EU NEW TARGETS, INDICATORS ANT TOOLS TO ADDRESS POVERTY IN THE CURRENT CRISIS

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I. Introduction: The failure in the traditional EU framework to address poverty

The eradication of poverty has been present in a broad sense within the internal market objectives relating to the welfare of citizens and the equalization of living standards in a more progressive direction. The European Council of 22 July 1975, agreed upon a European definition of poverty as the situation of people with insufficient income to have a standard of living considered acceptable in the society in which they live. From that moment, we can observe the beginning of explicit community action, as the European Commission launched the first program to combat poverty. The Treaty of Amsterdam provided a legal basis for this action by introducing the eradication of social exclusion as an objective of EU social policy. However, the real milestone regarding poverty in the EU policy was reached at the Lisbon Summit in 2000. The Council stated that the number of people in poverty in the EU was unacceptable (European Council 2000) and, accordingly, launched the Social Policy Agenda (European Commission, 2000), setting up a method to operationalize this policy: the Open Method of Coordination (OMC), combining national action plans and initiatives of the Commission to promote cooperation. Consequently, a new focus on poverty and social exclusion ensued, following a social policy dedicated to employment (Connor, 2005). Moreover, a significant change in the scope of the term and dimensions of poverty took place (Volkert, 2006). The EU moved to a multidimensional approach, extending the idea of financial poverty to include aspects of education, employment, housing and health. This focus was coherent with the subsequent formulation of structural indicators urged by the European Commission (Atkinson, 2002; Atkinson et al. 2002).

It is noteworthy how the OMC defined common objectives and compared good practices between Member States in the field of poverty reduction. However, the trend of "Europeanisation" of economic policy towards the nationalization of social policy has persisted (European Commission, 2005). The *Renewed Commitment to Social Europe* (European Commission, 2008) was subsequently developed to correct this imbalance; it encouraged Member States to apply the methodology of the Lisbon strategy for social issues, adopting quantitative goals based on indicators, including poverty reduction.

Despite these attempts, and following the analysis performed by Frazer and Marlier (2010), we agree that the OMC clearly failed in achieving the Lisbon targets—little progress was made on poverty alleviation. Among the reasons given to explain this failure, we underline the lack of interaction between the social OMC and the Growth and Employment schedule, as well as the lack of clear quantitative social targets. In the same vein, the status of the social OMC was diminished in comparison to employment and economic policies. It remained a "soft" coordination process: the Commission was not authorized to issue policy recommendations for Member States, and no sanctions existed for those that did not reach the targets. Consequently, national governments failed to effectively integrate the OMC into their social policymaking. The inclusion of social aims in the National Action Plans resulted in a rather bureaucratic process.

In this context, we consider the breakout of the economic crisis in 2008 and its social consequences on poverty and social exclusion, which are still evidenced today. This article focuses on this period and on the novelties of the action developed by the EU to address poverty. The relevance of the topic is given, first, by the increase in and features of poverty— what will be supported by statistical data—and second, by its insertion in the important academic and social debate about the EU economic policy during the crisis and its effects on social objectives.

We question how the rules of new economic governance that unfolded during the crisis have contributed to the coordination and supervision of national action to tackle poverty. We aim to assess whether the new framework has bettered the Europeanisation of policy in this field. For this purpose, first, we discuss why we consider the studied period a new stage in the EU policy to combat poverty; special attention will be paid to effects on cohesion objectives. Second, we will highlight the most significant initiatives launched in this field by the EU according to their innovative focus or their contribution to a more effective coordination of Member States.

This paper presents partial results of a research in progress. In the next phase, the assessment on the impact of new EU tools to combat poverty in national policies combating poverty will be carried out.

2. Poverty affecting key cohesion objectives

We consider the period studied (2008-2015) to constitute a new phase in tackling poverty in the EU. We support this assessment with two diverse considerations: On the one hand, how the increase in and features of poverty affected key objectives of integration and social cohesion. On the other hand, how the new context of fiscal consolidation provides an answer to the crisis and the austerity policies derived from it.

