EUROPEAN ANTI POVERTY NETWORK

WORKING PAPER

Re-engaging Hope and Expectations

Getting out of the crisis together

EAPN Working Paper

Drafted by Dr Katherine Duffy for EAPN, with EAPN working groups

Background paper for EAPN's Conference
Getting Out of the Crisis Together – *Alternative approaches for an inclusive recovery, Friday 23rd Sept. 2011, Brussels*

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1. Introduction

The purpose of this working paper is to provide a background briefing for the conference ***"Getting out of the crisis together"*** (23 September 2011) and to make a contribution to the development of an EAPN position on the financial, economic, political and especially social "crisis" that has progressively enveloped the European Union since 2008. EAPN is focused on possible solutions, but we know that EAPN cannot act alone. Our concern is with the impact of the crisis and potential solutions on risks of poverty, inequality and social exclusion and the need to build alternative social and sustainable solutions, together with other actors.

The paper discusses:

- The causes and symptoms of the "crisis" and the impact of governments' economic policy responses and the role of the EU.
- It focuses specifically on the social impact of the crisis, in particular on the poor and vulnerable, highlighting the key messages from EAPN Crisis reports in 2009 and 10, and the adequacy of Europe 2020 for improving their lives.
- Finally it propose solutions that draw on current EAPN work with members on how solutions to poverty and social exclusion can be set in a broader social and sustainable development strategy.

This working paper will provide the basis of an EAPN position for an alternative approach to the Crisis. (Section 4). To refine this paper to its final position, we want to take into account the views of those in conference and we welcome also written submissions. The paper will be finalised with our Executive Committee in November. We will then take forward this position in our lobbying and campaigning both at European level and in our national networks. We hope also that the conference can be a way for us to build closer working relationships with all of those people and organisations who want to build a future worth having and to develop together concrete alternatives and a strategy for achieving them.

The paper has been drafted by Dr Katherine Duffy, from EAPN UK, and is based on existing EAPN reports from our questionnaire surveys to our EAPN members and working group meeting discussions over the last two years. It draws especially on EAPN's crisis reports[1][2]; our analysis of the National Reform Programmes[3] and discussions carried out during the meetings of our working groups (Social Inclusion, Employment and Structural Funds) and Executive Committee.

[1] EAPN 2009. *Social cohesion at stake: The social impact of the crisis and of the recovery package,* Brussels.

[2] EAPN 2011e. *Is the European project moving backwards? The social impact of the crisis and the revovery politics in 2010,* Brussels.

[3] EAPN 2011b. *EAPN review of the full national reform programme (NRP) 2011 background document and questionnaire,* Brussels.

2. The Causes of the "Crisis"

Debate on the causes of the crisis is astonishingly absent from the discourse at EU level and amongst most national governments. Governments have quickly moved to build on the "learning"[4], but without a thorough and open discussion on the causes and the steps needed to prevent a repeat. Where causes are referred to, the focus has been on the short-term vulnerability of the financial and banking sectors, and engagement of the market in increased risk-taking in speculation with our money. But the debate quickly moved from banker's and market failure to public sector debt and deficit as prime culprits in which the ordinary public, and especially poor people, appear to be expected to carry most of the burden of the "austerity" programmes that are now widespread. A full debate on the causes and the social impact is still has to be had, yet this is crucial to finding sustainable solutions.

EAPN's view is that the main immediate reason for the financial crisis was a failure of financial governance. But this has deeper roots: in "group-think" neo-liberalism; globalisation in a weak regulatory framework; increased inequality in the west in a climate of declining solidarity and loss of public trust and confidence in political and economic institutions.

2.1. Failure of governance

In 2008, the US Federal Reserve's decision to let Lehmann Brothers fail was the trigger for the financial crisis. Loss of confidence in the assets and their ultimate ownership produced fear of a domino collapse of banking and finance businesses.

But the collapse was inevitable. From the 1990s onwards governments removed capital controls and "de-regulated" financial markets to unleash entrepreneurial creativity in the belief that markets always tend to equilibrium and that the market solution is also the "best" solution. The European Commission economic directorates have been some of the strongest enthusiasts in this approach. Deregulated financial markets especially in the USA and the UK – the two largest financial sectors – enabled widespread use of retail bank customers' money and stocks in speculative trading based on ever more complex financial derivatives. The apparent "regulatory capture" of some governments and economic institutions by financial actors may suggest a wider failure of democratic governance.

When the crash happened, nobody knew much about who really owned or owed the debt and how much of it there is, "out there". Bank "stress tests" by European Union financial regulators are considered too weak by financial market actors. They believe there is still a lot of bad debt hidden "off-balance sheet" in European banks. This is one reason why European interbank lending is freezing up again, risking another crash, banks don't trust each other and no regulator has insisted on the truth.

2.2. The tipping point: speculation, gambling, greed and "herd" behaviour

As Keynes famously said in 1936, "*When the capital development of a country becomes a by-product of the activities of a casino, the job is likely to be ill-done.*"[5] The multi-billion dollar cash piles in sovereign wealth funds and in large corporations have often been used unproductively to acquire or to speculate rather than to produce. Asset "bubbles" were created, for example in information technology company valuations, basic commodities and housing.

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[4] European Commission 2010a. *Communication from the Commission. EUROPE 2020. A strategy for smart, sustainable and inclusive growth, COM (2010) 2020 final, 3 March 2010,* Brussels.

[5] Keynes, J. M. 1936. *The general theory of employment, interest and money, ch. 12: 159,* London, Macmillan.

UNCTAD'S 2011 trade and development report is clear on the flawed and uncompetitive behaviour of financial markets and the pressing need for re-regulation. Financial markets do not create new real goods or improve productivity. They use information about existing assets derived from commonly observed events or from mathematical models that extrapolate past information into the future and trigger automatic buy/ sells. The way to make most profit is to follow the "herd" (everyone following the trend) and disinvest just before the crowd does it. If everybody is betting on the same outcome, "*the herd acquires the market power to move those prices in the desired direction*"[6]. This behaviour has infected securities and financial derivatives and the future prices of commodities such as food, metals and oil and also country currencies (including in the Eurozone). Exchange rates may be fundamentally out of line with a country's real economic and competitive position (but cannot be changed, as countries are in the Eurozone) but there can be also very large "hot money flows" chasing interest rate differences around the world and so moving in and out of countries quickly and in very volatile ways. It doesn't matter what the real fundamentals of the product or the country are; the financial players are just gambling on the direction of prices.

In the worst kind of activity, financial firms make big profits from "short-selling". For example, these financial gamblers borrow other investors' stocks and shares (including pension fund stocks) from the financial management firms who are holding them, and bet on their price going down. The gamblers make a profit when the price goes down, and pay a fat fee to the financial management firm they borrowed the stocks from. The investors take most of the hit. This begs the question: not only *why*, but *how* is this legal?

Financial players are unconcerned about mispricing of risk and increased volatility in markets because they get incentivised with bonuses for short-term gambling wins. But although financial firms are gambling electronically, it is real commodities, real investments and country exchange rates whose value is affected, from bread prices in North Africa to pension values in Europe. It is ordinary people in ordinary circumstances who are hurt. As UNCTAD states: "*the financial sector has increasingly become a source of instability for the real sector*". [7]

Evidence is emerging of law breaking as well as negligence in financial firms and also conflicts of interest in the three major ratings agencies which have downgraded sovereign debt in countries from America to Portugal. But only in the USA is there a criminal investigation of some financial firms and the likelihood of civil lawsuits against some large banks in Europe.

2.3. "Group-think": neo-liberalism

Although national economic and social situations vary greatly, in most European member states economic and social policy has developed in an increasingly common framework of analysis and implementation. Not least, this has been a result of the policies of 22 of 27 right-of-centre national governments but also centre-left governments. It was influenced also by the Lisbon agenda and now Europe 2020 and in particular by the European economic institutions. The policy direction is "neo-liberal" in that it is underpinned by the utilitarian philosophical framework of neoclassical "equilibrium" economics. European neo-liberalism has been remarkable for its *non-sequitor* that competitive markets are efficient, effective and – (even if they were in fact competitive, efficient and effective) consequently inclusive and moral.

European level macroeconomic policy under the European Central Bank (ECB) is "monetarist", focused on control of inflation and reliant on control of money or the price of credit (interest rates) to manage assumed temporary deviations from the equilibrium. Unemployment is assumed to be a

[6] United Nations Conference on Trade and Development (UNCTAD) 2011. *Trade and Development Report,* Geneva, United Nations. P IX.
[7] Ibid. p.18

"temporary" price worth paying to control inflation. This despite the fact that the majority of the economics profession hold views that are closer to a Keynesian analysis of the possibilities of sustained "disequilibrium" (unemployment, recession) and the need for governments to take the lead in spending to get the economy moving and rebuild private sector and household confidence.

Only the scale and political terror of the 2007-8 financial crisis led initially to a Keynesian (especially in the USA and Germany) macro-economic response by governments flooding the markets with liquidity (cheap money) to get economies moving again - but without proper oversight of how the money moved through the system or what it was used for. Since then, especially in Europe and especially in the policies of the ECB, there has been a return to orthodox monetarism – including two interest rate rises which may have contributed to halting European recovery in 2011.

Social policy in Europe ceased to be an independent field when it became based on the same set of individualist assumptions about behaviour as neo-classical economics. Witness, in the employment field, the ever harsher "conditionality" to force people to "choose" paid work and the assumption that a supply of unemployed people will automatically lead to an expansion of employment - as long as the unemployed are willing to accept the "price" (wage) the labour market offers - no matter how low a wage and standard of living this means. But 23.1[8] million Europeans are unemployed. Young people and groups discriminated against, including many women and ethnic minorities, people with a disability and poor people, are at the back of the queue for this "equilibrium" number of jobs and therefore more at risk of low pay and unemployment .Taxpayers are subsidising this ideology.

In the social sphere the approach has been described by a member of our Luxembourg network as "*liberalism with a social face*" in that it addresses key poverty concerns using a terminology of social justice such as fairness and inclusion but with implicitly different meanings and using different policy approaches, as we can see in employment and tax policy. The "social" language caused some confusion and dismay amongst many antipoverty and other NGOs and people experiencing poverty, at the actual policies implemented, resulting in a loss of trust[9] in politics and government and disengagement by some groups.

EAPN has asked repeatedly, regarding combating poverty *"Where is the political will?" "Where is the commitment to promote a fairer and more sustainable vision of development?"* There is a feeling of deception and betrayal particularly towards the European Commission President Barroso, because of the failure to take seriously the promises made at the beginning of the crisis and the launch of Europe 2020.[10] It has given us no pleasure to learn that this failure of political will extends to EU and national governments' capacities confronted with the economic "crisis" and the fundamental challenge it poses to neo-liberal ideology, national sovereignty and European integration.

2.4. Globalisation and transnational corporations

Growth in the scale and political importance of transnational corporations which are able to avoid many national regulations yet influence many national governments' policies on social spending, tax, trade and labour conditions has had a major impact. International and tax justice NGOs have highlighted the impact of the activities of oil, mining, agriculture and pharmaceutical companies on corporate tax payments, livelihoods, health and safety, environment and corruption.[11] Western governments are not immune from political pressure applied by big corporations. The amount spent lobbying the USA federal government rose from $1.4 billion in 1998 to $3.5 billion in 2009; lobbying

[8] Eurostat 2010b. *Third quarter data,* Luxembourg, European Union.
[9] EAPN 2011a. *EAPN General Assembly Final Declaration,* Brussels, EAPN.
[10] EAPN 2011f. *Letters to March and Spring Council* Brussels, EAPN.
[11] See for example London mining network.

by health companies soared when the health bill was being developed and by coal firms over climate change policy.[12]

On a global level, there are inadequate intergovernmental mechanisms of co-ordination and regulation for sovereign states and even economic blocs to manage co-operation and change in a globalised world of trans-national corporations and shifting economic power.

There are severe and structural trading imbalances, partly due to changes in the competitive position of countries; countries' own manipulation of their exchange rates and USA exploitation of its status as a reserve currency. Work became less secure for those affected by technological change and the shift east of manufacturing.

World debt accumulated over decades (a large part of it in USA dollars) has been held by very few creditor countries, including Germany and China. The biggest debtor country, the USA, supported mass living standards using "sub-prime" credit, repackaging consumer debt as financial assets, which were bought by many institutions. This became unsustainable, triggering the financial crisis.

