

The Social Impact of the Economic Crisis in Europe

Robin Hanan

Introduction

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 ... The question [is] 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.¹

EAPN Greece

The European Anti Poverty Network (EAPN) is made up of hundreds of organisations working with or representing people experiencing poverty across Europe, grouped in EAPN national networks, and Europe-wide organisations which share its aims. In working to put the fight against poverty at the top of the EU agenda, EAPN is concerned both to mitigate the effects of the current crisis on people experiencing poverty and to promote longer-term solutions which create a more equal and inclusive Europe.

Governments and EU institutions talk about the importance of protecting the most vulnerable from the impact of the current recession, but there is little sign of this being translated into policy or budgetary measures. On the contrary, the experience of EAPN members is that the worst impacts of the crisis are falling on people who were already experiencing or were at risk of poverty and on the many now falling into poverty through unemployment and cuts in incomes and services.

Tracking Social Impacts

In June 2011, the European Commission stated: *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.²

The experience of EAPN members, however, was that the social consequences of the recession for the most vulnerable were, in fact, evident from an early stage. EAPN members were frustrated by the lack of official systematic monitoring of these social impacts. To fill this gap, and to give a perspective from the ground up, EAPN produced two reports, the first in 2009 and the second in 2011, on the effects of the crisis as seen by our members;³ it has incorporated this material into a broader analysis, published in March 2012.⁴

In more recent times, official monitoring of the social impact of the crisis has been increasing and the European Commission and the Social Protection Committee, which links social affairs ministries across Europe, now report regularly on this. However, the Commission and the Social Protection Committee have noted that most EU Member States 'are not in a position to give an overall assessment of the impact of the crisis' and noted also that statistics often lag well behind rapidly shifting realities.⁵

Inequality – The Gap Widens ...

It might have been expected that the gap in income between richest and poorest would narrow during a recession, as the very wealthy lost out. It might also have been expected that 'relative poverty' might fall because of the lowering of overall income. In fact, however, there is increasing evidence of a widening gap between rich and poor, as the top 10 per cent emerge as clear winners.

Meanwhile, austerity measures and regressive taxation choices can only serve to widen this poverty and inequality gap. EAPN national networks, quoted in the EAPN 2011 report, 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 German network noted that tax breaks for the middle class have reduced resources for

social services and social inclusion. On the positive side, there is some discussion in a few countries on introducing or increasing wealth or property taxes. However, these are seen as interim measures; by contrast, there has been very little indication that public service and social protection cuts are being considered as only interim measures.⁶

Inequality has been acknowledged as one of the main causes of the crisis, as well as a major determinant of increased health and social costs. Can the EU afford the devastating long-term social and economic costs of austerity and fiscal consolidation measures that can only generate an increasing income and inequality gap?

Vulnerable Groups Hardest Hit

Much of the media focus in recent years has been on ‘the new poor’. While it is undoubtedly true that many people who previously believed themselves to be secure are now falling into poverty, many of those who have been worst hit come from distinct vulnerable groups – in particular, people already experiencing poverty before the crisis, young people, people who are educationally disadvantaged, migrants and ethnic minorities, older people, children and lone parents.

Incomes of poor people have been squeezed from many directions, including reductions in employment incomes and income maintenance payments, tax increases, and retirement pension changes. Furthermore, the erosion of purchasing power as a result of increases in the price of basic commodities is increasingly seen as a major threat. In many countries, gas, electricity and water charges, as well as bank charges and the cost of food and rents, are rising. In Hungary, as in other Central and Eastern European countries, the impact is particularly devastating: ‘most people experiencing poverty cannot afford to use gas for heating. They take wood from the forests’.

The upward trend in the price of essential items seems to have begun before the crisis in many countries – and may have contributed to consumer over-indebtedness and the crisis itself. In most countries, social assistance payments are not index-linked to cover these increases in the cost of essentials.

The European network, Eurochild, warns of a potential ‘lost generation’, with families disproportionately affected by the crisis. They see the effects on children’s physical and emotional

well-being and the impact of economic strain, with cuts in education and care services and in subsidies to NGOs.⁷ Youth unemployment rates are above 20 per cent in most countries, reaching crisis proportions of 37.2 per cent in Estonia and 42.5 per cent in Spain. Migrant workers in many countries are particularly at risk, since they may be in danger of losing their residence permits if they become unemployed. Meanwhile, vulnerable ethnic groups, particularly Roma, are increasingly treated as scapegoats in countries such as Slovakia, the Czech Republic and France.

