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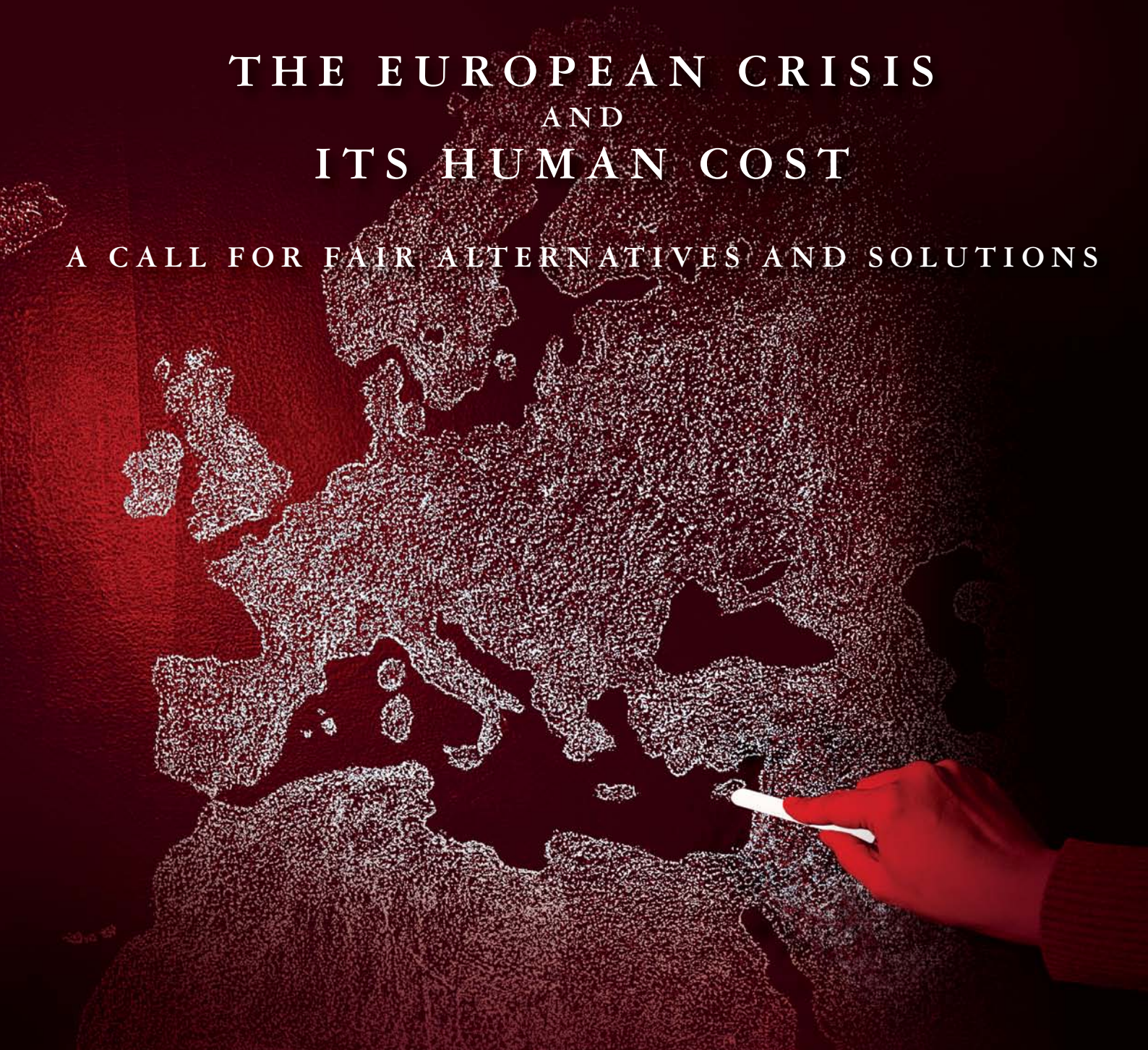
CRISIS MONITORING REPORT 2014

THE EUROPEAN CRISIS AND ITS HUMAN COST

A CALL FOR FAIR ALTERNATIVES AND SOLUTIONS



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

A Caritas Report prepared by Social Justice Ireland

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Working to build a just society

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Preface

This Crisis Monitoring Report is an in-depth analysis on how the crisis is addressed in selected countries and whether political and economic decisions may reduce –or increase the impact on large impoverishing segments of the population.

The aim of this report is not only to analyse the crisis but also help policy and decision-makers at local, regional, national and European levels, as well as non-governmental organisations and the church to find their ways of commitment to overcome the crisis. The first issue of our Crisis Monitoring Report (2013) was warmly welcomed by politicians; one Member of the European Parliament said that "The Caritas study will be invaluable for politicians, like myself, who care about the impact of austerity on the most vulnerable; for those of us who wish to stand up for ordinary people during debates and discussions on solutions to the debt crisis. We need to be able to challenge the proponents of cuts, to argue for tax justice, and for better and more caring policies."

The voices of children and families experiencing poverty are at the heart of Caritas Europa. In one of our previous publications from 2013 we have called on to "Listen to the voices of Children in Poverty!" The 11 years old Constantine from Cyprus said that „My parents cannot afford my school snack so the school has to provide for me." The 9 years old Bruno from Portugal shared that „My mother is unemployed because the company said that they had no other place for her work. She was sad and I know she cries about it." The current Report is not only the message of Caritas Europa, but also the message of those people who are facing crisis day by day. This Report is also a message of our member organisations that made valuable contributions to this publication.

Caritas Europa is convinced that any kind of policy and legal measures aiming to address the impacts of the crisis shall be rooted in the promotion and protection of human dignity, advancement of the common good and the support of solidarity between all groups in society. Pope Francis tells us that "the need to resolve the structural causes of poverty cannot be delayed, not only for the pragmatic reason of its urgency for the good order of society, but because society needs to be cured of a sickness which is weakening and frustrating it, and which can only lead to new crises." (Evangelii Gaudium 202) I believe that this report is a useful tool to promote recovery in Europe and to avoid new crises.

My special thanks shall go to Séan Healy, director of Social Justice Ireland, and our team of Caritas experts who tirelessly worked on this publication and without whom it would not have been possible to deliver our new Crisis Monitoring Report.

Jorge Nuño-Mayer
Secretary General

Contents

Figures and Tables

PHOTO: NIKOS PILOS

Part 1

THE EUROPEAN CRISIS - INTRODUCTION

In early 2013 Caritas Europa published its first crisis monitoring report - *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* (hereafter, the 'Caritas Europa Crisis Monitoring Report, 2013'). The report was informed by studies and statistics from across Europe and by Caritas member and affiliated organisations in the five countries concerned, who work with poor and vulnerable people. One conclusion was that the world documented in that report was not just. Another was that the prioritisation of austerity measures to the virtual exclusion of all other approaches would not solve the crisis and was causing social problems that would have lasting impacts.

This report is the second in our crisis monitoring series, and we worked again with member organisations in the original five countries, focusing especially on their experiences during the past year or so. We also widened the scope to take in a further two countries – Romania and Cyprus. Caritas Europa member organisations work extensively in all seven countries covered by this report as well as in all 27 member countries of the EU, responding to the challenges currently being faced. Combined, their work reaches millions of people in need.

The focus of these reports is the human cost of the crisis, and of the measures undertaken by the authorities since its onset, focusing especially on trends in employment, unemployment, poverty rates, severe material deprivation and low work intensity in seven countries severely affected by the crisis. Other focuses that have emerged strongly during the preparation of this report relate to the health impact of cuts to healthcare and to declining trust in national and European institutions. These issues represent an increasing concern, not only among Caritas members and affiliates, but also amongst a range of institutions, researchers and NGOs.

In this study we have also included, as an Appendix, an additional section written by Dr Seán Healy, Director of *Social Justice Ireland*, which is a discussion on future options in key policy areas.

We hope that this report contributes to greater awareness of the impact of the crisis on more vulnerable groups and of the austerity measures taken to address it, and of alternative policy approaches that could be taken by the authorities to alleviate its worst effects. The report is informed by the belief that the authorities always have choices in deciding what policy approaches to use and how measures are targeted – in other words, who should pay most. Though the slogan 'while protecting the vulnerable' is often used in the surveillance procedures of the IMF and of the European bodies involved in advising on and enforcing measures intended to address the crisis, in practice, Caritas member organisations across Europe witness poverty, unemployment, exclusion, mounting distress and despair amongst increasing numbers of people who rely on their services. They provide a unique perspective that has much to offer to policy makers at local, regional, national and EU-wide levels.

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 on board by the Governments 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.

In this section we look in brief at the overall causes of the crisis and at the official response of the main institutions concerned. We then look at some of the key economic and social indicators for the EU in general and at the outlook for the future.

Causes of the Crisis

Joseph Stiglitz, the Nobel prize-winning economist, considers that the global financial and economic crisis was caused by bad regulation and bad financial practices in the United States, which affected the entire world (2009). He puts this down to an effort to boost demand in order to continually stimulate the economy. Thus, poor people who had no money were encouraged to keep borrowing and spending, which led to a massive debt finance bubble. 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)

As Joseph Stiglitz concludes (2009), the problem is that the system is now broken, because it was based on consumers spending beyond their means through excessive borrowing, something that cannot continue. That is not to say, however, that lessons have been learned. Commenting recently about the crisis in the west, Stiglitz discusses how at first a consensus seemed to emerge as to the cause of the crisis - that a bloated and dysfunctional financial system had misallocated capital and created risk, but that that consensus changed and politicians, committed to austerity, have stuck

with the policy despite evidence that it has led to the collapse of the economy (Stiglitz, 2013; 2013a; Moore, 2012). In essence a crisis of private finance emerged in the financial system and was transformed into a burden for public finance; and through austerity the immense cost of this transformation is now imposing itself on society (Meadway, 2013).

In this brief introduction it is not possible to consider in great detail the situation of each of the seven countries prior to the crisis or the detail of its unfolding in each case. However, it is important to note that when the crisis hit, different situations were prevalent in each European country, depending on a wide range of local circumstances, such as indebtedness of the financial sector and of individuals, government debt levels, levels and spread of taxation measures, effectiveness of tax collection systems, administrative efficiency and indeed institutional capacity and integrity.

Low or stagnating levels of growth had been the order of the day in some countries in the years prior to the crisis – in Italy and Portugal– while all the other countries considered in this report were characterized by relatively high growth levels; some, such as Ireland, had been praised highly during previous years as model economies.

Very high levels of government gross debt were characteristic of Italy and Greece prior to the crisis and levels were relatively high in Portugal, but this was not the case in the other four countries – Cyprus, Ireland, Romania and Spain.

Losses by banks played a major role in the European crisis overall and this was especially a feature at the onset of the crisis in Ireland, Spain and Cyprus. The structure of inter-European lending, with 'core' banks and financial institutions holding bonds issued by 'peripheral' banks, meant that peripheral governments and, ultimately, citizens were required to recapitalize domestic banks in the interests of protecting the position of foreign bondholders. In Greece, banking difficulties emerged and became more problematic as the crisis continued. The Greek situation also represents a particular case, as the origins of the crisis there can be traced to both a failure of institutions and of the political elite, starting as it did when it emerged in 2009 that the Greek state had falsified its level of national debt with the aid of US investment banks and others.

Other factors that differed between countries prior to the crisis included levels of employment, unemployment and poverty, as well as the adequacy of social protection mechanisms and healthcare systems. The performance of those social protection and healthcare systems has greatly affected the experience of vulnerable groups in the seven countries. Often the measures introduced by the authorities, or required by the troika of the IMF/EU/ECB in return for aid, have been rolled out in a way that has exacerbated underlying problems.

High levels of public debt were not the cause of the growth collapse, as has been pointed out by the authors of an important new study (that we will come to below) (Ash & Pollin, 2013). However, as the crisis has continued, the focus of attention has turned away from the obvious failures of financial markets and moved towards the alleged failures of government (Quiggin, 2011). In fact, the burden of fixing a crisis caused by financial markets and the central banks and regulators that were supposed to control them, has been placed 'on ordinary workers, public services, the old, and the sick' (Quiggin, 2012). Quiggin describes the policy of expansionary austerity as not simply a 'zombie economic idea' but as 'a political strategy of class war' (2012, p.233).

Official Responses to the Crisis

While the European leaders originally viewed the crisis as an American one brought about by the 'freewheeling nature of its version of capitalism,' they rapidly had to engage in a major struggle to defend the euro – a currency without the backing of a sovereign power (Giddens, 2013). There have been a range of interventions by European leaders aimed at protecting weaker economies against pressures from the bond markets, which have involved indicating what structural reforms were required at the national level in return for its intervention.

Chief amongst the concerns of the leaders has been a determination, led by the European Central Bank (ECB), that no bank should fail and that the issue of budget deficits would be rectified by the imposition of austerity measures and structural 'reforms'. The 'no bond holder left behind' policy represents a massive socialization of the debt accumulation of private banks, and arguably represents the largest transfer of wealth from citizens to private creditors in Europe's history.

The 'no bondholder left behind' policy has been varied in the case of the second assistance package to Greece in 2012, which included some debt restructuring. The IMF has recently distanced itself from the decision not to require debt restructuring at the outset of the intervention in Greece, which was insisted upon by other members of the Eurozone to avoid contagion, and which, as the IMF now reflects, allowed private creditors to reduce their exposures on a significant scale, thus leaving taxpayers and the official sector 'on the hook' (IMF, 2013d). Of course, contagion was not 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 then Spain and Italy, and most recently to Cyprus.

In 2013, in the case of Cyprus, a relatively very small country, a significant break was made from the approaches previously adopted. Contributions had been required from bank creditors at the outset, including uninsured depositors (with deposits of over €100,000), and a proposal to require contributions even from smaller, insured deposits was attempted but not proceeded with due to the reaction within Cyprus and beyond.

In June 2012, while reaffirming a European commitment to structural reforms and fiscal consolidation, the Euro Area Group and European Council agreed to recapitalize banks directly through the ESM (European Stability Mechanism) and that the link between bank debt and sovereign debt could be broken. This raised the possibility that Spanish citizens would not bear sole responsibility for the actions of their private banks. However, it has not been agreed that this approach could apply retrospectively to the recapitalization of Irish banks.

Overall the approach of the European institutions reflects the view that cuts in budget deficits will 'promote business confidence,' particularly if they are achieved through reductions in expenditure' (Quiggin, 2011).The current European strategy can be summarized as the following series of measures:

- **Consolidation** - lending to distressed countries combined with requirements to reduce deficits through fiscal consolidation
- **Proposed Banking Union** - creating a banking union to centralize regulation of European banks and provide a banking resolution scheme
- **Fiscal Supervision** - creating supervisory structures to enable the European Commission and other member states to monitor the budgets of individual states through new fiscal governance mechanisms, and the enshrining of fiscal rules into the law of each member state (through the Fiscal Compact – see Glossary for a definition).

The strategy is informed by a particular analysis of the crisis which blames it on a combination of lax regulation of the banking sector and insufficient fiscal rigour. However, while it is correct that the banking sector was the major cause of the crisis, it is certainly not the case that government profligacy or insufficient fiscal rigour characterized all the countries that have been severely impacted by the crisis.

As noted earlier, Stiglitz describes the response to the crisis as having 'tinkered around the edges.' Talking about the west, he argues that in fact banking mergers that have occurred since the crisis have left the banking problem worse – with more banks considered too-big-to-fail, an excessive degree of interconnection within the financial system, and little knowledge about some of the risk exposure of some of the biggest financial institutions (2013; 2013a). He is also critical of the fact that credit agencies continue to be paid by the firms that they rate. This is a major problem.

The new European fiscal governance mechanisms (the Stability and Growth Pact augmented by the 'Sixpack,' and the Fiscal Compact; see Glossary for definitions) require governments to keep their deficits to 3% of GDP, and within that to target a structural deficit of below 0.5%[1]. Government gross debt must not exceed a limit of 60% of GDP (the so called 'debt brake'). This rules out applying the basic lessons of Keynesian economics which are that government intervention can help to stabilize aggregate demand by running deficits to boost flagging economies and cutting spending to cool over-heated ones. Or when no one else is spending, government has to fill the vacuum and invest. We will return to the European fiscal governance mechanisms as they apply to the seven countries considered in this report in **Part Four**. The position outlined there suggests that, had the Fiscal Compact been in place prior to the crisis in 2007, six of the countries considered in this report would have been in compliance with the so called 'deficit brake' of 3% of GDP (Greece being the only exception).

Quiggin and many other economists take issue with the current policy of 'expansionary austerity' (or expansionary fiscal contraction as it is sometimes known (Healy *et al*, 2013)):

'The theory of expansionary austerity has faced the test of experience and has failed. Wherever austerity policies have been applied, recovery from the crisis has been halted.'

(Quiggin, 2012, p.231)

It is hard not to conclude, as many commentators do, that the new economic governance procedures are attempting to solve the wrong problem (Healy et al, 2013). However, for countries bound by the Fiscal Compact (including the seven countries considered in this report) the scope to slow the pace of consolidation or to undertake investment policies that support growth is now severely limited by the EU's new fiscal governance mechanisms. If the Fiscal Compact is not accompanied by investment programmes and a generous interpretation of structural deficit figures, it has the potential to become, in the words of Joseph Stiglitz a 'suicide pact' (Moore, 2012).

The supposed positive effects of austerity – that cuts lead to growth –remain the 'governing ideas of the moment' (Blythe, 2013). Professor Mark Bly, describes the policy of 'growth-friendly fiscal consolidation' as 'dangerous nonsense' and as 'plausible as a unicorn with a bag of magic salt', and one that results in poorer people who rely on state services paying for the actions of well-off people who are not affected to anything like the same extent by cuts in public budgets (2013).

[1] The structural balance is the balance once the transitory effect of the business cycle and once-off budgetary measures are removed but this balance is difficult to measure and there is much disagreement amongst Economists on the issue.

Key Economic and Social Impacts – Europe

Economic Trends

In 2012 the economies of the EU27 countries and of the Euro area contracted, as can be seen from **Table 1**. The contraction was worse in the Euro area. Forecasts suggested further contraction in 2013.

TABLE 1 **GDP Growth by Volume – Percentage Change on Previous Year**

	2007	2008	2009	2010	2011	2012	2013 f	2014 f
EU (27 countries)	3.2	0.4	-4.5	2.1	1.6	-0.4	-0.1	1.4
Euro area (17 countries)	3	0.4	-4.4	2	1.5	-0.6	-0.4	1.2

Source: Eurostat, 2013a, tec00115. f=forecast.

In the first quarter of 2013, the economies in over half of the Member States continued to contract. In the Euro area the contraction was 1.0% (year on year) and in the EU27 the contraction was 0.7% (year on year) (Eurostat, 2013n). During the second quarter, the rate fell again (by 0.5%) in the Euro area (year on year) and there was no change in the EU27.

Estimates of the combined impact of the various fiscal rules being introduced in the euro area suggest that between 2013 and 2016, GDP could decline by as much as 3.5% in the Euro area as a whole, some 5-8% in Italy, Portugal and Spain, and 10% in Greece and Ireland (EuroMemo Group, 2013).

Employment/Unemployment

In the first quarter of 2013, the number of jobs was at its lowest in the EU since the onset of the crisis and the number of unemployed people hit a historic high of 26.6 million (or 11% of the active population) in April 2013 (European Commission, 2013a). There were also huge divergences between countries.

Youth unemployment is a particular problem. According to the European Commission, long-term unemployment and inactivity 'threatens an entire generation' with nearly a quarter of economically active young people in Europe unemployed (23.5%, April 2013) with those with lower educational levels particularly affected (European Commission, 2013a). The European Social Protection Committee is amongst those fearing a 'lost generation' and pointing out that amongst the problems facing young people is the fact that they will be exposed to poverty when they are pensioners due to long spells of unemployment (Social Protection Committee, 2013a).

The OECD notes that low-skilled young men have been most affected in terms of declining employment and labour force participation (related in many cases with higher enrollment in education and training), while men aged 25 to 54 have been hardest hit in terms of rising unemployment, with higher levels of education playing an important role in protecting against unemployment (OECD, 2013c). Unemployment, particularly long-term unemployment, has a hugely negative impact on subjective wellbeing, and the highest levels of social exclusion have been found amongst the long-term unemployed (Eurofound, 2012).

Discouragement is affecting workers who are withdrawing from the labour market and a total of 20.2 million people were under-employed in the fourth quarter of 2012 (European Commission, 2013a).

The OECD notes concerns are growing about the strains that persistently high levels of unemployment are placing on the social fabric of its member countries (2013c). The hardships of job loss and lack of job opportunities are often concentrated among low-paid workers, according to the OECD, which also notes that unemployment benefits have acted as crucial automatic stabilizers during the crisis, limiting the negative impact of job and earnings losses on household incomes, and that they should be allowed to continue to play this role (OECD, 2013c). Growing numbers of people are experiencing long spells of joblessness in many countries and thus risk losing their entitlement to unemployment benefit meaning that they must fall back on less generous social assistance (where it exists), which the OECD notes must be capable of adequately supporting families in hardship (OECD, 2013c).

A recent IMF working paper underlined how job loss is associated with persistent earnings loss, adverse impacts on health, and declines in academic performance and earnings potential - effects that become worse the longer a person is unemployed (Ball et al, 2013). Long spells of unemployment reduce the odds of being rehired; thus long-term unemployment can become a structural problem. Furthermore, job losses - especially in

recessions - are associated by the IMF with loss of earnings that persists in the long-term (15-20 years) (Dao & Lounginie, 2010). In addition, long-term unemployment threatens social cohesion. A survey conducted in 69 countries found that being unemployed leads to more negative opinions about the effectiveness of democracy and increases the desire for a rogue leader (Ball *et al*, 2013). The effects were found to be more pronounced for long-term unemployed people.

Some further features of European employment and unemployment:

- By the end of 2012, long-term unemployment (that is, people unemployed for a year or more) reached an all-time high of 11.6 million or 4.9% of the active population of the EU and it is increasing in the majority of Member States (European Commission, 2013a),
- In 2012, of those who were long-term unemployed, more than half, 2.5% of the labour force, had been unemployed for more than two years (European Commission, 2013m),
- Youth unemployment (under 25s) rose substantially throughout 2012 across the EU, reaching 5.7million in January 2013, although the situation varies significantly across Member States (European Commission, 2013a),
- More than 40% of young employees (aged 15-24) in the EU are on temporary contracts, a figure that has increased since the crisis (European Commission, 2013a),
- The number of young people neither in employment nor education or training (NEETs) has increased steadily over the last two years, and 13.2% (or 7.4 million) fell into this category by the end of 2012; although the rate varies widely across Member States (European Commission, 2013a),
- The cost of the economic loss to European society of the disengagement of young people from the labour market at €153 billion in 2011, is a conservative estimate that corresponds to 1.2% of European GDP (The European Foundation for the Improvement of Living and Working Conditions, 2012),
- The employment situations of migrants (that is non-EU nationals) deteriorated further in 2012 and they are twice as likely as nationals to be unemployed; and long-term unemployment is also becoming more prevalent among them (European Commission, 2013a).

Poverty/Social Exclusion

The number of people living in poverty or social exclusion (as defined for the purposes of the Europe 2020 Strategy; see Glossary) has been increasing. At 25% in 2012, it included one quarter of the population of the EU27. The currently available statistics suggest that this represented 124.4 million people, an increase of approximately 4 million in one year (Eurostat, 2013b).

Children remain more at risk of poverty or social exclusion than the overall population in the EU (Social Protection Committee, 2013). Only in a minority of countries were children less at risk than the overall population in 2011.

When we look at the at-risk-of-poverty rate, the average rate in the EU27 countries amongst children aged under 18 has risen since 2009 (when it was 19.8%) and stands at 21.4% in 2012 (Eurostat, 2013q). That means that one fifth of Europe's children are living at risk of poverty. The average material deprivation rate[2] for children also increased between 2009 and 2012 (from 19.6% to 22.3%) (Eurostat, 2013r). The causes are attributed to insufficient earnings from parents' work, and inadequate support for households with children, as well as fiscal consolidation measures which in some cases have reduced income support and the provision of services (Social Protection Committee, 2013).

This is a very significant problem, as childhood poverty is known to affect life chances in adulthood in a range of areas from health to poverty and from education to job-prospects (Social Protection Committee, 2013a).

A survey designed to provide an early warning of a deterioration in the situation of households, shows that the share of European households experiencing financial distress[3] remains well above levels observed at any time in the previous decade; a slight easing is observed in the months up to June 2013, but this is least evident among the lowest-income households where it still affects one-in-four people; by contrast, financial distress amongst the highest income households affects one-in-ten (European Commission, 2013a).

While welfare systems[4] acted as automatic stabilizers and helped to lessen the rise in inequality (up to 2010), this is not guaranteed into the future, according to the OECD, with little or no growth,

[2] Material Deprivation Rate: The indicator is defined as the percentage of population with an enforced lack of at least three out of nine material deprivation items in the 'economic strain and durables' dimension (Eurostat, tessi082).

[3] The Commission collects monthly information on consumer sentiment which includes a question focusing on households declaring that they had to 'draw on their savings or go into debt in order to meet current expenditure' (European Commission, 2013f).

[4] Specifically, rises in social transfers and reductions in taxation.

many people exhausting their rights to unemployment benefits and governments committed to consolidation (OECD, 2013a).

Some further features of poverty and social exclusion in Europe:

- As the crisis persists and people's income situation continuously worsens, the depth or severity of poverty has become one of the main challenges for some Member States and it has been described as 'highly concerning' that the poverty gap has increased in more than half of all Member States since 2008 (Social Protection Committee, 2013),
- Certain trends suggest that income support schemes of last resort are worsening while the number of people counting on them is increasing (Social Protection Committee, 2013, p39),
- Children who are more at risk of poverty or social exclusion than the overall population in a large majority of EU countries are less likely than their peers to do well in school, enjoy good health or realise their full potential later in life (European Commission, 2013p),
- In every age group, women are more likely to live in poverty than men, with single mothers, older women and migrant women particularly vulnerable (Social Protection Committee, 2013, p26),
- Many people who work do not earn enough to lift themselves or their families out of poverty – the working poor represent a third of adults of working age at risk of poverty (European Commission, 2013o); the risk of poverty rate for people who work has increased, especially between 2011 and 2012, and the EU27 average is now 9.4% (Eurostat, 2013v),
- According to an estimate for 2009, there could have been as many as 410,000 homeless people in the EU on any given night and numbers are rising in most member states and many more people are at imminent risk of eviction (European Commission, 2013o),
- A Europe-wide survey in 2011 found that people on low incomes are more likely to have experienced negative financial consequences in the previous 12 months and to report difficulties in making ends meet (Eurofound, 2012),
- The relative stability of pension incomes has meant that older people's at-risk-of-poverty rate has not increased during the crisis in many countries. However, this is often associated with declines in median incomes of people of working age, and therefore declines in the poverty threshold, rather than with increases in incomes of older people (Social Protection Committee, 2013). On the other hand, the material deprivation rate[5] of older people has worsened since 2009, going from 14.3% to 17.5% in 2012 (EU27) (Eurostat, 2013t),
- In 2011 the risk of poverty and social exclusion rate among migrants (non-EU nationals) surged to 46.7% due to their labour market situation (European Commission, 2013a).

Services and Healthcare

Any comprehensive assessment of the impact of the crisis and austerity measures on essential services (like health, education, social care and family support) is impossible in a report of this nature and in the main it has not been attempted. As we reported in the previous report in this series, cuts to important public services have been, however, a feature of European societies severely affected by the crisis – and these cuts disproportionately affect poorer people who are not in a position to compensate for them (Frazer & Marlier, 2012). Where healthcare is concerned, we previously reported that healthcare systems were under pressure to reduce costs, and that access to essential health and social services had worsened according to a Eurobarometer study showing that some people report facing difficulties in accessing healthcare[6] (The Social Protection Committee, 2012). Now evidence of negative impacts of the crisis and of austerity measures is mounting. The OECD has noted that the economic crisis and growing budgetary constraints have put additional pressures on health systems in several countries hardest hit by the crisis (2012).

The real danger to public health is not considered to be recession but austerity – for when social safety nets are slashed, economic shocks - like losing a job or a home - can turn into a health crisis, and the strength of social safety nets is a strong determinant of health (Stuckler & Basu, 2013). There have been a number of striking, not to say alarming, reports of serious problems with health services and of very serious impacts on the health of vulnerable people. An editorial in the British Medical Journal points to negative health impacts accumulating in countries that have been severely affected by the economic crisis and by austerity packages that have cut health budgets, particularly in Greece, Portugal and Spain (BMJ, 2013).

The Parliamentary Assembly of the Council of Europe adopted a resolution in June 2013 relating to inequalities in access to healthcare. The resolution noted that inequalities in access are growing due to the economic crisis and austerity measures, as cuts to public services and increased charges predominantly

[5] Material Deprivation Rate: The indicator is defined as the percentage of population with an enforced lack of at least three out of nine material deprivation items in the 'economic strain and durables' dimension. Eurostat, 2013. [tessi082]

[6] 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)

affect vulnerable groups. This, they note, could have disastrous consequences for both individual and public health (Parliamentary Assembly, Council of Europe, 2013).

One study by the European Observatory on Health Systems and Policies (2012) on the effects of the financial crisis on health policy (carried out during 2010/2011, thus relatively early in the crisis) points to several countries having increased user charges for essential services, describing this as a cause for concern, given that this disproportionately affects low-income groups and regular users of care, while being unlikely to reduce total spending on health in the longer term. They also point out that arbitrary cuts to essential services may further destabilize the health system, increasing health and other costs in the longer term.

Trust and Social Cohesion

The European Social Protection Committee considers that fiscal consolidation measures have been an important factor in social deterioration (2013). A range of commentators and researchers are pointing to the consequent erosion of trust in governments and in EU institutions.

Declining trust in public institutions was a finding of a Eurofound study, specifically in governments and parliaments at national level, and especially so in countries most affected by the economic crisis (Eurofound, 2012). That study also identified an increased perception of rifts between racial and ethnic groups and between rich and poor - social tensions that are especially evident amongst disadvantaged people (Eurofound, 2012).

A recent Eurobarometer survey found that trust levels in political institutions continue to decrease amongst citizens of the EU – from 50% in Spring 2008 to 31% in Spring 2013 (European Commission, 2013L). A report from the European Council on Foreign Relations found that many voters feel that the EU's increasing dominance of national economic policy in the crisis means they can change government but they can't change policy any more:

'To an increasing number of citizens in southern European countries, the EU looks like the International Monetary Fund did in Latin America: a golden straitjacket that is squeezing the space for national politics and emptying their national democracies of content.'

According to this report, what is most striking is that all countries across the EU have been losing faith in the European project – both creditor and debtor countries alike (Leonard & Torreblanca, 2013). This trend, if it were to continue, would have huge long-term implications for the viability of the whole European project.

According to an IMF staff working paper, a survey conducted in 69 countries around the world found that an experience with unemployment leads to more negative opinions about the effectiveness of democracy and increases the desire for a rogue leader (Ball et al, 2013). The effects were found to be more pronounced for the long-term unemployed.

According to the International Labour Organization, the risk of social unrest in the EU is 12 percentage points higher than before the start of the global crisis[7]. Compared with other major regions, the EU has registered the most significant aggravation in the risk of social unrest (International Labour Organization, 2013).

A number of humanitarian organisations, such as Oxfam, have in recent months pointed to the human cost of the economic crisis and the measures taken in response to it and to the threat to European cohesion that is now growing as a result (Oxfam, 2013). The International Federation of Red Cross and Red Crescent Societies has talked about negative effects lasting for decades even if the economy starts to improve in the near future, and of risks of unrest and extremism flowing from rising unemployment (IFRC, 2013).

[7] The risk of social unrest is a composite indicator based on perceptions of several dimensions of life; it is associated especially with changes in employment rates and in income equality [online] (International Labour Organization, 2013)

Outlook

While austerity is still the 'governing idea of the moment', the basis for the austerity approach has come under significant challenge during the past year. Significantly, a study from 2010 (by Reinhart-Rogoff) on which the case for austerity relied heavily, was completely discredited when another team of economists discovered that the data had been selectively chosen and unusually adjusted. Studying a series of advanced economies over several decades, the Reinhart-Rogoff study had appeared to show that economic growth declines dramatically when a country's level of public debt exceeds 90% of GDP. However, when all the data was re-analysed (by Herndon, Ash and Pollin, published in 2013), it was found that the average growth rate for countries with debt to GDP ratios above 90% was +2.2% not -0.1% as Reinhart-Rogoff had claimed. The new study found that for the years 2000 to 2009, the average growth rate for countries carrying public debt levels greater than 90% of GDP was either comparable to or higher than those for countries whose public debt/GDP ratios ranged between 30% and 90%. The authors have concluded:

'We are not suggesting that governments should be free to borrow and spend profligately. But government deficit spending, pursued judiciously, remains the single most effective tool we have to fight against mass unemployment caused by severe recessions'

(Ash & Pollin, 2013).

Even the IMF, which has been a major proponent of austerity measures, is reconsidering the efficacy and social cost of these policies. It has been acknowledged, for example, that cutbacks have had larger than expected negative multiplier effects on output and recommendations have been made that financial conditions be eased in periphery economies (IMF, 2012b). An IMF Working paper assessed the distribution effects of consolidation in a sample of OECD countries from 1978-2009, and found that fiscal consolidation episodes have typically led to a significant and persistent increase in inequality, declines in wage income and in the wage share of income, and increases in unemployment (Ball et al, 2013). Specifically it has

- **1.** increased inequality by 0.1 percentage points (about 0.4%) in the very short term, and by 0.9 percentage points (about 3.4%) over the medium term,
- **2.** led to a significant and long-lasting fall in the wage income share of about 0.8 percentage points of GDP, and
- **3.** raised long-term unemployment by about 0.5% over the medium term.

Expenditure-based consolidation programmes (that is, where cuts in spending predominate over rises in taxes) tend to have produced larger inequalities (Ball et al, 2013). The paper concludes that countries with the scope to do it should opt for a slower pace of consolidation, combined with policies that support growth. However, as already mentioned, the scope to slow the pace of consolidation or to undertake investment policies that support growth could be severely limited by the EU's new fiscal governance mechanisms.

It is argued that the major programmes embarked on to reduce public expenditure and introduce structural reforms, ostensibly justified by the crisis, were in fact aimed at reconfiguring whole areas of the European social model – labour law, collective bargaining, social dialogue, wage formation systems, social protection systems and so forth (Degryse, Jepsen & Pochet, 2013). And that this was done despite the fact that the countries experiencing the lowest unemployment rates in the wake of the crisis are those which have the strongest social institutions and collective bargaining partnerships. Oxfam has argued that what is happening in Europe now is similar to the policies imposed on Latin America, South-East Asia and sub-Saharan Africa in the 1980s and 1990s, when financial bailouts from the IMF and the World Bank came with the imposition of austerity measures - policies that imposed the pain on those least able to bear it and that ultimately failed by leading to stagnating incomes and rising poverty in many countries and scarring generations (2013b). Oxfam's experience is that there are alternatives – involving investment as a means to reduce the debt to GDP ratio.

Currently there is conspicuous policy incoherence at European level. For example, EU countries are committed to the Europe 2020 Strategy with its aim of fostering inclusive growth, and its targets in areas like improving employment levels, educational levels and reducing poverty. Thus the adoption of the Europe 2020 Strategy in 2010 and the European Semester process highlighted the need to reduce poverty and social exclusion as part of the agenda of the EU. Having targets for poverty reduction and increased employment among 5 main objectives for the EU for the current decade suggested that the social objectives of the EU would be taken seriously, and for its part, Caritas Europa continues to stress that the European semester still has the capacity to help realize the vision of the Europe 2020 strategy and to make the EU more socially responsive. Social protection transfers and investing in the provision of quality services (such as affordable childcare, education, health and other social services) remain crucial to employability prospects and social mobility of different income groups as they indirectly reduce inequalities (Social Protection Committee, 2013, p.44). Dismantling these systems causes inequality and does not lead to inclusive growth. But, in practice, the crisis and the response to it mean that the social indicators are going in the wrong direction, and the measures being required of programme countries and others diverge from the inclusive measures that would be required to meet the inclusion targets established by the Europe 2020 Strategy. Economic priorities have taken precedence over social priorities.

Moreover, the EU Institutions do not seem to fully use the potential they have to prioritise policies aimed at poverty reduction. The most recent example is the Annual Growth Survey, 2014, in which the Commission sets out broad policy priorities for the year ahead. Adopted in November 2013, the Annual Growth Survey, 2014, includes as its fourth priority, 'tackling unemployment and the social consequences of the crisis' (European Commission, 2013q). However, when it comes to specifying concrete actions that could be taken to realise this priority, the focus is largely on activation measures, and while there is a reference to childhood poverty, measures to address it do not feature in the four areas highlighted as priorities under the heading of 'tackling unemployment and the social consequences of the crisis' (European Commission, 2013q).

The overall approach of previous Annual Growth Surveys seems to have been continued, namely, the social objectives of the Europe 2020 Strategy are subordinated to macro-economic objectives, despite the serious situation in terms of unemployment (including long-term unemployment and youth unemployment) and in terms of rising poverty and rising inequality in some countries identified in the Joint Employment Report that accompanies the Annual Growth Survey (European Commission, 2013r). This sends a message to governments about prioritising macro-economic issues and as a result there is a risk that National Reform Programmes will continue to give limited attention to policies aimed at tackling the problems of poverty[8].

It is difficult to understand why the Annual Growth Survey 2014 makes no reference to the Social Investment Package adopted by the European Commission in February 2013. This package sets out an integrated framework for social policy reform, intended to help Member States to use their social budgets to tackle the social consequences of the crisis (European Commission, 2013o). It includes concrete recommendations on issues like homelessness, and investing in children, and on the harnessing of EU funds for social objectives. The European semester process was seen as key to its implementation. It states:

'The Package provides guidance to help reach the Europe 2020 targets by establishing a link between social policies, the reforms as recommended in the European semester to reach the Europe 2020 targets and the relevant EU funds'

(European Commission, 2013o, p.4)

Specifically, it is difficult to understand why the Annual Growth Survey does not refer to the recommendations in the Social Investment Package in areas such as implementing the Commission Recommendations on Active Inclusion (2008), including through appropriate use of the European Social Fund and the European Regional Development Fund, or implementing the Commission Recommendations on 'Investing in Children: Breaking the Cycle of Disadvantage' (2013).

All of this highlights how the response to the crisis has ignored 'Social Europe' and indeed how it has started to dismantle many of the social protections that used to be considered the pinnacle of European achievement. This is despite the fact that it is acknowledged in the Social Investment Package that member states that moved toward a social investment approach[9] in their social policies early on, have more inclusive growth than others (European Commission, 2013o). European leaders acknowledge that countries with well developed social protection systems are also successful economically. For example, Jose Manuel Barroso, President of the European Commission, said in his 2012 State of the Union speech:

'It is precisely those European countries with the most effective social protection systems and with the most developed social partnerships that are among the most successful and competitive economies in the world.'

The European approach to the crisis has also raised serious questions about democracy in the EU. A Eurobarometer study found that, in May 2013, two-thirds of Europeans (67%) said that their voice does not count in the EU and this has increased almost continuously since 2008 (European Commission, 2013L). In particular, the crisis has placed an unelected institution, the ECB, in an extremely powerful position relative to Euro area member states and other European institutions. In fact, the ECB has been described as having taken 'de facto control of the reins of economic policy coordination within the Eurozone' (Degryse, Jepsen & Pochet, 2013). Giddens discusses the democratic deficit at the heart of Europe, describing how the Union suffers from a simultaneous lack of democracy and effective leadership with citizens nowhere directly involved (2013). As Giddens puts it: 'under the impact of the crisis, support for the Union has begun to corrode' (2013).

It is hard not to be pessimistic about the outlook for Europe and for its citizens in the absence of an alternative approach being adopted by the authorities - one which would prioritise measures to address mass unemployment and the social impacts of the crisis. With the adoption of the Euro limiting the alternatives open to national governments (such as currency devaluation), there is a strong need for a new approach and for enlightened leadership at a European level.

[8] See the Caritas Europa Shadow Report 'Europe 2020 Shadow Report - Missing the train for inclusive growth' where more detailed analysis is available on the implementation of the Europe 2020 Strategy (Caritas, Europa, 2013).

[9] Described as putting greater focus on policies such as childcare, education, training, active labour market policies, housing support, rehabilitation and health services.

Part 2

IMPACT OF THE CRISIS: SEVEN COUNTRIES

PHOTO: CARITAS ROMANIA

Introduction

In this section we will look at the situation of each of the seven countries in turn (Cyprus, Greece, Ireland, Italy, Portugal, Romania and Spain) looking first at their overall levels of government indebtedness and their recent performance in economic terms. We will then look at the policy measures undertaken and examine each country's performance in employment and unemployment and in protecting people from poverty. Each section will finish by discussing the impact of policies on vulnerable groups, informed by the experience of Caritas Europa members/affiliates in each of the seven countries.

In the case of Greece, Ireland, Italy, Portugal and Spain, the focus is on developments over, approximately, the past 12 months, while for Cyprus and Romania we also include some additional information about their situations before the global financial crisis of 2008. This is because the previous report in this series already included a more in-depth discussion of the first five countries: Caritas Europa, 2013, *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* (the 'Caritas Europa Crisis Monitoring Report, 2013').

Statistical Issues

There are a number of issues to note about the poverty and social exclusion statistics used in this report:

Time lag: 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. The data available as this report is prepared relate to 2012 for six of the seven countries and to 2011 for Ireland. Data from any given year relates to data collected during the previous year. Thus, there is virtually a two year time lag in the data and the most recent data available does not give the latest picture.

Indicators: 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 Strategy, headline targets have been set for reductions in poverty or social exclusion. The indicator, 'poverty or social exclusion' is based on a combination of three individual indicators:

- **1.** persons who are at risk of poverty - people with an equivalised disposable income below the risk-of-poverty threshold set at 60% of the national median (or middle) equivalised disposable income (after social transfers) (Eurostat, t2020_50)[10].
- **2.** people severely materially deprived have living conditions severely constrained by a lack of resources; they experience at least 4 out of a list of 9 deprivation items (See Glossary for the full list). (Eurostat, t2020_50), or
- **3.** people living in households with very low work intensity are those aged 0-59 living in households where the adults (aged 18-59) worked less than 20% of their total work potential during the past year (Eurostat, t2020_50).

Thus the combined 'poverty or social exclusion' indicator corresponds to the sum of persons who are at risk of poverty or severely materially deprived or living in households with very low work intensity. Persons are only counted once even if they are present in several sub-indicators. It is also possible to examine each of the indicators separately and we will do so in this report. Prior to the adoption of the Europe 2020 strategy the 'at-risk-of-poverty' indicator has been the most widely used and recognised indicator of poverty, and so we will place a particular emphasis on examining it relative to different groups.

Relative Poverty: The first of the three indicators used in the Europe 2020 Strategy, 'at-risk-of-poverty,' is 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 and that shifts in line with changes in general income/salary levels. Thresholds may be assessed at 40%, 50% and 60% of median income, with the 60% measure being used most frequently and being the one adopted in the Europe 2020 Strategy. Thus the 'at-risk-of-poverty' measure depends on the local income poverty threshold, which means that it varies across Europe.

It is also recognised that because relative poverty measures are related to current median (or middle, not average) income, it can be difficult to interpret during recessions when the incomes of all households often decline. In fact, where the incomes of all households fall in a recession, but they fall by less at the bottom than at the middle, relative poverty can actually decline (OECD, 2013a). This can mask or delay the full picture of poverty emerging.

As a complementary approach, the at-risk-of-poverty rate is sometimes considered anchored to a particular time – this allows for following the evolving of poverty based on changes in real income and is more sensitive to the effects of worsening economic conditions on the living standards of the poor (Social Protection Committee, 2013a). We will refer to this in respect of some of the countries considered in this report.

Comparable Data: 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.

[10] The 60% threshold is adopted in the Europe 2020 Strategy. It is also possible to examine incomes below other thresholds such as 40%, 50% or 70%.

Cyprus

Background and Government Finances

Cyprus enjoyed above euro-average growth rates for more than a decade, as well as high employment and rising disposable income, in the years leading up to the crisis and weathered the beginnings of the European crisis well (European Commission, 2013a). However, the country also had an oversized and weak banking sector, one that had contributed hugely to GDP and employment until recently. This was associated with low corporate interest rates coupled with comfortable deposit rates, which led to a specific business model for the banking sector from about 2005 onwards (EU Commission, 2013d). A high share of all deposits came from outside the euro area (about 30% at the end of 2012) (European Commission, 2013d).

Inflows of non-resident deposits fuelled a housing boom and an increase in household and corporate sector gross indebtedness to one of the largest levels in the Euro area (IMF, 2013a). Private indebtedness reached 310% of GDP in 2011, up from 213% in 2007 (EU Commission, 2013d). This led to a banking sector with assets of over 800% of GDP, one that was heavily exposed to Greece, both in terms of loans to Greek residents and holdings of Greek government bonds (IMF, 2013a).

