

A 15M Movement protest against austerity measures in Madrid, May 2011. © Miguel Parra

A CAUTIONARY TALE

The true cost of austerity and inequality in Europe

EMBARGOED UNTIL 00:01 HRS GMT 12 SEPTEMBER 2013

European austerity programmes have dismantled the mechanisms that reduce inequality and enable equitable growth. With inequality and poverty on the rise, Europe is facing a lost decade. An additional 15 to 25 million people across Europe could face the prospect of living in poverty by 2025 if austerity measures continue. Oxfam knows this because it has seen it before. The austerity programmes bear a striking resemblance to the ruinous structural adjustment policies imposed on Latin America, South-East Asia, and sub-Saharan African in the 1980s and 1990s. These policies were a failure: a medicine that sought to cure the disease by killing the patient. They cannot be allowed to happen again. Oxfam calls on the governments of Europe to turn away from austerity measures and instead choose a path of inclusive growth that delivers better outcomes for people, communities, and the environment.



SUMMARY

Europe has often seen itself as a place where the social contract balances growth with development. A place where public services aim to ensure everyone has access to a high-quality education and no one need live in fear of falling ill. A place where the rights of workers, and particularly of women, are respected and supported, and where societies care for the weakest and the poorest; where the market has been harnessed to benefit society, rather than the other way round.

However, this idyllic social model has been under threat for some time; income inequality was increasing in many countries even before the financial crisis began. Now, the European model is under attack from ill-conceived austerity policies sold to the public as the cost of a stable, growing economy, for which all are being asked to pay. Left unchecked, these measures will undermine Europe's social gains, creating divided countries and a divided continent, and entrenching poverty for a generation.

The unprecedented bailout of Europe's financial institutions may have saved its banking system, but it also significantly increased public debts. They assumed that austerity policies – singularly focused on balancing budgets and reducing deficits – would restore market confidence and ultimately lead to job creation and renewed economies. In most countries, this has not happened. After almost three years, austerity is failing on its own terms and continues to exact high social costs. The experiences of the UK, Spain, Portugal, and Greece shows that the harsher the austerity, the higher the increase in debt ratio.¹ A blind focus on reducing debt above all else has ignored the fact that growth can still occur during relatively high levels of debt and that any new growth in the economy must be inclusive and for the benefit of all.

With inequality and poverty on the rise, Europe is facing a lost decade.

Austerity programmes implemented across Europe – based on short-sighted, regressive taxes and deep spending cuts, particularly to public services, such as education, health and social security – have dismantled the mechanisms that reduce inequality and enable equitable growth. The poorest have been hit hardest, as the burden of responsibility for the excesses of past decades is passed to those most vulnerable and least to blame. Now, leading proponents of austerity, such as the International Monetary Fund (IMF), are beginning to recognize that harsh austerity measures have not led to the expected results, and have harmed both growth and equality.²

Oxfam has seen the impact of austerity measures before.

European nations are suffering record levels of long-term and youth unemployment, with a generation of young people facing years of joblessness to come. As the real value of average incomes continues to plummet, falling fastest in countries that have implemented aggressive spending cuts, even those in work can look to a future where they are significantly poorer than their parents. Almost one in 10 working households in Europe now lives in poverty.

In 2011, 120 million people across the EU faced the prospect of living in poverty. Oxfam calculates this could rise by at least 15 million, and by as much as 25 million, as a result of continued austerity measures. Women will be the hardest hit. All the while, the richest have seen their share of total income grow, as the poorest are seeing theirs fall. If current trends continue some countries in Europe will soon have levels of inequality that rank among the highest in the world.

Throughout Oxfam's history it has campaigned not just to highlight poverty and suffering, but, just as importantly, to highlight the policies and politics that are creating this poverty. Oxfam can no longer stand by while such poverty and suffering are being created in Europe, and, through falling European aid budgets and lower consumer spending, all over the world.

The European experience bears striking similarities to the structural adjustment policies imposed on Latin America, South-East Asia, and sub-Saharan African in the 1980s and 1990s. Countries in these regions received financial bailouts from the IMF and the World Bank after agreeing to adopt a range of policies including public-spending cuts, the nationalization of private debt, reductions in wages, and a debt management model in which repayments to creditors of commercial banks took precedence over measures to ensure social and economic recovery. These policies were a failure; a medicine that sought to cure the disease by killing the patient.

As part of global civil society, Oxfam fought hard against these policies, which forced the pain of economic slowdown on to those least able to bear it. Structural adjustment policies led to stagnating incomes and rising poverty in many countries, scarring generations across the world. Poverty in Indonesia took 10 years to return to pre-crisis levels. In Latin America, the incomes of ordinary people were the same in the mid-1990s as they had been in 1980. Vital services, such as education and health, were cut back or privatized, excluding the poorest and particularly harming women. Meanwhile, the share of income of the richest in society increased rapidly.

In spite of this cautionary tale, austerity is being aggressively pursued in Europe, with scant regard for the lessons of the past. These lessons suggest a bleak future for Europe's poorest people, and warn of the harmful impacts for society as a whole.

SUMMARY RECOMMENDATIONS

It does not have to be this way. There are clear alternatives to the current policy of austerity. For a start, the problem of the European public debt must be tackled through a transparent arbitration process, which might include debt restructuring or cancellation. Further, the underlying flaws in the financial system, which the economic crisis brought to light, must be also addressed.

Oxfam calls on European governments to do more than merely adjust existing austerity measures.

An additional 15 to 25 million people across Europe could face the prospect of living in poverty by 2025 if austerity measures continue.

It could take between 10 to 25 years for poverty to return to pre-2008 levels in Europe.

European governments must:

1. Invest in people and economic growth:

- prioritize an economic stimulus programme, promoting investments and capital spending;
- target employment creation;
- Protect EU and member states' overseas development aid budgets.

2. Invest in public services:

- guarantee public, universal, high-quality education for all;
- protect public, universal, high-quality health care and develop social protection systems that enable the most vulnerable to live with dignity and lift themselves out of poverty.

3. Strengthen institutional democracy:

- promote greater participation in democratic processes by all stakeholders;
- ensure greater transparency and accountability of political processes;
- improve workplace democracy, including better employee representation and opportunities for greater shared ownership.

4. Build fair tax systems:

- implement progressive taxation reforms, including a tax on wealth stocks and a Financial Transaction Tax;
- tackle tax avoidance and evasion, including transparency and exchange of financial information, new international tax rules listing tax havens.

Europe can ill-afford to continue along the path of austerity and must act now to implement these recommendations. Maintaining the current course will lead to a decade of rising inequality, and risk further financial crises and social unrest. Given the stakes, the economic, ethical, and financial argument for change could not be stronger. Without it, we face the prospect of a lost European decade. We need a new economic and social model that invests in people, strengthens democratic institutions, and delivers a fair, progressive fiscal system fit for the twenty-first century. Oxfam is proud to stand with civil society in envisaging a new model of prosperity built on social justice and environmental sustainability.

1 INTRODUCTION

'It is clear by now that the current mix of tight fiscal austerity and tough labour market reforms is not having the desired effect ... To insist on a cure that is killing the patient is a folly we can no longer indulge in. Europe could take a more balanced approach which – unlike austerity pure and simple – has proven to work.'

