



THE IMPACT OF THE EUROPEAN CRISIS

A STUDY OF THE IMPACT OF THE CRISIS AND AUSTERITY ON PEOPLE,
WITH A SPECIAL FOCUS ON
GREECE, IRELAND, ITALY, PORTUGAL AND SPAIN

Preface

Caritas Europa is proud to present this comprehensive, timely and in-depth study on the impacts of the economic crisis and austerity policies on the European Union's most vulnerable people. The Report has a special focus on the five EU Member States most-affected by the crisis – Greece, Ireland, Italy, Portugal and Spain. The report's findings are grounded not just in empirical research but most importantly in the practical work carried out by Caritas member organisations in the five countries.

The report describes very clearly the human impacts of the crisis and of austerity policies, with a special emphasis on people experiencing poverty and social exclusion. It outlines the responses of Caritas organisations in the five countries as they try to help those who have been worst affected by the crisis. The findings of the report demonstrate beyond any doubt that austerity measures are impacting very negatively on the lives of people in poverty, and driving many more into poverty for the first time.

I hope that this report will not only provide timely information on a worsening situation, but also serve as a tool for European and national decision makers in their attempts to identify more appropriate policy responses to deal with the crisis. Caritas Europa and its member organisations across Europe wish to work in partnership with the EU institutions and national governments to develop effective and socially just approaches to managing the crisis and promoting recovery in Europe.

I want to express my deepest gratitude to Caritas Europa member organisations in Greece, Italy, Portugal and Spain, for the research and analysis which they contributed to this report. A special acknowledgement goes to the team of Social Justice Ireland, and to its Director Fr. Séan Healy, who provided the overall analysis as well as an analysis of the situation in Ireland, and also prepared the full version of the Report.



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Social Justice Ireland
Working to build a just society



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Executive Summary

Focus of the Report

This report looks at the impact of the economic crisis and at the policy measures taken to address it focusing on five countries that have been severely affected – Greece, Ireland, Italy, Portugal and Spain. While the phrase 'protecting the vulnerable' has been part of the terminology used nationally and internationally relating to the measures undertaken since 2008, Caritas member organisations in these five countries are daily trying to support people who are increasingly vulnerable due to the impact of the crisis as well as austerity and structural measures. The report is written in the knowledge that the authorities have choices in deciding what policy approaches to use and how measures are targeted – in other words, who should pay most – and recommendations are made in Part 4 for alternative policy approaches.

Part 1 | The European Crisis

Part 1 starts with a general overview of the causes of the crisis in Europe, the official response to it, its impacts on Europe as a whole and the outlook for the future. Some of the facts set out here present a picture of a Europe in which social risks are increasing, social systems are being tested and individuals and families are under stress. The picture is one of a very sharp drop in employment, and consequent increases in unemployment particularly affecting younger people; growing levels of long-term unemployment, which is becoming structural; high levels of poverty, including childhood poverty, a deepening of poverty levels and reductions in access to essential services. Overall, economic sentiment in Europe is considered to be at its lowest level in years, and growth projections have been increasingly downgraded during the year 2012 by international bodies such as the International Monetary Fund (IMF). The IMF is now of the opinion that cutbacks have had a larger than expected negative impact on output, and are recommending that European policy-makers gradually ease financial conditions further in the periphery economies.

The section concludes that, while austerity may be necessary in some situations where people or societies have been living beyond their means, the prioritization of austerity measures to the virtual exclusion of other responses will not solve the crisis.

Part 2 | Impact of the Crisis on Five European Countries

Here we look in detail at the position of the five countries, sketching briefly the background to the crisis in each and looking at their current public debt levels and their recent and projected estimates for growth in GDP. We go on to reference the kinds of policy-measures introduced, and examine

developments in relation to employment and unemployment, and in relation to poverty looking at various indicators and looking at some affected groups in more detail. We finish the section on each country with a discussion of the impact on vulnerable groups, including some observations by Caritas member organisations on their first-hand experience of supporting them.

Part 3 | The Caritas Response

In this section, we look in more detail at the experience of Caritas member organisations in the five countries and outline some of the projects that they have undertaken to support the people that they serve. The organisations work in different contexts and in different ways, but their accounts of their work help to illustrate on the problems that ordinary people face. A common theme is the increasing calls that are made on Caritas member organisations for basic supports and the ways in which they are having to develop and innovate to address this.

Part 4 | Conclusions and Recommendations

The background to the crisis is different in each of the countries and it has impacted and evolved differently in each. This means that there are both similarities and differences observable between the countries in the impact on vulnerable people.

Before concluding, we draw out some general trends across the five countries as well as referencing some dissimilarities. The countries have in common:

- High levels of unemployment, that, in four of the five countries are well above the European average;
- Very high youth unemployment levels in all five countries, and marked increases within the past year in most countries;
- Long-term unemployment high in all countries and a very high proportion of those who are unemployed are long-term unemployed, indicating that the problem is becoming structural;
- Increases in income poverty in most of the countries, with childhood poverty a particular problem in each and showing an increase in all countries since 2007.

Many of the countries have gaps in their welfare systems that leave certain groups – often casual or atypical workers or those who reach the end of finite unemployment payments – in extreme difficulty. Strong traditions of family support that are a feature in each country are being severely tested in many cases.

Main conclusions

- The evidence presented in this report shows that the Policy of Prioritising Austerity is Not Working and an alternative is required. The approach of imposing austerity measures and structural reforms aimed at reducing government borrowing and the debt/GDP ratio within a short number of years is not working in economic terms. Simultaneously, it is putting the social cohesion of Europe and the very political legitimacy of the European Union at risk.
- **Fair Solution to the Debt-crisis must be found:** The recent EU agreement to recapitalise Spanish banks without adding to sovereign debt (June 2012) recognises that making taxpayers responsible for the massive debts of their banks is unsustainable. Turning banking debt into sovereign debt must be recognised as unfair and unsustainable for all affected countries and a fairer burden-sharing approach adopted.
- Despite rhetoric to the contrary there is currently a failure to integrate economic and social policies, and a lack of a longer-term commitment to an inclusive society, which in turn is necessary to building a sustainable economy. The people paying the highest price currently are those who had no part in the decisions that led to the crisis, and the countries worst affected are amongst those with the biggest gaps in their social protection systems so their welfare systems are least able to protect their vulnerable populations. This process is unfair and unjust.

Part 4 goes on to propose a series of recommendations aimed at (1) The European Institutions and the Commission, (2) National Governments, and (3) Non-Governmental Organisations. These recommendations are made include the following:

European Institutions and EU Commission

- Provide Leadership in relation to Groups at particular Risk of Poverty,
- Ensure an adequate social dimension to the Europe 2020 Strategy process for all countries,
- Introduce Social Monitoring for Countries in EU/IMF Programmes,
- Ensure that the 2014–2020 Structural Funds will play a bigger role in addressing poverty,
- Lead on Policy-development and Monitoring of Child Poverty,
- Provide Leadership in Respect of Youth Unemployment,
- Ensure the involvement of Civil Society in Governance.

National Governments and relevant Local Regional Authorities

- Strengthen Welfare Systems,
- Strengthen Essential Services,
- Poverty Proof All New Measures,
- Use Appropriate Labour Market Active Inclusion Measures,
- Frame any further measures such that those who can afford to do so actually do pay more,
- Consider how Government could become an employer of last resort,
- Ensure the involvement of Civil Society in Governance.
- Introduce Better Monitoring and Planning.

Non-Governmental Organisations

- Accompany and help people in need; provide services for social and active inclusion,
- Give a Voice to People Experiencing Poverty or Social Exclusion,
- Document Increases in Service Use,
- Work for Social Change,
- Work to Influence Decision-Making.

Part 4 concludes with some comments on the role and commitment of the Catholic Church.

As is clear from Part 1 of this report, the crisis in Europe and the official response to it is leaving the peripheral countries in Europe in a double bind. By cutting expenditure in an attempt to reach the targets set for the debt to GDP ratio, they lose revenue. This, along with interest payments and higher social costs due to rising unemployment, makes their growth difficult if not impossible. Furthermore, commentators like the IMF are now noting an impact (or 'spillover effect') from the periphery to the rest of Europe and, indeed, that Europe's low growth and uncertainty is also affecting emerging markets.

The recommendations in this report also have wider implications beyond the five countries considered, and this is clearly the case given that two of Europe's largest economies (Spain and Italy) are included in the analysis. The report's recommendations point to new approaches to addressing the problems of Europe that are both socially just and sustainable. All countries need to recognise that just as social and economic development are interlinked, and in fact are two sides of the same coin, so pursuing austerity measures alone will not solve the crisis in Europe. Instead austerity is putting social cohesion and the very future of the European Union at risk.



Part | 1

THE EUROPEAN
CRISIS

9990%

Introduction

The economic crisis of 2007/8 and the austerity measures that followed it aimed at reducing government budget deficits were always going to impact on the incomes and the relative positions of different income groups. While the general recession affects incomes (due to reductions in market incomes, increasing unemployment and underemployment), the authorities also have choices in deciding what policy approaches to use and how measures are targeted – in other words, who should pay most. The mantra ‘while protecting the vulnerable’ has been used repeatedly in the surveillance procedures of the IMF and of the European bodies involved in advising on and enforcing measures intended to address the crisis. But in practice, Caritas member organisations across the ‘peripheral’ nations witness poverty, unemployment, exclusion and distress amongst increasing numbers of people who rely on their services.

The human cost of the crisis is impossible to assess fully at this stage as its impact is still unfolding with wave after wave of ad-hoc crisis driven measures and a series of structural measures being implemented in each country. By examining recent trends in employment, unemployment, poverty rates, severe material deprivation and low work intensity in five countries severely affected by the crisis, (Greece, Ireland, Italy, Portugal, and Spain) it is hoped that this report can contribute to more awareness of the impact on more vulnerable groups, and of alternative policy approaches that could be taken by

the authorities to alleviate its worst effects. We also hope that the conclusions and recommendations outlined here, which flow from this analysis concerning alternative approaches and different choices Governments could make, will be taken aboard by the decision-makers concerned and acted upon so as to alleviate the extraordinary levels of suffering which have been imposed unfairly on large numbers of people in the period since 2008.

Parts Two and Three include accounts from the five countries concerned of the first-hand experience of people directly affected by the crisis from Caritas organisations, as well as some of the measures they undertake to alleviate the problems they encounter. Caritas organisations are on the ground in these countries and address the challenges being faced by those who are vulnerable on a daily basis. Their work ranges from the provision of basic necessities to the poorest to the provision of detailed analysis of the causes of problems and their likely solutions. They provide a unique perspective that has much to offer to policy makers at local, regional, national and EU-wide levels.

Here we look, briefly, at the overall causes of the crisis and at the official response of the main institutions concerned. We then look at its key economic and social consequences for Europe and at the outlook for the future.

Causes of the Crisis

The crisis evolved in different ways in each European country depending on a wide range of local circumstances. In this general introduction it is not possible to discuss in detail the course it has taken in each of the five countries under consideration. Instead we attempt to outline the broader context of the background to the crisis.

Nobel prize-winning economist Joseph Stiglitz has characterized the global financial and economic crisis as likely to be the deepest and longest economic downturn since the Great Depression that followed the financial crash of 1929. He describes it as having been caused by bad regulation and bad financial practices in the US, which affected the entire world (2009). Stiglitz attributes this lax monetary policy and weak regulation of banks and financial institutions to an effort to boost demand in order to keep the economy going – so poor people who had no money were encouraged to keep spending

and a massive debt finance bubble enabled them to do so. The underlying cause of the lack of spending by poorer people, Stiglitz attributes to a rise in inequality over the past 30 years:

‘In effect, we have been transferring money from the poor to the rich, from people who would spend the money to people who do not need to spend the money, and the result of that is weaker aggregate demand’

(Stiglitz, 2009, p 7)

The massive expansion and lax regulation in the banking and finance sector whose implosion was the trigger for the global crisis in 2008, and indeed the rise in inequality that Stiglitz refers to, is associated with economic theories and policies

that arose in the 1970s which can be described as market liberalism policies (Quiggin, 2011). These policies, based on a belief that free markets are efficient,¹ involved

- removing state controls on the growth, use and flow of capital, and
- redistribution of income from the poor and middle classes to the rich (Healy et al, 2012).

The first led to 'financialisation' which involved the creation of new and complex financial products and to the lowering of interest rates which led to increased investment in the financial world itself and in property – and in turn led to huge price increases and a property bubble in the US and elsewhere. The bursting of the bubble in 2008 exposed the huge risks that had been taken with lending and the precarious state of the world's financial institutions.

The second tenet is based on the famous 'trickle down' approach which assumes that policies that benefit the wealthy will eventually benefit everyone. The evidence does not support that hypothesis, however. As Quiggin points out, most

of the benefits of economic growth in the US, for example, went to the top 1% of people; by 2007, the top 1% in the US were receiving nearly 1/4 of all personal income, more than the bottom 50% put together (2011).

As Joseph Stiglitz concludes (2009), the problem is that the system is now broken, because it was based on consumers spending beyond their means by excessive borrowing, something that cannot continue. That is not to say, however, that lessons have been learned. As Quiggin argues, the concern of policy-makers has been to restore the pre-crisis 'normalcy' as rapidly as possible, noting that, as the crisis has continued, the focus of attention has turned away from the obvious failures of financial markets and toward the alleged failures of government (2011).

Other commentators point to fundamental problems underlying the world's economic development model that the crisis has thrown into relief and that measures taken to date will not address, pointing to the need for more radical approaches aimed at producing a fairer and more just solution (Healy et al, 2012).

Official Responses to the Crisis

Europe has taken a series of measures in response to the various stages and escalations of the crisis aimed at protecting its weaker economies against pressures from the bond markets.

Chief amongst them has been a determination that no bank should fail and that the issue of budget deficits will be rectified by the imposition of austerity measures and structural 'reforms'. The need for fundamental reform of banking worldwide is accepted by many although rejected by some. The overall approach reflects the view that cuts in budget deficits will 'promote 'business confidence', particularly if they are achieved through reductions in expenditure' (Quiggin, 2011).

The European Central Bank, in particular, has taken the view that if banks defaulted there would be a serious risk of contagion. Of course, contagion has not been contained, despite this approach, as lack of market confidence became an issue in one country after another and the focus of the crisis moved from Greece, to Ireland, Portugal and more recently Spain and Italy. Nor has the approach ensured that banks are working well – in the sense of making credit

available appropriately. The IMF, for example considers that the forces hampering growth in advanced economies are 'fiscal consolidation and a still-weak financial system' (2012f, p xv).

This approach has meant that in a country such as Ireland, for example, burden sharing with bond-holders has not been permitted. Revisions to the blanket bank guarantee originally put in place by the Irish government in 2008 have not been allowed and no 'haircuts' have been taken by the international lenders who lent to Irish banks. Instead the responsibility for paying the debts of private banks has been moved to the State, and consequently to tax-payers and ordinary people (who did not cause the problems in the first place). To achieve this a series of tax hikes and cuts in public expenditure were agreed with the IMF, the European Commission and the European Central Bank equivalent to 18.5% of the GDP forecast for 2015 which has been directly removed by government from the economy.

However, since June of this year when Spain, with an economy considered 'too big to fail', was confronted with a similar banking crisis to that of Ireland, another approach is in

¹ That is, the idea that prices generated by financial markets are the best possible estimate of the value of any investment (Quiggin, 2011)

contemplation (for Spain and Italy at least) enabling banks to be recapitalized without adding to sovereign debt (IMF, 2012f, p. xvi). Furthermore, there has been some burden-sharing with bondholders in the case of Greece. So, at the June 2012 summit, and in response to the escalating problems in Spain, European leaders agreed to start work on a banking union and a single supervisory mechanism (the European Stability Mechanism or ESM). Once established this would allow the possibility of the ESM taking direct equity stakes in banks. As the IMF put it, 'this is critical because it will help break the adverse feedback loops between sovereigns and banks' (2012f).

The other part of this approach has focused on austerity measures and structural reforms aimed at bringing Government deficits and gross debt down to the levels permitted in the Stability and Growth Pact – and doing so within a short number of years. The two major rules on the level of government debt and deficits are:

- Government deficit must not be more than 3% of GDP except in particular circumstances,
- Government debt must not be more than 60% of GDP.

The Stability and Growth Pact came into force in 1998, but its enforcement has always been problematic. It was amended a number of times since then, notably in December 2011 with the so-called 'Six Pack,' requiring stricter application of the fiscal rules and sanctions for non-compliance. Some see these moves as arising from a policy of 'institutionalizing austerity' (Quiggin, 2011).

Most recently all but two EU member States have agreed to the Treaty on Stability, Coordination and Governance in the Economic and Monetary Union. As a result there will be a 'deficit-brake' and a 'debt-brake' and sanctions for a breach. This involves a balanced-budget rule as part of national constitutions or laws, and external oversight by the European Commission, which will involve less discretion for national governments over fiscal policy than formerly. Only those countries who have signed up will be able to access the permanent bailout European Stability Mechanism (ESM).

Each of the countries that are the subject of this report are working to reduce their deficit levels to under the Stability and Growth Pact target of 3 % of GDP through measures aimed at increasing government revenue and cutting expenditure. For all countries, but especially the 'programme' countries (Greece, Ireland, Portugal) there is a lot at stake in this process as their debt levels are such that they have largely lost their ability to raise money on the markets.

Strict and short time limits for achieving these targets have been set and reset as they have not been reached (as will be evident from **Part Two**, below). The reality is that the countries are, for the most part, in a double bind. Despite high unemployment, governments are attempting to reach the targets set by the European Stability and Growth Pact by implementing policies that serve to deepen the recession. They lose revenue as they cut spending, which, along with interest payments, makes it impossible to cut deficits or to reduce them sufficiently. With GDP falling, the 3% deficit target reduces also in monetary terms, making it harder and harder to reach. While it is acknowledged that some austerity is required to reduce excessive spending and ensure government's get best value for the money they spend many experts believe that the Eurozone's current focus on cutting as much spending as possible will not solve the crisis (Menendez, 2012).

Even the IMF is now acknowledging that cutbacks have had larger than expected negative multiplier effects on output. They have recommended that European policy-makers gradually ease financial conditions further in the periphery economies (IMF, 2012f, p xvii, 1).

All the countries that are the subject of this report have committed to the Europe 2020 Strategy with its aim of fostering inclusive growth, and its targets in areas like improving educational attainment and reducing poverty². The Europe 2020 strategy requires the submission of annual National Reform Programmes by member states setting out their progress towards achieving its targets to which the Commission responds with recommendations. However, states that are subject to an EU/IMF programme are not required to submit a separate National Reform Programme (Frazer & Marlier, 2012). Thus it is of concern that, where programme countries are concerned, the focus appears to have been removed from the social targets of the 2020 Strategy. In the case of Ireland, for example, the July 2011 country-specific recommendations from the Commission refer only to fulfilment of the loan agreements entered into under its 'bailout' package,³ which do not of course contain social objectives.

This divergence from efforts to meet the objectives of the Europe 2020 Strategy points to a lack of policy coherence at a European level. It is hard not to agree with those commentators (such as Frazer & Marlier, 2012) who are concerned that economic priorities have taken precedence over social priorities, at least in so far as the 'programme' countries are concerned.

² The EU 2020 Strategy was adopted in 2010; it aims to turn the EU into a 'smart, sustainable and inclusive economy delivering high levels of employment, productivity and social cohesion' (European Commission, 2010, p. 5). Its targets aim, amongst other things, to reduce poverty, raise employment, and raise educational levels.

³ 'Implement the measures laid down in the Implementing Decision 2011/77/EU, as amended by Implementing Decision, 2011/326/EU, and further specified in the Memorandum of Understanding of 16 December 2010 and its update of 18 May 2011.'

Key Economic and Social Impacts

The 2008 financial crisis led to the most serious economic recession that the European Union has faced. The EU has again been in recession or on the verge of it since late 2011. Both GDP and employment rates were down for the EU over the year to Quarter 2, 2012 (that is, EU27). The decline was -0.2% in the case of employment, and -0.3% in the case of GDP (European Commission, 2012, p. 5). The fall in economic activity was associated with a decline in domestic demand and investment, cushioned somewhat by increased exports. However, weakening global demand is also holding back exports. The decline in GDP in Europe is associated by the Commission with negative effects of fiscal consolidation, as well as a weaker international environment and a further loss of confidence (European Commission, 2012, p. 10). Meanwhile government debt is increasing. It stands at an average of 84.9% of GDP in EU27 and at a 90% average in the Euro area (Eurostat, 2012L).

Looking at the rates for quarter 2, 2012, Eurostat concluded that even in Europe's five largest economies (Germany, France, Italy, Spain and the UK) growth was weak or negative (Eurostat, 2012p, p5). Short-term perspectives are considered very uncertain for Europe.

The latest review by the European Commission of the employment and social situation concludes that social risks are increasing (European Commission, 2012, p 5).

Amongst the most serious social consequences of the crisis are those related to young people given their high levels of

unemployment (see below) and detachment from the labour market since 2008, which may have lasting adverse effects on their prospects. The European Commission describes the issue as 'the most urgent social matter of our times' (European Commission, 2012, p 26). It is envisaged that this may deteriorate further leading to poverty and social exclusion and other social challenges (European Commission, 2012, p 25). For society there is also the risk of 'losing the productive talents of a whole generation' (European Commission, 2012, p 25).

Long-term unemployment is another important consequence of the crisis, because it means that unemployment is becoming structural, and this militates against skills retention. At an individual level it militates against re-entering the labour market and it also adversely affects self-esteem and health (the Social Protection Committee 2012, p. 24).

One of the problems of the current austerity measures being implemented across Europe is that measures that result in short-term saving can have very negative longer-term consequences. Governments need to make assessments of what the long-term impacts of the cuts to welfare and services are in areas such as education, health and social care.

These are amongst a number of very negative trends that are clearly identifiable in Europe in areas like employment and unemployment, poverty and incomes and essential services. Some key facts relative to these areas are as follows:

Employment/Unemployment

- ➔ Unemployment has reached a historically high level of 25.7million people or 10.6% of the labour force in September 2012 (EU27), a rise of 2.1 million within one year (Eurostat, 2012n),
- ➔ In addition to those classified as unemployed, an additional 19.5million people (aged 15-74) were identified in the EU in 2011 as underemployed or a potential additional workforce⁴ (European Commission, 2012),
- ➔ Long-term unemployed people reached 10.7million (Q1, 2012) roughly twice the figures seen in mid-2008 meaning that two out of five unemployed people in the EU are on average likely to remain unemployed for more than one year, a trend likely to continue (European Commission, 2012);
- ➔ The youth unemployment rate (under 25s) is 22.8%, representing 5.5million young people in EU27 (September 12)⁵ (Eurostat, 2012n), with the greatest losses having occurred in full-time and permanent jobs, and with a rise of young people neither in employment nor in education (NEETs) (European Commission, 2012),
- ➔ The employment situation of migrants from third countries has worsened due to the crisis, and their unemployment rate (22.1%) stands at more than twice the rate for EU nationals (Quarter 1, 2012) (European Commission, 2012, p 27),
- ➔ Disparities have widened between member states with a gap of over 20 percentage points in the unemployment rate between the lowest rate (Austria) and the highest (Spain), an all time record since harmonised statistics exist (European Commission, 2012).

⁴ This means that they are either part-time workers who are underemployed, or they form a category between unemployment and inactivity who are available for work but not seeking it or seeking work but not immediately available

⁵ With a higher rate for young men than young women (23.2%, men; 21.7%, women) as of July 2012 (European Commission, 2012, p 23)

Income / Poverty

- 23.4% of the EU population (115.7million people) were at risk of poverty or social exclusion in 2010⁶ an increase of nearly 2 million since 2009 (Eurostat, 2012c),
- When the at risk of poverty measure is considered, the share of people living below the 40% threshold (that is, people who are the poorest of the poor, living with less than 40% of the median income) has been increasing since 2008 (The Social Protection Committee, 2012, p. 13),
- With a rate of 26.9% in 2010 (EU27), children were at a greater risk of poverty or social exclusion than the rest of the population in 21 of the 25 member States for which data are available (Eurostat, 2012u); According to the European Commission Social Protection Committee, child poverty is becoming more of an issue and is likely to worsen further, something liable to affect the life-chances of those affected and their potential as adults, and to have a direct impact on both the economic and social future of Europe (The Social Protection Committee, 2012, p 19),
- The rate of poverty for those who are working is a problem across Europe and the average rate has increased slightly between 2010 and 2011 (8.7%, EU27 average, 2011) (Eurostat, 2012g); the rate for those who are the least well educated (that is, with lower secondary education or less) has increased more, and has gone from 16.3% (in 2010) to 18.1% (in 2011) (Eurostat, 2012v),
- Inflation is rising faster than GDP and the main items driving inflation upwards in 2011 have been food, commodity prices and energy, which will disproportionately affect low-income households (Social Protection Committee, 2012, p 6),
- The share of the EU population reporting that their households are experiencing financial distress remains historically high; in households with the lowest income quartile (that is, the bottom 25%), the share of people experiencing financial distress has increased further in recent years in the majority of Member States and was observed to increase sharply in early 2012 (European Commission, 2012, p. 5, 29).
- European citizens perceive rising inequalities and view this trend as a problem that goes beyond nationalities (Eurobarometer, 2011 cited in the Social Protection Committee, 2012, p 27).

Access to Essential Services⁷

- For many countries austerity measures are leading to a contraction or lowering of quality in public services that are particularly important for people at risk of poverty or social exclusion (Frazer & Marlier, 2012).
 - In many countries healthcare systems are under pressure to reduce costs, and access to essential health and social services has worsened during the crisis, according to a recent Eurobarometer study showing that some people report facing difficulties in accessing healthcare⁸ (The Social Protection Committee, 2012, p. 6, 41).
 - Cuts in social spending have a strong impact on the availability of social and health support services to the public, especially to disadvantaged groups (The Social Protection Committee, 2012, p. 45).
 - According to UNICEF's major report on child poverty, it is evident that front-line services for families are everywhere under strain as austerity measures increase the numbers in need while depleting the services available (UNICEF, 2012, p. 4⁹)
 - Despite the fact that the collapse of the housing boom was the trigger for the economic crisis in several countries, the EU Network of Independent Experts on Social Inclusion concludes that policies in relation to housing and homelessness have not been strengthened during the past years and most consider that they have been weakened (Frazer & Marlier, 2012, p 5).
- There is, however, some evidence that some social protection systems, particularly pension systems, have met their function as automatic stabilisers in a number of Member States¹⁰ (Social Protection Committee, 2012, p 21). This seems to be the case at least in the early years of the crisis and at least in-so-far as it is possible to assess this on the basis of available Eurostat data on poverty. This has occurred notwithstanding the fact that pensions have not increased and have remained largely unchanged due to the crisis (The Social Protection Committee, 2012, p 20). Also, it is not the case in all countries – in Greece, for example, pensions have been subject to a

⁶ See Glossary or see Part Two for a discussion of the term 'at risk of poverty or social exclusion'

⁷ For example, health, education, social care, support to families, older people, people with disabilities and long-term care

⁸ 32% of European citizens say it is more difficult to afford general healthcare, 38% say it is more difficult to afford childcare, and 40% say it is more difficult to afford long-term care (cited in The Social Protection Committee, 2012, p 6)

⁹ This report contains a great deal of information on child poverty drawn mainly from 2009 statistics

¹⁰ Although it is also notable that there are lower pension entitlements in many countries for women due to short or non-existent working careers

series of cuts at all levels of income and the at risk of poverty rate for over 65s has increased (see **Part Two**).

