



EU NETWORK
OF INDEPENDENT
EXPERTS ON
SOCIAL INCLUSION

SOCIAL IMPACT OF THE CRISIS AND DEVELOPMENTS IN THE LIGHT OF FISCAL CONSOLIDATION MEASURES

HUGH FRAZER AND ERIC MARLIER
(SOCIAL INCLUSION POLICY AND PRACTICE, CEPS/INSTEAD)

FEBRUARY 2011

MAIN FINDINGS AND SUGGESTIONS ON THE WAY FORWARD



On behalf of the
European Commission
DG Employment, Social Affairs
and Inclusion

*Disclaimer: This report reflects the views of its authors
and these are not necessarily those of either the
European Commission or the Member States.
The original language of the report is English.*



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1. Context

This short report was produced in the context of the European Union (EU)'s work on social inclusion issues. It focuses on the social impact of the crisis and developments in the light of fiscal consolidation measures in the 27 EU countries. It summarises the main findings from an analysis of country reports prepared by members of the EU Network of Independent Experts on Social Inclusion in the Autumn 2010 in their respective countries.¹ Drawing on both the independent experts' country analyses and the Network Core Team's overall assessment, it also puts forward a series of suggestions for monitoring and strengthening the social inclusion dimension of fiscal consolidation measures at both national and EU levels.

2. Main Findings

2.1 Overall impact of the crisis

2.1.1 Deepening impact but wide variation across and within Member States

Recent detailed statistical data on the poverty and social exclusion impacts of the financial and economic crisis are still largely missing in most countries and there have been few attempts by Member States to systematically monitor these impacts. However, the growing amount of evidence available from administrative records (e.g. increase in the number of beneficiaries of benefits and social services) and the higher demand on emergency social services (e.g. social NGOs) show a deepening impact since the previous experts' assessment a year before (Autumn 2009). Although the severity of the economic crisis is (slowly) easing in the majority of Member States and there is a (often modest) return to economic growth and, to a lesser extent, employment growth, this has still not significantly benefited those at the bottom. In most countries, the poverty impacts seem to be worse in 2010 than 2009. This can be attributed to two different things. First, there has been a time lag in the impacts of the crisis fully hitting people. As people move from short-term to long-term unemployment and as assets and savings are exhausted, poverty and social exclusion deepen and become more entrenched. Secondly, as many Member States move from (more or less) successful counter cyclical efforts to cushion the worst effects of the crisis and switch the focus increasingly to fiscal consolidation and austerity packages, in a significant number of countries there is a cut back in income and employment support and in social services and there are increases in taxes, particularly indirect taxes such as Value Added Tax (VAT). This is disproportionately hitting the poorest and most vulnerable.

The severity and persistence of the poverty and social exclusion impacts of the crisis vary widely across the EU. In general, the poverty impacts are worst in those countries which have faced the biggest falls in GDP growth rate and which have the highest unemployment rates. Another important factor is the coverage and generosity of social protection systems. Those

¹ The EU Network of Independent Experts on Social Inclusion supports the Directorate-General for Employment, Social Affairs and Inclusion of the European Commission in its task of assessing independently the implementation of the EU's social inclusion policies. The Network consists of independent experts from each of the 27 Member States as well as from Croatia, Former Yugoslav Republic of Macedonia (FYROM), Iceland, Serbia and Turkey. For more information on the Network members and reporting activities, see: <http://www.peer-review-social-inclusion.eu/network-of-independent-experts>. And for more information on the overall project "Peer Review on Social Protection and Social Inclusion and Assessment in Social Inclusion", see: <http://www.peer-review-social-inclusion.eu>.

Member States with very limited income support systems and already high levels of inequality also seem to have suffered. The extent of additional measures aimed at cushioning the worst effects of the crisis also seems to be a significant factor. Thus countries which did not introduce (or had very weak) packages to cushion the effects of the crisis have had severe poverty and social exclusion impacts.

In a few countries, the crisis has had relatively little impact in terms of poverty and social exclusion. Likewise, in several countries the impact has been significantly less severe than expected in part due to the government stimulation of the economy and interventions to keep people in jobs and to mitigate the worst effects of the crisis.

