

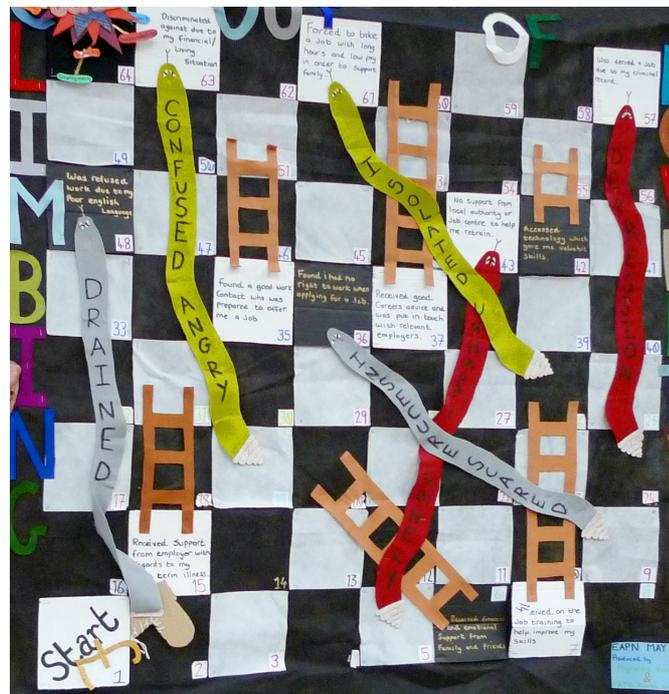
# Re-engaging Hope and Expectations

## Getting Out of the Crisis Together - Alternative approaches for an inclusive recovery

EAPN's analysis of the crisis

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with EAPN working groups

March 2012



Final version of working document prepared for EAPN's Conference  
*Getting Out of the Crisis Together - Alternative approaches for an inclusive recovery*  
Friday 23<sup>rd</sup> Sept. 2011, Brussels







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## 1 Glossary

Item	Definition
A10	Countries that in May 2004 joined the European Union (EU):- Czech Republic, Estonia, Hungary, Latvia, Lithuania, Poland and Slovakia (A8 countries) plus Cyprus and Malta
AGS	Annual Growth Survey
CEO	Corporate Europe Observatory
EAFRD	European Agricultural Fund for Rural Development
EAPN	European Anti Poverty Network
EC	European Commission
ECB	European Central Bank
ECOFIN	Economic and Financial Affairs Council
EEB	European Environmental Bureau
EFSM	European Financial Stabilisation Mechanism
ELBAG	Economic Literacy and Budget Accountability for Governance
EMCO	Employment Committee
EPSCO	Employment, Social Policy, Health and Consumer Affairs Council
ESF	European Social Fund
EU-SILC	European Union Statistics on Income and Living Conditions
ETUC	European Trade Union Confederation
EU15	Member countries in the European Union prior to the accession of ten candidate countries on 1 May 2004:- Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Italy, Luxembourg, Netherlands, Portugal, Spain, Sweden, United Kingdom
Eurodiaconia	A federation of organisations, institutions and churches providing social and health services and education on a Christian value base in over 20 European countries
FEANTSA	European Federation of National Organisations Working with the Homeless
FTT	Financial transaction tax
GDP	Gross Domestic Product
GNP	Gross National Product
G20	The group of 20 finance ministers and central bank governors from 20 major

	economies: 19 countries plus the European Union. The 19 countries also individually include France, Germany, Italy and the UK
HM	Her Majesty's (UK government)
ILO	International Labour Organization
IMF	International Monetary Fund
NGO	Non-governmental organization
NAP(s)	Nation Action Plans on Social Inclusion
NRP	National Reform Programme(s)
OECD	Organisation for Economic Co-operation and Development
OMC	Open Method of Coordination
OSE	European Social Observatory
PM	Prime Minister
SSGI	Social Services of General Interest
SPC	Social Protection Committee
SPD	Social Democratic Party of Germany
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNEP	United Nations Environment Programme
US/USA	United States/United States of America
VAT	Value added tax

## 2 Introduction

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

The paper discusses:

- The causes and symptoms of the “crisis” and the impact of governments’ economic policy responses and the role of the EU.
- It focuses specifically on the social impact of the crisis, in particular on the poor and vulnerable, highlighting the key messages from EAPN Crisis reports in 2009 and 2011 (covering 2010), and the adequacy of Europe 2020 for improving the lives of poorer, vulnerable and excluded people.
- Finally it propose solutions that draw on current EAPN work with members on how solutions to poverty and social exclusion can be set in a broader social and sustainable development strategy.

This working paper will provide the basis of an EAPN position for an alternative approach to the economic and social crisis. To refine this paper to its final position, we have taken into account the views of those in the conference and written submissions. This background paper contains more economic analysis of the causes of the crisis. The shorter, integrated conference report<sup>1</sup> is more focused on national experience and alternative approaches and has been drawn on for the latter part of this working paper. A summary of agenda points for development in EAPN, drawn from the conference report, is attached as an Appendix to this working paper. The conference and this paper will be used to help us to build closer working relationships with all of those people and organisations who want to build a future worth having and to develop together concrete alternatives and a strategy for achieving them.

The paper has been drafted by Dr Katherine Duffy, from EAPN UK, and is based on existing EAPN reports from our questionnaire surveys to our EAPN members and working group meeting discussions over the last two years. It draws especially on EAPN’s crisis reports;<sup>23</sup> our 2011 analysis of the National Reform Programmes<sup>4</sup> (NRPs) and discussions carried out during the meetings of our working groups (Social Inclusion, Employment and Structural Funds) and Executive Committee.

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<sup>1</sup> Duffy K. (2011) *EAPN conference September 23 2011, conference report: Getting out of the crisis together: alternative approaches for an inclusive recovery*, Brussels EAPN, accessible at [www.eapn.eu](http://www.eapn.eu).

<sup>2</sup> EAPN (2009b) *Social cohesion at stake: The social impact of the crisis and of the recovery package*, Brussels.

<sup>3</sup> EAPN (2011f) *Is the European project moving backwards? The social impact of the crisis and the recovery politics in 2010*, Brussels.

<sup>4</sup> EAPN (2011d) *EAPN review of the full national reform programme (NRP) 2011 background document and questionnaire*, Brussels.

### 3 The Causes of the “Crisis”

Debate on the causes of the crisis is astonishingly absent from the discourse at EU level and amongst most national governments. Governments have quickly moved to build on the “learning”<sup>5</sup> but without a thorough and open discussion on the causes and the steps needed to prevent a repeat. Where causes are referred to, the focus has been on the short-term vulnerability of the financial and banking sectors, and engagement of the market in increased risk-taking in speculation with our money. But the debate quickly moved from bankers’ and markets’ failures to public sector debt and deficit as prime culprits in which the ordinary public, and especially poor people, appear to be expected to carry most of the burden of the “austerity” programmes that are now widespread. A full debate on the causes and the social impact is still to be had, yet this is crucial to finding sustainable solutions.

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

#### 3.1 Failure of governance

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

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

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

#### 3.2 The tipping point: speculation, gambling, greed and “herd” behaviour

As Keynes famously said in 1936, “*When the capital development of a country becomes a by-product of the activities of a casino, the job is likely to be ill-done.*”<sup>6</sup> The multi-billion dollar cash piles in sovereign wealth funds and in large corporations have often been used unproductively to acquire or to speculate rather than to produce. Asset “bubbles” were created, for example in information technology company valuations, basic commodities and housing.

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<sup>5</sup> European Commission (2010) *Communication from the Commission. Europe 2020. A strategy for smart, sustainable and inclusive growth, COM (2010) 2020 final*, Brussels, 3 March.

<sup>6</sup> Keynes, J. M. (1936) *The general theory of employment, interest and money, ch. 12: 159*, London, Macmillan.

UNCTAD'S 2011 trade and development report is clear on the flawed and uncompetitive behaviour of financial markets and the pressing need for re-regulation. Financial market actors do not create new real goods or improve productivity. They use information about existing assets derived from commonly observed events or from mathematical models that extrapolate past information into the future and trigger automatic buy/ sells. The way to make most profit is to follow the "herd" (everyone following the trend) and disinvest just before the crowd does it. If everybody is betting on the same outcome, *"the herd acquires the market power to move those prices in the desired direction."*<sup>7</sup> This behaviour has infected securities and financial derivatives and the future prices of commodities such as food, metals and oil and also country currencies (including in the Eurozone). Exchange rates may be fundamentally out of line with a country's real economic and competitive position (but cannot be changed, as countries are in the Eurozone).

There can be also very large "hot money flows" chasing interest rate differences around the world, moving in and out of countries quickly and in very volatile ways. It does not matter what the real fundamentals of the product or the country are; the financial players are just gambling on the direction of prices.

Bond market investors have moved money out of southern countries into, e.g. Switzerland and the UK, pushing down their cost of borrowing and therefore in the UK's case, making it cheaper for the government to service its debt; but at the same time, destroying the return on savings (in a period when price inflation is 5%). This greatly affects pension savings.

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

Financial players are unconcerned about mis-pricing of risk and increased volatility in markets because they get incentivised with bonuses for short-term gambling wins. But although financial firms are gambling electronically, it is real commodities, real investments and country exchange rates whose value is affected, from bread prices in North Africa to pension values in Europe. It is ordinary people in ordinary circumstances who are hurt. As UNCTAD stated: *"the financial sector has increasingly become a source of instability for the real sector."*<sup>8</sup>

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

### 3.3 "Group-think": neo-liberalism

Although national economic and social situations vary greatly, in most European Member States economic and social policy has developed in an increasingly common framework of analysis and implementation. Not least, this has been a result of the policies of Europe's mainly right-of-centre national governments, but also of centre-left governments. It was influenced also by the Lisbon agenda and now Europe 2020 and in particular by the European economic institutions. The policy direction is "neo-liberal" in that it is underpinned by the utilitarian philosophical framework of

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<sup>7</sup> United Nations Conference on Trade and Development (UNCTAD) (2011) *Trade and Development Report*, Geneva, United Nations, p.ix.

<sup>8</sup> Ibid. p.18.

neoclassical “equilibrium” economics. European neo-liberalism has been remarkable for its *non-sequitor* that competitive markets are efficient, effective and consequently inclusive and moral.

European level macroeconomic policy under the European Central Bank (ECB) is “monetarist”, focused on control of inflation and reliant on control of money or the price of credit (interest rates) to manage assumed temporary deviations from the equilibrium. Unemployment is assumed to be a “temporary” price worth paying to control inflation. This despite the fact that the majority of the economics profession hold views that are closer to a Keynesian analysis of the possibilities of sustained “disequilibrium” (unemployment, recession) and the need for governments to take the lead in spending to get the economy moving and rebuild private sector and household confidence.

Only the scale and political terror of the 2007-8 financial crisis led initially to a macro-economic response by many governments flooding the markets with liquidity (cheap money) to get economies moving again - but without proper oversight of how the money moved through the system or what it was used for. Since then, especially in Europe and especially in the policies of the ECB, there has been a return to orthodox monetarism – including two interest rate rises which may have contributed to halting European recovery in 2011. On the other hand, despite being bailed out, banks in Ireland have chosen not to follow the most recent cut in interest rates by the ECB.

Social policy in Europe ceased to be an independent field when it became based on the same set of individualist assumptions about behaviour as neo-classical economics. Witness, in the employment field, the ever harsher “conditionality” to force people to “choose” paid work and the assumption that a supply of unemployed people will automatically lead to an expansion of employment - as long as the unemployed are willing to accept the “price” (wage) the labour market offers - no matter how low a wage and standard of living this means. But 23.1 million<sup>9</sup> Europeans are unemployed. Young people and groups discriminated against, including many women and ethnic minorities, people with a disability and poor people, are at the back of the queue for this “equilibrium” number of jobs and therefore more at risk of low pay and unemployment. Taxpayers are subsidising this ideology.

In the social sphere the approach has been described by a member of our Luxembourg network as “*liberalism with a social face*” in that it addresses key poverty concerns using a terminology of social justice such as fairness and inclusion but with implicitly different meanings and using different policy approaches, as we can see in employment and tax policy. The “social” language caused some confusion and dismay amongst many anti-poverty and other NGOs and people experiencing poverty, at the actual policies implemented, resulting in a loss of trust<sup>10</sup> in politics and government and disengagement by some groups.

EAPN has asked repeatedly, regarding combating poverty “*Where is the political will?*” “*Where is the commitment to promote a fairer and more sustainable vision of development?*” There is a feeling of deception and betrayal particularly towards the European Commission’s President Barroso, because of the failure to take seriously the promises made at the beginning of the crisis and the launch of Europe 2020.<sup>11</sup> It has given us no pleasure to learn that this failure of political will extends to EU and national governments’ capacities confronted with the economic “crisis” and the fundamental challenge it poses to neo-liberal ideology, national sovereignty and European integration.

### 3.4 Globalisation and transnational corporations

Growth in the scale and political importance of transnational corporations which are able to avoid many national regulations yet influence many national governments’ policies on social spending, tax, trade and labour conditions has had a major impact. International and tax justice NGOs have

<sup>9</sup> Eurostat (2010) *Third quarter data*, Luxembourg, European Union.

<sup>10</sup> EAPN (2011c) *EAPN General Assembly Final Declaration*, Brussels, EAPN.

<sup>11</sup> EAPN (2011g) *Letters to March and Spring Council* Brussels, EAPN.

highlighted the impact of the activities of oil, mining, agriculture and pharmaceutical companies on corporate tax payments, livelihoods, health and safety, environment and corruption. Western governments are not immune from political pressure applied by big corporations. The amount spent lobbying the USA federal government rose from \$1.4 billion in 1998 to \$3.5 billion in 2009; lobbying by health companies soared when the health bill was being developed and by coal firms over climate change policy.<sup>12</sup> There are 15,000 lobbyists in Brussels, most of them from businesses.

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

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

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

### 3.5 Wealth and income inequality and governments' failure to address it

#### ○ **Wealth**

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

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

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

<sup>12</sup> The Economist (2011a) The few: A special report on global leaders, *The Economist*, January 22.

<sup>13</sup> EAPN (2010a) *Wealth explainer*, Brussels, EAPN.

<sup>14</sup>

<sup>15</sup> The Economist (2011a) The few: a special report on global leaders, *The Economist*, January 22.

<sup>16</sup>

We are not alone. Min Zhu, special advisor to the IMF said “*Wealth inequality is the most serious challenge in the world.*”<sup>17</sup> Martin Sorrell, chief executive of Media giant WPP quoted on the Davos website said “*Wealthy people invest in financial assets, creating asset bubbles. A more equal spread of wealth would mean more money recycled back into the economy by consumers, underpinning businesses by providing stable demand.*”<sup>18</sup>

- ***Income inequality***

Higher inequality increases the risks of relative poverty. Wilkinson and Pickett<sup>19</sup> in their book “*The Spirit Level*” found that lack of social cohesion, health problems and psycho-social stress are highest in the most unequal countries. Sickness and psycho-social stress worsen with each lower income band. Further, in the world’s wealthiest 25% of countries (including Luxembourg and Slovakia) higher income inequality makes health worse regardless of the absolute level of wealth. Income inequality has human and social costs, which are worst for the poorest.

