

# LIFEBOAT OR LIFE SENTENCE?

*The Troika and emergency assistance programmes and  
their impact on poverty and social exclusion*



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with the *EAPN Task Force on the Impact of 'Troika' (IMF, EC, ECB/WB)*  
*Arrangements on Poverty and Social Exclusion*

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## ***Appendices***

*The report appendices are available on [www.eapn.eu](http://www.eapn.eu).*

*They contain detailed information developed in preparation of the final report:*

Appendix 1 - Methodology for producing this report.

Appendix 2 - Summary of the financial assistance (loans) available to EU Member States that is led by EU institutions, in particular the European Commission (EC) and the European Central Bank (ECB).

Appendix 3 - Summary of the key content of the original and one or more recent Memoranda of Understanding for Greece, Ireland, Portugal and Romania (Memoranda are updated regularly and supplemental Memoranda are issued).

Appendix 4 - Analysis of the economic situation in the Member States of this Task Force, with Germany for comparison, using data adapted from Eurostat including the Macroeconomic Imbalances (MIP) Scoreboard.

Appendix 5 - Country fiches prepared by the Task Force representatives.

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Cover page photo acknowledgement:

Participant at the Alter Summit demonstration in Athens, 8 June 2013, ©Amana Ferro.

## INTRODUCTION

This paper is the synthesis report of the EAPN ‘Troika Task Force’. It was drafted for EAPN’s EU Inclusion Strategies Group by Dr. Katherine Duffy, drawing on country fiches and extensive input provided by the Task Force members and the EAPN Secretariat. The participating networks in our Task Force were Greece, Ireland, Portugal, Romania, Spain, and the UK, involving one person from each EAPN national network in these countries.

The brief from EAPN’s EU Inclusion Strategies’ Group (EU ISG) was quite broad, requesting us to further a common understanding in EAPN of the potential impact on poverty of the situation in the so-called “Troika” Member States. These countries receive financial assistance through EU institutions and the IMF to support their governments’ budgets, with support tied to three-year programmes of government spending cuts and changed priorities. Our Task Force participants included four such countries: Greece, Ireland, Portugal and Romania; one country, Spain, receiving such assistance specifically to recapitalise its banks, and one country, UK, not receiving such assistance, but which also introduced a three-year “austerity” programme of budget cuts and changed priorities.

This overview report is a first attempt to answer at least some of the following questions (even if only implicitly):

- What is the role and impact of the assistance programmes? Is there a common agenda in the Memoranda of Understanding? If so, what is it?
- Why did the “bail-out” states need it – what were the types of unpayable debt, and why? Is “bail-out” an accurate description of what is actually happening?
- What is the likely impact, on states’ capacity to combat poverty, of economic adjustment programmes?
- To what extent have the Member States in such programmes been able to influence the conditions in their Memoranda of Understanding?
- Are there indications that Member State governments or Troika institutions are using the emergency assistance process to further their own agendas?
- Internally, are we all “in it together”, or are some groups suffering more from the crisis and the response to it?

We have made an attempt also to draw from this analysis some broader conclusions about the context of EU policy making, its potential impact on risks of poverty:

- What is common and what different in the austerity responses of the states, and why?
- What difference to policy options does it make being a member of the Eurozone?
- What is the role of the European Commission and economic governance on the policy frame in which Member States may act?
- What are the likely outcomes for poverty in 2020?

In attempting to provide preliminary answers to these questions, we wanted the Task Force to help inform EAPN members and contribute to our reaching a common understanding of the crisis and our priorities for people experiencing poverty and disadvantage.

It should be noted that what we say is in many senses provisional. Not least the situation in the countries studied, and in other Member States, and the EU institutions, continues to evolve. Cuts are expected to continue for up to a decade rather than the original three years; deficit and debts will take longer to come down to target levels and poverty, inequality and ill-health continue to rise. There has been some Troika recognition of the problems facing countries as a result of the measures and the countries have been given an easing of conditions regarding debt repayment and/or timelines, but so far there is no let-up in the overarching neoliberal framework of policy.

## KEY MESSAGES

### 1. The MoUs are an extreme example of an overall unsustainable development model!

These emergency “bail-outs” are actually loans to governments, made conditional on severe budget cuts, programmes of privatisation, and weakening of labour rights and external surveillance. While the MoUs preach extreme austerity in countries deemed at particular risk, they seem to be a laboratory model of attempted social transformation in the new European architecture, through instruments such as the Euro Plus Pact, the Two- and Six-Pack, and the Fiscal Compact.

### 2. No real solution to real problems!

The real causes of recession in these countries, such as deeply-rooted economic problems and imbalances, evident even before the financial crash, remain not addressed in this “one-size fits all” approach. Moreover, recent evidence shows that excessive austerity and eroding the social protection floor is damaging not only to the people, but also for the economy, and it only perpetuates the recession.

### 3. Regressive measures hit the most vulnerable!

The policy measures are mostly regressive on low incomes, and insensitive to the needs of the vulnerable and voiceless. While austerity is damaging to the whole society, the way in which it is focussed has impacted most on those already experiencing or at risk of hardship, with long-term consequences for the capacity to combat poverty and social exclusion.

### 4. National Governments have a key role to play!

Emergency assistance programmes are driving an explicit market-led agenda, which aims to reduce the welfare state through cuts and deregulation. The room for manoeuvre for Member States under such arrangements is limited, but the ideological colour of Governments matter, with some using the opportunity of the Troika to push further on an already agreed agenda.

### 5. External interference undermines subsidiarity and the Treaty of the European Union!

The Memorandums of Understanding or similar agreements infringe the very principles on which the European Union was founded, and endanger democracy and the European Social Model. This goes beyond not respecting core EU values to disrespecting legal provisions enshrined in the Treaty, such as, for instance, Article 9 TFEU.

### 6. The European Commission is defaulting on its obligations!

There is a clear lack of policy coherence between hard law commitments undertaken by the European Commission, in the framework of the Treaty, but also soft law engagements, such as those in the framework of Europe 2020 – to reduce the number of people experiencing poverty and social exclusion by at least 20 million by 2020. Instead of being the guarding of the European Social Model and the Treaties, the European Commission, together with key Member States and private market actors, seem to be driving excessive liberalisation instead.

### 7. Lack of democracy breeds lack of faith in national and European institutions!

The lack transparency and broad stakeholder involvement in the Memoranda processes is destroying trust in the European project, as well as in national governments, and in the overall ability of politics and democracy to solve the problems facing people in their lives. The model is polarising populations, and there are emerging new forms of resistance in some countries.



# 1. SETTING THE CONTEXT

This Chapter introduces the Troika mission and suggests that there are differing roles and, perhaps, some differing priorities, in the three Troika institutions. Economic Adjustment Programmes (EAPs) mean offering loans in return for the macroeconomic conditionality, and the agreement is formalised in the Memoranda of Understanding (MoUs). Our choice of countries for this report also enables us to outline the additional specific impact on national policy options of membership of the Fiscal Compact and of the Eurozone, as Romania is not part of the latter.

However, in each of the six countries, the broad strategic approach conforms to the neoliberal economic agenda, resulting in broadly similar strategies and outcomes, albeit with differences in scale, depth and national autonomy over the process.

The Chapter concludes with some comments on the likely impact of the MoUs on decreasing opportunities for European economic cohesion.

## What is the Troika and how does it operate?

The “Troika” refers to the European Commission (EC), European Central Bank (ECB) and International Monetary Fund (IMF), which provide emergency financial assistance to European Union states locked out of borrowing on international markets. The loans are provided at below market rates, disbursed in tranches over three years. Disbursement is subject to strong macroeconomic and “structural” conditionality through closely monitored programmes agreed in binding Memoranda of Understanding with recipient governments.

Greece, Ireland and Portugal are the three Eurozone (currency union) states with MoUs agreeing macroeconomic conditions, because the governments are in receipt of three-year programmes of emergency assistance from the “Troika” to finance their government debt. Romania equally has a MoU agreeing macroeconomic conditions in the same way as Greece, Ireland and Portugal, however the ECB is not directly involved as a lender, as Romania is outside the Eurozone. Romania’s loans are for balance of payments assistance (BOP), also given to Hungary and Latvia, who are also not yet part of the Eurozone.

The fifth study country in our report, Spain, is one of the now seventeen Eurozone Member States. It does not have an MoU, because it has not sought emergency financial assistance to support its government finances. But it has received Troika finance for recapitalisation of its banks, and there is some macroeconomic conditionality attached to the bank support. The government had to get approved by the European Commission a National Action Plan that transposes the Fiscal Compact into domestic law (the Organic Law on Budget Sustainability and Financial Sustainability of the Public Administration). The Plan covers the same dimensions as the economic adjustment programmes in the Troika countries with MoUs. Failure to adhere to the approved plan might result in the withdrawal of the financial support.

The sixth study country in our report, the UK, is not in receipt of Troika financial assistance. It is not in the Eurozone and it is also one of only two Member States out of the then twenty-seven that has not signed up to the Fiscal Compact. Therefore, its domestic policy is the least constrained by European governance. But it has high public debt, and severe balance of payments imbalance, and the UK government took this opportunity to undertake a domestic three-year fiscal squeeze, expressed in its Comprehensive Spending Review of 2010.

The focus of this report is especially on the impact of the economic assistance programmes on poverty and social exclusion, with particular reference to the “austerity” programmes in the four states with MoUs: Greece, Ireland, Portugal, and Romania. Some comparative reference to Spain and the UK helps to clarify to what extent Troika intervention is part of a broader ideological agenda which underpins current EU policy, including the Fiscal Compact, economic governance for members of the Eurozone single currency area, and national “austerity” programmes. These latter have been introduced widely

since 2010, following the financial crash of 2008-9, and the public debt and deficit increases, which resulted from this recession and the expense of internationally coordinated reflation of 2010.

### *How emergency assistance loans work and the strings attached*

The “Troika” provide emergency assistance *loans* at the request of Eurozone Member States that are locked out of financial market re-financing, due to their debt and deficit situation. The loans provide temporary liquidity to the sovereign states and ensure external creditors are paid. The three-year economic assistance programmes (EAPs) and the timetable to repay the loans cut the resources available for domestic use, and therefore require severe budget cuts.

Loans are *conditional* on accepting the EAPs agreed with the national governments in the memoranda of Understanding (MoUs). These MoUs are updated quarterly, and progress reports produced. The programmes require fiscal adjustment focused on financial reform, budget cuts, consumption taxes and user charges; structural adjustment of product and labour markets focused on privatisation, liberalisation and deregulation, plus in some countries measures to improve transparency, regulatory efficiency, speed of response and surveillance.

Appendix 2 summarises the types of financial assistance available to Member States, and describes the size and duration of the initial packages provided to Greece, Ireland, Portugal, Romania, and Spain. Appendix 3 summarises the main content of “macroeconomic conditionality” attached to the loans and detailed in the initial Memoranda.

There is surveillance of implementation, which includes detailed reporting, and often task forces from creditor countries inside the Ministries of programme states. As Romania’s most recent MoU makes clear, the lenders also reserve the right to be informed about any policies not covered by the MoU, but which might affect the programme outcomes.

Because of a total lack of public transparency, it is almost impossible for citizens to know or to influence the real balance of power between Member States and the Troika and amongst the institutions themselves.

### *Country-specific variation in Memoranda*

The core of the programmes is to repay creditors and cut public deficits to limit the future need for cross-national financial support.

There are some differences in the content of Memoranda by country, that reflect the specific circumstances of the country, nature of its indebtedness, and assessment of its governance and the extent of implementation of EU Directives. For example, while Greece had public debt problems prior to the financial crisis, which needed to be addressed, private debt was relatively low. Conversely, private debt was a much bigger issue in Ireland (and Spain, which, like Ireland, required recapitalisation of its banks), until the Irish government agreed to pick up the whole cost of bank bail-out, thus transferring the whole burden to Irish citizens. (Iceland, not in the EU, chose not to do this). Implementation of competition laws was considered by the Troika to require more effort in Greece and Portugal than in Ireland. Romania was considered to be most in need of a more comprehensive minimum social safety net, to protect the very poorest while state spending was cut.

There is some evidence of Member States’ priorities influencing the detailed content, but not the broad thrust, of the Memoranda: States rejecting a Troika proposal have to suggest an “equally good” measure. Examples which were positive for low and moderate income households are reversal of minimum wage reductions (they were frozen instead) in Ireland, and preventing certain changes to pensions in Portugal. But there is also some suggestion in Greece of a government preference for protecting military spending above welfare spending – because of national defence needs in a region of instability and continuous aggression, but also because of the dislocation of National Defence Industry.

## ***The priorities of the Troika institutions***

The ECB, like its Bundesbank counterpart, has been most interested in controlling inflation and securing sound banks but has extended its role to saving the euro. Making clear the ECB priorities, in February 2012, the ECB president Mario Draghi stated that “the European Social Model is already gone”.<sup>1</sup> In July 2012, he extended the ECB remit in the financial field – to “whatever it takes” to save the Euro.<sup>2</sup>

The European Commission, backed by powerful European Council members, including the Eurozone “better spending” group, is most interested in saving the euro and preventing significant transfers from the north to the periphery, through very tough “fiscal discipline”, now reinforced by the Fiscal Compact, which reflects a neoliberal perspective on macroeconomic management. The European Commission is also using the MoUs to ensure implementation of EU single market competition – there are explicit MoU agreements and timetables to implement Directives such as the Services Directive and the Energy Package.

Despite its small financial contribution to the loans, the IMF played a significant role in promoting “structural adjustment” – mainly privatisation and increased flexibility of labour markets – as well as surveillance of implementation of the macroeconomic conditionality. But, concerned about world recession, its recent statements have been moderating on the recommended speed and extent of fiscal “consolidation”. It now accepts that it underestimated the size of the “fiscal multipliers”, especially in recession. For example, the IMF assumed that, for every euro of spending cuts, a further 70 cents would be lost due to reductions in circulating income in the emergency assistance programme economies. It is likely to be closer to €1.50 in recession, at least doubling the impact of austerity cuts and the pain suffered by the population.<sup>3</sup>

## **What are the implications of the Memoranda for Member States’ citizens?**

### ***The objectives and strategy agreed in the Memoranda of Understanding (MoUs)***

The official objectives of the EAPs are to stabilise and recapitalise financial systems, ensure fiscal consolidation (deficit and debt control), and implement growth-enhancing reforms.

The central strategy of the EAPs to meet these objectives is to cut the living standards of the populations, through spending cuts and, to a much smaller extent, tax rises, in order to cut deficits, balance budgets at a lower level and, over time, bring down government debt. The scale of cuts is enormous. To meet deficit reduction targets over the three-year EAPs, it was forecast that Greece would have to take out 12% of its GDP, Ireland 9%, Portugal 8%, and Romania 4%. In a financial version of “shock and awe” warfare, the MoUs also agree to front-load cuts and “difficult measures” (see Appendix 3). For comparison, the UK took out 6% of its GDP in its 2010 spending review, although it is not receiving emergency assistance, is not in the Eurozone, and has not signed up to the Fiscal Compact.

Lower domestic wages, consumption and public spending are assumed to provide economic space for export-led growth and jobs for future wealth. For example, the Greek country fiche, prepared by EAPN’s national network in the country, reports that consumer purchasing power fell 23% in the year 2010-2011, and unit labour costs fell 8% in the two years 2010 to 2012.

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<sup>1</sup> Blackstone, B., Karnitschnig M. and Thomson R. (2012) The Eurocrisis: Q&A: ECB President Mario Draghi, *The Wall Street Journal*, February 23, accessed at <http://blogs.wsj.com/eurocrisis/2012/02/23/qa-ecb-president-mario-draghi/>

<sup>2</sup> ECB (2012) Speech by Mario Draghi, President of the European Central Bank at the Global Investment Conference in London, Verbatim of the remarks made by Mario Draghi; July, accessed at <http://www.ecb.int/press/key/date/2012/html/sp120726.en.html>

<sup>3</sup> IAGS (2012) *Independent annual growth survey: first report iAGS 2013*, November, p19

## *Are the Memoranda programmes economically effective?*

Unit labour costs (cost of employing labour per unit of output) in the Troika countries are now close to German levels though, of course, real wages (i.e., the purchasing power of wages) are generally lower, as well as different between countries. Therefore, the aim of reducing labour costs as a route to achieving greater competitiveness is fulfilled, at the expense of workers' current standard of living – and possibly lower trajectory of living standards for a decade, due to the loss of productive capacity in recession, plus more cuts to come and the drag from debt repayments. The EAPN Greek, Irish and Portuguese fiches noted that the programmes agreed in the MoUs have already undone ten to twenty years of development and income growth.

It seems unlikely that Greek sovereign debt is fully repayable. There is belated Troika recognition of the too great a burden of the debt, and the too fast a timetable to cut the debt. In 2013, there is a creditor "haircut" of around 53% (they agree to accept repayment of a maximum of less than half their paper debt). Also, in February 2013, the Irish government got agreement from its European partners to extend bond repayments to Anglo-Irish bank creditors till 2043, saving €20b of repayments over the next ten years, even if the debt is finally repaid. The bank, taken over by the Irish state, was liquidated on July 1, 2013.

There is increasing political pressure concerning the role Anglo-Irish bankers played in persuading the Irish government to bail-out the bank fully at a projected cost of 7 billion euros, which turned out to be 30 billion euros (for a population of 4.5 million people) and led to the need for a government "bail-out" from the Troika. In the Troika's fifth review mission to Portugal, they also agreed to a timeline extension for deficit targets. These moderations in the debt to be repaid and the time-lines to repay it are intended to provide some economic space for the countries' economies to grow, and are recognition that expenditure cuts and debt repayment were sucking too much demand out of the countries, thus preventing their recovery.

The Irish and Romanian members of our Task Force concluded that their economy can grow sustainably again, partly because of their smaller size and export-orientation. But Ireland is more than ever export-dependent on a small number of North American IT firms, exports have fallen in 2013, and the country has been back in recession for nearly a year.

The longer term outlook may be less positive. The emergency assistance programmes address current debt and deficit primarily through budget cuts and supply-side improvements, and assume simplistically this will provide scope for private sector-led growth. Yet the budget cuts have hit public capital spending, including on education and health, as well as current spending and private consumption. Therefore, it is not evident how states will meet the aspiration for more balanced economies with bigger export-led industrial sectors and exportable services, especially those requiring highly skilled workers.

The Memoranda effectively limit the Member States' capacity to choose their development path, reducing and removing national levers that use public assets, activist industrial strategy or greater economic and social equality. They hardly even address the weaknesses in the banking sector.

But for all of the Troika countries (and others in our study), prospects of renewed growth and prosperity are weakened in a time when the Eurozone is in recession, and much of the world is in slow growth / recession "lock step". There is reliance on the ECB's "unlimited" government bond purchases to push liquidity (cash) into European economies; the extraordinary USA monetary expansion (which may be ended by 2014) to sustain American demand for goods and services and sustained growth in emerging markets to drive demand for their exports. But the Chinese government is currently struggling to deflate its own credit bubble without crashing its economy, and there is social unrest in response to rising inequality and pressure on low incomes in many countries, including Brazil.

# The role of EU governance in budget “consolidation” in the Troika countries and more widely in Europe

## *The European “Fiscal Compact”*

To achieve more balanced budgets, the Fiscal Compact constrains states to budget deficits of no more than 3% of GDP and “structural budget deficits” of no more than 0.5% of GDP. The excessive deficit procedure requires debt in excess of 60% of GDP to be cut by 1/20 per year. There seem little theory and less explanation regarding the choice of these particular numbers; they appear arbitrary and there is no explanation of why one size fits all countries.

The Fiscal Compact came into force in 2013, and all signatory states have to transpose the Fiscal Compact into national law. By end 2012, only two Member States – the UK and the Czech Republic, had not signed up to it. Given that most Member States have higher budget deficits following the financial crash, the Fiscal Compact is the key legal driver of the pace and scale of budget cuts across the European Union. All of the countries with emergency assistance programmes are bound by it, as are most domestic “austerity” programmes in other Member States, including France and Italy, although larger and more powerful countries appear to have been given more lassitude than the smaller programme countries. The degree of “budget consolidation” (essentially, spending cuts) required by the Fiscal Compact is almost unprecedented in Western Europe. But many former CEE (Central and Eastern European) countries experienced similar action during the World Bank-led transformation period in the 1990s. In the late 1990s - early 2000s, the Baltic and Balkan countries in particular experienced rapid and swinging budget cuts, in return for external loans, to support government budgets and cover balance of payments deficits.

