From financial crisis to recovery:
Where is the strategy to combat poverty?

EAPN Europe demands concerted EU action to combat the effects of the financial crisis and the emerging recession, based on **solidarity with people, not just with banks and business**. This paper is developed on the basis of discussions which took place in the EAPN Employment Group (10 October), Social Inclusion Group (8 November) and Executive Committee (15 November).

The EU must seize this opportunity to not only ensure the economic recovery package protects people in poverty but to encourage an open debate reflecting on the causes and consequences of the current crisis. It must assess the responsibility that lies with the current financial and economic model and promote an open and honest debate on social and sustainable alternatives.

> ***"You can always imagine being rich, but you can never imagine being poor".***
>
> ***"They need to sit down, not just with the official people, they need to sit down with people like me and we should tell them: this is the way it needs to work."***
> Voices of people experiencing poverty, Scotland, 2008

Introduction – why this paper?

The Communication from the Commission: '***From financial crisis to recovery: A European framework for action'*** (COM(2008) 706 final) makes outline proposals for coordinated action at EU level to meet '*The unprecedented crisis in international financial markets'* which *'has created major challenges for the EU'*. (p2). But while the Communication states that '*Europe's strength lies in its solidarity and our ability to act together'* (p2) there is little in this Communication's three part approach that directly addresses the risks for people already in poverty and those who will shortly join them.

On the 26th of November, the Commission will publish its detailed EU recovery framework, rooted in the continuation of the revised Lisbon Strategy's focus on growth and jobs. However the Growth and Jobs strategy has not delivered less poverty and arguably has increased inequality.With what confidence then do we view the Recovery Package?

EUROPEAN ANTI POVERTY NETWORK
RESEAU EUROPEEN DES ASSOCIATIONS DE LUTTE CONTRE LA PAUVRETE ET L'EXCLUSION SOCIALE
SQUARE DE MEEUS 18 – 1050 BRUXELLES
TEL: 0032 2 226 58 50 – FAX: 0032 2 226 58 69

This EAPN paper aims to provide an initial input into the debate on the EU Economic Recovery Package, based on discussions with national and EU members. It gives our views of the causes and consequences for people in poverty and what EAPN members feel should be done. It is not intended to provide definitive solutions, but to raise our concerns and foster debate. EAPN member networks will be closely monitoring the impact of the crisis on people experiencing poverty and people at risk of poverty and will be building alliances with other actors to produce further proposals in the coming months.

Growth and Jobs – How far has it reduced poverty and inequality?

The original Lisbon Strategy established in 2000 had three dimensions - Growth and Jobs and Social Inclusion. But for eight years the European Anti-Poverty Network has been asking *'where is the political will?'* to make real reductions in poverty. It was never there. The revision of the Lisbon Strategy in 2005 to refocus on growth and jobs has meant that there has been little change in poverty levels despite booming global demand boosting growth and jobs, which peaked in 2007. Growth and jobs has not been directed at cutting poverty and reducing inequality; leaving many European states more at risk in the gathering storm.

The impact of income inequality within member states

There have been welcome European Directives in support of better conditions of work, but with too many loopholes and opt-outs. As policies do not tackle rising inequality, disadvantaged people are faced with running up a down escalator. While some states have reduced inequality through fiscal and other policies, many others exacerbated it. In many Member States, real wages for low paid workers have stagnated or reduced, leading to rise in numbers of working poor.

At the macro level, no-one in Member State governments or in the European Commission has seemed concerned about the impact on future consumption levels, and therefore aggregate demand for goods and services, of declining real incomes. No one has been concerned about the reduction of the share of wages in national income – especially for those on low-incomes who are most likely to spend their incomes, rather than save it. In some states the impact was disguised with ever more lax lending boosting spending on a sea of consumer debt.