According to a cross-national study of 21 rich counties (including Austria, Belgium, Denmark, Germany, Greece, Finland, France, Italy, The Netherlands, Norway, Portugal, Spain, Sweden, Switzerland and the UK but no A10 countries (Member States who joined the EU in 2004) the initial impact of the two years of crisis and recession 2008-2009 increased poverty according to a fixed poverty line in all rich countries, but relative poverty did not increase in Europe. However, the study highlighted that increased absolute poverty will have been felt most by the low-skilled workers who were most likely to lose their jobs and struggle with their bills.<sup>20</sup>

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

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

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

Harvard professor Raghuram Rajan<sup>24</sup> linked the financial crisis to low income, income inequality and weak social protection:

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<sup>17</sup> The Telegraph, (2011) Davos WEF 2011: Wealth inequality is the “most serious challenge for the world”, *The Telegraph*, 28 January.

<sup>18</sup> EAPN (2010a) *Wealth explainer*, Brussels, EAPN.

<sup>19</sup> Wilkinson, R. & Pickett, K. (2009). *The spirit level*, London, Penguin.

<sup>20</sup> Jenkins, S., Brandolini, A., J., M. & Nolan, B. (2011) The Great recession and the distribution of household income, paper for “Incomes across the great recession” *XIII European conference of the Fondazione Rodolfo De Benedetti*, 10th September, Palermo.

<sup>21</sup> .

<sup>22</sup> .

<sup>23</sup> The Economist (2011a). The few: A special report on global leaders, *The Economist*, 22 January.

<sup>24</sup> Rajan, R. G. (2010) *Fault Lines: How Hidden Fractures Still Threaten the World Economy*, Princeton, NJ, Princeton University Press.

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

While EAPN agrees with much of the analysis regarding the causes of income inequality, we are less disposed to accept that wages reflect only differing productivity of the more educated compared to other workers. Many low-paid personal service jobs especially in care and customer service require very high *social and soft skills*, which employers complain that many well qualified graduates do not have – for example, teamwork, negotiation, foresight, emotional intelligence, empathy etc. But these soft skills are not monetised in many “low skilled” jobs and not paid for – often because they are assumed to be “natural” to women and people with a caring vocation, who are over-represented in such jobs. Wages also reflect stereotyping (e.g. by gender), discrimination and class prejudice.

Lack of accounting for positive and negative externalities of activities also distorts salaries. In 2009, the New Economics Foundation in the UK estimated the social value of different occupations. For every pound sterling paid to a hospital cleaner, £10 of social value was created in contribution to health outcomes; waste workers generated £12 of social value. But city bankers destroyed £7 of social value for every pound sterling they were paid and advertising executives destroyed £11 for every pound sterling they were paid.<sup>25</sup>

The wealthy elite are also a narrow social group. In 2008, the UK Institute of Fiscal Studies reported that the Gini coefficient was 0.36, the highest level since 1961 and driven by rapidly rising income of the top 10%. Based on 2005 data, the top 0.1% of tax-payers were 90% male, 80% middle-aged, 70% living in London and the South-East and 60% worked in finance, property, accountancy and law.<sup>26</sup> The richest 1% of income earners in the UK (those with incomes greater than £150,000 per year) has seen their tax rate halved and their share of total national income doubled since the 1970s.

In 2006, even “The Economist” financial magazine thought unfair distribution risked destabilising the world economy – and society. While the average family has seen little gain from globalised trade because “*much of it has gone to those at the top or into profits*” and “*unless a solution is found for sluggish wages and rising inequality, there is a serious risk of a protectionist backlash...governments may need to redistribute the benefits of globalisation through the tax and benefits system.*”<sup>27</sup>

The European Union’s Social Protection Committee (SPC) of Member State governments noted that those countries with the most developed welfare states and strongest automatic stabilisers

<sup>25</sup> Jones, O. (2011) *Chavs: the demonization of the working class*, London, Verso, p159.

<sup>26</sup> EAPN (2010a). *Wealth explainer*, Brussels, EAPN.

<sup>27</sup> The Economist (2006) More pain than gain: Many workers are missing out on the rewards of globalisation, *The Economist*, 14 September, accessed at <http://www.economist.com/node/7878071>. September 14.

recovered best from the initial impact of the financial crisis.<sup>28</sup> In 2011, the Bertelsmann study of six social justice indicators (poverty prevention, access to education, labour market inclusion, social cohesion and non-discrimination, health and intergenerational justice) showed Nordic countries at or near the top of the table of OECD countries on elements of its index, with Iceland and Norway topping the overall index. Nordic states were weakest on integration of migrants. All southern European Union countries are “*considerably below the OECD average*” for the whole index.<sup>29</sup>

But the national reality of concentrated wealth and income inequality is driving social polarisation even in the “happiest” of societies. As the Danish EAPN network noted<sup>30</sup> the increasing gap is not only caused by slower growth of real incomes of the poorest 10% over a decade, but also net debt in the lowest 10% and more capital in the highest 10% and a “*growing divide of the country in terms of capital, education, services, investment, geography.*” This polarisation is likely to decrease social mobility and reinforce the declining solidarity which is undercutting support for welfare states.

### 3.6 Summary

1. Poverty measured with a fixed poverty line rose in the “Great Recession”
2. The financial crisis was a wake-up call on endemic and systemic global problems
3. Public policy and perceptions about how economies and societies’ operate has been dominated by a failed neo-liberal model
4. The worlds’ economies and societies are very much more interdependent than we used to believe and this has spread the crisis even to countries and groups not responsible for causing it; we’re sharing the pain even if we didn’t get the gain
5. Sovereign states contributed to the financial crisis through a failure of governance and effective regulation in the new environment and because financial regulators were “asleep at the wheel”
6. Growing wealth and income inequality in a globalised world have driven the financial crisis
7. Economically, socially and environmentally, continuing to reduce the share of the world’s income going to the mass of the people is unjust and unsustainable
8. In Europe, states with the most developed welfare systems and lower inequalities have been best able to withstand and recover quickest from the impact of the financial crisis

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

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<sup>28</sup> Social Protection Committee (2011) *SPC assessment of the social dimension of the Europe 2020 strategy SPC 2011/02/2/FINAL*, Brussels, Council of the European Union.

<sup>29</sup> Schraad-Tischler, D. (2011) *Social justice in the OECD – How do the Member States compare? Sustainable governance indicators 2011*, Gütersloh, Bertelsmann Stiftung, p6.

<sup>30</sup> EAPN (2010a) *Wealth explainer*, Brussels, EAPN, p16.

## 4 Economic policy responses to the crisis and recovery

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

### 4.1 Early response

The early stages of the policy response to the crisis were characterised by bank bail-outs and inter-governmental co-ordination, for example in the G20, to refloat economies by putting electronic money into world economies to kick start growth. The European Commission encouraged national pro-cyclical spending<sup>31</sup> including through the Structural Funds. Individual Member States put money into people’s pockets in various ways through tax cuts, car “scrappage” schemes and in some countries by improvements in some social benefits.<sup>32</sup> By 2010 many European countries were showing positive growth especially in Germany and central Europe and in Nordic countries. But what was the impact on public debt and deficits?

### 4.2 Growing public deficits in the EU<sup>33</sup>

In 2010 total EU-27 general government revenue was 44% of Gross Domestic product (GDP) and expenditure was 50.3% of GDP. In 2010 the EU average deficit was 6.8% and 6.4% in the Euro area.

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

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

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

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<sup>31</sup> European Commission (2008) *EC Communication: Driving the economic recovery*, Brussels, European Commission.

<sup>32</sup> Social Protection Committee (2009) *Updated joint assessment by the Social Protection Committee and the European Commission of the social impact of the economic crisis and of policy responses - Full Report*, Brussels, Council of the European Union.

<sup>33</sup> Wahrig, L. & V.I., G. (2011) *The effect of the economic and financial crisis on government revenue and expenditure, Eurostat, Statistics in Focus, 45/2011*, Luxembourg, European Union.

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

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

### **4.3 Rising government spending during the initial downturn**

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

Those with the largest social sectors and most progressive tax systems got the most benefit in recovering from the crash, from automatic stabilisers (in which tax revenue falls faster than output as average tax bands fall alongside income and profits, and social spending rises to support people in difficulties). The importance of automatic stabilisers has been emphasized by the EU SPC in its 2010 and 2011 reports and also at national level by research organisations like the Institute of Fiscal Studies (Jenkins et al).

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

### **4.4 Sovereign debt, sovereignty and the Eurozone crisis**

In 2010-11, some market players began to think total government debts in some states were unpayable.

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

Although the German constitutional court has ruled that the bailouts were legal in German law, they have also insisted on a greater role in future bailouts for the national Parliament – and there are countries close to needing a(nother) bailout.<sup>34</sup>

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

But financial market actors did not believe that Greece and Portugal suffering this much “fiscal consolidation” (budget cuts) could grow their way out of recession and poverty without currency

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<sup>34</sup> Pressemitteilung (2011) Nr. 54/2011 vom 23 August.

devaluation. Neither did the citizens who took to the streets in Greece. Despite apparently not having major banks in serious trouble, Italy and Spain also came under speculative pressure amid concerns about competitiveness and growth.

Currency speculators are adding to volatility in the Eurozone by betting on outcomes. Special Report Publishing<sup>35</sup> in an article on wealth management, reported that *“Excitement is spreading...The Greek tragedy that is playing out across Europe is generating a greater interest in currency trading as the fate of the Euro is still undetermined and spread betters are trying to benefit from the uncertainty.”*

The ECB has bought up bonds of governments under severe speculative pressure, but relief on the price of debt (government borrowing rates) has been limited and temporary. Markets intend to test the Eurozone resolve to destruction and Europe is confronted with almost existential questions about the European project.

International lenders quit Athens in early September following disagreements about implementation of bail-out conditions. On September 7, the Greek prime minister announced a 20% cut in government employees. Italy and Spain redoubled their austerity efforts. In November 2011, governments fell in Italy and Greece (and the Greek referendum option was killed off) and they were replaced with “technocrats” led in each case by former Goldman Sachs bankers, who will implement “troika” “austerity” policies under surveillance from the European Commission. The decision making powers at European level of eight people, only three of whom are elected, raises and answers the question of who governs – “markets” – whoever they are, or national elected governments.

## 4.5 Financial action and reform

Despite national government and European commitments to reform of the banking system, banks and other interest groups have lobbied against splitting investment and retail banking, increasing bank capitalisation or introducing a financial transactions tax (FTT). But influenced by a campaign spear-headed by ATTAC and other groups, backed by the European Parliament, in March 2011, the EU agreed to move forward on a FTT. The European Commission presented proposals on the 28<sup>th</sup> of September 2011.<sup>36</sup> During the fraught discussions in the December European Council, the UK’s main concern was to stop the FTT as the city of London would pay most, perhaps 80% of the total raised. The UK government fears relocation of some UK domiciled banks (which have total assets of four to five times UK GDP) and loss of their tax revenue. Following a bankers’ backlash and political pressure, at the time of writing, there is a risk that an FTT may not now be implemented across the Eurozone.

The demands of the European Economic Governance package (proposed in October 2010 and agreed in principle in summer 2011) have created a new Eurozone framework of surveillance and sanctions to embed stronger future influence on fiscal policy in Member States. The proposals from France and Germany take us a step closer to common EU “economic government.”

The “Pact for the Euro” includes new mechanisms for financial supervision and a temporary European financial stabilisation mechanism (EFSM) to be replaced in 2012 with a permanent European stability mechanism. But for the financial stability framework to be a credible commitment to support countries in difficulties of the size of Italy or Spain, market players believe lending capacity has to be closer to two trillion Euros, four times its current size, and that debt must be jointly owned by Eurozone members, largely funded by Germany.

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<sup>35</sup> Special Report Publishing (2011) p2.

<sup>36</sup> Tait, N. (2011) MEPs back financial transaction tax. *FT.com*, March 9 European Commission (COM(2011) 594 final: Proposal for a Council Directive on a common system of financial transaction tax (28.09.2011).

Of the “six pack” of legislative proposals, four concern control of national budget deficits at 3% of national output and public debt at 60%. Surveillance, in a multi-annual budget framework, includes expenditure benchmarks and an “excessive deficit” procedure applied to numerical values for government debt as well as deficit which in practice could apply to the situation in almost all Member States. The Dutch Prime Minister suggested an EU “Commissioner for budgetary discipline” with intrusive powers and the right to recommend throwing countries out of the Eurozone for breaking budget rules.<sup>37</sup> While non-Eurozone Member States cannot be fined for “excessive” budget deficit, there are other threatened sanctions including cuts to their Structural Fund allocation.

There is an excessive macro imbalance procedure which can intervene on levels of social expenditure and labour market arrangements. The European Commission will be central to defining the indicators – including trends in balance of payments, debt and wages.

This new economic governance approach was used for the first time in 2011 in the “European Semester” which drives the Europe 2020 strategy. In the first half of the year, EU-level discussions take place about Member States’ draft budgets, before they are submitted to national parliaments, although the guidance is not binding. The Irish government’s plans for further cuts were submitted to other governments and the European Commission before being seen by their own national parliament – and were leaked somewhere in the Eurozone.

Solidarity is declining as some countries led by Finland have struck bilateral deals with debtor countries to get something extra for their lending. Opportunists outside the Euro such as those in the UK have proposed repatriation of employment law in return for agreeing to Eurozone fiscal integration.

There has been a view that the EU governments have been persistently “behind the curve” – doing too little, too late, to calm investors and speculators. Thus the financial reforms are timid and slow and the ECB activities have had little democratic legitimacy. Yet, more demands are being made of it by market players and some governments, who want the ECB to act for Europe by large scale monetary intervention of the sort of which a national central bank is capable.

To save the European project, the European governments and institutions face very difficult choices about how to create a firewall between market pressure and the eurozone as market players continue to test European governments’ resolve to save the euro. Very difficult choices remain, about which European peoples are not being consulted: on the role of the ECB, the size and nature of the stability funds to be deployed, the question of a two-speed Europe and the possibility of the break-up of the Eurozone.

All of the possibilities risk many years, even decades, of “austerity” which many Europeans already in or close to poverty will not be able to bear.

## 4.6 Impact on poverty and inequality of the “Great Recession” of 2008-2009

In their cross national study of 21 rich countries Jenkins (et al)<sup>38</sup> stated that GDP fell by 5% in Germany, the worst in more than sixty years and was large in Sweden though not dissimilar to the recession they experienced in the early 1990s. It was also the worst recession in over sixty years in the UK, Italy and the USA.

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<sup>37</sup> Spiegel, P., Steinglass, M. & Milne, R. (2011) Dutch PM calls for Europe budget tsar. *Financial Times*, September 8, p1.

<sup>38</sup> Jenkins, S., Brandolini, A., J., M. & Nolan, B. (2011) The Great recession and the distribution of household income, paper for “Incomes across the great recession” *XIII European conference of the Fondazione Rodolfo De Benedetti*, 10th September, Palermo.

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

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

But **poverty** rose on a fixed standard in almost all countries.

## 4.7 The “Austerity” strategy

In the teeth of demonstrations and strikes the governments under pressure from the financial markets pursued “austerity” policies, but with little relief from markets or evidence of growth.

