulation alone drives sustained investment, innovation or longterm growth (Blind & Münch, 2024; Kalpadakis, 2025). On the contrary, empirical research highlights the importance of public investment, stable regulatory frameworks, skills development, and coordinated industrial policies for boosting productivity, innovation, and social cohesion (Rodrik et al., 2024; Heimberger & Dabrowski, 2025; EIB, 2024). Despite this, many EU Member States and business associations across the continent continue to advocate for far-reaching deregulatory measures, including socalled "omnibus" packages.

A recent case in point is a joint paper by the German and Italian governments published ahead of the informal EU Leaders' Retreat on 12 February 2026. Rather than outlining a coherent investmentled growth strategy or substantive industrial policies, the paper calls for little more than "emergencies breaks" on legislative activities and the removal of regulatory burdens. This reflects a wider policy tendency to prioritize deregulation over sustained public investment and coordinated industrial action, limiting coordinated action to close the EU's innovation and investment gaps.

What the current EU competitiveness discourse misses is that greater economic resilience and prosperity can only be achieved in an economic environment characterized by strong domestic demand and the capacity to generate high-quality employment at scale (Rodrik, 2022). In economies defined by low wages, widespread job insecurity, and stagnant demand, the ability to implement effective industrial strategies and address structural inequalities is severely constrained. Strengthening the internal market and boosting domestic consumption are therefore essential preconditions for a successful European industrial strategy: without sufficient demand and decent jobs, other policy instruments risk falling short of their goals.

The paper prepared jointly by the Confederation of German Trade Unions (DGB) and the Italian General Confederation of Labour (CGIL) offers a coherent alternative vision for Europe's industrial strategy. It argues that the EU must adopt a missionoriented industrial policy that goes beyond costfocused deregulation and narrow competitiveness metrics. Instead, a forwardlooking strategy must integrate a strategic investment agenda with a strong social dimension, recognising that decent work, social protection, and robust labour and environmental standards are not obstacles to competitiveness, but essential foundations of longterm economic resilience.

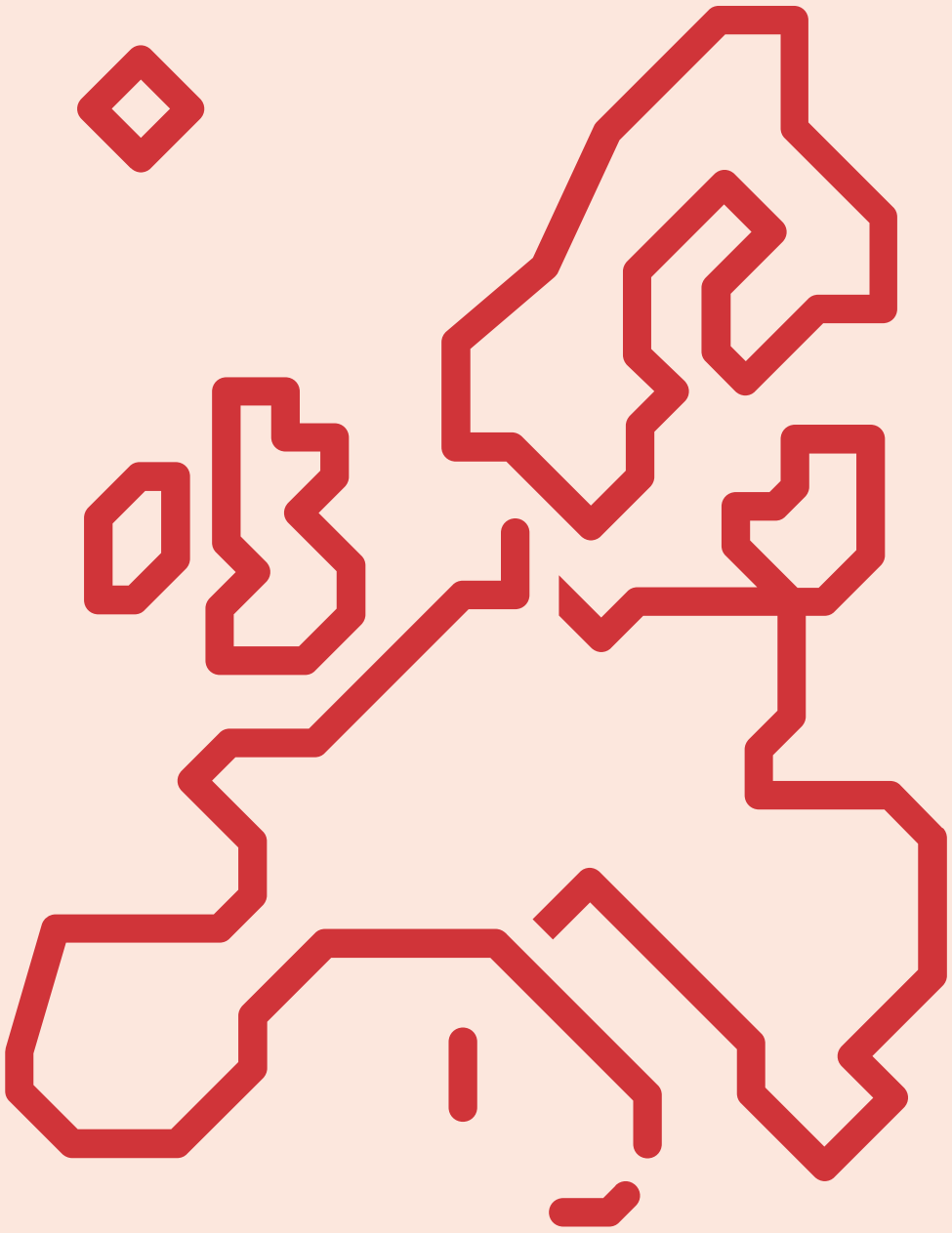
Building on this vision, the paper lies out the core requirements of a successful transformative European industrial policy:

- → Establish the state as a proactive market-shaping actor
- → A strategic public and private EU investment agenda
- → Strengthen domestic demand and deepen the EU Single Market
- → Safeguard quality jobs (and promote regional value creation)
- → Deploy strategic public procurement and Buy European instruments
- → Stabilise key cost and location factors for industrial competitiveness
- → Empower social partners and democratise industrial policy
- → Pursue targeted regulatory reform, not indiscriminate deregulation

To fully understand the necessity of these policy directions, it is essential to examine the structural conditions shaping the European economy, particularly in industrially anchored countries such as Italy and Germany. The following chapter situates the analysis within the broader European context by identifying persistent structural constraints, including investment gaps, dependencies on energy and critical raw materials, and deficits in technology and innovation capacity. These factors define the framework within which contemporary industrial policy must operate.

Building on this European perspective, the subsequent chapters then analyse the specific structural challenges confronting Italy and Germany, highlighting both shared vulnerabilities and country-specific constraints. On this basis, we derive concrete policy measures at the EU level and explore avenues for bilateral cooperation, with the aim of establishing the foundations for sustainable innovation, industrial resilience, and inclusive growth.

2.
European Context



Building on the challenges outlined in the introduction, this chapter provides a concise structural analysis of the European context in which a transformative EU industrial policy must operate.

Europe's structural challenges are multifaceted, but a central underlying weakness lies in its persistent investment deficit. By 2030, the EU is projected to face an annual investment shortfall equivalent to 1.8 % of gross national income (GNI) – approximately EUR 321 billion – across key strategic domains, including digitalisation, decarbonisation, geoeconomic resilience. This European-level shortfall is compounded by substantial gaps at both the national and private levels. Member States collectively face an estimated annual public investment gap of EUR 442 billion, while the private sector investment gap amounts to approximately EUR 512 billion per year. Under the proposed Multiannual Financial Framework (MFF) for 2028–2034, these deficits are expected to widen further, particularly in the area of decarbonisation (Koch & Biegon, 2026). Moreover, the EU's fiscal framework continues to constrain national budgetary capacity, limiting Member States' ability to undertake large-scale strategic industrial investments, especially in sectors central to the clean and digital transitions.

A second major source of vulnerability for EU Member States lies in the energy sector. Europe's energy transition is unfolding against the backdrop of geopolitical disruptions and sustained price volatility, exposing persistent structural fragilities in the Union's energy system. Despite recent progress in renewables, the EU remains highly dependent on external energy sources, with import dependence having risen from 52 % in 1995 to 63 % in 2022 (Guarascio et al., 2025). This dependence is unevenly distributed: Nordic countries show greater resilience thanks to diversified energy mixes and high renewable shares, while most large economies, including Germany and Italy, continue to rely heavily on a limited number of energy suppliers, increasing exposure to external shocks. Energy-intensive industrial structures further amplify these risks. Moreover, Europe faces a risk of dependence substitution, as reduced reliance on Russian fossil fuels is increasingly replaced by dependence on US gas and Chinese manufacturing for key green technologies (China to date supplies almost all solar panels and a significant share of wind components), reinforcing asymmetries across Member States and constraining EU strategic autonomy (Guarascio et al., 2025).

The same dependency can be observed for critical raw materials (CRM) (Crespi et al., 2021). CRMs constitute one of the main sources of vulnerability for the European system. The EU has limited extraction and refining capacity for these resources and is therefore compelled to import large volumes from countries such as China, the Democratic Republic of Congo, Brazil, South Africa, Chile and Indonesia, which dominate almost every stage of the supply chain. This results in a high degree of structural dependence for Member States (Guarascio et al., 2023). In recent years, rising geopolitical tensions have prompted several exporting countries to restrict shipments, impose domestic processing requirements or even nationalise entire segments of the supply chain, further exposing the fragility of Europe's position. At the same time, CRM markets are highly opaque, dominated by a few players and subject to significant price volatility, with episodes of manipulation and extreme fluctuations that can rapidly spill over into the European economy and slow down investment and industrial production.

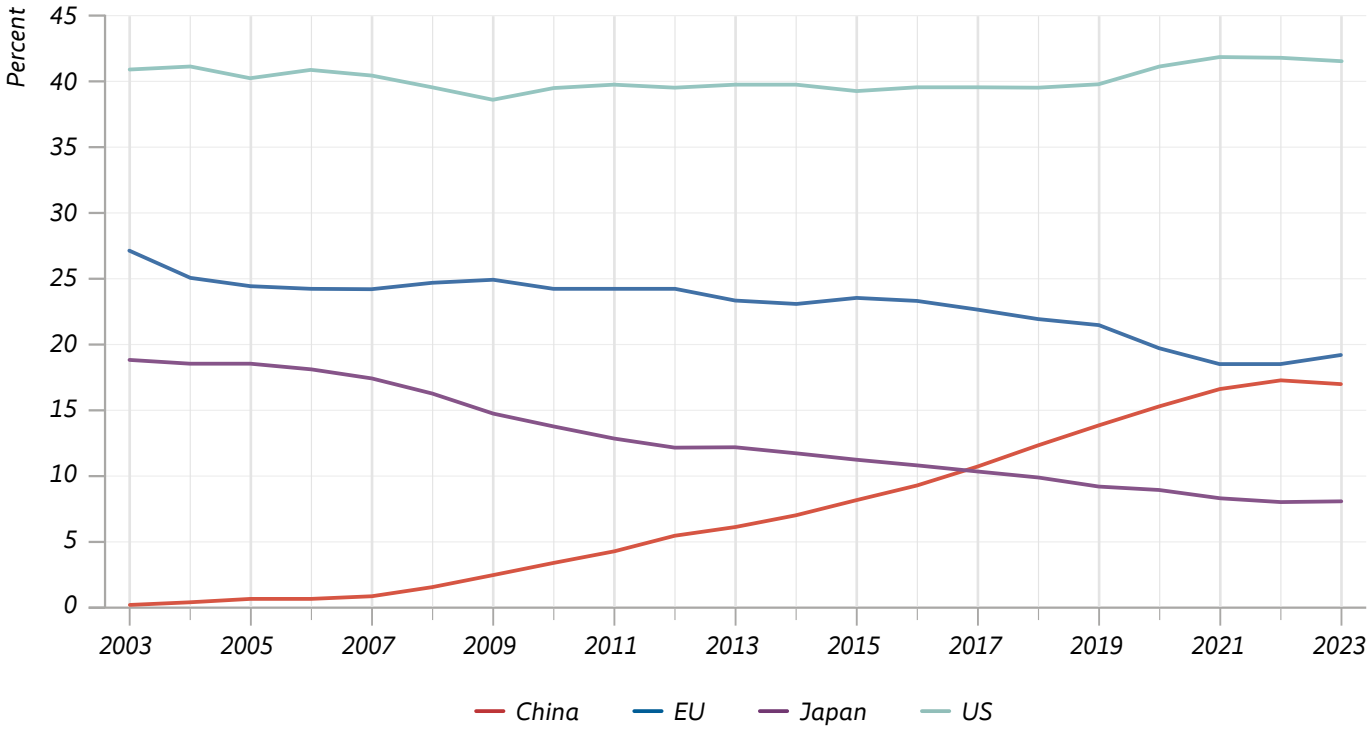
At the same time, Europe faces a widening technology and innovation gap vis-à-vis the United States and China, rooted in a long-term decline in private investment in research and development. While U.S. firms have maintained high and stable R&D spending and Chinese firms have rapidly expanded theirs, European firm's share of global private R&D has steadily reduced over the past two decades. Especially traditional industrial sectors are losing their innovative strength (Bertelsmann Stiftung, 2026). This sustained disinvestment has weakened Europe's presence in cutting-edge and high-growth technological sectors and limited its capacity to generate and scale breakthrough innovations (Germann, 2022; Draghi, 2025). As a result, the European Union has become increasingly dependent on non-EU suppliers for strategic technologies, constraining its ability to operate as an autonomous economic actor in an increasingly polarized global economy (Guarascio et al., 2023).

