

Position statement



Position Statement of the German Trade Union Confederation

Requirements for a social taxonomy

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German Trade Union Confederation
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1 Introduction

On 28 February 2022, the *EU Platform on Sustainable Finance*, an expert body advising the EU Commission, presented its final report on the social taxonomy. This report forms the basis for a possible legislative initiative on the part of the EU Commission to supplement the Taxonomy Regulation already adopted in June 2020. So far, the Taxonomy Regulation focuses on environmental sustainability criteria. The ecological taxonomy only contains minimum social standards.

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This position statement briefly outlines the importance and development of the sustainable finance market and explains the need for expanding the ecological taxonomy to include a social dimension (Section 2). Subsequently, the structure of the social taxonomy is briefly presented (Section 3) and a detailed assessment of the final report of the Sustainable Finance Platform on the social taxonomy is made (Section 4). Finally, requirements for minimum social standards within the ecological taxonomy are formulated (Section 5). For a better understanding of the economic significance of the taxonomy, it is also crucial to see the EU taxonomy in the context of other EU legislative initiatives and measures which are briefly discussed in the annex to this position statement.

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2 Background

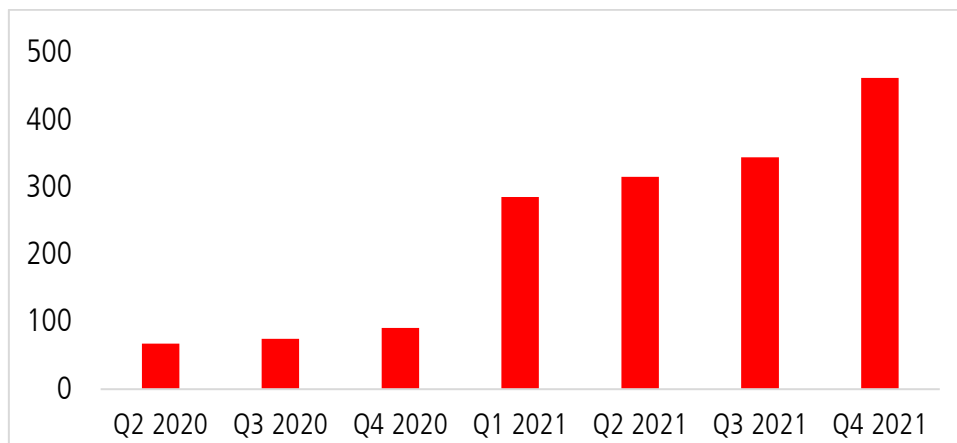
In the current globalization process, the financial sector is a driver and pillar of economic activity, which is why it is of particular importance on the path to a more



ecologically and socially sustainable economic order. This is especially true for the Green Deal, which the EU Commission has defined as the central project for the next decade. The path to climate neutrality requires an enormous amount of additional investments. Therefore, the effective channelling of financial flows is central to achieving the goals of the Green Deal.

The market share of sustainable financial products has grown significantly during the COVID crisis. There is great demand for social and green investment products. According to data from DZ Bank, the global new issue volume of *green bonds* amounted to 500 billion US dollars in 2021. *Social bonds* have also grown steadily in recent years. New issues of bonds of this category increased by little over 30 percent compared with the previous year to reach 185 billion US dollars in 2021.¹ Drivers of this growth included the EU social bonds issued at the end of 2020/beginning of 2021. They were issued within the framework of the EU Short-Time Work Scheme (EU-SURE Programme).² The huge demand for sustainable financial products is also reflected in the fact that fund assets with sustainable financial characteristics have been rising steadily for years (see figure 1):

Figure 1: Assets of mutual funds with sustainability characteristics in Germany in billions of euros



Source: German Fund Association BVI

¹ DZ Bank (2021): Sustainable Finance Bulletin 09, [Nachhaltige Finanzierung \(dzbank.de\)](https://www.dzbank.de/nachhaltige-finanzierung).

² EU (2021): Social Bond Framework, [eu_sure_social_bond_framework.pdf \(europa.eu\)](https://ec.europa.eu/eu_sure_social_bond_framework.pdf).



