Lifeboat or life sentence?

The impact on poverty risks of the "Troika" emergency assistance programmes

Presentation to VER.DI conference
Europa vor der Wahl: Krise überwunden?

Berlin 8-9 May 2014
Dr Katherine Duffy

What is the European Anti Poverty Network - EAPN?

- Independent **Network of NGOs** committed to fight against poverty and social exclusion, with and for people in poverty
- Started in 1990 – **key actor** in poverty programmes and in development of social Open Method of Coordination (OMC).
- Receives **financial support** from the European Commission (PROGRESS)
- 29 **National Networks** and 18 **European NGOs** as members (6000+ organisations)
- **Participation of people** with direct experience of poverty must be part of the solution

EAPN recommendations to EU level

- Strong new measures on **transparency** of EU institutions and **democratic accountability**
- Open systems: stronger **partnership with NGOs** (and trades unions)

- A proper **legal framework and institutional arrangements** for sovereign emergency assistance
- **End the deflationary bias** in the Fiscal Compact (end the Fiscal Compact!)

- Make achieving **Europe 2020 targets, especially the social targets, central to the European Semester**; NOTE it is NOT called the Economic Semester
- Adequate framework & resources for **social investment & quality jobs**

- A renewed commitment to **Social Europe** and improving **social justice**
- A **Social Pact for Europe** and progress on a **Framework Directive on Adequate Minimum Income**

The Troika methodology: emergency assistance programmes (EAPS) and Memoranda of Understanding (MoUs)

- **Troika:** European Commission (EU); European Central Bank (ECB) or World Bank (for non-Eurozone members); International Monetary Fund (IMF)

- Provide loans below market rates (but at a profit) to sovereign states who are shut out of financial markets, in return for fulfilling specific conditions expressed in legal **Memoranda of Understanding (MoUs)**

Main questions addressed in our EAPN "Troika" report

1. ***Impact on poverty of the EAPs and austerity strategies?***
2. ***Are we all in it together?***

Answers

1. ***The biggest and longest impact on poverty*** *is the* ***"austerity" strategy: poverty will keep on rising***
2. ***No - some of us are in the lifeboat and some are under water***

(Whether or not austerity is embedded in the MoUs that regulate the Emergency Assistance Programmes (EAPs))

The choice of study countries in EAPN troika "task force"

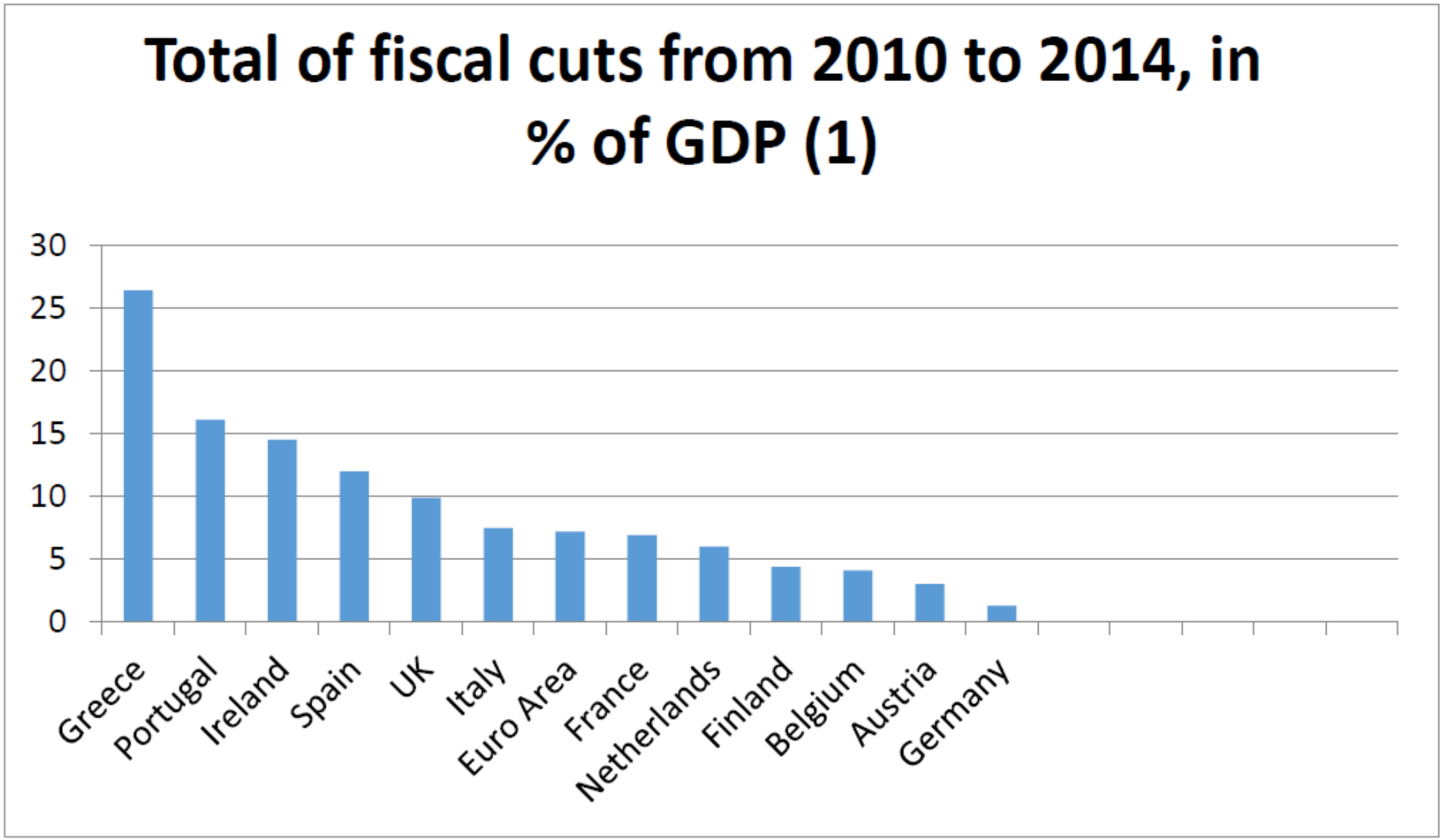
- Ireland – in the **Eurozone**; in the Fiscal Compact; first to apply for EAP, private debt; richer country
- Greece - in the Eurozone; in the **Fiscal Compact**; poorest west European country, **public debt**
- Portugal - in the Fiscal Compact; in the Eurozone; **poorer country**
- Spain - in the Fiscal Compact; in the Eurozone; large population; did not apply for full EAP, **private debt**, got emergency assistance for its banks
- Romania – in the Fiscal Compact; not in Eurozone – ECB not involved; got Balance of Payments assistance (BoP) when exports collapsed in the crisis; **poorer country**
- UK – not in Eurozone; not in the fiscal compact; large population; did not apply for EAP; **richer country**
- We would have liked **Germany** too

What is the situation in the Troika countries and how did it get there?

1 See data from the ETUC report 2014 *"The Functioning of the Troika"* *(See Appendix 1 of these slides)*

2 **Some evidence from EAPN's Troika report 2013** ***"Lifeboat or life-sentence? "***

3 See data from Commissioner Andor's speech *"The Europe 2020 strategy beyond the crisis"* *(see Appendix 2 of these slides)*



Source: IMK Report. Die Krise schwelt weiter. March2013.

(1) Change between 2009 and 2013 in government structural primary balance.