In response to these structural pressures and dependencies, the EU has shifted toward a more interventionist approach to industrial policy. The CID unveiled by the European Commission in February 2025 is the flagship example of this new agenda. It aims to position industrial decarbonisation as a driver of economic growth by addressing persistently high energy costs, strengthening demand for clean technologies, products and basic materials produced in Europe, and embedding circularity more deeply into industrial value chains. Key components include an Action Plan for Affordable Energy to reduce energy price volatility and structural cost disadvantages, a planned Industrial Accelerator Act introducing European preference criteria, a new European Competitiveness Fund to be established as part of the next EU budget, and reinforced Innovation Fund mechanisms. The CID also seeks to improve access to critical raw materials and develop a "Union of Skills" to nurture the workforce needed for these transitions.

The CID illustrates both the opportunities and the ongoing challenges in the current European debate on industrial policy. On the one hand, it signals a necessary shift toward more mission-oriented measures, with targeted support for decarbonisation, digitalisation, and strategic value chains, showing that the EU is willing to engage in active industrial policy. On the other hand, the Deal exposes persistent shortcomings that prevent it from achieving a truly transformative

Share of private firms' R&D over total private R&D expenditure

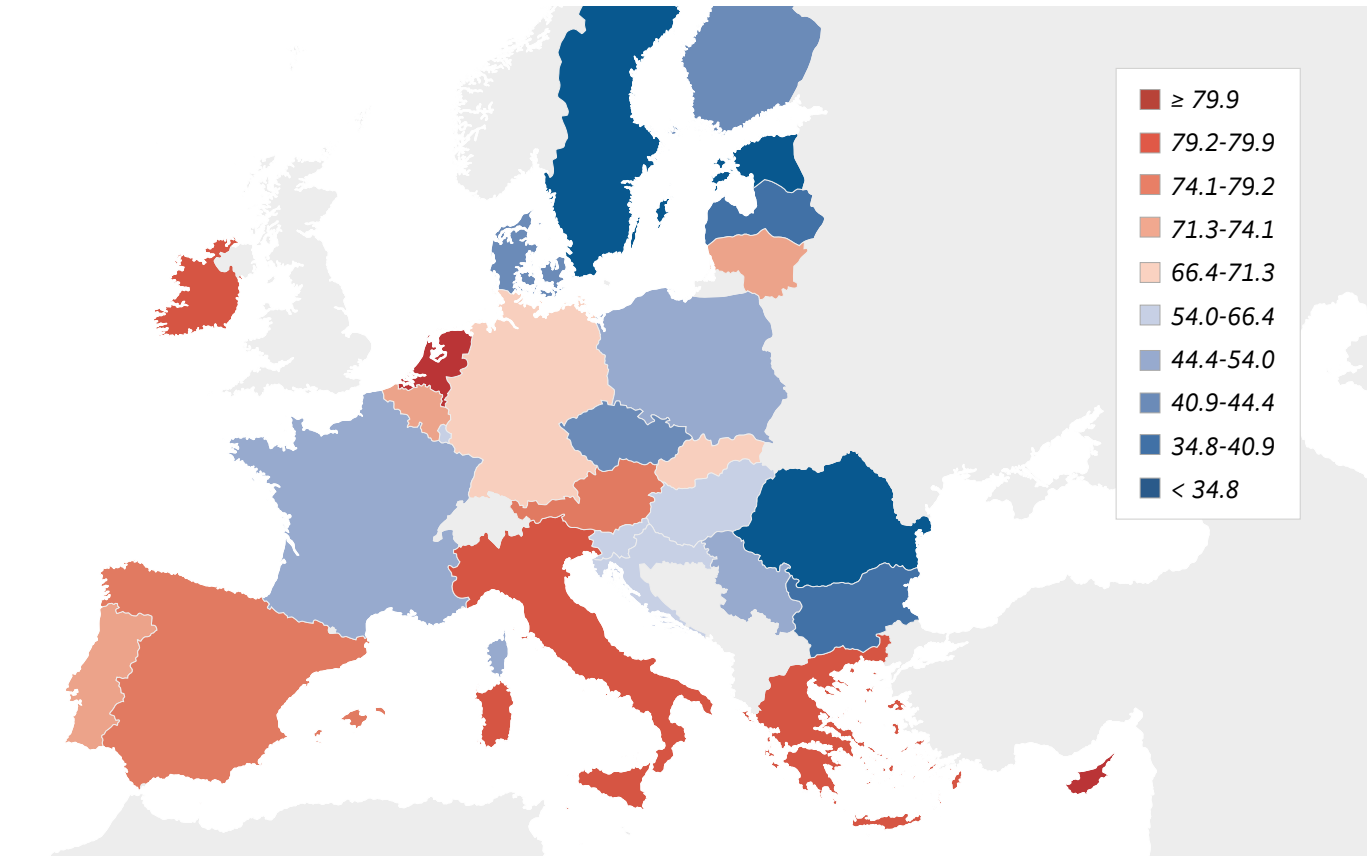
Figure 1



Source: Eurostat-IRI Scoreboards.

Energy import dependency by country, 2022

Figure 2



Note: EID = net energy imports / gross available energy.
Source: Guarascio et al. (2025).

impact. The CID, like many EU policy packages prior, lacks a clear financing dimension to ensure that strategic investments in energy-intensive and green and digital industries are fully realized. It also omits a binding social dimension: measures to secure high-quality employment, strengthen collective bargaining, and guarantee a just transition are insufficiently integrated. Furthermore, the Deal relies heavily on deregulation and administrative simplification as instruments of competitiveness, approaches that cannot substitute for sustained investment, strong domestic demand, or robust social safeguards. In practice, this combination risks turning a potentially transformative policy into a set of declarative goals and partial measures that fall short of securing Europe's industrial sovereignty, resilience, and social cohesion.

What raises further concerns about the balance between competitiveness and a strategic, fair industrial policy is the EU Commission's growing reliance on so-called "omnibus" legislative packages. These large, bundled legislative proposals have, in practice, contributed to the significant weakening of key initiatives such as the European Supply Chain Act, which sets binding obligations for due diligence in corporate supply chains, and the Corporate Sustainability Reporting Directive, intended to enhance corporate transparency on environmental, social, and governance (ESG) practices. While the EU's pursuit of regulatory simplification is not new, the systematic bundling of multiple legislative amendments into single packages risks reducing transparency, limiting parliamentary debate, and compressing opportunities for meaningful scrutiny. In particular, the Commission's proposed review of legislative amendments against "bureaucratic burden" criteria is highly problematic, as it could allow technocratic evaluations to override political majority decisions, effectively depoliticising normative and social choices. Similarly, the announced "gold-plating initiative" – intended to curb "excessive" national implementation of EU rules – signals a potential expansion of Commission oversight into areas traditionally under Member State discretion, with possible repercussions for labour rights, social protections, and higher national standards.

This massive political push is justified by the claim that deregulation could spark a new "economic miracle." However, the European Commission itself estimates the cost relief generated by its major omnibus packages at only EUR 12 billion, equivalent to around 0.06 % of EU GDP (EU Commission, 2025). This economically unsubstantiated narrowing of focus diverts political attention and institutional capacity away from addressing – let alone resolving – the EU's underlying structural challenges. It also stands in contrast to the stronger emphasis on investment set out in the Draghi Report and the Letta Report. Although there has been a cautious shift toward a more strategic orientation – reflected, for instance, in the limited introduction of "European preference" clauses – the overall policy framework thus remains heavily tilted toward market-oriented liberalization solutions.

In previous crises, EU heads of state and government have demonstrated the capacity to act with unity and ambition – most notably through the creation of the Recovery and Resilience Facility (RRF) during the COVID-19 pandemic. By contrast, the current polycrisis confronting European industry has yet to elicit a similarly forward-looking and comprehensive response. From the perspective of CGIL and DGB, the reliance on deregulation as the primary lever of competitiveness is naive. Sustainable European industrial strategy cannot rely primarily on deregulation but must instead combine public investment, social conditionality, strong labour standards, and democratic participation in industrial governance.

3.
Italy: Economic Situation and Need for Transformation

This report analyses the current state of the Italian economy within this European and global context, focusing on its structural weaknesses from both a macroeconomic and labour market perspective, as well as on the evolution of its industrial policy. The first section offers a historical and economic overview of the factors that contributed to the weakening of Italy's industrial policy. The second presents an analysis of Italy's macroeconomic trends, with particular attention to productivity, labour market transformations, and internal inequalities. The third section explores emp loyment dynamics across the main sectors of the Italian economy, while the final part lays the conceptual groundwork for a new and coherent Italian industrial policy (Guarascio et al., 2023).

The technological decline of Italy's industrial structure reflects, on one hand, the progressive abandonment of targeted industrial policies and, on the other, the gradual liberalization of markets. These two processes, which began in the late 1980s and intensified during the 1990s, dismantled Italy's once-vibrant technological and innovation system (Gallino, 2003). The country's retreat from direct economic intervention coincided with the liquidation of IRI's assets and the privatization of major public enterprises such as STET (later Telecom Italia) and Montedison. These developments triggered a sharp decline in Italy's productive capacity, technological capabilities, and overall innovation potential (Dosi and Guarascio, 2018).

Figure 3 illustrates the technological weaknesses of Italy's productive structure by comparing it with the main European economies. The graph reports the share of value added generated by science-based manufacturing sectors[1] as a proportion of total manufacturing value added.

The data immediately reveal Italy's technological lag. Within Europe, a clear hierarchy emerges, with Germany and France leading, while the Mediterranean countries occupy a distinctly lower position. Italy records the smallest share of science-based manufacturing value added relative to total manufacturing output, ranking below Germany, France, and even Spain.

Throughout the entire period under observation, Italy's share remains roughly stable at around 11%, with the exception of 2020 and 2021, when the COVID-19 pandemic disrupted industrial activity. When examining the trajectories of the two "peripheral" economies – Italy and Spain – both characterized by less competitive industrial structures compared with core economies such as Germany, an interesting divergence becomes apparent. Since 2002, Spain has steadily increased the contribution of science-based sectors to its manufacturing output, whereas Italy has experienced a gradual decline. Although the Italian share began to recover after 2008, it never regained its relative position vis-à-vis Spain, thereby deepening the country's technological gap within the European context.

Figure 4 shows the evolution of the domestic value added embedded in science-based manufacturing exports as a share of total manufacturing exports. Domestic value added refers to the portion of value created within the national economy that is incorporated into a sector's exports. Unlike the gross export value, this measure excludes imported inputs (imported value added). It therefore provides a clearer picture of how science-based industries contribute to the domestic component of manufacturing exports and can be interpreted as an indicator of a country's productive capacity.

The contribution of technology-intensive sectors to Italy's domestic value added began to decline as early as 1995, coinciding with the wave of privatizations and market liberalization described earlier in this report (figure 4). From the early 2000s onward, the share of domestic value added in Italian exports contracted steadily, widening the gap not only with core European economies such as Germany and France but also with Spain.

This continuous decline in the domestic value added generated by science-based sectors reflects two interrelated dynamics. On one hand, production processes have increasingly been relocated abroad, reducing the domestic content of industrial output. On the other, the persistent absence of strong industrial policies aimed at stimulating innovation and investment has further weakened Italy's capacity to retain high-value activities within its national production system (Celi et al., 2020).