Notwithstanding this, there is no room for complacency relative to poverty in older age, as pension systems change and more people are exposed to market risks. The Council of the European Union has highlighted how the longer-term implications of the crisis could be very serious for future pensioners as the exposure of private pension schemes to the volatility of financial markets becomes manifest. This, they argue, requires policy-makers and regulators to promote more prudent approaches to pension provision (2010).

The European Commission points out a difference between the first phase of the crisis (up to 2009) and the second phase

since then. The welfare system and the taxation systems played a stronger role in protecting household incomes in the first phase, but cuts in benefits and increases in taxes have eroded that protection since 2009 in those countries where the recession is prolonged (European Commission, 2012, p 38).

The Social Protection Committee considers that, as long-term unemployment as a share of total unemployment rises and unemployment benefits run out, there is now a risk of seeing a significant decline in disposable income, especially for low-earners. Considering too that their propensity to consume is high (meaning that they must spend their incomes rather than save or invest them) this may have a long-term impact on domestic demand and on overall economic performance (The Social Protection Committee, 2012, p 15).

Outlook

The EU Commission (2012) considers that overall economic sentiment in Europe is at its lowest level in years. Recent forecasts from the IMF, the European Central Bank (ECB) and the Organisation for Economic Cooperation and Development (OECD) are also pessimistic and forecasts have been further downgraded.

The IMF World Economic Outlook report, October 2012, revised down its growth forecasts from those of only a few months previously (IMF, 2012f). As they see it, in advanced economies like the US and Europe, growth is now too low to make a dent in unemployment. And what is most affecting growth is financial consolidation and the weak banking/fiscal system. The recession in most of the 'periphery' countries in Europe is spilling over into the rest of Europe. According to a senior IMF official, even core Euro countries, including France and Germany, face similar problems on a more limited scale. Even their economic growth is forecast to be low: 1% for Germany, 0.3% for France in 2012, and a bit higher for both in 2013 (Blanchard, 2012). Low growth and uncertainty are also affecting emerging markets.

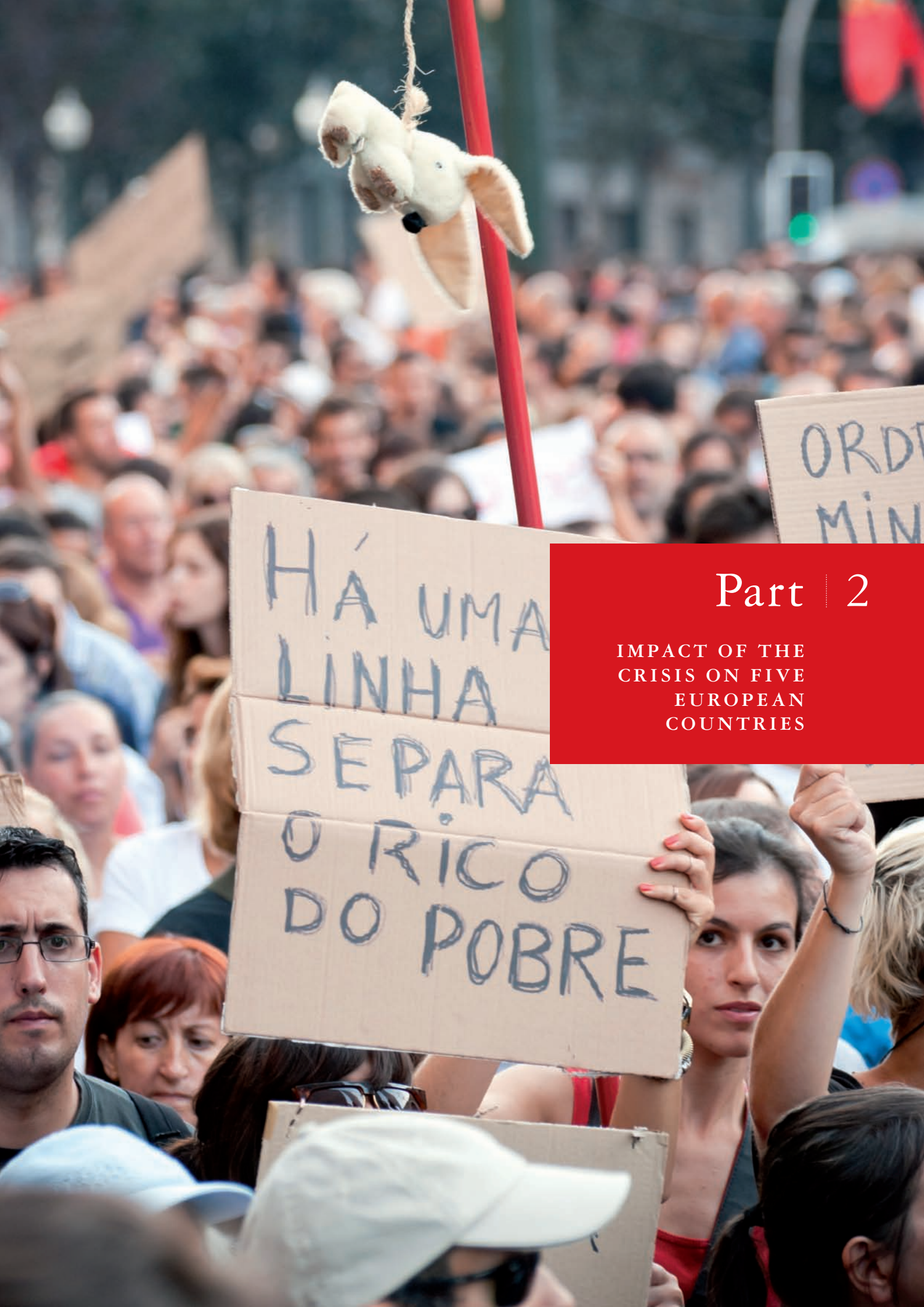
So far, the focus of the European Institutions has been on each of the peripheral countries reaching the Stability and Growth Pact deficit target of less than 3% of GDP. But, even assuming that is reached, the overall debt reduction target of the Stability and Growth Pact will also have to be attained (that is, 60% of GDP for gross government debt). This means there is a prospect of very long-term austerity measures, with its attendant dampening of overall growth. Given the high levels of child poverty, youth unemployment and long-term unemployment in Europe generally and, in particular, in the

countries under review in this report (see **Part Two**), this could be a recipe not just for one lost generation in Europe, but for several lost generations. European Leaders need to present a long-term vision for how this is to be avoided, and how, instead, inclusive growth is going to be fostered.

A former senior IMF official has written that after a decade of austerity the debt ratios of Greece, Ireland, Italy, Portugal and Spain, Europe's five most heavily indebted countries, will remain at debt levels which leave them vulnerable until at least 2017 (that is, with debt levels greater than 100% of GDP) (Mody, 2012). He believes that the debt ratios will rise further as the full extent of the austerity-induced damage to growth becomes evident. He also thinks that growth will remain 'throttled' and debt ratios high.

He concludes that perpetual austerity is destined to fail, and that European debt is impacting on the global economy as indebted nations scale back imports from other European countries and Asia with knock-on effects on world trade.

It has been commented that even if the policy of austerity and structural reforms somehow calms the bond-markets it will destroy the political legitimacy of the European Union (Quiggin, 2011). It is difficult to conclude otherwise than that the outlook is bleak for Europe as a result of the crisis, and bleak also for the outcomes of the austerity approach in both economic and social terms. It is clear that damage is being done to European countries in the short-term and the longer-term consequences, though unclear, could be much worse. An alternative approach is urgently required, one that can be both just and sustainable.



Part | 2

IMPACT OF THE
CRISIS ON FIVE
EUROPEAN
COUNTRIES

Introduction

In this section we will look at the situation of each of the five countries in turn looking first at their overall levels of government indebtedness and their recent performance in economic terms. We will then look at the policy measures that have been introduced since the crisis began and examine

each country's performance in areas like employment and unemployment and in protecting people from poverty. Each section will finish by discussing the impacts of policies on vulnerable groups.

Background – Government Budgets

Government budgets were fundamentally affected by the financial and economic crises in the period following 2007. Of the five countries considered in this report, two were running budget surpluses in 2007 (Ireland and Spain), others had budget deficits within or close to the Stability and Growth Pact limit of 3% of GDP (Italy and Portugal). One (Greece) was running a deficit which exceeded the 3% of GDP limit, but the previous years (2004–2006) had seen some decline in the level of the Greek deficit (Eurostat, 2012k). By 2008 all five countries were showing Government deficits, and by 2011 three (Greece, Ireland and Spain) had budget deficits much above the EU27 average while two (Italy, -3.9%; and Portugal, -4.4%) had deficits around the average EU27 deficit rate (of -4.4% of GDP) (Eurostat, 2012k).

All have also seen substantial increases in their levels of general government gross debt between 2007 and 2011 although they

vary considerably as to their levels prior to 2007. For example, in 2004 Ireland, at one end of the scale, had a gross debt equal to 29.4% of GDP and that for Spain was 46.3% of GDP. In Greece, on the other hand, the rate was nearly equal to 100% (98.6%) of GDP in 2004 and in Italy it exceeded 100% (103%) of GDP (Eurostat, 2012j). By 2011 four of these countries had the highest levels of gross debt in Europe as a percentage of GDP: Greece (170.6%), Italy (120.7%), Portugal (108.1%) and Ireland (106.4%). At 69.3%, the rate in Spain was still below the EU27 average (82.5%). (See Glossary for definitions of government deficit/surplus and government gross debt).

Four of the countries therefore exceed the gross debt level (100% of GDP) that the IMF has identified as a significant debt threshold, which is high relative to the historical experience, beyond which political and economic forces tend to exert downward pressure (IMF, 2012f).

Welfare Systems

Stiglitz (2009) draws attention to the important role that welfare plays in operating as automatic stabilizers in a recession – meaning that when the economy weakens, spending on social protection and unemployment schemes should automatically go up, helping to stabilize the economy – and the need to maintain automatic stabilizers and social protections (2009). Social protection systems vary greatly within Europe. Typically systems like unemployment benefit work best for those already integrated into the labour market than for those who are at its margins – like temporary and casual workers. Progressive taxation is also considered an automatic stabilizer in an economic crisis in the sense that lower incomes (from reduced earnings or reduced working-times) are taxed less heavily than normal wages (Basso et al, 2011).

Southern European countries tend to have significantly smaller mechanisms of automatic stabilization than Scandinavian and Continental European Countries (Basso et al, 2011).

Researchers (Basso et al, 2011) have used a model to assess the ability of the systems in different countries to withstand shocks

– that is, loss of income through wage-cuts and unemployment. It is notable that all five countries that are the subject of this report were below the European average (of 19 European countries included) in terms of their ability to withstand these shocks based on this modelling – which means that their welfare systems were capable of replacing less income than other countries.

In Italy, Portugal, Greece and Spain the tax and social transfer system is described as providing 'only weak stabilization for low-income groups' (Basso et al, 2011). That study identified a particular problem with non-standard workers and new labour market entrants (often young people) who experience less stable jobs and also less social protection (Basso et al, 2011).

For its part, Ireland's welfare system is considered to be a mixture of the liberal approach associated with the US and the conservative-corporatist approach of Continental Europe. The liberal approach is characterized by services being purchased in the market with residual means-tested benefits for those who cannot afford them, often for a limited time only; Ireland's

tendency is to go more in the direction of the liberal model (Healy et al, 2012a). In relation to unemployment benefit, for example, one significant difference between Ireland and the typical Continental European model is that in the Irish system payments are flat and not related to past income.

This discussion points to a further risk for vulnerable groups in the peripheral countries. In many ways the welfare systems in these countries were at the outset of the crisis less well placed than those of other European countries to withstand the shock

to incomes that the crisis involves, and less well able to protect the poorest people from the austerity measures and structural reforms that followed. In all five countries, there is a strong tradition of family support, which is particularly relied upon when services and social transfers are not adequate to meet needs or where they are of finite duration. However, this can place a large burden on families in difficult times. In Spain, for example, the current period is considered by Caritas Spain to be a time of greatly increased pressures within family groups.

Statistical Issues

It is important to note that the main source of comparable data on poverty and social exclusion, the EU Survey on Income and Living Conditions (EU-SILC), has a significant time-lag with data from 2010 being the latest available update for some countries. However, data from 2010 and 2011 refers to the situation for 2009 and 2010 respectively. Thus, the most recent data available represents only the early impacts of the crisis on poverty and income levels.

Another important point relative to the data presented here is that there are different approaches to the measurement of poverty and social exclusion. Under the EU 2020 Strategy¹¹ headline targets have been set for reductions in poverty and social exclusion (European Commission, 2010). These targets are based on a combination of three indicators: 1) persons who are at risk of poverty or 2) severely materially deprived or 3) living in households with very low work intensity. One of the three measures, the 'at risk of poverty' measure, had

previously been the most prominent indicator at EU level. It is a relative income poverty threshold, which means that it is used to assess poverty levels relative to the national median income, something that relates it to local conditions that shift in line with changes in general income/salary levels. Thresholds are assessed at 40%, 50% and 60% of median income with the 60% measure being used most frequently. Thus the 'at risk of poverty' measure depends on the local income poverty threshold which means that it varies across Europe.

In this report data on poverty is generally taken from the European Commission's statistical body Eurostat, rather than from the national bodies responsible for statistics. There can occasionally be slight differences of definition and differences of interpretation between national bodies and Eurostat. Using the figures from Eurostat makes it possible to compare like with like across countries.

¹¹ The EU 2020 Strategy was adopted in 2010; It aims to turn the EU into a 'smart, sustainable and inclusive economy delivering high levels of employment, productivity and social cohesion' (European Commission, 2010, p. 5).

...the crisis is likely to have a significant social cost...

OECD

Greece



Background and Government Finances

Between 1997 and 2007 Greece had an average rate of GDP growth of 4% annually almost twice the EU average (Menendez, 2012). In 2006 the GDP growth rate was 5.5% when the EU27 average was 3.3% of GDP. However, the effects of the 2008 global financial crisis can be seen in the drop to negative growth in 2008 (-0.2%). See Table 2, below, and Appendix 6 (which sets out GDP growth rates, 2003–2013(f)). According to the OECD, difficulties were brewing in Greece for years such that when the economic crisis came, the country was significantly more exposed than other countries (OECD, n.d., p 1).

One of Greece's problems is tax evasion – between 1996 and 2006 the size of Greece's shadow economy was estimated at between 20% and 25% of GDP; another was excessive government regulation and bureaucracy (Menendez, 2012).

Greece's general gross debt as a percentage of GDP was relatively very high throughout the 2000s, and, at 106.1% in 2006, was the second highest level in the EU27, just behind that for Italy, at a time when the average in EU27 was 61.6% of GDP. Since then Greece's gross debt (as a percentage of GDP) has overtaken even the very high levels of Italy. At 170.6% (or €355,658million) it stands as the highest rate in EU27 in 2011. See Table 1, below, and Appendix 1.

Greece's fiscal deficit has been above 3% of GDP almost every year for 10 years in violation of the Stability and Growth Pact (Menendez, 2012). In 2011 it stood at -9.4%. See Table 1.

When borrowing on the markets to refinance its debt became prohibitively expensive, Greece required assistance from European institutions and the IMF, which was made available in 2010. However, 'contagion' nonetheless resulted in the spread of the sovereign debt crisis from Greece, to Ireland and Portugal, and eventually to Spain and then Italy as investors either took their money elsewhere or sought higher interest rates from countries perceived to have high debts.

When important targets were not met, further measures were agreed in 2011. Following this agreement a further package of assistance (€130billion) and a restructuring of debt¹² was made in 2012 involving a €1.4billion reduction in debt by way of reduction in the interest rate agreed in 2010. There was also additional finance for bank recapitalization (Thomsen Fasano, 2012). Banks, insurers and other private sector investors holding about €206billion of Greek bonds took a 53.5% reduction in the nominal value of their securities (Reuters, 2012). According to the European Commission (2012a), factors that had hampered implementation of the measures that had been originally agreed were political instability, social unrest, issues related to administrative capacity, and a more severe recession than anticipated.

The most recent economic assessment from the European Commission confirms that Greece is in a deep recession, which is now expected to continue until 2013 (European Commission, 2012b). Forecasts for growth have been further downgraded and are shown in Table 2, below.

GREECE | TABLE 1 | Government Debt Rates

	2004	2005	2006	2007	2008	2009	2010	2011
Government deficit/surplus, % GDP	-7.5	-5.2	-5.7	-6.5	-9.8	-15.6	-10.7	-9.4
General Government Gross Debt % GDP	98.6	100	106.1	107.4	112.9	129.7	148.3	170.6

Source: Eurostat, 2012j, 2012k, tsdde410, gov_dd_edpt1

¹² A senior IMF official describes the restructuring as having reduced the debt burden of every man, woman, and child in Greece by close to €10,000 on average (Blanchard, IMF, 2012). However, there were no 'haircuts', the ECB and national central banks agreed to disperse profits made on Greek bonds back to Greece (Thomsen Fasano, 2012)

GREECE | TABLE 2 | Real GDP growth rate – volume

Percentage change on previous year	2006	2007	2008	2009	2010	2011	2012 (f)	2013 (f)
EU (27 countries)	3.3	3.2	0.3	-4.3	2.1	1.5	-0.3*	0.4*
Greece	5.5	3.5	-0.2	-3.1	-4.9	-7.1	-6.0*	-4.2*

Source: Eurostat, 2012a, tec00115.

*European Commission, 2012b - f: forecast. Figures described as provisional for each year - IMF forecast: for 2012: -6.0%; for 2013: -4.0% (IMF, 2012f, p. 66)

The current aim is to achieve a primary budget balance by 2013 requiring additional measures of around 5% of GDP,

which are being adopted as part of 2013 budget measures (European Commission, 2012b).

Policy Response

Amongst the measures introduced in Greece up to 2010 were:

- A special tax on pensions ('Pensioners' Solidarity Contribution') with rates ranging from 3% to 10% (with pensions below €1,400 exempt),
- Abolition of special pension payments (the 13th and 14th month) (partially offset by the introduction of an allowance of €800 per year for pensions below €2,500 per month),
- Raising of the child tax allowance (to €1,500, €3,000 and €1,500 per annum for households with 1,2 and 3 children respectively) (an attempt to cushion families with children from the effects of other measures),
- Increases in the standard rate of VAT from 19% to 23% and in the reduced rates from 4.4% to 5.5% and from 9% to 11%,
- Excise duty increased by 30% on fuel, tobacco and alcohol,
- Personal income tax made more progressive with changes including a personal allowance of €12,000 per year and an increased top rate of 45% for incomes over €100,000 along with a once-off (retrospective) tax of 1% of annual incomes in 2009 over €100,000,
- Tax base extended to include unemployment benefits, large family benefits and contributory disability benefits for people with a taxable income over €30,000 per year
- Cuts and other changes to public sector pay, including abolition of the 13th and 14th month salaries
- Reductions in the tax allowed on charitable donations (Callan et al, 2011).

A range of further measures have followed. These include changes to labour laws (especially concerning collective agreements), and there are plans for reductions in social security contribution rates for employers (Ministry of Finance, Greece, 2012).

Furthermore:

- The minimum wage was reduced,
- Unemployment benefits are being reduced in line with reductions to the minimum wage,
- Stricter conditions are being applied to availability of unemployment benefits,
- Suspension of the rent subsidy programme for low-income employees,

- Means testing of some benefits (e.g. large family benefit),
- Reduction of others (e.g. family benefits for public sector employees),
- Stricter eligibility rules for some benefits (e.g. old age solidarity benefit – EKAS) (Ministry of Finance, 2012, p.27, 30, 32).

There have also been a series of measures by the OAED (Greek Manpower Organisation) aimed at job retention as well as training and employment. The Government estimates that these measures have contributed significantly to reducing the unemployment rate (Ministry of Finance, Greece, 2012, p 27).

On 7 November 2012 the Greek Parliament passed measures worth €13.5 billion over two years, designed to ensure the release of €31 billion aid (by the IMF and the European Institutions) much of which is required to shore up banks. Measures will involve further and severe pension cuts, a two-year increase in the retirement age to 67, tax increases and laws that will make it easier to fire and transfer civil servants (Reuters, 2012). There are also proposed cuts in health and education spending (Caritas Athens, 2012). The measures were met with protests in Athens by some 100,000 people and came in the middle of a two-day general strike called by the country's two biggest unions.

Despite the pressure on the Greek government, and five years into the crisis, it continues to exempt commercial shipping companies, its most successful industrial sector, from all taxes (Spiegel Online International, 2012). In addition, tax evasion continues to be a major problem and a recent study suggested that seven out of ten self-employed Greeks continue to significantly underreport their incomes (Spiegel Online International, 2012). This causes anger and frustration amongst many Greek people affected by round after round of austerity: 'in Greece, there is a breach of the social contract, which sinks tax morale. People are angry and rightfully so' (Friedrich Schneider, Professor of Economics, University of Linz, Austria, an expert on Greece's shadow economy - Spiegel Online International, 2012). Some of this anger is directed against

migrants and newspapers report severe attacks on migrants, something that is being worsened by the rise in the far-right politics evidenced by the rise of the Golden Dawn party.

In the Eurobarometer survey of the views of Europeans on the social climate, Greece has been the lowest ranked Member State in three of the last four years (in 2010 it was second to

Romania). Its index has declined in each year since 2009 (when the survey started) although the decline from -0.4 in 2011 to -5.8 in 2012 is much more marked than in previous years, which in all likelihood reflects the increasing economic and political turbulence being experienced by people there (European Commission, 2012, p 43-46).

Employment/Unemployment

In 2011, the employment rate in Greece was 59.9% compared to an EU27 average of 68.6% for people aged 20-64. Most recently, the rate (at Quarter 1, 2012), is 56.4%, compared with an EU27 average of 68%¹³. Greece experienced the worst drop in employment levels in the EU27 in the last year to Quarter 2, 2012. The fall of 9% represented 405,000 people. The decline in Greece was far worse than the European average (-0.2%) (European Commission, 2012, p 13, 69). As Figure 1 shows, it also extends a persistent downward trend observed since 2008.

One feature of the labour market in recent years is the reduction in full-time posts and a growth in part-time or 'rotation' contracts (Ministry of Finance, Greece, 2012, p. 29).

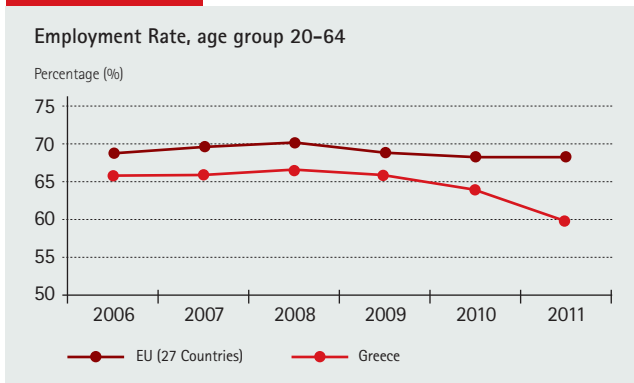
The Greek government has also drawn attention to the issue of large numbers of people who are economically inactive, which in 2011 (4.37million, average) exceeded the number of people employed (4.09million, average). This is explained by larger numbers of people retired and people who are discouraged from looking for work (Ministry of Finance, Greece, 2012, p. 24).

With employment declining, the unemployment rate has risen. In 2011 it was 17.7% (Eurostat, 2012i). It has increased since and stands at 25.1% at July 2012 (1.2million people) well above the European average and the second highest rate in the EU close behind that of Spain¹⁴ (Eurostat, 2012n, 2012o). See Appendix 7.

Youth unemployment (age 15-24) is particularly high, standing at 55.4% (June 2012), the highest rate in the EU (June 2012) and nearly 2.5 times the average rate (of 22.5%) (European Commission, 2012, p 72). The rate is increasing rapidly, having increased by nearly 11 percentage points from July 2011.

At 12.3% the long-term unemployment rate is the highest in Europe and has increased dramatically in the year to Quarter 1, 2012 – by 5.2 percentage points – the highest increase in the EU (European Commission, 2012, p 73). The share of those unemployed who are long-term unemployed (that is, unemployed for 12 months or more) was just under 50%, 2011 (Eurostat, 2012i).

GREECE : FIGURE 1



Source: Eurostat, 2012b, t2020_10

GREECE : TABLE 3 : Unemployment-Headline Statistics

	2011	2012
Unemployment – rate (%)	17.7%	25.1% (July)
Unemployment – number of people	877,000	2.2million (July)
Youth Unemployment Rate (15-24)		55.4% (June)
Long-term Unemployment Rate (unemployed for 12 months or more)		12.3% (Q1)
Share of unemployment that is long-term	49.6%	

Source: Eurostat, 2012i; Eurostat, 2012n, European Commission, 2012, p 72

¹³ This data is from European Commission, 2012, from the EU LFS and is non-seasonally adjusted, p 71

¹⁴ The Spanish rate of 25.8% is given for September 2012, whereas the Greek rate is only given to July 2012 in Eurostat, 2012n

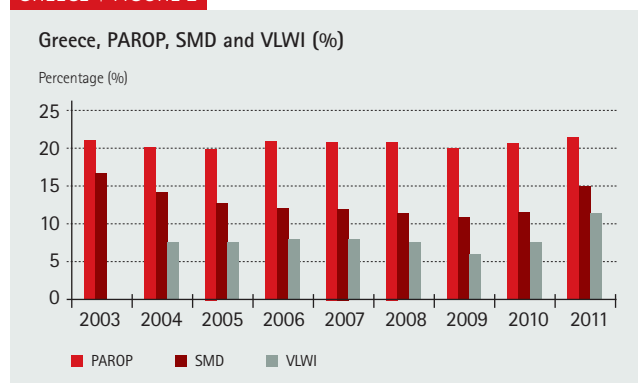
Poverty

Poverty: The Europe-wide comparable data available on poverty for Greece has just become available for 2011 (though relying on data from the previous year). The time lag means that the poverty statistics relied on in this report only indicate impacts of the earlier phases of the crisis. In 2012 the Greek government has acknowledged that austerity measures combined with wage and labour income reductions are likely to have had an effect on poverty rates not yet shown by the statistics (Ministry of Finance, Greece, 2012, p 30,31).

