CROP Poverty Brief

August 2013

Mobilizing critical research for preventing and eradicating poverty

This brief argues that:

- In the crisis-ridden countries of the European periphery austerity accentuates the gap between the main goals and values underpinnings of "Social Europe" (full employment, solidarity, social protection, fundamental social rights, industrial democracy and social dialogue) and the policy options followed by the economic and political elites of the EU.

- The "rescue deals" in Greece, Portugal and Ireland make apparent an overriding theme, which is the rolling back of the welfare state and the dismantling of worker and citizen protection. The Memoranda of Understanding and their strict conditionalities (undemocratically) put in place in these countries infringe the social *acquis*, override sovereignty and set forth a "race to the bottom".

- Alarming statistics, in the affected countries indicate a sharp rise in the poverty and/or social exclusion rate (surpassing 30% in Greece on the basis of 2010 incomes, which are the most recent available data, not fully capturing the dramatic effects of the crisis though), and deepening inequality (particularly in Spain and Ireland). Mass poverty is a real threat. Also, in view of significant cuts in public expenditure (per head) in education (health and welfare services) and fast rising unemployment among the young, the spectre of a lost generation looms large.

- These conditions leave little optimism for the realization of the "good intentions" of the EU2020 Strategy to significantly reduce the number of the poor by the end of this decade, and call for a coalition of progressive forces across Europe around a genuine concern for "Social Europe".

AUSTERITY AND THE SPECTRE OF "IMMISERATION" ON THE PERIPHERY OF EUROPE

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The debt crisis in the European periphery that followed the global credit crunch of 2008 brought "structural adjustment" and austerity-oriented conditionality to Europe. Despite unequivocal evidence regarding the poor results of structural adjustment programmes (SAPs) in the Global South in the 1980s[1], namely: "lower growth, more SAPs, decreased equity, health and welfare, and diminution of democracy in the affected polities" (Greer 2013, p. 19), bailout plans enforced on the ailing European periphery by the so-called "troika" (the European Commission, the IMF and the European Central Bank) tend to re-enact the SAPs, with all their severe human impacts. An emerging humanitarian crisis now calls for due attention to be paid to the deeply negative effects of European structural adjustment, and brings to the fore the need for the global development agenda post-2015 to encompass, in an integrated way, issues of inequality and poverty in both developed and developing countries.

This brief note traces the poverty, social exclusion and inequality trends under austerity, highlights the negative effects of decreasing public welfare provision and concludes on the likeliest outcome of structural adjustment.

1. Poverty, social exclusion and inequality

Undoubtedly, reforms in the crisis-ridden countries of Southern Europe are overdue (among others, the need to redress the insider/outsider divide in labour market and social security, improve equity and efficiency of health care systems, strengthen rights to social care, and secure sustainability) (see Petmesidou 2012 for more details). The current crisis could provide a window of opportunity for tackling major challenges faced by South European (SE) social protection systems. Yet, so far, the bailout and debt reduction plans instigate reforms that tend to undermine social democratic values, roll back workers and citizens protection, increase inequality and heighten poverty and insecurity among large sections of the population.[2] Highly alarming are the dramatically diminishing long-term life-chances of youth arising out of the intensifying effects of poverty and deprivation on children, adolescents and young adults, the decreasing availability of resources for public welfare provision (in tandem with the significantly reduced capacity of the family to provide support to its members), mass unemployment and job precariousness.

Strict conditionalities of the rescue-deals, which are closely overseen by the technocratic coalition of supranational forces, override national sovereignty, as reforms bypass governments and parliaments. Greece offers a striking example where a large number of significant legal changes, either explicitly or implicitly, enforced by the international lenders were turned into law not through parliamentary procedure but by ministerial and presidential decrees that are allowed by the Constitution only in exceptional cases of national emergency.[3]