Regarding the first aspect, we can verify the importance of poverty in the EU according to different approaches and indicators:

Table 1. Approach to the poverty situation in the current phase of the crisis

INDICATOR	% EU POPULATION
AROPE: Population at risk of poverty or exclusion	24%
Population at risk of poverty after social transfers	15.9%
People at severe material deprivation	9.9%
People in households with very low work intensity	10.3%

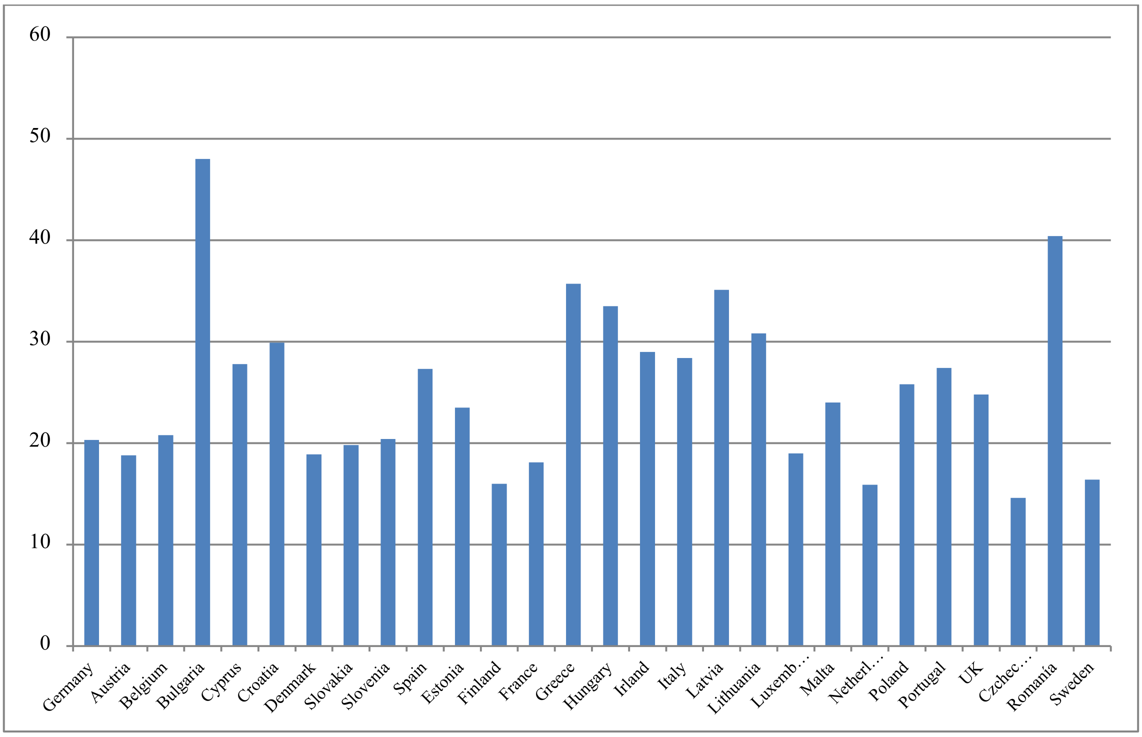
Source: Elaborated by the author from Eurostat data (obtained in 2012)

Moreover, quantitative data support the conclusion that poverty and social exclusion increase in depth and duration. During this period, the poor are poorer; the crisis has notably accentuated the polarization between rich and poor households (OECD, 2013;

Caritas Europe, 2013; EAPN, 2014). The most vulnerable groups are children, immigrants and the working age population, given the connection between poverty and the precarious labour market (European Commission, 2013a, European Commission, 2014f).

It is noteworthy how the increase in poverty occurs in different ways in diverse Member States, accentuating the divergence between countries since 2010. This is due to a weak increase in poverty in the North, with a higher increase occurring in the South. States that do not belong to the Economic and Monetary Union have maintained more stable rates of poverty. The drop in disposable income in households throughout the crisis has been more significant (approximately 4%) in Ireland, Greece, Spain, Italy, Portugal, Hungary and the Baltic States, mainly due to a deteriorating labour market. In contrast, the impact of the recession on household income and demand was mitigated in the continental and Nordic countries thanks to more stable employment behaviour.

Graph 1. Percentage of the population in the EU at risk of poverty or social exclusion by country



Source: Elaborated by the author from Eurostat data 2014 (obtained in 2013)
Data for Ireland not available in Eurostat, obtained from EU-SILC

The divergence in the EU is evidenced: The difference in the risk of poverty or social exclusion reaches 30 points, as shown between Austria and Bulgaria. At the same time, the evolution in the percentage of poverty and social exclusion (*Table 2*) shows the special impact of the crisis in Eurozone countries. Conversely, the risk of poverty decreases by more than 10 points for those countries joining the EU since 2004.