2.5. Wealth and income inequality and governments' failure to address it

- ***Wealth***

EAPN's wealth explainer[13] pointed out that an average Swiss NGO worker could start work in 20,000 years BC and still would not have earned what George Soros made in one week in the 1990s from betting on the Euro (one billion Euros). While the wealthy were hit by the financial crisis, by 2010 their wealth was above 2007 pre-crisis levels and they are again increasing their investment in commodities and equities.[14]

The wealthiest tenth of the world's adults now control 83% of wealth; 1% control 43%. The bottom 50% of adults own just 2% of the world's wealth. There are 1000 dollar billionaires in the world. Credit Suisse has said "*the past decade has been especially conducive to the establishment and preservation of large fortunes.*" Wealth has also shifted east. The combined wealth of "*Asia's plutocrats*" is $9.7 trillion; this is ahead of Europe and not far behind the USA on £10.7 trillion.[15]

EAPN has argued that wealth (and income inequality) are underlying causes of the current – and recurrent - economic crises. EAPN UK wrote in 2008: "*George Monbiot misses the central point about the build-up of surpluses and deficits that Keynes's plan would have prevented: they are a consequence of a refusal to share wealth in both the surplus and deficit states ...For example, the growing wealth in China and oil-rich Arab states was not redistributed to their own citizens, but was used to buy assets in places such as the US and the UK, that were 'intensely relaxed about people getting filthy rich'. Many people in the US and the UK were not really better off, but sustained the illusion by borrowing all that money that was flowing in. Their debt got parcelled up and parcelled on - until the music stopped. ...We must make sure it's not the poor who pay the piper."*[16]

We are not alone. Min Zhu, special advisor to the IMF said "*Wealth inequality is the most serious challenge in the world*".[17] Martin Sorrell, chief executive of Media giant WPP quoted on the Davos

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[12] The Economist 2011a. The few: A special report on global leaders. January 22. p11.

[13] EAPN, 2010a. *Wealth explainer,* Brussels.

[14] Capgemini Press Release 2011. *Merrill Lynch Global Wealth Management and Capgemini Release 15th Annual World Wealth Report available at http://www.capgemini.com/news-and-events/news/merrill-lynch-global-wealth-management-and-capgemini-release-15th-annual-world-wealth-report/*.

[15] The Economist 2011a. The few: A special report on global leaders. January 22. p 6-7.

[16] Duffy, K. 2008. Letter to The Guardian, accessible at:
http://www.guardian.co.uk/politics/2008/nov/24/gordon-brown-economy. Monday 24 November.

[17] The share of GNP going to profits has been increasing in most western countries for decades.

website said ***"**Wealthy people invest in financial assets, creating asset bubbles. A more equal spread of wealth would mean more money recycled back into the economy be consumers, underpinning businesses by providing stable demand."*[18]

- ***Income inequality***

Higher inequality increases the risks of relative poverty. Wilkinson and Picket[19] in *the Spirit Level* found that social cohesion, health problems and psycho-social stress are highest in the most unequal countries. Sickness and psycho-social stress worsens with each lower income band. Further, in the wealthiest 25% of countries (including Luxembourg and Slovakia) higher income inequality makes health worse regardless of the absolute level of wealth. Thus income inequality has human and social costs, which are worst for the poorest.

It is important to note that according to a cross-national study of 21 rich counties (including Austria, Belgium, Denmark, Germany, Greece, Finland, France, Italy, The Netherlands, Norway, Portugal, Spain, Sweden, Switzerland and the UK but no A10 member state) the initial impact of the two years of crisis and recession 2008-2009 increased poverty according to a fixed poverty line in all rich countries, but overall income inequality and relative poverty did not appear to increase except in the USA. However that increased poverty will have been felt most by the low-skilled workers who were most likely to lose their jobs and struggle with their bills.[20]

A key link between income inequality and the genesis of the financial crisis is the long-term rise in income inequality in the major producing and consuming countries that drive the world's economy. The Gini coefficient has risen from the 1980s to the mid-2000s in countries as different as China, United States, India, Britain, Japan, Germany and Sweden. It came down in only one large country – Brazil.[21]

Even in the richest countries high inequality has meant average wages have been under pressure and the share of GNP going to profits has risen – often over two decades or more. Prior to the crash, real wages of an American worker in the middle of the income distribution fell 4% (from 2001 to 2006) while productivity rose 15%; German and Japanese wages were flat or falling and below productivity increases.[22]

Suggested causes include the doubling in the world's supply of labour (but not capital) since the rise of China, India and Russia and a "brain gain" salary reward to cognitive skills, especially in finance and health jobs relative to other workers.[23] Limitations in redistributive mechanisms (trades union power and social protections systems) will continue to impoverish the weakest.

The wealthy elite are also a narrow social group. In 2008, the UK Institute of Fiscal Studies reported that the Gini coefficient was 0.36, the highest level since 1961 and driven by rapidly rising income of the top 10%. Based on 2005 data, the top 0.1% of tax-payers were 90% male, 80% middle-aged, 70% living in London and the South-East and 60% worked in finance, property, accountancy and law.[24]

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[18] EAPN 2010a. *Wealth explainer,* Brussels. p10.
[19] Wilkinson, R. & Pickett, K. 2009. *The Spirit Level,* London, Penguin.
[20] Jenkins, S., Brandolini, A., J., M. & Nolan, B. 2011. The Great recession and the distribution of household income, paper for "Incomes across the great recession" *XIII European conference of the Fondazione Rodolfo Debenedetti, 10th September* Palermo.
[21] The Economist 2011b. The rise and rise of the cognitive elite. Jan 20 available at http://www.economist.com/node/17929013.
[22] The Economist 2006. More pain than gain: Many workers are missing out on the rewards of globalisation available at http://www.economist.com/node/7878071. Sep 14.
[23] The Economist 2011a. The few: A special report on global leaders. January 22.
[24] EAPN 2010a. *Wealth explainer,* Brussels. p20.

The richest 1% of income earners in the UK (those with incomes greater than £150,000 per year) have seen their tax rate halved and their share of total national income doubled since the 1970s.

In 2006, even "The Economist" financial magazine thought unfair distribution risked destabilising the world economy – and society. While the average family has seen little gain from globalised trade because "*much of it has gone to those at the top or into profits*" and "*unless a solution is found for sluggish wages and rising inequality, there is a serious risk of a protectionist backlash...governments may need to redistribute the benefits of globalisation through the tax and benefits system*".[25]

Harvard professor Raghu Rajan[26] linked the financial crisis to low income, income inequality and weak social protection:

1. **Income inequality:** it restricts development and produces the wrong kinds of policies. He believes its source is the polarisation of jobs and a plateau in education in some major countries – for example there has been little change in the percentage of graduates in the USA. The supply of highly skilled people is lower than the demand and the supply of lower skilled people is higher than demand – leading to polarised incomes.
2. **Housing wealth:** houses were used as an asset to borrow against to get credit to fund consumption – a palliative for stagnant incomes used by both right and left governments under the banner of the property owning democracy that has fuelled over-indebtedness and helped trigger the credit crisis in the USA.
3. **Limited unemployment safety net and "jobless recovery":** in major economies, such as the USA and UK, unemployment support lasts six months before core entitlements run out. But in recessions employment recovery is taking much longer each time; in 1991 it took 23 months to get back job losses, in 2001 it took 38 months and now will take at least five years – spending is held back by restricted unemployment benefits which weaken automatic stabilisers, impeding recovery. The European Union's Social Protection Committee of member state governments noted this threat, and its obverse, that those countries with the most developed welfare states and strongest automatic stabilisers recovered best from the initial impact of the financial crisis.[27]

The national reality of concentrated wealth and income inequality is driving social polarisation even in the "happiest" of societies. As the Danish EAPN network noted[28] the gap is not only one of slower growth of real incomes of the poorest 10% over a decade, but also net debt in the lowest 10% and more capital in the highest 10% and a "*growing divide of the country in terms of capital, education, service, investment, geography.*" This polarisation is likely to decrease social mobility (which has already declined in UK) and reinforce the declining solidarity which is undercutting support for welfare states.

2.6. Summary

1. Poverty measured with a fixed poverty line rose in the "Great Recession".
2. The financial crisis was a wake-up call on endemic and systemic global problems.
3. Public policy and perceptions about how economies and societies' operate has been dominated by a failed neo-liberal model.

[25] The Economist 2006. More pain than gain: Many workers are missing out on the rewards of globalisation available at http://www.economist.com/node/7878071. Sep 14.

[26] Rajan, R. G. 2010. *Fault Lines: How Hidden Fractures Still Threaten the World Economy,* Princeton,NJ, Princeton University Press.

[27] Social Protection Committee 2011. *SPC assessment of the social dimension of the Europe 2020 strategy SPC 2011/02/2/FINAL,* Brussels, Council of the European Union.

[28] EAPN 2010a. *Wealth explainer,* Brussels. p16.

4. The worlds' economies and societies are very much more interdependent than we used to believe and this has spread the crisis even to countries and groups not responsible for causing it; we're sharing the pain even if we didn't get the gain.
5. Sovereign states contributed to the financial crisis through a failure of governance and effective regulation in the new environment and because financial regulators were "asleep at the wheel".
6. Growing wealth and income inequality in a globalised world have been a key driver of the financial crisis. Economically, socially and environmentally, continuing to reduce the share of the world's income going to the mass of the people is unsustainable.

With no major change, there will be future crises. Most EAPN networks believe these are endemic to the western neo-liberal business model and that there has been a deliberate fostering of wasteful consumption and competition to drive the economic model. Many also believe the model is "broken."

3. Economic policy responses to the crisis and recovery

We have not yet fully absorbed the interconnectedness of policy areas, countries and communities in a globalised world. The past refusal to share wealth fairly and to promote balanced economies and sustainable development with new sources of jobs resulted in chronic global trade imbalances. These underlying failures combined with financial deregulation to create and spread the "credit crunch" which led in turn to public deficits and a sovereign debt crisis which is putting European monetary union, European integration and European social cohesion at risk.

3.1. Early response

The early stages of the policy response to the crisis were characterised by bank bail-outs and inter-governmental co-ordination, for example in the G20, to refloat economies by putting electronic money into world economies to kick start growth. The European Commission encouraged national pro-cyclical spending[29] including through the Structural Funds. Individual member states put money in people's pockets in various ways through tax cuts, car "scrappage" schemes and in some countries by improvements in some social benefits.[30] By 2010 many European countries were showing positive growth especially in Germany and central Europe and in Nordic countries. But what was the impact on public debt and deficits?

3.2. Growing public deficits in the EU[31]

In 2010 total EU-2 general government revenue was 44% of GDP and expenditure was 50.3% of GDP. In 2009 the EU average deficit was 6.8% of GDP in the EU-27 and 6.3% in the euro area. In 2010 it was 6.8% in the EU and 6.4% in the euro area.

It should be noted first that the EU-27 has run a budget deficit since 1995 except for a small surplus in 2000 (0.2% of GDP). Second the current EU had a larger deficit in 1995: -7.5% of GDP in the euro area and -7.2% in the EU-27. This was largely due to Germany dealing with ex-GDR assets and liabilities.

In 2008, the largest deficits were in Ireland (-7.3%); Greece (-9.8%) (and Iceland: -13.5%); countries small relative to total European GDP. There were still eight member states in surplus (Bulgaria, Denmark, Germany, Cyprus, Luxembourg, the Netherlands, Finland and Sweden) and two in EFTA (Norway and Switzerland). By 2009, all EU countries were in deficit whilst Norway and Switzerland were still in surplus. Five member states had deficits over 10% of GDP: Ireland (-14.3%); Greece (-15.6%); Spain (-11.1%); Portugal (-10.1%) and the UK (-11.2%). The smallest deficits were in Estonia (-1.8%); Luxembourg (-0.9%) and Sweden (-1.0%).

In 2010 Ireland's deficit reached 32.4% of GDP – due to bailing out its banks. Greece (-10.4%); Spain (-9.3%); Portugal (-9.2%) and the UK (-10.2%) continued with relatively large deficits. Estonia was the only EU state with a surplus (0.1% of GDP). Despite, or because, of this, it has made a huge cut in the health insurance fund, cut state employees' wages by 10%, cut road maintenance, introduced a land tax that has negatively affected people in rural areas, cut emergency services personnel and wages, cut local municipality care workers and also services for children including kindergartens and leisure

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[29] European Commission 2008. *EC Communication: Driving the Economic Recovery,* Brussels, European Commission.

[30] Social Protection Committee 2009. *Updated joint assessment by the Social Protection Committee and the European Commission of the social impact of the economic crisis and of policy responses - Full Report,* Brussels, Council of the European Union.

[31] Wahrig, L. & V.I., G. 2011. *The effect of the economic and financial crisis on government revenue and expenditure, Eurostat, Statisitcs in Focus, 45/2011,* Luxembourg, European Union.

activities. Norway retained a large surplus of 10% of its GDP, reflecting its large oil revenues. Luxembourg and Sweden had the smallest deficits.

Deficits were differently composed and depended on what had happened to GNP, degree of exposure to banks and property, size of pre-crisis deficit and debt and extent of automatic stabilisation mechanisms. The primary deficit (the part of the deficit before interest payments and fixed capital investment) was largest in the UK, Slovakia and Spain as well as Ireland. As a percentage of GDP, public investment spending was highest in Poland, Romania and the Czech Republic and all three had primary surpluses. In 2010, the highest shares of government spending on social transfers as a percentage of GDP were in Germany (56.2%) and Austria (48.2%). The lowest shares were Ireland (26.9%) and the UK (29.8%). In Ireland government spending reached 67% of GDP in 2010, largely due to recapitalising its banks.