The Troika countries (Greece, Ireland and Portugal) face the biggest current consolidation problems, with budget deficits of around 10% of GDP. Government total debts are now from 90% to 180% of GDP – at minimum double the levels before the financial crash. Whereas their adjustment programmes have succeeded in reducing the size of current budget deficits, total debt has continued to rise, due to the recessionary impact of the enormous fiscal contraction required over a short time scale. The same pattern applies in the UK. After more than 7% of output loss in the recession following the financial crash and more than 6% cuts in the three-year austerity programme, growth has been flat; therefore while the deficit has fallen, debt has risen due mainly to loss of tax revenues and rising bill for unemployment. Further cuts of 3% have been made for 2013-14, which should have been the last year of “austerity”, with cuts of double that to come in future years.

This common pattern amongst our study countries suggests that it is the consequences of the financial crash and neoliberal “austerity” programmes that were put in place that have embedded economic failure and rising poverty. The difference is not so much in the strategic approach, but that the Fiscal Compact embeds this model legally for most of the European Union.

For the Eurozone as a whole over three years to 2013, the fiscal squeeze (cuts needed to meet the targets) is 2.5% of GDP. For Spain and Portugal (and Italy, Slovenia and Cyprus) it will be 5%-8%; for Greece and Ireland 10% of GDP.<sup>4</sup> As the next Chapters show, the greatest burden of cuts is being borne by the social state, and therefore benefits and services for vulnerable and poor people and those on moderate incomes.

Surveillance measures are astonishing - including the European Commission’s right under the “two-pack” process, to require a revised draft budget which the Commission sees before presentation of the budget to the national Parliament – which came as a shock to Irish citizens when this became evident during the Troika process.

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<sup>4</sup> EuroMemo Group (European Economists for an Alternative Economic Policy in Europe) *EuroMemorandum 2013: The deepening crisis in the European Union: The need for a fundamental change* :P13 available at [http://www2.euromemorandum.eu/uploads/euromemorandum\\_2013.pdf](http://www2.euromemorandum.eu/uploads/euromemorandum_2013.pdf)

## *The specific problems of achieving budget consolidation in Eurozone (i.e. currency union) Member States*

To meet fiscal consolidation targets agreed in the Fiscal Compact by the seventeen Eurozone Member States, those countries in “excessive deficit” must take the full weight of state budget adjustment through “internal devaluation” of wages and prices, i.e., reduced living standards at home, because the Eurozone is essentially a fixed currency system and currency devaluation is not an option. Three Member States with full MoUs – Greece, Ireland, and Portugal, are members of the Eurozone, as is Spain, which received Troika support for bank recapitalisation.

Strategies to reduce wages rely mainly on “flexibilisation” of labour markets and especially weakening of public sector wages and conditions including through budget cuts and privatisation. For Greece, the Troika has suggested an additional extreme route to strengthen “internal devaluation” of wages. There is a proposal to create special enterprise zones that do not have the usual labour and environmental regulation or tax arrangements, leading to what the Greek participant in our group referred to as a “China zone” in Europe. There are already sixteen such zones in Turkey, in which export-oriented businesses do not pay corporation tax and only limited payroll taxes. The Turkish economy has been growing at more than 8% per year in 2011-2012, but is showing signs of rapidly rising inflation and a real estate bubble.<sup>5</sup>

For the sixteen Eurozone countries taken together as an economic area, budget adjustment is being borne mostly by budget deficit countries. Since the financial crash, no adjustment weight has been borne by Eurozone countries with trade surpluses/creditor countries, such as Germany or Finland, through “internal revaluation” – e.g. wage increases or price inflation, both of which would help their neighbours compete with them economically. However, there are some recent signs that Germany may allow government spending and wages to rise a little – and it should be noted also that Germany experienced its own earlier “internal devaluation” of real wages through policies such as the Hartz IV labour reforms in 2003-2005.

Romania is a programme country, receiving financial assistance, while not a member of the Eurozone. Romania had experienced strong export-led growth, but, following the financial crash and loss of export markets, its GDP fell 7% in 2009, causing a balance of payments crisis and forcing Romania to seek balance of payments loans from the European Commission, the IMF and the World Bank, in return for an IMF-led austerity programme.

The UK is also not in the Eurozone. It was growing at 3% a year before the crash – higher than the EU average, but its budget deficit and public debt doubled after the financial crash, as it dealt with recession, bail-out of its banks and then reflation of its economy.

Like the Eurozone countries, both Romania and the UK have used “internal devaluation” of wages and prices to help control the size of their budget deficit and, therefore, slow the growth of their government debt. In Romania’s case, this is a condition of its MoU in return for balance of payments assistance. But both Romania and the UK have used the additional tool of currency devaluation (which makes exports cheaper and imports dearer) to help their competitive position, their trade balance and therefore the size of their deficits. However, although Romania returned to export-led growth in 2011, in neither country has the strategy cleared their trade deficits, implying they are still not making sufficient goods of a price-quality that others want to buy.

Using two major tools (wage cuts plus currency devaluation) to improve competitiveness and clear deficits and, thus, prevent debt rising, has not succeeded for Romania and the UK. This suggests how difficult it is for Eurozone countries to clear their deficits with only one tool – wage cuts. This is the situation for the Eurozone Troika countries of Greece, Ireland and Portugal. “Internal devaluation” alone is unlikely to be sufficient to make them Eurozone or internationally competitive.

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<sup>5</sup> Inman, P. (2012) Spurned Turkey looks east after EU courtship falters, *The Guardian*, December 17, p24



# **The multi-level impact of enforced austerity in MoU countries and more broadly in Europe**

## ***The impact on European economic cohesion***

The MoUs appear to signal an end to the ambition of European cohesion. If Germany and other Eurozone states in surplus do not choose to increase real wages and, therefore, unit labour costs, then much of the south and east, but especially the programme countries, with their greatly weakened productive capacity, can only keep unit labour costs competitive by accepting that the wealth gap between them and Germany and other northern surplus countries can never close.

Their countries are likely to remain relatively poor within Europe, undoing much of the “catch-up” they had experienced in the boom years before the financial crash of 2008. Given the 30-60% scale of youth unemployment in Greece, Ireland, Portugal and Spain, the European Union’s decision to redirect (but not increase) 6 billion euros of its 2014-2020 budget to tackle the problem is wholly inadequate to the loss of opportunities, skills and income for a generation as well as to reverse mass youth migration and its impact to the demographic problem in these countries.

Opportunities to reorder relative competitiveness inside the Eurozone are closing, as Europe confronts nascent “currency wars”, now beginning to play out in the USA, Japan, China and even Switzerland, as they struggle to keep their exchange rates competitive for global trade advantage.

## ***The impact on sovereignty***

A key difference in Member States under the MoUs, compared to other states implementing “austerity” programmes, is the extent of the loss of sovereignty and the scope for choice of development path and flexibility over time. Loans are disbursed in tranches, conditional on implementation of the detailed MoU, timetable and surveillance. There is a loss of political, social and economic sovereignty.

The EU, through the ECB, has been the main lender in Greece, Ireland and Portugal, responsible for about 70% of the loan finance. It is also the lender to recapitalise banks, such as Spain’s (see Appendix 2). The Troika prioritisation of creditors – usually foreign bond-holders – has been at the expense of the citizens and without any audit of the debt and its legitimacy, unlike what happened in Iceland, which is not in the EU.

The European Commission has used the Fiscal Compact rules, even before they came into force, as a key driver of budget cuts so severe, as to require transformation of the public sector in the states with MoUs. Enforcement through the MoUs of single market measures that require privatisation and liberalisation reinforce the direction of that transformation.

A minority lender – the IMF (and, in Romania’s case, also the World Bank), has got influence over structural reform especially, and surveillance and reporting in EU countries, for a relatively minor lending stake.

It is notable that in the Greek MoU (see summary in Appendix 3) there is a commitment that all of the privatisation revenues, as well as all of the surplus from cutting expenditure and 30% of the revenues from achieving target reductions faster than forecast, are reserved for paying creditors, and not for reimbursing the Greek people, who built and paid for these state industries, and who are suffering from collapse in incomes, jobs, and services.

Despite the impact of these MoUs, their process of agreement, implementation and monitoring is not transparent. There is some scope for national flexibility on the measures, as long as they are “equally good”. But the Troika can and has refused alternatives in Greece (and Cyprus), though as indicated earlier, in Ireland and Portugal there are a few known examples of alternative cuts being accepted. The Irish government EAP is similar to its own National Recovery Plan, produced less than one month before the MoU, but it seems unlikely it would have been accepted if it had not met the core demands of the Troika. Engagement of civil society is very limited, although monitoring in Ireland has involved

meetings with NGOs, including members of EAPN Ireland. Civil society pressure also got the minimum wage cut reversed in Ireland.

Overall, it seems that Greece, Portugal and Romania had imposed on them what they had chosen *not* to do and the Irish government had extra leverage from the Troika process to take a more neoliberal path, at the expense of its social partnership approach (but this was an agenda which was in process before the Troika intervention). But lack of transparency in the process of agreeing the MoUs makes it difficult to discern just how much national room for manoeuvre there has been on the specific measures.

The most recent Troika “bail-out” state, Cyprus, seems to have been unable to prevent domestic savers being hit, although they did manage to protect some smaller savers. Suggesting Cyprus was a laboratory, the Cyprus model of bank savers and asset holders contributing to the bailout of banks in future, known as “bail-in”, looks set to be implemented across the EU, probably by 2018.

But we should not let national governments “off the hook”, either for the original problems, or for the nature of the response. They could have chosen to fight harder to protect their poorer and more vulnerable citizens. But this is true also of most of us as citizens and civil society organisations. We could have put more pressure on our governments and we could have been clearer about our alternative approach.

### *Sharing the burden?*

As the following three Chapters show, the MoUs *require* deep expenditure cuts focused on the social state, a shift in the burden of taxation and “structural reform”, including privatisation and labour market deregulation.

The social impact of the strategy will accelerate inequality and poverty, as well as unemployment and in-work poverty, as it is likely to bear most heavily on people living on low and moderate incomes and on their access to services. The MoUs for Greece, Portugal and Romania show concern to ensure a social safety net for the vulnerable, but there is no greater ambition for a social state.

## Conclusions

The key messages of this Chapter are, first, that there is a neoliberal approach to economic policy, underpinning the economic adjustment programmes agreed between the creditors and the Member States. The approach is not new, even to Europe, as former countries in Central and Eastern Europe experienced World Bank-led programmes with the same intellectual underpinning, and it resulted in rising poverty and inequality then – and now. The second is that the lack of transparency in the process makes it difficult to understand the balance of power in the agreements, but that it appears that national government scope is limited, and that citizens are bystanders in the transformation of their social state. The third is that changes to European governance legally reinforce the neoliberal economic model for most Member States, at a time when even the IMF member of the Troika now has doubts about the excessive stringency of fiscal policy. The fourth message is that the Eurozone countries cannot devalue their currencies and, therefore, have even fewer economic tools to manage their economy, forcing greater reliance on stringent budget cuts and wage cuts.

The following Chapters will look in more detail at the content of the MoUs and the likely impact on risks of poverty.



## 2. IMPACT OF ECONOMIC ASSISTANCE PROGRAMMES: PUBLIC EXPENDITURE CUTS, INCLUDING REFORMS TO CASH BENEFITS, SERVICES, AND ADMINISTRATION

This Chapter discusses the impact of the financial assistance agreements on government spending cuts, focusing on the social cuts, with examples from the country fiches developed by the members of our Task Force. It should be noted that the situation changes daily, with more cuts added and many cuts still to be implemented. Therefore, this section can only give a sense of the likely social impact of the EAPs. For comparative purposes, evidence is provided also for Spain and the UK.

The Chapter shows that spending cuts are focused on shrinking the size, scope and strategic capacity of the state. There are closures, mergers and reductions in public administration and in public services, including health, education and social care. This is the case not only for the emergency assistance states with MoUs, but for also Spain and the UK. Spain is under some conditionality (macroeconomic requirements) in return for Troika assistance for recapitalisation of its banks and to avoid the threat of seeking a government bail-out. The UK implemented a domestic austerity programme without requirements from the Troika or the Fiscal Compact; although under Europe 2020 and the National Reform Programme, the UK reports on the measures it takes to deal with its “excessive deficit”.

The Chapter indicates that the combined weight and orientation of the expenditure cuts means that vulnerable and poor people are taking the heaviest burden of deficit reduction, now, but with the least likelihood of long-term gain. The argument is made in the MoUs that expenditure cuts are more “business-friendly” than tax rises; consequently there is a much bigger role in the EAPs for expenditure cuts than for tax increases, at minimum 2:1 ratios. In fact, this approach is common in “austerity” programmes. The steepest ratio in Europe is in the UK, where close to 85% of adjustment is from spending cuts, which are more “poor-unfriendly” than tax rises.

It is not only current spending programmes that are cut. Public investment was cut in the EAPs for Greece, Ireland and Portugal, but also in Spain and the UK, weakening future capacity to provide good public services. According to the Greek country fiche, gross and net public and private investment peaked in 2003, then collapsed in 2008; in 2011, net investment was -6%, destroying substantial productive capacity.

### Cuts in public administration

There are efficiency measures regarding the operation of the courts and judiciary and the public administration in the MoUs for Greece, Portugal and Romania. Many commitments are to reinforce implementation of competition rules and European Directives. There are agreements to improve data collection and monitoring across the public sector; this also applies to Ireland for labour market-related programmes.

National public servants have experienced cuts to wages, pensions, hours and conditions of work, as well as headcounts (number of staff) in the MoU countries. The same strategy is present in Spain and in the UK. The Greek fiche noted that the public sector wage bill was €29b in 2009, and around €20b in 2012. In a population of just under 11m, 150,000 public sector job losses are forecast by 2015. A 12% reduction in police, military and academic payrolls is agreed. In Ireland, the government aims by 2015 to cut public administration staff by 12%. In Romania, one in seven public servants will be replaced.<sup>6</sup> For comparison, in a population of 62m, there are forecast 700,000 job losses in the UK public administration, with another 140,000 added in 2013. But in Spain, although there have been job cuts in state enterprises and services, the wage bill will increase slightly due to pension contributions and, therefore, further wage cuts are expected. Employment-related benefits for public

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<sup>6</sup> EuroMemo Group (European Economists for an Alternative Economic Policy in Europe) *EuroMemorandum 2013: The deepening crisis in the European Union: The need for a fundamental change* :P13 available at [http://www2.euromemorandum.eu/uploads/euromemorandum\\_2013.pdf](http://www2.euromemorandum.eu/uploads/euromemorandum_2013.pdf)

servants have been cut in all the study countries in our report. Pension changes are present in all the countries, with other changes varying in the different countries. For example, in Portugal, cuts to government employees' health benefit schemes will reduce state support to zero by 2016.

Cuts to government funded agencies mean that, in Ireland, there were closures and mergers of agencies addressing poverty, equality and rights. This is also the case in the UK. These cuts have reduced the scope, powers, visibility, research evidence and advocacy capacities to defend vulnerable people and groups facing discrimination.

Cuts to local administrations include reductions in central government funding to them, and shrinkage of the number of local government authorities (also happening in countries not in our study, such as France) and delocalisation of services. The MoUs for Portugal, Greece and Romania all include cuts and mergers in local administration, with smaller changes in Ireland. The Greek fiche states that central government subsidy to the local level is cut by around €600m. Spain and the UK have also cut central governments funding to local municipalities (and regions in the case of Spain). UK municipal budget cuts are 30% over three years front-loaded, with further cuts from 2013, plus loss of local powers over education and further opening of services and infrastructure to private for-profit provision.

The Portuguese country fiche noted that cuts to services of proximity provided by local government particularly affect poor and vulnerable people, who have limited or no alternative options, and who cannot afford transport costs to more distant services.

## Cuts in state welfare cash benefits

There are some positive measures, including strengthening of some aspects of the social safety net, in Greece, Portugal and Romania. The MoU for Romania acknowledges underdevelopment of the safety net and commits to introducing means-tested social assistance, with better reach to the most vulnerable. There are some measures to improve targeting of the safety net in the Troika countries, although this can mean reductions in eligibility for some kinds of social assistance as in Portugal, Greece and Ireland.

The Social Emergency Programme introduced in Portugal in 2011 attempts to ensure a social safety net during the cuts. It covers families, seniors, people with a disability, volunteering and social institutions. It includes commitments to: maintaining minimum incomes for older people; enhancing employability for disadvantaged groups; socially responsible local services for disadvantaged people and changes to make it easier for voluntary and social organisations to operate. As one example, the programme for families mainly consists of project-based intervention on food aid, schools in troubled neighbourhoods, financial literacy and microfinance. There is also an emphasis on active labour market programmes. However, it is too early to say how the Social Emergency Programme will be implemented.

But, although the Troika MoUs agree to retention or even improvement of the most basic social safety net, this is in the context of cuts or freezes in most cash benefits over the three-year life of emergency assistance programmes.

With a population of around 11m people, the Greek fiche stated that Greece is cutting nearly €5b from social benefits by 2015. For comparison, in the UK, which had one of the steepest cuts in social spending in Europe, the social welfare budget cuts to 2012 totalled £29b in a population of around 62m. The UK government announced more welfare cuts of £11.5b in 2013, plus further cuts through uprating benefits below price inflation, which will have the biggest financial impact on people's lives over time. But it is important to stress that while the scale of welfare cuts may be similar between the UK and Greece, the large absolute differences in living standards (Greek living standards are half those of the UK) mean that the absolute poverty impact of the cuts is much greater in Greece.

The language of cuts is of costs and burdens, not solidarity or investment. Fairness is understood in terms of taxpayer burden, not inclusion, for which there appears to be no ambition. For example,

people with a disability have not been protected from the cuts. In Greece, as in the UK, there are cuts in disability benefits. In Portugal, support for short-term sick leave (up to 30 days) has been cut from 65% to 55% of income, in a country in which one third of households are at risk of poverty.

Although working-age benefits are a much smaller part of welfare spending than benefits for older people, they have been the focus of cuts in the states in this study, though least so in Romania, where there is little to cut. In Greece, this has included cuts to specific benefits, such as those for seasonal workers – a big impact, given the nature of the Greek economy and the second highest unemployment in the EU.

Despite recession and high unemployment in Portugal and Ireland, the unemployment insurance system has been made less generous, as this is assumed to increase incentives to work, in a “make work pay” logic. In Portugal, the maximum insurance benefit has been reduced by more than 20%, with a further 10% cut after six months. Maximum duration of benefit has been cut from 38 to 26 months. This is being accompanied by some strengthening of the social safety net. Household income is now calculated differently in Portugal, and this has restricted access to social insertion income and unemployment benefits.

The level of unemployment benefits in Spain and the UK have been cut also. The overall social and economic impact is much greater in Spain, because unemployment is the highest in the EU (27% for adults and 55% for youth, compared to 8% and 20% in the UK). There is risk of extreme poverty when people fall out of all time-limited benefits. But, despite so many Spanish people being forced to rely on family support, the scale of unemployment is so great that the overall unemployment bill has continued to increase.

Therefore, in 2012, the government tightened eligibility for the benefit. The Spanish country fiche noted also that the contributory pension bill in Spain has increased, partly because recession and rising unemployment have cut contributions and increased unemployment at the same time as numbers of pensioners increased and pensions were uprated by 1% (but this is much lower than the rate of inflation). The government is aiming to reduce opportunities for early retirement (and therefore unemployment benefit paid till pensionable age).

Conditionality attached to benefits is greatly increased in Greece, Ireland and Portugal, despite high unemployment rates, and also in Spain and the UK. In Portugal in 2012, access to Social Insertion Income became conditional not only on actively seeking work, but also on adhering to specific plans, including for education and health, for all members of the household. The recipient must resubmit their application every year. Missed appointments result in termination of the income.

