



Combatting inequality in the European Union

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Contents

1. Introduction:.....	3
2. Context:	4
2.1. <i>Income and wealth inequality - trends and current situation</i>	4
3. Drivers of inequality and possible policy solutions:.....	6
3.1. <i>EU policy making</i>	6
3.1.1. Reinforce the social dimension of European public policies	6
3.1.2 Recover member states fiscal space and revise fiscal rules to ensure upward convergence	7
3.1.3 Foster a cohesion policy based on solidarity and sustainable development.....	7
3.2. <i>Financialisation of the economy</i>	8
3.2.1. Encourage sustainable productive investment	8
3.2.2. Ensure a safe and sound financial system	9
3.3. <i>Short-term, profit maximising model of corporate governance</i>	9
3.3.1 Support stronger worker representation in workplaces and democratic employee ownership.....	10
3.3.2 Promote a private sector that works for the many	10
3.4. <i>The digital revolution and inequality in innovation processes</i>	11
3.4.1 Ensure workers' rights and social progress in the digital economy.....	12
3.4.2 Promote an innovation creating process for the many.....	13
3.5. <i>Liberal policies, "structural reforms" and austerity measures before and after the crisis</i>	13
3.5.1. Weakening of trade unions and collective bargaining	13
3.5.1.1. Promote higher wages and strengthen trade unions.....	14



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3.5.2.	Deregulation of labour markets-rise in precarious jobs and underemployment	15
3.5.2.1.	Foster decent working conditions	15
3.5.3.	Cuts in public spending and reduction of social protection	16
3.5.3.1.	Strengthen social protection and protect workers and citizens in hard times 16	
3.5.3.2.	An investment strategy led by social objectives	17
3.6.	<i>Increased tax competition</i>	17
3.6.1.	Ensure a progressive tax system	18
3.6.2.	Make sure digital platforms contribute their fair share.	19
3.6.3.	End unfair competition and money laundering.	19
3.7.	<i>Social, gender and intergenerational inequalities</i>	19
3.7.1.	End social discrimination	20
3.7.2.	Ensure a society where every generation can live in dignity	20
4.	Conclusion:	21

1. Introduction:

The financial crisis in 2007 and its aftermath shed light on increasing inequality in and between countries. While inequality was long considered an inevitable result of economic growth, today organisations, including the IMF, OECD and ECB¹, acknowledge that tackling it is vital for our economies in order to foster sustainable growth and quality job creation. It is increasingly recognised that unequal societies curtail demand, weaken innovation, and underinvest in human capabilities and future common good, leading to more fragile financial systems and economies.² However, combating inequality is not only of economic importance but more importantly of social, political and institutional concern, enabling our societies' wellbeing, ability to build trust³ and strong social relations, guaranteeing support for democracy and democratic institutions. A viable basis for the future of our society can only be created if inequality is successfully addressed.

This is what we as Socialists and Social Democrats historically stand for. Throughout our history we have been continuously fighting for equality – for a democratic society and economy that serves the people. Today, tackling inequalities is a central element and red thread running through our work.

In this discussion paper, we provide a short overview of the context and development of inequality, before outlining drivers of inequality and possible policy solutions. Our primary focus is on equality of income and wealth.⁴ We believe that these are closely linked with equality of opportunity⁵, in particular access to quality public services and protection of social services of general interest, as well as political and civil equality. A just process and society will be difficult to achieve unless they are successfully enabled with an economy that works for all.⁶

Policy proposals build on previous work undertaken by PES⁷ and the S&D group in the European Parliament, S&D MEP Javi Lopez's own initiative report in the European Parliament⁸ and on discussions previously held in the PES Social Europe Network.

¹ "European Central Bank President Mario Draghi, for example, has called on governments to consider better income and wealth redistribution policies", Esther Lynch. 21 December 2017. "Trade Unions On Frontline In Battle Against Inequality". Accessed on 12 January 2017. <https://www.socialeurope.eu/trade-unions-frontline-battle-inequality>

² In fact, the OECD highlights that reducing inequality by one Gini point would translate into an accumulated increase in growth of 0.8% during the following five years, Javi Lopez. 7th December 2017. "Inequality More Than Matters". Social Europe. Accessed on 12 January 2017. <https://www.socialeurope.eu/inequality-more-than-matters>Javi Lopez

³ Richard Wilkinson and Kate Pickett.2010. "The Spirit Level: Why Equality is Better for Everyone". Penguin Books. London

⁴ Committee on Employment and Social Affairs. 10 October 2017. "On combating inequalities as a lever to boost job creation and growth" (2016/2269(INI))

⁵ Tony Atkinson. (2016). "Inequality: What Can Be Done About It?". Social Europe. accessed 7th December 2017 <https://www.socialeurope.eu/inequality-can-done>

⁶ Richard Wilkinson and Kate Pickett.2010. "The Spirit Level: Why Equality is Better for Everyone". Penguin Books. London

⁷ <https://www.pes.eu/en/about-us/our-values/>

https://www.pes.eu/export/sites/default/Downloads/PESDocuments/pes_fundamental_programme_en.pdf_1488447709.pdf,https://www.pes.eu/export/sites/default/Downloads/PES-Documents/110001306_PES_Manifesto_UK.pdf_2063069299.pdf,https://www.pes.eu/export/sites/default/Downloads/Policy-Documents/Social_Jobs/PES_Brochure_progressive_reforms-150dpi_FINAL-March2016.pdf_753497852.pdf

⁸ Committee on Employment and Social Affairs. 10 October 2017. "On combating inequalities as a lever to boost job creation and growth" (2016/2269(INI))

2. Context:

Rising levels of inequality have gained more attention in the last years, but they are not a recent phenomenon. According to the OECD⁹, inequality increased in good as well as in bad times¹⁰, with economic growth disproportionately benefiting higher income groups already before the crisis while leaving lower income groups behind.¹¹ The accumulation of power by big corporations, and waves of deregulation and privatisation, have further highlighted that shared growth cannot be taken for granted. High levels of inequality expose a trend towards economies that only work for the few – a shift of power away from workers and citizens towards capital¹².

The rise of inequality is not an unavoidable development, driven by an invisible hand, which leaves no alternative. It is the result of policies and structures guiding our economy. These policies, led by conservatives and liberals, can be changed. To do so the public authorities' intervention is vital.¹³ Yet, living in a European Union and especially a union with a common currency, tackling inequality has to be jointly addressed. We cannot develop in isolation, and we cannot develop to the disadvantage of other regions - a Union of Solidarity is needed. This is why the European Union plays such a crucial role.¹⁴

Given this important role¹⁵, and the fact that inequality has remained at historic heights over the past seven years,¹⁶ we deeply regret how little attention has been paid to inequality in EU policy making. For us, the economy must serve the people and not the other way round.¹⁷ In order to achieve this, a shift is urgently needed.

Our family has ceaselessly fought for a more social Europe. The proclamation of the European Pillar of Social Rights on 17 November 2017 in Gothenburg creates momentum. We want to make the most of it. Combatting inequality must be an institutional priority, placed at the top of the EU's political agenda. As PES we will keep on fighting for it.

2.1. Income and wealth inequality - trends and current situation

The socio-economic divide within and between Member States in Europe has been on the rise in recent decades, and has intensified since the onset of the global financial crisis¹⁸, leading to growth of income and wealth at the top, increasing poverty at the bottom and a declining middle class. All indicators are alerting us.

⁹ analysing data from 1980 till 2000s

¹⁰ OECD.2016. "In it Together: Why Less Inequality Benefits All." Accessed on 1 March 2017. http://www.keepeek.com/Digital-Asset-Management/oecd/employment/in-it-together-why-less-inequality-benefits-all_9789264235120-en#.WK18sfl2U50#page6

¹¹ OECD. 2008. "Growing Unequal". Accessed on 12 January 2018. <https://www.oecd.org/els/soc/41527936.pdf>, highlighted that inequality in the distribution of market incomes – gross wages, income from self-employment, capital income, and returns from savings taken together – increased in almost all OECD countries between the mid-1980s and mid-2000s, in summary divided we stand

¹² Tony Atkinson. 2016. "Inequality: What Can Be Done About It?" Social Europe. Accessed 7th December 2017. <https://www.socialeurope.eu/inequality-can-done>

¹³ It is a question of how we envision living together which has to be a joint decision.