EAPN REPORT: Public spending cuts & "reforms": worse access to a diminished "social state"

Shrink down budgets, staff and competencies in public administration, state agencies, voluntary sector:

- All: **Cuts and reforms** in health and social services, housing and education; new **user fees and charges**
- All: "**Delocalisation**" of services
- All: Cuts in **capital as well as current spending**
- ALL: Cuts in **welfare cash benefits and in eligibility; increase in conditionality** especially working age
- **Small measures to support social safety nets** e.g. in Greece and Romania

- ***More scope for domestic priorities if country not in Fiscal Compact, not in Eurozone, not small, not poor***

- ***No comprehensive tracking or assessment of what is happening or of impact especially CUMULATIVE IMPACT on individuals, families ,communities and over time***

Tax "reform:" mainly regressive and consumption-based

- **Ratio of spending cuts to tax rises at least 70:30 (85:15 in UK);**
- **" Business-friendly": e.g. Portugal: banned from raising corporation tax rates in MoU** "standstill rule"; Social security contributions shifted more to workers;" red tape" cut
- **VAT raised in all study states** (30% of revenue in Romania)
- **User charges raised in all**; property tax raised in most
- **Hurts poor most**
- *A few non-regressive measures, e.g. wealth tax (Portugal and Spain); more progressive income tax (Greece); broader tax base (Ireland) and some efficiency measures*
- But few progressive changes to the tax regime or tax "take" in Greece, Ireland, Portugal; Romania

Privatization and deregulation: "re-commodification"

- **Privatization** of state assets, including state owned enterprises especially in Greece and Portugal; **liberalisation** (e.g. retail in Romania)
- **Risk of "fire-sale"** at cheap prices (already happened in Romania and UK)
- **Implementation of European Directives** e.g. Energy, Services, in Greece and Portugal
- **Deregulation and price rises**/ new user charges - e.g. medicines and transport
- ***Very little public accountability or protection of vulnerable and poor people***

Labour market deregulation: weakened trades unions & weaker income floors

- **Cuts to public sector wage bill**: wage and pension cuts and "flexibilisation" in conditions of work
- **Weaken centralised collective bargaining** (Greece, Portugal, Ireland and Romania) in public sector to put downward pressure on private sector wages (explicit in Romanian MoU)
- **Weaken social partnership**, Portugal, but also Ireland
- **Cuts in real value of minimum wage**; cuts; cuts for youth in Romania (but adult rate raised); employment below minimum wages allowed
- Labour market "**conditionality" tightened** for unemployed
- Ignoring European Working Time Directive in proposed Greek Enterprise Zones
- **Some resistance to, and reversal of, wage reductions in Ireland and Portugal**
- Some **flat rate pay improvement for lowest paid Greeks**

An increased risk of poverty & social exclusion arising from the labour market

- Job "**polarisation**" and labour market segmentation
- **Poor prospects for new graduates** (**only in Germany other kinds of qualifications protect against poverty**)
- **Squeeze on mid-pay jobs** in Spain, Portugal and Greece
- "**Casualisation**" e.g. UK (>4m self-employed; >1.4m zero-hours contracts; mini-jobs)
- **Low work intensity** ("involuntary" part-time work)
- **In-work poverty is up**; in UK & Ireland it is linked to out-of-work poverty
- **Women and people with a disability have higher risks**
- **Minority ethnic groups?** Poor EU level data

More and worse poverty

- **EU figures dated**; too soon for impact of **ongoing** austerity 2020+
- **Effectiveness of social transfers important** e.gs. Ireland/Greece
- **High and rising inequality after temporary fall**
- **Anchored in time to 2008, Greece, Spain and Estonia** had biggest increases in poverty (Estonia's coincided with big fall in unemployment)
- **Absolute levels of living much worse in Romania, Greece and Portugal:** severe material deprivation 30% in Romania; 15% in Greece
- But **absolute poverty even in richer countries** – UK, Ireland, Spain; > 4m in Spain and 1m in UK using food-banks
- ***Future is not what we thought: weaker capacity for inclusive growth; reduced ambition for social state; higher risks of poverty***

Are we "all in this together"?

- **By country?** – not really – Germany and Austria recovered most quickly, lost least GDP, had lower unemployment
- For their population size & wealth, Troika countries have carried big part of the burden of correcting macroeconomic imbalance and of paying the bankers
- **By class?** Not really: wealthy have got wealthier (asset bubbles and transfer of state wealth to private hands); a mass of people will be no better off, or poorer, in 2020 than 2007
- **Who is hit most?** ***the already poor and vulnerable are punished***: unemployment; bad jobs; loss of social insurance, cuts to minimum incomes and services bullying
- **Who is newly at risk?** **the "*squeezed middle*"** e.g. in UK, Spain, Portugal, Greece (cuts to public services, changes to taxation; weaker collective bargaining)

Democratic deficit

- **<u>Loss of sovereignty /lack of transparency</u>/ Citizens and Parliaments mainly "bystanders"**
- **No effective legal framework for Troika**: see *European Parliament resolutions of 13 March 2014 and ETUC report response " the functioning of the Troika"*
- **Rapid timetable** of EAPs
- **<u>Limited policy tools especially in Eurozone</u>**:
- Fiscal compact rules build in risk of deflation for everyone; what happens when loose monetary policy ends too?
- Eurozone: "**internal devaluation**" forces wage adjustment
- **End of ambition for convergence**; **"South"/ "periphery will have to stay poorer; lower real wages, to compete within EU**
- **Loss of choice of social democratic development path**

The role of the EU in risks to governance

- **Dominance of finance and economic actors**
- **Troika EAPs** *prioritise banks and foreign bondholders* (some change with Cyprus "bail-in")
- **Astonishing surveillance – *and intervention in national* choices** *MoUs and "two-pack"*

- **ECB** *outside its remit*; IMF> big leverage for small stake
- Interference in domestic constitutional or traditional social rights
- **EC and ECB conflict of interest**
- ***EC did not respect its role as Guardian of ALL Treaties: big impact on poverty***

Social resistance to "austerity" strategy

- Loss of support for governing parties; loss of trust in Parliamentary politics; rise of populism
- Trades union marches; "Alternatives"; "green new deals"
- New social movements: "Squares"/ indignados"/ "don't pay"/ platforms and petitions
- More communal interventions: co-ops/ currency networks
- Church and other NGO action, especially on destitution

<u>Problems for effective response</u>

- "**Shock and Awe strategy**", lack of wider European public awareness and polarised public opinion
- **Vulnerable have weakest voice**
- Trades union leadership?

DG Employment, Social Affairs & Inclusion: What is Commissioner Andor's view?

(Source: Andor: The Europe 2020 Strategy beyond the crisis /14/263 31/03/2014

- *Due to the shortcomings in the EMU's design, and with fiscal policies heavily constrained, the macroeconomic adjustment process took a form which has <u>an extremely high social cost and should not be acceptable in the EU</u> in my view…*
- *…enable the EMU to absorb asymmetrically distributed cyclical shocks <u>without obliging the affected countries to go through austerity and internal devaluation and thereby undermining aggregate demand in the whole monetary union, with devastating social consequences</u>*

Does Commissioner Andor or DG Employment, Social Affairs & Inclusion have any influence?

So is it all over now – or all over Europe?