The impact of income inequality between Member States

Putting Europe back together again is a historic task, but it has not been matched by the necessary economic transfers to support the full integration of new member states. In some poorer states with many industries needing reinvestment and restructuring but open to competition, low employment and high unemployment without adequate income support has resulted in widespread severe poverty. Other states in this position have faced stretched social budgets and high government debt, forcing governments to seek external support, including the IMF, on the condition of cuts in social spending and enforced flexibility of the labour markets and reduced employment protection.

People have migrated in search of adequate income and a more secure life. In some member states migrants have faced unequal conditions or exploitation that holds back wages and in other states migrant remittances have supported many low income households back home.

The impact of the supply side 'active labour' market policy

At the meso level, for those of working age without jobs the European Union policy focus remains welfare 'reform' and 'active' labour markets. There has been welcome European Social Fund support for national training and integration efforts. But for jobless people the supply side, active labour market policies, have increasingly included punitive sanctions and cuts in income support to force acceptance of low quality jobs with little security - whether or not these jobs will keep people out of poverty. There has been a mistaken belief that most disadvantaged people will get on career paths and that poor work is a transition phase. But for many people it is their life experience.

In many Member States, government intervention in people's labour supply decisions has inhibited the development of better wages and conditions necessary to attract and retain labour in good jobs. This strategy has slowed productivity growth and exposed the contradictions of the Jobs and Growth Strategy.

Why has Growth and Jobs Strategy failed to reduce poverty?

1) The assumption that the poor will benefit from a trickle down of wealth. This has not happened so far and will not happen without conscious measures to promote social inclusion and tackle inequality.

2) **Growth has often contributed to rising inequality** not the reverse. Re-distributory mechanisms have become increasingly regressive exacerbating inequality.

3) The focus on driving down benefit levels to force people to enter the labour market - with little evidence of efficacy or concern for what income is really needed for household reproduction. Few governments have made any consensual assessments of the income really necessary to keep households out of poverty and enable *'life as a journey.'*

4) The failure to engage employers with the integration agenda. Despite significant investment in skills and work preparation this policy has paid too little attention to whether employers wanted or would accept many older workers, or workers with caring responsibilities, or disabilities - except at a big wage discount – subsidized often by state top ups of poor wages, or straight cash incentives to low pay employers. Few states have strongly enforced fair employment law, including anti-discrimination law, or taken a tough stand on employer responsibilities in return for this subsidy to their business.

5) The failure to invest in state provision and rights based social protection. Despite a welcome recognition of the increased risks of poverty, particularly confronting children and older people, the pressure to reduce public deficits and contain social security costs has encouraged governments to increasingly 'target' support on the 'deserving poor' (child poverty), and reinforcing low benefits and punitive measures for undeserving poor (single adults). Without recognizing the crucial role that social protection systems have played in taking families out of poverty.

6) The Focus on "winners and losers" undermining solidarity.

EAPN has warned also against the careless and abusive language used by too many governments and media about people in poverty. The individualisation of responsibility and blaming culture feeding on the contempt of the 'winners' for the 'losers' has drained the well of solidarity.

7) The lack of political will.

Despite the commitments made in the European Council Conclusions since 2005 to increase the social dimension in Lisbon, throughout the boom years, in reality there has been no political will and too little ambition to make a difference. The Social OMC, although potentially a vital instrument to drive this agenda, has not received the political backing or had its objectives and priorities mainstreamed across the broader Lisbon agenda.

The European Council now *'reaffirms its commitment that in all circumstances the necessary measures will be taken to preserve the stability of the financial system'* (Council of the European Union; Presidency conclusions, Brussels 16 October 2007 14368/08 CONCL4).
But where is the same commitment to preserve the stability of our social system, to protect us?. Where are the measures to ensure that the poor do not pay for the crisis..? Would we be in this position if Governments around the world had ensured that increasing wealth was shared between countries and with all their people? **(Comments from Social Inclusion Working Group Mtg, 14 November 2008).**

Causes, risks and what needs to be done

Building on the discussion in EAPN's Employment Working Group (10 October) the EAPN's Social Inclusion Working Group met on 7-8 November in Brussels**.** At that meeting we welcomed Valerie Saintoyant, from the French Permanent Representation and the Bureau of the Social Protection Committee and Stefano Paci, secretary of the Social Protection Committee to discuss developments in the Social OMC and the impact of the financial crisis on people already at risk of poverty.