¹⁴ PES Fundamental Programme, June 2013

¹⁵ Art. 8, Art. 9, TFEU, <http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:12012E/TXT&from=EN>

¹⁶ OECD.2016. "In it Together: Why Less Inequality Benefits All." Accessed on 1 March 2017. http://www.keepeek.com/Digital-Asset-Management/oecd/employment/in-it-together-why-less-inequality-benefits-all_9789264235120-en#.WK18sfl2U50#page6

"Income inequality remains high in the face of weak recovery"

¹⁷ PES Fundamental Programme

¹⁸ OECD.2017." Understanding the Socio-economic Divide in Europe". Accessed on 12 January 2018. <http://www.oecd.org/inclusive-growth/about/centre-for-opportunity-and-equality/cope-divide-europe-2017-background-report.pdf>

- In almost all European countries,¹⁹ market income inequality has grown substantially since the mid-1980s.²⁰ It has significantly increased since the crisis and remains high despite the yet insufficient economic recovery.²¹
- Disposable income inequality has been increasing in most European countries since the 1990s,²² with a growing share of disposable income going to the top.²³
- In the earlier phase of the crisis, taxes and cash transfers largely offset the increase in market income inequality, but redistribution has weakened or stagnated in most OECD countries since 2010, and disposable income inequality has been at historic highs for the last seven years.²⁴
- Those at the bottom of the income scale are hit particularly hard²⁵.
- Between 2009 and 2013 an additional 7.5 million people were classified as living with severe material deprivation across 27 EU countries.²⁶
- Over half of the population in 11 countries still report difficulties to make ends meet.²⁷
- Serious concerns about insufficient income in old age exist in two thirds of EU countries.²⁸
- The risk of relative in-work poverty has significantly increased, with 10% of European workers at risk of poverty in 2014 compared to 8% in 2007
- 13% of European workers were materially deprived in 2014, highlighting the severe impact of the crisis on people's living conditions.²⁹
- Approximately 1 in 10 Europeans – more than 50 million people – are unable to afford proper heating of their homes, with severe health and social consequences.
- Those hit hardest are society's most vulnerable, including elderly people, migrants, young people and women.
- In addition, household over-indebtedness has become a concern, though it varies across countries.³⁰

¹⁹ except Netherlands decrease during 2000s after an increase in mid 1990s

²⁰ "Timothy Smeeding, Salvatore Morelli, Jeffrey Thompson. 2014. "Recent Trends in Income Inequality in the Developed Countries", in Journal For A Progressive Economy. Issue no 2

²¹ "Timothy Smeeding, Salvatore Morelli, Jeffrey Thompson. 2014. "Recent Trends in Income Inequality in the Developed Countries", in Journal For A Progressive Economy. Issue no 2

²² OECD.2017." Understanding the Socio-economic Divide in Europe". Accessed on 12 January 2018. <http://www.oecd.org/inclusive-growth/about/centre-for-opportunity-and-equality/cope-divide-europe-2017-background-report.pdf>

²³ Whereas in the 1980s, the average disposable income of the richest 10% was around seven times higher than that of the poorest 10%, today, it is around 9 ½ times higher. The OECD estimates that on average in the OECD area, the top decile of household disposable income distribution accounts for 25% of total household income. OECD (2017)

²⁴ This might be due to a softening of automatic stabilisers as the economy recovers in some countries or phasing out of fiscal stimulus measures implemented in the early years of the crisis, OECD (2017) Income inequality remains high in the face of weak recovery

²⁵ In southern European countries, ever since 2007, real incomes at the bottom 10% have been falling between 12% and 28% annually.

²⁶ Oxfam in its 2014 publication highlights that "within the prosperous nations of the European Union (EU), 123 million people are at risk of poverty or social exclusion, representing almost a quarter of the population, while almost 50 million people live with severe material deprivation, without enough money to heat their homes or cope with unforeseen expenses". Oxfam.2014." A Europe for the Many, Not the Few". Accessed on 12 January 2018. https://www.oxfam.org/sites/www.oxfam.org/files/file_attachments/bp206-europe-for-many-not-few-090915-en.pdf

²⁷ The European Quality of Life Survey 2016

²⁸ <https://www.eurofound.europa.eu/eqls2016#1>

²⁹ <https://www.eurofound.europa.eu/news/news-articles/more-attention-must-be-given-to-europes-working-poor>

³⁰ The magnitude of household liabilities (a share of total assets) varies a great deal across countries, ranging from 4% in Italy and the Slovak Republic to over 30% in the Netherlands, mostly linked to mortgages, however, in some countries loans on other residential property and other types of loans represent a substantial fraction of total liabilities. While the incidence of debt increases with a household's income, over-indebtedness is highest among middle – income groups and among households headed by young people. OECD (2017)

- At the same time, private wealth has become more unequally distributed in recent decades.³¹ The richest one percent of Europeans³² are estimated to hold almost a third of the region's wealth, while the bottom 40 percent of the population share less than one percent of Europe's total net wealth.³³
- On a global level, in 2016, the eight richest billionaires controlled more wealth than the poorest 50 per cent of the world's total population.

3. Drivers of inequality and possible policy solutions:

In order to tackle the drivers behind the historically high levels of income and wealth inequality and in particular inequality in wages and employment situations³⁴, we need a shift away from austerity policies towards a system based on strong regulation of markets, including labour markets, reduced power of monopolies in strategic sectors, and protection of public services and social services of general interest from privatization and speculation. We need a system based on solidarity, fair redistribution of wealth, long-term sustainability and a broader notion of social responsibility which goes beyond personal economic gains and losses. We need a system that ensures people's well-being, giving power back to people, workers and consumers. This is the aim of our policy proposals.

3.1. EU policy-making

European policy-making has been largely concerned with the efficiency of markets and the effectiveness of the four freedoms of movement (goods, services, capital and people). This focus too often has left aside the EU's objective of equality, fairness, well-being and a high level of employment, combating exclusion (as outlined in the TFEU e.g. preamble, Art. 8, Art. 9).³⁵ Economic freedoms and competition rules have taken precedence over fundamental social rights³⁶, favouring capital over workers' and consumers' well-being.

The introduction of a monetary union with a centralised monetary policy, but without a common fiscal and taxation policy, has created systemic macroeconomic imbalances and pushed wages to become the main economic adjustment factor³⁷. In addition, existing economic governance tools, such as EU fiscal rules and macroeconomic imbalances procedure, do not provide much leverage for national fiscal measures that could deliver the necessary stimulus in aggregate demand countries need. The result of these policies, together with imposed austerity measures, has been a fall in investment, underemployment, stagnating wages and growing divergence across the EU.