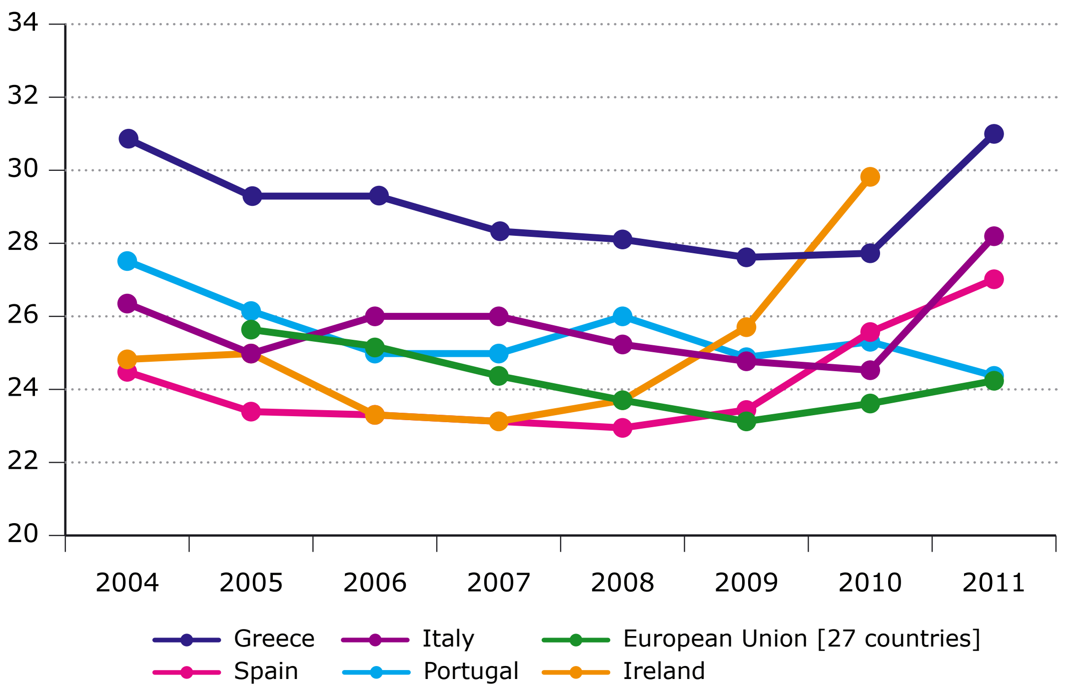
Major elements of the bailout deals for Greece and Portugal embrace: the drastic reduction or even elimination of collective bargaining and the weakening of unions, in parallel with drastic cuts in wages and an overhaul of the rules regulating the hiring and dismissal of employees, with the explicit aim of increasing employer control; the wholesale privatization of public services (energy, transport etc.); drastic cuts of public spending in health and education; and the hollowing out of social security systems. Similar measures are more or less being pushed through in the other two ailing SE countries, namely Spain and Italy.[4]

Disrespect for multilateralism and diminution of sovereignty are the side-effects of the rescue packages. This forecasts a bleak future which, combined with mounting social pain and deprivation in the affected countries, increasing resentment against the EU in many member states, and rising far-right extremism (as, for instance, the increasing support for the neo-nazi Golden-Down party in Greece), turns “solidarity”, “social justice” and “equity” into the fading goals of the EU integration plan.

Notwithstanding the good intensions of the EU 2020 Strategy “to make a decisive impact on eradicating poverty” (and reduce the number of the poor in Europe by 20 million in 2020)[5], there is mounting evidence to suggest the opposite. Poverty, hunger and homelessness are rising in the countries severely afflicted by the crisis, as has been extensively documented by Caritas-Europe in a recent report (2013).