Most European countries now appear to have “chosen” to implement “austerity.” Eurodiaconia reported that 11 out of its 15 country members said their governments had implemented austerity measures that have had an impact on public policy. Eurodiaconia in the Netherlands reported measures to target cuts in services to people with disabilities and in Denmark the member reported the indirect effect on the vulnerable of cuts in social services from reduced municipal budgets.<sup>39</sup>

In the view of many economists including Paul Kruger, Nobel Prize winner,<sup>40</sup> governments put the squeeze on too soon and too fast and in the wrong place – hitting already squeezed mass lower incomes and closing off consumer spending growth. Ms Lagarde, Director of the IMF, warned against too much austerity and suggested to creditor countries to spend more. She has referred to the crisis of confidence in Europe. However, the Council for the Future of Europe<sup>41</sup> wants to see not only much greater integration, but tight budget controls and social spending cuts.

In 2011, growth in Europe has stalled and some countries are facing double dip recession while some others are deep in depression. In EAPN’s view, the early coordinated reflation was the right approach in general, but two things went wrong:

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

So far, the hard options for the Eurozone seem to be closer fiscal integration for some in a 2-tier Europe or euro breakup. Both options will have enormous costs and hurt most the poor. The December European Council (8 and 9 December 2011) agreed a fiscal pact to embed obligatory legal mechanisms to enforce the ‘golden rule’ of balanced budgets and deficit reduction, to be delivered through an Intergovernmental Agreement, with the UK exercising its veto against it. However, little was agreed to solve the immediate problems of the debt repayments crisis and even the agreement

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<sup>39</sup> Eurodiaconia (2011a) *Carrying the burden, diaconal work supporting people in need: Third follow-up report on the impact of the autumn 2008 financial crisis*, Brussels, Eurodiaconia p12.

<sup>40</sup> Krugman, P. 2011. It's not about Welfare States. *Social Europe Journal*, Industrial Europe Online Debate 11/11.

<sup>41</sup> Council for the future of Europe (2011) *Statement by the Council for the Future of Europe: Europe is the solution, not the problem*, Beverly Hills, California, Nicolas Berggruen Institute.

of the Council appears to be unravelling, as we go to print.<sup>42</sup> The world slow-down in 2011 has now affected all countries, with Europe most affected in the west; August was the first month since 1945 in which the American economy produced no new jobs, although the December figures show some employment uplift. But a deepening Eurozone crisis in 2012 could derail any potential world recovery.

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

Solidarity between countries has been undermined, and there are growing signs of unrest amongst ordinary citizens, including those most at risk of poverty, in rejection of the EU austerity (in Greece, Ireland, Spain, Italy but also in Belgium, France, UK...). In England, street riots were represented as criminal acts without explicit political or social demands. However postcode analysis has shown rioters largely live in poor areas which have suffered most from the crisis in terms of unemployment, especially youth unemployment, and austerity cuts in employment and social programmes.

Many in the world have looked on with admiration as post-war Europe gradually built peace and security on its whole territory. A key foundation of European stability and cohesion has been the European “social model” and its welfare states in various forms. 63% of Europeans surveyed for Eurobarometer 355 thought public policy was not having much impact and 61% wanted higher social spending even if it meant higher taxes.<sup>43</sup> In the Eurobarometer survey 377 (29 November 2011),<sup>44</sup> 87% of respondents believed poverty had increased (up three points from 2010). The responses for Greece (99%) and Spain (98%) are unprecedented. In all Member States with the exception of Latvia, a majority agreed that there has been a strong increase in poverty. Overall, 75% of European respondents said not enough is being done to fight poverty (84% in new Member States and 73% of the EU-15). There has also been a substantial fall in the number of people who think the EU has a positive impact (down from a range of 78%-62% in 2009, to 67%-48% most recently). We may be on the brink of losing our political and social as well as our economic capital, at a time when we need the confidence of our people to find our place in the changing world.

## 4.8 Summary

1. After early co-ordination and pro-cyclical responses, beggar-my-neighbour policies on spending cuts, tax and currency competition have stalled the recovery and risk putting many countries, not only in Europe, into recession. Social ills, including increases in suicide, mental ill-health and crime, as well as social unrest, have increased in worse hit countries as austerity programmes bite.
2. Democracy has been damaged by the actions of EU and international institutions in the financial crisis in implementing neo-liberal solutions which are driving austerity, and their failure to address the longer term social impact of their macro-economic decisions, or even the shorter term poverty caused by the crisis itself.
3. Poverty on a fixed standard rose already in the recession, before the “austerity” cuts were implemented.
4. The poor and disadvantaged will suffer more and longer from stagnation, recession or austerity programmes than from the crisis itself.

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<sup>42</sup> European Council (2011) Cover note from the secretariat of the Council to the delegations, subject, European Council 9 December 2011 Conclusions, CO EUR 24 CONCL 6, EUCO 139/11, Brussels.

<sup>43</sup> TNS Opinion and Social Eurostat (2010) *Special Eurobarometer 355*, Poverty and Social Exclusion Report, Luxembourg, Eurostat.

<sup>44</sup> TNS Opinion and Social (2011) *Special Eurobarometer 377* “Employment and social policy: summary,” Eurostat, 29 November.

5. These are dangerous times and in our governing classes or in the EU institutions there is no commitment to an open debate with citizens and stakeholders on new thinking and more inclusive solutions.

## 5 The social impact of the crisis on poverty – a view from the frontline

“In 2008 the EU was hit by the worst global recession for decades. The impact of this major crisis on economic growth and unemployment was felt almost immediately. But the social impact of the crisis, feeding through more indirect channels, is only beginning to appear.”<sup>45</sup>

### 5.1 Lack of monitoring of the social impact

Alarmed at the absence of monitoring of the social impact of the crisis, EAPN began its own assessment through its national networks<sup>46</sup> as well as demanding that the EU institutions get this done.

The SPC/European Commission now reports regularly on the social impact<sup>47</sup> but noted that most Member States were not carrying out a full social impact of the crisis or of their own policies. They noted also that EU-SILC data lagged at least a year behind events, making national information all the more necessary.<sup>48</sup> However, little account is taken of their assessment in the debate dominated by economic and finance ministers focussed only on deficit reduction.

EAPN wanted to get beneath the surface of the lagging data and try to understand what was happening “on the ground.” We used the framework of the 2008 Active Inclusion Recommendation to evaluate access to an inclusive labour market, to adequate minimum income and to quality services.

### 5.2 Social costs and social tensions

Both our 2009 and 2011 (covering 2010) EAPN social impact reports are notable for their emphasis on the hidden costs of the crisis and the longer-term effects – policy neglect of the “old” poor who were already in longer-term grave difficulties, relative to those newly at risk; hidden unemployment and erosion of working conditions; family tensions; stress and risks of chronic ill-health and violence; loss of confidence and aspirations of our children, as well as the impact on housing/homelessness, indebtedness and living standards. EAPN noted that the employment dimension of the crisis was much better documented than threats to social cohesion, social inclusion and social protection.<sup>49</sup>

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

Many other networks used words like deprivation, pauperization and out-migration and referred to increased domestic and urban violence. Networks referred to increased competition for scarcer

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<sup>45</sup> European Commission (2011c) *Social Europe EU employment and social situation quarterly review*, June, Brussels, European Commission, Employment, Social Affairs and Equal Opportunities p 37.

<sup>46</sup> EAPN (2009b) *Social cohesion at stake: The social impact of the crisis and of the recovery package*, Brussels; EAPN (2011e) *From financial crisis to recovery: where is the strategy to combat poverty?* Brussels, EAPN and also EAPN (2011f) *Is the European project moving backwards? The social impact of the crisis and the recovery policies in 2010*, Brussels, EAPN.

<sup>47</sup> Social Protection Committee (2010a) *2010 Update of the joint assessment by the Social Protection Committee and the European Commission of the social impact of the economic crisis and of policy responses*, Brussels, Council of the European Union.

<sup>48</sup> EAPN (2011f) *Is the European project moving backwards? The social impact of the crisis and the recovery politics in 2010*, Brussels, EAPN.

<sup>49</sup> EAPN (2009b) *Social cohesion at stake: The social impact of the crisis and of the recovery package*, Brussels, EAPN.

resources amongst the poor, rising intolerance, racism and xenophobia.<sup>50</sup> It was clear that something very socially serious was happening.

### 5.3 Lack of dialogue with civil society

But not only were governments not addressing or even monitoring the social impact, they did not seem to recognise it, until some people took to the streets. Only 23% of Eurodiaconia members reported they had been directly involved in consultation on policies in response to the crisis.<sup>51</sup> EAPN networks, especially in the most affected countries, were frustrated by governments' refusal to pay attention to their concerns. In our working group meeting of June 2011, the Portuguese network said *"Not only are we not being listened to, we are not being respected."* The Spanish network said *"Street movements are always a surprise to governments."* From 2009 till now, few governments have engaged with NGOs on the causes, social impact and solutions to the crisis whether in purely national arrangements or in the context of the NRPs, even during the 2010 Year Against Poverty.

### 5.4 Impact of "Austerity"

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

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

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

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

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<sup>50</sup> EAPN (2009b) *Social cohesion at stake: The social impact of the crisis and of the recovery package*, Brussels, EAPN, pp 36-37.

<sup>51</sup> Eurodiaconia (2011a) *Carrying the burden, diaconal work supporting people in need: Third follow-up report on the impact of the autumn 2008 financial crisis*, Brussels, Eurodiaconia, p14.

## 5.5 Breakdown of the social contract

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

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

Networks in central and eastern European economies have been here before. As one EAPN network said “We are depressing rights; this was done in the CEE (Central and Eastern Europe) under the slogan of market economies.”

## 5.6 Are disadvantaged people being targeted by “austerity” policies?

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

### • **Reductions in real incomes**

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

In our 2009 social impact report, EAPN networks in Denmark, Spain and Ireland were already reporting big increases in demand for services addressing basic needs - food, clothes and temporary housing.<sup>52</sup> The crisis risks becoming a human rights’ disaster for the very least advantaged even in wealthy western countries. Our 2011 social impact report (which covers 2010) showed commodity price inflation had taken off again with some central and eastern European countries showing most concern (Hungary; Czech Republic; Slovakia) and Estonia especially concerned about price rises that took place in preparation for entry to the euro.<sup>53</sup>

In our 2011 report, EAPN pointed to the negative impact of regressive flat income taxes (for example in Bulgaria and Hungary) and to widespread increases in VAT which hit poor people hardest. The Irish network pointed to very low corporation tax of 12.5% - much lower than the standard rate of income tax. The German network noted that middle class tax breaks have reduced resources for social services and social inclusion. A small positive point is those few countries who are considering wealth or property taxes, though often as interim measures. But there has been very little indication that the public sector and social protection cuts are only interim measures.<sup>54</sup>

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<sup>52</sup> EAPN (2009b) *Social cohesion at stake: The social impact of the crisis and of the recovery package*, Brussels. EAPN, p44.

<sup>53</sup> EAPN (2011f) *Is the European project moving backwards? The social impact of the crisis and the recovery politics in 2010*, Brussels, EAPN, February, p17.

<sup>54</sup> *Ibid.* pp 23-24.

Adequate income replacement benefits are under threat in a climate of capped social budgets and the harsher conditionality for their receipt which have been imposed in almost all countries. In the UK Work Programme, the government expects that the profit seeking businesses that were awarded the labour market insertion contracts will be paid from benefits savings from placing people in work. Success is a reduction in the welfare bill, not a reduction in poverty.

Over-indebtedness has been a constant theme in EAPN's reports. EAPN UK, through the Social Open Method of Coordination (OMC) process on the National Action Plans on Social Inclusion (NAPs), warned about it from 2001, and indeed after several years the government did recognise the difference between unmanageable *overindebtedness* and manageable debt. They launched a programme of engagement with indebted households. But too late - the credit crunch exposed the unaffordable mortgages and consumer credit at penal rates and the private debt overhang will slow economic recovery in the UK for years to come.<sup>55</sup> In 2011 Eurodiaconia reported serious rises in demand for debt advice, yet financial reform plans at the macro level have not addressed the ground level experience. There must be action on usurious interest rates on debt and financial sharp practice including mis-selling of financial products and much better provision of funding for money and debt advice.<sup>56</sup>

Most networks in both EAPN's 2009 and 2011 social impact reports highlighted policies to control retirement pension costs through increases in state and occupational pension ages, cuts in public contribution to pensions and increases in personal contributions. These began as a response to "demographic ageing" but are now being "sold" as part of the solution to the crisis although they will make poverty in old age worse. As the SPC noted<sup>57</sup> there are risks of inadequacy and insecurity from funded pensions reliant on stock markets and risks from the contributory principle for people with interrupted work histories and low paid jobs – therefore women will be worse affected. Private pension providers' charges may also eat more of the sums invested leaving lower pensions than could be provided by the state.

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

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

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<sup>55</sup> The most recent report by the children's charity Barnado's, shows the continuing problems of debt for low income households. See Mathers, I and Sharma, N (2011) *A vicious cycle: the heavy burden of credit on low income families*, London, Barnado's, December.

<sup>56</sup> Eurodiaconia (2011a) *Carrying the burden, diaconal work supporting people in need: Third follow-up report on the impact of the autumn 2008 financial crisis*, Brussels, Eurodiaconia pp10-11; 22.

<sup>57</sup> Social Protection Committee (2011) *SPC assessment of the social dimension of the Europe 2020 strategy SPC 2011/02/2/FINAL*, Brussels, Council of the European Union.

countries such as Sweden, Denmark and the Netherlands. Thus vulnerable people were put under more pressure, restricting the scope for exit from the crisis and deepening the recession.

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

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

The Hungarian network said that government interventions supported mainly the middle class and wealthier people but poor people got benefits cuts and tighter eligibility.<sup>58</sup>

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

The assessment of the social impact of the crisis by the SPC and the European Commission<sup>59</sup> showed that measures to reduce public expenditure have hit social protection and social inclusion systems first. Though only a minority of countries have implemented each of these measures, they all hit the vulnerable. Measures included restrictions on eligibility, shortening of benefit payment period, reduced benefit, narrower family benefits, reductions of benefits to disabled people and children, abolition of maternity and school grants, changes in indexation rules for benefits, cuts in sickness benefits and in social care services, increased targeting of housing and child benefits, staff cuts in social services.

As EAPN pointed out<sup>60</sup> without national social impact assessments, nobody knows what will be the effect of these measures on poverty and social exclusion. Presumably, governments would like to keep it that way until “facts on the ground” including lowered expectations of public transfers and public solidarity and greater familiarity of more visible problems, based on acceptance of the necessity of austerity, have done their work. The Belgian network explicitly noted that it was the EU requirement for a balanced budget by 2015 that was driving the cuts.<sup>61</sup>

#### • **Loss of jobs, worsening job quality and reduced access to the labour market**

Men’s unemployment rose first,<sup>62</sup> but women will be more affected by cuts to social sector jobs and by the slowing of the service sector of most European economies. Services account for as much as 70-80% of employment and the lower wage jobs are dominated by women. Two thirds of public sector job cuts in the UK have fallen on women. The gender dimension of austerity cuts has not been considered; in the UK, the Fawcett Society is bringing a legal challenge because there was not an equality impact assessment of the national budget.<sup>63</sup>

<sup>58</sup> EAPN (2011f) *Is the European project moving backwards? The social impact of the crisis and the recovery politics in 2010*, Brussels, EAPN.