We welcomed the French Presidency's and the Commission's determination to lead decisive action on the financial crisis, but asked **what about the risks of a social cohesion crisis as the real economy of the EU goes into recession?**

We were concerned about the **lack of transparency and governance** process in the development of the economic recovery package, including the limited input by the Social Protection Committee. We are aware that DG Employment and Social Affairs has asked governments about the implications of the financial crisis for social protection and for poverty risks.

Most of all, we were concerned about how much priority would be given to ensure that the **Poor do not pay for the crisis and the willingness to think beyond and "outside" the box of the current "Jobs and Growth strategy"** that has failed to reduce poverty under boom conditions**.**

EAPN view – the causes

Immediate causes

Participants agreed that while not every member state has taken the same path, the proximate causes of the crisis are too little regulation; too easy credit and too little transparency. The detachment of the real economy from the 'virtual' financial economy has meant it could expand infinitely. The collapse of the sub prime mortgage market and of Lehman Brothers in the USA were key moments in the loss of confidence that deflated the virtual wealth bubble.

Flawed theory
Alan Greenspan, formerly of the USA Federal Reserve, has admitted to a 'flaw' in neoclassical economics – markets do not tend to equilibrium. This 'flaw' has been known by economists for more than seventy years but was ignored in the rush to mathematical modelling of 'ideal' markets. If the real world is not like that, then the world must change, not the model. The real world has given its answer.

Moral Turpitude
This crisis has also its origin in the moral code of neo-liberalism: greed is good; selfish individualism is good sense and solidarity is just holding back the "winners". Freedom is redefined as mental and external 'deregulation'. The flawed neoclassical economics model has generated ineffective employment and social policies based on assumptions of rational selfish individualism. Punitive welfare policies have been justified by the flawed and partial concept of 'moral hazard' – a concept that was not applied to lightly regulated bankers with incentives to take big risks.

Failure of redistribution
What is the 'sub-prime' mortgage crisis? It is mainly a failure of people too poor to pay their mortgages when interest rates rose. For two decades there has been little increase in real purchasing power for many Americans. Other states closely following the USA model also saw increased inequality and little change in real income for many.

This failure of effective redistribution in some large western states was mirrored by a failure of redistribution in fast growing east Asian states and oil rich states building infrastructure on the backs of poorly treated migrant labour. These 'surpluses' poured overseas to fund the deficits of some rich states and were lent to struggling Americans and Europeans, sustaining the illusion of the property owning democracy and of ever increasing material wealth. These debts became assets in the deregulated financial market – passed as parcels until, inevitably, the music stopped.

But who will pay the piper?
Not the banking sector – the list of financial rescue packages that have been waved through the state aid rules is long and getting longer. Yet for example there is little sign so far that the banks are using the money to do anything other than repair their profits and take over their competitors. For example UK mortgage borrowers are not getting the interest cuts if their loan to value ratios are above 75%. Some borrowers are facing rising mortgage bills at a time when central bank rates are being cut.

EAPN view: which Member States has the crisis hit first?
Our members told us that the impact is **not so far been felt equally** in the different states and that this is due to different financial and fiscal policies and different exposure to world markets. Some examples:-

- **Ireland, Spain and the UK** are especially concerned about the impact of the housing market/ construction collapse in deepening recession and rapidly increasing unemployment.
- **Poland** – the financial crisis is not discussed much yet, people are still living on easy credit – but it is having an impact on migration – with the return of people from other EU states as their economies decline. People have to sell houses at lower prices.