Ireland and Portugal now out of EAPs; Greece is back in bond markets; Spain did not need a full EAP; Cyprus "bail-in"

- **Success?** ***yes - in extracting the cash****; but*
- Before the financial crash, countries did not share same economic structure, debt profile or poverty risks, but they got the same medicine. Result?
- **Total public debt higher** than before EAPs
- "Zombie" banks, weak or no growth, **not back at previous output per head – or even previous output at all**
- **Wealth transfer away from poor and middling groups and the state** to: private businesses and high net worth individuals
- **Higher poverty plus inequality is rising** again
- EU Social scoreboard - **EU won't meet 2020 targets** e.g. employment, poverty and increasing divergence

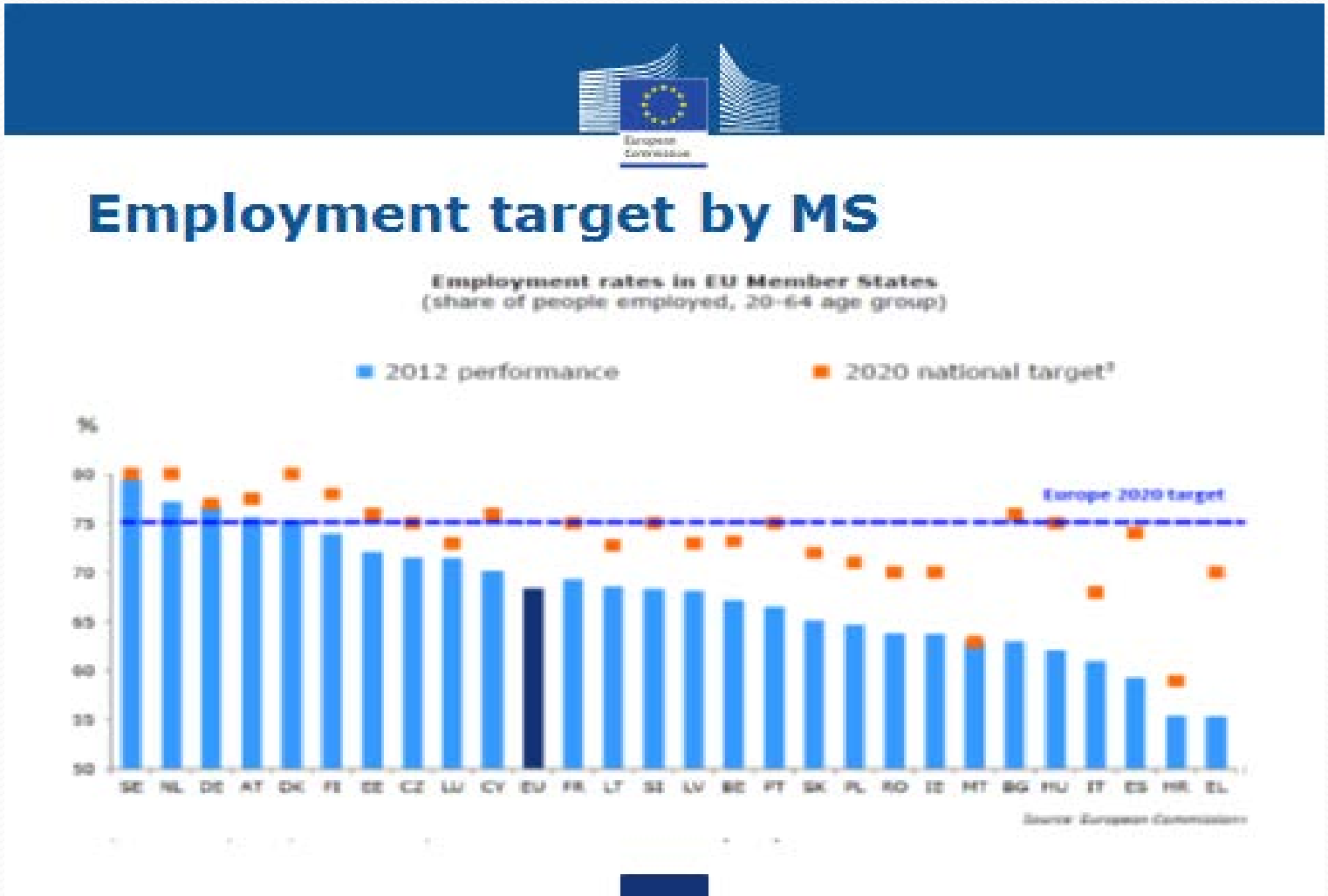
- ***No real change to underlying drivers of crises***

EC "scoreboard" on social risk

See: The Europe 2020 Strategy beyond the crisis

European Commission - SPEECH/14/263 31/03/2014 László ANDOR

Targets not hit: e.g. employment, poverty and increasing divergence



So…is it all over now?

Are we talking about the economic crisis/ poverty risks /democracy risks/EU integration risks?

NO

NO

NO

NO

NO

Thomas Piketty (2014)

Capital in the twenty-first century

Belknap Harvard University Press

- Long-run trends in **inequality : inverse "U"**
- **Returns to capital outrun growth and wages**

<u>Tax justice to support social Europe?</u>

- **Total tax take: rose with social state; stable or falling since 1980s**
- **Top income tax rates cut back**
  - USA 1919 77%; dropped from 70% in 1980 to 28% in 1988
  - Prussia: 3% 1891; 4% 1915; 40% 1919; Germany 45%
- **Private wealth in Europe is worth 5 years of GDP**
- A 1-2% annual tax on capital would = 2 % of European GDP"

- It is NOT the "end of history" (Francis Fukuyama)
- ***Political, economic and social balance of powers can be changed***

What can Germany and the German trades unions do?

Help us make a future worth having

Keep an international outlook

- Support **transparency & democratic accountability of EU**
- **Push harder for a change in objectives of Fiscal Compact and EAPs and proposed Competitiveness Pact**
- **Demonstrate the relevance of German institutions** in supporting German levels of political consent and productivity

Open a real debate and defence of the purpose and future of European social states

- Launch an **organised fight by ETUC against rising poverty and support a powerful social Europe**
- **Lead on building a strong alliance** of trades unions and NGOs in Europe, for adequate income in and out of work; preventing exploitation and unfair competition

See EAPN's report of the Troika on

http://www.eapn.eu/en/news-and-publications/publications/eapn-position-papers-and-reports/new-eapn-report-on-troika-programmes-and-impact-lifeboat-or-life-sentence

and on the crisis on

http://www.eapn.eu/en/news-and-publications/publications/eapn-position-papers-and-reports/eapns-new-position-paper-on-the-crisis-re-engaging-hope-and-expectations-getting-out-the-crisis-together-alternative-approaches-for-an-inclusive-recovery

Thank you for listening to a lot of English and good wishes for leading a change!