3.3. Rising Government spending

Total government expenditure rose throughout the crisis. Luxembourg and Norway had high spending per person because they have high incomes; Denmark and Sweden also because they have a big public sector. The lowest expenditure as a percentage of GDP was in Switzerland (very high GDP) followed by Bulgaria (37.8%) and Estonia (40%) and Estonia.

Those with the largest social sectors and most progressive tax systems got the most benefit in recovering from the crash, from automatic stabilisers (in which tax revenue falls faster than output as average tax bands fall alongside income and profits, and social spending rises to support people in difficulties). This point was noted by the SPC and the Institute of Fiscal Studies research (Jenkins et al).[32]

The public spending cuts till 2010 were on average across the EU little above 2% although some countries in central and eastern Europe that had received IMF/ EU loans early in the crisis period were already suffering huge spending cuts.

3.4. Sovereign debt and the Eurozone crisis

Some market players began to think total government debts in some states were unpayable.

Greece, Portugal and Ireland faced sovereign debt crises as the market-making ratings agencies and other investors doubted their capacity to pay. Yields on their sovereign debt rose as markets priced them as higher risk and the countries came under sustained speculative pressure.

The bailout terms to these countries – which are loans not grants - were hard-line neo-liberal in content – very similar to earlier programmes imposed on Latin America and central and eastern European member states in the early days of the crisis. These: “reforms” include severe public sector cuts, state asset sell-offs and weakening of labour market regulation. Not only the IMF (which has European stakeholders and a European managing director) but also the ECB insisted on these terms and the European Commission negotiated them.

But financial market actors did not believe that Greece and Portugal suffering this much “fiscal consolidation” (budget cuts) could grow their way out of poverty without currency devaluation. Neither did the citizens who took to the streets. Despite apparently not having banks in serious

[32] Social Protection Committee 2010b. *Draft Joint Report On Social Protection And Social Inclusion 2010,* Brussels, Council of the European Union. and Jenkins, S., Brandolini, A., J., M. & Nolan, B. 2011. The Great recession and the distribution of household income, paper for “Incomes across the great recession" *XIII European conference of the Fondazione Rodolfo Debenedetti, 10th September* Palermo.

trouble, Italy and Spain also came under speculative pressure amid concerns about competitiveness and growth.

3.5. Financial action and reform

In the teeth of demonstrations and strikes the governments under pressure from the financial markets have pursued "austerity" policies, but with little relief from markets or evidence of growth. Currency speculators are adding to volatility in the Eurozone by betting on outcomes. Special Report Publishing (2011:2), in an article on wealth management, reported that "*Excitement is spreading...The Greek tragedy that is playing out across Europe is generating a greater interest in currency trading as the fate of the Euro is still undetermined and spread betters are trying to benefit from the uncertainty".*

The ECB eventually bought 22b Euros of bonds to reduce the yields on major country debt. In Italy, yields went back down to around 5% – but still almost double what Germany is able to borrow at for the next ten years. In 2011, markets have again put pressure on these countries, and borrowing rates have risen again, amid fears of a Greek default on debt.

Some progress has been made at EU level on financial supervision, with a new EU financial supervision framework established with three new European Supervisory Authorities (ESAs) established and a European Systemic Risk Board (ESRB), in January 2011. But for the financial stability framework to be a credible commitment to support countries in difficulties of the size of Italy, market players believe lending capacity has to be closer to two trillion euros, four times its current size.

Banks and other interest groups have lobbied against splitting investment and retail banking, increasing bank capitalisation or introducing a financial transactions tax. But influenced by a campaign spear-headed by ATTAC and other groups, backed by the European Parliament, in March 2011, the EU agreed to move forward on a financial transactions tax (FTT), with Germany France and the European Commission presenting proposals in the autumn.[33] The UK has made some steps too, on ring-fencing retail and investment banking, but with a seven year timetable of implementation and in a rather weak framework because they fear relocation of some UK domiciled banks (which have total assets of four to five times UK GDP) and loss of their tax revenue.

The Eurozone area may have stabilised the Eurozone crisis, but it is not over yet. The financial reforms are timid and slow and the ECB activities have had little democratic legitimacy. Although the German constitutional court has ruled that the bailouts were legal in German law, they have also insisted on a greater role in future bailouts for the national Parliament – and there are countries close to needing a(nother) bailout.[34]

3.6. Impact on poverty and inequality of the "Great Recession" of 2008-2009

In their cross national study of 21 rich countries Jenkins (et al)[35] state that GDP fell by 5% in Germany, the worst in more than sixty years and was large in Sweden though not dissimilar to the recession they experienced in the early 1990s. It was also the worst recession in over sixty years in the UK, Italy and the USA.

[33] Tait, N. 2011. MEPs back financial transaction tax. *FT.com,* March 9.
[34] Pressemitteilung 2011. *Nr. 54/2011 vom 23. August*.
[35] Jenkins, S., Brandolini, A., J., M. & Nolan, B. 2011. The Great recession and the distribution of household income, paper for "Incomes across the great recession" *XIII European conference of the Fondazione Rodolfo Debenedetti, 10th September* Palermo.

Ireland had the biggest fall in GDP but inequality declined and household poverty was stable due to large social transfers. Although GDP fell in most countries in the study of 21 rich countries, gross household disposable income rose in twelve of the sixteen countries for which they had data.

Only in Italy and the USA was there an evident increase in inequality and relative poverty, the consequence of weaker social transfer systems. Average earnings rose except in the USA, because low paid workers were more likely to be laid off. But **poverty** rose on a fixed standard in almost all countries.

In 2011, growth in Europe has stalled and some countries are facing double dip recession while some others are deep in depression. What went wrong?

In EAPN's view, the early coordinated re-flation was the right approach in general, but two things went wrong:

1. Early and committed real solidarity to support poorer countries in difficulties (which are a small proportion of total EU GDP) would have been a more effective way to prevent "contagion" in other and larger countries. It would have reduced risk of sovereign debt crisis and the demand for wide-spread austerity programmes, which will do the real long term damage to risks of poverty and social exclusion.
2. Early and committed deficit spending with a pro-poor bias could have refloated domestic economies more successfully and protected the most vulnerable workers from greater risk of job loss, avoiding pushing more people below the poverty line and deeper into poverty.

3.7. The "Austerity" strategy

The world slow down in 2011 has now affected all countries, with Europe most affected in the west; but August was the first month since 1945 in which the American economy produced no new jobs. Despite the money thrown at the financial sector, banks are not lending but re-building their balance sheets. Investors are pulling funds out of European banks because they doubt the political will in Europe for policy cooperation. With historically low interest rates there are few monetary tools left if we get a "double-dip" recession or a long period of stagnation, such as Japan has experienced.

Whatever their domestic economic situation most European countries now appear to have "chosen" to implement "austerity" policies as a response to the financial crisis.

In the view of many economists including Paul Kruger, Nobel Prize winner,[36] Governments put the squeeze on too soon and too fast and in the wrong place – hitting already squeezed mass lower incomes and closing off consumer spending growth. Ms Lagarde, Director of the IMF has now warned against too much austerity and suggested to creditor counties to spend more. She has referred to the crisis of confidence in Europe. However, the Council for the Future of Europe[37] wants to see not only much greater integration, but tight budget controls and social spending controls.

International lenders quit Athens in early September following disagreements about implementation of bail-out conditions. On September 7, the Greek prime minister announced a 20% cut in government employees. Italy and Spain have redoubled their austerity efforts. Solidarity is declining as some countries led by Finland strike bilateral deals with debtor countries to get something extra for their lending. Opportunists outside the Euro such as those in the UK have proposed repatriation of employment law in return for agreeing to Eurozone fiscal integration. The Dutch Prime Minister

[36] Krugman P, New York Times (2011).

[37] Council for the future of Europe 2011. *Statement by the Council for the Future of Europe: Europe is the solution, not the problem,* Beverly Hills, California, Nicolas Berggruen Institute.

has proposed an EU "Commissioner for budgetary discipline" with intrusive powers and the right to recommend throwing countries out of the Eurozone for breaking budget rules.[38]

The hard options for the Eurozone seem to be closer fiscal integration or euro breakup. Both options will have enormous costs and hurt most the poor.

The demands of the European Economic Governance package (proposed in October 2010 and agreed in principle in summer 2011) and the Euro Plus Pact, soon to have obligatory sanctions, are embedding a new Eurozone framework to embed stronger future influence on fiscal policy in member states. The proposals from France and Germany during August take us a step closer beyond governance to common EU ''economic government''.

Whilst pressure builds for more EU economic governance, no proposals are on the table to ensure a limited social impact and to balance social with economic governance. For many, it is becoming increasingly difficult to see the benefits of "more EU".

At the heart of this phase is a crisis over the Euro and the future of Europe. Solidarity between countries has been undermined, and there are growing signs of unrest amongst ordinary citizens, including those most at risk of poverty, in rejection of the EU approach (in Greece, Ireland, Spain, Italy). In the UK, though the riots appear as criminal acts without explicit political or social demands, postcode analysis has shown rioters largely live in poor areas which have suffered most from the crisis in terms of unemployment especially youth unemployment, and austerity cuts in employment and social programmes.

Many in the world have looked on with admiration as post-war Europe gradually built peace and security on its whole territory. A key foundation of European stability and cohesion has been the European Social Model, and its welfare states in various forms. But 63% of Europeans surveyed for Eurobarometer 355 think public policy is not having much impact on policy and 61% wanted higher social spending even if it meant higher taxes.[39] We may be on the brink of losing our political and social as well as our economic capital, at a time when we need the confidence of our people to find our place in the changing world.

3.8. Summary

1. After early co-ordination and pro-cyclical responses, beggar-my-neighbour policies on spending cuts, tax and currency competition have stalled the recovery and risk putting many countries, not only in Europe, into recession. Social unrest has begun to increase in worse hit countries as austerity programmes bite
2. Democracy has been damaged by the actions of EU and international institutions in the financial crisis in implementing neo-liberal solutions which are driving austerity, and failure to address the longer term social impact of their macro-economic decisions, or even the shorter term poverty caused by the crisis itself
3. Poverty rose already in the recession, before the "austerity" cuts were implemented.
4. The poor and disadvantaged will suffer more and longer from stagnation, recession or austerity programmes than from the crisis itself.
5. These are dangerous times and there is no commitment to an open debate with stakeholders on new thinking in our governing classes or in the EU institutions.

[38] Spiegal, P., Steinglass, M. & Milne, R. 2011. Dutch PM calls for Europe budget tsar. *Financial Times,* September 8,, 1.
[39] Eurostat 2010a. *Special Eurobarometer 355. European. Commission. Poverty and Social Exclusion. Report,* Luxembourg. P104 & 107.

4. The social impact of the crisis on poverty – a view from the frontline

"In 2008 the EU was hit by the worst global recession for decades. The impact of this major crisis on economic growth and unemployment was felt almost immediately. But the social impact of the crisis, feeding through more indirect channels, is only beginning to appear."[40]

4.1. Lack of monitoring of the social impact

Alarmed at the absence of monitoring of the social impact of the crisis, EAPN began its own assessment through its national networks[41] as well as demanding that the EU institutions get this done.

The SPC/European Commission now reports regularly on the social impact[42] but said that most member states were not carrying out a full social impact of the crisis or of their own policies. They also noted that EU-SILC data lagged at least a year behind events, making national information all the more necessary.[43] However, little account is taken of their assessment in the debate dominated by economic and finance ministers focussed only on stability and deficit reduction.

EAPN wanted to get beneath the surface of the lagging data and try to understand what was happening "on the ground". We used the framework of the 2008 Active Inclusion Recommendation to evaluate access to employment, to adequate income and to basic goods and services. Drawing on our experience of the governance of the NAP Inclusion process, we also sought information on access to policy decision-making, especially participation in the NRPs.

4.2. Social costs and social tensions

Both our 2009 and 2011 (covering 2010) EAPN social impact reports are notable for their emphasis on the hidden costs of the crisis and the longer-term effects – policy neglect of the "old" poor who were already in longer-term grave difficulties, relative to those newly at risk, hidden unemployment and erosion of working conditions, family tensions, stress and risks of chronic ill-health and violence, loss of confidence and aspirations of our children, as well as the impact on housing/homelessness, indebtedness and living standards. EAPN noted that the employment dimension of the crisis was much better documented than threats to social cohesion, social inclusion and social protection.[44]

By 2009 severe poverty and exclusion seemed to be increasing. In Eastern Europe, countries already in receipt of IMF/ EU loans – Romania, Bulgaria, Hungary and Latvia had already experienced severe cuts in public services as part of the loan terms.

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[40] European Commission 2011c. *Social Europe EU employment and social situation quarterly review, June,* Brussels, European Commission, Employment, Social Affairs and Equal Opportunities. p 37.

[41] EAPN 2009. *Social cohesion at stake: The social impact of the crisis and of the recovery package,* Brussels. EAPN 2011c. *From financial crisis to recovery: where is the strategy to combat poverty? ,* Brussels. EAPN 2011e. *Is the European project moving backwards? The social impact of the crisis and the revovery politics in 2010,* Brussels.