There have also been significant regional and local variations in some countries. So, even in some of the countries where the overall impact has been less severe in fact the impact has been quite strong in particular localities, such as in urban areas experiencing severe multiple deprivation and some social housing areas, or in certain regions where some particular groups of the population (unskilled young people, manual workers in mechanical engineering and subcontracting) and manufacturing sectors were particularly hard hit by the crisis.

2.1.2 Key Features

High levels of unemployment are the most evident and documented social impact of the crisis. The main burden of the crisis has been carried by those excluded from the labour market (unemployed, inactive and, to a less degree, retired). While unemployment appears to have peaked by mid-2010 or even begun to fall slightly in some countries though sometimes from very high levels, in some countries it has continued to rise.

Another effect of the crisis in several countries seems to have been to reinforce labour market segmentation with a general tendency for those at the bottom of the labour market (i.e. those in low skilled and precarious employment) to be hardest hit compared to those in middle to higher paid jobs and those in higher skilled jobs. Even in some countries with relatively low unemployment levels, there is growing evidence that vulnerable groups are increasingly being excluded from the labour market. There is also some evidence of a rise in atypical work and in-work poverty. This is even true in countries where unemployment has been less than expected. In some countries, there appears to be a rise in insecure and illegal employment and a growth of the grey economy.²

Certain groups have been particularly badly affected by the crisis: in particular young people (under 25s), those with low levels of education and training, households with children (especially lone parents and larger families), young people without family protection, immigrants, ethnic minorities (especially the Roma), those on temporary contracts and low-waged workers.

² See also: Frazer, H. and Marlier, E. (2010), *In-work poverty and labour market segmentation in the EU: Key lessons*, Overview based on the national reports prepared by the EU Network of Independent Experts on Social Inclusion, Brussels: European Commission. Available from: <http://www.peer-review-social-inclusion.eu/network-of-independent-experts/2010/second-semester-2010>.

There is growing evidence of a rise in income poverty, deprivation and indebtedness in some Member States. While recent “hard” data on income poverty is scarce, a useful “proxy” indicator of increase in low income is the growth in the number of people dependent on (often inadequate) social assistance payments (even though it has important weaknesses linked especially to the complex issue of take-up³). In some countries the cost of living for families with low income has increased much faster for low income households than high income households (for instance from the effect of increasing VAT on basic goods).

In several countries, there is a growing sense of insecurity, helplessness, hopelessness and fear among the poor and marginalised. This can lead to rising social tensions and a growing danger to social cohesion as well as to the fuelling of extremism, racism and sectarianism. Linked to this there is a loss of confidence in the capacity of governments to challenge growing inequalities and to take the necessary steps to reduce poverty and social exclusion. Also, in a few countries the situation, particularly as a result of very high unemployment and weak social safety nets, is seen as so severe that, unlike other Member States, emigration continues to grow in spite of the poor prospects in other countries.

2.2 Overall impact of fiscal consolidation

2.2.1 *Increasing but varied negative social impacts*

Most countries have introduced or are in the process of introducing fiscal consolidation/austerity packages in order to reduce budget deficits which increased significantly between 2007 and 2010. However, in many countries consolidation packages are very recent and the direct social impacts are not yet or are only beginning to become evident. Also the severity of the packages varies greatly across Member States. While in a few cases relatively little social impact is expected, in many countries, though the crisis is easing and employment prospects are improving, the measures that have recently been introduced (or are currently being introduced) will over the next few years be likely to hit the most marginalised worse and could deepen long-term unemployment. Even in several of the countries that were quite successful in limiting the negative impacts of the crisis and which see economic and employment recovery underway, some negative impact on social inclusion can still be expected as cutbacks will particularly affect those who are already socially excluded and will lead to further marginalisation and long-term unemployment. However, this may be mitigated to some extent by increasing tax revenues and increased domestic demand. One particular concern is that in countries with severe consolidation measures the distributional consequences will be regressive and that the growing gap between those dependent on out-of-work benefits and households with income from employment will get much worse.