- **The Czech Republic** experience is similar to Poland. The influence of global banks meant that the effects of growth were not spread anyway. But there is no legislation or regulation of banks and very high interest rates.
- **Malta** – is a small country, but experiencing a big increase in migration and there is a problem of under-resourced social services. The financial crisis has had an impact on tourism, starting to be felt – some places have introduced a four day week. But people are already suffering from higher energy and water costs.
- **Cyprus** – The building industry is losing jobs. Impact on migrants is already seen, who are being exploited on low pay. Tourism also hit, but not the banking sector so much yet.
- **Spain** – there is a crash in the housing market, increasing debt and increasing negative equity. There is also increasing unemployment in the construction sector. There is an impact on the car industry – first in subcontracting. Banks seem to be relatively stable (less easy credit and capital/lending ratios strong).
- **Netherlands** – Although banking sector seems more stable, and avoiding recession. Flexible, temporary and part-time jobs being cut.
- **Belgium** – there had been a financial rescue package and now there is a real economy slowdown.
- **France** – the banks seem to be OK but still there is a slowdown. There are beginning to be cuts in education and social projects.
- **Sweden** – increasing flexibility and reduced rights already, not clear what additional impact yet except increasing debt.
- **Luxembourg** - thinks the budget is OK for this year – but with 60% of tax revenue coming from the banking sector – what will happen to budgets in 2009?
- **Germany** there had been a financial rescue package and now there is a programme for the real economy.
- **Austria** – there had been a financial rescue package. Now there is public discussion about recession.
- **Romania** – No discussion on prospect of economic crisis, still focussing on growth. But people are already returning from Italy, Spain and Ireland and asking for jobs.
- **The UK** has almost as big a bank ‘bail out’ as the USA, despite an economy one sixth the size. Banking sector jobs hit, but also rising unemployment in other sectors – cars, local authorities. House prices are falling and car sales are the worst in many years. The government is already promising tax cuts to stimulate the economy.
- **Norway** there has been a financial rescue package but no impact on the real economy felt yet. But they have been here before - experience in the 1990s – went bust, but recovered. **But the lesson is – keep spending: on education and training, or people will be still unemployed many years later.**

Public awareness of the impact of the crisis

EAPN members said that most people knew about the financial rescue packages in their own member states. States with large banking sectors, lax regulation and the most over-inflated housing and constructions sectors are already feeling the impact in the real economy. These sectors are shedding jobs first. States with big budget deficits are beginning to experience difficulty in refinancing debt. In other states, it seems like the calm before the storm’. A few members felt that people who did not benefit from the expansion, ie in some New Member States will not feel the effects of recession at first. But few members believed recession could now be avoided. It seems that before the credit crunch, more people were at risk of poverty because of rising food, fuel and rent and were already being forced to cut spending. The credit crunch is stopping them borrowing to fill the gap. As one EAPN member said: *A tsunami is coming.* Are we ready?

EAPN view: poverty risks

EAPN members highlighted the key poverty risks that are emerging in their communities:

- **Unemployment** – affecting temporary workers and fixed term workers first and people with few qualifications and older workers.
- **Bigger unemployment risks** for women, black and ethnic minority and migrant workers, often because of the sectors in which they work and their terms of employment.
- **Increase in precarious working conditions:** there is an increased risk that precarious jobs with low pay, poor working conditions, flexible or no contracts, involving undocumented migrants and people with low skills will be used to manage the adjustments needed in the labour market.
- **More difficulty in accessing decent, sustainable employment for specific groups –** particularly people with disabilities, lone-parents and minority groups.
- **Over-indebtedness**. Although inflation may fall back, fuel, rent and food poverty are already severe for low income groups; wages and benefits are not rising but debt is endemic. 'Loan sharks' are more evident.
- **Competitive social dumping** – downward pressure on wages/social security – as a futile 'way out' of the recession. The Commission Communication's reference to reinforcing a flexicurity agenda in a period with no security exasperated our members.
- **Social protection and social services cuts** – to keep to the budget requirements of the Growth and Stability Pact (despite the 'flexibility' proposed) – or to leave 'head room' for tax cuts which would not help people experiencing poverty.
- **Mortgages and rents** – even if house prices fall, people cannot get housing loans. Rents are rising. *Housing market gambling is playing with people's lives.* The Commission Communication's reference to the necessary reduction of the 'oversized' housing sector (page 5) is clumsy and caused offence to our members. As they pointed out, there is far too little affordable social housing and many badly housed and homeless people.
- **Competing demands from new risk groups, particularly middle classes**, reeling from the mortgage failure and the crash of the housing market may draw attention away from people already on the poverty line.,

Risks to NGO services and voice

Members from many states were concerned also at the drying up of NGO funding from donations and public authorities, at job losses in their own sectors and the risks to social cohesion if they were not around to help prevent poverty and exclusion and help pick up the pieces where all else failed.

EAPN view – The Change We Need..

Overarching Demands

1. New Political Leadership

We need strong political and moral leadership for CHANGE - to seize the opportunity of the crisis to redirect EU policies to new social and sustainable solutions and away from the failed models of unregulated free markets.

2. Coordinated EU action to cut poverty risks and prevent social dumping – a new Social Progress Pact written into the Recovery Programme

Key actions are needed to protect people from poverty and to prevent a race to the bottom in wages/conditions/services. It is the time to stop hiding behind subsidiarity and build a new EU Social Progress Pact which spells out the commitment to deliver Rights, Decent Resources, Services and Participation for all, at the heart of a new social and demographic contract between the EU, Member States and its people.

3. Redirection of resources to combating poverty and inequality.

Money is going to have to be spent. Trillions of Euros have already been spent to save the bankers, more are being planned to stimulate the economy, but this must be matched by commitments to redistribute wealth, stimulating demand by driving up the income of the poor, their access to services and decent jobs. The EU must consider how it will deliver peace, guarantee rights and re-establish trust in the EU's capacity to rebuild prosperity for all in desperate times.

4. New Global economic and financial vision not just regulation.

At the G20 meeting of 20 November, some headway was made in setting out urgent actions to increase transparency and regulation of the financial sector. However, this is not enough. The EU must press for the new negotiations in 2009 to focus on long-term measures which coordinate recovery, regulation and redistribution and action through the UN. This needs to be framed in terms of a recognition of the limits of the market and the key role of the state in supporting and defending the public good.

5. Global Governance Pact.

The current financial and economic crisis highlights a failure in democratic control. New governance structures are needed which not only ensure that all world players come to the table to discuss and decide on solutions (particularly countries in the South who have most suffered from the North's economic model), but engaged in a new global institutional regulatory framework. Civil society stakeholders including people experiencing poverty and social exclusion, must be included as key partners **.**

Specific Proposals - Impact on People and the Economy.

1) Counter cyclical policy for a better future

- **Stimulate consumer demand** most effectively by putting money in the pockets of poor people who will spend on basic goods and services.

- **Invest in people** – spend on social protection, education and training, housing – spend on new green industries and the social economy,
- **Launch innovative solutions** to poverty -, developing green affordable social housing.
- **Be wary of tax cuts** which benefit the wealthy and not those in low paid jobs or without employment, whilst reducing public spending reserves to finance vital public services and social protection.

2) Keep prices affordable on food, energy and housing.

- **Propose a freeze** on rents and mortgage rises for two years
- Ensure that National and EU Regulators of Services of General Interest (particularly Energy/Water/Transport) **transparently and visibly enforce universal service obligations** – ensuring access and affordability through regulating fuel prices and ensuring that consumer's benefit from falling crude oil prices.
- Guarantee **the right to a free minimum supply of Energy** as in some Member States**.**
- **Consider regulation of food prices** on essential items, support EU Food Aid Programme.