With many thanks to the EAPN Troika task force members: Graciela Malgesini; Sandra Araújo; Nikos Ntasios; Sebastian Năstuță; Philip O'Connor
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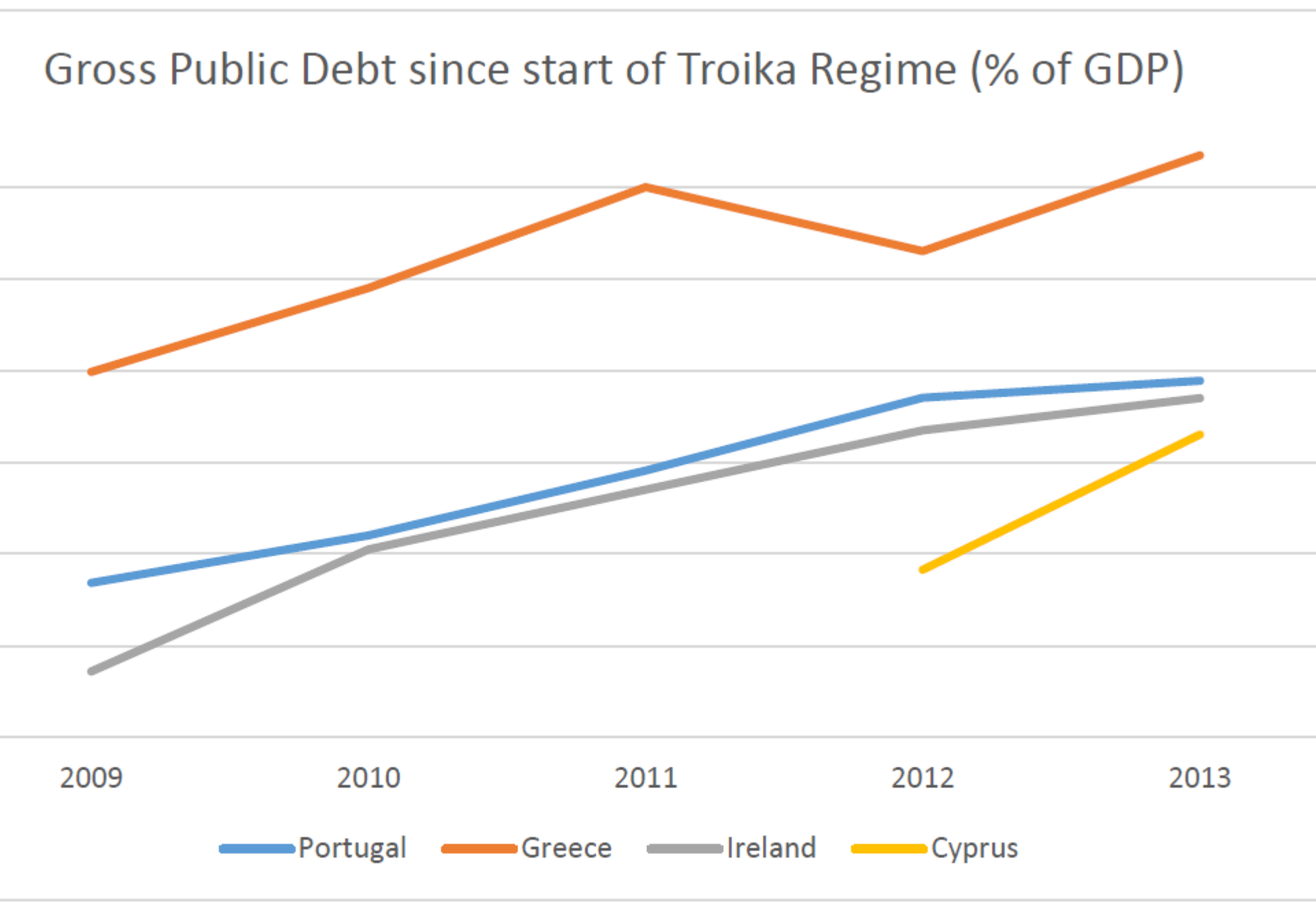
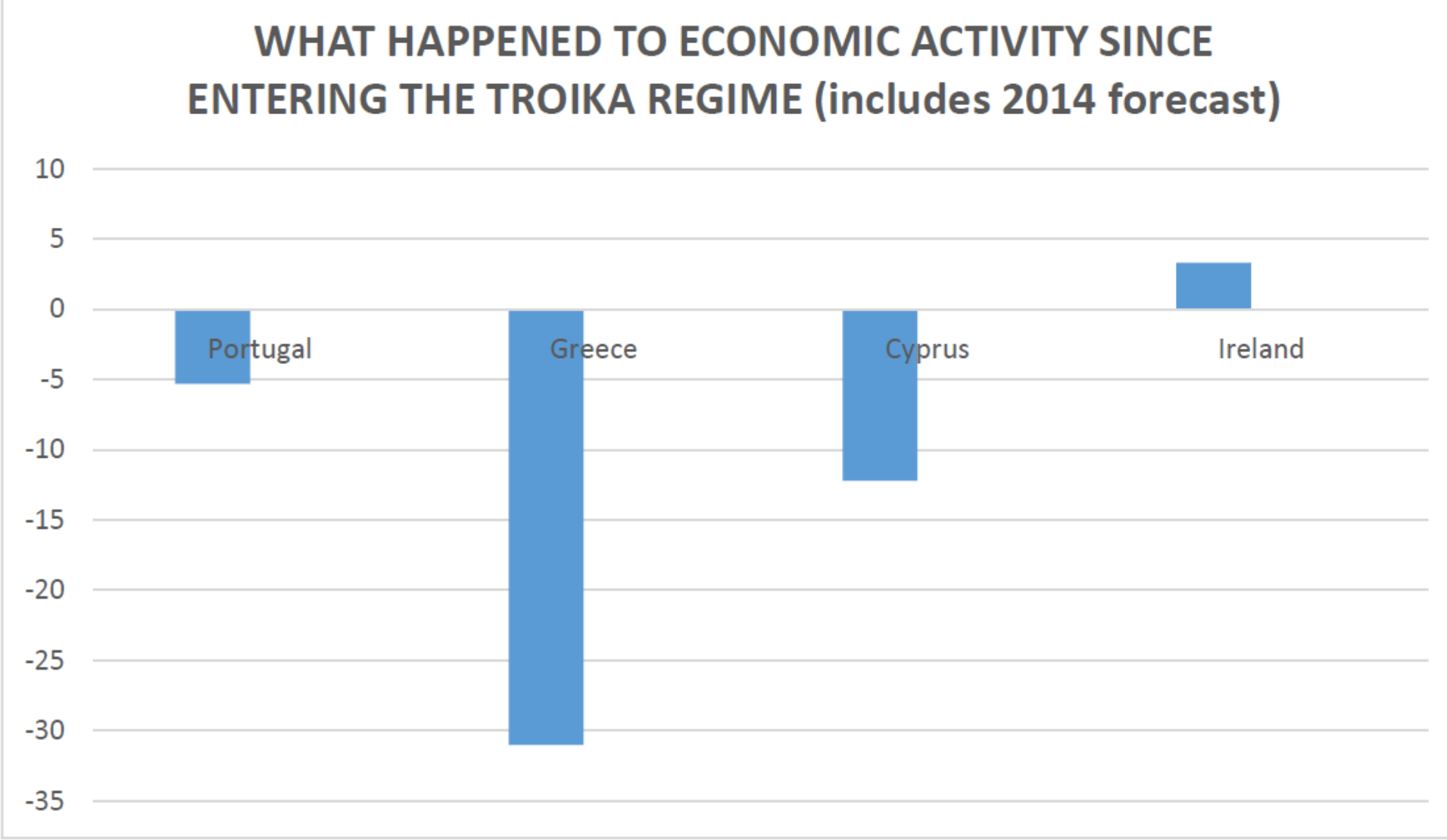
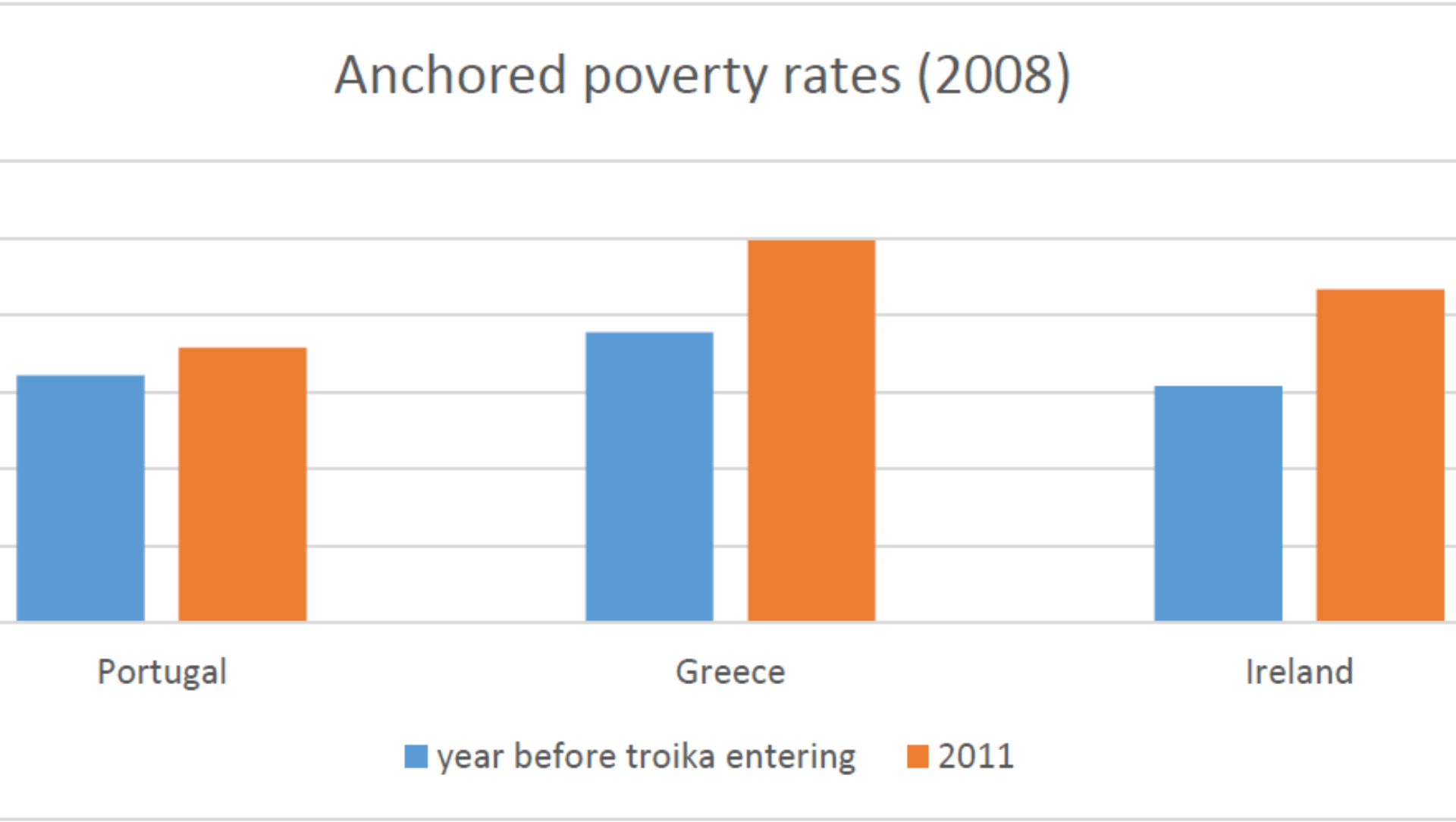
Appendix 1 ETUC 2014 data