Following the global financial crisis in 2008, a correction started in the housing market from 2009. The EU initiated an excessive deficit procedure in 2010. The economy fell into recession in late 2011. As the Greek crisis unfolded, Cyprus' sovereign debt soared and it lost market access to funding by mid-2011, when investors started to realise that the large banking sector had created a large contingent liability for the state.

In mid-2011 the banking system started to lose deposits and this was accelerated during the June 2012 elections in Greece. Bank outflows were accommodated by increased provision of Emergency Liquidity Assistance by the Central Bank of Cyprus reaching 60% of GDP in late 2012 (IMF, 2013a).

The general government public debt grew rapidly from 2008, when it had been close to 50% of GDP; it was under 70% of GDP in 2011 and it had increased to 86% in 2012. The increased government gross debt to GDP ratio was one of the largest in the EU27 between 2011 and 2012 (Eurostat, 2012j). See **Table 2**. The rapid growth in debt is partly explained by an injection of 10% of GDP into the second-largest bank in mid-2012.

The debt-to-GDP ratio is still expected to rise to unprecedented levels (European Commission, 2013c). The current target is to achieve a public debt level of 105% of GDP by 2020 (Government of Cyprus & IMF, 2013, p 1). The government deficit did not improve in 2012 despite the large raft of measures undertaken (see below).

CYPRUS | TABLE 2 | **Government Debt Rates, % GDP**

	2005	2006	2007	2008	2009	2010	2011	2012
Government deficit/surplus								
EU-27	-2.5	-1.5	-0.9	-2.4	-6.9	-6.5	-4.4	-4.0
Cyprus	**-2.4**	**-1.2**	**3.5**	**0.9**	**-6.1**	**-5.3**	**-6.3**	**-6.3**
Government Gross Debt								
EU-27	62.8	61.6	59	62.3	74.6	80	82.5	85.3
Cyprus	**69.4**	**64.7**	**58.8**	**48.9**	**58.5**	**61.3**	**71.1**	**85.8**

Source: Eurostat, 2013d, 2013e: gov_dd_edpt1; tsdde410

The Cypriot banks lost more than €4 billion following the Greek Government Bond restructuring in 2012 (Government of Cyprus & IMF, 2013). A banking crisis was triggered in February 2013 when it was assessed that the two largest banks were insolvent and required recapitalization of close to 60% of GDP, something that the government was not itself in a position to supply.

Cyprus requested aid in June 2012, and a package was agreed with the troika of the EU/ECB/IMF in April 2013 for the period 2013-2016. The package is worth €10 billion (IMF, 2013a, p.22, 26). Tough conditions were imposed in return for the billions needed to prevent the country going bankrupt. A proposal to impose a large one-off levy on both insured (that is, deposits of under €100,000 were meant to be covered by Europe-wide state guarantees) and uninsured deposits in all banks operating in Cyprus (the so-called 'bail-in') created a huge shock, and caused a 'firestorm' to erupt in Cyprus (Reuters, 2013). It was ultimately rejected by the Cypriot parliament and did not proceed.

Instead a restructuring took place of the two largest and insolvent banks (with assets of 400% of GDP), which shrank the banking system by about 200% of GDP (IMF, 2013a). In a break with the approach originally taken in other countries like Ireland and Greece, the restructuring involved contributions from bank creditors, including uninsured depositors, with part of the uninsured deposits being converted into shares[11] – and the IMF describes how this 'averted a potential accident with unknown consequences for the euro-zone' (IMF, 2013, p22).

It was accompanied by a near two-week 'bank holiday' during which uninsured deposits in Bank of Cyprus were frozen and restrictions imposed on cash withdrawals and transfers (IMF, 2013a). These restrictions are gradually being relaxed. Stabilization of the banking sector is ongoing, and other banks, including the approximately 100 Credit Cooperative Institutions (providing credit to residents) were found to be viable but under-capitalised. Recapitalisation using public funds was envisaged in the bailout package (IMF, 2013a), but in early September the Cypriot parliament rejected legislation to bring them under the direct supervision of the Central Bank (Reuters, 2013).

The banking restructuring has many implications for the wider economy and society – such as loss of working capital by businesses (that is, on deposits over €100,000), and household savings reduced or lost overnight. The banking sector and related services constituted a significant part of the economy and Cyprus is now faced with the need for a different business model, and time will be needed for the economy to adjust, and, according to the IMF, a deep recession is expected (IMF, 2013a). In the first quarter of 2013, GDP in Cyprus fell for the seventh consecutive quarter (European Commission, 2013a).

CYPRUS | TABLE 3 | **Real GDP growth rate – volume – Percentage change on previous year**

	2006	2007	2008	2009	2010	2011	2012	2013f	2014f
EU (27 countries)	3.4	3.2	0.4	-4.5	2.1	1.6	-0.4	-0.1	1.4
Cyprus	4.1	5.1	3.6	-1.9	1.3	0.5	-2.4	-8.7	-3.9

Source: 2013a, tec00115. f=forecast

Real GDP fell by 2.4% in 2012 and is expected to fall again in 2013 (by 8.7%) and in 2014 (by 3.9%) (European Commission, 2013c). In the first quarter of 2013, the fall in GDP was one of the worst in the EU, at -4.1%, second only to that of Greece (European Commission, 2013a, p.10). See **Table 3**. The IMF forecasts are similar, with a return to modest growth suggested for 2015 (IMF, 2013a). The crisis is expected to have a large and very negative impact on economic activity with quantification 'highly uncertain' (IMF, 2013a, p.12).

Achieving growth is envisaged to involve eventual support from prospective gas resources. The headline deficit is expected to decline gradually to below 3% of GDP in 2016 (EU Commission, 2013e).

[11] In March, 2013, Bank of Cyprus was recapitalised through partial conversion of uninsured deposits into equity; the Cyprus Popular Bank was split into a 'good bank-bad bank' and its insured deposits and other liabilities and assets were transferred to Bank of Cyprus, while its remaining uninsured deposits and remaining assets were kept in Cyprus Popular Bank, which is to be liquidated over time; Greek branches of the two banks were sold (Government of Cyprus & IMF, 2013, MEFP, p. 3, 5)

Policy Responses

Responding to the crisis, there were two packages of measures introduced in 2011. They included increases to personal income tax, a levy on companies and an increase in the standard rate of VAT (Caritas Cyprus, 2013).

Measures introduced in the 2013 budget (passed, December 2012) are estimated as being worth about 5% of GDP for 2013-2015 (IMF, 2013a, p18). Specific measures introduced for 2013-2015 (and subsequently approved by the troika) include:

- scaled public sector wage cuts of 6.5%-12.5% and a 3% flat reduction for 2014
- reductions in public sector employees by at least 4,500 (2012-2016)
- increased fees for public services by at least 17%
- reduced spending on social benefits (eligibility tightening, abolition of benefits)
- increased mandatory retirement age in the public pension scheme and implementation of an early retirement penalty
- increases in the VAT rate for 2013 and 2014
- increases in excise duty rates on several products including petrol and oil
- legislation for an increase in energy products from 2014
- increases in social security contributions (pensions) of employees and employers

(IMF, 2013a, MEFP, p.59, 67).

The Memorandum of Economic and Financial Policies (MEFP) entered into with the IMF envisages additional consolidation measures amounting to about 7% of GDP during 2013-2018, with measures targeting 2.2% of GDP for 2013 (IMF, 2013a). They include:

- increasing the corporate income tax rate to 12.5% (from 10%),
- raising the existing bank levy on deposits to 0.15% (from 0.11%),
- raising the withholding tax rate on interest income to 30% (from 15%),
- changes to the housing programme (to save 0.2% of GDP),
- changes to property taxation to align more with property values.

The MEFP envisages that cuts in expenditure will deliver at least 60% of the total (2013-2018) (IMF, 2013a, p 59).

Measures being planned/implemented during 2013 include:

- changes to the general insurance pension scheme and to the public sector occupational pension scheme,[12]
- a review of the social welfare system to result in budget savings (through, for example, merging or phasing out benefits or alternative targeting),
- developing a privatisation plan for state-owned enterprises,
- a range of changes to healthcare expenditure to be introduced or considered including steps toward universal healthcare coverage,
- a compulsory contribution for public servants and public servant pensioners of 1.5% of gross salaries/pensions as a first step towards a system of universal healthcare,

(IMF, 2013a, MEFP, p 60-62; European Commission & Republic of Cyprus, 2013, p. 94; European Commission, 2013e, p.11, 17).

Following a review, changes to the administration and provision of all social benefits is expected to be implemented by January 2014 (European Commission, 2013e).

In the opinion of Caritas Cyprus, an attempt is evident in the measures introduced in 2011 to target better-off people rather than people on lower incomes, although the increased VAT rate would affect everyone. Attempts were made in subsequent measures introduced by the Cypriot Government in 2012 to curb social expenditure without worsening poverty – by, for example, targeting of benefits such as the previously universal child benefit and the student grant (Caritas Cyprus, 2013). There is also some research evidence that the changes to child benefit policy have had some initial success in not exacerbating child poverty[13] (Pashardes & Koutsamelas, 2013). However, the most recent data on child poverty in respect of 2012 suggests that the situation worsened between 2011 and 2012. (See below).

Other measures such as increasing the standard rate of VAT, increased excise duties on oil and property tax affect everyone, and there have also been changes in social policy that will potentially disadvantage more vulnerable people (for example, reduction in the Easter allowance for pensioners, elimination of the Mother's allowance and co-payments for a limited number of medical services and pharmaceuticals as well as reductions in grants for various schemes) (Caritas Cyprus, 2013).

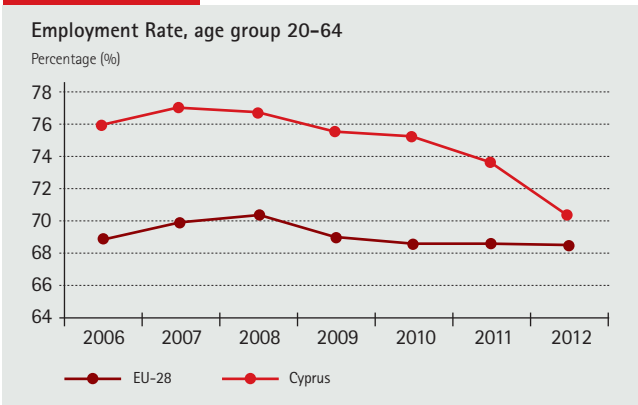
[12] In January 2013 the statutory retirement age was increased by 2 years for the Government Employees Pension System and the minimum age for entitlement to an unreduced pension is being raised by 6 months per year in the General Insurance System to bring it into line with the statutory retirement age (European Commission, 2013e)

[13] The previously universal Child Benefit, which increased proportionately with numbers of children in the family, was changed substantially in 2011; the main change was the introduction of income and other means-testing criteria for eligibility and for the size of the benefit (Pashardes & Koutsamelas, 2013)

Employment/Unemployment

Employment rates were high in Cyprus relative to the EU average and unemployment was low in the years leading up to the crisis. Figure 1 indicates the position relative to employment since 2006 and evidences a decline since 2007, which is especially sharp from 2010.

CYPRUS | FIGURE 1



Source: Eurostat, 2013f. t2020_10

In the first quarter of 2013, one of the worst falls in employment amongst European countries was noted in Cyprus (-4.8%) (% change on the previous year) (European Commission, 2013a, Table 20).

Unemployment was as low as 3.7% in 2008 (IMF, 2013a), but it has risen in each year since then, with a particularly sharp rise between 2011 and 2012. As **Table 4** shows, the unemployment rate, the long-term unemployment rate and the youth unemployment rate all worsened between 2011 and 2012.

Long-term unemployment was almost unknown in Cyprus until recently but the increase over the year to the end of 2012 in this rate was one of the worst amongst the EU countries (after Greece and Spain) (European Commission, 2013a)

By June 2013, Cyprus had the fourth highest rate of unemployment (monthly average, 17.3%) in the EU (exceeded only by Portugal, Spain and Greece) (Eurostat, 2013g). See **Figure 16, Part Four**. This represents an extremely striking reversal of the situation in Cyprus in a short number of years.

The youth unemployment rate for the under 25s was 27.8% in 2012, while that for the over 25s was 10.2% (age 25-74) (Eurostat, 2013i). Cyprus is amongst the countries showing the highest year/year increases in youth unemployment in the EU (to April 2013) (European Commission, 2013a). In addition, Cyprus also has a high NEET rate (that is, young people neither in education nor employment or training); one that is exceeded only by Bulgaria, Italy, Greece, Romania, Spain and Ireland (2012, quarter 4) (European Commission, 2013a, Chart 19).

CYPRUS | TABLE 4 | **Unemployment Headline Statistics**

	Numbers Unemployed	Unemployment Rate	Share of Long-term Unemployment	Youth Unemployment Rate (15-24)
2012	52,000	11.9%	30.1%	27.8%
2011	31,000	7.9%	20.8%	22.4%

Source: Eurostat, 2012; Eurostat, 2013h; 2013x; Youth Rate: Eurostat, 2013i
Note: unemployed numbers, rate and share of long-term unemployed relates to ages 15-74

Migrants are considered vulnerable to discrimination in the labour market and their situation is thought to be deteriorating as a result of the crisis (Pashardes & Koutsamelas, 2013).

The European Commission forecasts that unemployment will rise in Cyprus from 11.9% in 2012 to 16.9% in 2014 (European Commission, 2013a).

Poverty

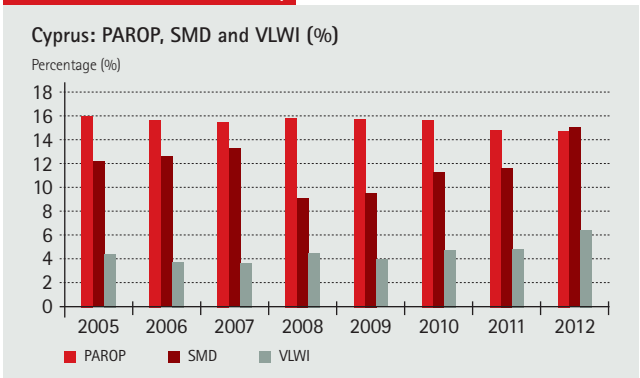
In 2008 the at-risk-of-poverty or social inclusion rate (the combined measure used in the Europe 2020 Strategy) was 23.3%, which was very close to the EU27 average of 23.6%. By 2011, the rate had increased to 24.6% (which was still similar to the EU27 average rate) (Eurostat, 2013b). The latest data suggests that there was a significant increase in 2012 to 27.1%, an increase of 2.5 percentage points. This is one of the largest increases noted amongst countries for which the data is available; it is now above the EU27 average of 25% (Eurostat, 2013b).

In numerical terms, those recorded as living in poverty or social inclusion in 2012 numbered 234,000 people, a figure that increased by 27,000 people in one year (Eurostat, 2013b).

As already noted, the at-risk-of-poverty or social exclusion indicator is a combined one that includes 3 separate measures of poverty – people at risk of poverty (PAROP), people severely materially deprived (SMD) and people in households with very low work intensity (VLWI). See **Glossary** for a definition of each term.

Rates for each of the three measures are shown in **Figure 2** for the years 2005 to 2012 (the latest for which data is available).

CYPRUS | FIGURE 2 | **Poverty**



Source: Eurostat 2013o, t2020, 51, 52, 53

The at-risk-of-poverty rate remained at the same level between 2011 and 2012 (14.8% in 2011; 14.7% in 2012) (Eurostat, 2013o). It must be remembered, however, that the time lag in the availability of SILC statistics means that the data for 2012 relates to the previous year, and so represents the relatively early years of the impact of the crisis in Cyprus.

However, the risk of poverty rate of those aged 18-24 increased between 2007 (when it was 8.7%) and 2012 (when it rose to 11.2%) (Eurostat, 2013q).

A very significant increase has taken place in the rate of people who are severely materially deprived. As **Figure 2** shows, the rate increased to 15% in 2012, an increase of 3.3 percentage points in one year – amongst the most notable increases in the EU (amongst 24 countries for which data is available) (Eurostat, 2013o). This rate puts Cyprus considerably above the EU28 average rate (of 10.3%).

The rate for people living in households with very low work intensity also increased from 4.9% to 6.4% (Eurostat, 2013o).

One way in which it is possible to assess whether the situation of people in poverty is worsening is to examine the share of people who are falling below the 40% poverty line, which means living on less than 40% of the median income (the usual 'at-risk-of-poverty' line being 60% of the median equivalised income). In Cyprus there was an improvement in this rate between 2010 and 2011, but since then the situation has deteriorated and there was a slight increase in the rate between 2011 and 2012 (Eurostat, 2013u).

Children

Child poverty in Cyprus has been amongst the lowest in the EU and this is attributed to Child Benefit, which until 2011, was universal and increased proportionately with the number of children (Pashardes & Koutsamelas 2013). The Cypriot rate of childhood poverty in 2012 was 13.9%, well below the EU28 average of 21.4% (Eurostat, 2013q). However, the rate increased by one percentage point in one year between 2011 and 2012.

Older People

At 29.3%, Cyprus has the worst rate of poverty amongst older people in the EU28 countries. That well exceeds the average risk of poverty rate for people aged over 65 in the EU28, which was 14.3% in 2012 (Eurostat, 2013s). The Cypriot rate has improved somewhat since the early 2000s, when it was even higher (51.9% in 2006). The rate is considerably worse for women (33.6%, which is more than double the comparable EU28 average rate in 2012) than men (24.2%). The material deprivation rate for older people has fluctuated, showing an improvement to 2010, a deterioration in 2011 and a slight improvement in 2012 (Eurostat, 2013t). It is recognised that older people face severe problems in Cyprus despite improvements arising from measures put in place during 2008/2009 (EU Commission, 2013e).

Working Poor

The Cypriot in-work risk-of-poverty rate was 7.9% in 2012 and it had increased slightly from the previous year (Eurostat, 2013v). Thus almost 8% of people who work did not earn enough to protect them from poverty.

Discussion: Impact on Vulnerable Groups

In a stark reversal of the country's position prior to the 2008 crisis, Cyprus has a very much worsening situation in relation to unemployment and one of the highest year-on-year increases in youth unemployment (to April 2013). Now restructuring of the banking sector and a hiring freeze in the public sector are expected to push the unemployment rate higher in 2013 and even more so in 2014 (European Commission, 2013c). There are indications of a worsening poverty situation in the latest available statistics. In particular, the number of people at risk of poverty or social exclusion has increased in the last year for which statistics are available, and a relatively large increase has occurred amongst people who are severely materially deprived. An increase in child poverty is also evident, and a very serious problem continues in relation to poverty amongst older people (especially older women).

One survey designed to give an early indication of people in financial difficulties across Europe, has detected a strong increase in financial distress in Cyprus amongst people in the lowest income households (bottom 25%) to the year ended March 2013 (based on the Joint Harmonised EU consumer surveys) (EU Commission, 2013a). Approximately 30% of

Cypriot people living in these lower income households report experiencing financial distress, and this is above the European average (as at March 2013) (European Commission, 2013a, Chart 34).

The impact of the crisis and the more recent austerity measures are being felt by Caritas personnel providing services on the ground. Since March 2013, boxes with food and household items have been distributed to many families. In 2013, the Migrant section of Caritas was dealing with many cases on a daily basis, as they find that migrants and asylum seekers are especially affected. Many have not been paid by their Cypriot employers since March 2013 and have also not received their social welfare entitlements (Caritas Cyprus, 2013). People who overstay their visas are deported in a way that, in the opinion of Caritas Cyprus, is not humane, but which the people affected are not in a position to challenge through the courts.

Although Cypriot health services are considered of high quality, the system does not provide universal coverage, and waiting lists and bureaucratic problems lead a large proportion of patients to seek treatment in the private sector, resulting in a high share of out-of-pocket expenses. Cyprus already had the highest share (49%) of out-of-pocket payments for health among the EU27 countries and this share increased most notably over the decade to 2010 (OECD, 2012). Cyprus is already the only EU country where public spending is not the main source of health-care spending (2010 figures) (OECD, 2012 figure 5.6.1). The need to pay for health services already places a particularly heavy burden on those who live in poverty such as older people, as well as on those suffering from chronic diseases (Pashardes & Koutsamelas, 2013). This points to the need for very careful consideration to be given to any cuts to public health spending that might be envisaged.

The early school-leaving rate in Cyprus is just below the EU average (11.4% compared to 12.8% in 2012) and active policies have been pursued to reduce the rate (European Commission, 2013e, p.14). However, children in the migrant work-force, especially boys continue to be at a high risk of dropping out of school. Caritas Cyprus is concerned about children of migrants, in particular, who are being badly affected as a result of the crisis and austerity measures (Caritas Cyprus, 2013). The High Commissioner for Human Rights of the Council of Europe has identified Cyprus as amongst the European countries where, as a result of austerity measures, there is a risk of a rise in children engaged in child-labour (Muiznieks, 2013).

A recent report by the EU Network of Independent Experts on Social Inclusion (Pashardes & Koutsamelas, 2013, p. 10) has stated that:

'public debate is currently focused on E issues that have led Cyprus to turn to the European Financial Stability Facility for funding. Any other concerns (including poverty and social exclusion) receive attention insofar as they are related to the fiscal and banking anguish.'

STORY OF ONE FAMILY...

Mr. P. and his wife Mrs. S. are 63 years old and 58 years old respectively, and they came to Caritas for help in 2013. They have one son who is a high school student. They took out a mortgage before the crisis and purchased their own two-storey home. They live on the ground floor and they rent out the first floor. Even in 2011 they were struggling to make their mortgage payments, but the income from the rent was helping them to have a good quality of life.

As time went by and the recession really hit Cyprus in 2012, Mrs. S lost her job and a few months later, in March 2013 (after the drastic measures that Cyprus had to adopt), her husband's salary was reduced to €500. Also their tenant terminated the lease and they lost their rental income.

Now due to these circumstances their life has been affected - they cannot cope financially, and they stopped paying their mortgage and are thinking of selling their house. They were forced to stop their son's extracurricular activities (such as maths classes, English classes etc.). Basically their income now barely covers what they need to survive.

All of these problems have also had an impact on their personal life. Most of the time they argue about their financial problems and their concerns about their future and especially their son's future. They are afraid that the longer their situation remains stagnant, the greater it increases the chance of them losing their house, ending up on the streets and subsequently destroying their son's future.

Greece

Background and Government Finances

It is thought that difficulties had been brewing in Greece for years such that when the economic crisis came, the country was significantly more exposed than other countries. The social policy system has been described as reflecting a legacy of weak political and solidarity patterns and an absence of social and financial planning (Venieris, 2013). One of Greece's underlying problems has been tax evasion; another has been associated with the level of government regulation and bureaucracy (Menendez, 2012).

The country had relatively very high levels of general debt throughout the 2000s based on easy access to foreign borrowing and these levels have soared since 2007. See **Table 5**. Greece still had the highest government gross debt to GDP ratio in 2012 (156.9%) amongst the EU27 (Eurostat, 2013j). The IMF projects that it will peak at 176% of GDP in 2013 (IMF, 2013b).

The EU initiated an excessive deficit procedure in 2009. When borrowing on the markets to refinance its debt became too expensive, an assistance package was made by the European institutions and the IMF in 2010. A second assistance package followed in 2012, this time accompanied by a restructuring of privately held Greek bonds, which imposed losses on investors to reduce the debt burden on the public. Originally the banking system had been considered relatively sound but banks came under pressure as the economy weakened and non-performing loans increased (IMF, 2013d). There has also been a dramatic fall in money deposited with the Greek banks and serious problems with access to credit (Mouzakis, 2013). A third package of international assistance is now being mooted.

GREECE | TABLE 5 | **Government Debt Rates, % GDP**

	2005	2006	2007	2008	2009	2010	2011	2012
Government deficit/surplus								
EU-27	-2.5	-1.5	-0.9	-2.4	-6.9	-6.5	-4.4	-4.0
Greece	**-5.2**	**-5.7**	**-6.5**	**-9.8**	**-15.6**	**-10.7**	**-9.5**	**-10.0**
Government Gross Debt								
EU-27	62.8	61.6	59	62.3	74.6	80	82.5	85.3
Greece	**100**	**106.1**	**107.4**	**112.9**	**129.7**	**148.3**	**170.3**	**156.9**

Source: Eurostat, 2013d, 2013e: gov_dd_edpt1; tsdde410

In 2011, an article in the Economist magazine described the European Union's approach to Greece as: 'if a plan is not working, stick to it.'

More recently the IMF too has critiqued the first package of measures (2010-2012), acknowledging that the actual decline in Greek GDP was much greater than anticipated, associated with an underestimate of the knock-on effects of the fiscal adjustment,[14] and listing a number of unsuccessful outcomes - market confidence not restored, the banking system losing 30% of its deposits, and the economy experiencing a much-deeper-than-expected recession with exceptionally high unemployment, and public debt remaining too high and eventually requiring restructuring (IMF, 2013d). They argue that, while debt restructuring was considered inevitable by many at the outset of the Greek bail-out, this was ruled out in part because this risked contagion to other members of the Eurozone. Debt restructuring proceeded in 2012 but the decision not to do so at the outset

[14] The evaluation recognises that the multiplier effect of fiscal adjustments was underestimated at the outset causing the depth of the recession to be underestimated – in other words, the total effects of austerity on the economy were underestimated, caused by things such as reductions in household spending (IMF, 2013d).

allowed private creditors to reduce their exposures on a significant scale, thus leaving taxpayers and the official sector 'on the hook' (IMF, 2013d, p.28,33).

The IMF concludes that an upfront debt restructuring would have been better for Greece (in terms of easing the burden of adjustment and contributing to a less dramatic economic contraction) but it was unacceptable to the euro partners. At the outset much had been talked about stemming 'contagion,' but the sovereign debt crisis spread thereafter from Greece to Ireland and Portugal, and eventually to other countries – Spain, Italy and, more recently, to Cyprus.

Greece's fiscal deficit has been above 3% of GDP for many years, in violation of the Stability and Growth Pact. In 2012 it stood at -10%. See **Table 5.** The programme agreed with the troika is based on a target of a surplus of 4.5% in 2016 (IMF, 2013b).

Between 2000 and 2007 real GDP growth in Greece averaged a rate of 4% annually, which was higher than in all Euro area countries except for Ireland and Luxembourg (IMF, 2013d) and the country was praised by European leaders and institutions for this high rate of growth. The impact of the 2008 global financial crisis can be seen in a drop to negative growth in 2008 (-0.2%). Negative growth rates have continued each year since then, reaching -6.4% in 2012. See **Table 6.** In 2013, Greece was in its sixth year of recession, a recession described by the IMF as 'sharp and socially painful' (IMF, 2013c). They describe it as: 'one of the deepest peacetime recessions to afflict an advanced economy.'

GREECE | TABLE 6 | **Real GDP growth rate – volume – Percentage change on previous year**

	2006	2007	2008	2009	2010	2011	2012	2013f	2014f
EU (27 countries)	3.4	3.2	0.4	-4.5	2.1	1.6	-0.4	-0.1	1.4
Greece	5.5	3.5	-0.2	-3.1	-4.9	-7.1	-6.4	-4.2	0.6

Source: Eurostat, 2013a, tec00115. f=forecast

In the first quarter of 2013, real GDP declined again by 5.3% year on year – the worst fall amongst European countries (European Commission, 2013a).

During 2013 political tensions in Greece culminated in one of the Government coalition partners withdrawing, leaving a tight Government margin. There were also much-publicised Government decisions like the sudden closure in June of the public broadcasting company (ERT). Concern is ongoing, relative to the impact of the measures taken, on social cohesion and large areas of Athens had to be closed down during the July visit of the German Finance Minister, and municipal workers and school teachers took to the streets of Athens also in July to protest against layoffs in the public sector. In September, strikes and street protests took place across the country, organised mainly by public sector workers in the health and education sectors. A general strike occurred in November which brought much of the country to a standstill to coincide with a review by the 'troika'.

Policy Responses

The Greek social policy system is characterized by delayed development of universal welfare policies and the underdevelopment of social assistance and social care services, poor unemployment protection, distributional imbalance, administrative inefficiency and nonexistent family policy based on a pattern whereby the family remains the essential welfare provider (Venieris, 2013). Greece remains one of the few EU countries where a national programme of income guarantee is not available. Following a review, the OECD has recently concluded that Greece must reform its social welfare system if it is both to meet its fiscal consolidation targets and establish an effective safety net, and notes that total spending on social welfare is a relatively small part of Government expenditure[15] (OECD, 2013cc).

A range of measures were introduced from 2010, which are detailed in the Caritas Europa Crisis Monitoring Report, 2013. They included significant reductions in pensions, increases in VAT, increased excise duties on fuel (amongst other things), cuts to public-sector pay, reduction in the minimum wage, reductions in unemployment benefits along with stricter conditions on availability, suspension of rent subsidy programmes, means testing and stricter eligibility rules for some benefits. There were also changes to labour laws, especially regarding collective agreements.

In November 2012 the Greek Parliament passed a raft of measures worth €13.5 billion over two years, designed to ensure the release of the next tranche of aid from the IMF and

[15] Total spending on social insurance and assistance schemes, excluding disability and other pensions and health, is approximately 4.6% of GDP (OECD, 2013cc)

the European Institutions, much of which is required to shore up banks. The agreement negotiated initially required that social programmes (excluding pensions and healthcare) contribute 1.5% of GDP to fiscal consolidation, but this was brought down to 0.7% (OECD, 2013cc). The cumulative value of measures introduced in Greece (2010-2013) amount to 11.1% of GDP[16] (IMF, 2013d, p.23).

A system has operated since 2012 whereby civil servants are allocated to a 'mobility' scheme which means they are assessed for redeployment or exiting the civil service (Ministry of Finance, 2013). Very significant changes were introduced at the end of 2012 described as 'landslide changes;' these included cuts to wages of public servants (related to a 'special wages regime'), from August 2012, across a range of public service positions including the police, fire-services, coast guard, armed forces and others (KG:DI, 2012). In April 2013 the Parliament passed an Omnibus law which envisages the firing of public sector workers, and the shutting down or restructuring of state agencies (Hope, 2013).

Recent measures include:

Employment:

- changes to the system of collective bargaining and suspension of increases in wages until the unemployment rate falls below 10%;
- liberalisation of certain employment terms and conditions to give employers more flexibility (like termination of contracts of indefinite duration in the private sector) (L 4093/2012) (Ministry of Finance, 2013),
- There was a target of 25,000 civil servants entering the mobility scheme by the end of 2013 and this is in addition to 4,000 already committed to enter by July; those who enter the scheme have their wages cut to 75%[17] and there is a target of 4,000 exits from the civil service by end 2013 and 15,000 in the 2013-2014 period (IMF, 2013b, p.15, MEFP, p.83).

Social Welfare

- legislation from November 2012 made further changes to the pension system, and amongst other things increased age limits for access to pensions and reduced pensions and lump-sum allowances;
- from Jan 2013, there is a reduction in the number of days that unemployment benefit will be paid in any 4-year period, to be reduced further from January 2014;
- a new unemployment assistance benefit has been created;
- there are reductions in special and seasonal unemployment benefits for certain professions and geographic areas;
- following the abolishment of five family benefits, a new means-tested family benefit has been created (OECD, 2013cc);
- a means-tested heating allowance (Ministry of Finance, 2013).

Taxation

- the tax-free threshold for income earned in 2011 and 2013 was retroactively reduced (OECD, 2013cc; Ministry of Finance, 2013)
- a series of changes have been made to the tax code (L4172/2013) (Ernst & Young, 2013)

According to Caritas Greece, an example of some of the above measures in operation is the total restructuring of 6 municipal hospitals in Athens and the transfer of staff to the mobility scheme.

A raft of measures has been agreed with the troika aimed at greater flexibility in the labour market. These, according to Caritas Greece, have greatly changed working relationships and salary systems that had been in place for decades. Amongst the changes aimed at reducing labour costs, are alterations in the terms on which employment contracts in the private sector can be terminated, further reductions in the notification period for terminations and reductions in severance pay (Ministry of Finance, 2013). There have also been changes permitted to working-time arrangements and annual leave. Major changes have been made to collective agreements provided by the National General Collective Employment Agreement to make the arrangements more flexible (Ministry of Finance, 2013). According to Caritas Greece, these were being felt in 2013 in the form of greater work insecurity, more part time jobs or rolling working agreements - all of which has had a significant impact on the remuneration of the workers involved.

Eurostat data suggest that gross wages and salaries[18] in Greece have been reducing since 2009 and are now under 2004 levels (Eurostat, 2013w). Data from the Greek Statistical agency suggests a drop in the index of wages of 10% in the first quarter of 2013 compared with the first quarter of 2012, while there had been a decrease of 7.76% comparing the first quarter of 2012 with that of 2011 (Hellenic Statistical Authority, 2013). The minimum wage operates as a floor, but it has been cut by 22% (to €586 per month) for workers over 25, and by 32% (to €510) for workers under 25 (OECD, 2013cc). This reduction consequently led to a significant cut in unemployment payments from €460 to €360 per month (Ministry of Finance, 2013).

Furthermore, based on IMF estimates, gross wages and salaries would decline by 7% in 2013 and by 1.5% in 2014, giving a

[16] Revenue measures (such as increased VAT, excise duties and other taxes) accounted for 4% of GDP; cuts in expenditure accounted for 5.3% of GDP, and structural reforms were to contribute 1.8% of GDP in 2013.

[17] The reduction is greater for people who enter the scheme for disciplinary reasons

[18] Gross wages and salaries include remuneration in cash and in kind, not employers' social contributions. [Eurostat, tec 00014]

cumulative decline of over 20% (2010-2014) (IMF, 2013b). With falling wages, rising unemployment and tax increases all reducing incomes, the already high incidence of non-performing loans increased to 27% in quarter 1, 2013 (IMF, 2013b).

Measures have been taken by the OAED (Greek Manpower Organisation) aimed at job retention, training and employment, especially for younger people (Ministry of Finance, 2013). A youth internship and employment voucher programme has been introduced that supports six-month vocational training/ internships for 45,000 people and there are plans to increase entrants to apprenticeships and vocational training programmes (IMF, 2013b, MEFP). There are also plans to use EU structural funds for a social community work programme targeting 50,000 people from jobless households, and for a Health Voucher Programme to provide 100,000 long-term uninsured people with access to primary healthcare services (IMF, 2013b, MEFP).

Agreement was reached in June 2013 to sell the Government stake in the Greek transportation system operator (DESFA), but a buyer was not found for the natural gas company (DEPA). However, there is concern that the privatisation of public utilities, providing essential public services like water, sanitation and energy, will impact negatively on access to basic rights (OHCHR, 2013).

Measures currently planned for introduction in January 2014 include a new unified property tax, a pilot means-tested income support programme (minimum guaranteed income) to be targeted at those living under the poverty threshold with support from the World Bank, and restructuring/redundancies from the public service, an area where Greece is considered not to have met the targets scheduled in prior agreements with the troika (IMF, 2013b, MEFP; OECD, 2013cc).

Health care expenditure has been significantly reduced since 2010 to well below the average for EU countries; even the IMF sees limited scope for additional savings on health (2013b). There is rising concern now about the impact of austerity measures on the health of the Greek population. A high proportion of Greek spending on health already comes from private out-of-pocket expenses (38%) (exceeded in the EU27 only by Bulgaria and Cyprus) and Greece is amongst those countries where this proportion has increased (2000 to 2010) (OECD, 2012, figure 5.6.1, 5.6.3). In Greece, unemployment benefits expire after 12 months, and people then also lose their entitlement to health insurance cover (OHCHR, 2013). The number of unemployed people who have lost their health insurance coverage is estimated at 800,000 people (Social Protection Committee, 2013a). All of this means that adequate healthcare for poorer people is becoming increasingly difficult, according to an expert from the UN Office of the High Commissioner for Human Rights (2013).

Caritas Greece (2013) identifies the proposed expansion of a new network of social pharmacies as a positive initiative aimed at making medicines freely available to people selected according to certain criteria under the public health system (EOPYY).

The financial adjustment made in Greece has been one of the largest by any international comparison (IMF, 2013b, MEFP). Commentators have argued that while spending in Greece has been drastically reduced, structural reform is stagnating (Seith, 2012). Years into the crisis, commercial shipping companies, the country's most successful industrial sector, are still exempt from tax (Seith, 2013) and the severe extent of tax and contribution evasion remains 'largely untouched' (Venieris, 2013, p. 27). The IMF considers that progress in liberalizing regulated professions has been delayed by resistance from vested interests and that continuing tax evasion has reduced public support for the austerity measures taken (IMF, 2013b; IMF, 2013d). There has been some criticism of the relatively high military spending that has continued to be a feature of the Greek situation during the period of austerity measures, where the defence forces are considered to have come out relatively lightly (Dempsey, 2013).

Finally, Caritas Greece notes that many of the measures agreed with the 'troika' aimed at increasing competitiveness by reducing salaries and pensions have not delivered price reductions. On the contrary, many prices have increased due to higher taxes and many businesses have closed or relocated.

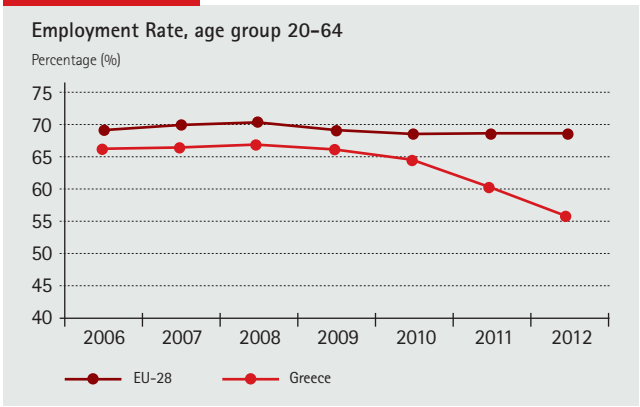
Employment/Unemployment

Amongst EU countries, Greece has witnessed one of the largest losses in jobs over the five years to the first quarter of 2013 (-19.1%) a rate of loss second only to Latvia (European Commission, 2013a). When we look at the 34 Member States of the OECD[19], the largest increases in unemployment rates since the start of the crisis occurred in Greece and Spain (OECD, 2013c).

As **Figure 3** shows, the employment rate fell dramatically again in Greece in 2012 to 55.3% (ages 20-64) down from 59.9% in 2011 and 13.1 percentage points lower than the EU28 average (68.4%) (Eurostat, 2013f). In the first quarter of 2013, a significant fall in employment was again noted at (-6.5% or -270,000 people) (% change on previous year), the largest in the EU (European Commission, 2013a, p.13, Table 20). There was a fall of 2.3% in the first quarter of 2013 alone.

[19] Which does not include Latvia, Cyprus or Romania but includes Greece, Ireland, Italy, Portugal and Spain

GREECE ⁞ FIGURE 3



Source: Eurostat, 2013f. t2020_10

As Table 6 shows, there was a dramatic worsening of all aspects of the unemployment situation in Greece between 2011 and 2012.

The unemployment rate was 17.7% in 2011, representing 877,000 people (Eurostat, 2012). In 2012 it had grown to 24.3% representing 1.2 million people (Eurostat, 2013h). In 2012, Greece's unemployment rate of 24.3% was second only to that of Spain (at 25%) and was more than twice the EU27 average rate (10.4%) (Eurostat, 2013h).

More recent figures from 2013 show Greece at the top of the EU unemployment table by mid-2013 with a rate of 27.6% (monthly average rate) (Eurostat, 2013g). See **Figure 16, Part Four**. The European Commission forecasts that unemployment will remain above 26% in 2014 (2013a).

There was also a large increase in the share of long-term unemployment (that is the proportion of unemployment that is long-term - of one year or more in duration), from 49.6% in 2011 to 59.3% in 2012 (Eurostat, 2012; Eurostat, 2013h). Greece experienced the worst increase over the year to the end of 2012 in the long-term unemployment rate amongst EU countries (European Commission, 2013a).

Greece is one of four OECD countries in which structural unemployment (that is, unemployment considered long-lasting due to changes in overall demand patterns as opposed to cyclical unemployment) has been shown by the OECD to have increased significantly between 2008 and 2012, and in which it is now expected to rise further (OECD, 2013c).

The youth unemployment level in Greece is of great concern. It exceeded 55% in 2012 (see **Table 7**), meaning that the number of young unemployed people exceeded the number of young people in work (European Commission, 2013a). Unfortunately, that rate has increased again since, with a rate of over 60% being reached in February 2013 (European Commission, 2013a, Table 26). This is one of the highest year on year increases (to April 2013) in youth unemployment in the EU (European Commission, 2013a, p.19, Table 26). The Greek Government characterizes the increase in youth unemployment as: 'a rampant rise to...unprecedented, alarming levels' (Ministry of Finance, 2013, p.35).

An increasing number of young people are also characterized as NEETs (neither engaged in work nor in education or training) and this rate has increased dramatically from 11.7% in 2008 to 20.3% in 2012 (Ministry of Finance, 2013). In comparative terms, the rate for NEETs is exceeded in the EU27 only by Bulgaria and Italy (final quarter of 2012) (European Commission, 2013a, Chart 19).

The informal labour market, described as already unacceptably large, has been characterized as 'out of control' (Venieris, 2013, p. 26).

The rise in unemployment has taken place notwithstanding that outward migration has exceeded inward migration (that is, more people are leaving than arriving in Greece) since 2010-2011 (European Commission, 2013a).

GREECE ⁞ TABLE 7 ⁞ **Unemployment**

	Numbers Unemployed	Unemployment Rate	Share of Long-term Unemployment	Youth Unemployment Rate (15-24)
2012	1,204,000	24.3%	59.3%	55.3%
2011	877,000	17.7%	49.6%	44.4%

Source: Eurostat, 2012; Eurostat, 2013h; Youth Rate: Eurostat, 2013i
Note: unemployed numbers, rate and share of long-term unemployed relates to ages 15-74

Poverty

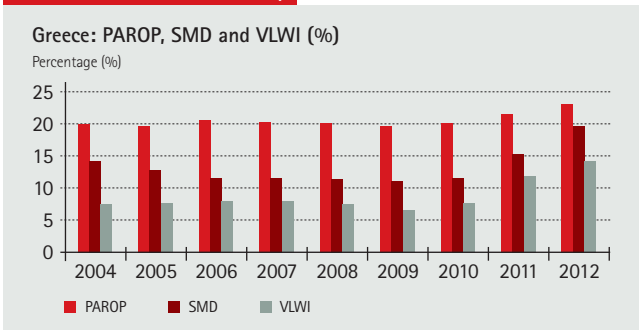
The OECD points out that Greece had a high share of its population living in poverty before cuts in public spending were introduced and that austerity measures have pushed more people into poverty (OECD, 2013c).

In 2008 Greece had a relatively high proportion of its population living at risk of poverty or social inclusion (the combined measure used in the Europe 2020 Strategy) – 28.1%. By 2011, there had been a significant increase to 31% (well above the EU27 average of 24.2%), and the latest data suggests that there has been another significant increase in 2012 to 34.6% (an increase of almost 4 percentage points) (Eurostat, 2013b). In terms of numbers, those recorded as living in poverty or social inclusion in 2012 numbered 3.7 million, a figure that increased by 392,000 people in one year (Eurostat, 2013b).

The at-risk-of-poverty or social exclusion indicator is a combined one that includes 3 separate measures of poverty – people at risk of poverty (PAROP), people severely materially deprived (SMD) and people in households with very low work intensity (VLWI). See Glossary for a definition of each term.

Rates for each of the three measures are shown in **Figure 4** for the years 2004 to 2012 (the latest for which data is available).

GREECE | FIGURE 4 | **Poverty**



Source: Eurostat 2013o, t2020, 51, 52, 53

All three of the separate indicators increased between 2011 and 2012. The at-risk-of-poverty rate has increased significantly from 21.4% to 23.1%, the largest increase that has occurred in the EU28 countries whose data is currently available from Eurostat (Eurostat, 2013o). So in 2012 almost a quarter of the population was at risk of poverty, meaning that their incomes were below 60% of the equivalised median income. In 2012, Greece had the highest at-risk-of-poverty rate in the EU28[20] followed by Romania and Spain. See **Appendix 3**.

In numerical terms, there were 2.5 million people living in poverty in 2012, an increase of nearly 190,000 people in one year. Since 2009, the increase has been 387,000 people.

It is recognised that young adults are bearing a significant burden across Europe. In Greece the risk-of-poverty rate of those aged 18-24 increased by approximately 50% between 2008 (when it was 23%) and 2012 (when it rose to 33.1%) (Eurostat, 2013q).

The risk-of-poverty rate of unemployed people strongly increased from 38.1% in 2009 to 44% in 2011 (Ministry of Finance, 2013).