Table 2. Divergent effects of the crisis on poverty and social exclusion. Percentage of total population at risk of poverty or social exclusion (AROPE indicator) by geographic area

GEOGRAPHIC SCOPE	2005	2008	2013
EU (28)			24,5
EU (27)	25,7	23,7	24,4
EU members joining since 2004	41,0	31,7	30
Eurozone	21,7	21,7	23

Source: Elaborated by the author from Eurostat data

3. Addressing poverty under the current fiscal consolidation framework

Within the diversity found among the States, we highlight the role played by fiscal consolidation. As the crisis deepens, social protection systems are incapable of responding to the challenges encountered. At the same time, the rules that extend the budgetary discipline and coordination of economic policies do not assess the impact they can have on cuts in social expenses. Neither the Treaty on Stability, Coordination and Governance nor the so-called "Two Pack" and "Six Pack" regulations warn about the dangers of excessive adjustment in a recession (Alesina & Ardagna, 2009). This lack of governance on how these spending cuts should be applied has been one of the most criticized aspects of the new framework (Karger, 2014; Semmler, 2013). In our view, these rules should have distinguished between less and more productive public expenditures in order to prioritize cuts. By doing so, negative effects in terms of cohesion could have been mitigated.

In this regard, numerous studies have highlighted how the austerity measures are weakening the mechanisms to combat inequality and accentuating a less equitable distribution of income (Caritas Europa, 2013; International Monetary Fund 2013, Hemerijck, 2013, Cotarelli, 2012). Although at the beginning of the crisis, social spending played a key role to cushion its effects, since 2010, the support to household income has fallen and the structure of social protection expenditures has been affected. Fiscal consolidation is also having clear effects on income distribution, with the added danger of regression, as it is affecting more lower-income groups (Dhéret, C., Zuleeg, F, 2010; Budd, 2013).

In this vein, the European Commission itself assess how, in the context of crisis, the design of fiscal consolidation measures is impacting the ability of social systems to provide effective and appropriate policies. According to the studies on which this analysis is based (Avram, 2014), the Commission highlights the impact of fiscal consolidation policies on the poorest segments of the population, who suffer the most consequences of social expenditure cuts. However, these conclusions cannot be equally applied to all Member States.

4. Novelties in the EU policy to address poverty

During a short period of time (from 2008 to the present), we observe an important number of EU initiatives regarding poverty. The connection between the crisis and poverty is set out not only in terms of cause and effect but also regarding the difficulties that poverty itself poses for ending the crisis. The EU approach is inserted into the current consensus about the negative effects of inequality on growth (Piketty, 2014; Berg, 2014; Stiglitz, 2014, Ostry et al., 2012). Our objective is not to expand on the contents of these initiatives but to highlight their innovative aspects and main contribution to the EU policy to tackle poverty. With this aim, we can synthetize the following points:

- Targeting the objectives of poverty reduction

The Europe 2020 Strategy (European Commission 2010) innovates by setting out a concrete goal for the EU to reach by 2020 on poverty and social exclusion (getting at least 20 million people out of this situation). The combination of indicators to measure the progress includes the number and percentage of the population at risk of poverty, people living with severe material deprivation and people living in jobless households. This targeting is coherent with a tendency to reinforce the monitoring of social progress, bettering the social indicators and their supervision, as evidenced in the Communication from the Commission on *Strengthening the Social Dimension of the Economic and Monetary Union* (European Commission, 2013c) or in the *Political Guidelines for the New Commission* given by Juncker (2014).

- Emphasizing the multidimensional approach to poverty

Although the initiatives at the very beginning of the crisis focused on active inclusion European Commission, 2008b; European Council, 2008), the *European Platform against poverty* (European Commission, 2010b) broadly extends the aspects of poverty to be considered, such as homelessness, energy poverty or financial exclusion. It also gives special consideration to the territorial dimension of poverty, as people in extreme poverty are often concentrated in small geographic areas. Finally, the *Platform* addresses the entire lifecycle, focusing on some population groups that are especially at risk: children, youths, single parents, households with dependents, immigrants, certain ethnic minorities and people with disabilities.

- Promoting social innovation and social economy as means to tackle poverty

In the context of social cuts where these initiatives take place, we consider relevant the role given to a new social focus in the internal market. We interpret this choice as a tool to counterbalance the reduction of social expenses by reinforcing social emphasis elsewhere. In this vein, following the *European Platform against Poverty,* the proposal *Regulation for change and innovation* was launched (European Commission, 2011b). This initiative promotes employment and social inclusion through the availability and accessibility of financing. It aims at solving the poor access to financing experienced by social enterprises and the unemployed, people at risk of losing their jobs and those who belong to disadvantaged groups (youth, elderly, migrants, etc.). Noteworthy is the commitment to the promotion of the social economy as a tool for inclusion, consequently driven by the *Initiative for Social Entrepreneurship* (European Commission, 2011c). The role of social entrepreneurs in building social inclusion and investment in human capital is explicit; consequently, an action plan is presented to encourage the development of businesses with primarily social objectives that reinvest their surpluses in business or in the community.