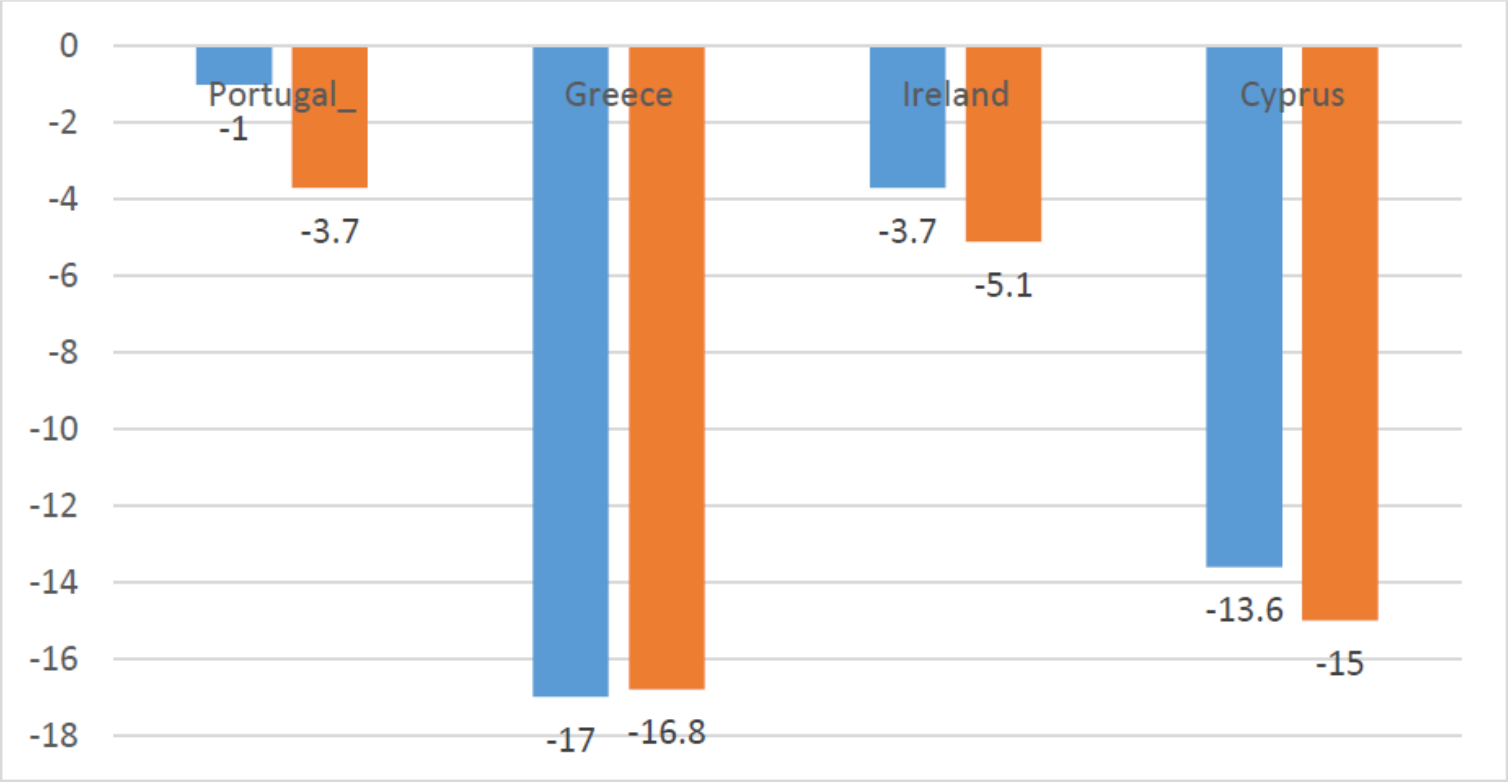
- Public debt up
- Economic activity down
- Risks of poverty up
- Real wages down


Gross Public Debt since start of Troika Regime (% of GDP)
2009
2010
2011
2012
2013
Portugal
Greece
Ireland
Cyprus