<sup>59</sup> Social Protection Committee (2011) *SPC assessment of the social dimension of the Europe 2020 strategy SPC 2011/02/2/FINAL*, Brussels, Council of the European Union Social Protection Committee 2010b. *Draft Joint Report On Social Protection And Social Inclusion 2010*, Brussels, Council of the European Union.

<sup>60</sup> EAPN (2011f) *Is the European project moving backwards? The social impact of the crisis and the recovery politics in 2010*, Brussels, EAPN.

<sup>61</sup> Ibid. p20.

<sup>62</sup> Jenkins, S., Brandolini, A., J., M. & Nolan, B. (2011) *The Great recession and the distribution of household income*, paper for “Incomes across the great recession” *XIII European conference of the Fondazione Rodolfo De Benedetti, 10th September* Palermo.

<sup>63</sup> See [Fawcettsociety.org.uk](http://Fawcettsociety.org.uk).

In our 2009 social impact report, EAPN noted that unemployment had risen but that working hours had declined more, due to short time working, sometimes as a matter of policy to protect those in employment and their skills.<sup>64</sup> Other measures to save jobs (according to the 2011 report) were reducing employers' social costs (nine networks) or supporting enterprises through subsidies (five networks).<sup>65</sup> While initially welcome, these risk exacerbating "jobless recovery" and as the Belgian network said – "who's out- stays out" of the labour market.<sup>66</sup>

Portuguese and Lithuanian networks noted the lack of security in "flexicurity" changes to the labour code and the French network noted the ease of creating short-term contracts.<sup>67</sup> In many states, job losses were worse for temporary and precarious workers, "underground" workers in the informal economy and migrant workers. Youth and older workers were also worse affected than prime age workers. Networks were concerned that many of the groups most at risk of unemployment were also those people most likely to become long-term unemployed and least likely to have access to adequate unemployment insurance, minimum incomes and retraining and integration policies.

EAPN networks see a fundamental problem that the current labour market model is generating a *dual labour market* of "good" and "poor" jobs and working conditions. More than ever, young people and people vulnerable on the labour market are "locked out" of it. The main response has been supply-side activation and training policy, linked to punitive sanctions.

Threats of future poverty are increased because the downward pressure on job quality including insecurity and stress as well as poorer conditions, is combined with lack of job creation and sometimes cuts or below-inflation increases in minimum wage jobs. These changes were taking place in countries differently affected by the financial crisis and as differently politically and socially organised as the Czech Republic, Denmark, Hungary, Latvia, the Netherlands, Spain and the UK<sup>68</sup> and before the EU Euro Plus Pact was put into place.

In our 2011 report networks noted that "inclusive labour markets" (as part of an integrated Active Inclusion strategy) is mostly a missing dimension. The Bertelsmann Stiftung found that apart from Iceland and Norway, other northern European states do not rank in the top group for labour market inclusion, although they are in the top group on the other five social justice indicators. Sweden has high youth unemployment, Finland, Norway and Denmark are weak on integration of migrants and Denmark has higher unemployment than the Czech Republic and Germany.<sup>69</sup>

There were some positive movements in education and training for the unemployed in Czech Republic, Sweden and Finland, but the UK Future Jobs Fund for the young unemployed was later ended by the new government.<sup>70</sup> Only a very few countries are spending enough on training to make a real difference.

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<sup>64</sup> EAPN (2009b) *Social cohesion at stake: The social impact of the crisis and of the recovery package*, Brussels, EAPN.

<sup>65</sup> EAPN (2011f) *Is the European project moving backwards? The social impact of the crisis and the recovery politics in 2010*, Brussels, EAPN p26.

<sup>66</sup> EAPN (2009b) *Social cohesion at stake: The social impact of the crisis and of the recovery package*, Brussels, EAPN, p34.

<sup>67</sup> Ibid. p32.

<sup>68</sup> EAPN (2009b) *Social cohesion at stake: The social impact of the crisis and of the recovery package*, Brussels, EAPN, pP32-34, 15-16.

<sup>69</sup> Schraad-Tischler, D. (2011) *Social justice in the OECD – How do the Member State s compare? Sustainable governance indicators 2011*, Gütersloh, Bertelsmann Stiftung p27.

<sup>70</sup> EAPN (2009b) *Social cohesion at stake: The social impact of the crisis and of the recovery package*, Brussels, EAPN, pp 5, 13, 25.

Several networks highlighted the important role of the social economy, which is getting some increased support in some countries and which has proven to be more resilient to the crisis than profit-seeking businesses.

Networks in Hungary, Sweden and the Netherlands identified the missing policies as job creation and decent work. Activation at all costs, in an economic climate where jobs are scarce, is only creating more precariousness and in-work poverty.<sup>71</sup>

*“New problems; out of date solutions”* is EAPN’s overall perspective on employment policy.<sup>72</sup> Most EAPN networks believe that aggregate demand in Europe is too low so there are not enough jobs.

- **Cuts in services**

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

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

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

The UK has voiced its specific intention to move to a new model of welfare: the commissioning and contracting state with services provided by “*any willing provider*” from any sector.<sup>73</sup> The focus is on competition and cost efficiency. Universality and equity are downgraded as goals.

Austerity measures have begun to have a significant negative impact on access to services, many being central to the fight against poverty, social cohesion and the preservation of human capital needed for future economic development, including public health.<sup>74</sup>

- **The example of housing and homelessness**

The multifaceted nature of ensuring protection from poverty and social exclusion is strongly related to the capacity to access decent, affordable services. This is particularly evident in relation to housing. Shortage of housing before the crisis meant that even though there was downward pressure on rents in some countries during the recession housing was still unaffordable for those on low incomes. Any rent decreases were more than outweighed by higher utility and food bills from globalised price rises.<sup>75</sup> It is depressing that there was no country that chose to invest in a major

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<sup>71</sup> Ibid. pp24-25.

<sup>72</sup> EAPN (2011f) *Is the European project moving backwards? The social impact of the crisis and the recovery policies in 2010*, Brussels, EAPN, pp24-25.

<sup>73</sup> HM Government (2011) *Open Public Services White Paper*, London, The Stationery Office Limited.

<sup>74</sup> Ibid. p22.

<sup>75</sup> EAPN (2009b) *Social cohesion at stake: The social impact of the crisis and of the recovery package*, Brussels, EAPN p15.

programme of affordable (green) housing as part of a fiscal stimulus with positive long term effects on living conditions and social cohesion.

Shortage of affordable housing to rent, rents rising faster than inflation and state withdrawal from housing provision - these were happening before the crisis and are likely causes of it. By 2010 Spain, Denmark and Hungary were reporting a rise in evictions (although policies to reduce eviction rates were introduced in some other countries such as the UK). FEANTSA noted that the link between unemployment and homelessness affects the most vulnerable most as it is long-term unemployment that research shows is linked to homelessness.<sup>76</sup>

FEANTSA has found that the impact of the crisis and austerity measures on homelessness has worsened in 2011. Their country reports showed a shift in the profile of evictions to include more families with children and hidden costs of income stress such as unheated homes in order to use money to pay housing costs. Internal EU migrants have become a larger proportion of EU rough sleepers especially in Germany, France, Netherlands and the UK. Young people, especially in the south of Europe and Austria, are increasingly homeless. Hidden homelessness in young adults living with family or friends is particularly evident in Greece and Portugal. Increasing and new categories at risk across Europe include people in poor work who cannot secure stable tenancies and middle class families seeking social housing.<sup>77</sup>

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

Local municipalities, which are often responsible for social services, have carried a heavy burden of cuts and restrictions on supply of services are becoming more common. This was the case even in relatively pro-social Finland.<sup>78</sup> FEANTSA noted that austerity measures consist of centrally designed cuts often to be locally implemented. There is more fragmented service provision as the cuts fall differently for example, in housing and social services and health, and a loss of capacity to integrate services. "Prioritising" by cutting non-emergency services will become visible as social problems in the longer term – integration, employability, prevention, service quality and the loss of qualified staff.<sup>79</sup>

FEANTSA and EAPN agree that cuts in public especially social budgets and a shift in paradigm were evident before the crisis, which has reinforced political trends and also excused them. In FEANTSA's view, the crisis has systemised in the form of "austerity" measures the cross-EU trend to shrink welfare and especially for the most economically disadvantaged groups.<sup>80</sup> But as both the SPC and the IFS study by Jenkins et al stated, those countries with the best developed social protection and homeless strategies are less affected than states with weaker systems and less commitment.<sup>81</sup>

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<sup>76</sup> EAPN (2011f) *Is the European project moving backwards? The social impact of the crisis and the recovery politics in 2010*, Brussels, EAPN, p17.

<sup>77</sup> FEANTSA (2011) *Impact of anti-crisis austerity measures on homeless services across the EU*, FEANTSA policy paper, Brussels.

<sup>78</sup> EAPN (2009b) *Social cohesion at stake: The social impact of the crisis and of the recovery package*, Brussels, EAPN, p19.

<sup>79</sup> FEANTSA (2011) *Impact of anti-crisis austerity measures on homeless services across the EU*, FEANTSA policy paper, Brussels p8.

<sup>80</sup> FEANTSA (2011) *Impact of anti-crisis austerity measures on homeless services across the EU*, FEANTSA policy paper, Brussels, p4.

<sup>81</sup> Social Protection Committee (2010b) *Draft Joint Report On Social Protection And Social Inclusion 2010*, Brussels, Council of the European Union and also Jenkins, S., Brandolini, A., J., M. & Nolan, B. (2011) *The Great recession and the distribution of household income*, paper for "Incomes across the great recession" XIII

## 5.7 The impact on NGO service provision

Despite the findings of Eurobarometer 355<sup>82</sup> that the public most trusts NGOs to provide services to combat poverty (compared to citizens, regional or local authorities, religious institutions, national governments or the EU); local and central funding to NGOs has been cut. EAPN networks reported reduced and closed provision even as demand for services rises and changes with new risks. Despite a turnaround out of the 2008-9 recession, in our 2011 report, seven networks highlighted further increases in service demand – notably from families and migrants, due to increasing income poverty, debt, family tensions, housing insecurity and social tensions.<sup>83</sup> As well as debt advice, Eurodiaconia<sup>84</sup> noted the increase in service demand to meet basic human needs, including food banks, and were very concerned about the decision to cut the EU budget of Food Aid for the most deprived Europeans, from €500 million to €112 million, starting in 2012.

Our 2011 social impact report showed the situation had worsened for NGOs with almost all networks reporting significant falls in funding sources and cuts in services. Eurodiaconia particularly noted the decline in private giving. EAPN Hungary noted the drying up of funding after the Soros foundation withdrew its presence saying that Hungary was a stable democracy. The European Foundation for Street Children noted the difficulties in managing and in service quality in working with more volunteers instead of permanent professionals. Sweden, Ireland and the UK particularly noted the difficulties of competitive markets and contracting culture in delivering services for vulnerable people. The networks in France and Hungary specifically mentioned exclusion from participation in the decision making framework.<sup>85</sup> But in Germany, municipalities worked with NGOs to inform them in advance about cuts and to co-manage the cuts to minimise impact.

While networks want sustainable finance for NGOs they also want a framework of public support to ensure access for all on a basis of equality.

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

EAPN are concerned that NGO capacity to innovate to deal with the crisis and to facilitate participation in policy-making for people in poverty, are two key functions important for policy efficacy that are most at risk.<sup>86</sup>

We are concerned also that the wider social polarisation is also polarising the NGO community. For example, some networks think government has a strategy of reconfiguring NGOs through the contracting and competitive tendering framework (e.g. UK, Finland, Sweden, Czech Republic) into fewer, bigger, delivery focused organisations, with risks of fall in service quality or in access. Another

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*European conference of the Fondazione Rodolfo De Benedetti, 10th September Palermo.*

<sup>82</sup> TNS Opinion and Social Eurostat (2010) *Special Eurobarometer 355, European Commission Poverty and Social Exclusion. Report*, Luxembourg, European Commission.

<sup>83</sup> EAPN (2011f) *Is the European project moving backwards? The social impact of the crisis and the recovery politics in 2010*, Brussels, EAPN, p28.

<sup>84</sup> Eurodiaconia (2011a) *Carrying the burden, diaconal work supporting people in need: Third follow-up report on the impact of the autumn 2008 financial crisis*, Brussels, Eurodiaconia, p22.

<sup>85</sup> EAPN (2011f) *Is the European project moving backwards? The social impact of the crisis and the recovery policies in 2010*, Brussels, EAPN, pp29-33.

<sup>86</sup> *Ibid.* p6.

development in central and eastern Europe which receives the majority of the European Structural Funds is substitution of public services by Structural Fund projects and programmes.<sup>87</sup>

Only the Swedish network highlighted extra public funding, linked to the 2010 EU Year against poverty. In Denmark private donations rose and in Spain more taxpayers chose the option to contribute 0.7% of their income taxes to welfare organisations.<sup>88</sup>

## 5.8 Summary

- The social impact of the crisis is causing long-term damage to the most vulnerable people and communities, but is not adequately monitored or debated and therefore not sufficiently visible to the wider public and policy-makers.
- Civil society stakeholders at all levels are kept out of the debate.
- Rising unemployment is the most obvious social impact of the crisis, but austerity packages are making the economy worse and measures are targeting the poor and vulnerable; this is a social crime.
- NGO services are in the front-line for cuts in provision, particularly in preventative and advocacy services, even as demand rises and changes with new risks. The new pressure on NGOs to compete for existing public services is driving down price and quality and polarising the NGO community.
- Governments and unelected institutions are unilaterally re-writing the social contract between people and their governments, risking mounting social and economic costs, fractured social cohesion and growing social unrest.
- The role of the EU in driving the implementation of fast deficit reduction, mainly through social cuts, is jeopardising any sense of trust in the EU's role to act in the interests of people, rather than unidentified "markets." Why should people want more EU?

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<sup>87</sup> EAPN (2009b) *Social cohesion at stake: The social impact of the crisis and of the recovery package*, Brussels, EAPN, p46 and also FEANTSA (2011) *Impact of anti-crisis austerity measures on homeless services across the EU*, FEANTSA policy paper, Brussels, pp5-6.

<sup>88</sup> EAPN (2011f) *Is the European project moving backwards? The social impact of the crisis and the recovery policies in 2010*, Brussels, EAPN, p30.

## 6 The EU contribution to combating poverty and social exclusion

### 6.1 Little concrete progress on poverty rates since 2000

Since 2000, with the launch of the Lisbon Agenda (2000-2010), the EU has had a specific objective to “make a decisive impact on the eradication of poverty and social exclusion.” The Social OMC was to be the key instrument, coordinating Member States’ actions around Common Objectives, engaging national stakeholders in development of NAPs and common EU review, exchange and assessment mechanisms. Important progress was made on agreeing the full set of OMC common indicators, mutual learning and consensus building over common policy approaches particularly on child poverty, homelessness and housing exclusion, older people, migrants and ethnic minorities, including the Roma.

The major achievement in this period was the approval of the Active Inclusion Recommendation in 2008. This built on the 1992 Recommendation on adequate minimum income for a dignified life<sup>89</sup>, and embedded a commitment to adequate minimum income within an overarching integrated strategy based on three pillars: adequate income support, access to quality services and inclusive labour markets. But implementation was weak.

Moreover, the initial commitment to an innovative multi-level governance approach engaging stakeholders and different government levels in the design, delivery and evaluation of the strategy through the NAPs was undermined over the decade. This was exacerbated in 2005 by the “streamlining” of the social inclusion pillar with other coordination mechanisms on pensions, health and long-term care that did not have equivalent participation structures.