3) Invest in decent jobs for those most in need.

- Review the **'Make Work Pay' and 'Rights and Responsibilities' paradigms** which has for year underpinned the employment strategy and which focused on stigmatising individuals, put downward pressure on benefits, rather than investing in employment creation and path ways to decent employment.
- Provide financial support **to keep people in work,** and monitor to ensure that specific groups are not discriminated against in lay-offs.
- **Revise the Global Adjustment Fund** to reach small companies and to target workers who've lost their jobs rather than companies
- Provide employment through **investing and expanding public infrastructure** – particularly affordable housing**.**
- **Invest in new green economy and innovative social services** – particularly proximity services, backing social economy including Work Integration Social Enterprises as key tools.
- **Increase support and requirements on companies** to take on people furthest from the labour market.
- **Guarantee the security side of flexicurity –** increased precarity will only exacerbate insecurity. This is the time to defend employment protection: minimum wages and quality working conditions**.**
- **Build partnerships** involving trade unions, employers and civil society**.**

4) Establish specific objectives on tackling/preventing poverty and reducing inequality

- **Set hard European targets on poverty reduction** to drive recovery and poverty proof all measures
- **Agree specific objectives to reduce inequality** and to monitor the effectiveness of redistribution mechanisms to reduce poverty and inequality.
- **Ensure that targets and commitments are actively monitored through Recommendations** to the National Reform Programmes and National Action Plans for Inclusion.

- **Make a commitment to ensuring an adequate income** for all – in or out of work .
- Ensure that an **Active Inclusion Road Map** is put into place at the December Council following agreement of the Active Inclusion Recommendations. Set out how integrated approaches will be implemented through the social OMC with significant new investments to ensure adequacy of income, access to services and support into work.
- Demand a **specific report** in early 2009 to set out how the NAP Inclusion and the National Reform Programme will deal with increased poverty risks and **monitor the results**.
- Ensure **more resources for data and independent analysis** and supporting the establishment of a high profile European Observatory on Poverty and Exclusion.
- Support the **European Parliament's proposals on Energy Poverty** [1]agreed on the first reading to strengthen Consumer Rights and particularly the amendments to Article 3 on proposals to tackle energy poverty through the development of national action plans to reduce energy poverty.

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5) Redirect EU funds to poverty solutions

- Launch a **large scale anti-poverty** programme, transmit learning through the OMC.
- **Redirect Structural Funds** to support social inclusion and reduce poverty, emphasize the role of Active Inclusion – developing approaches to support people who are furthest from the labour market along the road to decent work, delivery of quality social services.
- Ensure **resources are sustained** for a high profile 2010 European Year Against Poverty.

6) Tackle indebtedness and support safe credit/banking

- Member States must require adherence to **agreed international principles on responsible credit** ensuring that regulatory authorities provide protection to consumers and businesses against irresponsible lending
- **Emergency measures must be taken to support debt amnesties or postponement of payment,** and the increase of independent debt-advice support and services to negotiate short-term and long-term solutions**.**
- **Specific priority given to amnesties which restrict housing evictions or the retrieval of personal goods in debt proceedings**

7) Good governance and political visibility.

- Put civil society representatives onto national and European crisis and recovery councils/committees on the same basis as other actors.
- Ensure that the voices of people most affected by the crisis are consistently heard and provide funding to NGO's to support their involvement.
- Ensure that current EU processes – including the NRP and the NAP Inclusion engage civil society stakeholders in direct discussions at national and EU level on the impact.
  Tell the public in a mass campaign what is happening, why and how. Spread hope.

[1] E. Parliamentary Report on Regulation of the Internal Market for Electricity/Gas, part of the Energy Package to be discussed at the Energy Council in December, with the 2nd Reading in Parliament in 2009.