The combined 'at risk of poverty or social exclusion' indicator used under the Europe 2020 strategy has risen markedly in Greece from 27.6% in 2009 to 31% in 2011. In 2011 it represented over 3.4 million people (Eurostat, 2012c). The European average rate is 23.4%.

The 'at risk of poverty or social exclusion' measure is a combined one, which includes 3 separate measures of poverty. Rates for each of the three measures are shown in Figure 2 and set out in Appendix 3. In addition, Appendix 4 presents a graph showing the rates for 2010 and 2011 (where available) across Europe. Examining the three measures separately, gives a more detailed picture of poverty in European countries since 2008. The at risk of poverty measure is the one most commonly used in Europe.

GREECE : FIGURE 2



Source: Eurostat, 2012c, t2020,51,52,53
 PAROP: People at risk of poverty, 60% threshold
 SMD: Severely Materially Deprived
 VLWI: Very Low Work Intensity (See Glossary for definitions)

As Figure 2 shows, Greece's relatively high at risk of poverty levels in the 2000s had shown a slight decline in 2009, but these levels are increasing and show a sharp increase in 2011, pushing the level to a rate higher than that for 2003. The at risk of poverty indicator is a relative poverty measure, which means it is related to an income threshold in each country, influenced by the general level of income and its distribution in the population (Social Protection Committee, 2011, p. 11). In Greece the increase in poverty levels occurred notwithstanding the fact that the 60%

risk of poverty threshold fell significantly between 2010 and 2011 in line with a fall in incomes generally¹⁵ (Eurostat, 2012h). See Appendix 5 for the at risk of poverty thresholds, 2007-2011.

At 21.4% in 2011, Greece's rate has increased substantially since 2008 (from 19.7%). In 2010 (when availability of data permits comparison), Greece had one of the highest at risk of poverty rates in EU27 (Eurostat, 2012c). The EU27 average rate was 16.4%. Greece's rate was the sixth highest rate only slightly exceeded by five other countries Lithuania, Bulgaria, Spain, Romania and Latvia (Eurostat, 2012c). The 21.4% rate for 2011 shows an increase of 1.3 percentage points in one year; it represents over 2.3million people (Eurostat, 2012c).

As shown in Figure 2, between 2010 and 2011 there was also a marked increase in the other two indicators of poverty – people who were severely materially deprived and those who were living in households with very low work intensity.

The severely materially deprived rate jumped from 11.6% in 2010 to 15.2% in 2011 representing a total of 1.6 million people and an increase of 398,000 in one year (Eurostat, 2012c). The rate for people living in households with very low work intensity went from 7.5% in 2010 to 11.8% in 2011, an increase of 360,000 people (Eurostat, 2012c).

The EU SILC data allows analysis of the share of people who are living below the 40% threshold – meaning the poorest people whose incomes are less than 40% of the median income. Overall, in EU27 the average rate has been increasing slightly since 2008 with the average at 5.6% in 2010 (the latest year for which Europe-wide data is available). In Greece by contrast the increase has been marked between 2009 and 2011, going from 6.6% to 8.2% (Eurostat, 2012d). This suggests that within the entire population living below the standard poverty threshold there are signs of a deepening of poverty levels amongst the poorest people.

Another indication of the depth of poverty is the relative median at-risk-of-poverty gap, which helps to quantify just how poor the poor are. The at risk of poverty gap has widened in Greece by 2.7 percentage points between 2010 and 2011. In 2011 it stood at 26.1%, a rate exceeded only by Spain and four Eastern European countries (Latvia, Romania, Bulgaria and Lithuania) (Eurostat, 2012q).

In Greece, there has also been a striking increase between 2010 and 2011 in households reporting strain in maintaining a basic standard of living. For example,

➔ those unable to keep their homes adequately warm rose by over 3 percentage points from 15.4% to 18.6%. (The rate in 2006 was 12%) (Eurostat, 2012r);

¹⁵ The 60% at risk of poverty threshold is 60% of median equivalised incomes. The at risk of poverty threshold in Greece for a single person was €7,178 in 2010 and it fell to €6,591 in 2011. See Appendix 5

➤ those unable to afford a meal with meat, chicken or fish (or vegetarian equivalent) every second day increased from 7.9% in 2010 to 9.2% in 2011 (Eurostat, 2012s).

Children: Greece's rate of child poverty has been high relative to the EU27 average since at least 2005 (when comparable data are available from Eurostat). At 23% in 2010 Greece has a rate of poverty amongst children that is above the EU27 average (of 20.5%) and this was exceeded only by six other countries – Spain, Italy, Bulgaria, Latvia, Lithuania and Romania. Childhood poverty rates had risen in Greece between 2004 and 2007 and have been at around 23% since then, but the rate for 2011 shows a slight increase to 23.7% (Eurostat, 2012e).

Older People: The risk of poverty rate for those over 65 in Greece was 21.3% in 2010, which was above the EU27 average rate of 16% (Eurostat, 2012f). It is also higher than the risk of poverty rate for the working age population (19%) (The Social Protection Committee, 2012, Table 5). Latest figures show a sizable increase

(more than two percentage points) in the poverty rate for this age group between 2010 and 2011 – standing at 23.6%, a rate which exceeds the rate it had been in 2007 (Eurostat, 2012e).

At 25.2% older women in Greece have a higher risk of poverty rate than the rate for older men (21.7%) (Eurostat, 2012e). Older women in Greece also have a higher rate of severe material deprivation than older men, with a difference of almost 5 percentage points in 2010 (The Social Protection Committee, 2012, Table 11).

Working Poor: The rate of poverty in Greece for people who are employed and who still do not earn enough to protect them from poverty (the working poor) is 11.9% (2011). This is one of the highest rates in Europe, exceeded only by Spain and Romania in 2011 (of the countries for which data are available) (Eurostat, 2012g). The OECD has identified this as a particular problem facing Greece with part-time workers and those on temporary contracts worst affected (OECD, n.d, p. 12).

Discussion: Impacts on Vulnerable Groups

Greece's employment levels have been on a downward trajectory since 2008 and the country has experienced the worst drop in employment in Europe in the year to quarter 2, 2012. Unemployment is very high – just behind the rate for Spain, which has the highest rate in Europe (See Appendix 7). The youth unemployment rate is the highest in Europe and exceeds 50% of young people (that is, under 25s). Long-term unemployment rates are the highest in Europe and have recently shown the highest rate of increase.

Income inequality has grown in Greece between 2010 and 2011. In 2011 the income share of the richest 20% of the population was 6 times that of the poorest 20%. This had increased from 5.6% in 2010 (EL STAT, 2012, p. 51).

Some measures have been taken to address the shadow economy¹⁶, but despite the length of time during which the economic crisis has lasted and the successive rounds of austerity measures, it is commonly understood that tax evasion is still rife and that wealthy Greeks are under no more pressure to pay taxes now than they were before (Spiegel Online International, 2012).

The economic crisis and the austerity measures taken to address it are impacting in Greece, a country with already high levels of poverty, and there is a particularly marked worsening of the position in the poverty rates that have recently become available for 2011 (albeit with a 2010 reference period). The at risk of poverty rate is one of the highest in Europe and all of the indicators used to assess poverty levels (under the schema

laid down by the Europe 2020 Strategy) have shown marked increases. Furthermore, there are signs of deepening poverty levels amongst the poorest people.

The Greek government characterizes the problem of poverty as high (as compared with the EU average), severe (the poor are deeply poor) and persistent (the poor remain poor for years) (Ministry of Finance, Greece, 2012). In the opinion of social workers based with Caritas Athens, amongst those most affected in the current climate are one-parent families with small children. Indeed official statistics suggest that this type of household had the highest at risk of poverty rate in 2011 (43.2%) (EL.Stat, 2012, p.45).

Greece's child poverty rate is high in European terms and the rate has begun to increase (between 2010 and 2011). Studies of the distributional impact of austerity measures suggest that they have not affected households with children in Greece as much as they have in other countries such as Ireland, Portugal and Spain (Sutherland & Matsaganis, 2011, p 3; Callan et al, 2011, p 17). However, those studies looked at the impact of austerity measures only to 2010 in Greece (Callan et al, 2011, p 6), when it was clear that some of the measures introduced by the Greek government (and listed above) had attempted to cushion the effect on families with children in the early years of the crisis. Of course, even if the effects of the crisis and the measures introduced to address it had affected households with children less than other households, this does not mean that the poorest households with children did not suffer hardship.¹⁷

¹⁶ For example, inspections regarding social contribution evasion have been increased and arrangements have been made for settling owed contributions aiming to counter avoidance and fraud (The Social Protection Committee, 2012, p 46)

¹⁷ The studies concerned do not signify if the distribution is equitable or not (Callan et al, 2011 p 12, 13).

CASE STUDY

Mrs. X is a 38 years old mother who came for help to Caritas through the Social Services of the Athens Municipality, as this service does not have the resources to help more people at the moment. She is a housewife and cannot find work. She has two children. The older child attends primary school, but the younger one was rejected at a State day care centre due to long waiting lists. She had married five years ago, her husband worked and rented a flat in Athens. When the recession really hit Greece two years ago, he lost his work and finally abandoned his family. When she was left on her own with the children without a job and somebody to help her look after them, she decided to move with her mother, who had a pension of €480 per month. After seven months her mother passed away and the family lost their income. When Mrs X came to the Caritas Social Services she owed 8 months rent, water and electricity bills. She has neither water nor electricity at home and was at risk of being thrown out of her flat. While her mother was alive, she at least had a home, electricity and water.

Caritas Athens

Other measures such as the introduction of consumer taxes will have disproportionately affected all lower income families. It has been shown that the effect of large VAT increases in Greece (4% increase in the standard rate) has been particularly strong on households at the bottom of the income distribution, particularly for the bottom two decile groups (that is the bottom 20%) (Sutherland & Matsaganis, 2011, p.4, Callan et al, 2011, p. 15, 17). Indeed, the Greek government concedes that measures such as increases in VAT and duties on fuel are regressive in nature and will have had an impact on poverty (Ministry of Finance, 2012, p. 32).

Amongst the other types of people most affected, in the observation of Caritas Athens, are disabled people and their families, migrants, older people with health problems and those on the minimum pension (Caritas Athens, 2012). One issue, for example, is that pensioners who own property have to meet the new property taxes which are assessed on asset value rather than income; another is a requirement to pay in advance for medicines and medical treatment, which is reimbursed by Government, but reimbursement can take months (Caritas, Athens, 2012).

CASE STUDY

Mr. P. and his wife came for help to Caritas Social Services. They are aged 83 and 81, respectively, and have a pension of €640 per month. He worked on the island of Chios, but because of his serious medical condition, they came to live in Athens when he retired to be close to the hospital for his treatment. At Caritas they receive food every month. They own a small house in Chios but cannot move again there, as they fear he will not have good

medical treatment. They have an only son who is unemployed and are desperate to help him.

Caritas Athens

A range of public policy measures (listed above) have affected the income of pensioners. In Greece pensions have been cut across all household income levels (Sutherland & Matsaganis, 2011, p 3). A marked increase in poverty rates amongst older people is now in evidence between 2010 and 2011, with older women at a particular risk. Against that backdrop, the further severe pension cuts passed in November 2012 must be of concern.

Migrant workers are always amongst the first to be hurt in an economic crisis (Stiglitz, 2009). In Greece, the status of immigrant workers who become unemployed changes to illegal/undocumented after a few months (according to Caritas Athens, 2012), which leaves them especially vulnerable.

Other particular problems that Caritas Athens identifies are that many working households have lost a high percentage of their income (through salary cuts, cuts in pensions, cuts in other income sources) combined with a significant rise in taxation and a significant rise in the cost of living since 2010. Structures identified by Caritas Athens, which have a particular impact on low-income families, include the fact that unemployment benefits last only one year and that a range of subsidies that helped low-income families have been cut or cancelled since 2010¹⁸. They argue that a high proportion of Greeks are struggling with daily expenses including food, water, electricity and heating, and they observe that each time there are cuts and more taxation, more companies and shops close down and even more jobs are lost (Caritas, Athens, 2012).

Greece already has a very high rate of in-work poverty, which would suggest the need for policy measures that strengthen the incomes of low-earners. Instead the decision to reduce the minimum wage seems likely to make their situation worse.

Because of their potential impact on people who are already struggling, the cuts passed by the Parliament (7 November 2012) are of particular concern to Caritas Athens.

Finally, the impact of cuts to services (like health, social care or education) cannot be assessed in a report of this nature. However, it is inevitable that these cuts particularly affect those with least income who do not have sufficient income to compensate for them. Furthermore, many services in Greece are traditionally provided by NGOs, but in many cases their funding has been cut or withdrawn by the State¹⁹, and changes in taxation policy have also made their operating environment more difficult (Caritas, Athens, 2012).

¹⁸ Such as cancellation of a rental subsidy that was paid to families with private sector earnings of a maximum annual income less than €10,000, a mortgage subsidy for private sector workers, subsidies for one-week holidays, cinema tickets and books for workers in deprived areas with incomes under €12,000 (one person) or €25,000 (family income, both working) Caritas Athens, 2012

¹⁹ Caritas Athens gives as an example the case of disabled children in special schools who had received a State contribution for each child, which has ceased (Caritas, Athens, 2012)

Successive cuts to most welfare rates once the crisis began mean that most social welfare payments in Ireland are below the poverty line.

Ireland



Background and Government Finances

Following approximately a decade of export-led growth, from 2003 the Irish economy underwent a domestic boom based on lax lending and property price inflation. Membership of the EURO area gave banks access to wholesale funding that 'turbocharged' their asset expansion (IMF, 2012). In the five years to mid-2008 the property bubble inflated bank assets to some 500% of GDP (IMF, 2012). In this context it is important to note that Irish Government borrowing was very low and Ireland's national debt was 24.8% of GDP when the crisis began in 2007 (See Table 4 below). The borrowing that was done was not done to fund Government expenditure but, rather, to fund private 'investment' particularly in property development. This borrowing was done by private banks, for the most part.

Ireland's property price decline started in 2007 and post-Lehman Brothers financial turmoil tipped the vulnerable banks into crisis. After facing losses on property assets, the banks faced a run on wholesale funding, leading to massive recourse to the Euro system liquidity fund (IMF, 2012). The Irish Government issued a blanket guarantee from September 2008, and transferred large-scale distressed commercial and development properties to the (newly-established for this purpose) National Asset Management Agency (NAMA) from April 2009. The Government also provided large-scale support for banks and had to borrow in order to do so. With a cost of €64.1 billion or some 40% of GDP, Ireland's banking crisis is considered the costliest in the world since at least the 1930s after Iceland (IMF, 2012).

There has been no burden sharing with the banks senior debt holders because this was insisted on as the correct approach by the European Central Bank to ensure pan-European fiscal stability. In practice this has meant that the banks and bondholders (among them some of Europe's largest banks), who gambled recklessly by investing in Ireland's private banks and saw their gambles fail, had their debts repaid in full by the Irish taxpayer. While the decision to repay in full was taken by the Irish Government, under pressure from the European Central Bank and the European Commission, it was not approved by the Irish people – a situation that has led to further questioning of the democratic deficit that has been a marked characteristic of decision-making in the EU for some time.

A steep decline in construction occurred in 2008 which was worsened by contractions in world trade in 2009. Tax revenues, which had been highly dependent on the construction/property boom, collapsed, employment fell, unemployment rose and net emigration returned. As Table 4 shows, the general Government balance, which had been in surplus until 2007, dropped in 2008 to -7.4% of GDP and the situation has disimproved further each year since then. The General Government gross debt was one of the lowest in Europe in 2006 and 2007 but stood at 106.4% of GDP in 2011 which was more than a four-fold increase in the rate from 2006. In 2011 Ireland's rate was one of the highest in Europe, exceeded only by the rates for Greece, Italy and Portugal (Eurostat, 2012j). Total national debt at end 2011 was approximately €169 billion, of which the proportion used to rescue banks was 25% (€43bn) (which does not include an additional €20 billion from the National Pension Reserve Fund also used to rescue banks) (Social Justice Ireland, 2012).

IRELAND : TABLE 4 : Government Debt Rates

	2004	2005	2006	2007	2008	2009	2010	2011
Government deficit/surplus, % GDP	1.4	1.7	2.9	0.1	-7.4	-13.9*	-30.9*	-13.4*
General Government Gross Debt % GDP	29.4	27.2	24.5	24.8	44.5	64.9	92.2	106.4

Source: Eurostat, 2012j, 2012k, tsdde410; gov_dd_edpt1

* In 2010 especially, and also in 2009 and 2011, these rates include once-off measures (European Commission, 2012b) related to recapitalization of banks

By late 2010 the Government lost access to market funding and had to seek support from the 'Troika' consisting of the EU-IMF-ECB. A package of €85 billion was made available including some bi-lateral loans (IMF, 2012). The EU/IMF Programme of Financial Support, as well as the Stability and Growth Pact, requires Ireland to cut the deficit between Government spending and revenue to less than 3% of GDP by 2015. This will involve further adjustments of 3.9% of GDP over two years of which one third is to be from revenue measures, two thirds from cuts to expenditure (European Commission, 2012b).²⁰

Including current plans for Budget 2013 (in the Memorandum of Understanding), the total increases in taxes and decreases in public expenditure will mean that almost €28 billion, equivalent to 17% of GDP, will have been directly removed by

government from the economy (Social Justice Ireland, 2012). In addition, the knock-on effect of these adjustments will have removed additional economic activity from the economy. If the current plans are implemented to 2015, the total adjustment (2008–2015) will amount to €33 billion equivalent to 18.5% of the GDP forecast for 2015 (Social Justice Ireland, 2012).

As Table 5 shows, Gross domestic product declined each year between 2007 and 2009. In 2010 there was a return to modest growth, which was led by growth in exports (which increased 5.1% year-on-year, while domestic consumption fell by 3.7%) (IMF, 2012). The economy shrank again in the first quarter of 2012 (European Commission, 2012, p. 69). The most recent forecasts from the European Commission are for weak growth in 2012 and 2013 (see Table 5).

IRELAND TABLE 5 Real GDP growth rate – volume

Percentage change on previous year	Percentage change on previous year							
	2006	2007	2008	2009	2010	2011	2012 (f)	2013 (f)
EU (27 countries)	3.3	3.2	0.3	-4.3	2.1	1.5	-0.3*	0.4*
Ireland	5.4	5.4	-2.1	-5.5	-0.8	1.4	0.4*	1.1*

Source: Eurostat, 2012, tec00115;

*European Commission, 2012b. - f: forecast - IMF forecast: for 2012: 0.4%; for 2013: 1.4% (IMF, 2012f, p. 66)

Policy Responses

Ireland's austerity budgets started in 2008 when the budget for 2009 was brought forward to October from its usual December date. Numerous measures have continued to be implemented in each year since. They include such measures as:

- Jobseekers Assistance payment rates for unemployed people (under 25) sharply reduced
- Welfare rates were increased in the October 2008 Budget but these were subsequently reduced a number of times for those of working age
- Reductions to universal Child Benefit
- A cash benefit, the Early Childcare Supplement, abolished (partially replaced by a new non-cash scheme of subsidisation of places in early child care for children aged 3)
- Cuts in wages of public servants (Callan et al, 2011).

Revenue measures undertaken have included:

- Changes to personal income tax (10% reduction in income tax bands, introduction of universal social charge, elimination of Pay-Related Social Insurance (PRSI) reliefs and exemptions),
- Increase in indirect taxes (most notably, 2 percentage points increase in VAT bringing the standard rate to 23% in 2012).

The IMF (2012) lists the measures undertaken in Ireland 2009–2012 as:

- 14% cut in public wages,
- 8% cut in welfare rates (except state pension),
- 17% cut in non-pay current budget,
- 63% cut in capital budget.

Like several other countries, Ireland's measures to address the unemployment problem include activation and training initiatives, most recently Pathways to Work, Feb 2012 (IMF, 2012, p.24).

Austerity measures have involved more cuts in expenditure than increases in taxes. The ratio between these has been 2:1 (IMF, 2012). Of major significance in this context is that flimsy justification has been provided for this ratio. Insistence on it has meant that Ireland's already very-low total tax-take will remain low despite the difficulties the country continues to face²¹.

²⁰ Where responsibility for this 1:2 ratio lies is a contested issue. Government has told the authors the Troika are insisting on it and the Troika has told the authors they will accept any ratio as long as it produces the desired outcome where Government borrowing for the year is concerned.

²¹ Ireland's total tax take in 2011 amounted to 30.8% of GDP, which is amongst the lowest in the EU (Social Justice Ireland, 2012). See also preceding footnote - number 20

Despite meeting the targets for expenditure cutting and revenue raising set by the 'Troika' of the EU/ECB/IMF, Ireland has yet to experience the benefits that were supposed to follow, such as increased employment (see below).

Arrears in payments of mortgages are increasing with arrears of 90 days in principal private residences doubling (to 14%) between the end of 2010 and March 2012 (IMF, 2012).

In the Eurobarometer survey of the views of Europeans on the social climate, Ireland's ranking has decreased in every year since the survey started (2009), and stands at -1.5 in 2012 in fifteenth position (out of EU27) (European Commission, 2012, p 43-46).

Employment/Unemployment

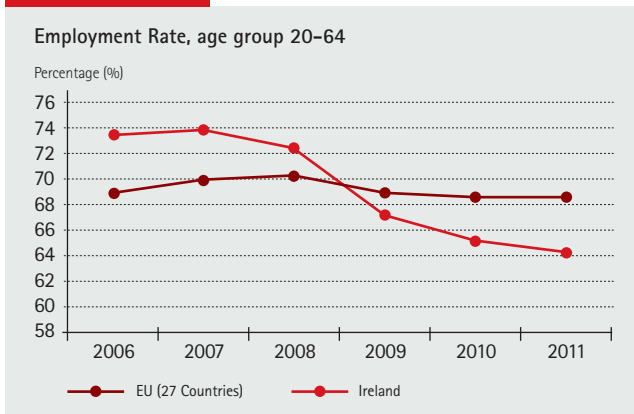
In 2011, the employment rate in Ireland was 64.1% as compared with an EU27 average of 68.6% for people aged 20-64. The employment level in Ireland (at Quarter 1, 2012), was 63.5% for people aged 20-64, compared with an EU27 average of 68%. Figure 2, below, shows the dramatic fall in employment in Ireland since 2007, when it was above the European average, to 2011 when it stood at 4.5 percentage points below the average.

In 2011 Ireland's unemployment rate was 14.4% (Eurostat, 2012i). At 15.1% (by September 2012), Ireland's unemployment rate was well above the European average (of 10.6%, EU27) and is the fifth highest amongst EU27 countries (September, 2012)(Eurostat, 2012n). See Table 6 and Appendix 7.

Youth unemployment (15-24) figures are particularly high (30.7%, July 2012) exceeded only by those for Greece,²² Spain, Portugal, Italy, and Slovakia (European Commission, 2012, p 72).

At 9.6%, long-term unemployment has increased in the year to Quarter 1, 2012 by 1.4 percentage points (European Commission, 2012, p 73). The long-term unemployment rate is now third highest in Europe behind Greece and Spain and well above the EU(27) average (4.5%). The proportion of unemployed people who were long-term unemployed in 2011 (that is, unemployed for 12 months or more) was nearly 60%—the highest proportion in Europe (Eurostat, 2012i). This situation would be much worse but for the fact that Ireland has experienced net outward migration for three years²³.

IRELAND : FIGURE 3



Source: Eurostat, 2012b, t2020_10

IRELAND : TABLE 6 : Unemployment-Headline Statistics

	2011	2012
Unemployment – rate (%)	14.4%	15.1% (Sept)
Unemployment – number of people	304,000	312,000 (Sept)
Youth Unemployment Rate (15-24)		30.7% (July)
Long-term Unemployment Rate (unemployed for 12 months or more)		9.6% (Q1)
Share of unemployment that is long-term	59.4%	

Source: Eurostat, 2012i; Eurostat, 2012n, European Commission, 2012, p 72

²² Greek rate for June 12 (European Commission, 2012)

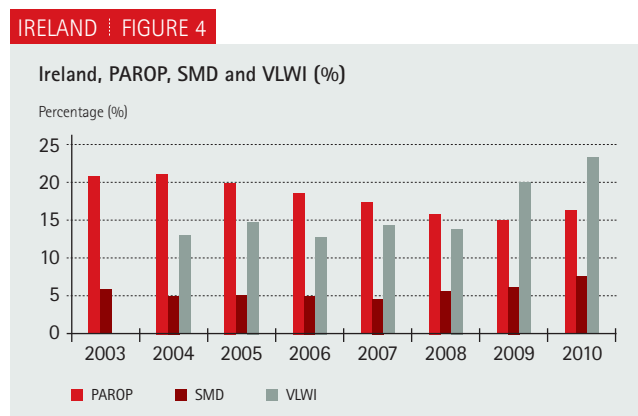
²³ Emigration has increased hugely since 2008. In the year to April 2012, 87,100 people emigrated (figures still preliminary) (CSO, 2012a). The figure was 80,600 during the previous year to April 2011, and was 67,200 to April 2010. Numbers of those emigrating have exceeded those immigrating each year since 2010.

Poverty

As already mentioned, the comparable data available on poverty for some European countries relates to 2010 (relying on data from the previous year, 2009). This is so for Ireland; therefore, the data indicates the impact of the early stages of the crisis only.

The combined 'at risk of poverty or social exclusion' indicator used under the Europe 2020 strategy has risen significantly in Ireland from 23.7% in 2008 to 29.9% in 2010, representing 1.3 million people, and an increase of some 285,000 people in the year (source, Eurostat, 2012c). The 2010 rate is one of the highest rates of poverty and social exclusion in Europe, much higher than the European average (of 23.4%), equal to that of Hungary and exceeded only by four Eastern European countries – Bulgaria, Latvia, Lithuania and Romania (Eurostat, 2012c). Rates for each of the three measures that make up the combined 'at risk of poverty or social exclusion' indicator are shown in Figure 4 and are set out in Appendix 3.