In several countries, it appears that financial consolidation measures are already falling unfairly on the poor and that the political choice being made is to reduce deficits mainly at the expense of health, education and social protection. In these cases, the immediate future seems quite pessimistic as the combination of a lag in the labour market response to renewed economic growth with the ending of temporary cushioning measures and the cutbacks or freezing of

³ See also: Frazer, H. and Marlier, E. (2009), *Minimum income schemes across EU Member States - Key lessons*, Overview based on the national reports prepared by the EU Network of national independent experts on social inclusion, Brussels: European Commission. Available from: <http://www.peer-review-social-inclusion.eu/network-of-independent-experts/2009/minimum-income-schemes>.

benefits and essential services, will have significant negative impacts on social inclusion. Indeed, there are concerns that the frail economic recovery will not be able to withstand the impact of fiscal consolidation measures. In some Member States where very severe austerity packages have been introduced as the price for EU and International Monetary Fund (IMF) support, there appear already to be very severe but largely ignored social consequences. Efforts to cushion those who are most vulnerable have been quite limited and indeed the combination of the crisis and austerity packages is unduly hitting the poorest as cut backs in benefits and public services tend to have a disproportionate effect on those on the lowest incomes who depend on them most. In a few extreme cases, there has been a concentration on fiscal consolidation more or less at the expense of everything else from even before the crisis.

2.2.2 Failure to address structural issues

In several of the most badly hit countries there is a recurring concern that austerity packages are not being used to address fundamental structural weaknesses that contributed to the scale of the poverty and social exclusion problem in the first place. All the emphasis seems to be on preserving the stability of the banking system, enhancing the liquidity in the financial markets and dramatically reducing national deficits with a view to getting back to the situation prior to the crisis.

2.2.3 Balance of consolidation/ austerity packages

Five issues emerge as key in assessing the likely impact of consolidation/ austerity measures. First, how severe is the overall package of cuts? Secondly, what is the balance between spending cuts and tax increases, i.e. who pays the costs of adjustment? Thirdly, what is the pace of the adjustment? Is it spread evenly over a number of years with the hope that economic growth will contribute a large part of the adjustment or will it be front loaded with most of the adjustment being made in the early years? Fourthly, how evenly are cutbacks spread between different population groups: are some groups such as (poor) women and children hit harder than others such as pensioners? Fifthly, are some policy areas protected more than others (e.g. is health or education cut less than social protection)?

2.3 Policy developments in specific policy areas

2.3.1 Employment support and activation measures

In several Member States, the recession has had a more limited impact on unemployment than was originally feared. In part this can be attributed to the measures taken by countries to maintain employment. These have included: temporary reductions in working hours; temporary unemployment schemes; and immediate and intensive support and guidance for those becoming unemployed with special attention to disadvantaged groups (e.g. young people, older workers, people with a disability). However, a growing concern is that one of the key consequences of the shift of policy focus towards financial consolidation has been a cut back on active labour market measures and the withdrawal of temporary support schemes while unemployment is still high.

2.3.2 Adequate income

The important role of social protection schemes in cushioning the impact of the crisis for those most at risk is evident in many countries and several countries have taken additional measures to protect incomes. However, there appears to be a growing trend to limit social transfers. In some cases, this means actually cutting the level of payments and/or restricting access while in others it involves ending indexation and uprating arrangements. In a few countries, this has been the case from the start of the crisis but in many others it is associated with the introduction of financial consolidation measures. However, the extent of cutbacks and restrictions varies widely and core systems are being preserved in several countries. In some countries some tax changes, particularly increases in VAT and fuel taxes, will have most impact on those on low incomes.

2.3.3 Lack of impact assessments of policy changes

In most Member States, there is a lack of any *ex ante* social impact assessments prior to the introduction of fiscal consolidation/ austerity measures though in a few countries there are some efforts to assess the social impact of policies. Many Member States monitor the impact of the crisis from an economic and employment perspective but do not consider the impact on poverty and social exclusion. Even in some of those countries where social impact assessments are carried out they do not appear to have been used in this context. In countries where the EU has intervened directly in providing support, there are apparently also no signs that any consideration has been given to applying social impact assessments when agreeing rescue packages.