The large increase in the at-risk-of-poverty rate has happened notwithstanding a very significant drop in the at-risk-of-poverty threshold – in other words, the level at which people are deemed to be at risk of poverty fell in line with a drop in overall incomes. See **Appendix 1**. The Greek threshold fell from €6,591 in 2011 to €5,708 in 2012, a drop of €883, or over 13%, and by far the largest drop in the EU28 (of the countries for which figures are available) (Eurostat, 2013p).

Using a poverty indicator 'anchored' to living standards in 2005, the OECD has shown that increases up to 2010 in income poverty in Greece were even higher than suggested by 'relative' income poverty measures (OECD, 2013a).

The rate for people who are severely materially deprived increased by 4.3 percentage points between 2011 and 2012 and this is the largest increase amongst the EU28 countries for which data is available (Eurostat, 2013o, t2020_53). Greece's rate of severe material deprivation is now exceeded only by Lithuania, Hungary, Latvia, Romania and Bulgaria. See **Appendix 4.**

The third indicator of poverty – people living in households with very low work intensity - also increased between 2011 and 2012, and Greece has the fourth highest rate for this in the EU27, exceeded only by Spain, Croatia and Ireland. See **Appendix 5.**

The impact of social transfers on poverty reduction is relatively very low in Greece (13.7%), as compared, for example, with a 54.2% rate in Denmark, the European country where their impact is greatest (Social Protection Committee, 2013). This highlights the potential for improvement in the scale and effectiveness of social protection expenditure.

One way in which it is possible to assess whether the situation of people in poverty is worsening is to examine the share of people who are falling below the 40% poverty line, which means living on less than 40% of the median income (the usual 'at-risk-of-poverty' line being 60% of the median equivalised income). In Greece there has been an increase in those below the 40% poverty line each year since 2009. Between 2009 and 2012, the increase was 4 percentage points, and between 2011 and 2012 alone the increase was of 2.4 percentage points (Eurostat, 2013u).

[20] Data only available to date for 2011 for Belgium, Ireland, Austria and the UK

Children

Greece has the fourth highest rate of childhood poverty (those aged under 18) in the EU (exceeded only by Bulgaria, Spain and Romania). The risk of poverty rate among children is 26.9% in 2012 and this compares with an EU28 average of 21.4% (Eurostat, 2013q). The rate of increase since 2008 (when the rate was 23%) is nearly 4 percentage points. The material deprivation rate[21] for children was high in 2012, at 34.8%, relative to the EU27 average (of 22.3%) and the Greek rate has come close to doubling since 2008 (when it was 18.7%) (Eurostat, 2013r).

In an attempt to improve the way material deprivation is measured for children, special child-specific items relating to material deprivation were included in an EU-SILC survey in 2009 relating to children aged 1-15 years. According to this measure, Greece had a material deprivation rate for children (aged 1-15) of 31%, which was well above the EU27 average rate of 21% (Social Protection Committee, 2013, p.38). This, however, relates only to the early stages of the crisis in Europe.

The OECD considers that there is low support for poor families by comparison with international standards, and that while nearly all families with three or more children receive benefits, only 10% of lone parents do so (2013c).

Older People

The average risk-of-poverty rate for people aged over 65 in EU28 was 14.3% in 2012 (Eurostat, 2013s). The poverty rate for older people in Greece has tended to be high relative to EU average levels. At 17.2%, the 2012 rate in Greece was 2.9 percentage points above the EU average level. There was a significant deterioration in the rate between 2010 and 2011, but a significant improvement is in evidence for 2012. The rate for older women is 18.3% (above the EU28 average rate) and is higher than the rate for older men in Greece (at 15.9%). There have been sizeable increases in the material deprivation rate for older people in Greece; it has gone from 25.5% in 2009 to 29.4% in 2012 (Eurostat, 2013t).

Working Poor

The in-work risk-of-poverty rate for Greece was 15.1% in 2012 and there has been a sizeable increase since 2011(Eurostat, 2013v). Thus, more than 15% of people who work do not earn enough to protect themselves from poverty. Greece has the second highest rate amongst the EU28 countries (exceeded only by Romania).

The rate had decreased between 2009 and 2011, and the Greek authorities attributed this to the dramatic fall in the value of the poverty threshold and due to the dismissal of poorly qualified, low wage-earners (Ministry of Finance, 2013).

Discussion: Impact on Vulnerable Groups

The unemployment situation is worsening with long term unemployment increasing and an extremely grave employment situation faced by younger people. There are increasing problems of poverty and severe material deprivation as outlined above, together with increasing problems with access to basic services such as healthcare. Greece has the highest at-risk-of-poverty rate amongst the EU28 countries and has experienced the largest increase in this rate and in the rate of those who were severely materially deprived between 2011 and 2012 (amongst the EU28 countries). This has occurred notwithstanding the fact that the poverty threshold fell very significantly within the year. There is evidence of a deepening of the depth of poverty (meaning that the poor are getting poorer) and increases in the rates of poverty for those in employment. All of this points to a very disturbing situation in Greece. The situation is one where the burden is patently not being shared equally amongst all sectors of society, and in which a strong increase in financial distress has been reported in the last year by people in the lowest quarter of households.

During the past year or so, concern has mounted about the social effects of the crisis and of the austerity measures. An expert from the UN Office of the High Commissioner for Human Rights has noted how the austerity programme is being implemented in the context of a social protection system characterized by gaps and unable to absorb the shock of unemployment, reductions of salaries and tax increases (OHCHR, 2013). He called on the Government and the troika to adopt a human rights-based approach to the design and implementation of the fiscal consolidation and reform policies to ensure that they are consistent with core international human rights' instruments. One European body has characterized the situation as a health and humanitarian crisis (Parliamentary Assembly Council of Europe, 2013).

The unequal impact of austerity measures is of increasing concern. Austerity measures are currently producing too many deprived and far more insecure social strata while other strata become better insulated from contributing to the resources needed to serve the common good (Venieris, 2013, p. 28).

Greece's share of people living in lower income households (bottom quarter) who reported experiencing financial distress is one of the highest in the EU at over 35% (as at March 2013)

[21] Material Deprivation Rate: The indicator is defined as the percentage of population with an enforced lack of at least three out of nine material deprivation items in the 'economic strain and durables' dimension (Eurostat, tessi082).

(based on the Joint Harmonised EU consumer surveys intended to give an early indication of financial difficulties) (European Commission, 2013a, Chart 34). A strong increase in financial distress was reported amongst these people in the lowest income households to the year ended March 2013 (EU Commission, 2013a).

Cuts to public pensions have had a very significant impact in Greece, according to a study that examined the impact of direct measures taken in nine European countries between 2010 and mid-2012 (Avram et al, 2013).

Gross wages and salaries[22] have been reducing since 2009 and are now below the 2004 levels (Eurostat, 2013w).

Venieris points out that social policy since the crisis in Greece began, is defined by market imperatives and EU/IMF directives that threaten social cohesion and 'fail to restore the endemic welfare inefficiencies/imbalances and to provide basic protection for the more vulnerable' (Venieris, 2013, p. 37). And even the IMF is concerned with the uneven impact of the measures taken, referring to the need to spread the 'burden of adjustment' across different strata of Greek society (IMF, 2013d, p.2). According to an OECD index, the average net disposable income (meaning the amount of money that households earn after tax) of the top 20% of the population was an estimated US $41,155 per year, whereas the bottom 20% lived on an estimated US $7,317 per year (OECD, 2011). Eurostat confirms a similar rate of income inequality (measured using the S80/S20 ratio[23]) which increased between 2010 and 2011 by 7.1% (going from a ratio of 5.6 to 6.0) (Eurostat, 2013c, tsdsc260).

According to a recent report from the OECD, between 2007 and 2010, the poorest 10% of households in Greece lost 8% of their disposable income, twice as much as the richest decile of households who lost only 4% (OECD, 2013a). A study examining the impact between 2010 and mid-2012 of direct measures showed that an 8% loss of income in the poorest Greek households followed from policy changes that directly affected their incomes (Avram et *al*, 2013, p.26). (Remember, also, that many more measures have continued to have an impact,since that study was carried out in 2012.) Also, that study does not include changes to indirect taxes like VAT, whose effects have been found to have been particularly severe on poorer households in Greece, particularly for the bottom two decile groups (that is, those in the bottom 20% for income) (Sutherland & Matsaganis, 2011; Callan et al, 2011).

Unemployment has been described as 'the national nightmare' with unemployment benefits well below the poverty line, eligibility criteria strictly linked to contribution record, excluding first entrants and young unemployed or those with poor employment records, and generating a large number of households in which no member participates in the labour market and all are at a mounting risk of poverty (Venieris, 2013, p.26). This means that there are many families where no one has a job and there is literally no income coming into the household (Caritas Greece, 2013).

Caritas Greece points to a tremendous impact on Greek society during 2013 of increases in taxation, reductions in social benefits including pensions, higher costs of commodities due to increased indirect taxes, rising unemployment and other changes in the labour market including more precarious working arrangements that have reduced incomes and led to delays in the payment of wages (2013). They point to households that could not afford heating during the winter and of some without electricity, and they are aware of people in many households being poorly fed, and unable to pay the rent and other bills. Furthermore, they observe that many people suffer from serious psychological problems and that Greece has a high rate of suicides. At the same time, they observe an unprecedented lack of access to social services, including health services.

Indeed, Caritas Greece is not the only body to be concerned about access to the healthcare system. A UN expert has expressed concern about how the public health system is serving poor people and marginalised groups due to increased fees and co-payments, closure of hospitals and health centres, and more people losing public health insurance cover due mainly to prolonged unemployment (OHCHR, 2013). Action by pharmacies in dispute with the state's main provider of health insurance (which, it is claimed, owes them for drugs delivered on credit from 2011 onwards) left patients without access to drugs during 2013 (Reuters, 2013), The European Observatory on Health Systems and Policies cites a number of studies evidencing a worsening of health status since the crisis began (2012, p.3). Aspects of health affected include self-reported general health; worsening mental health; and a significant increase in the number of people who felt that they needed health care but did not access it. Furthermore, the number of new HIV cases amongst injecting drug users has risen dramatically, thought to be caused by reduced service provision.

Births have dropped by just over 10%, and stillbirths increased by 21% between 2008 and 2011 according to researchers at the National School of Public Health. The researchers link the fall in births to the deepening recession and the rise in stillbirths to an increase in unemployment amongst women, who, if unemployed for over a year, not only lose their benefits but also their public health insurance (newspaper reports; Caritas Greece, 2013).

Caritas Greece (2013) is concerned that changes in personnel and administrative problems are leaving some very vulnerable people without any income and in a very precarious situation. For example, changes to the administrative system of making disability payments has initiated a long bureaucratic nightmare for many people who must wait months, or in some regions for as long as a year, with payments suspended between the

[22] Gross wages and salaries includes remuneration in cash and in kind but not employers' social contributions. [Eurostat, tec 00014]

[23] The ratio of total income received by the 20% of the country's population with the highest income compared to that received by the 20% with the lowest income – the higher the ratio the greater the inequality (Social Protection Committee, 2013, p43); income is equivalised disposable income (Eurostat, 2013c, tsdsc260)

expiry of an official medical opinion and the carrying out of another medical examination. Reductions in public sector personnel have also contributed to major delays in processing pension applications while the numbers applying have increased.

Caritas Greece has observed a dramatic rise in homelessness during the past year or so. Indeed, international bodies like the OECD and the UN Office of the High Commissioner for Human Rights are also commenting on this problem. While it is difficult to estimate the total numbers of homeless people, one estimate is that there has been a rise of 25% in homelessness since 2009, and the total number of people affected has recently been estimated at 20,000 (OHCHR, 2013); another estimate puts the figure much higher (Caritas, 2013). According to the OECD, there is little effective handling of the problem (2013c).

The impact of the crisis and austerity measures on children is of concern to Caritas Greece. Greece has a low ranking (in the bottom third: 25th out of 29 countries) in the UNICEF league table of child well-being (UNICEF, 2013). Reporting on the situation up to 2011, the Greek Ombudsman for Children noted a widening of the groups of children affected by poverty, increased reports of malnutrition, especially amongst children at primary-school level, worsening in services for children with disabilities, including mental health services, and how many children of undocumented migrants live (with or without their parents) in places that endanger their health and lives, such as abandoned buildings (2012). The High Commissioner for Human Rights of the Council of Europe has identified Greece as amongst those European countries where, as a result of austerity measures, there is a risk of a rise in children engaged in child-labour (Muiznieks, 2013).

There has been an increase in xenophobic and racist attacks against refugees and migrants, and it appears that the economic crisis is worsening a problem that had existed for some time. Some 154 incidents of racist violence were reported in 2012 and these amount to a disturbing pattern that requires action (OHCHR, 2013). It is hard not to agree with the Parliamentary Assembly of the Council of Europe which, in June 2013, noted the Greece is now faced with a health, and even a humanitarian, crisis.

In a Europe-wide quality of life survey carried out in 2011/2012, Greece had the lowest proportion of people who were optimistic about the future (only 20%) and this is strongly correlated with views of a country's government and current economic situation (Eurofound, 2012). Conversely, in Denmark and Sweden, for example - the two countries with the highest proportion of people expressing optimism - the comparable proportions were 84% and 85%, respectively.

Similarly, the OECD Better Life Index found that Greeks have a life satisfaction rating which is lower than the average, with a ranking of 3rd lowest out of 36 OECD countries (OECD, 2011/2013). This study also found that Greeks worked 2,032 hours per year, which is one of the highest rates in the OECD and much more than the OECD average (1776 hours) (2011/2013). Despite this, their incomes[24] were lower than the OECD average and well below most EU countries. There was also a considerable gap between richest and poorest.

Caritas Greece considers that fundamental rights are being breached by austerity measures being undertaken in the country, with the troika operating at times as 'a second legislative body' (2013). They consider that Greek citizens have watched, helpless to react, as more and more austerity measures have been imposed since 2010 in pursuit of a remedy that has not emerged, and based on an approach that has even been criticised by the IMF (insofar as the first phase 2010-2012 is concerned at any rate) (IMF, 2013d). On the contrary, the medicine that sought to cure the disease is killing the patient. Caritas Greece characterizes the financial crisis as having become a deep political crisis, in which trust has been undermined in political institutions, with despair leading to support for extreme right wing parties, who are nostalgic about fascist ideologies, a crisis that also has the potential to undermine all the institutions that Europe has worked hard to establish.

ONE PERSON'S STORY...

My name is M. I came to Athens from Poland in 1991. I have three children who were born in Greece and whom I have brought up on my own for some years. I am a builder and from 1991 was employed in construction work. For the last 4 years I have been unemployed. ...Before the crisis my children and I lived really well. ...Today the situation is very difficult. My only concern is to find work, to earn a wage so I can support my children. Sometimes I feel that it's not a life, the only thing that I can think about is earning some money so I can pay the bills so that my children aren't without water or electricity. Fortunately I have managed things thus far so the water and electricity hasn't been cut... My first priority is the bills and the children's food, and after that the rent. In fact with the 4 or 5 days' wages (about 40 euros each) that I manage to earn each month, there isn't the money to cover all the expenses. When I go to the supermarket I buy only the bare necessities and always the cheapest products. Fortunately my children, although they are young, know the situation is difficult. I think they have matured early. They never ask me for anything and don't complain. ...My everyday life has become a struggle to find work through friends and acquaintances. Although I have serious heart problems, my one concern is to find work and not how I will get the medication or do the necessary tests. Those are expenses I cannot cover since I am uninsured and have been unemployed for several years. That's why for a long time (more than a year) I didn't take my medication as I didn't have the necessary 100 euros a month and neither did I do the tests the doctors ordered. Fortunately during the last few months, the church and Caritas have helped me and they supply me with some food and buy my medicine and pay for my tests. Some friends also help me by, for example, giving me old clothes for the children. I have no other help. I haven't applied to any public body since I'm uninsured and, in any case, what I need above all is to find work. ...The only thing that comforts me and keeps me going is my children. Really, when they see me worried they come and hug me and comfort me. That's why I don't give up and [why I] carry on the struggle.

[24] Looking at Household net-adjusted disposable income, which is the amount a household earns or gains each year after taxes (OECD, 2011)

Ireland

Background and Government Finances

Membership of the EURO area gave Irish banks access to wholesale funding that, in the years prior to the financial crisis of 2008, 'turbocharged' their asset expansion based on a property bubble that inflated their assets to some 500% of GDP (IMF, 2012a). Once the international financial crisis happened in 2008, Irish banks were tipped into a crisis and the Irish Government issued a blanket guarantee from September 2008. The Irish banking crisis is considered the costliest in the world since the 1930s following Iceland (IMF, 2012a). An excessive deficit procedure was initiated by the EU in 2009.

In 2007 Ireland's gross government debt had been at a relatively low level (25%) and its general government balance had been in surplus. See **Table 8**. The position changed dramatically from 2008 as tax revenues from the boom in property and construction collapsed and employment fell, unemployment rose and outward migration returned, and above all, as the Irish taxpayer assumed the debts of its private banks, without any burden-sharing with bondholders - a requirement of the European Central Bank. The cumulative impact on government net worth of the banking interventions over the period 2009-2012 was -€46.5 billion (CSO, 2013b) – and this figure represents 37.5% of the decline in government net worth.

Government gross debt reached 117.6% of GDP in 2012 and it was estimated to reach 123.3% in 2013 (IMF, 2012f).

IRELAND | TABLE 8 | **Government Debt Rates, % GDP**

	2005	2006	2007	2008	2009	2010	2011	2012
Government deficit/surplus								
EU-27	-2.5	-1.5	-0.9	-2.4	-6.9	-6.5	-4.4	-4.0
Ireland	**1.7**	**2.9**	**0.1**	**-7.4**	**-13.9***	**-30.8***	**-13.4***	**-7.6**
Government Gross Debt								
EU-27	62.8	61.6	59	62.3	74.6	80	82.5	85.3
Ireland	**27.3**	**24.6**	**25.1**	**44.5**	**64.8**	**92.1**	**106.4**	**117.6**

Source: Eurostat, 2013d, 2013e: gov_dd_edpt1; tsdde410
*Note: In 2010, especially, and also in 2009 and 2011, these rates include once-off measures associated with recapitalisation of the banks

The very large government interventions due to the banking crisis caused the deficit to peak in 2010 at nearly 31% of GDP. Since then the level of the deficit has been decreasing, reaching 7.6% of GDP in 2012 when it was within the target (of 8.6%) agreed with the troika of the IMF/EU/ECB. In this way, Ireland is sometimes considered as having performed strongly under the programme agreed with the troika, and the Irish government was working towards fully regaining access to market funding towards the end of 2013. However, as the IMF has noted, debt sustainability is far from certain, especially if growth does not strengthen or if further liabilities materialize (such as through the banks or NAMA, the National Asset Management Agency), and it is dependent on European policymakers delivering on commitments that reduce strains on countries facing stress and that ensure the financial stability of the EURO area (IMF, 2013f). And that is before we consider the human and social cost of falling employment, long-term unemployment, cuts in welfare rates and in essential services and the return of emigration.

IRELAND | TABLE 9 | **Real GDP growth rate – volume – Percentage change on previous year**

	2006	2007	2008	2009	2010	2011	2012	2013f	2014f
EU (27 countries)	3.4	3.2	0.4	-4.5	2.1	1.6	-0.4	-0.1	1.4
Ireland	5.4	5.4	-2.1	-5.5	-0.8	1.4	0.9	1.1	2.2

Source: Eurostat, 2013a, tec00115. f=forecast

As **Table 9** indicates, Ireland achieved modest growth in 2012 (driven by exports) and growth of about 1% was forecast for 2013. However, the level of growth forecast for 2014 (2.2% from Eurostat, or 2.4% forecast by the Irish Department of Finance) is not considered credible by some commentators, given, especially, the proposal to take €3.1 billion out of the economy through Budget 2014[25] in order to remain compliant with the targets agreed with the troika of the IMF/EU/ECB (Social Justice Ireland, 2013a).

Credit availability to the domestic economy remains weak and the quality of bank assets remains a source of uncertainty (European Commission, 2013i). The IMF takes the view that the medium term outlook for Ireland is uncertain due to high public and private debts, depressed bank lending to both households and businesses, and still insufficient progress in resolving non-performing loans as well as the 'specter of persistent high long-term unemployment' (IMF, 2013f).

Policy Responses

There have been nine austerity budgets in Ireland since 2008, the ninth being the Budget introduced for 2014. Cuts in expenditure have exceeded increases in taxation (IMF, 2013f) and a ratio of 2:1 has been pursued, notwithstanding the fact that Ireland has a low tax take in EU terms[26]. Budget 2014 will bring the total cuts and tax increases to date to almost €31 billion, equivalent to 17.75% of GDP directly removed by government from the economy (Social Justice Ireland, 2013). The April 2013 Stability Programme Update, proposes removing a further €2 billion in 2015, which, if implemented, will bring the overall adjustments from 2008-2015 to almost €33 billion, equivalent to 18% of the GDP forecast for 2015 (Social Justice Ireland, 2013).

The cumulative impact of measures over these years has not been comprehensively assessed; neither have the impacts of ad hoc cuts to services on Irish society in the longer-term. Expenditure measures taken in 2012 included a range of social welfare cuts and tightening of access criteria, cuts to public services (such as health and education) and to public wages and public-sector pensions, and payments introduced for services (in areas like school transport and drug prescriptions). Taxation measures included introduction of a Universal Social Charge and increases in VAT.

Amongst the measures provided for in Budget 2013 were:

- a reduction in the Respite Care Grant for carers
- reduction in the duration of Jobseeker's benefits
- cuts totalling €781 million in healthcare (more than 5% of the total budget for health)
- a reduction in Child Benefit and the Back to School Clothing and Footwear Allowance
- the introduction of a residential property tax, replacing a previously introduced flat rate charge (estimated yield 0.1%, 2013)
- reduced education funding at a number of different levels and for various schemes
- abolition of a weekly social insurance (PRSI) threshold for anyone earning more than €18,304 per annum (Social Justice Ireland, 2012).

A range of other measures have been taken or are being planned such as

- introduction of water charges
- legislation to charge private patients in public hospital beds
- a new personal insolvency framework, and
- sales of state assets such as the Gas Company (Bord Gais Energy).

[25] Although there was a lack of clarity about the figures actually proposed in Budget 2014 as to whether the overall adjustment amounted to €3.1 billion or €2.5 billion (Social Justice Ireland, 2013b)

[26] Ireland's overall tax take as a percentage of GDP is 31.3%, below the European average of 35.6% (Social Justice Ireland, 2013).

With some difficulty there was also a revised agreement with public service unions (the Haddington Road agreement) to achieve a pay and pension savings of €300 million (0.2% of GDP) in 2013 (IMF, 2013f).

There has also been a 2013 Action Plan for Jobs, with a JobPlus scheme with incentives relative to the long-term unemployed: this scheme is, however, subject to a cap of 2,500 recruitments – which is an extremely limited number in light of the scale of long-term unemployment (175,000 people in quarter 2, 2013, CSO, 2013a). There is a rollout of new one-stop-shop Intreo employment offices intended to ensure a uniform service across the country for new jobseekers. However, the IMF has noted that the resources devoted to activation remain low relative to the number of long-term unemployed (IMF, 2013f) with 788 unemployed people for every one case worker (a ratio that is expected to decrease to 200 to one) (IMF, 2013h). The European Commission has noted that the impact of the Action Plan for Jobs on job creation is unknown (European Commission, 2013i).

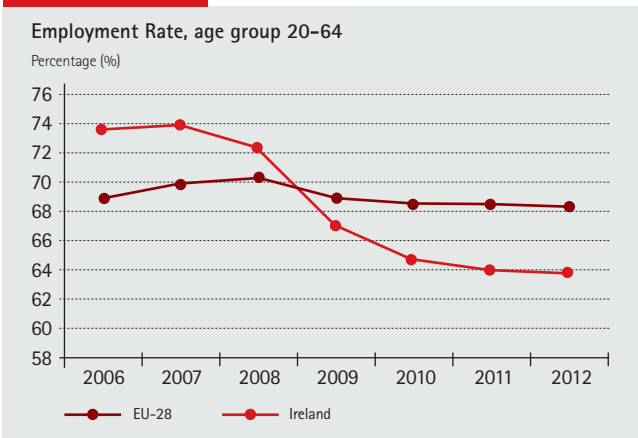
The OECD notes that although multiple steps are being taken to address unemployment, current plans leave the long-term unemployed without appropriate activation and support (OECD, 2013f).

Employment/Unemployment

Amongst the 34 Member States of the OECD[27], Ireland is one of the countries in which the increase in the unemployment rates has been greatest since the start of the crisis (along with Greece, Spain, Italy, Portugal and Slovenia) (OECD, 2013c). The number of jobs has fallen by 14% since the start of the crisis (to 2012, quarter 4[28]) (people aged15-64) (Eurostat, 2013m).

As **Figure 5** shows, Ireland's employment rate declined sharply from 2007. There was a slowing in the rate of decline between 2011 and 2012. In the first quarter of 2013 there was a slight growth in employment of 1.1% (% change on previous year) (European Commission, 2013a, Table 20). However, according to the IMF, most of the new jobs were part-time for employees seeking full-time work (2013f). The higher reliance on part-time work is especially the case for males (European Commission, 2013i).

IRELAND | FIGURE 5



Source: Eurostat, 2013f. t2020_10

The OECD has noted that the labour force has also decreased in Ireland since the outset of the crisis due to inactivity and increasing emigration – the decline (6%) is the largest amongst OECD countries (OECD, 2013f).

Table 10 shows the position relative to unemployment. The unemployment rate was 14.7% in 2011 and 2012 (representing some 316,000 people). More recent figures from Eurostat suggests that a slight improvement occurred to mid-2013 (13.5%) (monthly average rate, June 2013) (Eurostat, 2013g; 2013h). However, emigration has played a big role in keeping down the unemployment rate - one estimate of the Irish unemployment rate, were it not for emigration, puts it at around 20%, not 13.5% (Healy, 2013).

A shrinking labour force was also a significant contributor to lower unemployment and the IMF estimates that if discouraged workers and involuntary part-time workers were included, overall unemployment would have been above 24% (IMF, 2013f).

[27] Which includes Greece, Ireland, Italy, Portugal and Spain, but not Cyprus or Romania.

[28] In 2007, quarter 4, employed people numbered 2,091,400; in quarter 4 of 2012, 1,799,600 (Eurostat, lfsc_egan)

IRELAND | TABLE 10 | **Unemployment**

	Numbers Unemployed	Unemployment Rate	Share of Long-term Unemployment	Youth Unemployment Rate (15-24)
2012	316,000	14.7%	61.7%	30.4%
2011	304,000	14.7%	59.4%	29.1%

Source: Eurostat, 2012; Eurostat, 2013h, 2013x; Youth Rate: Eurostat, 2013i
Note: unemployed numbers, rate and share of long-term unemployed relates to ages 15-74

Long-term unemployment is a significant problem in Ireland. At nearly 62%, the country had the highest share of long-term unemployment in the EU in 2012 (that is, people unemployed for a year or more as a share of overall unemployment) (Eurostat, 2013h). Compared with the other countries considered in this report, only the rate in Greece, where there was a huge increase in long-term unemployment between 2011 and 2012, is of a similar scale (at 59.3%). In the second quarter of 2013, a slight decrease in the share of long-term unemployment was noted (to 58.2% or 175,000 people) (CSO, 2013a). Long-term unemployment remains high among all age groups, with the situation particularly severe for youth and the low-skilled (European Commission, 2013i).

The OECD has noted that there is a high risk that the long-term unemployed will be left behind as permanent casualties of the recession as new and better qualified job seekers, including immigrants, take advantage of the recovery (2013f).

Ireland is one of four OECD countries in which structural unemployment was shown, by the OECD, to have increased significantly between 2008 and 2012, and in which it is now expected to rise further (OECD, 2013c). (Structural unemployment is unemployment considered long-lasting due to changes in overall demand patterns as opposed to cyclical unemployment).

A decrease in youth unemployment was recorded in the year to April 2013 (European Commission, 2013a, p.19, Table 26). However, with a rate of 30.4% (2012) youth unemployment remains a significant problem. See **Table 10**. In addition, Ireland also has one of the highest NEET rates (that is, the rate of young people neither in education nor employment or training), one that is exceeded in the EU only by Bulgaria, Italy, Greece, Romania and Spain (2012 quarter 4) (European Commission, 2013a, Chart 19). In fact, the OECD states that the youth unemployment rate (age 15-24) is close to 45%, if involuntary part-time work and workers marginally attached to the labour market is taken into account (OECD, 2013f).

As mentioned already, the unemployment position in Ireland has to be interpreted in the context of emigration - net outward migration has returned since 2010-2011 (that is, more people are leaving than arriving). Latest figures from the Central Statistics Office suggest that some 325,900 people emigrated from 2010 (to April 2013) and that net outward migration (meaning the amount by which people leaving has exceeded people arriving) was 122,400 in the same period (CSO, 2013, Table 1). The Irish unemployment rate in the absence of emigration has been estimated at around 20%, not 13.5% (Healy, 2013).

Some of Ireland's migration involves non-Irish nationals returning to their home countries, but emigration by Irish nationals (particularly young Irish people) has been significant enough to impact on the size of the population of young nationals (aged 15-24). Their numbers declined noticeably (-9%) between 2007 and 2012 (European Commission, 2013a). This contrasts with the position in Italy, Spain and Greece, where although emigration is an issue, little reduction in the size of the young population is in evidence yet, suggesting that the proportion of the young populations of those countries who have emigrated is nothing like as significant as it has been in Ireland (European Commission, 2013a).

Reflecting high unemployment and rising inactivity, Ireland also ranks unfavourably when looking at other indicators. Thus, Ireland has the highest proportion in the EU of people living in households with very low work intensity (OECD, 2013f). Furthermore, Ireland has the highest proportion in the EU of children living in households where no-one works (20%) and, as the OECD has noted, this causes serious risks of the persistence of social exclusion (2013f).

Poverty

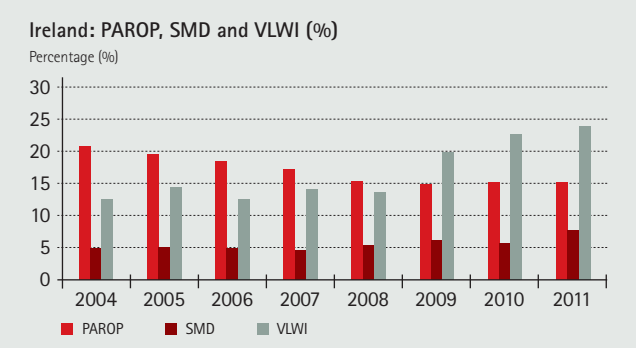
As mentioned in the introduction to this section, there are considerable time lags in the availability of comparable data on poverty across Europe. As this report is being prepared, the latest available data for Ireland is for 2011, while that for the six other countries considered in this report is for 2012. Given that the 2011 data would have been collected during the previous year, it must be acknowledged at the outset that this only allows for quite an out-of-date picture of the situation in Ireland.

In 2008 Ireland's share of the population living at risk of poverty or social inclusion (the combined measure used in the Europe 2020 Strategy) was 23.7% and was just above the EU27 average for that year. The rate has exceeded the average in every year since then and in 2011 it stood at 29.4%, 5.2 percentage points above the EU27 average of 24.2% (for 2011) (Eurostat, 2013b). In terms of numbers, those recorded as living in poverty or social inclusion in 2011 numbered 1.3 million, an increase of 99,000 over the previous year (Eurostat, 2013b). Ireland ranks 20th out of the EU28 countries on this indicator. See **Appendix 2**.

The at-risk-of-poverty or social exclusion indicator is a combined one that includes 3 separate measures of poverty – people at risk of poverty (PAROP), people severely materially deprived (SMD) and people in households with very low work intensity (VLWI). See **Glossary** for a definition of each term.

Rates for each of the three measures are shown in **Figure 6** for the years 2004 to 2012 (the latest for which data is available).

IRELAND | FIGURE 6 | **Poverty**



Source: Eurostat, 2013o, t2020, 51, 52, 53

Looking at the at-risk-of-poverty rates, **Figure 6** shows that Ireland had high rates in the early 2000s, which gradually reduced until 2009. There was a slight increase in 2010 and the rate remained static to 2011, the latest year for which rates are available.

Using a poverty indicator 'anchored' to living standards in 2005, the OECD has shown that increases in income poverty to 2010 were higher than suggested by 'relative' income poverty measures (OECD, 2013a). In Ireland, the percentage point change in 'anchored' poverty rates between 2007 and 2010 was 3.7% as opposed to a -0.9% change in the relative poverty measure (in both cases based on a poverty line related to 50% of median income).

It is recognised that young adults are bearing a significant burden across Europe. In Ireland the risk-of-poverty rate of those aged 18-24 almost doubled between 2008 (when it was 13.7%) and 2011 (when it rose to 26.7%) (Eurostat, 2013q).

The other two poverty indicators have increased in recent years. There was a significant increase in people experiencing severe material deprivation between 2010 and 2011 (from 5.7% to 7.8%) (Eurostat, 2013o). This represents an increase of 96,000 people to 352,000 people in 2011.

The indicator for people living in households with very low work intensity has increased significantly, as **Figure 6** shows, reflecting, amongst other things, the rise in unemployment and long-term unemployment. Ireland has the highest rate amongst the EU28 countries in respect of this indicator. See **Appendix 5**.

One way in which it is possible to assess whether the income situation of people in poverty is worsening, is to examine the share of people who are falling below the 40% poverty line, which means living on less than 40% of the median income (the usual 'at-risk-of-poverty' line being 60% of the median equivalised income). In Ireland the situation has shown deterioration each year since 2008 and the increases in the rate of those below the 40% poverty line totalled 2 percentage points between 2008 and 2011 (Eurostat, 2013u).

Children

Ireland's rate of childhood poverty in 2011 was 17.1%, which is below the EU28 average of 21.4% (Eurostat, 2013q). However, the number of children living in poverty or social exclusion rose in Ireland between 2008 and 2011 (Social Protection Committee, 2013a). The material deprivation rate[29] for children was high in 2011 (at 30%) relative to the EU27 average of 20.8% and this rate has more than doubled since 2007 (when it was 13.9%) (Eurostat, 2013r).

In an attempt to improve the way material deprivation is measured for children, special child-specific items relating to material deprivation were included in EU-SILC 2009 relating to children aged 1-15 years. According to this measure, Ireland had a material deprivation rate for children (aged 1-15) of 23%, which is above the EU27 average rate of 21% (Social Protection Committee, 2013). Note, however, that this relates only to the early stages of the crisis in Europe.

Older People

The rate for poverty amongst over 65s in Ireland was 11% in 2011 (the latest year for which comparable data is available from Eurostat). This was below the EU28 average for this age group of 14.3% (Eurostat, 2013s). There have been significant increases in the material deprivation rate for older people in Ireland; it went from 4.2% in 2007 to 9.7% in 2011 (the latest year for which comparable data is available from Eurostat) (Eurostat, 2013t).

Working Poor

Ireland's in-work risk-of-poverty rate was 5.4% in 2011 (the latest year for which comparable Europe-wide data is available) (Eurostat, 2013v). Thus more than 5% of people who work do not earn enough to protect them from poverty.

[29] Material Deprivation Rate: The indicator is defined as the percentage of population with an enforced lack of at least three out of nine material deprivation items in the 'economic strain and durables' dimension (Eurostat, tessi082).

Discussion: Impact on Vulnerable Groups

Ireland is experiencing increasing problems with poverty, with a particularly large increase in poverty amongst adults under 25. There is a sustained child poverty problem and increases in children experiencing poverty or social exclusion and material deprivation. Emigration is on a scale that is impacting on the size of the younger population and long-term unemployment is becoming structural. Amongst the unemployed, Ireland has the largest share of long-term unemployment in the EU. In fact, even though there is an apparent and welcome recent improvement in the employment rate, when the facts are examined it is clear that - but for such significant emigration - the unemployment rate would be much higher. It is clear that discouragement, where people do not even try to obtain a job, is a feature of Irish society, with the OECD noting that the labour force has decreased since the outset of the crisis due to inactivity and increasing emigration and that this decline is the largest amongst the OECD countries (OECD, 2013f).

The OECD suggests that decisive interventions in labour market policies are needed to avoid the unemployment rate remaining high for many years, risking a rising structural unemployment rate which would both hamper growth and make inequality and social exclusion worse (OECD, 2013f).

One indicator used to give an early indication of household financial distress showed an increase in Ireland over the three months to March 2013 that was significantly higher than in any other EU member state (European Commission, 2013a, Chart 32 based on the Joint harmonised EU consumer surveys). Ireland's share of people living in lower income quartile households who report experiencing financial distress was over 30% as of March 2013, well above the European average (and exceeded only by Latvia, Romania, Italy, Greece and Slovakia) (European Commission, 2013a, Chart 34).

The burden of measures is not being shared equally. According to a recent report from the OECD, between 2007 and 2010, the poorest 10% of households in Ireland lost more than twice as much of their disposable incomes (7%) as the richest 10% of households (who lost only 3%) (OECD, 2013a).

Income inequality (measured using the S80/S20 ratio[30]) increased in Ireland between 2009 and 2010 by approximately 26%, going from a ratio of 4.2 to 5.3 – so the incomes of the top 20% were more than five times greater than those of the bottom 20%, although the rate declined again by 2011 (Eurostat, 2013c, tsdsc260).

The IMF refers to a 'breadth of financial distress' evident in 15.8% of mortgages on primary dwellings being over 90 days in arrears, and 26.9% of buy-to-let mortgages, and impaired loans accounting for 25% of loans to SMEs and companies (much of it associated with property-related debt) (IMF, 2013f). At the end of 2012, 123,000 primary dwelling houses and buy-to-let mortgages were in arrears of more than 90 days (European Commission, 2013i).

Another problem relates to services with a series of cuts to health, education and social care budgets over recent years. For example, Social Justice Ireland described as excessive the massive healthcare cut envisaged in the 2013 Budget alone (€781 million or 5% of the total healthcare budget). This is despite international evidence that significant year-on-year variations in the level of statutory funding available for health services can be highly disruptive to the sustained delivery of services of a given quality and desired level of access (World Health Organisation & European Observatory on Health Systems and Policies, 2012). These international experts reviewed the Irish healthcare system in 2012 and concluded that continuing budgetary cuts and consequent adjustments raises 'serious concerns whether this can be achieved without damaging access to necessary services for certain groups' (World Health Organisation & European Observatory on Health Systems and Policies, 2012, p.47).

Unfortunately, the negative health impacts now being reported due to cuts to healthcare budgets in countries like Greece and Spain, as reported on elsewhere in this report, should act as a warning of what may be in store for the health of the Irish population if this level of ad hoc cutting of the healthcare budgets continues.

According to the OECD, in Ireland, the share of public financing of health spending decreased by nearly 6 percentage points between 2008 and 2010, and stands now at 70%, while the share of out-of-pocket payments by households increased. Ireland is amongst the EU27 member countries in which out of pocket expenses increased relative to total health spending between 2000 and 2010 (with an increase of 2.1 percentage points) (OECD, 2012, figure 5.6.3). And out-of-pocket expenses in healthcare tend to operate as a much bigger barrier for poorer people who defer visits or treatment as a result.

Ireland stands at the bottom of the European league table in terms of investment in 2012 – in other words all of the other countries experiencing the crisis in recent years have significantly higher levels of investment than Ireland (Social Justice Ireland, 2013a). In fact Eurostat data shows that Ireland's current level of investment is the lowest they have ever recorded for any EU country since 1995 (when collection of comparable data commenced). As Social Justice Ireland has

[30] The ratio of total income received by the 20% of the country's population with the highest income compared to that received by the 20% with the lowest income – the higher the ratio the greater the inequality (Social Protection Committee, 2013, p43); income is equivalised disposable income (Eurostat, 2013c, tsdsc260)

argued, the ongoing implications of under-investment on this scale are very detrimental, and while a recent investment plan has been announced by government (Ireland Strategic Investment Fund, ISIF), Social Justice Ireland has argued that a broader based approach is needed on a more significant scale (Social Justice Ireland, 2013a).

The IMF emphasizes that Ireland now needs policies and measures to support growth recovery, as persistently low growth would make Ireland's debt unsustainable (IMF, 2013f, p.14, 26). A major risk now facing the country, identified by the OECD, is that those who are now long-term unemployed will be left behind as permanent casualties of the recession (2013f). As they have said:

'the slow recovery of the Irish economy is leaving behind too many for far too long.'

(OECD, 2013f, p. 17)

ONE BOY'S STORY...

P began secondary school in September 2013. The school is situated in north Dublin. The school term began in late August, however, P did not come to school until the third week of term. When questioned by a member of staff the reason why he was starting secondary school so late, P responded by saying, "My Ma only got the Back to Education yesterday." This was said in a matter of fact manner as if it was something which happens to all students in Ireland. [Note: 'Back to Education' is a grant.]

Missing the first few weeks of term put P at a huge disadvantage. As well as moving to a new school for the first time in 8 years, students are also expected to adapt to a new educational setting whereby they must now move from room to room, meet many different teachers and study many different subjects. A programme in the school aimed at making this transition smoother for students is taught during these first few weeks. P missed out on this.

However, P was already at a huge disadvantage. In common with all of his classmates and 80% of the students in his year, P has a reading age which is below his chronological age. In fact, despite being 12 years of age, P has a reading age of 8. Out of a class of 15 students, fourteen had a reading age of less than 9. This puts P at a huge disadvantage when it comes to accessing the curriculum. Many technical texts, such as those for metalwork and woodwork, will have a reading age of 15 or more.

The exclusion does not just apply to the classroom. Students in this school as much as any other are encouraged to take part in extracurricular activities such as sport. However, certain basic equipment such as boots, socks and shorts cannot be provided by the school and students are expected to have their own. P could not afford some of these items and was forced to play in runners [running shoes] as he did not have boots. Aside from not allowing him to play at the same level as his classmates, it also led to taunts and bullying from both opposition team members and from some of his own class mates.

In common with many schools there is a very strict uniform policy, which means that certain colour shoes and trousers must be worn. For P, late payment of the Back to School grant meant that he could not begin school with the rest of his friends as his mother could not afford to buy the school uniform. The issue is not settled with the purchase of a single uniform. There have been a number of days when P has come to school with torn trousers. A classmate told a member of staff that he missed school on a previous day because his trousers were dirty and had to be washed. Students are missing out on school simply because their parents cannot afford basics such as an extra pair of school trousers.

It is also known that at times P has hidden his school bag at night from his siblings. This is because his family cannot afford enough school bags for all the children, and if it is not hidden, one of his brothers or sister will take it with them to school the next day.

All of these factors combine to create a negative school experience for P.

Italy

Background and Government Finances

The Italian economic situation in the 2000s was characterized by stagnating growth rates and very high levels of government debt, factors which left it vulnerable to the economic crisis that started in 2008 and the euro-area sovereign debt crisis that followed from 2010 as financial markets became concerned about debt sustainability. Being the third largest economy in the Eurozone, Italy has been described as 'too big to fail, too big to bail' (Elliot, 2011), but Italy remains vulnerable to sudden changes in market sentiment (European Commission, 2013g).

Italy's debt levels were the highest in Europe in the 2000s. These levels have been exceeded in recent times by those of Greece, but Italy's debt levels remain very high and increased between 2011 and 2012. See **Table 11**. Italy still had the second-highest government gross debt to GDP ratio amongst the EU27 countries in 2012 (127%), second only to Greece (Eurostat, 2013j). The high expenditure on interest to service the debt 'crowds out productive public expenditure and reduces the room for social policies' (European Commission, 2013g, p.9). But despite budgetary consolidation, Italy's general government gross debt-to-GDP ratio is projected to rise further in 2013-14 (European Commission, 2013g).

The European Council decided that an excessive deficit existed in Italy in December 2009 and recommended that the government deficit be brought below 3% of GDP by 2012 (European Commission, 2013g). The Government deficit for 2012 was 3% of GDP in 2012. See **Table 11**. However, this was significantly greater than the level that had been originally envisaged by the European Commission for 2012 (in the 2012 update of the stability and growth pact), something attributed largely to lower-than-projected growth, notably in domestic demand (European Commission, 2013g). However, having reached -3% of GDP in 2012 and with a projection of -2.9% of GDP for 2013, at the end of May, it was confirmed that the excessive deficit procedure was now completed

ITALY | TABLE 11 | **Government Debt Rates, % GDP**

	2005	2006	2007	2008	2009	2010	2011	2012
Government deficit/surplus								
EU-27	-2.5	-1.5	-0.9	-2.4	-6.9	-6.5	-4.4	-4.0
Italy	**-4.4**	**-3.4**	**-1.6**	**-2.7**	**-5.5**	**-4.5**	**-3.8**	**-3.0**
Government Gross Debt								
EU-27	62.8	61.6	59	62.3	74.6	80	82.5	85.3
Italy	**105.7**	**106.3**	**103.3**	**106.1**	**116.4**	**119.3**	**120.8**	**127**

Source: Eurostat, 2013d, 2013e: gov_dd_edpt1; tsdde410

The extension of the euro-area crisis in 2011 meant that Italian banks became more dependent on Euro-system refinancing. The performance of Italian banks has weakened since mid-2011, with the protracted recession leading to an increased number of non-performing loans, which in turn has hampered banks' ability to provide credit, in particular to small firms (European Commission, 2013g).

