International Labour Organization

ILO brief

Policy Brief

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Advancing decent work through macroeconomic policy coherence: perspectives for trade unions

Policy considerations

- **Macroeconomic policies are powerful political choices and trade-offs with direct consequences for workers and their families.** These decisions shape the number and quality of jobs, working conditions, social protection, and access to essential public services – and ultimately determine whether economic growth advances workers' rights and social justice or deepens inequality and exclusion. Yet too often, they are made without meaningful input from trade unions.
- **Demystifying macroeconomics is a source of power for workers.** By cutting through the technical jargon, this brief equips unions with the knowledge to reclaim their seat at the decision-making table and advocate for an economic transformation that serves social justice and puts the economy at the service of people.
- **Employment must be a central goal of economic policy.** Growth and price stability are empty without the creation of quality jobs that provide fair and adequate wages – including living wages, job security and protections, and respect for workers' rights.
- **Coherent policies across government and time are critical.** Isolated measures fail. Coordination across government is essential to channel resources toward a job-rich, sustainable, and equitable economy. This policy brief places policy coherence at its core – emphasizing the need to align economic, social, and environmental policies in support of full, productive, and freely chosen employment and decent work for all.
- **Strong enabling rights and institutions are essential.** Macroeconomic policies must be anchored in legal and institutional foundations. Respect for fundamental principles and rights at work, full implementation of international labour standards, and effective labour market institutions – including social protection systems, enforcement mechanisms, and, most critically, meaningful social dialogue that gives trade unions a decisive voice in shaping policy – are indispensable safeguards that empower workers, uphold their rights, ensure fair distribution of economic progress, and build resilience and social cohesion.
- **Trade unions must be at the heart of economic decision-making.** Institutionalized social dialogue, technical expertise, and broad alliances empower unions to influence policies that affect working people. This policy brief offers concrete entry points and practical tools – including appendices with supplementary notes and a glossary of core macroeconomic terms in clear, accessible language – to support evidence-based advocacy and strengthen union participation in macroeconomic governance.

1. Introduction

Macroeconomic policy is never a neutral, technical exercise. Decisions on public spending, taxation, interest rates, and exchange rates have direct, concrete consequences for workers. They shape the number and quality of jobs – and therefore the strength of collective bargaining, the adequacy of wages, the working conditions, and the availability of essential public services such as health, education, and social protection. Ultimately, these choices determine whether economic growth strengthens workers' rights and livelihoods or entrenches inequality and exclusion. Yet, all too often, these decisions are made without meaningful input from workers' organizations, despite their far-reaching consequences for workers and their families.

Recent global shocks – including the COVID-19 pandemic, supply-chain disruptions, geopolitical conflicts, and trade tensions – have tightened fiscal space, widened inequalities, and intensified policy trade-offs, particularly in developing countries. At the very moment when workers' voices are most critical, trade unions in many countries face structural barriers: institutional exclusion, capacity gaps, and limited access to critical data and evidence.

This policy brief demystifies macroeconomic policies and makes the case that workers must be central to economic decision-making. Engagement is not optional: without workers' perspectives, fiscal and monetary policies risk undermining decent work, equity, and social justice.[1]

But economic measures alone are not enough. They must be firmly anchored in legal and institutional foundations. Respect for fundamental principles and rights at work, full implementation of international labour standards, and strong labour market institutions – labour administration and inspection, social protection systems, and effective social dialogue – are indispensable safeguards for workers.

When enabling rights and institutions are combined with pro-employment macroeconomic policies – supported by comprehensive social protection, skills development, and active labour-market measures – these foundations create an enabling environment that responds to immediate challenges and addresses the structural roots of informality, low wages, weak bargaining power, and poor working conditions. Coherence across these dimensions is essential to achieve inclusive structural transformation and deliver decent jobs for all.

The policy brief is structured as follows:

- Section 2 introduces core macroeconomic concepts and shows how policies shape the economy, labour markets, and society.
- Section 3 examines the conventional macroeconomic framework and its limitations in promoting decent employment and social justice.
- Section 4 proposes a pro-employment macroeconomic policy framework to generate decent jobs and social progress.
- Section 5 highlights the importance of policy coherence from the ILO perspective.
- Section 6 offers practical guidance for workers' organizations to engage with and influence macroeconomic policy.

By providing accessible knowledge, actionable strategies, and a clear emphasis on policy coherence, this paper empowers trade unions to place macroeconomic engagement at the heart of their agendas, building collective influence to secure better jobs, fairer incomes – including living wages, and stronger social protections. The appendix includes supplementary notes and a glossary of core macroeconomic terms defined in clear, accessible language for quick reference.

[1] This policy brief forms part of the ACTRAV Resource Package on macroeconomic policies, which also features dedicated policy briefs offering in-depth guidance on themes of strategic importance to the trade union movement, including Fiscal Policies to Advance Social Justice: Strategic Entry Points for Trade Unions to Shape Social Development (ILO 2025a) and Unions at the Heart of Change: Shaping Inclusive and Decent-Job-Rich Structural Transformation (ILO 2025b).

2. Macroeconomic policies: overview, policy objectives and instruments

Macroeconomics analyses the performance of the economy as a whole – its total production, consumption, investment, and trade, including its interaction with other national economies (the rest of the world). This performance is captured through key aggregates such as gross domestic product (GDP), aggregate income (including wages and profits), aggregate demand (the sum of consumption, investment, government spending, and net exports), employment, price levels, and external balances. Together, these indicators provide a snapshot of a country's economic health and potential imbalances.

For workers, these indicators are not abstract numbers: they reveal whether growth creates and sustains formal jobs, raises wages and household incomes and consumption, and progressively allows for decent living standards for all workers and their families.

To influence these outcomes, governments and central banks deploy macroeconomic policy instruments (see **Figure 1**), which trigger chain reactions across the economy. These fall into two broad categories:

- **Monetary policies**, which act on money supply, credit and financial regulations and conditions, and exchange rates; and
- **Fiscal policies**, which act on public spending and taxation.

Policies can be expansionary, stimulating economic activity and jobs, or contractionary, slowing activity and jobs to control inflation. When guided by the goal of decent work for all, these instruments can foster inclusive growth, more effective social protection systems, fair income distribution, and social justice.

2.1 Fiscal policy: public spending, taxation and redistribution

Fiscal policy is a government's most direct tool for shaping the economy and social outcomes through its power to tax and spend.

