



While some people forge ahead, others are left behind by society. Brussels, April 2015, in the area of the Stock Exchange Building (2015). Photo: Ximena Echague/Oxfam

# A EUROPE FOR THE MANY, NOT THE FEW

Time to reverse the course of inequality and poverty in Europe

Europe is facing unacceptable levels of poverty and inequality. Instead of putting people first, policy decision making is increasingly influenced by wealthy elites who bend the rules to their advantage, worsening poverty and economic inequality, while steadily and significantly eroding democratic institutions. Austerity measures and unfair tax systems across Europe are skewed in favour of powerful vested interests. It is time to reverse the course of poverty and inequality in Europe, putting people first.

# FORWARD

**Professor Stephany Griffith-Jones, Financial Markets Program  
Director at the Initiative for Policy Dialogue at Columbia University**

Europe's policies towards the global financial crisis must be reconsidered and revised in order to promote economic growth and stop harmful effects on all citizens, including the poorest. Oxfam is right in its diagnosis of unacceptable levels of poverty and inequality in Europe, exacerbated by the financial crisis and austerity measures. It is time for European-wide action to promote recovery of investment, jobs and growth and to heal the wounds opened by massive job losses, falls in real wages and cuts in public services, especially in countries like Greece, Spain and Portugal, but also more widely throughout Europe.

There is need for more expansive fiscal policies across the EU, especially in countries with such large current account surpluses, such as Germany, the Netherlands and others, which also have very low borrowing costs. In countries such as Greece, more expansive fiscal policies also need to be adopted. This could be facilitated in part by reductions in debt servicing for countries in financial trouble, and also with an increase in tax revenues, putting the emphasis on taxing the richest individuals and companies, including the banking sector, and putting an end to tax evasion. Furthermore, measures such as the Juncker Plan, hopefully in a more expanded version, should encourage investment throughout the EU to facilitate the growth and structural transformation needed to deliver better standards of living.

One of the key lessons from the Latin American experience is that austerity policies without timely debt reduction lead to drastic recessions, and also transfer costs from creditors to debtors and from private creditors to public actors, since official lending ends to finance debt servicing. These lessons were not taken into account in Europe, with the exception of the restructuring of the Greek debt, which many consider insufficient and somewhat late. However, there has been a growing acknowledgement of the real costs of adjustment.

At a time when many European governments face large deficits, partly as a result of bailing out the financial sector, it seems reasonable to expect the financial sector to support the balancing of the books as well as adopting measures to help reduce the likelihood of future crises, and, perhaps most urgently, helping finance measures that lead to the promotion of European growth. To hundreds of economists, the evidence is clear that a financial transactions tax (FTT) would help to strengthen the public finances across European nations, reduce the likelihood of crises and provide a new source of finance for European growth. A substantial proportion of FTT revenues can be earmarked for helping to finance solutions to some of the world's most difficult international problems such as poverty and climate change.

This excellent Oxfam report provides an outstanding diagnosis of the problems, but more importantly offers a valuable menu of policy solutions, including the promotion of inclusive growth and the introduction of taxes such as the FTT. Time is of the essence and such measures should be implemented now.

## **Isabel Ortiz, Director of Social Protection at the United Nations International Labour Organization (ILO)**

Europe has long been proud of its social model. The achievements of the European social model dramatically reduced poverty and promoted prosperity in the period following the Second World War.

However, these important achievements have been eroded during the crisis by a series of short-term adjustment reforms. The cumulative effects of unemployment and austerity have led to a resurgence of poverty in Europe and a loss of prosperity for the middle classes. As this Oxfam report shows, today, in 2015, 123 million people in the prosperous European Union are at risk of poverty – a quarter of the EU population – compared with 116 million in 2008.

These figures are raising alarm bells across Europe. What happened to the European social model? The deployment of vast public resources to rescue private institutions considered 'too big to fail' forced taxpayers to absorb enormous losses, caused sovereign debt to increase and, ultimately, hindered economic growth. Since 2010, the cost of this adjustment has been passed on to populations who have been coping with fewer jobs and lower income for more than five years. Furthermore, Oxfam estimates foresee an additional 15–25 million people facing the prospect of living in poverty by 2025 if austerity policies continue.