GDP growth contracted during the 2008/2009 crisis, and while a slight recovery occurred subsequently, economic activity started to contract again in 2011. See **Table 12**.

Italy is now undergoing a sustained recession. In the first quarter of 2013, Italian GDP fell for the seventh consecutive quarter (European Commission, 2013a) and the prediction from the European Commission was for a further contraction of 1.3% in 2013 before starting to expand in 2014.

ITALY | TABLE 12 | Real GDP growth rate – volume – Percentage change on previous year

	2006	2007	2008	2009	2010	2011	2012	2013f	2014f
EU (27 countries)	3.4	3.2	0.4	-4.5	2.1	1.6	-0.4	-0.1	1.4
Italy	2.2	1.7	-1.2	-5.5	1.7	0.4	-2.4	-1.3	0.7

Source: Eurostat, 2013a, tec00115. f=forecast

The OECD's prediction is also that Italy will return to 'timid' growth only in 2014 (OECD, 2013d).

Policy Responses

A series of measures were taken by successive Italian governments, starting with some by Silvio Berlusconi's government from 2008. Mario Monti's 'technical' government was associated with a raft of tough measures focused on reducing the government deficit and complying with the European excessive deficit procedure. An inconclusive general election in February 2013 has put a coalition government of former adversaries in place, from April 2013, headed by centre-left politician Enrico Letta.

The Caritas Europa Crisis Monitoring Report, 2013 listed some of the measures introduced by the Monti government; amongst them were significant changes in the pension system, new taxes and also cuts in social and health services, mainly provided by regional or local bodies. The latest National Reform Programme report, submitted to the EU in April 2013, details a range of these measures. Amongst the expenditure reductions over the past year are cuts in healthcare and education, reductions in public sector employees, reorganisation of local government and continuance of changes to pension arrangements, including an increase in the retirement age (Ministry of Economics and Finance, 2013). Taxation measures involve a move toward more taxation of consumption and capital and away from corporate incomes and taxes on employment.

The European Commission outlined the main cuts to expenditure in 2012 as follows:

- Cuts to ministerial spending and to other current expenditure
- Lower transfers to local government
- Partial de-indexation of pensions (-0.1% of GDP) (European Commission, 2013g)

In 2013, the measures involved were:

- Higher retirement ages and de-indexation of pensions (-0.4% of GDP
- Cuts to Ministerial spending (European Commission, 2013g)

The main revenue raising measures (2012 and 2013) were:

- Property taxation (2012)
- Excise duties (2012 and 2013)
- Stamp duties on financial assets (2012 and 2013)
- Regional surtax on personal income (2012)
- VAT (1 percentage point increase in standard rate from July 2013) and an excise duty increase (2013)
- Financial transaction tax (2013)
- Social contribution from self-employed (2013)
- Productivity-related tax incentive (2013) (European Commission, 2013g).

Caritas Italy points to the de-indexation of the pensions to cost of living increases of 6 million pensioners as one of the measures that has been least helpful in terms of the impact on vulnerable groups. They point to the already very low level of the minimum pension and to the knock-on effect of this measure on all generations as pensioners play a role in contributing to the incomes of their families, including young people who have lost their jobs (Caritas Italy, 2013).

A number of changes were made to how the labour market operates (from June 2012) intending to make the exit from jobs more flexible, and also to dis-incentivise the use of temporary and atypical contracts, and there is also a plan to make a more comprehensive system of an insurance-based system of unemployment benefits operational from 2017 (European Commission, 2013g). In 2013 the first effects of the new measures began to be felt but it is too early to assess their impact (Caritas, Italy 2013).

However, the social welfare system is not well placed to deal with the impact of the crisis nor of the austerity measures. In particular, Italy does not have a nationwide minimum income system in place, and this is a very significant problem, according to Caritas Italy, leaving some workers, such as those on temporary contracts, with no safety net if they lose their

jobs. The European Commission acknowledges that economic developments in 2012 pointed to further deterioration in household disposable income, which the social protection system is not well-equipped to address (2013g). Recognising the need for a universal measure to combat poverty, Caritas Italy and other public and private organisations are continuing to seek the introduction of a minimum income system (called REIS), which, they report, was not provided for in the Finance Act, 2014 despite a prior commitment.

One measure introduced in May 2013 – a New Social Card – is an income support measure for low-income families that, unlike the previous Social Card, will apply not only to Italian and EU citizens but also to foreign nationals who have a long-term residence permit. It aims to support especially households with children, those affected by unemployment, or those with disabled family members (Caritas Italy, 2013). The new measure is in a test phase in 12 large cities, which has been extended to the south of the country thanks to funds provided in a new 'Cohesion Action Plan.' Acknowledging that it is still too early to evaluate its effects, Caritas Italy welcomes the new measure and its extension.

Other proposed measures relate to a revision of the ISEE (Indicator of the Family Economic Situation) that will be used to access social assistance, and also for assessing the level to be contributed to health services (Caritas Italy, 2013). There is also a new proposal to help households to deal with rising debt levels but implementing regulations are awaited.

Italy's tax structure is unevenly distributed because of significant tax evasion; this, along with a large shadow economy, contributes to high rates of tax on compliant citizens and businesses (European Commission, 2013g).

Caritas Italy points to unemployment benefit (which does not, however, apply to people on atypical contracts or for self-employed people) and the Wage Guarantee Fund (whose application has been extended by derogation) as the most significant measures that are preventing many people, who have lost their jobs, from falling into absolute poverty (Caritas Italy, 2013). Other measures planned by the previous government are identified by Caritas Italy as having been useful to people who are unemployed or at risk of being unemployed, are the Job-Voucher (Voucher Lavoro) and the Job Endowment (Doti Lavoro). The revision of the Solidarity Fund for Mortgages is also recognised by Caritas Italy as a positive measure that enables suspension of mortgages for families with an income of no more than €30,000 in specified circumstances (such as loss of job or onset of serious disability) and supports home ownership in the context of the national residential housing plan.

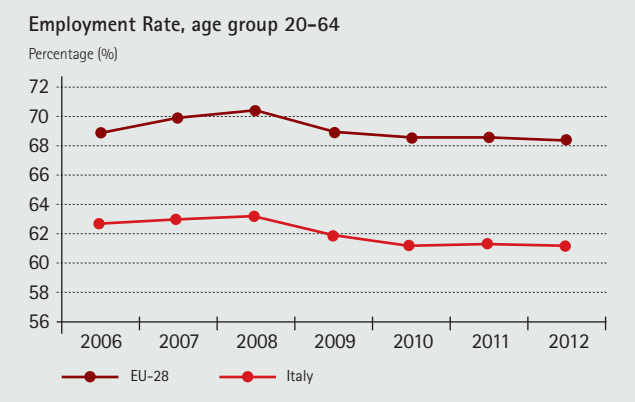
Cuts to social funds at national and local levels and to social services have also been a major feature of the Italian experience affecting access to social security, housing, health education and food (Caritas Italy, 2013). The Third Sector in Italy is a major provider of services, and its ability to function has also been affected by both cut backs and by a change in taxation policy introduced in 2011, which reduced tax breaks on contributions paid (Caritas Italy, 2013).

In June 2013, the coalition's Economy Minister announced that the Government would resume a new round of public spending cuts to find resources for tax cuts – tax cuts which he proposes will support economic growth through reduction of taxes on labour and companies – and also something that he anticipated might lead to social unrest (Reuters, 2013). There has been much contention within Italy's coalition government about various issues, including a housing tax on primary residences that has been suspended, and about an increase in sales tax which had been due to come into effect in July. In October, three main trade union confederations were amongst those protesting about the government's 2014 budget plans (Reuters, 2013)

Employment/Unemployment

Employment has continued to fall in Italy since 2008 (from 63% in 2008 to 61% in 2012) (Eurostat, 2013f). The rate continues to be significantly below the EU average. See **Figure 7**. A reduction in hours worked is more a feature of declining employment in Italy than of headcount employment, and undeclared work remains an issue (European Commission, 2013g).

ITALY | FIGURE 7



Source: Eurostat, 2013f. t2020_10

In the first quarter of 2013, a significant fall in employment (-1.4% or -342,000 people) was noted (% change on previous year) (European Commission, 2013a, p. 13, Table 20).

As can be seen from **Table 13**, the numbers of unemployed people in Italy are enormous – 2.7million (in 2012). The unemployment rate worsened between 2011(8.4%) and 2012 (10.7%), and this trend continued until the middle of 2013, when the rate reached 12.1% in June (monthly average) (Eurostat, 2013g). Thus the relative picture of unemployment in Italy has shifted from a position in 2011, when the Italian rate (of 8.4%) was below the EU27 average rate (of 9.6%), to a position in June 2013 where the Italian unemployment rate (of 12.2%) was more than 1 percentage point higher than the EU28 rate (of 11%) (Eurostat, 2012; Eurostat, 2013g). See **Figure 16, Part Four**.

In 2012, the share of unemployment that was long-term was relatively very high (53%), so over half of those unemployed were unemployed for a year or more (Eurostat, 2013h). Moreover, the increase over the year to the end of 2012 in the long-term unemployment rate in Italy was notable (to 6.4% or +1.5pps) (European Commission, 2013a).

The OECD is now projecting that structural unemployment (that is, unemployment considered long-lasting due to changes in overall demand patterns as opposed to cyclical unemployment) is expected to increase in Italy (OECD, 2013c).

ITALY | TABLE 13 | **Unemployment**

	Numbers Unemployed	Unemployment Rate	Share of Long-term Unemployment	Youth Unemployment Rate (15-24)
2012	2,744,000	10.7%	53%	35.3%
2011	2,108,000	8.4%	51.9%	29.1%

Source: Eurostat, 2012; Eurostat, 2013h, 2013x; Youth Rate: Eurostat, 2013i
Note: unemployed numbers, rate and share of long-term unemployed relates to ages 15-74

Italy is amongst the countries showing the highest year on year increase in youth unemployment in the EU (to April 2013) (European Commission, 2013a, p.19, Table 26). As the OECD has noted, it is a worrisome trend that this fast rise in youth unemployment is essentially accounted for by an increase in young people neither in employment nor education or training (NEETs) (OECD, 2013d). In fact, Italy has the highest NEET rate amongst the countries considered in this report (exceeding slightly the rate of Greece and the rate for Romania, in quarter 4, 2012), and the second highest in the EU27, exceeded only by Bulgaria (European Commission, 2013a, Chart 19). The OECD has warned of the growing risk of 'long-term scarring effects' on the employability and earnings capacity of Italian NEET youth (OECD, 2013d).

Italy is one of six European countries in which the latest OECD projections point to further increases in unemployment of one percentage point or more to the end of 2014 (OECD, 2013c).

Poverty

At 25.3% in 2008, Italy already had a relatively high proportion of its population living at risk of poverty or social inclusion (the combined measure used in the Europe 2020 Strategy). By 2011, there had been a significant increase to 28.2%, which was well above the EU27 average of 24.2% and with the country showing the largest increase in the EU27 between 2010 and 2011(Social Protection Committee, 2013). The latest data suggests that there was another significant increase in 2012 to 30.4%, an increase of 2.2 percentage points, which is one of the highest rates of increase noted amongst countries for which data is available (Eurostat, 2013b). Italy ranked 21st out of 28 countries in 2012[31].

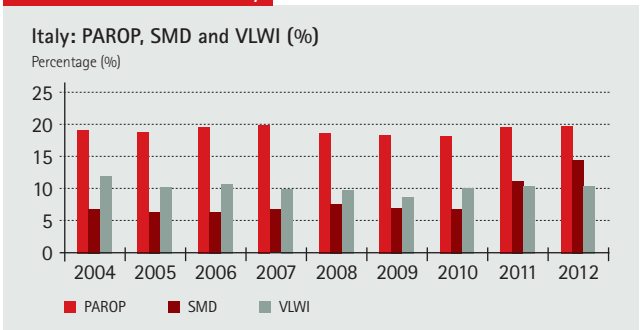
In numerical terms, those recorded as living in poverty or social inclusion in 2012 numbered 18.5 million, a figure that increased by over 1.3 million people in one year (Eurostat, 2013b).

The at-risk-of-poverty or social exclusion indicator is a combined one that includes 3 separate measures of poverty – people at risk of poverty (PAROP), people severely materially deprived (SMD) and people in households with very low work intensity (VLWI). See Glossary for a definition of each term.

Rates for each of the three measures are shown in **Figure 8** for the years 2004 to 2012 (the latest for which data is available).

[31] This ranking is subject to the fact that only 2011 data is currently available for some countries: Ireland, Belgium, Austria and the UK

ITALY | FIGURE 8 | **Poverty**



Source: Eurostat 2013o, t2020, 51, 52, 53

All of the indicators show a marked increase since 2009 and Italy is above the EU28 average for all three indicators. See **Appendices 3–5**.

Within the past year, two of the indicators have remained at similar levels to 2011, but there has been a marked increase in the rate for severe material deprivation. The rate of severely materially deprived people in 2012 was 14.5%, and it had increased by 3.3 percentage points in a year. In 2012 it represented 8.8 million people (Eurostat, 2013o).

As regards the risk-of-poverty rate, Italy's 2012 rate of just under 20% is above the EU28 average rate of 17.2%, and is exceeded only by five other countries (Croatia, Bulgaria, Spain, Romania and Greece) (Eurostat, 2013o). In 2012, the number of people living at risk of poverty was 12 million (2012 figures) and, although the increase after 2011 was small in percentage terms, it represents an increase in the numbers of people affected by 189,000 (Eurostat, 2013o).

Using a poverty indicator 'anchored' to living standards in 2005, the OECD has shown that increases to 2010 in income poverty were higher than suggested by 'relative' income poverty measures (OECD, 2013a). In Italy, the percentage point change in 'anchored' poverty rates between 2007 and 2010 was 2.2%, as opposed to a 1.0% change in the relative poverty measure (in both cases based on a poverty line related to 50% of median income).

It is recognised that young adults are bearing a significant burden across Europe. In Italy the risk-of-poverty rate of those aged 18-24 increased between 2008 (when it was 21.3%) and 2012 (when it rose to 25%) (Eurostat, 2013q).

One way in which it is possible to assess whether the situation of people in poverty is worsening is to examine the share of people who are falling below the 40% poverty line, which means living on less than 40% of the median income (the usual 'at-risk-of-poverty' line being 60% of the median equivalised income). In Italy there has been an increase in those below the 40% poverty line each year since 2009, representing a 1.4 percentage point increase between 2009 and 2012 (Eurostat, 2013u).

The risk of entering poverty is high in Italy, while the transition out of poverty is low (European Commission, 2013g). The Italian statistics body, ISTAT, estimates absolute poverty[32] to total of 3.4 million individuals (in 2011) or 5.2% of households (ISTAT, 2013).

Children

Italy has the fifth highest rate of childhood poverty (under 18s) in the EU (exceeded only by Greece, Bulgaria, Spain and Romania). The at-risk-of-poverty rate amongst children was 26.6% in 2012 and this compares with an EU28 average of 21.4% (Eurostat, 2013q). The Italian rate has increased significantly since 2009 when it was 24.4%. The material deprivation rate[33] for children was high in 2012 at 28.5% (relative to the EU27 average of 22.3%) and this rate has increased significantly since 2007 (when it was 17.9%% (Eurostat, 2013r).

In the EU generally, 8.8% of children live in households with very low work intensity (2011), but at 25.5% this proportion is very much higher in Italy (2010 figure) (Social Protection Committee, 2013, p. 36).

Older People

The average risk-of-poverty rate for people aged over 65 in the EU28 was 14.3% in 2012 (Eurostat, 2013s). The poverty rate for older people in Italy has tended to be high relative to EU average levels. At 16.5%, the 2012 rate in Italy was 2.2 percentage points above the EU average level, but this was a slight improvement on the 2011 level. The rate for older women was 18.9% (above the comparable EU28 average rate) and is higher than the rate for older men in Italy (13.2%). There have been very significant increases in the material deprivation rate for older people in Italy; it went from 14% in 2007 to 23.6% in 2012 (Eurostat, 2013t).

Working Poor

The in-work risk-of-poverty rate for Italy was 12.2% in 2012 and the rate increased between 2011 and 2012 (Eurostat, 2013v). Thus 12% of people who work do not earn enough to protect themselves from poverty. Italy has the fourth highest rate amongst the EU28 countries (exceeded only by Spain, Greece and Romania).

[32] ISTAT (2013) defines 'absolute poverty' as corresponding to the minimum expenditure required to purchase a basket of goods and services that are considered essential, in the Italian context and for a given household, to attain the 'minimum acceptable' standard of living. Households with monthly expenditure equal to or below the threshold are classified as poor in absolute terms. The amount varies considerably between regions and household types, but was €984.73 in 2011 for a household with 2 adults (aged 18-59) in the north of the country.

[33] Material Deprivation Rate: The indicator is defined as the percentage of population with an enforced lack of at least three out of nine material deprivation items in the 'economic strain and durables' dimension (Eurostat, tessi082).

Discussion: Impact on Vulnerable Groups

Within the past year the very high increase in youth unemployment is a particularly worrying feature of the social situation in Italy, particularly as it is associated with many young people neither in employment nor education or training (NEETs), and with the associated long-term risks of exclusion for this generation. Another very negative trend is the very high and increasing share of long-term unemployment, which means that more than half of those unemployed have been so for a year or more, and there is also the prospect of rising structural unemployment. There are also signs of a worsening of the poverty situation, with significant increases in the risk-of-poverty or social exclusion rate and in the rate for severe material deprivation between 2011 and 2012. Within that same period there was an increase in the in-work risk-of-poverty rate, and the risk-of-poverty rate for young adults has increased over recent years. There are also signs of a deepening of the depth of poverty being experienced by poor people.

Income inequality (measured using the S80/S20 ratio[34]) increased in Italy between 2008 and 2011 by 10%, going from a ratio of 5.1 to 5.6 (Eurostat, 2013c, tsdsc260). According to a recent report from the OECD, between 2007 and 2010, the poorest 10% of households in Italy lost 6% of their disposable incomes, while the incomes of the richest 10% of households were hardly altered (-1%) (OECD, 2013a).

One early indicator of financial difficulties suggests real problems for people with lower incomes: Italy's share of people living in households in the lowest income quarter who report experiencing financial distress is now one of the highest in the EU at over 35% (as at March 2013) (based on the Joint Harmonised EU consumer surveys) (European Commission, 2013a, Chart 34).

Again amongst people in these lower-income households (bottom 25%), Italy had the greatest increase in financial distress in the EU to the year ended March 2013 (European Commission, 2013a).

This can be explained by some of the measures introduced over the past year or so. For example, top earners in Italy would have been less affected than lower and middle-income families by increases in VAT on essential items (which have been shown generally to disproportionately affect lower-income households). Also, the house property tax (IMU) was calculated on the value of the house irrespective of the income of the tax payer, thus charging people who have good incomes from work at the same rate as, say, retired people living on fixed incomes.

On the ground, demands on the services of Caritas Italy continued to rise between 2011 and 2012, showing a 25% increase in service-users. This rate of increase was reduced on previous years when the service-users more than doubled (2008-2012), but this is partly accounted for by the fact that, despite a growing demand for help, Caritas services are working at capacity levels, with the numbers of their volunteers (mainly older people) generally reducing rather than increasing (Caritas Italy, 2013).

Aid in the form of redistribution of food surpluses produced under the Common Agricultural Policy is an important feature of life for poorer Italian people, something that arises due to gaps in the social protection system, particularly the absence of a nationwide minimum income system. Changes to the Food Aid system due at the end of 2013 mean that Caritas Italy is concerned that this will cause a social emergency involving more than 4 million poor people, something that needs to be addressed by activating a national fund for food aid (Caritas Italy, 2013).

Italy has a high rate of poverty amongst children. The High Commissioner for Human Rights of the Council of Europe has identified Italy as amongst those European countries where, as a result of austerity measures, there is a risk of a rise in children engaged in child-labour (Muiznieks, 2013). The country has a low ranking in the UNICEF league table of child well-being (in the bottom third: 22nd out of 29 countries) (UNICEF, 2013). Caritas Italy, along with a large network of Italian NGOs (Groupo CRC), has been working for the protection of children's rights for some years. The group has reported how the sharp reduction in resources for social programmes has exacerbated the fragility of welfare services and impacted negatively on women, families and on children. They identify an urgent need to develop integrated strategies to protect children from poverty and to make access to quality services affordable.

A comprehensive review of the impact of the crisis and austerity measures on services, is beyond the scope of this review, although it is true that cuts in public services have hit poorer people hardest as they don't have the incomes to compensate. Public expenditure on education as a share of GDP is amongst the lowest in the EU, particularly at third level, and, with a rate of 17.6% in 2012, Italy has performed significantly worse than the EU average in terms of early school leaving, especially in the southern regions, which translates into a lack of basic skills (European Commission, 2013g). Caritas Italy observe very negative consequences for

[34] The ratio of total income received by the 20% of the country's population with the highest income compared to that received by the 20% with the lowest income – the higher the ratio the greater the inequality (Social Protection Committee, 2013, p43); income is equivalised disposable income (Eurostat, 2013c, tsdsc260).

families and children, of rising costs of education in the public system (such as 'voluntary contributions' and costs of school kits) and other difficulties that are affecting the quality of education (2013).

Italian health spending, which was already slightly below the OECD average (per capita), fell in 2010 and more markedly in 2011 (-1.6%) (OECD, 2013g). Unmet needs in access to healthcare by significant numbers of people are now being reported (Oxfam, 2013).

ONE PERSON'S STORY

I'm S, 40 years old and I'm from Colombia. I have been living in Italy since high school. I live with an Ecuadorian man who is the father of my little son, who is attending elementary school. After graduating from high school, I've never worked in the field I had hoped for, that is foreign languages. I started working as a maid and housekeeper. After some years of occasional work and the birth of my son, I decided to start looking for a job as a full-time carer. They were all irregular jobs and I've never had a regular contract. The only exception was that of an elderly lady who ... gave me a regular contract of work ... but after two years, the lady died and I lost my job... I'm aware I can't follow all of the bureaucracy and administrative issues. I don't understand a lot and laws are constantly changing. I'm always late with the deadlines, and constantly lacking some documents. I have to try many things on my own because my husband is a handyman, often unemployed, and does not have a residency permit. He manages to stay in Italy thanks to his son. As long as there is the child, he will be able to remain in Italy. The relationship with him is not good; he changed (sic), before he was quieter, but as time passed he became (sic) more violent. One day I had to go to work with a black eye, and I said to the lady I had my bag snatched. It all started when the company for which he worked, and that had guaranteed him his residency permit, closed for economic reasons. He lost his job and he was no longer able to renew his residency permit. He doesn't do much to find something else... At the moment I can't find anything; Italian families are trying to manage on their own, not looking for a full-time carer anymore. ...I have also thought about continuing my studies while I am in Italy; perhaps if I attend a training course for caregivers or something related, it could be easier to find a job. But the municipality has cancelled these courses that were going on for some years, and now I have to look for another solution.

Portugal

Background and Government Finances

Portugal experienced low growth for some years before the global financial crisis of 2008. A drop in tax revenues resulting from the crisis led to rising government debt. An excessive deficit procedure was initiated in 2009. In 2011, Portugal requested financial assistance, and an adjustment programme was negotiated with the troika of the European Commission, the European Central Bank and the IMF. The Economic Adjustment Programme for Portugal includes a joint financing package of some €79 billion for the period 2011-2014.

PORTUGAL | TABLE 14 | **Government Debt Rates, % GDP**

	2005	2006	2007	2008	2009	2010	2011	2012
Government deficit/surplus								
EU-27	-2.5	-1.5	-0.9	-2.4	-6.9	-6.5	-4.4	-4.0
Portugal	**-6.5**	**-4.6**	**-3.1**	**-3.6**	**-10.2**	**-9.8**	**-4.4**	**-6.4**
Government Gross Debt								
EU-27	62.8	61.6	59	62.3	74.6	80	82.5	85.3
Portugal	**67.7**	**69.4**	**68.4**	**71.7**	**83.7**	**94**	**108.3**	**123.6**

Source: Eurostat, 2013d, 2013e: gov_dd_edpt1; tsdde410

The deficit of 6.4% of GDP in 2012 was above the target that had been set (5%) in the programme negotiated with the troika (European Commission, 2013h). A number of one-off factors relating in particular to recapitalisation of banks, such as a capital injection into the state-owned bank CGD (worth approx. 0.5% of GDP), contributed to the difference between the forecasted level of deficit and the turnout (European Commission, 2013h). The revised deficit target of 4.5% of GDP for 2013 agreed with the IMF/EU/ECB troika was revised to 5.5% for 2013, and the targets for 2014 and 2015 have also been revised (European Commission, 2013h). This is to allow the remaining fiscal adjustment to be more evenly spread over 2013-2015.

The increase in Portuguese government gross debt to GDP ratio was the largest in the EU27 between 2011 and 2012 (15.3 percentage points) (Eurostat, 2012j) followed by Spain and Cyprus. See **Table 14**. The European Commission projects that gross debt will exceed 124.5% in 2014 and will not fall below 100% of GDP until the beginning of the next decade (European Commission, 2013h).

In January 2013 some €1.1 billion was injected into Rentipar-Banif, in order to allow that bank to meet the capital requirements imposed on banks by the IMF/EU/ECB programme (IMF, 2013e). Notwithstanding this, access to credit is considered still very difficult for small firms (IMF, 2013e).

PORTUGAL | TABLE 15 | **Real GDP growth rate – volume – Percentage change on previous year**

	2006	2007	2008	2009	2010	2011	2012	2013f	2014f
EU (27 countries)	3.4	3.2	0.4	-4.5	2.1	1.6	-0.4	-0.1	1.4
Portugal	1.4	2.4	0	-2.9	1.9	-1.6	-3.2	-2.3	0.6

Source: Eurostat, 2013a, tec00115. f=forecast

Economic activity in 2012 was worse than expected, with weak demand for exports from the rest of the Euro area being a factor and the recession is now set to be deeper than previously envisaged. See **Table 15**. There was a contraction of 3.2% of GDP, which was 0.2 percentage points below the previous projections (European Commission, 2013h). Projections for 2013 were revised down on previous forecasts to -2.3% of GDP (European Commission, 2013h).

In the first quarter of 2013, the fall, at -4%, in Portuguese GDP (year on year), was one of the worst in the EU, following those of Greece and Cyprus (European Commission, 2013a). The year 2013 was a third year in recession. As the IMF recently put it 'economic recovery is ... proving elusive' (IMF, 2013e).

Arising from the austerity measures, there have been large-scale demonstrations. From June to November 2013 there were 473 strike days in the transport sector alone, 42 days of which were 24-hour strikes (Almeida Correia, 2013). A strike in June brought the nation's public transport to a halt. Also political tensions have been high, leading to ministerial resignations in the summer of 2013, including that of the Finance Minister. The IMF has observed that support for the programme of measures being pursued has weakened significantly: 'the appetite for reform is waning' (IMF, 2013e, p.5).

Policy Responses

A range of measures were introduced from 2009, such as reductions in unemployment assistance, public sector pay cuts, reductions in numbers of public service workers and increases in VAT. During 2012, faced with falling tax revenues across the board (including reductions in VAT income due to falling consumption), the Government maintained tight expenditure control by, amongst other things, cuts in public service staff and wages and freezing plans for new investments (European Commission, 2013h).

Very significant cuts were made to the education budget (more than 20%) between 2010 and 2012 to the extent that by 2012 government expenditure was reduced to just above 2001 levels (Pordata, 2013).

A raft of significant expenditure cuts and tax increases were adopted at the end of 2012 in Budget 2013. But some of the most significant measures were invalidated by the Constitutional Court in April 2013, including some cuts in bonus payments for public workers and pensioners[35] and the introduction of social security contributions on unemployment and sick leave benefits[36] (European Commission, 2013h). The Constitutional Court upheld most of the proposed taxation measures which involve the largest tax rises in living memory (Reuters, 2013). Further challenges to measures are ongoing in Portugal's Constitutional Court.

In response, the government adopted a package of expenditure-reducing and revenue-raising measures amounting to €4.7 billion or 2.8% of GDP in net savings during 2013 and 2014, designed to meet the deficit reduction targets agreed with the troika (European Commission, 2013h). Overall the measures are made up of two-thirds revenue increases, one-third expenditure cuts (European Commission, 2013h).

Savings in healthcare also took place in 2012, including requiring co-payments for medicines (European Commission, 2012h). Healthcare charges increased to users in line with inflation in 2013; a visit to a hospital emergency room costs €20.60 and there are additional costs of up to €50 associated with examination and diagnosis (Oxfam, 2013a).

Amongst the measures proposed for 2013 are:

- a further reduction in the public sector wage bill (to yield some €1,4000 million) by, amongst other things, reducing the workforce and reducing overtime payments,
- savings in the national health service (at least €180 million),
- social spending to be 'streamlined[37]' resulting in a saving of (€650 million),
- introduction of an 'extraordinary solidarity contribution' on pensions (at least €400 million),
- restructuring of personal income tax (to yield at least an additional €2.7 billion) (including lowering the basic personal deduction, increasing the average tax rate, and imposing different surcharges above certain income thresholds starting at 3.5% on taxable income above the minimum wage),
- increase corporate tax revenues (by at least €200 million),
- increases in indirect taxes, including property tax and excise duties (on natural gas, tobacco and alcohol),
- increase in social contributions by including supplementary payments for public employees and unemployment and sick leave benefits above a certain threshold (European Commission, 2012h).

[35] The Constitutional Court considered the measures to have violated the principles of equality and proportionality contained in the Constitution, since public sector employees would be affected more than other segments of society and public sector employees at lower income levels would be disproportionally affected (IMF, 2013e).

[36] The Constitutional Court considered that this measure violated the principle of proportionality as it would reduce incomes for recipients below socially acceptable income levels (IMF, 2013e).

[37] Caritas Portugal have listed, amongst significant changes in social welfare cuts to the minimum income and changes in how to access it, cuts to very low pensions, and changes to unemployment benefits, including some cuts, but also an increase for families with children (Caritas Portugal, 2013).

A new measure that will remove rent-controls is intended to stimulate the construction industry as a result of landlords renovating properties that they have neglected due to low rents (Reuters, 2013). This will result in significant price hikes for people living in rented accommodation.

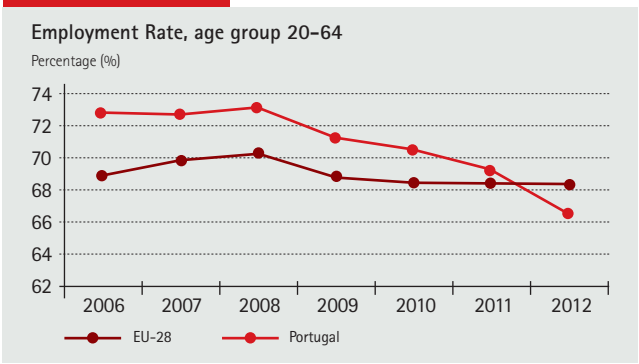
Privatisation has also been a feature of the measures undertaken in Portugal, including of the health care subsidiary, and of the airport operator ANA. The sale of the national air carrier TAP was to be resumed before the end of the year (European Commission, 2012h) and the sale of the postal company CTT was also expected to be completed by year end.

Employment/Unemployment

Amongst the 34 member States of the OECD[38], Portugal is one of the countries in which the increase in the unemployment rates has been greatest since the start of the crisis (along with Greece, Spain, Ireland, Italy and Slovenia) (OECD, 2013c).

Employment fell in Portugal from 2008, and in 2012 the rate underwent a particularly sharp decline (from 69.1%, 2011, to 66.5%, 2012) taking it below the EU28 average rate of 68.4% for the first time (Eurostat, 2013f). See **Figure 9**.

PORTUGAL | FIGURE 9



Source: Eurostat, 2013f. t2020_10

The downward trend has continued and, in the first quarter of 2013, one of the worst falls in employment in the EU27 was registered in Portugal (-5.2%) (% change on previous year), with a drop of 2.2% in the first quarter of 2013 alone (European Commission, 2013a, Table 20).

As **Table 16** shows, there was a worsening of the unemployment situation between 2011 and 2012. The unemployment rate increased from 12.9% to 15.9%, now representing some 860,000 people.[39] The worsening trend continued to the middle of 2013, when it had reached 17.4% (monthly average) (Eurostat, 2013g) and it is close to the worst rate in the EU, exceeded only by Greece and Spain. See **Figure 16, Part Four**. The unemployment rate is projected to reach 18.5% in 2014 (European Commission, 2013h).

Long term unemployment represents a high share of overall unemployment – nearly 49%, so that half of all unemployed people are unemployed for a year or more. Amongst EU countries, the increase over the year to the end of 2012 in the long-term unemployment rate in Portugal was one of the worst (European Commission, 2013a).

Portugal is one of four OECD countries in which structural unemployment (that is, unemployment considered long-lasting due to changes in overall demand patterns as opposed to cyclical unemployment) was shown by the OECD to have increased significantly between 2008 and 2012, and in which it is now expected to rise further (OECD, 2013c).

The latest OECD projections are also citing Portugal as one of six European countries in which further increases in unemployment are expected (of one percentage point or more) to the end of 2014 (OECD, 2013c).

PORTUGAL | TABLE 16 | **Unemployment**

	Numbers Unemployed	Unemployment Rate	Share of Long-term Unemployment	Youth Unemployment Rate (15-24)
2012	860,000	15.9%	48.7%	37.7%
2011	706,000	12.9%	48.2%	30.1%

Source: Eurostat, 2012; Eurostat, 2013h, 2013x; Youth Rate: Eurostat, 2013i
Note: unemployed numbers, rate and share of long-term unemployed relates to ages 15-74

[38] Which includes Greece, Ireland, Italy, Portugal and Spain, but not Cyprus or Romania.

[39] Some economists and other commentators are of the opinion that the real unemployment figure is around 1million people, or 20% - people who are discouraged and have given up looking for a job are included in this estimate (Oxfam, 2013a).

At 37.7%, the youth unemployment rate is high in Portugal relative to the EU27 average (23%) (Eurostat, 2013i) and, as Table 16 shows, the rate increased significantly by about 7 percentage points between 2011 and 2012. Portugal is amongst the countries showing the highest year on year increases in youth unemployment in the EU (to April 2013) (European Commission, 2013a, p.19, Table 26). The rate for young people neither in employment nor education or training (NEETs) is also relatively high in Portugal, and is above the EU27 average (European Commission, 2013a, Chart 19).

Net outward migration has returned since 2010-2011 (that means that more people are leaving the country than arriving) (European Commission, 2013a). A report on migration patterns from 2008-2011 shows a very sharp increase in the number of people who left Portugal (+116%) (European Commission, 2013a).

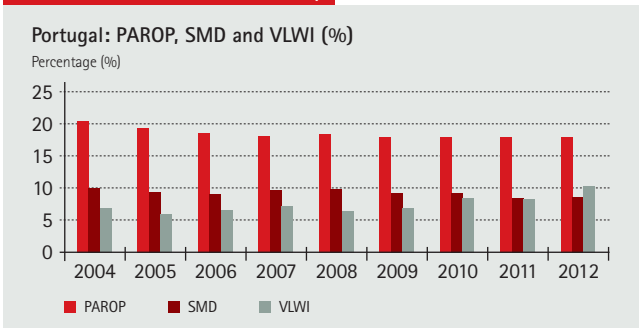
Poverty

In 2009 Portugal had a rate for risk-of-poverty or social inclusion (the combined measure used in the Europe 2020 Strategy) of 24.9%. The rate rose in 2010, fell in 2011 and rose again in 2012 to 25.3%, which is just above the EU28 average rate (Eurostat, 2013b). In numerical terms, those recorded as living in poverty or social inclusion in 2012 numbered 2.6 million, a figure that increased by 64,000 people in one year (Eurostat, 2013b).

The at-risk-of-poverty or social exclusion indicator is a combined one that includes 3 separate measures of poverty – people at risk of poverty (PAROP), people severely materially deprived (SMD) and people in households with very low work intensity (VLWI). See Glossary for a definition of each.

Rates for each of the three measures are shown in **Figure 10** for the years 2004 to 2012 (the latest for which data is available). The rate for those at risk of poverty stayed virtually stable between 2011 and 2012 (18% in 2011; 17.9% in 2012) (Eurostat, 2013o). Portugal's rate is just above the EU28 average rate of 17.2%. It represents nearly 1.9 million people in 2012 living at risk of poverty (Eurostat, 2013o).

PORTUGAL | FIGURE 10 | **Poverty**



Source: Eurostat 2013o, t2020, 51, 52, 53

Although the overall at-risk-of-poverty rate has remained largely stable, there has been a significant drop in the at-risk-of-poverty threshold – in other words, the level at which people are deemed to be at risk of poverty fell in line with a drop in overall incomes. See **Appendix 1**. The threshold was €5,207 in 2010; in 2012 it was €4,994, a drop of €213 in two years (Eurostat, 2013p).

Furthermore, it is recognised that young adults are bearing a significant burden across Europe, and in Portugal the risk-of-poverty rate of those aged 18-24 increased by 6.2 percentage points between 2009 (when it was 16%) and 2012 (when it rose to 22.2%) (Eurostat, 2013q).

Between 2011 and 2012, there was a slight increase in the severely materially deprived rate (from 8.3% to 8.6%).

The indicator for people living in households with very low work intensity increased significantly within the year to 2012, from 8.2% to 10.1%. This indicator has also increased significantly in the slightly longer term since 2008 when it was 6.3%. Portugal is ranked above the EU28 average for this indicator. See **Appendix 5**.

One way in which it is possible to assess whether the situation of people in poverty is worsening, is to examine the share of people who are falling below the 40% poverty line, which means living on less than 40% of the median income (the usual 'at-risk-of-poverty' line being 60% of the median equivalised income). In Portugal there was a decrease in those below the 40% poverty line between 2010 and 2011, but there has been a worsening of the situation since, as the rate increased in 2012 by 1.1 percentage points (Eurostat, 2013u).

There are now major concerns about proposals to change the European Union food aid programme, under which Portugal currently gets some 44 tons of food to distribute to poor people (Reuters, 2013).

Children

Portugal has a rate of childhood poverty similar to the EU28 average. The at-risk-of-poverty rate amongst children aged under 18 was 21.7% in 2012 and this compares with an EU28 average of 21.4% (Eurostat, 2013q). However, the rate was higher in 2012 than it had been in 2007 (when it was 20.9%).

The material deprivation rate[40] for children was high in 2012 at 24.4% relative to the EU27 average of 22.3% (Eurostat, 2013r).

In an attempt to improve the way material deprivation is measured for children, special child-specific items relating to material deprivation were included in EU-SILC 2009 relating to children aged 1-15. According to this survey, Portugal had a material deprivation rate for children (aged 1-15) of 40%, which was twice the EU27 average rate of 21% (Social Protection Committee, 2013). This survey, however, relates only to the early stages of the crisis in Europe.

Older People

The average risk of poverty rate for people aged over 65 in the EU28 was 14.3% in 2012 (Eurostat, 2013s). The poverty rate for older people in Portugal has tended to be high relative to EU average levels. At 17.4%, the 2012 rate in Portugal was 3.1 percentage points above the EU average level. There had, however, been an improvement on previous years.

Working Poor

The in-work risk-of-poverty rate for Portugal was 9.9% in 2012, a slight decrease from 2011 (Eurostat, 2013v). Thus almost 10% of people who work do not earn enough to protect themselves from poverty. Portugal's rate is slightly above the average for the EU28 countries.

Discussion: Impact on Vulnerable Groups

Employment continues to fall and is now falling at an accelerated rate, and unemployment is rising. Long-term unemployment has risen markedly and there is a high rate of youth unemployment. Outward migration is also significant. The employment situation in Portugal, therefore, continues to worsen. The official statistics on poverty, as outlined above, suggest a slight worsening of the rate of poverty or social exclusion between 2011 and 2012, representing an additional 64,000 people. When you consider another poverty indicator - the risk-of-poverty rate – it remained largely stable between 2011 and 2012, but there has been a significant drop in the at-risk-of-poverty threshold since 2010 (in other words, people have to be poorer to be considered in poverty). There has also been a very significant increase in the risk-of-poverty rate for young adults (under 25s) since 2009. Another round of very serious austerity measures now being implemented in order to meet the deficit reduction targets will make the situation worse for many people.

The work of Caritas Portugal brings their network into contact with a range of types of people who are suffering as a result of the recession and of austerity measures, especially people who are unemployed and those who, though employed, are nonetheless very badly off; the situation of children is also of great concern. The significant increase in emigration, with the loss of many young people, is another concerning issue.

Demands on the services of Caritas Portugal have increased greatly in recent years. There was almost a doubling in the numbers of families who they were supporting in one year alone (between 2011 and 2012) bringing them to 56,000 families (Caritas Portugal, 2013).

A study in nine European countries showed that Portuguese households with the lowest 10% of income have lost on average more than 5% of their incomes from policy changes that directly affected them between 2009 and mid-2012 (Avram et al, 2013, p. 26). That study did not include changes to indirect taxes like VAT, and VAT increases in 2011 have already been found to have affected the poorest households in Portugal more than the richest ones (Callan et al, 2011).

Caritas Portugal (2013) is concerned that the change to rent-controls will be extremely negative for many older people who have already experienced pension reductions.

Cuts to public pensions have been shown to have already been very significant in Portugal (Avram et *al*, 2013, p. 10).

In 2011 (the last year for which comparable figures have been published by Eurostat), the incomes of the richest 20% of the population were 5.7 times higher than the incomes of the poorest 20%, a rate that had risen slightly on the previous year (Eurostat, 2013c). Another measure shows that inequality grew between 2010 and 2011 and again slightly in 2012 (according to the Gini coefficient[41]) meaning that, according to this measure, Portugal is one of Europe's most unequal societies. As far as the other countries considered in this report

[40] Material Deprivation Rate: The indicator is defined as the percentage of population with an enforced lack of at least three out of nine material deprivation items in the 'economic strain and durables' dimension (Eurostat, tessi082).

[41] The Gini coefficient is defined as the relationship of cumulative shares of the population arranged according to the level of equivalised disposable income, to the cumulative share of the equivalised total disposable income received by them (Eurostat, 2013L).

are concerned, the rate is exceed only marginally by Spain and is just above that for Greece (Eurostat, 2013L).

Portugal's share of people who report experiencing financial distress is approaching 30% of those living in lower income quartile households, which is above the European average (as at March 2013) (European Commission, 2013a, Chart 34).

The High Commissioner for Human Rights of the Council of Europe has identified Portugal as amongst the European countries where, as a result of austerity measures, there is a risk of a rise in children engaged in child labour (Muiznieks, 2013).

Portugal's national health service is considered to have delivered considerable health improvements over the past approximately two decades. However, out-of-pocket expenses on health increased as a proportion of health spending (2000 to 2010) (OECD, 2012 figure 5.6.3). Poorer people are more inclined to defer going to the doctor or paying for a necessary treatment than people who can easily afford the costs. A report from the Portuguese Observatory on Health Systems says that pressure to cut costs has affected the quality of healthcare on offer, and that some people have to abandon treatment because they cannot afford it. The report concludes that the crisis can intensify mental health problems and addiction as well as infectious diseases (Costa, 2012). Portugal is cited in an editorial in the British Medical Journal relating to negative health impacts accumulating as a result of the economic crisis and austerity packages (BMJ, 2013).

Massive reductions in the education budget in recent years are a potentially extremely damaging trend in both human terms and in terms of the development of the economy, given that Portugal already performs badly in important indicators such as early school leaving. The country already has one of the highest early school leaving rates in the EU (20.8% as opposed to an EU27 average of 12.7%, 2012) (Eurostat 2013k, t_2020_40).

In a Europe-wide quality of life survey carried out in 2011/2012, Portugal had one of the lowest proportion of people who were optimistic about the future (Eurofound, 2012). Less than 30% of people in Portugal were optimistic about the future, as compared with Denmark and Sweden, the countries with the highest proportion of people expressing optimism, where the comparable proportions were 84% and 85% respectively. Optimism about the future was considered in these surveys to be strongly correlated with views of a country's government and current economic situation.

ONE PERSON'S STORY...

F works in the banking sector and had a comfortable life until recently. Last year she got divorced from her husband and found herself with two children to care for. She cannot count on the financial support of her former husband. In 2013 she was not able to pay her housing credit, due to the reduction in her income and increased costs of living. F has been required by the justice system to have a part of her salary seized until her credit situation is resolved. F has ceded her house to the bank as collateral but still has a considerable part of the debt to pay. At the moment F still works in the banking sector but does not earn enough income to meet her basic expenditure. She survives through the support of family and civil society organisations.