The two components of fiscal policy include:

- **Public expenditure:** Determines how governments allocate resources to social protection, healthcare, education, other essential public goods and services, public administration, and investment. Public spending can deliver both immediate stimulus through the multiplier effect and long-term transformation by investing in people (education, health), in infrastructure to enhance productivity, and social protection systems that reduce poverty and build resilience. For trade unions, the message is clear: sustained social investment should be viewed not as a cost, but as an investment in a job-rich, fairer, productive, and resilient future grounded in social cohesion and peace.
- **Taxation policies:** Determine who pays, who benefits, and how income and wealth are distributed. They mobilize revenues from wages and salaries, capital income (including profits, dividends, and interest), wealth (such as property or inheritance), and consumption (such as value-added or sales taxes). Progressive taxes – placing a higher burden on those with greater income and wealth – are essential for reducing inequality and promoting long-term equity, while flat taxes (which apply the same rate to all income levels) and regressive taxes, such as broad consumption levies, tend to disproportionately burden lower-income households, weakening demand and social cohesion despite being easier to administer. Trade unions can advocate for progressive tax reforms, fair corporate taxation, and strong anti-avoidance measures to secure fiscal resources for quality public services, robust social protection, and inclusive, sustainable development.[2]

Fiscal policy operates through two main channels:

- **Discretionary policies:** Intentional and often temporary changes in tax or spending, implemented

[2] Some taxes are progressive, meaning the tax rate increases as income rises, so higher earners pay a larger share of their income. This progressivity helps redistribute income and reduce societal inequalities, as seen with income taxes in many countries. In contrast, indirect and consumption taxes – such as value-added tax, excise duties, and import taxes – apply the same rate to all, which can increase inequality since lower-income households bear a proportionally heavier burden than wealthier ones (See ILO 2025a).

through annual or supplementary budgets with legislative approval. Examples include stimulus packages, public investment drives, or targeted tax cuts for strategic sectors. When designed with a long-term vision, these policies can support job-rich structural transformation, foster inclusion, and promote a sustainable, formal economy with decent jobs for all.

- **Automatic stabilizers:** Built-in fiscal mechanisms – such as progressive income taxes, unemployment insurance, and social protection – that automatically respond to economic fluctuations. In downturns, they inject support to households and businesses without new legislation, softening shocks and stabilizing the economy. As conditions improve, they scale back support, helping rebuild fiscal space and fiscal sustainability.

Fiscal policy design inherently involves trade-offs and political choices with major economic and social impacts. According to economist Richard Musgrave (Musgrave 1959), fiscal policy serves three core functions: stabilization, redistribution, and resource allocation (provision of public goods and infrastructure). In practice, however, stabilization often takes precedence – especially in developing countries – while redistribution and strategic investment in people and productive capacity are underutilized. This narrow focus falls short of fiscal policy's full potential to support sustainable development and decent job creation.

For workers' organizations, the message is clear: fiscal policy is not only a technical matter but a series of political choices that shape employment, equity, and inclusion. Trade unions have a vital role in promoting integrated fiscal strategies that balance stability with ambitious investment in social protection, public services, and productive transformation. Such an approach lays the foundation for decent work, inclusive growth, and resilient societies.

For a focused and actionable guidance on engaging with and shaping fiscal policies for social justice, see the dedicated policy brief: "Fiscal Policies to Advance Social Justice: Strategic Entry Points for Trade Unions to Shape Social Development" (ILO 2025a).

2.2 Monetary policy: money, credit and employment

Monetary policy, managed by central banks, aims to influence the supply of money and credit in the economy to achieve key macroeconomic objectives such as low inflation, high employment, and a stable currency. Central banks pursue these goals through either expansionary or contractionary policies, depending on the economic context. Their primary tool is the interest rate, which affects the cost of borrowing for businesses and households. Central banks adjust this rate either directly – by changing the rate at which they lend to commercial banks – or indirectly, by influencing how much money banks have available to lend (for a more detailed explanation of these mechanisms, see Appendix 2).

- **Expansionary policy:** Lowering interest rates → cheaper borrowing → higher demand and employment, but with inflation risk.
- **Contractionary policy:** Raising interest rates → costlier borrowing → reduced demand → lower inflation. But risks higher unemployment and underemployment, and therefore weaker bargaining power for workers and trade unions.

Central banks typically operate with legal independence to shield them from day-to-day political pressures and to enhance policy credibility over time. However, this independence applies to how they implement monetary policy – not to the mandate itself. The central bank's mandate – such as ensuring low inflation, promoting high employment, or maintaining currency stability – is defined by legislation and can be revised.

For trade unions, this distinction is strategic: shaping or revising central bank mandates is a legitimate entry point to ensure that employment and equity are recognized alongside price stability.

Core targets of monetary policy – mandates of central banks

Most central banks pursue three main targets, of which the first two are the most common in central bank mandates:

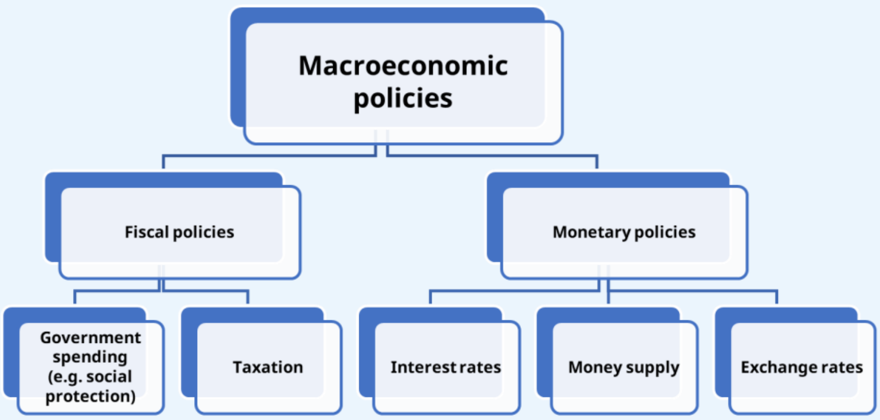
- **Low inflation:** The central bank adopts contractionary monetary policy to reduce aggregate demand (consumption and investment), with negative impacts on economic activity and employment. Inflation targeting generally uses a consumer price index, such as the CPI or similar measures, to guide policy toward low and stable inflation.
- **Low unemployment or high level of employment:** The central bank adopts an expansionary policy,

which would increase the aggregate demand, boosting economic activity, and creating more jobs.
- Stable exchange rates to ensure convertibility: In some cases, the central bank intervenes directly (for example, buying or selling foreign currency) or indirectly (for example, adjusting interest rates) to influence the value of the domestic currency against other foreign currencies, aiming to limit excessive volatility or maintain the rate within a targeted range. However, not all exchange rate regimes allow for such a policy to be conducted (for readers seeking accessible, comprehensive explanations of exchange rate regimes, these are detailed in Appendix 3).

In practice, central banks usually focus on one or two priorities. For example, the European Central Bank's mandate is that of keeping inflation stable at 2 per cent in the Eurozone, while the United States Federal Reserve follows a "dual mandate": price stability and maximum employment (Adrian, Laxton and Obstfeld 2018).