Raymond Torres, Director, ILO International Institute for Labour Studies³

Oxfam's mandate is to fight against the injustice of poverty wherever it exists, and poverty and inequality are on the rise in Europe. Oxfam has observed the worsening situation for European citizens and how socio-economic changes in Europe can affect the rest of the world. The crisis in the banking sector, the response to which created a public debt crisis, is having effects throughout society. It is a debt which all Europeans are being asked to pay. However, as this paper will show, it is Europe's poorest that are bearing the greatest costs, in an echo of the structural adjustment programmes imposed on countries in Latin America, South-East Asia and sub-Saharan Africa in the 1980s and 1990s.

The global financial crisis of 2008, which began in earnest with the collapse of US merchant bank Lehman Brothers, plunged Europe into a situation of economic uncertainty and instability. To save Europe's banking system, an unprecedented bailout of banks and other financial institutions began. This ultimately led to the accumulation of huge public debts. Between 2008 and 2011, the European Commission approved €4.5 trillion in aid to the financial sector (equivalent to 36.7 per cent of EU GDP),⁴ bailing out banks such as Lloyds TSB in the UK and BayernLB in Germany. Many banks that did not receive direct bailouts, such as Barclays, Deutsche Bank and Santander, nevertheless benefited indirectly through state interventions.⁵

With economies shocked and shattered, there was an initial consensus amongst governments that lack of demand and a loss of market confidence should be urgently addressed via a financial stimulus programme. This would provide an injection of purchasing power to boost demand and investment to maintain competitiveness.⁶ Job creation, increases in social security, and increased economic investment were targeted as part of the European Economic Recovery Plan (ERP), at a total cost of €200bn across the EU (1.5 per cent of EU GDP).⁷ However, the vast majority of the debts that EU countries are currently servicing were accumulated as a result of bailouts to financial institutions rather than these 2008-2010 stimulus measures (Figure 1).

Figure 1: The EU economic recovery plan vs. Aid to the financial sector⁸



In 2010, many European governments ended their stimulus programmes and embarked on a series of austerity measures. Some countries, such as Greece, Spain, Ireland, and Portugal, were required to undertake austerity measures under the terms of their bailout agreements from the European Central Bank, European Commission, and International Monetary Fund (IMF). Others, such as the UK, have freely chosen to undertake austerity measures because they view them as the best means to overcome high public debt and budget deficits.

The austerity measures comprise several policies that entrench inequality – from the loss of decent public services to the erosion of social security and the weakening of collective bargaining through deregulation of the labour market. These measures, chiefly involving regressive taxes and deep spending cuts, are having a severe impact upon European societies, at a time when many countries are already experiencing historically high levels of unemployment.

As the richest in many European countries affected by austerity have seen their share of income rise, the very poorest have seen their income share fall.

Oxfam has seen the impact of such measures before. Europe's austerity measures clearly echo the structural adjustment programmes of the 1980s and 1990s in South-East Asia, sub-Saharan Africa, and Latin America, which had a profound effect upon levels of poverty and inequality. In some countries these programmes hindered development by two decades and led to vast increases in inequality. Based on the lessons learned from these previous crises, this paper will propose alternatives to austerity measures.

While this paper focuses on the economics of austerity and its impact on people, alternatives for a new prosperity demand a sustainable economic model within the planet's environmental boundaries. There are ways for Europe to overcome the current crisis that also guarantee people's fundamental rights and protect those living in poverty in Europe and abroad.

2 THE IMPACT OF AUSTERITY MEASURES

'I wish Merkel could understand that austerity leads the economy to perform more poorly. It leads to more unemployment, lower wages and more inequality. There is no instance of a large economy getting to growth through austerity.'

Professor Joseph Stiglitz, Nobel Laureate in Economics and former Chief Economist of the World Bank⁹

The long-term consequences of austerity could be rising levels of poverty and inequality for the next two decades.

The EU has succeeded in the elevation of a great number of people to a broad middle class, with each of the last two generations enjoying greater relative incomes than their parents. However, the recent increase in inequality and poverty, exacerbated by the economic crisis and the measures taken in response to it, threatens to undermine this prosperity and thus, the very project of European cohesion and progress.

Based on Oxfam's experience of the impacts of austerity measures in Latin American, South-East Asia and sub-Saharan Africa, it is likely that inequality will continue to rise for many years to come. As the ability of countries to reduce inequality and poverty is further weakened, Europe will become ever more divided within and between countries.

AUSTERITY IN EUROPE

Across Europe, austerity has primarily meant deep cuts to spending, with the aim of reducing budget deficits. In the UK, for example, the ratio of spending cuts and tax increases is roughly 85:15 – for every £100 of deficit that is reduced, £85 comes through spending cuts, while £15 is through increased taxes.¹⁰ The reduction of budget deficits does not necessarily lead to reduced debt, and deficit levels may fall whilst debts continue to rise, as borrowing continues to meet deficit. As debts continue to rise, the true cost of austerity – and who truly wins or loses from its policies – must be measured.

From 2010 to 2014, total public spending will have been cut by 40 per cent of GDP in Ireland, approximately 20 per cent in the Baltic States, 12 per cent in Spain, and 11.5 per cent in the UK.¹¹ For many countries, this has meant the loss of huge numbers of public sector jobs and vital public services. In the UK, for example, 1.1 million public sector jobs are planned to be cut over the period 2010-18. Of these, it is expected that twice as many women as men will lose their jobs, as women account for 64 per cent of the UK public sector workforce.¹² This experience is being repeated across Europe. In addition, both Italy and Ireland have cut public sector wages, while in the UK, Portugal and Spain, they have largely been frozen.¹³

Moreover, social security budgets have seen significant cuts by European governments. Greece, Latvia, Portugal, and Romania all saw decreases of over five per cent in their 2011 budgets.¹⁴ In the face of increased prices for many basic goods and services, this has a direct impact on people's disposable income. As women are more likely to be responsible for the care of children and other dependents, they are disproportionately affected by cuts to child benefit, housing benefit, disability benefits, or other types of welfare payment, limiting their access to the job market.

At the same time public sector services, social transfers, and collective bargaining, vital to combating poverty and inequality, are all being eroded. As social security budgets have fallen, Europe's poorest have faced a loss of services and support, making poverty that much harder to overcome. Portugal,¹⁵ Ireland¹⁶ and the UK¹⁷ have each taken steps to limit eligibility of the unemployed and disabled to receive benefits. In addition, some countries have reduced social security payments in real terms,¹⁸ making it harder for families to cope with unemployment and to meet the cost of living.

In 2010, spending on health in Europe recorded its first drop in decades. In Ireland and Greece, cuts in spending exceeded six per cent, reversing a decade of growth.¹⁹ This could have significant long-term impacts.²⁰ In Lisbon, about 20 per cent of clients of pharmacies, mainly women, unemployed and elderly people, did not complete their whole prescriptions due to rising costs.²¹

As part of their austerity measures, many countries have taken steps to privatize public services, with the aim of reducing government budget deficits. Greece, Portugal, Spain and Italy all faced significant pressure from international institutions to undertake privatization – selling off state-owned energy, water and public transport companies, as well as health care institutions.²²

Countries implementing austerity measures have also deregulated their labour markets, relaxing employment regulation and reducing the rights of workers, on the assumption that this will promote a private sector-led recovery that mitigates the losses from public sector cuts. In Greece and Italy, governments are seeking to weaken job security by implementing policies that will remove protections preventing unfair dismissals. Yet, importantly, increases in labour market 'flexibility' have not been accompanied by social protection measures that could have protected those suffering from income insecurity.