Policy proposals:

3.1.1. Reinforce the social dimension of European public policies

In order to address these issues, combatting inequality, aiming at full employment and social well-being, must become an institutional priority at the top of the EU's political agenda, feeding

³¹ OECD.2017." Understanding the Socio-economic Divide in Europe". Accessed on 12 January 2018. <http://www.oecd.org/inclusive-growth/about/centre-for-opportunity-and-equality/cope-divide-europe-2017-background-report.pdf>

³² Including non-EU countries

³³ Oxfam.2014." A Europe for the Many, Not the Few". Accessed on 12 January 2018. https://www.oxfam.org/sites/www.oxfam.org/files/file_attachments/bp206-europe-for-many-not-few-090915-en.pdf

³⁴ The OECD outlined that one of the main reasons for greater economic inequality is increasing inequality in wages and employment situations. OECD (2017)

³⁵ Committee on Employment and Social Affairs. 10 October 2017. "On combating inequalities as a lever to boost job creation and growth" (2016/2269(INI))

³⁶ Cf ECJ Viking case. C – 438/ 05. http://ec.europa.eu/dgs/legal_service/arrets/05c438_en.pdf

³⁷ The introduction of a monetary union with a centralised monetary policy, yet without a common fiscal policy able to address the systemic macroeconomic imbalances which were bound to arise, led countries (especially deficit countries) to reduce their value-generating activities, depriving them of their ability to prevent or tackle shocks, relying on pushing down wages as a form of internal devaluation to respond to external shocks.

into all EU policies.³⁸ The UN Sustainable Development Goals and goals for poverty eradication must be central to this. This implies that:

- A social progress protocol should be added to the treaties, clarifying that neither economic freedoms nor competition rules take precedence over fundamental social rights.
- Democratic decision-making procedures must be strengthened and democratic control of institutions must involve a broad set of stakeholders, including a key role for the social partners, ensuring balance of power.³⁹
- Measures evaluating performance and outcome of EU policies and economic policy coordination need to include inequality, social progress, social justice and the respect and promotion of collective and individual labour rights in the EU (e.g. social scoreboard).
- The European Semester and the Macroeconomic Imbalance Procedure (MIP) have to include new binding indicators for imbalances and inequality, considering economic performance as well as employment and social performance.
- Local and regional authorities, social partners and civil society, who know the realities on the ground, have to be closely involved when designing, implementing and evaluating policies and legislative measures.

3.1.2 Recover member states fiscal space and revise fiscal rules to ensure upward convergence

The EU's budgetary framework must better promote and enable social investment, support for economic demand, and job creation leading to sustainable development and full employment.

- Member States need to recover the fiscal space for investment and need to support social security systems, social services, health care and domestic demand on both the national and European level.
- Building on our political family's recent success in introducing flexibility in the Stability and Growth Pact, fiscal rules need to be revised to exempt public investment spending from calculations of public budgets. More expansionary policies should be allowed for and encouraged when demand is too low. This has to be a transparent process, ensuring predictability and equal treatment of budgets.
- The EMU must include a strong social dimension, being provided with the necessary legislative, institutional and financial means to generate true social progress.
- A Euro area budget should be introduced to counter the deflationary effects of a monetary union without a fiscal union, to ensure upward convergence and a stabilisation function.

3.1.3 Foster a cohesion policy based on solidarity and sustainable development⁴⁰

As the EU's main tool for reducing inequalities between and within its Member States, cohesion policy must be given the political power, human resources and financial means it needs, and it must remain a priority in the next Multiannual Financial Framework beyond 2020.

- European funding for cohesion policy needs to increase.
- The new cohesion policy framework needs to support in particular but not only the poorest European regions, while cohesion policy funds must remain available to all regions.
- More emphasis must be put on social investment as part of cohesion policy.

³⁸ This should also include competition policy, industrial policy, global trade agreements, policies concerning international property rights, and decisions regarding priorities for research and development and technological change.

³⁹ PES Council Resolution "#Progressive Europe/Renewal", Adopted by the PES Council in Lisbon on 1 December 2017

⁴⁰ PES Priorities for a progressive future of cohesion policy – background paper, 2017

- National co-funding of projects should not be taken into account in deficit calculations as part of the Stability and Growth Pact.
- Social and economic cohesion cannot continue to be held hostage to an austerity agenda. Conditionality should remain a mechanism that reinforces cohesion policy and the principle of solidarity between regions and Member States.
- Rules and procedures need to be simplified, unifying all cohesion related funds under a single regulatory framework.
- Grants should remain the standard form of financing.
- Furthermore, citizens have to be actively engaged and must have a say in shaping the policies that influence their daily lives.

3.2. Financialisation of the economy

A well-functioning, healthy financial system is important for a market economy in order to make money available for productive use, benefiting the whole of society. Yet the so-called “financialisation” of the economy, which started in the late 70s with a deregulation of the financial system and cross-border financial flows, has led to the opposite, as an increasing share of savings, wealth and companies’ profit has not been invested in workers’ wages or the means of production⁴¹, but instead in assets that already exist (e.g. real estate and stocks). This has led, on the one hand, to a concentration of wealth in the hands of the few, while on the other hand increasing asset prices for the many (e.g. house prices), resulting in an increasing indebtedness of households. The consequence is a boom and bust economy in which citizens, taxpayers and workers have to bear the costs. Greater concentration of wealth has given the financial sector greater influence over the economy and governing institutions,⁴² while the high financial rewards increasingly shape society’s values and practices.

Policy proposals

3.2.1. Encourage sustainable productive investment

It is essential to tame the financial sector and make sure that it fulfils its mission of financing the real economy, for the well-being of people and the environment.

- A financial transaction tax should be introduced, designed in such a way that it encourages productive investment and discourages short-term behaviour. It should penalise short-term traders and incentivise longer holding periods, thus reducing instability and encouraging longer-term productive investment.⁴³
- Capital gains income could be taxed at the same rate as labour income, with short-term capital gains being taxed at a higher rate and targeted tax breaks used to incentivise sustainable productive investment.⁴⁴
- A sovereign⁴⁵ or citizen wealth fund could help to spread ownership of capital and its gains more widely and ensure that a bigger share of the gains from economic activity is re-invested for productive use. One way to finance such a wealth fund could, for instance, be through a new additional, modest annual levy on share ownership to be used for explicit public purposes (e.g. social spending, infrastructure).⁴⁶

⁴¹ “we claim that the increasingly financialized economy has created incentives for companies to not invest themselves in human capital and innovation while increasingly depending on those investments to come from elsewhere—mainly the public sector but also from niche “small” firms.” William Lazonick and Mariana Mazzucato (2013), “The risk-reward nexus in the innovation-inequality relationship: who takes the risks? Who gets the rewards?” *Industrial and Corporate Change*, Volume 22, Number 4, pp. 1093–1128

⁴² Gerald A. Epstein https://www.e-elgar.com/shop/financialization-and-the-world-economy?website=uk_warehouse

⁴³ Joseph E. Stiglitz.2016. “Rewriting the Rules of the American Economy”. Roosevelt Institute. [Accessed on 12 January 2018. https://community-wealth.org/sites/clone.community-wealth.org/files/downloads/report-stiglitz.pdf](https://community-wealth.org/sites/clone.community-wealth.org/files/downloads/report-stiglitz.pdf)

⁴⁴ Idem

⁴⁵ Tony Atkinson. “The 15 Proposals from Tony Atkinson’s “Inequality – What can be done”. Accessed on 12 January 2017. <https://www.tony-atkinson.com/the-15-proposals-from-tony-atkinsons-inequality-what-can-be-done/>
⁴⁶ Stewart Lansley.2017. “Citizens’ Wealth Fund To Tackle Inequality”. Social Europe. Accessed 20 February 2018. <https://www.socialeurope.eu/citizens-wealth-fund-tackle-inequality>

- The state's entrepreneurial role should not be overlooked and used for investing directly in projects based on social, job creation and benefit criteria, which are in the general interest and would otherwise find it difficult to secure finance.

3.2.2. Ensure a safe and sound financial system

In order to ensure a safe and sound financial system and to protect citizens from financial and economic crises the following measures could be considered:

- The Banking Union needs to be completed, making sure that people's savings are secured through a European Deposit Insurance Scheme (EDIS).
- Further measures could bring transparency to all financial markets, end the phenomenon of institutions that are viewed as "too big to fail", regulate the shadow banking sector, end offshore banking⁴⁷, enforce rules with stricter penalties,⁴⁸ or establish a firm ring-fence between investment and retail banking that will protect consumers.⁴⁹
- Public banking and development banks should be supported and expanded as a basis for economic development and stable and equitable access to finance.

3.3. Short-term, profit-maximising model of corporate governance

The move towards a model of corporate governance which focuses on short-term profit maximisation and returns to shareholders, rather than investment in long-term sustainability and innovation,⁵⁰ has led to a further shift of power away from workers and citizens. Together with the liberalisation of trade and capital markets, this model has benefited the rise of large and often multinational corporations, which have gained significant market power and strength at the expense of customers, workers and governments, resulting in a global system which too often exploits workers, scams consumers and steals from public resources.