Many of the worst social impacts of the crisis are not readily apparent but are likely to have serious long-term implications. Such impacts include hidden unemployment and erosion of working conditions; family tensions; stress and risks of chronic ill-health and violence; a loss of confidence and aspiration among children, as well as the impact on housing insecurity and homelessness, indebtedness and declining living standards. Many EAPN networks refer to severe deprivation, pauperisation, out-migration and increased domestic and urban violence. There is noticeably increased competition for scarcer resources amongst poorer people, sometimes leading to rising intolerance, racism and xenophobia.⁸

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The scale and impact of social problems such as these are much harder to document than, say, increases in unemployment, but they represent a real threat to social cohesion and social inclusion.⁹

In the early stages of the crisis, severe poverty and exclusion were most obviously increasing in Eastern Europe, particularly in countries already in receipt of IMF/EU loans, such as Romania, Bulgaria, Hungary and Latvia, which experienced sharp cuts in public services as part of the loan terms. By 2009, however, the EAPN social impact report was showing that Denmark, Spain and Ireland were already recording significant increases in demand for services addressing basic needs, such as food, clothing and temporary housing.¹⁰

Unemployment

The growth in unemployment, especially youth unemployment, is of course one of the most visible signs of the economic crisis. Even in 2010, there was a wide variation in unemployment levels, from 5 per cent in Austria and the Netherlands to 19 to 20 per cent in Latvia and Spain.

Men's unemployment rose first,¹¹ but women are more affected by cuts to social sector jobs and by the slowing of the services sector of most European economies. Services account for as much as 70 to 80 per cent of employment, and lower-wage service jobs are dominated by women. Two-thirds of public sector job cuts in the UK, for example, have fallen on women.

In its 2009 social impact report, EAPN noted that alongside the increase in unemployment, there had been a significant decline in working hours due to short-time working.¹² Among measures to save jobs noted in the 2011 report were reducing employers' social costs and supporting enterprises through subsidies.¹³ While initially welcome, these risk exacerbating 'jobless recovery' and as the Belgian EAPN network said: 'who's out – stays out' of the labour market.¹⁴



A stark indicator of the economic crisis © Istock Photo

Some national networks have highlighted the priority being given to reducing employment protection by increased flexibility of working time, lowering standards in working conditions, making hiring and firing easier and limiting workers' rights. This adds up to a clear strategy to reduce wages and employment costs generally, in order to encourage export-led growth, but at the risk of increasing poverty among marginal workers. In some cases, this is a direct result of IMF/ECB pressure, as in the case of Bulgaria, Romania, Hungary and Latvia at first, and Ireland, Greece and Italy more recently.

Other countries, such as the UK and France, have taken this on as a domestic policy choice.

'Activation' Policies and Welfare Cuts

EU Member States remain nominally committed to the idea of 'active inclusion' – an integrated strategy to tackle social exclusion by guaranteeing adequate income support, access to decent jobs and quality services.

In practice, however, increased conditions attached to receiving benefits have generally not been accompanied by the services which would make it possible for people on welfare to take up work – or by the jobs to be taken up. The net effect, therefore, is not to help people move from welfare to employment but to increase poverty. Many EAPN national networks, in fact, consider that the priority for their governments in the face of the employment crisis is one of 'hardening activation policies' and 'increasing work conditionality upon benefits claimants through cuts and sanctions regarding unemployment benefits and minimum income'.¹⁵

The assessment of the social impact of the crisis by the European Commission and the Social Protection Committee showed that measures to reduce public expenditure have hit social protection and social inclusion systems first.¹⁶ The measures adopted include: restrictions on eligibility; shortening of benefit payment periods; reduced benefits; narrower family benefits; reduction of benefits for adults and children with disabilities; abolition of maternity and school grants; changes in cost-of-living 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. While individual countries may not implement all of these measures, the reality is that each one is likely to impact most severely on those who are most vulnerable.