However, the market for sustainable financial products has a structural problem. Too often, sustainable funds invest in companies that do not sufficiently meet sustainability criteria.³ In order to stabilise credibility and market confidence, regulation that sets uniform standards for sustainable financial products is increasingly important.

This is precisely where the ecological taxonomy comes in. The aim of the Taxonomy Regulation is to put an end to the proliferation of private valuations - such as the up to 1,500 indices of the rating agencies – by introducing a uniform and transparent standard which strengthens the EU's competitiveness in the market for sustainable financial products.

The taxonomy is a classification system for economic activities that is intended to provide investors and consumers with orientation and transparency when making investment decisions. In this way, the taxonomy is comparable with the energy efficiency classes for household appliances or organic food certificates. It is a means of market transparency and orientation for investment decisions. The ecological taxonomy should effectively prevent "greenwashing" in the financial market and support the ambitions of the European Green Deal in a purposeful manner.

The EU Commission has linked the ecological taxonomy to a variety of legal acts. The European Investment Bank also applies the taxonomy when deciding on funding for sustainable projects (see Annex). It can also be assumed that future EU funding policy will be linked to the taxonomy. With this central cross-cutting task, the taxonomy has the potential to channel public and private investment funds in a targeted way.

The taxonomy basically intends to change corporate financing conditions. In other words, it can be assumed that those companies that can credibly demonstrate that a certain proportion of their turnover or investments are taxonomy-compliant can benefit from better financing conditions in the future. Due to a greater supply of capital, sustainable enterprises could take advantage of more favourable financing opportunities to further promote the diversification of their financing sources.

³ Schultz, Alison/ Senn, Magdalena (2021): Greenwashing on a grand scale. How "sustainable" funds fuel the climate crisis, finance corrupt board members and tolerate the violation of workers' rights, Finanzwende Recherche, Berlin, [Greenwashing in großem Stil \(finanzwende-recherche.de\)](https://finanzwende-recherche.de).



However, the concrete effects of the taxonomy on corporate financing and thus also on employment are not yet foreseeable at the moment, especially when it comes to small and medium-sized enterprises. The consequences will depend on the progressive design of the taxonomy (such as the question of the categorisation of transitional activities) and the future developments in the field of banking regulation and the handling of ESG risks. In the case of an acceleration of the transformation of financial markets, it is of central importance for the trade unions that flanking industrial and labour market policy measures are taken. In addition, it must be ensured that companies that do not now meet the requirements of the taxonomy are not disadvantaged in terms of refinancing when it comes to them creating a social transition and developing their own business model sustainably.

In this context, the question of whether or not to add a social dimension to the taxonomy is of utmost relevance for the trade unions.⁴ After all, workers' rights and social premises have so far played a very subordinate role in financial market activities. The DGB sees an opportunity for the ecological taxonomy to be supplemented by a strong social dimension. The channelling of financial flows for the socio-ecological transformation must be compatible with the fundamental values and interests of workers. To achieve the goals of the Green Deal, a holistic concept of sustainability must be considered.

3 The structure of the social taxonomy

In its final report the Platform for Sustainable Finance (*Subgroup 4*) proposes a rough-cut structure for a social taxonomy. However, the focus is solely on the economic activity of a company and not on its internal circumstances. This means that the aim of the taxonomy is to classify economic activities as sustainable or unsustainable, but not the company as such. Taking this approach, the social taxonomy is comparable to the ecological taxonomy, which also uses economic activity as a central point of reference.

An economic activity is socially sustainable if it makes a significant contribution to one of the goals defined in terms of the interests of the three different stakeholders (*workers, communities, consumers*). Accordingly, it should be examined whether the respective economic activity makes a positive or negative contribution to the stakeholders.

⁴ Leuchters, M. (2022): Sustainable Finance. An opportunity for co-determination? Mitbestimmungsreport Nr. 70, 01.2022, [Sustainable Finance \(boeckler.de\)](https://www.boeckler.de).



While "decent work" should be ensured for workers, products or services must provide "an appropriate standard of living and well-being" for consumers. For communities affected directly or through the value chains, activities should be inclusive and sustainable.