Driven by incentive schemes which link executive compensation to share prices and short-term tenures, CEOs' incomes have increased disproportionately and companies have become sources of cash for financiers, resulting in profits that do not make their way into workers' wages,⁵¹ while reducing investment that leads to sustainable innovation and long-term prosperity.⁵²

The aim of maximising short-term profits has further led to a corporate model based on price competition and avoidance of obligations, both social and environmental. In addition, it has led to downward pressure on workers' and producers' pay and on labour and environmental standards, with corporations paying as little⁵³ tax as possible.⁵⁴ Great economic power has led to ever greater political power and influence, built on inequality in industrial relations along global supply chains and corporations' connections to politics and political parties with

⁴⁷ Idem

⁴⁸ Idem

⁴⁹ High Level Expert Group on Reforming the Structure of the EU Banking Sector, Final Report, 2012 http://ec.europa.eu/internal_market/bank/docs/high-level_expert_group/report_en.pdf

⁵⁰ Joseph E. Stiglitz. 2016. "Rewriting the Rules of the American Economy". Roosevelt Institute. Accessed on 12 January 2018. <https://community-wealth.org/sites/clone.community-wealth.org/files/downloads/report-stiglitz.pdf>

⁵¹ Esther Lynch. 21 December 2017. "Trade Unions On Frontline In Battle Against Inequality". Accessed on 12 January 2017. <https://www.socialeurope.eu/trade-unions-frontline-battle-inequality>

⁵² Stock prices have difficulties to include information beyond five years

⁵³ "Apple allegedly paid 0.005% of tax on its European profits in 2014", Oxfam. 2017. "An Economy For The 99%". Accessed on 12 January 2018. https://www.oxfam.org/sites/www.oxfam.org/files/file_attachments/bp-economy-for-99-percent-160117-en.pdf

⁵⁴ Oxfam. 2017. "An Economy For The 99%". Accessed on 12 January 2018. https://www.oxfam.org/sites/www.oxfam.org/files/file_attachments/bp-economy-for-99-percent-160117-en.pdf

ideological affinities. This has favoured the adoption of regulations and policies designed in ways that allow the current system to continue.⁵⁵

Policy proposals:

3.3.1 Support stronger worker representation in workplaces and democratic employee ownership⁵⁶

In order to ensure a just distribution of profits and an economy that works for the many, it is crucial that power is given back to workers.

- European Work Councils enable the common representation of workers from different European countries in which a multinational company has operations⁵⁷. The role of trade union organisations within European Work Councils must be recognised and supported more fully throughout the whole process of democracy, information and consultation in the workplace.⁵⁸
- The implementation of the Directive on European Work Councils remains problematic. The European Commission should therefore take urgent measures to reassess the Directive, to strengthen information and consultation requirements and make collective agreements mandatory for restructuring processes.
- Social dialogue needs to be further strengthened and developed in all workplaces, and more commitment is needed from the EU to protect and promote social partner autonomy and social partner agreements.
- European policies need to support worker and employee representation on company boards and supportive policies. Legal frameworks should be set to increase the share of the economy made up of mutuals, cooperatives or employee owned companies.⁵⁹
- Share-ownership combined with participative management⁶⁰ should be further encouraged. This could include promoting transfer of a proportion of shares each year, encouraging retiring owners to pass their companies to employees or preventing employees from selling their companies back to external shareholders.⁶¹

3.3.2 Promote a private sector that works for the many

Corporate governance needs to be rethought to guarantee a just distribution of profits and long-term sustainability, ending the focus on short-term profit maximisation and returns to shareholders. In order to achieve this, a change in the incentive structure for executive pay is needed.⁶² This could include:

- Taxes on equity-heavy compensation.⁶³
- The mandatory requirement for companies to disclose the ratio of executive pay to the median employee salary.⁶⁴
- Mandatory reporting of the full value of executive compensation for each corporation.⁶⁵

⁵⁵ e.g. Alphabet one of the biggest lobbyists – is in constant negotiations in Europe over anti-trust rules and tax, Oxfam.2017.“An Economy For The 99%”. Accessed on 12 January 2018. https://www.oxfam.org/sites/www.oxfam.org/files/file_attachments/bp-economy-for-99-percent-160117-en.pdf

⁵⁶ Richard Wilkinson and Kate Pickett.2010. “The Spirit Level: Why Equality is Better for Everyone”. Penguin Books. London

⁵⁷ PES vision for a European Pillar of Social Rights Conclusions of the Social Europe Network - 4 May 2017

⁵⁸ See ETUC Resolution on a Strategy for more democracy at work, adopted at its Executive Committee Meeting of 7-8 March 2018 (https://www.etuc.org/sites/www.etuc.org/files/document/files/en_-_strategy_for_more_democracy_at_work_etuc_resolution_pb.pdf)

⁵⁹ PES Programme for Progressive Reforms, November 2015

⁶⁰ Richard Wilkinson and Kate Pickett.2010. “The Spirit Level: Why Equality is Better for Everyone”. Penguin Books. London

⁶¹ Idem

⁶² Joseph E. Stiglitz.2016. “Rewriting the Rules of the American Economy”. Roosevelt Institute. Accessed on 12 January 2018. <https://community-wealth.org/sites/clone.community-wealth.org/files/downloads/report-stiglitz.pdf>

⁶³ Idem

⁶⁴ Idem

⁶⁵ Idem

- A requirement for elected employee representatives to be part of remuneration committees.⁶⁶
- Mandatory annual shareholder votes on executive compensation.
- Corporate tax rates being pegged to the ratio of CEO to median worker pay.⁶⁷
- A cap on executive pay (e.g. 12 times that of the lowest paid worker⁶⁸ or 20:1⁶⁹).

In addition to these measures, governments need to promote business models that focus on long-term sustainability and a broader notion of social responsibility which goes beyond making profits at any cost.⁷⁰ Strong standards, clear rules and control mechanisms have to be ensured, guaranteeing that no company can escape its fiscal social, and environmental responsibilities.⁷¹

- Limits to and controls on outsourcing and offshoring need to be set, and mandatory supply chain liability and due diligence put in place.
- There should be incentives to reform economic performance indicators, focusing on long-term sustainable growth, investments in innovation and value creation.⁷²
- Public procurement contracts need to include quality, social and environmental criteria, and contractors should be held responsible for the performance of sub-contractors lower down the supply chain.⁷³ Public procurement could also include a maximum pay ratio (e.g. 20:1), as well as a move towards including contracted firms under the remit of freedom of information rules, in order to foster greater transparency in the provision of public services.
- European rules on public procurement need to include a collective bargaining social clause, ensuring respect for labour law and collective agreements. The presence of collective bargaining must be a key award criterion.⁷⁴
- States have to challenge the concentration of power in the hands of large multinational corporations through regulation as well as other means, strengthening democratic processes.

3.4. The digital revolution and inequality in innovation processes

The direction taken by innovation and technological change and their outcomes are not a matter of destiny, but the result of deliberate decisions taken by economic and political institutions.

Developments such as the move towards a digital economy and increasing automatisisation can and need to be actively shaped for the benefit of people. While the digital revolution has great potential, it also risks opening the door to increasing polarisation of employment (e.g. ICT, clickworker, increase of low skill jobs, eliminating jobs due to automatisisation), as well as excluding large parts of society who are less familiar with information and communication

⁶⁶ The Equality Trust. 2017 "Manifesto for a Fairer Society". Accessed on 16 February 2018. https://www.equalitytrust.org.uk/sites/default/files/resource/attachments/TET_Manifesto_For_A_Fairer_Society-WEB.pdf

⁶⁷ Joseph E. Stiglitz. 2016. "Rewriting the Rules of the American Economy". Roosevelt Institute. Accessed on 12 January 2018. <https://community-wealth.org/sites/clone.community-wealth.org/files/downloads/report-stiglitz.pdf>

⁶⁸ Young European Socialists, Switzerland

⁶⁹ Labour manifesto (2017), "For the many not the few"

⁷⁰ Oxfam. 2017. "An Economy For The 99%". Accessed on 12 January 2018. https://www.oxfam.org/sites/www.oxfam.org/files/file_attachments/bp-economy-for-99-percent-160117-en.pdf

⁷¹ PES (September 2017) "Workers' rights and social progress in the digital economy", https://issuu.com/pes_pse/docs/digital_economy_brochure_web_versi

⁷² William Lazonick and Mariana Mazzucato. 2013. "The risk-reward nexus in the innovation-inequality relationship: who takes the risks? Who gets the rewards?" *Industrial and Corporate Change*, Volume 22, Number 4, pp. 1093–1128

⁷³ Esther Lynch. 21 December 2017. "Trade Unions On Frontline In Battle Against Inequality". Accessed on 12 January 2017. <https://www.socialeurope.eu/trade-unions-frontline-battle-inequality>

⁷⁴ idem

technology (e.g. elderly people), deterring them from equally participating in the digital economy, labour market and the information society at large. It further carries the risk of workforce casualisation, undermining labour standards, facilitating precarious employment models and the digital control of workers, as well as leading to a race to the bottom in labour costs and wages in Europe and globally.⁷⁵ If not managed well, this will result in increased inequality in wages and employment situations.