From a trade union perspective: It is crucial to recognize that the choice of exchange rate regime can strongly shape employment outcomes and the structure of the economy. Empirical evidence shows that rigid or overvalued exchange rate systems can discourage employment-led industrialization by favouring capital-intensive foreign investment and exports of raw materials or mineral resources, while limiting the growth of employment-intensive manufacturing and domestic value chains (Rodrik 2008; UNCTAD 2016).[3] Additionally, under conditions of full capital mobility and liberalization, profits from such investments are frequently repatriated swiftly, generating limited positive spillovers for domestic employment and income growth (Stiglitz 2000). Trade unions therefore have a strategic interest in advocating for monetary policies and exchange rate systems that promote diversified, job-rich, and inclusive economic development, rather than prioritizing price stability or financial liberalization narrowly.

▶ **Figure 1. Components of macroeconomic policies**



Source: Authors.

[3] The UNCTAD (2016) Trade and Development Report explains why countries must transform their economies by developing diverse industries and creating employment, showing how exchange rate policies can help or hinder this process.

3. The limits of the conventional macroeconomic framework: implications for decent work and social justice

In the conventional approach, the primary objective of macroeconomic policy is to promote strong and sustained economic growth within a stable macroeconomic environment. Stability is considered essential to reduce risks that could undermine economic growth – such as high inflation, volatile exchange rates, unsustainable fiscal deficits, or balance-of-payments crises.

For decades, macroeconomic policymaking in many countries has been shaped by a conventional framework that treats sustained economic growth and stability as both the primary goals and sufficient drivers of economic development. This approach – centred on low inflation, fiscal discipline, open markets, stable exchange rates, and incentives for private investment – rests on a core assumption: that economic growth will eventually benefit everyone. This is often referred to as the “trickle-down” theory – the idea that rising incomes and profits at the top would eventually translate into jobs and better living standards for all, even if not immediately or equally (McMillan and Rodrik 2011).

In practice, this has meant that macroeconomic policy has prioritized price stability, strict fiscal discipline, and tightly managed financial sectors and exchange rates above all else, treating these as non-negotiable conditions for economic credibility. Over time, stability has become not just a tool to support growth, but an end in itself – often at the expense of employment, wages, and social protection (for readers seeking a clear overview of the assumptions underpinning this conventional framework, these are outlined in Appendix 4).

For trade unions, the critical flaw in this logic is: It systematically treats full employment, labour rights, and equality as secondary outcomes – expected to emerge automatically rather than pursued as explicit policy objectives. As a result, decent work and social justice have been relegated to the margins of economic decision-making, producing growth without inclusion – often in the form of jobless growth – with far-reaching consequences for sustainable development and progress towards the 2030 Agenda and its central commitment to leave no one behind (ILO 2023).

Structural adjustment programmes of the 1980s and 1990s reflected this orthodoxy: austerity, liberalization, and the retreat of the State were promoted as the foundation of economic development. The expectation was that these measures would restore macroeconomic balance, build credibility and confidence, and attract investment – mostly foreign direct investment – which would then generate jobs and economic development. While these reforms often restored short-term macroeconomic stability, they also produced long-term costs, including macroeconomic instability, and hindered progress towards the Sustainable Development Goals, as ILO, UNDP, and academic research show (Khan 2007; Archibong, Coulibaly and Okonjo-Iweala 2020; UNDP 2022). Formal employment declined, public services were weakened, and workers were pushed into precarious, low-productivity activities – petty trade, subsistence farming, informal services – entrenching a dualistic economy marked by (Thomson, Kentikelenis and Stubbs 2017; Forster et al. 2020):

- **Erosion of labour safeguards:** Labour market reforms – deregulation – weakened labour rights and promoted “flexibilization” of employment, undermining labour protection and security, even leading to exploitation particularly for workers in vulnerable situations.
- **Austerity-driven public service decline:** Cuts to health, education and training systems, and other essential public services degraded service quality and accessibility, eroded human capital, restricted equality of opportunity and intergenerational mobility, reinforcing poverty traps.
- **Industrial decline and macroeconomic instability:** Rapid trade liberalization and cuts to public investment under SAPs weakened domestic industries and productive capacity, increasing dependence on imports and volatile foreign capital. This stalled the transition to job-rich, productive sectors, suppressed wage growth, and concentrated export gains in limited extractive enclaves. Simultaneously, dismantling counter-cyclical policies – like social protection and other support measures that cushion workers and the economy during downturns – eroded resilience, leaving countries vulnerable to shocks such as inflationary crises, financial turmoil, and sudden changes in commodity prices. The result was job losses, wage cuts, and reduced public services, collectively undermining long-term, social development.

- **Spatial exclusion:** Urban labour markets fragmented into high-income enclaves and precarity-concentrated peripheries, fuelling social exclusion and unrest (Señoret, Ramirez and Rehner 2022).

These patterns are no longer confined to developing countries. In advanced economies, job precarization is accelerating through deregulation, informalization, misclassification, and the rise of non-standard forms of employment – trends further amplified by technological change and platform-based work. The spread of involuntary part-time and temporary contracts, together with weakened collective protections and enforcement gaps, is eroding job quality and social protection coverage, especially for workers already in vulnerable situations. Renewed fiscal austerity in several countries further threatens to undermine social justice by weakening public services, reducing equality, and eroding labour rights – ultimately weakening the social compact that underpins decent work for all.

For trade unions, these challenges extend beyond economics – they are fundamentally political and strategic. They expose critical policy failures: growth without jobs, stability without equity, and prosperity without inclusion. When macroeconomic policy is disconnected from employment and social goals, economic stability can easily coexist with social instability. The result is clear: widening inequality, the erosion of the middle class, and a growing crisis of trust in public policies and institutions. This breakdown of the social contract is fuelling youth unrest, social fragmentation, and deepening polarization.

Yet this moment also presents a decisive opportunity: for trade unions to challenge the status quo and advocate for a new macroeconomic paradigm – one that is human-centred, employment-driven, and rooted in social justice. This means redefining economic success not by growth alone, but by its ability to deliver decent work, equity, and inclusion for all. It calls for macroeconomic frameworks where stability serves people, not the other way around – where policy is judged by its impact on workers' lives, not just on balance sheets.

4. Refocusing macroeconomic frameworks to achieve decent work and advance social justice

The failures of conventional macroeconomic frameworks – especially their inability to address unprecedented job challenges and social crises amidst profound transformational changes and successive global shocks – underscore the urgent need for a transformative shift. Instead of assuming decent work automatically follows growth, macroeconomic policies must actively embed employment and social justice at the heart of decision-making.

This pro-employment approach is grounded in decades of tripartite ILO consensus. From the Declaration concerning the aims and purposes of the ILO (1944), which enshrined social justice and full employment as core objectives, to the Employment Policy Convention, 1964 (No. 122) – requiring Member States to declare and pursue full, productive, and freely chosen employment as a major goal – the ILO has consistently affirmed that macroeconomic and employment policies must actively promote decent work and formalization. This commitment has been reaffirmed in the ILO Declaration on Social Justice for a Fair Globalization (2008), the Global Jobs Pact (2009), and the Transition from the Informal to the Formal Economy Recommendation, 2015 (No. 204). More recent milestones – including the ILO Centenary Declaration for the Future of Work (2019) and the Third Recurrent Discussion on Employment (2022) – reaffirm that employment is a central, not residual, macroeconomic objective.