As Figure 4 shows, within the combined measures, Ireland has a high proportion of adults with very low work intensity – meaning they are distanced from the labour market – and there have been very significant increases in this measure since 2008, something that is consistent with the rise in long-term unemployment.



Source: Eurostat, 2012c, t2020,51,52,53
 PAROP: People at risk of poverty, 60% threshold
 SMD: Severely Materially Deprived
 VLWI: Very Low Work Intensity (See Glossary for definitions)

When the at risk of poverty measure is considered as shown by Figure 4, Ireland had high levels in the early 2000s, but rates fell in the last years of the decade. That position is changing again with an increase in the at risk of poverty rate between 2009 and 2010 of over 1 percentage point – this was one of the highest rates of increase in EU27, exceeded only by Spain and Slovenia (The Social Protection Committee, 2012, Table 4, p.112). The 2010 rate was 16.1% representing 716,000 people and was similar to the EU27 average rate of 16.4% (Eurostat,

2012c). This occurred notwithstanding the fact that the 60% risk of poverty threshold fell between 2008 and 2010 in line with a fall in incomes generally²⁴ (Eurostat, 2012h).

When we examine the share of people who are living with less than 40% of the median income there has been a marked increase between 2009 and 2010, going from 3.3% to 4.8% (Eurostat, 2012d, tess126). This suggests that there are signs of a deepening of poverty levels amongst the poorest people.

Ireland is highly dependent on social transfers (or welfare payments) to keep people out of poverty. At 51%, Ireland, jointly with Hungary, has the highest poverty rate in the EU27 before social transfers and pensions (CSO, 2012, p. 42). In other words, this shows how dependent a large number of people in Ireland, especially people over 65, are on welfare payments to protect them from poverty.

Children: Having fallen during the 2000s to a rate of 18% in 2008, there have been significant increases in Ireland's child poverty rate since 2008. In 2010 the rate was 19.7% of children (those under 18), a rate which is just under the EU27 average of 20.5% (Eurostat, 2012e). This has risen from 18% in 2008 or by almost 2 percentage points.

Older People: In Ireland the risk of poverty rate for people over 65 has fallen since 2008 and was 10.6% in 2010 (Eurostat, 2012f). It is important to note, as the EU Social Protection Committee argues generally in relation to pensions, that apparent improvements relative to poverty should be seen in relation to declines in the poverty thresholds rather than as improvements in the economic situation of people aged 65+ in real terms (2012, p 20). Neither does it prove that people have enough to live on, and light has been shed on this issue by studies published in Ireland since 2010. Having regard to the needs (personal, psychological and social) of an older person living alone in rural Ireland, the study found that a weekly income of €349.09 was necessary (McMahon et al, 2010, updated for 2012). This would be considerably more than the weekly income of someone living on the poverty line in Ireland²⁵ and exceeds considerably the amount of the State pension (contributory and non-contributory). It is also important to note how dependent Irish older people are on social welfare payments to protect them from poverty. Without social welfare payments, around 90% of over 65s would be living in poverty (CSO, 2010).

Working Poor: The rate of poverty in Ireland for people who work and who still do not earn enough to protect them from poverty (the working poor) is 7.6% (2010), which is just under the EU27 average of 8.4% (Eurostat, 2012g). There has been a considerable increase in the rate in Ireland since 2008, when it was 6.5%.

²⁴ The 60% at risk of poverty threshold is 60% of median equivalised incomes. The at risk of poverty threshold in Ireland for a single person was €13,797 in 2008. It fell to €11,929 in 2010. See Appendix 5

²⁵ The 60% at risk of poverty threshold is 60% of median equivalised incomes, which was €11,929 in 2010. This amounts to €229 per week. See Appendix 5. This amount is above the general rate of the non-contributory state pension (€219 per week) and almost equates to the contributory state pension (€230 per week).

Discussion: Impacts on Vulnerable Groups

Research undertaken on the impact of austerity measures across income groups (to 2011) in a number of European countries (including Ireland, Greece, Spain and Portugal and also the UK and Estonia) found that the size of the adjustment undertaken in Ireland was substantially greater than in the other countries representing approximately 8% of disposable income²⁶ (Callan et al, 2012, p. 53; Callan et al 2011, p 11).

Overall, the measures introduced between 2009 and 2011 in Ireland are described as progressive with, for example, the cuts to public sector pay affecting people with higher incomes more than those in the bottom deciles (Callan et al, 2012). The term 'progressive' means that better-off households pay a larger share, although this is not surprising as better-off households have a disproportionate share of total income – they also have a greater ability to pay, so this does not signify if the distribution is related to ability of groups to pay or, in other words, whether it is equitable or not (Callan et al, 2011, p 12. 13).

The situation worsened for those in the bottom income groups in 2012. Measures implemented as part of Budget 2012 by Ireland's new government²⁷ (since the cross-country study discussed above was completed) have been found to affect the poorest more than the richest. In 2012, the poorest 40% of households were predicted to see a fall of between 2-2.5% in their incomes; the richest 30% to lose only 0.7% of theirs as a result of Government's decisions in Budget 2012 (Callan et al, 2012). The measures involved were indirect tax increases (VAT and carbon levy) and selective reductions in welfare payments.

It is notable that along with Cyprus, Ireland is the only European country where within the last year the greatest impact of financial distress in households has been seen in the lower income quartiles rather than the upper quartile (European Commission, 2012, p.29).

Relative to future measures, the IMF has conceded that no 'low-hanging fruit' is left and has suggested that expenditure reductions become progressively more difficult in the later phases of consolidation or when key services begin to be affected (IMF, 2012, p. 22).

Successive cuts to most welfare rates once the crisis began mean that most social welfare payments in Ireland are below the poverty line, with the weekly social assistance payment for a single adult being €19.94 below the poverty line (Social Justice Ireland, 2012; Healy et al, 2012) and this is so even though the poverty threshold is decreasing (See **Appendix 5**).

In Ireland account must be taken of this before any further expenditure cuts are contemplated. The effect of Budget 2012 measures in relation to the highly negative impact of indirect taxes on lower-income groups should also be factored into these decision-making processes.

Cuts have already been made in health and education services, and severe cuts in essential home care supports to older people have been announced (Autumn, 2012). However, while the impact of cuts to services (like health, social care or education) cannot be assessed in a report of this nature, these cuts inevitably particularly affect those who do not have sufficient income to compensate for them.

²⁶ In Greece, Spain and Portugal the percentage reduction in disposable income was between 2-3% but in all cases the researchers note that more austerity measures were being planned in all the countries they reviewed – remember too that this research was published in 2011.

²⁷ Ireland had a General Election in March 2011 and a change of Government followed.

On the social climate, Italy has seen the single largest decline of any of the 27 Member States from 2011 to 2012.

Italy

Background and Government Finances

In the late 1980s and early 1990s Italy had strong economic growth and strong performance in exports. However, growth eventually stagnated, and between 2001 and 2008 average growth was only 0.8% of GDP (Menendez, 2012).

For many years in the 2000s Italy's debt was the highest in Europe. In more recent years, debt levels in Greece have overtaken Italy at the top of the league, but Italy's debt levels remain second only to Greece. By 2011 the ratio of government debt to GDP was 120.7%. Table 7, below, shows the increase in both the government deficit and the government gross debt (as a percentage of GDP) between 2004 and 2011. See also Appendix 1.

Latest figures from Eurostat relating to quarter 2, 2012, suggest that the ratio of government gross debt has continued to increase and is now 126.1% of GDP, second only to Greece and followed by Portugal and Ireland (Eurostat, 2012L).

Large public debt and low growth left Italy vulnerable to the economic crisis of 2008 and to the subsequent crisis in the Euro zone. Italy came under intense financial pressures in 2011 as Government bond yields went above 7%. It was urged several times by the Institutions of the European Union to address structural weaknesses considered to be causing its very low growth rates. However, like Spain, Italy is considered 'too big to fail'.

Some measures to address the crisis were introduced under the government of Silvio Berlusconi, and the new Government (under Mario Monti) introduced a large range of measures including fiscal consolidation, plans to liberalise services and to introduce labour reforms (IMF, 2012e).

The IMF regularly monitors and advises Italy on possible economic risks and on consequent policy adjustments as part of its surveillance role (as it does with its other members) (IMF, 2012b). Italy is not, of course, a 'programme' country in the sense of having requested assistance in the way that Greece, Ireland and Portugal have. According to the IMF's latest report on Italy, successive rounds of austerity measures have impacted on employment and growth (IMF, 2012e, Staff Statement, p.1). The IMF still considers Italy vulnerable to an intensification of the Euro area crisis (IMF, 2012e).

As Table 8, below, shows, Italy's economy contracted from 2006 and returned to modest growth in 2010. However, most recently, GDP has contracted for a fourth consecutive quarter at the end of quarter 2, 2012 (European Commission, 2012, Table 6, p.69). The European Commission has recently reduced its forecasts for 2012 and 2013.

ITALY : TABLE 7 : Government Debt Rates

	2004	2005	2006	2007	2008	2009	2010	2011
Government deficit/surplus, % GDP	-3.5	-4.4	-3.4	-1.6	-2.7	-5.4	-4.5	-3.9
General Government Gross Debt % GDP	103.4	105.7	106.3	103.3	106.1	116.4	119.2	120.7

Source: Eurostat, 2012j,2012k, tsdde410; gov_dd_edpt1

ITALY : TABLE 8 : Real GDP growth rate – volume

Percentage change on previous year	2006	2007	2008	2009	2010	2011	2012 (f)	2013 (f)
EU (27 countries)	3.3	3.2	0.3	-4.3	2.1	1.5	-0.3*	0.4*
Italy	2.2	1.7	-1.2	-5.5	1.8	0.4	-2.3*	-0.5*

Source: Eurostat, 2012, tec00115;

*European Commission, 2012b - f: forecast - IMF forecast: for 2012: -2.3 %; for 2013: -0.7% (IMF, 2012f, p. 66)

Policy Responses

A number of modifications to the tax and benefits system were introduced by the Berlusconi government in 2008 before the impact of the crisis was felt. They intended to cushion the effects of the crisis on poor families. These included a 'social card', a 'family bonus', a power (electricity) bonus, gas bonus and relief from property tax on residences. Such measures were intended to address the type of welfare system operating, which has been characterized as a relatively 'weak' Mediterranean model which relies a great deal on family supports.²⁸ The measures have been extended and maintained during the crisis, although without, in the opinion of Caritas Italy, being modified sufficiently in light of the circumstances to make them effective. In addition, extensions were made to the Wage Guarantee Fund (Caritas Italiana, 2012a). This latter measure along with unemployment benefit are considered by Caritas Italy to have made the greatest contribution to protecting people from poverty, although to have been of limited value to workers on atypical contracts (who are often young people and more casual workers) (Caritas Italiana, 2012a).

Over the past 3-4 years, new tax-deduction measures have followed for certain types of families (for example, those with children under 3, families paying mortgages). However, Caritas Italy points out that there is a gap in respect of 'famiglie incapienti', - those who have insufficient income to declare taxes to whom the measures do not apply (Caritas Italiana, 2012c).

A number of large-scale cuts over the period 2009-2012 were also proposed to funds available for social policies (including policies for young people, families, housing, children and adolescents) under the Berlusconi government and other programmes were cancelled (including programmes for inclusion of immigrants and childcare services) (Caritas Italiana, 2012a).

Employment/Unemployment

In 2011, the employment rate in Italy was 61.2% as compared with an EU27 average of 68.6% for people aged 20-64. Figure 5, below, shows how employment fell from 2008, with a slight improvement in 2011. However, in the first quarter of 2012 it fell again and stands at 60.7%, as compared with an EU27 average of 68% (European Commission, 2012, Table 11, p. 71).

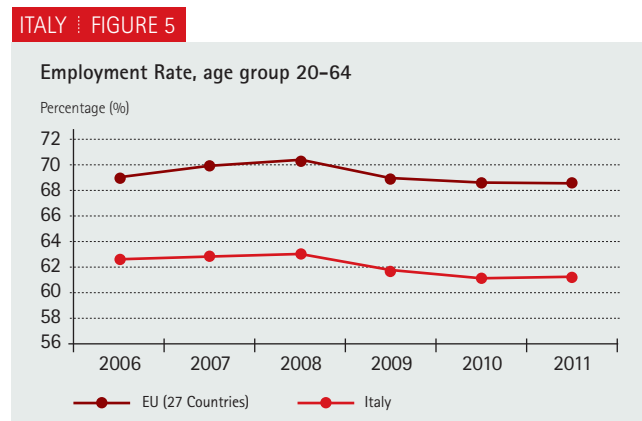
A series of austerity packages were introduced in 2011 (July and September), and in October 2011 at a crisis summit of EU leaders, significant additional measures were required (Thomsen-Fasano, 2012). The new Government introduced a range of measures (associated with the 'Save Italy' decree, Dec 2011). These included:

- ➔ Changes to pensions such as progressive raising of the pension age aiming for longer term sustainability,
- ➔ A shift from direct to indirect taxes,
- ➔ Higher taxation on wealthy, especially on property and measures to counter tax evasion,
- ➔ Increased VAT and excise taxes on fuels,
- ➔ Wage cuts for senior civil servants (by 10%), wage freeze for other public servants since 2010
- ➔ 'streamlining' costs in healthcare and education (IMF, 2012e, p. 20, 21, Staff Statement, p.1,2, Ministero Dell Economia E Delle Finanze, Italy, 2012, p. 42-47).

Roughly two-thirds of the measures relied on raising revenue, while one third relied on expenditure cuts (IMF, 2012e).

The Italian government has approved changes in labour market policy intended to promote growth in the economy. The measures provide for an easing of licensing systems in some professions designed to make them more open, measures to make it easier to dismiss employees and also, in an effort to balance those measures, the introduction of universal unemployment insurance (European Commission, 2012, p. 64; IMF, 2012e, Staff Statement, p. 3).

Caritas Italy has welcomed measures recently approved relative to exchange transactions intended to dissuade financial speculation, and wishes to see those measures strengthened and extended (Caritas Italiana, 2012c).



Source: Eurostat, 2012b, t2020_10

²⁸ See discussion above under the heading 'Welfare Systems'. The Mediterranean model can be classified as weak in terms of its performance by comparison with the standard of typical Scandinavian or Continental European countries as it, amongst other things, relies on the role of the family as a social security cushion and informal networks (Ponzini and Pugliese, cited in Caritas Italiana, 2012b). The usefulness of these measures (that is, those such as the 'Social card', 'Family bonus' and 'power bonus') in addressing poverty in any comprehensive way is also questioned by Caritas Italy

The employment rate varies strongly between regions, ranging from 65.1% in the north (Settentrione) to 44.2% in the south (Mezzogiorno) (2nd quarter 2012) (European Commission, 2012, p. 63).

Another feature of the employment situation in Italy is the large number of part-time jobs. In the past year (to July 2012) there was a further loss of full-time jobs (down 2.3% or 439,000 full-time jobs) and an increase in part-time jobs (+10.9% or 391,000 part-time jobs). The share of part-time jobs of all jobs therefore rose to 17.3% (European Commission, 2012, p. 63).

The unemployment rate was 8.4% in 2011 representing 2.1million people (Eurostat, 2012i). The rate is worsening and has gone from a rate which was below the EU27 average in July, 2011 to a rate of 10.8% in September 2012 – just above the average of 10.6% (Eurostat, 2012n). See Appendix 7. In numerical terms, the annual increase (to July 2012) represented 726,000 more unemployed people resulting in a total of 2.7million unemployed people (quarter 2, 2012) (European Commission, 2012, p.63). See Table 9.

The European Commission has noted that the rate of increase in unemployment in the south (Mezzogiorno) is particularly worrying in the past year, having risen from 13.1% to 17.1%, and that the rise is especially notable among men in that region (from 11% to 16%) (European Commission, 2012, p.63).

Amongst non-Italians the unemployment rate rose from 10.9% to 13.6% (in the year to July 2012) (European Commission, 2012, p. 63).

Youth unemployment (age 15-24) is particularly marked in Italy. The youth unemployment rate is 35.3%, and amongst European countries is exceeded only by Spain, Portugal and Greece (July 2012²⁹) (European Commission, 2012, p 72). While the average unemployment rate increased by 2.5 percentage points between July 2011 and July 2012, the rate of increase in youth unemployment was 7.5 percentage points, the highest rate of increase in the EU of the 19 countries for which data is available EU (to July 2012) (European Commission, 2012, p 72).

A growing number of young people have moved to Germany or outside the EU to work (European Commission, 2012, p. 63).

Italy's long-term unemployment rate is also increasing, standing at 5.3% (Quarter 1, 2012) and above the EU27 average (4.5%). More than half (53.1%) of those who are unemployed are long-term unemployed (that is, unemployed for more than 12 months) (2nd quarter, 2012) (European Commission, 2012, p 63).

ITALY | TABLE 9 | Unemployment-Headline Statistics

	2011	2012
Unemployment – rate (%)	8.4%	10.8% (Sept)
Unemployment – number of people	2.1million	2.7million (Q2)
Youth Unemployment Rate (15-24)		35.3% (July)
Long-term Unemployment Rate (unemployed for 12 months or more)		5.3% (Q1)
Share of unemployment that is long-term	51.9%	53.1% (Q2)

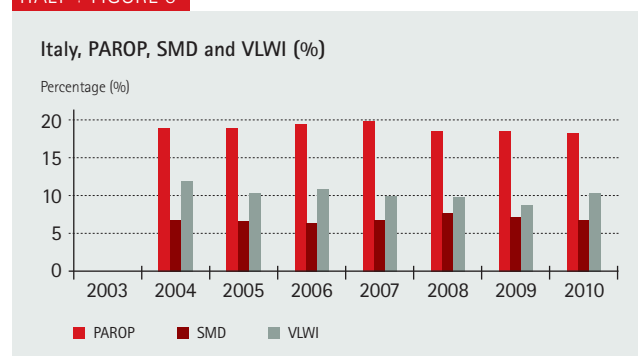
Source: Eurostat, 2012i; Eurostat, 2012n, European Commission, 2012, p. 63, 72

Poverty

The comparable data available on poverty for Italy relates to 2010 (relying on data from the previous year, 2009), indicating the impact only of the early stages of the crisis.

The Italian rate under the combined 'at risk of poverty or social exclusion' indicator used throughout Europe (for the purposes of assessing progress toward the targets of the Europe 2020 Strategy) was 24.5% in 2010 representing some 14.7million people, a rate which exceeds the EU27 average of 23.4% (Eurostat, 2012c). Rates for each of the three measures that make up the combined 'at risk of poverty or social exclusion' indicator are set out in Appendix 3 and indicated below in Figure 6.

ITALY | FIGURE 6



Source: Eurostat, 2012c, t2020,51,52,53
 PAROP: People at risk of poverty, 60% threshold
 SMD: Severely Materially Deprived
 VLWI: Very Low Work Intensity (See Glossary for definitions)

²⁹ The rate for Greece (of 55.4%) relates to June 2012 as data from Greece for July 2012 is not available

The rate of relative income poverty or 'at risk of poverty rate' in Italy was 18.2% in 2010, which is a slight fall on the 2009 level (18.4%) but above the EU27 average rate of 16.4%. This represents 10.9 million people (Eurostat, 2012c). Italy stood in 21st place with a level very similar to Portugal and exceeded by only six countries (Greece, Lithuania, Bulgaria, Spain, Romania and Latvia). See **Appendix 4**. It might be asked why the risk of poverty rate did not increase, given the fall in employment and expenditure cuts, but there is a time lag in the availability of data, meaning that these poverty rates relate only to the early years of the economic crisis in Europe.

As **Figure 6** shows, one of the indicators within the three indicators of poverty increased between 2009 and 2010 – that for people living in households with very low work intensity. This rate went from 8.8% in 2009 (which was just below the EU27 average) to 10.2% in 2010, which is just above the EU27 average, and represents an increase of 592,000 in one year (Eurostat, 2012c). This is a worrying trend, as it signals a danger of long term exclusion from the labour market something that is also reflected in the high rate of long-term employment amongst those who are unemployed (as discussed above).

Furthermore, the indicator for severe material deprivation is also at a higher level in 2010 (6.9%) than it was in 2006 (6.3%) having climbed, in between times, to 7.5% in 2008

(Eurostat, 2012c, see **Appendix 3**). The increase in numerical terms represents an increase of some 477,000 people between 2006 and 2010, totaling 4.1 million in 2010 (Eurostat, 2012c).

Child Poverty: Italy's rate of child poverty has been high relative to the EU27 average since at least 2005 (when comparable data are available from Eurostat). In 2010 the rate was 24.7% and there had been a slight increase between 2009 and 2010. This rate was above the EU27 average of 20.5% (Eurostat, 2012e), exceeded only by Spain, Bulgaria, Latvia and Romania.

Older People: The risk of poverty rate for people aged 65+ in Italy is 16.6% – similar to the EU27 average rate (16%) for 2010 (Eurostat, 2012f), and similar to the rate for the working age population (16.9%) (The Social Protection Committee, 2012, Table 5). The rate has fallen in recent years. However, the rate is considerably higher for older women in Italy (19.5%) than older men (12.6%) in 2010 – a gap of nearly 7 percentage points (Eurostat, 2012f).

Working Poor: The rate of poverty in Italy for people who work and who still do not earn enough to protect them from poverty (the working poor) is 9.4% (2010), which is above the EU27 average of 8.4% (Eurostat, 2012g). The rate has shown considerable variation since 2006 and is slightly lower in 2010 than in was in 2009.

Discussion: Impacts on Vulnerable Groups

Italy already had a high rate of income poverty relative to the EU27 average before 2008. (See **Appendix 3**). As has already been said, the time lag in availability of comparable data means that the poverty rates examined in this report capture only the early stages of the economic crisis. While the rate of relative income poverty (the at risk of poverty rate) does not yet show an increase,³⁰ some deteriorations are identifiable within the recognised indicators for poverty, such as the increase in people living in households that are distanced from the labour market (that is, people in households where no one is working or working much) between 2009 and 2010, and the rise in severe material deprivation between 2006 and 2010.

The rate for child poverty is above the European average and has shown a slight increase. The rate of poverty of older women must be of particular concern.

The fall in employment since 2008 has meant that there has been a sharp rise in unemployment (particularly marked in the south within the past year), as well as an increase in part-time

jobs as a proportion of all jobs. Unemployment amongst young people (aged 15–24) is a particular problem and the rate of increase in youth unemployment is the highest rate of increase in the EU in the year to July 2012 (of the countries for which data is available). Long-term unemployment is increasing and over half of those who are unemployed are now in this category.

On the ground there is evidence of a rise in those seeking help for income and social problems since 2007. Caritas Italy has been able to identify a large increase in those seeking help from the approximately 3,000 'Centri di Ascolta' (or Counselling Centres) located throughout Italy, which deal with people experiencing a wide range of social problems. Since 2007 there has been an increase in the numbers seeking help in each year to 2011. In 2008 this increase was 8.5% over the previous year. In 2011, there was a marked rise in requests for help, representing 54.1% more people seeking help than had done so in 2007³¹ (Caritas Italiana, 2012c). Similarly, there has been a large increase (70.7%) between 2010 and 2012

³⁰ In fact it shows a slight decrease between 2009 and 2010

³¹ This is based on the collection of data from a representative sample of 195 Centres located in 15 regions.

amongst the projects delivered by local churches and Caritas Italy to address poverty and exclusion³² (Caritas Italiana, 2012c).

There is also some independent evidence of a rise in distress amongst Italian households during 2011 and 2012, in particular. The European-wide consumer surveys (carried out under the joint harmonised EU programme of business and consumer surveys) show how many households are facing financial difficulties, such as running into debt to cover current expenses. Amongst European countries, there are some interesting points to note about the situation of Italy over the past year (to July 2012):

- ➔ Italy is the country in which consumer opinion has declined most sharply, and
- ➔ Amongst households in the lower income quartile (that is, the lowest 25%), Italy is the country in which financial distress has risen most sharply, showing a rise of 10 percentage points (European Commission, 2012, p 30).

In the Eurobarometer survey of the views of Europeans on the social climate, Italy has seen the single largest decline of any of the 27 Member States from 2011 to 2012, from -1.1 to -3.1. Its ranking has declined from thirteenth in 2011 to twenty-third in 2012 (out of EU27) (European Commission, 2012, p 43-46).

Finally, it may be worth noting that the impact of cuts to services (like health, social care or education) cannot be assessed in a report of this nature. However, these cuts are most likely to particularly affect those who do not have sufficient income to compensate for them. Measures taken to cut education budgets in Italy should take account of the high rate of early school leaving³³ that already exists (18.2% in 2011, which is above the EU27 average rate of 13.5%), which if worsened will have both personal effects on the life chances of those involved as well, ultimately, on the economy. The low rates of attainment of tertiary education³⁴ (20.3% in Italy as opposed to an EU27 average rate of 34.5% in 2011) also need to be borne in mind (Eurostat, 2012m).

PROFILE

Caritas Italy programmes are responding to new types of poverty that they identify as emerging, such as:

- ➔ Adults aged 40-50 years who find themselves unemployed after a lifetime of regular work,
- ➔ Young adults whose work consists of temporary contracts, which means that they are constantly having to seek new work and are prevented from planning for the future,
- ➔ Entrepreneurs with debt trouble and facing bankruptcy,
- ➔ Immigrants who had formerly been beneficiaries who (some 4-5 years later) have to seek help again having lost their jobs or having to seek work in the grey economy
- ➔ Older people trying to help children and sometimes grandchildren, sometimes by entering into arrangements where they sell their houses retaining only a right of residence until death (Caritas Italiana, 2012c)

Caritas Italy

³² Such as microloans, grants, information provision on employment and housing, and innovative projects aimed especially at supporting families

³³ Early leavers from education and training refers to the % of the population aged 18-24 with at most lower secondary education and not in further education or training (Eurostat, 2012m)

³⁴ Tertiary education attainment levels are assessed as the share of the population aged 30-34 years who have successfully completed university or university-like (tertiary-level) education (Eurostat, 2012m)

‘The most vulnerable social groups have been hit hardest by the fiscal austerity measures implemented in Portugal. The government should strengthen its efforts to mitigate the negative impact of the financial crisis, in particular on children, elderly and the Roma,’

Commissioner Muižnieks, Commissioner for Human Rights of the Council of Europe



Portugal

Background and Government Finances

Since joining the Euro in 1999, Portugal has had the lowest growth in the Eurozone and suffered from low productivity and competitiveness. Between 2001 and 2007 Portugal experienced only 1.1% average annual growth (Menendez, 2012). The government deficit was -6.5% of GDP in 2005 and it was -3.1% in 2007 (see Table 10). When the global financial crisis occurred, a drop in tax revenues led to further increases in the government deficit and in general gross debt. At 108.1% in 2011, Portugal had the third highest general government gross debt to GDP ratio in Europe (EU27), behind only Greece and Italy (Eurostat, 2012j).