- Promoting a social investment strategy to combat poverty

In the same direction, a new focus on social investment was provided in 2013 with the *Communication on social investment and cohesion* (European Commission, 2013d). This approach aims to reorient the policies of Member States towards social investment to ensure the adequacy of social systems in the new demographic and financial situation. The economic cost of unemployment, poverty and social exclusion in the EU are compared to the benefits obtained from social investment. Quantification of these costs is counterbalanced with increased health care costs and security policy as well as losses of productivity and public revenues through taxes and social contributions. Moreover, the intergenerational transmission of these costs for children in disadvantaged families is emphasized as perpetuating vulnerability. Accordingly, the Commission raises the importance of assessing the "opportunity cost" of social investment by quantifying the expected gains in the EU. Coherent with this approach is the Communication *Investing in children: breaking the cycle of disadvantage* (European Commission, 2013d).

- Strengthening the European funding against poverty

During the studied period, and accompanying the initiatives mentioned above, the certain EU financial instruments that may be useful to reduce poverty and exclusion were mobilised. Under the social investment approach, as expressed by the Commission, the response to the financial challenges requires the best possible use of EU funds, avoiding duplication and systematically guiding funding decisions towards results (European Commission, 2013c). Especially significant measures were taken by the Council of June 2012 (European Council, 2012) to mobilize European spending, particularly, to support employment, growth, competitiveness and convergence, consistent with the Europe 2020 Strategy. In addition, the loan capacity of the European Investment Bank was increased (European Commission, 2012a). Along with this, the so-called Package for Social Cohesion instruments 2014-2020 (European Commission, 2012b) is one of the most important investments in the social objectives of the 2020 Strategy, absorbing more than a third of the total budget for the period. In particular, the European Social Fund is fully aligned with the objectives of the Union for education, employment and poverty reduction; at least 20% of allocations to each Member State should be used to pursue investments that fight against social exclusion and poverty. As recent significant progress in this field, we highlight the creation of the Fund for European Aid to the Most Deprived (European Commission, 2014a), which was set up to give aid to the most vulnerable population, in particular to those most affected by the crisis. This fund will receive 3.8 billion euros in the period 2014-20, co-financing up to 85% of material or in-kind help given by States.

5. Exploring the solidification of EU policy on Member States policies

After analysing European initiatives to tackle with poverty, we question to what extent they impact the policy of the Member States and whether the instruments to monitor their actions are appropriate. When the crisis broke out, the national policy to address poverty was coordinated under the above-mentioned Open Method of Coordination. This method used “soft law” measures, without mandatory directives, regulations or decisions. National governments chose their own national targets and policies to contribute to the overall EU target of reducing poverty. States Members designed their National Reform Plan, which involved defining national policies and the correspondent budgetary support. Consequently, governments had broad discretion in their social and fiscal policy, which made it difficult to control their compliance with the poverty objectives (Copeland & Daly, 2012). The inadequacy of this framework to face the challenges posed by the crisis and to fulfil the 2020 objectives quickly became apparent. Accordingly, a connection between the method of supervision of economic governance and supervision of social objectives has been increasingly demanded (European Commission, 2013c, European Commission, 2013d).

The inclusion of social objectives in the process of the European Semester is a step in this direction. It is noteworthy how, although it was launched in 2010 as a means of monitoring the objectives of economic governance, the European Semester progressively incorporates social objectives within the various stages of its procedure. Thus, addressing poverty is included in the formulation of objectives of every Annual Growth Survey (European Commission, 2010c; 2011d; 2012c; 2013f; 2014c). However, “poverty alleviation” is not expressed as one of the main objectives but is included under a more generic formulation mainly referring to tackling the social consequences of the crisis or reforming the labour market and social protection system.

To assess how these general objectives are solidified in the national policies, we analyse the Country Specific Recommendations (CSR) given to State members under the European Semester procedures from 2011 to 2015. The initial examination of these recommendations reveals that poverty alleviation has little prominence among the objectives that are prioritised, mainly regarding those referring to fiscal discipline. Recent assessments about the weight of diverse policy areas in CSR reveal that recommendations on fiscal policy matters, labour market policies and market policy measures account for more than 80% of the total. This suggests that some 2020 Strategy priorities, such as those referring to environmental or social aspects like poverty eradication, are perceived as less important or less accessible to EU effective action (Claeys et al., 2013; Gros, D; Alcidi, C., 2014: 13; de Finance, 2014).

Further steps in this research will be:

- Analysis and systematization of the Country Specific Recommendations given to all Member States since 2011
- Proposal of categorization of those recommendations related to poverty
- Assessing the precision and effectivity of these recommendations
- Evaluation of the concordance between country situation and CSR (relation to poverty indicators)
- Assessment of the validity of the supervision of compliance with CSR

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