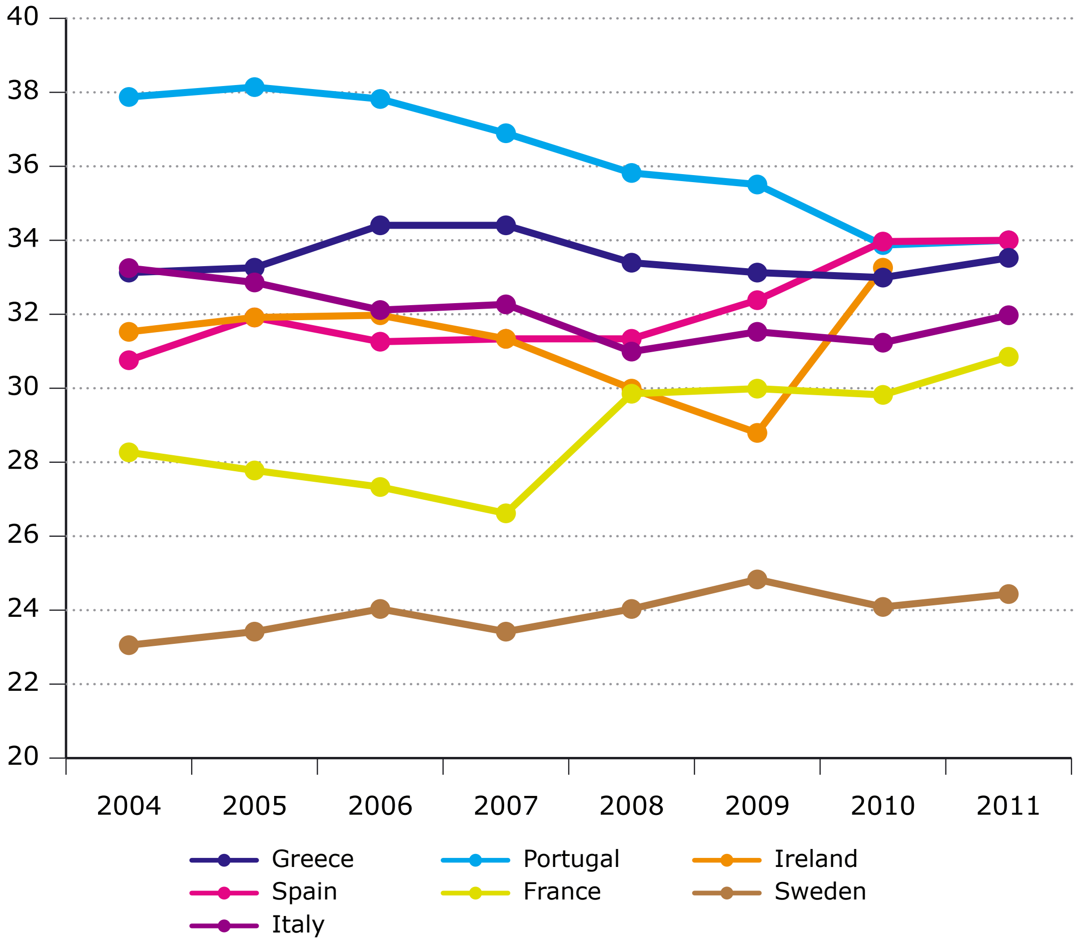
Available comparative data (of the EU-SILC panel) on income inequality and poverty only cover the period up to 20116 and, thus, do not fully reflect the negative effects of the deepening social crisis. Nevertheless, increasing poverty, deprivation and inequality are already evident. Figures 1 and 2 depict poverty, social exclusion, and income inequality trends among the four SE countries and Ireland (another bailout country). Greece and Ireland lead with a steeply increasing rate of poverty and/or social exclusion[7] over the last few years (surpassing 30% in Greece in 2011). Similar trends characterize Spain and Italy, while Portugal stayed close to the EU-27 average in 2011 (however, we should note that data for Portugal does not capture the effects of recent harsh austerity as the country entered into a bailout programme in Spring 2011).

Figure 1: The poverty and social exclusion rate, 2005-2011



Source (Figures 1 & 2): Eurostat webpage available at http://epp.eurostat.ec.europa.eu/portal/page/portal/eurostat/home/.

Figure 2: Income inequality, 2004-2011 (Gini coefficient, scale 0-100)



Note: In 2011, among the 27 EU countries only Latvia surpassed Spain with a Gini coefficient 35.2. France and Sweden are added for comparison, representing the corporatist-continental and social-democratic welfare regimes.

Spain and Ireland lead in terms of increasing income inequality in the EU (in Spain, the Gini coefficient increased from 31.3 in 2008 to 34 in 2011; the corresponding EU average was 30 in 2011). An upward trend also characterizes Greece and Italy. In Portugal, the substantial decline in inequality that took place over much of the 2000s started reversing in 2010.

There is mounting evidence of a dramatic rise in the number of people unable to meet their daily expenses for food, electricity, heating and health care in the afflicted countries. Strikingly, in Greece and Ireland 32% and 42% (respectively) of households with three or more dependent children belonging to the 2nd income quintile, and 11% and 22% (respectively) belonging to the 3rd income quintile (these two quintiles embrace a wide range of lower-middle and middle-class-strata) lived in conditions of poverty and/or social exclusion on the basis of 2010 incomes (2009 for Ireland, Table 1). Moreover, in 2011, in Greece, a significant number of people in the 3rd income quintile (that constitutes the backbone of the middle class) stated that were unable to meet medical needs. Highly accentuated is the problem of unmet needs for medical examinations among people over 75 years of age: in 2010, in Greece, even among middle-class people of this age group, about 10% of men and 15% of women were unable to get medical advice when needed, because this is “too expensive”.[8] This indicates that serious hardship is being experienced among vulnerable segments of the middle class, swelling the ranks of the “new poor”, a condition that can turn the EU objectives of diminishing poverty and social exclusion into a dead letter.

