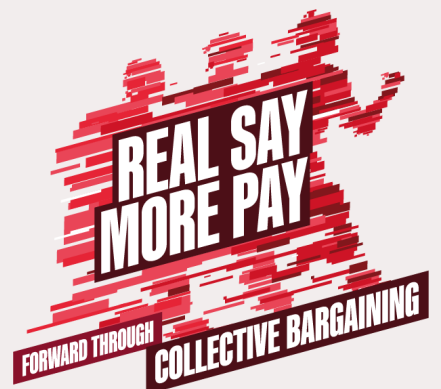




A SMARTPHONE WITHOUT APPS: WHY WE NEED AN INDUSTRIAL STRATEGY FOR SERVICES

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“The European Union exists to ensure that Europe’s fundamental values are always upheld: democracy, freedom, peace, equity and prosperity in a sustainable environment. If Europe cannot any longer deliver these values for its people, it will have lost its reason for being. So, this report is not only about competitiveness – it is about our future and the common commitment that we need to reclaim it.” (Mario Draghi, European Parliament address, 17 September 2024).

When Mario Draghi presented his [report](#) *The future of European competitiveness* to the European Parliament, his message was clear: **the European Union will uphold its core values or it will cease to exist**. The report focused mainly – though not exclusively – on the issue of competitiveness and the need for a strong policy focused on an ambitious investment program.

In doing so, Draghi proposes an impressive list of policy initiatives. **The private services sector is scarcely represented**, with most of the focus on manufacturing and other industrial sectors.

However, private services account for the largest share of employment in Europe and contribute massively to industrial production. **An industrial strategy for Europe cannot focus exclusively on manufacturing**. Instead, it should be broad and include a specific focus on services.

The EU should design a comprehensive EU services policy emphasising investment in services infrastructure, promote collective bargaining through public procurement, enforce social conditionalities in public funding, and promote sectoral agreements to ensure fair wages and working conditions. By promoting services of general interest and tackling undeclared work, the EU can further create a sustainable and inclusive services economy.

The alternative would be like producing smartphones but forgetting the apps.

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1. The importance of the services sectors

The need to include services in any industrial policy is based, on the one hand, on their quantitative importance in the European economy. Indeed, services¹ are the **backbone of our European societies**, both in terms of employment and the value added to our economies.

In terms of **employment**, more than **one in two** ([57 per cent](#)) jobs in the EU in 2022 was in services. This share has increased steadily over the years. In 2008, this figure was around 53 per cent. The importance of services as a whole is therefore expected to continue to grow. Some individual service sectors alone account for more than one in ten jobs in the EU, such as retail trade, human health and social work. Moreover [projections](#) foresee a continuation of this trend.

The same applies to the **value added** in the EU economy. More than [60 per cent](#) of the total value added generated by the EU economy in 2022 is generated by private services. Again, this share has increased steadily over the years. In 2000, this figure was 57.5 per cent, rising to 60.9 per cent in 2022. Of the total value added, the trade and financial sector alone accounted for one-tenth of this in the EU economy in 2022.

In terms of **export value**, the services sectors are increasingly important, too. Eurostat estimates that exports of intermediate services² to non-EU countries has increased by more than 50 percentage points since 2017, while exports of final services has increase by 15 percentage points.

The importance of the services sector was highlighted during the COVID-19 pandemic. Workers in retail, post and logistics, care and cleaning and others were seen as **essential** to the functioning of our societies. It follows that investing in robust service sectors is important from a resilience perspective.

Furthermore, given the size of employment in services, **job quality** (and pay) in services is an important determinant of **inequality** in Europe. If working

¹ For the statistics below, services sectors were broadly defined as NACE G-N and Q-U.

² Intermediate services are services that serve as inputs to other economic activities. Examples include many ICTS services, or logistics which are not used as a final, consumption service.

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conditions in services deteriorate, the broad working and middle classes in Europe will be hollowed out and inequality will increase further.

One final important point: while many industrial policy texts focus solely on manufacturing, the economic reality today is that industry and services are highly intertwined. For example, 38 per cent of the value added in manufacturing is directly driven by [services](#).

2. A services policy is social

The services sectors, given their quantitative importance in the European economy, should be included in any industrial policy. At the same time, an industrial policy for services must be qualitatively different from similar policies in other sectors because of the characteristics of the services sector.