Furthermore, it is not only the outcome of technological change but the innovation-creating process itself which can lead to inequality. While the state is often responsible for main innovations (e.g. internet, nanotech) and risk is taken collectively (workers, taxpayers), profits created from it are increasingly privatised, benefiting actors who did not contribute to the process of value creation and manage to escape taxation. This reinforces an unfair contribution of profits.⁷⁶ The state makes and shapes markets, rather than merely fixing⁷⁷ them, so it must play a crucial role in directing technological change and innovation to benefit the many.

Policy Proposals:

3.4.1 Ensure workers' rights and social progress in the digital economy

To ensure a digital economy that guarantees people's well-being and a fair distribution of its rewards, it is vital to extend workers' rights and social protection to non-standard forms of work, as we have outlined in "Workers' rights and social progress in the digital economy".⁷⁸

- Upskilling, training, retraining and life-long learning opportunities must become a right for everyone, allowing people to gain digital and ICT skills at all ages, from an early age onwards. This will allow everyone to participate equally in the digital economy, whether low-skilled, medium or highly skilled.
- The gender dimension must also be taken into account regarding lifelong learning and digital skills. More must be done to attract girls and women to ICT and other digital jobs, and improve gender balance in the sector. Flexibility is crucial in offering continuous training that does not negatively impact on work/life balance.⁷⁹
- Workers' activities and rights have to be recognised and registered, ensuring portability of rights. Workers' status in new forms of employment has to be clarified. This includes extending employee status to platform workers and bogus self-employed people; broadening the definition of employment; strengthening support for individual self-employed people; and clarifying the definition of employer/employee relationships. The proposed EU directive on transparent and predictable working conditions in the EU⁸⁰ is an opportunity to answer these challenges.
- Solo self-employed people must have the right to organise, and collective agreements must be extended to non-standard forms of employment, ensuring that companies operating a platform business participate in social dialogue.
- Universal digital and non-digital access to services needs to be guaranteed for everybody. In an increasingly digital society, it is essential to acknowledge the importance of maintaining non-digital services in order to reach people who lack digital access.

⁷⁵ PES "Workers' rights and social progress in the digital economy" (brochure), September 2017

⁷⁶ William Lazonick and Mariana Mazzucato (2013), "The risk-reward nexus in the innovation-inequality relationship: who takes the risks? Who gets the rewards?" Industrial and Corporate Change, Volume 22, Number 4, pp. 1093–1128

⁷⁷ idem

⁷⁸ PES (September 2017) "Workers' rights and social progress in the digital economy", https://issuu.com/pes_pse/docs/digital_economy_brochure_web_versi

⁷⁹ For more information, see UNI Global Union's paper on 'Digitalisation from a gender perspective': http://www.uniglobalunion.org/sites/default/files/imce/digitalization_-_en.pdf

⁸⁰ European Commission, Proposal for a directive of the European parliament and of the Council on transparent and predictable working conditions in the European Union (2017/0355(COD), 21 December 2017, Brussels.

- Governments need to direct technological change in the world of work to the benefit of people and planet. Distributional impact, how socially useful technological change is and the need to “conserve roles where the human touch is a core part”⁸¹ have to determine their actions.
- Gains in productivity allowed by new technologies should be seen as opportunities to further reduce working time without loss of revenue.

3.4.2 Promote an innovation creating process for the many

EU policy-making and budgets that direct technological change should promote technological development that drives broadly shared prosperity and is in the interests of people and the environment.

- European policies should support business organisations which guarantee to allocate corporate resources to investments in innovation and to distribute corporate returns equitably to contributors who enable innovation.
- Companies that have tapped resources provided by the state as a foundation for successful innovation should have to return a percentage of the gains they have made to the state, over and above tax payments at the normal rates. (Both patents and copyrights could be designed in such a way).⁸²
- Governments need to revise copyright and patent laws so that ownership of intellectual property is managed in the interest of society⁸³ and “those who produce valuable goods and services can be paid in ways which do not restrict access to their products”.⁸⁴
- R&D tax credits, if granted, should be designed to encourage necessary investment in innovation.⁸⁵

3.5. Liberal policies, “structural reforms” and austerity measures before and after the crisis

Inequalities in Europe have been further increased since the 1990s by neoliberal policies, austerity measures⁸⁶ and “structural reforms” aiming at liberalising and privatising economies,⁸⁷ in particular after the financial crisis in 2008. The PES has already outlined its alternatives for reforms in its “PES Programme for Progressive Reforms”, putting the fight against inequality at the heart of its programme. We remain committed to changing the focus of reforms, bringing in progressive reforms for fairer, more sustainable and more equal societies.

3.5.1. Weakening of trade unions and collective bargaining

The weakening of trade unions and the labour movement generated a shift of power away from workers towards capital and an economy for the few, no longer providing the opportunity to negotiate a fair share for workers. It has happened progressively through a decrease in collective bargaining coverage, attacks on social partner autonomy at all levels, de-

⁸¹ Oxfam.2017.“An Economy For The 99%”. Accessed on 12 January 2018. https://www.oxfam.org/sites/www.oxfam.org/files/file_attachments/bp-economy-for-99-percent-160117-en.pdf

⁸² William Lazonick and Mariana Mazzucato (2013), “The risk-reward nexus in the innovation-inequality relationship: who takes the risks? Who gets the rewards?” Industrial and Corporate Change, Volume 22, Number 4, pp. 1093–1128

⁸³ Oxfam.2017.“An Economy For The 99%”. Accessed on 12 January 2018. https://www.oxfam.org/sites/www.oxfam.org/files/file_attachments/bp-economy-for-99-percent-160117-en.pdf

⁸⁴ Richard Wilkinson and Kate Pickett.2010. “The Spirit Level: Why Equality is Better for Everyone”. Penguin Books. London

⁸⁵ William Lazonick and Mariana Mazzucato (2013), “The risk-reward nexus in the innovation-inequality relationship: who takes the risks? Who gets the rewards?” Industrial and Corporate Change, Volume 22, Number 4, pp. 1093–1128

⁸⁶ As a result of a wrong reading of the crisis in 2007, not considering it as a systemic crisis but caused by too lax an imposition of the existing rules

⁸⁷ PES (2016), “PES Programme for Progressive Reforms”, https://www.pes.eu/export/sites/default/Downloads/Policy-Documents/Social_Jobs/PES_Brochure_progressive_reforms-150dpi_FINAL-March2016.pdf_753497852.pdf

unionisation in many EU countries, and continuing restrictions on trade union activities by European and national labour courts (e.g. Viking case⁸⁸).

Policies pursued in the follow-up to the crisis dismantled legal measures which supported collective bargaining and wide coverage.⁸⁹ They also led to a general wage moderation.⁹⁰ The European Commission continues to promote internal devaluation regarding wages and collective bargaining in its country-specific recommendations for 2016-2017, and to recommend improving “cost competitiveness by ensuring moderate wage developments through more” decentralised wage-setting mechanisms.⁹¹ This has led to the decline of wages as a share of national income and to wider pay distribution. It has also prevented the reduction of the firms’ exploitation of their market power⁹². In addition, in many EU countries the minimum wage remains too low for even a full-time worker to sustain a decent standard of living.⁹³

Policy proposals:

3.5.1.1. Promote higher wages and strengthen trade unions

To reverse the shift of power away from workers, trade unions have to be strengthened. To combat wage competition strategies and wage moderation, a pay rise is urgently needed.