Such frameworks integrate decent work, inclusive economic growth, and social justice into fiscal, monetary, financial, and exchange-rate policies, ensuring economic expansion delivers broadly shared benefits, including by enabling living wages – leaving no one behind. This is not only a social imperative – it is an economic investment. Economies prioritizing job-rich growth achieve higher employment, broader domestic demand, greater resilience, more equitable development, and stronger social cohesion (UNCTAD 2013; World Bank 2013; ILO 2014; IMF 2018; OECD 2018).

- **Employment and economic growth are mutually reinforcing.** Expanding both the quantity and quality of jobs increases household incomes, stimulating consumption and investment, and increase fiscal revenues. This boosts aggregate demand, creating a virtuous cycle between job creation and economic expansion. Such "demand-led" or "wage-led" growth is central to achieving the 2030 Agenda, starting with Goal 8, and supports progress across other Goals.
- **Decent work is the most effective pathway to reducing poverty and inequality.** Employment-intensive growth that raises labour incomes ensures benefits are broadly shared, lifting poor and marginalized groups out of poverty. Cross-country evidence confirms employment intensity is a key determinant of poverty reduction.
- **Pro-employment policies leverage macroeconomic tools for inclusive transformation.** Fiscal and monetary policies are used strategically to stimulate demand and sustain quality job creation, supporting formal, productive, and protected employment. Beyond stabilization, these policies enable public investment in education, healthcare, and social protection – essential drivers of equality and resilience – underpinning sustainable development. Pro-employment macroeconomic policies, by strengthening domestic demand and supporting productive employment, generate higher fiscal revenues and broaden fiscal space, and are a key enabler – among others – for the operationalization of living wages. [4]

To translate this vision into action, fiscal and monetary policies must actively promote full, productive, and freely chosen employment and decent work for all – a core pillar of social development established at the 1995 World Summit in Copenhagen. As the international community prepares to renew this commitment in 2025, aligning macroeconomic policy with decent work is essential to ensure growth contributes to inclusive and sustainable development.

Fiscal policies

Ambitious, well-targeted fiscal measures stimulate job creation and support social justice and job-rich structural transformation:

[4] This web page offers access to essential ILO documents and publications related to living wages: ILO, The Question of Living Wages.

- **Pro-employment budgeting**, starting by broadening the tax base, to advance sectoral transformation, including industrial policies and employment-intensive public investment in infrastructure, as well as in sectors with strong job-creation potential such as the green and care economies – integrated within long-term economic development planning.
- **Public investment in human development and active labour market policies** – through increased spending on health, education, social protection, skills development, and stronger labour market institutions – to raise productivity and employment quality.
- **Supportive tax regimes for SMEs and young firms, including for households** – through simplified procedures and targeted incentives – to promote business survival, growth, and formalization.
- **Counter-cyclical fiscal policies and robust automatic stabilizers** (such as unemployment insurance and social protection) to sustain demand and protect livelihoods during downturns, enhancing economic resilience.

Monetary policies

Monetary frameworks should actively facilitate financing for economic activities with high employment potential and support aggregate demand (ILO n.d.; Epstein 2008; ILO 2012):

- **Targeted credit allocation**, including concessionary loans, increased capitalization for development banks, loan guarantees, and asset-based reserve requirements – supported by strong oversight and performance incentives.
- **Dual mandates for central banks**, balancing price stability with an explicit objective of full employment, while keeping inflation within a sustainable range.
- **Enhanced financial intermediation** to ensure adequate credit supply for small businesses, start-ups, the social and solidarity economy, and innovative sustainable enterprises – underpinned by strong supervisory and regulatory systems.
- **Financial inclusion measures** to expand access to credit and banking services for microenterprises, unbanked households, and workers and enterprises in the informal economy.
- **Exchange-rate and capital-account management** to maintain a competitive exchange rate that supports exports and domestic production, combined with pragmatic measures to curb destabilizing short term capital flows and safeguard employment and growth.
- **Leveraging the financial system by preserving and strengthening public and development banks** to finance employment-generating activities – especially for marginalized groups and the informal economy – while fostering a robust private banking sector to deepen financial inclusion.

5. The need for policy coherence

Pro-employment macroeconomic policies achieve their full potential only when embedded in a coherent, integrated framework that aligns all public policies around decent work, inclusive growth, and social justice. Policy coherence prevents duplication, contradictions, and inefficient use of limited public resources, ensuring that economic, labour, social, and environmental objectives reinforce rather than undermine each other (Frey and MacNaughton 2016).

In many countries, multi-year strategies for economic growth, poverty reduction, industrial development, employment, formalization, or social protection are still designed and implemented in silos by different ministries or agencies. This fragmentation leads to duplication in some areas and incoherence in others, resulting in inefficient use of often limited public resources – frequently reliant on debt financing or international assistance. For example, an economic development plan may promote deregulation that weakens job security, while a national employment strategy simultaneously aims to expand decent work.

To address these challenges, policy coherence is essential.

What policy coherence means from the ILO perspective

From the ILO perspective, policy coherence is the deliberate alignment of all public policies, including macroeconomic policies, to promote full, productive, and freely chosen employment and decent work for all. It begins with a fundamental principle: there are no neutral policies. Decisions on macroeconomics, trade, investment, or the environment have profound and direct consequences for labour markets, and therefore for workers and their families.

This principle is strongly rooted in the Declaration concerning the aims and purposes of the ILO (1944), which mandates that all policies – especially economic and financial ones – must be judged on whether they "promote and not hinder" the achievement of freedom, dignity, economic security, and equal opportunity for all.

Policy coherence requires moving beyond isolated interventions. It demands an integrated, employment-centred framework that sets common strategic objectives for decent work, inclusive economic growth, structural transformation, poverty reduction, and sustainable development, ensuring all public policies pull in the same direction through strategic, holistic planning. An integrated framework for a job-rich structural transformation, embedded in coherent multi-year planning across government, offers the best prospects for delivering significant, long-term results (ILO 2025a and ILO 2025b).

In practice, coherence requires action on three complementary fronts:

- **Horizontal coordination:** Breaking down silos across ministries and agencies to ensure strategies in economy, environment, trade, and social sectors are mutually reinforcing.
- **Vertical coordination:** Aligning policy design and implementation from national to sub-national and regional levels.
- **Temporal consistency:** Maintaining stability and predictability over time, avoiding stop-and-go cycles that undermine investment, employment, and worker security.

Critically, this entire endeavour must be underpinned by the meaningful engagement of social partners in policy design, implementation, and monitoring and evaluation. Only through this integrated approach can we translate the aspiration of social justice into tangible decent work outcomes for all.