The services sectors are highly heterogeneous in terms of industrial dynamics, drivers of productivity, innovation and working conditions. For instance, the financial sector relies heavily on technological infrastructure and regulatory frameworks, while ICT services prioritise rapid innovation and adaptability. By contrast, sectors like retail, cleaning, and security are more labour-intensive and often involve lower-skilled positions. This diversity necessitates tailored policy approaches that address the specific needs and challenges of each sub-sector.

Many of the services sectors have specific characteristics such as a high **labour intensity**. Sub-sectors such as arts, entertainment, care services, cleaning, security, hospitality, retail, postal services, and logistics depend heavily on human labour. Even in ICT, e.g. in contact centres, the human component remains significant.

This labour intensity can lead to **precarious working conditions**, especially in low-skilled jobs where reducing labour costs becomes a primary strategy to enhance competitiveness and profitability. Research by [Eurofound](#) highlights that private services sectors often face challenges related to job quality, including poor working time quality, low job autonomy and high work intensity. These issues are frequently exacerbated by the absence of strong trade unions or collective bargaining mechanisms.

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Improving job quality in labour-intensive service sectors can significantly boost productivity. Unlike manufacturing, where productivity gains often stem from technological advancements, services sectors frequently achieve productivity improvements through incremental innovations, organisational learning, and the development of tacit knowledge. Such innovations are closely linked to the quality of jobs, as conducive working environments facilitate learning and the adoption of best practices. Even in technology-driven sub-sectors like ICT, social factors play a crucial role in fostering innovation and productivity (see [UNI Europa's submission](#) on the European Commission White Paper on digital infrastructure).

This means that investment in **skills, competences and vocational training** is vital for the sector. However, given the high labour intensity, the cost of this training is significant and companies risk losing this investment when employees leave the company. With high labour turn-over in services sectors, this is a key concern.

At the same time, **measuring productivity** in services is less clear-cut than in other sectors. In domestic care or cleaning, productivity will increase if workers see more patients or clean more offices in less time, but the quality of the service is likely to deteriorate, with additional costs down the line.

An effective industrial policy for the services sector should prioritise social considerations. Creating a level playing field regarding social conditions can promote healthy competition and discourage practices that undermine job quality. Additionally, policies should support investments in skills and training by reducing the risks employers face when employees move to competitors. These strategies are two sides of the same coin, as effective training and skill development are contingent upon the availability of quality jobs.

For services to be productive, Europe must therefore focus its strategy on “**better, not cheaper**”. Low-road competitiveness strategies based on cutting costs and working conditions should therefore be avoided in favour of high-road strategies based on innovation and high-quality services. An **industrial policy for services is by definition a social policy**. Given the labour-intensive nature of services and the dependence on labour for productivity growth, services should be given priority in any industrial policy.

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3. Current EU policy is not fit for purpose

European services policy is currently **not geared** towards improving job quality or increasing productivity. On the contrary, a number of EU policies can be seen as **promoting low-road** (cheaper) rather than high-road (better) business strategies. The Services Directive (2006) primarily aims to create a single market for services. Unfortunately, in practice this also means opening up services markets to providers who often use cheaper labour. This type of **social dumping**, or “race to the bottom”, may lead to lower prices in the short term, but it is particularly harmful for workers, customers and society in the medium to long term.

Second, much of the work on **skills** in the EU has a unique or exaggerated focus on activation and retraining policies, while **ignoring the importance of working conditions** in retaining skilled workers or enabling learning on the job. Moreover, the policy of focusing low-road strategies and putting pressure on working conditions and wages is a likely cause of labour market shortages as workers go to other sectors or leave the labour market altogether.

Third, the general preference for a **retrenchment of government** and a deregulation agenda is leading to deteriorating conditions and an increase in informal employment.

The EU needs a change in its current policy as regards the services sectors towards a more positive, proactive and constructive policy that stimulates quality jobs and pay reflecting the importance of these jobs for society.