[42] Social Protection Committee 2010a. *2010 Update of the joint assessment by the Social Protection Committee and the European Commission of the social impact of the economic crisis and of policy responses,* Brussels, Council of the European Union.

[43] EAPN 2011e. *Is the European project moving backwards? The social impact of the crisis and the revovery politics in 2010,* Brussels. pp 6, 9.

[44] EAPN 2009. *Social cohesion at stake: The social impact of the crisis and of the recovery package,* Brussels. p11.

Many other networks used words like deprivation, pauperization and out-migration and referred to increased domestic and urban violence. Networks referred to increased competition amongst the poor, rising intolerance, racism and xenophobia.[45] It was clear that something very socially serious was happening.

4.3. Lack of dialogue with civil society

But not only were governments not addressing or even monitoring the social impact, they did not seem to recognise it, until some people took to the streets. EAPN networks, especially in the most affected countries were frustrated by governments' refusal to pay attention to their concerns. In our working group meeting of June 2011, the Portuguese network said *"Not only are we not being listened to, we are not being respected".* The Spanish network said *"Street movements are always a surprise to governments".* From 2009 till now, few governments have engaged with NGOs on the causes, social impact and solutions to the crisis whether in purely national arrangements or in the context of the NRPs, even during the 2010 year against poverty.

4.4. Impact of "Austerity"

Austerity responses started early in the crisis, even if not all immediately implemented. Key messages from EAPN's first social impact report in 2009 were that the main focus of the stimulus packages was employment and growth, but often with neo-liberal policy prescriptions that took little account of effect on poverty from reductions in wages and working conditions, higher unemployment and service cuts. There was little evidence of an Active Inclusion approach but most networks noted hardening conditionality and a tougher attitude to poor and vulnerable people.

The worsening situation charted in our second report (covering 2010) seemed to be the result of a policy choice of "austerity" programmes with a preference for expenditure cuts in benefits and services and only in some countries, limited tax rises, for example VAT (which is regressive) and, property taxes. A few countries had not so much taken the austerity route, and because the social impact is systematically under-assessed and ignored, Europe is losing opportunities to really understand the social choices countries made and their impact. This is a critical loss if closer fiscal integration risks reducing policy diversity further in the future.

Networks agreed that in many countries the public spending cuts are being stepped up and as one network put it, this is on top of the fact that the social damage from the crisis itself has not been fixed. Neither has the banking system been better regulated. In addition, most networks said gas, electricity and water charges as well as bank charges and food and rents are rising. Again, this seemed to have begun before the crisis in many countries – and may have contributed to consumer over-indebtedness and the crisis itself.

Governments suggested that the private sector will fill the gap left by the shrinking state – but the slow-down in growth across Europe shows the medicine is not working. Rolling back of welfare states was already taking place before 2008. Many networks believe that the crisis has provided cover for acceleration of a politically unpopular strategy that was being pursued anyway.

4.5. Breakdown of the social contract

[45] Ibid. pp 36-37.

Portuguese and Greek networks said that many in their countries believed that the social contract between government and governed had been torn up at the behest of foreign powers and they feared the consequences for peace and democracy. As the Greek network put it

"What is happening in Greece is dramatic; the IMF/EU plan for saving the country is destroying the country; the Greek people are more aware than a year ago that the remedy is killing the patient. It is destroying any kind of solidarity at European level. It can happen to Portugal, Spain, France, Italy and Belgium. The question is not about our public sector or our corrupt government or about the Greeks that are lazy; we have the highest working hours in the EU and the highest number of working poor- 40% when the EU average is 8%. The question is the IMF changing the actual character of our European social model.... there is impoverishment of our middle class, a return to the countryside, and emigration of our youth. There is a support network at neighbourhood and village level, because public sector formal social support networks have collapsed......People day by day are not any more fighting poverty; they are fighting for survival."

Networks in central and eastern European economies have been here before. As one said "We are depressing rights; this was done in the CEE under the slogan of market economies".

4.6. Are disadvantaged people being targeted by "austerity" policies?

EAPN's Crisis Reports analysed the social impact in terms of the three pillars of *active inclusion*: impact on adequate income support, access to services and to decent work.

- ***Reducing minimum income***

Incomes for the poor have been squeezed from many directions – commodity price inflation, employment incomes and income maintenance benefits, tax changes, retirement pension changes...

In our 2009 social impact report EAPN networks in Denmark, Spain and Ireland were already reporting big increases in demand for services addressing basic needs - food, clothes and temporary housing.[46] The crisis risks becoming a human rights' disaster for the very least advantaged even in wealthy western countries.

Our 2011 social impact report (which covers 2010) showed commodity price inflation had taken off again with some central and eastern European countries showing most concern (Hungary; Czech Republic; Slovakia) and Estonia especially concerned about price rises in preparation for entry to the euro.[47]

In our 2011 report, EAPN pointed to regressive flat income taxes (for example in Bulgaria and Hungary) and to widespread increases in VAT which hit poor people hardest. Ireland pointed to very low corporation tax of 12.5% - much lower than the standard rate of income tax. The German network noted that middle class tax breaks have reduced resources for social services and social inclusion. A small positive point is those few countries who are considering wealth or property taxes, though often as interim measures. There has been very little indication that the public sector and social protection cuts are only interim.[48]

Adequate income replacement benefits incomes are under threat in a climate of capped social budgets and the harsher conditionality for their receipt which have been imposed in almost all countries. In the UK Work Programme, the government expects that the profit seeking businesses

[46] Ibid. P44.
[48] EAPN 2011e. *Is the European project moving backwards? The social impact of the crisis and the revovery politics in 2010,* Brussels. Feb p17.
[48] Ibid. pp 23-24.

will be paid from benefits savings from placing people in work. Success is a reduction in the welfare bill, not a reduction in poverty.

Over-indebtedness has been a constant theme in EAPN's reports. EAPN UK, through the NAPs process, warned about it from 2001, and indeed after several years the government did recognise the difference between unmanageable *overindebtedness* and manageable debt, which their analysts had been telling them was no problem - as a cause of risk of poverty. They launched a large scale programme of engagement with indebted households. But too late - the credit crunch exposed the unaffordable mortgages and consumer credit at penal rates and the private debt overhang will slow economic recovery in the UK for years to come.

Most networks in both EAPN's 2009 and 2011 social impact reports highlighted policies to control retirement pension costs through increases in state and occupational pension ages, cuts in public contributions to pensions and increases in personal contributions. These began as a response to "demographic ageing" but are now being "sold" as part of the solution to the crisis although they will make poverty in old age worse. As the SPC noted[49] there are risks of inadequacy and insecurity from funded pensions reliant on stock markets and risks from the contributory principle for people with interrupted work histories and low paid jobs – therefore women will be worse affected. Private company charges may also eat more of the sums invested leaving lower pensions than could be provided by the state.

Germany is an example of a country that has kept the lid on income by holding back domestic consumption and keeping down wages, in order to encourage export-led growth and therefore retain German jobs. They are the only EU country which paid unit labour costs below productivity. While for the majority of Germans, low or no wage growth may not push them into poverty, it does increase poverty risks for marginal workers. ATTAC International has referred to the strategy as "*fiscal and social dumping*" as it also creates risk of poverty in other countries. Other European countries are taking the same path – either partly under external IMF/ECB pressure, for example Ireland, Greece, Italy and before them, Bulgaria and Romania and Hungary, Latvia, or as domestic policy choice, for example the UK and France. It is an unlikely path to increased quality, sustainable jobs in Europe as a whole, and a certain road to increasing risk of poverty and material deprivation.

Exclusion from social insurance of long-term unemployed people and others without suitable work histories is a long standing problem. But at the time of EAPN's first social impact report, few countries had additionally resorted to cuts in benefits, rightly understanding their countercyclical importance in supporting spending in recession as an "automatic stabilizer." But driven by "modernisation of social protection" priorities, EU institutions had already led the way pre-crisis in promoting cuts and tightening of eligibility of benefits, even in wealthy and relatively generous countries such as Sweden, Denmark and the Netherlands. Thus vulnerable people were put under more pressure, restricting the scope for exiting the crisis and deepening the recession.

The multifaceted nature of ensuring adequate income is strongly related to the capacity to access decent, affordable services. This is particularly evident in relation to housing, where shortage of housing before the crisis meant that even though there was downward pressure on rents in some countries during the recession of 2009, housing was still unaffordable for those on low incomes. Any rent decreases were more than outweighed by higher utility and food bills from globalised price rises.[50] It is depressing that there was no country that chose to invest in a major programme of affordable housing as part of a fiscal stimulus with positive long term effects on living conditions and social cohesion.

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[49] Social Protection Committee 2011. *SPC assessment of the social dimension of the Europe 2020 strategy SPC 2011/02/2/FINAL,* Brussels, Council of the European Union. pp 26,37.

[50] EAPN 2009. *Social cohesion at stake: The social impact of the crisis and of the recovery package,* Brussels. p15.

What is clear is that keeping many people on the margins of coping puts them at risk of poverty from small changes in many directions. Evidently, stable and sustainable growth requires a focus on fair distribution of income and an effective strategy to prevent as well as alleviate poverty.

- ***Undermining social protection***

According to our survey, some countries temporarily increased social spending, for example extending the duration or raising the level of unemployment benefits (e.g. Spain). Estonia increased benefits from the 1st January 2011 and the government has a strategy to invest in employment.

Norway stood out as least affected by the "crisis" and in having a focus on spending on social infrastructure (e.g. care homes) to compensate for weaknesses in private companies especially in the export sector. Poland also was little affected, continuing to show infrastructure-fuelled growth until recently, when there has been a slowdown in both countries from the secondary effects of the crisis.

The Hungarian network said that government interventions supported mainly the middle class and wealthier people but poor people got benefits cuts and tighter eligibility.[51]

EAPN networks reported widespread cuts to social benefits and services actual or planned in Bulgaria, Czech Republic, Denmark, Germany, Greece, Hungary, Ireland, Italy, Latvia, Portugal, Romania, Spain and the UK.

The assessment of the social impact of the crisis by the SPC and the European Commission[52] showed that measures to reduce public expenditure have hit social protection and social inclusion systems first. Though only a minority of countries have implemented each of these measures, they all hit the vulnerable. Measures included restrictions on eligibility, shortening of benefit payment period, reduced benefit, narrower family benefits, reductions of benefits to disabled people and children, abolition of maternity and school grants, changes in indexation rules for benefits, cuts in sickness benefits and in social are services, increased targeting of housing and child benefits, staff cuts in social services.

As EAPN pointed out[53] without national social impact assessments, nobody knows what will be the effect of these measures on poverty and social exclusion. Presumably, governments would like to keep it that way until "facts on the ground", including lowered expectations of public transfers and public solidarity and greater familiarity of more visible problems based on acceptance of the necessity of austerity, have done their work. The Belgian network explicitly noted that it was the EU requirement for a balanced budget by 2015 that was driving the cuts.[54]

- ***Loss of jobs, worsening quality and reduced access***

In our 2009 social impact report, EAPN noted that unemployment had risen but that working hours had declined more, due to short time working, sometimes as a matter of policy to protect those in employment and their skills.[55] Other measures to save jobs (according to the 2011 report) were

[51] EAPN 2011e. *Is the European project moving backwards? The social impact of the crisis and the revovery politics in 2010,* Brussels. P20.

[52] Social Protection Committee 2011. *SPC assessment of the social dimension of the Europe 2020 strategy SPC 2011/02/2/FINAL,* Brussels, Council of the European Union. Social Protection Committee 2010b. *Draft Joint Report On Social Protection And Social Inclusion 2010,* Brussels, Council of the European Union.

[53] EAPN 2011e. *Is the European project moving backwards? The social impact of the crisis and the revovery politics in 2010,* Brussels. p19.

[54] Ibid. p20.

[55] EAPN 2009. *Social cohesion at stake: The social impact of the crisis and of the recovery package,* Brussels. p4.

reducing employers' social costs (9 networks) or supporting enterprises through subsidies (5 networks)[56].

However, the dual labour market was reinforced by the worse job losses for temporary and precarious workers, "underground" workers and migrant workers. Youth and older workers were also worse affected than prime age workers. Networks were concerned that many of the groups most at risk of unemployment were those people most likely to become long-term unemployed, least likely to have access to adequate unemployment insurance or minimum incomes or to retraining and integration policies.

There were some positive movements in education and training for the unemployed in Czech Republic, Sweden and Finland, but the UK Future Jobs Fund for the young unemployed was later ended by the new government.[57]

In our 2011 report networks noted that "inclusive labour markets" (as part of an integrated Active inclusion strategy) is a missing dimension. Instead, pressure on the unemployed is increasing, through tighter eligibility and conditionality and cuts in benefits. Activation at all costs, in an economic climate where jobs are scarce, is only creating more precariousness and in-work poverty[58]

Men's unemployment rose first,[59] but women will be more affected by cuts to social sector jobs and to the slowing of the service sector of most European economies. Services account for as much as 70-80% of employment and the lower wage jobs are dominated by women.