Romania

Background and Government Finances

In the fifth wave of accession, Romania acceded to the European Union in 2007 along with Bulgaria, three years after ten other countries mainly from central and Eastern Europe. Average per capita GDP in the accession countries had been only 40% of the average in the old EU15 Member States five years before accession and the largest gap was in Romania and Bulgaria (European Commission, 2009). At 46% of the EU average, Romania's GDP per capita is considered a significant indicator of the country's developmental gap (European Commission, 2013bb). There was a cumulative annual increase of 15.5% in public expenditure between 2003 and 2009 (European Commission, 2013b, p.21).

The Romanian economy experienced a sharp down-turn during the 2008-2009 period and, as international markets became more conservative in their lending, inflows of capital fell and concern grew about Romania's budget deficit (5.7% in 2008). In the summer of 2013 Romania was completing the implementation of the second economic adjustment programme with the EU and IMF (and some other lenders such as the WHO) which had been requested in 2009. Changes were subsequently made (by means of a Supplementary Memorandum of Agreement) to the terms agreed and, in particular, to the deficit targets for 2009 and 2010 (European Union and Romania, 2010). In return for the investment, Romania undertook to implement a comprehensive economic-policy programme.

The government deficit was significantly reduced from 9% of GDP in 2009 mainly through restrictions in the public-sector wage bill and pensions (IMF, 2012). Romania met the programme target for 2012 to reduce its headline government deficit to below 3% of GDP. See **Table 17**. The country's current budget, adopted in February 2013, targetted a headline deficit of 2.4% of GDP in 2013 (European Commission, 2013b, p.6). An excessive deficit procedure initiated by the EU in 2009 was deemed corrected in June 2013.

Public debt remains relatively low: at 37.8% of GDP in 2012; although it is expected to rise to 38.6% in 2014, which will still be below the 60% of GDP limit set in the Stability and Growth Pact (European Commission, 2013b, Table I).

ROMANIA | TABLE 17 | **Government Debt Rates, % GDP**

	2005	2006	2007	2008	2009	2010	2011	2012
Government deficit/surplus								
EU-27	-2.5	-1.5	-0.9	-2.4	-6.9	-6.5	-4.4	-4.0
Romania	**-1.2**	**-2.2**	**-2.9**	**-5.7**	**-9.0**	**-6.8**	**-5.6**	**-2.9**
Government Gross Debt								
EU-27	62.8	61.6	59	62.3	74.6	80	82.5	85.3
Romania	**15.8**	**12.4**	**12.8**	**13.4**	**23.6**	**30.5**	**34.7**	**37.8**

Source: Eurostat, 2013d, 2013e: gov_dd_edpt1; tsdde410

Headline consumer price inflation was high in 2012 (3.4%) and was projected to remain high at around 4.3% in 2013 on average (European Commission, 2013b). Inflation rose to 5% at the end of 2012 principally driven by increased food prices due to a bad harvest (IMF & EC, 2013).

The Romanian economy expanded by 0.7 % in 2012 and the European Commission forecast a modest recovery for 2013, with growth picking up to around 1.6%. See **Table 18.** There was an increase in GDP of 2.2% of GDP in the first quarter of 2013 (year on year) (European Commission, 2013a).

ROMANIA | TABLE 18 | **Real GDP growth rate – volume – Percentage change on previous year**

	2006	2007	2008	2009	2010	2011	2012	2013f	2014f
EU (27 countries)	3.4	3.2	0.4	-4.5	2.1	1.6	-0.4	-0.1	1.4
Romania	7.9	6.3	7.3	-6.6	-1.1	2.2	0.7	1.6	2.2

Source: Eurostat, 2013a, f=forecast

Romania remains one of the least economically developed members of the EU, with poverty rates higher, healthcare and education systems underfunded and of relatively low quality, and with convergence with EU norms lagging behind other emerging European countries (IMF, 2012). Challenges include:

- **Tax Compliance:** Low tax compliance and high tax evasion; tax evasion in the areas of VAT and labour taxes estimated at 10.3% of GDP in 2010; second lowest ratio of tax-to-GDP in the EU at 27.2% (2011); indirect taxes accounted for 46.7% of overall tax revenues in 2012 and direct taxation accounted for only 21.2% (against an EU average of 33.1%) (European Commission, 2013b); the Government is making changes to the tax system including some intended to improve compliance (IMF, 2012, MEFP).
- **Cash Transactions and Corruption:** A high reliance on cash transactions with only 27% of residents having a bank account, the lowest ratio in the EU; there are serious concerns that corruption continues to be a systemic problem (European Commission, 2013b; IMF, 2012).
- **Difficulty Absorbing Structural Funds:** Romania is considered worst of the new EU member states in using structural funds, with poor administrative capacity, that led to an absorption rate of 20.2% of the total available structural, cohesion and agricultural funding in 2012 (IMF, 2012; European Commission, 2013; European Commission, 2013b); the absorption of EU funds stalled for most of the second half of 2012, and may be de-committed, after deficiencies were identified by auditors (European Commission, 2013).
- **Underdeveloped Social System:** Romania has very low levels of social contributions relative to GDP: 31.9% (against an EU27 average of 33.5%) (European Commission, 2013b); there are very high rates of poverty with children, older people and Roma people particularly affected (see below).
- **Underdeveloped Healthcare System:** Public expenditure on health accounted for 4.5% of GDP in 2009, far below the EU GDP-weighted average of 8% (European Commission, 2013b), and along with Bulgaria, Romania spends the least per capita on health[42] (OECD, 2012); Romania has one of the highest rates of infant mortality in the EU and life expectancy at birth is one of the lowest (European Commission, 2013b, p.21).
- **Underdeveloped Education system:** Underfunding of early childhood education is one of the main reasons why Romania is underperforming according to the European Commission (2013a); Romania is amongst the worst performers in the EU on basic skills (reading, mathematics and science) (European Commission, 2013b); there is an early school-leaving rate (17.3% in 2012) which is still well above the EU average (12.7%) and there are problems with how early-school leaving is tracked (European Commission, 2013); rates of adult participation in lifelong learning are very low (1.6% in 2011) which is significantly lower than the EU average (8.9%) (European Commission, 2013, p.4). An education law of 2011, that sets a long-term agenda for improvement of all levels of education, is not yet fully operational (European Commission, 2013, p.5).
- **Undeveloped Infrastructure:** These include underdeveloped transport and ICT systems (European Commission, 2013b, p. 4).

Policy Responses

From 2010 there have been changes in taxation and in social spending. For example, from July 2010 the standard rate of VAT increased from 19% to 24% (Avram et al, 2013), even though, as noted above, Romania already has a relatively very high proportion of indirect taxation. There have been changes to welfare, including cuts to the child-raising allowance, to unemployment benefit and reductions have been made in facilities made available to pensioners (Avram et al, 2013). The Supplemental Memorandum of Understanding from 2010 set new targets for the government deficit and required 'rigorous implementation of the measures to reach this target'. These measures included:

- a reduction in the public wage bill amounting to 8.7% of GDP in 2010;
- a nominal freeze in pensions related to end-2009 levels (except for minimum pensions which could be indexed) (European Union and Romania, 2010, Annex1).

The cut to public wages in 2010 was 25% (European Commission, 2013b, p.7) but this was partially reversed in 2011 when 15% was restored (Avram et al, 2013).

Amongst the terms agreed with the international partners were the following:

- a ceiling on general government current primary spending
- a ceiling on execution of the National Development and Infrastructure Programme

[42] The highest spending country is the Netherlands, which spends €3,890 per capita, compared to Romania's spend of approx €700 per capita (OECD, 2012).

- increased prices for utilities – gas prices for domestic and non-domestic consumers increased by 5% and 10%, respectively; electricity prices increased by 5%[43]
- amendments to healthcare legislation to address budgetary shortfalls
- a series of privatisations of public transport and energy companies

(IMF, 2012).

There have also been changes to labour and social welfare law (IMF, 2012, p 29):

- a Social Assistance Law which consolidated 54 categories of social benefit into 9 groups
- a Labour Code was implemented in 2011 providing for more flexibility in employment relationships, including in fixed-term contracts and providing extensions of probationary periods
- a new Social Dialogue Law which changed the terms for collective bargaining.

According to the Romanian Government, the Labour Law has contributed to a recovery in employment with numbers of informal work arrangements being converted to newly registered contracts, many of which are fixed-term (IMF, 2012, Attachment 1, Memorandum of Economic and Financial Policies (MEFP)).

The draft budget agreed with the IMF and the EU in January 2013 provides for:

- an increase of public sector wages so as to restore them to pre-crisis levels,
- a 4% increase in pensions,
- measures to reduce payment periods in health care to 60 days (in line with the EU Late Payments Directive),
- reductions in tax deductions, changes to taxation of agriculture, and making mandatory the turnover tax of 3% on small enterprises,
- an increase (by 100 Lei) in the minimum wage from 700 Lei/month (to increase by 50 Lei in both February and July)

(IMF and EC, 2013; Ministry of Foreign Affairs, 2013).

According to the Government, an estimated 436,361 people will benefit from the first minimum wage increase and 677,267 people from the second (Ministry of Foreign Affairs, 2013). Again, according to the Government, the Unemployment Insurance Budget (UIB) has financed active employment measures for 1,761,784 people, and there have also been activation projects funded by the European Social Fund and projects aimed at increasing employment quality for rural dwellers financed by the European Agricultural Fund for Rural Development (Ministry of Foreign Affairs, 2013). However, at 0.02% in 2012, spending on active labour market policies as a share of GDP is still considered low compared to the EU27 average and it is decreasing (European Commission, 2013b). The quality of public activation, job search and retraining services is still considered low (European Commission, 2013, p.4).

The Ministry of Labour has developed a National Plan to Stimulate Youth Employment, which is a starting point for the introduction of the Youth Guarantee[44] (Ministry of Foreign Affairs, 2013, p.11).

In 2009, Romania allocated the lowest proportion of GDP to investment in education in the EU and the budget has been cut even further over the last three years (European Commission, 2013b, p.20).

Some improvement measures have been introduced in the health sector. For example, people who are very poor in retirement (living on less than 700 Lei/month) can access a programme compensating them for 90% of the costs of drugs (Ministry of Foreign Affairs, 2013, p.19).

Problems persist, especially in rural and remote areas, for the Roma people. The implementation of the National Roma Integration Strategy started in 2012 but progress has been assessed as modest (European Commission, 2013, p.5).

The EU Commission has commented that there is some progress, though slow, relative to the transition from institutional to alternative care for children deprived of parental care and that further efforts are needed (European Commission, 2013, p.5).

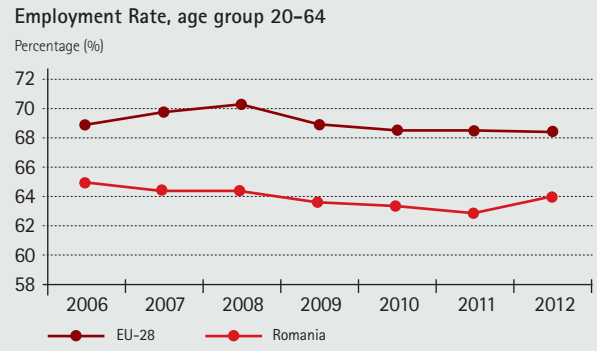
Employment/Unemployment

Romania has one of the lowest employment rates in the EU: at 63.8% (amongst those aged 20-64 years) in 2012, though the rate is slightly improved on the previous year (when it was 62.8%) (EU Commission, 2013b).

[43] There had been a regulatory and pricing structure that required below market prices, which in the view of the IMF contributed to poor quality of the energy and transportation infrastructure (IMF, 2012, p 26).

[44] The Youth Guarantee aims to ensure that all young people under 25 years of age receive a good-quality offer of employment, continued education, an apprenticeship or traineeship within four months of becoming unemployed or leaving formal education: Council Recommendation of 22 April 2013 (2013/C 120/01).

ROMANIA | FIGURE 11



Source: Eurostat, 2013f. t2020_10

There was a growth in employment of 3% to the first quarter of 2013 (% change on previous year) (European Commission, 2013a, Table 20).

Unemployment fell from 7.4% in 2011 to 7% in 2012 (age group 15-74) (European Commission, 2013b). Although unemployment is below the EU27 average (10.4%), the overall employment rate is also low (as described above). As Table 19 shows, the share of unemployment that is long-term is relatively high (45.3%) and it has risen significantly from 2011 (when it was 41.9%). Thus, someone who is unemployed has a high chance of being long-term unemployed (that is, for a year or more).

Youth unemployment is high, 22.8% in 2012, and expected to remain high in 2013 (EU Commission, 2013b). Furthermore, Romania has a high share of NEETs (young people neither in employment nor in education or training) (16.8% of the population aged 15-24 in 2012) (EU Commission, 2013b, p.40). In the 4th quarter of 2012, Romania had one of the highest NEET rates in the EU27, exceeded only by Greece, Italy and Bulgaria (European Commission, 2013a, Chart 19).

Other employment challenges relate to older workers and women (EU Commission, 2013b). Some disadvantaged groups, in particular Roma people, have very high unemployment rates - 48.6% - more than 6 times the average national rate (EU Commission, 2013b).

ROMANIA | TABLE 19 | **Unemployment**

	Numbers Unemployed	Unemployment Rate	Share of Long-term Unemployment	Youth Unemployment Rate (15-24)
2012	701,000	7%	45.3%	22.7%
2011	730,000	7.4%	41.9%	23.7%

Source: Eurostat, 2012; Eurostat, 2013h; Youth Rate: Eurostat, 2013i
Note: unemployed numbers, rate and share of long-term unemployed relates to ages 15-74

Emigration is a feature of Romanian society, especially since EU accession, though officially registered emigration is thought to capture only a fraction of outflows. Some 3.5 million Romanians were estimated to be living abroad in 2011 (OECD, 2013b). At the end of November, 2011, the immigrant population stood at 98,000 (OECD, 2013b).

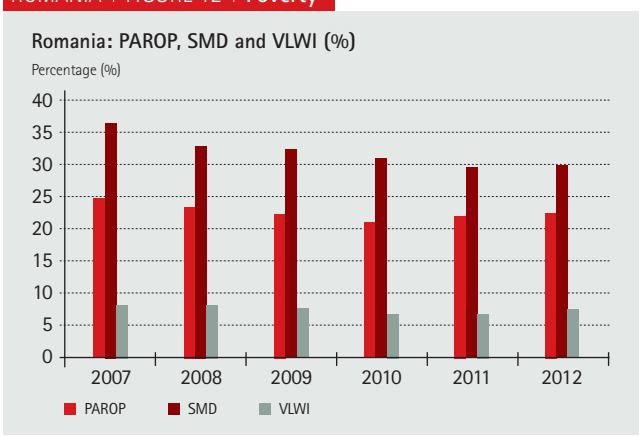
Poverty

Poverty reduction is a major and ongoing challenge in Romania. In 2011, 40.3% of the population was at risk of poverty or social exclusion and this increased in 2012 to 41.7% (Eurostat, 2013b). This is very much higher than the EU28 average (25.1% in 2012) and it is the second highest rate amongst the EU27 countries, exceeded only by Bulgaria. See **Appendix 2**. It represents 8.9 million people and it increased by 277,000 people between 2011 and 2012.

The at-risk-of-poverty or social exclusion indicator is a combined one that includes 3 separate measures of poverty – people at risk of poverty (PAROP), people severely materially deprived (SMD) and people in households with very low work intensity (VLWI). See Glossary for a definition of each.

Rates for each of the three measures are shown in **Figure 12** for the years 2007 to 2012 (the latest for which data is available).

ROMANIA | FIGURE 12 | **Poverty**



Source: Eurostat 2013o, t2020, 51, 52, 53

The at-risk-of-poverty rate showed some improvement from 2007 to 2010 but has started to deteriorate again since then. In 2012, the rate was 22.5% compared with an EU28 average of 17.2%. Some 4.8 million people were at risk of poverty and there had been an increase of 76,000 people in one year. Romania has the second highest risk-of-poverty rate in the EU28 after Greece (and closely followed by Spain) (Eurostat, 2013o). See **Appendix 3**.

The risk-of-poverty rate of those aged 18-24 increased each year between 2008 (when it was 22.9%) and 2012 (when it rose to 28.9%) (Eurostat, 2013q).

The at-risk-of-poverty threshold remained static between 2011 and 2012; it is €1,270. See Appendix 1.

Romania is close to the top of the EU27 league in terms of people who are severely materially deprived. The rate is 29.9%, and it represents 6.3 million people. This is almost three times the EU28 average rate of 10.3% and is exceeded only by that of Bulgaria, (Eurostat, 2013o). See **Appendix 4**.

The poverty risk for people living in households with very low work intensity increased substantially in Romania between 2010 and 2011 – by 7 percentage points (Social Protection Committee, 2013, p.39).

However, there are also signs of a worsening of the severity of poverty in Romania or of the 'poverty gap'. Thus there have been sizeable increases in the poverty gap (Social Protection Committee, 2013). Another way in which it is possible to assess whether the situation of people in poverty is worsening is to examine the share of people who are falling below the 40% poverty line, which means living on less than 40% of the median income (the usual 'at risk of poverty' line being 60% of the median equivalised income). In Romania there was a decrease in the rates of those below the 40% poverty line in the years up to 2010, but there was an increase of 1 percentage point in 2011 and the rate remained at the same level in 2012 (Eurostat, 2013u).

Given the size and intensity of the problem of poverty and social exclusion, the Romanian poverty reduction target set under the Europe 2020 strategy could have been more ambitious,[45] in the opinion of the Social Protection Committee, and the measures announced to tackle the problem will only be credible if progress is seen in implementation (Social Protection Committee, 2013).

Children

Romania has the highest rate of childhood poverty in the EU (for those under 18 years of age). Children in Romania are also amongst the groups most affected by severe material deprivation (that is, their lives are constrained by a lack of basic resources) (Social Protection Committee, 2013).

The at-risk-of-poverty rate amongst children was 34.6% in 2012, compared with an EU28 average of 21.4% (Eurostat, 2013q). There was also an increase between 2011 (when it was 32.9%) and 2012. The material deprivation rate[46] for children also increased between 2011 and 2012 (from 55.2% to 56.8%) and this rate was more than twice the EU27 average of 22.3% (Eurostat, 2013r).

In an attempt to improve the way material deprivation is measured for children, special child-specific items relating to material deprivation were included in EU-SILC 2009 relating to ages 1-15 years. According to this measure, while on average 5.9% of households in the EU cannot afford new clothes for their children, the percentage in Romania is 25.2%, while 23.8% of Romanian children cannot afford to eat fresh fruit and vegetables once per day (Social Protection Committee, 2013).

At nearly 80%, Romania had the highest proportion of children (aged 1-15) who were materially deprived (based on the special EU-SILC, 2009, material deprivation child-specific indicators); this compares with an EU27 average rate of 21% (Social Protection Committee, 2013, p.38). (At the other end of the scale, the corresponding rate in Sweden was 3%.)

Older People

The average risk-of-poverty rate for people aged over 65 in the EU28 was 14.3% in 2012 (Eurostat, 2013s). The poverty rate for older people in Romania has tended to be high relative to EU average levels. At 15.4%, the 2012 rate in Romania was 1.2 percentage points above the EU average level and it had deteriorated compared with the previous year. The rate for older women is 19.8% (which is above the comparable EU28 average rate) and is more than 10 percentage points higher than the rate for older men in Romania (9.6%).

Older people in Romania are amongst the groups that suffer most from severe material deprivation (that is, their lives are constrained by a lack of basic resources) (Social Protection Committee, 2013). In 2012 the material deprivation rate amongst over 65s was 49%, which is nearly three times the EU27 average rate (of 17.5%) (Eurostat, 2013t).

Working Poor

The in-work risk-of-poverty rate for Romania was 19.2% in 2012 and the rate has been increasing since 2010 (Eurostat, 2013v). Thus nearly 20% of people who work do not earn enough to protect themselves from poverty. Romania has the highest rate amongst the EU28 countries.

[45] The national target is to reduce by 580,000 the number of people at risk of poverty and social exclusion, by the year 2020, as compared to 2008, meaning a reduction by approximately 15% (National Reform Programme, 2011 quoted in Social Protection Committee, 2013, p.368).

[46] Material Deprivation Rate: The indicator is defined as the percentage of population with an enforced lack of at least three out of nine material deprivation items in the 'economic strain and durables' dimension (Eurostat, tessi082).

Discussion: Impact on Vulnerable Groups

Romania has a very widespread and deep problem with poverty. Romanians suffer from high levels of poverty or social exclusion and from severe material deprivation (that is, their lives are constrained by a lack of basic resources), with children and older people being the most affected. The risk-of-poverty rate has increased since 2010 and there was an increase in childhood poverty and material deprivation between 2011 and 2012. This occurred notwithstanding the fact that Romania already has the highest rate of childhood poverty in the EU. Poverty amongst older people increased between 2011 and 2012, and older women have higher rates than older men. The position relative to employment is that both the employment rate and the unemployment rate are relatively low – in other words, there are many people who are discouraged and have withdrawn from seeking work. Particular problems are recognised relative to older workers, women and Roma people.

The coverage, low take-up and adequacy of social benefits are challenges and the impact of social transfers (excluding pensions) in reducing poverty remains significantly below the average efficiency of transfers in the EU. This situation had, however, been improving in the years preceding the crisis (European Commission, 2013b). For the population as a whole, the rate at which social transfers reduce poverty is 23.7% (as against 37.5% for the EU as a whole in 2011); for children the rate is 22% (compared to 42.8% for the EU) (European Commission, 2013, p.4).

The unemployment rate of young people is high and Romania has one of the highest rate for NEETs (young people neither working nor in education or training) in the EU.

In recent years, Caritas Romania notes that more people are applying to their centres for help. They have noticed an increasing number of people whose situations are extreme, in the sense that they are lacking basic necessities and are in distress. Amongst these groups they notice an increase in homeless people, lone-parent families, families with three or more children, older people and people with disabilities (Caritas Romania, 2013).

Children are another group who have been affected and have been attending Caritas after-school programmes in greater numbers since the crisis. Often this is the result of families being scattered due to emigration with parents sometimes working abroad (Caritas, Romania, 2013). Any worsening of the situation of children is alarming as Romania already ranks last (29th out of 29 countries) in the UNICEF league table of child well-being (UNICEF, 2013). The High Commissioner for Human Rights of the Council of Europe has identified Romania as amongst the European countries where children are reported to be engaged in labour in extremely hazardous occupations such as in agriculture, construction, small factories or on the street (Muiznieks, 2013).

Caritas Romania notes also that older people are affected by rising emigration; separated from children, they lack care, and if they become frail, they have to seek help from voluntary organisations and the social care system, both already inundated with the demand (2013). As to the financial situation of older people, a study showed that cuts to public pensions have had very significant impact in Romania, accounting for more than half of the overall total of direct measures introduced between 2010 and mid-2012 (Avram et al, 2013, p. 10). This is a concerning finding, given the already very high rates of poverty and severe material deprivation of older people.

Investments by local authorities made in social institutions, especially in the years leading up to the crisis, are now being cut back, according to Caritas Romania, and this, along with cuts to service providers such as Caritas and other NGOs, means that service provision is simply unable to meet increased demands (2013).

Caritas Romania has observed that the VAT increase of 2010 has affected the incomes of poorer people by increasing the price of essential products (2013). This is confirmed by a study that examined the impact of measures taken (2010 to mid-2012) in nine European countries and that concluded that increases in indirect taxes[47] have been very significant in Romania, having had an effect on household incomes that is of a similar magnitude to the direct measures taken (such as cuts to public sector pay/pensions) (Avram et al, 2013, p. 10). The effect of increasing indirect taxes on essential items is generally found to be regressive – in other words, it has a greater impact on lower-income households.

In one survey intended to give an early warning of trends relative to financial difficulties, Romania's share of people living in lower income households (bottom quarter), who reported experiencing financial distress, was over 35%, which was one of the highest rates in the EU as at March 2013 (European Commission, 2013a, Chart 34).

The European Commission recognises that the situation of people with disabilities, and of Roma people, continues to be a key issue, and these groups have been among the worst affected by the crisis (2013b). Roma people constitute 8.3% of the overall population. They lack identity cards and registration, which prevents them from accessing the health system, social benefits or education.

[47] The study examined increases in the standard rate of VAT introduced up to mid-2012, but not other increases in indirect taxes (Avram et al, 2013, p.18).

Romania faces many challenges relating to education at all levels. Romania is already amongst the worst performers in the EU on basic skills (European Commission, 2013b). Early school leaving rates increased in 2010, and in 2012 were still at a higher level than in 2009 (Ministry of Foreign Affairs, 2013). Given this situation, cuts in education that have occurred in recent years are, therefore, most questionable and this is particularly so given the role that education plays in enhancing development, with, as has already been noted, the European Commission having identified that underfunding of early childhood education is one of the main reasons why Romania is underperforming (2013a).

The health sector features major inequities in terms of access and quality of services provided and involves excessive use of in-patient care (European Commission, 2013, p.4). Romania is amongst the EU27 member countries in which out-of-pocket expenses increased most as a proportion of total health spending between 2000 and 2010 (increase of 4.4 percentage points) (OECD, 2012, figure 5.6.3) and out-of-pocket expenses, generally, disproportionately affect poorer people and operate as a greater disincentive to the use of health services by those on lower incomes than to the better-off.

Romania is a country facing a range of challenges exacerbated by the financial crisis. But Romania's government and its international partners must ensure that rhetoric about the burden of adjustment being shared fairly is matched by packages of measures whose short and longer-term impacts are assessed to ensure that they do not negatively impact on vulnerable people whose situations are already very difficult.

ONE PERSON'S STORY...

K is a member of the Roma community living in a settlement on the outskirts of an industrial city. More than 1,000 people are living in the barracks of this shanty town, most without access to water, sanitation or electricity. K is 25 and has three children attending the kindergarten of a Caritas Centre.

"If you ask me, I can not tell you for how long we will be able to stand this situation anymore. Some years ago things seemed to get better. We were so happy when my husband finally got employed at a furniture factory. They took him as an unskilled worker and he earned the minimum salary, but if he complied with the work program, he also got food vouchers. In that time my second child was born, but I was not worried. We even succeeded in building our own little house from materials we could collect. I managed to get registered at the social kitchen, where my children got a warm meal every day.

I do not know when things started to get worse. Always, when something bad happens, we – the Roma– suffer most. Everybody points the finger at us saying that we are the reason why things are not working well in this country. On TV I heard about the economic crisis. I did not understand too much of this, but one thing I knew: it will not be good.

My husband lost his job, when the factory dismissed many workers... After my husband lost his job, he started to earn some money by collecting scrap metal. Together with others from our settlement, they took the iron from abandoned industrial plants or asked the people to give them what they did not need any more. But even this business is not working any more. The town has been cleaned completely of scrap iron and the Romanians now are selling their scrap metal by themselves – they also need money.

So I started to go to the waste containers in a nearby neighbourhood to look for food and other useful things. I am not ashamed of this – somehow I have to provide for my children. I have not yet gone begging, but if it becomes necessary, I will do so.

With all these problems, God gave me another child. I really do not know how I will care for all three of them. Everything is getting more expensive and our money is not even enough for food. I have just the child allowance, some food from the social kitchen and what I can collect from waste.

We, the Roma, do not have time to think about the future, we have to survive today. If I think about my situation, I really do not know if it will ever get better again."

Spain

Background and Government Finances

In Spain a housing-market and banking crisis led to a sovereign debt crisis. Spain entered the crisis with relatively low public debt, a situation that changed from 2007, especially due to Spain's attempts to rescue its banking sector which had been severely affected by the collapse in property prices. Thus, government gross debt increased rapidly from around 36% of GDP in 2007 to over 84% in 2012. See **Table 20**. It is forecast to approach 97% of GDP in 2014 and to peak at close to 100% in 2015, something driven mainly by high interest payments (European Commission, 2013gg).

The increase in Spanish government gross debt to GDP ratio was the second-largest in the EU27 between 2011 and 2012 (14.9 percentage points), exceeded only by Portugal (Eurostat, 2012j).

SPAIN | TABLE 20 | **Government Debt Rates, % GDP**

	2005	2006	2007	2008	2009	2010	2011	2012
Government deficit/surplus								
EU-27	-2.5	-1.5	-0.9	-2.4	-6.9	-6.5	-4.4	-4.0
Spain	**1.3**	**2.4**	**1.9**	**-4.5**	**-11.2**	**-9.7**	**-9.4***	**-10.6***
Government Gross Debt								
EU-27	62.8	61.6	59	62.3	74.6	80	82.5	85.3
Spain	**43.2**	**39.7**	**36.3**	**40.2**	**53.9**	**61.5**	**69.3**	**84.2**

Source: Eurostat, 2013d, 2013e: gov_dd_edpt1; tsdde410. *Note: net of bank recapitalisation measures, the Government deficit was approx 9%, 2011 and 7%, 2012 (of GDP) (Kingdom of Spain, 2013, Table 3)

The EU Council decided that an excessive deficit existed in Spain in April 2009, and initiated an excessive deficit procedure with a recommendation that the situation be rectified by 2014 (European Commission, 2013gg).

Following market tensions in spring 2012, Spain sought financial assistance from the EU to recapitalise its banks and up to €100 billion was made available by the European Financial Stability Facility/ European Stability Mechanism. Disbursements to mid-2013 amounted to €41.4 billion (European Commission, 2013gg). However, availability of credit is still constrained, especially for small businesses. This is in spite of the fact that since 2009 some €63 billion has been injected by the state into the banking system (including the €41.4 billion from the EFSF/ESM) and on top of this, contingent aid has been provided under state guarantees on bonds issues by banks and SAREB (a newly incorporated asset management company) or asset protection schemes (IMF, 2013g).

The Government deficit for 2012 was larger than expected and this is attributed to a worsening of the employment situation and a consequent increase in spending on social transfers, and on lower revenues from taxation (European Commission, 2013gg).

Households and companies remain exposed to very high debt levels, with total private debt reaching 211% of GDP in 2012 (quarter 4), and non-performing loans have been rising, reaching 10.5% of total loans (March, 2013[48]) (European Commission, 2013gg).

[48] Excluding assets transferred to the asset management company, Sareb.

SPAIN | TABLE 21 | **Real GDP growth rate – volume – Percentage change on previous year**

	2006	2007	2008	2009	2010	2011	2012	2013f	2014f
EU (27 countries)	3.4	3.2	0.4	-4.5	2.1	1.6	-0.4	-0.1	1.4
Spain	4.1	3.5	0.9	-3.7	-0.3	0.4	-1.4	-1.5	0.9

Source: Eurostat, 2013a, tec00115. f=forecast

Following a slight recovery in 2011, Spain was in recession in 2012 and 2013. See **Table 21**. The recession is associated with a deep contraction in domestic consumption associated with, amongst other things, fiscal consolidation and high unemployment (European Commission, 2013gg). In the first quarter of 2013, Spanish GDP contracted for the sixth consecutive quarter (European Commission, 2013a).

The size of the Spanish economy is such that its recovery is considered critical to the Euro area and hence to the global economy. IMF describes Spain as 'only half way along its needed consolidation path' (IMF, 2013g, p.20). However, given the problems faced by the country, such as lack of growth and rising unemployment, the IMF is now recommending that further consolidation should be gradual 'to minimize the economic and social cost.' Assuming that the measures already in line for 2013 are implemented (described below), they are not recommending significant additional measures.

They are, however, recommending urgent action to generate jobs and growth, both by Spain and Europe (IMF, 2013g).

Policy Responses

The social protection system has been 'intensely challenged' by the recession (European Commission, 2013gg, p.11). Protests have become commonplace as workers, in particular, protest against wage reductions and privatizations.

A series of measures were introduced by government at the end of 2011, and these have continued since. There have been major reductions in expenditures by ministerial departments and cuts to expenditure on public service staff (Kingdom of Spain, 2013). The most recent National Reform Programme report of the Spanish Government suggests that 60% of the measures adopted in 2012 to address the public deficit were reductions in expenditure, while 40% corresponded to increased revenue. Yet even after taxation measures taken already, Spain is considered to have a relatively low tax-to-GDP ratio (32.3% in 2012) compared to the EU27 average, and the tax-to-GDP ratio has decreased considerably since the start of the crisis (European Commission, 2013gg).

Amongst the measures introduced in 2011 were a series of changes to pension arrangements, which continued to 2013. Thus, recently, access to early and partial retirement has been curbed and access has been tightened to a special unemployment benefit for older workers; these measures are aimed at prolonging working-life and delaying access to benefits (European Commission, 2013gg). Gradually increasing the statutory retirement age from 65 to 67 is now envisaged as well as increased contributions for obtaining a pension.

Measures aimed at containing healthcare spending have also been adopted and more changes are envisaged, including extending co-payments (Kingdom of Spain, 2013; European Commission, 2013gg). Expenditure on long-term care has also been reduced (by €599 million in 2012) with more reductions envisaged for 2013 and 2014 (Kingdom of Spain, 2013). A study from the British Medical Journal points out that a cut of over 13% (or €365 million) to the national budget, and further cuts to regional budgets in 2012 in health and social care coincided with increased demand, especially by older and disabled people as well as people with poor mental health (Legido-Quigley, 2013). Further cuts were proposed for 2013 to the dependency fund for older and disabled people, which the study's authors say, puts vulnerable people even more at risk.

A number of measures were introduced in 2012 aimed at achieving greater flexibility in the labour market[49]; there was a reduction in monetary compensation for unfair dismissal (for regular contracts) and changes to procedures for collective redundancy (OECD, 2013e). A new type of permanent contract has been created for small firms that allows trial periods of up to 12 months (OECD, 2013e), but, up to mid-2013, it was not being used extensively (European Commission, 2013gg).

Changes have been made to conditions relating to unemployment benefit and assistance and job-search requirements have been tightened. For example, gross unemployment benefit after 6 months has been reduced from 60% to 50% of the reference wage, unemployment assistance has been raised

[49] Some commentators critique the drive to achieve greater flexibility in Spain's labour market as a dogma-driven attempt to blame the unemployment situation on labour rigidities, while pointing to how liberalising the laws and structures has not led to gains in employment (Navarro, 2013).

from 75% to 80% of the IPREM (a public income indicator), and active and proven job search is compulsory after 30 days (European Commission, 2013gg). A new youth employment and entrepreneurship strategy has been adopted (March 2013).

Increases in VAT rates, introduced in late 2012, have resulted in increased revenues, but also in less demand, which had a negative effect on GDP in 2013 (Kingdom of Spain, 2013). Amongst the taxation measures envisaged for 2013 was another increase in VAT (0.8% of GDP), and excise duties (0.2% of GDP), as well as environmental taxes, income taxes and revenue measures at regional level (European Commission, 2013gg).

Spanish households have been increasingly exposed to financial stress with growing numbers unable to face housing costs. Temporary measures were adopted in 2012 to protect some of the weakest households from evictions including the creation of a social housing fund. New measures related to mortgage debtors were before Parliament in mid-2013 (European Commission, 2013gg).

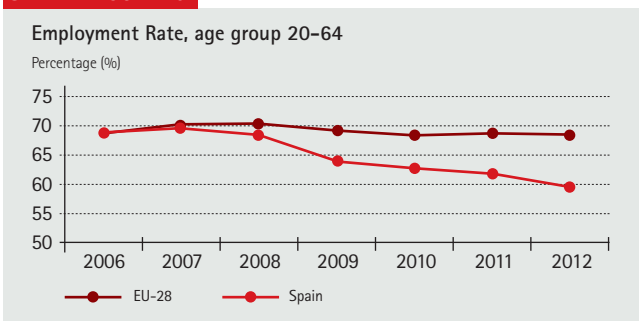
Caritas Spain references, amongst recent policy measures that impacted negatively in the 2012/2013 period, a series of cuts to activation/active employment policies and cuts in benefits to unemployed people (Caritas, 2013). Caritas Spain observes how thinking is being shaped by the approach to activation which judges people for being unemployed.

Employment/Unemployment

Amongst EU countries, Spain witnessed one of the largest losses in jobs over the five years to the first quarter of 2013 (-18.2%), exceeded only by Latvia and Greece (European Commission, 2013a). See Figure 13.

The number of unemployed people in Spain has increased by more than 4 million since the start of the crisis (OECD, 2013e). This rate of increase in unemployment is unprecedented in Spain's history (IMF, 2013g). When we look at the larger membership of the OECD[50] (34 member States), Spain and Greece are the countries with the largest increases in unemployment rates since the start of the crisis (OECD, 2013c).

SPAIN | FIGURE 13



Source: Eurostat, 2013f. t2020_10

The 2012 employment rate was 59.3% (Eurostat, 2013f), and it was lower for older workers (44.5%) and for women (55.5%) (European Commission, 2013gg). One of the worst falls in employment in the EU (-4.3 or -770,000 people) was noted in the first quarter of 2013 (% change on previous year) (European Commission, 2013a, p.13, Table 20).

There are also very high levels of temporary employment (European Commission, 2013gg). Temporary contracts are especially a feature of young employment (age 15-24) but unlike other countries (such as Germany) the majority of young temporary workers in Spain are on very short contracts indeed (mostly 1-3 months and 4-12 months) (European Commission, 2013a). The fall in employment has especially affected the construction industry and the public sector (European Commission, 2013gg).

As **Table 22** shows, all aspects of the unemployment situation worsened between 2011 and 2012. The unemployment rate was 21.7% in 2011, representing some 4.9 million people (Eurostat, 2012). In 2012 it had grown to 24.3%, representing a staggering 5.7 million people (Eurostat, 2013h). The unemployment rate for 2012 was the highest in the EU (slightly exceeding the rate for Greece) and was nearly 2.5 times the EU27 average rate (10.4%) (Eurostat, 2013h).

More recent figures show that the unemployment rate has worsened again, and Spain was just behind Greece at the top of the EU unemployment table by mid-2013 with a rate of 26.3% (monthly average rate) (Eurostat, 2013gg). See **Figure 16, Part Four**.

Unemployment is hitting those with least formal qualifications very hard, and 35.2% of unemployed people lack formal qualifications (European Commission, 2013gg).

The share of unemployment that is long-term was 44.5% in 2012, which means there is a high likelihood of being unemployed long-term. See **Table 22**. Amongst EU countries, the increase over the year to the end of 2012 in the long-term unemployment rate was one of the worst (second only to Greece and similar to that of Cyprus) (European Commission, 2013a, Table 27).

[50] Which includes Greece, Ireland, Italy, Portugal and Spain, but not Cyprus, Romania or Latvia.

SPAIN | TABLE 22 | **Unemployment**

	Numbers Unemployed	Unemployment Rate	Share of Long-term Unemployment	Youth Unemployment Rate (15-24)
2012	5,769,000	25%	44.5%	53.2%
2011	4,999,000	21.7%	41.6%	46.4%

Source: Eurostat, 2012; Eurostat, 2013h, 2013x; Youth Rate: Eurostat, 2013i
Note: unemployed numbers, rate and share of long-term unemployed relates to ages 15-74

Spain is one of four OECD countries in which structural unemployment (that is, unemployment considered long-lasting due to changes in overall demand patterns as opposed to cyclical unemployment) was shown to have increased significantly between 2008 and 2012, and in which it is now expected to rise further (OECD, 2013c).

The youth unemployment level in Spain is of great concern, with one of the highest rates in the EU, second only to Greece in 2012 (Eurostat, 2013i). The decline in youth employment in Spain has affected more young men than young women, in particular low-skilled young men (OECD, 2013e). The youth unemployment rate exceeded 53% in 2012 (see **Table 22**), meaning that the number of young unemployed people in Spain exceeded the number of young people in work (European Commission, 2013a). Spain is amongst the countries showing the highest year on year increases in youth unemployment in the EU (to April 2013) (European Commission, 2013a, p.19, Table 26).

In addition, Spain also has a high NEET rate (that is, the rate of young people neither in education nor employment or training), one that is exceeded only by Bulgaria, Italy, Greece and Romania (European Commission, 2013a, Chart 19).

There has been net outward migration since 2010/2011 (that is, more people are leaving than arriving); a report on migration patterns from 2008-2011 shows sharp increases in the number of people leaving Spain (+90%); and in 2011, Spain had a high emigration rate as a percentage of total population (1.1%) (European Commission, 2013a).

The European Commission forecasts that unemployment will remain above 26% in 2014 (European Commission, 2013a), and latest OECD projections also point to a further increase in unemployment to the end of 2014 (OECD, 2013c).

Poverty

The rate of poverty or social exclusion (the combined indicator used in the Europe 2020 Strategy) has increased each year since 2009 and Spain had a high proportion of its population living at risk of poverty or social exclusion in 2012 (Eurostat, 2013b). The EU28 average was 25.1% in 2012 and the rate for Spain was 28.2%. Some 13 million people are affected, an increase of nearly 300,000 people in one year.

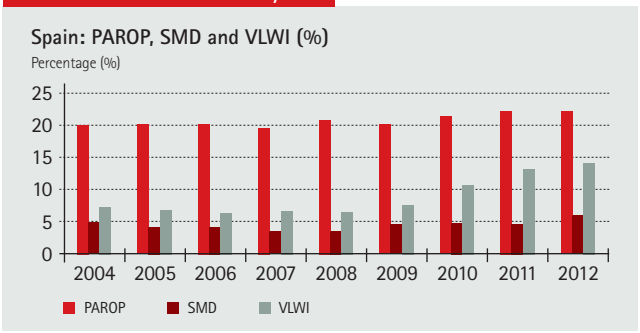
The at-risk-of-poverty or social exclusion indicator is a combined one that includes 3 separate measures of poverty – people at risk of poverty (PAROP), people severely materially deprived (SMD) and people in households with very low work intensity (VLWI). See Glossary for a definition of each.

Rates for each of the three measures are shown in **Figure 14** for the years 2004 to 2012 (the latest for which data is available).

As **Figure 16** shows the at-risk-of-poverty indicator has been increasing in Spain since 2009, although there was no change between 2011 and 2012. At 22.2% in 2012, it was above the EU28 average of 17.2%, and is now higher than at any time since at least 2004. The rate of 22.2% represents 10 million people (Eurostat, 2013o). The rate for Spain is the third highest in the EU28, exceeded only by Romania and Greece. See **Appendix 3**.

It is recognised that young adults are bearing a significant burden across Europe. This is very true in Spain, where the risk-of-poverty rate of those aged 18-24 increased by approximately

SPAIN | FIGURE 14 | **Poverty**



Source: Eurostat, 2013o, t2020, 51, 52, 53

60% between 2007(when it was 17.3%) and 2012 (when it rose to 28.4%) (Eurostat, 2013q).

Using a poverty indicator 'anchored' to living standards in 2005, the OECD has shown that up to 2010, increases in income poverty were higher than suggested by relative income poverty measures like the at-risk-of-poverty rate (OECD, 2013a). In Spain, the percentage point change in 'anchored' poverty rates between 2007 and 2010 was 5.1% as opposed to a 1.7% change in the relative poverty measure (in both cases based on a poverty line related to 50% of median income).

The at-risk-of-poverty threshold has been falling since 2009 – in other words, the income level at which people are deemed to be in poverty is dropping in line with a drop in overall incomes. See **Appendix 1**. The Spanish threshold fell from €7,714 in 2009 to €7,182 in 2012 (Eurostat, 2013p).

As **Figure 14** shows, the other two poverty indicators that make up the at-risk-of-poverty or social exclusion indicator worsened between 2011 and 2012. The severely materially deprived rate increased by 1.3 percentage points to 5.8%. It is still below the average for the EU28.

The rate for people living in households with very low work intensity has increased each year since 2008. In 2012 the rate was 14.2%, well above the EU27 average of 9.8%. It represents 5.1 million people, and it increased by 327,000 people between 2011 and 2012 (Eurostat, 2013o). This rate is relatively very high and is exceeded only by Croatia and Ireland amongst the EU28 countries. See **Appendix 5**.

One way in which it is possible to assess whether the situation of people in poverty is worsening is to examine the share of people who are falling below the 40% poverty line, which means living on less than 40% of the median income (the usual 'at-risk-of-poverty' line being 60% of the median equivalised income). In Spain there has been an increase in those below the 40% poverty line each year since 2008, representing a 3.1 percentage point increase between 2008 and 2012 (Eurostat, 2013u).

Children

Spain has the second highest rate of childhood poverty in the EU (exceeded only by Romania and followed by Bulgaria and Greece). The at-risk-of-poverty rate amongst children aged under 18 was 29.9% in 2012, compared with an EU28 average of 21.4% (Eurostat, 2013q). The rate showed a particularly significant rise between 2009 and 2010. The material deprivation rate[51] for children increased between 2011 and 2012 (from 15.6% to 19.4%) (Eurostat, 2013r).

The number of children living in households with very low work intensity has increased substantially in Spain since the crisis (by 6.3 percentage points up to 2011) (Social Protection Committee, 2013). The European Commission considers that limited progress was made on measures to tackle child poverty and to improve the efficiency of family support services in 2012 (European Commission, 2013gg).