4. Outlines of an EU services policy

Developing an EU services policy that focuses on the creation of good jobs for higher productivity is crucial to support economic growth and social well-being. This approach can be achieved through a comprehensive strategy across all sectors, focusing on the following **six key actions**:

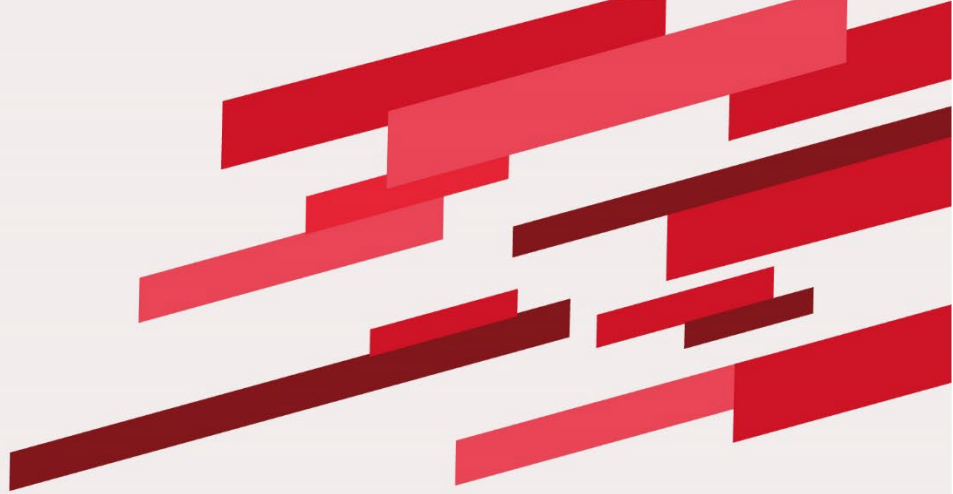
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- **Investment in services** is essential to facilitate the significant restructuring the services sectors face. Europe needs to build a sustainable, future-oriented services infrastructure with a distinctly social perspective. We need an EU investment programme with a focus on a modern services infrastructure creating quality jobs and fostering a general pay rise in Europe, in particular for services workers. Investment in the services sectors should be proportionate to their size in the economy and labour market.
- The implementation of **sectoral collective agreements** can create a level playing field for service providers and ensure fair wages and working conditions. This approach promotes high-road strategies where companies compete on the basis of quality, innovation and skilled labour rather than a race to the bottom on wages and standards. In the services sectors with many small and medium enterprises (SMEs), this approach is even more important given that company-level bargaining is difficult to coordinate and implement. Small companies are more likely to be forced to adopt low-road strategies without sectoral bargaining. Considering the high speed of change in times of Artificial Intelligence, collective bargaining provides a better tool for timely responses than legislation.
- **Ambitious social criteria in public spending** should encourage public authorities to set an example for responsible employment practices. This means including ambitious social criteria and promotion of collective agreements in public procurement of services that encourage service providers to prioritise fair wages, decent working conditions and social inclusion. By promoting best practice in labour standards through public procurement, the EU can drive positive change across the services sectors and beyond.
- Wider than only public procurement, “**social conditionalities**” should be included in all forms of public funding and support for companies. Those conditionalities should focus on the promotion of quality jobs and relate collective bargaining, full respect for workers and trade union rights, fair wages, work security and social protection, training which is free and happens during work hours, good working conditions, health and safety in the workplace, work-life balance, equality and non-discrimination.

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- **Tackling undeclared work:** [Eurobarometer](#) research into the phenomenon of undeclared work has shown that there is a considerable demand for and supply of undeclared work in the EU, including in services sectors such as care, cleaning and hospitality. Undeclared work puts pressure on job quality in the sector. Implementing sectoral public policies to tackle informal work is crucial to ensuring fair labour practices and protecting workers' rights. Examples from countries such as Belgium, Italy, Spain and Sweden show effective approaches to **formalising employment** in domestic services. By providing incentives and support to households to formally employ domestic workers, such policies help to reduce informal employment and improve social security coverage.
- **Promoting 'services of general interest' (SGI).** In line with the Enrico Letta's [report](#) on the future of the Single Market, the EU should provide for adapted strategies for services of general interest, identifying access to services and the quality of employment in these services. This applies to a wide range of services sectors such as transport, postal and logistics services, care, financial services, retail and digital communications. In these cases, EU policy should not be based on blind liberalisation and market opening. Universal access needs to be ensured with proper financial support, together with an action plan for SGIs.

The significance of services within the European economy can hardly be overstated. Representing 57 per cent of all employment and contributing over 60 per cent of value-added GDP in the EU, the services sector is a cornerstone of economic stability and growth. However, despite its scale and importance, current EU industrial policies largely overlook services, focusing instead almost exclusively on manufacturing. That's the equivalent of producing a smartphone but forgetting the apps. The EU, accordingly, needs to design a robust industrial policy with a clear place for private services.



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