Sectoral policies – promoting decent work through industrial and structural transformation

Sectoral policies – implemented through targeted public investment, taxation, and regulatory support – are critical for promoting job-rich growth and productivity. By deliberately targeting sectors with high employment and spill-over potential – such as manufacturing, agro-processing, care, and the green economy – governments can channel resources to where decent work is created.

To maximize their impact, sectoral strategies should promote industrial upgrading and modernization, enhance skills, expand business opportunities, and ensure that productivity gains translate into better wages and working conditions. Effective sectoral policy requires close coordination across levels of government and alignment with regional initiatives to build national and regional value chains, aggregate demand, and market scale. Integrating environmental and climate considerations is also key to harnessing the job potential of a just green transition, while safeguarding job quality and community resilience.

Ensuring strong labour standards, human rights, and environmental due diligence throughout global and domestic supply chains – guided by the ILO Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy – is essential for making sectoral policies a driver of sustainable, decent work and social justice.

Critically, rising productivity does not automatically lead to fair outcomes. Only a coherent and comprehensive strategy – anchored in the goal of decent jobs for all and guided by a clear theory of change – can ensure that productivity gains are shared fairly. As underscored in the 2022 Resolution on Employment, achieving this fair share requires strengthened social dialogue and collective bargaining.

The most effective deployment of sectoral policy for decent-job creation therefore requires an integrated structural-transformation approach: combining investment in higher-productivity sectors with pro-employment macroeconomic policies and complementary measures that develop workers' skills, education, and access to technology, alongside strong labour rights protections. This strategy enables workers to transition from low-productivity, informal activities into higher-paid, formal employment, maximizing the social and economic returns of productivity growth while preventing the inefficiencies and missed opportunities associated with isolated interventions.

For dedicated guidance on advancing inclusive economic change that foster decent work for all and sustainable development, see the policy brief titled "Unions at the Heart of Change: Shaping Inclusive and Decent-Job-Rich Structural Transformation" (ILO 2025b).

Labour-market policies and institutions

Creating and sustaining decent work requires not only jobs but robust legal frameworks and institutions and active labour-market policies. Even with the right public policies, including pro-employment macroeconomic and sectoral measures, labour markets will not automatically deliver equitable outcomes without enforceable rights, effective institutions, and well-designed skills policies.

Key priorities include:

- Strengthening social dialogue mechanisms (tripartite councils, wage commissions, advisory boards) to ensure meaningful engagement of workers' organizations in policy design and implementation.
- Ensuring labour legislation aligns with international labour standards, protects freedom of association and collective bargaining, and addresses misclassification and other practices that undermine protections.
- Enhancing labour inspection capacity and enforcement mechanisms to improve compliance, workplace safety and protections against exploitation.
- Expanding social protection – both contributory and non-contributory – and combining active and passive labour-market measures – training, apprenticeships, job placement and reskilling – to support transitions across occupations and sectors.

6. Trade unions shaping macroeconomic policy: recommendations and opportunities

6.1 Why macroeconomic policy is a trade-union issue — practical and strategic imperatives

Macroeconomic policy is not an abstract technocratic exercise; it shapes the fundamental conditions under which workers live, work, and thrive. Choices on interest rates, public investment, taxation and spending rules determine the availability and quality of jobs, the adequacy of wages, the hours people work, and the strength of public services that families depend on. These are political choices involving trade-offs; when made without workers' perspectives, they can deepen precarious work, hollow out public services, weaken labour protections and shift risk onto the most vulnerable. Trade unions therefore have both a practical and strategic stake in shaping macroeconomic policy, so it supports decent work, social justice and social development.

Three realities make trade union engagement in macroeconomic policy an urgent imperative today:

- **1. Macroeconomic choices directly affect workers' lives.** Policy tools that may appear technical – such as interest-rate decisions, fiscal consolidation, exchange-rate adjustments, and public-spending choices – have immediate distributional effects. They can reduce aggregate demand, cut public employment and investment, compress wages, and push workers into informal or precarious work if not counterbalanced by pro-employment and social protection measures. The post-pandemic tightening by many central banks – aimed at fighting inflation driven largely by supply shocks (energy volatility, disrupted supply chains, geopolitical conflict) – illustrates this dynamic: higher rates weakened demand and real incomes where inflation was not primarily demand-led, imposing significant costs on workers and households.
- **2. Complex social challenges demand coherent, pro-employment strategies, not ad hoc fixes.** Extreme poverty, decent work deficits, long-term low wages, poor working conditions, precarious or insecure work, exploitation or child labour, are not isolated labour issues. They are symptoms of broader economic imbalances – such as employment scarcity, persistent informality, low productivity, weak institutions, gaps in social protection, inadequate compliance systems, and the unequal distribution of wealth. Isolated interventions on labour standards, while necessary for establishing enabling rights, will not succeed if macroeconomic policies continue to undermine employment, public services, equality and inclusion.
- **3. Workers' voices are missing from economic decision-making.** Many unions perceive economic policy as distant or secondary to their immediate workplace concerns, leaving financial and political elites to dominate economic discussions. To change this, unions can leverage their collective strength, deepen economic literacy, and collaborate with researchers, civil society, and communities to build a shared agenda focused on social justice and social development.

The urgency of trade unions' engagement in macroeconomic policymaking has never been greater. Successive crises – ranging from COVID-19 to energy shocks, supply-chain disruptions, and geopolitical tensions – have narrowed policy space and intensified trade-offs for governments. In even the most advanced economies, falling unemployment masks persistent underemployment and rising precarity. At the same time, informality, working poverty, precarious work – including disguised employment relationships and undeclared work – and the erosion of public services are escalating concerns worldwide as transformative shifts accelerate. In this fragile context, premature fiscal austerity or inward-looking trade measures risk amplifying social harm and deepening inequality – underscoring the crucial role of trade unions in ensuring that macroeconomic responses remain balanced, employment-focused, and grounded in social justice.

6.2 Engaging in macroeconomic policy: strategic guidance for trade unions

Trade unions have long played a pivotal role in advancing fairer and more inclusive societies through social dialogue, collective bargaining, and advocacy. To sustain this role in today's rapidly changing context, unions can extend their influence beyond workplace issues to the broader macroeconomic frameworks that shape employment and living standards. Doing so is essential to ensure that economic policies promote decent and productive employment for all, enabling living wages, fair working conditions, and universal access to strong social protection systems.