Various established NGOs in these countries that traditionally devoted their activities to populations in need in far away countries, have, over the last few years, focused on the “new poor” who have grown in Southern Europe. Community and other food banks are on the rise, and calls on the health and other services of NGOs have increased rapidly (Caritas 2013).

Table 1: Poverty, social exclusion and unmet medical need

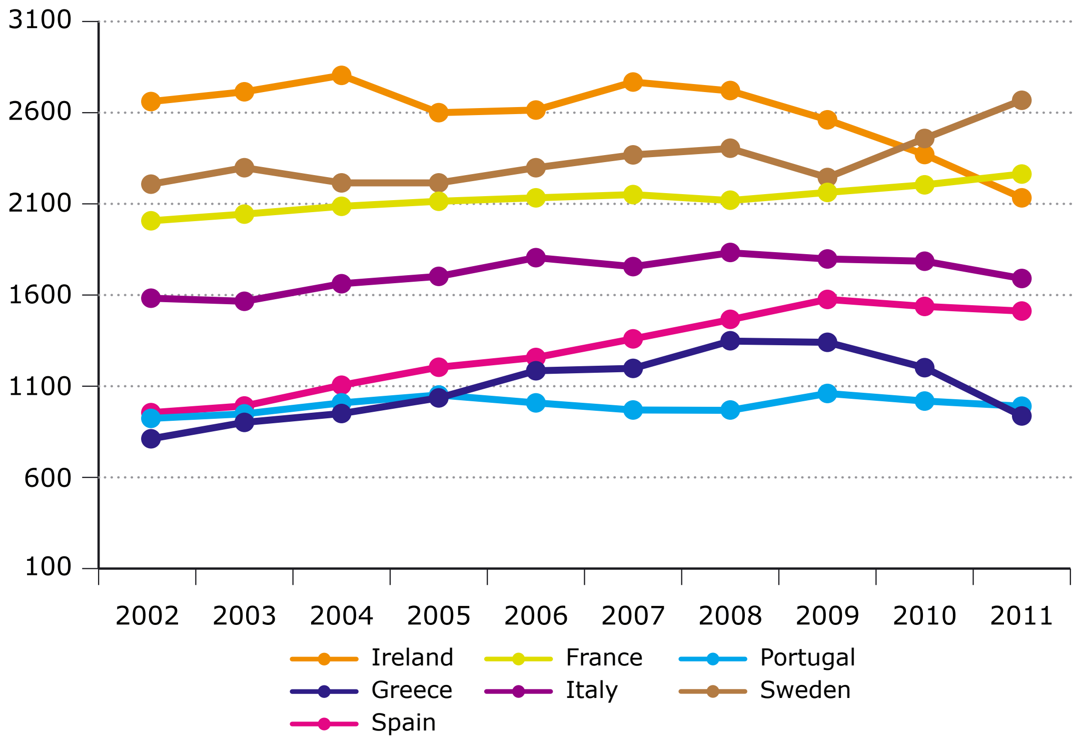
	Poverty and/or social exclusion rate, 2011 (%)					Self-reported unmet need for medical examination ("too expensive"), 2011 (%)			
	House-holds with dependent children	Single person with dependent children	Households with three or more dependent children			Persons 16 to 64 years of age			Persons 75 years and over**
	Total	*Total*	*1st* income quintile*	*2nd income quintile*	*3rd income quintile*	*1st* income quintile Males/ Females*	*2nd income quintile Males/ Females*	*3rd income quintile Males/ Females*	*3rd income quintile Males/ Females*
EU-27	25.1	49.8	82.7	13.6	4.7	n.a.	n.a.	n.a.	n.a.
Greece	30.6	55.7	100	36.1	10.9	7.5/10.1	4.2/7.1	4.7/5.9	9.7 /14.8
Portugal	25.1	39.0	100	30.8	23.8**	2.3/1.9	2.2/2.1	1.2/1.2	0.2 /0.8
Spain	28.7	44.8	100	12.5	4.9**	0.6/0.7	0.2/0.3	0.4/0.5	0.3/0.2
Italy	31.0	45.7	98.1	20.3	7.4	9.9/12.0	5.2/6.6	3.2/4.9	1.7/3.3
Ireland	34.0**	62.0**	93.2**	42.0**	21.7**	2.3/1.3	2.1/2.5	1.9/2.8	n.a.