As debt continued to grow investors were unwilling to lend and in May 2011 Portugal was the third country to seek a 'bailout' from the EU-ECB-IMF troika. The programme review one year later was published by the IMF in July 2012 (IMF, 2012a). The objective agreed was to reduce the Government deficit to 4.5% of GDP by 2012 and to 3% of GDP by 2013 (IMF, 2012a, p. 12, 21). More recently agreement has been reached in light, inter alia, of the 'considerable sacrifice being made by the Portuguese people' to change the target for 2013 to 4.5% (IMF, 2012d). Amongst the July objectives set for the programme the following is outlined:

‘..maintain fiscal consolidation over the medium term up to a balanced budgetary position, notably by containing expenditure growth. This consolidation will be achieved by means of high-quality permanent measures minimizing the impact of consolidation on vulnerable groups’

(IMF, 2012a, MOU, p 4 – emphasis added)

Additional consolidation measures of about 3% of GDP are to be adopted in 2013 to meet the 4.5% of GDP deficit target (European Commission, 2012b, p 98).

As Table 11 shows, the Portuguese economy shrank between 2007 and 2010, and again in 2011 and is likely to continue to be in negative figures in 2012. Domestic demand in particular is shrinking but this is balanced somewhat by the export performance³⁵ (IMF, 2012a, Table 1, p 26). Most recently the economy shrank again in quarter 2, 2012, which was the fifth consecutive quarter showing a decline (European Commission, 2012, p. 9, 69). The Autumn projections for 2012 from the European Commission are more pessimistic than the Spring forecasts due, in the Commission's opinion, to the dampening of domestic demand by consolidation measures and a decline in external demand (2012b, p 97).

PORTUGAL | TABLE 10 | Government Debt Rates

	2004	2005	2006	2007	2008	2009	2010	2011
Government deficit/surplus, % GDP	-4.0	-6.5	-4.6	-3.1	-3.6	-10.2	-9.8	-4.4
General Government Gross Debt % GDP	61.9	67.7	69.4	68.4	71.7	83.2	93.5	108.1

Source: Eurostat, 2012j,2012k, tsdde410; gov_dd_edpt1

³⁵ The Portuguese Authorities have noted, however, that rising unemployment and growth in exports is less favourable to tax revenues (IMF, 2012a, Letter of Intent, June 27, 2012 p49)

PORTUGAL | TABLE 11 | Real GDP growth rate – volume

Percentage change on previous year	2006	2007	2008	2009	2010	2011	2012 (f)	2013 (f)
EU (27 countries)	3.3	3.2	0.3	-4.3	2.1	1.5	-0.3*	0.4*
Portugal	1.4	2.4	0	-2.9	1.4	-1.7	-3.0*	-1.0*

Source: Eurostat, 2012, tec00115.

* European Commission, 2012b - f: forecast - IMF forecast: for 2012: -3.0%; for 2013: -1.0% (IMF, 2012f, p. 66)

Policy Responses

Measures introduced since 2009 include:

- ➔ freezing of nearly all insurance benefits and pensions
- ➔ reducing the pensions tax allowance,
- ➔ reduction in means-tested unemployment assistance, family benefit and social assistance,
- ➔ increase in standard VAT rate (from 20% to 23%) including increasing the VAT on natural gas and electricity to standard rate (Oct 2011),
- ➔ increase in income tax rates, introduction of additional tax rate for top earners (above €153,300 per year), and reductions of tax credits,
- ➔ public sector pay cuts (up to 10%),
- ➔ reductions in numbers of employees in central Government and across public administration generally.

(Callan et al, 2011, p 9, 34; IMF, 2012a, p 46; IMF, 2012a, MOU, p. 7)

Active labour-market policies have been pursued including:

- ➔ a programme targeting young people involving internships and a reimbursement of social security contributions (Impulso Jovem), and
- ➔ incentives for employers and a wage subsidy to employers who hire and train people who have been unemployed for 6 months or more (called Estimulo 2012) (IMF, 2012a, p 52).

There have been privatizations of energy companies (EDP and REN) and more are proposed (including the airline TAP, the airport infrastructure ANA, the postal service CTT and the water supply Aguas de Portugal) (IMF, 2012a, p. 13).

As a response to the social crisis faced, a programme was introduced in October 2011 called the Social Emergency Programme (PES), which is a four year plan intended to 'focus on simple and direct measures to lessen the social impact of the crisis' (Government of Portugal, 2012, p. 7).

According to the Memorandum of Understanding (MOU) with the Troika of June 2012, a long list of commitments is made in order to reach the deficit reduction planned for 2012 (IMF, 2012a).

Amongst the measures proposed for 2012/13 are:

- ➔ reductions in pensions (with different approaches to different levels: including cuts for those with pensions of between €600–€1,000 per month, and freezing of pensions below €600 per month, with potential marginal increases for those on the lowest levels),
- ➔ controlling costs in the health sector,
- ➔ reductions in costs in education by €380m,
- ➔ reductions in social transfers (other than pensions) of at least €180m by tightening eligibility criteria and decreasing some benefits,
- ➔ increasing personal income tax,
- ➔ reductions in numbers and in wages of government employees.

(IMF, 2012a, MOU, p. 5, 7)

However, since July the Government has been experiencing intensive resistance to these and to further measures. For example, the constitutional court rejected the plan to cut civil servants' benefits, and a plan to raise social security payments was abandoned after street protests. Budget 2013 measures were passed by Parliament at the end of October but this is being resisted by street protests and challenges in the constitutional courts on grounds that the tax increases weigh too heavily on the poor (Reuters, 2012). There were violent clashes after the general strike that took place in November (to coincide with the one in Spain).

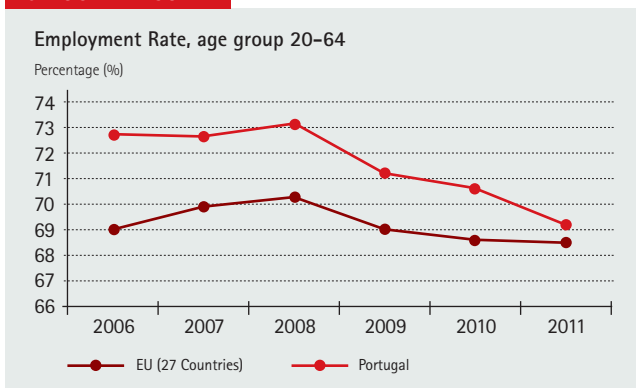
There has been a sizeable increase in Portuguese people reporting that they are in arrears with payments (mortgage/rent/utility bills/hire-purchase) between 2010 and 2011. In 2010 the rate was 8.6% of the population, which grew to 10.2% (that is more than one in every ten people) in 2011 (Eurostat, 2012t). In 2008 the rate had been 6.5%.

In the Eurobarometer survey of the views of Europeans on the social climate, Portugal's ranking has decreased in every year since the survey started (2009), and stands at -3.2 in 2012 in twenty-fourth position (out of EU27) (followed by Hungary, Romania and Greece) (European Commission, 2012, p 43–46).

Employment/Unemployment

Employment levels in Portugal have fallen markedly since 2008, as Figure 7, below, shows, but were still marginally higher than the EU27 average in 2011 (69.1% in Portugal; 68.6% average, age group 20-64). However, the latest indications are that the employment rate in quarter 1, 2012, was 67% for people aged 20-64, compared with an EU27 average of 68%. Portugal's employment rate declined markedly (-4.2%) in the year to quarter 2, 2012 representing 205,000 people. Its decline was exceeded only by Greece (-9%) (European Commission, 2012, p 13, 69).

PORTUGAL : FIGURE 7



Source: Eurostat, 2012b, t2020_10

At 12.9% at the end of 2011, the unemployment rate in Portugal represented 706,000 people and was above the European average of 9.6% (Eurostat, 2012i). By September 2012 the rate had increased markedly to 15.7% (855,000 people), well above the European average of 10.6%, EU27 (Eurostat, 2012n). In September Portugal had the fourth highest rate in Europe – behind, Spain, Greece and Latvia, and closely followed by Ireland (Eurostat, 2012n). See Table 12, below, and Appendix 7.

At a rate of 36.4% youth unemployment (age 15-24) is very high, and has grown at a rate of 7 percentage points in the year to July 2012, a rate of growth exceeded only marginally by Italy (European Commission, 2012, p 72).

Portugal's long-term unemployment rate is also increasing, standing at 6.9% (Quarter 1, 2012) and well above the EU27 average (4.5%). The proportion of those amongst the unemployed who were long-term unemployed (without work for 12 months or more) at the end of 2011 was nearly 50% (48.2%) (Eurostat, 2012i).

PORTUGAL : TABLE 12 : Unemployment-Headline Statistics

	2011	2012
Unemployment – rate (%)	12.9%	15.7% (Sept)
Unemployment – number of people	706,000	855,000 (Sept)
Youth Unemployment Rate (15-24)		36.4% (July)
Long-term Unemployment Rate (unemployed for 12 months or more)		6.9% (Q1)
Share of unemployment that is long-term	48.2%	

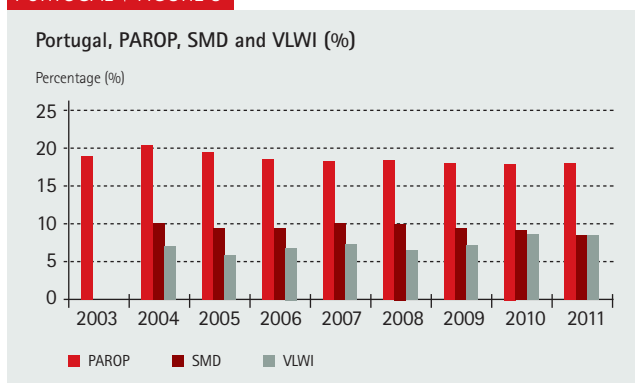
Source: Eurostat, 2012i; Eurostat, 2012n, European Commission, 2012, p 72

Poverty

As already mentioned there is a time-lag in the availability of data on comparable poverty measures across Europe. Figures are now published for Portugal for 2011 (with a 2010 reference period), but this still represents the relatively early stages of the impact of the crisis. It also relates to the period before Portugal entered the IMF/EU assistance programme. The discussion of poverty indicators included in this section must be considered with those limitations in mind.

Portugal has a high rate of 'poverty and social exclusion', which is the combined indicator used under the Europe 2020 strategy. The rate rose in Portugal between 2009 and 2010 but shows a slight fall to a rate of 24.4% in 2011 (similar to the 2009 level). This represents 2.6 million people (source, Eurostat, 2012c.). Portugal's rate is higher than the EU27 average rate of 23.4% (2010) (Eurostat, 2012c).

PORTUGAL | FIGURE 8



Source: Eurostat, 2012c, t2020,51,52,53
 PAROP: People at risk of poverty, 60% threshold
 SMD: Severely Materially Deprived
 VLWI: Very Low Work Intensity (See Glossary for definitions)

The most commonly used indicator of poverty in Europe is the at risk of poverty rate – which is a relative poverty indicator linked to 60% of median incomes. Having fallen between 2004 and 2009, the Portuguese at risk of poverty rate was 17.9% in 2009 and 2010 and rose to 18% in 2011, which represents (in 2011) over 1.9million people (Eurostat, 2012c). This increase happened notwithstanding the fact that the risk of poverty threshold fell (between 2010 and 2011) in line with a fall in incomes generally³⁶ (Eurostat, 2012h).

Portugal's at risk of poverty rate is higher than the EU27 average (of 16.4%). At 2010 levels, when availability of data makes it possible to make a comparison with other countries, Portugal's ranking was 20th, exceeded by only 7 other countries: Italy, Greece, Lithuania, Bulgaria, Spain, Romania and Latvia (Eurostat, 2012c). See Appendix 4.

As Figure 8 shows, the indicator for people in households with very low work intensity rose by 1.7 percentage points between

2009 and 2010, but in 2011 it fell marginally (to 8.2%). There has also been a slight reduction in the indicator for severe material deprivation between 2010 and 2011 (Eurostat, 2012c).

Rates for each of the three measures that make up the combined 'at risk of poverty or social exclusion' indicator are set out in Appendix 3.

Child Poverty: Portugal's rate of child poverty has been above the EU27 average rate since at least 2005 (when comparable data are available from Eurostat). Portugal's child poverty rate fell between 2004 and 2007, but there was a sizable increase between 2007 and 2008 and the rate has remained at about that level since. The 2010 rate is above the EU27 average: the average rate was 20.5%, while Portugal's rate was 22.4% (2010 and 2011) (Eurostat, 2012e).

Older People: The risk of poverty rate for people aged 65+ in Portugal was 21% in 2010 and latest figures suggest a rate of 20% for 2011, which is similar to the rate for 2009 (Eurostat, 2012f). This is higher than the EU27 average of 16% (2010). Even though the rate has declined, it still remains considerably higher than the rate for the working age population (of 15.7%, aged 18–64) (2010) (The Social Protection Committee, 2012, Table 5). There was also a gap of 3.4 percentage points between the at risk of poverty rate for older men (18%) in 2010 and that for older women (21.4%) (Eurostat, 2012f). Similarly, older women were more likely to be experiencing severe material deprivation in 2010, with a rate of 10.8% as opposed to 7.9% for older men (The Social Protection Committee, 2012, Table 11).

Working Poor: The rate of poverty in Portugal for people who work and who still do not earn enough to protect them from poverty (the working poor) is 10.3% (2011), which is above the 2010 EU27 average of 8.4% (in 2010) (Eurostat, 2012g).

Discussion: Impacts on Vulnerable Groups

Portugal's employment rate declined rapidly from 2008 and has fallen markedly (–4.2%) in the year to Quarter 2, 2012, a decline exceeded only by Greece (European Commission, 2012, p 13, 69). Portugal's unemployment rate is rising rapidly and (in July 2012) is the second highest of the 22 countries for which data are available. The youth unemployment rate is very high (36.4%, July 2012), and the long-term unemployment rate is increasing and represents around half of those who are unemployed.

As already mentioned, when it comes to assessing the position of Portugal's residents relative to poverty, the time-lag in

availability of data makes it difficult to give an up-to-date picture. That being said, by comparison with European averages, Portugal has high rates of poverty. There are signs of increase between 2010 and 2011 in the at risk of poverty rate (which is the most commonly used poverty indicator across Europe). Portugal's rates are higher than the EU27 average rates across most of the indicators that are generally used across Europe. The rate of poverty of children increased in 2008 and has stayed at that relatively high level since. Rates for both children and older people (particularly older women) remain of particular concern.

³⁶ That is the 60% at risk of poverty threshold is 60% of median equivalised incomes. The at risk of poverty threshold in Portugal for a single person was €5,207 in 2010, and it fell to €5,046 in 2011. See Appendix 5

The Commissioner for Human Rights of the Council of Europe reported on concerns for vulnerable groups in Portugal following a visit in May 2012. Among these groups he highlighted the situation of children, older people and Roma people. The Commissioner drew attention to how the combined effects of unemployment, cuts in salaries, increased taxes and reduced social and unemployment benefits has resulted in growing poverty among many Portuguese families. The Commissioner (Muižnieks, 2012) noted that:

- ❑ **Child poverty** is rising with evictions due to non-payment of mortgages having a particularly negative impact, and budgetary restrictions in education being harmful in an overall context where there is a high rate of school drop-outs. All of these factors suggest the risk of a resurgence of child labour, notably in the informal economic sector and agriculture.
- ❑ **Older people** on low incomes are affected by the austerity measures including freezing of pensions and cuts in social benefits, increases in costs of health care, public transport, gas, electricity and food products affecting especially those living in isolated rural areas. Violence towards older people has increased with reportedly almost 40% of the older population in Portugal having suffered abuse within the family.
- ❑ **Roma** continue to suffer from social exclusion and various forms of discrimination, particularly as regards housing, education and access to employment.

For its part, according to Caritas Portuguesa, the Government's Social Emergency Programme is not able to deal with the suffering caused by the crisis and the austerity measures. They point to a mismatch between the measures undertaken and the immediate and unfolding reality for families. The crisis is not well understood by many people leaving those affected without hope (Caritas Portuguesa, 2012). For many of the families that Caritas Portugal is supporting, it is their first time having to seek help outside their family.

An analysis using the EUROMOD model of the impact of austerity measures implemented up to mid-2011 in Portugal made some important findings about the way that the measures are impacting across income groups. In particular, the study found that the measures were regressive – meaning that lower income groups lost a higher proportion of their income than higher income groups (Callan et al, 2011). In fact, of the six countries considered in that research³⁷ (up to mid-2011), Portugal was the only country in which percentage losses were considerably larger (to 2011) in the first and second decile groups than higher up the income distribution – in other words the poorest people were hardest hit (Callan et al, 2011, p.13).

Furthermore, the increase in the standard rate of VAT (in 2011) was found to have resulted in a significant reduction in the level of household income, with the poorest quintiles (or poorest 20%) being disproportionately affected when compared to the top ones (Callan et al, 2011).

Across most of the countries included in their study researchers found that households with children have been particularly affected by increases in household incomes as a result of austerity measures. This includes Portugal where the adverse effect on children is particularly marked for households with low incomes (Sutherland & Matsganis, 2011, p3; Callan et al, 2011, p13, 17).

It may be worth noting that the research just referred to of the impact of austerity measures on households did not include the impact of cuts to services like health, social care or education. These cuts are most likely to particularly affect those who do not have sufficient income to compensate for them. Bearing this in mind the researchers note that their analysis does not represent the full picture of the impact of austerity measures (Callan et al, 2011, p 16). Proposals to cut expenditure on education would have to take account of the fact that Portugal has one of the highest rates of early school leaving³⁸ in Europe (23.2% as opposed to an EU27 average of 13.5% in 2011). Any worsening of this situation would be detrimental to the life chances of those involved and also, in the longer term, to the economy. Portugal also has a tertiary education attainment rate³⁹ below the average (26.1% as opposed to an EU27 average rate of 34.6% in 2011) (Eurostat, 2012m).

A very comprehensive list of austerity measures was agreed in summer 2012 with the Troika under Portugal's assistance package (IMF 2012a), which included further reductions in social transfers and pensions, cuts in education and controlling health-care costs as outlined above. Given the high levels of unemployment and poverty already being experienced in Portugal, and the findings that early measures disproportionately affected poorer people, very serious impacts might be anticipated on vulnerable groups. Protests and court challenges are now affecting the ability of Government to proceed with further measures. As of early November 2012, the IMF is meeting with the Government ahead of schedule to identify areas where it can make additional cuts to spending (Reuters, 2012).

³⁷ Estonia, Ireland, Greece, Portugal, Spain and UK

³⁸ Early leavers from education and training refers to the % of the population aged 18-24 with at most lower secondary education and not in further education or training (Eurostat, 2012m)

³⁹ Tertiary education attainment levels are assessed as the share of the population aged 30-34 years who have successfully completed university or university-like (tertiary-level) education (Eurostat, 2012m)

*Youth unemployment (age 15-24)
is a particular problem, with a rate of 52.9%.*

Spain



Background and Government Finances

Similar to Ireland, in Spain housing-market and banking crises led to a sovereign debt crisis (Menendez, 2012, p 14). Factors which fuelled the property market boom included membership of the Eurozone and availability of cheap credit from international banks and other lending institutions as well as favourable tax treatment for mortgage payments (Menendez, 2012, p 14). Prior to 2007, while there was significant private debt (that is, borrowings by citizens), Spain's government borrowing was not high by relative standards (see **Appendices 1 & 2**). But Spain had changed from the 1990s, when it had little foreign borrowing, to relying heavily on external lenders (Menendez, 2012).

With the end of the housing boom in 2007 and the global financial crisis, government deficit and general gross debt increased from 2007 on as **Table 13** shows. This was contributed to by the government's measures to try and rescue its banking sector, which had been severely affected by the collapse in property prices and by defaulting borrowers whose incomes had dropped due to the global recession.

All of these factors, and a forecast that the fiscal deficit would be 8% of GDP (rather than the 6% forecast) for 2011, caused the Government to introduce a series of measures at the end of 2011 (IMF, 2012c). Nonetheless, market tensions in Spring 2012 necessitated seeking financial assistance and in June there was an announcement that assistance would be sought to recapitalize the banks (IMF, 2012c, p 6). Financing of up to €100 billion has been made available to recapitalize the banks (IMF, 2012f, p3).

While Spain is not a 'programme' country in the sense that Greece, Ireland and Portugal are – assistance is being made available relative to its banks' recapitalization from EFSF/ESM and there is surveillance by the IMF (IMF, 2012b). The European Council has given Spain another year to reduce its deficit below 3% of GDP⁴⁰.

One of the differences relative to Ireland is the sheer size of the Spanish economy – the fourth biggest in Europe, and as such it was considered 'too big to fail'. Amongst the measures envisaged for the management of Spain's banking crisis is debt sharing with the hybrid/subordinated bondholders (IMF, 2012c).

According to the IMF, Spain is now in the middle of an unprecedented double-dip recession, with access to market financing costly, unemployment high and public debt increasing and sectors of the financial sector lacking capital and access to markets. This situation poses risks to the rest of Europe (IMF, 2012c). The IMF considers that the outlook is very difficult (IMF, 2012c, p 10).

As **Table 14** shows, following a contraction from 2007, growth was very weak in 2011 and the forecasts are not good. The economy shrank in quarter 2, 2012, which was the third consecutive quarter showing a decline (European Commission, 2012, p. 9, 69).

The latest analysis from the European Commission suggests that revenue shortfalls, higher interest payments and rising social transfers (due presumably to rising unemployment) have almost offset savings from expenditure cuts (European Commission, 2012b, p 68).

SPAIN : TABLE 13 : Government Debt Rates

	2004	2005	2006	2007	2008	2009	2010	2011
Government deficit/surplus, % GDP	-0.1	1.3	2.4	1.9	-4.5	-11.2	-9.7	-9.4
General Government Gross Debt % GDP	46.3	43.2	39.7	36.3	40.2	53.9	61.5	69.3

Source: Eurostat, 2012j, 2012k, tsdde410; gov_dd_edpt1

⁴⁰ The plan is as follows: 2012: 6.3% (previously 5.3%); 2013: 4.5% (previously 3%); 2014: 2.8% (previously 2.2%) (IMF, 2012c)

SPAIN TABLE 14 Real GDP growth rate – volume

Percentage change on previous year	2006	2007	2008	2009	2010	2011	2012 (f)	2013 (f)
EU (27 countries)	3.3	3.2	0.3	-4.3	2.1	1.5	-0.3*	0.4*
Spain	4.1	3.5	0.9	-3.7	-0.3	0.4	-1.4*	-1.4*

Source: Eurostat, 2012, tec00115;

*European Commission, 2012b - f: forecast - IMF forecast: for 2012: -2.3 %; for 2013: -0.7% (IMF, 2012f, p. 66)

Policy Responses

Responding to the economic crisis, Spain introduced a number of stimulus measures in 2008–2009, some of which were reversed subsequently in 2010 when austerity measures were introduced as a response to pressure from financial markets and the European Commission due to the rising deficit (Callan et al, 2011, p 8). Measures introduced in the 2010–11 period included:

- elimination of universal birth grant from January 2011,
 - freeze of the Indicator for Social benefits (IPREM) in 2012 – this affected child benefit and unemployment insurance and assistance,
 - tightening of the eligibility conditions for the Temporary Unemployment Protection Programme (Programa Temporal de Protección por Desempleo e Inserción),
 - reduction of child benefit for children under 2 (from €500–€291) in 2011
 - means-testing of the €400 personal tax credit from 2010,
 - cut to pay of Civil Servants (5% average, but could be up to 9.7%) in 2010, pay freeze in 2011,
 - standard rate of VAT increased from 16% to 18%, and reduced rate increased from 7% to 8% from July 2010,
 - increased taxes for top earners (over €120,000) and increases in taxes on capital income.
- (Callan et al, 2011).

As it became clear that Spain's deficit was going to be worse than projected for 2011, Spain's new Government introduced measures in December 2011 and subsequently in a draft budget in April 2012. They included:

- expenditure cuts in education and health equal to 1% of GDP,
 - increases on marginal tax rates on personal and capital income and on property sales.
- (IMF, 2012c, p. 19).

There were also some 'offsetting measures' such as:

- slight pension increases,
 - reinstatement of a mortgage deduction for housing,
 - extension of the lower VAT rate for property transactions.
- (IMF, 2012c, p. 19)

Overall, the Budget 2012 measures presented to Parliament in April 2012 involved a ratio of two thirds expenditure cuts, one third revenue raising (IMF, 2012c, p 18, 19).

In July 2012 the Government proposed a series of measures including:

- VAT increases (standard rate increased from 18 to 21%; reduced rate from 8 to 10%; super-reduced rate unchanged at 4%) with some products moving to the higher rate,
 - unemployment benefit reduced (with the replacement rate after six months falling from 60% to 50%),
 - mortgage income tax deduction to be removed,
 - social security contributions reduced by one percentage point in 2013 and a further point in 2014
 - extra payment in December to civil servants suspended for 2012 (equivalent to nearly a monthly wage)
- (IMF, 2012c, p.2).

A range of other measures are also in train aimed at introducing greater flexibility in employment contracts and dismissals (IMF, 2012c, p. 29).

In September 2012 an increased sales tax led to the sharpest monthly fall on record in retail sales (Reuters, 2012).

Austerity measures have led to increasingly frequent protests and caused a rise in separatist sentiments especially in Catalonia (Reuters, 2012). A general strike was held on November 14th, 2012 the second against the new Government since they took office in December 2011. It was marked by violent clashes in several cities.

In November also the issue of mortgage debt is high on the political agenda as a series of suicides associated with evictions caused the government to promise action on mortgage debt for those hardest hit. Banks have repossessed some 400,000 properties since 2008 (though not all of them are homes) (Reuters, 2012).

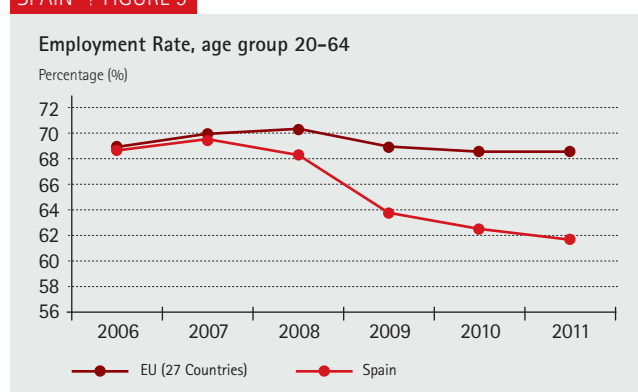
In the Eurobarometer survey of the views of Europeans on the social climate, Spain's ranking has decreased in every year since the survey started (2009), and stands at -2.1 in 2012 in eighteenth position out of EU27 (European Commission, 2012, p 43–46).