2.4 Four key issues

In addition to an overall assessment of the impact of financial consolidation schemes, the European Commission asked the EU Network of Independent Experts on Social Inclusion to look in more depth at four aspects of the crisis. These were: the impact of the crisis on services, in particular their delivery and quality; the extent to which long-term exclusion has increased as a result of the crisis; the interaction between social assistance schemes (i.e. the relative importance of unemployment and last resort schemes and the actual interaction between them in the light of the crisis); and the use of early retirement schemes in Member States as a response to the crisis. The main findings in these areas are summarised below.

2.4.1 Access to services

In many Member States, it is difficult to assess the impact of the economic and financial crisis on the delivery, quality and accessibility of services as this subject has not been systematically reviewed or documented in most countries. Information is often very piecemeal, particularly as in many countries responsibility for the delivery of services lies at the regional and/or local levels. Also, at times it is not clear to what extent changes in service provision are being made because of the crisis or would have been on the political agenda anyway, particularly where there has been a recent change in government.

In spite of these information constraints, it is clear that there is a negative overall effect of the crisis on services, though the severity of the impact varies significantly across countries. In some cases, there are severe cut backs to services while in other cases the impact is not so much a result of cut backs but rather the consequence of having to cope with a significant increase in demand without any increase to existing (often inadequate) resources. However, in several countries fiscal consolidation measures are fairly recent or still have to be implemented and it is thus still too early to detect the full impact of cuts to services on the ground. Yet, it is likely that the cuts in expenditure in many areas will have a negative impact on key services. This is particularly the case where a much higher proportion of expenditure savings is being made from cutting budgets than increasing taxes. In a few countries only very limited or no negative impact on services is expected.

One of the key impacts on services highlighted is the loss of jobs in areas like health, education, social housing, police, prisons and the arts. However, this has not been the case in all countries. Housing and related services emerge as one area which has been particularly adversely affected by the economic and financial crisis in several Member States. This is often reflected by increases in evictions, increases in homelessness, growth in waiting lists for social housing and increased debts in relation to key utilities such as heat and water.

In several countries there are cuts to health services which are likely to impact particularly on the poorest. These include cuts in health expenditure, reductions in personnel, increased charges leading to lack of motivation and emigration of doctors and nurses, shortages of medical staff and a decline in accessibility of medical services and growing waiting lists. In other countries, while there are no significant cuts there is a significant increase in demand on existing services, often without additional resources to cope with it.

In many countries, core education expenditure seems to have been relatively protected from cuts. However, in several Member States additional services that are of particular importance to children from disadvantaged backgrounds are being curtailed.

It is clear that it is very often the voluntary sector that has had to cope with increased demands resulting from a combination of the impact of the recession and cut backs in public services. However, in many cases their ability to respond has been curtailed due to the limited resources available to them. In spite of the constraints, NGOs have been particularly active in providing emergency social services to those affected by the crisis. There is much evidence from NGOs of a significant increase in demand on emergency social services and their efforts to expand their support. Indeed, this appears to be one of the areas in which the impact of the crisis on people experiencing poverty and social exclusion is best documented. Another indicator of the impact of the crisis on people is the major increase experienced by organisations providing information and advice to people in difficulties.

2.4.2 The impact of the crisis on long-term exclusion

The lack of adequate data often makes it difficult to establish the extent or duration of the increase in long-term exclusion. In some countries there appears to be a rather mixed picture with some indicators suggesting a deteriorating situation while others are improving. By far the most common indicator available to identify increases in long-term exclusion is long-term unemployment. It is evident that the risk of long-term exclusion will increase with growing long-

term unemployment and in many Member States there are significant increases in long-term unemployment. Some specific groups appear to be at growing risk such as temporary workers, migrants, young people and the unskilled.

In several countries, cuts in levels of income support and/or increased dependence on (often low level) means-tested schemes of last resort once eligibility for unemployment insurance benefits runs out are likely to have deepened poverty and social exclusion and to have increased persistent poverty and exclusion. In some countries, growing levels of indebtedness may be an indicator of long-term poverty and social exclusion.

