

## Progressive Economy Conference

### Speech by Martin Schulz

- check against delivery -

Dear Deputy Prime Minister of Finland, dear Jutta, (*might arrive late*)

Dear colleagues from national Parliaments and the European Parliament,

Dear co-chair of the scientific board, Mr. Fitoussi,

Dear professors,

Ladies and gentlemen,

Friends,

Let me first thank Hannes Swoboda and the Socialists and Democrats group for organising this timely event. I'm grateful that you have put on the agenda one of the biggest social | economic | and political problems of our time - if not the biggest problem of all: Inequality.

I'm grateful and honoured by the invitation to speak to you today.

Not in my function as President of this Parliament. But as a proud member of the Socialists and Democrats group. And after our party Congress in Rome last Saturday, as the newly-elected candidate for Commission President of the Party of European Socialists.

Ladies and gentlemen,

"The chronic gap between the incomes of the richest and poorest citizens is the risk that is most likely to cause serious damage globally in the coming decade."

Of course, you expect Schulz, the Social Democrat to say this.

But these are not my words.

These are the words of an institution not under any suspicion of belonging to the socialist family: The World Economic Forum.

If even the World Economic Forum has woken up to the threats posed by inequality we must indeed be in trouble.

Inequality has many faces.

It's the woman who earns less than her male colleague doing the same job.

Or the child who has fewer life chances because of his parent's low income.

It's the young man who has studied, worked hard "done everything right" - and still can't find a job.

Or the retired who can not live off her pension after a hard working life.

It's the parents who can no longer pay for the health care of their kids in Greece.

Bulgarian and Romanian people who still earn only half of the European average.

Inequality produces countless individual tragedies.

But inequality also threatens the political, social and economic fabric of our societies as a whole.

Just take income inequality. Top incomes have grown much faster than incomes of the rest of society. That's not fair. But it's also an economic problem.

Because inequality leads to lower growth. Stagnating income of the middle class equals stagnating growth. And the large and growing share at the top, is not all invested into the real economy, but in large parts moved into speculative bubbles.

This distorts the economy. It led to the financial meltdown.

As Professor Stiglitz put it much more aptly than I could ever hope to do, and is for sure going to do so in the following session, please allow me to quote him:

"Inequality is cause and consequence of the failure of the political system, and it contributes to the instability of our economic system, which in turn contributes to increased inequality - a vicious downward spiral".

And Europe is trapped in just such a vicious circle.

But following Stiglitz argumentation, there is good news:

If wrong policies broke it, good policies can fix it.

By tackling inequality we can address the symptoms of the crisis and resolve the causes of the crisis.

And once and for all prevent future crises.

Ladies and gentlemen,

For too long, the neoliberal dogma of the invisible hand led to a deregulation frenzy.

For too long the economic culture was geared to maximizing short-term profit and the shareholder value.

The bonus culture among senior executives, job shopping by managers, stock-market bubbles generated by shady financial products, tax evasion and subsidy shopping - have left the real economy on its knees.

Big corporations practice regime-hopping, blackmailing countries with their threat that they would move their production and jobs to places with lower environmental standards and lesser worker's rights - if not granted special conditions.

Big banks claim they "are too big to fail", forcing governments to bail them out overnight. If a big bank goes bust or a big corporation makes bad strategic decisions - it becomes a problem for the state.

And a crisis of capitalism develops into a crisis of democracy.

People rightly feel that something's wrong

when greed is rewarded over hard work;

when speculators don't have to take responsibility for their action;

when governments answer to the collapse of financial markets with billions for the banks and austerity for the people.

Surely, our children's futures are too big to fail.

I mentioned this in my speech in Rome last Saturday. As a result of the crisis divisions are growing.

Divisions between European countries.

And divisions within European countries.

People are now suffering.

Homes have been lost. Jobs destroyed. Businesses crushed.

120 million Europeans live in poverty or under its threat.

27 million Europeans who want to work cannot find a job. In some countries more than every second young man and woman is unemployed!