- Wages need to match productivity gains. Productivity has been rising faster than wages for more than 30 years, with wages declining as a proportion of wealth, leading to greater inequality and undermining social cohesion.⁹⁴
- In order to boost wages across Europe, we want minimum wages at no less than 60% of the national median income and in any case above the poverty level, reached either through law or collective bargaining. This objective should be enshrined in the EU’s economic governance and in its main tool, the European Semester.⁹⁵
- A living wage index should be created in the context of the Annual Growth Survey forming the basis for binding targets on Member States’ actions.⁹⁶
- We must end age-based discrimination in access to minimum wages.⁹⁷
- Trade unions and the right to collective bargaining need to be strengthened, and the autonomy of social partners needs to be respected. The EU and Member States must invest in social dialogue and capacity-building for trade unions,⁹⁸ and funding for this must also be made available to EU-level organisations such as the European trade union federations.
- The Commission and Member States need to commit to implementing reforms, strengthening workers’ rights and fostering the bargaining power of employees, widening collective bargaining coverage and promoting unionisation.
- Workers’ representation at company level has to be combined with strong sectoral collective bargaining.
- Agreements of social partners at EU, international and national level have to be respected.

⁸⁸ ECJ C-438/05. http://ec.europa.eu/dgs/legal_service/arrets/05c438_en.pdf

⁸⁹ Oxfam.2014.” A Europe for the Many, Not the Few”. Accessed on 12 January 2018. https://www.oxfam.org/sites/www.oxfam.org/files/file_attachments/bp206-europe-for-many-not-few-090915-en.pdf

⁹⁰ Cedric Hugué, Etienne Penissat and Alexis Spire; Les classes sociales en Europe, tableau des nouvelles inégalités sur le vieux continent, 2017, Agone, p42.

⁹¹ ETUI.2017.”Benchmarking Working Europe 2017”. Accessed on 12 January 2018. <http://www.etui.org/Publications2/Books/Benchmarking-Working-Europe-2017>

⁹² Idem

⁹³ Idem

⁹⁴ See the ETUC ‘Europe Needs a Pay Rise’ campaign: <https://payrise.eu/>

⁹⁵ [PES vision for a European Pillar of Social Rights Conclusions of the Social Europe Network - 4 May 2017](#)

⁹⁶ S&D “Progressive European Social Policy: Returning the focus to the people”

⁹⁷ Idem

⁹⁸ Esther Lynch. 21 December 2017. “Trade Unions On Frontline In Battle Against Inequality”. Accessed on 12 January 2017. <https://www.socialeurope.eu/trade-unions-frontline-battle-inequality>

3.5.2. Deregulation of labour markets, rise in precarious jobs and underemployment

Neoliberal “structural reforms” have increasingly undermined labour standards, social security systems and workers’ rights in the name of labour market flexibility. They have deregulated labour markets and weakened employment legislation.⁹⁹ This has been done with the promise of making permanent employment more attractive, and of promoting overall employment.

Yet “structural reforms” have boosted non-standard forms of employment in the decade running up to the crisis, during the crisis and again after the first wave of the crisis,¹⁰⁰ without generating an increase in demand for labour. In 2016, the actual number of jobs was still lower than in 2008. The total proportion of long-term unemployed people continued growing from 2013 to 2015. Newly-created jobs are mainly temporary or part-time. According to the ETUC, almost one in five jobs are part-time and over 14% are fixed-term. Almost one quarter of the EU labour market is made up of non-standard jobs, whether self-employed or not, which do not enjoy a fair remuneration and the same rights as normal employees.¹⁰¹

Instead of improving the situation for workers, “structural reforms” have reinforced incentives for firms to compete on low wages and to provide less social protection, rather than competing on sustainability, innovation and productivity, leaving more and more workers without job security, sufficient remuneration or social protection, thereby further increasing inequality.¹⁰²

Policy proposals:

3.5.2.1. Foster decent working conditions

Decent working conditions have to be guaranteed for all workers. Therefore we call for:

- An EU framework directive on decent working conditions for all forms of employment which guarantees every worker a core set of enforceable rights, getting rid of discrimination based on contractual status.¹⁰³
- A framework for quality, paid internships and apprenticeships, based on a contractual relationship between the trainee and employer, specifying rights and obligations for each, notably in terms of length, remuneration and insurance.¹⁰⁴
- A ban on the most precarious forms of work, such as zero-hour contracts.
- Effective enforcement of labour standards to ensure decent working conditions. On a European level, this could be supported by a European Labour Authority with effective powers and financial means, respecting national practices and the role and autonomy of social partners in each of the Member States.¹⁰⁵ It should closely involve social partners in its governance.
- Age-friendly working conditions at the workplace. Special attention should be given to flexible end-of-career opportunities without losing pension rights, including working-time reduction according to occupational arduousness.

⁹⁹ PES Programme for Progressive Reforms, November 2015

¹⁰⁰ “Non – standard jobs have been on the rise in the decade previous to the crisis – accounted for more than half of the growth in employment in the EU since 1995 in the period up to the global economic crisis and the average incidence of part – time employment rose during the crisis”, OECD.2017.” Understanding the Socio-economic Divide in Europe”. Accessed on 12 January 2018. <http://www.oecd.org/inclusive-growth/about/centre-for-opportunity-and-equality/cope-divide-europe-2017-background-report.pdf>

¹⁰¹ ETUC 2017 “State of the Union” speech. [Accessed on 12 January 2018.](https://www.etuc.org/speeches/etuc-state-european-union-speech#.Wli7VnIG2Uk) <https://www.etuc.org/speeches/etuc-state-european-union-speech#.Wli7VnIG2Uk>

¹⁰² PES Programme for Progressive Reforms, November 2015

¹⁰³ PES vision for a European Pillar of Social Rights Conclusions of the Social Europe Network - 4 May 2017

¹⁰⁴ PES vision for a European Pillar of Social Rights Conclusions of the Social Europe Network - 4 May 2017

¹⁰⁵ PES Council Resolution “#Progressive Europe/Renewal”, Adopted by the PES Council in Lisbon on 1 December 2017

3.5.3. Cuts in public spending and reduction of social protection

The deregulation of the labour market has been accompanied by a reduction in social protection expenditure which could have protected those suffering from income insecurity.¹⁰⁶ This is particularly the case in Member States which had to adopt financial support programmes, despite the fact that these are arguably the countries with the greatest need for a safety net.¹⁰⁷

A fall in social security budgets has meant a cut in support and services for Europe's poorest.¹⁰⁸ Health, education, housing, pensions and social policy programmes have been greatly underfunded. In 2010, spending on health in Europe recorded its first drop in decades.¹⁰⁹ These cuts have had a grave impact on inequality and society at large. In addition, spending for active labour market policies and out-of-work income support has been declining. This is particularly worrisome given the enormous unemployment challenge in Europe inherited from the economic crisis.¹¹⁰ Social policies and the welfare system must cease to be perceived as a budgetary burden, and instead be seen as a productive social investment.

Policy proposals:

3.5.3.1. Strengthen social protection and protect workers and citizens in hard times

Strong welfare systems and social protection are crucial for fighting inequality. Governments are the most efficient and effective provider of many public services, especially those with natural monopolies or those that involve values that are not adequately reflected by price. The European Union must support Member States in strengthening their welfare systems (education, health, pensions and transfers), ensuring a more effective redistribution and fairer distribution, taking into account new social risks and vulnerable groups. We must guarantee high-quality public services that ensure effective and timely access for all to social and age-friendly housing, affordable healthcare (both preventive and curative), public health services, and care including long-term care.¹¹¹

- A European legal framework must be put in place to guarantee every European citizen – and all workers in all forms of employment and work arrangements – a social protection floor, with universal and equal access to social protection rights, benefits and entitlements, quality healthcare, minimum income security and access to the goods and services defined as necessary at national level – in line with the related ILO recommendation, providing an effective social security net which can be deployed in hard times.¹¹²
- Social protection coverage must be mandatory. The full portability and accumulation of rights, benefits and entitlements must be guaranteed, no matter the form or duration of employment.