To effectively engage in shaping macroeconomic policy, unions can focus on the following strategic priorities:

- **Secure institutionalized and effective social dialogue** – Formal, early, and continuous involvement in macroeconomic decision-making is essential, whether through tripartite dialogue, budget hearings, or monetary policy consultations. Social dialogue structures, including tripartite economic councils, collective bargaining and minimum wage setting institutions, must be institutionalized, adequately resourced, meet regularly, and provided with timely access to evidence and data.
- **Embed decent work and employment growth at the core of all public policies, in particular macroeconomic frameworks** – Ensure that fiscal, monetary, and industrial policies are explicitly linked to decent job creation and the protection of labour rights. This includes embedding pro-employment macroeconomic policies and social justice objectives in national development and budgetary processes, supported by transparent and accountable financing strategies. This also requires safeguarding the rights of all workers, including those in the informal economy as well as those in digital and platform work.
- **Ensure policy coherence and accountability** – Establish mechanisms for ongoing monitoring and dialogue to align fiscal, monetary, industrial, social, trade, environmental, and regional policies with decent work and social justice goals.
- **Strengthen economic literacy and technical expertise** – Build the capacity of union leaders and negotiators, including through partnerships with academia and research institutions, so they can act as credible and informed counterparts in policy debates.
- **Build broad coalitions, including at the national and supranational levels** – Partner with other unions, civil society, academia, and social movements to generate evidence, amplify influence, and mobilize public support.
- **Engage beyond labour ministries** – Develop liaison networks and build relationships with finance, economy, planning, trade ministries, and central banks, where critical economic decisions are made.
- **Ensure inclusive representation** – Involve youth, women, informal economy workers, migrants, rural workers, and persons with disabilities, adapting governance structures to reflect this diversity.
- **Communicate effectively** – Translate complex economic issues into accessible messages that connect policy debates to everyday realities for members and the wider public.

Where institutional frameworks are strong, unions can embed themselves in policy cycles and formal consultations. Where they are weak, advocacy, coalition-building, and evidence-based campaigning become essential tools for influence.

International labour standards – notably the Freedom of Association and Protection of the Right to Organise Convention, 1948 (No. 87), and the Right to Organise and Collective Bargaining Convention, 1949 (No. 98) – are essential enablers for any union engagement. The Employment Policy Convention, 1964 (No. 122), affirms the centrality of social dialogue in shaping inclusive economic outcomes and designing employment policies.

South Africa's National Economic Development and Labour Council (NEDLAC) provides a notable example of a statutory tripartite forum that brings together representatives of government, workers, and employers to shape socio-economic policy. While it illustrates the potential of institutionalized social dialogue to foster more inclusive outcomes, challenges persist regarding equitable participation and meaningful policy influence. Comparable mechanisms exist globally, including Luxembourg's Tripartite Coordination Committee which facilitates consensus on labour and economic policies; Uruguay's structured social dialogue on fiscal policies (shaping reforms on social protection and social security); and the Republic of Korea's Economic, Social and Labour Council, a key advisory body on employment, wage, and macroeconomic strategies.

It is important to note that the existence of these mechanisms is not necessarily an indicator of a country's overall record on workers' rights but rather demonstrates established institutional channels through which workers can seek to engage in macroeconomic policy making.

Beyond national policymaking, unions can also influence regional and global economic frameworks. The European Union's experience shows how social dialogue can be integrated into macroeconomic governance, offering valuable lessons for adaptation in other regions.

Trade unions should also engage more actively and meaningfully in multilateral and UN-led policy frameworks, particularly through the United Nations Sustainable Development Cooperation Frameworks that guide national implementation of the 2030 Agenda. Participation in these processes enables unions to align development priorities with decent work objectives and ensure that international cooperation reflects outcomes from social dialogue. Stronger engagement – including through Voluntary National Reviews and global dialogue platforms – will help ensure that economic and social policies truly reflect workers' voices and advance social justice and sustainable development (ILO 2025c).

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▶ Appendices

Appendix I: Key macroeconomic terms and concepts explained

- **Economic agents:** These are all the players, whether legal entities or individuals, who exchange goods and services in the economy and thus affect economic activity through their economic behaviour (the decisions they make). Based on the homogeneity of these behaviours, economic agents are grouped into five institutional sectors: (a) households, which include workers and their families, (b) non-financial companies that produce non-financial goods and services for sale, (c) financial companies that produce financial services and/or engage in financial intermediation, notably banks or insurance companies, (d) public administrations and related branches, and (e) non-profit institutions serving households, notably associations or NGOs. All agents whose main economic activity occurs outside the national territory are classified as the rest of the world.
- **Gross domestic product (GDP):** This is the most commonly used economic indicator. It measures the total value of all goods and services produced within a country during a specific period (year or quarter), accounting for the value added in production (total output minus intermediate consumption). GDP can be measured in current prices (nominal GDP) or adjusted for inflation (named real GDP or GDP at constant prices).
- **Aggregate demand and components:** Total spending by all economic agents on goods and services for final use. Components include: (a) household consumption, (b) government spending, (c) business investment, and (d) net exports (exports minus imports). Aggregate demand is the counterpart of GDP and therefore influences economic activity.
- **Multiplier effect:** When an increase in one economic activity (like government spending) causes a larger increase in overall economic output and employment as additional income stimulates further spending.
- **Economic growth:** Measures change in real GDP over time, indicating how the economy expands. While often used as a measure of economic performance, the indicator is subject to much criticism, notably for its limitations in terms of its ability to assess a country's level of human development or people's well-being. Neither does it take into account certain aspects such as the negative impacts of production on the environment, non-market activities (unpaid care work), or informal production activities.
- **Inflation, deflation, stagflation:** Inflation is the sustained increase in the general price level of goods and services over time, while deflation refers to a sustained decrease. Both are measured by comparing a price index (such as the Consumer Price Index, CPI) between two periods. Stagflation describes the simultaneous occurrence of high inflation, slow growth, and high unemployment.
- **Counter-cyclical macroeconomic policies:** These are actions taken by governments or central banks to reduce the negative effects of economic fluctuations. When the economy slows down – with rising unemployment or falling incomes – public authorities may increase spending, including by targeting support to workers, households, and enterprises, lower taxes, or reduce interest rates to sustain jobs and stimulate demand. When the economy grows too fast and prices rise too quickly, they may do the opposite: spend less, raise taxes, or increase interest rates to prevent overheating and inflation.
- **Money supply:** The total amount of money circulating in the economy at a given time, including cash (banknotes and coins) and deposits held in financial institutions. It includes bank deposits (especially those usable for payments) and other highly liquid assets easily converted into cash.
- **Balance of payments:** A systematic record of all economic transactions between residents of a country and the rest of the world during a given period. It is divided into two main accounts: (a) the current account (trade in goods and services, income, and current transfers); and (b) the capital and financial account (capital transfers, investment flows, and reserve assets). It helps assess a country's trade performance, external financing needs, and dependence on external capital.