In the last twenty years, the Italian government introduced several reforms aimed at supporting the productive system. However, these initiatives revealed significant weaknesses. They often adopted a horizontal approach that provided incentives across all sectors without prioritization, resulting in fragmented and poorly coordinated measures. Limited financial resources further undermined their effectiveness, while the absence of structured participation from social partners reduced both legitimacy and coherence in implementation (Lucchese, 2016).

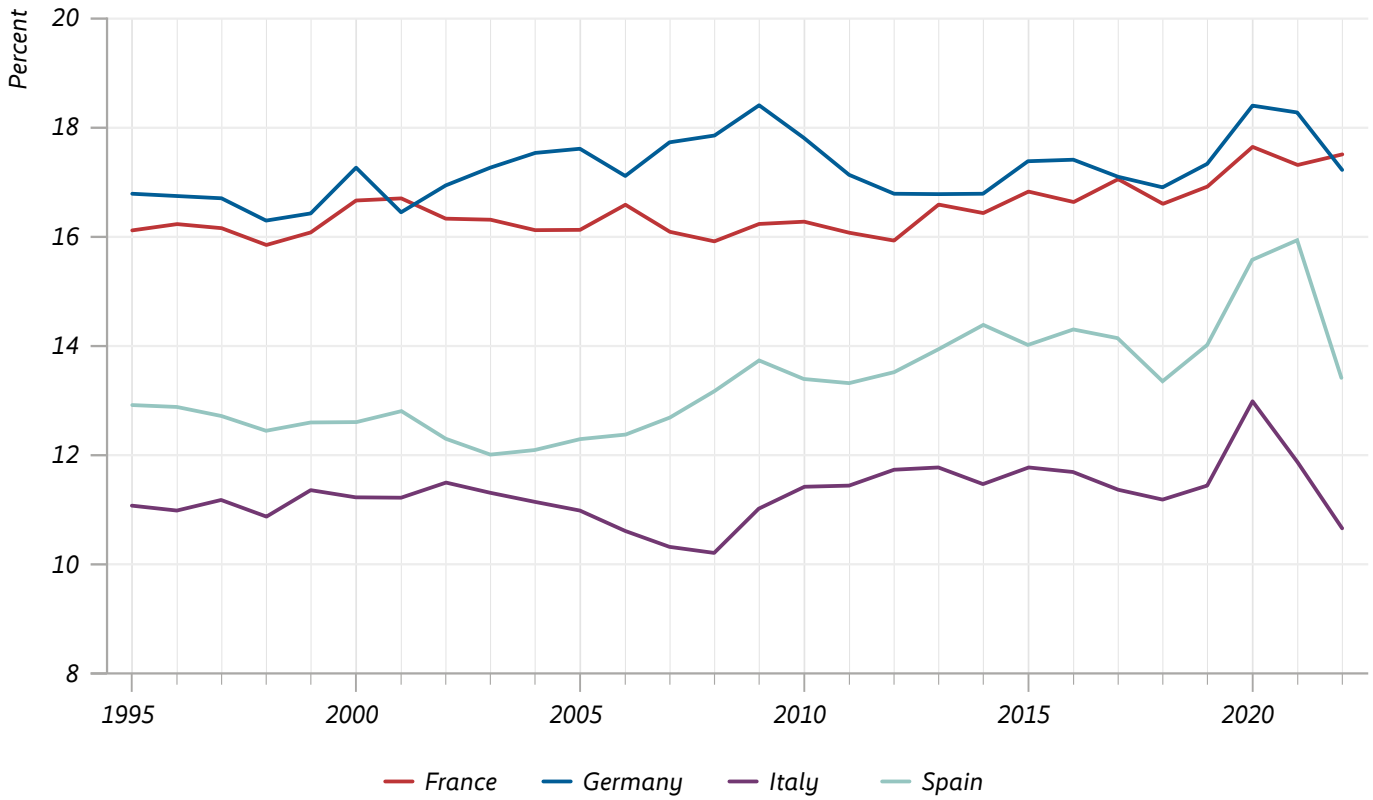
3.1 Macroeconomic Indicators and Structural Context

From 2000 to the present, the Italian economy has endured a prolonged phase of stagnation. In 2023, real GDP per capita was less than EUR 31,000 per year (in constant 2015 prices), only slightly higher than its level in 2000. A comparison with the main European economies reveals a widening gap: while in 2000 Germany's performance was only marginally better than Italy's, today its GDP per capita exceeds Italy's by roughly one third, standing at around EUR 40,000.

1 To classify manufacturing sectors, the taxonomy proposed by Pavitt (1984) was used. This taxonomy allows sectors to be divided according to their intrinsic characteristics in terms of research and development, technological innovation, product and process innovation, and the diffusion of knowledge flows. The Science-Based category includes manufacturing sectors in chemicals and electronics.

Share of science-based sectors in manufacturing value added

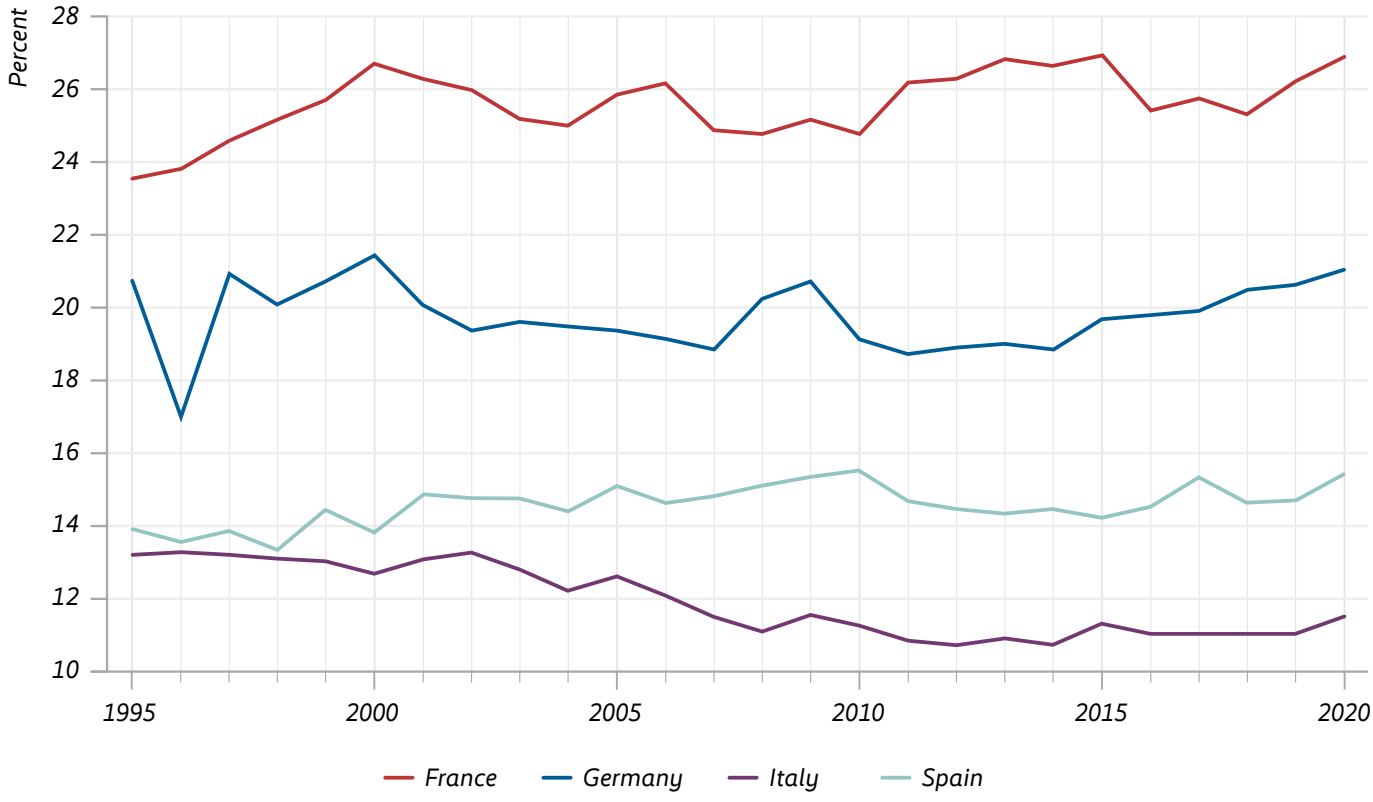
Figure 3



Source: Eurostat.

Domestic value added share of science-based sectors in manufacturing exports

Figure 4



Source: Eurostat.

Italy's stagnation contrasts sharply with the moderate yet steady growth experienced by other European countries. Over the last two decades, productivity in Germany has risen by about 20 % relative to Italy. Sectoral comparisons show that while manufacturing displays some positive trends, Italy's most significant lags remain in information and communication technology (ICT), as well as in trade, food services, and hospitality.

A key factor behind this lack of productivity growth is the chronic weakness of investment. Between 2010 and 2019, prior to the pandemic, Italy's real gross fixed investment fell by eight percentage points, whereas in the same period it rose by 16 % in France and 20 % in Germany. Following the pandemic, total investment recovered – mainly thanks to public spending and real estate investments supported by the National Recovery and Resilience Plan (NRRP). However, investment aimed at expanding productive capacity continued to grow only modestly. This long-term weakness in capital formation remains one of the fundamental causes of low economic growth, stagnant productivity, and insufficient job creation.

The structure of Italian enterprises further contributes to these limitations. The economy is dominated by small and micro-enterprises, which face greater challenges in adopting innovation compared with larger firms. According to ISTAT (2024), microenterprises with fewer than ten employees number around four million, accounting for 94.8 % of active companies, 43.2 % of total employment, and 26.8 % of added value. These firms are characterized by a high prevalence of self-employment, reaching 60 % of total workers. Small and medium-sized enterprises (SMEs) employ 33.5 % of the workforce and generate 37.9 % of added value, while large enterprises with at least 250 employees, though only about 4,000 in number, account for 23.3 % of employment and 35.3 % of total added value.

Regional inequalities remain another defining feature of Italy's economy. The lowest wages and income levels are concentrated in the southern regions, where a substantial proportion of households earn less than EUR 1,500 per month. In Sicily, Campania, Sardinia, Calabria, Basilicata, and Puglia, more than one-third of families fall below this threshold (Bergamante and Mandrone, 2022). These disparities highlight enduring territorial imbalances that weigh heavily on national productivity and social cohesion.

3.2 Manufacturing trends

According to the 2025 *Istat Report on the Competitiveness of Production Sectors*, Italy's manufacturing sector experienced an overall negative performance in 2024, reflecting the slowdown of the domestic economic cycle and the weakness of international demand. Manufacturing turnover fell by 3.5 %, with about two-thirds of industries affected. The decline was sharper in the domestic market (–3.8 %), while foreign sales showed a more moderate contraction (–2.6 %), indicating stronger resilience in exports compared with domestic demand.

Sectoral performance was highly uneven. The hardest-hit industries were those linked to investment goods and traditional sectors: Automotive (–14.7 %) and Textiles (–10.1 %). The Metallurgy sector also weakened, affected by the slowdown of European industry. In contrast, only a few sectors recorded significant growth, such as Pharmaceuticals (+8.2 %), driven by strong foreign demand. Moderately positive results were also observed in some consumer-oriented industries, such as Food manufacturing, supported by relatively stable domestic demand.

Export dynamics reinforce these trends: in 2024, manufacturing exports declined by 0.5 %. Only six sectors registered export growth, including Food (+9.8 %), Pharmaceuticals (+9.5 %), Beverages (+5.4 %), Chemicals (+2.0 %), and Electronics (+3.2 %). Conversely, investment-goods sectors, such as Machinery (–1.3 %), and transport-related industries, including Automotive (–12.2 %) and Other transport equipment (–12.3 %), posted significant drops. Exports of refined petroleum products also fell sharply (–15.4 %), reflecting lower energy prices. From a geographical perspective, exports to several key markets contracted: Germany (–4.9 %), the United States (–3.6 %), France (–1.7 %), and especially China (–20.8 %), highlighting global uncertainty.