Employment/Unemployment

Figure 9, below, shows how Spain's employment rate declined rapidly from 2007 reaching 61.6% in 2011 as opposed to an EU27 average of 68.6% for those aged 20-64. The employment level at quarter 1, 2012) is 59.6% for people aged 20-64, extending the persistent downward trend observed since 2008. Latest figures suggest that the employment rate declined markedly (-4%) in the year to quarter 2, 2012, representing 745,000 people. This decline was exceeded only by Greece (-9%) and (marginally) by Portugal (-4.2%). (European Commission, 2012, p 13, 69).

In 2011, Spain had the highest unemployment rate in the EU at 21.7% well above the EU27 average rate of 9.6%, and representing some 4.9 million people (Eurostat, 2012i). By July 2012 the rate had worsened further to 25.1%. It was still the highest rate in Europe and was 20.6 percentage points above the country with the lowest unemployment rate (Austria), the largest gap seen in a decade (European Commission, 2012, p 14, 72). Latest figures suggest that the rate has worsened again and in September, 2012 stands at 25.8% (just under 6million people), the highest in EU27 countries and well above the current EU27 average of 10.6% (Eurostat, 2012n). See Table 15, below, and Appendix 7.

SPAIN : FIGURE 9



Source: Eurostat, 2012b, t2020_10

Youth unemployment (age 15-24) is a particular problem, with a rate of 52.9% (July 2012), a rate which is exceeded only by that for Greece (55.4%, June 2012) and approaching 2.5 times the average rate (of 22.5%) (European Commission, 2012, p 72).

Spain's long-term unemployment rate has increased in the past year (to quarter 1, 2012) by 1.7 percentage points, and now stands at 10.3 %, second only to Greece and well above the EU27 average (4.5%) (European Commission, 2012). A high proportion (41.6%) of those amongst the unemployed was long-term unemployed (without work for 12 months or more) at the end of 2011 (Eurostat, 2012i).

SPAIN : TABLE 15 : Unemployment-Headline Statistics

	2011	2012
Unemployment – rate (%)	21.7%	25.1% (July) - 25.8% (Sept)
Unemployment – number of people	4.9million	5.9million (Sept)
Youth Unemployment Rate (15-24)		52.9% (July)
Long-term Unemployment Rate (unemployed for 12 months or more)		10.3% (Q1)
Share of unemployment that is long-term	41.6%	

Source: Eurostat, 2012i; Eurostat, 2012n, European Commission, 2012, p 72

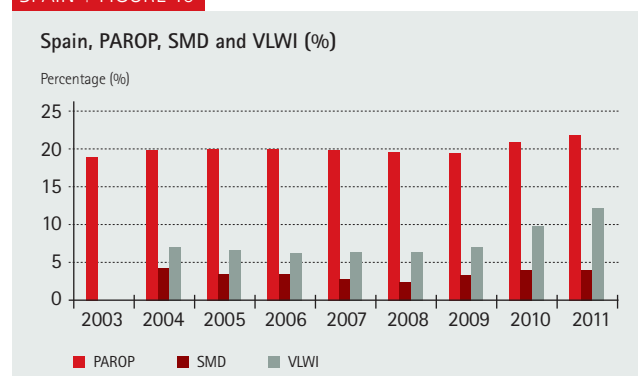
Poverty

For Spain comparable figures on poverty are published for 2011 (with a 2010 reference period), but this represents the relatively early stages of the impact of the crisis and does not show the impact of many of the measures introduced in Spain more recently.

Nonetheless, the combined 'at risk of poverty or social exclusion' indicator used under the Europe 2020 strategy has risen in Spain each year since 2008 (when the rate was 22.9%). The 2011 rate is 27%, representing an increase of some two million people since 2008 and above the EU27 average of 23.4% (Eurostat, 2012c).

Rates for each of the three measures that make up the combined 'at risk of poverty or social exclusion' indicator are set out in Appendix 3 and shown below in Figure 10.

SPAIN : FIGURE 10



Source: Eurostat, 2012c, t2020,51,52,53
 PAROP: People at risk of poverty, 60% threshold
 SMD: Severely Materially Deprived
 VLWI: Very Low Work Intensity (See Glossary for definitions)

As **Figure 10** shows, a sizable increase in the at risk of poverty rate for Spain is in evidence since 2009 as well as in the third indicator, people in households with very low work intensity (meaning that the adults in the household are not working or are working very little). The at risk of poverty rate increased steadily from 2009 (when it was 19.5%) to 20.7% in 2010 and to 21.8% in 2011, representing (in 2011) just under 10 million people (Eurostat, 2012c). The increase in the rate between 2009 and 2010 of 1.2 percentage points was almost the largest increase in EU27 (exceeded only by that of Slovenia) (Social Protection Committee, 2012, p. 11), and the rate of increase in 2011 has been of a similar amount.⁴¹

This rate is well above the EU27 average of 16.4%. In fact, in 2010 (the latest year for which comparable data are available) Spain had one of the highest at risks of poverty in EU27, with a rate equal to that of Bulgaria and only marginally behind the rates in Romania and Latvia. See **Appendix 5**.

The rise in the at risk of poverty rate occurred notwithstanding the fact that the 60% risk of poverty threshold has fallen each year between 2009 and 2011 in line with a fall in incomes generally⁴² (Eurostat, 2012h).

The rise in people living in households with very low work intensity is particularly striking having risen from 6.2% in 2008 to 12.2% in 2011 (Eurostat, 2012c), an increase of 6 percentage points, and signalling signs of long-term exclusion from work, something that is also reflected in the long-term unemployment rate already mentioned.

When the share of people who are living with less than 40% of the median income is examined, there has been a marked increase between 2008 and 2010, going from 8.2% to 10.1%, an increase of almost 2 percentage points (Eurostat, 2012d, tessi126). This suggests that there are signs of a deepening of poverty levels amongst the poorest people.

Discussion: Impacts on Vulnerable Groups

In Spain the economic crisis has adversely affected a population that already had a high rate of income poverty – having demonstrated an at risk of poverty rate above the EU27 average since at least 2005. (For rates, see **Appendix 3**).

The time lag in the availability from Eurostat of data on poverty means that the figures set out in this report relate to the early years of the economic crisis. Notwithstanding that, income poverty can be seen to have been affecting huge

Another indication of the depth of poverty is the relative median at-risk-of-poverty gap, which helps to quantify just how poor the poor are. The at risk of poverty gap has widened in Spain by 7.2 percentage points between 2008 and 2011, to reach 30.6%, which is one of the worst rates in Europe, exceeded only by four European countries (Latvia, Romania, Bulgaria and Lithuania) (Eurostat, 2012q).

Child Poverty: Spain's rate of child poverty has been high relative to the European average since at least 2005 (when comparable data are available from Eurostat). The 2011 rate is 27.2% and it has been increasing since 2009 (when it was 23.7%), showing a 3.5 percentage points increase in two years (Eurostat, 2012e). The EU27 average rate was 20.5% in 2010 (Eurostat, 2012e) when Spain's child poverty rate was exceeded only by Bulgaria, Latvia and Romania (2010 being the last year for which sufficient data is available to make comparisons).

Older People: At 21.7% in 2010 and 20.8% in 2011, the rate of poverty in Spain for people aged 65+ is high by comparison to the EU27 average of 16% (2010) (Eurostat, 2012f). It is also higher than the risk of poverty rate for the Spanish working age population (19% in 2010) (The Social Protection Committee, 2012, Table 5). However, the rate for those aged 65+ has fallen since 2008. Rates are higher for women (21.8%) than men (19.5%, 2011) (Eurostat, 2012f). The EU Social Protection Committee has pointed out generally in relation to pensions, that improvements in the position of over 65s have been assessed in relation to changes in the poverty thresholds rather than improvements in real terms in their economic situation (2012, p 20).

Working Poor: The rate of poverty in Spain for people who work and who still do not earn enough to protect them from poverty (the working poor) is 12.3% (2011). This is one of the highest rates in Europe (EU27), exceeded only by Romania (Eurostat, 2012g).

numbers of people with just under 10 million people living at risk of poverty and with the increase between 2009 and 2010 being one of the largest increases in EU27. There are also signs of a deepening of poverty levels with a sizable increase between 2008 and 2010 in the rate of those who are poorest⁴³. Child poverty is a particular problem with Spain's rate increasing since 2009 and exceeded only by three eastern European countries.⁴⁴ A high proportion of those who work do not earn enough to bring them above the poverty threshold.

⁴¹ Sufficient comparable data are not available to assess how the 2011 rate of increase compares with the rates of increase in other countries.

⁴² The 60% at risk of poverty threshold is 60% of median equivalised incomes. The at risk of poverty threshold in Spain for a single person was €7,980 in 2009, €7,818 in 2010, and it fell again to €7,509 in 2011. See **Appendix 5**.

⁴³ That is, living below the 40% of median income line as opposed to the more commonly recognised line of 60%

⁴⁴ Bulgarian, Latvia and Romania (2010) (Eurostat, 2012e)

The at risk of poverty rate for older people continues to exceed that for the working age population.

As discussed above, Spain has the highest unemployment rate in Europe (EU27). There are also very high rates of both youth unemployment and long term unemployment, which are both second only to Greece. Youth unemployment is a particular issue with more than half of those aged 15–24 being unemployed.

There are big income gaps between those on permanent and those on temporary contracts. Spain has the highest share of temporary workers in OECD countries (IMF, 2012c, p. 28). Young people are, of course, particularly affected by unemployment and those that are employed are often employed on temporary contracts (IMF, 2012c).

The IMF recognises that income inequality is rising in Spain, with one of the worst deteriorations in income distributions since the crisis (IMF, 2012c, p. 8).

Net emigration has started again for the first time since the early 1990s (IMF, 2012c, p. 8).

Researchers who studied the impact of austerity measures introduced to mid 2011 across 6 countries (and as such have captured impacts of the early measures introduced), have noted some features relating to Spain:

- As with most of the other countries included in the study, austerity measures impacted more on households with children than on those without (Callan et al, 2011, p 13, 27),
- Cuts to benefits have had a particularly large effect on households in the lower part of income distribution while cuts in public sector pay affect those on higher incomes more (Callan et al, 2011, p 13).

Furthermore, while some measures had the effect of distributing the cuts in income relatively evenly across all income groups (in other words, each decile group paid roughly the same proportion of income), this was changed by VAT increases, which placed a larger burden on those on low incomes relative than on those on high incomes (Callan et al, 2011, p. 13). Of course, even if the effects of the crisis and the measures introduced to address it had proportionately affected people on low incomes and those on high incomes equally, this would not say anything about ability to contribute of the poorest people.⁴⁵

Again we repeat that the study cited (Callan et al, 2011) dates from 2011 and would not take into account the subsequent proposed changes in VAT, which it seems reasonable to anticipate would continue this trend towards disproportionately affecting lower income households. In Spain the crisis (and measures adopted to address it) is worsening levels of poverty that were already high.

On the ground, calls on the services of Caritas Spain have increased by some 170% since the start of the crisis. They point to the adverse impact of austerity measures on people dependent on social services and an increase in people lacking food and money to pay utility bills, as well as people needing jobs and social interaction. They also express concern about childhood poverty rates and about malnutrition in children due especially to cutbacks affecting school meals (Caritas Europa, 2012). They also point to families now depending on a single income of a grandparent's low pension, and they are concerned at an increase in tension within families, which the crisis has precipitated as people have to rely on family members for essential needs like never before.

In addition, while it is impossible to analyse impacts of cuts to services like health and education in detail in this report, it is reasonable to assume that they may particularly affect those who are poorest and who do not have sufficient income to compensate for them. Decreasing the educational budget in Spain has to be considered in light of the fact that Spain has one of the highest rates of early school leaving⁴⁶ in Europe (26.5% as opposed to an EU27 average rate of 13.5% in 2011) (Eurostat, 2012m), as measures which might worsen this situation would be short-sighted in view of the personal cost – in terms of life chances and even health – and indeed the cost to the economy in the longer term.

As set out above a comprehensive list of further cuts and austerity measures were proposed in summer 2012, which included further reductions in welfare and increases in VAT. The impact of these measures on vulnerable groups is likely to be serious, given the high levels of unemployment and poverty already being experienced in Spain, and the finding that increases in VAT have already disproportionately affected poorer people.

⁴⁵ It is only to be expected that better off households pay a larger share, as they have a higher share of total income – it does not signify that the burden of the measures in relation to their ability to pay is also larger and it does not tell us if the distribution is equitable or not (Callan et al, 2011 p 12, 13).

⁴⁶ Early leavers from education and training refers to the % of the population aged 18–24 with at most lower secondary education and not in further education or training (Eurostat, 2012m)



Part | 3

THE CARITAS
RESPONSE

Caritas member organisations and affiliates work in a wide range of contexts and in a range of ways across Europe, and they are each responding to the current crisis. Many provide services to people in need, others focus on work for social change through advocacy. Five of these organisations have contributed to this report by gathering relevant data, by sharing accounts of their work to support people affected by the crisis,

and by reflecting on the impacts of the crisis and of austerity measures as they observe them relative to different groups.

In this section we include some accounts of their work, some case studies representing their different approaches and illustrating their different impacts, and we finish by listing some of the challenges they face.

Programmes and Initiatives of Caritas Members

Greece

Caritas Athens Refugee Programme has concentrated in recent years mainly on the needs of refugees and migrants. They have a fixed staff of only five people – a cook, a cleaner, a secretary, a doorman and a social worker – who are assisted by more than seventy part-time volunteers who help on a daily, weekly or monthly basis to keep the centre functioning. The work involves

- serving up to 300 meals a day,
- distributing food parcels to nearly 100 families a month (including immigrant families and now Greek families also),
- sorting and distributing free clothes and bed-linen twice-weekly, and
- providing language lessons in Greek and English using volunteer teachers.

A social worker and a number of volunteer doctors and lawyers are involved in education (in health care and hygiene), in organizing vaccinations for children (otherwise children of migrants may miss out on vaccinations given routinely through the school system) and in routing asylum cases towards professional help.

They report that support to a range of groups is also given by Caritas Athens and the Archbishopric, and also through local

organisations of Caritas and parishes throughout Greece. Those supported include low income families (many of whom cannot pay their food or electricity bills or their health-care costs), people at risk of losing their homes, older people who lack family support and the prison community.

Groups particularly affected by the crisis that the Caritas Athens Refugee Programme works with include single parent families with young children (for whom access to kindergarten facilities is becoming more difficult due to closures). However, they are also registering concern (as stated in **Part Two**, above) in respect of disabled people (whose cases are being re-examined) and disabled children, people coming to the end of access to unemployment payments (which are subject to a one-year limit), pensioners on the minimum pension, pensioners with medical problems (who must now pay in advance for medicines and await reimbursement, which can take months), and immigrants, many of whom are faced with unemployment (which soon leads to their status becoming undocumented/illegal, despite having been in Greece for years). The position of new immigrants who continue to come to the country is also difficult.

Ireland

Social Justice Ireland is a non-political organisation of individuals and groups across Ireland committed to the concept of a just society. It has an unparalleled reputation for research, advocacy and dissemination of accurate, evidence-based social analysis and public policy in relation, in particular, to issues of social justice, poverty, inequality, social exclusion, and sustainability. It works with Caritas Europa on a wide range of issues particularly at an EU level.

Social Justice Ireland draws on the work being done by its members in a wide range of local contexts. It builds on this and ensures that the voice and experience, the knowledge and wisdom of its members are reflected in the various arenas in which decisions are made. In all of this Social Justice Ireland will seek to promote the development of all people and the whole person simultaneously and in solidarity.

Within its programmes Social Justice Ireland:

- Plays an active part in the national Social Dialogue process in Ireland and the EU,
- Produces and publishes an annual socio-economic review and regular policy briefings on relevant topics and maintains a website with relevant up-to-date material on a wide range of social justice topics,
- Resources and supports a post-graduate Masters degree in Social Justice and Public Policy programme,
- Leads a Budget analysis project which includes the analysis and critique of Government's annual Budget and makes submissions to Government and other relevant bodies on policy issues as appropriate,
- Organises an annual social policy conference on a relevant topic with broad participation from across a wide range of sectors,

- Networks with other groups and organisations and maintains representation on a range of public bodies,
- Maintains an on-going dialogue with a wide range of national and international agencies and bodies including the International Monetary Fund, the European Commission and the European Central Bank.

In the context of this research Social Justice Ireland has consistently researched and published detailed analysis of the situation as it has developed, addressed its causes and consequences, monitored the impact of Government initiatives and annual budgets, dialogued with the troika (IMF, European Commission and the European Central Bank) and developed alternatives to Government and troika proposals, alternatives that would protect the vulnerable and promote economic development in a sustainable manner while protecting the basic infrastructure of Irish society.

Italy

Caritas Italy, along with local churches, and sometimes along with local authorities and a wide range of actors from civil society, delivers a range of programmes to service users.

Programmes include:

- microcredit/microloans, which are made to families and to small businesses (sometimes also involving local banks),
- grants and donations,
- innovative projects, which are very varied (see below) often aiming help families and individuals to meet basic needs,
- information services, which offer counselling and orientation on issues like employment and housing (often working with other organisations such as Unions and others) (Caritas Italiana, 2012c).

The highest number of projects is in the South (41.5%), followed by the North (33%) and the Middle (25.5%).

Under the heading of 'innovative projects' a wide variety of services are offered. Their main aim is to help families and individuals to meet their basic needs or to modify their lifestyles. They can also include second-hand stores, cards, organising mutual help between families, working with supermarkets and big stores, offering training to help create new businesses or social cooperatives, budgeting help, psychological counselling centres for business people who are in financial difficulty, new forms of home care (such as helping with carrying shopping).

As already mentioned in **Part Two**, Caritas Italy has noticed an increase in projects across all categories, with the exception of providing microloans, where repayment has become an issue for many borrowers (and sometimes local banks are withdrawing cooperation). In just one year there has been a 22.2% increase in projects. In two years (since 2010), the increase has been 70.7%.

Portugal

Caritas Portugal is a national service of the Portuguese Bishops Conference for the social pastoral action of the Church. The aim is integrated human development and social transformation, working for a more just society with the participation of those affected by any form of exclusion.

In Portugal there are 20 diocesan Cáritas, each of which responds to the local needs and accordingly they offer different types of social responses. Overall, the Cáritas network deals with a range of social problems that includes problems of children, older people, migrants, Roma, people affected by drug abuse, by HIV/AIDS, homelessness and by many other issues. Cáritas interventions are conducted by volunteers and paid staff who work closely with communities.

Caritas Portugal, the national office, is active in a range of areas including training programmes for pastoral agents, communications, social policy, advocacy, responding to emergencies (both national and international) and international cooperation. The international emergencies are supported through the Cáritas network and with the national partners. Caritas Portugal is a member Caritas Internationalis, Caritas Europa, the National Confederation of Solidarity Institutions, the Portuguese Confederation of Volunteering, the non-Governmental Forum for Social Inclusion and the Portuguese Platform of NGO's.

Spain

Caritas Spain operates through 68 diocesan offices that manage the work of some 65,000 volunteers. Caritas Spain works to support vulnerable and marginalized people, the poor and needy, immigrants and young people in difficulty, among others. It supports research into the causes of poverty and regularly produces publications on related issues. Caritas Spain collaborates with partners in humanitarian and development programmes in countries in Africa, Asia, Europe, the Middle East and Latin America.

In 2011, Caritas Spain's projects succeeded in integrating 13,000 people in the labour market; they spent €33million in giving direct help (such as in paying bills, school-books, health-related costs), and they helped 1,015,276 people. The numbers helped had increased hugely by 2011 from around 300,000 in 2007 (Caritas Europa, 2012).

Caritas Member Programmes – Responding to the Crisis

Greece

In recent months, the Caritas Athens Refugee programme has helped immigrants and also many Greek families whose circumstances have changed and who now find themselves in dire need. Below we include two case studies to give examples of the types of problems that their programme is encountering.

Caritas Athens reports that faced with the crisis there is the emergence of a more targeted and proactive approach by a number of NGOs in Athens. Amongst them they list the Greek Orthodox Church, the Municipality of Athens and the private charitable foundation of the Niarchos family and others.

CASE STUDY

M. is a 33 year old unemployed, single mother with a 4 year-old child. The father of the child did not legally recognise him and abandoned them both when it was discovered that he was autistic and had serious motor-coordination problems. She had no work and went to live with her widowed mother, who has a €500 euro monthly pension (from next year this income will be reduced by €1.000 per annum). She came to the Caritas Athens centre asking for food and for help to get her child accepted by one of the very few day centres for children with a learning disability. Up to now this has not been possible (as there were no places available in any special school). Our social worker is encouraging her to finish her secondary education while her mother looks after the child.

Mrs.DB is a 37 years old Polish mother of two children. She was married to a Polish man and they were both legal and working at a café in Athens before having children. When the first was born, as they were both working legally, he was able to attend a state day care. When recession started, she lost her job and when she became pregnant again, her husband left her. The Catholic Church provides for the rent of her flat and the Social Services of Caritas Athens Refugee Programme provide her with food and got the smaller child accepted at one of the day care centre of the Municipality. She has found a small cleaning job and is looking for more work. Her husband refuses to help and she has no money for a lawyer to start legal proceedings to obtain his help to support the children. She has no family and no house in Poland, therefore she stays in Greece. She is still theoretically legal through her husband if he has legal work. If not, the status of both will become irregular.

Caritas Athens Refugee Programme

Ireland

The experience of Social Justice Ireland represents a case study of a response to the crisis and to the imposition of austerity measures on the level of advocacy.

CASE STUDY

As part of its work in the context of Ireland's current bailout agreement, Social Justice Ireland meets with the 'troika' (IMF/EC/ECB) a number of times each year. At its meeting with the 'troika' in October 2012, Social Justice Ireland presented a detailed Briefing which analysed the selective use of data by Troika organisations in some of their recent publications. The Briefing showed how this misuse of data is leading to inaccurate analysis which in turn is producing inappropriate policy recommendations for Ireland.

The 'Troika's analysis sets most of the parameters for the Irish Government's decisions on the Budget and other key areas of policy. So it is crucially important that the analysis is as accurate

as possible. The selective use of data identified in the Briefing concerned five key areas (i.e. the poverty rate, the reduction of welfare payments to unemployed people over time, the changes in welfare rates generally in the past, on replacement ratios for job seekers and on the distribution of 'hits' following from Government decisions in recent years).

Under each of these issues the Briefing identified where data had been selectively chosen in recent troika publications, where this selectivity has led to inaccurate analysis which in turn has led to inappropriate policy proposals being made.

The analysis was not disputed by the troika. Social Justice Ireland was invited to engage with the IMF and the European Commission technical teams on the analytical issues identified and on policy proposals set out by Social Justice Ireland. This dialogue is ongoing. It remains to be seen if the inappropriate policy proposals presented by the 'troika' will be taken up by Government.

Social Justice Ireland

Italy

Caritas Italy faces increased demands on its services and is engaged in a range of responses across the country. National monitoring revealed the presence of 985 anti-crisis projects by 212 Italian dioceses (out of a total of 220 dioceses) (Caritas Italiana, 2012c). Amongst these initiatives are:

➤ **Barnaba Project, Let's Give Credit to Hope** (Caritas Andria, Puglia, South Italy)

This is a microcredit project for young unemployed people (aged 18-35), aimed at supporting productive activities and creating new jobs. The project offers financial support to those who cannot obtain it elsewhere, as well as training, technical assistance, tutoring, work orientation, organising solidarity networks, and supporting new life-styles. The project finances the start-up of different types of new business and small enterprises: social cooperation, associations, freelancing and professional activities in the social field.

➤ **One Hour For You**, Caritas Teramo-Atri (Abruzzo, Central-South Italy)

In cooperation with Banca Popolare Ancona, a fund has been established to give practical help to families that have lost all sources of income through offers from local families that have a regular work. The idea is to offer regular help equivalent of one hour work. The beneficiaries don't receive money, but, after an interview, they can take advantage of periods of training (average 3 months) with local companies.

➤ **Budgeting Project**, Caritas Nardo-Gallipoli (Puglia, South Italy)

This project helps families amongst the 'new poor' to control household spending, taking account of family basic needs and the amount of household income.

➤ **Project Penelope**, Caritas Treviso (North Italy)

This project consists of a specialized counseling centre (Centro di Ascolto), which helps entrepreneurs and business people in financial difficulty from a human and relational point of view. The project offers psychological tools to develop resilience and deeper understanding and awareness of their personal situation and social context.

➤ **Solidarity General Store** (Emporio Della Solidarieta), Carits Roma

The Emporio is a real supermarket (500 square meters), with automated pay desk, trolleys etc. A magnetic card authorizes an allocation of spending for people affected by poverty who are screened through the social services of local authorities or the Centri di Ascolto of roman parishes. The project is based on a partnership between Caritas diocesana di Roma and Roman Municipality.

➤ **Loan of Hope**, Italian Episcopal Conference (CEI), Caritas Italy, Italian Bank Association

Established in 2009 by the Italian Episcopal Conference (CEI) and the National Association of Italian banks, the project grants loans at an affordable interest rate, based on an ad hoc fund established by CEI. The beneficiaries are small enterprises (family businesses) and families in difficult situation. Since 2009, 1,662 families have been helped, and 10 million euro has been provided.

➤ **Caritas Services Against Poverty and Anti-Usury Foundations**

According to last data (January 2010), diocesan Caritas promote and/or manage 4,991 activities, services and projects aimed at helping people experiencing poverty. Amongst them are some 3,583 distribution centres of primary goods, 449 social canteens, 414 shelters and hostels for homeless people,

and 230 residential services for immigrants. Importantly there are 146 anti-usury diocesan foundations, and there has been an increase in this area as many people turn to unlicensed lenders and are in difficulty due to the very high interest rates. The Foundations offer different forms of help such as psychological assistance, privileged access to small loans, accompaniment to legal practices and more.