In 2010, when many governments reflat their economies to combat the impact of the financial crisis, the Irish government introduced improvements to cash benefits. However, the Irish country fiche noted that there were cuts to all social welfare benefits the next year (2011), and cuts also to housing benefits, rent support, child benefit and support for children with a disability. Ireland has reduced the replacement ratios of cash benefits (the amount relative to previous work income). The current government committed to no further cuts for one year (2012), but has tightened conditionality to seek work, especially for lone parents. Other benefit changes will mean lone parents face a poverty trap in work.

In Portugal, in 2011, where both members of a couple with children are unemployed, there has been an increase in their unemployment allowance. But the year before (2010-2011), the state cut 30% from spending on family support. There have been two cuts in child benefits, in 2010 and 2012. The number of beneficiaries of family allowance decreased from 1.844.107 in 2010 to 1.292.045 in 2012.

In the UK, there have also been cuts to universal child benefit, so that it is now means-tested. This change removes the principle that there will be state support for the extra costs of children. There have been cuts to means-tested family and child tax credits, maternity support and childcare allowances. The UK fiche noted that the welfare cuts in the 2010-13 spending programme added 800,000 to the number of children in relative poverty. Cuts announced in 2013 add another 200,000.

According to the Fawcett Society<sup>78</sup>, 70% of the burden of cuts in the UK has been borne by women. The cuts to family and working-age benefits and state services in the MoUs state mean women are likely to disproportionately bear the burden of welfare cuts in Greece, Portugal and Ireland also. Because of their employment structure, male employees were hit hardest by the crash and recession in most countries; women are doubly affected by “austerity” programmes, because of the continuing weight of their role in families and as public service users, but also they are more likely than men to be public services employees.

Pension ages rises have been agreed in all the MoUs, most rapidly for women, who therefore suffer the greatest lifetime loss of income. This is also the case in the UK. Reflecting the influence of EU institutions and governance, many of the general pension measures in the MoUs, including higher retirement ages and higher penalties for early retirement, reflect those recommended by the European Commission in its papers on modernising social protection and dealing with demographic ageing and are common throughout the EU.<sup>9</sup>

Further pension cuts of 3.5% to 10% were announced for Portugal for 2013. In Portugal and Romania, there has been some protection for the lowest paid or vulnerable pensioners. In Greece, there are cuts to some elderly benefits as well as cuts in main and additional pensions. Greece is changing its funding model for pensions to put more of the burden on the individual, which increases poverty risk for low-income people. There is a basic minimum pension, which must be topped up by private insurance. The root cause of these reductions in Greece was the 60% “haircut” of insurance funds’ bonds, in the frame of public sector involvement, which lead to their collapse. Relatively, Spain and the UK have chosen to protect retired people from cash benefit cuts, and basic retirement pensions are protected.

It seems that, in the six countries analysed in this report, the strategic direction of “austerity” cuts in welfare budgets are similar, especially for working age benefits. But there are indications of more pressure on retirement benefits in Troika countries, especially Greece and Portugal, despite the relatively low incomes from working lives, which mean that although pensions may be a higher proportion of average wages, they may provide an absolutely low living standard. In comparison, the UK government has protected retirement pensions and benefits.

By EU standards, UK state pensions are a very low proportion of average earnings, but so are unemployment benefits, which have had swingeing cuts. The UK coalition government committed in 2010 (its year of election) to a “triple lock”, which guarantees retirement pensions will increase above wage and price inflation; it also committed to protect pensioner fuel and television subsidies. Despite being the largest spending item, state pensions have been excluded from the overall “cap” on welfare spending announced in June 2013. This may indicate how domestic political realities, such as voting intentions, can have more impact in countries not receiving external financial support from EU and other institutions.

## Cuts in health and social services

There are cuts to the health budgets in all the countries with MoUs, as well as Spain, but also a major focus on restructuring health care provision. Cuts and mergers in the hospital sector are common to all the study countries, and reflect the EU trend to an increasing emphasis on patients receiving primary health and social care outside the hospital sector.

In Greece, there has been complete reformation of the National Organisation for Health Services Provision, which aims to consolidate fragmented services, but at the same time as cutting costs. There

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<sup>7</sup> <http://www.conhecera crise.com/indicador/45/abono-de-familia#tab-0-1>

<sup>8</sup> Fawcett Society (2012) The impact of austerity on women, *Policy Briefing*, March: 34, accessed at <http://fawcettsociety.org.uk/documents/>

<sup>9</sup> European Commission Brussels, 20.8.2012 COM(2012) 446 final Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions: *Social Protection in European Union Development Cooperation* available at [http://ec.europa.eu/europeaid/what/social-protection/documents/com\\_2012\\_446\\_en.pdf](http://ec.europa.eu/europeaid/what/social-protection/documents/com_2012_446_en.pdf)

were 35% cuts in general services, which most affected chronically ill and elderly people, as well as those without insurance. According to research published in one of the top medical journals, the *Lancet*<sup>10</sup>, there are reports of 40% hospital budget cuts and a rise in admissions to public hospitals and fall in admissions to private hospitals, because people can no longer afford health insurance.

Pharmacies are asking patients to pay for drugs in cash, because of delays in reimbursement from health insurance funds. User fees for outpatient visits have risen from three to five euros and many health care facilities have closed. The MoU agrees that health will take no more than 6% of GDP, less than half the percentage in the USA. 1835 employees (doctors and nurses) from 13 hospitals in urban areas are going to join the mobility programme, which means 600 less beds only in Attica, with consequent problems in provided health services.

In Portugal, there have been budget cuts and introduction of competition for some services. Waiting lists have increased and access reduced. There are increased user charges (co-payments). According to *The Lancet* study, primary appointment co-payments have more than doubled, rising from €2.25 to €5, with emergency visit costs more than doubled to €10 in primary care and €20 for hospital emergency appointments.

Cuts to drugs budgets and introduction or increase in co-payments for medicines are common to the economic adjustment programmes. In Romania, as elsewhere, co-payments are means-tested. Greek health facilities just do not have the drugs, yet there are new drug budget cuts for 2012-2015, and insurance contributions to cover drugs budgets have increased, e.g. for farmers. Ireland has new fees for drug prescriptions for those with medical cards on social welfare support (they used to get their drugs free).

The Portuguese Observatory on Health Systems' (OPSS) report for 2012 shows a decline in pharmacy users in all regions. A study of pharmacies in Lisbon showed about 20% of clients, mainly women, unemployed and elderly people, did not fill their whole prescription due to costs. Cuts of up to 65% on support for transport to hospital were found. Spain too has introduced means-tested co-payments, for medical prescriptions for elderly people.

In Ireland, cuts to support for people with a disability (personal support as well as health) will also affect demand for other health services and access to employment. Cuts to care homes and to home care support will leave many vulnerable elderly people isolated and at risk. These cuts began before the crisis, but further cuts have continued into the economic adjustment programme. Similar cuts have been introduced in the UK.

According to *The Lancet* study, in Spain, a new law in April 2012 shifted health coverage from universal to employment-based. According to the Spanish country fiche, another new law in September 2012 denied health care to undocumented migrants, some of whom have now sought health care assistance from church parishes. Over the last two years, in Spain, there have been 66% cuts to social services used by elderly people, families with children including lone parents, people with a disability, minority ethnic groups, former prisoners, and people suffering from addiction.

The UK, under no pressure from the Troika, protected the health service budget relative to other budgets, though real spending did decrease. Perhaps the protection again reflects greater scope for domestic political realities, as older people are the heaviest users of the health service and most inclined to vote. However, the government's neoliberal agenda means that the UK is undertaking the most radical reform of the nature of its health services.

The tax-funded National Health Service is the world's second largest employer and one of the west's cheapest health services as a proportion of national income. Despite this, in autumn 2012, the Health and Social Care Bill opened up English NHS services to private for-profit providers, and over £9b of contracts were let in the first three months.

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<sup>10</sup> Karanikolos, M., Cylus, J., Thompson, S., BASU, S., Stuckler, D., Mackenbach, J. And McKee, M. (2013) Financial crisis, austerity and health in Europe, *The Lancet*: 381: 1323-1381, March 27

## Cuts in education

There are cuts to education budgets in the Troika countries of Greece, Ireland and Portugal, as well as Spain and the UK, with heavier cuts in higher education in most countries.

Greek teachers' wages have been cut, there is a freeze on jobs, schools have been merged and operating budgets reduced. Further cuts are planned for technical and higher education. 2000 teachers of Technical Education have entered the mobility project, with direct impact on 20.000 students, who have to find outlets to the private education. Proposals for apprenticeships in companies in Germany are on the way. 1700 Universities' and Technological Institutions' administrators are following.

Cuts and reforms to the secondary education sector are part of the Portuguese MoU. There is an aim of cutting early school-leaving and better-aligning education, training and the labour market. Yet there are rises in class size, increases in the cost of books and transport to school, and introduction of payments-by-results. The Portuguese country fiche noted the multiplied impact because of cuts in child benefit, which many families used to pay for books, school meals and school transport.

In Ireland, the government has cut completely additional support for education integration of the minority group, Travellers, without consultation with this group and its representatives. The government has also capped additional personnel support for children with special educational needs, and for language support for children whose first language is not English.

There are budget cuts to education in 2013 at all administrative levels in Spain, including student support to buy textbooks, but an increase in number of students in a time of youth unemployment of 53%, therefore the bill is rising.

There are new fees for higher education in Portugal and Greece. The cost of higher education has also been increased in England, to the highest in Europe; fees in Scotland are one-third of the English level, as this is one of the decisions "devolved" to individual governments and administrations in the increasingly federal UK. Who gets access to education is important for equality and social mobility, and fees discourage young people on moderate incomes. The Romanian country fiche noted that extended education is an urban privilege, and education itself plays a strong role in creating inequality in Romania.

## Cuts in housing

Access to affordable housing was a problem right across the EU before the crisis, so was access to decent homes with modern facilities, for poorer people, especially in poorer countries. The problem is compounded by the "austerity" budget cuts to housing subsidies and to social house-building.

In Greece, 150.000 households are directly threatened with eviction, after the lifting of the auction ban for the first residence. Mortgage loans – which haven't decreased in these last 3 years – can't be repaid, and reached €17 billion due to a combination of factors: wage cuts, unemployment, high housing taxation, and even utilities.

In Portugal, there is also a shift in the balance of power between landlords and tenants. This is in favour of landlords where it limits transfer of the property occupation to relatives of the renter and introduction of quicker extrajudicial eviction procedures. But it also allows tenants to give less notice before leaving the tenancy.

In Ireland, due to the collapse of the housing market (price fall of 50%), alongside close to 15% unemployment and lower incomes, the government introduced means-tested mortgage support for home-owners, to reduce evictions. There has been a shift to private rented housing by people who cannot access home-buying, or social housing, but rent support has been cut. In 2012, the government set up a company to purchase vacant housing for social housing use, as the waiting list had grown 75% between 2008 and 2011. Like Ireland, much of Spain's need for bank recapitalisation arose from its property boom and bust. It is also a major cause of unemployment as construction was an important

employer especially in poorer regions. Households which cannot pay their mortgage and are evicted from their homes remain responsible for the debt, and this penal law has caused great suffering in Spain. Mortgage rebates have ended, raising just €90m.

In the UK, social house-building has been declining for nearly twenty years, and is at its lowest ever level. There is an 800,000 increase in private renting. Housing allowances have been cut, and poorer families are being forced to move out of their homes in the south-east of England, where rents are highest, and move north.

The age of first-time home-buyers has risen to nearly forty, because they cannot save the deposit. Mortgage interest rates are relatively low, but, despite house prices falling 25% from the 2007-8 peak, they are still five times average income. New government initiatives are more likely to increase house prices, rather than house-building.

Essentially, housing markets, like any market, supply only what can be paid for, but everyone needs housing. Yet it is not recognised as a constitutional right in most states with written constitutions, including Germany. Cuts consequent on MoUs in Troika countries or other domestic austerity programmes compound the problem, and reinforce the neoliberal approach of “freeing” markets despite the evident and abject failure of housing markets to deliver decent homes for all.

## **Cuts affecting voluntary and community sector organisations**

There are significant cuts and closures to the community and voluntary sector in Greece, Ireland, and Portugal, at a time of rapidly rising demand and more gaps in the social safety net. This is a secondary effect of MoU agreements to cut back local government and spending on social and care services, as these are frequently provided by voluntary sector sub-contractors.

For example, in Ireland, between 2008 and 2010, there were on average 35% cuts in grant finance to the voluntary and community sector. This included around 30% cuts to services addressing violence against women, at the same time as service demand increased 40%. In Romania, the EU has blocked Structural Funding due to weak government management of the funds, which has devastated the voluntary sector.

In Spain, government support and private donations are cut, so that even large organisations such as Intermón Oxfam and Ayuda en Acción have reduced their workforces by 20%, and 25% respectively. A study by ESADE suggests one-third of small organisations have closed.

The UK voluntary sector has suffered more than 30% government cuts, at a time of declining private donations and legacies, leading to closures and mergers, especially of advocacy organisations and smaller local organisations, dependent on local authority funding.

In both Ireland and the UK, access to government contracts, for example for labour market integration, has withered, as governments prefer large for-profit contractors. Yet the evidence for the UK shows the large private contractors have utterly failed to get more people into paid work.

## **Conclusions**

Some measures to support the social safety net were recommended for Romania, Portugal and Greece. According to the Portuguese country fiche, a recent visit to Portugal from a Council of Europe Human Rights Commissioner showed concern about the impact of the austerity measures on poor and vulnerable people, especially children, elderly and the Roma. Therefore, there is no guarantee that the MoUs will effectively protect even the most vulnerable and voiceless.

In the six countries of this report, the expenditure cuts are focused on reducing the size and ambition of the social state, whether these are in countries with MoUs, or not, indicating the neoliberal agenda is not specific to countries with MoUs in return for financial assistance. The UK example may indicate more scope for domestic political priorities, where the Troika including EU institutions and governance have less or no influence. But while the agenda is the same in the six countries studied, there are signs



of domestic specificity in all of the study countries and it remains difficult to identify the balance of powers in the choices made in countries with MoUs.

There is too a conspiracy of silence on the impact on the poor and vulnerable and on women, not only now, but long-term, from the lower spending trajectory and limited future ambition of the social state.

EAPN has been unable to find that any government organisation is consistently tracking the social impact of the cuts and using the results to amend policy. The cuts to the voluntary sector are especially egregious at a time when need is rising, forcing those who can do so to rely for basic needs on other family members, for example retired pensioner parents or grandparents.

What distinguishes the countries with MoUs is, first, the scale and pace of the cuts on countries that were in greater difficulties and, in most cases, less wealthy than the EU average, and are now in deep recession, which is making their debt worse.

Second, they are distinguished by the strong conditionality attached to their loans, enforcing a neoliberal solution to current financial difficulties, which, given their former development path, their governments may not have chosen. In addition, all this has been done without proper democratic accountability to their citizens.

The Romanian country fiche suggested that the consequences of the fiscal squeeze are not only a current loss of spending power and jobs, but also a loss of optimism in the future; a loss of faith in politicians, resulting in a strong electoral reaction against the incumbent government; and a drop in company formation and in foreign inward investment, on which Romania depends for future jobs and growth.



### 3. PRIVATIZATION OF PUBLIC ASSETS, BUSINESS AND LABOUR MARKET DEREGULATION

This Chapter summarises the nature of the structural reforms agreed in the MoUs, focusing on “free market” price and wage “liberalisation”. Essentially, this means removing or reducing government intervention in markets, for example to subsidise utility prices or control conditions of work. Privatisation of state assets and deregulation of labour markets, including reduction of job quality and changes to collective bargaining arrangements, are core to the strategy. Although the MoUs refer to growth-enhancing measures, these are mainly aspirations for increased private investment in infrastructure, as a consequence of supply-side deregulatory measures.

#### Privatisation of state assets

The Greek, Irish and Portuguese MoUs agreed privatisation of state assets, including state owned enterprises (SOE), or preparation for privatisation by liberalisation of markets.

In Greece, the state asset sell-off includes ports, airports, industries, and land. In Portugal, they include privatisation of the national air carrier, energy firms, and insurance business of regional banks.

The MoUs for Greece, Portugal, and Romania cover deregulation of energy and transport, including energy tariff increases and closure of unprofitable parts of transport networks, especially in rail transport, as well as defence industry. In Portugal, transport plans also include reductions in staff numbers at remaining public entities, such as the metros in Lisbon and Porto. The country fiche states that, in 2011, there was already a cut of 2000 staff in public transport. Ticket prices have risen since cuts and mergers in transport companies, and more price rises are expected on public transport. In Portugal, the MoU equally includes complete liberalisation of energy and gas markets, and increases in tariffs. In Greece, utility bills have been increased 25%.

Having few state entities, Ireland is least affected, but, for the first time, is introducing a regulated water utility and metered water charges.

While Romania’s earlier Structural Adjustment Programme had dealt with privatisation, the Romanian MoU follows through on it, including liberalisation of the retail sector.

There is a risk to tax-payers in EAP countries from a fire-sale to foreigners of assets at cheap prices – as happened in Romania during its Structural Adjustment Programme, and as happened in the UK with energy and transport. Further, the Greek country fiche noted that privatisation revenues are not used to help balance the state budget, but are prioritised to repay creditors.

Privatisation had already gone much further in many north European states than it had in Greece and Portugal. For example, the UK fiche noted that the UK had already privatised utilities and transport, and had moved on to privatising core social sectors, including education, health and social care, as well as labour market integration programmes.

The influence of the EU institutions is specifically evident in the MoUs for Greece, Portugal and Romania, in which there is explicit agreement on implementing EU Directives, especially the Services Directive and the Energy Package, in the context of supporting the internal market. For example, in Portugal, there is a commitment to lower entry barriers to increase competition in telecommunications and postal services, which reflects European Directives. There is also a recommendation to deregulate planning and tourism.

Despite agreement to a programme of price rises in liberalised/privatised utilities and transport, there is little specific in the MoUs to protect poorer people from the adverse effects of privatisation and liberalisation of these Services of General Interest, and no monitoring of impact, despite the demands of the European Parliament.

## **“Privatisation” of product markets**

Re-commodification, for example through user charges, such as the new water charges in Ireland, is a crucial initial step to privatisation of the ownership of the good or service. European competition law also helps pave the way to privatisation.

The privatisation and liberalisation measures in markets for utilities and transport are a further commodification of services of general interest. There is a risk of “post-code lottery” (what you get depends on where you live) in cost and provision of services, which will affect most those households on modest incomes. Higher tariffs and new user charges are likely to restrict access to services on the basis of income, rather than need.

Re-commodification of access to public goods is widespread, often through individual user charges, for example on drug prescriptions, but it has already gone further in many European countries, which are not in emergency assistance programmes. This trend to commodify Social Services of General Interest is regressive on low income people, and is an example of individualisation of risk, and the loss of the positive externalities of collective provision free at the point of use. These externalities arise from generalised access according to need – vital, for example, in public health protection.

The neoliberal race in Europe is taking place amidst an emerging and important philosophical debate, about whether making social goods profit-seeking changes the nature of the goods offered, to the detriment of their quality and meaning. The arguments that brought many services and social services of general interest into the public or not-for-profit sphere in the first place will have to be re-made, to help prevent increased risks of social exclusion in access to basic goods and services.

## **Labour market deregulation of working conditions, cuts in wage bills and increased conditionality for unemployed people**

The labour market content of all of the MoUs seeks budget cuts through cuts to the public sector wage bill. But these cuts are also intended to weaken employee bargaining and put downward pressure across the wage structure, including the low paid. The MoUs include changes to collective bargaining, adjustments to legal minimum wages and deregulation of controlled entry professions.

### ***Public sector wages, conditions and pensions***

Public sector wages and conditions are on average better than those in the private sector, although there may be average skill differentials with the private sector. Public sector wages were cut, as part of all the MoUs, private sector wages were cut directly only in Greece. However, the Romanian MoU is explicit that falling public sector wages are intended to weaken wage pressure from the private sector. But, in the Irish private sector, there are highly skilled IT workers employed by foreign multinationals, who are well paid, with salaries little affected by the recession. These multinationals resisted unionisation, and were averse to the social partnership process in Ireland.