On the import side, 2024 saw overall stability after the steep decline recorded in 2023. However, the trend varied across sectors: imports increased for Pharmaceuticals and Other transport equipment (+10.7 %), Wood (+9.5 %), Furniture (+7.4 %), and Printing (+10.3 %), while imports of Motor vehicles (–3.5 %), Electrical equipment (–8.2 %), Electronics (–6.9 %), Machinery (–5.7 %), and Coke and refined petroleum products (–5.8 %) declined. The geography of supply confirms high concentration among a few partners: Germany, China, the United States, Belgium, and Spain account for more than 40 % of imports across nearly all sectors. China's share has grown particularly in Chemicals, Textiles, Apparel, and Electronics, while Germany remains dominant in Motor vehicles, Rubber and plastics, Metallurgy, and Metal products.

A key structural feature emerging from the report is the strong dependence of Italian manufacturing on foreign supplies of raw materials and intermediate goods. According to value-chain analysis, manufacturing accounts for about 60 % of the overall import dependency of Italy's production system. The sector is especially reliant on foreign suppliers in Metallurgy and Chemicals, which together explain about 17 % of total dependency. Other critical sectors include Machinery, Motor vehicles, Coke and refined petroleum products, and Metal products. This structure makes the production system vulnerable to external shocks, particularly when dependency is paired with a strong geographical concentration of imports.

Overall, 2024 highlights a manufacturing sector constrained by weak

demand, the erosion of competitiveness in several key industries, and a persistently high dependence on foreign inputs, especially in intermediate and input-intensive sectors. The resilience of exports in a few high value-added industries is a positive sign, yet insufficient to offset the structural weaknesses uncovered. In this context, the ability of firms to diversify markets and suppliers, strengthen investment, and innovate production processes will be crucial to sustaining competitiveness in the coming years.

3.3 Labour Market, Wages, and Inequality

The evolution of employment in Italy reflects many of the same structural weaknesses seen in the broader economy. Between 1995 and 2008, the number of employed persons grew by about three million, but between 2008 and 2024 employment increased by only 1.3 million. Over the same period, Germany experienced much stronger growth, expanding its workforce by approximately seven million workers. A comparison of total employment and total hours worked reveals that after the 2008 crisis, a persistent divergence emerged: while employment numbers gradually recovered, the total number of hours worked remained below pre-crisis levels until 2019. This phenomenon can be largely attributed to the growing prevalence of part-time employment (Ferrucci and Tati, 2025).

The structure of employment has changed profoundly. The share of standard employment – full-time, open-ended contracts – fell from 78 % in 2004 to 72 % in 2024. In contrast, the incidence of non-standard work, including fixed-term and part-time permanent contracts, rose from 22 % to 28 %. Nearly one-third of dependent employees now hold temporary or part-time positions, and according to Eurostat, 70 % of fixed-term workers did not choose this employment type voluntarily. For many, particularly young workers, temporary employment is not a bridge to stable work but a long-lasting condition of uncertainty.

This widespread precariousness, combined with the diffusion of part-time work, has exerted strong downward pressure on wages. Between 2008 and 2024, real wages in Italy fell by 9 percentage points, whereas they increased by 14 % in Germany and 5 % in France. According to the OECD Employment Outlook (2024), Italy recorded the steepest decline in real wages among all OECD countries. The erosion of purchasing power stems from both structural and cyclical factors. The shift toward low-skilled service activities has limited wage growth, while the chronic underinvestment that characterized the Italian economy between 2010 and 2019 – when gross fixed investment fell by 8 % in real terms compared to significant increases in France and Germany – has curtailed the creation of high-quality jobs and innovation-intensive sectors.

The consequences of this structural weakness are far-reaching. In the absence of new investments, technological advancement, and organizational innovation – and within an economic system dominated by small and micro-enterprises – labour productivity has stagnated. Even in manufacturing, which has traditionally been Italy's productive core, industrial specialization has progressively shifted toward low value-added segments of global supply chains, characterized by limited innovation and low demand for skilled labour. This has further depressed wage levels and constrained upward mobility.

The employment and wage situation is especially fragile in Italy's internal and rural areas, where lower-middle income groups are more prevalent and regional disparities between the North and South are narrower but persistently negative in terms of quality of employment and earning potential (Rugiero et al., 2022).

Low wages and the phenomenon of the "working poor" have become pressing issues. According to ISTAT, the share of employed persons living in poverty has risen steadily since the 2007 crisis, reaching 9.9 % in 2023. Among blue-collar workers, this rate stands at 16.5 %. Eurostat data on average annual full-time salaries confirm this trend: Italy's average of EUR 32,749 per year remains below the EU-27 average of EUR 37,863 and far behind the dynamic wage growth observed in Eastern European economies.

The persistence of low-skilled, low-paid work and the expansion of the working poor are the result of a complex interplay of individual, productive, and institutional factors (Di Nunzio, 2025). The most vulnerable groups include young workers, women, and those with low educational attainment. From a production standpoint, poverty in work is most prevalent among employees in small businesses, fixed-term and part-time positions, and sectors such as agriculture, hospitality, retail, and other low-skilled occupations. Institutionally, these trends are reinforced by the absence of a universal minimum wage law, insufficient forms of basic income, the widespread presence of informal and illegal employment, weak training and social support systems for the unemployed, and persistent barriers to inclusion and citizenship for migrant workers.

The most recent data on Italian employment in 2024 indicate that, although the overall trend remains positive, several critical dynamics are emerging – some structural, others cyclical. The number of employed persons continued to grow during the year, albeit at a slower pace than in 2023, with an increase of approximately 352,000 workers, bringing the total to an estimated 23.9 million. This expansion involved both men and women, rising by 1.3 % and 1.8 % respectively, and was particularly pronounced in southern Italy, where employment grew by 2.2 %. The most substantial gains were recorded among individuals aged over forty-nine, whose employment rose by around 285,000 (+3.0 %). As a result,

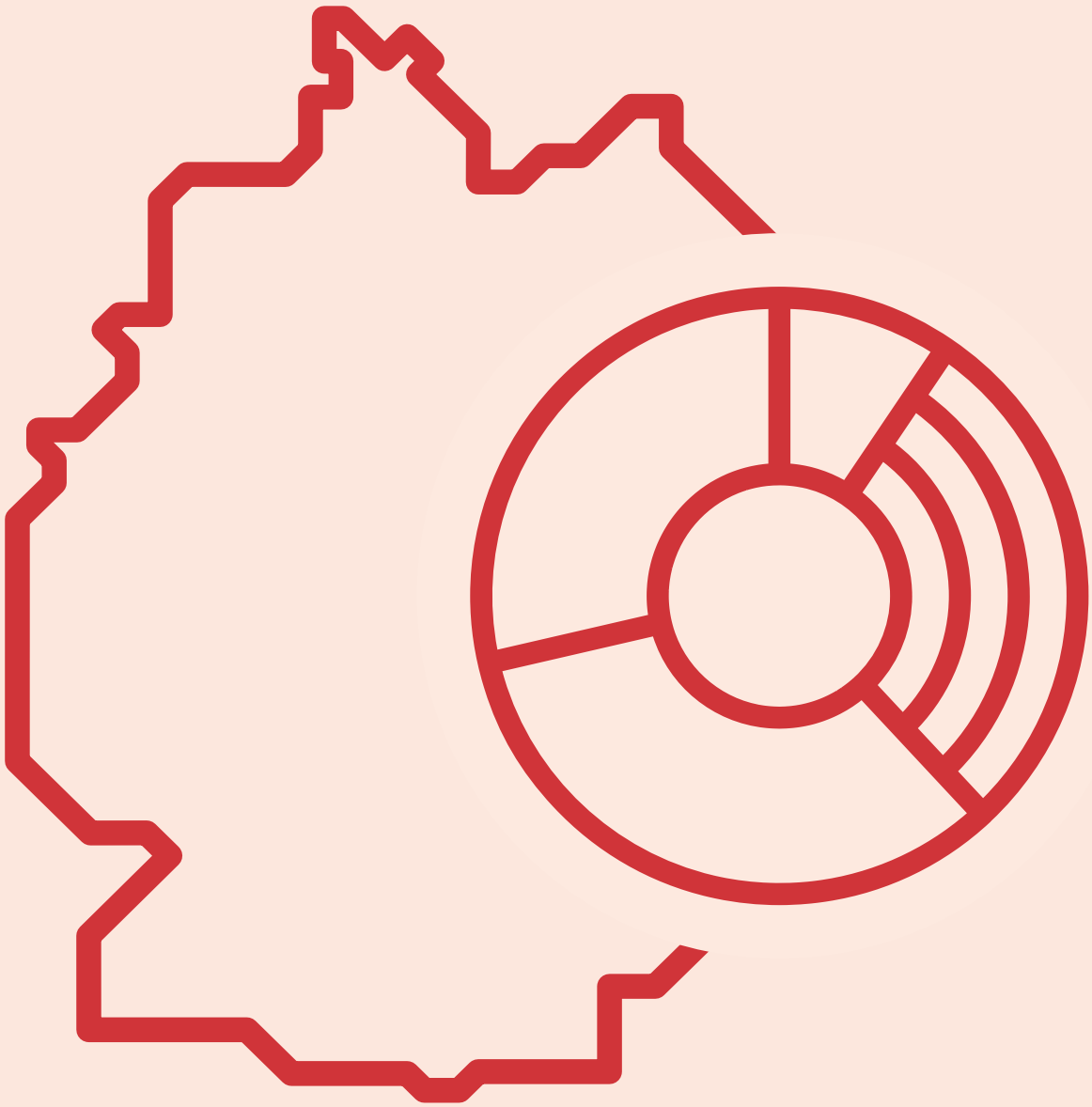
the overall employment rate for people aged fifteen to sixty-four climbed to 62.2 %, marking a 0.7 percentage point increase compared to the previous year.

Employment growth in 2024 was primarily driven by permanent contracts, which rose by 508,000 positions (+3.3 %), while self-employment also increased modestly (+47,000, or +0.9 %). Conversely, fixed-term employment declined by 203,000 positions (–6.8 %). Construction remained the most dynamic area of job creation, continuing its recovery after years of underperformance, whereas employment in manufacturing experienced a slight contraction (Ferrucci and Tati, 2025).

Between 2021 and 2023, job creation in Italy was largely concentrated in the services sector, which expanded strongly across both high- and low-knowledge content activities. Employment in high-knowledge services increased by approximately 425,000 positions (+5.3 %), while low-knowledge services grew by around 394,000 (+5.1 %). The construction industry also experienced robust growth during this period, adding about 100,000 jobs (+7.0 %), confirming its pivotal role in post-pandemic economic recovery.

In contrast, manufacturing employment showed a more moderate rise, gaining about 135,000 positions over the same two years. However, most of this growth – approximately 114,000 jobs – occurred in low- and medium-low-technology sectors, whereas high-technology manufacturing registered negative variations. The primary sector also continued to decline, reflecting ongoing structural weaknesses in Italian agriculture and related industries.

4.
Germany: Economic Situation and Need for Transformation



Germany's industrial and economic landscape is undergoing a period of profound structural stress. Moderate growth over the past decade has been disrupted by repeated external shocks, including the COVID-19 pandemic, global supply-chain disruptions, and the energy price crisis following Russia's invasion of Ukraine. At the same time, long-standing structural pressures – such as chronic underinvestment, wage constraints, weak domestic demand, and a growing shortage of skilled workers – threaten both economic resilience and social cohesion. Key industrial sectors, including steel, automotive, and chemicals, face the dual challenge of maintaining global market positions while undergoing deep transformations, highlighting the limits of relying on market forces alone and underscoring the need for a transformative, strategic industrial policy.