- **The current account of the balance of payments (or current transactions account):** Records flows related to: (a) trade in goods and services; (b) income from labour and capital (wages, interest, profits, dividends); and (c) current transfers that do not involve transfer of capital (remittances, donations, non-capital aid).
- **Capital and financial account of the balance of payments:** Records all flows between the national economy and the rest of the world relating to (a) capital transfers, namely, giving rise to a transfer of ownership and (b) those concerning acquisitions or disposals of financial, non-financial and monetary assets, various investments (such as direct, portfolio) and reserves (for example, foreign exchange, gold and special drawing rights).
- **Productivity:** Measures how efficiently goods and services are produced relative to the inputs used. When focusing solely on labour, labour productivity is the ratio of total output to total labour input (number of workers or hours worked). However, productivity growth arises from a combination of factors beyond labour alone – total factor productivity (TFP), including advances in technology, capital investments, improved management practices, favourable organizational and working environments, and supportive infrastructure and regulatory frameworks. Higher productivity can create space for better wages and working conditions, but this depends on labour institutions, collective bargaining, and fair distribution of gains.
- **Exchange rates**: An exchange rate expresses how much one currency is worth compared to another. It shows the price of one currency in terms of another – for example, if 1 US dollar equals 0.90 Swiss franc, that means one dollar can be exchanged for 0.90 franc. When the exchange rate of the domestic currency rises (it buys more foreign currency), the domestic currency is said to “appreciate”; when it falls, it “depreciates.”
- **Purchasing power parity (PPP):** A method for comparing prices and income levels between countries by adjusting for differences in cost of living and currency strength. PPP conversion rates allow meaningful comparison of monetary values such as GDP indicators across countries.

Appendix II: Central banks, commercial banks and the cost of borrowing

In the economy, commercial banks play a central role by facilitating financial transactions among economic agents – such as individuals, businesses, and public institutions – that hold accounts with them. Beyond offering deposit and payment services, commercial banks provide loans and other forms of credit to support consumption, investment, and business activities.

When economic agents deposit money into their accounts, commercial banks are allowed to lend out a portion of those deposits to other agents. These recipients may in turn deposit the funds back into the banking system, allowing a further portion to be loaned out again. Through this iterative process, commercial banks effectively create money and inject liquidity into the economy, thereby supporting consumption, investment, and overall economic activity. The more credit extended through bank loans, the greater the amount of money created, increasing the liquidity available to economic agents for the purchase of goods and services, including productive investments.

However, commercial banks’ ability to create money is not without limits. It is regulated by the central bank – the institution often referred to as the “bank of banks.” The central bank oversees the banking system and establishes key rules governing banking operations, including the opening and use of bank accounts, the extension of credit, and interbank transactions.

One of the main regulatory tools of the central bank is the reserve requirement ratio. All commercial banks must hold an account with the central bank, into which they are required to deposit a fraction of every customer deposit they receive. This required reserve ratio, determined by the central bank, serves as a key instrument for controlling money creation and maintaining the stability of the financial system.

- For example, with a reserve requirement of 20 per cent, commercial banks are permitted to lend out only 80 per cent of each new deposit they receive. The remaining 20 per cent must be held in their account at the central bank, in accordance with the required reserve ratio. By adjusting this reserve requirement – either raising or lowering it – the central bank can directly influence the lending capacity of commercial banks, thereby affecting the overall money supply and economic activity.

In addition to holding the minimum required reserves set by the central bank – which typically do not earn interest – commercial banks may choose to deposit additional funds in their central bank accounts. These excess reserves are generally remunerated at the central bank's deposit facility rate, which serves as a key instrument of monetary policy. By adjusting this rate, central banks can influence short-term interest rates, affect how attractive it is for banks to hold reserves instead of using those funds for lending, and steer overall liquidity in the banking system and in the economy.

The central bank also plays a critical role as the "lender of last resort", regularly providing short-term refinancing to commercial banks when needed. This function underpins trust and stability in the banking system, ensuring that banks can access liquidity in times of stress. In exercising this role, the central bank has discretionary authority to adjust both the interest rate paid on excess reserves held by commercial banks and the rate at which it lends to them. These tools are central to the implementation of monetary policy and to maintaining confidence in the financial system.

With the deposits they receive from customers, commercial banks may choose, instead of – or in addition to – granting loans, to allocate at least part of these funds to the purchase of short- or long-term financial assets, such as government bonds, corporate bonds, or even equities (subject to regulatory limits). This investment strategy allows banks to maximize profits while managing and diversifying risk, depending on market conditions, expected returns, and regulatory requirements.

Financial assets – such as government bonds and other marketable securities – are generally less risky and more liquid than bank loans, though they typically offer lower returns. Unlike loans, which are not easily tradable, these assets can usually be sold quickly on financial markets. Depending on its monetary policy objectives, the central bank may decide to buy or sell such assets from or to commercial banks as part of its efforts to influence liquidity and interest rates in the broader economy. These transactions are a key tool of monetary policy and may sometimes be conducted on terms more favourable than those available through regular market trading.

Consequently, it is through these various interactions with commercial banks that the central bank derives its power to influence the interest rate in the economy – that is, the cost of borrowing charged by commercial banks to their customers – and, in turn, to affect overall economic activity. For example, to lower interest rates and stimulate bank lending to support economic activity, the central bank can take several actions, including:

- **Reduce the interest rate at which it lends to commercial banks (policy interest rates):** When this rate is lowered, commercial banks face reduced funding costs and typically pass these on by lowering the interest rates charged to households and businesses, encouraging greater borrowing and investment.
- **Lower the interest paid on reserves:** This encourages commercial banks to reduce excess reserves – the amount they deposit with the central bank beyond the mandatory reserve requirements – and instead use that money to invest in other assets offering better returns or issue more loans at lower rates. While this can support credit expansion and economic activity, the effect on lending rates depends on banks' risk assessments, capital positions, and prevailing economic conditions.
- **Lower the reserve requirement ratio:** This allows commercial banks to lend a greater share of customer deposits, expanding their capacity to extend credit. Increased loan supply generally leads to lower lending rates and increased economic activity.
- **Purchase financial assets from commercial banks:** When the central bank buys government bonds or other eligible securities from commercial banks, it pays for these by increasing the banks' reserves at the central bank. This injects liquidity into the banking system, making it easier for commercial banks to lend to individuals and businesses. In normal times, these operations – known as open market operations (OMOs) – are routine monetary policy tools, typically short-term and focused mainly on government securities, with the goal of managing short-term interest rates and liquidity.

However, during periods of economic downturn or recession, central banks may implement a broader version of this tool known as quantitative easing (QE). QE involves large-scale and sustained purchases of a wider range of financial assets, including long-term government bonds and, at times, private-sector securities. The objective is to inject substantial liquidity, lower long-term interest rates, and further stimulate lending and investment across the economy. Central banks usually resort to QE when traditional policy tools are exhausted – that is, when interest rates are already near zero and the economy is in a liquidity trap, limiting the effectiveness of standard rate cuts.

To raise interest rates as part of a contractionary monetary policy, the central bank will do essentially the opposite of what has just been described.