What is clear is that threats of future poverty are increased because the downward pressure on job quality including insecurity and stress as well as poorer conditions, is combined with lack of job creation and sometimes cuts or below inflation increases in minimum wage jobs. These changes were taking place in countries as otherwise differently affected by the financial crisis and as otherwise differently politically and socially organised as the Czech Republic, Denmark, Hungary, Latvia, the Netherlands, Spain and the UK[60] and before the EU Euro Plus Pact was put into place.

EAPN networks' view is that a fundamental problem is that the current business model is generating a *dual labour market* of "good" and "poor" jobs and working conditions. More than ever, young people and people vulnerable on the labour market are "*locked out"* of it. The main response has been supply-side activation and training policy, linked to punitive sanction policies on benefits, though only in a few countries such as Denmark and Netherlands are spending on training related areas sufficient to make a real difference. Networks in Hungary, Sweden and the Netherlands identified the missing policies as job creation and decent work. Portuguese and Lithuanian networks noted the lack of security in "flexicurity" changes to the labour code and the French network noted the ease of creating short-term contracts.[61] Several networks highlighted the important role of the social economy, which is getting some increased support in some countries and which has proven to be more resilient to the crisis than normal businesses.

Some countries had policies to support people to stay in their jobs, including state subsidy of wages and reduced employer contributions to insurance benefits; but while initially welcome, these risk exacerbating "*jobless recovery*" and as the Belgian network said – "*who's out stays out*" of the labour

[56] EAPN 2011e. Is the European project moving backwards? The social impact of the crisis and the recovery policies in 2010, Brussels, p. 26
[57] Ibid. p5, 13, 25.
[58] Ibid.p24-25.
[59] Jenkins, S., Brandolini, A., J., M. & Nolan, B. 2011. The Great recession and the distribution of household income, paper for "Incomes across the great recession" *XIII European conference of the Fondazione Rodolfo Debenedetti, 10th September* Palermo.
[60] EAPN 2009. *Social cohesion at stake: The social impact of the crisis and of the recovery package,* Brussels. P 32-34, 15-16.
[61] Ibid. p32.

market.[62] "New problems; out of date solutions" is EAPN's overall perspective on employment policy.[63] Tougher activation measures are the most common measure featuring tightened eligibility, increased conditionality, and cuts in benefit levels. But most EAPN networks believe that aggregate demand in Europe is too low so there are not enough jobs.

- ***Attack on public services***

Austerity measures have begun to have a significant negative impact on access to services, many being central to the fight against poverty, social cohesion and the preservation of human capital needed for future economic development, including public health.[64]

Waiting list for treatments and operations have increased (Ireland), public service sector pay cut (eg Romania, Latvia, Bulgaria, Ireland, UK, Spain). As is already the case since transition in central and eastern Europe, health-care co-payments are becoming more widespread and/ or users are expected to pay a bigger proportion of the treatment cost in western Europe, particularly at the point of entry. This was happening before the crisis and is part of cost containment priorities that arrived before the crisis and which hit the poor harder.

In some countries users are asked to pay a bigger share of costs and reductions/subsidies for vulnerable groups are being reviewed (e.g. water charges to be introduced in Ireland in 2014, abolition of transport subsidies for students and the elderly and removal of energy subsidies in Romania).

The UK has voiced its specific intention to move to a new model of welfare state: the commissioning and contracting state with services provided by "*any willing provider*" from any sector.[65] The focus is on competition and cost efficiency. Universality and equity are downgraded as goals.

- ***The example of housing and homelessness***

In most countries there is a shortage of affordable housing to rent, the state is withdrawing from housing provision and rents are rising faster than inflation. This was happening before the crisis and is likely one of the causes of it. By 2010 Spain, Denmark and Hungary were reporting a rise in evictions (although policies to reduce eviction rates were introduced in some other countries such as the UK). FEANTSA noted that the link between unemployment and homelessness affects the most vulnerable most as it is long-term unemployment that research shows is linked to homelessness.[66]

FEANTSA has found that the impact of the crisis and austerity measures on homelessness has worsened in 2011. Their country reports show a shift in the profile of evictions to include more families with children and hidden costs of income stress such as unheated homes in order to use money to pay housing costs. Internal EU migrants have become a larger proportion of EU rough sleepers especially in Germany, France, Netherlands and the UK. Young people, especially in the south of Europe and Austria are increasingly homeless. Hidden homelessness in young adults living with family or friends is particularly evident in Greece and Portugal. Increasing and new categories at risk across Europe include people in poor work who cannot secure stable tenancies and middle class families seeking social housing.[67]

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[62] Ibid. P 34.
[63] EAPN 2011e. *Is the European project moving backwards? The social impact of the crisis and the revovery politics in 2010,* Brussels. pp 24-25.
[64] Ibid. p.22.
[65] HM Government 2011. *Open Public Services White Paper,* London, The Stationery Office Limited.
[66] EAPN 2011e. *Is the European project moving backwards? The social impact of the crisis and the revovery politics in 2010,* Brussels. p17.
[67] FEANTSA 2011. *Impact of anti-crisis austerity measures on homeless services across the EU, FEANTSA policy paper,* Brussels. pp3-4.

What FEANTSA also argues is that the austerity strategy has systemised a policy approach that will have as much negative impact on the most at risk as the cuts themselves. These include lowest price service contracting mechanisms and inappropriate targets for payments by results; uni-dimensional policies such as emergency accommodation rather than housing-led and employment-related integrated strategies, and harsh conditionality and means testing in social security systems.

Local municipalities, which are often responsible for social services, have carried a heavy burden of cuts and restrictions on supply of services are becoming more common. This was the case even in relatively pro-social Finland.[68] FEANTSA has noted austerity measures consist of centrally designed cuts often to be locally implemented. There is more fragmented service provision as the cuts fall differently for example, in housing and social services and health, and a loss of capacity to integrate services. "Prioritising" by cutting non-emergency services will become visible as social problems in the longer term – integration, employability, prevention, service quality and the loss of qualified staff.[69]

FEANTSA and EAPN agree that cuts in public especially social budgets and a shift in paradigm were evident before the crisis, which has reinforced political trends and also excused them. In FEANTSA's view, the crisis has systemised in the form of "austerity" measures the cross-EU trend to shrink welfare and especially for the most economically disadvantaged groups.[70] But as both the SPC and the IFS study by Jenkins et al have noted states with the best developed social protection and homeless strategies are less affected than states with weaker systems and less commitment.[71]

4.7. The impact on NGO service provision

Despite the findings of Eurobarometer 355[72] that the public most trusts NGOs to provide services to combat poverty (compared to citizens, regional or local authorities, religious institutions, national governments or the EU); local and central funding to NGOs has been cut. EAPN networks reported reduced and closed provision even as demand for services rises and changes with new risks. In our 2011 report seven networks highlighted changing demand – notably from family and migrants due to increasing income poverty, debt, family tensions, housing insecurity and social tensions.[73] While networks want sustainable finance for NGOs they also want a framework of public support to ensure access for all on a basis of equality.

Despite the pressing need to inform governments and to advocate on behalf of disadvantaged people, NGOs found themselves locked out of decision making, dealing with cuts in their services as well as cuts in direct provision to their client groups. Preventative and advocacy services especially by small NGOs took the biggest hit. Increasing moves to a contracting culture and away from grant aid restricted the scope for advocacy.

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[68] EAPN 2009. *Social cohesion at stake: The social impact of the crisis and of the recovery package,* Brussels. p 19.

[69] FEANTSA 2011. *Impact of anti-crisis austerity measures on homeless services across the EU, FEANTSA policy paper,* Brussels. p8.

[70] Ibid. p4.

[71] Social Protection Committee 2010b. *Draft Joint Report On Social Protection And Social Inclusion 2010,* Brussels, Council of the European Union. and Jenkins, S., Brandolini, A., J., M. & Nolan, B. 2011. The Great recession and the distribution of household income, paper for "Incomes across the great recession" *XIII European conference of the Fondazione Rodolfo Debenedetti, 10th September* Palermo.

[72] Eurostat 2010a. *Special Eurobarometer 355. European. Commission. Poverty and Social Exclusion. Report,* Luxembourg. P129.

[73] EAPN 2011e. *Is the European project moving backwards? The social impact of the crisis and the revovery politics in 2010,* Brussels. Page 28.

EAPN are concerned that NGO capacity to innovate to deal with the crisis and to facilitate participation in policy-making for people in poverty, are two key functions important for policy efficacy that are most at risk.[74]

Our 2011 social impact report showed the situation had worsened for NGOs with almost all networks reporting significant falls in funding sources and cuts in services. Eurodiaconia particularly noted the decline in private giving. EAPN Hungary noted the drying up of funding after the Soros foundation withdrew its presence saying that Hungary was a stable democracy. The European Foundation for Street Children noted the difficulties in managing and in service quality in working with more volunteers instead of permanent professionals. Sweden, Ireland and the UK particularly noted the difficulties of competitive markets and contracting culture in delivering services for vulnerable people. The networks in France and Hungary specifically mentioned exclusion from participation in the decision making framework.[75] But in Germany, municipalities worked with NGOs to inform them in advance about cuts and to co-manage the cuts to minimise impact.

We are concerned also that the wider social polarisation is also polarising the NGO community. For example, some networks think government has a strategy of reconfiguring NGOs through the contracting and competitive tendering framework (e.g. UK, Finland, Sweden, Czech Republic) into fewer, bigger, delivery focused organisations, with risks of fall in service quality or in access. Another development in central and eastern Europe which receives the majority of the Structural Funds is substitution of public services by structural fund projects and programmes.[76]

Many networks said that Structural Funds are getting harder for NGOs to access and there is a shift in who gets funds and what they do with them. This has included competition from intergovernmental agencies, public agencies and private concerns looking to replace their own revenue streams or find new business, but not primarily focused on cutting poverty. In 2010/11, networks highlighted changes in the member states' Operational Programmes, with a global trend re-orientating ESF towards those closest to the labour market, to maintain jobs at the expense of more vulnerable groups. In France there was a stronger focus on keeping people in jobs. Many networks shared Ireland's concern with the increased emphasis on labour market activation for those near to the market and away from those furthest from the labour market.[77]

Only the Swedish network highlighted extra public funding, linked to the EU year, whilst in Denmark private donations are on the rise and in Spain more taxpayers chose the option to contribute 0.7% of their income taxes to welfare organisations.[78]

4.8. Summary

- The social impact of the crisis is causing long-term damage to the most vulnerable, our communities and economy, but is not visible, adequately monitored or debated. Civil society stakeholders at all levels are kept out of the debate.
- Whilst growing unemployment is the most obvious key impact, austerity measures – targeting the poor are now the key concern: attacking welfare provision and vital public services, with no

[74] Ibid. Feb p6.
[75] Ibid. pp29-33.
[76] EAPN 2009. *Social cohesion at stake: The social impact of the crisis and of the recovery package,* Brussels. p46; FEANTSA 2011. *Impact of anti-crisis austerity measures on homeless services across the EU, FEANTSA policy paper,* Brussels. p5-6.
[77] EAPN 2009. *Social cohesion at stake: The social impact of the crisis and of the recovery package,* Brussels. p46.
[78] EAPN 2011e. *Is the European project moving backwards? The social impact of the crisis and the revovery politics in 2010,* Brussels. page30.

signs of public investment in decent jobs or in improving access. For those already in crisis, the collapse in public support is devastating and a social crime.

- NGO services are in the front-line for cuts in provision, particularly in preventative and advocacy services, even as demand rises and changes with new risks. The new pressure on NGOs to compete for existing public services is driving down price and quality and polarising the NGO community.
- This represents a breakdown in the social contract between people and their governments, reflected in mounting social and economic costs, fractured social cohesion and growing social unrest.
- The role of the EU in driving fast deficit reduction, mainly through social cuts, is jeopardising any sense of trust in the EU's role to act in the interests of people, rather than the markets. Why should people want more EU?

5. The EU contribution to combating poverty and social exclusion

5.1. Little concrete progress on poverty since 2000

Since 2000, with the launch of the Lisbon Agenda (2000-2010), the EU has had a specific objective to 'make a decisive impact on the eradication of poverty and social exclusion'. The Social Open Method of Coordination was to be the key instrument, coordinating member state's actions around Common Objectives, engaging national stakeholders in development of National Action Plans and common EU review, exchange and assessment mechanisms. Important progress was made on agreeing the full set of OMC common indicators, mutual learning and consensus building over common policy approaches: particularly child poverty, homelessness and housing exclusion, older people and Roma. The major achievement in this period was the approval of the Active Inclusion Recommendation in 2008. This built on the 1992 Recommendations on adequate minimum income for a dignified life[79], and embedded a commitment to adequate minimum income within an overarching integrated strategy based on three pillars: adequate income support, access to quality services and inclusive labour market. However, implementation has been weak. Moreover, the initial commitment to an innovative multi-level governance approach engaging stakeholders and different government levels in the design, delivery and evaluation of the strategy through the NAPs Inclusion, was undermined over the decade. This was exacerbated in 2005 by the Streamlining of the social inclusion pillar with other coordination mechanisms on pensions, health and long-term care with less embedded participation structures.