Figure 2: Goals and sub-goals of the social taxonomy

Goals	Sub-goals
1. Decent work	Social dialogue, living wages, health and safety, lifelong learning
2. Adequate standard of living and protection of end users (consumers).	Health services, social housing, long-term care, education
3. Sustainable communities and societies	Access to basic economic infrastructure, inclusion of people with disabilities

The trade unions' central objective, the promotion of "decent work", is concretised in the report by a number of sub-goals.

An economic activity makes a significant contribution to the objective of "decent work" when:

- it strengthens social dialogue,
- it promotes collective bargaining,
- it strengthens the right to freedom of association,
- living wages are paid,
- precarious employment is avoided,
- measures are implemented that improve the health and safety of workers in the workplace
- training programmes are provided for workers and
- measures are taken that contribute to improving the health and social security of workers.



Example

(see final report on social taxonomy, p. 54)

Economic activity:

A company that is particularly affected by structural change introduces extensive training programmes for workers. Workers are appropriately involved in their design and planning.

Goal: Decent work, sub-goal: Continuing education

Do-No-Significant-Harm criteria:

1. Decent work: Workers must receive at least the national minimum wage or be paid according to collective agreements, companies must comply with ILO's core labour standards and ensure adequate measures to implement health and safety at work.
2. Adequate standard of living and end-user protection.
3. Sustainable communities and societies: No discrimination against certain population groups in further education opportunities.

4 Assessment of the social taxonomy

The final report proposes a normative framework for the social taxonomy, especially for the goal of "decent work", that is in line with minimum socio-political claims of the DGB trade unions. In the report, reference is made not only to the ILO Core Labour Standards and the UN Guiding Principles on Business and Human Rights, but also to European documents (such as the European Pillar of Social Rights), which are supported by the trade unions. At the same time, however, the trade unions see the need to update the ILO core labour standards, amongst others, in order to adapt the social rights to today's requirements. This scope for adaptation should be present in the social taxonomy and should not only refer to older minimum standards. In this respect, the social taxonomy as proposed in the report represents the basic set of values of the trade unions for the time being. Whether the taxonomy is



meaningful in terms of its implementation method will be discussed in the following.

It is striking that the expert panel has only presented a rough structure of a social taxonomy so far. The assessment made here must therefore be considered to be preliminary. For a final assessment, many important details would have to be clarified, such as the operationalization of the sustainability criteria, the complete definition of the *Do-No-Significant-Harm* criteria, as well as the definition of some sub-goals, which is still outstanding.

a) Focus on economic activities

The expert panel proposes to categorise the economic activities of sectors and companies as socially sustainable or socially non-sustainable. The authors of the final report justify the focus on economic activities with the aim of achieving the highest possible compatibility between the social and the ecological taxonomy. The more compatible the structures of the two taxonomies, the more likely it is that a coherent integration of the two sets of rules can be achieved.

The trade unions reject the focus on economic activities. It would have made more sense to define each company as a socio-economic institution in its entirety as a central unit of analysis of the social taxonomy. From a trade union perspective, adherence to collective agreements, co-determination (also in the sustainable restructuring of the company), gender equity in wages, family friendliness, appropriate occupational health and safety, etc. are central criteria of sustainability and decent work.

It is therefore especially company-related criteria that play a central role in the question of social sustainability. However, the social criteria mentioned above can hardly be assigned to specific economic activities. There is a danger of *social washing* when applying this method, e.g. a company that is anti-social from a trade union perspective could benefit from favourable financing conditions for certain projects, such as investments in social housing.

The DGB demands that company-related criteria be given greater prominence in a social taxonomy. Nevertheless, the focus on economic activities can be useful, for example in relation to parts of the defence industry. Here, the DGB supports the



proposal of the expert group to classify that part of the defence industry that focuses on the production of internationally outlawed weapon systems as socially harmful and thus to exclude it from the social taxonomy.