Older People

The average risk-of-poverty rate for people aged over 65 in the EU28 was 14.3% in 2012 and this was similar to the rate for Spanish older people (14.8%) (Eurostat, 2013s). The rate for older women has been higher than the rate for older men. There have been significant increases in the material deprivation rate for older people in Spain; it went from 7% in 2008 to 10.6% in 2012 (Eurostat, 2013t).

Working Poor

The in-work risk-of-poverty rate for Spain was 12.3% in 2012 and that rate was similar to the 2011 rate (Eurostat, 2013v). Thus 12% of people who work have not been earning enough to protect themselves from poverty. Spain has the third highest rate amongst the EU28 countries (exceeded only by Greece and Romania). According to the European Commission, the in-work poverty rates reflect a particular deterioration of the situation for some groups, notably young people, low-skilled people and temporary workers (European Commission, 2013gg).

Discussion: Impact on Vulnerable Groups

With the highest rate of unemployment in the EU in 2012, Spain has has a staggeringly high number of people unemployed (5.7 million, in 2012). The country also has one of the EU's worst youth unemployment rates and a high share of unemployment that is long-term, and both these phenomena are worsening. All of this is in addition to high emigration. There was a worsening of the rate of poverty or social exclusion between 2011 and 2012. Another poverty indicator – the risk-of-poverty rate – increased between 2010 and 2011 but remained static in 2012. However, the poverty line has been falling, meaning that people have to be poorer to be considered to be in poverty. Also there is some evidence of a deepening of

[51] Material deprivation Rate: The indicator is defined as the percentage of population with an enforced lack of at least three out of nine material deprivation items in the 'economic strain and durables' dimension (Eurostat, tessi082).

poverty levels for poor people. Some groups (for example, adults aged under 25) experienced a very large increase in their rates of poverty between 2007 and 2012. Spain has one of the worst child poverty rates in the EU and the material deprivation rate for children increased between 2011 and 2012. The material deprivation rate for older people is also increasing.

Caritas Spain has observed changes since the early years of the crisis in terms of the groups who are seeking help from their centres – in the early years, migrants were more likely to seek their support, but from about 2010 many Spanish citizens have also been seeking help, as well as migrants whose status had become undocumented. They see many women, many young couples with children, as well as lone parents. They now observe more people at risk of homelessness and many people without a basic or minimum income and also a decrease in the provision of social care by the State, with a corresponding increase in efforts of NGOs to address the gaps (Caritas Spain, 2013).

A series of changes to social welfare benefits means that in many households a grandparent's pension income is supporting a whole family, although cuts to pensions and to entitlements means that this lifeline is also under increasing strain in many families (Caritas Spain, 2013).

One positive development introduced since the crisis, and noted by Caritas Spain, has been an attempt to extend some social welfare assistance to unemployed people who would not otherwise be entitled, but which has been an only source of income for many people.

Since 2006 there has been more than a doubling in numbers of people attending the Caritas First Assistance service that is offered at parish level, and in 2011 this totalled over a million people (Caritas Spain, 2013). The kinds of problems that people are dealing with include

- prolonged unemployment
- difficulty paying for credit such as mortgages
- difficulty navigating the social protection system due to delays, hardening of access requirements, insufficient payments for basic needs and elimination of grants/benefits.

Over half of Caritas centres indicate that the greatest need that people attending now have is for food, followed by housing and employment services; next are needs for clothing and footwear, household goods and health and legal expenses. People also, of course, seek someone to talk to and offer moral support.

The experience of Caritas organisations on the ground is supported by mounting research evidence of poorer households bearing a disproportionate share of the adjustments in Spain. For example, according to a recent report from the OECD, between 2007 and 2010, the poorest 10% of households in Spain lost 14% of their disposable incomes, while the incomes of the richest 10% of households were hardly changed (-1%) (OECD, 2013a).

In 2011 Spain was one of the EU's most unequal countries, with a marked increase in income inequality found between 2008 and 2011 using the S80/S20 ratio.[52] This ratio increased by 25.9% (from 5.4 to 6.8) (Eurostat, 2013c). This means that, in 2011, people with the top 20% of incomes had nearly 7 times more income than people with the lowest 20% of incomes – and this was the largest disparity recorded in the EU27. Another measure shows that inequality has been growing since 2009 (according to the Gini coefficient[53]) meaning that, according to this measure, Spain is one of Europe's most unequal societies and has the most unequal ranking amongst the countries considered in this report (Eurostat, 2013L).

A strong increase in financial distress has been reported amongst people in the lowest income households (bottom 25%) from 2007 onwards (EU Commission, 2013a). As at March 2013, Spain's share of people living in the lower income quarter of households who reported experiencing financial distress, was approximately 30% and above the EU average based on the Joint Harmonised EU consumer surveys (intended to give an early indication of financial difficulties amongst households) (European Commission, 2013a, Chart 34).

A study which examined the impact of measures taken in nine European countries concluded that between 2010 and mid-2012, increases in indirect taxes such as VAT[54] were very significant in Spain, and have had an effect on household incomes that is of a similar magnitude to the direct measures taken (such as direct taxes, cuts to public sector pay or cash benefits) (Avram et al, 2013, p. 10). In Spain, as in other countries, the effect of increasing indirect taxes has been found to be regressive – in other words, it has had a greater impact on lower-income households.

According to UNICEF, the position of children in Spain deteriorated during the decade ending in 2010 as assessed by four measures (material wellbeing, health, education, and behaviours and risks) and Spain fell by 5 places within the rankings of 21 developed countries (UNICEF, 2013).

A comprehensive review of the impact of the crisis and austerity measures on essential services is beyond the scope of this report. However, within the past year or so, a number of reports have pointed to problems to which the crisis is giving rise in the health systems of several countries, including Spain. A study published in the British Medical Journal as to the health impacts of cuts to budgets has warned of the dismantling of the Spanish healthcare system due to cuts

[52] The ratio of total income received by the 20% of the country's population with the highest income compared to that received by the 20% with the lowest income – the higher the ratio the greater the inequality (Social Protection Committee, 2013, p.43).

[53] The Gini coefficient is defined as the relationship of cumulative shares of the population arranged according to the level of equivalised disposable income, to the cumulative share of the equivalised total disposable income received by them (Eurostat, 2013L).

[54] The study examined increases in the standard rate of VAT introduced up to mid-2012, but not other increases in indirect taxes (Avram et al, 2013, p.18).

having been made to a healthcare system that already had one of the lowest expenditures in the EU (Legido-Quigley et al, 2013). The authors also highlight the increase in depression, alcohol related disorders and suicides in Spain since the financial crisis hit and unemployment increased.

As far as education goes, Caritas Spain is concerned that the education system should be capable of contributing to breaking the intergenerational transmission of poverty. This is informed by the fact that Spain has the highest early school leaving rate in the EU (24.9% as opposed to an EU27 average of 12.7%, 2012) (Eurostat, 2013k). Although there was a reduction in early school-leaving between 2009 and 2012, it still represents a major problem, especially in some regions (such as Andalucia, where the rate is over 30%). A comprehensive, funded strategy still needs to be implemented to address the problem according to the European Commission (2013gg). Caritas Spain points to the need for more efforts to be put into education, including vocational training for young people who left school early, so as to ensure a truly universal education system (2013).

With the level of difficulty being experienced by vulnerable people in terms both of their income and their access to health and social services, the measures that were being implemented in 2013 (such as increases in indirect taxes) are of tremendous concern.

SOME STORIES OF THE LABOUR MARKET...

I am J, a metallurgist with 30 years on a production line for aluminium semi-finished products and 28 months of unemployment. As a consequence of labour reform in June 2010, I was dismissed. To overcome this situation I trained and attempted to find different outlets and so find work. I'd like to have financial peace of mind and I am receiving unemployment benefits (only €426 per month). Age is a problem in all the interviews that I go to. What opportunities do I have to get a job? NONE.

I am A. I worked as a clerk, hotel maid, kitchen maid and in domestic service. I've been unemployed for about a year. First, this was due to the closure of the store I worked for; then the other jobs I got were temporary and badly paid. I am currently unemployed. I'm doing a course in home help to work as a caregiver. What I hope to get by having a job is to cover my basic needs, food, clothing, power, paying for my house, etc. I am 50 years old. I live alone. I'm finding it very difficult to rejoin the labour market, because today it is not creating jobs. In addition, I am 50 and people of a certain age from 40s-50s [find it much harder, because]... young people are preferred. What I can only find are opportunities to take courses and to try and prepare for a certain job.

Part 3

THE CARITAS RESPONSE

Member organisations and affiliates of Caritas Europa work in a very broad range of contexts and in a variety of ways. Most provide services to people in need, others focus on advocacy and many do both. Seven of these organisations have contributed to this report by collecting data, by sharing accounts of their work to support people affected by the crisis and by reflecting on the impacts of the crisis and austerity measures as they observe them relative to different groups.

Their experiences have informed earlier sections of this report, and in this section we include some accounts of their work, including specific projects undertaken in response to the difficulties currently faced by their countries, and we also include some testimonies from people who have been reached by their work.

Programmes and Initiatives of Caritas Member Organisations

Cyprus

Caritas Cyprus is a registered association in Cyprus and is part of Caritas MONA and Caritas Internationalis, a worldwide organisation operating in 164 countries. It acts for the poor and the vulnerable regardless of race, religion or gender. Its mission: to work for a better world, especially for the poor and oppressed. Its aim: peace and reconciliation, human dignity, justice and solidarity, love and sharing, and to eliminate discrimination. Its target groups: the poor, older people, children, migrants, asylum seekers, refugees, disabled people and vulnerable people.

The Caritas Cyprus Board is comprised of 10 members, of whom 4 are spiritual leaders/advisers and 6 are professional persons. All Board Members are actively involved in the organisation in a voluntary capacity. Membership of the organisation throughout Cyprus totals more than 100 and there are 200 volunteers. The organisation operates through its parishes in all cities where there are Catholic parishes (Latin & Maronite) and through its members and volunteers.

The organisation provides food and clothing to poor people, and advice, assistance and counselling to young people, unemployed and disabled people as well as to migrants, asylum seekers and refugees.

The Migrants section of the organisation offers assistance with administration issues, medical and legal consultancy and sometimes, when funds are available, through its own fundraising events and donations, the organisation contributes through its parishes towards airline tickets, legal fees and accommodation to desperate migrants and asylum seekers.

The organisation communicates, co-operates, networks and has good relations with many NGOs operating in the field of migrant and asylum seeker issues, with Consulates and Embassies as well as with other faith organisations in Cyprus.

In addition, the organisation has contact, communication and access to knowledge, information and experience with its fellow Caritas organisations throughout the world in countries where many of the migrants and asylum seekers in Cyprus originate.

List of previous projects of Caritas Cyprus:

- 006 the Lebanese war – Caritas Cyprus provided emergency aid to refugees through volunteers providing food, accommodation, translation and other services,
- 2012/2013 providing food, clothing, advice, assistance, counselling, and accommodation to migrants and asylum seekers through the Catholic parishes in Cyprus,
- 2013 establishing food banks in all the Catholic parishes and regularly collecting and distributing food to the poor,
- 2013 providing support, assistance, advice and counselling to the youth, unemployed people and disabled people.

Cyprus: Responding to the Crisis

In order to help families and individuals of Catholic as well as the other communities, Caritas Cyprus organises:

- food and general goods' collection from and delivery to homes (organised especially since March 2013)
- house repairs, medical treatments, legal consultancy and meeting other needs,
- seminars to promote awareness and encourage people to become volunteers and to offer help,
- fundraising events (such as bazaars, bingo and competitions).

The Migrants section, dealing with migrants, refugees, victims of human trafficking and foreign workers, provides shelter, food and assistance with medical, legal and administrative issues. In cooperation with the Cyprus Administration and other NGOs, they arrange for the repatriation of those who wish to be repatriated. They deal with many cases daily and the numbers requiring help has increased greatly since March 2013.

Greece

Caritas Greece represents the local Caritas of the Catholic ecclesiastical provinces in Greece at national, European and international level. Caritas Greece coordinates and promotes charitable, spiritual and social action, based on the social teachings of the Catholic Church. Volunteers are crucial to the delivery of all their work and they are supported through seminars and workshops. Their work has a number of different aspects to it that includes advocacy and campaigning as well as programmes for people in need.

Advocacy and Campaigning
Caritas Greece works on advocacy in collaboration with Caritas Europa in support of issues at the heart of the strategic plan of Caritas Europa, trying to influence EU policies. As well as Caritas Europa, they work with other members of the European network of Caritas and with Caritas Internationalis (for example, on issues such as child poverty, migration, social exclusion, homelessness, trafficking, and others). Caritas Greece works with local Caritas organisations and participates in working groups, in conferences, forums, campaigns and research projects in collaboration with other agencies and organisations in Greece.

Programmes in support of people in need
A wide variety of actions and projects are undertaken to support people in need. They include:

- collecting and distributing clothing, household utensils, furniture and suchlike,
- collections of food and medication for poor families and individuals, unemployed people, homeless and sick people,
- regular visits to prisoners and their families from priests and volunteers, for spiritual, moral, material and religious support,
- various recreational and spiritual events for older people,
- social solidarity expressed through visits to hospitals, nursing homes and home visits for spiritual and moral support of older people and patients,
- regular blood donations from volunteer donors in collaboration with public hospitals.

There are specific projects relating to refugees and immigrants, a vegetable distribution project, an emergency project and a new project specifically designed to respond to the economic crisis:

Vegetable Distribution - Through Caritas Syros, agricultural producers from Syros island offer their surplus products that are not sold in the local market to institutions, individuals and families in need, both locally and in Athens.

Refugees -The local Caritas in Greece deals with problems of both legal immigrants and those who are undocumented, offering a wide variety of support that includes social work interviews, visits, physical and spiritual support, information and others. The Refugee Project of Caritas Athens is highly organised. Its activities include:

- food to 300-320 adults and 60-80 children, who include refugees and immigrants as well as Greek people (hot meals, Monday to Friday),
- essential food items provided to families in need once per month,
- social worker and volunteers provide assistance to refugees and migrants living on the margins (with interviews, reviews, visits, support, counselling, information, etc.),
- provide primary health care to immigrant children (vaccinations, ophthalmology and dental check-ups, etc.) in collaboration with hospitals and volunteer doctors, along with support and counselling to breastfeeding mothers,
- provide opportunities for refugees and immigrants to learn Greek and English so that they can integrate better into the local community.

Elpis Project (or 'Hope' Project)
The Elpis Project ("Elpis" means Hope) is funded by Caritas Italy, Caritas Spain, Caritas France and CRS and is undertaken by Caritas Greece in collaboration with Caritas Europa. The project provides support for 230 poor families in different geographical regions of Greece through a monthly distribution of food. The main goal of the Elpis Project is to contribute to the reduction of the consequences of the crisis among poor and socially excluded people. The project has a one-year duration.

Emergencies - Caritas Greece is a member of SEECEG (South East Europe Caritas Emergency Group) whose purpose is to provide assistance to Balkan countries in areas affected by natural and human disasters (earthquakes, floods, fires, wars, etc.). The group coordinates actions between member organisations and meets regularly to exchange experiences and practices.

Greece: Responding to the Crisis

Elpis Project - The Elpis Project, described above, is the first project of Caritas Greece organised and coordinated at the national level and implemented by local Caritas organisations. Its main goal is to contribute to the reduction of the consequences of the crisis among poor and socially excluded people. In addition, the project will contribute to the network of Caritas Greece so that it can develop institutionally, become stronger and more coherent, acquiring skills and know-how in order to be able to provide more appropriate support and help to people in need in the future.

ONE PERSON'S STORY...

Before the crisis our life was ordinary... My wife and I were able to respond without much difficulty to our family's needs and obligations. We were economically able to cover both the day-to-day living costs and the social obligations. The economic crisis influenced us in a destructive way. The direct consequence was the loss of jobs, for both my wife and I. Suddenly, at the age of 47, we found ourselves without any financial resources. The situation became very difficult. My family actually survives thanks to the financial help of our parents who are pensioners. More specifically, my parents and the parents of my wife cover a lot of our basic needs such as food, clothing, bills for electricity, water and phone, and also our different tax obligations. Moreover, Caritas Syros provides us with support and help from the monthly distribution of food of the Elpis project. At this point I would like to thank Caritas Syros and any person involved in this project.

In conclusion, I try to cope with optimism, patience, courage and, above all, hope on a daily basis. But with regard to the future, I don't know, I'm pessimistic. We see unemployment rising more and more and I'm very worried as I'm not so young any longer. On the other hand, I have to deal with increasing financial needs. Tomorrow is uncertain and I'm very fearful about it.
G from Syros

Ireland

Social Justice Ireland advances the lives of people and communities through providing independent social analysis and effective policy development to create a sustainable future for every member of society and for societies as a whole. It works to build a just society through developing and delivering credible analysis and policy to improve society and the lives of people. It identifies sustainable options for the future and provides viable pathways forward. In all of this *Social Justice Ireland* focuses on human rights and the common good.

Social Justice Ireland works to improve the quality of public policy by influencing the public debate to ensure it focuses on what matters most to people who are poor or vulnerable or in need. Thus it gives special priority to national and international issues related to poverty, inequality, social exclusion, sustainability and the environment. It focuses especially on ensuring that the future being developed is one in which all people, and the whole person, are developed simultaneously and in solidarity.

It is one of the leading advocates for the changes needed for a future that is sustainable economically, environmentally and socially.

Social Justice Ireland works both nationally and internationally in recognition of the inter-relatedness of the local and the global, which requires that issues be addressed at different levels to ensure appropriate solutions are identified and implemented. In this context *Social Justice Ireland* collaborates with Caritas Europa on a wide range of issues, particularly at an EU level.

The experience of its member organisations informs the work of *Social Justice Ireland* and membership is open to individuals, organisations, groups and companies, public and private, who share the organisation's values and support its mission to build a just society. Its work includes:

- playing an active part in the national Social Dialogue process in Ireland and the EU,
- producing studies and publishing extensively on public policy, including an annual socio-economic review, regular policy briefings and publications on specific topics, and maintaining an extensive web site with relevant up-to-date material on a wide range of social justice topics,
- resourcing and supporting a post-graduate Masters degree in Social Justice and Public Policy,
- leading a Budget analysis project, which includes an analysis and critique of Government's annual Budget and making submissions to Government and other relevant bodies on policy issues,
- organising an annual social policy conference on a relevant topic with broad participation from across a wide range of sectors.

Ireland: Responding to the Crisis

Social Justice Ireland meets four times each year with the International Monetary Fund, the European Central Bank and the European Commission, to discuss the initiatives taken by these institutions relative to the current economic crisis, and the impact these initiatives are having on people, economies and societies. It engages with their technical teams as well as with the leaders of their delegations and regular analyses and critiques their approaches.

Social Justice Ireland is currently engaged in a regular structured dialogue with seven different Government departments, addressing a range of issues such as poverty, education, healthcare, housing, community development, taxation, public expenditure and the annual Budget.

ONE PERSON'S STORY...

I am an older person writing to you to voice my concerns about the forthcoming Budget 2014 and how it will affect people on retirement pensions. Last year we had in effect a 5% cut. While there can be a misconception that people on a retirement pension receive lots of benefits, for many this is their only income. For pensioners with a small to average amount of savings, Universal Social Charge is paid and DIRT is increased. The following cuts and charges also apply:

- Substantial cuts to Gas/electricity credits
- Substantial cuts to the telephone allowance (for many a lifeline)
- Most pensioners own their own house, therefore the Local Property Tax is a substantial cut to their incomes (yes they can defer, but who wants to leave more bills to their burdened families?)
- Water charges, yet another substantial cut to their income of €230 per week.
- Increased prescription charges.
- The travel pass is only of benefit to people in cities, there is no benefit to people in the countryside where no transport exists.
- The television licence – is this at risk? Cut this and so many living alone who rely on it for company will be further plunged into loneliness and despair. For some this is the only voice they hear from one week to the next.
- Food prices continue to rise

Many of us live in dread of an unexpected bill or something unexpected happening (like a cooker or fridge breakdown, roof leak or washing machine breakdown). We like to support our families - I reduced the heat so I could buy small presents for my grandchildren's birthdays. The greatest fear we face is wondering "what will happen to me, where will I end up?" I write to you in genuine concern and I hope you will take a few minutes to reflect on how we are expected to survive on such low incomes.

Italy

Caritas Italy is the pastoral organisation of the Italian Episcopal Conference, whose aim is to promote the expression and testimony of charity of the Italian Catholic church community in co-operation with other institutions, in ways that are appropriate for the complete development of the human being, social justice and peace, considering the times and needs, with particular attention to poor people, and with a mainly pedagogical role. There are 220 diocesan Caritas organisations connected with Caritas Italy, but each of them is legally autonomous and related to its own diocese. Parish Caritas organisations are present in approximately 30% of 26,000 Italian parishes.

Caritas Italy is a member of the Italian Association of NGOs. They are a member of the Caritas Internationalis network and within that network, a member of Caritas Europa. Caritas Italy is active in 64 countries worldwide, with involvement in programmes promoting emergency relief and rehabilitation, social integration and micro-finance to support poor people in establishing secure livelihoods. Caritas Italy works in partnership with numerous non-governmental organisations and other partners around the world.

Advocacy and Lobbying
Caritas Italy leads out on lobbying and advocacy at both national and local levels. Thanks to the information and data collected throughout the country, Caritas Italy critiques developments and tries to inform public opinion, stimulate debate and action by public bodies in various ways.

Programmes in support of people in need
Caritas in Italy carries out a wide variety of activities, most of which are for people who are poor or otherwise in need. Others are more at an institutional level, such as training, and cooperation with other organisations and institutions.

In Italy, Caritas Italy works through 220 diocesan Caritas organisations to promote Christian values, the development of marginalized people and services for disadvantaged people. Among its many activities, Caritas Italy has a particular way of working that focuses, at local level, on 3 basic tools:

1. 'Centri di ascolto' - which are counselling centres of which there are about 2500, where marginalized and disadvantaged people find a welcome and a sympathetic hearing of their problems,
2. Poverty and Resources' Observatories - almost in every diocese, aiming to collect data and to study poverty and other social issues,
3. Parishes Caritas coordination workgroups – which aim to promote and coordinate Caritas groups in parishes.

At a national level, diocesan Caritas promotes and runs approximately 700 social services. They include a wide range of services: canteens, dormitories, food aid distribution centers, Centri di Ascolto, etc. It is estimated that a total of 500,000 people attend Caritas services in Italy. On average, 70% of users are immigrants. In northern Italy there are more immigrants, while in southern Italy there are more native Italians.

Pastoral Work
Caritas is not merely a charitable organisation. At the heart of its activities is the pastoral and social animation of local communities in order to promote the evangelical sense of charity and justice and the diocese's awareness of the problems of poverty and social exclusion.

Italy: Responding to the Crisis

Update : Caritas beneficiaries in the first semester, 2013

- 41,529 people requested help in six months
- 31.1% were Italians
- 27.7% were younger than 35 years of age
- 6.3% were older people
- 53.6% were women
- 14.6% were separated/divorced (22.7% amongst Italians)
- 74.7% had children (74.8% amongst Italians)
- 7.0% were separated/divorced parents (12.3% amongst Italians)
- 16.6% were homeless
- 62.4% were unemployed
- 5.8% were retired
- 34.8% had serious economic poverty problems
- 11.3% had serious housing problems

Based on data updated on June 30th 2013, 369 centres, 53 dioceses (24% out of the national total)

In the opinion of Caritas Italy, the welfare system is incapable of handling the new forms of poverty and the new social emergencies that have arisen due to the economic and financial crisis. Furthermore, the crisis is not a temporary phenomenon but a new economic reality that is likely to prevail for years to come. Caritas Italy has experienced increased demands on its services and has engaged in a wide range of responses across the country. As reported in the Caritas Europa Crisis Monitoring Report, 2013, in August 2012, a national survey revealed the presence of 985 anti-crisis projects run by 212 Italian dioceses (out of a total of 220). Most started after the outbreak of the economic crisis and they are still active. New projects have been initiated since then. Some are promoted and managed by Caritas. Others are directly promoted by dioceses and local churches, and diocesan Caritas are involved in the operational work. Some projects require contributions or reciprocation by the beneficiaries; other projects do not.

On behalf of the Italian bishops' conference, Caritas Italy finances and oversees around 200 projects of assistance and social solidarity every year, favouring projects that promote the involvement and awareness of local communities. Some of these projects are targeted at individuals and families

affected by the economic crisis. On 23 July 2013, Caritas Italy had approved 39 new anti-crisis projects.

Most projects come under the general heading of 'families' (24 programmes, representing 61.5% of the total). They are usually multidimensional programmes, addressing various needs, promoting an empowerment approach: the goal being to help meet basic needs and to promote the regaining of autonomy. In general, families are accompanied by a local service that is not limited to material aid, but that also aims to keep hope alive and to recover the energy required to regain self-sufficiency.

Material assistance is provided in innovative ways. For example, families can attend solidarity general stores where they can buy the goods they need (food, personal hygiene products, baby supplies etc.). A magnetic card authorizes an allocation of spending to beneficiaries who have to go through a screening process.

In some case, programmes aim to establish contact between families, and this network is intended to complement other actions by involving families willing to provide aid in terms of time, financial resources, material goods, etc.

The poverty of many families, especially those with vulnerable members, has worsened with the cuts to social assistance implemented by public authorities. To address this, some projects provide vouchers that can be used for home care, child care or health care.

Finally, some projects aim to help with legal and administrative advice. This sometimes involves a 'family tutor' who can also take action to mediate between debtors and creditors (i.e. mediation with the local authorities in case of unpaid bills), or advise on consumption and indebtedness patterns of households.

For many years, Caritas projects targeted at unemployed people involved almost exclusively socially excluded and marginalized people. After the outbreak of the crisis, special attention was paid to people who might not have required assistance previously, who had suddenly lost their jobs or could not find a new one for a long time. Within this category of projects, some innovative lines of intervention are ongoing. In the Caritas Europa Crisis Monitoring Report, 2013, some of these activities have already been described (apprenticeships training, work grants, work orienteering, training courses, etc.). At least two types of activity are worthy of mention:

a) *Work dowry and work vouchers*: some recent legislative measures allow flexible forms of employment which means that workers can be hired for short and occasional work, without necessarily entering into a contract of employment. Employers agree to pay social security contributions, while the associations involved pay the remainder of the wage.

b) New forms of business and entrepreneurial development, eco-friendly, consistent with the history and economic tradition of the locale. Some of these programmes seek to enhance local traditions, rediscovering old professions, trying to involve marginalized people on the margins of the labour market. *Social tourism* and *social farming* belong to this type of intervention.

ONE PERSON'S STORY...

I'm G, from Rome. I'm 67 years old and a widower for two years. I'm a master ceramist, and for almost 40 years I managed a handicraft ceramics studio, in which my wife and many young people, apprentices and craftsmen, found a job. In recent years, the demand for quality artisanal products has faded, and the studio began to have serious problems. Due to cuts in funding to public schools, the arrangements with professional institutes also decreased.

Two years ago my wife died and after a few months I reluctantly decided to close the studio. I had spent a lot of money for my wife's care.... I requested a care allowance, but the visit arrived a few months after her death, almost a year after the request... I never got this allowance and I was never even contacted relative to the outcome of the visit. Perhaps I might ask for the arrears, who knows...

I have three children, almost grown-up. The two females are married and live on their own in other cities. The youngest one lived near Rome. He was fired a year ago ... from a multi-national company working in the field of cinema... In the end, also due to disagreements with his wife, he came home [to live] with me.

I get a small pension, very low; I have no property, as I've always lived in a rented flat. With my past savings I had to settle the debts incurred by the studio. My son came back home and this created major difficulties: he is depressed, not looking for work, and doesn't have resources.

At the end I was helped by my old parish priest, with whom I had had a good relationship over the years. I was always available in the parish, opening the studio to boys that were going through personal difficulties, or organising summer courses for youngsters of the parish. He came to know in some way of my difficult situation and he is helping me out, integrating my pension or providing some basic things.... I discovered that this aid is recorded in the archives of the parish Caritas, even if I formally never asked for help. I have no great perspective; perhaps the best thing will be to return to my place of origin ... where life is cheaper, but where I no longer have any personal contacts.

Portugal

Caritas Portugal is an official institution of the Portuguese Bishops' Conference. Its mission is to be a reference of the social pastoral action of the church. The Caritas network in Portugal is composed of 20 diocesan Caritas and local groups, covering the whole country. Caritas Portugal promotes international cooperation projects in southern countries, mainly in Portuguese-speaking countries, together with the national Caritas. It also works collaboratively with Caritas Europa and other Caritas organisations, mainly on advocacy or in practical projects.

The main activities:
Pastoral

- Caritas Day: happens on the 3rd Sunday of Lent when each local Caritas organizes its activity programme around a common theme. The previous week is dedicated to promoting Caritas action and to fundraising.
- Project '+ Próximo': provides and promotes training to the people that work in the Social Pastoral area of the Church.
- '10 Milhões de Estrelas – um gesto pela Paz': an awareness activity related to peace and justice. It aims at promoting Christmas in its Christian values and projecting an image of co-responsibility in the promotion of peace.

Advocacy and Research

- NOS – Social Observation Unit: provides analysis of the national social context with experts' opinions and with data collected from parishes on the perspective of CST. It also engages in advocacy aimed at decision-makers and at society in general on social issues.

Projects

- 'Fundo Social Solidário': The solidarity fund is an initiative of the Portuguese Bishops' Conference; its objective is to contribute to resolving severe social problems caused by the crisis. It is managed by Caritas along with church institutions. Last year it supported 3,957 persons facing difficulties with issues like housing costs, health, education or jobs.
- 'Prioridade às Crianças': the Portuguese Bishops' Conference issued a pastoral letter entitled "all priority to children" and challenged Caritas in Portugal to deepen its work on child poverty. Besides providing regular training to the pastoral agents on the issue of child poverty, the project last year evolved into family support and it reached 115 children.
- Emergencies: in Portugal, Caritas responds to emergencies in partnership with the respective diocesan Caritas and with national and local authorities (such as the forest fires of 2003 and 2005, the floods in Madeira and other situations). International emergencies are coordinated with Caritas Internationalis and the national offices of Caritas, as well as other stakeholders.

Portugal: Responding to the Crisis

As already mentioned, there has been a large increase in the numbers of people being reached by the work of Caritas Portugal: in 2011 support was provided to 27,000 families, which grew to 56,000 in 2012.

In the last 12 month Caritas Portugal has been actively engaged in both advocacy and the development of crisis-response projects for the Caritas network in Portugal:

Advocacy: the Social Observation Unit has submitted several proposals on a variety of issues to the national authorities. These include publication of regular official data on poverty-related issues and regular presentations in specialized forums and at the national Parliament. Issues covered include better communication between the informal volunteer groups and the official social services (for better coverage and response), taxation reforms including tax reductions for large families and higher taxation of those on high incomes or with wealth.

Caritas Portugal launched in Portugal the Caritas Europa Crisis Monitoring Report, 2013 and, along with the secretary General of Caritas Europa, had the opportunity to meet with two government officials (The Minister for the Economy and the Minister of Solidarity and Social Security) as well as the troika representatives in Portugal and other politicians and decision-makers. The media impact was quite successful.

Projects: Besides the 'Solidarity Fund' and 'Priority to Children' already mentioned above, Caritas Portugal also launched a study which analysed several projects financed by European funds in the last 20 years with social inclusion objectives, looking at why the results continue to be disappointing. It also collected examples of good practice amongst projects that have managed to become sustainable and that still work today. The public launch of the study took place at a Seminar that included the Director General of the European Directorate on Employment, Social Affairs and Inclusion.

The dramatic problem of people over 45 years of age leaving the job market led Caritas Portugal to develop a new project called "competences network". Its aim is to reinforce the opportunities between the over-45 unemployed population and possible job opportunities. A web platform is being designed.

The impact of the crisis on the border between Portugal and Spain has been even bigger, with companies that were the only employer of the region closing and leaving entire families without any other way of earning an income. Caritas Spain and Caritas Portugal have started a project that aims to study the local resources and job opportunities on both sides of the border, to make this information available online, to promote training opportunities for the social pastoral agents, and to increase awareness for better cohesion policies for these areas.

To address the issue of over indebtedness, the Caritas network, in partnership with DECO, the Portuguese Association for Consumer Protection, organised 77 training actions on this subject reaching nearly 800 participants.

Romania

The Caritas Romanian Confederation has been created in order to promote its ten diocesan member organisations and its social projects that aim to help vulnerable people affected by poverty, and to contribute to lobbying actions aimed at influencing social policies both on national and international level.

Programmes in support of people in need
The diocesan Caritas organisations provide the following services as a response to poverty issues that the people they serve face:

- social canteen,
- social pharmacy,
- social laundry,
- school retention programmes,
- day care centre for children with disabilities,
- home care assistance, and
- intervention in case of emergency.

Our member organisations have developed innovative and integrated activities in order to repond to needs. Social economy projects have been created in order to suplement financial resources and in order to put the community in contact with the organisations' beneficiaries.

The social economy programmes are also intended to help the beneficiaries to achieve more autonomy and to sustain themselves without the help of the Caritas organisations so that they can get out of their precarious situations.

Romania: Responding to the Crisis

A Monitoring Office was created in 2013 in order to identify, evaluate and support vulnerable people who are faced with poverty and social exclusion.

There has been an increase in the number of people requesting support from Caritas organisations. Unfortunately, due to difficult funding situations facing some organisations, their capacity could not be increased or has even had to be decreased.

Organisations are dealing with increased numbers of children, homeless people, older people and people with disabilities and poor families, sometimes with three children or more, and either no one or only one person working. Moreover, the situations of the beneficiaries have become more and more desperate because they are facing extreme poverty.

Spain

The Caritas Spain national network includes more than 6,000 parish Caritas organisations, grouped in 70 diocesan Caritas, and, in turn, in their respective regional Caritas. Caritas also works to eradicate poverty at an international level, operating through 164 national Caritas, with a presence in more than 200 countries and territories around the world, and are integrated into Caritas Europe and into Caritas Internationalis.

Caritas Spain has 4,357 paid workers and 64,251 volunteers. When beneficiaries are included, some 6,364,126 people participate in their work (1,804,126 people in Spain; 4,560,000 in other countries). Their budget totals €250,697,475 (€221,359,350 invested in Spain, and €29,338,125 in international cooperation).

A wide range of work is undertaken under the following headings:

- Social development programmes
- Emergency
- International cooperation
- Training
- Campaigns
- Research and analysis

Amongst the issues addressed through these programmes are a primary care network in parishes ('first assistance'), employment, drug dependence, focus on immigrants, and homelessness.

Spain: Responding to the Crisis

In recent years, in which the effects of the crisis have continued to affect a growing number of individuals, families and areas, Caritas has prioritised four areas of its work:

- The primary care network: parishes in which doors are open in every neighbourhood, village, and community, as a first listening space, offering support to vulnerable people. This work has been intensified during the crisis, both in terms of the number of people concerned and in terms of the complexity of the problems faced and the length of time during which they continue.
- Opting for the most excluded, because some groups are now also at risk of being even more invisible and more relegated to the margins. Caritas intensifies its presence with those who are on the margins of society.
- Defending access to basic rights - such as education, health, employment, housing, participation - by all sectors of society as well as trying to ensure that the State upholds the rights of the most vulnerable.
- Fraternal cooperation and universal dimension: Caritas continues to strengthen the international network of Caritas.

ONE PERSON'S STORY...

I am J. In three years I could only find work for four months and not in my profession due to the crisis in the construction [industry] ... My permanent employment had lasted seven years but [my employer] had to stop building homes and closed. I look for any job, even outside of my profession. I completed courses to improve in other areas to have more opportunities to find work. Given how jobs in construction are going, I would like to find a job related to computers and I have done several computer courses. There are no [jobs] in my profession, and my experience is always the same – I lack experience or am considered too old. Being 42 years old, believe me, as I have no experience of anything that isn't building, it is very difficult to find work. I hope to find a job to have security and economic stability and tranquility. Despite having several courses completed and despite looking all over the place, I get nowhere.

Challenges Faced

A major challenge in many countries relates to reduced funding for service provision at a time when demands on services are increasing due to reductions in State services and increased numbers of people needing help. Many Caritas organisations and other NGOs are experiencing cuts in national or local government spending while also experiencing lower levels of donations from the public, and this is making it impossible to deliver the level of services required to meet the demand from people in need.

In some countries there have been changes in taxation policy that have impacted on non-profit organisations and on the people they serve. In Italy, for example, a number of changes in taxation are reducing the resources available to non-profit organisations; these include reduced tax deductions for donations to the non-profit sector and a significant increase in VAT applied to social cooperatives.

Many of the organisations rely on volunteers to deliver their services, and, for some, ongoing recruitment of younger volunteers is a problem.

Part 4

CONCLUSIONS AND RECOMMENDATIONS

General Trends in the Seven Countries

In this section we present an overview of commonalities and differences in the seven countries and summarise some overall themes that are presented in earlier parts of this report with regard to them.

Being the second in a series, it is possibly to identify in this report negative trends developing in one country after another – and lessons could be learned from this phenomenon if there was the will to do so. For example,

- the negative health impacts being evidenced in some countries, such as Greece, Spain and Portugal, should be sounding warning bells in other countries, such as Ireland, where significant and ad hoc cuts to health spending and out-of-pocket expenses continue to be introduced,
- increases in indirect taxes affect lower income households more than others – in one study (Avram et *al*, 2013), in nine European countries, indirect taxes had the effect of making the overall measures taken more regressive; in some countries, including Spain and Romania, the scale of the effects of increases in VAT are of a similar magnitude to those resulting from measures that affect household incomes directly,
- Caritas Cyprus reports increasing numbers of the migrant population seeking help in 2013, while Caritas organisations in other countries (such as Spain) reflect on how the first impacts of the crisis were experienced by migrants and how, as the country's problems persisted, groups other than migrants sought help in large numbers, many of whom would not traditionally have needed to do so.

We focus next on the overall economic and debt positions of the seven countries, on the employment and unemployment situations, on trends in relation to poverty and social exclusion and finally refer to issues around healthcare provision and social cohesion.

Economic Trends

There are similarities and differences between the seven countries in terms of economic performance and levels of government debt, both before the economic crisis of 2008 and since then. The economies of all seven countries grew in 2007, and all but Italy and Portugal grew at rates above the EU27 average rate of 3.2%. See **Table 23**. In 2012, only Ireland and Romania showed positive rates of growth (in both cases at modest levels) and the average rate for the EU27 countries was -0.4%.

TABLE 23 **Real GDP Growth rate by volume**

	2007	2012	2013 f
EU (27 countries)	3.2	-0.4	-0.1
Cyprus	5.1	-2.4	-8.7
Greece	3.5	-6.4	-4.2
Ireland	5.4	0.9	1.1
Italy	1.7	-2.4	-1.3
Portugal	2.4	-3.2	-2.3
Romania	6.3	0.7	1.6
Spain	3.5	-1.4	-1.5

Source: Eurostat, 2013a, tec00115
Note: Some figures are provisional; f=forecast

As **Table 24** shows, Cyprus, Ireland, and Spain were running budget surpluses in 2007, while Italy and Romania had deficits well within the Stability and Growth Pact limit of 3% of GDP and Portugal was just marginally outside the 3% level (at -3.1%). Only in Greece was the deficit appreciably above the 3% level in 2007; at -6.5%, the Greek deficit was well above the EU27 average of -0.9%.

By the end of 2008, all these countries but Cyprus had deficits not surpluses and the position in Cyprus changed significantly to a deficit of 6.1% by 2009.

When we look at the picture by 2012, only Italy and Romania had deficits within the Stability and Growth Pact limit (of 3%). In several countries, massive contributions to shoring up banks had contributed significantly to increased deficits in the years since 2008, with, for example, a deficit of nearly 31% recorded in Ireland in 2010, partly due to bank recapitalisation, and, similarly, a deficit of 10.6% recorded in Spain in 2012 also partly accounted for by recapitalisation of banks.

TABLE 24 Government deficit/surplus % GDP

	2005	2006	2007	2008	2009	2010	2011	2012
EU-27	-2.5	-1.5	-0.9	-2.4	-6.9	-6.5	-4.4	-4.0
Cyprus	-2.4	-1.2	3.5	0.9	-6.1	-5.3	-6.3	-6.3
Greece	-5.2	-5.7	-6.5	-9.8	-15.6	-10.7	-9.5	-10.0
Ireland	1.7	2.9	0.1	-7.4	-13.9	-30.8	-13.4	-7.6
Italy	-4.4	-3.4	-1.6	-2.7	-5.5	-4.5	-3.8	-3.0
Portugal	-6.5	-4.6	-3.1	-3.6	-10.2	-9.8	-4.4	-6.4
Romania	-1.2	-2.2	-2.9	-5.7	-9.0	-6.8	-5.6	-2.9
Spain	1.3	2.4	1.9	-4.5	-11.2	-9.7	-9.4	-10.6

Source: Eurostat, 2013d, gov_dd_edpt1

When it comes to general government debt, four of the seven countries were below the EU27 average in 2007. In Ireland and Romania, especially, and also in Spain, the rates were relatively very low; the Cypriot level was close to but also below the average level. See **Table 25** and **Figure 15**. At 68.4%, Portugal's levels were higher than the then EU27 average (of 59%), but relatively low compared to the levels of Greece and Italy, which both had debt levels greater than 100%.

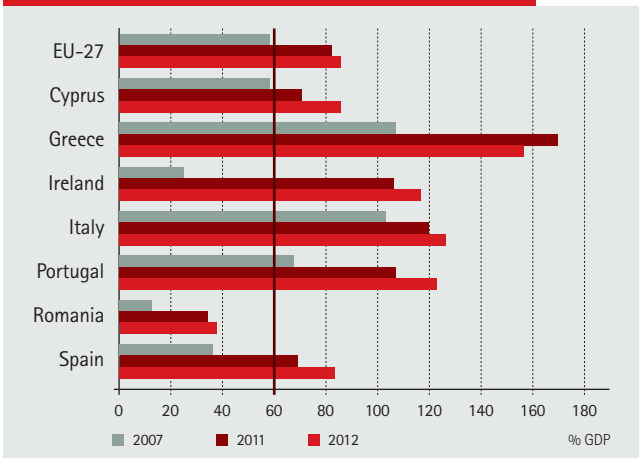
TABLE 25 General Government Gross Debt % GDP

	2005	2006	2007	2008	2009	2010	2011	2012
EU-27	62.8	61.6	59	62.3	74.6	80	82.5	85.3
Cyprus	69.4	64.7	58.8	48.9	58.5	61.3	71.1	85.8
Greece	100	106.1	107.4	112.9	129.7	148.3	170.3	156.9
Ireland	27.3	24.6	25.1	44.5	64.8	92.1	106.4	117.6
Italy	105.7	106.3	103.3	106.1	116.4	119.3	120.8	127
Portugal	67.7	69.4	68.4	71.7	83.7	94	108.3	123.6
Romania	15.8	12.4	12.8	13.4	23.6	30.5	34.7	37.8
Spain	43.2	39.7	36.3	40.2	53.9	61.5	69.3	84.2

Source: Eurostat, 2013e, tsdde410

In 2012, the gross debt levels of four countries were well above 100% of GDP (Italy, Greece, Ireland and Portugal). In Greece, the only country of the seven in which there was a decline in general government debt between 2011 and 2012, the levels were close to 160% of GDP. Between 2011 and 2012, the highest rates of increase occurred in Portugal and Spain, and these were the largest increases in the EU27 (Eurostat, 2012j).

FIGURE 15 General Government Gross Debt, % GDP



Source: Eurostat, 2013e, tsdde410
Red line shows the 60% of GDP ceiling imposed by the Stability and Growth Pact and the Fiscal Compact.

As shown by **Figure 15**, Romania is the only one of the seven countries whose government gross debt level is within the 60% limit enshrined in the Stability and Growth Pact and the Fiscal Compact. (See **Glossary** for a summary of the requirements of the Fiscal Compact and the Stability and Growth Pact). All the other six countries exceed the 60% level by some margin. In the case of four of them, the levels are close to or more than double the limit. Furthermore, the EU27 average level has exceeded 60% every year since 2008. See **Table 24**.

The position outlined in this section suggests that had the Fiscal Compact been in place prior to the crisis of 2008, six of the countries considered in this report would have been in compliance with the so called 'deficit brake' (of 3% of GDP) and only one country – Greece - would have significantly exceeded it[55]. Italy, Greece and Portugal were the only countries

[55] Although at -3.1%, the deficit in Portugal was also technically above the limit, but marginally so.

whose general government debt levels exceeded the so called 'debt brake.'