More worrying still is the erosion of collective bargaining systems, as this will further reduce the ability of workers to secure vital wage growth.²³ Greece, Italy, Portugal and Spain have all implemented policies intended to dismantle collective bargaining systems.²⁴ This is very likely to result in widening inequality and a continued drop in real wage values.²⁵

Most European countries have raised Value Added Tax (VAT) as a pivotal part of their austerity plans.²⁶ Raising VAT is a regressive form of taxation that disproportionately affects people on lower incomes as they tend to spend more on VAT as a proportion of their income.²⁷ While VAT

is a comparatively simple measure to raise revenue, it ignores the high levels of tax avoidance and evasion amongst multinational corporations and individuals. The European Commission has acknowledged that EU governments are losing around €1 trillion a year through tax avoidance and evasion.²⁸ There has also been relatively little new taxation of wealth, which could be a key source of revenue and a much more progressive way to address deficits.

THE IMPACT OF AUSTERITY

'The long-term social cost of the economic crisis has been underestimated. More people are being evicted from their homes. More people are trapped in over indebtedness, as they face increased living costs with reduced income. Child poverty is growing and young people are being deprived from the possibility to imagine a future. Vulnerable people feel more and more stigmatized in the public opinion, as if they were responsible for their situation and if social protection was a luxury in times of austerity.'

European Anti-Poverty Network, August 2013

Austerity measures were expected to give confidence to markets, which would in turn allow credit and investments to flow, generating private sector growth and creating jobs. In most countries this has not happened. Instead, Oxfam and its partners across Europe are already witnessing the damaging effects of austerity that will have long-lasting impacts upon successive generations. Indeed, where growth has occurred, the gains are not being equitably distributed, as the poorest continue to suffer, while the richest remain comparatively unaffected. This lack of inclusive growth puts at risk the sustainability of the recovery.

'I still leave and come home as if I had a job. In this country, whoever's unemployed is ostracized. The more difficulties you have, the worse treatment you get ... anywhere. I can feel it every day.'

Manuela, unemployed administrative assistant²⁹

Unemployment

Across Europe, rates of unemployment,³⁰ long-term unemployment,³¹ and youth unemployment³² are all at their highest levels since 2000. In both Spain and Greece, unemployment rates almost tripled between 2007 and 2012, from 8.3 per cent before the crisis to over 24 per cent.³³ In Ireland, Greece and Spain, the long-term unemployment rate quadrupled between 2008 and 2012.³⁴ In Portugal, long-term unemployment rose from 4 per cent in 2008 to 7.7 per cent in 2012, its highest level since 1992.³⁵ Of significant concern is that, more than half of long-term unemployed people in Europe have been unemployed for more than two years.³⁶ Youth unemployment is particularly high in Portugal (42 per cent), Spain (56 per cent) and Greece (59 per cent) – more than double the rates recorded in 2008.³⁷ Italy has also recently recorded a youth unemployment rate of 39.1 per cent.³⁸

'My plan was to find a job. I didn't care if it was in my area. I wanted to work – in a clothing store, a supermarket, cleaning, whatever. I removed my BA from my CV. I removed that I was doing a masters. No one wants a graduate cleaning toilets.'

Ana, 24 years old³⁹

'Who's been hit hardest? Poorer people. Poorer people and older people. It's not surprising but it is disappointing. I'm very annoyed. We worked so our children wouldn't have to go through what we went through and they've just thrown it all away.'

Ann, 65 years old⁴⁰

In-work poverty

Almost one in 10 working households in Europe now lives in poverty, known as in-work or working poverty. Cyprus, Ireland, and Italy have each seen record working poverty rates in the last two years.⁴¹ Workers are increasingly finding that the only jobs being created offer limited security or fewer hours than they need.⁴² As the ILO recently reported, the worsening employment situation has also intensified the risk of social unrest.⁴³

For those in work, the real value of wages is falling fastest in countries implementing aggressive spending cuts, making it more difficult for people to cope with rising prices. In the UK and Portugal, real wages are reported to have fallen by 3.2 per cent.⁴⁴ The real value of wages in the UK is now at 2003 levels, representing a lost decade for the average worker.⁴⁵ Italy, Spain, and Ireland all recorded decreases in real wages over this period. Greece has recorded a fall in real wages of over 10 per cent.⁴⁶

'It's such a struggle. The wages don't go up but yet all the prices for food, fares, they all do. By the time I've paid out all of my gas and electric, child-minding fees, shopping, fares to work, I'm maybe, if I'm lucky, left with about 10 pounds. Sometimes I will go without a dinner, or anything to eat that day, so that there's money there for other stuff.'

Lorna, 33 years old⁴⁷

Increasing inequality and rising poverty levels

Austerity measures are weakening the mechanisms that combat inequality. Income is being increasingly unequally distributed; rising for the richest and falling for the poorest.

Inequality has been shown to have deep socio-economic impacts. For instance, high levels of inequality correlate with lower levels of trust between people,⁴⁸ affecting the cohesiveness of the communities and society as a whole. Similarly, high inequality is associated with increases

in crime,⁴⁹ poorer health,⁵⁰ and lower educational outcomes.⁵¹ There is an additional risk that inequality will lead to increased susceptibility to another financial crash.⁵² As has been recently noted, long periods of unequal income lead to increased rates of high-risk high-interest borrowing by those that can least afford to pay back their loans.⁵³ This further increases the risk of subsequent major economic crises. Rising inequality therefore puts long-term sustainable growth at risk.

Even before the financial crisis, a number of European countries were experiencing growing levels of income inequality despite recording high levels of growth.⁵⁴ Portugal and the UK already rank amongst the most unequal countries in the OECD.⁵⁵ This raises serious questions as to how equitable the growth will be in countries in which it will eventually return.

Austerity has already begun to accelerate increases in inequality, mirroring the historical impact of austerity measures in OECD countries over the past thirty years.⁵⁶ Portugal, Greece and Italy have seen increases in their net income inequality of almost one percentage point during 2010-11.⁵⁷ These increases partly reflect the gains of economic elites as a direct result of austerity policies. Indeed, even when taxes and social security payments are taken into account, the richest have seen their share of total income grow, whilst the poorest have seen theirs fall. Other stark indications of continuing prosperity for the richest include the growth of Europe's luxury goods market.⁵⁸

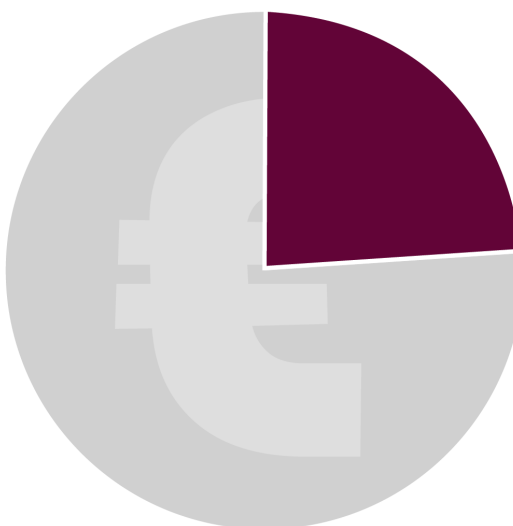
In the years since the financial crisis, the countries most affected by austerity measures – Greece, Italy, Spain, Portugal and the UK – have seen one of two impacts: either the richest tenth of the population has seen their share of total income increase, or the poorest tenth has seen their share decrease. In some cases both impacts occurred.⁵⁹

Figure 2: Income Share for the bottom and top tenths of EU population (2011)⁶⁰

The bottom tenth take home
3% of all income in the EU



The top tenth take home
24% of all income in the EU



Those with greater income often exert greater influence upon decision makers, who, in turn, enact policies that further enable unequal distribution. Moreover, those with the highest income are most likely to have the means to increase their income through, for example, financial investment and assets. Inequality can therefore become entrenched and perpetuate increases in poverty, and relatively small changes in income distribution can have a large effect on levels of poverty.