In successive publications during this period<sup>90</sup> EAPN has pointed to the experience of the poorest and those at risk, of stagnant real incomes; wages and benefits that could not support households over the lifecycle; increasing in-work poverty; risks of poverty from atypical work and temporary and part-time work; lack of access to affordable housing; restrictions on social services; relentless inflation in prices of basic goods and utilities and over-indebtedness. We lobbied and campaigned for morally better and more effective policies that would support human dignity and social inclusion.

However, it was the lack of political will and marginalisation from the main economic policy drivers that were mainly responsible for the failure to achieve concrete results for poverty reduction; the “at-risk-of poverty” rate remaining constant at 16% from 2000 to 2010.

### 6.2 Does Europe 2020 offer hope for people at risk of poverty and social exclusion?

Europe 2020 is the new EU strategy for smart, sustainable, inclusive growth that replaced the Lisbon agenda 2000-2010. It is a framework of coordinated policy reform amongst Member States, with surveillance by EU institutions.<sup>91</sup> EAPN and other organisations lobbied strongly for a change in paradigm centred on creating a fairer, more sustainable development model.<sup>92</sup> The European Commission recognised that: “There can be no sustainable growth unless its benefits accrue to all

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<sup>89</sup> European Council (1992) *Council Recommendation 92/441/CEE (June 1992): Common criteria concerning sufficient resources and social assistance in social protection systems.*, Brussels, European Council.

<sup>90</sup> See EAPN’s OMC NAP and NRP reports (2001 to 2009): [www.eapn.eu](http://www.eapn.eu).

<sup>91</sup> EAPN (2011b) *EAPN briefing note The Europe 2020 Strategy*, Brussels, EAPN and EAPN (2011a) *Annex EAPN’s briefing on the Europe 2020 Strategy*, Brussels, EAPN.

<sup>92</sup> EAPN (2009a) “An EU we can trust” *EAPN Proposals on a new EU post-2010 strategy*, Brussels, EAPN and as part of Social Platform and Spring Alliance: see [www.springalliance.eu](http://www.springalliance.eu).

*segments of society.*” Yet inequality has been growing across Europe in the past decade, with more and more people experiencing poverty and social exclusion.<sup>93</sup>

Europe 2020 falls far short of a sustainable development approach, but important concessions were achieved for the fight against poverty during the EU Year for combating poverty and social exclusion.<sup>94</sup>

For the first time, a specific target to reduce poverty and social exclusion by at least 20 million<sup>95</sup> has been set as one of the five European headline targets. The Employment Guidelines include a specific Guideline 10 on poverty and exclusion which must be reported on by all Member States in their NRPs. Within the seven “flagship initiatives” (which include important initiatives on youth and new skills) there is a specific European Platform against Poverty and Social Exclusion. The Platform, as a European framework for *social and territorial cohesion*, also has an explicit commitment to ensure more effective use of the EU Structural Funds (particularly the European Social Fund, ESF) to support social inclusion and social innovation and provide better access for smaller organisations.

A partnership principle supporting greater stakeholder involvement in the development and delivery of the NRPs was underlined in Recital 16 in the Integrated Guidelines, whilst the Flagship Platform against Poverty emphasized the key role of NGOs and people experiencing poverty. In June 2011, the EPSCO Council backed the SPC’s proposals to reinforce the Social OMC, including support for greater stakeholder involvement at the national and EU level.

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

The Europe 2020 policy driver is the new Economic Semester (the macro-economic and financial coordination mechanism which ensures macro-economic surveillance for the aims of stability and growth and the Europe 2020 objectives). This coordination cycle for Europe 2020 is launched at the beginning of each year (in 2011 this was brought forward to November) with the Annual Growth Survey and is delivered at the national level by Stability and Growth Programmes, plus NRPs, which bring together macro-economic and employment/social policies to deliver on the targets, focussed on overcoming bottlenecks to growth.

In the 2011 EAPN NRP assessment,<sup>96</sup> twenty-two of our networks and two European organizations scored the progress of the NRP for its contribution to social progress and social inclusion. The EAPN average scores on the scoreboard put the policy direction shamefully below a “pass” level:

Europe 2020 seems narrowed to an instrument of economic governance. The Euro Plus Pact, backed by the “six pack” legislative package on economic governance, will make obligatory debt and deficit ceilings as well as other key measures.<sup>97</sup> These priorities override any commitment to inclusive growth and the poverty target. They are viewed as secondary concerns, which will have to wait to get ‘trickle-down’ benefits from restoring the Euro, stability and growth – even when ten years of boom and the same EU medicine for growth and jobs failed. The deficit-reduction measures and economic governance proposals will increase poverty and inequality in most countries. In this

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<sup>93</sup> European Commission (2011a) *Annual Growth Survey: Annex 1: Progress report on Europe 2020, COM(2011) 11-A1/2 Annex 1*, Brussels, European Commission, p9.

<sup>94</sup> See [www.endpoverty.eu](http://www.endpoverty.eu).

<sup>95</sup> According to three indicators: at risk of poverty, severe material deprivation and low work intensity.

<sup>96</sup> EAPN (2011) *Deliver Inclusive Growth – Put the heart back in Europe: EAPN analysis of the 2011 NRPs, Europe 2020*, Brussels, EAPN.

<sup>97</sup> .

overarching context, it is difficult to see how the mechanisms of the European Platform against Poverty and the Social OMC will be able to make progress as champions of the social objectives.

### 6.3 Key role of EU Budget and Structural Funds

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

But EAPN’s 2011 report on the social crisis networks highlighted changes in the Member States’ Operational Programmes, with a global trend re-orientating ESF towards those closest to the labour market to maintain existing jobs at the expense of more vulnerable groups. In France, there was a stronger focus on keeping people in jobs. Many networks shared Ireland’s concern with the increased emphasis on labour market activation for those near to the market and away from those furthest from the labour market.<sup>98</sup>

Many networks said that Structural Funds were getting harder for NGOs to access and there is a shift in who gets funds and what they do with them. This has included competition from intergovernmental agencies, public agencies and private concerns looking to replace their own revenue streams or find new business, but not primarily focused on cutting poverty.

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

Therefore, despite positive references in the proposals for the next round of Structural Funds post-2013, current implementation tends to undermine the social orientation. EAPN member networks almost unanimously pointed out that Structural Funds fall far short of their potential to promote social inclusion.

Certainly, the European Commission’s proposal for a Multi-annual Financial Framework for the period 2014-2020<sup>99</sup> gives a very mixed signal about the promotion of social inclusion within Cohesion Policy.

A positive development is the Commission proposal that 20% of ESF should be ring-fenced for social inclusion and the fight against poverty, to deliver on the Europe 2020 poverty target, and the extension of its scope to cover the cost of equipment linked to investments in social and human capital. This represents an increase of 8% on the current commitment. But, this progress is jeopardized by two major steps backwards:

1. The amount of money allocated to Cohesion Policy reflects a decrease of up to 5.3% compared to the previous period (€336 billion against €354.8 billion for 2007-2013).
2. There is no real effort made to mainstream social considerations within other financial instruments. ESF is viewed as the EU Fund dedicated to achieving the poverty reduction target.

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<sup>98</sup> EAPN (2009b) *Social cohesion at stake: The social impact of the crisis and of the recovery package*, Brussels, EAPN, p46.

<sup>99</sup> European Commission (2011e) *A budget for Europe 2010, Part I and II, 29.06.2011*, Brussels, European Commission.

But, the other EU Funds (ERDF for Cohesion policy and EAFRD for EU agricultural policy) will be very marginally mobilized.

Alongside growing pressure from the Member States to set up macro-economic conditionality, this can undermine the use of Structural Funds to deliver on the poverty reduction target. A joint letter on 17 August 2011, from Nicolas Sarkozy, President of the French Republic, and Angela Merkel, Chancellor of Germany, to Herman Van Rompuy, President of the European Council, stated “*In the future, payments from Structural and Cohesion funds should be suspended in euro area countries not complying with recommendations under the excessive deficit procedure.*”<sup>100</sup>

## 6.4 A social scorecard for Europe 2020

EAPN attempted to embrace Europe 2020 by supporting its members to engage at national level in the NRPs, and at EU level in the European Platform against Poverty and other flagships and priorities. Members completed a survey of NRPs in their own countries, according to an agreed scoreboard – to assess how far the new programmes (macro-economic, employment and poverty/social exclusion, governance and Structural Funds) are contributing to achieve the poverty target, or whether they are creating risks of generating more poverty.

EAPN SCOREBOARD: MACROECONOMIC POLICY	Score 1-10
1. How far do the Macro-economic policies support <b>social inclusion</b> ? I.e. <i>do they increase investment in social protection/services and quality job creation? Do they limit austerity cuts on benefits and services?</i>	3.15
2. How far do they promote <b>greater equality</b> , fairer distribution and redistribution of income and wealth? <i>i.e., do they reduce the gap on income, wages and taxes?</i>	3.9
3. How far is there a <b>strong recognition of the need to deliver social inclusion</b> beyond employment and including through economic measures?	3.8

*Guideline 10: Promoting social inclusion and combating poverty, clearly supporting income security for vulnerable groups, social economy, social innovation, gender equality, and refers to the poverty headline target.”*

EAPN SCOREBOARD: POVERTY AND SOCIAL EXCLUSION	Score out of 10
10. How far are measures taken to ensure an <b>adequate minimum income and social protection</b> ? I.e. <i>are minimum income/benefits increased/improving take up and coverage/reducing conditionality?</i>	3.16
11. How far is <b>access to affordable, quality services prioritised</b> ? I.e. <i>is focus given to ensuring affordable access to housing, child and other care services, health, education and training, counselling, as well as tackling energy poverty?</i>	3.8

<sup>100</sup> Merkel, A. & Sarkozy, N. 2011. *Letter to President van Rompuy.*

12. How far are <b>integrated active inclusion approaches</b> promoted? I.e. <i>integrated strategies to ensure adequate minimum income, access to quality jobs and services.</i>	4.3
13. How far are effective policies put in place to tackle <b>child poverty</b> ? I.e. <i>ensuring adequate family income, supporting parents into quality jobs, and access to affordable quality care services, defending children's rights.</i>	3.5
14. How far are policies promoted to tackle <b>homelessness and housing exclusion</b> ? I.e., <i>access to appropriate housing and support services, ensuring adequate income?</i>	2.5
15. How far are policies promoted to fight <b>discrimination, particularly against migrants (including undocumented and ethnic minorities - Roma)</b> ? I.e. <i>actions taken to ensure equal access to rights, resources and services.</i>	2.8

One message is very clear – the new strategy jeopardised the good will and expectations built at the launch of Europe 2020, during the 2010 EU year for combating poverty and social exclusion. The failure to set adequate national targets on poverty, effective anti-poverty policies, meaningfully engage national stakeholders or ensure adequate funding is a major blow to the trust of anti-poverty organisations in the commitment to a more social Europe. EAPN will work for a reinvigorated Europe 2020 in the context of another, fairer way of creating and sharing prosperity and renewing democratic participation.<sup>101</sup>

## 6.5 Where is Europe now?

The International Labor Organisation (ILO) 2011 World of Work report<sup>102</sup> showed that in 58% of the 119 countries it surveyed people reported a fall in living standards and 40% of countries showed an increased risk of social unrest. The changes appear linked to unemployment and a perception of unfair distribution of the social risks from the financial crisis. The ILO's measure of social discontent has risen most strongly in developed western countries, then the middle-east and North Africa. Only Latin America has shown a decline.

All institutional commentators identify a core problem for Europe of its sluggish growth relative to other major trading blocs, especially in emerging economies. European growth has now stopped, there is recession in some countries and even emerging economies have slowed down. The European Commission's autumn economic forecast<sup>103</sup> has yet again downgraded the 2013 growth forecast – to 0.5%. The labour market is expected to stagnate with unemployment remaining at 9.5%. Debt and deficit ratios are therefore not expected to improve much in 2012 and indeed Eurozone debt is expected to rise to 90% of GDP in 2012. Inflation is expected to fall to 2% which may bring some small relief to household budgets, but the forecast notes the downside risks of the sovereign debt uncertainty, financial sector weakness and sluggish world trade.

The EU institutions persist with a hard core counter-factual neoliberal approach of “stability” through “austerity” as a means of kick-starting private-sector growth and, it is assumed, jobs. The economic governance approach has very little democratic legitimacy as it involves only EU officials and the executive arm of national governments, some of whom are not now elected politicians.

<sup>101</sup> EAPN (2011f) *Is the European project moving backwards? The social impact of the crisis and the recovery policies in 2010*, Brussels, EAPN, p7.

<sup>102</sup> ILO (2011c), *World of Work Report 2011: Making markets work for jobs*, Geneva, ILO.

<sup>103</sup> European Commission (2011d) *Autumn forecast 2011-13: Growth at a standstill*, Brussels, European Commission.

The European Commission 2011 “Annual Growth Survey” (AGS) launched the “European Semester.” It discussed the “*fiscal burden*.”<sup>104</sup> The repeatedly more frequent use of the concept of “burden” in relation to government spending, tax and even resources for older people is illustrative of the aggressive attack on solidarity that is core to neoliberalism.

The AGS called for acceleration of public finance “*consolidation*” and “*frontloading*” of cuts as well as labour market reforms and “*growth-enhancing measures*” – all of which are supply side focused. Despite the clearly predicted risk of killing off recovery in aggregate demand, the document stated that this approach will help the EU to “*smart, sustainable and inclusive*” growth. Yet the International Monetary Fund (IMF) World Economic Outlook of July 2011<sup>105</sup> said “*consolidation should ideally be gradual...so as not to undermine growth prospects.*” But the AGS even suggested that “*were economic growth or revenues...higher than expected...fiscal consolidation should be accelerated*” – a direct transfer from the mass of the people who are struggling, in favour of lenders. Krugman has argued that the “*fiscalisation of the crisis story - the insistence, in the teeth of the evidence, that it was about excessive public borrowing – has become an article of faith...And that faith has done and will do untold damage.*”<sup>106</sup>

Further, the 2011 AGS favoured indirect taxes as “*more growth friendly than direct taxes*” despite their much greater negative effect on the budgets of the poor. There is an open attack on wage-earners in the recommendations regarding “*wage moderation*” and revision of indexation clauses in collective bargaining.<sup>107</sup> Recommendations are asymmetrical; surplus countries (therefore mainly Germany) are not invited to raise aggregate demand by increasing wages (which are below productivity), but instead the AGS recommends such governments “*liberalise*” the service sector.

While the 2011 AGS accepted that energy costs are “*a particular challenge for low-income households*” and there are suggestions for improving energy efficiency, there is no comment on how to ameliorate the impact of fuel costs on risk of fuel poverty.

For the most vulnerable, there is a suggestion to tie benefits more closely to training and job search. While the vulnerable are incentivised with sticks, employers get offered the carrot of reductions in labour charges. Unemployment benefit should be “*reviewed*” “*once the recovery has gained ground*” and should vary over the business cycle.