As well as wage cuts for public sector employees, there were also cuts in the “headcount” (number of employees) in the MoUs, or, in Romania, a cap on the total wage bill, and on the proportion of salary that can be paid as bonuses. Other changes mentioned in the country fiches include: salaries for the “thirteenth month” have been cut out in Portugal, and the thirteenth and fourteenth month in Greece. Overtime pay has been cut in Greece and Portugal, and time-off cut in Romania. In Portugal, workers can be made to work longer hours to deal with peak-loading, up to a total annual “bank of hours”. But in Greece, wages were so low at the bottom of the hierarchy that, there has been some flat-rate compensation for the lowest paid.

Strategies to cut the cost of public pensions have included lower accrual rates (the rate at which pensions build up over time in employment). In Greece and Ireland (also in the UK), there is a shift to pensions based on career average earnings, rather than the higher final salaries.

Wage and pension cuts have also been applied to local administrations, exacerbated in Greece and Portugal, because of large workforce cuts and mergers in local administration, as well as a delocalisation of services, with consequent impact on services of proximity, especially for poorer and vulnerable people.

### *Minimum wage reductions*

Nominal cuts (and therefore much greater real cuts after accounting for inflation) in minimum wages were agreed in the MoUs for Greece and Portugal.

In Greece, the minimum wage was cut by 22%, and below-minimum wages were introduced, apparently to encourage labour market access for young people and the long-term unemployed. The Greek fiche reported that the Greek minimum wage has fallen, from 60% of the average European minimum wage before the second MoU, to 24%.

In Ireland, the cut of €1 per hour was reversed after social pressure, but minimum wages are frozen. A legal basis for wage setting will be introduced, mainly for low-paid workers. In Portugal too, the minimum wage is frozen for the period of emergency assistance.

The Romanian country fiche states that there was an increase in adult minimum wage which was consulted on with the European Commission in the context of the EU National Reform Programme. But cuts in the lower minimum wages for young people are explicit in the Romanian MoU. The fiche refers to the disappearance of jobs in the 1990s during structural adjustment, and concern that the MoU removal of the collective agreement on minimum wages and labour standards may result in further migration of young people.

### *Labour market segmentation and flexibility*

There is a widespread view, especially in Greece and Ireland, that some relatively protected professionals, such as doctors, are overpaid. Certainly, labour market segmentation and an insider-outsider phenomenon are present in the emergency assistance states, and the MoUs commit to tackling it. Removal of licences and other restrictions on access to liberal professions, such as medicine and the law, are part of the MoUs in the emergency assistance countries.

But a key theme in the MoUs is “flexibility” of already low-paid employees, with consequent risk of increasing precarious employment and poverty. For example, in Portugal, working time has been flexibilised. In Romania, the MoU agreed increased use of fixed-term contracts. The Romanian MoU (see Appendix 3) stated this should be done without increasing labour market segmentation, but it does not explain how.

“Involuntary” part-time work (would work more hours if available) has increased in Ireland, and also in the UK, which is not a Troika country. In both countries, a minimum number of weekly hours of work are required before eligibility for certain social benefits, putting more people at risk of severe poverty.

It has been made easier to sack employees, especially in the public sector. “Inability to pay” has become an easier reason for dismissal in Ireland and Romania, and dismissal for incompetence made easier in Portugal. Severance pay has been cut in Greece and Ireland, and is proposed for Portugal.

In Greece, there is weaker labour regulation in the pilot Specific Zones of Economic Control (enterprise zones) than in other Greek regions. This includes working time – one Directive that the European Commission seems less concerned about enforcing.

## *Weakening of trades union bargaining powers*

A key distinction between the emergency assistance states and the wider European fiscal “consolidation” (state budget cuts) is the specific MoU agreements on changes to collective bargaining, which result in direct transfer of bargaining power to employers.

Greece, Ireland, Portugal, and Romania have agreed to the removal of centralised collective bargaining, especially in the public sector. It is replaced with a preference for company level bargaining. In some countries, the MoUs prevent extension of the results of collective bargaining agreements to other organisations.

The changes to collective bargaining are intended to diminish union power, and thus reduce and vary national and regional wages and conditions – helping to pave the way for privatisation of public services. The same approach is being pursued by national governments in the UK and Spain, for the same reasons.

## *Tougher sanctions and less support for unemployed people*

There has been an increase in conditionality of benefits for the unemployed, in order to push them to seek paid work at reduced wages and conditions, thus increasing the risk of in-work poverty. As compensation, in some MoUs, for example in Ireland, there has been agreement to stronger activation and training measures. But the Romanian country fiche states that, due to declining revenue from payroll taxes, all resources for employment policies were already cut before the emergency programme, from 0.75% to 0.3% of GDP. Active labour market spending specifically declined from 0.1% of GDP in 2003 to 0.03% in 2010, one tenth of the European average.

In Greece, the Panhellenic Socialist Party, which signed up to the MoU, actually requested in a letter to the Troika that there be better support for education and training, which was not in the MoU (see Greek MoU in Appendix 3).

Active labour market measures take little account of the impact of the crisis and budget cuts on job destruction, and the overall lack of demand and, therefore, jobs, in countries in recession. Portugal and Ireland have nearly double average unemployment. In Spain and Greece, unemployment is above 25%, and youth unemployment is more than double that in Spain and Greece. While registered unemployment in Romania (and the UK) is lower than the EU average, youth unemployment is relatively high, but the Romanian participant doubted that the figures are an accurate guide to unemployment and underemployment.

In 2011, there were 3.3m underemployed workers in Romania). There were also 3.3m underemployed workers in the UK in 2012 (11% of the labour force), 1.42m of them “involuntary unemployed”.<sup>11</sup> This is double the figure of 2008, with young people under age 25 the worst affected age group. These figures suggest that, in both countries, the low unemployment figures do not correspond to a quality labour market.

In Greece, Ireland, Portugal, Romania, and Spain, migration has been a de facto measure to deal with labour market conditions. All of the states with MoUs have experienced large in-migrations during their boom years. In the case of Greece and Romania, the migrants were mainly economic migrants and refugees from outside the EU.

All of the states with MoUs experienced significant out-migration when they went into recession, partly of EU migrants, but also of nationals. The Irish country fiche reported that, since 2009, between 5000 and 6000 people per month have been leaving Ireland, over half of them Irish nationals, from a country of 4.6m people. In 2011, there were around 21m people living in Romania, but the Romanian country fiche reported that close to one million Romanians were living in Italy, and 900,000 in Spain.

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<sup>11</sup> TUC (2012) *Underemployment crisis: a TUC analysis of underemployment across the UK* accessed at <http://www.tuc.org.uk/tucfiles/367.pdf>

However, Romanians also emigrated at the beginning of the decade, when the Romanian economy was in earlier difficulties. The Greek country fiche reported 1.5m emigrants, many of them educated young people.

## Conclusions

The first key conclusion of this Chapter is the risk that the MoUs are weakening domestic political accountability and undermining domestic democratic arrangements, with also specific risks of increasing poverty in the new arrangements.

Privatization of state assets is central to the MoUs. Yet, it leaves future governments with fewer levers to direct the path of development, and the sale of the assets is going to pay the loan providers, rather than enhance the budget capacity of the countries in the excessive deficit programme.

Privatisation is justified as a priority of the EU and IMF, as well as many individual governments, on the basis that the private sector is cheaper and more efficient than public providers. But evidence of previous privatisations, such as the UK utilities and transport systems, indicate privatisation will increase problems of affordability, accessibility and accountability, especially for poor people.

The impact of changes to collective bargaining on democratic accountability could be profound. They are a clear attack on trade union rights and on social partnership arrangements, for example in Ireland and Portugal, although there is some resistance, and in Ireland the process of change was underway before the Troika agreements.

What is astounding in the MoUs is that changes to collective bargaining have been agreed between governments and external agents - the Troika loan providers of the EC, the ECB and the IMF. Yet, in many EU countries, collective bargaining is a constitutional right and it could be assumed that employee organisations should have been party to any change. Were they?

The second conclusion is that supply-side labour market deregulation and interference in collective bargaining will only alter the ratio of “good” to “bad” jobs, in favour of bad jobs, with little or no job creation in the number of full-time equivalent jobs. This will cut the living standards of groups disadvantaged in the labour market and reduce opportunities for social mobility.

A 2012 UNCTAD report <sup>12</sup> noted that inequality is high and rising, and wage share of income is at its lowest, yet spending by workers drives economies. European wages and wage bargaining power are under pressure from global competition, but deliberately engineered “flexibility” has reduced the wages and conditions of low income workers, even in sectors not open to international competition. For the MoUs to explicitly agree to further weaken workers’ wages and bargaining power, in a process that is opaque and barely accessible to civil society, is both antidemocratic and faulty economics.

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<sup>12</sup> UNCTAD (2012) *Trade and Development Report: Policies for Inclusive and Balanced Growth*. Available at [http://unctad.org/en/PublicationsLibrary/tdr2012\\_en.pdf](http://unctad.org/en/PublicationsLibrary/tdr2012_en.pdf)

## 4. TAX REFORMS

This Chapter discusses the nature of the tax rises agreed in the MoUs of the countries with emergency assistance programmes. Increasing state revenue is a much smaller part of the effort than are expenditure cuts. Also, as indicated in the last Chapter, the revenue from selling state assets to private buyers is being used to pay foreign bond-holders. The Greek country fiche noted that the 5% interest on the original Troika loans of €110b also went to pay foreign creditors.

The Chapter indicates that the direction of tax changes has been regressive on modest incomes. There is a preference for raising consumption taxes and introducing user charges, rather than raising additional revenue by increasing taxes on business profits, raising the higher rates of income tax, or introducing substantial wealth taxes. The European Commission had made its focus on “growth-friendly taxation” clear in its Annual Growth Surveys of 2012 and 2013.

### Broadening the tax base and increasing revenue

Before the financial crisis, Greece, Ireland, and Portugal had amongst the lowest overall tax regimes in the European Union. The Greek state raised about 20% of GDP from direct and indirect taxes, compared to a European average close to 30%. Tax revenue then collapsed amidst recession, high unemployment and falling profits. Lower tax revenues are a major cause of increasing deficits in the countries receiving emergency assistance, but also in Spain and the UK.

Prior to the MoUs, Portugal had a greater emphasis on closing the budget deficit by raising taxes. Income and corporation tax had been raised, and this will stay in place till 2013; but there is a “standstill rule” in the MoU, preventing the government from introducing any new tax-raising measure during the three year EAP (see the Portuguese MoU in Appendix 3). This will increase the ratio between tax rises and expenditure cuts, in favour of cuts.

There are a few tax revenue raising measures in the EAP programmes that are not regressive. These include the wealth taxes in Portugal and Spain, changes to the progressiveness of Greek income tax, and the Universal Social Charge in Ireland, which ranges from 2-7% on incomes above €10,036 (but, therefore, it hits people on the minimum wage).

Ireland’s MoU agrees to broaden the income tax base (i.e., more people / organisations now submitted to taxation) and reduce tax reliefs, but within a framework of an overall cut in tax revenue. Further, the Irish country fiche noted that the tax base was widened before the EAP. Since 2008, 300,000 additional low-paid workers have been brought into the tax net, in a country with a total population of 4.6 million.

In most of the MoUs, there is agreement to reduce and eliminate tax exemptions. There is MoU agreement on action on tax avoidance, evasion and fraud in Greece and Portugal. In 2013-14, Spain is limiting tax write-offs for large companies, and is increasing capital gains tax to discourage speculation. There is also a tax on lottery winnings above €2,500, expected to raise €824m.

### Changes to income, consumption and property tax

#### *Tax on personal incomes*

Changes to income tax mainly involve lowering thresholds, narrowing tax bands, or allowing them to fall behind inflation, pulling more low income people into the tax net, or increasing the amount they pay. Only in Greece did the MoU seek to make the tax system more progressive.

In Ireland, there was a 10% fall in the thresholds for income tax bands, and a reduction in the size of tax credits (which top-up the incomes of low-paid workers). Portugal too, changed its tax bands. Its MoU also agreed income tax charges on all social transfers, a severe hit to low income households.



Personal taxes have been raised also in Spain. In the UK, as in Ireland, personal tax has been effectively raised for lower income groups, by reducing tax credits which, for many people, more than offsets the raising of the personal allowance. “Fiscal drag”, whereby inflation drags more people into higher tax bands, although their real income has not risen, has affected people on moderate incomes, whereas the temporary 50% top rate of tax on incomes over £150,000 was cut back to 45% - a strong signal of the priorities of a right-of-centre government.

### ***Tax on consumption***

Value Added Tax (VAT) and excise taxes are explicitly increased in all of the MoUs, and exemptions and lower rates were minimised in Greece, Ireland, Portugal, and Romania. In Ireland, VAT was increased from 21% to 23%. VAT is 30% of revenue in Romania. In Portugal, VAT was raised partly to compensate for a reduction in employers’ social tax, a direct transfer of burden from employers to consumers, which is regressive on low incomes. VAT has been increased also in the UK and Spain, as governments more generally shift the tax base from income to consumption.

### ***Tax on housing assets***

Property tax was introduced or increased in Greece, Ireland, and Portugal. The tax was levied in Ireland for the first time, but at a flat rate of €100, therefore regressive, and this tax proved so unpopular it may be replaced in 2013, by a more progressive property tax. In Greece, the tax has been introduced at a time when property values are falling and incomes are cut. In Portugal, as well as the tax increase, there is a reassessment of five million properties in progress, which is likely to result in more property tax being paid.

## **Corporate (business) taxes**

Portugal increased corporate tax (i.e. tax on business profits), but the “standstill rule” in the MoU allows no further increase. Ireland and Romania have amongst the lowest rates of corporation tax in Europe, and there is MoU encouragement to be “business-friendly.” The Irish rate remains 12.5%. Business tax competition is having an impact on rates across Europe. The UK government has twice cut corporation taxes (now 23%), because so many companies had moved profits to lower tax jurisdictions including Ireland, Luxembourg, the Netherlands, and Switzerland.

There is also a rebalancing of taxes between employers and workers in Portugal. The country fiche reported that, in 2013, employers’ social security contributions will fall from around 24% to 18%, and workers’ contributions will rise from 11% to 18%. The opposition Socialist Party threatened to vote against the budget if these changes were not withdrawn.

During the crisis, a large percentage of economic burden fell on the Greek middle and lower classes. By contrast, the economic elite increased its revenues, for example, no revenue was acquired by the funds that went out to foreign banks at the beginning of the crisis.

## **Conclusion**

The MoU approach to taxation seeks to restrain increases in tax revenue, meaning more of the burden of deficit reduction had to be borne by spending cuts.

Within the tax envelope, the MoUs seek to protect business from bearing a higher share of the burden, with a preference for “business-friendly” corporation and payroll taxes. This leaves more of the burden to be borne by employees and consumers, and limits tax-raising capacity. This is a worsening problem, as aggressive business tax avoidance is an increasing global problem. In a new report, the OECD<sup>13</sup> has called for coordinated international action to attack tax base erosion and profit-shifting

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<sup>13</sup> OECD (2013) *Addressing base erosion and profit-shifting*, OECD publishing. Available at <http://dx.doi.org/10.1787/9789264192744-en>

(BEPS). Pressure areas include “harmful preferential regimes”, arbitraging between tax jurisdictions, transfer pricing and intergroup financial transactions, dealing with taxation of digital goods and services, and establishing effective tax avoidance measures.

Apart from Greece, in the MoUs there is improvement in income tax progressiveness (higher percentage taken at higher income), rather the reverse. Rather, governments have used “fiscal drag” from inflation, as well as other routes, to effectively increase the numbers of people who pass the threshold to pay at the next and higher tax band.

Worse, in Romania (and some other Central and Eastern European states) there is an income “flat tax” (one rate for any size of income), which is highly regressive. Since the flat tax in Russia is very low, at just 13%, there are implications for income tax competition between countries and therefore further risks to states’ tax-raising capacity and consequently their ability to fund social welfare, which affects poverty risks in future.

In general, the emphasis in the MoUs on consumption-based taxes, and new or higher user charges for utilities and transport, hurt poorer people most, as these measures are regressive on incomes. Yet, VAT is a third of total revenue in Romania.

Again indicating the same strategic approach, in the UK the discussion on broadening the VAT base is about proposing to put VAT on currently zero-rated food, which will worsen food poverty. On the other hand, the VAT base in some EU countries is being undermined by poor enforcement, and across the EU by internet trading and “carousel” fraud.

The key conclusion of this Chapter is that changes to taxation are part of a much larger and wider transfer of wealth, from low and moderate income individuals to large business corporations and high net worth individuals.

This process predates the financial crisis in Europe, was accelerated by the bank bail-outs, and is further accelerated in the countries with emergency assistance programmes, due to the conditionality of the “business-friendly” agreements in the MoUs on the nature of tax reforms.

Tax justice will need to be a core part of any package to help protect vulnerable and poor people and those on moderate incomes.



## 5. RISKS OF POVERTY AND EXCLUSION

This Chapter discusses current and future risks of poverty in the six study countries. The data referred to are given to illustrate the current situation and to help consider, prospectively, the likely impact of the emergency assistance programmes in the states with MoUs in return for financial assistance. What is evident is that the countries did not and do not share the same poverty profile, just as they did not share the same economic structure or source of problematic debt prior to the financial crisis. But they are getting the same medicine.

The Chapter first discusses the current and future risks arising from changes in the labour market, which is the provider of the primary distribution of income, when jobs can be accessed. Information on changes in job quality from a comprehensive study in the European Jobs Monitor is able to tease out some changes due to the Great Recession and the subsequent “austerity” packages, though the report is not specifically focused on bail-out states.

The unemployment data are at least current, and show the staggering levels of unemployment especially youth unemployment, in some EAP countries. Combined with the evidence on changing job structure, it suggests a bleak future for young people in these states, and confirms the justification for emigration.

The Chapter then presents the current estimates of risk of poverty and exclusion and risks of poverty before and after social transfers. The figures are dated, the most recent being for 2010 and 2011, and there are difficulties in interpreting the data, given the differing timing of the impact of recession and MoUs / “austerity” programmes on wages and cash benefits and services. Although some indicators show a spike after the crash of 2007-8 and consequent recession, the poverty data cannot help us fully understand the impact of the MoUs. It is too soon; even 2011 data were sometimes collected in 2010, when some of the EAP states had not yet applied for emergency assistance. The data can help us see the impact of recession on risk of poverty, although currently available data are also influenced by the coordinated world deflation of 2010.

Given the current situation, the Chapter concludes with some comments on the likely future impact of emergency assistance programmes on the effectiveness of social welfare systems in combating or facilitating poverty risks.

### Changes in labour market structure: risks to job quality

The EU has a Europe 2020 headline target of a 75% employment rate for working age people (16-64). It will not reach the target, as the crisis and recession have brought the rate below 69%, and worse in southern countries, especially Greece. The EU agenda aims to tackle low employment rates through enhanced active labour market policies (ALMP). But the EU has no target for job quality, which undermines sustainable development and fosters risk of in-work poverty.

#### *Current in-work poverty*

In-work poverty is a substantial and growing problem in the EU. Before the impact of “austerity” programmes (which mainly began in 2011 or later), the EU-27 rate of in-work poverty was 8.9%, ranging between 4.5% in Finland and 19.0% in Romania. The rates of in-work poverty for Troika states were Greece - 11.9%, Portugal - 10.3%, and Ireland - 7.6% (2010 figure). The figures for Spain were 2.3%, and the UK 7.9%.

## *What are the risks to job quality, and therefore future in-work poverty?*

Eurofound's *European Jobs Monitor*<sup>14</sup> has produced a jobs-based approach to analysing developments in the employment structure of EU countries due to the financial crisis. They have researched "disappearing" jobs, polarisation of jobs between "good" and "bad" and, upgrading of jobs in terms of skills and wages. The research covers 23 EU countries and excludes Romania, so the data cover only five of the six countries in our study group.