¹⁰⁶Oxfam.2014."A Europe for the Many, Not the Few". Accessed on 12 January 2018. https://www.oxfam.org/sites/www.oxfam.org/files/file_attachments/bp206-europe-for-many-not-few-090915-en.pdf

¹⁰⁷ ETUI.2017."Benchmarking Working Europe 2017". [Accessed on 12 January 2018. http://www.etui.org/Publications2/Books/Benchmarking-Working-Europe-2017](http://www.etui.org/Publications2/Books/Benchmarking-Working-Europe-2017)

¹⁰⁸Oxfam.2014." A Europe for the Many, Not the Few". Accessed on 12 January 2018. https://www.oxfam.org/sites/www.oxfam.org/files/file_attachments/bp206-europe-for-many-not-few-090915-en.pdf

¹⁰⁹ Oxfam.2014." A Europe for the Many, Not the Few". Accessed on 12 January 2018. https://www.oxfam.org/sites/www.oxfam.org/files/file_attachments/bp206-europe-for-many-not-few-090915-en.pdf

¹¹⁰ETUI.2017."Benchmarking Working Europe 2017". [Accessed on 12 January 2018. http://www.etui.org/Publications2/Books/Benchmarking-Working-Europe-2017](http://www.etui.org/Publications2/Books/Benchmarking-Working-Europe-2017)

¹¹¹ Idem

¹¹² PES vision for a European Pillar of Social Rights Conclusions of the Social Europe Network - 4 May 2017

- A European unemployment insurance scheme, complementing current national benefit systems, could function as an automatic stabiliser and play an important role in reducing inequality between countries, absorbing shocks.
- Additional focus needs to be put on long-term unemployed people, ensuring the implementation of reforms outlined in the Council Recommendation on labour market integration of long-term unemployed people through the European Social Fund and the European Semester.¹¹³
- Public hiring for projects of general interest could be considered as one measure to tackle unemployment, building on the practice of “zero long-term unemployed territories”.¹¹⁴
- Special attention must be given to the growing inequalities in health due to socio-economic gaps.

3.5.3.2. An investment strategy led by social objectives

To reverse the State’s withdrawal from social policies, it is time to promote real social investment. This encompasses investing in education and people, investing in solid welfare systems and investing in social infrastructure.

- To ensure the well-being and self-development of all children in Europe, it is essential to invest in the fight against child poverty. Children in Europe must be guaranteed free healthcare, free education, free child care, decent housing and adequate nutrition as part of a Child Guarantee.¹¹⁵ In addition, “Child Benefit could be paid for all children at a substantial rate and should be taxed as income”.¹¹⁶
- In order to effectively support young people entering the labour market, funding for the European Youth Guarantee must be extended and strengthened with additional funds from 2020 onwards, ensuring its equal implementation throughout all Member States as well as equal opportunities for all young people.¹¹⁷
- For States to be able to deploy reliable social security systems, there is a need for regular and increased investment in social infrastructure and in social services. Investing in social services creates jobs, brings added economic value and contributes to the wellbeing of all. The EU must prioritise these objectives and provide the space for Member States to deliver.
- Ensuring that public services have the means to carry out their mission is crucial for effective access to social housing, healthcare, care and essential services.
- The EU’s next Multiannual Financial Framework should provide space for social investment and investment in social infrastructure, such as affordable and quality housing or healthcare.
- In parallel, specific investment pursuing non-exclusively social objectives, such as investment in energy efficiency, should encompass a strong social dimension. Public investment efforts could for example be directed towards the fight against energy poverty and enable access to affordable, safe and clean energy for everyone. This can be done through targeted renovation offers, incentives for social landlords to do retrofitting works and promotion of energy self-generation.

3.6. Increased tax competition

Taxation is a fundamental aspect of living in a society, making sure everyone contributes his or her fair share.

¹¹³ PES vision for a European Pillar of Social Rights Conclusions of the Social Europe Network - 4 May 2017

¹¹⁴ Zone Zéro Chômeur de Longue Durée; <https://www.tzclld.fr/decouvrir-lexperimentation/lassociation-tzclld/>

¹¹⁵ PES vision for a European Pillar of Social Rights Conclusions of the Social Europe Network - 4 May 2017

¹¹⁶ Tony Atkinson “The 15 Proposals from Tony Atkinson’s “Inequality – What can be done”. Accessed on 12 January 2017. <https://www.tony-atkinson.com/the-15-proposals-from-tony-atkinsons-inequality-what-can-be-done/>

¹¹⁷ PES Council Resolution “#Progressive Europe/Renewal”, Adopted by the PES Council in Lisbon on 1 December 2017

However, rather than building a fair tax system which corrects inequality, trends within Europe have been going in the opposite direction, fostering tax competition. Reduced progressivity of the tax system has led to those at the top paying less, while making the rest pay more or receive lower levels of public services. There is no evidence, as often proposed, that this has led to any more investment, jobs or growth.

“Structural reforms” advocating a shift away from capital towards taxes on consumption have been putting an unfair burden on average citizens and the most vulnerable among them. At the same time, revenues from top corporate income tax rates have dramatically fallen¹¹⁸, with taxes on corporate income only accounting for a small share of tax revenue in the EU.¹¹⁹ This is partly due to reduced headline tax rates and various exemptions (e.g. “patent boxes” in 12 EU states) which States grant corporations as they compete to keep or attract investment, as well as to the development of the digital economy and deals or legal loopholes, such as transfer pricing¹²⁰ and advanced pricing agreements¹²¹, subsidiaries in tax havens¹²² or tax treaties, all allowing multinational corporations to pay little tax on profits.

Defences put in place are generally leaky and weak, resulting in international tax systems growing ever more complex, providing further opportunity for rent seeking. This means corporation tax no longer serves as a crucial backstop for personal income tax, and no longer prevents wealthy individuals from redefining their income in a corporate form in order to pay lower tax rates.¹²³ In addition, tax rates on wealth and on top incomes have continued to fall and private wealth held in offshore accounts has been growing rapidly, with a great part of it appearing not to be taxed. Estimates of global private financial wealth held in tax havens range from \$ 7.6 trillion (2013) to up to \$ 32 trillion (2014)¹²⁴.

Policy proposals:

3.6.1. Ensure a progressive tax system

A fair, progressive tax system is a central element in combating inequality¹²⁵. This means a tax system where everybody contributes to society according to their means. In order to achieve this the following measures could be taken:

- Progressivity of personal income tax could be increased by introducing a rate structure where marginal rates of tax increase by ranges of taxable income, accompanied by a broadening of the tax base.
- Progressivity could be improved by introducing “into the personal income tax an Earned Income Discount, limited to the first band of earnings”.¹²⁶

¹¹⁸ “The (implicit) tax rates on corporation profits fell, on average, by 6.3 percentage points in the EU28 between 2000 and 2015.” ETUI.2017. “Benchmarking Working Europe 2017”. Accessed on 12 January 2018. <http://www.etui.org/Publications2/Books/Benchmarking-Working-Europe-2017>

¹¹⁹ Averaging 6.3% of all receipts in the EU28 in 2015. ETUI (2017)

¹²⁰ Transfer pricing: More than half of global trade is reckoned to take place between affiliates inside TNCs. TNCs usually manipulate transfer prices to shift profits from high tax jurisdictions to low – tax jurisdictions and to shift costs into high tax jurisdictions.

¹²¹ Advanced pricing agreements used to give multinational deals that in some cases involved paying tax rates well below 1%. The total number of APAs in the EU28 grew from 547 in 2013 to 1444 in 2015 (78%). ETUI (2017)

¹²² TNCs create subsidiaries in tax havens either to carry out activities or to act as holding companies.