The young generation are paying with their life chances for a crisis they have not caused.

Yes, inequality is about extreme poverty. But it is also about middle income people not having access to opportunities and to public services.

Rich people do not need a strong state. They can buy healthcare, security and education.

But normal people need a strong state.

Everyone has ups and downs.

Everyone needs help to bounce back.

That's what a safety net is for.

They have to rely on the government for protection and public services. Budget cuts in education and healthcare hit the weakest hardest again. I read in one of the studies published by the progressive forum that best performers among the rich countries in terms of cohesion and equality are countries with a strong welfare state.

Because they invest in people; Stimulate and support people to be active. And protect people if everything fails.

Making people's lives better is what politics should really be about.

And to make people's lives better we must restore the primacy of politics over economy.

And change our policies.

Restoring the primacy of politics is fulfilling the promise of democracy. As Colin Crouch puts it: It's about using the power of government to limit the concentration of private power.

And we must limit the concentration of private power in the economic field, too.

Because we know that full deregulation leads to market failure. Totally Unregulated markets cannibalize themselves.

Fixing what has been broken by bad policies with good policies is really about re-drawing the boundaries in which the economy and especially the financial markets operate.

It's about putting fairness back at the heart of policies.

Today, I want to focus on three policy areas, which in my view are key battle areas in the fight against inequality. Policy areas where the EU can really change things for the better:

Financial market regulation, tax fraud and social dumping.

Ladies and gentlemen,

When governments all over Europe spend billions of taxpayer's money to stabilize the banking system, they made a promise: such a crisis would never happen again. Finance would be controlled; banks would serve the real economy.

Still today, ordinary people are supporting banks and providing guarantees for countries in difficulties. But the promise has not been fulfilled that dangerous speculation will be stopped.

Yes, to be fair, some progress has been made, especially in the European Parliament under the lead of the Socialists and Democrats:

We have limited speculation on derivatives, on commodities and on food prices.

And this is important for reducing inequality on the global level.

We have limited short-selling.

And we have capped banker's bonuses.

But there are still loopholes that need to be closed.

Let me give you an example of what I am talking about here. At the top of the financial sector, 3.500 traders made more than one million Euros each in 2012.

That's 7 billion Euros! How much of this money is actually spent in shops and restaurants? -

And how much of it is parked in tax havens or goes into the next speculative bubble?

So there is still work for the next Parliament.

And achieving a progressive majority in the European institutions is the only way to deliver.

- We must shield citizen's savings by separating retail banking from speculative activities.
- We can make the Financial Transaction Tax a reality! Our family has campaigned for the FTT because we know it will bring us money.

But the FTT is about much more than money: it's about finally taxing speculation. Today, you have to pay taxes on every apple you buy.

But you do not have to pay taxes on speculation.

That's not fair.

And it does not make sense.

- We can break the toxic link between bank debt and state debt. For this we need a Banking Union that works. Socialists and Democrats have taking the lead when it comes to investor responsibility and protecting citizens' deposits.

As a said in Rome: In five years I want to be able to say to the citizens who had to bail out banks: It will never happen again, we have made banks safe.

Ladies and gentlemen,

Progressive and fair taxation is a forceful tool to fight inequality.

Sharing wealth guarantees equal opportunities.

Shifting fiscal burden from labour to capital boosts a fair economy. There is only so much the European Union can do - most lies in the hands of nation-states. But there is one area where the EU can and must act: the fight against tax avoidance and tax fraud.

As I said in Rome, I don't want to interfere in every local decision as Commission President.

But when the problem crosses borders like this, then my focus will be on a solution that crosses borders.

What the "offshore leaks" brought to light last year sounds like something straight out of a detective novel:

Tax havens, letter-box firms, offshore accounts, CDs full of information about tax dodgers, illegal funds and shady front-men. Day after day certain companies and citizens are cheating society out of billions.