It is difficult to see how the Fiscal Compact could have prevented the crash in government revenues that ensued from 2008. It would, for example, have done nothing to prevent the huge accumulation of private debt in financial institutions, which has been so marked a feature of the experience in many countries - Ireland, Spain and Cyprus, in particular. All seven countries are now required to reduce or to keep their government deficits to 3% of GDP, and within that to target a structural deficit of below 0.5%[56]. While the focus of attention in Europe so far has been on countries reaching the deficit targets, six of the countries will also have to set to work immediately to reduce their government gross debt to meet the 60% limit imposed in the Stability and Growth Pact/Fiscal Compact, Romania being the only exception (to achieve the so called 'debt brake'). Without a change of policy direction, this points to many, many more years of austerity with its dampening effects on growth and continuance of unemployment and reductions in services.

The strictures imposed by the EU's new fiscal governance, including the Fiscal Compact, also leave little room for manoeuvre to national governments in relation to fiscal policy. In fact Europe is now committed to a policy which involves cutting spending even in a depressed economy – a kind of 'institutionalizing of austerity' (Quiggin, 2011).

The IMF itself is querying the efficacy and social cost of austerity policies - an IMF Working paper found that fiscal consolidation episodes are typically associated with a significant and persistent increase in inequality, declines in wage income and in the wage share of income, and with increases in unemployment (Ball et al, 2013). The paper concludes that countries with the scope to do it, should opt for a slower pace of consolidation, combined with policies that support growth. However, for countries bound by the Fiscal Compact (including the seven countries considered in this report), room for doing either (that is, slowing the pace of consolidation or undertaking policies that support growth) could now be severely curtailed by the rules of the EU's new fiscal governance mechanisms.

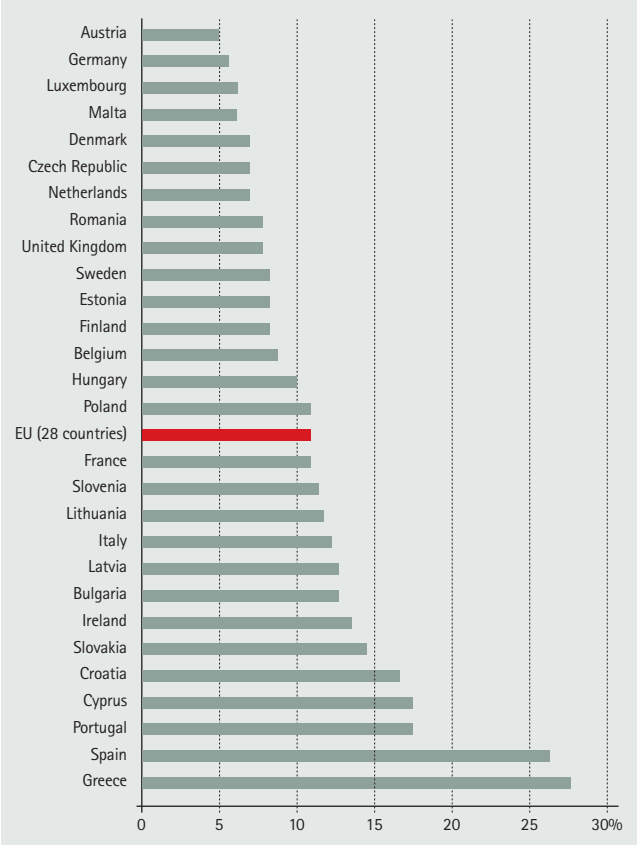
Employment/ Unemployment

Amongst the 34 member States of the OECD[57], the largest increases in unemployment rates since the start of the crisis occurred in Greece and Spain (more than 18 percentage points) followed by Ireland, Italy, Slovenia and Portugal (5 to 10 percentage points). This contrasts with other OECD countries, like Germany, where unemployment rates are now lower than at the start of the crisis (OECD, 2013c).

In the year to the first quarter of 2013, four of the countries considered in this report experienced the worst falls in employment in the EU: Greece (-6.5%), Portugal (-5.2%), Cyprus (-4.8%) and Spain (-4.3%); the fall in Italy was also significant (-1.4%); in Ireland there was a slight improvement (1.1%) (European Commission, 2013a, Table 20). However, as the Ireland section of this report indicates, the rise of outward immigration has contributed greatly to improvements in Ireland's rates.

Greece, Spain, Portugal and Cyprus have the highest unemployment rates in the EU28 (as of June 2013). The rates in Greece and Spain are particularly high. Ireland ranks in seventh place; Italy in tenth. Of the seven countries considered in this report, only the rate for Romania is under the EU28 average rate. See **Figure 16. See also Appendix 6.**

FIGURE 16 **Unemployment, EU28**



Source: Eurostat 2013g, [une_rt_m] seasonally adjusted. Estonia, Greece, Hungary, UK: May rate; Latvia: March rate.

[56] The structural balance is the balance once the transitory effect of the business cycle and once-off budgetary measures are removed but this balance is difficult to measure and there is disagreement amongst Economists on the issue.

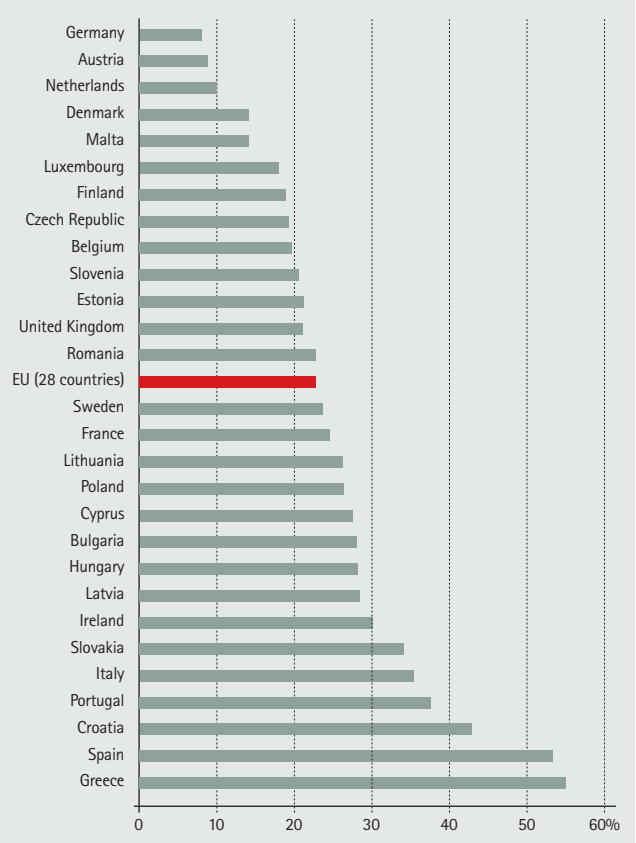
[57] Which includes Greece, Ireland, Italy, Portugal and Spain, but not Cyprus or Romania.

In Romania there was a notable improvement (3% change on the previous year) in employment (in the year to quarter 1, 2013) (European Commission, 2013a, Table 20), but Romania also has one of the lowest employment rates in the EU, albeit one that showed some improvement between 2011 and 2012 (EU Commission, 2013b). In this, and in some other respects, the trends in Romania display dissimilarities to the other countries considered in this report.

Youth unemployment (that is, amongst under 25s) is higher than the EU27 average in six of the seven countries, as **Figure 17** shows. Five of the countries have rates above 30%, and these countries - Greece, Spain, Portugal, Italy and Ireland - have amongst the highest rates in the EU. With rates greater than 50%, Greece and Spain top the EU27 league-table. The highest year on year increases (to April 2013) in youth unemployment in the EU were recorded in Greece, Spain, Portugal, Italy and Cyprus (European Commission, 2013a, p19, Table 26). In Greece, the rate increased to over 60% in February 2013 (European Commission, 2013a, Table 26).

It is recognised that young people entering the labour market during these years are being hit most severely by the crisis and receive least protection (Social Protection Committee, 2013a).

FIGURE 17 **EU Youth Unemployment, 2012**



Source: Eurostat, 2013i. tsdec460.

Youth unemployment is a serious problem that will have lasting impact for a generation of young people, with potential consequences for them, and indeed for European society more generally, stretching even to the prospect of their poverty in older age, according to the Social Protection Committee (2013a).

When it comes to the NEET rate (that is, the rate of young people neither in education nor employment or training) all of the countries considered in this report have rates that are above the EU27 average. At the end of 2012 (quarter 4), the EU27 rate was topped by Bulgaria and immediately followed by Italy, Greece, Romania, Spain, Ireland and Cyprus (European Commission, 2013a, Chart 19). The rate for Portugal was 10th out of the EU27 countries.

Latest OECD projections point to further increases in unemployment of one percentage point or more to the end of 2014 in six European countries including Greece, Italy, Portugal and Spain (OECD, 2013c).

The worsening unemployment situation has occurred notwithstanding the fact that net outward migration has returned since 2010-2011 (that is, more people are leaving than arriving) in Spain, Ireland, Portugal and Greece (European Commission, 2013a).

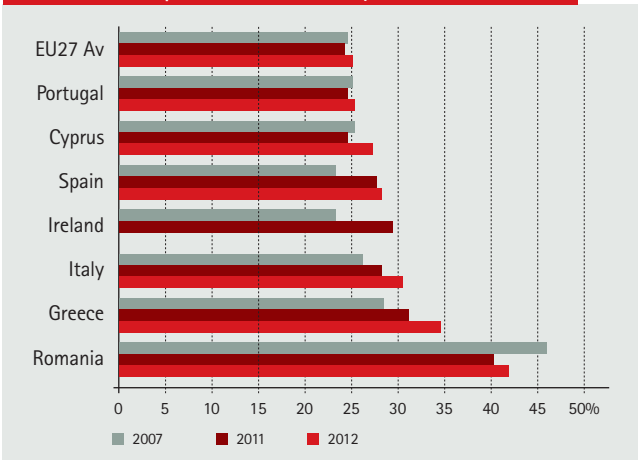
Long-term unemployment is a problem in all seven countries. The share of unemployment that was long-term in 2012 was around 60% in two countries - Ireland (61.7%) and Greece (59.3%). (In other words, nearly two-thirds of those unemployed are unemployed for more than a year). The rate is over 50% in Italy (53%), and over 40% in three other countries – Portugal (48.7%), Romania (45.3%) and Spain (44.5%). Reflecting the later onset of the crisis in Cyprus, the rate was 30.1%, but it has increased significantly since 2011.

Amongst OECD countries, structural unemployment (that is, unemployment considered long-lasting due to changes in overall demand patterns as opposed to cyclical unemployment) has been shown by the OECD to have increased significantly in four countries (from 2008 to 2012): Greece (2 percentage points), Ireland (3pps), Portugal (2pps) and Spain (5pps) and that it accounts for significant amounts in the overall rise in unemployment in these countries; and it is now also expected to increase further in Greece, Portugal and Spain as well as in Italy (OECD, 2013c).

Poverty/Social Exclusion

As already noted, there is an issue with the timely availability of comparable date on poverty across Europe, which means that the statistics set out in this report on poverty do not give the most up-do-date picture. Of the seven countries included, data for 2012 was available for 6 of them and this represents information collected in surveys carried out the previous year. For Ireland, the data presented relates to 2011 and thus provides information gathered during 2010. It therefore represents the effects of only the earlier years of the crisis.

FIGURE 18 People at Risk of Poverty or Social Exclusion



Source: Eurostat, 2013b. Note: no information for Ireland available for 2012 (as of Nov 2013); some values still provisional.

Figure 18 shows how the rate of poverty of social exclusion (the combined indicator used in the Europe 2020 strategy) worsened between 2011 and 2012 in all of the countries for which data is available, though the increase was marginal in Portugal and Spain. The increase between 2011 and 2012 is particularly marked in Greece, Cyprus and Italy and also in Romania. In Spain there was a very significant increase in the period between 2007 and 2012. No data is yet available on Ireland from Eurostat for 2012, but a very significant increase can be observed during the period between 2007 and 2011. All seven countries were above the EU27 average for rates of risk of poverty or social exclusion in 2012 (using the 2011 figures for Ireland). See **Appendix 2**.

It is also possible to examine the 3 individual poverty indicators that make up the 'at-risk-of-poverty or social exclusion' measure. These include people at risk of poverty (which had been the primary measure used across Europe prior to the adoption of the Europe 2020 Strategy in 2010), people experiencing severe material deprivation, and people in households with very low work intensity (all these terms have very specific definitions, for which see **Glossary**).

When we look at the 'at-risk-of-poverty' indicator, most of the countries considered in this report are amongst the European countries with the worst rates. Greece has the worst rate amongst the EU28 countries, and experienced the highest increase in its rate between 2011 and 2012 (of the countries whose data is available from Eurostat as we prepare this report), with almost one quarter of its population affected (or 23.1%). Greece is followed closely by Romania and Spain. Italy ranks 23rd, and is exceeded only by five countries (Croatia, Bulgaria, Spain, Romania and Greece). Portugal ranks 20th, exceeded by 8 countries (Lithuania, Latvia, Italy, Croatia, Bulgaria, Spain, Romania and Greece). See **Appendix 3** and also **Appendix 7**.

Using a poverty indicator 'anchored' in time (to living standards in 2005), the OECD has shown that increases in income poverty to 2010 were much higher than suggested by 'relative' income poverty measures. This is especially the case in Italy, Greece, Spain and Ireland[58].

When we look at the indicator of severe material deprivation, four of the countries considered in this report are worst among the EU28 countries. Of the seven countries, the rate for Romania is worst, and Romania has the second highest rate in the EU28 (after Bulgaria). Also exceeding the EU28 average rate are Greece, Cyprus and Italy. See **Appendix 4**. Greece experienced the greatest increase in severe material deprivation amongst the EU28 countries (for which data is currently available) between 2011 and 2012. Ireland experienced a significant increase in its severe material deprivation rate between 2010 and 2011 (the latest year for which its statistics are available from Eurostat) (Eurostat, 2013o).

When the indicator for people in households with very low work intensity is considered, five of the countries considered in this report are above the EU28 average and Ireland has the highest rate[59] followed by Croatia, Spain and Greece (Eurostat, 2013o). See **Appendix 5**.

Childhood poverty is a particularly damaging phenomenon, something that affects the life chances of those affected in a very wide range of ways for the rest of their lives. Of the countries considered in this report, four of them have relatively very high levels of poverty compared to the EU average (Romania, Spain, Greece and Italy) (Eurostat, 2013q). Of the other three countries, the material deprivation rates for children are relatively high in Ireland and Portugal; in Cyprus, which in the past has had relatively low child poverty rates attributed to a universal child benefit, the rate of being at risk of poverty for children rose in 2012. While there are significant differences of degree between the seven countries, a worsening situation for children can be identified in all of them since the onset of the

[58] It was not the case in Portugal, and neither Cyprus nor Romania was included in the countries studied.

[59] Albeit using the 2011 figures for Ireland, as those for 2012 are not available.

crisis (in the form of increased rates of risk of childhood poverty and/or material deprivation) (Eurostat, 2013q; 2013r).

The High Commissioner for Human Rights of the Council of Europe has identified Cyprus, Greece, Italy and Portugal as amongst the European countries where, as a result of austerity measures, there is a risk of a rise in children engaged in child-labour; and has identified Romania as a country where children are reported to be engaged in labour in highly hazardous occupations (Muiznieks, 2013).

In all seven countries there have been increases in the at-risk-of-poverty rates of young adults (aged 18-24) in recent years. In Ireland the rate has doubled (between 2008 and 2011); in Spain it has increased by 60% (between 2007 and 2012) and in Greece it has increased by 50% (between 2008 and 2012) (Eurostat, 2013q).

There are also indications of a worsening in the depth of poverty evidenced by more people living under the 40% poverty line since 2008, although there is considerable variation between countries. The tendency has been more sustained in some countries (notably, Greece, Spain, Ireland, and Italy).

Increases in the rate of in-work poverty have occurred in some of the countries under review in this report in recent years, and the highest overall rates amongst the EU28 countries were recorded in 2012 in four of these countries: Romania, Greece, Spain and Italy (Eurostat, 2013v).

Increases in income inequality (measured using the S80/S20 ratio which examines the gap between the richest and poorest[60]) are noticeable in recent years in several of the countries under review in this report: in Greece (between 2010 and 2011), Italy (between 2008 and 2011), in Ireland (between 2009 and 2010), and in Spain (marked increase between 2008 and 2011) (Eurostat, 2013c, tsdsc260).

All seven countries with which this report is concerned were above the EU average for financial distress amongst people in households in the lowest income quartile (that is the lowest, 25%) as at March 2013 (based on the Joint Harmonised EU consumer surveys, intended to give an early indication of financial distress amongst households) (European Commission, 2013a).

Of 33 OECD countries where data is available[61], the top 10% of households did better in terms of disposable income than the poorest 10% in 21 countries, between 2007 and 2010. Of the countries with which this report is concerned, this is true in Greece, Ireland, Spain and Italy. In Spain and Italy, for example, while the income of the top 10% remained broadly stable, the average income of the poorest 10% in 2010 was much lower than in 2007. (OECD, 2013a). However, it is important to note that in other countries, people with the lowest incomes can still have lost proportions of their incomes that are very significant.

Health Services

Recent health studies are beginning to highlight the 'burden of human suffering' that has followed from austerity policies (Legido-Quigly et al). Negative health impacts appear to be accumulating in countries where significant cuts to health budgets have occurred within health systems that were less resilient or weak, particularly Greece, Portugal and Spain (BMJ, 2013). These and other countries proposing further cuts to health spending might note the findings of the European Observatory on Health Systems and Policies (2012) which suggest that arbitrary cuts to essential services may further destabilize health systems, increasing health and other costs in the longer term.

Five of the countries with which this report is concerned (Cyprus, Romania, Ireland, Portugal, Greece) were above the EU27 average in terms of the increases in out-of-pocket expenses for health relative to total health spending between 2000 and 2010 (OECD, 2012, table 5.6.3). The European Observatory on Health Systems and Policies (2012) describes increases in out-of-pocket expenses as a concerning trend, given that this disproportionately affects low-income groups and regular users of care, while being unlikely to reduce total spending on health in the longer term.

[60] The ratio of total income received by the 20% of the country's population with the highest income compared to that received by the 20% with the lowest income – the higher the ratio the greater the inequality (Social Protection Committee, 2013, p43); income is equivalised disposable income (Eurostat, 2013c, tsdsc260).

[61] Romania and Cyprus were not included in this dataset.

Trust and Social Cohesion

According to the European Commission's Social Protection Committee, fiscal consolidation measures are an important factor in social deterioration (2013).

Reports from some Caritas member organisations suggest a growing desperation, lack of hope and, in some countries, a growing problem with trust in government institutions and a risk of a breakdown in social cohesion. Studies are confirming this. One evidences declining trust in public institutions, specifically in governments and parliaments at national level, something that is especially the case in countries most affected by the economic crisis (Eurofound, 2012). A report from the International Federation of Red Cross and Red Crescent Societies points to risks of unrest and extremism flowing from rising unemployment (IFRC, 2013).

One study found that between 2010 and 2012, the countries that experienced the sharpest increases in the risk of social unrest were Cyprus, the Czech Republic, Greece, Italy, Portugal, Slovenia and Spain (International Labour Organization, 2013).

Conclusions

The evidence collected in this report, and in the previous report in this series, leads us to again conclude that the policy of prioritising austerity is not working for Europe and to urge that an alternative be adopted. We have included as **Appendix 8**, a discussion prepared by Dr Sean Healy, of Social Justice Ireland, of possible future policy frameworks as a contribution to debates about the issue of alternative approaches.

Five years since the beginning of the crisis in 2008, there is little or no growth, there are ongoing massive increases in unemployment and millions of people are living in poverty. Simultaneously, social protection systems are under strain, gaps in protection systems leave many people in very abject situations, while cuts to public services disproportionately affect lower-income groups, and problems accessing healthcare are impacting negatively on people's health. This is not the inclusive growth approach agreed in the Europe 2020 Strategy. The people paying the highest price currently are those who had no part in the decisions that led to the crisis, and the countries that are 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 economically unsound as well as being unfair and unjust.

1) An alternative is needed to the current approach. Austerity continues to be prioritised, even though increasingly discredited as an economic approach, and despite evidence that it has exacerbated problems caused by the economic crisis. That is not to say that structural reforms are never necessary – that is not what this report is arguing. Rather that European leaders must recognise that on its own, the current approach – requiring austerity measures and structural reforms to reduce government borrowing and the debt/GDP ratio within a short time-span - is failing in both economic and social terms and that a new strategy is urgently needed that is multifaceted and that puts Europe on a new course.

2) It is recognised that welfare systems fulfill at least three functions: social investment (through education, for example), social protection (providing safeguards across the life-cycle) and stabilization of the economy (by cushioning shocks when unemployment increases). It is also recognised that social protection systems have helped sustain a degree of social cohesion during the crisis (Social Protection Committee, 2013a). However, there are serious gaps in the social protection systems of many European countries, including in countries reviewed in this report such as Italy and Greece. These gaps result in non-standard workers, young people, and new entrants suffering a double disadvantage, being more

[62] EP resolution on the European Platform against poverty and social exclusion (2011/2052(INI)).

vulnerable to unemployment and also entitled to less social protection; in some cases (e.g. Greece) being unemployed can lead to loss of health insurance also.

In 2011, the European Parliament passed a resolution requesting that the Commission launch a consultation to explore initiating legislation to provide a system of guaranteed minimum income.[62] This was designed to prevent poverty and serve as a basis for people to live in dignity, play a part in society and to seek employment or training. Such a minimum income was also recognised as capable of playing an automatic stabilizing role for the economy. With the shortcomings of social protection systems highlighted since 2008 in peripheral countries, it is time for the European Institutions to take steps to ensure that there is a minimum income guarantee across the EU.

3) A fair solution to the debt crisis must yet be found. The agreement to recapitalise Spanish banks without adding to sovereign debt (June 2012) recognised that making taxpayers responsible for the massive debts of their banks is unsustainable, but retroactive application of this to the Irish situation is still not agreed. The shock-waves caused throughout Europe and beyond by the decisions taken relative to the Cyprus bailout, particularly the decision to impose losses on uninsured depositors (not to mention the earlier proposal to include insured depositors) are still being felt. Turning banking debt into sovereign debt must be recognised as unfair and unsustainable for all affected countries and a fairer burden-sharing approach must be adopted. In this process ordinary depositors must be protected; it is not acceptable that these pay for the debts run up by banks acting irresponsibly or gambling recklessly.

4) Furthermore, the issue of moral hazard must be addressed within the banking systems of Europe and beyond. In other words, the financial system must not be insulated from risk, with the consequent incentive to reckless behaviour. This is what happened to financial institutions in Ireland, Spain, Germany and France and beyond prior to 2008. The same is likely to happen again unless a different approach is taken, one that does not result in sovereign countries and their taxpayers underwriting the debts of banks, an approach that ensures that bond-holders can be held responsible for losses when the risks they run fail. If this is not addressed, Europe risks repeating the mistakes made before.

The issue of inadequate credit for small businesses remains a problem, one that needs to be addressed as part of the solution to the jobs crisis, so that credit is available to businesses.

5) There has never been more fiscal oversight of the actions of member states, but social monitoring lags behind. This is recognised in a recent Communication from the European Commission (European Commission, 2013n). Leadership is needed at European level that takes responsibility for the welfare of Europe's poorer and vulnerable citizens. This means working to ensure that:

- there is a strong commitment to the aims agreed in the Europe 2020 Strategy, that adequate targets are set and met on social issues like poverty,
- that policy decisions are made based on good information and with regard to longer term impacts, and
- the views of citizens and of civil society organisations are heard and seen to be acted upon.

This also means recognizing the incoherence of policies determined as part of excessive deficit procedures and Economic Adjustment Programmes aimed at achieving debt/deficit reductions, simultaneously worsening the social problems that the targets set in the Europe 2020 strategy seek to address. In short, it involves accepting the current failure to integrate economic and social policies at EU and national levels, and forging a longer-term commitment to an inclusive society, which in turn is necessary to building a truly sustainable economy.

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 the Church.

1. European Institutions and the EU Commission

1. Provide Leadership in relation to Groups at particular Risk of Poverty: Effective social monitoring must be established as part of the Europe 2020 Strategy and the European Semester process. This should include:

- **i.** ensuring that the sum of the targets set by member states is capable of reaching the poverty-reduction target of 20 million people set in the Europe 2020 Strategy;
- **ii.** setting sub-targets for poverty reduction amongst groups most at high risk of poverty or social exclusion (such as children) in the next review of the Europe 2020 strategy;
- **iii.** working with member states to similarly establish national sub-targets for poverty reduction amongst groups most at high risk of poverty or social exclusion (based on the identification of the most appropriate groups in each country, which might include children, migrants, working poor, disabled people and older people);
- **iv.** better integration of social monitoring into the processes of the European Semester to include Country Specific Recommendations relative to achievement of social targets (see also (2), below). It should focus on the priorities of Annual Growth Surveys on the long-term social objectives of the Europe 2020 Strategy. It should also focus on building adequate, effective social systems, that include both investment and protection dimensions as well as better integration with EU policy statements on social policy, such as the Social Investment Package. Furthermore, it should be aiming to ensure its proper implementation at national levels with the use of all available tools and mechanisms available to the Commission (such as structural funds and Country Specific Recommendations);
- **v.** providing a mechanism to have the policy initiatives revised and adjusted immediately (e.g. when their expected impact on tackling unemployment is not sufficient, or whenever they are identified as causing higher poverty and unemployment) and ensuring more up-to-date statistics on all of these indicators are produced by Eurostat and by the national statistical agencies.

2. Ensure better integration of social monitoring into the processes of the European Semester: The social impact of recommendations should be considered when drafting Country Specific Recommendations, especially those requiring fiscal consolidation measures. Country Specific Recommendations should aim to achieve (1) poverty-reduction for countries experiencing poverty rates above the EU average or experiencing increases in poverty rates, (2) improved labour market activation measures that are capable of leading to decent jobs rather than low-paid, or insecure jobs, and (3) should aim to avoid weakening of the universal availability of basic services, as this reduces rights and results in an increase of poverty and inequality. There also needs to be a requirement on governments to monitor and report on how their policy choices are moving their countries towards targets set for poverty reduction, employment (that is, secure, decent jobs) and education.

3. Introduce social impact assessment and monitoring for countries in receipt of assistance packages: Social Impact assessment and monitoring must become integral to the assessment process for programme countries, so that if reform is needed, it is tailored to individual circumstances, capable of taking account of different impacts on different groups, and of cumulative effects on certain groups. Country specific recommendations should specify the actions needed to achieve all the Europe 2020 targets, including in relation to employment, education and poverty reduction and not be limited to implementing the terms of the Memorandum of Understanding entered into with the EC/ECB/IMF.

4. Introduce Greater Transparency relative to the Operation of the troika of the EC/ECB/IMF: The troika must be seen to operate in compliance with European and national law (including constitutional law), if further trust in the democratic process is not to be undermined. The European Commission should lead this relative to the introduction of processes that would ensure this. These processes should include troika proposals being prepared as official proposals that are available for discussion in national parliaments, and meetings with public officials should be minuted and made publically available.

5. Facilitate the introduction of a guarantee of an adequate minimum income in the EU under a framework directive, with a view to effectively combating poverty and facilitating inclusion in the labour market.

6. Structural Funds: Structural funds should be better resourced and given greater priority so as to ensure significant progress is made in bridging the gap between the economic and social dimensions of policy in the EU. The rhetoric in support of social inclusion must be supported by investment of sufficient scale to make a significant impact on reducing the gaps between those who are powerful and better-off and those who are poor and excluded.

7. Lead on Policy-development and Monitoring of Child Poverty: The Commission's Recommendation on Investing in Children, published in 2013 as part of the Social Investment Strategy, is welcome. However, its implementation must be monitored through a strengthened process established under the Europe 2020 strategy (see recommendations 1, 2, and 3, above). The Commission should also work with member states with high levels of child poverty to help them access structural funds to address the issue and to build capacity for their effective use.

8. Make additional funds available for Youth Unemployment and address the challenges related to labour mobility. The June 2013 Council recommendation for 'Youth Guarantees' is welcome, aiming as it does to ensure that all young people are in employment, education or training within four months of leaving school. However, the amount of money envisaged (€6 billion) is not considered adequate to make a significant impact on the problem; the International Labour Organization has estimated that the cost would be €21 billion to implement a youth guarantee programme across the Eurozone (2012). Making insufficient funds available is a false economy given the substantial costs of unemployment on young people, their families and communities[63]. Make sufficient structural funds available to assist countries where youth unemployment is highest is necessary to ensure the social inclusion of their young people, and to work with governments to support quality programmes. Furthermore, the Youth Guarantee should be dedicated to the development of decent jobs[64] and not just used to deliver a technical increase in the employment rate, and the European Commission should monitor the efficiency of EU funds spent on labour market integration of young people, especially in terms of long-term effects of support received, as evidenced by the quality and sustainability of the jobs concerned. Moreover, in light of the growing proportion of temporary jobs among the new jobs offered across Europe, the European Commission should address challenges related to labour force mobility (especially of young people) by facilitating their access to social protection arrangements (for example, to unemployment benefits as well as to other income support for those who work but are at risk of in-work poverty). This would be in line with the Active Inclusion Recommendation; income support or access to services should not only be available to those who are unemployed, but also to those whose income from employment does not prevent them from experiencing poverty, including when abroad. To this end, coordination and cooperation between employment and social services across Europe should be enhanced.

9. Provide Leadership to Encourage Developments in the Social Economy: Leadership and support from the EU for social initiatives would benefit both people in need of support (through health and social care programmes) and societies generally, and this would be consistent with the Social Investment package published in 2013. Social economy initiatives could also provide valuable employment opportunities for people who are long-term unemployed. This is especially relevant when many countries are finding it difficult to meet the various targets set under the Europe 2020 Strategy.

10. Support Growth: Support Member States in efforts to promote growth and jobs while meeting deficit reduction targets in the medium rather than the short term, including through well-designed investment and income policies, plus effective employment programmes, including youth guarantees.

11. Ensure Inclusive Governance Structures: The Commission should require evidence of meaningful stakeholder involvement in deliberative processes leading to the formulation, implementation and monitoring of policies, using the monitoring systems in place under the Europe 2020 Strategy, as well as for countries in receipt of financial assistance programmes (See recommendations (1), (2), and (3) above). This is of particular importance given threats to social cohesion and the evident level of distrust of national and European institutions. It would be consistent with the Charter on Shared Social Responsibilities, which envisages well-defined deliberative processes to ensure that individual preferences are reconciled with widespread priorities in the field of social, environmental and inter-generational justice, and to reduce imbalances of power between stakeholders.

[63] The European Foundation for the Improvement of Living and Working Conditions estimated the economic loss to society of the disengagement of young people from the labour market at €153 billion in 2011, described as a conservative estimate that corresponds to 1.2% of European GDP (2012).

[64] This involves opportunities for work that is productive and delivers a fair income, security in the workplace and social protection for families ... better prospects for personal development and social integration, freedom for people to express their concerns...' (International Labour Organization, 2007, p.4)

2. National Governments and relevant Local/Regional Authorities

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) Prioritise Investment: Without investment there will be no jobs and without jobs there will be no recovery. Large-scale investment programmes that are multi-annual and targeted at job-intensive areas represent a way to assist growth and at the same time to address social and infrastructural deficits. The focus would need to be tailored to the situation pertaining in each individual country and region. Areas that might be considered include development of renewable energy sources, housing, health and social care infrastructure, education and early childhood care infrastructure. Inappropriate rules that are currently blocking needed, viable investment should be adjusted.

2) 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. Of particular importance is the need to recognise and monitor the effect that cumulative 'hits' can have on particular groups over a number of years. This is the situation where a range of decisions are made that impact on the same group and have a disproportionate effect. All Government decisions should be subject to a poverty-proofing process that ensures actions taken subsequently will not increase poverty in the society under any heading.

3) Strengthen Welfare Systems: Given the depth and duration of the economic crisis and the impact of structural measures, the resilience of social protection systems must be improved to enable them to provide protection to the entire population in need. The European Social Protection Committee has recently argued that now is the time to build adequate, effective social protection systems that combine a strong social investment dimension with better protection (2013a). Governments now need to introduce social protection schemes for the future, which overcome the present inequalities within the systems.

4) Invest in Good Quality Essential Services and Introduce Social Assessments of Consolidation Measures: The provision of good quality services (like affordable childcare, education, health, disability and other social services) reduce inequalities and are crucial to the employability prospects and social mobility of different income groups. They are an essential part of a country's social infrastructure. Ensuring equal access to services and care strengthens social cohesion. However, recent measures are worsening existing inequalities in access to services and, where healthcare is involved, this is adversely affecting people's health. Many of the decisions being made currently to achieve short-term budgetary savings are choices that will cost more and challenge social cohesion in the long-term. Social assessments of the impacts of cuts to services that focus beyond the short-term cost saving should be integrated into decision-making processes.

5) Use Appropriate Labour Market Measures: EU recommendations commit to three pillars of active inclusion, involving inclusive labour markets, adequate income support and access to high-quality services. However, in reality, the focus of European countries is on activation measures at the expense of the other two pillars (Frazer & Marlier, 2012). The countries under review in this report are pursuing measures involving support to job-seekers and activation, though their efficacy is often questioned. 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, aiming, for example, to maintain and develop appropriate skills. Most importantly, such measures must not be accompanied by the threatened loss of welfare benefits or assistance, as, with the scale of the losses in employment, this is illogical, given that there are insufficient jobs to meet the demand, and will merely cause poverty and worsening desperation. Changes in employment protection measures aimed at creating greater flexibility and competitiveness in the labour market must not be implemented in such a way as to do away with all income security and to increase in-work poverty.

6) Frame taxation measures such that those who can afford to do so 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. Shifting the tax burden from labour to consumption (by increasing VAT and/or excise on essential items) has caused proportionately larger losses in low-income households in several countries. This means, amongst other things, that increases in indirect taxes on essential items should be avoided.

7) Tackle Tax Evasion: Tax evasion and the grey economy are a particular problem in some countries (such as Greece) where a disproportionate burden of current adjustments is falling on compliant tax-payers. Tax evasion must be tackled and fair taxation systems introduced in which all sectors of society, including the corporate sector, contribute a fair share and those who can afford to do pay more.

8) Consider new ways of cooperation between national/regional/local Governments, enterprises, NGOs and trade unions in order to create new employment, but also socially useful work and jobs of last resort: The lessons of the Great Depression are as valid in social terms now as they were in the 1930s. No society can afford to regard so many of its unemployed citizens as expendable. Notwithstanding the fact that governments need to increase the number of long-term viable jobs paying good wages, given the huge fall in employment and its impact on unemployed people of every

age, governments should also identify good practices 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 framework of this dialogue the government should still contemplate being an employer of last resort through voluntary programmes. These should be framed so as not to distort the market economy but provide socially useful work for those seeking employment. There are many areas in the social economy where this could be introduced (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.

9**) Ensure a Guaranteed Minimum Income for all:** Every national Government should have a mechanism to ensure all its people receive an income sufficient to live life with dignity. Where such mechanisms are not in place they should be instituted immediately. In all cases the adequacy of the income level should be guaranteed and its adequacy should be monitored and evaluated regularly.

10) Ensure Inclusive Governance: Commit to a genuine engagement with all key 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 to try and bolster social cohesion and political legitimacy.

11) Introduce Better Monitoring and Planning: It is especially important that all new measures be subject to a social impact assessment, and their longer term consequences assessed as well as their short-term ones; using macroeconomic modelling processes to assess the impact of proposed changes in social policies.

12) Take availability of the social investment aspects of the programming of EU funds, 2014-2020, including the ERDF (European Regional Development Fund), the ESF (European Social Fund)[65] and the FEAD (Fund for European Aid to the Most Deprived) and others, to fund measures that will address the worsening social situation, including support for initiatives set out in the EU's Social Investment Package - such as supporting social enterprises or facilitating the full implementation of the Recommendation on Investing in Children (European Commission, 2013o).

3. Non-Governmental Organisations

1) Accompany and Help People in Need: Provide services in order to promote their social and active inclusion. People in a situation of impoverishment 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 mobilize solidarity in society, organise volunteers and innovate within the limits of current 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.

3) Document Increases in Service Use: The changes in the current landscape of poverty and social exclusion mean that the current situation is especially challenging and is 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, including demands which they are not able to meet due to lack of resources. 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) Monitor the Current Situation and 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 impact 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 monitor and assess what is happening and 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. This could include taking up some of the ideas for the future discussed in Appendix 8 to this report.

[65] It is, for example, proposed that at least 20% of total ESF resources in each Member State should be allocated to the thematic objective: 'promoting social inclusion and combating poverty' (European Commission, 2013o).

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 the 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 seven countries covered by this report as well as in 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. In particular, it is responding at this time to the call of Pope Francis for the development of a Church for the poor. 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 and its member organisations across Europe and the wider world.

Given the situation outlined in this report, it is crucial that in each country, Church leadership and members do all in their power to address the challenges posed by the current crisis. Here we identify a number of key areas in which the Church, at every level, can play a responsible role.

1) Involve and engage as many people as possible, including volunteers and people experiencing poverty and social exclusion, 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 skillfully 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).

2) 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.

3) 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 supports this principle, otherwise, the public 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 nought. 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.

4) Promote solidarity as a guiding principle in the relationship between all groups in society: Pope Benedict XVI told us "*Solidarity is first and foremost a sense of responsibility on the part of everyone with regard to everyone*" (Caritas in Veritate 38). Pope Francis tells us that "*the word 'solidarity' is a little worn and at times poorly understood, but it refers to something more than a few sporadic acts of generosity. It presumes the creation of a new mindset which thinks in terms of community and the priority of the life of all over the appropriation of goods by a few. Solidarity is a spontaneous reaction by those who recognize that the social function of property and the universal destination of goods are realities which come before private property*". (Evangelii Gaudium 188/189). 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. The 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.

5) Work to ensure that governments, decision-makers, the population generally and the mass media put human dignity, the common good and solidarity at the core of what they communicate and decide: Pope Francis has said: "*I exhort you to generous solidarity and to the return of economics and finance to an ethical approach which favours human beings*". (Evangelii Gaudium 58). This is a choice based on values. All decisions are based on values. There are a range of issues identified in this report on which different decisions need to be made. It is important that those who make these decisions and the mass media which argues for particular decisions and communicates with the general public concerning these issues are constantly challenged to put the values of human dignity, the common good and solidarity at the core of what they communicate and decide. These issues also need to be recognised as important by people, when they reflect on the situation being produced by the present crisis and on the actions they intend to take, to make their own contribution to resolving the current crisis and the problems it is causing to those who are weakest and most vulnerable.

6) 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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Glossary

ESA - The European System of Integrated Accounts – the system of national accounts and regional accounts used in the EU (EU Commission, 2013a, p.6).

Europe 2020 Strategy - Adopted in 2010, the Europe 2020 Strategy aims to turn the EU into a 'smart, sustainable and inclusive economy delivering high levels of employment, productivity and social cohesion'. It sets targets to reduce poverty, raise employment, and raise educational levels, amongst other things.

Eurostat – the statistical office of the European Union.

Excessive deficit procedure – This is the corrective arm of the Stability and Growth Pact requiring that Member States adopt policy responses to correct excessive deficits relating to thresholds of 3% of deficit to GDP and 60% of debt to GDP. These limits are enshrined in **Art. 126 of the Treaty** and in Protocol 12 accompanying the Treaty (http://ec.europa.eu/economy_finance/economic_governance/sgp/corrective_arm/index_en.htm

Fiscal Compact - The Fiscal Compact, which entered into force in January 2013, runs in parallel with the Stability and Growth Pact. It requires that the Member States who have signed up to it maintain:

- a structural deficit of 0.5% of GDP (cyclical effects and one-off measures are not taken into account); 1.0% of GDP for Member States with a debt ratio significantly below 60% of GDP or be working towards that target within time limits specified (this is sometimes called the "deficit brake").
- General government debt of not more than 60% of GDP; if it is more than 60%, they must be reducing it at the rate of one-twentieth each year (this is sometimes called the "debt brake") (European Commission, 2013k)

Significant penalties are envisaged for breaches of its terms.

Government Deficit/Surplus - The government deficit/surplus is the net borrowing/net lending of general government as defined in the ESA95. It is the difference between the revenue and the expenditure of the general government sector. (Eurostat, gov_dd_edpt1)

General Government Gross Debt – Defined (in the Maastricht Treaty) as consolidated general government gross debt at nominal value, outstanding at the end of the year in categories of government liabilities as defined in ESA95. (Eurostat, tsdde410)

GDP - Gross domestic product, which is a measure of the economic activity, defined as the value of all goods and services produced less the value of any goods or services used in their creation. (Eurostat, tec00115)

IMF - International Monetary Fund

In-work at-risk of poverty rate (or working poor) - The share of employed persons of 18 years or over with 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, tsdsc320).

Material Deprivation Rate - The indicator is defined as the percentage of population with an enforced lack of at least three out of nine material deprivation items in the 'economic strain and durables' dimension (Eurostat, tessi082).

OECD - The Organisation for Economic Cooperation and Development, which has 34 member countries. Note - relative to the countries considered in this report, OECD members include Greece, Ireland, Italy, Portugal and Spain but not Cyprus or Romania.

People at risk of poverty - Persons with an equivalised disposable income below the risk-of-poverty threshold, which is often set at 60 % of the national median equivalised disposable income (after social transfers) (Eurostat, t2020_50). The 60% threshold is adopted in the Europe 2020 Strategy. It is also possible to examine incomes at other thresholds such as 40%, 50% or 70%.

People at Risk of poverty or social exclusion - The Europe 2020 strategy promotes social inclusion by aiming to lift at least 20 million people out of the 'risk of poverty and social exclusion'. This indicator corresponds to the sum of persons who are: (1) 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, t2020_50)

Severe Material deprivation - Severely materially deprived people have living conditions severely constrained by a lack of resources, they experience at least 4 out of the 9 following deprivation items: cannot afford i) to pay rent or utility bills, ii) to keep their home adequately warm, iii) to face unexpected expenses, iv) to eat meat, fish or a protein equivalent every second day, v) a week's holiday away from home, vi) a car, vii) a washing machine, viii) a colour TV, or ix) a telephone (Eurostat, t2020_50).

Stability and Growth Pact was introduced as part of the Maastricht Treaty in 1992, and came into effect in 1998, but its enforcement was problematic. Its enforcement provisions were strengthened by the so called 'Sixpack' in 2011. It set limits on member countries' budget deficits and levels of gross debt at 3% and 60% of GDP respectively; it applies to all Member States with some specific rules for the EURO area.

Very Low Work Intensity - People living in households with very low work intensity are those aged 0-59 living in households where the adults (aged 18-59) worked less than 20% of their total work potential during the past year (Eurostat, t2020_50).

Appendices

Appendix 1

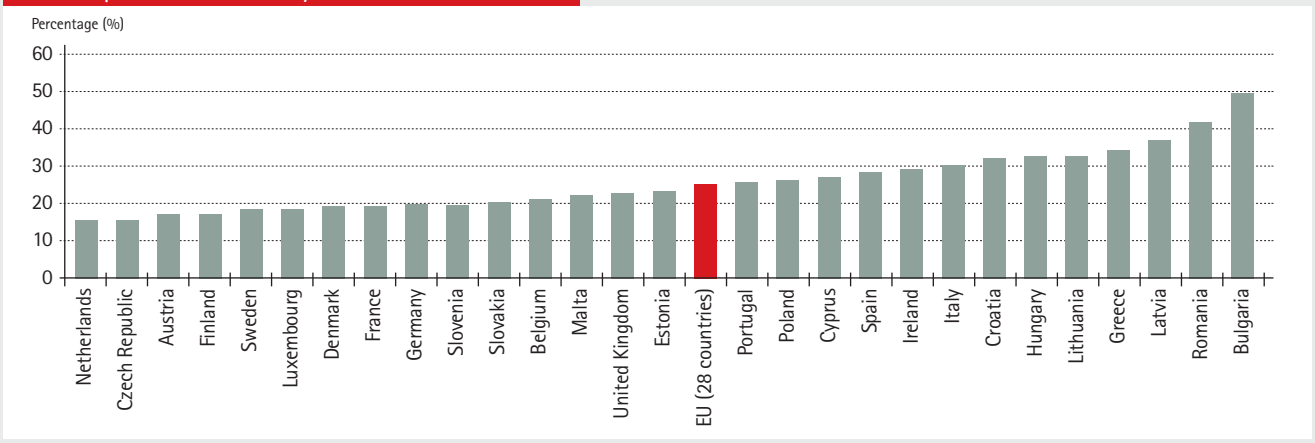
At-Risk-of-Poverty Thresholds, 60%

	2007	2008	2009	2010	2011	2012
Cyprus	9,609	9,614	9,871	9,708	10,194	10,156
Greece	6,120	6,480	6,897	7,178	6,591	5,708
Ireland	13,239	13,797	13,467	12,307	11,836	:
Italy	9,003	9,383	9,382	9,562	9,583	9,601
Portugal	4,544	4,886	4,969	5,207	5,046	4,994
Romania	995	1,172	1,297	1,222	1,270	1,270
Spain	6,987	7,577	7,714	7,600	7,272	7,182

Eurostat, 2013p. At 60% of median equivalised income.