Their key conclusions are, first, that the Great Recession led to polarisation of jobs in terms of wages, but much less so in education levels and non-monetary indicators of job quality. They explain this as due to the relatively large loss of predominately male and unionised mid-paid jobs in construction and manufacturing, which are relatively well paid for their education level and job quality risks, compared to female dominated employment. This may also explain the narrowing unemployment gap between men and women in the recession of 2008-9.

Loss of construction jobs has particular resonance in Ireland and Spain, and to a lesser extent Greece and Portugal, since these were a major source of expansion in mid-pay jobs during the boom preceding the crisis, especially in some poorer regions. In Ireland and Spain, which had the biggest construction booms, job destruction in the sector during the recession was nearly as big as in all other sectors put together, even though construction never accounted for more than 13% of employment. Construction in particular is a cyclical industry, and jobs could return, but the lack of profligate bank finance for the sector in future, and the impact of public sector capital cuts, make this less likely.

The *Jobs Monitor* report also suggested that across the EU there has been, over the period since 1995 and also following the crisis, significant upgrading of employment – with a rising share of high-skill good quality jobs. But the traffic is not all one way, there is polarisation; there has been significant employment growth in low-pay service jobs, and the fastest growing job in the EU is personal assistant in residential care homes.

Personal services in general are difficult to routinize to the extent of replacing workers with machines, and are difficult to "offshore". Rising inequality may be generating more demand for personal services and, therefore, more risk of vulnerable work in future.

Despite the fact these jobs are difficult to routinize, the *Jobs Monitor* report classifies many of these jobs – in care, in hairdressing, in customer service, as low-skill, which may suggest many of our institutions have a patriarchal concept of skill, which undervalues those skills that reflect domestic household skills and tasks, and that have been provided "free" in the home, mainly by women. Challenging this and revaluing such skills will have to be a part of future capacity to combat poverty in work.

The rising share of higher-skill high-pay jobs has been especially the case in northern countries and, most strikingly, in Germany and Austria, following the recession, although the lowest-paid workers have continued to lose jobs.

Prior to the Great Recession, the Troika countries of Portugal and Greece, but also Spain, had the biggest relative expansion of mid-pay jobs, and the biggest decline in recession. But unlike Germany and Austria, they have not added to their stock of high-skill high-wage jobs after 2010; job losses have continued at all wage levels. Ireland has added jobs only in the top wage quintile (i.e., top 20% of earners), while the UK has added jobs in the top 40%.

Much of the growth of knowledge-intensive jobs growth across Europe has been in health and education, especially during the two years of recession 2008-2010. The UK is the only European country in which expansion of the health sector has led to a jobs downgrade, indicating the importance of political choices about the nature of public sector employment. Overall, the *Jobs Monitor* report expects Europe's capacity to create "good jobs" to be diminished by the political choice to curtail or reverse growth in the public sector, in the "austerity" programmes, since 2011. Therefore risks for

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<sup>14</sup> (2013) Eurofound (2013) Employment polarisation and job quality in the crisis, *European Jobs Monitor 2013*, Eurofound, Dublin

job quality in the Troika countries are likely to worsen most, given the focus of the Troika programme budget cuts outlined in earlier Chapters.

There have been knowledge-intensive private sector job gains. The biggest single source of top pay jobs since 2011 has been in ICT professionals, consultants and related services, but the 100,000 jobs added across the EU in one year cannot compensate for cuts in public sector employment. Adding to the risks of poorer future job quality in Ireland and Spain, there have been falls in higher-wage private sector knowledge-intensive services.

The prospects for young graduates are weakened – despite their higher levels of education and the freshness of their human capital, the *Jobs Monitor* study shows that of the 1.56m tertiary level jobs created across Europe with the top 40% of earnings, less than 1% went to people under age 30.

A striking trend across the EU is the increase in part-time employment with consequent risks of involuntary underemployment and poverty. Over 20% of the EU workforce was part-time in 2012; it increased at all wage levels and has been increasing for men. But the most significant increases were in northern countries, including the Netherlands, the UK and Germany, where registered unemployment is relatively low.

Just one-third of the workforce in the Netherlands is in permanent full-time employment and half the workforce works part-time. In contrast, the programme countries, excluding Romania, have been much more affected by unemployment and by loss of fixed-term work. Fixed-term employment has fallen across the EU, almost entirely because of the enormous loss of fixed-term employment in Spain, which had a very high level of such atypical contracts. But Greece and Portugal have had similar patterns of job loss, especially for mid-pay and low-pay jobs.

The additional evidence since the financial crisis presented in its new *Jobs Monitor* has led Eurofound to qualify its earlier work. Despite the trend to upgrading in labour markets identified in earlier studies, there is an underlying trend of polarisation in jobs in developed capitalist economies. The future risk of poverty is therefore higher due to changes in job quality which add to the proportion of low paid, poorly protected work, some of it stimulated into existence by the very inequality that arises from the upgrading at the top end of the labour market.

An associated conclusion of the *Jobs Monitor* study is that institutional factors (for example wage bargaining regimes and social welfare systems) can protect against or facilitate low-pay employment, but that the Great Recession has weakened the power of institutions to protect vulnerable workers. Indeed, the report goes further, suggesting that the “austerity” programmes put in place from 2011 are a coordinated European approach to weakening institutional protection and, therefore, increasing the risks for vulnerable workers and expanding low-paid employment.

Given the evidence of the MoUs, this effect will be greatest there, where such changes are a legal requirement in return for emergency assistance; this risk is noted explicitly in the *Jobs Monitor* report (page 31).

## Unemployment<sup>15</sup>

### *Current unemployment rates*

Five years after the financial crisis and the consequent Great Recession, EU unemployment has reached a new peak, worse in the Eurozone and for young people, and worst of all for the Troika countries of the Eurozone, especially their young people.

In May 2013, unemployment in the EU27 stood at 26.522m people, 19.340m of them in the euro area (now the EU17). Figures are calculated using the ILO definition of an unemployed person, as someone actively seeking work and not currently employed for any hours.

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<sup>15</sup> Data in this section are taken from *Eurostat news release euroindicators* for May 2013 revised version 102/2013, July 2

In May 2013, the unemployment rate in the EU27 was 11% and higher in the EU17, at 12.2%. Both rates are significantly above 2012 (10.4% in the EU27 and 11.3% in the EU17). For comparison, over the same period unemployment in the USA fell from 8.2% to 7.6%.

The lowest unemployment figures for the EU27 were Austria (4.7%), Germany (5.3%), and Luxembourg (5.7%). The highest rates were in Spain (26.9%) and Greece (27.6% in May 2013). Two other southern Troika states in our study group also had higher unemployment than average: Ireland (13.6%), and Portugal (17.6%). Cyprus, which has entered Troika arrangements in 2013, also had high unemployment (16.3%).

By contrast, Romania, which had earlier bail-out in 2008, and the UK, which is not in receipt of Troika lending, both had below average unemployment at 7.7% and 7.5% respectively. Neither of these countries is in the euro area, both have devalued their currency, and the UK is not a participant in the Fiscal Compact, which constrains “excessive” deficits.

Between May 2012 and May 2013, the biggest increases in unemployment were in Cyprus (11.4% to 16.3%) and Greece (22.2% to 27.6%).

Young people under age 25 are most at risk of unemployment. There were 5.525m young people unemployed in May 2013, 3.555m of them in the Eurozone. Over the past year, EU27 youth unemployment fell 53,000, but Eurozone youth unemployment rose by 84,000. Youth unemployment rates in May 2013 were 23.1% in EU27, and 23.9% in EU17 – almost a quarter of Europe’s young people, and one of the biggest risks for future poverty, as well as current poverty, given the impact of early experience of unemployment on lifetime career progress and earnings.

As with adult unemployment, youth unemployment is lowest in the northern core (but above adult unemployment rates). In May 2013, the lowest rates were in Germany (7.6%), Austria (8.7%), and the Netherlands (10.6%).

The highest figures are staggering: Greece (64.9 % in May 2013), Spain (56.5%), and Portugal (42.1%). The Irish figure (26.3%) has more than trebled since 2006. The Spanish figure has more than doubled since 2006. Romania (23.1% in March 2013) and the UK (20.2% in March 2013) were close to the EU27 average of 23.1% (23.3% for the now EU28).

Long-term unemployment has the most severe effects on social inclusion, health and well-being. The figures show a rising trend since the crisis, and can be expected to rise further in those states in which national output is still several points below pre-crisis, and will continue so, especially given ongoing “austerity” programmes, focused on paying down sovereign debt.

In May 2013, 4.6% of the EU labour force had been unemployed for more than one year, 2.5% for more than two years. This rate is rising little more than a year after “austerity” programmes have begun in the majority of EU countries. The range was: lowest, Austria (1.1%) and highest Slovakia (9.2%).

Figures for the southern Troika states show that they were already experiencing above average difficulties in integrating people into the labour market due to the crisis: Greece (8.8%), Ireland (8.6%), Portugal (6.2%), but Romania’s long-term unemployment rate is below the EU average (3.1%).

Compared to 2006, before the crisis, long-term unemployment has nearly doubled in Greece, and is six times higher in Ireland, having spiked after 2008. There has been about a 40% increase in Portugal, but a fall in Romania.

However, long-term unemployment in Romania, though relatively low, began to rise from 2008 (the year of balance-of-payments crisis). In Spain, rates spiked after the financial crisis of 2008: the 2011 figure for Spain was 9.0%, five times higher than its 2006 pre-crisis figure. The UK rate was 2.7%, but though low, has more than doubled since 2006, having spiked after 2008.

## *The evolution of unemployment and the risks to EU cohesion from widening geographical dispersion of unemployment<sup>16</sup>*

In 2000, at the launch of the ten-year Lisbon strategy for jobs and growth, unemployment was 20m (9%), six million lower than today. In the first quarter of 2008, just before the onset of the financial crisis, unemployment had fallen to 16m (6.8%). But in the next two years, unemployment rose by seven million, taking the unemployment rate to 9.2% and negating any effect of the Lisbon strategy.

The co-ordinated world reflation of 2010 helped to cut unemployment, but the switch to austerity policies in 2011 has coincided with markedly increased unemployment, negating the effects of the reflation. By end 2012, the unemployment rate of 11.8% was the highest since 1995. The USA, which has retained a policy of central bank bond-buying, thus pushing cash into the economy to support domestic demand, has sustained a downward path of unemployment, indicating the growth-defeating impact of EU “austerity”.

From 2001 until 2008, female unemployment across the EU was above male unemployment, but followed the same path. Since then, the gap between the two rates has almost closed, but continued to follow the same evolution, dipping in 2010 to mid-2011 and then rising sharply, probably due to changes in the employment structure discussed above.

In 2001, youth unemployment was about twice adult unemployment, it is now 2.6 times higher, so that young people under 25 have suffered disproportionately from the crisis and its consequences. As the section above suggests, this seems unlikely to improve without major efforts by governments and EU institutions.

Germany, which has low adult and youth unemployment, is now offering to “export” its employment and training model and to “import” for training some young unemployed from the most affected countries.

The 6b euros the EU has reallocated to address youth unemployment in the most heavily affected countries, and therefore especially the southern Troika countries, is wholly inadequate to the scale of the disaster.

Countries will have to do much more, individually and collectively and accept that “austerity” has run its course. The basic problem is there are not enough jobs.

2001 was a low point for unemployment across the EU, after which unemployment began to rise, before moving up sharply from 2008, following the financial crisis, except for the 2010-11 dip following coordinated reflation, indicating that the public spending succeeded in creating jobs. The countries in our study followed the same pattern but with much sharper unemployment increases following the financial crisis.

In 2001, Irish unemployment was amongst the lowest in the EU, at 3.8%. In 2007, just before the financial crisis, it was 4.7%. By 2009 it was 12%, treble the 2001 rate and it continued to rise, to 14.7% at the end of 2012. Portugal too, had low unemployment in 2001 (4.8%), rising to 8.9% in 2007; 10.6% in 2009 and 15.9% in 2012. Greece and Spain had unemployment rates a bit above the average in 2001, at 10.7% and 10.5% respectively. But Greek unemployment fell every year until 2008 (7.7%).

The massive spike in unemployment took place in 2011 (17.7%) and 2012 (24.3%). In Spain, unemployment fell to 8.3% in 2007, before spiking to 18% in 2010 and 25% in 2012. The scale of GDP loss in these countries, both from the financial crisis and the recession probably explains the rapid rise in overall and youth unemployment.

But the timing of the later large spikes in unemployment suggests that pace of debt repayment and the macroeconomic conditions from the Troika programmes have had an impact.

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<sup>16</sup> Data in this section are taken from *Unemployment statistics* data to May 2013 accessed at [http://epp.eurostat.ec.europa.eu/statistics\\_explained/index.php](http://epp.eurostat.ec.europa.eu/statistics_explained/index.php)

EU cohesion is weakening due to increasing unemployment dispersion. Some countries are now experiencing falling or stable unemployment, whereas unemployment has continued to rise in the majority, and is at crisis levels in the three southern countries with Troika Memoranda.

The ongoing cuts in budgets and social protection have provoked continued recession (falling GDP) in the southern Troika member states. Ireland came out of recession (in 2012), but has fallen back in 2013. The others have had five years of falling GDP. In the section above, it was suggested there were particular risks to job quality in the Troika countries. In this section, it is hard to see where enough jobs of any sort will come from.

In contrast to the southern Troika countries, unemployment in both Romania and the UK was below the EU average in 2001, and has remained below the average. Romanian unemployment was 6.8% in 2001 and 7% in 2012 and has showed only small variations.

While Romania had Balance of Payments assistance from the IMF and the EU, and continuing World Bank programme support due to the impact of the financial crisis on its trade balance, it did not experience the scale of impact on GDP of countries such as Ireland and Greece. Its severe economic collapse was much earlier, during the policies of the transformation period of the 1990s, which also restructured the institutional framework for labour markets and social welfare. It should be noted that, while Romania has relatively low unemployment, more than 40% of its population are at risk of poverty.

Unemployment in the UK was 5% in 2001, rising to 7.6% in 2009 and 7.9% in 2012. The UK experienced a big financial collapse and 7.2% was taken out of GDP. It has had a swingeing austerity programme, though not on the scale of the southern Troika countries. The relatively low UK unemployment has puzzled experts, but there are factors which help to explain it, and which are a warning that changing employment structures may reduce unemployment, but may only disperse poverty more widely.

Sterling is about 25% lower and the UK has a very “flexible” labour market, with weak employment protection, and weak protection for trade union action. These may have contributed to the collapse of productivity and to real wages (i.e. purchasing power of wages), which are 9% lower than before the crash. The UK path may disperse the impact of the contraction across the low-and mid-paid population. The 700,000-plus jobs being lost from the public sector spending cuts over three years suggest that, even if unemployment does not rise significantly, risks of in-work poverty will increase substantially. Already, there is a higher number of poor children in the UK in households with someone who is employed, than in those with no paid workers.

## Poverty

The sections above and earlier Chapters suggest there are strong risks of poverty arising from the labour market and from cuts and restructuring of public expenditure. The 2011 at-risk-of monetary poverty rates by gender show women fared worse than men, with the biggest gap in the UK. Children fared worse than adults. There are no comparable figures for people of minority ethnic origin, or people with a disability, though we know their risks are much higher.

This Chapter indicates that the countries in this report do not show similar poverty profiles. There is no very consistent pattern, either within or between countries, although on balance, indicators show a change for the worse.

For example, in terms of current risks of poverty, Greece, Portugal, and Romania are generally above the EU average, with Romania amongst the poorest absolutely and with the highest relative risk. Relatively, and up till now, higher education in Portugal and Romania has given strong protection from poverty risks, in stark contrast to Greece and Spain. Ireland and the UK are rarely much better than the EU average risk of poverty, and child poverty in the UK is relatively high for a rich country.

Till now, Romania has had the worst EU figures for child poverty and in-work poverty, but the best figures for graduate at-risk-of poverty. Greece has the highest EU risk of monetary poverty, and Spain the highest SS 80/20 measure of inequality, and Spain and Greece the worst youth unemployment.



Whatever the relative rank on an indicator, the real standard of living is much different between the countries. Of the states in our group, Romania is much poorer and with the least developed welfare state; it is also one of the poorest countries in the EU. Greece is the poorest of the former EU-15 states.

***At-risk of-poverty and/or social exclusion (AROPE)<sup>17</sup> combines income poverty, low work intensity and severe material deprivation***

In 2011, there were 119.82m people in the EU27 at risk of poverty or social exclusion. The number was declining before the crisis and until 2009, after which it began to rise.

One of the five headline targets in the Europe 2020 Strategy is to lift at least twenty million people out of risk of poverty or social exclusion. This is a weak target (and the only target not expressed as a percentage) and, as the Chapter shows, the largest contributors to poverty in absolute numbers are not necessarily those countries with the greatest risk of poverty.

The biggest contributors in numbers are: Italy (60m people and 17m at risk), Germany (80m people and 16m at risk), the UK (63m people and 14m at risk), Spain (47m people and 12m at risk), France (63m people and 11.8m at risk), and Poland (37m people and 10m at risk). The target is unlikely to be met by 2020. Unlike macroeconomic conditionality, the poverty target lacks rigour regarding choice of indicator, monitoring of progress, and implementation of suitable policies.

The AROPE (at-risk-of-poverty-or-social exclusion) indicator measures progress towards the target. It is complicated, defined as the share of the population in at least one of three conditions (if a person appears in more than one category, they are counted only once):

- At risk of income poverty (below the 60% median threshold in the member state)
- In a situation of severe material deprivation (living in a household lacking four of nine non-monetary items meant to indicate economic strain)
- *And/or* living in a household aged 0-59, in which adults aged 18-59 have very low work intensity (i.e. ratio of household months worked compared to potential months, in full-time equivalent hours over one year. “Very low” work intensity households work less than 20% of their potential over the year).

The AROPE figures are more out-of-date than the employment data, the most recent figures are for 2010 and 2011. While the large population countries contribute the greatest numbers to EU poverty, they do not necessarily have the greatest risks.

The EU27 AROPE figure for 2011 was 24.2%, compared to 23.6% in both 2008 and 2010. The range was: lowest in the Czech Republic (15.3%) and highest in Bulgaria (49.1%). All of the MoU states were above the average rate: Greece (31.0%), Ireland (29.4%), Portugal (24.4%), and Romania (40.3%). The figure for Spain was 27.0%. Only the UK was below average, at 22.7%.

Showing the impact of the financial crisis and recession, the Greek figure fell between 2006 and 2008, then rose from 27.7% to 31.0%, in one year (from 2010 to 2011). The Irish figure rose 20% between 2008 and 2010. The Spanish figure also started to rise from 2008. The Portuguese and Romanian figures were worst in 2008, at the time of the crash, and have since fallen back slightly. The UK figure has shown little change. But the figures cannot yet show the impact of the MoU or “austerity” packages.

In 17 member states, children aged below eighteen are more at risk than adults, including people aged over age 64. The EU27 AROPE rate for children was 27% in 2011.

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<sup>17</sup> Data in this section are taken from *People at risk of poverty or social exclusion*, drawn from Statistics explained, data from January 2013 (refers to 2010/2011) accessed at [http://epp.eurostat.ec.europa.eu/statistics\\_explained/index.php](http://epp.eurostat.ec.europa.eu/statistics_explained/index.php) as well as more broadly, at [http://epp.eurostat.ec.europa.eu/portal/page/portal/income\\_social\\_inclusion\\_living\\_conditions/data/main\\_tables](http://epp.eurostat.ec.europa.eu/portal/page/portal/income_social_inclusion_living_conditions/data/main_tables).



The biggest gaps (more than 5%) between the adult and child rates were in Latvia, Bulgaria and Romania, where more than 40% of children were at risk of poverty. In fact, the risk for children in Romania was 49.1%, compared to 39% for adults aged under 64. In Spain, children's risk was 30.6%, compared to adults at 27.2%. In Portugal, children's risk was 28.6%, compared to adults at 23.2%. But in Greece in 2011, children (30.4%) were marginally less at risk than adults (31.6%).

Despite the UK's relative wealth, it has a relatively high rate of child poverty of 26.9%.

### *Severe material deprivation*

As the data here show, severe material deprivation - lacking four of nine necessary items – is closely correlated with absolute living standards. In 2011, the EU27 rate was 8.8%. The range was: lowest Luxembourg (1.2%) and highest Bulgaria (43.6%).