However, it was the lack of political will and increasing marginalisation from the main economic policy drivers that were mainly responsible for the failure to achieve concrete results for poverty reduction; with the risk of poverty remaining constant at 16% from 2000 to 2010. In successive publications during this period[80], EAPN has pointed to the experience of the poorest and those at risk, of stagnant real incomes, wages and benefits that could not support households over the lifecycle, increasing in-work poverty, risks of poverty from atypical work and temporary and part-time work, lack of access to affordable housing, restrictions on social services, relentless inflation in prices of basic goods and utilities and over-indebtedness. We lobbied and campaigned for morally better and more effective policies that would support human dignity and social inclusion.

5.2. Does Europe 2020 offer hope?

Eurobarometer[81] showed survey respondents' willingness to preserve social Europe even at the expense of higher taxes. But respondents' are not convinced that governments or the EU have the will or the capacity. Will Europe 2020 change that?

Europe 2020 is **t**he new EU strategy for smart, sustainable, inclusive growth that replaced the Lisbon agenda 2000-2010. It is a framework of coordinated policy reform between member states with surveillance by EU institutions.[82] EAPN and other organisations lobbied strongly for a change in paradigm centred on creating a fairer, more sustainable development model.[83] Whilst Europe 2020

[79] Council Recommendation 92/441/CEE (June 1992): Common criteria concerning sufficient resources and social assistance in social protection systems.
[80] See EAPN OMC NAP and NRP reports (2001 to 2009): www.eapn.eu.
[81] Eurostat 2010a. *Special Eurobarometer 355. European. Commission. Poverty and Social Exclusion. Report,* Luxembourg.
[82] See comprehensive EAPN Briefing on Europe 2020 and Annexes (2011).
[83] See EAPN Manifesto: an EU we can trust (2010), and as part of Social Platform and Spring Alliance: see www.springalliance.eu.

falls far short of this, important concessions were achieved for the fight against poverty during the EU Year for Combating poverty and social exclusion.[84]

For the first time, a specific target to reduce poverty and social exclusion by at least 20 million[85] has been set as one of the five European headline targets. The Employment Guidelines include a specific Guideline 10 on poverty and exclusion which must be reported on by all Member States in their National Reform Programmes. Within the seven "flagship initiatives" (which include important initiatives on youth and new skills) there is a specific European Platform against Poverty and Social Exclusion. The Platform, as a European framework for *social and territorial cohesion,* also has an explicit commitment to ensure more effective use of the EU Structural Funds (particularly ESF) to support social inclusion and social innovation and provide better access for smaller organisations.

A partnership principle supporting greater stakeholder involvement in the development and delivery of the NRPs was underlined in Recital 16 in the Integrated Guidelines, whilst the Flagship Platform against Poverty emphasized the key role of NGOs and people experiencing poverty. Recently in June, the EPSCO Council backed the SPC's proposals to reinforce the Social Open Method of Coordination, including support for greater stakeholder involvement at the national and EU level.

However, already major doubts have arisen over the real impact of these promising instruments and measures and processes for the fight against poverty and the degree of commitment to real stakeholder engagement.

The core Europe 2020 policy driver is the new Economic Semester. This is the EU macro-economic and financial coordination mechanism which ensures macro-economic surveillance for the aims of stability and growth and the Europe 2020 objectives. This coordination cycle for Europe 2020 is launched each year in January with the Annual Growth Survey and is delivered at the national level by Stability and Growth Programmes, plus National Reform Programmes (NRPs), which bring together macro-economic and employment/social policies to deliver on the targets, focussed on bottlenecks to growth.

The European Commission recognised that: "There can be no sustainable growth unless its benefits accrue to all segments of society. Yet inequality has been growing across Europe in the past decade, with more and more people experiencing poverty and social exclusion." [86]

Despite this, Europe 2020 seems increasingly narrowed to an instrument of Economic Governance. The Euro Plus Pact, soon to be backed by the "six pack'' legislative package on economic governance (presented by the Commission in October 2010), will make obligatory debt and deficit ceilings as well as other key measures.[87] These priorities appear to override any focus or commitment to the broader objectives including inclusive growth and the poverty target. They are viewed as secondary concerns, which will have to wait to get 'trickle-down' benefits from restoring the Euro, Stability and Growth – even when ten years of boom and the same EU medicine of Growth and Jobs didn't manage to achieve this. More worryingly, the deficit-reduction measures and economic governance proposals risk increasing poverty and inequality levels in most countries. In this overarching context, it is difficult to see how the mechanisms of the European Platform against Poverty and the Social OMC will be able to make progress as champions of the social objectives.

[84] See www.endpoverty.eu.
[85] According to 3 indicators: at risk of poverty, severe material deprivation and low work intensity.
[86] Ibid. p9.
[87] European Commission. 2011b. *Commission/Council economic governance proposals: http://ec.europa.eu/europe2020/priorities/economic-governance/index_en.htm* [Online]. [Accessed 12/9/11 2011].

5.3. Key role of EU Budget and Structural Funds

EU funds and particularly Structural Funds have a key role to play in supporting poverty reduction in the crisis recovery and beyond. EAPN welcomes the commitment to use the Structural Funds to deliver on the social targets and especially the poverty reduction target backed by commitments in the European Platform against Poverty aiming at ensuring a greater access to ESF for small NGOs through an easier access to global grants ("tailor-made grant schemes").

Nevertheless, despite these positive references, the implementation tends to undermine this social orientation. EAPN Members almost unanimously pointed out that Structural Funds fall far short of their potential to promote social inclusion.

The European Commission's proposal for a Multiannual Financial Framework for the period 2014-2020[88] gives a very mixed feeling about the promotion of social inclusion within Cohesion Policy.

A positive development is that the ESF will get at least 25% of the Structural Funds' financial envelope, an increase of 8% with a part dedicated to social inclusion and the fight against poverty and the extension of its scope to cover the cost of equipment linked to investments in social and human capital. But, this progress is jeopardized by 3 major steps backwards:

1. The amount of money allocated to Cohesion Policy reflects a decrease of up to 5,3% compared to the previous period (336 billion against €354,8 billion for 2007-2013).
2. There is no real effort made to mainstream social considerations within other financial instruments. ESF is viewed as the EU Fund dedicated to achieving the poverty reduction target. But, the other EU Funds (ERDF for Cohesion Policy and EAFRD for CAP) will be very marginally mobilized in that regard.
3. Alongside growing pressure from the member states to set up macro-economic conditionality, this can undermine the use of Structural Funds to deliver on the poverty reduction target. A joint letter on 17 August 2011, from Nicolas Sarkozy, President of the French Republic, and Angela Merkel, Chancellor of Germany, to Herman Van Rompuy, President of the European Council stated "*In the future, payments from Structural and Cohesion funds should be suspended in euro area countries not complying with recommendations under the excessive deficit procedure.*"[89]

Structural Funds are currently difficult for NGOs to access. This is not likely to change fundamentally despite the promising proposals outlined in the European Platform against Poverty aiming at facilitating access to Structural Funds for small NGOs (i.e. tailor-made grant schemes). Potentially valuable developments in the social economy and social innovation too are likely to be focused on fewer, bigger projects, with an emphasis on public-private partnerships. Social Innovation as it is framed may undercut what works and may be used to promote privatisation.

5.4. Looking to the Future

EAPN has attempted to embrace Europe 2020 from the outset by supporting its members to engage at national level in the National Reform Programmes, and at EU level in the European Platform against Poverty and other flagships and priorities. Members have completed a survey of National Reform Programmes in their own countries, according to an agreed scoreboard – to assess how far the new programmes, (macro-economic, employment and poverty/social inclusion, governance and Structural Funds) are contributing to achieve the poverty target, or whether they are creating risks of generating more poverty. The Report will be published in early October (see www.eapn.eu)

[88] See EC Communication (2011), A budget for Europe 2010, Part I and II, 29.06.2011.
[89] Merkel, A. & Sarkozy, N. 2011. *Letter to President van Rompuy*.

One message, however, is very clear – the new strategy is at risk of jeopardising the good will and expectations built at the launch of Europe 2020, during the EU year for combating poverty and social exclusion. The failure to set adequate national targets on poverty, effective anti-poverty policies, meaningfully engage national stakeholders or ensure adequate funding is a major blow to the trust of anti-poverty organisations in the commitment to a more social Europe. More worryingly, the blinkered dominance of the neo-liberal dogma on macro-economic policy and economic governance, without a commitment to a balance with social and green objectives, is more likely to generate more poverty and social exclusion, than less.

5.5. Summary

1. Despite commitments to make progress on poverty eradication, and boom years of growth and employment, the Lisbon strategy made little impact on poverty, even *before* the crisis.
2. The Social OMC has proved itself a vital instrument to build consensus on effective strategies to combat poverty, but failed because of lack of political backing and commitment to build ownership though effective stakeholder involvement at national, regional and local level.
3. The Europe 2020 poverty target, indicator and EU Platform Against Poverty, promising active stakeholder engagement seemed a step forward in commitment - to combat poverty you must know what you are aiming at and whether you are getting there. But the delivery is a hotchpotch and shameful..
4. The right targets and policies need to be backed by funding. Increased Structural Funds budget for social inclusion is welcomed, but fears are strong over implementation. Threats to penalize poorest regions because of deficits is self defeating and unacceptable.
5. 2020 vision? It's blinkered. Governments and the European Commission still fail to see the connection between injustice, poverty and economic failure. They should look around the world.

6. Building a social and sustainable solution – EAPN's proposals

Roosevelt's New Deal after 1935 had three dimensions: *relief* (of the unemployed); *recovery* (of the economy) and r*eform* (of financial regulation). Not only was infrastructure built but legislation was introduced to support labour unions, rebalancing the power of employers and workers. The EU needs a new deal for a social and sustainable recovery.

6.1. Putting the financial economy at the service of people

- ***Ending the Eurozone crisis***

Investors are pulling their money out of Europe's banks. They have neither confidence in the banks nor in Europe's political leadership.

Immediate short term, the Eurozone crisis has to be addressed and political leadership shown in accepting the need for greater European integration. On balance, EAPN networks believe risks of poverty in Europe are less for retaining the euro than for disorderly break-up. But the task of closer fiscal integration must not be at the expense of the poor and those on low income (see below).

European countries in severe difficulties need a debt write-down. They cannot pay punitive interest rates and suffer recession for many years without destroying their economies and societies and embittering their populations.

EAPN networks want the ECB under democratic control, and support the proposals for Eurobonds, where solidarity is embedded into the EU governance model.

- ***Managing competitive and trade imbalances and currency risks***

To prevent recurrence of severe Eurozone imbalances in the single currency, there has to be managed flexibility. Globally, flexibility is also required to reduce exchange rate volatility and currency manipulation without transparency. Otherwise there is increasing risk of economic warfare as in the 1930s Depression.

Globally, a new dynamic version of the Bretton-Woods managed exchange rates system has been discussed widely. But EAPN would not support it without complete reform of the neo-liberal principles which underpin the actions of the IMF, Bank for International Settlements, World Bank and other institutions of the former Bretton-Woods system. A stable system would require also much stronger global regulation of financial markets and trans-national corporations.

- ***Banking reform and regulation***

Warren Buffet, the world's third richest man (and owner of a financial firm) referred to complex derivatives as "*instruments of financial mass destruction"* and refused to invest in them. Financial regulation must end "casino banking", ensure banks are not too big to fail and retail depositors are fully protected from investment banking by ring-fencing including separate management.

The activities of ratings agencies and financial firms will have to be more transparent and better regulated. As a first step, EAPN welcomes the Commission's initiatives in this area, in setting up the three new financial regulation agencies, but they must have stronger powers and go much further in taking on the vested interests of the financial firms.

6.2. Preventing a slide into “double dip” recession or long stagnation period

EAPN are not “deficit deniers”. But nor are we sado-masochists. Balanced budgets are not always necessary and are sometimes very undesirable. There is a big difference also between government debt and over-indebtedness. Both deficit and debt have their place in managing economies and smoothing development over time. When a household cuts, its incoming resources don’t change. When a government cuts, its tax and other revenues go down. If we all cut together, we will go into negative growth and budget positions and debt will worsen.

- ***Slow deficit reduction, immediate stimulus***

With as much as a 7.5% loss in output in the contraction of 2008 which will not be fully regained for several years, a Keynesian would have reached in her toolbox for fiscal policy and spent money. Many governments did spend money - by handing a blank cheque to bail out the banks. The USA bailed out banks by just under $10 trillion which could have been better spent on almost anything else as the banks have not even changed their behaviour. Let’s not get it wrong again.

Money can be raised by borrowing at historically low interest rates and therefore cheap. Those governments in least deficit will have to take the spending lead, domestically and in terms of transfers between countries. The reward is saving European integration and the respect of all.