4.1 Macroeconomic Indicators and Structural Context

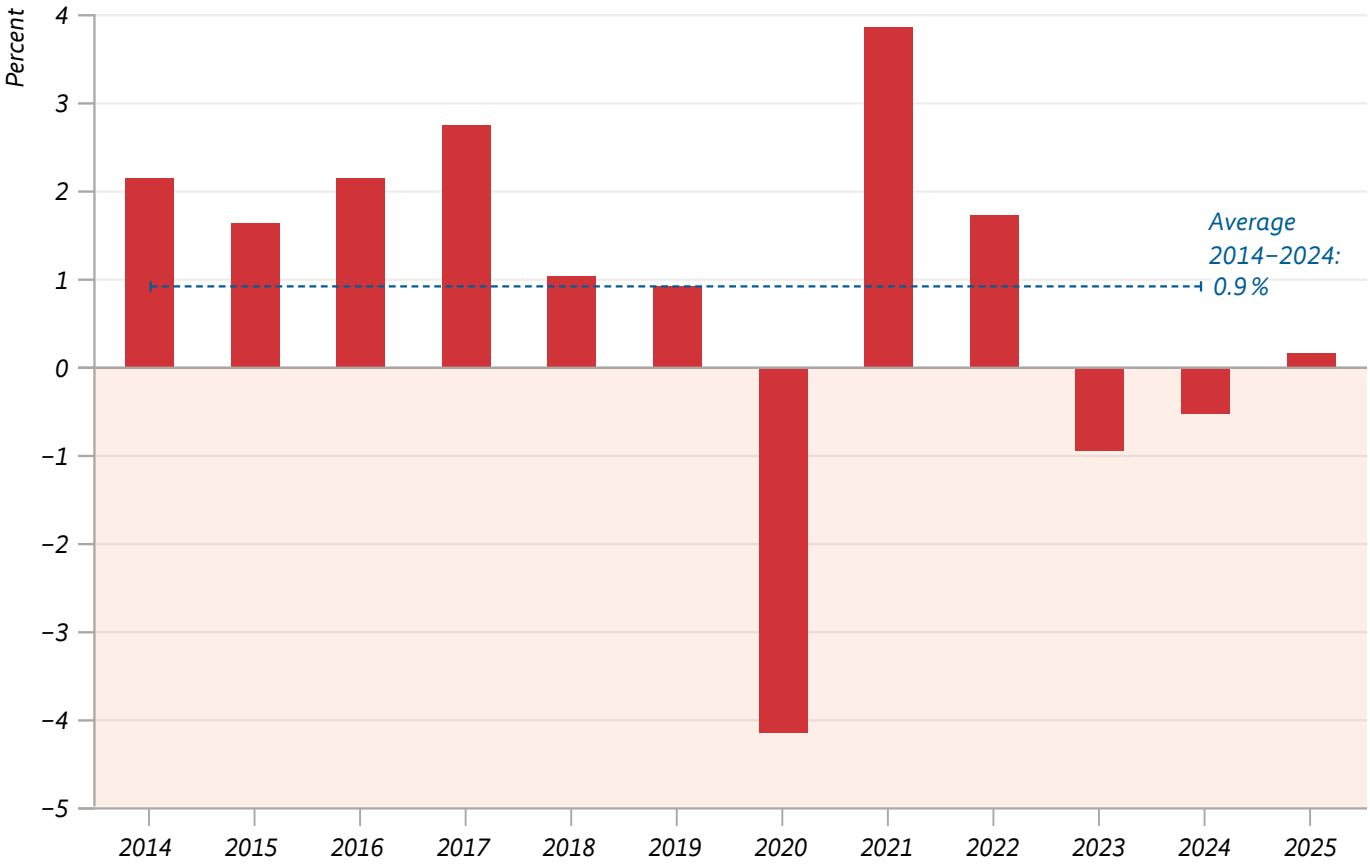
Germany's economic growth over the past decade has been moderate and increasingly fragile. Between 2015 and 2019, real GDP grew around 1–2 % annually before collapsing by roughly 5 % in 2020 due to the COVID-19 pandemic. The subsequent recovery was constrained by global supply-chain disruptions and, from 2022 onwards, a severe energy price shock following Russia's invasion of Ukraine. Since 2023, growth has stagnated, indicating that structural weaknesses – beyond external shocks – are now limiting Germany's economic performance, underscoring the need for comprehensive economic and industrial transformation.

Sectoral data highlight a gradual weakening of Germany's manufacturing base. While nominal GDP rose from while Germany's nominal GDP rose from EUR 3.09 trillion in 2015 to EUR 4.31 trillion in 2024, manufacturing's share fell from 20.1 % to 18.0 %, reflecting rising energy costs, global competitive pressures, and adjustment challenges linked to digitalisation and climate neutrality. Services expanded from 62.6 % to 64 % of GDP, reinforcing long-term tertiarization, while industry and construction lost relative weight.

Industrial production has been under particular strain, falling by 1.1 % in 2025, accompanied by 143,000 job losses (–1,8 %) (Destatis, 2026a). Surveys indicate almost a quarter of industry production capacities remain unused in early 2026 (Destatis, 2026b), and more than a third of firms (38,6 %, 08/2025) report insufficient orders (DIHK, 2025). Core sectors – mechanical engineering, metals, and electrical industries – face shrinking competitiveness outside the EU, with

GDP Year-to-Year Change

Figure 5



Source: Destatis (2026).

40 % of firms planning to reduce investments (ifo Institute, 2026). Energy-intensive industries, including chemicals, metals, plastics, glass, and paper, are especially affected by high electricity and gas prices, which remain above pre-crisis levels and highly volatile, threatening prolonged industrial weakness.

Germany remains a highly export-oriented economy, with exports totalling EUR 1.570 trillion and imports EUR 1.367 trillion in 2025, resulting in a EUR 203 billion surplus in 2025 (ifo Institute, 2025a). Manufacturing – contributing roughly 19 % of value added, about twice as much as in the US, France, or the UK – remains central to the economy, with strong linkages to industry-related services and above-average productivity. Yet this export-driven model faces growing structural pressures. Key sectors such as automotives, steel, mechanical engineering, and chemicals – which dominate exports – are increasingly vulnerable to global competition. Chinese subsidized products with excess capacity, alongside US trade measures and potential tariffs, have contributed to falling prices and reduced export performance, with some sectors (automobiles and steel) seeing declines of over 4 % year-on-year (Destatis, 2025). While industrial production is geographically dispersed, Germany's specialization in a limited set of core industries amplifies these vulnerabilities, highlighting the need for strategic support to preserve competitiveness and ensure long-term economic resilience.

4.2 Labour Market, Wages and Inequality

Despite prolonged economic stagnation and weakening manufacturing activity, Germany's overall labor market for a long time has remained relatively resilient. However, at the beginning of 2026, unemployment surged to its highest level in 12 years, surpassing the mark of 3 million (Bundesagentur für Arbeit, 2026).

The sectoral development underlying this rise has been highly uneven. Employment in manufacturing and construction has declined, consistent with the industrial slowdown, while job creation has been concentrated almost entirely in the expanding service sector. This growth in services has largely offset losses elsewhere. In 2025, service sector employment grew by roughly 164,000 jobs (+0.5 %), raising its share of total employment to 75.9 %, driven mainly by public services, education, and health. By contrast, the producing sector outside construction lost about 143,000 jobs (–1.8 %) (Destatis, 2026a), reflecting weak industrial activity and subdued investment.

These sectoral shifts are concerning as job losses in manufacturing disproportionately affect well-paid, collectively agreed jobs with strong employment protection and social security coverage. While service sector growth stabilizes overall employment, many of these jobs are less secure and more heterogeneous. The decline of industrial employment therefore threatens overall prosperity, purchasing power, domestic demand and, in the long term, political stability, even as aggregate employment figures remain relatively stable.

Wage trends reinforce this vulnerability. Recent developments in German wages reveal a growing tension between nominal income growth and real purchasing power. While nominal wages continued to rise during the inflation surge of 2021–2023, sharply increasing consumer prices more than offset these gains, leading to historically significant real wage losses. Only from Q3 2023 onwards did real wages begin to recover, driven primarily by easing inflation rather than an acceleration in nominal wage growth. This pattern underscores that recent improvements in real incomes reflect disinflation effects rather than a fundamental strengthening of wage-setting power. The weakening of collective bargaining coverage, which now extends to only about 50 % of employees and is particularly low in the service sector and eastern Germany, further constrains workers' ability to secure fair wages.

Another central challenge for long-term economic resilience is the **growing shortage of skilled labour**. Even amid weak economic growth, many firms struggle to fill qualified positions: surveys indicate that around 25–30 % of companies report shortages, particularly in manufacturing, construction, logistics, and legal / tax services (ifo Institute, 2025b). This shortage is driven by demographic change, insufficient upskilling and education, and limited integration of skilled foreign professionals. The gap is especially critical in **future-oriented sectors** such as energy transition and environmental technology, where an estimated 150,000 to 200,000 additional skilled workers will be required in the coming years (IAB, 2025).

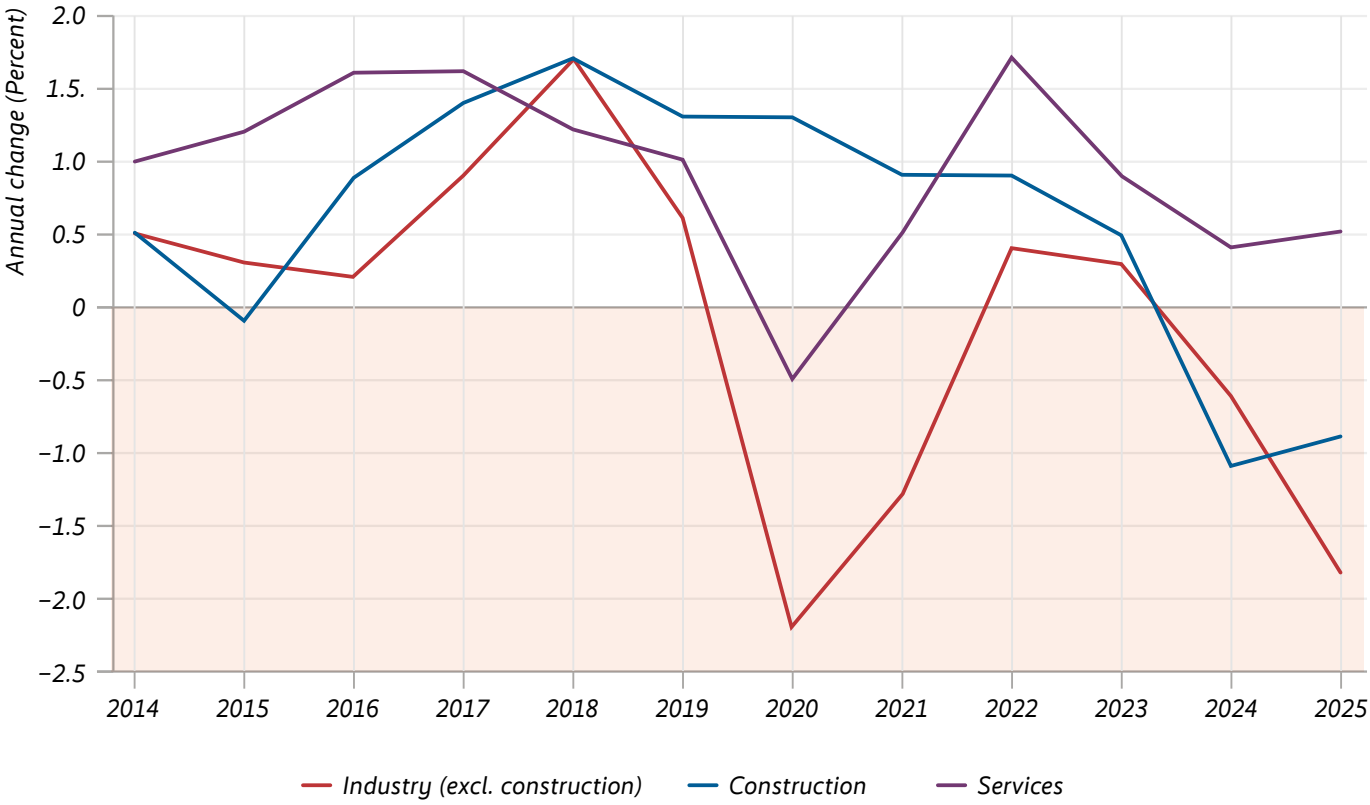
Taken together, these developments show that Germany's industrial slowdown, wage pressures, and skills shortages pose risks not only to workers in manufacturing but to broader economic resilience. Without policies to strengthen industrial employment, collective bargaining, real wages, and skills development, the capacity to maintain domestic demand, social cohesion, and long-term economic stability will be undermined. Empirical research underscores the stakes: regions experiencing long-term economic weakness, underinvestment, and structural decline exhibit higher support for far-right parties, illustrating the social and political consequences of economic vulnerability (FES, 2025).