According to a study commissioned by the S&D Group the damage of tax fraud and tax avoidance is one trillion Euros. One trillion Euros!

That is two thousand Euros per year for every citizen!

Four times the amount spent on education per capita!

If all taxes were collected, we could pay off our sovereign debt within a decade!

And we need this money.

To take care of our elderly.

To give every child the same opportunities with good educations.

To invest in innovation and research so that our children have a good future.

To make things worse, much of this money is used for speculation and goes into dangerous bubbles.

- How do you explain to normal people that they have to accept painful sacrifices - wage cuts, pension cuts, health care cuts - while at the same time the rich transfer their money to Swiss bank accounts?
- How do you explain to people and to small and medium-sized enterprises that they have to pay their taxes while multinational corporations pay almost no taxes?
- How do explain that between 16 and 25 trillion Euros are hidden in tax havens around the world?

There has been a lot of talk about coming up with global regulations in the frame of the G-20.

But that's as good as saying nothing is ever going to happen. Nothing is going to change.

Someone has to take the lead. And it must be the European Union.

As a first step we have to come up with a clear definition of tax havens. On this basis we can draw up a black list. And then crack down on tax havens.

And there are things that need to be done:

- Impose a levy on transactions effected in tax havens.
- Impose customs barriers on trade with tax havens.
- Withdraw the banking license of those financial institutions involved in tax evasion.
- Block companies who have their headquarters or operate through tax havens from public tenders and state aid. It is simply unacceptable that companies which pay no taxes should still be able to pocket taxpayers' money in this way.

Yes, there are things we can do.

If we have the political will to do them.

The same goes for fighting aggressive tax planning and tax avoidance.

We don't need a European Finance Ministry to implement the principle that the country of the profit is the country of taxation!

We can make multinationals submit country-specific reports. They have to set out where they earn their profits, how many people they employ in a country and how many taxes they pay.

And we have to push for agreements on the taxation of savings with non-EU countries.

Sounds unrealistic? Well, if you have the political will to do, it can be done swiftly: the FATCA Agreement between the USA and Switzerland was adopted within three months.

Ladies and gentlemen,

And there is more the EU can do.

Labour policies are a key part of our progressive economic programme too.

We must make creating jobs, good jobs our priority. The Just Jobs Index distributed at this conference shows that the quality of jobs has declined in most European countries over the last decade.

- Fighting youth unemployment is our most important task.
- We have to make traineeships a priority.
- We have to increase funding for the Youth Guarantee.
- We have to close the gender pay gap and enable more women to hold top jobs; I want my daughter to have the same opportunities my son has.

And to ensure fair pay for everyone, we have to fight social dumping and introduce a European system of minimum wages tailored to each individual country: enabling people throughout Europe to live in dignity!

I am convinced that one of the key tasks of the EU is managing globalisation for the benefit of all.

Because together we are stronger.

With our 507 million citizen's, our 28 nation states, the biggest and richest internal market we are a heavy-weight!

And we should use this strength to better protect our citizen's.

Together we can stop the race to the bottom, where countries compete against each other on who has the lowest worker's rights, the lowest environmental standards, the lowest corporate tax rates.

Together we can defend our standards and rights in international trade agreements.

Together we can defend our unique European model of society.

A society built on democracy, human rights, the rule-of law, the freedom of speech and freedom of the press.

A social market economy and welfare state.

With guarantees of access for everyone to education, to health care, progressive taxation, social dialogue and partnerships, pensions and unemployment insurance.

A society that puts people at its heart.

Ladies and gentlemen,

I was born in 1955.

My generation had a life our parents could never have dared to dream about.

Born into peace and raised into prosperity.

For many decades economic progress went hand in hand with social progress.

The gulf between rich and poor narrowed. We had decades of real wage increases.

For my generation, Europe was the promise for a better future.

However, the gaps have widened in Europe. Especially during the crisis years.

A progressive economy must close the gaps once more.

Because I want Europe to become again the promise for a bright future for our young generation.

Thank you for your attention.