Source: See Figure 1. * Bottom income quintile; ** 2010 data.

2. Decreasing public provision and on-going immiseration

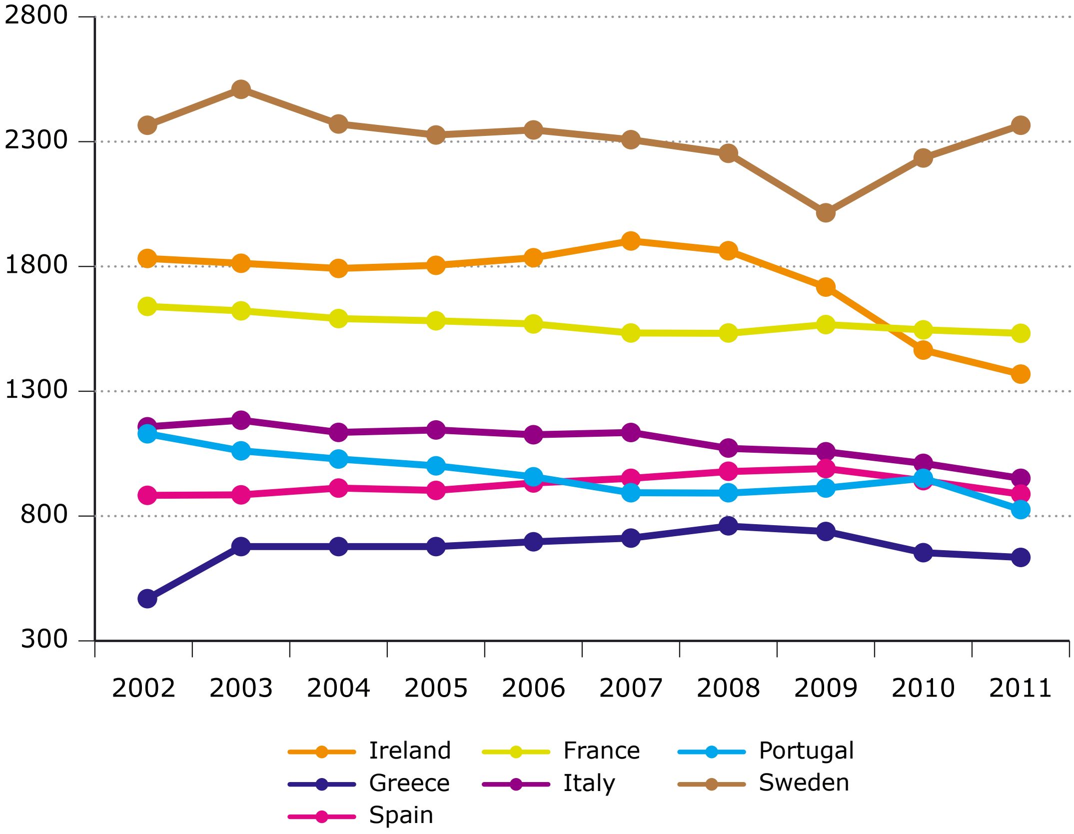
In parallel with drastically falling incomes and rising (direct and, mostly, indirect) taxes, cutbacks in public spending on health and education can easily become a "high way" into poverty for a range of vulnerable groups. Figures 3 and 4 trace public spending in these two public provision areas in the four SE countries and Ireland (France and Sweden are added for comparison purposes). Public health expenditure per head (in constant 2005 prices) dropped in Ireland and Greece after 2007 and 2009 respectively. In the latter country total health expenditure fell from 9.8% of GDP in 2009 to about 6%, in 2013. Cutbacks are less severe in the other three countries, nonetheless Portugal, together with Greece, exhibited the lowest rankings in 2011.

Figure 3: Public health expenditure per head (Euros, 2005 constant prices)



Source (Figures 3 & 4): Own elaboration of Eurostat data available at *http://epp.eurostat.ec.europa.eu/portal/page/portal/eurostat/home/*.