The fact that the final report mentions "decent work" as one of the three goals of a social taxonomy is welcomed in principle, but this goal and its sub-goals must be underpinned with clear indicators (*key performance indicators*). Otherwise the fundamental concerns of the trade unions regarding the current approach cannot be fully overcome. The normative criteria of sustainable finance must not be exclusively oriented along the lines of market interactions, they must be geared first and foremost towards companies as social spaces. They must reflect the guarantee of basic democratic rights as well as occupational safety. In this respect, the taxonomy's exclusive focus on "economic activities" continues to be wrong from a methodological standpoint.

b) Concretisation and operationalization of the criteria

The final report includes many trade union key demands. They range from strengthening training activities of companies affected by transformation, the avoidance of tax fraud, the co-determination of employee representatives in supervisory boards and the strengthening of gender equality at management level. However, they must be backed with concrete and ambitious indicators in order to make the taxonomy measurable. This does not seem easy, especially when there are different transparency requirements in terms of methodology, such as between tax fraud and gender justice. It remains unclear to what extent these standards and criteria are to unfold their meaning in the practice of financial transactions and how they can be made verifiable. Finally, any marketable and humanistically appealing assessment of companies and investments always carries the danger of *social washing*.

In order to keep the administrative cost for companies in terms of reporting obligations within limits, the progressive development of the indicators should be oriented towards the social reporting standards that the *European Financial Reporting Advisory Group* is currently developing as part of the implementation of the Sustainability Reporting Directive. Transparent, clear and quickly implementable guidelines are necessary so that the indicators can fully develop their practical relevance.

With regard to employee representatives on supervisory boards the avoidance or illegal ignoring of company co-determination should be considered incompatible



with the *do-no-significant-harm approach* of the social taxonomy. Likewise, the application of collective agreements should play a central role in the area of "decent work".

c) Clarifications of terms

The use of the terms "social partners" and "social dialogue" in the final report is partly too indiscriminate or vague. Trade unions and works councils as well as their specific rights to information, consultation and co-determination should be explicitly mentioned when they are involved - in duality with employers. The close relationship between employees and employers is crucial in many sustainable transformation tasks, such as the implementation of the *circular economy*. But it should not be diluted in fundamental issues of conflicting interests, such as wage setting, occupational health and safety and the organisation of working times. Furthermore, especially when referring to the social partners, the aspect of taxonomy training should also be mentioned. It is of enormous importance with regard to risk minimisation and the query of competences among employees, because in terms of sustainable restructuring and corresponding reporting obligations, social partners can be successful for the benefit of companies and society only if they cooperate.

d) Integration of social and ecological taxonomy

The final report proposes two models for linking the social and environmental taxonomies. In the first model, the two taxonomies would only be linked by minimum standards. In the ecological taxonomy, social minimum standards (as provided for in the Taxonomy Regulation) would apply, and in the social taxonomy ecological minimum standards would be integrated. The second model is more integrative. In it economic activity would be considered sustainable if it not only contributes to one of the goals of the ecological or the social taxonomy, but also takes into account all *Do-No-Significant-Harm* criteria of *both* taxonomies.

The DGB welcomes the closest possible integration of both taxonomies and is in favour of the second model. The integrative model would ensure that the multitude of green financial products also meet higher social standards, as the *Do-No-Significant-Harm* criteria are more ambitious than the minimum social standards already included in the Taxonomy Regulation. The integrative model takes greater account of a holistic concept of sustainability.



e) Democratic deficit

The DGB criticises that the trade unions were not adequately represented in the taxonomy expert group. In sub-group 4 of the *Platform on Sustainable Finance*, which is responsible for the social taxonomy, there is only one representative from the European Trade Union Confederation. Given that a key objective of the social taxonomy is to classify Decent Work appropriately, a greater involvement of the trade unions would have been desirable.