The combined wealth of Europe's ten richest people exceeds the total cost of stimulus measures across the EU in 2008-10 (€217bn vs. €200bn).⁶¹

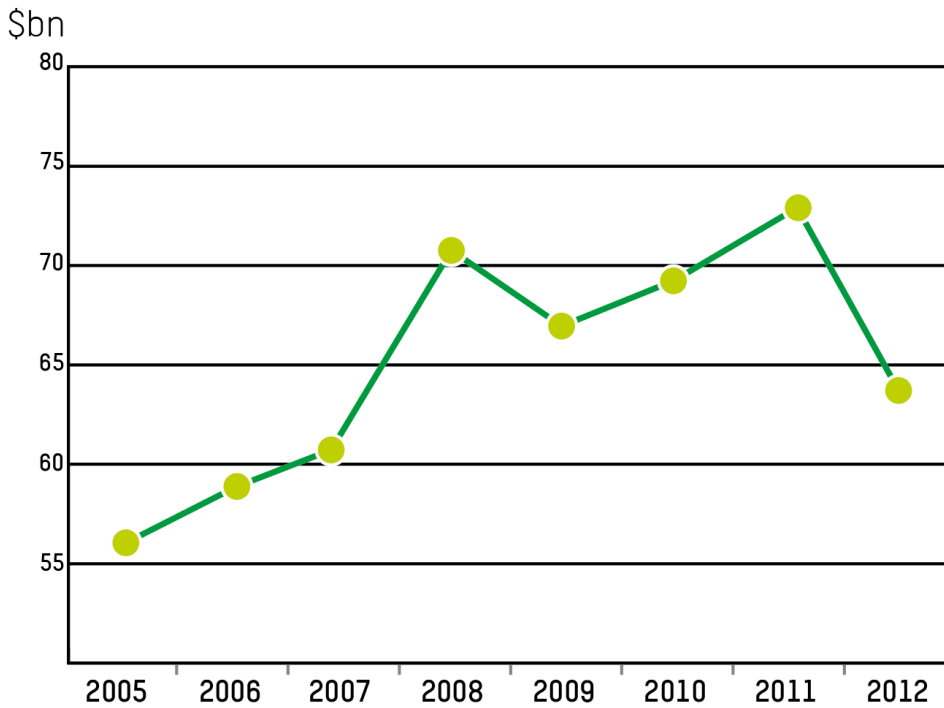
Poverty is already rising across the EU. In 2011, 121.2 million people, or 24.3 per cent of the population, were at risk of poverty or social exclusion.⁶² Greece, Spain, France, Belgium, Slovakia and Sweden all recorded increases in the number of people at risk of poverty of around one percentage point between 2008 and 2011. Child poverty also stands to increase substantially across Europe.⁶³

THE IMPACT OF AUSTERITY BEYOND EUROPE

Austerity in Europe is also having serious consequences for the developing world.⁶⁴ Many European countries have chosen to cut official development assistance (ODA) as part of their austerity measures. While the EU was still collectively the world's single largest aid provider in 2012, donating \$70.7bn, or half of all ODA worldwide,⁶⁵ this represents a decline on previous years.⁶⁶ Aid from the 15 EU member states that are members of the Development Assistance Committee (DAC) was \$63.8bn in 2012, representing a fall of 7.3 per cent from 2011.⁶⁷ Unsurprisingly, many member states are not on track to meet their targets for aid as a percentage of Gross National Income (GNI).

In addition, austerity as an economic policy is being embraced in many developing countries, resulting in higher cuts to public expenditure than in developed countries and putting at risk development goals.⁶⁸ Around the world, the costs of adjustment are being thrust upon populations already struggling with fewer and lower-paying job opportunities, higher food and fuel costs, and reduced access to essential services since the crisis began. In short, millions of households around the world continue to bear the costs of a 'recovery' that has largely excluded them.⁶⁹

Figure 3: Decline of ODA from EU-DAC member states (in 2012 \$bn)⁷⁰



AUSTERITY FAILS TO DELIVER

'The strategy of austerity actually has been counterproductive from the point of view of its very objective of supporting confidence and supporting the reduction of budget deficits.'

Raymond Torres, Director, ILO International Institute for Labour Studies⁷¹

Austerity as an economic policy was designed primarily to reduce budget deficits, in order to restore market confidence and ultimately lead to job creation, growth and lower debt levels. As set out in the Maastricht Treaty, which created the European Union, the debt-to-GDP target for all countries should not be more than 60 per cent with a deficit-to-GDP ratio not exceeding three per cent. Many countries were therefore set a target by those institutions providing bailouts to reach these ratios by the financial year 2014-15.

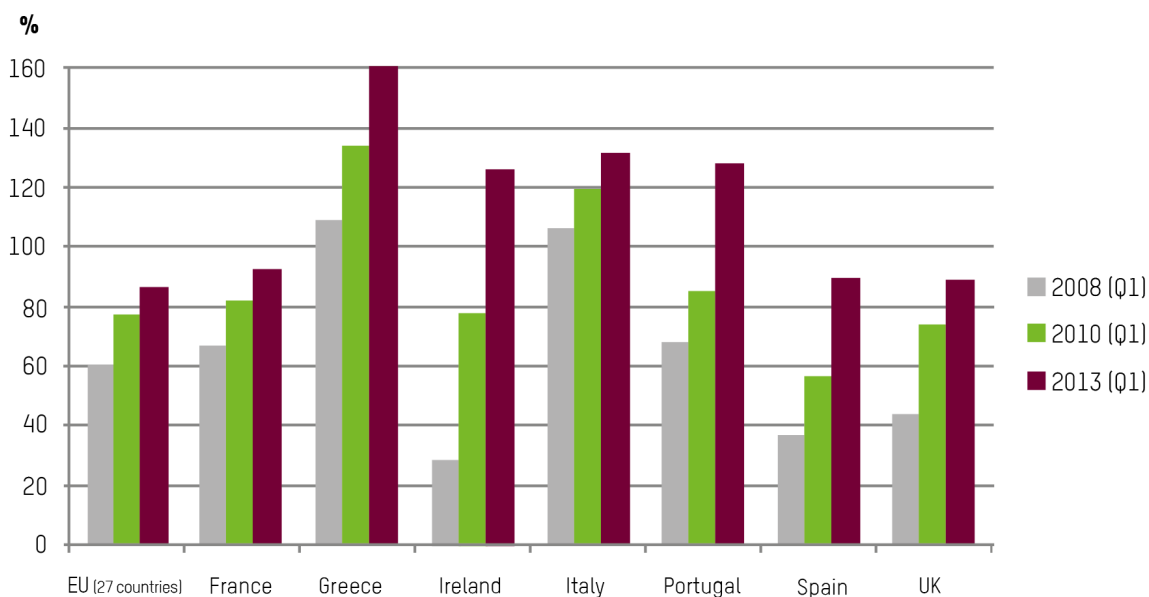
However, after almost three years of implementation, austerity is failing even on its own terms – increasing deficits in some countries⁷² and raising debt levels – let alone in terms of the huge, unevenly distributed human costs. The majority of EU countries have seen their debt-to-GDP ratios increase over the last four years.⁷³ At the same time, deficits have not fallen fast enough, leading to extension of deadlines⁷⁴ and potentially bringing about a downward spiral of weak or negative growth, ending in continued high deficits, deeper spending cuts, and little prospect for change. The promise of strong growth has yet to materialize in most countries.⁷⁵

Ireland's return to growth is often held up as an exception to the above. Yet Ireland potentially offers a window into the future for other EU

countries, with reports of high levels of regional income inequality, insecure employment⁷⁶ and significantly decreased spending power.⁷⁷ Moreover, Ireland is highly dependent upon the state redistributing income through taxes and transfers,⁷⁸ a feat which is likely to diminish as austerity measures continue to bite.