In several countries the impact of the crisis and of cuts in services is unevenly spread. In general, the impact of the crisis is more severe for people who are experiencing poverty and social exclusion and cuts in benefits and services may increase their risk of long-term exclusion. The growth in long-term poverty and social exclusion particularly affects some groups such as women, children, young people, disabled people, the Roma, migrants and temporary workers.

2.4.3 Interaction between social assistance schemes

No very consistent picture emerges across Member States of the relative importance of unemployment and last resort schemes and the actual interaction between them in light of the crisis. In part this is because of the very different nature and effectiveness of schemes in different countries. It is also attributable to the fact that the severity of the impact of the crisis varies significantly between countries. In addition, in many Member States there is a lack of evidence on which to draw conclusions.

The most common trend is for means-tested schemes to become increasingly important vis-à-vis insurance based unemployment benefits. In several countries there also seems to have been an increase in emergency means-tested benefits. This trend is largely attributable to three factors. First, the limited duration of most insurance based employment benefits means that, as unemployment persists and as people fail to find new employment, they increasingly move onto means-tested assistance benefits. These are often set at significantly lower and less adequate levels. Secondly, in some Member States there are a considerable number of the unemployed, particularly the young unemployed and those in precarious employment, who do not qualify for insurance based benefits and thus depend from the outset on means-tested payments. Thirdly, some Member States have tightened conditions in relation to eligibility for unemployment benefits.

2.4.4 The use of early retirement schemes

A fairly mixed picture emerges across Member States of the use of early retirement schemes as a response to the crisis. While in some countries there has been an increase in early retirement rates in response to rising unemployment, in a significant number of others there has been no change or even a decline and restriction in their use. In several countries there has been an increase in the number of early retirees. However, this is not always the result of deliberate government policy; in some cases it can be in response to government plans to reduce eligibility. In several countries there have been no significant changes in state

retirement pensions or benefits to encourage or enable early retirement. Indeed, in some cases quite the contrary.

3. Conclusions and suggestions

3.1 Conclusions

It is clear that, even though the financial and economic crisis may be receding in most Member States and economic growth returning, the impact of the crisis on poverty and social exclusion has deepened between 2009 and 2010. There are of course very big differences across Member States but in many the effects of the crisis are such that the social and employment wounds will take a considerable time and sustained effort to heal. There is also a growing risk that, as an increasing number of Member States changes their policy focus from stimulating economic growth and cushioning the worst impacts of the crisis to an emphasis on fiscal consolidation and austerity packages, the situation of the most vulnerable will worsen further.

Many Member States do not appear to have given any systematic consideration to the potential poverty and social exclusion impacts of their new austerity packages. As a consequence, too often a blunt and crude approach to reducing deficits has been adopted. Frequently, the highest price appears to be being paid by those who are least able to afford it. Also, in spite of the new Europe 2020 agenda which highlights the interdependence of economic, employment, environmental and social policies (with the new poverty/ social inclusion target), and which promotes a more balanced, sustainable and inclusive approach to growth, there does not seem to be sufficient recognition of the importance of continuing to invest in policies, in particular active inclusion policies, which will contribute to achieving future sustainable and inclusive growth.

The extent of the crisis has been such that it will take time to repair the damage that has been done, particularly but not only in relation to joblessness. There is a very real risk that unless there is continued investment in supporting those who become unemployed, increasing numbers will become long-term unemployed and their unemployment will become structural. Also, unless there is a real investment in upgrading skills, the trend to increased segmentation in the labour market will be deepened. These risks are probably greatest in those Member States where unemployment has risen sharply as a result of massive shedding of labour. The risks are less extreme, but still present, in those countries which have done more to keep people in employment during the crisis, even if there have been significant reductions in hours worked. It would thus seem that now is the time that Member States should be investing more, not less, in balanced active labour market and active inclusion policies as a key means of ensuring future inclusive and sustainable growth and as a way of avoiding the reinforcement of some of the structural weaknesses that led to the crisis in the first place.⁴