4.3 Investment Gap and Austerity

Germany's transformation challenge is above all an investment problem. Studies from the IMK, IW, and Dezernat Zukunft estimate that between EUR 600 (IW & IMK, 2024) and EUR 780 billion (Heilmann et al., 2024) in public investment will be needed over the next decade to modernize infrastructure, decarbonize industry, and strengthen public services. The pressure on German public finances is particularly visible at the municipal level. According to KfW Research,

Employment Change by Sector

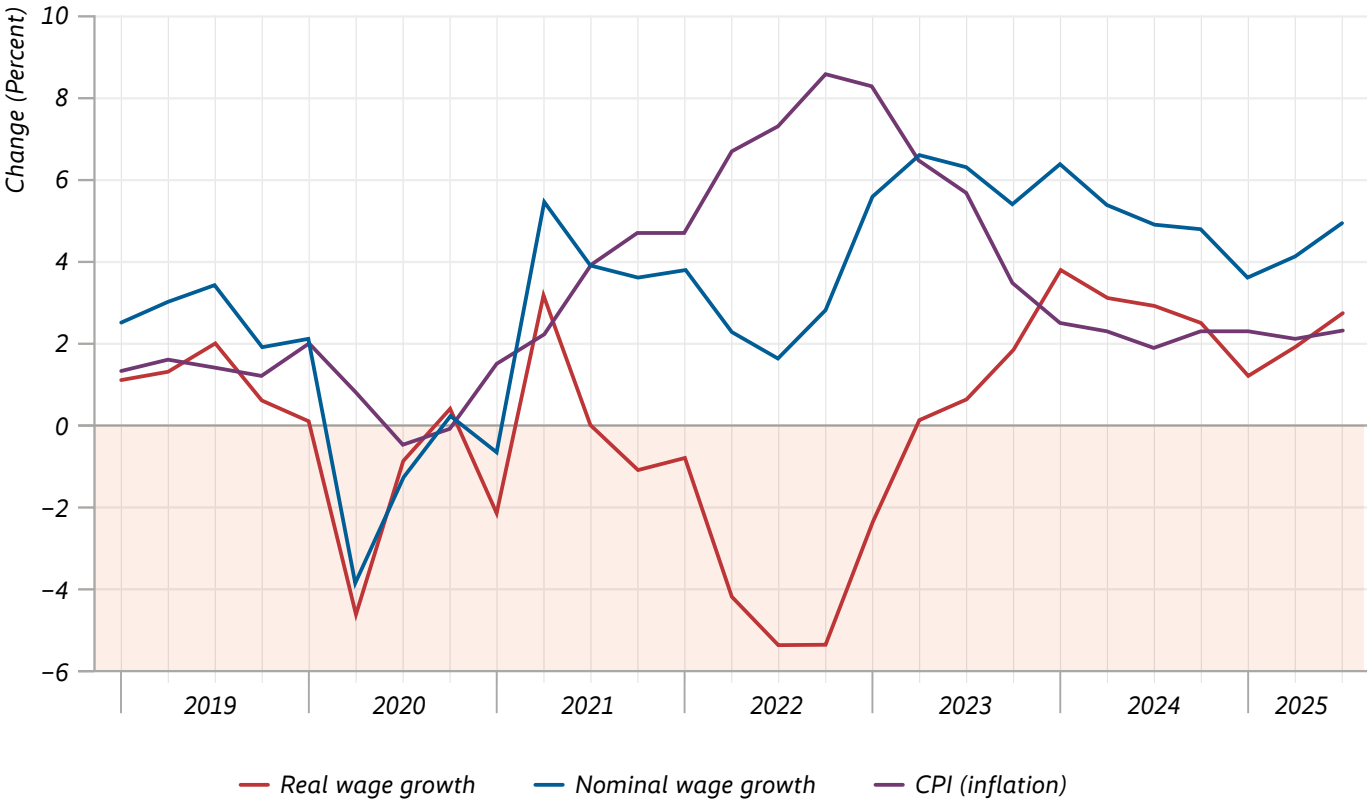
Figure 6



Source: Destatis.

Changes in Real & Nominal Wages + CPI

Figure 7



Source: Destatis.

municipalities in Germany reported an investment backlog of EUR 215.7 billion in 2025, representing a year-on-year increase of 15.9 per cent (EUR 29.6 billion) and marking the highest level ever recorded in the KfW Municipal Panel (KfW Research, 2025). The backlog is particularly pronounced in schools, transport, and digital infrastructure.

Germany's investment backlog is closely linked to its long-standing commitment to fiscal austerity. In 2009, the country introduced a "debt brake" through a constitutional amendment, limiting the federal government's structural net borrowing to 0.35 % of GDP and effectively prohibiting deficit financing under normal conditions. While the rule allows temporary suspension in exceptional emergencies, its regular application has significantly constrained public investment, particularly in infrastructure and transformation-related projects.

To bypass these limits, fiscal expansion has increasingly relied on off-budget special funds (Sondervermögen), which are legally separated from the core budget and largely exempt from borrowing restrictions. Among the more recent off-budget special funds are a EUR 100 billion fund for military expenditure and a EUR 500 billion fund primarily targeting infrastructure modernisation and climate-related investments. While these instruments are expected to provide a positive cyclical impulse, supporting investment activity and aggregate demand at a time of weak private investment and subdued growth, they are not sufficient to close the structural investment gap.

At the same time, their expanding role has intensified the policy debate around the sustainability of Germany's fiscal framework. The growing reliance on temporary and fragmented special funds points to a structural tension: long-term investment needs in infrastructure, climate transformation and cohesion are increasingly addressed through exceptional instruments with fixed expiration horizons and predefined spending windows, rather than being anchored within a reformed and predictable fiscal rule. This raises critical questions about planning certainty, intergovernmental investment capacity – especially at the municipal level – and the long-term credibility of fiscal policy. Consequently, many economists alongside trade unions have long advocated for a permanent, investment-oriented reform of the debt brake.

4.4 Sectoral Spotlights

4.4.1 Steel

Germany stands as the largest steel producer in the EU and the seventh largest globally, with contracts totalling approximately EUR 5 billion annually. The sector employs about 80,000 people directly, with 4 million workers in steel-intensive sectors (WV Stahl, 2025).

The industry faces a significant challenge in transitioning to climate-neutral production, necessitating a reduction of up to 55 million tons of CO_2 per year. This transformation requires substantial technological investments and workforce retraining. However, the sector is also grappling with global competition, carbon leakage risks, and high energy costs, which strain profitability and competitiveness.

In response to these pressures, Thyssenkrupp Steel Europe (TKSE) has announced plans to cut 11,000 jobs, equating to 40 % of its workforce, by 2030. This includes 5,000 direct job cuts and the outsourcing or divestiture of an additional 6,000 positions (Reuters, 2024). These measures aim to improve productivity and reduce costs but raise concerns about employment stability and social implications.

4.4.2 Automotive

The automotive sector employs roughly 841,000 people in Germany. Revenues declined by 5 % in 2024, and exports to China collapsed, while the U.S. remains a key market. In between Q3/2024 and Q3/2025 48,700 jobs were lost in the industry (including suppliers), highlighting the sector's exposure to global demand fluctuations and competitive pressures (VDA, 2025).

Cost pressures remain acute: although labour costs represent a small share of total costs, energy and regulatory burdens contribute to rising production expenses. Investments in e-mobility, battery production, and domestic infrastructure are crucial for maintaining competitiveness, yet the pace of structural adjustment places strain on both companies and the workforce. Collective bargaining and industrial representation have played a stabilizing role, supporting wage growth and securing working conditions amid structural uncertainty.

4.4.3 Chemical Industry

Germany is the largest chemical producer in Europe, with a turnover of around EUR 240 billion in 2024 (VCI, 2025), about one-third of EU-27 chemical sales. Globally, it ranks fourth in revenues and third in exports.

In 2023/24, chemical production declined by around 10.6 %, reaching its lowest level since the mid-1990s. This contraction was driven primarily by persistently high energy prices, weak industrial demand in downstream sectors, and increasing international cost competition, rather than short-term cyclical effects alone (ICIS, 2024). While pharmaceuticals remained comparatively resilient due to stable global demand, large segments of basic chemicals experienced capacity reductions and investment postponements. Despite these challenges, unionized sectors have secured incremental wage increases and improved leave entitlements, demonstrating how labor representation interacts with sectoral stability. Ongoing workforce engagement is crucial as the industry adapts to energy constraints and global competitive pressures.

5.
Shaping Europe's Industrial Future: Pillars of a Transformative Policy

5.1 The State as Market Shaper

The EU's historically market-led and predominantly liberal economic policy framework has proven insufficient to address the structural weaknesses of the European economy. It has contributed to growing strategic dependencies in critical technologies, energy, and raw materials, while failing to generate the level of innovation and technological dynamism required for long-term competitiveness. Reliance on past policy paradigms is therefore no longer a viable option.

If the EU is serious about advancing innovation, strengthening strategic resilience, fostering social inclusion, and securing sustainable prosperity, it must embrace a modern, transformative European industrial policy – one in which the state acts as a proactive, market-shaping force rather than merely a market-correcting one.

Public institutions play a pivotal role not only in financing and coordinating investment in technological transformation, decarbonisation, and strategically important sectors, but also in addressing systemic market failures and ensuring that structural change serves the broader public interest. Democratic governance and meaningful social dialogue are essential to this endeavor. Trade unions and social partners must be actively involved in the design and implementation of industrial initiatives to ensure that economic transformation is not only competitive and innovative, but also socially just and broadly shared.

Europe is at a turning point. The EU must embark on a new industrial policy trajectory – one that builds on the distinctive strengths of its social market economy rather than attempting to compete with the United States and China in a race to the bottom on deregulation. The need for a renewed approach is particularly urgent as decisive strategic choices are currently being made at the European level, including negotiations on the next MFF, the implementation of the Single Market Strategy, and the rollout of the CID.

Against this backdrop, DGB and the CGIL call for coordinated action at both European and national levels, aligning EU industrial policy with strengthened bilateral cooperation between Germany and Italy. Our recommendations clearly differentiate a market-shaping, investment-led strategy from approaches that rely predominantly on deregulation.

By combining strategic public investment, active state engagement, multi-level governance, and meaningful social participation, European industrial policy can reduce strategic dependencies, enhance economic resilience and innovation, and at the same time reinforce the fundamental principles of the European social model.

5.1.1 A Strategic Public and Private EU Investment Agenda

Europe faces a persistent investment backlog that undermines its capacity for structural transformation. As highlighted in Chapter 2, the EU is on track for an annual investment deficit of 1.8 % of GNI – approximately EUR 321 billion – by 2030 across strategic domains such as digitalisation, decarbonisation, geoeconomic resilience. This gap is compounded by additional investment shortfalls at national level and in the private sector, reflecting structural weaknesses in Europe's productive base. Although the EU has sought to mitigate these deficits through instruments such as NGEU and temporary reforms to state aid rules (CISAF), it remains far from establishing a coherent, strategic, investment-driven industrial policy capable of addressing these challenges at scale. This is particularly evident in the case of the CID, which – despite its strategic ambitions as the EU's flagship policy for a proactive industrial policy – largely lacks additional dedicated funding.

In the absence of a genuine European investment agenda, the EU continues to rely heavily on the fiscal capacity of individual Member States to finance industrial transformation. This approach is both insufficient and inconsistent, especially given EU fiscal rules that constrain large-scale national investment efforts. A reform of the European fiscal framework is therefore urgently required. A revised framework should more clearly distinguish between current expenditure and strategic public investment, allowing greater flexibility for spending on decarbonisation, digital infrastructure, innovation, and industrial modernisation.

At the same time, Europe needs both a **stable and permanent European fiscal capacity** and **a long-term reform of EU state aid rules** beyond the temporary CISAF framework. Without common fiscal instruments and a state aid regime designed for structural transformation rather than short-term crisis response, the EU risks deepening internal divergences and fragmenting the Single Market. Only by addressing both dimensions can the Union promote upward convergence and build a strong and resilient industrial base.

With NGEU, the EU has already created a blueprint for a common fiscal instrument underpinning industrial strategy. Building on this experience, a permanent "**EU Future Fund**" (DGB, 2024) (NGEU 2.0), financed through common debt, should be established to support long-term investment in cross-border infrastructure as well as strategic sectors such as batteries, semiconductors, critical raw materials, and artificial intelligence, in order to strengthen and expand Europe's productive capacity.

The EU Future Fund could form one pillar of a **strengthened and more capable EU budget**. In this context, however, the proposed Multiannual Financial Framework (MFF) for 2028–2034 remains clearly inadequate. The envisaged marginal increase – around 0.02 % compared to the current budget – falls far short of Europe's structural investment needs. Moreover, a disproportionate reallocation of resources toward defence risks crowding out funding for decarbonisation, social cohesion, and industrial modernisation. If the EU is serious about reducing technological dependencies

and strengthening its productive base, it must equip itself with more robust common financial instruments. A reinforced MFF, supported by **new EU own resources** and complemented by a permanent Future Fund, would better reflect the scale of Europe's investment deficit and transformation challenges (DGB, 2026).