Iceland, by comparison, has returned to growth while increasing taxes on high-income families, sheltering low and middle-income families from spending cuts,⁷⁹ and seeing real wages increase by 1.5 per cent, partly driven by a collective agreement to increase wages.⁸⁰ This has contributed to more stable levels of market inequality in Iceland than in Ireland.⁸¹

Figure 4 Government debt as a percentage of GDP (2008 – 2013)⁸²



Low debt-to-GDP or deficit-to-GDP levels are not necessary precursors for growth. For comparison, the UK's debt-to-GDP ratio stood at well over 90 per cent for the period 1949-66, yet during this period it witnessed high growth, on average over three per cent. A blind focus on reducing debt through austerity ignores the fact that growth can occur in the presence of relatively high levels of debt. However, it should be noted that there comes a point at which debt does become unsustainable and other options must be considered.

The level of growth in countries where austerity has been less forceful, such as Iceland, Norway and Germany, further undermines the argument that austerity will create conditions conducive to strong growth.

Lessons regarding the harmful, counterproductive impacts of aggressive austerity can be drawn from countries such as South East Asia, Latin America and sub-Saharan Africa that experienced similar measures during the 1980s and 1990s.

3 WE HAVE BEEN HERE ALREADY AND WE KNOW AUSTERITY DOESN'T WORK

'ESAP (Zimbabwe's Enhanced Structural Adjustment Programme) has meant that we can only eat two meals a day. We can no longer afford meat, because prices are too high. Everything costs more. I cannot afford to pay the school fees for my son and daughter since they started charging. Government said it was because of ESAP. We can't even go to the clinic when the children are sick because we can't afford the medicines.'

Zimbabwean woman, Harare⁸³

'I have read that our country is stabilizing. That may be true, but we have no jobs. We can't send our children to school. Maybe stabilizing is a good thing for the country's [sic] we pay debt to, but here life is getting harder.'

Zambian woman⁸⁴

Countries in Latin America, South-East Asia and sub-Saharan Africa experienced harsh financial, economic, and currency crises during the 1980s and 1990s. All received the same remedy from the IMF and the World Bank. A structural adjustment package, in which countries received financial help from the IMF and the World Bank only after agreeing to adopt a range of economic policies, including public-spending cuts, the nationalization of private debt, reduction of public sector wages, decentralization of collective bargaining, and a debt-management model in which repayments to creditors of commercial banks took precedence over ensuring social and economic recovery.⁸⁵ Proponents of these policies assumed that the structural reforms would quickly generate a considerable increase in investment and growth, which would in turn increase employment and salaries.

The structural adjustment packages bear a striking resemblance to the austerity measures being implemented in Europe today, and from them we can draw useful comparisons on the potentially destructive impact of austerity. It is worth noting that the relative wealth and institutional strength of European countries may differ from that of countries in Latin America, South-East Asia and sub-Saharan Africa in the 1980s and 1990s. This will not stop the negative consequences these measures will have, but it may mean that austerity takes longer to have the same destructive impact.

THE IMPACT OF STRUCTURAL ADJUSTMENT

The experiences of Latin America, South-East Asia and sub-Saharan Africa show that not only were the structural adjustment policies not effective in ending the crises, they had long-term negative impacts on poverty and inequality. With levels of poverty and well-being effectively set back twenty years, the implementation of adjustment policies came at a very high cost for hundreds of millions of people.

Latin America's Lost Decade

'Adjustment [in Latin America] has been a much slower, more difficult and more painful process than the Bank recognized at the outset ... What I am looking for ... is a different way of doing business in the future'

James Wolfensohn, then President of the World Bank, April 1996⁸⁶

Structural adjustment policies took a heavy toll on living standards in Latin America and caused poverty levels to rise. Beginning in the early-1980s, across the continent markets were liberalized, and poverty and unemployment rose.⁸⁷ In many places labour rights were undermined, real wages fell,⁸⁸ informal and precarious work spread,⁸⁹ and inequality and financial and economic instability increased.⁹⁰ By the mid-1990s most countries in Latin America had seen their income per person fall to levels last seen 15 years earlier – and in some countries the figure fell to levels not recorded for 25 years.

Inequality increased in the 1980s and 1990s in almost all countries in the region.⁹¹ With the exception of Uruguay, all other affected countries saw the richest tenth of the population increase their share of national income during those two decades, while the share of the poorest 40 per cent either stagnated or decreased. Analysts estimate that half of the increase in income-based poverty during this period was due to redistribution in favour of the richest.⁹² When growth rates started to recover and inflation began to fall in the 1990s, this did not result in an improvement in the distribution of income. By 2000, inequality in Latin America had reached an all-time high.⁹³ Although it has decreased slightly since then in some countries, due to concerted government policies rather than the economic model of adjustment and austerity imposed previously, levels of inequality continue to be higher than before the 1980s.

Inequality of income distribution is associated with inequality of access to health, education, and other important social services because the poorest cannot afford to pay for private services. Between 1980 and 2000, Latin America's public spending was among the world's lowest, at around 20 per cent of GDP.⁹⁴ A lack of public spending, together with the privatization of many vital social services, resulted in key services being subject to fees, which pushed them beyond the means of many.

Growing inequality in Latin America acted as a catalyst for poverty.⁹⁵ The proportion of people living in poverty⁹⁶ increased from 40.5 per cent in

1980 to 48.3 per cent in 1990. The number of people affected by poverty in Latin America in 1994 was still higher than it was in 1980.⁹⁷

By 1997, more than 200 million Latin Americans were living in poverty, despite per capita growth having recovered to more than two per cent per year.⁹⁸ Since 1997, the percentage of people living in poverty in Latin America has gradually decreased, but it took until 2005 for poverty levels to fall below those of 1980. In other words, it took more than 25 years to bring poverty back to pre-crisis levels.

South-East Asia

The IMF reacted to the South-East Asia crisis in 1997 in the same way as it had to that of Latin America in the 1980s, despite the circumstances of the region at the onset of the crisis being nothing like those of Latin America 15 years earlier. The IMF demanded deflation through public-spending cuts and financing of the deficit with public debt at high interest rates.

These measures quickly had negative impacts in several countries, including a rise in poverty in Indonesia and an increase in unemployment in Thailand. In Indonesia, the number of people living below \$2 a day rose from 100 million in 1996 to 135 million in 1999, GDP declined by 15 per cent in one year, and it took over 10 years for poverty to return to pre-crisis levels.⁹⁹ In countries where structural adjustment programmes were introduced, public spending on health and education were reduced by, on average, almost one per cent of gross national product.

Malaysia is noteworthy as an example of a country that refused IMF assistance and advice. Instead of further opening its economy, Malaysia imposed capital controls in an effort to eliminate speculative trading in its currency. Malaysia generally suffered less severe economic problems than other countries embroiled in the Asian financial crisis.