CASE STUDY

E is 40 years old, married, mother of two children (6 and 9 years). She had a stable occupation as an employee in a fabric factory. Her family took out a mortgage to buy their house, counting on two stable salaries, that would allow the family to lead a simple but decent life. In July 2010 the company where E was working closed and she was made unemployed. Although the local labour market is difficult, E didn't give up, she started to look for a new job immediately, but she was not able to find one. Their troubles really started when they came to the end of savings: E's family cannot now afford the usual expenses and maintain the former way of life. In the meantime, her husband fell ill and had an emotional breakdown and had to get leave from work. The family

had to confront the father's illness and the related health care costs. E tried to persuade her husband to get treatment. In the end, she went to Caritas to get some help, mostly in order to satisfy her family's basic needs: overdue bills, daily shopping, clothes, etc. She tried to protect their children from the sudden change, maintaining the hope and the willpower to move forward.

In March 2011 she was included by Caritas in a 'work grant' project called "Together it weighs less," as an accountant at a school. Thanks to the project, she is able to integrate the salary of the husband. The basic family needs are met by the expenses reimbursed by the project. She is now regaining self-confidence and slowly overcoming a difficult situation. The project is not over yet, but some recruitment opportunities are emerging.

Extracted from: Caritas diocesana di Prato, "Prima e durante la crisi. Un'analisi dei dati dei Centri di Ascolto Caritas dal 2006 al 2010", Prato (FI), Novembre 2011.

Caritas Italy

Portugal

Caritas Portugal draws attention to a perceived lack of hope amongst many of the people they serve within a fast-changing reality. For many of the families that they are supporting, it is their first time having to seek help outside their family. Caritas Portugal identifies an alarming increase in people seeking their help, pointing out that those unemployed are particularly hard-hit, and that housing issues, especially making repayments to banks, is a major difficulty. They also point to the fact that children are being reported by schools to be lacking food.

There has been an enormous increase in the demand for their services between 2011 and 2012. The figures for all Caritas Diocesan centres throughout the country suggests that during the first half of 2012 over 30,000 families were helped – an increase on the figures for the same period last year. If individuals are reckoned, the number in the first half of the year exceeded 88,000, representing an increase of over 64% on the same period last year (Caritas Portugal, 2012).

Caritas Portugal also points to the crisis having begun to awaken a national awareness of the need to defend the human rights of everyone.

Spain

Caritas Spain has had to develop new responses and reorganise its existing systems to address the new situation that is being confronted. Examples of these initiatives are:

➤ DFC (Distribution of Food and Cleaning products)

The DFC Project operates as a low cost store. The idea arose in an attempt to respond to the large numbers of people contacting parishes and the volunteer teams' efforts to serve all of them. A premises was obtained and the project's main objective is to supply, at affordable prices, food, personal hygiene products and household cleaning to people in difficult situations. Some 50 products are made available at 40% of the cost price and families (that have been screened and given access for a year) are given a

monthly quota of purchases. It is all about dignifying food distribution, and also offering an environment for meeting and training through the team of volunteers. The volunteer team initially numbered 10 but this has expanded.

➤ Rethinking the Parish Reception – Caixa Pro-Childhood Project

This is a new project aimed at ensuring a quality response to the increased demands being made on parishes. It is operating for almost four years. It has involved training for volunteers to give them more skills in social support for families and different approaches to organizing how support is offered. There are two highly-motivated volunteers in charge.

➤ All for One – 'Rescuing Poverty' Fund

In response to requests for help from people unable to pay mortgages and facing eviction, and to people becoming unemployed, an extraordinary campaign was established in 2008, followed in early 2009 with the establishment of a committee to manage the fund. The role of the committee is to assess and grant-aid requests for funding which individual parishes are unable to meet, prioritizing families with children. The committee has also become a focal point for sharing the

different realities and experiences that are arising from the economic crisis, something that has contributed to informing advocacy on social policy. (For example, the demand for a policy on basic incomes and an extension of services provided by municipal social services). There has also been a shift of emphasis relative to the people who are helped (who often now do not have any income or social benefit), moving from a once-off support to accompanying them and coordinating with Social Services.

Challenges Faced

Monitoring and Compilation of Statistical records: Some Caritas member organisations can demonstrate good practice in record-keeping relative, for example, to increased use of services since the beginning of the economic crisis. The practice of Caritas Italy represents an example of this (Caritas Italiana, 2012c). However, there are also challenges faced in recording all service users across a huge range of centres and programmes in a uniform manner.

Funding Squeeze and More Demands on Services: The environment in which some NGOs are operating is particularly challenging, due to funding difficulties at precisely a time when there are increasing calls on their services. A range of funding

sources are reducing simultaneously, including church collections even in affluent areas. In Greece, in particular, NGOs have to deal with a much changed and less favourable taxation system that has been introduced in recent years. Some (such as Caritas Portugal) have to engage in different kinds of fundraising campaigns such as audio-visual campaigns and others.

Demands on Services Requiring New Responses: New forms of poverty that are emerging, and new situations of distress being faced are causing Caritas member organisations to have to develop, adapt and innovate. This appears to be an ongoing need as new projects have to adapt as the demands continue to increase and to change.



Part | 4

CONCLUSIONS AND
RECOMMENDATIONS

General trends

General trends are observable across the five countries (Greece, Ireland, Italy, Spain and Portugal). There are some similar patterns and some dissimilarities between the five

countries relating to employment and unemployment and to income and poverty amongst vulnerable groups. Among these are the following:

Employment/ Unemployment

- There are high levels of unemployment. The rates are well above the EU average in four of the five countries; only Italy's rate is above, but closer to, the EU average than the others; **Spain and Greece have the highest rates in the EU27**, with the latest figures suggesting rates of over twice that of the EU average.
- There are very high youth unemployment levels (**15–24 year-olds**) in all five countries, with the levels in Greece and Spain over 50%, nearly 2.5 times the EU average; this is against a backdrop of an EU27 average level of youth unemployment at the dramatically high level of 22.5%;

increases in the year to mid-2012 were very marked in Italy, Portugal and Spain and especially in Greece where the percentage increase was highest of all at 10.9 percentage points.

- Long-term unemployment (meaning people unemployed for more than a year) has reached its highest level in a decade in Greece (12.3%), Ireland (9.6%), Portugal (6.9%) and Spain (10.3%); Italy's rate is lower but, at 5.3%, is also above the EU average; In all countries a high proportion of those unemployed are long-term unemployed, and this proportion is highest in Ireland (nearly 60%).

Income/ Poverty

- Over the past year households in all five countries reported rises in financial distress, which were particularly sharp in Italy, followed by Greece, Ireland, Portugal and Spain; the rise has been sharp amongst lower income families in several countries (in Italy, for example). In all these countries, with the exception of Ireland, the top 25% saw their incomes fall by a larger proportion than was the case for the lower quartiles; in Ireland it was the lower quartiles that bore the brunt in the last year.
- While available data on poverty levels relates to the earlier years of the crisis, rates of income poverty have risen in all of the countries included in this report other than Italy (and albeit only slightly in Portugal); in Spain and Greece, where the available data is more up-to-date than in Italy or Ireland, there has been a marked increase in the at risk of poverty rate between 2010 and 2011.
- Child poverty is a problem for all five countries; its rate has begun to show an increase in all five countries, with particularly notable increases in Spain and Ireland
- The latest available data from Greece shows a significant increase in poverty of older people (that is over 65s) between 2010 and 2011.
- A study of distributional effects of the austerity measures introduced in the early years of the crisis (to 2011) suggests that in Ireland, Spain and Portugal, the measures have had a larger effect on households with children than those without and this was particularly marked for low-income households in Portugal (Callan et al, 2011, p 17). That same study showed that measures taken (up to 2011) affected poorer households in Portugal more than richer ones.

Increases in VAT (often on fuel) in several countries have a disproportionate effect on those who are poorest (Callan et al, 2011). Since that study was completed VAT has been raised (in countries such as Ireland) and more increases to VAT are now planned in other countries.

- Indebtedness of households and inability to meet financial obligations, especially housing loans, has been registered in many European countries since the crisis started in 2008, and it has been particularly notable in all of the countries that are the subject of this report, other than Italy (The Social Protection Committee, 2012, p.32). However, within the past year in Italy there has been a sharp increase in households reporting financial distress (European Commission, 2012, p 30).

It is predicted that as governments cut public spending and raise taxes even more to try to address structural deficits, household incomes will be hit for between 3 – and 10 years depending on when growth returns (Jenkins et al, 2011, cited in The Social Protection Committee, 2012, p. 15).

Since 2009, the EU Commission has tracked the views of Europeans of their personal situation, the situation of the country and of the welfare state and society (Eurobarometer on social climate, which is conducted annually). It operates as a complement to the official socio-economic statistics. Overall the index is at a low point in the four-year series – with an index of -0.8 (based on a scale from +10 to -10). All five of the countries with which this report is concerned rank in the lower half of the EU27 rankings for 2012 (European Commission, 2012, p. 44).

Main conclusions

- The evidence presented in this report shows that the Policy of Prioritising Austerity is Not Working and an alternative is required. The imposition of austerity measures and structural reforms aimed at reducing government borrowing and the debt/GDP ratio within a short number of years is not working in economic terms. Simultaneously, it is putting the social cohesion of Europe and the very political legitimacy of the European Union at risk. Given the requirement for a balanced budget there are obviously situations in which austerity may be required (such as when a country has been living beyond its means). In such cases a reduction in expenditure would positively impact on creating a viable economic future for that country. However, the overall analysis presented in this report makes it clear that a policy approach that prioritises austerity above all else, particularly at the expense of the weakest members of society, cannot succeed.
- Fair Solution to the Debt-crisis must be found: The recent EU agreement to recapitalise Spanish banks without adding to sovereign debt (June 2012) recognises that making taxpayers responsible for the massive debts of their banks is unsustainable. Turning banking debt into sovereign debt must be recognised as unfair and unsustainable for all affected countries and a fairer burden-sharing approach adopted.
- Despite much public rhetoric that suggests otherwise there has been a failure to integrate economic and social policies at EU and national levels. This is despite the fact that a longer-term commitment to an inclusive society is necessary to build a truly sustainable economy. The people currently paying the highest price are those who had no part in the decisions that led to the crisis. The countries worst affected include those with the biggest gaps in their social protection systems, and as a result their welfare systems are least able to protect their most vulnerable populations. This process is unfair and unjust.

‘The focus on fiscal consolidation has, in many cases, been at the price of social policies’

Frazer & Marlier, 2012, p. 7

Recommendations

We conclude this report with recommendations aimed at European Institutions and the European Commission, National and Local Governments, and NGOs (non-governmental

organisations). We finish with some comments on the role and commitment of Caritas and the Catholic Church.

1. European Institutions

This Report calls on the EU institutions to **Provide Leadership in relation to Groups at particular Risk of Poverty**. Leadership is called for in finding other, and more radical, ways to address what is a Europe-wide, and indeed a world-wide crisis rather than pursuing the current approach in which poor and vulnerable people across the Member States bear the burden of economic reforms.

Leadership from the European level means a strong commitment to the EU's agreed strategy of "Europe 2020" with its target of reducing poverty levels by 20 million people by 2020. European leadership means taking responsibility for the welfare of all European citizens, including the weakest and most vulnerable; ensuring that the policy decisions made are based on good information and communicated properly to citizens; entering into dialogue with, and ensuring the participation of citizens and Civil Society Organisations in public processes that contribute to official policy development and decision-making.

A new approach on the part of EU institutions requires them to take a lead on some of the initiatives outlined below.

The EU Institutions should:

1 Ensure an adequate social dimension to the Europe 2020 Strategy process for all Member States. The Commission's policy coherence must be seriously questioned given that the social objectives set by the Europe 2020 strategy (in areas such as employment, education, and poverty reduction) are at odds with the economic policies being pursued relative to achieving the deficit reductions required under the current austerity approach. Implicit in the approach of the Europe 2020 Strategy is that economic development, social development and environmental protection are complementary and interdependent – three sides of the same reality. The following practical steps should be taken in relation to the 'European Semester' of the Europe 2020 Strategy:

➤ Governments should be encouraged to include **specific sub-targets for poverty reduction amongst groups most at risk of poverty or social exclusion** in their National Reform Programmes submitted to the EU Commission on an annual basis. The groups targeted in this process might vary somewhat from country to country but are likely to include children, migrants, working poor, disabled people and older

people (especially older women). Progress made in reducing poverty levels amongst these groups should be monitored as part of the Europe 2020 Strategy Monitoring process. **Country Specific Recommendations should also be issued by the EU to Member States proposing concrete measures aimed at diminishing poverty among these groups.** Of particular importance in this process would be a requirement on governments to monitor and report on how their policy choices are assisting their countries to move towards achieving these targets. Where this process reveals that progress is not being made, there should be a mechanism available to allow the relevant policy initiatives to be revised so as to achieve the original poverty reduction targets set.

➤ The Commission should ensure proper **monitoring of the implementation of the Europe 2020 Strategy in "Programme Countries"** by adopting country specific recommendations for these countries every year. (This does not happen at present). These country specific recommendations should **not be limited to implementing the terms of the Memorandum of Understanding entered into with the EC/ECB/IMF, as is the current practice.** The structure of recommendations should be similar to those addressed to other countries (that is, they should specify the actions needed to achieve all the Europe 2020 targets, including in relation to employment, education and poverty reduction).

2 Introduce **Social Monitoring for Countries in EU/IMF Programmes:** Social impact assessments should be part of regular reporting on the implementation of lending programmes and/or fiscal consolidation measures. This should include assessments that (1) consider the cumulative effects of measures (not just their individual effects), (2) give particular attention to the most disadvantaged groups in each country, (3) outline policies that are aimed at reducing high levels of inequality. The Social Protection Committee of the European Commission has stressed the need to monitor the social consequences of the crisis and to find new ways of strengthening the social dimension of the Europe 2020 Strategy (2012, p 6). We endorse that approach and recommend that **more policy coherence be brought to the agreements with the peripheral countries** where the process of working toward the social objectives of the Europe 2020 Strategy are considered integral to the objectives also being sought in respect of debt/GDP and borrowing reduction.

3 Ensure that the 2014–2020 EU Structural Funds will play a bigger role in addressing poverty and encouraging social inclusion across Member States in order to better respond to the worsening social situation of many Europeans. The use of European Structural Funds shouldn't replace the responsibility of national governments to ensure that their policies and budgets effectively target poverty. Instead the availability of EU Structural Funds should provide necessary European solidarity with the most vulnerable people and regions, and complement the use of national resources. The European Social Fund is the main source for funding projects aimed at the Active Inclusion of the most vulnerable, linking them with access to employment, basic services and minimum income schemes. Therefore, the EU Cohesion Budget (2014–2020) should not be further reduced as this would make it incapable of responding to current and future needs. The minimum allocation of 25% of the Cohesion Policy funds to the European Social Fund (ESF) should be ensured and at least 20% of the ESF budget should be earmarked for social inclusion and the fight against poverty. Moreover, the Fund of 2.5 billion for European Aid to the Most Deprived should be kept in a separate budget within the overall Cohesion Policy budget. The European Commission should ensure that the allocation of EU funds to assist Member States in meeting their anti-poverty targets, complementing other national social policies, is actually happening. This can be measured by conducting quality audits of 'co-financed' actions. EU Structural Funds can also be used to support initiatives dedicated to creating employment in the 'Social Economy'. This sector offers valuable employment opportunities for people from various marginalised or vulnerable groups. Leadership and support from the EU for other employment initiatives (e.g. the creation of jobs in care services across EU Member States) would benefit people requiring care and those seeking employment.

4 Take a Lead in tackling Child Poverty: Child poverty is a significant and worsening problem in the countries whose situations are reviewed in this report. There has been some momentum at a European level relative to a coordinated approach to tackling child poverty. The Social Protection

Committee notes however that there is a danger that this momentum will be lost as a result of the current crisis, with services and policies being affected by cutbacks (2012a). It is vital that the Commission issues its planned 'Recommendation on Child Poverty' immediately. This Recommendation must be made a policy priority for the countries that are the subject of this report, including those involved in EU/ECB/IMF assistance packages.

5 More attention should be also paid by the EU institutions to policies supporting other groups in need such as long-term unemployed, people with health problems and disabilities, lone parents, immigrants and Roma. Strong leadership in Respect of Youth Unemployment should also be ensured. This would involve publishing the proposed Council recommendation for 'youth guarantees' aiming to ensure that all young people are in employment, education or training within four months of leaving school (European Commission, 2012b) and making sufficient structural funds available to assist those countries (including Greece, Ireland, Italy, Portugal and Spain), where youth unemployment is highest, to ensure the social inclusion of their young people.

6 Ensure Civil Society involvement in Governance Structures: The Charter on Shared Social Responsibilities, currently being considered by the Council of Europe, argues that having a well-defined deliberative process can ensure, among other things, that individual preferences are reconciled with widespread priorities in the field of social, environmental and intergenerational justice. It can also reduce the 'imbalances of power between stakeholders' (Council of Europe, 2011, p 24). The Commission should require evidence of meaningful stakeholder involvement (such as civil society organisations) in deliberative processes leading to the formulation, implementation and ongoing monitoring of policies under the monitoring systems in place under the Europe 2020 Strategy. (It should also strengthen those processes relative to EU/IMF programme countries, as recommended above). This is of particular importance in a European Union faced with the biggest threat to social cohesion and political legitimacy in its existence.

2. National Governments and relevant Local/Regional Authorities

Note: The recommendations in this section are addressed to National Governments and also to local authorities and municipalities, wherever they have the power to act in relation to the areas covered).

1 Strengthen Welfare Systems: Given the depth and duration of the economic crisis and the impacts of structural measures, the resilience of social protection systems must be improved to enable them to provide protection to the entire population in need. This is an urgent requirement in countries included in this report with significant gaps in safety nets such as where

access to unemployment benefits/assistance is restricted for some groups or is subject to time limits. An example is Italy where there is a need to ensure that there is a minimum income policy to provide an integrated approach that ensures a safety net for everyone (as Caritas Italy has called for over a long period of time). Policy-makers should now introduce social protection schemes for the future which overcome the present inequalities within the system, which, in many countries, result in non-standard workers, young people, and new entrants suffering a double disadvantage, being more vulnerable to unemployment and also entitled to less social protection.

2 Strengthen Essential Services: Social protection transfers and provision of quality services (like affordable childcare, education, health, disability and other social services) are crucial to the employability prospects and social mobility of different income groups as they indirectly reduce inequalities, so ensuring equal access to service and care, strengthen social cohesion and ensure social stability (The Social Protection Committee, 2012, p 28, 50). However, the economic crisis and austerity measures are worsening existing inequalities in income and in access to services and care. Social assessments of the impacts of cuts to services that focus beyond the short-term cost saving should be integrated into decision-making processes. Many of the decisions being made currently to achieve short-term budgetary savings are choices that may well make social cohesion more difficult in the long-term.

3 Poverty Proof All New Measures: Reducing poverty requires a number of different, integrated responses including income support and access to education and other vital services. With regard to child poverty, the Social Protection Committee has noted the important role that universal measures have played in reducing child poverty in many states. Amongst the measures needed are maintenance of all existing universal benefits paid to the main carer coupled with other measures. Access to services like early childhood care and education are also essential supports. Of particular importance in this context is the need to recognise and monitor the effect that cumulative 'hits' can have on particular groups. This is the situation where a range of decisions are made that impact on the same group and have a disproportionate effect.

4 Use Appropriate Labour Market Active Inclusion Measures: EU recommendations commit to a balanced approach to active inclusion involving three equally important pillars: inclusive labour markets, adequate income support and access to high-quality services (European Commission, 2008). However, the Independent Network of Experts on Social Inclusion has concluded that in reality the focus of European countries is on activation measures at the expense of the other pillars (Frazer & Marlier, 2012). With pressure on social welfare systems high, most of the countries under review in this report are pursuing measures involving support to job-seekers and activation of some kind. Given the scale of the fall in employment in all countries and the bleak outlook for job creation, it is important that these measures focus on supporting unemployed people. This might for example aim to maintain and develop appropriate skills. Most importantly, such measures must not be accompanied by the threatened loss of welfare benefit or assistance, as, with the scale of the losses in employment, this is illogical and will merely cause poverty and worsening desperation.

5 Frame any further measures such that those who can afford to do so actually do pay more: National Governments (and regional authorities/municipalities as appropriate to their roles) must adopt approaches to raising revenue and providing services that do not disproportionately negatively affect low income groups. The Social Protection Committee has argued

that there is scant evidence that a shift to indirect taxes on consumption would have a strong revenue-generating effect (2012, p 45). In this report we have included instances of how shifting the tax burden from labour to consumption (by increasing VAT and/or excise on essential items) caused proportionately larger losses on low-income households in several countries (as low-income households spend a relatively higher proportion of their income on goods, like fuel/energy, on which they are levied). This means, amongst other things, that any proposed increases in indirect taxes on consumption (like VAT) must be very carefully considered.

6 Consider new ways of cooperation between national/regional/local Governments, enterprises, NGOs and trade unions in order to create new employment, and also socially useful work and jobs of last resort: Given the huge fall in employment identified in this report and the impact this is having among unemployed people of every age, and recognising that governments want to increase the number of long-term viable jobs paying good wages in their own countries, governments should identify good practices in other countries and cities and search for new ways of cooperation between all stakeholders: enterprises, trade unions, social NGOs and public administration, addressing needs at local level and creating employment. In the context of this dialogue governments should still contemplate being an employer of last resort through voluntary programmes that do not distort the market economy but provide some socially useful work for the millions currently seeking employment. The lessons of the Great Depression are as valid in social terms now as they were in the 1930s. No country, no society can afford to regard so many of its unemployed citizens as expendable. There are many areas in which such employment could be created in the social economy (for example, in long-term care). This should not be misunderstood to mean that social services should be dependent on people who are long-term unemployed taking up positions on a government programme. These services should be provided as part of mainstream provision. However, this approach does have the potential for adding capacity, particularly at a time of economic difficulty. In Appendix 8 we consider the issue of a jobs guarantee in some more detail and include some examples of implementation in different contexts.

7 Ensure the involvement of Civil Society Organisations and People Experiencing Poverty in Governance: Commit to a genuine engagement with stakeholders to ensure that groups at risk of poverty and social exclusion can influence policy-direction and implementation, and that their experiences become part of the dialogue with European and International agencies (like the EU/ECB/IMF troika), to try and bolster social cohesion and political legitimacy.

8 Introduce Better Monitoring and Planning: Introduce poverty proofing relative to new measures, and address their longer term consequences as well as their short-term ones; use macroeconomic modelling processes to assess the impact of proposed changes in social policies.

3. Non-Governmental Organisations – Not for profit Social Services Providers:

1 Accompany and help people in need; provide services in order to promote their social and active inclusion : People who are poor need help here and now. NGOs can assist a society to identify people in need and to develop solutions to address their immediate and longer-term needs. NGOs can mobilise solidarity in society, organise volunteers and innovate within the limits of existing resources.

2 Give a Voice to People Experiencing Poverty or Social Exclusion: Those NGOs that provide services to people experiencing poverty are in a position to give a voice to the experience of the people they serve, a voice that tends to have few outlets for expression or influence – and these accounts can have an impact within and beyond individual national borders. This might involve documenting accounts of staff or, in some cases (and with care), first-hand accounts by service users. However, working with the media has to be approached with skill and, as is obvious, with particular sensitivity if service users are to be part of the process if they are not to be compromised.

3 Document Increases in Service Use: The current situation is challenging and unfolding rapidly. Official systems for tracking and monitoring poverty are subject to limitations and time-lags. NGOs who work in providing services can, by putting appropriate systems in place, track the increased demands– and the new kinds of demands – made on their

services. Thus they can help to provide an earlier and more rounded view of the picture as it emerges as well as make the case to protect existing funding streams.

4 Work for Social Change: The world documented in this report is not just. It needs to be profoundly changed in a way that eliminates poverty and exclusion as well as addressing unemployment in a sustainable manner. A model of development that is sustainable in economic, social and environmental terms is required. NGOs have great experience and knowledge of the impacts the current approach is having on so many people who are vulnerable in one form or another. They must use that experience and knowledge to work towards the articulation and development of a sustainable future that protects human dignity, promotes wellbeing, is built on the common good and protects the environment.

5 Work to Influence Decision-Making: NGOs must seek to challenge the official approach to the crisis in which those who are vulnerable are paying the highest price. This may require a commitment to develop a capacity for independent and accurate analysis and advocacy, which is sometimes considered secondary to the work of providing services. However, it is an important means of addressing the causes of the problem, not only its symptoms. This is especially valuable when the major providers of social analysis do not, in practice, include data, analysis or proposals targeting the situations of those who are vulnerable.

Role and Commitment of Caritas, as expression of the service of the Catholic Church

This report has been commissioned by Caritas Europa, a Catholic organisation which acts to help people, particularly those who are poor, vulnerable or excluded. It responds to *“the teaching and most ancient practice of the Church in her conviction that she is obliged by her vocation – she herself, her ministers and each of her members – to relieve misery and suffering, both near and far.”* (Sollicitudo Rei Socialis 31). It operates from the tradition which *“allows faith, theology, metaphysics and science to come together in a collaborative effort in the service of humanity”* (Caritas in Veritate 31).

According to Pope Benedict XVI, *“The Church’s charitable organisations, beginning with those of Caritas (at diocesan, national and international levels), ought to do everything in their power to provide the resources and above all the personnel needed for this work”* (Deus Caritas Est 31a). Caritas Europa member organisations work extensively in all five countries covered by this report as well as in more than 40 other countries across Europe, including all 27 member countries of the EU, responding to the challenges currently being faced.

In its work Caritas is building on the long and wide tradition of Catholic Social Thought expressed in many Papal and other Church documents and carried forward into action by a great many committed organisations and individuals at local, regional, national and international levels. The Catholic Social Thought tradition has long highlighted the importance of addressing both the causes and the consequences of poverty and exclusion and this is being carried through in practice today by Caritas across Europe and the wider world through action, prayer and advocacy, bringing together social justice, peace and charity.

In this context a threefold action based on values has to be developed by Caritas and Church: with Christian communities, with society and with political stakeholders.

A number of key areas have been identified in which Caritas and Church at different levels can play a responsible role:

1 Help and accompany the people in need: *“Following the example given in the parable of the Good Samaritan, Christian charity is first of all the simple response to immediate needs and specific situations: feeding the hungry, clothing the naked, caring for and healing the sick, visiting those in prison, etc.”* (Deus Caritas Est 31). Caritas organisations from the local level on, the volunteers and staff in parishes and in social and health services, will be always there to give immediate help and to ensure a pathway towards the autonomy of the person and their active inclusion in society. It is from this deep experience of human encounter at grassroots level that Caritas commits with the further mentioned roles.