Appendix III: Exchange rate policy and regimes

Exchange rate policy is a specific component of monetary policy, applicable only within certain types of exchange rate regimes. An exchange rate regime refers to the set of rules that determine how the value of a national currency (namely, the exchange rate) is managed in relation to foreign currencies. There are three main types of exchange rate regimes:

- **1. Floating (or flexible) exchange rate regimes:** In this system, the value of the national currency is determined by market forces, particularly through the supply and demand dynamics of the foreign exchange market. The exchange rate fluctuates based on factors such as the current account balance (see the glossary for an explanation of the current account). For instance, if a country runs a current account surplus (exports exceed imports of goods and services), the value of the national currency tends to rise (that is, the national currency "appreciates"). As the domestic currency strengthens, goods and services domestically produced and priced in that currency become more expensive for foreign buyers, reducing export competitiveness. At the same time, imports become relatively cheaper, leading to increased import demand. This shift can gradually erode the current account surplus and exert downward pressure on the exchange rate. Central banks can also influence exchange rates by intervening in currency markets (buying or selling foreign reserves) or through broader monetary policy measures, such as expanding the money supply, which can lead to depreciation of the currency. Examples: Euro (EUR), US Dollar (USD), Pound Sterling (GBP).
- **2. Fixed (or pegged) exchange rate regimes:** In a fixed regime, the national currency is anchored at a specific parity to another currency, a basket of currencies, or a commodity such as gold. This parity is maintained through active central bank intervention and adjustments are infrequent. This system aims to provide stability and predictability in international transactions but limits monetary policy autonomy.
- **3. Intermediary regimes:** These arrangements combine features of both fixed and floating systems to balance exchange rate stability with some degree of monetary policy autonomy. They include systems such as managed floats (where the central bank intervenes to smooth excessive volatility), crawling pegs (gradual, pre-announced adjustments to the parity), and exchange rate bands (where the currency is allowed to fluctuate within a specified range around a central rate). Such regimes can reduce short-term volatility and support trade and investment, while retaining the capacity to respond to domestic economic conditions. Their success depends on clear policy rules, credible commitment, and adequate foreign exchange reserves to defend the targeted range when needed.

Appendix IV: What does macroeconomic stability mean in the conventional framework?

In the conventional approach, macroeconomic stability is a situation where key economic indicators show low, predictable volatility over time. All economies move through cycles of expansion, slowdown, and sometimes recession.

Managing this stability is seen as essential for sustaining growth and maintaining the confidence of consumers, businesses, and investors.

Underlying this focus are several key assumptions (Islam 2018):

1. Low, stable inflation is essential for growth – high inflation erodes purchasing power, creates uncertainty, and deters investment; stable expectations matter as much as current rates.

2. Fiscal discipline limits inflation and protects investment. Large deficits can raise interest rates by crowding out private borrowing or, if financed by money creation, fuel inflation.
3. Sustainable external balance supports competitiveness. Exchange rate regimes are often framed as a choice between fixed (predictability) or flexible (automatic adjustment).
4. Currency stability and convertibility attract investment and facilitate trade – reducing exchange rate risk is believed to foster trade and foreign capital inflows.

On this basis, the conventional framework tends to favour "supply side policies", which aim to expand productive capacity (aggregate supply) on the premise that "production creates its own demand" (Say's Law).

Supply side policies include: (i) tax incentives to encourage work, saving, and investment such as lower personal and corporate income taxes; (ii) regulatory easing to reduce production costs and boost competitiveness, including weakening labour market protections and institutions; and (iii) creating a stable macroeconomic environment through prudent monetary and fiscal policies to build investor and consumer confidence.

By contrast, demand side policies, rooted in Keynesian economics, argue that economic growth depends on strong demand, since production can only expand if sufficient demand exists. Fiscal policy plays a key role, with government spending used to stimulate demand when household and business consumption or investment are weak. Pioneered by John Maynard Keynes during the Great Depression, this approach aims to boost employment and incomes by increasing aggregate demand, enabling higher production and growth.

Appendix V: Unions participation in economic and social policymaking: lessons from the European Union

The European Union provides one of the most developed examples of institutionalized worker participation in macroeconomic and social policymaking. Anchored in Principle 8 of the European Pillar of Social Rights (EPSR) and Articles 151–156 of the Treaty on the Functioning of the EU (TFEU), social dialogue is recognised as a cornerstone of the European social model and democratic governance. The EU and its Member States share a commitment to promoting dialogue between management and labour as a means to strengthen democracy, improve inclusive governance, and ensure that economic change supports decent work and social cohesion.

▶ European Pillar of Social Rights (EPSR)

The EPSR sets out 20 principles to guide fair labour markets and welfare systems, including explicit recognition of the role of social partners. Principle 8 commits to supporting collective bargaining and worker participation at all levels. While not legally binding, the EPSR has become a reference point for EU and national policy initiatives, with its effectiveness dependent on follow-up measures and political will.

▶ Institutional mechanisms for worker engagement

The EU has developed a set of formal structures enabling trade unions and employers' organizations to contribute to economic and social policymaking:

- Macroeconomic Dialogue (MED): A high-level tripartite forum bringing together the European Trade Union Confederation (ETUC), employer representatives, the European Central Bank, the European Commission, and national governments to discuss fiscal, monetary, and wage policy. It ensures workers' perspectives are heard in macroeconomic debates, though its impact on final decisions remains limited.
- European Semester: The EU's annual cycle of economic policy coordination, which includes consultation of social partners on national reform programmes and country-specific recommendations. While it creates a formal entry point for worker input, the depth and timing of engagement vary significantly across Member States.
- Sectoral and cross-industry social dialogue: Institutionalized through Article 154 TFEU and reinforced by Commission Decision 98/500/EC, allowing social partners to negotiate agreements that can be implemented via EU legislation.

- Tripartite Social Summit for Growth and Employment: Meeting twice a year before European Council summits, it facilitates ongoing high-level consultation between EU institutions, Member States, and social partners.

Recent developments

Since 2023, trade union engagement – enabled by the EU's legal and institutional framework – has helped secure a series of landmark measures reinforcing worker participation and protections. The Directive on Adequate Minimum Wages (2023) establishes an EU framework to ensure minimum wages provide decent living standards, reduce in work poverty, and require the active involvement of social partners in wage setting, alongside action plans to strengthen collective bargaining coverage. The Directive on Platform Work (2024) introduces a presumption of employment and mandates algorithmic transparency for some 28 million platform workers. The Directive and Pact for European Social Dialogue (2025) establish a renewed tripartite framework that systematically strengthens trade union involvement in EU economic and social policymaking through concrete actions, including appointing a Social Dialogue Envoy, enhancing capacity building, widening consultation scope beyond traditional social policy, and fostering early participation in the EU policy cycle.

While challenges remain – including uneven implementation across Member States and the often-advisory nature of dialogue – the EU experience shows that institutionalized social dialogue can anchor economic policy in social justice, employment creation, and the protection of workers' rights, but only when processes are timely, inclusive, and backed by political will, accountability, and resources.

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