The 2012 AGS<sup>108</sup> was launched a month early (23 November). The text has a stronger social wording – highlighting one of the five key priorities as tackling unemployment and the social consequences of the crisis, apparently as a response to rising street tensions and mobilisations and effective lobbying by key stakeholders including social and anti-poverty NGOs. But any practical impact of the wording is likely to be negated by the new fiscal pact agreed by the Eurozone and most other EU countries to aggressively reduce public deficits and debt mainly through austerity measures.<sup>109</sup>

## 6.6 Summary

1. Despite commitments to make progress on poverty eradication, and boom years of growth and employment, the Lisbon strategy made little impact on poverty, even *before* the crisis.

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<sup>104</sup> European Commission (2011a) *Annual Growth Survey: Annex 1: Progress report on Europe 2020, COM(2011) 11-A1/2 Annexe 1*, , Brussels, European Commission pp 2-4.

<sup>105</sup> IMF (2011) *World Economic Outlook Update*, New York, IMF, June 17.

<sup>106</sup> Quoted in CEO (2011) *Austerity forever*, Brussels, Corporate Europe Observatory, p2.

<sup>107</sup> European Commission (2011a) *Annual Growth Survey: Annex 1: Progress report on Europe 2020, COM(2011) 11-A1/2 Annexe 1*, , Brussels, European Commission, pp4-5.

<sup>108</sup> European Commission (2012) *Annual Growth Survey 2012*, 23 November, Brussels, European Commission

<sup>109</sup> EAPN (2011h) *Letter to Prime Ministers prior to December European Council*, November.

2. The Social OMC has been an effective instrument to build consensus on good practice in multidimensional strategies to combat poverty, but has had insufficient impact on policies or practice. Much of this comes down to the lack of political commitment to implement effective, integrated policies in an environment dominated by neoliberalism, but also to the failure to listen to alternative solutions and support greater transparency, ownership and accountability through effective stakeholder involvement at national, regional and local level.
3. The Europe 2020 poverty target, indicators and EU Platform Against Poverty, seemed a step forward in commitment to concrete progress and to stakeholder participation. But implementation is a hotchpotch, undermined by austerity measures and shameful.
4. The right targets and policies need to be backed by funding. An increased Structural Funds budget for social inclusion is welcome, but implementation is threatened. The proposal to penalize poorer regions because of national deficit situations is self-defeating and unacceptable.
5. 2020 vision? It's blinkered. Governments and the European Commission still fail to see the connection between injustice, poverty and economic failure. They should look around the world.

## 7 Building a social and sustainable future: EAPN's proposals

In this section, we draw together EAPN priorities for action, drawing from the debates and input from our Crisis conference and signpost the synergies with the proposals of fellow key stakeholders. In the coming months we will work together to further develop these proposals, strengthening our alliances for an inclusive and sustainable recovery. At the end of the section we set out 10 steps for progress to an inclusive Europe.

### 7.1 Putting the financial economy at the service of people

#### ○ **Ending the Eurozone crisis**

Investors are pulling their money out of many Eurozone banks. They have little confidence in the banks or in Europe's political leadership.

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

European countries in severe difficulties need a debt audit and debt write-down of unjustified debts – but not one in which the debt is halved but the interest rate is so high that the amount paid back is little lower. Countries cannot pay punitive interest rates and suffer recession for many years without destroying their economies and societies and embittering their populations.

Most EAPN networks support the proposals for Eurobonds but want the ECB under democratic control.

#### ● **Managing competitive and trade imbalances and currency risks**

To prevent recurrence of severe Eurozone imbalances in the single currency which stem from country competitive imbalances as well as speculative activity, there has to be managed currency flexibility. Flexibility is required to reduce exchange rate volatility and currency manipulation without transparency. We made the wrong choices regarding deflation and devaluation following World War One; we got the Great Depression and the Second World War. Yet we are making the same mistakes again.<sup>110</sup>

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

#### ● **Banking reform and regulation**

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

The activities of ratings agencies and financial firms will have to be more transparent and better regulated and an independent European ratings agency established. As a first step, EAPN welcomes

<sup>110</sup> Ahamed, L (2010) *Lords of finance; 1929, the great depression and the bankers who broke the world*, Reading, Windmill Books.

the European Commission's initiatives in this area, in setting up the three new financial regulation agencies, but they must have stronger powers and go much further in taking on the vested interests of the financial firms. EAPN supports a FTT (financial transactions tax) with the resources dedicated to combating poverty in and outside Europe.

## 7.2 Preventing a further slide into stagnation or “double dip” recession

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

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

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

Those governments in least deficit will have to take the spending lead, domestically and in terms of transfers between countries. Debtor countries cannot bear the full weight of adjustment and all countries will suffer if such a settlement is imposed on severely indebted countries.

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

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

At EU level a commitment to an EU framework to guarantee an adequate minimum income at least above the at-risk-of poverty threshold (60% of median disposable household income), could be an important instrument to support this end.<sup>111</sup>

Social budgets are counter-cyclical and have proved their worth in initial recovery from the recession of 2008-2009, especially in those countries with the most progressive tax systems and the most developed social sectors. Protecting social budgets and filling the large gaps in safety nets in some Member States which were noted by the SPC (2011)<sup>112</sup> is an early step to be taken. A great advantage is the productive role of social protection and minimum income in avoiding long-term social costs such as socially caused ill-health and social tension.

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<sup>111</sup> EAPN (2010b) *Working document on a Framework Directive on Minimum Income*, Brussels, EAPN.

<sup>112</sup> Social Protection Committee (2011) *SPC assessment of the social dimension of the Europe 2020 strategy SPC 2011/02/2/FINAL*, Brussels, Council of the European Union.

### 7.3 Challenging pay inequality and investing in quality jobs

European employment policy should be focused on an inclusive labour market in a macro-economic framework in which full employment in decent work is an explicit goal, as well as low inflation. We need a legal frame for a level social playing-field.

Wage inequality, between high and low paid workers, including the gender pay gap, must be reduced to control the rapacious theft of the financial rewards of growth that occurred through rising inequality in many countries.

The apparently “meritocratic” division of jobs into “high” and “low” skills and therefore pay is a convention. Financial managers get very high pay - and they have destabilized the world economy – how skilled are they at their job? As well as the positive social value of many low-paid workers’ jobs, many personal service jobs especially in care and customer service require very high *social and soft skills*, which are not monetised in many “low-skilled” jobs and not paid for.

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

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

The European Social Observatory (OSE) noted that all the employment gains in the Lisbon period were lost in the “Great Recession.” The ILO noted that efforts to reduce public debt and deficit have “*disproportionately and counterproductively focused on labour market and social programmes,*” *increased poverty and cut consumption with “long lasting effects on growth potential and individual well being.”*<sup>113</sup> They noted the high percentage of people surveyed who believe there are not enough good jobs, including: Greece 82%; Ireland 80%; Spain 77%; Italy 71%; Lithuania 83%; Hungary 81% and Poland 61%.<sup>114</sup>

Stagnant *individual wages* and salaries for low and middle income earners started before the crisis in Germany, France and the UK. Now governments have added cuts in the “*social wage*” (social provision) so ordinary households have received no reward for their sacrifice of personal consumption in the “*wage moderation*” years, which has been captured by shareholders as dividends. Between the years 2000-2009, 83% of countries increased the share of profits in GDP without any overall rise in real investment.<sup>115</sup> But this approach is globally unsustainable and has led to a shortfall in global demand for goods and services.

Job creation should be kick-started by investment in green and white jobs (green sector, social and health services, social economy). But to close the inequality gap and act as an effective tool to reduce poverty these must be quality jobs, on wages, duration of contracts, employment rights, access to training, non-discrimination and work/life balance etc.

Job creation must also benefit the most excluded. New commitments are needed to ensure access for those who are furthest from the labour market, through providing sufficient resources to implement personalised pathways, holistic approaches and positive activation as part of an integrated Active Inclusion approach. Costs could be saved by cuts in “revolving door” clients who are shuffled in and out of marginal jobs often exacerbating exclusion and increasing ill-health.

<sup>113</sup> ILO (2011c) World of Work Report 2011: Making markets work for jobs, Geneva, ILO.

<sup>114</sup> Ibid.

<sup>115</sup> Ibid.

A supportive, rather than punitive approach to informal/“underground” workers and small businesses to emerge and go “overground” can contribute to better working conditions and higher tax revenue and savings in benefits.

## 7.4 Adequate minimum incomes and social protection

Fiscal consolidation must not further weaken social protection and minimum income systems.

We must defend and strengthen social protection as the basis of a European “social model.” This is right in itself for an inclusive Europe. It also distinguishes us from the rest of the world and is the best foundation for a knowledge-based economy and advanced, high quality domestic demand for goods and services, including products and services in the health, education and social fields. These are more difficult for other countries to “reverse-engineer” without developing European standards of social protection, health, education and incomes and therefore are a source of competitive advantage.

The European social policy-makers, EPSCO and the EMCO and SPC<sup>116</sup> should be supported to strengthen their role and to continue a broad Social OMC, which continues to integrate the three pillars of Social Inclusion, Pensions, Health and Long-term care, delivered through participative national strategies and Social Reports. The poverty target and the Country Specific Recommendations are important steps forward. But we must put more effort into gaining a stronger process for the Social OMC including the target, peer reviews, ESF finance and meaningful regular, structured stakeholder involvement throughout the design, implementation and evaluation of national social inclusion and protection strategies.

We want to see substantial progress on a European Framework Directive on adequate minimum income, with implementation at national level, at least above the poverty threshold (60% of median income) and convergence of social norms at a high level, with reinforcement of the three elements of Active Inclusion – adequate income support, inclusive labour markets and universal access to quality services.

To get adequate minimum income higher up the agenda will need new work on common definitions and criteria for adequacy, indicators for effectiveness, peer reviews on good and promising practice, joint reports and a new minimum income network. But a paradigm shift would put adequate minimum income as part of a broader social investment pact. In the context of long-term social investment to achieve Europe 2020, the EU should back major investment in people to prepare them for social change and global competition and a Framework Directive ensuring adequate minimum income would be one component. The EAPN conference of September 2011 supported also stronger labour law.

## 7.5 Quality services and a pro-development social investment pact

*“Growth - for what? We used to talk about how the economy must serve society”* (Portuguese network. Madrid 2011).

However services are provided, to sustain them there must be a different macro-economic and financial policy and different objectives for the social future, of the kind described earlier in this report.

We must end the EU bias against public services and defend quality services. Specifically on quality public services, there must be full use of the Lisbon Treaty provisions – the horizontal social clause (art.9), Services of General Interest provisions (art.34 and protocol n°26), Charter of Fundamental

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<sup>116</sup> These are, respectively, the Employment, Social Protection and Consumer Affairs Council (EPSCO); Employment Committee (EMCO); Social Protection Committee (SPC).

Rights, and local choice. We should work on development of a General Interest Statute and legal anchoring for users of fundamental principles of quality including affordability, accessibility, continuity, accountability etc. We could start with enhancing the EU voluntary quality framework on Social Services of General Interest (SSGI).

There is also a need to change public procurement, state aid rules and ESF priorities and to mainstream social, health, employment and housing policy objectives into EU policies in social services. Public enterprise supply chains and networks need strengthening in a better legal context.

We should increase our evidence base on impact of services on poverty as well as what works/doesn't work. This evidence should support and strengthen our effectiveness in highlighting realities and voices from the ground. Social innovation can be an important source of new ideas, services and ways of working which can help in solving social problems. But we reject its use as a back-door cost-cutting exercise primarily to promote privatisation. In financing social innovation, (for example under PROGRESS and its continuation) we stress the importance of supporting innovative bottom-up initiatives, developed by grass-root NGOs and community-led initiatives, rather than an over-reliance on top-down institutional testing and social experimentation only through randomized trial methodologies. We wish to use the opportunities in the Europe 2020 dialogue to show the evidence of privatisation failures and to actively defend public services and currently effective social initiatives from cuts.

There is an urgent need for a European action plan and programme on long term elderly care, as well as other key care services.

Alliances between anti-poverty organisations working with people experiencing poverty, service users and providers should be strengthened, including with local authorities. Stronger links should also be made the European Parliament and the media in defence of public services. Further work should be done on sustainable procurement and tools to measure social value.

A recent research report in Sweden on privatization showed that there is no proof that this privatization has led to more effectiveness or more quality. UK House of Commons research showed no added value of public-private partnerships. We should demonstrate social added value in a not-for-profit environment, but we need better evidence on volunteering, local knowledge, social capital and quality including user involvement and satisfaction, in a different ethos.

The west, including Europe, is still rich, but underdeveloped for a sustainable green and democratic future. Rather than "pro-growth" in a simplistic sense, EAPN is "pro-development." To stimulate the European economies, EAPN supports a "social investment pact" which invests in quality jobs, services and social protection.

The OSE noted also that Nordic countries, which recovered better from the crisis, have policies that show most elements of a social investment approach to welfare. Germany and the UK and Spain show some elements, but not southern or central and eastern European countries.<sup>117</sup>

As section 8.4 of this report discussed, social investment is a competitive advantage for Europe. A major programme of social investment in education, health and social services, creation of green and white quality jobs, as well as the provision of strengthened social protection and an adequate minimum income, as part of an integrated Active Inclusion approach, is essential to restore business and consumer confidence in the short and medium term, without wasteful consumption or wasteful donation of money to banks that are shifting money out of Europe. Acting swiftly to prevent and

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<sup>117</sup> Vandenbroucke, F., Hemerjick, A. & Palier, B. (2011) The EU needs a social investment pact. *Ose No. 5. May, Bruxelles, OSE.*

reduce poverty and raise health, well-being and knowledge will also reduce future social and economic costs.

In the globalized world, the EU should implement its commitments to aid (0.7% GDP) and aim higher to achieve the Millennium Development Goals,<sup>118</sup> investing in combating poverty and promoting inclusion in poorer countries. EAPN supports the proposals on a social floor backed by ILO<sup>119</sup> and the promotion of a co-development approach that works in the interests of local people.

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

## 7.6 EU support for social and territorial cohesion

To support the demand for more, or at least stable, Structural Funds resources, there will have to be a clearer message on better coordination of the three Funds and better coordinated interventions. The added value of the Funds should be clearer and that could be better demonstrated by mainstreaming the principle of combating poverty and social exclusion and meeting the European poverty reduction target. In that regard, the Commission's proposal of ring-fencing 20% of the "future" European Social Fund for combating poverty and social exclusion should be seen as a major step forward and strongly supported by Member States. Nationally, Structural Funds and National Reform Programme targets should be better coordinated.

There should be a mandatory partnership at all stages of the Structural Funds' process (from the design to the evaluation) involving closely civil society (including social NGOs) both at strategic and operational level so as to ensure distinctiveness, innovation and added value. Capacity building and technical assistance should be focused on NGO, community and small enterprise support, mainstreaming learning and engaging in cross-national activity. A European grass-roots coalition is urgently needed to promote and intervene in stakeholder engagement.

A real step up in the added value of the Funds for social inclusion would require a paradigm shift to an equal focus on people as well as regions, new mapping based on people in poverty and a commitment to involve people experiencing poverty in the design and monitoring of the Funds and their activities. There must be a reversal of the massification of the Funds and bureaucracy and procurement and insistence on distinctiveness from mainstream national budgets, to enable new and dynamic approaches to be given a chance to succeed. The European Parliament and other actors should follow up the proposals for global grants and for simplification to support NGO access. More initiative and oversight of the Funds by the European Commission is necessary to ensure the European added value and right now to promote stakeholder engagement.