The proposed **EU Competitiveness Fund** (ECF) could serve as the second core vehicle for a true EU investment agenda for industrial policy within this architecture. However, its current design requires substantial adjustment. While the Fund aims to support competitiveness and resilience, the allocation of resources is currently heavily skewed toward defence, whereas funding for decarbonisation, industrial modernisation, and skills development remains comparatively limited. This imbalance risks undermining long-term resilience and productivity rather than strengthening it. The Fund should therefore be clearly oriented toward transformative investment in strategic value chains and clean technologies, while embedding a strong social dimension. In particular, the ECF should include a dedicated and **adequately financed budget window for skills and qualification**, recognising that industrial competitiveness and innovation ultimately depend on a highly skilled workforce.

More broadly, **labour and social conditionalities must apply horizontally across the entire MFF and all major EU investment instruments** – including the ECF, cohesion policy, state aid frameworks, and public procurement rules. EU public funding should strengthen collective bargaining systems, safeguard employment, promote worker participation, and require binding commitments to skills and training. A well-qualified workforce is a precondition for productivity, innovation, and resilience. Conversely, linking EU funds to structural reform conditionalities in areas such as pensions, education, or labour markets ("**money for reforms**") risks undermining sustainable growth, social progress, and full employment and must therefore be rejected.

Democratic governance of European investment tools must also be reinforced. Social partners should be formally represented in the strategic oversight structures of major EU funds, including the Competitiveness Fund, to ensure that industrial policy decisions reflect economic, social, and environmental objectives in a balanced manner.

Finally, to secure a just and competitive green transition, the EU must implement measures to strengthen private investment. DGB and CGIL thus propose the introduction of **EU-wide Carbon Contracts for Difference (CCfDs)**. Such instruments would provide long-term investment certainty for energy-intensive industries, bridge the cost gap between conventional and climate-neutral production processes, prevent carbon leakage, and safeguard high-quality industrial employment. Coordinated at European level, CCfDs would strengthen the Single Market, avoid subsidy races between Member States, and ensure that public support is tied to clear social and environmental conditionalities.

Key demands:

- → **Establish a permanent EU Future Fund (NGEU 2.0)** based on common debt to finance long-term strategic investment.
- → **Implement a transformation-oriented and long term reform of EU state aid** rules beyond the temporary CISAF framework.
- → **Substantially increase the volume of the MFF 2028–2034** in line with Europe's investment needs and structural challenges.
- → **Rebalance the EU Competitiveness Fund** toward decarbonisation and industrial modernisation and **create a dedicated budget window for skills and qualification.**
- → **Apply binding labour and social conditionalities** across all EU funding instruments and reject reform conditionalities that weaken labour and social standards.
- → **Strengthen social partner participation** in the strategic governance of EU investment instruments, including the strategic stakeholder board of the European Competitiveness Fund.
- → Introduce **European Carbon Contracts for Difference** to provide long-term investment security for energy-intensive industries and safeguard high-quality industrial jobs.

5.1.2 Strengthen domestic demand and deepen the EU Single Market

A transformative European industrial policy must be anchored in a macroeconomic environment that supports robust domestic demand. For too long, growth strategies in parts of Europe have relied disproportionately on external demand, while wage restraint, fiscal consolidation, and underinvestment weakened internal consumption and public infrastructure. In a context of global uncertainty and volatile trade relations, such dependence on export surpluses is increasingly unsustainable. A durable industrial strategy therefore requires a systematic strengthening of purchasing power, public investment, and the EU Single Market.

First, an **expansive wage policy** is essential to reinforce domestic demand. Wage growth in line with productivity developments supports household purchasing power, stabilises expectations, and creates reliable demand for domestically produced goods and services. Strong collective bargaining systems and high collective agreement coverage play a central role in achieving balanced wage dynamics across sectors and regions. Strengthening collective bargaining in line with the **EU Minimum Wage Directive** is thus not only a matter of social justice but also a macroeconomic imperative for sustaining prosperity and investment.

Second, **substantial public investment in cross-border infrastructure and the energy transition** is required to stimulate demand in the short term and enhance productivity in the long

term. Investment in transport networks, digital infrastructure, renewable energy systems, grids, storage capacity, and energy efficiency generates multiplier effects across domestic value chains while reducing structural bottlenecks. Public investment also crowds in private capital by lowering uncertainty and creating predictable framework conditions for industrial upgrading. In particular, accelerating the energy transition reduces exposure to external energy price shocks and strengthens Europe's strategic autonomy. This requires both national and European fiscal frameworks that enable productive investment (see 5.1.1).

Most importantly, deepening the EU Single Market **must go beyond deregulation** and the removal of administrative barriers. A resilient Single Market requires **upward economic and social convergence, coordinated industrial strategies, and the reduction of structural imbalances between Member States**. This includes preventing subsidy races, ensuring fair competition, and strengthening common standards that protect labour and environmental standards.

Key demands:

- → Promote an **expansive wage policy** that strengthens purchasing power and supports demand-led growth.
- → **Reinforce collective bargaining systems** and ensure high collective agreement coverage across Member States.
- → **Increase public investmen**t in cross-border infrastructure, industrial modernisation, and the energy transition (cf. 5.1.1).
- → **Deepen the EU Single Market through upward social and economic convergence** rather than blanket deregulation.
- → Prevent fragmentation and subsidy races by **strengthening coordination and fair competition** within the Single Market.

5.1.3 Safeguard Quality Jobs

At present, the European Commission is advancing an approach that, under the banner of reducing administrative burdens, risks weakening workers' rights, collective bargaining, co-determination, and long-established protection standards. This approach reflects an overly narrow understanding of competitiveness, one that prioritises short-term cost reductions over long-term economic sustainability, social cohesion, and democratic participation at the workplace. DGB and CGIL emphasise that high labour standards are essential for resilient economies and a Just transition, particularly in the context of a high degree of insecurity due to structural changes and job losses in the industry sector.

Quality jobs – grounded in collective bargaining, co-determination, and access to continuous training – are not regulatory burdens but key drivers of productivity, innovation, and fair wealth distribution. Strengthening Europe's competitiveness therefore requires sustained investment in skills, education, and continuous training rather than the erosion of labour standards. As Mario Draghi has underscored, competitiveness is built by raising skill levels and productivity – not by lowering wages or weakening worker protections. What Europe needs is a coherent policy framework that places quality work at the heart of its industrial and services policy.

In this perspective, social conditionalities should be seen not as regulatory burdens but as catalysts for stronger economic performance. They are also a tool to ensure that private companies benefiting from public support make a meaningful contribution to social and economic prosperity. And their benefits are manifold: a more skilled and engaged workforce, higher labour market participation, decent wages, increased consumer demand, greater tax revenues, regional cohesion, and enhanced societal trust in democratic institutions. At the EU level, precedents already exist. For example, the latest reform of the Common Agricultural Policy incorporates social conditionalities by requiring beneficiaries to respect EU labour standards and improve working conditions on farms. While this represents a significant step, social conditionalities should extend beyond mere compliance with existing legislation, actively shaping more equitable and productive economic practices.

Furthermore, a unifying requirement for companies to anticipate and manage changes with the democratic participation of employees is needed. A system in which social partners and works councils jointly negotiate forward-looking transition plans to develop and retain a skilled workforce is all the more crucial in times of growing labour and skills shortages. Such an approach could help bring more concrete action to achieve a Just Transition by reconfirming and strengthening existing employee rights and promoting a new and comprehensive system of anticipation and management of change. To achieve this, a swift and full legalisation of the recently proposed Just Transition Directive by the European Parliament is needed.

The Directive must establish a binding European framework to proactively address the employment impacts of the green and digital transitions across all sectors. It should guarantee workers concrete rights to training, reskilling and secure job-to-job transitions, supported by strong social protection systems. By embedding social dialogue and collective bargaining at every level, the Directive would ensure that workers and their representatives actively shape the transformation rather than merely reacting to it.

In this context, the proposed Quality Jobs Roadmap can only contribute to these objectives if it moves beyond its current limited scope and becomes a strong and binding instrument to genuinely improve job quality across Europe. In its current form, it remains unclear whether it will sufficiently address key structural challenges such as low collective bargaining coverage, insufficient access to training, precarious employment, and the regulation of complex subcontracting chains and algorithmic

management. To effectively tackle labour shortages and raise productivity, the Roadmap must therefore be strengthened with concrete legislative measures that expand workers' rights, improve working conditions and ensure that Europe's economic transformation is built on high-quality employment rather than downward pressure on labour standards.

Key demands:

- → **Link EU funding and public procurement to quality job standards**, including collective bargaining, co-determination, job security, local value creation, and employee training.
- → **Binding rules** requiring companies to manage transformation processes with democratic employee participation and jointly agreed **transition plans**.
- → **Exclude companies that violate workers' rights, health and safety standards, or engage in social dumping** from receiving EU support or public contracts.
- → The **Quality Jobs Roadmap** must be adopted as a binding EU instrument to secure high-quality jobs across industrial and services sectors.
- → The EU must introduce **effective enforcement measures** for Member States that fail to meet their obligations under the **EU Minimum Wage Directive**, including the submission of an action plan to raise collective bargaining coverage.
- → A swift and full legalisation of the recently proposed **Just Transition Directive.**

5.1.4 Deploy Strategic Public Procurement and Buy European Instruments

The European Commission must strengthen Europe's strategic autonomy and reduce dependency on individual countries. European markets are increasingly exposed to foreign competitors with overcapacities and dumping practices, often operating under lower social and environmental standards. This puts European companies across multiple sectors under severe pressure, threatening industrial value creation, collectively agreed jobs, and prompting the relocation of production abroad.

Maintaining and strengthening strategic industrial value creation in Europe is therefore essential. This includes not only future technologies – such as wind energy, batteries, storage systems, heat pumps, electrolysers, fuel cells, and carbon capture and storage (CCS) – but also foundational industries at the start of the value chain, including steel, chemicals, glass, ceramics, and cement.

In this context, robust **Buy European clauses** are a critical tool to counter unfair competition, reduce strategic dependencies, and safeguard industrial value creation. DGB and CGIL strongly support their systematic implementation. The Industrial Accelerator Act, together with the forthcoming revision of the European Public Procurement Directive, provides a timely legal and political framework to embed binding Buy European clauses across public procurement, allocation of public funding, and auction mechanisms – including the assignment of sites for renewable energy projects. However, the current Commission proposal for the Industrial Accelerator Act falls short of trade union expectations and would need to be further strengthened to fully deliver on its objectives. A more comprehensive approach with fewer exemptions and broader technological coverage is needed.

Public authorities wield substantial market power, and binding Buy European clauses ensure that public funds reinforce European value chains rather than inadvertently supporting non-European overcapacities. Properly designed, these clauses can enhance industrial resilience, support the expansion of climate-friendly production, and support the ramp-up of climate-friendly production processes and products in Europe.

A uniform European approach is essential to avoid a patchwork of national regulations that would weaken the Single Market. DGB and CGIL call on the European Commission to implement Buy European clauses without delay, ensuring Europe's industrial strength, strategic autonomy, and the protection of high-quality employment.

Key Demands:

- → **Strengthen Europe's strategic autonomy** by keeping industrial value creation and production capacities for both future and foundational industries within Europe.
- → **Implement binding EU-wide Buy European clauses** in public procurement, funding, and auctions to counter unfair competition and reinforce European value chains.
- → **Ensure a uniform European approach** to avoid fragmented national rules, safeguard high-quality jobs, and protect the Single Market.

5.1.5 Stabilise Key Cost and Location Factors for Industrial Competitiveness

High and volatile energy prices are among the greatest threats to European industrial competitiveness. While recent initiatives, such as the Affordable Energy Action Plan, represent important progress, existing measures fall short of addressing the underlying structural challenges. Notably, gas prices – despite accounting for only around 14 % of electricity generation – continue to set wholesale electricity prices approximately 40 % of the time. This pricing mechanism artificially inflates electricity costs and places a disproportionate burden on energy-intensive industries.

A fundamental reform of the electricity market is required. Current pricing mechanisms, which link electricity costs to volatile gas markets, create artificial price spikes that threaten energy-intensive industries and undermine long-term investment planning.

Electricity prices must be decoupled from gas markets, unjustified profits in generation and trading must be curbed, and a European industrial electricity price should be introduced to ensure predictable, fair, and competitive energy costs across the EU.