In the further course of proceedings it is important to ensure broad civil society and parliamentary participation in the creation of the social taxonomy. All political issues must be comprehensively clarified in a possible future regulation on the social taxonomy. The democratic deficits that were already obvious in the process of formulating an ecological taxonomy must be urgently eliminated. Political questions, such as the status of nuclear power, were decided in delegated acts. As regards the social taxonomy, the central criteria must be laid down in the regulation. A transfer of political powers to the EU Commission must be avoided. This particularly applies to the social taxonomy, which after all claims to represent a set of values shared by society as a whole.

f) No incentives for the privatisation of services of general interest must be created

A central focus of the social taxonomy is to improve access to and the quality of products and services with social benefits. The strengthening of communities and services of general interest is a stakeholder goal. The taxonomy is heavily aimed at private funds, hence there should be critical questions as to whether this could lead to the privatisation of public services (health, mobility, infrastructure, education, etc.). The trade unions have long been aware of developments the COVID pandemic has once again highlighted: The provision of services of general interest is the responsibility of the public sector and must be promoted as such. However, a differentiation between private and public providers of services of general interest is not mentioned in the report. From a trade union perspective and against the background of the UN Sustainable Development Goals, investments by stock-market driven companies, for example in social housing, in health care, in childcare facilities or in care for the elderly, must never be considered sustainable. This is precisely what the social taxonomy would promote though.



Hence there are conflicts of interest surrounding the social taxonomy and services of general interest. The social taxonomy could define uniform standards for private providers. However, the social taxonomy must not lead to a situation where public providers of social services are increasingly in competition with private providers, which would encourage the privatisation of services of general interest. This issue needs to be addressed.

g) Equality on Executive Boards and sustainability-related remuneration of Board Members

Executive pay should be a relevant criterion in a social taxonomy. The wage gap between employees and board members or management is still very wide. The current situation not only poses a threat to public confidence in the social market economy, but also jeopardises the economic performance of companies in the long run.

Against this background, the DGB calls for stronger regulation of executive board remuneration, among other things, by limiting variable remuneration components to twice the basic remuneration, introducing a maximum limit for executive board remuneration (set by the supervisory board) as a function of employee income in the respective company, as well as the obligation to include criteria that safeguard jobs and are geared towards social and ecological sustainability. Furthermore, the determination of the remuneration systems shall require a majority of two thirds in the supervisory board.

In addition, among the *governance criteria*, the proportion of women on management and supervisory boards must become just as important as the prevention of corruption mentioned in the report. This is not only about the social criterion of gender justice, but also about dealing with a democratic deficit in corporate governance, which is ultimately also called for by the UN sustainability criteria.

5 Minimum social standards in the ecological taxonomy

In Article 18 the Green Taxonomy refers to minimum social standards that must be met when classifying sustainable economic activities. Reference is made to the OECD Guidelines for Multinational Enterprises and the United Nations Guiding Principles on Business and Human Rights, which must be reported on in the case of



"significant adverse impacts". The competent expert group in the *EU Platform Sustainable Finance* intends to publish a respective report in September 2022. Since it is still uncertain whether the EU Commission will submit a legislative proposal on the social taxonomy at all, it is of central importance that ambitious social criteria are laid down in the environmental taxonomy when specifying minimum social standards.

The following aspects should be considered:

- The normative reference framework for minimum social standards should not only include the OECD Guidelines for Multinational Enterprises, the ILO Core Labour Standards and the UN Guiding Principles on Business and Human Rights, but also the EU Charter of Fundamental Rights.
- There is a need to define clear indicators and criteria that can be used to adequately assess compliance with or deterioration of minimum standards. Reporting requirements on principles or guidelines alone are not sufficient. Both performance and process standards should play a role. Hence, not only should it be taken into account whether the company achieves certain social goals, but also whether processes have been implemented that contribute to the achievement of goals (for example, the existence of a complaint mechanism in the company in the event of labour law violations, etc.).
- Today there are a number of EU legal acts and legislative initiatives in which social reporting obligations are provided for. The aim should be to standardise as far as possible exacting social criteria and their application.
- The right to freedom of association (including the right to collective bargaining) should be defined as a minimum social standard. The percentage of workers covered by collective agreements for all locations where the company operates should be an important indicator because the right to freedom of association and the right to collective bargaining are instruments that enable workers to assert their human rights at the workplace (such as occupational safety and health, remuneration, protection against dismissal, etc.).