Sub-Saharan Africa

In the 1990s, countries in sub-Saharan Africa were badly affected by structural adjustment policies handed down from the IMF and the World Bank. In Zimbabwe, spending per head on primary health care and primary education were reduced by a third between 1990 and 1995. In Zambia, health care spending was halved between 1990 and 1994, and spending on children of primary-education age was lower in 1999 than it had been in the mid-1980s. In Tanzania, spending per head on health and education was a third lower in 1999 than in the mid-1980s.

Inevitably, public-spending cuts on such a scale undermined the quality of public services. Moreover, the spending cuts were typically accompanied by a programme of public service privatization and the introduction of user fees. This had the greatest impact on the poor, who were least likely to be able to pay the fees.¹⁰⁰

Privatization in sub-Saharan African countries had a clear negative impact on food security. State-owned enterprises that were in charge of

the provision of subsidized seeds and fertilizer, as well as grain for out-of-season periods, were run down and liberalized or privatized. In Malawi, the elimination of subsidies for seeds and fertilizers contributed towards four years of food crisis between 2001 and 2005. In Mali, suppression of the state backed mechanism to cope with high volatility in the global cotton sector exposed Malian cotton farmers to heavily distorted world cotton market prices. Prices dropped sharply as a result of huge subsidies provided by developed countries to their own farmers. The result was that three million Malian farmers saw a 20 per cent drop in the price they received for their cotton in 2005, causing an estimated increase in poverty of 4.6 per cent across the country.

THE ROUTE OUT OF THE CRISIS

Many of the countries in Latin America, South-East Asia, and sub-Saharan Africa eventually emerged from the crisis by applying measures that were contrary to the policies promoted by the IMF. While the economic recovery in Latin America took place in a context of improving external conditions, particularly a rise in international commodity prices and a reduction in the burden of debt service payments, the adoption of more progressive policies played a profound role as well. Indeed, in recognition of this, the IMF itself has recently changed course with regard to structural adjustment policies.¹⁰¹

Some of the measures adopted by countries increased the role of the state in the economy. These included:

- Regulation of fiscal and monetary policies, and the introduction of new capital control mechanisms. Brazil and Costa Rica, for example, implemented exchange rate systems and capital control measures to halt speculative capital inflows and prevent an excessive revaluation of their currencies.
- Since 2002, a number of Latin American countries rich in natural resources have improved their economies' incomes by increasing tax revenues and applying well-directed, progressive fiscal and industrial policies.¹⁰² This has helped to create high-quality jobs in the public sector, the services sector and the manufacturing industry.
- In response to the Asian financial crisis, countries such as South Korea, Indonesia, Thailand and China made joint efforts to prevent a recurrence.¹⁰³ These included increased social spending, strengthening regional institutions and boosting their financial reserves.¹⁰⁴ In contrast with the situation in Europe now, these countries maintained growth as well as investments in education and youth employment programmes.
- In many countries recovering from structural adjustment, public institutions were reinforced, contributing directly to strengthening democracies and recovering key public roles. For example, state enterprises in the agricultural sector were often dismantled under structural adjustment programmes. In Malawi, a devastating hunger crisis was averted with a state-led programme to subsidize maize, seeds, and fertilizers in 2007.¹⁰⁵ Chile, for its part, kept the management of copper production and exports largely in the hands of the public sector, which was crucial to boosting revenues.¹⁰⁶

In large part, Latin America's debt crisis in the 1990s was resolved through market mechanisms and political negotiations aimed at cancelling the continent's debt. Large-scale debt buyback operations were carried out with market acceptance,¹⁰⁷ but debt cancellations were more controversial. In 2001, Argentina reached an agreement with the majority of its creditors to write off 80 per cent of its debts. They agreed that it would be impossible for Argentina to generate the income needed to pay off its enormous debts.

Civil society opposition to structural adjustment policies was very strong and played a crucial role both in changing the political discourse in their countries, and developing democratic institutions in authoritarian regimes or nascent democracies. In some cases, civil society movements served as platform of grievance against those in power.

LESSONS FOR EUROPE

Today, many EU countries have shifted back towards ruinous structural adjustment policies. The target budget deficit of three per cent of GDP imposed as part of the European bailout measures is the same as the IMF demanded in Latin America, ignoring the lessons from that experience. However, the IMF itself is now revisiting this recommendation and questioning its efficiency.¹⁰⁸

Although membership of the Eurozone reduces the possibility for countries to adopt monetary-policy tools to respond to the current crisis, Europe can still learn lessons from previous crises:

1. Political leaders and citizens must review and renew consensus on fiscal and social policies, and commit themselves to protecting the most vulnerable.
2. Debt repayment or deficit reduction cannot be the sole or overriding purpose of economic policy; extreme austerity that reduces deficits but not debts is destructive and does not create opportunities for the future.
3. Even after economic growth has recovered, high levels of inequality can slow the pace of growth and limit the potential to convert growth into poverty reduction. When income distribution is very unbalanced, people on low and even middle incomes have very little chance to save and invest. This is damaging to production and employment. For this reason, combating inequality should be a top priority, both during the economic crisis, and in the recovery phase that follows.¹⁰⁹
4. Structural adjustment programmes depressed economies for years and gave rise to massive volatility and instability. This cycle was only broken when unsustainable debt reached manageable levels as a result of other interventions and where austerity measures were exchanged for policies intended to strengthen public institutions, monitor the correct functioning of the markets, and create economic and social investments.

4 THE FUTURE UNDER AUSTERITY

At present, austerity measures are being aggressively pursued across Europe with scant regard for lessons from the past. These lessons suggest a bleak future for the poorest and harmful socio-economic impacts for all of society. Growth is forecast to return to most European countries by 2014-15, with the EU as a whole expected to see growth of 1.6 per cent in 2013-14.¹¹⁰ However, in many cases this will be a return to unequal growth yielded rising inequality. Austerity policies will only further weakened the mechanisms that could have promoted equality and reduced poverty in Europe.

EUROPE IN 2025

Austerity measures will have impacts beyond their period of implementation. The Institute for Fiscal Studies predicts that poverty rates in the UK will have increased by between 2.5 and 5 percentage points by 2020, equivalent to 2.7 million more people living in poverty.¹¹¹

Europe could have an additional 15 to 25 million people living in poverty by 2025 if austerity measures continue, equivalent to the population of the Netherlands and Austria combined.¹¹²

At best, the countries most affected by austerity will become the most unequal in the Western world.¹¹³ At worst, they will rank amongst the most unequal anywhere in the world.¹¹⁴

In several of the most populous nations in Europe, real average incomes could continue to fall for many years to come, making more people effectively poorer than they were before the crisis. Adults would find the prosperity enjoyed by their parents elusive. This could have significant consequences for rising levels of private debt, and in turn fuel the conditions for further financial crises.

The erosion of collective bargaining and workplace rights will create the conditions for a continuing upward trend in working poverty, as workers are less and less able to bargain for better pay and conditions.¹¹⁵ Labour markets will become hollowed out as those at the top take a greater share of the income. Increasingly, workers will struggle to find work that pays enough – or provides enough hours – to lift them above the poverty line. High levels of unemployment – particularly long-term and youth unemployment – will leave generations marginalized and at a permanent disadvantage in job markets.¹¹⁶

For those struggling below the poverty line – both in work and out-of-work – the lack of effective social security systems will undermine their resilience to shocks and reduce the options available for rebuilding

livelihoods. Women will be particularly affected by declining levels of social security, which is often a source of independent income within households. Public services and voluntary institutions that support people and communities in times of hardship will be weakened or even shut down through increased demand and declining levels of funding.