WHAT HAPPENED TO ECONOMIC ACTIVITY SINCE ENTERING THE TROIKA REGIME (includes 2014 forecast)
10
5
0
-5
-10
-15
-20
-25
-30
-35
Portugal
Greece
Cyprus
Ireland


Anchored poverty rates (2008)
Portugal
Greece
Ireland
year before troika entering
2011

EVOLUTION OF NOMINAL AND REAL WAGES PER EMPLOYEE SINCE START OF TROIKA PROGRAM AND UP TO 2014

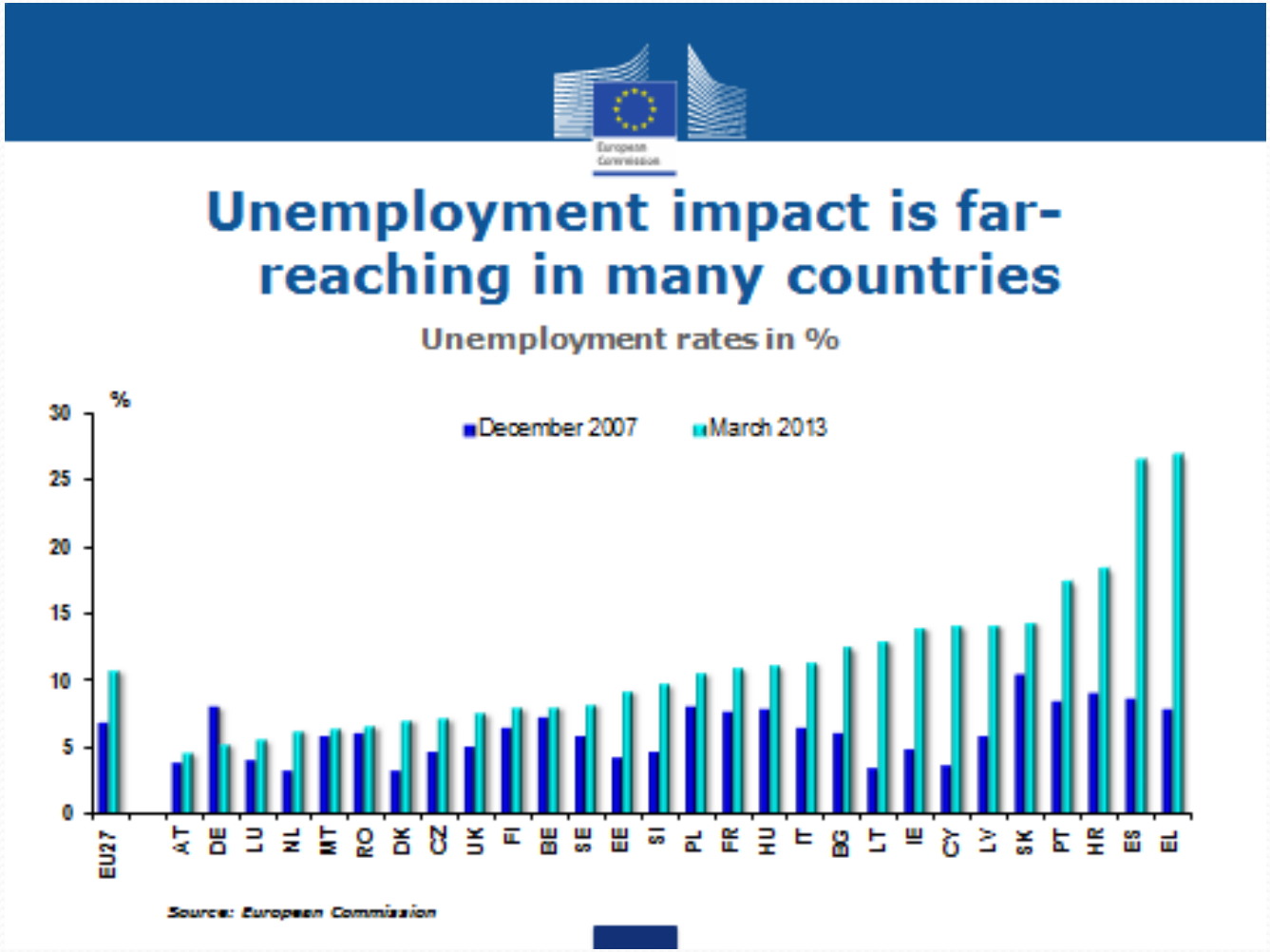


Appendix 2: EU social scoreboard

- Will not hit 2020 targets
- Employment rates down; risks of poverty up
- Greater divergence

Social Scoreboard continued...

Source: speech by L Andor 31 March 2014



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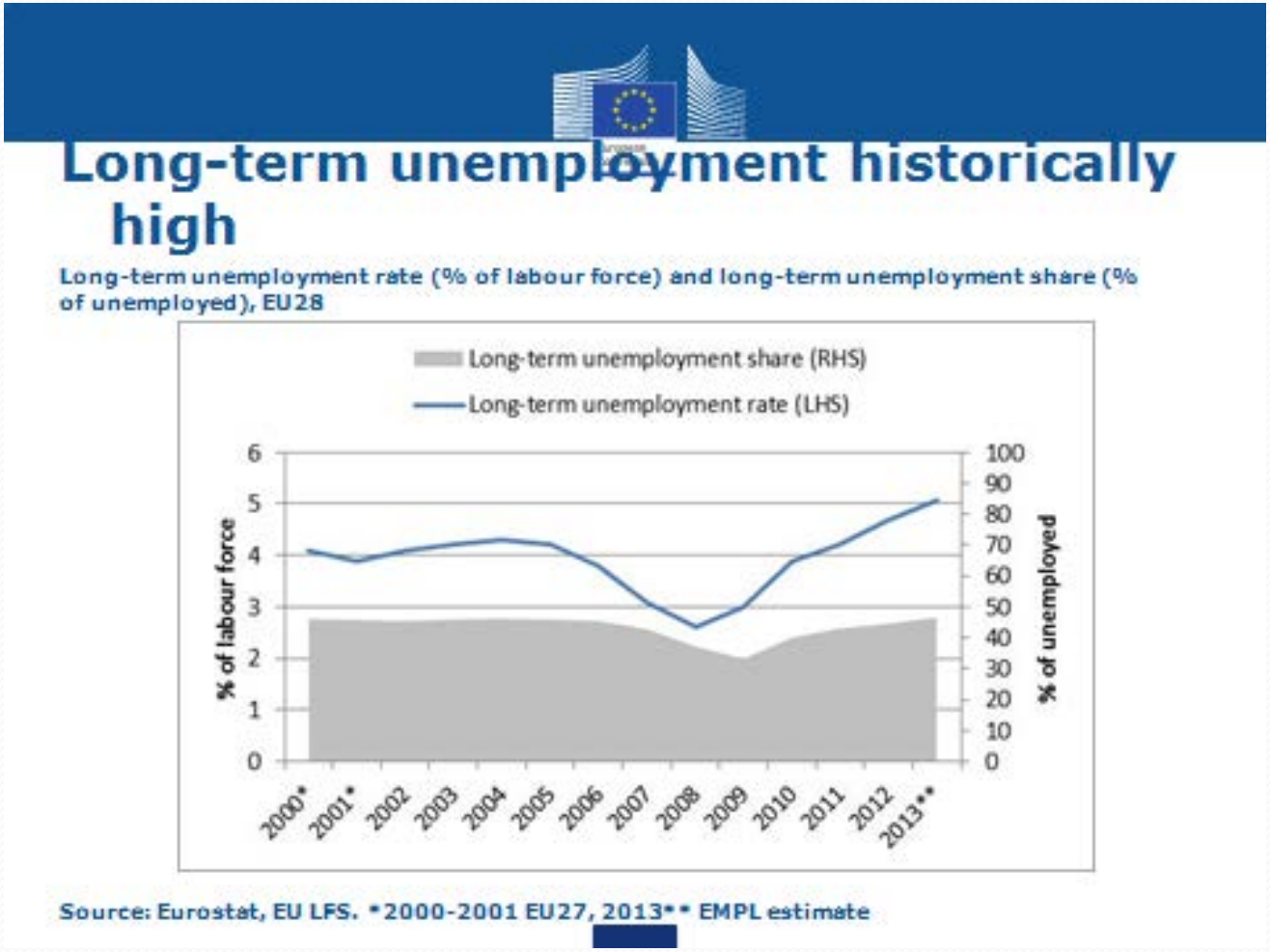