The MoU states in this study were: Romania (29.4%), Greece, (15.2%), Portugal, (8.3%), and Ireland (2010 figure, 7.5%). The figures for Spain were 3.9%, and for the UK 5.1%. While still relatively low, since 2006, the Irish figure for material deprivation has increased about 50%. The Greek figure has risen around 30%. The Portuguese and Romanian figures have fallen (both peaked in 2008), and there has been a small increase in the UK. It would be interesting to know why Portugal's rate is relatively low, compared to its absolute living standards.

### *Low work intensity*

Low work intensity is a very high risk for poverty. The 2011 EU27 figure for people living in very low work-intensity households was 10.0%. The range was: lowest Cyprus (4.5%) and highest Belgium (13.7%), although the newest member state, Croatia, had 17.0% of very low work intensity households. The MoU states' rates were: Ireland (2010 figure 22.9%), Greece (11.8%), Portugal (8.2%), and Romania (6.7%). The figure for Spain was 12.2% and for the UK 11.5%. The Irish and Spanish figures have doubled since 2006. The Greek and Portuguese figures show significant increases, the Romanian figure has declined since 2008, and the UK figures are little changed since 2006.

### *At-risk-of-poverty after social transfers*

Social transfers are generally effective at cutting risk of monetary poverty (one of the three components of AROPE). In 2011, the EU at-risk-of-poverty rate for single people was cut from 26.1% to 16.9% after social transfers. The highest risk rates after social transfers were in Bulgaria (22.3%) and in three MoU countries: Romania (22.2%), Spain (21.8%), and Greece (21.4%). The Portuguese rate was also above average, at 18%. The figures for Ireland (16%) and the UK (16.2%) were a little below average.

Since 2006, poverty after social transfers has increased a little in Greece, and more substantially in Spain. It has fallen in Ireland and in the UK, helped by tax credit support to low income workers. It fell in Romania till 2010, when it began to rise, and is little changed in Portugal.

Ireland's at-risk-of-poverty rate after social transfers of 16% (2010 figure) shows the high effectiveness of the social transfer system, as the pre-social transfer risk was 40%. UK transfers were also very effective, cutting poverty risk from 31% to 16.2%. Romania, Greece and Portugal were quite effective, cutting poverty risks by six or seven percentage points. The Greek transfer system was less effective, cutting between three and four percentage points from risk. However, it should be noted that figures presented are for single persons, and risk and effectiveness of transfers may differ by household type. It should be noted that these data are before changes to the welfare system in MoU countries, before "austerity" packages more generally, and probably before people fall out of insurance cover, in those countries where that is the route to access. But overall, Eurostat concluded that income distribution shifted towards lower incomes in the crisis, due to the efficacy of social transfers in redistributing income.

Because the 60% monetary thresholds vary nationally, the figures for relative poverty risks tell nothing about absolute levels of living. The 2011 EU average was 12,005 euros. Spain, Ireland and the UK were

close to that average; Portugal was little more than 5000 euros, and Greece about 6,600 euros. In the new Romanian currency, the poverty threshold is equivalent to just over 1200 euros. Also, due to changes in the distribution of income in recession, the 60% threshold has fallen in some countries. For example, between 2010 and 2011, the threshold fell more than 500 euros in Greece, and more than 300 euros in Portugal.

To address the influence of sudden shifts in income distribution, Eurostat calculates the at-risk-of-poverty indicator anchored in time, which keeps the poverty threshold fixed in real terms over a longer period. The 2011 figures anchored at a fixed point in time (2005), showed the lowest at-risk-of poverty rate was Slovakia (2.7%), and the highest was Greece (22.9%).

The other Troika country rates were Ireland (2010 figure 15.8%) and Portugal (15.8%). The figures for Spain were 21.0% and UK 17.0%. There are no comparable figures for Romania anchored at 2005. Anchored at 2008, the largest increases in risk of poverty in 2010/11 were in Greece (6.9pp) Estonia (4.2pp) and Spain (3.4pp). Estonia's increased poverty risks have coincided with the biggest falls in unemployment.

The scale and depth of the likely impact on poverty will be understated by the EU AROPE measure. Especially in the short to medium term, it does not properly capture the rise in absolute poverty, because AROPE includes only non-monetary items common across the severe material deprivation index, and neither does it capture the differing inflation rates and, therefore, hit on real incomes, faced by poor people who spend a large proportion of their income on food and utilities, which have both spiked up in price in recent years. Nor does it adequately capture the cuts to the "social wage" of services, in states with shrinking GDP and undergoing neo-liberal "austerity" programmes. Exclusion appears to be defined only as exclusion from any paid work, even if the nature and rewards for the work reinforce long-term poverty.

### *The protective effect of higher education*

Given changes in the labour market, what is the effect of education on risk of poverty? At-risk-of poverty rates are highest for those with relatively low levels of education, but the impact differs amongst the study countries. The EU27 2011 at-risk-of poverty rates for those with education no higher than level 2 (lower secondary school) was 24.3%. The range was Netherlands (11.9%) to Bulgaria (44.3%).

The figures for the MoU states were: Romania (34.6%), Greece (29.6%), Ireland (2010 figure 19.0%), Portugal (19.2%). In Spain, the rate was 26.3%, and in the UK 26.5%. The Greek and Portuguese figures have risen from 2006, whereas the Romanian and Irish figures have fallen – by about 30% in Ireland. There has been a recent increase in Spain, and the UK figures peaked in 2008, but have since fallen substantially.

For those with first and second stage tertiary education (university level), the 2011 EU27 figure for those at-risk-of-poverty was 7.3%, less than one-third the poverty risk of those with level 2 education. The lowest were Romania (2.0%) and Portugal (2.4%); the highest, Spain (10.0%). The other figures are Greece (7.1%), Ireland (2010 figure 9.0%), and the UK (9.4%).

The at-risk-of-poverty rate for graduates has increased from 2006 in Greece, Ireland (close to double) and Romania, where figures have nearly trebled since 2006, but are still very low. Figures in Spain and the UK have risen from 2006. The Portuguese figure remained low, but has fallen back from an increase in 2010.

The figures are difficult to interpret given differences in the proportions of people with few and high qualifications, differences in social protection systems and trends, in cultural factors and labour market structures, as well as differing levels of unemployment and migration. Eurostat has noted that there are half-a-million workers in the EU working outside their EU home country, and that the most skilled are most likely to move states.

## Conclusion: future risks of poverty

This Chapter has shown that risk of poverty is already high in the study countries, and absolute poverty is very high in Romania. Unemployment is very high in the three southern Troika countries, but underemployment is more common in Romania and the UK.

Job quality is threatened in all the countries in this report, but especially in the southern Troika countries there is a poor outlook for high-pay job creation. Savage cuts in essential social protection and services have left especially vulnerable groups at increased hardship, and places new categories at risk of poverty and social exclusion.

Austerity cuts to social protection system have been systematically applied in both the countries impacted by the MoUs, and other member states.

Reflecting on the previous Chapters and on the material in appendices, what does the future hold for both risk of poverty and capacity to combat it?

### *Weaker capacity to achieve inclusive growth*

Five years after the financial crash, UK growth is well below 1%, but predicted to rise. Ireland and Romania returned to positive growth, though Ireland has since fallen back into recession. Greece and Portugal (and Spain) remain in recession. All the countries have GDP levels below those of the pre-2007 financial crash, and renewed Eurozone recession will affect potential export-led growth in all of the states.

The Romanian case shows the potential of high growth to raise living standards and dramatically cut the misery of absolute poverty, even if social fairness did not improve. Absolute (but not relative) poverty declined from 35.9% in 2000 to 5.7% in 2008. But, even so, the very least advantaged have been left out. Absolute poverty became concentrated among vulnerable groups and in rural areas, where 75% of poor people live.

Various factors have come together to weaken growth capacity, especially inclusive growth, especially in the countries with MoUs. There are implications for the costs of social protection or gaps in it, and the impact on poverty risks.

The discussion in Appendix 4 of this report indicates that many of the structural problems of the states in the study were long standing, and accelerated after 2003. Greece, Ireland, Portugal plus Romania, but also the UK and Spain, suffered as well as gained from entry to the Single Market. Disadvantages included accelerated deindustrialisation and unbalanced development. Greece, Ireland and Portugal also suffered as well as gained from entry to the Euro (as did Spain). Capital inflows during their rapid growth period fuelled consumer booms at low “German” interest rates, and some suffered also from entry at overvalued exchange rates (e.g. Greece), exacerbating their weak trade competitiveness.

The Eurozone framework appears to have been designed with core Member States in mind, and this is true for the Fiscal Compact also. The countries with MoUs, but also Spain and the UK, were developing or expanding their public sectors during their boom years to 2007. Excepting in the UK, in which real incomes stopped increasing after 2003, and in which inequality continued to rise, these states were increasing real incomes, and often reducing inequality.

The development models, especially of the southern states, may have clashed in timing with northern retrenchment – e.g. German wage stagnation over nearly two decades – and with the abandonment of Keynesian-style demand management and interventionist economic policy in much of the EU.

There is also the possibility that the post-crash recession and “austerity” programmes have damaged future growth capacity permanently, leading to a lower and unbalanced growth trajectory from which to produce output and high-pay jobs; therefore the future standard of living of those on modest incomes has been badly damaged.

The impact is much greater in the MoU states, especially Greece, which has lost at least 5% of GDP a year after receiving the biggest bail-out. Due to the recession Greece has lost 25% of GDP in just 3

years – from this, only 15% is estimated that can be recovered. Ireland took proportionately most out of its economy to pay for the bank bail-outs.

Public debt is still increasing in most of the countries in this report, due to rising unemployment, falling tax revenues, and repayments to foreign creditors.

Worker purchasing power is reduced. The Greek country fiche reported that private consumption collapsed in 2008, is back at 2003 levels, and 100,000 companies have closed down. Both the Spanish and UK country fiches noted that, in 2012, wage increases were little above 1%, while inflation was close to 3% in the UK, and 3.4% in Spain. Incomes are unlikely to recover to pre-crash levels for a decade or more.

Further, the shift in power to business through privatisation, liberalisation, and changes to collective bargaining is likely to increase primary inequality again, and reduce the share of wages in GDP yet further. Higher inequality (the Gini coefficient and the SS 80/20 ratio are above the EU average in all six countries in this report) means that, in future, less of the more slowly growing cake is likely to be available for those on modest incomes, increasing the risks of poverty.

### *Reduced ambition for the social state and low priority for combating poverty*

The combined and multiplied impact of recession, fast and large scale expenditure cuts, diminishing tax base and welfare and structural reform are doing untold – and uncounted – damage to the capacity to combat poverty, and may be guilty of generating increased poverty.

The heaviest burden in all the austerity programmes is borne by the welfare and public service budgets. Public capital, as well as current spending, has been cut in all the MoU and other austerity programmes, suggesting reduced future capacity to produce well-educated, healthy and productive workforces, as well as good quality jobs.

A feature of the MoUs, except perhaps Ireland, is the agreement to commercialise general, and even social, services. There is almost no recognition in the programme measures of any principle of universalism or of added value to societies of public goods, and no ambition for significant redistribution to support social inclusion and cohesion (rather, the reverse).

Despite some positive measures, especially in Ireland and Portugal (which also had a higher ratio of tax to budget cuts, which is less “poor-unfriendly”), there has been low or no priority for issues of relative poverty and social exclusion, and only minimal attention in Greece, Portugal and Romania, to preventing risk of absolute poverty through a social assistance safety net with fewer holes.

State welfare benefits have been eliminated, cut or uprated by one or another unfavourable measure of price inflation, rather than wage inflation, so that if wages recover, those on social benefits will drift further below the rest of society. Access to income benefits and services has been tightened. Working age benefits and support for sick and disabled people and migrants have been especially hard hit. Children have not been spared.

The Romanian MoU, combined with the impact of recession in Europe on its potential growth, may undo the benefits of the previous high growth period. The MoU constrains public spending such that adequate social assistance cannot be implemented, despite the remaining risk of absolute poverty. The Guaranteed Minimum Income scheme, for example, reaches only 30-40% of poor people.

Current social assistance rates have low adequacy, being about 10-20% of the minimum wage, and are not well targeted. The Romanian country fiche noted that only 17% of spending reaches the poorest 20% of households. Relative at-risk-of-poverty was 40.3% in 2011.

Poverty on a fixed standard has risen in many states in the EU. The spread of food banks in Greece, Portugal, Spain, and the UK is evidence of the rise of severe and absolute poverty, due to the squeeze on low incomes and inadequate social assistance.

Poverty risks, depth of poverty and the capacity to combat poverty are worsened by the expenditure cuts, severe and continuing probably till near 2020 in a downward spiral of low or no growth, falling tax revenue and rising need. There will be no contribution to meeting the EU poverty target from the

countries in this study; quite the reverse. Nor does it seem there are credible national strategies to combat poverty in most EU states. The Romanian country fiche noted that in the last twenty years there has not been a poverty reduction strategy in Romania, and there is not one now.

Certainly, EAPN's assessment of the National Reform Programmes shows little evidence<sup>18</sup>. Despite the regular assessments of the impact of the crisis by the Social Protection Committee, it does not appear that the EU as a whole is tasked with recording, disseminating and, even more to the point, addressing what we know is happening.

There may be extreme consequences for human well-being of the crisis and the policy choices by governments and EU institutions. According to the paper in *The Lancet* referred to in Chapter 2 of this report<sup>19</sup>, mental disorder has increased in Greece and Spain, and job loss and late access to treatment due to low income and reduced services has affected health, especially mental health in Greece, Portugal, and Spain.

Suicide for young people has increased across the EU since 2007, reversing declines in many countries. EU suicide data varies greatly between nations and is not related to country wealth. The data stop in 2010, and therefore barely cover the recession, and not at all the austerity response, but the country fiches suggest suicide is rising.

The Greek fiche reported 2500 suicides (but estimated more than 3.500), a dramatic increase over just a couple of years, in a country which once had amongst the lowest recorded suicides in Europe. *The Lancet* paper refers to a Greek ministry figure of a 40% rise in one year, albeit from a low base.

A 2012 report "Health and Crisis", referred to in the Portuguese country fiche, emphasised the impact on mental health, and noted in 2010 there were more suicides (1101) than deaths in car accidents (1015).

Suicides have risen in the UK and, in 2011, there were twice as many suicides (3644) as all deaths in transport accidents (1815)<sup>20</sup>.

But mental health services have not been spared from cuts.

### *All in this together?*

Yet again, increased unemployment and more and deeper poverty and exclusion are seen as a "price worth paying" for saving capitalism from itself.

We are not "all in this together". The financial crisis, but also business tax avoidance and evasion, especially by multinational firms, as well as poor domestic governance, have severely hit the budget capacity of many poor and middle income countries outside the European Union, as well as poorer states within it. Those with weak competitive positions and underdeveloped social stabilisation mechanisms, such as effective social protection systems, have suffered most, in the EU as well as beyond our borders.

As earlier Chapters and the Appendices indicated, the financial crisis has had very different impacts in different member states. Germany, for example, recovered quickly from the financial crash. The burden of deficit adjustment in the Eurozone was taken wholly by the debtor countries, and has crippled the economies of the Troika states. But the coordinated deflation of the Fiscal Compact is now shrinking the Eurozone economy.

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<sup>18</sup> EAPN, July 2012, *An EU Worth Defending - Beyond Austerity to Social Investment and Inclusive Growth EAPN analysis of the 2012 National Reform Programmes (NRPs) and National Social Reports (NSRs)*. Available at <http://www.eapn.ie/eapn/wp-content/uploads/2012/07/eapn-2012-report-on-implementation-of-nrp-and-nsr.pdf>

<sup>19</sup> Karanikolos, M., Cylus, J., Thompson, S., BASU, S., Stuckler, D., Machenbach, J. And McKee, M. (2013) Financial crisis, austerity and health in Europe, *The Lancet*: 381: 1323-1381, March 27

<sup>20</sup> The Guardian (2012) What do people die of? November 6, Accessed at <http://www.guardian.co.uk/news/datablog/2012/nov/06/deaths-mortality-rates-cause-death-2011>

Growth is weak even in creditor countries, and no doubt the German government is concerned at the risk of becoming, effectively, lender of last resort in the EU. Thus the shift from “bail-out” to “bail-in” so that, in future, as in Cyprus, the private creditors will take a hit and the sovereign government (and Troika lenders) will not take on responsibility for the whole of bank losses – as Ireland did, but Iceland did not.

Simultaneous contractionary growth seems to be the paradoxical economic model in vogue in Europe. After four years, there is evidence that it is hurting, but not working. Without major policy changes, the fiscal framework will continue to squeeze the social state, with severe consequences for the European social model and, therefore, for risks of poverty.



## 6. THE DEMOCRATIC DEFICIT AND SOCIAL RESPONSES

The Fiscal Compact and other national constraints on maximum public debt and deficit are very tough. They are made much worse in the economic assistance programme countries, by the rapid timetable for spending reductions, including running budget surpluses (see MoUs in Appendix 3) to ensure foreign creditor debt can be paid down. The structural “reforms” are part of the radical institutional changes required to enable the scale, depth and pace of cuts. The MoUs agreed in return for the emergency assistance programmes are driving the reshaping of the economic and social framework of the countries.

There are three overarching effects:

- To cut workers’ bargaining power over the individual wage income from employment
- To deeply damage the “social wage” and re-commodify services essential to equality of opportunity
- To reduce the ambition of the social state away from redistribution of resources and fairness based in equality of opportunity for all, towards a minimum safety net in charity.

Thus the Troika MoUs, are not only about deep cuts now, but about a different kind of economy and society in future, in which risk is redistributed to those least able to bear it. It is a future in which the public sector is tightly constrained in its growth and capacities, in which a bigger private sector has been created out of formerly public sector utilities and services, and in which there is a massive transfer of power and wealth from those on modest incomes to very large private sector for-profit employers and high net worth individuals.

These programmes are being increasingly implemented in states that were in the process of building or consolidating their welfare systems, and had not really participated in the retrenchment which had already proceeded “voluntarily” in richer and northern states, with well-developed social and welfare arrangements. In effect, the emergency assistance countries are denied a social democratic development path.

### Political impact of the EAPs

The EU social and democratic deficit appears to have been pushed to an extreme level by the Eurozone Fiscal Compact, and especially the Troika lender interventions – including the IMF – in which unelected bodies appear to be imposing detailed control on internal democratic arrangements and development strategies.

In a Eurobarometer survey<sup>21</sup>, trust in the EU institutions has fallen, especially in Greece, but also Spain. Distrust of the European Central Bank has risen in Ireland. Driving ahead with Eurozone economic integration without greater European democratisation is deeply damaging to the European project.

Certainly, in Greece, a large part of the population is angry at the loss of sovereignty without their consent. The first loan agreement – following the first Memorandum of Understanding – was submitted to the Greek Parliament in May 2010, but never ratified. The second loan agreement, following the second Memorandum, was submitted to the Parliament three times, and finally voted on the 14<sup>th</sup> of January 2013. The Greek fiche refers to the loan agreement as including one provision that refers to: “...our country’s resignation of its national sovereignty - neither the borrower nor his assets have immunity because of sovereignty – as well as the forbiddance of any future debt restructuring in terms of our country’s benefit. Furthermore, obligations are provided for investigations, controls and fraud preventions.”

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<sup>21</sup> European Commission (2011) Report: *Standard Eurobarometer 75, Public opinion in the European Union*, spring 2011, p 42, August. Accessed at [http://ec.europa.eu/public\\_opinion/archives/eb/eb75/eb75\\_publ\\_en.pdf](http://ec.europa.eu/public_opinion/archives/eb/eb75/eb75_publ_en.pdf)



The content of this loan agreement referring to the abolition of national sovereignty should have been ratified by at least by 180 MPs, as it requires a constitutional change. Many of the implemented measures over the past three years may be illegal. MPs have a political responsibility, yet a number of the measures (availability of public employees, abolition of collective agreements, minimum wage repeal, arresting people for public debt etc) were not voted in Parliament, a practice promoted only during the period of the Greek junta in 1967-1974.