The cuts to public services will result in millions losing their jobs. For those that remain in employment, declining levels of pay and conditions will mean that public services are less able to attract the best staff. The reduction in education and health budgets will undoubtedly entrench inequality as those with the means are able to pay for better services. A trend away from funding higher education will further exacerbate inequality, as only the richest will be able to afford the education needed to access higher earning jobs.

It could take between 10 to 25 years for poverty to return to pre-2008 levels.¹¹⁷

The impact of a decline in ODA will be equally wide-reaching and will undermine efforts to meet long-term development goals. It will create a serious risk that development will decelerate, with negative consequences for millions of people living in poverty around the world. International development has a positive impact upon the long-term future of Europe. If new markets are unable to develop, this could harm opportunities for EU economies to grow through exports.

Austerity measures are laying the foundations for deeply unequal societies. Their impact is scarring the lives of millions through a prioritization of debt and deficit reduction at the expense of long-term, inclusive growth and greater equality. These measures will entrench power and wealth for an elite few and steal opportunities from millions of today's youth. The combination of unprecedented levels of unemployment, declining levels of social transfers and public services, and the loss of collective bargaining mechanisms suggests that, even if growth returns, Europeans will live in deeply divided nations and a divided Europe.

5 MOVING BEYOND AUSTERITY

'We are seeing a belated recognition of the fact that the constraint imposed only by austerity was untenable. Clearly the experience, if experience was needed, has demonstrated that reliance on austerity is counter-productive.'

Professor Ashoka Mody, one of the architects of Ireland's bailout¹¹⁸

In 2012, the IMF published research¹¹⁹ showing that in 2010, when Greece and other European countries embarked on severe austerity programmes, its forecasters underestimated the negative impact that spending cuts and regressive tax increases would have on the broader economy. It has also acknowledged publicly that it made 'notable failures' in the Greek bailout, underestimating how far its recommendations would undermine the country's already faltering economy.¹²⁰

In addition to the alternatives to austerity presented below, Oxfam has identified two key areas in which European policy makers should act urgently:

1. **Tackle unsustainable European public debt.** The increase in public debt was primarily generated by state interventions in the banking bailout, which, in June 2013, reached 85.9 per cent of European GDP (92.2 per cent in the Eurozone).¹²¹ Public debt in Cyprus, Spain, the UK, France, Belgium, Ireland, Portugal and Greece has exceeded the European average¹²² and, even worse, is continuing to increase. In the absence of strong economic growth, the level of debt in some countries could become unsustainable.¹²³ Europe should learn two key lessons from previous debt crises in other regions: 1) that unsustainable debt is unpayable, and requires a fair and transparent arbitration process that might include a comprehensive restructuring or cancellation of the debt; and 2) that the sooner the spiral of rising debt is addressed, by member states and the EU, the better.
2. **Address major flaws in the financial system.** The economic crisis highlighted a number of serious flaws, including inadequate regulation, insufficient taxes, the dangerous size of financial institutions, and the capacity of the financial industry to influence political power, all of which continue to contribute to the on-going economic turmoil. In order to ensure protection for the poorest, we need brave public interventions that address the real causes of the crisis, guided by the objective of a fairer, more equal world.¹²⁴

ALTERNATIVES TO AUSTERITY

'When private sector demand is collapsing, investors are not investing and consumers have lost their jobs and the value of their house so they are not consuming. So basically the government comes in and puts some demand into the system – that is what stimulus is – that is the logic.'

Professor Laura Tyson, University of California, Berkeley¹²⁵

Austerity on the scale it is being implemented is not inevitable. Oxfam proposes a series of policy changes and public interventions to modify the negative impact of the crisis. By changing course, countries affected by austerity can progress towards a sustainable growth model, in which the quality and distribution of growth are the utmost concern, resulting in fairer societies and protection for the poorest sections of those societies.

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. An era of European prosperity can be built on new jobs, increased wages, economic growth and investment in a sustainable and green economy,¹²⁶ as a means to reduce the debt-to-GDP ratio and deliver better outcomes for people, communities and the environment.

To achieve this, governments should do more than merely adjust austerity measures. They should also:

1. Invest in people and economic growth

Greater investment in people and jobs is the route out of the crisis. Political choices need to be made to allocate spending priorities that put people first over foreign debt¹²⁷ or military spending.¹²⁸

1.1 Prioritize a stimulus programme.

- Governments should prioritize and incentivize investments in economic and social infrastructure (including housing), and in research and technology that support a sustainable, green economy and create jobs;
- Secondary policy options to provide stability could include guaranteeing mortgages and injecting new money into the economy (a method known as 'quantitative easing').

1.2 Target employment creation.

With record rates of unemployment – particularly long-term and youth unemployment – proactive employment policies are needed, in order to:

- **create decent work,**¹²⁹ either through public investment and procurement and incentivizing private expansion to address regional inequalities and environmental sustainability;¹³⁰
- **offer opportunities for the unemployed to retrain, find, and secure new employment.** In some cases, this may necessitate support for workers to migrate and meet regional labour market demands;

- **connect employment with social protection systems:** implementation of a social protection floor,¹³¹ including through job sharing, would help to reduce working hours and generate additional employment; jobs that are currently poorly rewarded – including caring and child-care – should be re-valued to reflect their social importance;
- **support gender equality in the workplace** through the universal provision of child-care, flexible working arrangements, and parental leave rights.

‘Investing in these measures [to promote youth employment] is far less costly than dealing with the consequences through unemployment benefits, anti-social behaviour or a more permanent disconnect from the labour market’

Guy Ryder, Director-General, International Labour Organization

1.3 Protect EU and Member States’ development aid.

The crisis is hitting the most vulnerable hardest, both in Europe and beyond its borders. Aid for development and humanitarian interventions is a lifeline for millions around the world. Europe should honour its commitments to dedicate 0.7 per cent of its GDP to aid.

2. Invest in public services

Public services are not a luxury, but an investment in the future, guaranteeing human development and equality of opportunity for everyone. Investing in stronger social protection systems will safeguard vulnerable people in the short term and help combat inequality over the longer term.

2.1 Guarantee public, universal, high-quality education for all.

Education is a human right and unequal access to education often leads to inequality of opportunity and the entrenchment of poverty for future generations;

2.2 Protect public, universal, high-quality health care.

Governments should remain committed to protecting public health-care systems that offer the full range of necessary medical and health services, and protect the most vulnerable from user fees;

2.3 Develop social protection systems that respond to the most vulnerable.

Protecting low-income households is essential to address inequality and prevent severe poverty. Policies could include social services aimed at children and young people, or guaranteed income schemes, which can be particularly effective in combating child and family poverty;¹³²

2.4 Guarantee access to secure, affordable decent housing.

Significant public investment in house-building could also help create jobs, make housing more affordable and with a lower environmental footprint, and limit the creation of a housing bubble.

3. Strengthen institutional democracy

Europe's model of market capitalism has favoured a concentration of power amongst a few, undermining democracy and fuelling inequality. We are at risk of creating much more unequal societies, where democratic mechanisms have been significantly weakened. To tackle inequality, European governments must strengthen the institutions of democracy.