Annex: The taxonomy in the context of other EU legislative initiatives and measures

The political significance of the ecological taxonomy becomes apparent in the context of further EU legislative initiatives and EU measures (see chart 3). In particular, the European Green Bonds Regulation, the Sustainability Reporting Directive and the Disclosure Regulation should be mentioned here.

The regulation on European green bonds, for example, which was presented by the EU Commission in July 2021 and is currently in the legislative process, is closely linked to the EU taxonomy. Accordingly, both state and private issuers of green bonds that apply the European Green Bonds Standard will in future have to demonstrate that the proceeds from the bond only flow into taxonomy-compliant projects.

Even if the standard does not fully establish itself on the market (because other private green standards remain in place alongside the Green Bond Standard), it is safe to assume that at least governmental and supranational issuers will apply the European Green Bonds Standard. The fundraising strategy for the Next Generation EU recovery programme foresees that the EU Commission, for example, raises 30 per cent of the funding, i.e. up to 225 billion euros, through the emission of green bonds on the capital market. This would make the EU the largest issuer of green bonds worldwide.⁵

As long as the regulation regarding the European Green Bond Standard is still in the legislative process, the EU cannot yet fully apply its own standard. In the interim until the regulation enters into force, the EU has developed its own set of criteria for qualifying climate investments in the context of the Building and Resilience Facility, the so-called climate tracking method.⁶ These criteria are based on the EU taxonomy, but are not fully adapted to it.⁷ Hence, the EU Commission is trying to ensure that the proceeds from the bond issued within the framework of the Next Generation EU recovery programme are actually used for green, largely taxonomy-compliant investments. It can be assumed that other EU funding programmes will

⁵ European Commission (2021): Communication on a new funding strategy to finance NextGenerationEU, COM (2021)250 final.

⁶ See [Regulation 2021/241](#) of the European Parliament and of the Council of 12 February 2021 establishing the Building and Resilience Facility, Annex 6.

⁷ See also Mack, S. (2022): Turning green into gold. How to make the European green bond standard fit for purpose, Hertie School, Jacques Delors Centre, Policy Brief, 15 February 2022.



also be oriented towards the EU taxonomy in line with the Next Generation EU recovery plan.

The European Investment Bank (EIB) also applies environmental and social standards based on the EU taxonomy in its financing decisions. The EIB intends to greatly expand investments in climate and environmental protection between 2021 and 2030. It wants to promote investments amounting to 1 trillion euros for this period.⁸ Whether the EIB will actually live up to its own claims regarding the expansion of green investments remains to be seen.⁹ But the planned volume of taxonomy-compliant private and public investments alone underlines the political relevance of this instrument.

Linking the ecological taxonomy with the European Green Bond Regulation and the EIB's handling of the taxonomy underline that the taxonomy can be used as a *tool for channelling public and private financial flows* towards the socio-ecological transformation.

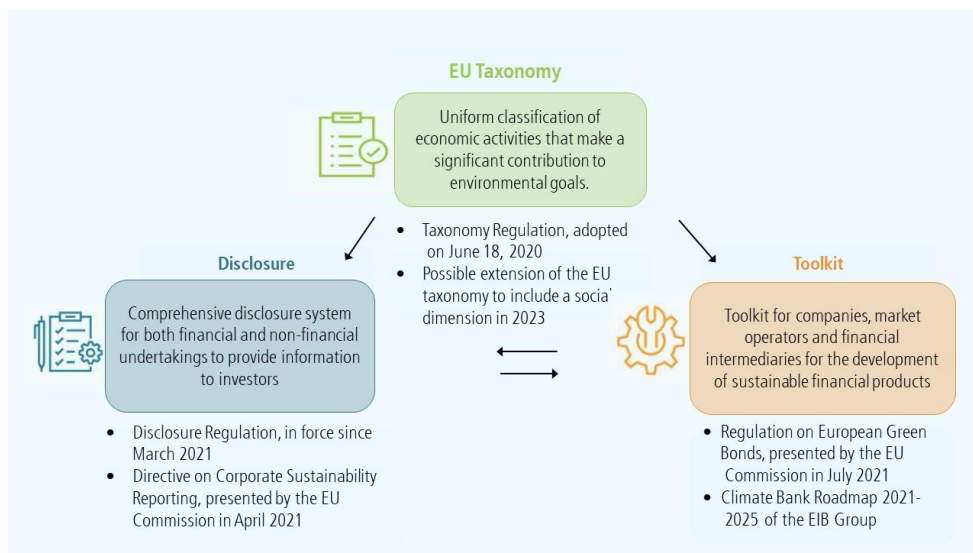
Furthermore, the EU taxonomy is a relevant instrument for the disclosure obligations of companies and affects the sustainability reporting of companies. According to Article 8 of the Taxonomy Regulation, large, listed companies with more than 500 employees must disclose the sustainable share of their operating and capital expenditures as well as sales revenues. All companies that fall within the scope of the EU Directive on non-financial reporting have a reporting obligation. Currently, an advanced version of this Directive, the so-called Corporate Sustainability Reporting Directive, is in the legislative process. This will considerably expand the scope of application of the reporting obligations and concretise them in terms of content. If it is passed, the group of companies subject to reporting requirements that have to apply the taxonomy would increase fivefold.¹⁰