Achieving this requires substantial public investment across several interrelated areas. Expanding renewable energy production will reduce dependence on fossil fuels, stabilise supply, and advance climate targets. Modernising electricity grids is crucial to integrate decentralised and variable renewable sources efficiently while maintaining reliability. Flexible low-carbon power plants, including transitional technologies such as hydrogen-ready gas or biomass plants, will provide the backup capacity needed to meet peak demand. Strengthening public and municipal actors is equally essential to coordinate local energy planning, align infrastructure with social and industrial priorities, and support regional development. These investments must also uphold Decent Work in the energy sector, guaranteeing secure, high-quality jobs, robust labour standards, and opportunities for training and upskilling. A true European Energy Union is essential to secure a competitive and resilient industrial base.

Industrial competitiveness depends not only on secure and affordable energy but also on efficient and sustainable transport infrastructure. A high-performance, transnational rail network is key to connecting industrial centres with ports, freight corridors, and high-speed passenger lines. This must be complemented by maintaining and modernising road networks, expanding a European charging infrastructure, and improving the modal mix holistically across rail, road, waterways, and air transport. Strong European funding and coordination are crucial for implementing these projects effectively, enabling industry to move goods and people efficiently and sustainably.

The future of European industry also depends on a robust hydrogen economy and sustainable raw material supply. Promoting the production of green – and in the transitional phase, blue – hydrogen, building a common import framework, and rapidly expanding the hydrogen network will underpin industrial production and jobs. Similarly, European exploration and extraction of critical raw materials should be facilitated, reducing dependency on global supply chains while ensuring higher social and environmental standards and minimizing long-haul transport.

A common European approach to carbon management is also needed to achieve climate neutrality in certain industrial sectors, in line with the objectives of the European Green Deal. Carbon capture and storage (CCS) is currently the only viable option for achieving greenhouse gas neutrality in sectors such as cement and lime production or waste incineration. At the same time, captured CO_2 can contribute to replacing fossil-based carbon in industrial production processes through carbon capture and utilisation (CCU).

At the same time, strong European impetus is needed to accelerate the scale-up of the circular economy. Regulatory barriers must be reduced, in particular by clarifying End-of-Waste criteria, introducing harmonised standards for recycled material quality, and aligning approval and authorisation procedures across Member States. In addition, binding recycling targets for critical and strategic raw materials must be implemented swiftly to strengthen resource security, reduce dependencies, and support a climate-neutral industrial transformation.

Europe must strengthen cross-border collaboration in future technologies and innovation to reinforce technological sovereignty. Initiatives such as IPCEI, an investment needs-oriented MFF, and a European Competitiveness Fund are key to supporting future technologies. Additionally, creating lead markets for innovative products and processes – such as steel and cement with common labels and public procurement incentives – will secure industrial competitiveness.

Finally, EU needs to adopt an ecosistemic vision of the socio-economic development considering the interdependence between: technological innovation, research, production processes, ethics and technical issues and social life. To sustain these transitions, both public and private spending on universities, research, and development must be significantly increased. Public support for firms should move beyond indiscriminate tax incentives and instead become selective and conditional, rewarding alignment with national strategic goals and virtuous behaviour in investment, wage policy, and employment stability (Pianta, 2021).

Key Demands:

- → **Reform the electricity market** to decouple electricity prices from volatile gas markets and introduce a European industrial electricity price to ensure predictable costs and level playing fields across the EU.
- → **Invest in cross-border energy and transport infrastructure:** expand renewable energy production, modernise electricity grids, expand flexible low-carbon power plants, connect industrial centres, ports, and corridors, maintain roads, expand European charging infrastructure, and improve the modal mix across rail, road, waterways, and air transport.
- → **Promote a European hydrogen economy**, including production of green and blue hydrogen, import strategy, and network expansion.
- → **Facilitate sustainable extraction of critical raw materials** within Europe to reduce dependencies and meet internal demand.
- → **Strengthen cross-border collaboration in future technologies** to reinforce technological sovereignty (IPCEI, needs-oriented MFF, European Competitiveness Fund).

→ Promote the development of a **strong European circular economy** through the upcoming Circular Economy Act, by removing regulatory barriers, harmonising standards for recycled materials, and implementing binding recycling targets for critical and strategic raw materials.

→ **Create lead markets for innovative products and processes**, such as steel and cement, through common labels and public procurement incentives.

5.1.6 Empower Social Partners and Democratise Industrial Policy

A transformative European industrial policy must actively involve trade unions to ensure that economic transformation is socially inclusive, protects employment, and aligns with the principles of the European social model – equity, democracy, and inclusion. Trade unions are uniquely positioned to represent workers' interests, anticipate social impacts of structural change, and promote a **just transition** that balances industrial modernisation with social fairness.

Embedding trade unions in industrial governance strengthens democratic oversight, improves transparency, and ensures that strategic investments support both productivity and social objectives. DGB and CGIL demand an improvement of the formal participation in the governance of EU investment instruments, such as the **strategic governance board of the European Competitiveness Fund** and **Cohesion Policy funds via the partnership principle**. Trade unions can guide investment priorities toward strategic sectors while safeguarding labor rights, supporting collective bargaining, and promoting skills development and workforce training.

In this context, DGB and CGIL also demand that the proposed **Just Transition Directive** be implemented in full. Currently, efforts for just industrial modernisation on EU level lack **minimum standards and obligations** for Member States and companies to guarantee workers rights during restructuring. This must urgently be mitigated. Establishing a Just Transition Directive would allow the EU to implement industrial strategies that are resilient, widely supported, and capable of delivering a fair transition for all workers.

Key Demands:

→ Ensure adequate representation of trade unions in the strategic governance of major EU investment instruments (**strengthen partnership principle; include trade unions in ECF strategic governance board**).

→ Embed strong labor and social conditionalities across EU-funded projects (see 5.1.1).

→ **Implement the EU Just Transition Directive in full**, ensuring that the EU's industrial policies comply with its requirements.

5.1.7 Pursue Targeted Regulatory Reform, Not Indiscriminate Deregulation

Acceleration of planning and approval procedures, particularly for transformation projects, can enhance efficiency. Digital technologies and the reduction of regulatory duplication offer additional potential gains. However, blanket quantitative targets for reducing administrative burdens or regulations are problematic. Without careful assessment of the costs associated with insufficient regulation, such measures are dangerous. Essential protections for workers, consumers, and the environment must not be undermined in the pursuit of "bureaucracy reduction."

Recent initiatives by the European Commission, such as the Omnibus packages and the harmonization of the so-called "28th Regime," show a worrying trend toward deregulation. In practice, Omnibus approaches often function as blanket deregulation tools, while cost-benefit analyses are rarely conducted, and the social and ecological value of regulation is largely ignored. Impact assessments, new reality checks, and implementation dialogues urgently need to take into account the value of regulation from the perspective of workers, consumers, and the environment to ensure balanced decision-making.

Furthermore, trade unions clearly oppose attacks on so-called "goldplating." National standards that go beyond the minimum requirements agreed at EU level are a legitimate and democratic instrument for promoting prosperity and social protection – particularly in the area of employment and social policy. Arguments about "over-fulfillment" must not be used to limit higher labour standards. The ability of member states to implement EU employment directives beyond the minimum standards must be protected.

National proposals, such as those from Prime Minister Meloni or Minister Merz, follow the same deregulation agenda. Blanket targets for reducing administrative burdens and accelerated approval procedures neglect the complex trade-offs that regulation requires. Without careful evaluation, social protections, environmental sustainability, and long-term economic resilience are at risk. Reducing bureaucracy will not resolve the structural weaknesses of the European economy; what is needed instead is lower energy prices, a strengthened internal market, the development and protection of strategic industrial sectors, and the promotion of high-quality employment.

Key Demands:

→ **Reject deregulation through the "28th Regime" and attacks on so-called goldplating**, and ensure that regulatory harmonisation does not lead to any weakening of workers' rights or established social and environmental standards.

→ **Strengthen administrative capacity instead of cutting safeguards**, by improving staffing, funding, coordination, and digitalisation in public authorities to accelerate planning and approval procedures without limiting democratic participation.

→ **Oppose blanket reductions in reporting and regulatory obligations for companies**, and ensure that any simplification measures are based on thorough impact assessments that fully protect labour rights, consumer protection, and environmental standards.

→ **Reform impact assessments and regulatory reviews to fully account for the social and ecological value of regulation**, ensuring that reality checks and implementation dialogues systematically incorporate the perspectives of workers, consumers, and the environment in balanced decision-making.

5.2 Bilateral Fields of Action

5.2.1 Expanding Sectoral and Technological Cooperation

DGB and CGIL call for closer cooperation between Germany and Italy in strategically important sectors and technologies, including hydrogen, battery cells, carbon capture and utilization/storage (CCU/S), and green electricity. Joint German-Italian industrial strategies should identify areas of shared investment and collaborative development, ensuring that these partnerships strengthen domestic production, technological leadership, and job creation in both countries.

Crucially, such cooperation must actively involve employees and skilled workers in planning and implementation. Their expertise and on-the-ground experience are essential for identifying practical solutions, optimizing production processes, and ensuring that technological advances translate into secure, high-quality employment. Employee participation in cross-border projects strengthens innovation while safeguarding workers' rights and interests.

5.2.2 Circular Economy and Resource Flows

A circular economy approach should be implemented through coordinated planning of material flows between German and Italian industries. Companies from both countries should collaborate to reuse and recycle resources, turning each other's waste streams into raw materials.

Workers and skilled professionals play a key role in this process, from designing efficient recycling systems to implementing circular production processes. Involving employees in decision-making ensures that resource management strategies are practical, effective, and socially responsible. Cross-border cooperation in circular economy initiatives not only reduces environmental impact but also creates stable, sustainable jobs in both countries, fostering new expertise in recycling and resource management.

5.2.3 Mandatory Training and Qualification Measures

All German-Italian cooperation agreements should include binding criteria for employee training and upskilling. Continuous professional development is essential to prepare workers for the technological and green transformation of industry, ensuring they can operate new technologies safely and efficiently.

Investing in human capital is as important as investing in technology and infrastructure. Skilled employees are the backbone of any industrial transformation: they guarantee productivity, innovation, and competitiveness. By integrating comprehensive training programs into bilateral cooperation projects, both countries can secure high-quality jobs, reduce the risk of workforce shortages, and ensure that the benefits of industrial modernization are shared fairly between employers and employees.

6. Conclusion

Europe's current economic and industrial crisis is not the result of excessive regulation or an oversized welfare state, but of long-standing structural weaknesses and political underinvestment. High energy prices, persistent investment gaps, fragile value chains, unfair global competition and growing geopolitical uncertainty are undermining Europe's industrial base, employment quality and social cohesion. Germany and Italy illustrate in different ways how delayed transformation, insufficient public and private investment, and the absence of a coherent industrial strategy have left economies vulnerable to external shocks.

The response cannot be limited to deregulation, austerity or generalized cuts. Such approaches fail to address the real causes of the crisis and risk deepening economic divergence, social inequality and political instability. What is needed instead is a new, mission-oriented European industrial policy that combines economic transformation with social progress.

This paper shows that an effective industrial policy must be based on long-term public investment, coordinated European governance, and active protection against low-cost and unfair competition, e. g. through the introduction of Buy European preference criteria. It must prioritize affordable energy, innovation, skills and training, high-quality employment, and strong social conditionality in public support and procurement. Instead of general attacks on social and environmental standards, we need faster planning and permitting procedures, and stable, predictable frameworks for investment.

A renewed European industrial strategy is not only an economic necessity, but a political choice. Investing in industry means investing in decent work, resilience, and Europe's capacity to shape its own future. Only through coordinated action at European, national and bilateral level can industrial transformation become socially just, economically sustainable and politically legitimate.

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This report is the result of the joint working group on Industrial policies between the Italian and German trade unions Confederazione Generale Italiana del Lavoro (CGIL) and Deutscher Gewerkschaftsbund (DGB), in collaboration with Fondazione Di Vittorio (FDV) and Friedrich-Ebert-Stiftung (FES).

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Industrial Policies in Europe: Crises and Perspectives

This joint report by CGIL, DGB, Fondazione Di Vittorio and Friedrich-Ebert-Stiftung examines the deep structural challenges facing European industry, with a particular focus on Italy and Germany. Against the backdrop of economic stagnation, underinvestment, high energy costs and growing global competition, it argues for a new industrial policy based on strategic public investment, social justice and democratic participation. The publication outlines concrete proposals for a more resilient, innovative and inclusive European economy, in which industrial transformation goes hand in hand with quality jobs, stronger social cohesion and greater strategic autonomy.

Further information on this topic can be found here:
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