The exclusion from social insurance of long-term unemployed people and others without suitable work histories is a long-standing problem. However, in the early years of the crisis, few countries resorted to further cuts in benefits, understanding their counter-cyclical importance in supporting spending in recession as an 'automatic stabiliser'. But now, under the name of 'modernisation of social protection', EU institutions are encouraging the tightening of eligibility for benefits even in wealthy countries – such as Sweden, Denmark and the Netherlands – with relatively generous systems.

There are exceptions to this. Estonia, for example, has increased benefits from January 2011 and the government has a strategy to invest in employment. There are some positive movements in education and training for the unemployed in the Czech Republic, Sweden and Finland.¹⁷ However, only a very few countries are spending enough on training to make a real difference.

As EAPN pointed out, without social impact assessments at national level, nobody knows what will be the effect of these measures, in terms of poverty and social exclusion.¹⁸ 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. It is also evident that stable and sustainable growth requires a focus on fair distribution of income and an effective strategy to prevent as well as alleviate poverty.

Cuts in Services

By 2010, there was a clear trend of governments choosing 'austerity' programmes centered on cuts in benefits and services. Only a few countries also adopted tax increase measures. Public sector pay has been cut in many countries, including Romania, Latvia, Bulgaria, Ireland, the UK and Spain.

Waiting lists in the health services for treatments and operations have increased, for example in Ireland and the UK. In Central and Eastern European countries, health care co-payments are becoming more widespread – accelerating a process which had begun following the 'transition' of these countries to a market economy. In some Western European countries also, users are now expected to pay a bigger proportion of the cost of treatment. These types of cost containment measures inevitably hit hardest those on low or modest incomes.

In some countries subsidised access to services is being reviewed or has already been reduced or removed – for example, the abolition of transport subsidies for students and the elderly and the 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.¹⁹ The focus is on competition and cost efficiency, with universality and equity downgraded as goals. In reality, across Europe the rolling back of 'the welfare state' was already taking place before 2008;

it may well be that the crisis has provided cover for the acceleration of a politically unpopular strategy that was being pursued anyway.

Interestingly, a few countries have applied a less stringent austerity policy. However, the lack of assessment of social impacts means that it is difficult to really understand the consequences of different policy approaches.

Accommodation and Homelessness

The downward pressures on rents in the recession should have provided some relief to people on low incomes. In fact, evidence from EAPN members suggests that any rent decreases have been more than offset by higher utility and food bills, and so housing may be still unaffordable for many on low incomes.²⁰ In many countries, people's ability to access decent, affordable housing has lessened as statutory authorities have withdrawn from housing provision – a process which started long before the recession, but whose impact is made worse in the context of increased long-term unemployment.²¹ By 2010, Spain, Denmark and Hungary were reporting significant increases in the number of evictions. Rough sleeping increased everywhere, especially in Germany, France, Netherlands and the UK, with young people most affected.

FEANTSA, the European Federation of National Organisations Working with the Homeless, argues that services for homeless people have been seen as an easy target for cuts by municipalities trying to reduce expenditure. Such cuts mean in effect moving from long-term housing solutions to policies centered on emergency accommodation – but in the medium to longer term this approach is very costly not just in personal but in social and economic terms.²²

Squeeze on NGOs

NGOs play a vital role in providing frontline social services. Most NGOs report an increase in demand, at the same time as funding and income have been reduced. Requests for food bank services, homeless supports, budgeting advice and daycare, in particular, have risen significantly. In most cases, however, the increase in demand for services is coinciding with shrinking resources, cuts in public funding, difficulties in applying for new funding and reductions in donations. The only exceptions appear to be in Nordic countries, with an increase in private donations. Meanwhile, European funds, particularly Structural Funds, are not compensating

for the shortfalls in other funding. An overall trend towards re-orientating the ESF (European Social Fund) away from supports for vulnerable groups is apparent. Funding shortfalls are also hitting innovative projects, and undermining support for the role of NGOs in advocacy, empowerment and participation.

Reduced Dialogue with Civil Society

In the face of the crisis, governments appear to have become less willing to discuss solutions with civil society. Since 2009, few governments have engaged effectively with NGOs on the causes and social impacts of the crisis, and the solutions to it.