It is difficult to understand in what circumstances some MoU states, such as Romania, agreed to lenders imposing conditionality on collective bargaining arrangements, which are protected social rights in democracies. It is equally difficult to understand why Portugal agreed to a standstill on its tax-raising capacity, and its preference for fewer cuts and more weight on taxation, which better protected the majority of people on modest incomes. But it is clear that both these developments weaken social welfare systems.

In Portugal, the discussion around the “Social State” is on the agenda. The IMF and World Bank are already providing technical assistance to the government to make cuts in social transfers, which could reach 4b euros in 2014. The future of the welfare state is discussed by political parties, media and universities. As elsewhere, the debate is increasingly polarised. One pole called for the reduction of social spending as part of the solution to the imbalance of public accounts. The other pole contends that the volume of expenditure must be kept as it is, or increased, to offset the rise in unemployment and poverty risk.

Romania and Portugal have been in some political disarray. In Romania, this followed the resignation of the Romanian Prime Minister, after large and violent public demonstrations in early 2012. In Portugal, the Prime Minister’s position is shaky, following the resignation of the finance and foreign ministers.<sup>22</sup> The impact of the bail-out programme seems to have split the two-party coalition government. The Socialist Party is now well ahead in the opinion polls and, although an election is not due for two years, it may come sooner.

Ireland, once also the “poster boy” for its efficacy in implementing six years of “austerity”, will have the largest budget deficit in the EU this year (7.5%), and is back in recession. The three-party Coalition is losing political support, and there is pressure on the Irish Prime Minister, following the release of damaging transcripts of the Anglo-Irish bankers and their buccaneering attitude to bailout.

Most recently, Cyprus has fallen victim to the banking crisis and, perhaps, to interference focused on its potentially very significant offshore energy reserves. The previous government did not want to agree to sell state assets, or to interfere in collective bargaining. The new government appears to have no such qualms. Given the experience of the Troika countries in this report, it is likely that the new government will lose support, as the public begin to realise the social and political implications of Troika MoUs.

Even where there is not a sovereign bailout, “austerity” packages in Spain and the UK are weakening government by consent, and stable two-party democracy is in decline, as support falls or moves to other smaller parties.

In Spain, in 2011, a “Constitutional Pact” was signed between the two main parties, in order to calm the markets, calm Europe, and show that Spain was committed to not being a problem for Europe. This led to a change in the Constitution, without previous public debate or involvement of citizens.

Structural adjustments – budget deficit contraction, financial, fiscal and labour reforms — were agreed by the Spanish government through several new mechanisms and regulations, in a process closely monitored by the European Commission and the German government. The Spanish government passed an “Organic Law on Budget Stability and Financial Sustainability of the Public Administrations”, which transposes the Fiscal Compact. The high degree of conditionality was not explained, and still remains unknown to the majority of the population.

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<sup>22</sup> Information this section on political changes in Portugal, Ireland and Spain is drawn from the Europe pages of *The Economist* (2013) July 6<sup>th</sup> to 12<sup>th</sup>, pp 34-36

Bank bailout with EU funds was presented as a victory by the government, but the public was not aware of the implications. Trust in public, regulatory institutions, such as the Bank of Spain, is lost. Politicians, political parties and corruption have become the third “main worry of Spanish citizens”, while the political situation is considered as to be “bad or very bad”, according to the January 2013 CIS Survey<sup>23</sup>. Political backing has nearly halved for the Conservative Party in Spain, and fell several points for the Socialist Party, with a rise in support for centre-left and communist parties.

The UK is implementing the neoliberal “austerity” agenda, without external compulsion and with weak democratic legitimacy. The Conservatives did not get a majority in the 2010 election. As a minority government, they could not have implemented a deep “austerity” programme and institutional reform that is privatising core social areas of health, education and labour market inclusion. They have required Coalition Government and the cooperation of the small third party as junior Coalition member in overturning some of its own key pre-election commitments to enable implementation in an electoral framework in which “winner takes all”, and the lack of a written Constitution weakens checks and balances. Support for both Coalition parties has fallen significantly, but has not improved much for the Labour Party.

## Social resistance to austerity programmes

The biggest losers in every case are those with the least voice – the poor and vulnerable and those on moderate incomes. This report has shown that the measures adopted by governments pursuing “austerity” have had extensive social impact and political consequences, in terms of loss of support for governing parties, and loss of faith in institutions; they have also sparked significant social responses in the countries concerned.

The crisis seems to be polarising populations internally (least so perhaps in Ireland) in a way that may be deeply damaging to western democracy, most obviously in Greece and perhaps Spain. Large national protests have mainly had limited impact. Many governments may agree with UK Chancellor George Osborne, that active dissent could have been worse and that resistance is crumbling. But perhaps they underestimate the longer term consequences for traditional democratic politics of the accelerating loss of party support, especially amongst the young, and the loss of faith in national and European institutions.

What is emerging in the MoU states and some others are a variety of single issue campaigns and new forms of protest and organisation, from which new political changes may emerge in future; some examples are described below.

### Greece

According to the Greek country fiche, the most serious movement against Troika and MoUs was that of “Squares” (Resentful – Indignados – Movement), which lasted four months and finished the day the second Memorandum was voted by the Greek Parliament (October 2011), under very severe police suppression. More than one million people participated in this movement every day, blaming politicians as responsible for Troika interference, and demanding an audit of the debt, protestation of the Memorandum, German Second World War compensations, as well as a constitutional change in the direction of direct democracy, nationalization of banks, alternative economic models etc.

The manifestation took place at the Military Parade on 28<sup>th</sup> of October, the day when Greek people celebrate their resistance against fascism in 1940. Also, a series of isolated strikes and demonstrations took place – such as when Chancellor Angela Merkel visited Athens.

Other examples of actions include the “Don’t Pay” movement, against any kind of national payments, manifested through refusal to pay for road tolls and also the Committee for the payment of German

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<sup>23</sup> Centro de Investigaciones Sociológicas, CIS; Barómetro de diciembre 2012, Estudio Nº 2972, [http://datos.cis.es/pdf/Es2972mar\\_A.pdf](http://datos.cis.es/pdf/Es2972mar_A.pdf)

war reparations and the occupation loan. There are many local actions, for example the residents of Keratea-Attica protested against the creation of landfills.

Many new-communal interventions have developed, for example:

- Cooperatives and solidarity trade (“SPOROS”, or the alternative community “Peliti”), networks of organic or small farmers selling their products to the local markets, as well as initiatives for the rebirth of eco-communities and rural areas etc.
- Alternative currency networks include Ovolos in Patras, TEM in Magnisia–Volos as well as Local Time Banks, Local Direct exchange Networks
- Consumers’ co-operatives, based on the movement against merchants
- Web initiatives, aimed at facilitating access to free software, exchange of knowledge or practical information.
- Solidarity networks are underway, such as Church rations for starving people

During the next period, new campaigns are being prepared:

- Against the new German occupation (includes war reparations demands, German products’ and markets’ boycott , business scandals termination etc)
- Against young people’s and scientists’ exodus from the country.
- For productive reconstruction and empowerment of the solidarity structures.

## **Portugal**

In Portugal, various social movements and demonstrations in protest against the austerity measures of the government were organized in cities of the country during the last two years.

The protests 'Rasca Generation' (March 2011) and 'Damn the Troika!' (September 2012) represent two important initiatives in terms of mobilization and participation of Portuguese citizens. The event of 12 March also marked the beginning of major changes in the organizational structure of the patterns of mobilization and protest of Portuguese society. The Portuguese country fiche suggested that one of the changes is the emergence of protests organized under the initiative of civil society activists and independent of trades unions and political parties.

During 2012, tens of thousands of people came out to the streets to demonstrate their anger, organized mainly through social networks. The demonstration of 15 September was the single largest street gathering in Portugal since the April Revolution of 1974, which brought democracy to the country. Demonstrations have been convened in 25 Portuguese cities, following an online and broadly non-partisan political campaign.

An internet site with a name that loosely translates as “Damn the Troika! We want our lives!” was first set up by people from Lisbon, was replicated online, with demonstrations convened for 15 September evening in central squares all across the country. The original signatories of the protest declared the objective to be “the beginning of a popular peaceful rebellion” and an opportunity for everybody to say “enough!” Similar demonstrations have been called outside Portuguese consulates and embassies in Fortaleza (Brazil), Berlin, Barcelona, Paris, and London.

2012 was a year marked by two general strikes, on 22 March and 15 November, and several national protests against the Troika, the new Labour Code and the State Budget 2013. Various sectoral protests (transport, shipbuilding, military, teachers and educators, doctors and nurses, entrepreneurs of restoration etc) also took place to defend collective agreements, public services, to protest against privatization, against the attacks on local government, against neoliberalism and blind cuts.

On 5 October 2012, the Democratic Congress of Alternatives gathered more than 1700 people in the Aula Magna of the University of Lisbon. It was the culmination of a process involving more than 4000

subscribers and thematic debates in Porto (Europe, Crisis and Alternatives), Lisbon (The Challenges of Termination of Memorandum), Coimbra (A Sustainable Economy that Dignifies Work) and Braga (A Fair and Inclusive Society). A final declaration was approved, highlighting complaints about Memoranda, the requirement of debt renegotiation, and the overthrowing of the government.

Strengthening the agenda for an alternative approach to “austerity”, based on growth, jobs and social justice, the Organizing Committee of the Congress of Democratic Alternatives, with the support of 176 researchers and activists, held a conference in Lisbon, *Overcome the crisis with the social state and democracy*. The Portuguese country fiche noted that the conference concluded that “the social state and democracy are not a burden or “fat tissue”, but essential “muscle” for social cohesion and the development of our democracy. We need an economy that creates wealth and a fair society, upholding health and wellness, high skills, and the protection of dignity for people when they do not work or if they cannot work (...) Portugal's future as a developed country is only a truly sustainable welfare state, with a more robust and qualified population. We need to overcome the crisis, yes. Beat it with the social state and democracy.”

EAPN Portugal has been engaged in different forums and participating in debates on Portuguese television about these issues.

## Romania

Romania had mass violent protests in January 2012. The Romanian country fiche said that this started suddenly after a live, televised argument between President Băsescu and junior health minister Dr Raed Arafat, a physician who is well-known and respected for reforming almost single-handedly the ambulance-paramedics system (SMURD). Dr Arafat resigned in protest over a major public health reform, and the public took to the streets in solidarity with him in Bucharest, where demonstrators used Facebook to co-ordinate, and marched around the presidential residence with Dr Arafat's portrait<sup>24</sup>.

This protest continued even after the health bill was withdrawn, it increased in intensity and dimension, and became an anti-government and anti-austerity protest, which ended, after a few days of violent clashes with the police, in the government's resignation. The fallen Prime Minister was considered by the New York Times as “the latest European leader to fall victim to a mood of public outrage over austerity measures and stagnant growth”<sup>25</sup>.

In the following days, some organizations of the civil society and some political parties of the opposition attempted to continue demonstrating in the central squares of Bucharest. These included public protests coordinated by parliamentary opposition (social – liberal alliance), but these organized protests did not produce as much impact as the initial spontaneous demonstrations in Piața Universității in Bucharest<sup>26</sup>.

The country fiche suggests that the most important protest of the Romanian population took place through voting processes at the local elections in June 2012, at the referendum for the President's impeachment in July 2012, and at the parliamentary elections in December 2012, where the ruling Democratic Party was terribly sanctioned. However, the Romanian fiche concludes, the main criticism is not directed towards one party, but, rather, towards the political class in its ensemble, a corrupt political model, and the lack of change and progress.

The Romanian civil society did not get organized in a coherent fashion in order to produce significant mass protests, similar to initiatives in Greece. Trade unions were also unsuccessful in organizing

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<sup>24</sup> Sorin Ioniță, Viewpoint: Romania protests a warning from the street, available at <http://www.bbc.co.uk/news/world-europe-16610093>

<sup>25</sup> Nicholas Kulish, Romanian Prime Minister Resigns Amid Protests, available at [http://www.nytimes.com/2012/02/07/world/europe/emil-boc-romanian-prime-minister-resigns-amid-protests.html?\\_r=0](http://www.nytimes.com/2012/02/07/world/europe/emil-boc-romanian-prime-minister-resigns-amid-protests.html?_r=0)

<sup>26</sup> This square has a special significance in Romania, as it is symbolically connected with the Romanian Revolution which overturned communism in December 1989.

country-wide strikes. Such a situation might look strange if we consider that Romania's "austerity" measures were "brutal and unthinkable in a West European country", as Andreas Treichl<sup>27</sup> said.

But, while some analysts explain the lack of social reaction in terms of fear of a worse situation, or as result of the communist experience endured by Romanians, the country fiche suggested that the lack of visibility and involvement of the formal civil society (NGOs, trade unions) in these protests is a result of their lost credibility and allegations of corruption (concerning trade unions).

Most Romanian NGOs were involved in implementing projects financed mainly by the European Social Fund, and the payment delays and dysfunctional relations with evaluators or managing authorities deeply affected most NGOs and their resources; civil society organisations have been more focused on survival.

## Spain

The public protests of May 15<sup>th</sup> turned into a self-organized movement. Based upon social networks such as Twitter and Facebook, this and other movements strongly rejected what the government was



doing, and they demanded that the people should not pay for the mistaken policies, and for the crisis they did not provoke. The Spanish country fiche said that lack of trust in politicians, deeply stained by corruption episodes, and a claim to revamp the electoral law to introduce direct democracy, were two of the big issues raised by protesters, who camped in the central Puerta del Sol for many weeks. Their motto: "*They (politicians) do not represent us.*"

In Spain, more than 300,000 families have been evicted since 2008, mostly due to arrears of their mortgages. These families not only lose their homes; they keep their debts with the banks. Thousands are immigrants<sup>28</sup>. In order to respond to the housing crisis<sup>29</sup>, EAPN Spain proposed a Popular Legislative Initiative (ILP) to modify the Mortgages Act. The ILP's goals are: 1) to force banks to end mortgages, if taking back the houses, in lieu of payment, with retroactive effect to the date of the eviction; 2) to freeze the evictions in the cases of jobless and/or no income families; 3) to implement social housing for the families to stay in their homes, with a low rent (no more than 30% of their income), for at least five years.

During the last year, EAPN, the Platform of the Affected by the Mortgages as well as other organizations<sup>30</sup> have embarked on a state level action to change this, by collecting at least 500,000 certified signatures of citizens before January 25<sup>th</sup>, 2013. The Spanish Constitution has strict regulations regarding direct and participatory democratic mechanisms. The only path is the restrictive popular legislative initiative (ILP, in Spanish), which lays the final decision of the Parliament, and with no possibility of referendum. 750,000 signatures were successfully delivered on time<sup>31</sup>.

<sup>27</sup> The president of Austria's Erste Group, the largest foreign investor in the Romanian banking sector

<sup>28</sup> The government of Ecuador has even sued Spain in the European Court of Human Rights in Strasbourg for its legislation on foreclosures. They consider that Spain violated the "right to justice" of its nationals living in Spain and intend to amend the Code of Civil Procedure. The Ecuadorian authorities estimate that some 15,000 Ecuadorian citizens are affected by foreclosures and mortgages; available at [http://politica.elpais.com/politica/2013/01/22/actualidad/1358855597\\_587073.html](http://politica.elpais.com/politica/2013/01/22/actualidad/1358855597_587073.html)

<sup>29</sup> The sign says: "Let's hit the streets. We can surmount this terrible injustice all together"

<sup>30</sup> Comissió Obrera Nacional de Catalunya (CCOO), available at [www.ccoo.cat](http://www.ccoo.cat); Confederació d'Associacions Veïnals de Catalunya (CONFAVC), available at [www.confavc.org](http://www.confavc.org); Observatori de Drets Econòmics, Socials i Culturals (Observatori DESC), available at [www.descweb.org](http://www.descweb.org); Taula d'Entitats del Tercer Sector Social de Catalunya, available at [www.tercersector.cat](http://www.tercersector.cat); Unió General de Treballadors de Catalunya (UGT de Catalunya), available at [www.ugt.cat](http://www.ugt.cat).

<sup>31</sup> [http://politica.elpais.com/politica/2013/01/24/actualidad/1359035879\\_541512.html](http://politica.elpais.com/politica/2013/01/24/actualidad/1359035879_541512.html)

At the grass-roots / regional level, the “15-M Movement” has led the occupation of empty buildings by families in Seville, Andalusia. Newly built, empty houses in Seville have been occupied by desperate Spanish families with children, sick persons and seniors. They are 200 newly poor middle-class people with no income, nor job, evicted from their houses by the banks, because they could not pay their mortgages or rents. They do not have running water or heat. In most of the buildings, food is collectively organized in order to maximize the food. Children receive an explanation of the situation: *“We are fighting for the right to decent housing granted by the Constitution”*.

They attend school and try to carry on a “normal life”. They are organized by the 15-M Movement and “Stop Desahucios”. At one of these sites, the “Corrala Esperanza”, the families gather daily for mutual help. They are aware that usurpation is a crime, and that this may generate legal sanctions. In a nearby supermarket, in a trolley purposely placed by the owner, shoppers can deposit food, toiletries and other items, which are distributed among the needy families at the end of the day. When asked, other neighbours justify these actions with two arguments: *“Children and family come first”*, and *“These houses belong to banks; we have rescued them, so we can use their facilities for the time being.”*<sup>32</sup>

At the local level, the fifteen locksmith companies working in the urban area of Pamplona, Navarra, gathered in their professional assembly, decided that, in view of their negative experience of the last year, when evictions rose from one to three a month, they will not collaborate with the foreclosures, refusing to change the locks. *“We know that we will not start a revolution, but we want to serve as a wick to see if Navarre society arises and fixes an unfair situation”* said one of the organizers, Carlos de Iker.<sup>33</sup>

## Conclusions

The country fiches have reported weakening support for traditional party politics and for the parties implementing them, and weakening support for the EU institutions, and even for the idea of the EU. They have also reported emerging social reaction to the MoU policies and approach.

The UK has also had large trade union organised demonstrations and new social media campaigns, and also shows declining party support, indicating that “austerity” programmes themselves, and not only their external imposition, are playing a part in weakening traditional politics.

For the sake of those at risk, there could have been more dissent and it could have been sooner. But it appears that there is to a large extent a lack of trust in politics and institutions, belief in the corruption of the powerful and loss of hope that this will change, and an absence of enough honest information to the public about the practice and impact of the MoUs and domestic “austerity” programmes. This may have slowed reaction until widespread impact is evident to ordinary people, and they have emerged from economic “shock and awe”.

Researchers too have done little on the social impact of austerity programmes, to show public and politicians what is happening. As this Chapter showed, the poverty data are not timely and lack a driver for improvement. As *The Lancet* paper found<sup>34</sup>, there are very little data on the health impact of the crisis or the austerity response; health data are not timely and many health Ministries, like social Ministries, have been silent.

It is not only our governments who have failed to act on the social and health risks; it is also the EU institutions.

Despite evidence referred to in *The Lancet* paper of the effects of unemployment on mental health, the rise in suicides since the crisis, and especially in the southern Troika countries, plus earlier evidence of extreme rises in morbidity and mortality after the economic collapse in the Soviet Union, what is the response of the European Commission DG for Health and Consumer Affairs?

It is to offer advice to Ministries about how to cut their budgets.

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<sup>32</sup> <http://corralautopia.blogspot.com.es/>

<sup>33</sup> [http://sociedad.elpais.com/sociedad/2012/12/29/actualidad/1356819866\\_768177.html](http://sociedad.elpais.com/sociedad/2012/12/29/actualidad/1356819866_768177.html)

<sup>34</sup> Karanikolos, M., Cylus, J., Thompson, S., BASU, S., Stuckler, D., Mackenbach, J. And McKee, M. (2013) Financial crisis, austerity and health in Europe, *The Lancet*: 381: 1323-1381, March 27, page 1329



## 7. THE ROLE OF THE EU IN PREVENTING AND COMBATING POVERTY RISKS AND EAPN'S RESPONSE

This Chapter outlines the EU agenda on risks of poverty and EAPN's contribution to moving the debate forward. It discusses the impact on poverty of the institutional disconnect between weak social aims in the institutions and the driving force of strong macroeconomic conditionality.