Poverty in the EU is not an issue of scarcity during the crisis, but a problem of how wealth is distributed, as this report shows. Credit Suisse estimates that the richest one percent of Europeans (including those living in non-EU countries) hold more than a third of the region's wealth.

Higher poverty and inequality are also the result of inadequate public policy decisions at a time of recession: curtailing social security transfers, limiting access to quality public services, prioritizing fiscal balances over decent jobs and eroding collective bargaining, social dialogue and the democratic process. The long-accepted concept of universal access to decent living conditions for all citizens is at stake.

As Oxfam identifies in this report, it is necessary and urgent to strengthen democracies, reorient public policies in favour of people and generate sufficient fiscal capacity to do so. This means re-allocating public expenditure, increasing tax revenues, increasing transfers, fighting illicit financial flows, managing debt and adopting a macroeconomic framework supportive of investment, growth and decent jobs, in order to achieve social justice and long-term prosperity for all.

# SUMMARY

In 2015, people across Europe are suffering unacceptable levels of poverty and inequality. European countries may pride themselves on being stable democracies that look after their citizens, but the EU faces levels of poverty and exclusion, which most people would consider unacceptable in the 21<sup>st</sup> century. Within the prosperous nations of the European Union (EU), 123 million people are at risk of poverty or social exclusion, representing almost a quarter of the population, while almost 50 million people live with severe material deprivation, without enough money to heat their homes or cope with unforeseen expenses.

## **Box 1. AROPE (at risk of poverty or social exclusion): A measure of poverty in the EU**

Poverty is measured in the EU using the AROPE indicator. AROPE refers to the situation where people are either at risk of poverty,<sup>1</sup> severely materially deprived<sup>2</sup> or living in a household with very low work intensity.<sup>3</sup> The AROPE rate is the share of the total population which is at risk of poverty or social exclusion. It is a relative measure that depends on the specific living conditions of each country.

Source: Eurostat<sup>4</sup>

A large number of EU countries have seen increasing numbers of people falling below the poverty line in recent years. Between 2009 and 2013 an additional 7.5 million people, across 27 EU countries, were classified as living with severe material deprivation, with 19 countries registering an increased level. In many countries unemployment remains very high, even as many of those lucky enough to have work see their incomes stagnate or fall to poverty-wage levels. Women, young people and migrants are the groups most likely to be poor.

Poverty in the EU is not an issue of scarcity, but a problem of how resources – income and wealth – are shared. Credit Suisse estimates that the richest one percent of Europeans (including non-EU countries) hold almost a third of the region's wealth, while the bottom 40 percent of the population share less than one percent of Europe's total net wealth. In other words: the richest seven million people in Europe have the same amount of wealth as the poorest 662 million people (including non-EU countries).

Several dynamics are driving up levels of inequality and poverty in the EU.

First, wealthy individuals, corporations and interest groups have captured the political decision-making processes, skewing them to favour their own interests at the expense of those they are meant to serve. This leads to greater levels of economic inequality, as tax systems and government policies are made to benefit the few over the many. As wealth continues to accumulate at the top, the ability of these elites to disproportionately influence the rules further exacerbates inequality. This vicious cycle of

wealth concentration, abuse of power and neglect of citizens has detrimental impacts on economic growth, social stability and democracy, as well as on marginalization and poverty.

Second, austerity programmes, implemented in some EU countries, have placed the burden of reducing the public deficit squarely on the shoulders of the poor and vulnerable, and are having a severe impact on European societies. These programmes include policies that increase regressive taxation, cut public spending, privatize public services, shrink wages and undermine working conditions.

And third, in many EU countries unfair tax systems are failing to correct income inequalities and, worse, are actually contributing to a widening inequality gap. These tax systems are consistently biased towards more heavily taxing labour and consumption than capital, allowing high earners, wealthy individuals and the most profitable companies to largely escape from their tax obligations, and placing the burden of effort on common citizens. At the same time, one estimate puts the cost of tax avoidance and evasion in the EU at €1 trillion a year in lost revenue (see note 157 in full paper for details), enough to double the total public health investment across EU countries.

Yet economic inequality and poverty are not inevitable. Oxfam's experience of working in Latin America, sub-Saharan Africa and South-East Asia during previous financial crises has taught us that there are alternatives. There are deliberate policy interventions and political commitments that Europe can take now to break the cycle of poverty, inequality and political capture that fuels democratic bankruptcy. Increased social spending, improved public service provision, decent work and wages, and progressive tax systems can all help to create a fairer society.