Local delivery of the ESF brings added value. Community-led integrated development, as already happens in Scotland, ensures better value on the ground and can contribute to social cohesion. In a time of social tension and reduced services on which poorer people and poorer areas depend, it can pilot innovative service delivery, participatory priority setting and budgeting, as well as promote local resilience.

## 7.7 Supporting tax justice

We really don't spend efficiently. A sustainable and inclusive green approach would stop wasting resources on the costs of inequality and would cease subsidising industrialised food production and

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<sup>118</sup>

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defence procurement. We could stop wasting money on avoidable costs such as vain infrastructure projects, brand management and marketing, and pollution and its consequences. We could ensure that planning controls encourage proximity of people, services and jobs...

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

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

Consumption taxes such as VAT and “flat” taxes, where the rich pay the same proportion of income as the poor, are regressive on incomes and destroy the redistributory principle of social justice.

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

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

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

46 million Americans are not eligible to pay income tax and there is increasing pressure in some European countries to take low paid workers altogether out of the tax net. But if taxation is increasingly seen as a ‘voluntary’ activity, more people will attempt to avoid it or evade it. Also, if the burden of tax falls more heavily on certain employees while they can access fewer and worse public services, solidarity with poorer people, including the low paid and especially those not in paid work, will decline further. Some EAPN correspondents would like to see all benefits and pensions raised in amount and become taxable, as some already are, so that tax becomes a *citizen solidarity* principle and all citizens feel they have a stake and a say in quality public services.

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

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

Neoliberals prefer tax cuts for “high net worth individuals” and for corporations, in order to stimulate them to entrepreneurial activity rather than hiding their money offshore, or just sitting on a cash pile waiting for a chance to buy up a competitor. The rich are apparently incentivised by giving them more of what they have a lot of already, while the poor are given less of what they have too little of already. This is ridiculous, immoral and there is no evidence that giving the rich more money encourages them to create new businesses. Most new businesses start small with owners

who work long hours for little reward. Supporting local development including ensuring small businesses, social economy and local enterprises get access to finance and are good employers would be a better use of some of the money. So would ensuring that self-employed people have access to state pensions so that risk of severe poverty is not a barrier to enterprise development.

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

Warren Buffet, writing in the New York Times, August 15 2011<sup>120</sup> said “While the poor and middle class fight for us in Afghanistan, and while most Americans struggle to make ends meet, we mega-rich continue to get our extraordinary tax breaks...it’s nice to have friends in high places”. Warren Buffet pointed out that billionaires have undue political influence and are not paying their fair tax share and neither are their corporations. This deprives the electorate twice over – of the cash for voter priorities and of accountability for the money spent. He said that people like him should be taxed more, including on capital gains, which are taxed at a lower rate than income. He calculated that his annual tax rate was 17.4%, almost half the rate of his office workers.

Other wealthy people in the EU – in Germany, France, Italy, UK and Austria, for example, support higher taxation of wealth. Austrian tycoon, Hanspeter Haselsteiner regards it as an adequate price for living in a socially coherent society without wealthy people having to hide themselves in gated communities.<sup>121</sup> A small positive step forward is the French announcements of an additional 3% tax on incomes over 500,000 Euros until the deficit comes down – it will still make the top rate of tax only 44%.

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

- ***Effective financial transactions tax***

Though there are alarming signs of backtracking, an FTT to be introduced at EU level is supported by the European Commission, Parliament and Council as well as France and Germany. In an interview with Euractiv<sup>122</sup> Michel Barnier, Commissioner for Internal Market said “*We believe that this tax is economically sustainable by markets as long as the rate is modest.*” The tax is “*technically easy, financially productive and politically appropriate*” given the huge amount of taxpayers’ money that governments invested to rescue the banking sector during the 2008 financial crisis.

The FTT is also supported by ETUC.<sup>123</sup> EAPN supports the campaign but is concerned that it is used to back the commitments to support development (0.7% of GDP) and perhaps for social investment in the EU. It should not be used as a general substitute for net contributions to the EU funding.

- ***Patents and intellectual property rights***

To achieve better sharing and use of resources, governments will have to challenge transnational corporations’ increasing control of patents and intellectual property rights which impoverishes poor countries and poor people. It inhibits potential new competitors and can extract super-profits from

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<sup>120</sup>Wearden, S. G. (2011) Buffet on the debt crisis: make billionaires like me pay more. *The Guardian*, 16 August, p25.

<sup>121</sup> EAPN (2010a) *Wealth explainer*, Brussels, EAPN, p30.

<sup>122</sup>

<sup>123</sup> ETUC (2011b) *Press release*, August.

users and governments and protect marketing brands rather than cover research and development costs.

## 7.8 A social and sustainable future

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

China is now the world's biggest greenhouse gas emitter ahead of the USA and the European Union. Poorer people mostly live in the most environmentally degraded areas, within Europe and outside Europe. The United Nations Environment programme (UNEP) stated that there is "*widespread disillusionment with our prevailing economic paradigm*" and that there is "*increasing evidence pointing to an alternative paradigm in which increased wealth does not lead to growing environmental crisis, ecological scarcity and social despair.*"<sup>124</sup>

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

In "*Prosperity without growth: economics for a finite planet,*" Jackson<sup>125</sup> stated that societies will need to delink prosperity from growth. He argued that economists' assumption that we can decouple growth from resource use through increasing efficiency is a myth. He suggested that in future people will focus on needs not wants and prosperity will need to be redefined more in terms of family and relationships – social capital. But social capital may be as unequally distributed in people and places as wealth. If this is our future then we need to prioritise spending on social infrastructure to prevent as well as combat social exclusion.

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

UNEP argued that a fundamental common factor in the ecological and financial crises is gross misallocation of capital, which allowed businesses to create significant social and environmental externalities (side effects) that were not accounted for. They point out that decades of a brown economy based on fossil fuels has not made much impact on social marginalisation, but has increased environmental degradation and resource depletion. They argued that "*greening of economies neither inhibits wealth creation, nor employment opportunities*" and in 2008 called for a "*global green new deal*" – "*a package of public investment and policy and programme reform to kick-start transition.*" It also involves getting away from the assumption that natural capital can be transformed into physical and human capital at zero cost; we must invest in rebuilding natural capital. UNEP suggested that natural capital has a public good character and that poor people (mainly in rural agriculture, forestry, fishing and energy) should be paid for ecosystem services. The overall aim is transition to a green economy, i.e. an economy that is "*low carbon, resource efficient and socially inclusive*".<sup>126</sup>

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<sup>124</sup> UNEP (2011) *Green Economy Report: Towards a green economy: Pathways to sustainable development and poverty eradication*, Nairobi, UNEP.

<sup>125</sup> Jackson, T. (2009) *Prosperity without growth?* London, Sustainable Development Commission.

<sup>126</sup> UNEP (2011) *Green Economy Report: Towards a green economy: Pathways to sustainable development and poverty eradication*, Nairobi, UNEP p15 -17.

The EU has often been a world leader on environmental goals, especially climate change, but sustainable development seems to have been downgraded in the current economic environment. The ETUC 'Just transition newsletter'<sup>127</sup> noted that the European Commission 2009 "roadmap" to a resource efficient Europe does not include legally binding targets for the 27 Member States. The final assessment of the EU's sixth environmental action programme<sup>128</sup> noted an improvement in environmental governance in the EU, in that the programme was adopted through co-decision, but stakeholder perception is that it is mainly a European Commission initiative. Thematic strategies had various degrees of impact, but like the OMC on social inclusion rather provided a platform for discussion than produced binding agreements. There are signs of more seriousness emerging in Member States, including energy efficiency programmes actual or planned in many states including the UK and for example including the special commission on sustainable development launched in January 2011 by the German parliament. But greater progress will require (globally) binding commitments.

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

## 7.9 A European social and green New Deal

According to the ILO, the two challenges of the 21 century are to avert climate change and degradation of natural resources and to deliver social development and decent work for all.

The ILO analysis suggested that jobs are a key driver of growth, rather than the reverse – and noted that while most western countries had "fiscal consolidation" plans, only the USA had a jobs plan. The ILO recommend a "pro-employment" approach, which is not expensive and may broaden the tax-base, as outlined in their Global Jobs Pact, which includes support for adequate minimum wages, collective bargaining, core labour standards, job-friendly social programmes and social dialogue. They emphasised the critical role for international policy coordination.

ETUC, in its twenty-point "Athens Manifesto"<sup>129</sup> demanded policy change in the "totally unacceptable" approach of the Euro plus pact (of Eurozone countries plus six others). They argued that "wages are not the enemy of the economy but its motor, promoting growth and jobs." They have committed to a fight against "wage and fiscal dumping," unemployment and precarious work and "austerity governance." They will mobilise for a European New Deal that protects the European social model, generates more and better jobs, better working conditions, green jobs in a low carbon economy, a focus on decent work, cutting youth unemployment and discrimination and protecting migrant workers in a better regulated market with enhanced corporate governance.

"Green jobs" are defined by the ILO as those that cut energy and other resource consumption; cut greenhouse gas emissions; minimise waste and pollution and protect ecosystems.<sup>130</sup> UNEP argued that "ecological scarcity and social inequity are clear indicators of an economy that is very far from being "green." A green transition has a short-term growth cost (but therefore in Europe at the moment would be almost cost free). But UNEP has argued that in the medium term it delivers more

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<sup>127</sup> ETUC (2011a) *Just Transition Newsletter*, Brussels, ETUC, October.

<sup>128</sup> Ecologic Institute (2011) *Final report for the assessment of the 6th Environment Action Programme*, Berlin and Brussels, Ecologic Institute.

<sup>129</sup> ETUC n.d. *The Athens Manifesto*, Bruxelles, European Trade Union Confederation.

<sup>130</sup> ILO (2011a) Green jobs. See *ILO home > Topics > Green jobs*.

growth and even in the short term delivers more jobs, more environmental and more social benefit.<sup>131</sup>

The green new deal<sup>132</sup> and the global green new deal<sup>133</sup> propose investment in “green-collar” jobs in carbon reduction, energy, transport and public infrastructure and investment in clean energy technologies. But although sustainable growth is an aspiration of Europe 2020, there is no real plan for green jobs. EAPN networks support increased infrastructure investment for an ecological transition in Europe to socially and ecologically just jobs.

Some green policies may risk increased poverty for those who cannot pay the rising costs of natural resources, or change their lifestyle when there are restrictions on their use. This is a particular danger with proposals to penalize high domestic energy consumption, where poorer households or those with older or infirm members, living in poor housing, often have little choices or control over energy consumption. Similarly, better animal husbandry standards may make food more expensive in a context in which already low benefits and wages are being cut and commodity price inflation has had a serious impact on living standards for poor people everywhere.

ILO is committed to supporting a “*socially just transition*” which will include a focus on labour intensive development, protecting the most vulnerable. Achieving a transition to green jobs will require green restructuring of the share of various industries in output and changes in our own expectations and behaviour; as well, new occupations in areas such as green energy production and installation and a greening of existing jobs for example in fuel efficient technology for the car industry. But this means there will need to be vigilance to ensure that there is not an acceptance of the kind of low quality jobs in waste management, recycling and agriculture that are a feature of some poorer countries. ILO acknowledged also that those who get green jobs may not be those who lost jobs in the brown economy. There will have to be an effective skills training programme for a green economy that is accessible to people at risk of poverty.

An important moment for intervention is Rio+20 in 2012 (sustainable development i.e. “*development that meets the needs of the present without compromising the ability of future generations to meet their needs*”). ETUC<sup>134</sup> called for a change in our model of *production* as well as *consumption*. ETUC aims to ensure that any concluding text of Rio+20 will refer to a just transition and decent work and a global target of 50% increase in “*green and decent jobs*.”

EAPN supports the ILO and ETUC core concern with achieving decent work, as part of our commitment to ensure that a gearshift to a green economy does not increase poverty. The ILO suggested that disadvantaged groups need targeted assistance and “*preferential treatment*” in access to green jobs<sup>135</sup> and this may need to be extended more generally to living standards. EAPN insists on the pre-requisite of reinforced social protection and adequate minimum income as well as ensuring access to key public services, as an essential social floor and rights base to any New Deal proposals. The Active Inclusion Recommendation (2008) which covers ensuring access to adequate incomes, quality services and access to an inclusive labour market, should provide a framework for ensuring a positive impact of greening on reducing poverty and ensuring a Socially Sustainable as well as Green New Deal.

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<sup>131</sup> UNEP (2011) *Green Economy Report: Towards a green economy: Pathways to sustainable development and poverty eradication, Nairobi*, UNEP pp21-22.

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<sup>134</sup> ETUC (2011a). *Just Transition Newsletter*, Brussels, ETUC, October.

<sup>135</sup> ILO (2009). *Skills for Green Jobs: A global view synthesis report based on 21 country studies*, Geneva, ILO, p xxi.

To achieve inclusive development requires an increase in economic, social and ecological *resilience*. To achieve this, not only country governments but organisations, communities and individuals all need to: *rethink, regenerate; revalue; redistribute and reboot*<sup>136</sup> and EAPN will do this in its own organisation.

## 7.10 Reinvigorating Democratic values

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

A socially just transition to social and sustainable development will require a reinvigoration of democratic values and a clear challenge to the neoliberal capture of ideas of freedom, justice and fairness in favour of the rich and powerful.

Participatory methods can help to expose economic injustice and drive solutions, whether outside or within Europe. To advance the political influence of people living in poverty, EAPN supports participatory democracy as a complement to representative democracy and a means that has ethical value in itself. The annual People Experiencing Poverty conference held under the auspices of the European Presidency is one important symbolic moment of that principle and should be built on including at the national level in the European Platform on Poverty. Specifically on engaging people in poverty on economic policy debate in Europe 2020, ELBAG,<sup>137</sup> developed by Action Aid International, is a process and methodology for engaging people in discussion of economics; it is "an entry point to build inclusive, democratic and just governance."

But more power has shifted to unelected institutions and organisations during the sovereign debt phase of the financial crisis. The stepping up of attacks on social rights, social assistance and social protection and services of general interest, make it increasingly clear that social standards are a political choice based on values of universality, equity and solidarity that are contested by powerful interests. It is now not only the poor who are being excluded from influence on economic policy.

In "Austerity forever,"<sup>138</sup> Corporate Europe Observatory (CEO) said that the EU response to the economic crisis is setting Member States on a road of permanent austerity and attacks on social rights by "minimising or even totally getting rid of democratic interference." The loan packages to Ireland, Greece and Portugal put them "under de facto administration from Brussels." CEO also argued that the European Semester has been pushed through very quickly which has crushed the nascent opposition to austerity.

Referring to the fate of the Greek prime minister after calling for a referendum on further austerity measures, Gouglas and Hannah<sup>139</sup> raised the threat to democracy from "an unreconstructed geo-political and geo-economic system" and the power of market actors over nations: "as it stands we have saved global firms to sacrifice nation states."

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<sup>136</sup> Duffy, K. (2011) speech to the EAPN conference "*Getting out of the crisis together: alternative approaches for an inclusive recovery*" Brussels, September 23.

<sup>137</sup> ELBAG means Economic Literacy Budget Accountability for Governance. To find out more see ActionAid International at [www.actionaid.org](http://www.actionaid.org).

<sup>138</sup> CEO (2011) *Austerity forever*, Brussels, Corporate Europe Observatory p1.