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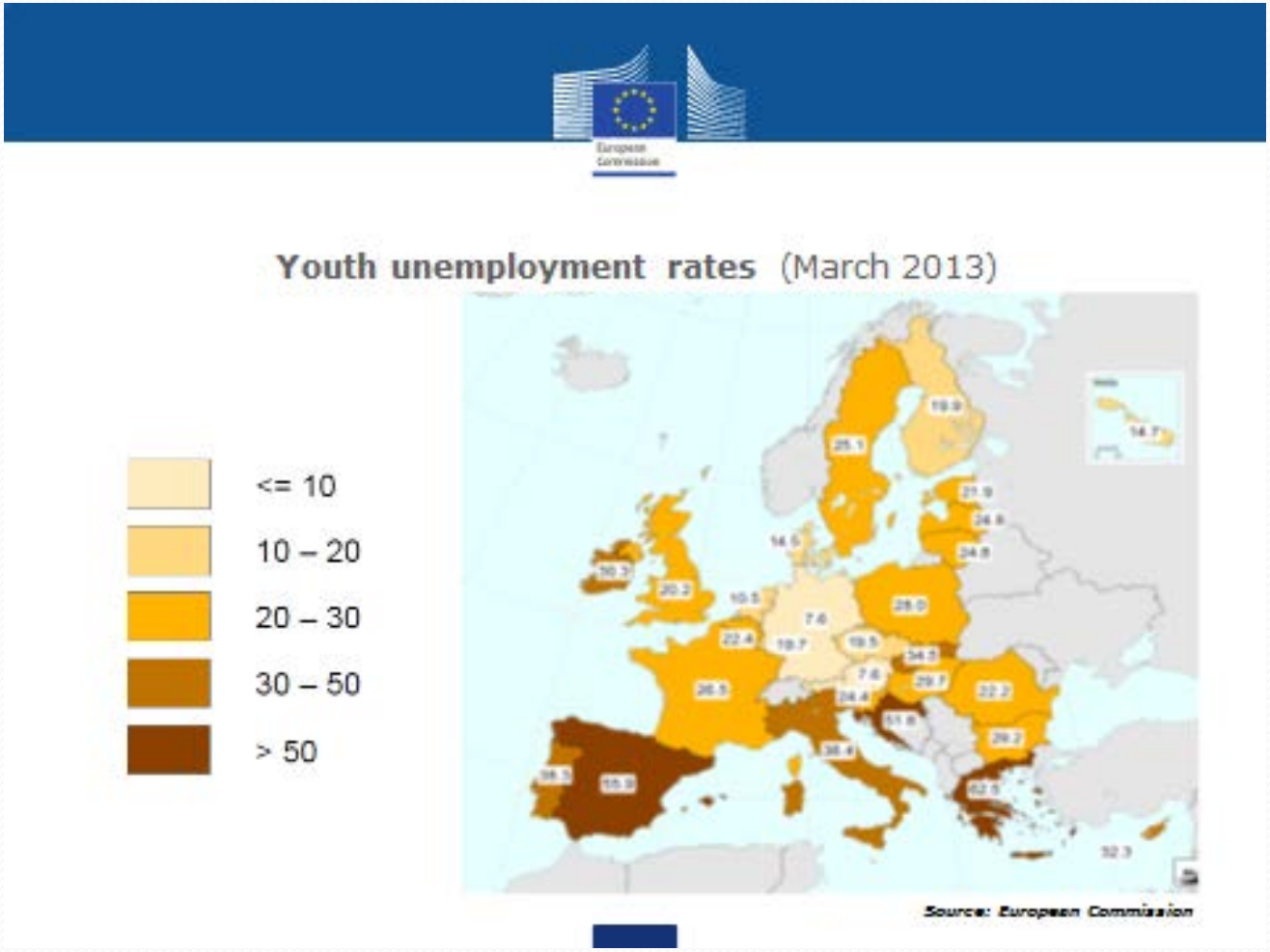

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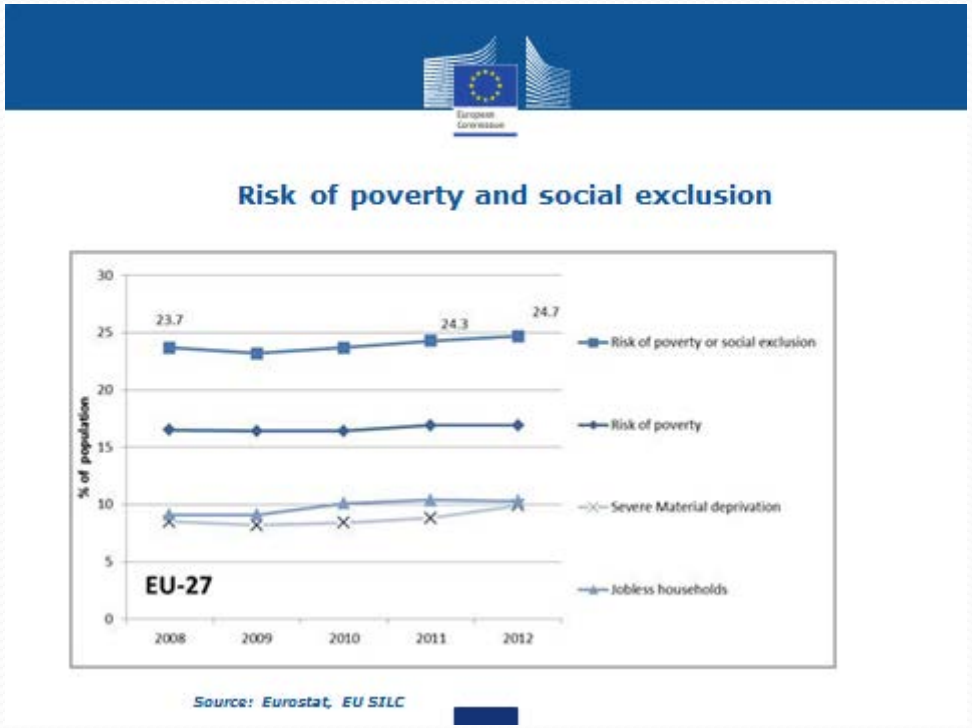