In relation to the impact of the crisis on services, it is clear that there has generally been a significant increase in demand but that in many Member States resource constraints are limiting the ability of agencies to respond. There is growing evidence in several countries that

⁴ By "balanced", we mean that, in line with European Commission Recommendation 2008/867/EC these policies need to be part of a comprehensive approach that combines adequate income support, inclusive labour markets and access to quality services.

financial austerity packages may be beginning to have a quite significant negative impact on the ability of services to respond to urgent needs and that it is often the poor and socially excluded who suffer most. However, the data on this are often very inadequate. What is clear is that in many Member States there has been a very significant increase in demand on information and emergency social services and on front line social services, and that these services, often provided by NGOs, are playing a vital role. However, the providers often face severe resourcing difficulties.

In relation to long-term exclusion, it is clear that there is a growing risk in many Member States which is partly, but not solely, the result of the crisis. It must be a concern that an increasing group of people are at risk of becoming steadily more marginalised in society and more distant from the labour market and that this process is being accelerated by the crisis and the subsequent financial consolidation packages. Some women and children, young people (especially the young unemployed), people with low qualifications, disabled people, the Roma, asylum seekers, migrants and temporary workers are often particularly hard hit.

In relation to the interaction between unemployment benefits and social assistance schemes, there is a clear tendency in many countries for an increasing number of people to depend on often inadequate social assistance schemes.

In relation to early retirement schemes, there is a very mixed picture across the EU. Clearly during the crisis in some Member States there have been significant increases in their use as a way of responding to unemployment. However, the longer term and more sustainable policy trend seems to be to reduce access to such schemes and to increase the age of retirement and the labour market participation rate of older workers.

3.2 Suggestions

In the light of the findings briefly summarised above, the following suggestions are made re the way forward:

1. As part of their reporting under the new Europe 2020 arrangements, all Member States should be asked to report regularly on the poverty and social impact of the crisis. In particular, they should monitor and report on what impact their fiscal consolidation packages are having on poverty and social exclusion, and on progress towards the achievement of their national Europe 2020 poverty/ social inclusion target(s). They should also indicate what they are doing to mitigate any negative effects that their measures are having on social inclusion.
2. In order to ensure that their fiscal consolidation packages and other policies and initiatives responding to the crisis do not have a negative impact on poverty and social exclusion, both the EU and Member States should make much more systematic use of *ex ante* as well as *ex post* social impact assessments (IAs) of all – social and other - relevant policies at EU and country levels and should develop in this context a transparent process involving a wide range of stakeholders.⁵ Particular attention needs to be paid to ensuring that fiscal

⁵ This would also be in line with the new Horizontal Social Clause (Article 9 of the TFEU). To ensure greater use of IAs, the European Platform Against Poverty, the European Commission and the EU Social Protection Committee should promote increased understanding of IA, encourage countries to build its use into their

consolidation packages and other policies/ initiatives implemented in response to the crisis do not result in an increase in long-term exclusion; if necessary, compensatory measures to avoid this should be put in place.

3. To better undertake IAs and to monitor the impact of the crisis, the EU and its Member States need to invest in more timely statistical data as well as in statistical analysis capacity, including in the field of tax-benefit modelling. Countries should be encouraged to make full use of the unique potential offered by administrative and register data. These are also areas where exchange and mutual learning should be further promoted.
4. When the EU directly intervenes to support a Member State in a crisis situation as a result of the economic and financial crisis, it should make it a condition that any recovery (bail out) package not only sets economic and financial targets but also includes social objectives and targets aimed at ensuring that pain is distributed fairly and that measures introduced are progressive and protect, as far as possible, those who are most vulnerable.
5. In line with the 2008 European Commission Recommendation on active inclusion and with the December 2008 related EPSCO Council conclusions, all Member States should be encouraged to maintain and expand (rather than cut back) active labour market and active inclusion measures especially for those who are most vulnerable in the coming period. Supporting such measures should be a high priority for EU Structural Funds. Countries should be invited to report on this in their NRPs and mutual learning could here also be developed.
6. The European Commission in conjunction with Member States should carefully monitor developments in the labour market to ensure that fiscal consolidation measures are not leading to an increase in atypical work, in-work poverty and labour market segmentation.⁶
7. When reducing expenditure, Member States should give a priority to protecting and reinforcing policies which promote social inclusion and should ensure that changes in tax and social welfare systems are balanced and progressive. In particular, they should ensure that all citizens have access to an adequate minimum income for a decent life.
8. National governments should carefully assess the impact of their financial consolidation decisions on the ability of regional and local authorities to deliver essential services, especially to those at risk of poverty and social exclusion.