<sup>139</sup> Gouglas, D. & Hannah, J. (2011) A Lesson from Greece in the value of democracy. *Social Europe Journal*, 11/11.

In an interview in *Der Spiegel*,<sup>140</sup> SPD chair, Sigmar Gabriel said that “the new social question is: democracy or the rule of the financial markets. We are currently witnessing the end of an era. The neoliberal ideology has failed worldwide.” There are signs of new political movements and street protests as with the 15M movement in Spain, now spreading across the EU; the ‘can’t pay, won’t pay’ protests and mobilisation in Greece and earlier protests in Iceland, and the Occupy movement, as well as an increased in traditionally organized demonstrations particularly by the trade union movement e.g. the ETUC march in Brussels September 2010.<sup>141</sup> In March 2011 up to a half a million people marched against the cuts in the UK. On Europe’s borders, 7% of the total Israeli population have marched and camped for social justice and the Arab Spring continues. There is still a great desire for solidarity and there is a strong demand for social justice and political inclusion which the powerful cannot finally ignore. A reinvigorated democracy would strengthen the role of local as well as national governments and the European Parliament to hold powerful multinational businesses and institutions to account.

A reinvigorated democracy will need to be based on strong values including solidarity and social justice. European churches have become louder in their concerns about the ethics of neoliberalism. The Vatican<sup>142</sup> has suggested the cause of the crisis as a breakdown of values at all levels in a world economy “increasingly dominated by utilitarianism and materialism.” Pope John Paul II warned about idolatry of the market and ignoring the nature of some goods which cannot be commodified. Perhaps also new thinking on financial sector reform might revisit Islamic proscriptions on usury and money hoarding and the Judaic approach to lending as investment and profit sharing. A Vatican paper proposed a global political authority, built gradually, with an architecture including a central world bank, based in solidarity and subsidiarity, “at the service of the person.” The core Vatican message is to restore “the primacy of the political” – in the Vatican’s view through re-establishing the primacy of spirituality and ethics, which alone can ensure human dignity. The paper refers to Pope Paul VI’s revolutionary power of “the forward looking imagination,” “by having this imagination, man frees his existence.”<sup>143</sup> Although the head of the Anglican church suggested that the Vatican’s governance proposal is “utopian” its “prophetic duty” to speak for the voiceless has led eighteen bishops to appeal for a change in UK national government welfare cuts that affect children.<sup>144</sup>

## 7.11 Re-vitalising Europe 2020

Europe is at a crossroads; can Europe 2020 rise to the challenge and provide a basis for economic and social renewal? Europe 2020 appeared to offer potential for a step towards a more social and sustainable growth model, but instead it merely reinforces the neo-liberal, market-first agenda, relegating social justice to a scramble for trickle-down effects, a very long way down the line. Where the EU called for ownership, accountability and visibility, we have lack of transparency, and top-down rules imposed by EU economic and finance ministers and ECOFIN. Civil society and other actors have been sidelined, and kept outside the debate, at EU and national level. The democratic deficit must be challenged, confirming democratic values and putting representative and participative democracy at the core of EU action.

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<sup>140</sup> Interview with the chair of the SPD, Gabriel, S. (2011) Commercial banking should be split from investment banking. *Spiegel Online*, 17 October.

<sup>141</sup> See <http://www.etuc.org/a/7590>.

<sup>142</sup> Turkson, P. K. A. (2011) *Towards reforming the international financial and monetary systems in the context of global public authority*, Vatican, Pontifical Council for Justice and Peace.

<sup>143</sup> *Ibid.* pp5-7.

<sup>144</sup> The Bishops of Bath & Wells, Blackburn, Bristol, Chichester, Derby, Exeter, Gloucester, Guildford, Leicester, Lichfield, London, Manchester, Norwich, Oxford, Ripon & Leeds, St Edmundsbury & Ipswich, Wakefield and Truro (2011). A bishop’s duty is to speak out against the benefits cap, letter, *The Observer*, 20th November, p46.

- ***Strengthening the capacity of Europe 2020 to prevent and combat poverty and social exclusion***

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

The poverty target needs strengthening, the indicators must be clarified and held in common and follow up procedures must be robust. An agreed percentage figure for the target, for all Member States, as with the other indicators, is an obvious next step. The poverty, employment and training targets require sufficient political priority and funding to have a realistic chance of achievement.

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

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

At an institutional level, the roles of DG Employment (in the European Commission) and the EPSCO within the Council of Ministers need to be reinforced, to provide a better voice on employment and social inclusion and social protection needs, to ensure a more balanced economic, employment and social approach and to enable them to realize their role as a guardian of social rights and the Treaty commitments.

A new, revitalised role for the Social OMC, based on the 2006 Common Objectives is also crucial, ensuring a return to a broader commitment to multidimensional approaches to ensure access to rights, resources and services for all and reinforcing the crucial role of social protection systems in preventing, as well as alleviating, poverty. Key to this is national strategies and reports on social protection and social inclusion, developed in cooperation with national stakeholders, including people experiencing poverty and their NGOs. The Flagship Platform could offer a key opportunity to make progress on OMC priorities: a Recommendation on child poverty, moving forward on a strategy to combat homelessness, implementing active inclusion. But its effectiveness will depend on the degree of ownership and involvement of national public authorities and stakeholders.

Accountability and ownership in Europe 2020 can only be embedded through a well-resourced stakeholder and multi-level governance engagement in the NRP and Europe 2020 process. The European Platform offers a unique opportunity to support the development of national poverty platforms, linked to regional and local levels, which can engage directly people experiencing poverty and their NGOs, as well as other social actors, in developing National Strategies for Social Inclusion and Social Protection (Social Reports) and to feed into the NRPs. The European Commission's proposals to develop guidelines for stakeholder involvement should be co-developed with NGOs and other key stakeholders, as highlighted in the conclusions from the workshop on stakeholder involvement at the Annual Convention in October 2011. These include agreeing a road map for implementation and integration in the EU2020 monitoring and assessment procedures, showing how links are made between national, regional and local engagement.

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

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

It can redouble its neo-liberal efforts and face the longer term consequences for stability and growth of increasing inequality and poverty as well as pressure on, and disputes about, common and degraded natural resources. Or Europeans can seize this moment to make a real effort for a fair and

sustainable Europe that delivers benefits to the population, backing fundamental rights, investing in healthy welfare states linked to an active inclusion approach that ensures adequate income, access to quality services and support into decent jobs. Europeans can invest in new jobs offering new green and social services responding to local and community needs.

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

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

In Europe, there is a blossoming of alternative responses and movements. A strategic approach capable of bringing all together around a common minimum agenda, red-lining core priorities, and building a plan of action for a transition towards a more social and sustainable model would be a vital next step. EAPN wants to ensure that any manifesto and action plan is effective in tackling inequality and poverty in Europe and that the role of the European institutions in these matters is fully addressed. To include new social movements we need to look also at new ways of working and organizing and EAPN welcomed the suggestions made in our September 2011 conference, on alliance-building and communication including horizontal networking and new social media.

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

- ***Confirming the role of the state, social as well as economic governance***

The neo-liberal ambition is a small state and low expectations of it. But while individuals, groups and communities must take their own responsibilities, EAPN networks are clear that civil society intervention must come in *a framework of universality and equality* that only the state can deliver. States cannot outsource social responsibility. As Hungary has found, relying on philanthro-capitalists to fund social projects is not sustainable; they move on. As the UK has found, if 31,000 frail elderly people are at risk of losing their care home places with the collapse of the biggest private provider, the public expects the state to step in and act on behalf of the people and solve the systemic problem.<sup>145</sup> A strong role for the state however must be matched by more effective local democratic and participative practices, and in the context of globalisation more effective inter-state cooperation to guarantee social standards.

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

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<sup>145</sup> Clark, T. (2011) Southern Cross exposes flaws in the choice agenda. *The Guardian*, August 3, p33.

## 8 Conclusion: ten steps for an inclusive Europe

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

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

1. **Open and inclusive governance:** More democratic and participative governance is right in itself and crucial to managing change. This means special efforts to include the poor and less advantaged in decision-making. Europe 2020 could provide a model process in the NRPs and national strategies for social protection and social inclusion and by supporting national Platforms against Poverty and Social Exclusion linked to regional and local levels.
2. **Save the euro:** The euro should be saved, but not by sacrificing solidarity between regions and the wealthy and the poor. Eurobonds and flexible deficit and currency management are vital tools, as part of a support for the eurozone in a much expanded financial stability facility. Increased EU economic governance is only acceptable if it mainstreams social objectives and is matched by social governance. Effective financial regulation must be put in place coordinated by the EU, backing a strong financial transaction tax on speculative activity.
3. **Put full quality employment and social protection at the heart of Europe:** The Treaties should be improved so that macroeconomic demand management for full employment and investment in social protection are objectives on the same footing as control of price inflation. There should be no closer fiscal integration or economic governance in the EU without this commitment.
4. **Back the role of the state in delivering universal and equitable welfare and the EU role to guarantee standards:** A commitment at EU level for a framework to guarantee universal, equitable and responsive Services of General Interest is still necessary. A halt should be called to the transfer of state assets to for-profit corporations in sectors where competition is neither effective nor feasible, where profit-seeking conflicts with social goals and social standards and where profits would be repatriated out of Europe losing the European people their tax-funded investment.
5. **Support a Social and Green New Deal: create more and better jobs and a social investment pact:** To secure a future worth having and a transition to “green” and white” quality jobs: an EU social investment pact with a core focus on spending on education, health, social services, social protection and adequate minimum income. A green new deal for physical infrastructure can provide affordable housing and public transport and utilities that will promote sustainable resource use.
6. **Get our resources fairly:** Tax should be promoted as citizen solidarity and paid fairly by all, including corporations and the super-wealthy and the poor. This will require progressive income tax, wealth tax and financial transactions tax and better tax transparency, closing down tax havens, tax loopholes and removing tax competition especially on income and corporation tax. It will also require better incomes for the poor.
7. **Distribute our wealth fairly:** To secure fair distribution of EU incomes, an EU minimum wage at least 60% of average wages in a country and minimum social standards

throughout Europe, along the lines of ETUC proposals, plus an adequate minimum income at least at the poverty threshold would be a significant step forward. Rapid achievement of 0.7% of European GDP as investment in poorer countries towards the millennium development goals and back commitment to extend the “social floor.” Promote the benefits of our social model.

8. **Put people first:** Integrated active inclusion approaches (ensuring adequate income and access to services and quality jobs) starting from people’s needs and capacities, for all ages in all areas. This should include investment in NGOs, community groups and social economy recognising their value added in trust, proximity, innovation and inclusion but not as a substitute to mainstream public services.
9. **Finance poorer regions and people:** More active and social-friendly regional policy to ensure balanced, inclusive growth in socially-useful industries and services and an easier access to Structural Funds for small NGOs. ESF to focus on combating poverty with 20% ring-fencing through active inclusion, innovative social services, jobs projects and local development.
10. **Measure social progress:** Go beyond GDP and develop a multiple, sustainable development index for social progress. The poverty target should be placed on an equal basis with the other targets by measuring progress on all three agreed indicators in all Member States with the same % reduction, combined with key common indicators from the Social OMC (including inequality and commitment to sufficient and effective social protection spending) developed into indices of social and sustainable development and well-being.

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## 10 Appendix Agenda points from EAPN's conference "Getting out of the crisis together," Brussels, September 23, 2011

### 1) Reinforce democratic Europe and its institutions

- a) Strengthen the role of the European Parliament
- b) Ensure better public information about, and access to, EU institutions
- c) Introduce open governance in the decision-making process in Europe 2020, inclusive of civil society and involving people experiencing poverty and people who work with them, at every level
- d) Invest in bottom up community and grass-roots engagement in local economic and social development and decision-making
- e) Use participative methods to combat political disconnection, reduce corruption, increase accountability, support economic literacy and the realisation of rights for poor people and encourage democratisation of policy making

### 2) Reinforce European economic stability and resources

- a) Save the Euro, don't sacrifice political and social solidarity: Develop Eurobonds, flexible deficit and currency management and commitment to social and economic governance
- b) Ensure the skills and tax resource base by putting full employment at the heart of European objectives and governance
- c) Ensure universality, equity and European distinctive competitive advantage through convergence on high and common European social standards and social protection, including adequate minimum income
- d) Support more effective tax collection from multi-national businesses as well as the informal economy
- e) Promote tax justice: progressive income tax, wealth tax, and financial transactions tax; close down tax havens, loopholes and prevent unproductive tax competition
- f) Reconfigure the role of the European Central Bank to better support the Eurozone; promote the establishment of public banks for retail and small business lending and pensions' investments and an independent European ratings agency

### 3) Invest in people for economically and socially sustainable jobs growth and development

- a) Support the role of the state in ensuring integration and social cohesion (guaranteeing universal, equitable welfare and services necessary for human flourishing) and in working counter-cyclically to rebalance pro-cyclical fiscal and economic activity
- b) Introduce a social investment pact as the foundation for a knowledge-intensive Europe producing 21c people, products and services; investing in education, health, social services, housing, social protection and transition to low carbon green and white jobs
- c) Introduce a pact for youth employment, education and training that eliminates youth unemployment

- d) Support people through active inclusion policies and investment in NGOs and community groups
- e) Provide a level legal playing field for small businesses and social economy
- f) Support regions and localities, with delivery on the 20% commitment to Structural Funds on social inclusion; ensure the Structural Funds support the European poverty target

#### **4) Reinforce quality and access to social services of general interest**

- a) Ensure “state aid” rules do not produce perverse incentives to privatise services of general interest
- b) Define and support service quality and equity in service access standards in a strengthened legal environment for public procurement
- c) Mainstream social, health, housing and employment objectives into EU policies on social services
- d) Bring together producers and users and build alliances with municipalities
- e) Rapidly introduce a European action plan and programme on long-term elderly care
- f) Build the evidence base for social innovation as innovative solutions to social problems (rather than provider structures), with clear user benefits
- g) Demonstrate social added value in a not-for-profit environment and provide better evidence on volunteering, local knowledge, social capital and quality including user involvement and satisfaction, in a different ethos

#### **5) Fair shares for sustainable growth and development**

- a) Introduce EU minimum wage and EU adequate minimum income standards
- b) Introduce EU minimum income at 60% threshold of median income in the Member State
- c) Reverse the weakening of employee collective bargaining
- d) Introduce high pay transparency and eliminate perverse bonus incentives for excessive employee risk-taking especially in financial businesses
- e) Achieve 0.7% commitments, millennium development goals and back a “social floor”
- f) Introduce sovereign debt audit and eliminate unjustified debt

#### **6) Protect the planet: green our future well-being**

- a) Launch major programmes to green our housing and infrastructure and promote “green” jobs growth
- b) Toughen reform of agricultural and fisheries policy to ensure food security not food waste, while protecting a species-rich natural environment and the livelihoods of small farmers in and beyond Europe
- c) Measure our progress – beyond GDP, support for a multiple index of social and sustainable well-being



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**The European Anti-Poverty Network (EAPN) is an independent network of non-governmental organisations (NGOs) and groups involved in the fight against poverty and social exclusion in the Member States of the European Union, established in 1990.**



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EAPN is supported by the Directorate – General for Employment, Social Affairs and Inclusion of the European Commission. Its funding is provided for under the European Community Programme for Employment and Social Solidarity PROGRESS (2007 – 2013).

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