In 2010, the EU's 2020 strategy established the Platform Against Poverty and Social Exclusion, aiming to lift 20 million people out of poverty in the EU, but since then poverty rates have only increased.

It is time for Europe to regain its role as a global leader promoting a progressive agenda that delivers for everyone, not just for a wealthy, powerful minority. Europe remains one of the world's wealthiest regions, so a lack of finance can be no excuse. What is required now is for leaders to show that they have the political will to finally put an end to poverty and extreme inequality in Europe.

## RECOMMENDATIONS

The EU and its member states must urgently tackle four major policy areas, in order to secure greater levels of equality and development for their citizens.

The following recommendations are guiding principles, which have great relevance across the EU, but which will need to be adapted for different institutional and national contexts.

## **EU institutions and member states must:**

### **1. Strengthen institutional democracy**

- Support citizens to engage more meaningfully in democratic processes, in particular budgeting and resource allocation;
- Work hard to ensure that policy-making processes become less permeable to vested interests and more democratic, through mandatory public lobby registries, stronger rules on conflict of interest and balanced compositions of expert groups;
- Ensure that good-quality information on administrative and budget processes are made public, free and easily accessible.

### **2. Re-invest in public services**

- Guarantee free, public, universal education and healthcare for all, in order for governments to fulfil their human rights obligations to their citizens;
- Prioritize gender budgeting and systematically analyze proposed economic policies for their impact on girls and women. Allocate funding in ways that promotes gender equality including redistributing care responsibilities;
- Develop social protection systems that respond to the needs of the most vulnerable, protect low-income households, and provide social services aimed at children and young people.

### **3. Guarantee decent work and wages**

- Ensure that employment is connected with social protection systems, including the implementation of a social protection floor;
- Address the gender pay gap and agree action plans to reduce gender inequality in compensation and seniority;
- Recognise the contribution of unpaid care work, and help reduce the burden of unpaid care work disproportionately borne by women, by providing child and elderly care and paid family and medical leave, flexible working hours, and paid parental leave.

### **4. Tax justice**

- Increase cooperation to fight tax dodging and harmful tax competition, and adopt a comprehensive transparency reporting framework for large companies operating in Europe so that revenue collection agencies can ensure they pay taxes where the real economic activities occur;
- Pay greater attention to the impact of EU tax policies on developing countries and support them to increase their tax revenues progressively;
- Support the equal participation of developing countries on international tax discussions and decision making.
- Promote progressive national tax systems across Europe.

# NOTES

- 1 The at-risk-of-poverty rate is the share of people with an equivalized disposable income (after social transfer) below the at-risk-of-poverty threshold, which is set at 60 percent of the national median equivalized disposable income after social transfers. This indicator does not measure wealth or poverty, but low income in comparison to other residents in that country, which does not necessarily imply a low standard of living.
- 2 Material deprivation refers to a state of economic strain, defined as the enforced inability (rather than the choice not to do so) to pay unexpected expenses, afford a one week annual holiday away from home, a meal involving meat, chicken or fish every second day, the adequate heating of a dwelling, material goods such as a washing machine, colour television, telephone or car, or being confronted with payment arrears (mortgage or rent, utility bills, hire purchase instalments or other loan payments).
- 3 The work intensity of a household is the ratio of the total number of months that all working-age household members have worked in one year and the total number of months the same household members theoretically could have worked in the same period. A working-age person is defined as aged 18-59 years, with the exclusion of students in the age group between 18 and 24 years. Households composed only of children, students aged less below 25 and/or people aged 60 or over are completely excluded from the indicator calculation. Low work intensity is defined as the number of persons living in a household having a work intensity below a threshold set at 0.20.
- 4 Eurostat, [http://ec.europa.eu/eurostat/statistics-explained/index.php/Glossary:At\\_risk\\_of\\_poverty\\_or\\_social\\_exclusion\\_%28AROE%29](http://ec.europa.eu/eurostat/statistics-explained/index.php/Glossary:At_risk_of_poverty_or_social_exclusion_%28AROE%29)

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For further information on the issues raised in this paper please email [advocacy@oxfaminternational.org](mailto:advocacy@oxfaminternational.org)

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