policy processes from an early stage, support the development and dissemination of knowledge about the tools, methods and data sources needed to make IAs effective and develop a systematic process of exchange and mutual learning. At the same time, countries should monitor and report regularly on the use of social IAs in the context of the development of their NRPs. Enhanced "social coordination" between the EU Social Protection Committee, Employment Committee and Economic Policy Committee is essential in this respect. For a recent discussion of these issues, see relevant chapters included in collective book: E. Marlier and D. Natali (eds.) with R. Van Dam (2010), *Europe 2020: Towards a more Social EU?*, Brussels: P.I.E. Peter Lang.

⁶ See also suggestions put forward in afore-mentioned report on *In-work poverty and labour market segmentation in the EU: Key lessons*.

9. Given that some of the impacts of the crisis are only now reaching their most severe stage, it is important that support for “emergency” governmental and non-governmental social services is sustained and, where needed, reinforced.
10. In those countries with previously weak social systems (especially social protection systems), the core objective of their recovery packages should not be “to get back to what we had” but rather to aim to develop new more balanced models of socio-economic development based on values of fairness, equality and sustainability and including the development of effective and sustainable social protection systems.
11. A key concern when reducing deficits should be to maintain intergenerational solidarity. This means in particular ensuring that both the needs of children and elderly people are taken fully into account.
12. Member States should monitor much more rigorously and report more regularly on the impact of austerity measures on the provision of services. In particular, they should ensure that as far as possible those experiencing poverty and social exclusion should be protected from the effects of any cuts in services.
13. In view of the key role being played by emergency social services during the crisis, Member States should ensure that these are properly resourced to adequately respond to the demands facing them.
14. Member States should consider reviewing their unemployment benefit systems to ensure greater coverage and longer periods of entitlement and thus lessen dependence on means-tested assistance schemes.
15. Member States and the European Commission should work together to ensure that means-tested social assistance schemes guarantee a sufficient income to live life in dignity in line with the EU Recommendation on Active Inclusion.

3.3 End note

The next phase of the response to the crisis is crucial both for the EU's future development and for the achievement of the Europe 2020 targets. Currently there is a risk that in some countries too blunt and brutal an approach may be taken to reigning in national deficits. If there is an over-emphasis put on shrinking the state and abandoning major pillars of the welfare state then inequality will widen, poverty and social exclusion will become more entrenched and social divisions, racism and sectarianism will increase. There is an urgent need to aim for a balanced response to the crisis and to the reduction of national deficits – a response which recognises that future smart and sustainable growth requires an investment in the skills and well-being of all. This will mean ensuring mutually reinforcing interactions between all strands of Europe 2020 and between the various components that (potentially) make up Social EU, and to make certain that in future the social dimension is fully taken into account at both EU and country levels. This is vital to ensure cohesive societies and a strong Social EU.



<http://www.peer-review-social-inclusion.eu>

Social Impact of the Crisis and Developments in the light of Fiscal Consolidation Measures

This short report was produced in the context of the European Union's work on social inclusion issues. It focuses on the social impact of the crisis and developments in the light of fiscal consolidation measures in the 27 EU countries. It summarises the main findings from an analysis of country reports prepared by members of the EU Network of Independent Experts on Social Inclusion in the Autumn 2010 in their respective countries. Drawing on both the independent experts' country analyses and the Network Core Team's overall assessment, it also puts forward a series of suggestions for monitoring and strengthening the social inclusion dimension of fiscal consolidation measures at both national and EU levels.