For immediate impact governments should increase spending power of the poor (who will spend nearly 100% and quickly). It also has positive side-effects on government budgets - reduced social security spending and higher VAT receipts.

Overall, employment rates have dropped to around 64% in Europe. The Social Protection Committee referred to already very high rates of unemployment for young people, the low skilled, non-EU migrants and also in depressed regions. It is punitive and immoral to cut benefits and pensions that are almost all below the poverty threshold in all member states and it is a drag on recovery. Income maintenance cuts should be reversed. An immediate commitment to increase minimum incomes, with a review at the mid-term of Europe 2020, would be an interesting social experiment as cutting minimum incomes has not increased jobs.

At EU level a commitment to an EU framework to guarantee an adequate minimum income at least above the at-risk-of poverty threshold (60% of median disposable household income), could be an important instrument to support this end.[90]

Social budgets are counter-cyclical and have proved their worth in initial recovery from the 2008-2009 recession, especially in those countries with the most progressive tax system and the most developed social sectors. Protecting social budgets and filling the large gaps in safety nets in some member states which were noted by the Social Protection Committee[91] (2011) is an early step to be taken. A great advantage is the productive role of social protection and minimum income in avoiding long-term social costs such as socially caused ill-health.

6.3. Investing in a better future

- ***Challenging pay inequality and investing in quality jobs***

Wage inequality must be reduced to control the rapacious theft of the financial benefits of growth that occurred through rising inequality in many countries.

[90] EAPN 2010b. *Working document on a Framework Directive on Minimum Income,* Brussels.
[91] Social Protection Committee 2011. *SPC assessment of the social dimension of the Europe 2020 strategy SPC 2011/02/2/FINAL,* Brussels, Council of the European Union. P 15.

The apparently “meritocratic” division of jobs into “high” and “low” skills and therefore pay is a convention. Financial managers get very high pay - and they have destabilized the world economy – how skilled are they at their job? Many low-paid personal service jobs especially in care and customer service require very high *social and soft skills,* which employers complain that many well qualified graduates do not have – for example, teamwork, negotiation, foresight, emotional intelligence, empathy etc. But these soft skills are not monetised in many “low skilled” jobs and not paid for – often because they are assumed to be “natural” to women and people with a caring vocation, who are over-represented in such jobs.

Europe 2020 is disappointingly weak on commitments to combat discrimination with no strong actions. A reinvigorated Europe 2020 would take this seriously. Those countries with better records on law and achievement need to do more to spread good practice and demonstrate the efficient outcomes.

Job creation can be kick-started by investment in green and white jobs (green sector, social and health services, social economy). But to close the inequality gap and act as an effective tool to reduce poverty these must be quality jobs, with commitments to raising wage levels, guaranteeing the duration of contracts, enforcing employment rights, access to training, non-discrimination etc.

EAPN supports the ETUC demand for minimum wages at 60% of the average wage and job enrichment as two important routes to quality in work which can help incentivise employers to support knowledge-intensification in jobs.

Job creation also must benefit the most excluded. New commitments are needed to ensuring access, for those who are furthest from the labour market, through providing personalised pathways, holistic approaches and positive activation as part of an integrated active inclusion approach.

- ***A pro-development “Social Investment Pact”***

Rather than “pro-growth” in a simplistic sense, EAPN is “pro-development.” To stimulate the European economies, EAPN supports a “social investment pact.”

The European Social Observatory (OSE) noted that all the employment gains in the Lisbon period were lost in the “Great Recession”. Some of these jobs are not coming back and others will be different jobs than before. Demand for high skill jobs will continue to increase, for example in IT and health care, but there will be risks of precarious service employment and unemployment. OSE noted that Nordic countries, which recovered better from the crisis, have policies that show most elements of a social investment approach to welfare. Germany and the UK and Spain show some elements, but not southern or central and eastern European countries.[92]

A major programme of social investment in education, health and social services and better incomes for the low-paid and those on minimum income can restore business and consumer confidence in the short and medium term, without wasteful consumption or wasteful donation of money to banks that are shifting money outside of Europe. Acting swiftly to prevent and reduce poverty and raise health, well-being and knowledge will reduce future social and economic costs.

In the globalized world, the EU should implement its commitments to aid (0.7% GDP) and aim to achieve the Millennium Development Goals,[93] investing in combating poverty and promoting

[92] Vandenbroucke, F., Hemerjick, A. & Palier, B. 2011. The EU needs a social investment pact. *Ose No. 5. May, Bruxelles*.

[93] UN. 2011. *Millennium Development Goals* [Online]. Available: http://www.un.org/millenniumgoals/bkgd.shtml [Accessed].

inclusion in poorer countries. EAPN supports the proposals on a social floor backed by ILO[94] and the promotion of a co-development approach that works in the interests of local people.

Instead of a race to the bottom, let's have a race to the top - regardless of who wins, we will all be better off, healthier, better educated and more secure. The least advantaged will have better lives and opportunities with gains in social cohesion. Such a Europe would, in fact, be the knowledge-intensified Europe that Europe 2020 aspires to be; social investment should form the core of a reinvigorated Europe 2020.

6.4. Supporting tax justice

We really don't spend efficiently. A sustainable green approach would stop wasting resources by cutting inequality and therefore its costs and would cease subsidising industrialised food production and defence procurement. We could stop wasting money on avoidable costs such as vain infrastructure projects, brand management and marketing, and pollution and its consequences. We could ensure that planning controls encourage proximity of people, services and jobs...

But sustainable public and social spending requires tax justice supplemented by government borrowing for investment in social and sustainable infrastructure and services and a slow-down of private consumption of better-off people, compensated by a faster increase in the quality of the public realm and the social economy. Below are some points from EAPN's discussions of tax justice.

- ***Progressive taxation and tax as citizen solidarity***

Consumption taxes such as VAT and "flat" taxes, where the rich pay the same proportion of income as the poor, are regressive on incomes and destroy the re-distributory principle and the idea of social justice.

In the EU, central and eastern European countries are leading the shift away from progressive income tax to other forms of taxation, often driven by bail-out pressures of the IMF and the European Commission. In the EAPN Social Inclusion Working Group meeting in Madrid in 2011, our Hungarian network said "*The Hungarian government believes it is more just to tax consumption – a new concept of justice".* One reason given was tax avoidance especially by the rich and including undeclared work by wealthy professionals: "*lawyers and doctors will not issue receipts – tax is heavily voluntary*."

Our Polish network said "In Poland, all companies exchange invoices. Also, there is legal work for minimum wage and other work is under the table – both private and public companies do this and there is risk of poverty in old age. There are no cuts in benefits but fewer and fewer people qualify."

Our Slovak network said "In Slovakia workers go abroad; unemployment has fallen due to emigration; but tax and social contributions don't come back to Slovakia."

46 million Americans do not pay tax and there is increasing pressure in some European countries to take low paid workers altogether out of the tax net.

But if taxation is increasingly seen as a "voluntary" activity, more people will attempt to avoid it or evade it. Also, if the burden of tax falls more heavily on middle class employees while they can access fewer and worse public services, solidarity with poorer people will decline further. Some correspondents would like to see all benefits and pensions raised in amount and become taxable, as

[94] ILO. 2011. *Social protection floor* [Online]. Geneva. Available: http://www.ilo.org/gimi/gess/ShowTheme.do?tid=1321 [Accessed].

some already are, so that tax becomes a *citizen solidarity* principle and all citizens feel they have a stake and a say in quality and well targeted public services.

Overall, to protect the disadvantaged and to ensure resources for public policy, EAPN networks wanted a different balance between cuts and tax rises in dealing with the deficit and debt. They proposed more and fairer (progressive) taxation; wealth tax and land value taxes and more focus on dealing with tax evasion and tax avoidance. They support a Tobin- type tax on international financial transactions, closure of tax loopholes and tax havens and relatively higher taxes on corporates and the super wealthy compared to basic income taxes. Some of these points are discussed below.

- ***Fair taxation of the rich and big business***

Neoliberals prefer tax cuts for "high net worth individuals" and for corporations, in order to stimulate them to entrepreneurial activity rather than hiding their money offshore, or just sitting on a cash pile waiting for a chance to buy up a competitor. The rich are apparently incentivised by giving them more of what they have a lot of already, while the poor are given less of what they have too little of already. This is ridiculous, immoral and there is no evidence that giving the rich more money encourages them to create new businesses. Most new businesses start small with owners who work long hours for little reward. Supporting local development including ensuring small businesses, social economy and local enterprises to get access to finance and be good employers would be a better use of some of the money. So would ensuring that self-employed people have access to state pensions so that risk of severe poverty is not a barrier to enterprise development.

Leona Helmsley (1983) billionaire American real estate and hotel owner is reputed to have said *"we don't pay taxes. Only the little people pay taxes."*

Warren Buffet, writing in the New York Times, August 15 2011[95] said "While the poor and middle class fight for us in Afghanistan, and while most Americans struggle to make ends meet, we mega-rich continue to get our extraordinary tax breaks...it's nice to have friends in high places". Warren Buffet pointed out that billionaires have undue political influence and are not paying their fair tax share and neither are their corporations. This deprives the electorate twice over – of the cash for voter priorities and of accountability for the money spent. He said that people like him should be taxed more, including on capital gains, which are taxed at a lower rate than income. He calculated that his annual tax rate was 17.4%, almost half the rate of his office workers.

Other wealthy people in the EU – in Germany, France, Italy, UK and Austria, for example, support higher taxation of wealth. Austrian tycoon, Hanspeter Haselsteiner regards it as an adequate price for living in a socially coherent society without wealthy people having to hide themselves in gated communities.[96] A small positive step forward is the French announcements of an additional 3% tax on incomes over 500,000 euros until the deficit comes down – it will still make the top rate of tax only 44%.

Corporate tax rates are very variable in the EU and are getting lower; Ireland's is amongst the lowest at 12.5%. Even so, many transnational corporations pay ludicrously low amounts of tax on their profits – including Google, whose company motto is "*don't be evil*". At EU level, the French government attempted to address the race to the bottom in EU corporation taxes; they should try again, both on tax rate competition and tax avoidance.

[95] Wearden, s. G. 2011. Buffet on the debt crisis: make billionaires like me pay more. *The Guardian,* 16 August**,** 25.
[96] EAPN 2010a. *Wealth explainer,* Brussels., p.30.

- ***Effective financial transactions tax***

A financial transactions tax to be introduced at EU level is now supported by the Commission, the Parliament and the Council, with detailed proposals due in the autumn. EAPN supports the campaign but is concerned that it is used for social investment in the EU and to back the commitments to support development (0.7% of GDP). In an interview with Euractiv[97] Michel Barnier, Commissioner for Internal Market said "*We believe that this tax is economically sustainable by markets as long as the rate is modest.*" The tax would be "t*echnically easy, financially productive and politically appropriate*" given the huge amount of taxpayers' money that governments invested to rescue the banking sector during the 2008 financial crisis. It should not be used as a general substitute for net contributions to the EU funding, but be used to create jobs as part of a social investment pact, as recently proposed by ETUC's new General Secretary.[98]

6.5. Getting from greener growth to sustainable development

- ***Greener growth***

Economics must be re-embedded into ecology, society and politics.[99]

Climate change driven by greenhouse gas emissions has reduced food security, as has diversion of food crop production for export including demands for bioethanol. There is rising global demand and prices for commodities as emerging economies have grown rapidly (now slowing). On top has come commodity price speculation by financial firms.

China is now the world's biggest greenhouse gas emitter (22.7% of the world total) ahead of the USA (19.73%) and the European Union (13.76%).[100] Poorer people mostly live in the most environmentally degraded areas, within Europe and outside Europe.

The green new deal[101] and the global green new deal[102] propose investment in "green-collar" jobs in carbon reduction, energy, transport and public infrastructure and investment in clean energy technologies. But although sustainable growth is an aspiration of Europe 2020, there is no real plan for green job growth. EAPN networks support project bonds for infrastructure investment for an ecological transition in Europe to socially and ecologically just jobs.

Some green policies, however, may risk increased poverty for those who cannot pay the rising costs of natural resources, or change their lifestyle when there are restrictions on their use. This is a particular danger with proposals to penalize high domestic energy consumption, where poorer households/or those with older or infirm members, living in poor housing, often have little choices or control over energy consumption.

For sustainable green growth there will have to be a fairer distribution of income and resources and government subsidised investment in domestic access for all - including poorer people - to clean, green technology.

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97 EurActiv. 2011. *EU builds case for finance tax ahead of draft proposals* [Online]. Available: http://www.euractiv.com/euro-finance/eu-builds-case-finance-tax-ahead-draft-proposals-news-506654 [Accessed].

98 ETUC 2011. *Press Release August*.

99 Löwy 2002 in Aciçi and Bünül (2011) p13).

100 Aciçi and Bünül (2011) p6.

101 reen New Deal Group 2008 *A green new deal: Joined-up policies to solve the triple crunch of the credit crisis, climate change and high oil prices. The first report of the Green New Deal Group. Available at http://www.neweconomics.org/sites/neweconomics.org/files/A_Green_New_Deal_1.pdf,* London, New Economics Foundation.