Figure 4: Public expenditure on education per head (Euros, 2005 constant prices)



Public expenditure (per head) on education has significantly shrunk in all four SE countries (a steep decline also took place in Ireland which had reached a much higher level of expenditure in the early 2000s, compared to the four SE countries). Greece persistently exhibits the lowest ranking with a per capita public expenditure on education that fell to about 600 Euros in 2011.

These findings, combined with a record number of unemployed youth (59.2% in Greece, above 56.5% in Spain and around 42.1% in Portugal, in May 2013), as well as the dramatically rising number of young people (15 to 24 years of age) who are not in education, training or employment (about a fifth of this age group in Greece, Italy and Spain)[9] exacerbates the education-poverty link. In the crisis-laden countries, cutbacks to welfare benefits and services, in parallel with hikes in indirect taxes on food and other basic consumption goods and rising fuel prices has generated a vicious circle of creating a malnourished, deprived and poorly educated youth, with low self-esteem and aspirations and low job prospects, destined to reach old-age with no security whatsoever.

The spectre of a lost generation raises troubling questions about the huge waste of human resources (ILO 2012) and the effects of an enduring immiseration in Europe, even if and when growth resumes. Debilitating poverty and deprivation over the life course of the current young generation is likely to lead to poverty transmission between generations. In the light of this, future prospects for sustainable, inclusive growth promoting democratic equality and solidarity in Europe look rather grim. Progressive political and civil society forces across Europe need to act to reinvigorate the "European Social Model", or else the callous neglect of distributional justice and democratic accountability, forcefully pushed through by fiscal adjustment, heralds a scenario of "immiserizing growth" (growth that produces/sustains poverty) for the EU periphery. Ireland is already such an example (praised by the dominant political and economic elites in the EU, see Weeks 2013). Over the last couple of years the country increased exports considerably (the export balance per head rose sharply in constant prices), yet the people became poorer as net per capita income (in constant prices) plummeted and unemployment remained high. This indicates the huge transfer of resources abroad to European and multinational economic elites and lays bare the destructive social effects of the "model of growth" prophesied by fiscal adjustment.

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Notes

1 Enforced upon many debt ridden developing countries by the international financial institutions.

2 For a critical review of the current reforms in Greece see Petmesidou (forthcoming), and Papadopoulos and Roumpakis 2012.

3 Also, very lengthy and complex legal texts enacting a range of stipulations by the international creditors are passed through parliament as urgent bills in a couple of days, leaving no room for parliamentary scrutiny and democratic accountability.

4 See, for instance, the "secret memo" leaked to the newspaper "Corriere de la Serra"; electronically available at http://www.corriere.it/economia/11_settembre_29/trichet_draghi_inglese_304a5f1e-ea59-11e0-ae06-4da866778017.shtml?fr=correlati . This was sent to the then prime minister of Italy from the ECB, in mid-2011, demanding far reaching reforms in collective bargaining and pensions and the full liberalization of local public services, demands that surely go far beyond the ECB's mandate.

5 "Europe 2020 targets" electronically available at http://ec.europa.eu/europe2020/europe-2020-in-a-nutshell/targets/index_en.htm.

6 They record incomes of the previous year (2010).

7 According to Eurostat, the poverty and/or social exclusion indicator refers to the share of the population in at least one of the following conditions: (1) living below the poverty line (defined as 60% of the median equivalised income), (2) experiencing severe material deprivation, and (3) living in a household with very low work intensity.

8 According to a survey undertaken by the Centre for Health Services Research (University of Athens), in January 2013, one in two interviewees (of a national sample) expressed inability to cope with the rising cost of pharmaceuticals (data presented by the president of the National Drugs Organization in a TV interview on 20 May 2013).

9 See Eurostat data electronically available at http://epp.eurostat.ec.europa.eu/cache/ITY_PUBLIC/3-01072013-BP/EN/3-01072013-BP-EN.PDF, and (for the NEET rates) http://epp.eurostat.ec.europa.eu/portal/page/portal/employment_social_policy_equality/youth/indicators.

The CROP Poverty Briefs are a series of short research notes highlighting recent research and trends in global poverty. The ideas contained in CROP Briefs are those of the named authors and do not necessarily reflect a consensus view of the Programme. They are distributed as worthy of consideration by those concerned to "mobilize critical research for preventing and eradicating poverty".

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