A survey in early 2011 by Eurodiaconia, a Europe-wide federation of Christian based organisations, showed that just over a quarter of the sixteen member organisations which replied to the survey had been directly involved in consultation on policies in response to the crisis.²³ EAPN networks, especially in countries most affected by the crisis, have been frustrated by governments' refusal to pay attention to their concerns. As the Portuguese network said: 'Not only are we not being listened to, we are not being respected'.

An EAPN study in 2011 revealed that national networks which had participated in consultative processes in the context of National Reform Programmes had experienced inadequate and very unsatisfactory processes, with limited opportunities for input or serious engagement and a sense that their efforts had minimal impact. This occurred despite an official commitment that the Europe 2020 Strategy should be implemented and monitored in partnership with a range of stakeholders, including representatives of civil society.²⁴

Conclusion

In the early days of the crisis, there was a willingness in some EU Member States to boost social protection systems to prevent hardship, but this weakened as the priority shifted to reducing public deficits. This process was mirrored in the approach of the EU which has, since the beginning of the crisis, taken a key role in attempting to co-ordinate responses. Initially, in 2008, the EU's response included a commitment to an anti-cyclical approach,²⁵ 'alleviating human costs' by maintaining jobs, and supporting the most vulnerable through strengthened social protection and services. But as financial instability grew,

alongside increased public debt and deficits, priority shifted to salvaging the euro and enforcing a neo-liberal recovery plan focused on a narrow interpretation of competitiveness and fiscal consolidation.

This has involved strictly enforcing the Stability and Growth Pact requiring euro zone member states to quickly reduce deficits below 3 per cent – primarily through cuts in public expenditure rather than raising taxes. Europe's competitiveness is to be kickstarted by driving down wages, increasing flexibility and raising the age of retirement.²⁶ For the countries within and outside the euro needing financial bailouts from the EU, this pattern of measures – which is devastating to social rights – has set the template for the rest. This is occurring, despite the launch in 2010 of a new overall policy, the Europe 2020 Strategy, which aims to promote 'smart, sustainable and inclusive growth', and which established for the first time a target to reduce poverty and social exclusion by at least 20 million by 2020.²⁷

There is little evidence of an integrated approach to the EU's declared policy of 'active inclusion' of people excluded from employment;²⁸ in practice, this is being interpreted as hardening conditionality in granting benefits, while the support services and the jobs necessary to make activation a reality remain absent. Across Europe, cuts in income maintenance, health, housing and support services signify a harsher attitude to poor and vulnerable people.

This raises a question over the implicit social contract and the European social model which have provided stability and a level of protection for the poorest since the early stages of the movement towards European integration. It also undermines the faith of people across Europe in the EU as a social and democratic project rather than an economic union for its own sake.

The austerity that has come to be the dominant policy response to the crisis is an unlikely path to achieving the goal of increased quality, sustainable jobs in Europe, and a certain road to increasing the risk of poverty and material deprivation.

The failure to debate the causes of the crisis and to reconsider another model of development is the major complaint of most EAPN networks. They highlight key hidden causes: the decline over several decades in the share of GDP going to wages

and salaries; financial and economic deregulation; deconstruction of the welfare state; the constant rise in inequalities, and fiscal and social dumping.

Alternatives to the present approach *are* possible, but need to be built and fought for through new alliances. The immediate demands of EAPN include:

- A pro-active social impact assessment on the causes and consequences of the crisis;
- Alternative exit strategies, which reduce deficits more slowly and invest in recovery, boost demand and include a commitment to a social model which offers adequate protection and equality of opportunity;
- A comprehensive rethink of the development model which has predominated in recent decades, with a view to devising an alternative that will allow for the hope of building a better life for all.

Notes

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2. *Social Europe, EU Employment and Social Situation*, Quarterly Review, June 2011, p. 37 (Brussels: European Commission, Employment, Social Affairs and Equal Opportunities).
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10. *Ibid.*, p. 44.
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13. EAPN, *Is the European Project Moving Backwards?*, *op. cit.*, p. 26.
14. EAPN, *Social Cohesion at Stake*, *op. cit.*, p. 34.

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Robin Hanan is Director of the European Anti Poverty Network Ireland.

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