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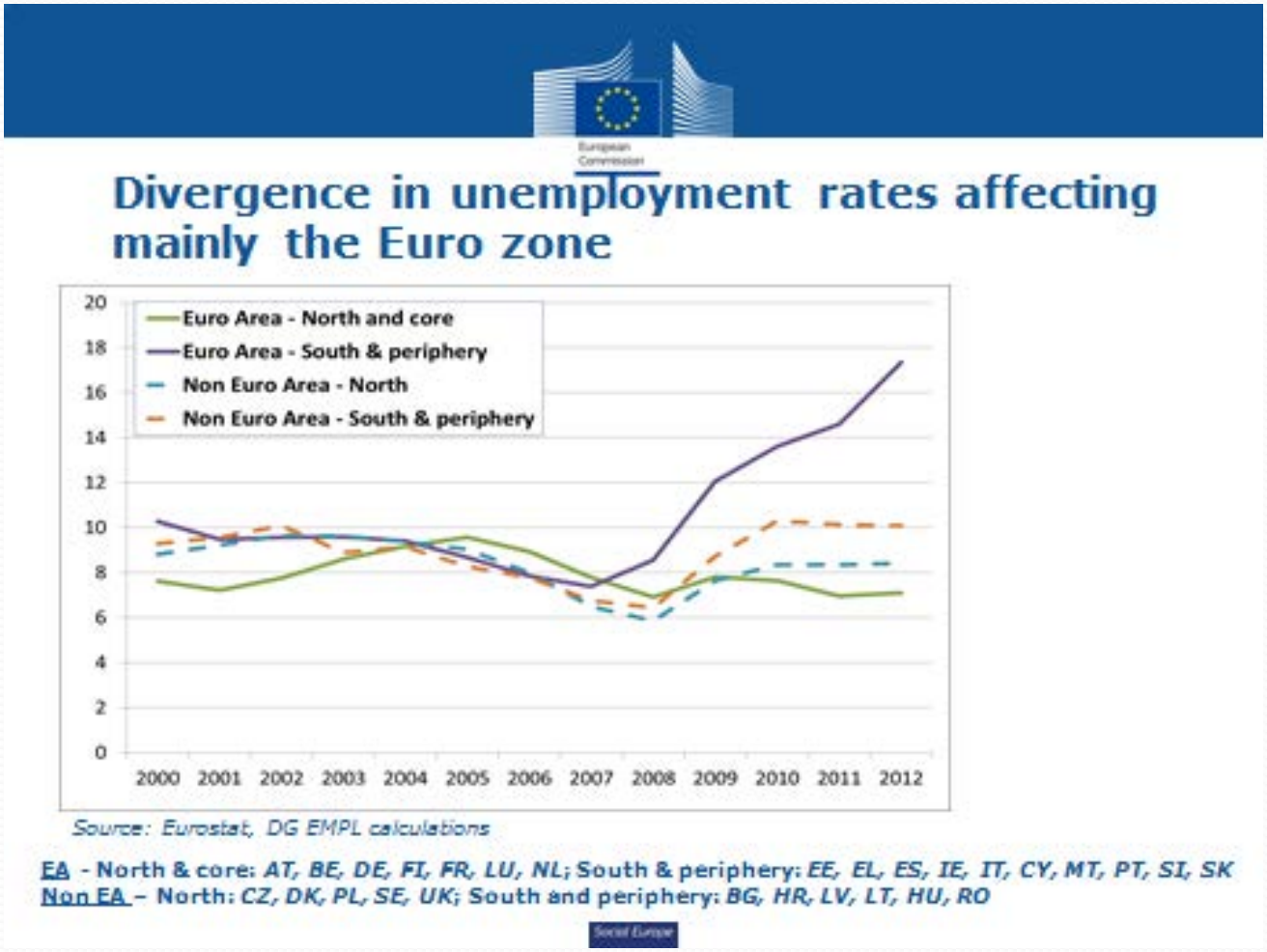

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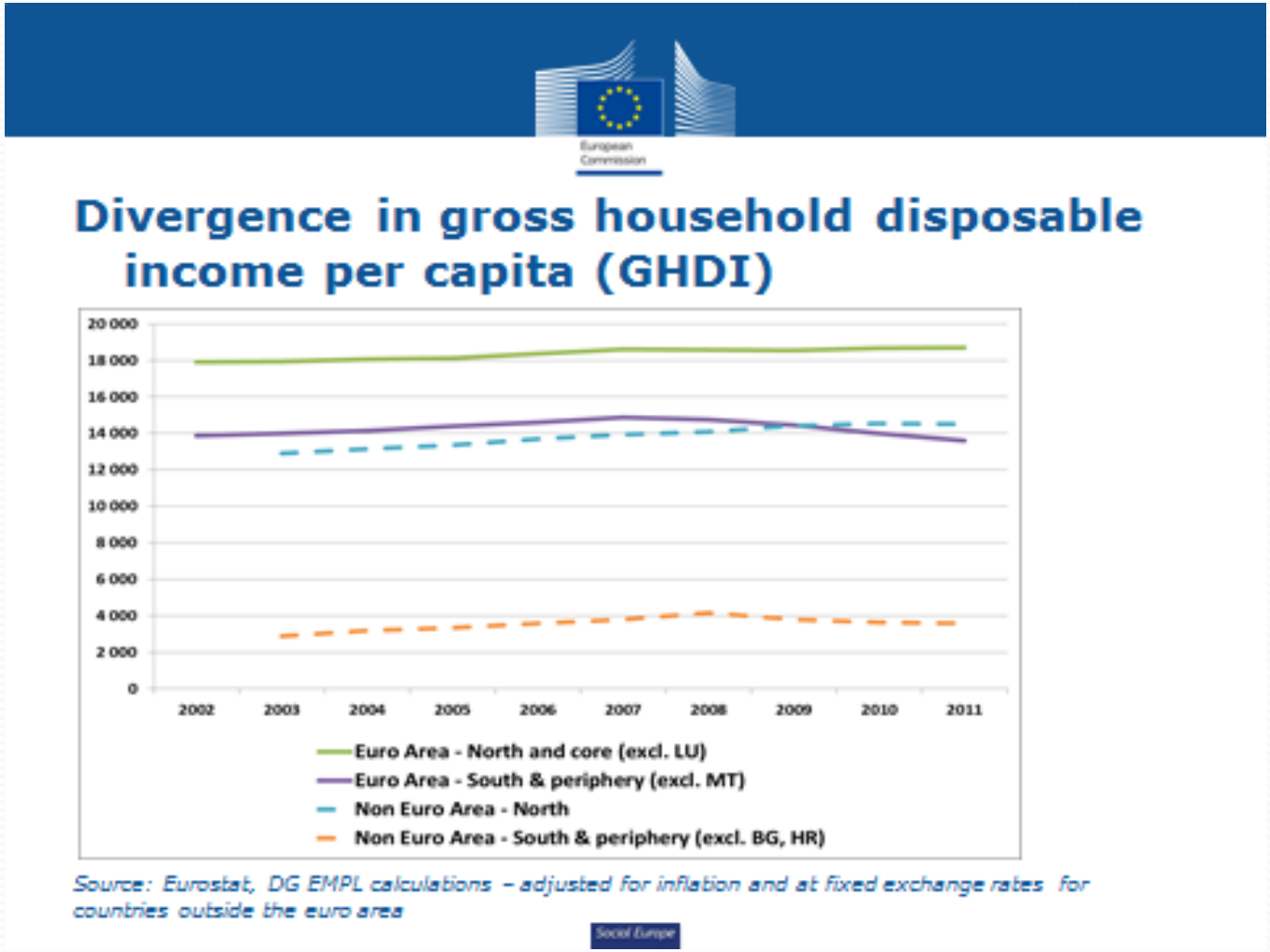

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