Appendix 2

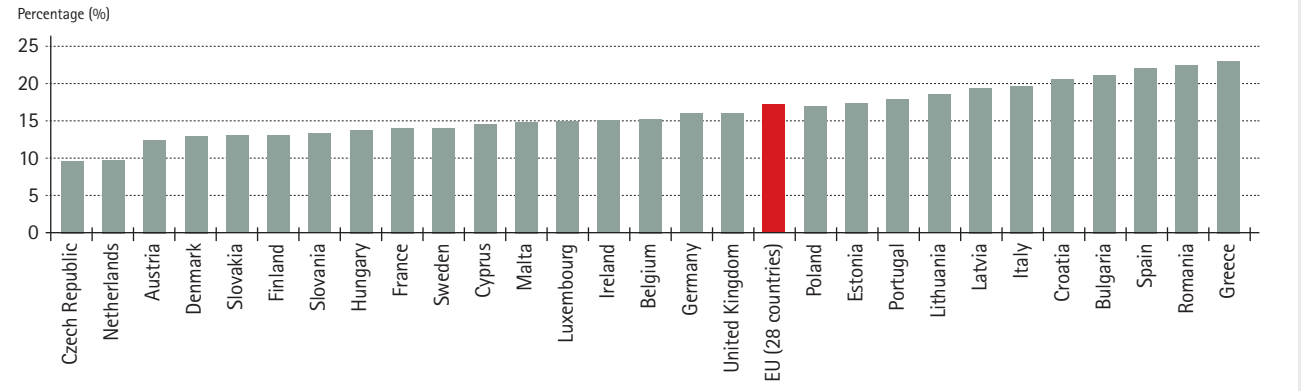
EU28 People at Risk of Poverty or Social Exclusion, 2012



Eurostat, 2013b. Rates for 2011 for Belgium, Ireland, Austria and United Kingdom

Appendix 3

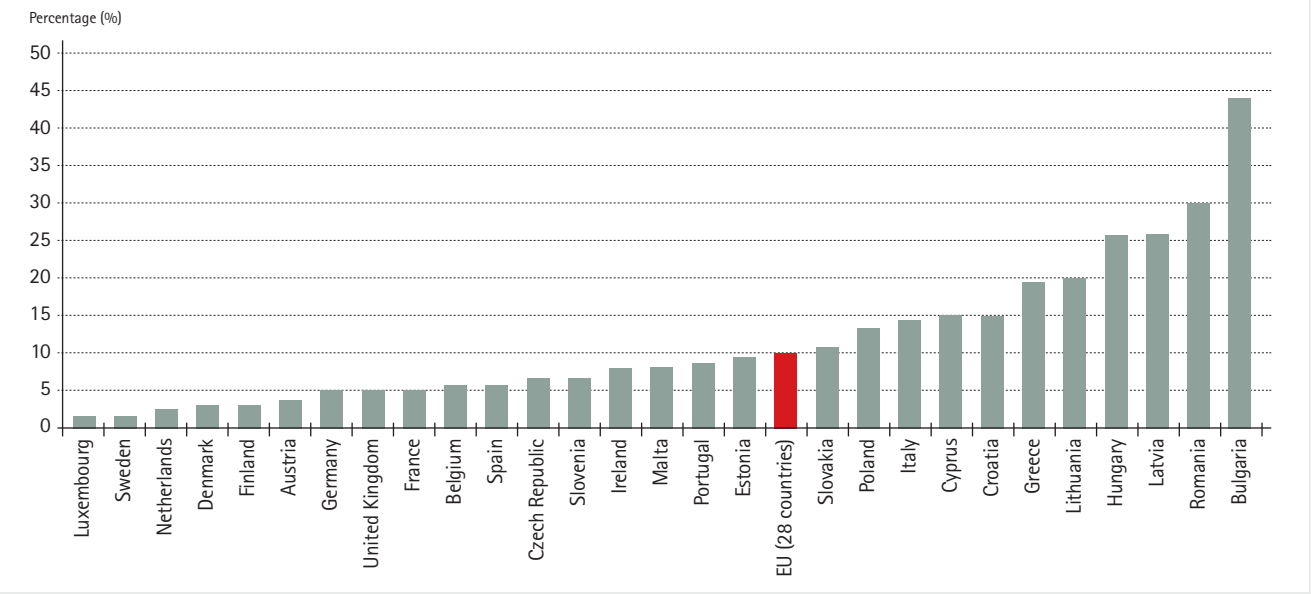
EU28 People at Risk of Poverty, 2012



Eurostat, 2013o. Rates for 2011 for Belgium, Ireland, Austria and United Kingdom

Appendix 4

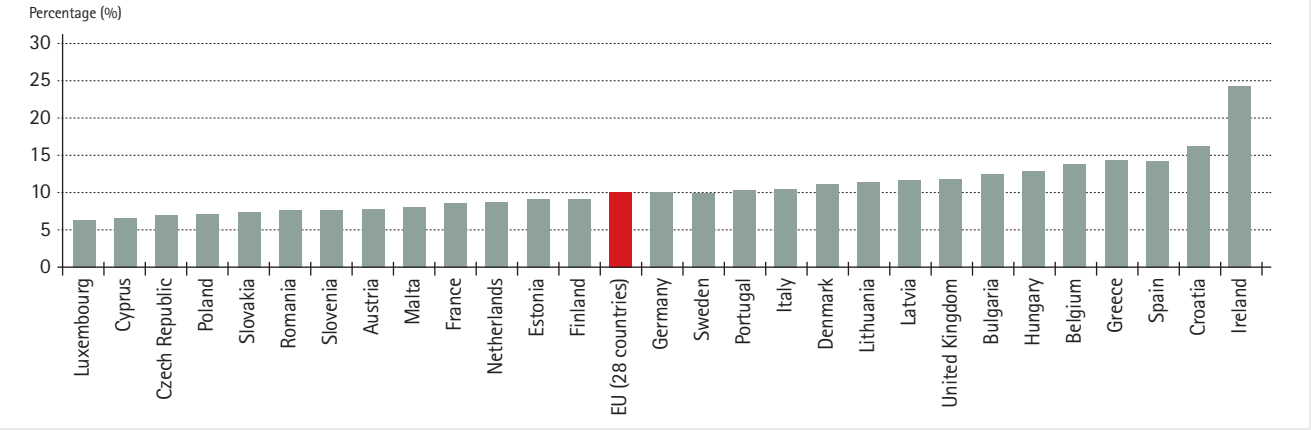
EU 28: People Severely Materially Deprived, 2012



Eurostat, 2013o. Rates for 2011 for Belgium, Ireland and United Kingdom

Appendix 5

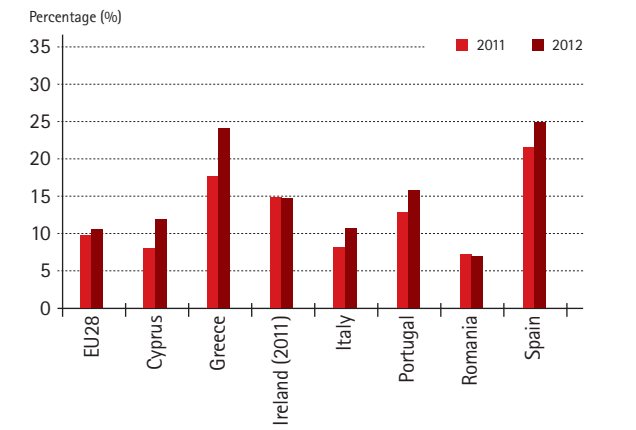
EU 28: People Living in Households with Very Low Work Intensity, 2012



Eurostat, 2013o. Rates for 2011 for Belgium, Ireland and United Kingdom

Appendix 6

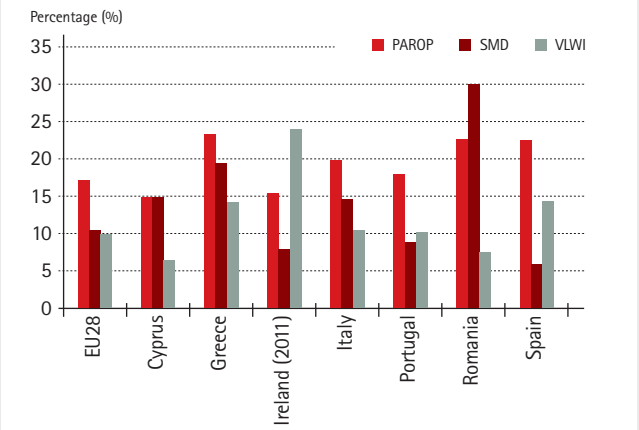
Unemployment: EU28 and & seven countries, 2011, 2012



Eurostat, 2013x

Appendix 7

Poverty: EU28 and Seven Countries, 2012



Eurostat 2013o, t2020, 51, 52, 53 - Note: Latest available rates for Ireland are for 2011; all other countries, 2012 - PAROP: people at risk of poverty - SMD: people severely materially deprived - VLWI: people in households with very low work intensity - See Glossary for a definition of each term.

Appendix 8

Future Policy Frameworks – A Discussion *by Dr. Seán Healy, Director, Social Justice Ireland*

Introduction

In Part One of this report it was noted how Nobel prize-winning economist Joseph Stiglitz concluded that the economic system that pertained prior to the economic crisis of 2008 based on consumers spending beyond their means through excessive borrowing, is 'broken'. Stiglitz and many others consider new economic strategies necessary not just for Europe but for the world. Many are asking how we can move towards guaranteeing a secure livelihood and a decent level of well-being for everyone while also living within our economic and environmental means. The twin challenges of imploding capitalism and climate change present an opportunity for new thinking and a new kind of ambition. A growing consensus is emerging that the old model cannot deliver wellbeing, environmental stability and social justice in a world where poverty and hunger occur simultaneously with overconsumption.

A new progressive approach would cease to focus so much on GDP growth (that doesn't of itself maximise well-being or secure social justice) and towards an economy that is more equal, provides good jobs, minimises negative environmental impacts and maximises well-being and justice. In this section we will look briefly at existing social policy frameworks at an EU level and at some of the policy frameworks that are part of the debates currently taking place on what is required if we are to move towards a new, sustainable vision.

European Union Policy Context

Respect for human dignity is a founding principle of the European Union, whose aims include promoting full employment and social progress, combating social exclusion and discrimination and promoting social justice and social protection (European Commission, 2008). The Treaty provides that the EU should support the activities of member states in integrating people excluded from the labour market (Article 137(1) (h)). The right to social and housing assistance so as to ensure a decent existence for those who do not have sufficient resources is enshrined in the Charter of Fundamental Rights of the European Union.

The Europe 2020 Strategy, adopted by the Council in 2010, aims to turn the EU into a 'smart, sustainable and inclusive economy delivering high levels of employment, productivity and social cohesion' (European Commission, 2010). Its setting of targets to increase levels of employment and education, reduce poverty and social exclusion and improve environmental sustainability are significant, because they highlight the importance of social policy goals to a vision for Europe's future well-being. They also point to the possibility of a more integrated and coordinated approach to economic, social, employment and environmental governance.

In its 2013 Social Investment Package, the European Commission recognises that welfare systems fulfill three functions – social investment, social protection and stabilization of the economy and that member states that take a social investment approach in their social policies have more inclusive growth than others (European Commission, 2013o). A social investment approach involves putting greater focus on policies such as childcare, education, training, active labour market policies, housing support, rehabilitation and health services that have both immediate effects and returns over time – strengthening current and future capacities and preparing people to face life's risks rather than just repairing the damage.

The need for more integration of social policies has recently been underlined again by the Commission in its Communication on strengthening the social dimension of the EMU (2013n). This Communication discusses the possibility of an insurance system to pool the risks of economic shocks across member states thereby reducing fluctuations in national incomes.

In 2008, the European Commission adopted a Recommendation on the active inclusion of people excluded from the labour market (subsequently endorsed by the Council and the Parliament). The Recommendation commits to a balanced approach to active inclusion involving three equally important pillars:

(1) **inclusive labour markets** – ensure 'effective help to enter or re-enter and stay in employment',

(2) **adequate income support** – 'recognise..[the] basic right to resources and social assistance sufficient to lead a life that is compatible with human dignity as part of a comprehensive, consistent drive to combat social exclusion', and

(3) **access to high-quality services** – 'appropriate social support through access to quality services... including... services... essential to supporting active social and economic inclusion policies' (European Commission, 2008).

The Resolution recommends a 'comprehensive policy design defining the right mix of the three strandsE.taking account of their joint impact on the social and economic integration of disadvantaged people and their possible interrelationships, including synergies and tradeoffs' (European Commission, 2008).

Future Frameworks

In this report it has been argued that the response to the crisis in many EU countries and at Commission and Council level has downplayed 'Social Europe' in practice and has started to dismantle many of the social protections that used to be considered the pinnacle of European achievement. Increasing unemployment, including long-term unemployment and youth unemployment, inadequate incomes, lack of adequate social protection and problems with access to services including healthcare have been reported from the countries considered in this report. The Independent Network of Experts on Social Inclusion concluded that in reality the focus of European countries is on one of the three pillars of Europe's active inclusion strategy - activation measures - at the expense of the other two pillars of income support and high-quality services (Frazer & Marlier, 2012).

This represents the context in which some alternative policy frameworks for the future will be discussed. The headings set out by the European Commission as its three pillars of active inclusion – inclusive labour markets, adequate income support and access to high-quality services – will be used to refer to some alternative policy approaches that have been proposed. Two issues that are cross-cutting and that must be integral to any future policies pursued will also be mentioned – greater participation of people in decision-making and sustainability across social, economic and environmental spheres. This recognises that any new models have to be framed within the limits imposed by the need for environmental sustainability.

The intention here is not to prescribe any particular approaches, but rather to set out in brief the starting points for some of the strategies that are currently being employed and for some that are currently the subject of increasing debate and consideration.

Inclusive Labour Markets

The principles underlying the 'inclusive labour markets' pillar of the European Commission's active inclusion strategy include addressing the needs of those excluded from the labour market to integrate them in the labour market and in society ensuring that opportunity is open for all, and the promotion of quality jobs in terms of pay, benefits and working conditions with a view, in particular, to preventing in-work poverty (2008). Amongst the means to implement the principles are lifelong education and training and activation measures such as job-search assistance.

As is clear from the summary of policies adopted by the seven countries in this report, all are pursuing measures involving support to job-seekers and activation of some kind. The Independent Network of Experts on Social Inclusion found that in practice there is a trend to strengthen activation measures among European countries, but that these are often not sufficiently targeted or tailored to meet the needs of the most vulnerable groups (Frazer & Marlier, 2009). A trend toward 'scare or motivation' has been identified as the main feature of activation measures, where loss of entitlement to benefits follows if an offer is refused (Abrahamson, 2010). According to Abrahamson (2010), this has also been associated with a trend toward marginalization of some categories of people like ethnic minorities, youth, and people with disabilities. It is also important to remember that while appropriate activation measures as well as access to good quality education and training opportunities can be vital supports for people who are unemployed, they do not of themselves create jobs.

It is clear that the crisis has led to more insecure employment contracts, which increases segmentation of the labour market and reduces the protection available to the most vulnerable. This, as the European Parliament has recognised, highlights the need for the creation of new jobs to proceed in accordance with the basic principles laid down by the International Labour Organization involving decent work and quality jobs, including decent working conditions, the right to work, health and safety at work, social protection and arrangements for worker representation (EP, 2011).

Full employment was regarded as a standard objective of economic policy after the Second World War but unemployment began to edge upwards from the early 1970s. Unemployment is not considered compatible with fundamental human rights by some people in that they claim it denies those affected access to income and hence participation; it stigmatizes those affected and reduces the opportunity for advancement, and it violates basic concepts of membership and citizenship (CofFEE, n.d.). Furthermore, unemployment does not affect all groups equally with young people, older people and people with lower skills or educational levels typically most affected (CofFEE, n.d.).

Others however would reject this approach pointing out that it is possible to have meaningful work and sufficient income to live life with dignity without ever having paid employment. They claim that it is a denial of people's human rights to insist that their income be accessible only through a paid job or connection to a paid job in the past.

I believe it is important to create as many sustainable, quality jobs paying good wages as possible. I also believe that everyone has the right to sufficient income to enable her/him to live life with dignity irrespective of whether she/he has ever

had a job or not. There is a major challenge facing our world at this time if we are to ensure that everyone in the world has both meaningful work and adequate income.

Progressive approaches to jobs policy are exploring how to achieve full employment, as key to well-being,[66] a decent living for everyone as well as satisfying work, and work in the right quantities – in other words, neither too much work nor too little, both of which damage well-being,[67] and an economy that can flourish within environmental limits (Greenham et al, 2011). Caritas Europa takes a definition of work that goes beyond 'employment' or 'paid work' and that encompasses 'participation, exchange and recognition E self-esteem and meaningfulness' (Caritas Europa, 2010) and recognises the following definition of the International Labour Organization:

'decent work ... involves opportunities for work that is productive and delivers a fair income, security in the workplace and social protection for families ... better prospects for personal development and social integration, freedom for people to express their concerns ...'

(International Labour Organization, 2007, p.4)

Fundamental questions are now being asked about whether the market economy, with its move away from industry and manufacturing towards a 'knowledge economy' is capable of delivering these things. Can the 'trickle-down effect,' that is, the wealth and job creation potential of entrepreneurs and wealthy individuals, really deliver even one of them - full employment?

One of the debates that arises in this context is that of valuing all work. A second relates to government guaranteeing work as a response to widespread unemployment, particularly long-term unemployment with its detrimental consequences for individual and societal wellbeing. A third, which will be referred to very briefly relates to reductions in hours worked by everyone. Finally, the need for investment by government will be discussed.

1) Valuing All Work

When we talk about the 'working week' people usually mean paid work, although not all the work that is done is paid. Nonetheless, ideas about who we are and what we value are shaped by ideas about paid employment and the priority given to paid work is a fundamental assumption of current culture and policy-making. Other work, while even more essential for human survival and wellbeing, such as caring for children or sick/disabled people, often done by women, is almost invisible in public discourse. But because well-being relies on work and relationships (and other things), there must be a fair distribution of the conditions needed for satisfactory work and relationships – and this is particularly important for gender equality.

There is a need to recognise all work, including work in the home, work done by voluntary carers and by volunteers in the community and voluntary sector. Their contribution to society is very significant not just in terms of social and individual well-being, but also in economic terms. The European Commission has estimated that the time spent on housework and care per day could represent +/-830million hours per day in the EU or nearly 100 million full-time equivalent jobs (European Commission, 2012a).[68] Introduction of a basic income (see below) is one means of enabling the recognition of all meaningful work in practice.

2) Jobs Guarantee Schemes

Based on the self-evident fact that the unemployed cannot find jobs that are not there, thinking has been developed around the idea of jobs guarantee schemes. High levels of unemployment co-exist with significant potential employment opportunities in areas such as conservation, community and social care. A Jobs Guarantee Scheme is one approach to this, in which the State assumes the role of 'employer of last resort.' The concept involves government absorbing workers displaced from private sector employment. It involves payment at the minimum wage, which sets a wage floor for the economy. Government employment and spending automatically increases as jobs are lost in the private sector.

Amongst those championing the idea is the Centre of Full Employment and Equity, University of Newcastle. Based on an analysis across countries, they argue that the private sector has always only been able to employ around 77% of the labour force; unless the public sector provides jobs for the remaining workers seeking employment, unemployment will remain high (CofFEE, n.d.).[69] Costs of Jobs Guarantee Schemes have been calculated for a number of countries and it is considered relatively cheap, in comparison with the costs associated with unemployment[70]. It also results in a multiplier effect from the contributions to the economy of the workers concerned (CofFEE, n.d.).

The Job Guarantee proposal acknowledges the environmental problem and the need to change the composition of final economic output towards environmentally sustainable activities.

[66] There is clear evidence that high well-being is associated with low levels of unemployment and high levels of job security (Greenham et al, 2011).

[67] Wellbeing rises as hours worked rise but that applies only up to a certain point: well-being starts to drop as hours become excessive (Greenham et al, 2011).

[68] An example from the UK suggests that if the average time spent on unpaid housework and childcare in 2005 was valued in terms of the minimum wage it would be worth the equivalent of 21% of GDP (Coote et al, 2010).

[69] Excluding, presumably, recent examples such as Ireland in the 2000s, where with hindsight it is evident that the very high levels of employment were based on an enormous boom in construction based on reckless lending and fuelled by what became one of the biggest banking crises in the world.

[70] For example, in Ireland, Social Justice Ireland has often made a proposal to Government for a Part-Time Job Opportunities Programme that has already been piloted and costed.

The required jobs could provide immediate benefits to society, and are unlikely to be produced by the private sector - they include urban renewal projects and other environmental and construction schemes (reforestation, sand dune stabilisation, river valley erosion control and the like), personal assistance to older people, assistance in community sports schemes, and many more (CofFEE, n.d.).

Such schemes are not intended to subsidise private sector jobs or to threaten to undercut unionised public sector jobs. Any jobs with a set rate of pay or in the private sector should not be considered. Only those jobs that directly benefit the public and do not impinge on other workers should be considered. Neither is a Job Guarantee Scheme intended to replace other social programmes. However, Job Guarantee Schemes could complement a social support system such as a Basic Income scheme (see below), and provide individuals with income security while they transition from unemployment to a state-sponsored employment scheme and ultimately back into the open labour market (Caritas Europa, 2012).

A recent example of a partial Jobs Guarantee Scheme is the Youth Guarantee, agreed by the European Council in June 2013, in which member states committed to ensure that all young people up to the age of 25 receive a high-quality offer of a job, an apprenticeship or a traineeship within four months of becoming unemployed or leaving formal education. One problem that arises in schemes such as this, which are implemented in difficult times, is that the additional resources to be provided at national level often are taken from other services that may well have been supporting other unemployed or vulnerable people who were long-term unemployed or were outside the age group to whom the new initiative applies. The end result may not reduce the overall problem of unemployment or social exclusion.

3) Shorter Working Week

The starting point for debates about shortening the working week is that there is nothing 'normal' or inevitable about what is considered a typical working day today, and that what we consider normal in terms of time spent working is a legacy of industrial capitalism that is out of step with today's conditions.

A shorter working week of 21 hours is one proposal made as the new standard generally expected by government, employers, trade unions and employees (Coote et al, 2010). It is intended to address problems of overwork, unemployment, over-consumption, high carbon emissions, low well-being, entrenched inequalities and lack of time to live sustainably, to care for each other or to enjoy life. Crucial to this proposal is that made already about moving toward valuing both paid work and unpaid work; it is intended to spread paid work more evenly across the population, reducing unemployment and its associated problems, long working hours and too little control over time. It is also intended to allow for unpaid work to be distributed more evenly between men and women, and for people to spend more time with their children and in contributing to community activities.

4) Investment

With European countries focusing on austerity measures and experiencing high levels of personal debt and weak export-led demand from other countries, it is difficult to see where growth can come from. This points to the need for policy-makers to consider investment on a sufficiently large scale to create the growth required to generate the jobs that people seek. Without investment there will be no jobs; without jobs there will be no recovery. Without recovery the countries considered in this report will be stuck in austerity for the foreseeable future. This reflects one of the basic tenants of Keynesian economics, which was most influential during the post Second World War years and which has been getting increased attention from economists since 2008.

Keynesianism requires active government intervention in ways that are 'countercyclical'. In other words, deficit spending is needed when an economy suffers from recession or when unemployment is persistently high, and suppression of inflation is needed during boom times by either cutting expenditure or increasing taxes: 'the boom, not the bust, is the right time for austerity at the treasury.'

Any such investment would now have to come from off-balance sheet sources (such as Commercial Semi-State borrowing or European Investment Fund or pension fund investments). The areas for investment would need to be carefully chosen aiming for job-intensive investment in essential sectors with potentially substantial returns. Examples include building new infra-structure and facilities, which might include social housing, better public health or education facilities, investment in key infrastructure like water or in sustainable energy sources. Substantial investment of this kind would of itself lift economic growth rates and there would be a multiplier effect by creating further economic activity and growth, increases in taxes and decreases in social welfare spending.

It should be possible for the European fiscal governance rules to accommodate and indeed to encourage, when appropriate, investment of this nature as a basic tool of economic policy within the capacity of governments.

Adequate Income Support

The European Commission's active inclusion strategy envisages that the individual's basic right to resources and social assistance, sufficient to lead a life that is compatible with human dignity, is part of a consistent drive to combat social exclusion (2008). Well-designed social protection systems are considered vital not only to social wellbeing but also to economic development. The Independent Network of Experts on Social Inclusion have found that many countries are attaching more conditions to accessing social benefits and linking minimum income schemes and inclusive labour market policies (Frazer & Marlier, 2009). They concluded that in a significant number of European countries, a comprehensive approach is still lacking to developing synergies between minimum income schemes and the other two strands of active inclusion.

Given that growing numbers of people are experiencing long spells of joblessness in many countries and having to fall back on less generous social assistance, the OECD has noted that it is important that social assistance be capable of supporting families in hardship and that minimum-income benefits may need to be strengthened especially where unemployment remains very high (OECD, 2013c). The International Labour Organization has shown that effective social protection floors are not beyond what countries can afford whatever their level of economic development (2013a).

There are debates about how to achieve adequate income support for all people. Approaches that are considered include minimum wage, minimum income schemes and basic income schemes, and we outline as options some features of each in turn in this section.

1) Minimum Wage

A minimum wage is the lowest hourly, daily or monthly remuneration that employers may legally pay to workers. The European Commission recognises that setting minimum wages at appropriate levels can help prevent growing in-work poverty (2012). Most Member States have statutory or otherwise legally binding or otherwise applicable minimum wages in place although their impact can differ markedly (European Commission, 2012).

The economic crisis has brought compulsory cuts to the minimum wage in some countries. In Greece significant cuts happened at the request of the troika of the European Commission/ECB/IMF[71], and in Portugal there has been a freezing of the level.

As part of its Decent Work Agenda, the International Labour Organization encourages the adoption of a minimum wage to reduce working poverty and provide social protection for vulnerable employees (2013a). They recommend that governments should consult with the social partners about the levels at which the minimum wage should be set and so to take account of the needs of workers and their families and the requirements of economic development and the need to maintain a high level of employment. Debates continue about the level at which the minimum wage should be set and amongst developed economies there are substantial variations relative to full-time median earnings (International Labour Organization, 2013a).

Although minimum wage laws are in effect in many jurisdictions, differences of opinion exist about the benefits and drawbacks of a minimum wage.

Supporters claim it increases the standard of living of workers, reduces poverty, reduces inequality, and forces businesses to be more efficient. Critics claim it increases unemployment (particularly among low productivity workers), and is damaging to businesses.

One reservation about minimum wages is that they only apply to those engaged in paid employment, and do not apply to the self-employed or those doing family work or caring (International Labour Organization, 2013a). Despite limitations, the International Labour Organization concludes that they remain a relevant tool for poverty reduction.

A further point that is sometimes raised in this context is that a minimum wage should be accompanied by a maximum wage. Such a maximum is usually proposed as some multiple of the minimum wage.

2) Minimum Income Schemes: Most member states of the EU have a form of minimum income scheme, protection schemes of last resort intended to ensure a minimum standard of living for individuals of working age and their families when they have no other means of support. They vary widely in coverage, comprehensiveness (that is, the extent to which they are available generally to low-income people) and effectiveness. These schemes are generally intended to be short-term and countries sometimes limit the time during which they are available; eligibility is also commonly related to age, residence, lack of financial resources and willingness to work; a trend has been identified by the Independent Network of Experts on Social Inclusion to tighten eligibility conditions (Frazer & Marlier, 2009). In many European states they play an important role in reducing the depth of poverty and social exclusion, but in some countries there are still many people on low incomes who cannot access them and some are set at a

[71] According to the International Labour Organization, the IMF considered that the minimum wage in Greece was higher than in other developed economies, but statistics presented by the ILO suggest that it was not out of the range (2013, figure 28, p 36).

low level which does not lift people out of poverty (Frazer & Marlier, 2009).

Two of the countries considered in this report (Greece and Italy) are considered to be in a group of three countries (Bulgaria being the third) that have the most limited and partial minimum income schemes in the EU – there are significant gaps and the schemes do not cover many of those in most urgent need of income support. Cyprus, Portugal and Romania are considered as part of a group of countries that have relatively simple and comprehensive schemes, while Spain and Ireland are considered to be in a category of countries with complex systems that are less comprehensive and typically attempt to target certain categories of people (Frazer & Marlier, 2009). However, there is also a lack of data or analysis of coverage or take-up of schemes in many countries, including Portugal.

Most countries are concerned that minimum income schemes should not act as a disincentive to work, but, according to the Independent Network of Experts on Social Inclusion, in countries with the most generous and effective minimum income schemes, there is also a clear recognition that they play a vital role in ensuring that people do not become so demoralized and excluded that they are incapable of participation in active inclusion measures and in seeking work (Frazer & Marlier, 2009). Even in countries with the more comprehensive schemes, some groups recur as being regularly excluded or restricted in access to minimum income schemes – they include undocumented migrants and homeless people, and in some cases young people (under 25) or first-time job seekers (Frazer & Marlier, 2009).

The European Parliament passed a resolution in 2011 calling on the European Commission to launch a consultation to explore initiating legislation to provide a sensible guaranteed minimum income system across Europe.[72]

Following a review of minimum income schemes across Europe, the Independent Network of Experts on Social Inclusion concluded in 2009 that urgent action was required if the minimum income strand of the Commission's 2008 Recommendations on active inclusion are to become a reality. They made sixteen suggestions for action on this front starting with an agreement by the European Commission and member states as to the common criteria for minimum income adequate to live life with dignity, which could enable monitoring of conformity and could be followed by adoption of an EU Framework Directive on the adequacy of minimum income schemes.

Finally, under the heading of minimum income, we wish to briefly refer to a **European Employment Benefit**. As mentioned above, a recent Communication from the European Commission raised the issue of an insurance system to pool the risks of economic shocks across member states (2013n). A recent conference[73] has considered the issue further focusing on the pros and cons of introducing a European Employment Benefit. One of the contexts is the establishment of an imperfect monetary union within the Eurozone, where a common nominal interest rate has different impacts on countries at different stages of the economic cycle, that can contribute to the amplification of booms and recessions in member states. A European Employment Benefit is now being discussed as providing automatic stabilizers to operate in a complementary way within the Economic Monetary Union by improving the capacity of member states to cope with country-specific shocks and excessive cyclical fluctuations.

3) Basic Income

It is important to note that a Basic Income is fundamentally different to a minimum income. As stated above, a minimum income is intended to ensure a minimum standard of living for individuals of working age and their families when they have no other means of support. In essence a Basic Income involves giving everyone a modest, yet *unconditional* income, and letting them top it up at will with income from other sources (Parijs, 2000). It is paid to a person directly every week/month of their lives with a smaller payment for children, a standard payment for every adult of working age and a larger payment for older people. It is never taxed but in essence replaces tax credits (for those with jobs) and social welfare payments (for those without jobs). Additional payments would be maintained for those with particular needs (e.g. people who are ill or have a disability).

The inability to tackle unemployment with conventional means has led in the last decade or so to the idea of a basic income being taken seriously throughout Europe. If social policy and economic policy are no longer conceived of separately, then basic income is increasingly viewed, according to the Basic Income Earth Network, as the only viable way of reconciling two of their central objectives: poverty relief and full employment.

A Basic income is a form of minimum income that avoids many of the negative side effects inherent in social welfare payments (Healy et al, 2013). As defined by the Basic Income Earth Network (n.d.) a basic income is:

'an income unconditionally granted to all on an individual basis, without means test or work requirement. It is a form of minimum income guarantee that differs from those that now exist in various European countries in three important ways:

[72] EP resolution on the European Platform against poverty and social exclusion (2011/2052(INI)). The resolution encourages member states to set the minimum income level at above the at-risk-of-poverty level based on at least 60% of the median income in each member state.

[73] Brussels, 18/10/2013: New paths to the stabilization of the Eurozone, Expert conference on automatic stabilizers for the European currency area. Bertelsmann Stiftung, Brussels office.

a. it is being paid to individuals rather than households;
b. it is paid irrespective of any income from other sources;
c. it is paid without requiring the performance of any work or the willingness to accept a job if offered'.

Every person receives a weekly tax-free payment from the Exchequer while all other personal income is taxed. The basic income would replace income from social welfare for a person who is unemployed and replace tax credits for a person who is employed (Healy et al, 2013).

Amongst its advantages is lack of stigma - there is nothing humiliating about benefits given to all as a matter of citizenship, something that cannot be said, even with well-designed processes, about benefits reserved for 'the needy, the destitute, those identified as unable to fend for themselves' (Parijs, 2000). So it helps to overcome the problem of non-take-up of benefits which is observed in some EU countries (e.g. in France). It also removes unemployment traps because it does not cease if someone takes up employment – one is bound to be better off working as you can keep the basic income and earnings on top of it - and it incentivizes increasing one's income while employed.

It also promotes gender equality because everyone is treated equally and it respects forms of work other than paid work – like work in the home or informal caring. It is also considered more guaranteed, simple and transparent than current tax and welfare systems (Healy et al, 2013).

There are a variety of basic income proposals. They differ according to the amounts involved, the source of funding, the nature and size of the reductions in other transfers and in many other respects. They also differ on how a Basic Income may be financed. Some propose that it be financed via the present tax and welfare systems. In practice this would mean that those on low and middle-income would see net gains while the richest would be required to pay more tax as many tax breaks would be removed. Others propose that a Basic Income be financed by environmental taxation or a financial transactions tax.

A partial Basic Income system currently exists in the state of Alaska in the USA. This system is financed by taxes paid on oil produced in the state and has been in existence for several decades.

There are a wide range of Basic Income systems being introduced across the Global South. These are funded in a variety of different ways. In 2012 The World Bank published a detailed study which identified 123 Basic Income systems in various parts of Sub-Saharan Africa (Garcia and Moore, 2012).

Proponents of Basic income conceive it as an inclusion measure that addresses the problem of large numbers of people excluded from modern economies, including people who do not have paid work and in a world where paid employment cannot be permanently guaranteed for everyone seeking it – thus it is intended to provide meaningful participation by moving beyond a wage-based society.

Opponents of basic income focus on perceived restrictions of freedom or on a perceived high tax rate to finance it and one of the features of the international debate revolves around the role of society as against the role of markets (Government of Ireland, 2002). Costed proposals for a basic income have been published, notably in Ireland in 2012 (Healy et al, 2012).

Current discussion is focusing increasingly on so-called partial basic income schemes, which would not be full substitutes for present guaranteed income schemes but would provide a low - and slowly increasing - basis to which other incomes, including the remaining social security benefits and means-tested guaranteed income supplements, could be added. According to the Basic Income Earth Network, many prominent European social scientists have now come out in favour of Basic Income - among them two Nobel laureates in economics.

Access to High-quality Services

Under the heading of 'access to high-quality services,' the active inclusion strategy of the European Commission mentions access to essential services such as social assistance services, employment and training services, housing support and social housing, childcare, long-term care services and health services (European Commission, 2008). Well-designed social policies often exhibit two or more of the three characteristics of welfare - investment, protection and stabilization. For example, good childcare has a protection role but if well designed it has an investment role as well, enhancing the skills and inclusion of people for the rest of their lives. Good quality services are also recognised as promoting fairness, civic responsibility and social cohesion (NESF, 2006).

There has been a growing recognition in recent decades of the deepening interdependence between economic and social policies as society and the economy each continue to change. This recognition includes the awareness that high employment rates bring benefits in areas such as health, well-being, social

inclusion, and tax revenue. However, to achieve a high employment level requires investments in a set of services that support people in areas such as education, training, disability and activation. Good employment rates, potential and actual, require access to high-quality services.

There has also been a slow but steady move away from measuring social justice in static Rawlsian income equality terms and a move instead towards an understanding of solidarity and fairness as an obligation to give due support to the needs of each, individually so as to enable all to flourish. This latter understanding is based on the 'capability approach' of Amartya Sen (1999) and Martha Nussbaum (2011). This ongoing transition has been well analysed by Anton Hemerijck (2013). At the heart of the new approach to social investment lies a reorientation of social citizenship away from the **compensating** '*freedom from want*' logic towards the **capacitating** logic of 'freedom to act' with the condition that the latter accommodates work and family life through social services and a guaranteed rich social minimum enabling citizens to pursue fuller and more satisfying lives.

There are ongoing challenges with regard to the quality and equity of public services, including healthcare, and to their sustainability. The ageing of the European population, increased expectations of citizens, and other factors impinge on demand for services and require a range of responses across the life-course. Similar investments by different countries have different outcomes in terms of poverty, employment and health suggesting that there is variation in the ways that resources are used (European Commission, 2013o).

The Commission's Social Investment Package envisages a move to an 'ex ante' or 'before the event' result orientation in financing decisions for social policy based on a systematic approach to the role that social policies play in different stages of life – this would mean that the longer-term outcomes of social investment be taken into account from the outset (2013o). This, of course, represents the opposite to many of the policy approaches that have been outlined in this report, where significant, ad hoc cuts have been made to social programmes like education and health without any analysis of long-term effects on people or on finances. Furthermore, even several years ago, the Independent Network of Experts on Social Inclusion had identified barriers (in the form of more conditions being imposed) across Europe in relation to access to social benefits and services (Frazer & Marlier, 2009).

It is difficult to generalize about welfare systems and the public services that are intrinsic to them, with at least five types of system recognised as operating in Europe[74] and a constant feature being change and transition (Abrahamson, 2010). Different general trends have been observed over time, with expansionism (from the 1950s to the 1970s) followed by uncertainty and challenge associated with neo-liberalism. A new trend has been identified which can be described as 'productivist' (Taylor-Gooby, 2008). The 'productivist' approach, called a 'new social investment state' is promoted by the EU and the OECD and emphasizes social investment with a desire to maintain the range of mass services but with pressure for cost-efficiency (Taylor-Gooby, 2008). It is said to be particularly popular with governments concerned about competitiveness and business interests and to emphasise the 'active citizen' and the 'productive citizen' (Abrahamson, 2010).

Some of the issues that are informing current debates include the following:

Securing Adequate Investment? Much of the support for social investment in recent decades is based on the growing aspiration of both men and women of all social classes to be employed as well as to raise children. Consequently, they have been willing to provide the investment required to provide the necessary services to make that possible. In difficult economic times, however, there is more and more scrutiny of social spending. In the years ahead there is a real danger that in hard-hit countries such as those studied in this report there will be a growing marginalization of social spending. This danger is exacerbated in the Eurozone because national and EU monetary authorities have very little room for manoeuvre. The emphasis is on deficit reduction which will continue to starve social provision of the financing required. There is a strong possibility that support for social investment will decline. This situation is worsened as electorates seem to forget that the crisis of recent years originated in the excesses in deregulated financial markets, not in excess welfare spending. This forgetfulness tends to lead them towards rejecting welfare spending because they misunderstand it as being the cause of the crisis which it wasn't.

Who Provides? Public services are not synonymous with the public sector. A wide range of actors are now involved in service provision and the mix differs from country to country (and has done so historically). As well as the public sector, these include:

- people and families,
- non-profit organizations and social enterprises, and
- the private sector.

While it is considered that there is now more scope for private and civil society to be involved in service provision, the state is still in charge of regulation and to a large extent also in the financing of social entitlements (Abrahamson, 2010).

In relation to the private sector, the European Commission notes that there needs to be encouragement to use the potential of social investment more through on-the-job training, in-house childcare facilities, health promotion and family-friendly workplaces (2013o).

[74] The regimes can be categorised in different ways. Typically five are recognised: Continental North-western Europe, Scandinavian model, Southern/Mediterranean model, Atlantic Europe (UK and Ireland) and Eastern European (Abrahamson, 2010).

Public Value? The central plank of the influential 'public value' approach to the public sector is that public resources should be used to increase value not only in an economic sense but also in terms of what is valued by citizens and communities. It is associated with Moore, who argues that public services are directly accountable to citizens and their representatives and it requires ongoing public engagement and dialogue as well as rigorous measurement of outcomes (1995). The approach involves the following building blocks:

- providing quality services for users, which are cost effective,
- ensuring fairness in service provision,
- concentrating more on the outcomes as well as on the costs and inputs,
- building trust and legitimacy by convincing people that policy is geared toward serving the overall public interest (NESF, 2006).

These building blocks are interlinked and the improvement of public services builds up support for them amongst users and others who pay for them indirectly through taxation. User satisfaction is shaped by factors such as customer service (that is, how well they are treated), information, choice, availability and advocacy (that is, knowing that the services will be available to them when needed and that they will be supported in getting access to them).

Participation in Decision-Making

Lack of structures and systems to involve people in the decision-making process results in the exclusion and alienation of large sections of society – and it contributes to inequality. Increasingly it is recognised that new approaches to participation are needed, new approaches in which wellbeing and the common good are considered societal goals and are discussed in processes to which all groups are entitled to contribute. Held, for example, argues that the future of democracy requires development of greater deliberative processes and more informed participation, to break 'the vicious circles of limited or non-participation' (2006, p.279/280).

Any new approaches considered in this section have to grapple with the fact that Europeans are experiencing a sense of frustration and helplessness, with its risks of alienation and social disruption. This report has discussed evidence of declining levels of trust in public institutions and increases in social tensions. Trust levels in political institutions are continuing to decrease amongst citizens of the EU and there is a rise of euroscepticism in all countries – both in the north and in the periphery. Many voters feel that the EU's increasing dominance of national economic policy in the crisis means they can change government but they can't change policy (Leonard & Torreblanca, 2013).

The concept of 'deliberative democracy' has emerged within recent decades. It champions informed debate, emphasising politics as an 'open-ended and continuous learning process' (Held, 2006). Deliberative democratic structures enable discussion and debate to take place without the imposition of power differentials with available evidence used to inform discussions. A range of methods are proposed to realize the values of deliberative democracy, including support for civic groups seeking engagement, the introduction of deliberative polls, deliberative days, citizens' juries, expanding voter feedback mechanisms, reform of civic education to encourage reflective choices, more citizen communication, and certain e-democracy initiatives (Held, 2006).

The Europe 2020 Strategy envisages a partnership approach that would aim to foster joint ownership. Work has been done by the Council of Europe on how such an approach might be formalised for the benefit of all concerned. From this has come the Charter on Shared Social Responsibilities, currently being considered by the Council. The Charter 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). The views of the weaker stakeholders must be able to be heard and be capable of influencing decisions and results. There can be a real enrichment flowing from the participation in decision-making of people who are experiencing poverty and social exclusion. People in such situations should be directly consulted on the decisions to be made and a dialogue between them and decision-makers should be put in place and maintained.

This approach would mean avoidance of situations where the stronger stakeholders, in possession of more information and organisational power, impose priorities based on their interests alone and fail to acknowledge and compensate for the harm to which they may give rise (Council of Europe, 2011).

Sustainability

Finally, I wish to make reference to the need for an integrated approach to sustainability. Sustainable development is development which meets the needs of the present while not compromising the needs of the future. In this regard financial, environmental, economic and social sustainability are all key objectives. In light of this, new indicators must be compiled measuring both well-being and sustainability in society, and used as an objective beside the traditional measures of GDP and GNP.

The exponential growth in economic activity over the past 150 or so years has led to climate change and overconsumption of renewable resources (such as trees or fish) and non-renewable resources (like oil or coal). Thus both pollution and depletion of resources have thrown into doubt the reliance on untrammeled market forces as the key driver of wellbeing for everyone. The current approach is unsustainable and economic policy must be designed to prevent catastrophe.

There is now increasing attention to ideas such as the circular economy promoted by a number of academics and think-tanks including the Ellen McArthur Foundation. The term describes an economy that is regenerative by design and that challenges the linear 'take, make, dispose' model, which relies on large quantities of easily accessible resources and energy. Instead, a change of the entire operating system is envisaged and the 'circular economy' aims to rely on renewable energy, minimises, tracks, and hopefully eliminates the use of toxic chemicals; and eradicates waste through careful design.

It has been argued that there are three 'economies' or sources of wealth, derived from people, planet and markets that are essential for sustainable development (or alternatively posited as social, environmental and economic pillars). These are entirely interdependent and 'must work togetherEunderpinned by inclusive, participative and accountable governance and by the best available knowledge' (Coote & Franklin, 2009).

All three of these pillars must be addressed in a balanced manner if development is to be sustainable and sustainability must be a criterion for all policies of the future.

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The findings in the report are the result of research and analysis by experts in seven EU Member States most-affected by the crisis; Cyprus, Greece, Ireland, Italy, Portugal, Romania and Spain.

The report's findings are grounded not only in empirical research but more importantly in the practical, unique, grass-root work carried out by Caritas member organisations in the seven countries.

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