102 UNEP 2009. *Global Green New Deal: Policy brief available at http://www.unep.org/pdf/A_Global_Green_New_Deal_Policy_Brief.pdf*.

To achieve better sharing and use of resources, we will have to challenge transnational corporations' control of intellectual property rights which can extract super-profits from users and governments and protect marketing brands rather than cover research and development costs.

- ***Sustainable development***

There is a growing belief amongst environmental and social organisations that market mechanisms cannot deliver on environmental sustainability or ending poverty. They argue for a transformation of the way we live from exchange value through markets to use value.

In *"Prosperity without growth: economics for a finite planet"*, Jackson[103] stated that societies will need to delink prosperity from growth. He argued that economists' assumption that we can de-couple growth from resource use through increasing efficiency is a myth. He suggested that in future people will focus on needs not wants and prosperity will need to be redefined more in terms of family and relationships – social capital. But social capital may be as unequally distributed in people and places as wealth. If this is our future then we need to prioritise spending on social infrastructure to prevent as well as combat social exclusion.

A lot of work is still to be done on a *transformation* agenda, but there is a broad constituency in favour of the *transition* agenda around a version of the green/ social and sustainable new deal, to which EAPN can contribute ideas on strengthening the social policy dimension in a European context.

New goals require different measurement. The French Government during its Presidency (2009) launched an initiative on how to build credible alternatives to GDP as measures of progress, at EU and International level. The European Commission is taking this work forward, including investing in indicators to measure well-being, but Social NGOs are not systematically involved, nor is there a transparent consultation process put in place. To monitor progress in transition, Europe 2020 needs to move quickly forward to agree and integrate a multiple human/social and environmental development index into its thinking and policy making process.

Within any sustainable development model, cutting income poverty is a priority for poor people. Happiness is a gift but peace, security, social inclusion and sustainability can be made.

6.6. Role of the EU and Europe 2020

Europe is at a crossroads, can Europe 2020 rise to the challenge to provide a basis for renewal?

- ***Challenging the democratic deficit***

The drive for ever more profits has led to intensification of work and loss of quality of work and work/life balance; exploitation of poorer workers and poorer countries; credit-fuelled consumption and financiers gambling with other people's money where they take the profits and we take the hit. European welfare states are being siphoned of resources to pay speculators' gambling debts. Everyone knows this is not sustainable; but we have to have confidence in and commitment to, a path from here to a better place.

But more power has shifted to unelected institutions and organisations during the sovereign debt phase of the financial crisis. The stepping up of attacks on social rights, social assistance and protection and services of general interest as the core response, make it increasingly clear that social

[103] Jackson, T. 2009. *Prosperity without growth? ,* London, Sustainable Development Commission.

standards are a political choice based on values of universality, equity and solidarity that are contested by powerful interests and we are excluded from challenging them.

Europe 2020, appeared to offer the potential for a step towards a more social and sustainable growth model, but instead it has merely reinforced the neo-liberal, market-first agenda relegating social rights to scrabble for trickle-down effects, a very long way down the line. Where the EU called for ownership, accountability and visibility, we have lack of transparency, and top-down rules imposed by EU economic and finance ministries and ECOFIN. Civil society and other actors have been side-lined and kept outside the debate – at EU and national level.

There are signs of new political movements and street protests that are unprepared to let this continue, as with the 15M movement in Spain, now spreading across the EU, the 'can't pay, won't pay' protests and mobilisation in Greece and earlier successful protests in Iceland, as well as an increased in traditionally organized demonstrations particularly by the trade union movement e.g. the ETUC march in Brussels September 2010.[104] In March 2011 up to a half a million people marched against the cuts in the UK. In August 2011 there have been serious riots in English cities. On Europe's borders, 7% of the total Israeli population have marched and camped for social justice and the Arab spring continues.

- ***Strengthening Europe 2020***

In the short-term, Europe 2020 must show it is serious about its commitment to eradicating poverty and social exclusion:

The poverty target needs strengthening, the indicators must be clarified and held in common and follow up procedures must be robust. An agreed % figure for the target, for all member states, as with the other indicators, is an obvious next step. The employment and training targets need to be reached and implemented.

Targets on their own are not enough, and more effective social and economic policies, of the kind described in this paper, must be put in place.

An increased proportion of Structural Funds should be fully employed in the realization of the goal of social inclusion, particularly through integrated active inclusion approaches, ensuring NGOs are able to access financing and engage as partners in the management of operational programmes.

For real progress to be made, the social objectives, backed by the horizontal social clause, must be mainstreamed into the overarching macro-economic strategy. A shift of this nature requires a change in mind-set, approach and a challenge to the current neo-liberal economic mantra. This means actively promoting an open debate on alternatives.

At an institutional level, the roles of DG Employment (in the European Commission) and the EPSCO within the Council of Ministers need to be reinforced, to provide an equal balance to economic and finance ministers and departments, to enable them to realize their role as a guardian of social rights and the Treaty commitments.

A new, revitalised role for the Social OMC, based on the 2006 Common Objectives is also crucial, ensuring a return to a broader commitment to multidimensional approaches to ensure access to rights, resources and services for all and reinforcing the crucial role of social protection systems as a key tool to prevent, as well as alleviate, poverty. The Flagship Platform could offer a key opportunity to progress key OMC priorities: Recommendation on Child Poverty, moving forward on a strategy to combat homelessness, implementing active inclusion, but its effectiveness will depend on the degree of ownership and involvement of public authorities and stakeholders.

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[104] See http://www.etuc.org/a/7590.

Accountability and ownership in Europe 2020 can only be embedded through a well-resourced stakeholder and multi-level governance engagement in the NRP and Europe 2020 process. The European Platform offers a unique opportunity to support the development of national poverty platforms, linked to regional and local levels, which can engage directly people experiencing poverty and their NGOs, as well as other social actors in developing the NRP's and national strategies for social inclusion and social protection. The Commission's proposals to develop guidelines for stakeholder involvement should be co-developed with NGOs and other key stakeholders, including agreeing a road map for implementation and integration in the EU2020 monitoring and assessment procedures, showing how links are made between national, regional and local engagement.

- ***Reinvigorating the European social model***

For the longer term, Europe needs to consider where its future lies and in who's interest.

It can redouble its neoliberal efforts and face the longer term consequences for stability and growth of increasing inequality and poverty as well as pressure on, and disputes about, common and degraded natural resources. Or Europeans can seize this moment to make a real effort for a fair and sustainable Europe that delivers benefits to the population, backing fundamental rights, investing in healthy welfare states linked to an active inclusion approach that ensures adequate income, access to quality services and support into decent jobs. Europeans can invest in new jobs providing new green and social services responding to local and community needs.

The new commitments to economic governance should be matched with commitments to social and green governance in a transparent, open dialogue, engaging people directly in the decisions over their lives, as well as supporting their involvement in participative budgeting at different government levels.

It will cost money and require solidarity for the transfers between rich and poor people, communities and regions and between the north and the south and possibly the common underwriting of our financial position. But it won't cost lives and it won't cost the planet. An ambitious effort for a fairer, greener future could re-engage hope and expectations, especially for young people – necessary to get on the road to recovery, which will benefit all.

In Europe, there is a blossoming of alternative responses and movements. A strategic approach capable of bringing all together around a common minimum agenda, red-lining core priorities, and building a plan of action for a transition towards a more social and sustainable model would be a vital next step. EAPN wants to ensure that any manifesto and action plan is effective in tackling inequality and poverty in Europe and that the role of the European institutions in these matters is fully addressed. To include new social movements we need to look also at new ways of working and organizing and EAPN would welcome proposals.

A social "Davos", building a more effective agenda moving on from the World and European Social Forums' could be crucial to mobilize and challenge neoliberal models of society.

- ***Confirming national frameworks of rights and the EU role***

The neoliberal ambition is a small state and low expectations of it. Indeed Eurobarometer[105] shows respondents across the EU trust NGOs more than government or profit-making businesses when it comes to combating poverty. But while individuals, groups and communities must take their own responsibilities, EAPN networks are clear that civil society intervention must come in *a framework of*

[105] Eurostat 2010a. *Special Eurobarometer 355. European. Commission. Poverty and Social Exclusion. Report,* Luxembourg.

universality and equality that only the state can deliver. States cannot outsource social responsibility. As Hungary has found, relying on philanthro-capitalists to fund social projects is not sustainable; they move on. As the UK has found, if 31,000 frail elderly people are at risk of losing their care home places with the collapse of the biggest private provider, the public expects the state to step in and act on behalf of the people and solve the systemic problem.[106] A strong role for the state however must be matched by more effective local democratic and participative practices, and in the context of globalisation more effective inter-state cooperation to guarantee social standards.

The state is our collective solution to organising societies of strangers and the welfare state is our collective promise of social security and social justice. The state – it's us. But the crisis has thoroughly exposed the need for greater democratic and participatory engagement with our governments. At EU level, the arguments of subsidiarity in social policy are being used to block any kind of effective EU framework for enforcing social rights and standards, at the same time as EU economic governance and other initiatives (Services Directive), increasingly interfere in member states' social policy domains. This situation cannot go on. The essential role of the state must be recognized and reaffirmed. Economic governance must be matched with social governance.

6.7. Summary

Neoliberalism is broken. Elected governments must take the lead in transition to a better society. The EU should get ready to change the Treaties to facilitate transition, particularly in embedding social as well as economic governance, and a framework for EU social standards.

A summary of EAPN proposals for action at European level is below.

1. **Open and inclusive governance:** More democratic and participative governance is right in itself and crucial to managing change. This means special efforts to include the poor and less advantaged in decision-making. Europe 2020 could provide a model process in the NRPs and national strategies for social protection and social inclusion and by supporting national Platforms against Poverty and Social Exclusion linked to regional and local levels.
2. **Save the euro**: The euro should be saved, but not by sacrificing solidarity between regions and the wealthy and the poor. Eurobonds and flexible deficit and currency management are vital tools, as part of a support for the Eurozone in a much expanded financial stability facility. Increased EU economic governance must be matched by social governance.
3. **Put full quality employment and social protection at the heart of Europe:** The Treaties should be improved so that macroeconomic demand management for full employment and investment in social protection are objectives on the same footing as control of price inflation. There should be no closer fiscal integration or economic governance in the EU without this commitment.
4. **Back the role of the state in delivering universal and equitable welfare and the EU role to guarantee standards:** A commitment at EU level for a framework to guarantee universal, equitable and responsive Services or General Interest is still necessary. A halt should be called to the transfer of state assets to for-profit corporations in sectors where competition is neither effective nor feasible, where profit-seeking conflicts with social goals and social standards and where profits would be repatriated out of Europe losing the European people their tax-funded investment.
5. **Create more, better and more useful jobs: a social investment pact:** To secure a future worth having and a transition to "green" and white" jobs: an EU social investment pact with a core focus on spending on education, health, social services, social protection and minimum income and a green new deal for physical infrastructure focused on affordable housing and public transport and utilities that will promote sustainable resource use

[106] Clark, T. 2011. Southern Cross exposes flaws in the choice agenda. *The Guardian,* August 3, 33.

6. **Share our wealth and knowledge:** Rapid achievement of 0.7% of European GDP as investment in poorer countries towards the millennium development goals and back commitment to extend the “social floor”. Promote the benefits of our social model.
7. **Distribute our wealth fairly**: To secure fair distribution of EU incomes, an EU minimum wage at least 60% of average wages in a country and minimum social standards throughout Europe, along the lines of ETUC proposals and an adequate minimum income at least at the poverty threshold would be a significant step foreward.
8. **Get our resources fairly**: Tax should be promoted as citizen solidarity and paid fairly by all, including corporates and the super-wealthy and the poor. This will require progressive income tax, wealth tax and financial transactions tax and closing down tax havens, tax loopholes and tax competition especially on income and corporation tax. It will also require better incomes for the poor.
9. **Put people first**: Integrated active inclusion approaches (ensuring adequate income and access to services and quality jobs) for all ages in all areas. This should include investment in NGOs, community groups and social economy recognising their value added in trust, proximity, innovation and inclusion but not as a substitute to mainstream public services.
10. **Support poorer regions and localities**: More active and social-friendly regional policy to ensure balanced, inclusive growth in useful industries and services and an easier access to Structural Funds for small NGOs. ESF to focus on combating poverty through active inclusion, innovative social services, jobs projects and local development.
11. **Provide a level playing field for enterprise and support for small business**: Regulation that provides a framework for fairness and transparency is not “red tape”; it is essential to do business well. More and better access to finance and support for small business development in a context of supporting quality sustainable jobs and innovation, better access for excluded groups.
12. **Measure our progress**: Go beyond GDP and measure progress by means of the poverty target, and key common indicators from the Social OMC (including inequality and commitment to sufficient and effective social protection spending) developed into indices of social and sustainable development and well-being

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