The Chapter then presents EAPN's agenda for social Europe. It asks all organisations concerned about risk of poverty, including EAPN itself, to work better and with more ambition in campaigning and lobbying and making visible at EU level, two clear imperatives:

1. The abject failure of Europe to stand for freedom from poverty and social exclusion in its own home
2. The urgent necessity to change Europe for the better and lose not one more day or one more person to the scourge of poverty and exclusion.

### The missing policy coherence in the European Commission

It could be said that the European Commission is not letting a good crisis go to waste. As the MoUs indicate, some of the emergency assistance states had not fully implemented the Maastricht requirements, especially more recent single market liberalisation in utilities and services. They were perhaps trying to protect their domestic public sector services and industries from impossible competition, in a European Union without industrial and development policies (as opposed to Structural Funds' financial support).

The MoUs provide the European Commission with the opportunity to drive through the implementation of the Single Market, but also its agenda in the social field on control of pension costs and labour market deregulation, where it has been held back by the subsidiarity principles and lack of "hard law".

But the European Commission, as Guardian of the Treaties is also responsible for ensuring the implementation of the Lisbon Treaty and its social articles. In 2010, European leaders endorsed and committed to Europe 2020, the Union's strategy for smart, sustainable and inclusive growth.

This has five overarching targets, including the commitment to reduce the number of people experiencing poverty and social exclusion by at least 20 million by 2020, as well as to ensure quality employment for those who can work, and to support both children and adults towards better educational attainment.

These targets are underpinned by the Integrated Guidelines 7-10, which reaffirm these priorities and the way towards their implementation. In assessments of the Europe 2020 implementation process over the past years (namely, in the European Commission's Annual Growth Survey), "tackling unemployment and the social consequences of the crisis" is a clearly stated priority.

In early 2013, the European Commission released the Social Investment Package, a new initiative tackling thematic priorities (child poverty, active inclusion, homelessness etc), setting the tone for investing in people and supporting them towards better lives. The package does clearly set the initiative in the context of "consolidating" (essentially, cutting) public finances. But it also argues for measures which would take into account social investment as an essential prerequisite for development and inclusive growth, although with some worrying implications of prioritising investment over social protection.

It is the same European Commission sitting in Troika negotiations with national governments, and advancing with a Fiscal Compact that promotes damaging measures, leading to more poverty and social exclusion, as the Chapters above have shown. It can be argued that the European Commission has a clear responsibility to ensure overall coherence of the initiatives promoted, for a harmonious and inclusive development.



However, while DG Employment might be pushing for the safeguarding of the European Social Model and the achievement of social objective, DG ECFIN is steering governments towards deeper cuts that would rebalance state budgets, at the expense of those experiencing hardship and exclusion on the ground.

Equally, it is the Commission's explicit role to safeguard Treaty obligations, and to ensure assessment and mitigation of social impact. Last but not least, the Commission should act as guardian of commitments made by national governments to deliver on fighting poverty and social exclusion and ensuring inclusive growth.

There are clear signs that the Fiscal Compact is really aimed at institutionalizing the MoU approach, underpinned by the same neo-liberal agenda which has destroyed jobs and growth and, as the EAP "pilot" shows, is undermining representative democracy. Europe is Europe of citizens, and supposedly the birthplace of democracy.

We remind the European Commission, and more importantly the European Council and the national governments, that the evidence from Chapter 6 is that if you stop listening to people for long enough, they stop listening to you. You lose legitimacy, elections and, eventually, party politics.

We may find that widespread poverty and injustice is poisonous to democracy.

## **EAPN's contribution to the EU policy agenda**

EAPN has consistently highlighted the potential negative and undemocratic impact of MoU arrangements, and of the broader context of the Fiscal Compact, and economic governance delivered through Europe 2020 and the European Semester.

EAPN has produced two reports (2009, 2011)<sup>35</sup> about the social consequences of the crisis and of austerity measures, based on the extensive experience and work on the ground of our national members. The social impact of "growth-enhancing" and "budget-balancing" measures is not taken into account, and the worst is yet to come, while the democratic deficit grows bigger. Another, fairer way is possible, but it is being systematically ignored.

Building on these two reports, EAPN has released its full position paper on the crisis, entitled *Re-engaging Hope and Expectations – Getting out the Crisis Together – Alternative approaches for an inclusive recovery* (2012)<sup>36</sup>, which endorses the same findings, and renews the plea for a fair distribution of wealth, which puts people first, and prioritises social protection, quality services and employment, as well open and inclusive governance. The paper was launched in a public conference<sup>37</sup>, to a wide Brussels and national audience, which included, alongside EAPN members and decision-makers, 30 people experiencing poverty in different member states.

Equally, EAPN has strongly lobbied for a prominent place of the Social Open Method of Coordination post-2010<sup>38</sup>, as well as for a comprehensive headline target for poverty-reduction in the new Europe

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<sup>35</sup> EAPN, Social Cohesion at Stake: The social impact of the crisis and of the recovery packages, 2009, available at: <http://www.eapn.eu/images/stories/docs/EAPN-position-papers-and-reports/Crisis-Report-2009-final.pdf>; EAPN, Is the European Project Moving Backwards? The social impact of the crisis and of the recovery policies in 2010, 2011, available at: <http://www.eapn.eu/images/stories/docs/EAPN-position-papers-and-reports/crisis-report-2011-en.pdf>.

<sup>36</sup> Dr. Katherine Duffy for EAPN, *Re-engaging Hope and Expectations. Getting out the Crisis Together – Alternative approaches for an inclusive recovery*. EAPN's analysis of the crisis, 2012, available at: <http://www.eapn.eu/images/stories/docs/EAPN-position-papers-and-reports/2012-crisis-report-katherine-duffy.pdf>.

<sup>37</sup> All conference proceedings, including background papers, presentations, and more, can be accessed on the EAPN website: <http://www.eapn.eu/en/news-and-publications/news/eapn-news/23092011-eapns-conference-on-the-crisis>

<sup>38</sup> EAPN, The role of the Social OMC in the context of Europe 2020, 2011, available at: <http://www.eapn.eu/images/stories/docs/EAPN-position-papers-and-reports/2011-eapn-input-on-social-omc-final-en.pdf>

2020 Strategy, underpinned by Guideline 10 and by the Flagship Initiative the European Platform against Poverty and Social Exclusion.

Since the adoption of these, EAPN has consistently monitored efforts in member states, paying particular attention to countries under emergency financial assistance programmes, to reach this target. The findings, so far, are disheartening. With full participation of its membership (national networks and European organisations), EAPN has been conducting yearly analyses of the National Reform Programmes (and, in 2012, also National Social Reports)<sup>39</sup>, as well as of the Country Specific Recommendations, producing our own, shadow CSRs to national policy-makers<sup>40</sup>.

These reports find, year after year, that austerity policies are generating more poverty, while undermining an inclusive recovery. Poverty is not a priority for governments, who consistently miss opportunities for social investment in integrated Active Inclusion approaches, underpinning national anti-poverty strategies. Countries under bail-out arrangements are particularly excluded from EU scrutiny on their poverty-reduction performance, as they are not part of Europe 2020 processes, having only to report on fulfilling Memoranda conditions.

Progress towards the poverty target has been bleak, a fact recognised by the European Commission (the combined national targets for poverty reduction in members states reach only 12 million people, of the intended minimum 20 million). EAPN has presented its findings in a public conference in 2012<sup>41</sup>, which discussed the reality for the most vulnerable in the context of austerity policies and the malfunctioning of stakeholder participation in decision-making.

The messages are clear: EU institutions back policies that increase the burden on the most vulnerable, while the European Commission is taking part in a questionable undemocratic decision making process that is contributing to a humanitarian crisis, particularly in countries with MoUs.

The conference also brought the ideological background of the Europe 2020 strategy in question, by asking, What kind of growth do we want? Where is the priority on inclusive growth and will this deliver results for poverty? Is austerity the way out?

In an attempt to answer these questions, EAPN called, at the Annual Convention of the European Platform against Poverty and Social Exclusion (in 2012), for a “Golden Rule”, a safeguard for social investment and social protection, that would counterweigh the harsh neoliberal agenda. It means awarding social conditionality and social impact assessment the same importance as that attached to economic conditionality, while red-lining core elements of the welfare states – social protection and public services – from austerity cuts, and enforcing tax justice<sup>42</sup>.

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<sup>39</sup> EAPN, Deliver Inclusive Growth – Put the heart back in Europe! Analysis of the 2011 National Reform Programmes, available at: <http://www.eapn.eu/images/stories/docs/NRPs/nrp-report-final-en.pdf>; EAPN, An EU Worth Defending – Beyond Austerity to Social Investment and Inclusive Growth. Analysis of the 2012 National Reform Programmes and National Social Reports, available at: <http://www.eapn.eu/images/stories/docs/EAPN-position-papers-and-reports/2012-eapn-nrp-report-en.pdf>; EAPN, Widening the Gap. Assessment of the National Reform Programmes 2013, available at: <http://www.eapn.eu/images/stories/docs/NRPs/2013-EAPN-NRP-Report.pdf>

<sup>40</sup> EAPN, Proposals for Country Specific Recommendations on the NRPs 2012 – Making progress on poverty reduction and meaningful stakeholder engagement, available at: <http://www.eapn.eu/images/stories/docs/NRPs/2012-2013/EAPN-country-specific-Recommendations-en.pdf>; EAPN, Analysis of the 2013 Country Specific Recommendations (CSRs) and Proposals for Alternative CSRs, available at: <http://www.eapn.eu/images/stories/docs/EAPN-position-papers-and-reports/2013-EAPN-CSR-Assessment-and-alternative-CSRs-EN.pdf>

<sup>41</sup> All conference proceedings, including background papers, presentations, and more, can be accessed on the EAPN website: <http://www.eapn.eu/en/news-and-publications/news/eapn-news/save-the-date-for-eapns-conference-28092012-is-europe-2020-delivering-on-poverty>

<sup>42</sup> Recovery needs a real social package and a golden rule! EAPN press release, December 2012, available at: <http://www.eapn.eu/en/news-and-publications/press-room/eapn-press-releases/recovery-needs-a-real-social-package-and-a-golden-rule>

EAPN further demanded an EU integrated anti-poverty strategy at the heart of the Europe 2020 strategy, as well as democratic accountability and meaningful dialogue with national stakeholders, including people experiencing poverty<sup>43</sup>.

In June 2013, following its General Assembly in Belgrade, EAPN wrote to the Heads of States and Governments in the European Council<sup>44</sup>, to ask for a strong social dimension of the Economic and Monetary Union, one where social issues are not reduced to an instrument of economic policy, but contribute to a vision for an EU based on social rights and solidarity.

EAPN makes a clear call for the end to austerity, and a plea for ex-ante coordination and social impact assessment, so that economic policies don't undermine social goals. A key element is the democratic debate to develop an ambitious social dimension, through consultations with national and European Parliaments, and with the full involvement of civil society and the social partners.

EAPN will continue to champion that an alternative, inclusive model of recovery is possible, and that it is simply of matter of political – and economic – choice. Through our work in alliances, such as the Social Platform, the Spring Alliance, the Alter Summit, and EuroMemorandum (amongst others), we will continue our fight for a socially just Europe, and for economies that put people and planet before profit.

In a public conference on September 30 - October 1, 2013, EAPN, together with policy makers, will took stock once more of the progress (or lack thereof) on poverty and participation in Europe 2020<sup>45</sup>. On the occasion, EAPN launched its demands for commitments for the upcoming European Parliament elections<sup>46</sup>, and debated with the representatives of the main EP political groupings on how to ensure that social issues, including the fight against poverty, inequality and discrimination, are at the heart of policy-making in the European Union.

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<sup>43</sup> EAPN, Key Messages to the Annual Convention on Poverty and Social Exclusion, 2012, available at: <http://www.eapn.eu/images/stories/docs/EAPN-position-papers-and-reports/2012-key-messages-Annual-Convention-07-12-2012.pdf>

<sup>44</sup> EAPN, Letter to the European Council, June 2013, available at: <http://www.eapn.eu/en/news-and-publications/press-room/eapn-press-releases/the-european-council-must-launch-a-democratic-debate-to-ensure-an-ambitious-social-dimension-of-the-european-monetary-union-emu>

<sup>45</sup> More details about the event are available on the EAPN website, at: <http://www.eapn.eu/en/news-and-publications/news/eapn-news/eapn-2013-annual-conference-part-i-what-progress-on-poverty-and-participation>

<sup>46</sup> More details about the event are available on the EAPN website, at: <http://www.eapn.eu/en/news-and-publications/news/eapn-news/eapn-2013-annual-conference-part-ii-european-parliament-elections-2014-electing-champions-for-a-social-europe>

# **EAPN RECOMMENDATIONS TO THE NATIONAL AND EU LEVELS**

## **Recommendations to the Troika (EU, ECB and IMF/WB)**

- ⇒ Ensure that the Memoranda of Understanding explicitly contribute to social, as well as macro-economic, objectives when setting out the requirements for emergency assistance loans, and ensure that macro-economic requirements do not undermine social cohesion, nor generate increased poverty, exclusion or inequality.
- ⇒ Perform comprehensive social impact assessment, ex-ante and ex-post, proofing for poverty impact before proposals are made, and assessment of impact afterwards, including medium and long-term. Ensure that these appraisals are transparently taken on board in the preparation of the MoU proposal.
- ⇒ Explicitly red-line core elements of the European Social Model, such as social protection and basic services, to safeguard them from proposals of austerity cuts, in order to ensure an essential social protection floor (as backed by the UN, ILO and recognised even by the IMF).
- ⇒ Insist on a balanced approach to revenue and expenditure. Do not prioritise cuts on social services and benefits over taxation – back tax justice, promoting more progressive taxation, which redistributes between the wealthy and the poor, increased focus on corporation, capital gains and property tax, as well as combatting tax evasion and avoidance as realistic options for rebalancing public finances.
- ⇒ The European Commission in particular should fulfil its role as Guardian of the Treaties and promoter of inclusive growth and the fight against poverty, in particular through establishing an operational guidance checklist for mainstreaming key Treaty Clauses – including Article 3, 8, 9 and 10 – as pre-requisites for the MoU negotiations.
- ⇒ The European Central Bank needs to play the role of an overarching EU Federal Bank providing financial support to stabilize and underpin the solidarity basis of the European Economy, by helping Member States with deficits to reverse their situation, through Eurobonds, equal level rates for the Member States, increasing re-payment time frames, finance capital, abolition of tax heavens, promoting fairer redistribution of wealth.
- ⇒ Involve DG Employment and national Social Ministries in MoU discussions and decisions, at both an EU and a national level, to ensure that the social dimension is a key consideration in the negotiations, and the social impact is minimized.
- ⇒ Make Troika and similar arrangements' negotiations public and transparent, ensuring that the MoUs are publically available, and establish guidelines for regular dialogue with national Parliaments, social partners, and civil society organisations on the MoU proposals and impact, to ensure democratic legitimacy and accountability.

## **Recommendations for broader EU policy**

- ⇒ Restore the balance in EU decision-making, challenging the domination of the centre/north over the periphery, and promote social cohesion and wellbeing for all over the extreme implementation of a neo-liberal market-led economic agenda.
- ⇒ Ensure that Europe 2020 and its targets are at the visible heart of economic governance and the European Semester. Require countries under Troika and other emergency assistance programmes to submit annual National Reform Programmes and National Social Reports, setting out how they are progressing on the targets, on equal terms with the other Members States. Blind adherence to Memoranda conditionality does not foster progress towards Europe 2020 targets – it undermines it.

- ⇒ Ensure a strong social dimension of the Economic and Monetary Union, adequately reflected through ex-ante coordination and social impact assessment of proposed policies, as well as through promoting social investment in quality and sustainable job creation, accessible services and adequate social protection systems, including through integrated Active Inclusion strategies, especially in the context of Europe 2020.
- ⇒ Support the development of obligatory common European Social Standards to defend social rights from market priorities, and promote common European inclusion policies and learning, on the model of the Social OMC, with central mechanisms of control and social conditionality, such as a Social Golden Rule.
- ⇒ Promote an EU Framework Directive on adequate minimum income, as a much-needed instrument in ensuring dignified lives, as well as a symbol of real commitment to social justice in the European Union.
- ⇒ Establish a clear priority/target to reduce income and wealth inequality, including through promoting fairer distribution mechanisms. Prioritise the pursuit of tax justice – progressive income tax, wealth, corporation, capital gains and property tax, financial transactions tax, and tackling tax evasion and avoidance by closing down tax havens.
- ⇒ Do not penalize MoU countries twice – say no to macro-economic conditionality in the future Structural Funds, but favour binding social ex-ante conditionalities on social inclusion & poverty reduction, supporting Member States' commitment to earmark 20% of the ESF on social inclusion & poverty reduction, alongside a reinforced partnership principle, and an easier access to Structural Funds for small NGOs.
- ⇒ Support and promote transparency and meaningful stakeholder involvement in decision-making, by empowering people, including people experiencing poverty, through their parliaments, civil society organisations, social partners and other, to contribute to the shaping, implementation, and monitoring of policies, especially in the European Semester, Europe 2020 and NRP processes.

## Recommendations for national governments from EAPN Networks

### *Greece*

- 1) Radical renegotiation of the Memorandum of Understanding. Recognition of the right that one country can stop the repayment of its loans to foreign creditors, if the measures drive to the extermination of its people. Legislative interventions to the European courts for measures that circumvent European Treaties and the Charter of Human Rights.
- 2) Promote internal bonds, to force the economic and political elite to pay for the country's deficit according to their assets. Wealth taxation and full utilization of the "Lagarde List" or similar elements from Swiss (or other) Banks, for the increase of national taxation revenues.
- 3) Adopt an alternative production development model, under the preservation of public wealth, strategic public enterprises and a schedule of banks nationalization, with social control. A model based on small scale companies, co-operatives and social enterprises, exploiting comparative advantages (bio diversity, natural resources, climate, culture and history, environment, human resources etc) in order to cover first internal basic needs and our defense. Immediate resources and funds have to be reclaimed for new solidarity networks, and to counter the environmental damages caused by neo-liberal policies.

## *Portugal*

- 1) Define a National Programme (integrated strategy) Against Poverty and Social Exclusion, instead of emergency measures, depending directly from the Prime Minister. The strategy should provide better political coordination between the different Ministries and State structures.
- 2) Provide decent lives for all, through Active Inclusion: adequate income support, access to quality services, creation of and support towards quality and sustainable employment.
- 3) Re-think the taxation system, without damaging employment, and balance this with the combat to tax evasion and tax avoidance.

## *Romania*

- 1) Take into account that a consistent percentage of Romania's population is represented by people in or at risk of poverty, hence consolidation programmes should avoid increasing the risks and deepening of the current poverty levels.
- 2) Avoid any new austerity measures that threaten employment and social protection, and strive to find inclusive economical solutions.
- 3) Urgently increase the absorption of Structural Funds, through strengthening state mechanisms and their staff, increase the pre-financing percentage, and prioritise such funds for social inclusion and employment policies.

## *Spain*

- 1) Macroeconomic adjustment should be debated and adopted in the National Parliament. A "social conditionality clause" should be implemented, and all these political macroeconomic and financial decisions should go through a "social impact checking list", in order to guarantee that the measures to be taken are not fuelling more unemployment and social exclusion.
- 2) The National Reform Program should re-establish the eradication of poverty target, and endow the National Plan for Social Inclusion with the proper budget in order to achieve and account for the specific objectives of preventing and combating poverty, counting with the most representative Social Organizations.
- 3) More democracy and transparency should be granted, in order to poll the public opinion in crucial or controversial issues. The ILP (Popular Legislative Initiative) is not enough for channelling the popular demands, although it should be seriously taken into account by the authorities and the Parliament.

## *NOTES*









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**The European Anti-Poverty Network (EAPN) is the largest European network of national, regional and local networks, involving anti-poverty NGOs and grassroots groups as well as European Organisations, active in the fight against poverty and social exclusion. It was established in 1990.**

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For more information:

<http://ec.europa.eu/social/main.jsp?catId=327&langId=en>

The information contained in this publication does not necessarily reflect the position of the European Commission.