1 Articulate and promote the protection of human dignity: Human dignity is at the core of the Catholic Social Thought tradition. The Second Vatican Council reminded us that *“the dignity and total vocation of the human person must be honoured and advanced along with the welfare of society as a whole.”* (Gaudium et Spes 63) Promotion and protection of human dignity should always be at the core of the choices Governments make, particularly in difficult situations. As outlined in this report the basics required to protect human dignity are not available to large numbers of people in the crisis countries and their situation is becoming more difficult as time passes. This situation must be reversed. While we all have a responsibility, the choices made by Governments must prioritise the protection of human dignity.

2 Argue for the common good: In difficult times there is always a danger that democracy will become a democratic tyranny in which the majority oppresses the minority. It is very necessary that the general public have an understanding of the common good and the concepts that underlie it. The Church's understanding of the common good is articulated by the Vatican Council when it says *“the common good embraces the sum of those conditions of social life by which individuals, families, and groups can achieve their own fulfillment in a relatively thorough and ready way.”* (Gaudium et Spes 74) It is

critical that public opinion support this principle, otherwise, they will be unlikely to support actions by public authorities that are not to the immediate advantage of the powerful and vocal. Individuals have a claim on each other and on society for certain basic minimum conditions without which the value of human life is diminished or even negated. Those rights are inalienable, in that individuals and societies may not set them at naught. This is why the Church argues for the common good and works as best it can with others to place the common good at the centre of decision-making.

3 Promote solidarity as a guiding principle in the relationship between all groups in society: Pope Benedict XVI tells us *“Solidarity is first and foremost a sense of responsibility on the part of everyone with regard to everyone”.* (Caritas in Veritate 38) Solidarity means the willingness to see others as of equal importance to ourselves and so to regard injustice committed against another as no less serious than an injustice against ourselves. Church has a responsibility to exercise an influence on behalf of what it believes to be true and good, especially in solidarity with people everywhere who are on low incomes, disabled, ill or infirm, homeless or poorly housed, in prison, migrants, refugees, or people who are otherwise vulnerable, powerless and at a disadvantage. This is especially true in the context outlined in this report.

4 Foster and ensure participation and create communion, being open towards everybody in a spirit of ecumenical charity. This means to involve and engage as many people as possible, including volunteers, in taking action to address these issues: Loving one's neighbour is at the centre of the Christian message. Flowing from this the Catholic Social Thought tradition highlights the importance of people doing what they can to tackle the poverty and exclusion experienced by so many of their fellow human beings. Having reminded us that charity goes beyond justice, Pope Benedict XVI says that *“the individual who is animated by true charity labours skilfully to discover the causes of misery, to find the means to combat it, to overcome it resolutely”.* (Caritas in Veritate 30). In all of this it is very important to acknowledge the central role of volunteers who *“assume responsibility for providing a variety of services”* (Deus Caritas Est 30b).

5 Ensure that Catholic people across the European Union take up the challenge of applying in their own lives and in their spheres of influence all the principles of Catholic Social Teaching and thus advance the common good in collaboration with like-minded citizens of every political and religious allegiance and none: The political arena should give priority to the common good. Governments should not be allowed to give way to utilitarian expediency and the pursuit of short-term gains which have dangerous long-term consequences. Society must not be allowed to turn its back on poor people nor on the stranger at the gate. These are core values in the Catholic Social Thought tradition and they are as relevant today as they have even been.

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Appendices

Appendix 1 Gross Debt, Greece, Ireland, Italy, Portugal, Spain

General Government Gross Debt, 2004–2011 % GDP

	2004	2005	2006	2007	2008	2009	2010	2011
EU (27 countries)	62.3	62.8	61.6	59	62.2	74.6	80	82.5
Greece	98.6	100	106.1	107.4	112.9	129.7	148.3	170.6
Ireland	29.4	27.2	24.5	24.8	44.5	64.9	92.2	106.4
Italy	103.4	105.7	106.3	103.3	106.1	116.4	119.2	120.7
Portugal	61.9	67.7	69.4	68.4	71.7	83.2	93.5	108.1
Spain	46.3	43.2	39.7	36.3	40.2	53.9	61.5	69.3

Source: Eurostat, 2012j, tsdde410

General Government Gross Debt, 2004–2011 €millions

	2004	2005	2006	2007	2008	2009	2010	2011
EU (27 countries)	6613633	6963230	7214104	7319610	7763975	8764582	9826981	10433926
Greece	183157	195421	224204	239300	263284	299682	329513	355658
Ireland	44255.1	44443.3	43765.5	47161.2	79607.9	104630.9	144226.9	169231.9
Italy	1445858	1518556	1587781	1605126	1670993	1769226	1851217	1906738
Portugal	92442	104407.3	111689.8	115786.4	123302	140225.7	161529.9	184699.3
Spain	389142	392497	391055	382307	436984	565082	644692	736468

Source: Eurostat, 2012j, tsdde410

Appendix 2 Government Deficit/Surplus 2004–2011, Greece, Ireland, Italy, Portugal, Spain

Government deficit/surplus, % GDP

	2004	2005	2006	2007	2008	2009	2010	2011
European Union (27 countries)	-2.9	-2.5	-1.5	-0.9	-2.4	-6.9	-6.5	-4.4
Greece	-7.5	-5.2	-5.7	-6.5	-9.8	-15.6	-10.7	-9.4
Ireland	1.4	1.7	2.9	0.1	-7.4	-13.9	-30.9	-13.4
Italy	-3.5	-4.4	-3.4	-1.6	-2.7	-5.4	-4.5	-3.9
Portugal	-4.0	-6.5	-4.6	-3.1	-3.6	-10.2	-9.8	-4.4
Spain	-0.1	1.3	2.4	1.9	-4.5	-11.2	-9.7	-9.4

Source: Eurostat, 2012k gov_dd_edpt1

Government deficit/surplus, 2004–2011, millions of Euro

	2004	2005	2006	2007	2008	2009	2010	2011
Greece	-13,940	-10,068	-12,109	-14,475	-22,880	-36,125	-23,732	-19,686
Ireland	2,065.8	2,711.2	5,182.7	124.1	-13,160	-22,484.1	-48,297.3	-21,255.8
Italy	-49,361	-63,918	-51,188	-25,273	-42,700	-82,752	-69,270	-61,758
Portugal	-5,988.3	-10,069.8	-7,408.2	-5,332.8	-6,235.6	-17,103.3	-16,950.1	-7,525
Spain	-941	11,511	23,349	20,255	-48,897	-117,143	-101,438	-100,402

Source: Eurostat, 2012k gov_dd_edpt1

Appendix 3 Poverty Rates according to Four different Indicators – Greece, Ireland, Italy, Portugal, Spain

1. People at Risk of Poverty or Social Exclusion, %

	2004	2005	2006	2007	2008	2009	2010	2011
EU (27 countries)		25.6	25.2	24.4	23.5	23.1	23.4	
Greece	30.9	29.4	29.3	28.3	28.1	27.6	27.7	
Ireland	24.8	25	23.3	23.1	23.7	25.7	29.9	
Italy	26.4	25	25.9	26	25.3	24.7	24.5	
Portugal	27.5	26.1	25	25	26	24.9	25.3	24.4
Spain	24.4	23.4	23.3	23.1	22.9	23.4	25.5	27

Source: Eurostat, 2012c: t2020_50

2. People at Risk of Poverty, %.

	2003	2004	2005	2006	2007	2008	2009	2010	2011
EU (27 countries)			16.4	16.5	16.5	16.4	16.3	16.4	
Greece	20.7	19.9	19.6	20.5	20.3	20.1	19.7	20.1	21.4
Ireland	20.5	20.9	19.7	18.5	17.2	15.5	15	16.1	
Italy		19.1	18.9	19.6	19.8	18.7	18.4	18.2	
Portugal	19	20.4	19.4	18.5	18.1	18.5	17.9	17.9	18
Spain	19	19.9	19.7	19.9	19.7	19.6	19.5	20.7	21.8

Source: Eurostat, 2012c: t2020_52

3. People Severely Materially Deprived, %

	2003	2004	2005	2006	2007	2008	2009	2010	2011
EU (27 countries)			10.7	9.8	9.1	8.4	8.1	8.1	
Greece	16.9	14.1	12.8	11.5	11.5	11.2	11	11.6	15.2
Ireland	5.6	4.8	5.1	4.8	4.5	5.5	6.1	7.5	
Italy		6.9	6.4	6.3	6.8	7.5	7	6.9	
Portugal		9.9	9.3	9.1	9.6	9.7	9.1	9	8.3
Spain		4.3	3.4	3.4	3	2.5	3.5	4	3.9

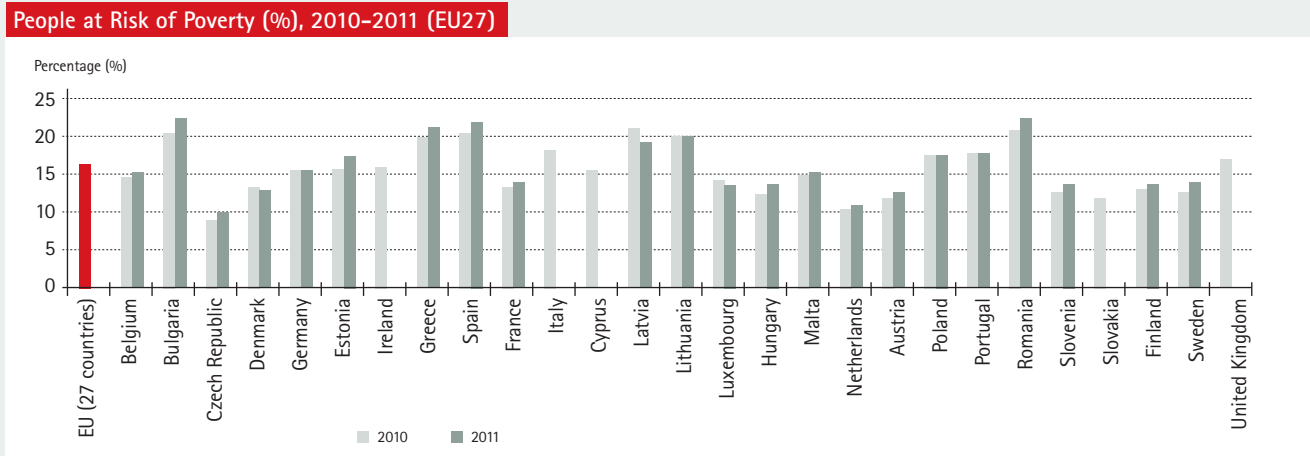
Source: Eurostat, 2012c: t2020_53

4. People Living in Households with very low work intensity, %

	2004	2005	2006	2007	2008	2009	2010	2011
EU (27 countries)		10.3	10.5	9.6	9	9	10	
Ireland	12.8	14.6	12.8	14.2	13.6	19.8	22.9	
Greece	7.4	7.5	8	8	7.4	6.5	7.5	11.8
Italy	12	10.3	10.8	10	9.8	8.8	10.2	
Portugal	6.9	5.9	6.6	7.2	6.3	6.9	8.6	8.2
Spain	7.2	6.5	6	6.3	6.2	7	9.8	12.2

Source: Eurostat, 2012c: t2020_51

Appendix 4 At Risk of Poverty Rates, EU27



Source: Eurostat, 2012c. t2020_52

Appendix 5 At Risk of Poverty Thresholds, Greece, Ireland, Italy, Portugal, Spain

At Risk of Poverty Threshold (€) (60% of median equivalised income), Single person

	2007	2008	2009	2010	2011
Greece	6,120	6,480	6,897	7,178	6,591
Ireland	13,239	13,797	13,467	11,929	
Italy	9,003	9,383	9,382	9,562	:
Portugal	4,544	4,886	4,969	5,207	5,046
Spain	7,223	7,770	7,980	7,818	7,509

Source: Eurostat, 2012h, [ilc_li01]

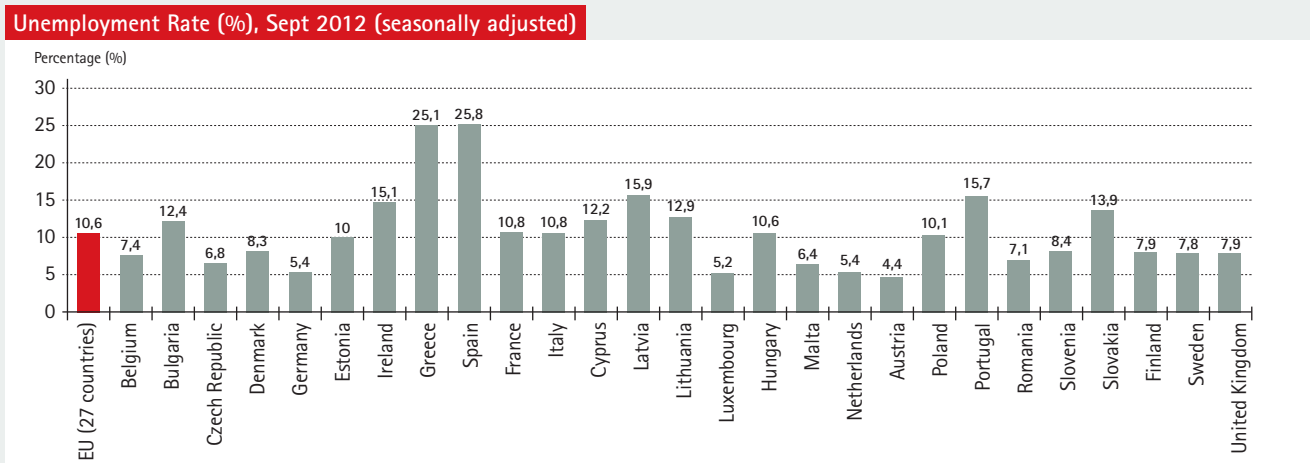
Appendix 6 GDP Growth Rates, 2003-2013, Greece, Ireland, Italy, Portugal, Spain

Real GDP growth rate - volume - Percentage change on previous year

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012(f)	2013(f)
EU (27 countries)	1.5	2.5	2.1	3.3	3.2	0.3	-4.3	2.1	1.5	-0.3	0.4
Greece	5.9	4.4	2.3	5.5	3.5	-0.2	-3.1	-4.9	-7.1	-6.0	-4.2
Ireland	3.9	4.4	5.9	5.4	5.4	-2.1	-5.5	-0.8	1.4	0.4	1.1
Italy	0	1.7	0.9	2.2	1.7	-1.2	-5.5	1.8	0.4	-2.3	-0.5
Portugal	-0.9	1.6	0.8	1.4	2.4	0	-2.9	1.4	-1.7	-3.0	-1.0
Spain	3.1	3.3	3.6	4.1	3.5	0.9	-3.7	-0.3	0.4	-1.4	-1.4

Eurostat, 2012a, tec00115; F: forecast from European Commission, 2012b. Figures for Greece described as provisional for each year.

Appendix 7 Unemployment, September 2012, EU27



Source: Eurostat 2012o, teil020 | Estonia - August rate | Greece - July rate | Latvia - June rate | Hungary - August rate | UK - July rate

Appendix 8 Job Guarantee Schemes

In this Appendix we introduce and discuss the issue of Jobs Guarantee Schemes and afterwards provide two contrasting examples of their implementation.

1. Job Guarantee Schemes – General Introduction

Unemployment is one of the most serious issues facing the EU at the moment, particularly where its youth is concerned. Unemployment gives rise to increased poverty, a greater prevalence of mental health problems and growing levels of social exclusion. High levels of unemployment across the EU co-exist with significant potential employment opportunities in, for example, the conservation and development of the social and environmental capital of EU Member States. This paradox could be solved by a positive innovation known as the Job Guarantee Scheme (JGS). This describes a jobs programme in which the State assumes the role of 'employer of last resort' in the event that unemployed individuals opt to avail of structured employment opportunities. Under such schemes, employment opportunities are created in areas not currently undertaken by either the public or the private sector. The extensive academic literature on job guarantee schemes provide numerous examples of possible positions that could be filled, such as school classroom assistants; safety monitors; neighbourhood clean-up; low-income housing restoration; library assistants; community or cultural historians; musicians and event organizers.

Such schemes would not subsidise private sector jobs or threaten to undercut unionised public sector jobs. Any jobs with a set rate of pay or in the private sector should not be considered for the programme. Only those jobs that directly benefit the public purpose and do not impinge on other workers would be considered. This would mean that when unemployed workers are channelled into these sectors, it would not result in a 'crowding out effect' for other workers.

A Job Guarantee Scheme is not conceived as a means to replace other social programmes such as social welfare. Many people are not able to take up a job and safety nets for these people must be kept in place. However, Job Guarantee Schemes could complement a social support system such as the Unconditional Basic Income, and provide individuals with a low level of income security while they transition from unemployment to a state-sponsored employment scheme and ultimately back into the open labour market if or when jobs become available on the scale across the economy.

Large-scale jobs programmes have been successful in the past in kick-starting flagging economies. The most famous of these was the Work Progress Administration (WPA) enacted under Franklin Delano Roosevelt during the Great Depression⁴⁷. A more recent example is the Jefes program which was enacted under the administration of Nestor Kirchner in Argentina after the economic collapse that took place there in 2001⁴⁸. There is no legal impediment under the Maastricht or Lisbon Treaties of which Caritas is aware that would prevent the governments of EU Member States from implementing such a measure.

Source: extract from Caritas Europa, 2012a

2. Two Examples – one from France (with a youth focus initiated by Government), and one from Ireland (initiated by an NGO and mainstreamed by Government)

2.1. France: Emplois D'Avenir

In France a new initiative aimed at young people from disadvantaged areas has been introduced called Emplois D'Avenir. It was an initiative of the French Government approved by Parliament in October 2012 to create 150,000 jobs for young people. Features:

- The programme aims to create 100,000 jobs in 2013 and a further 50,000 in 2014.
- Jobs will primarily be open in the public sector, local authorities and other associations, foundations or businesses in non-commercial activities with a social purpose.
- The sectors favoured for job creation are those labelled by the European Commission as areas with largest potential for future job growth i.e. green economy, health services and ICT.
- The jobs will be aimed at young people aged 16-25 without degrees from deprived urban and rural areas or areas hit by high unemployment. The estimated cost is €1.5b.
- The jobs will be full-time, or fixed term contract of 3 years and the recipients will be paid at least the minimum wage, of which 75% of the gross wage will be funded by the State.

These full-time jobs, which are planned to last a maximum of five years and are paid at least the minimum wage (SMIC), will be 75% funded by the State, with the rest of the cost being borne by local authorities, associations, foundations and business. Based on the assumption that two-thirds of the "jobs for the future" created would be in the non-market sector and one-third in the market sector, the total average annual cost for the public finances therefore comes to 23,015 euros per contract. When fully implemented, the cost of creating 150,000 "jobs for the future" is estimated at 3.45 billion euros a year.

Impact

By assuming the creation of 100,000 subsidized jobs in the non-market sector and 50,000 in the market sector, the impact would be as follows: With relatively weak deadweight and substitution effects in the non-market sector (20% according to Fontaine and Malherbet, 2012), 100,000 "jobs for the future" would lead to the net creation of 80,000 jobs over the presidential term. The *ex-ante* annual cost to the public finances for 100,000 "jobs for the future" in the non-market sector would be 0.12 GDP, but *ex post* this would be only 0.07 GDP because of the extra income – and thus tax and social security revenue – generated by the jobs created.

⁴⁷ www.u-s-history.com/pages/h1589.html

⁴⁸ http://www.levyinstitute.org/pubs/wp_534.pdf. For an appraisal, see <http://www.epicoalition.org/docs/ArgentinaJefes.htm>

The state aid (75% of the gross salary) allows a reduction in the cost of labour of 52% at the SMIC level, i.e. a total reduction of 71% of the actual cost of a minimum wage job if one includes the reductions in charges. With the impact of employment elasticities at a maximum labour cost at the level of the SMIC (1.2 according to a DGTPE study in 2007), the 50,000 "jobs of the future" in the market sector would generate 27,300 jobs. The *ex-ante* cost to the public finances would be 0.05 GDP point, and 0.03 GDP point *ex post*.

Ultimately, the measure would eventually create 107,300 jobs (about 25% of these in the market sector), i.e. an annual net creation of 72%. The *ex-ante* cost for the public finances would be 0.17 GDP point, but the *ex-post* impact of the measure on the public balance would be only -0.1 GDP point because of the extra tax and social security revenue generated by the jobs created and the consequent income gains (Table 1).

Source: OFCE, The Collective Blog of the French Economic Observatory: Youth Jobs of the Future: What Impact on employment and Government Finances < <http://www.ofce.sciences-po.fr/blog/?p=2468%23more-2468>.>

2.2. Ireland: Part-time Jobs Initiative, Social Justice Ireland

A programme piloted by the current Directors of *Social Justice Ireland*, Seán Healy and Brigid Reynolds, from 1994–1998 created 1,000 part-time jobs paying the 'going hourly rate' for the job. The jobs were open to a number of categories of people who were unemployed. They worked the number of hours necessary to earn their social welfare payment plus a small top-up. After that they were free to seek further employment and, of course, pay tax on the money they earned in the normal way but they were entitled to continue receiving their secondary benefits (e.g. medical card). The programme was taken on by 162 organisations and was extremely successful. 500 of the original 1,000 employees left during the course of the programme – almost all of these took up full-time employment. These were all replaced by others who fitted the criteria for participants. The programme was piloted in six very different pilot city, town, rural and the islands off the coast. There was huge demand for the programme and there was always a waiting list of eligible candidates.

Social Justice Ireland has proposed on a number of occasions during the current crisis that the Irish Government create 100,000 part-time jobs in the public sector and in the community and voluntary sector following the model piloted in the 1994–98 period.

Outline of the programme

This programme would enable unemployed people to be employed on a part time basis:

- In the public sector (e.g. local authorities, Government departments, the healthcare and educational authorities) and the community and voluntary sector
- Voluntarily
- Doing work of public or social value which is not being done or is only partly being done at present
- At the hourly 'going rate for the job'
- For as many hours as would give them a net income equivalent to what they were receiving from jobseekers allowance (i.e. their basic social welfare payment) plus an additional €20 a week. (They would work for a minimum of 8 hours and a maximum of 19.5 hours.)
- The person taking up the new position would lose none of his/her other social welfare entitlements
- Once the required number of hours had been worked, the person would be free to do whatever she/he wished for the remainder of the week
- The money paid to the person filling the new position would be reallocated to the employing organisation by the Department for Social Protection
- The employer would be encouraged to give extra hours to the worker who would be taxed accordingly
- If the person received further income from another job, this income would be assessed for tax purposes in the normal way
- To protect against a 'deadweight effect' no position could be created if a person had been employed to do this particular work at any point during the previous two years

Eligibility

The Programme would be available to:

- All recipients of jobseekers allowance
- All recipients of jobseekers benefit after 6 months

Voluntary nature of the programme

The voluntary nature of the programme is considered very important from the point of view of the worker and the employer. It must not have any of the characteristics of 'workfare'.

- From the viewpoint of the worker, he/she must freely choose to come on the programme, and must be free to leave if he/she chooses, subject only to normal requirements with regard to notice to the employer
- From the point of view of the employer, there must be free choice in selecting workers from among those eligible for the programme. The employer should also be free to select the number of workers required. This ensures that the work offered is real. The pilot programme showed that there would be more demand for these jobs than there were positions to accommodate them

To protect the voluntary nature of the programme and to ensure that the work is real the following would be expected:

- Positions should be advertised publicly by the employing body, through local media, or any other method used in the local area.
- A job description would be provided.
- Workers should be interviewed for the positions.
- Written job contracts should be provided.
- Employers would not be pressurised to take more workers than they need.
- Leaving a particular job would not prejudice a worker seeking to participate in another project or training programme.

Glossary

EU27 The 27 countries who are members of the European Union. These include Austria, Belgium, Bulgaria, Cyprus, the Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Poland, Portugal, Romania, Slovenia, Slovakia, Spain, Sweden and the United Kingdom.

Government Deficit/ Surplus The government deficit/surplus is the net borrowing/net lending of general government. It is the difference between the total revenue and the total expenditure of the general government sector. What is included in it is set out in detail in the European System of Accounts '95 (Eurostat, gov_dd_esms).

Government Debt The government debt is defined as the total consolidated gross debt at nominal value at the end of the year in the following categories of government liabilities: currency and deposits, securities other than shares excluding financial derivatives, and loans. What is included in it is set out in detail in the European System of Accounts '95 (Eurostat, gov_dd_esms).

In-work-at-risk-of-poverty rate This is defined by Eurostat as the share of persons who are at work and have an equivalised disposable income below the risk-of-poverty threshold, which is set at 60 % of the national median equivalised disposable income (after social transfers) (Eurostat, 2012g)

People at risk-of-poverty Persons are at risk of poverty if they have an equivalised disposable income below the risk-of-poverty threshold, which is generally set at 60 % of the national median equivalised disposable income (after social transfers) (Eurostat, 2012c). It is also possible to examine the dispersion around the at-risk-of-poverty threshold by looking at people with an equivalised disposable income below respectively 40%, 50%, 60% and 70% of the national median equivalised disposable income (Eurostat, 2012d)

People at Risk of Poverty or Social Exclusion The combined indicator used under the Europe 2020 strategy. This indicator corresponds to the sum of persons who (1) are at risk of poverty or (2) severely materially deprived or (3) living in households with very low work intensity. Persons are only counted once even if they are present in several sub-indicators (Eurostat, 2012c)

Relative median at-risk-of-poverty gap is a measure of the depth of poverty. It is calculated as the difference between the median equivalised disposable income of people below the at-risk-of-poverty threshold and the at-risk-of-poverty threshold, expressed as a percentage of the at-risk-of-poverty threshold (cut-off point: 60 % of national median equivalised disposable income) (Eurostat).

Severely Materially Deprived Material deprivation covers poverty indicators relating to economic strain and durables. Severely materially deprived persons have living conditions severely constrained by a lack of resources; they are deprived of at least 4 out of 9 following items: cannot afford i) to pay rent or utility bills, ii) keep home adequately warm, iii) face unexpected expenses, iv) eat meat, fish or a protein equivalent every second day, v) a week holiday away from home, vi) a car, vii) a washing machine, viii) a colour TV, or ix) a telephone (Eurostat, 2012c).

The Stability and Growth Pact was introduced as part of the Maastricht Treaty in 1992, and set limits upon member countries' budget deficits and levels of public debt at 3 % t and 60% of GDP respectively

Very Low Work Intensity People living in households with very low work intensity are those aged 0-59 living in any households where the adults (aged 18-59) work less than 20% of their total work potential during the past year (Eurostat, 2012c).

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