⁸ European Court of Auditors (2021): Sustainable finance: EU must act more coherently to redirect finance towards sustainable investment. Special Report [22/2021: Sustainable finance \(europa.eu\)](#)

⁹ For a critical analysis of whether the EIB actually lives up to its own claims to become the European climate bank, see: Mertens, D. / Thiemann, M. (2022): The European Investment Bank as the EU's Climate Bank. In: Rayner, T./Szulecki, K./ Jordan A./ Oberthür, S. (i.E.): Handbook on European Union Climate Change Policy and Politics. Cheltenham: Edward Elgar.

¹⁰ DGB (2021): DGB Statement on the European Commission's Proposal for a Directive on a "Corporate Sustainability Reporting Directive", [Stellungnahme des DGB zum Richtlinienvorschlag der Europäischen Kommission über eine "Corporate Sustainability Reporting Directive" | DGB](#)

Figure 3: The EU taxonomy in the context of other EU legislative initiatives and measures



Source: Own representation, EU Commission

According to Article 8 of the Taxonomy Regulation, not only non-financial but also financial undertakings are subject to the reporting obligation. The details are regulated in a delegated act.¹¹ From 2024, banks must publish new indicators. The green asset ratio records the taxonomy-related share of the assets of financial institutions, with the exception of loans to companies which do not have to publish a sustainability report. Institutions subject to ECB supervision must publish a corresponding ratio for their entire balance sheet. In the future, banks will have to determine the share of their taxonomy-compliant loans and investments in financial instruments. In doing so, they will refer back to the data of the companies to which they lend or whose securities they hold in their books. Banks will be obliged to check their credit relationships with companies/institutions and also their private customers in accordance with the taxonomy criteria. The obligation of banks to publish the taxonomy-compliant share of their assets in the future will have an impact on the real economy far beyond the financial sector.¹²

¹¹ European Commission (2021): Delegated regulation of 6.7.2021, C (2021) 4987 final, Brussels, 6.7.2021.

¹² Regneri, Leonhard (2021): Financial Market Policy Analysis. How taxonomy is changing the economy. 2/2021, [Now published: Analysis on financial market policy - ver.di \(verdi.de\)](https://www.verdi.de/analysis/analysis-on-financial-market-policy)



Via the Disclosure Regulation financial market participants and financial advisors are also affected by the EU Taxonomy. The regulation applies since March 2021 and contains essential disclosure and transparency obligations at company and product level in conjunction with the Taxonomy Regulation. Financial market participants are obliged to provide better information about their sustainable financial products.

It is only in the context of all these legislative initiatives and developments that it becomes clear how profound the impact of the EU taxonomy on the economy will be in the coming years. For the trade unions, an extension of the EU taxonomy to include a social dimension and the concretisation of exacting minimum social standards in the ecological taxonomy is therefore decisive. Strengthening the social dimension in the further evolution of the taxonomy is a way to guarantee justice, prosperity and workers' rights in a transformed economy.