¹²³ “Taxing corporations” www.taxjustice.net/topics/corporate-tax/taxing-corporations/

¹²⁴ Gabriel Zucma, “Taxation of offshore assets”

¹²⁵ Cedric Huguée, Etienne Penissat and Alexis Spire; *Les classes sociales en Europe, tableau des nouvelles inégalités sur le vieux continent*, 2017, Agone, p44.

¹²⁶ Tony Atkinson “The 15 Proposals from Tony Atkinson’s “Inequality – What can be done”. Accessed on 12 January 2017. <https://www.tony-atkinson.com/the-15-proposals-from-tony-atkinsons-inequality-what-can-be-done/>

- Receipts of inheritance and gifts inter vivos could be taxed under a progressive lifetime capital receipts tax and a proportional, or progressive, property tax, based on up-to-date property assessment.¹²⁷
- While mostly of national competence, these are measures European institutions could promote through their country-specific recommendations.

3.6.2. Make sure digital platforms contribute their fair share

Platform economy companies are often international and declare their profit where tax rates are lower. Clearly, there is a temptation in the digital economy and especially the platform economy to use outsourcing and dumping as a business model. It is thus essential to ensure international companies contribute their fair share of national taxes and charges where their activity takes place.

- The platform economy, like every sector, must pay tax and social contributions and comply with employment and social legislation.
- Technological means exist to integrate the cost of social protection in new forms of work; we need to ensure they are used, for example by collecting a tax on each online transaction.
- To mitigate the impact of robotics and artificial intelligence on the labour market, taxes on the work performed by a robot or a fee for the use and maintenance of a robot should be envisaged.
- Efforts must be further intensified to design and implement EU regulation and international negotiated solutions. They must be set as the highest priority at EU and international level.
- Additional solutions could be built on the example of existing agreements between platforms and local authorities.¹²⁸

3.6.3. End unfair competition and money laundering

Corporate tax is a progressive tax and revenue generated from it is important for addressing inequality. In order to make the current corporate tax system fairer and more transparent, putting an end to a fiscal race to the bottom, the following measures could be taken.¹²⁹

- The race to the bottom in rates of corporate tax needs to be ended.
- The Common Consolidated Corporate Tax Base (CCCTB) proposed by the European Commission should be implemented, taxing transnational corporations according to the genuine economic substance of what they do, treating them like unitary wholes. Similar forms of unitary taxation should be pursued on an international level.
- Transparency, cooperation and coordination should be ensured through country-by-country reporting, automatic information exchange of bank data between jurisdictions on a multilateral basis, and a global and European financial register, bringing an end to financial secrecy by identifying ultimate beneficial ownership.
- Stronger sanctions should be established for banks, legal entities and individuals that assist tax fraud or evasion.
- We must fight money laundering, tax avoidance and tax havens.
- Whistle-blowers need to be fully protected.

3.7. Social, gender and intergenerational inequalities

Inequality in wages, employment situations and disposable income has been worsened by structures that prevent minorities or women from equal access to services or competing on a level playing field in the workforce, gaining equal wages.

¹²⁷ Tony Atkinson "The 15 Proposals from Tony Atkinson's "Inequality – What can be done". Accessed on 12 January 2017. <https://www.tony-atkinson.com/the-15-proposals-from-tony-atkinsons-inequality-what-can-be-done/>

¹²⁸ For instance, AirBnB collects local taxes on stays in several European cities, after reaching agreements with municipalities.

¹²⁹ PES Council Resolution "#Progressive Europe/Renewal", Adopted by the PES Council in Lisbon on 1 December 2017

The historically high levels of inequality do not only have severe implications for our societies here and now, but also lead to intergenerational injustice if not addressed effectively. Deprivations and inequalities in wages, employment situations or regressive distribution policies faced by one generation create unequal opportunities for the next generation and in old age, further deepening existing inequalities. On this, too, action is urgently needed.

Policy proposals:

3.7.1. End social discrimination

In order to effectively address inequality, every form of discrimination and exclusion must become history. Any kind of discrimination is unacceptable, no matter what the reason (e.g. race, disability, religion, long-term illness, origin, age, gender, gender identity, or sexual orientation).

- The 2008 Equal Treatment Directive needs to be finally adopted, and the full implementation of the Accessibility Act ensured.¹³⁰
- Discrimination in accessing employment has to be fought, putting in place financial incentives for the recruitment of discriminated groups as well as effective sanctions against employers who pursue discriminatory practices.¹³¹
- Gender inequality must come to an end, closing the gender pay and pension gap. Targets to reduce the gender pay gap (2% each year) and wage discrimination must be promoted, making sure that the Commission establishes these targets as part of the European Semester in its Annual Growth Survey and Country Specific Recommendations.¹³²
- Effective mechanisms respecting national collective bargaining practices, such as pay gap audits, need to be employed in order to support this process.¹³³
- The Commission's proposed work-life balance legislative package needs to be completed, including a proposal for a new Maternity Leave Directive, Parental and Paternity Leave Directive and a directive on long-term care and carers.

Policy proposals:

3.7.2. Ensure a society where every generation can live in dignity

Every generation must be able to live in dignity. The following policy proposals, together with those proposed above, aim at addressing intergenerational inequality.

- Every child and young person needs to receive the best possible education, ensuring that the pupil's personal biography is no longer the key factor to success, but rather his or her performance and talent. This includes early childhood care and education, ensuring tailored homework support, as well investment in education and training, making sure that everyone has a secondary education, guaranteeing a Skills Guarantee for everyone.
- There need to be stronger incentives for students in low income households to enter university (including maintenance grants to help with living costs), but also greater support to undertake vocational training and apprenticeships. Student loans must be controlled and limited, making university fees (including at Masters level) affordable for all.
- Access to lifelong learning, reskilling and upskilling opportunities needs to be a reality for everyone, including elderly people, throughout their lives and career progression. Social partners have a key role to play in providing continuous training for workers, and EU funding must be made available to this end – including for European-level

¹³⁰ PES vision for a European Pillar of Social Rights Conclusions of the Social Europe Network - 4 May 2017

¹³¹ PES Council Resolution “#Progressive Europe/Renewal”, Adopted by the PES Council in Lisbon on 1 December 2017

¹³² PES Council Resolution “#Progressive Europe/Renewal”, Adopted by the PES Council in Lisbon on 1 December 2017

¹³³ Idem

organisations. Universal access to public, solidarity-based and adequate retirement and old-age pensions needs to be guaranteed.

- A European legal framework should be introduced, ensuring that every citizen receives a minimum pension that depends on national average wages. Every Member State should be obliged to gradually lift the minimum pension above the poverty threshold (60% of national median income).¹³⁴
- Governments could explore the possibility to “offer via national savings bonds a guaranteed positive real rate of interest on savings, with a maximum holding per person”¹³⁵, which could support pensioners.
- Developing life-cycle approaches at the workplace can help keep older people in employment for longer and transfer knowledge and experience across generations. These approaches ensure healthy working environments and foster interaction, cooperation and solidarity between the different age groups.

4. Conclusion:

A viable basis for the future of our society can only be found if we successfully tackle income and wealth inequality and fight against inequality in all spheres of our societies, ensuring universal access to knowledge and power.

The high levels of inequality which we are facing are not automatic or inevitable. They are the result of political choices that shape policies and structures that guide our economy, determining how we live together. It is these policies and structures that have led to an economy that only works for the few and a shift of power away from workers and citizens towards capital, favouring capital over workers and citizens' well-being. As socialists, we are continuously challenging these policies and fighting to reshape these structures. This is what we will continue fighting for in the upcoming European elections – a democratic society and economy that works for everyone – a society where everyone can live in dignity.

¹³⁴ PES vision for a European Pillar of Social Rights Conclusions of the Social Europe Network - 4 May 2017

¹³⁵ Tony Atkinson “The 15 Proposals from Tony Atkinson’s “Inequality – What can be done”. Accessed on 12 January 2017. <https://www.tony-atkinson.com/the-15-proposals-from-tony-atkinsons-inequality-what-can-be-done/>