Oxfam believes that development happens, in Europe and beyond, when governments are accountable and citizens are active.¹³³ Therefore, the following steps are needed in order to reclaim political space to influence government policy for the public interest:

3.1 Greater participation in democratic processes by all stakeholders.

Citizens should be supported to engage in democratic processes. Budgeting and resource allocation, in particular, should involve local stakeholders, especially women and marginalized groups. Oxfam and other organizations have extensive experience of the benefits of participatory budgeting, and this should now be applied in Europe as well.¹³⁴

3.2 Greater transparency and accountability of political processes.

Public access to good quality information on administrative and budget processes should be strengthened. The role of parliaments as spaces for dialogue and accountability before citizens needs to be enhanced. Governments must also promote a transparent financial sector that meets its social obligations and combats corruption.

3.3 Workplace democracy.

Social dialogue between employers, employees and public authorities must be improved to combat declining wage shares, particularly for low-paid workers. This will increase demand, boost the economy, and will help to tackle income inequality over the long-term. For example, enabling better employee representation and opportunities to share ownership of companies could lead to better investment in the real economy.

4. Tax fairly

Tax systems are an effective instrument to redistribute wealth. Governments should structure policy changes around fair taxation and a better regulated financial sector. In particular:

4.1. Implement progressive taxation reforms.

Ensure the weight of the tax burden falls upon those who can most afford it.¹³⁵ A reduction in taxes for the poorest will enable those with the least to keep a greater share of their income. An increase in taxes for the very wealthy and for highly profitable businesses will support redistribution of wealth and the financing of public and social policies.

- **Tax wealth stocks.** This is an important measure to reduce wealth inequality over the long term. For example, progressive taxes could be used to prevent future housing bubbles. Taxing other sources of wealth could prevent high-risk financial investments;
- **Implement a Financial Transaction Tax (FTT).** By implementing a small tax (around 0.05 per cent) on cross-border financial transactions, governments could regulate speculation and raise billions of euros at national, regional, and international levels. Eleven European countries agreed to implement a joint European FTT and should do so by 2014. Other European countries should join the initiative. Revenues raised should be used to complement public and social policies that provide protection for the most vulnerable, and to fight poverty through international co-operation and climate change.

4.2. Tackle tax avoidance and evasion.

Combating tax abuse – both tax evasion and avoidance – has enormous revenue-raising potential. Around €1 trillion is lost to tax evasion and avoidance every year in the EU, the equivalent of the European budget for seven years.¹³⁶ By recouping all the tax revenue due to European treasuries, governments could offset deep spending cuts and reduce inequality through redistributive policies. Tackling tax avoidance also enables a level playing-field for businesses, as companies currently benefiting from complex tax avoidance schemes would be prevented from gaining an advantage over those which do pay taxes.

In order to challenge tax abuse effectively, we need to implement measures aimed at combating the opacity of tax systems and impunity of tax avoiders:

- **Transparency regarding the financial information of multinational companies.** Multinationals should provide public, accessible information in each country in which they operate about their activities (e.g. sales, volume of production, etc), their tax contributions and payments made to governments, and the number of employees, and their assets;
- **Strengthening multilateral co-operation on tax between different countries.** The creation of an efficient, multilateral mechanism for exchanging information automatically between different tax administrations is essential. Currently, many large companies and rich individuals divert profits to tax havens where they are subject to little or no tax, under a sophisticated framework of tax avoidance. This reduces their tax contributions and enables them to avoid paying tax in the countries where they are actually carrying out their operations. The EU must follow through on its commitments to introduce automatic exchange of tax information as its new standard;¹³⁷
- **New international tax rules for companies,** as endorsed by the G20 and the OECD. The international system for the taxation of multinational companies is no longer fit for purpose. Nowadays, the tax contribution paid by many large business groups is well below the rate set by national tax laws, thanks to loopholes available under the various legislations.¹³⁸ The erosion of the tax-base is a serious problem and the G20 endorsed in July 2013 an action plan with 15

concrete proposals. This action plan is a welcome step, but countries outside of the G20 must also be involved in their design.¹³⁹ Key actions such as automatic information exchange, country by country reporting and public disclosure of beneficial ownership should be included. Moreover, alternatives to the existing 'arms length' system of taxation need to be explored;

- **Create a binding European tax havens blacklist** to have a cohesive approach against tax havens. Based on objective criteria, EU countries should publish a common blacklist that will identify non-co-operative jurisdictions and will ensure greater co-ordination of sanctions. Countries on the list would face automatic counter-measures applied by all member states. Sanctions should also apply to European companies that do not comply with EU tax standards and use these tax havens to reduce their tax bills.

What will be the cost of these policies?

The role of a government must be to serve in the interests of the public as a whole. It has a duty to ensure that all its citizens are able to enjoy minimum standards of health care, education, housing, and employment opportunities. The costs for providing these come from all in society in proportion, including those that can most easily afford them.

One example of achievable policies can be seen in Spain, where universal coverage of minimum income policy in Spain would cost €1.8bn (in addition to the current €843m spent on this policy). This would guarantee minimum income for an additional 407,000 households, thus reaching all 1,178,000 people who currently are outside the system. €1.8bn is only 36 per cent of the estimated annual revenue which a financial transaction tax (FTT) would raise in Spain.

An FTT of 0.05 per cent could raise €300bn a year globally, and up to €5bn in Spain, which is 150 per cent more than what Spain has budgeted for ODA in 2011. In eight days, a global FTT would raise enough money to ensure universal primary education for the 72 million children worldwide who today are not in school (between 10 billion and 15 billion annually).

Can Europe afford these alternatives?

Yes, if we consider all the implications at stake, it makes economic sense. Staying on the current course will lead Europe into a decade of stagnating growth and social unrest. It makes ethical sense to foster inclusive societies that put people first. And it makes financial sense if the relevant policy changes are towards fair taxation and a regulated financial sector. Not only can Europe afford these alternatives, Europe cannot afford the status quo, the true cost of which is a lost decade.

6 CONCLUSION

This is a crisis that exposes an imbalance of power: the dysfunctional financial systems that caused the crisis have largely escaped unscathed, but the costs of their actions have been borne by everyone, with the most vulnerable bearing the heaviest burden. Governments have responded with an austerity and adjustment model that has largely failed to lead to growth, and which is already increasing inequality and poverty. Even when countries do return to growth, the mechanisms to reduce inequality and poverty will have been severely weakened by austerity, meaning that the richest will benefit the most from new growth.

Citizens in Europe and around the world need to increase their political engagement in order to influence government policy. We need to change course to avoid a lost European decade. We need a new economic and social model that requires investment in people, strong democratic institutions and a fair fiscal system that delivers better outcomes for people, communities and the environment.

NOTES

All web links were last accessed in July 2013, unless otherwise stated.

- ¹ W. Easterly, T. Irwin and L. Serven (2008) 'Walking up the down escalator: Public investment and fiscal stability', *World Bank Research Observer*, vol. 23, issue 1, p. 37, https://openknowledge.worldbank.org/bitstream/handle/10986/4414/wbro_23_1_37.pdf?sequence=1
- ² L. Ball et al (2013) 'The Distributional Effects of Fiscal Consolidation', IMF working paper, <http://www.imf.org/external/pubs/cat/longres.aspx?sk=40699>. This paper concluded that fiscal consolidation in 17 OECD countries between 1978 and 2009 had significant distributional effects by raising inequality, decreasing wage income share and increasing long-term unemployment.
- ³ R. Torres (2012) 'The prescribed cure is killing the patient', ILO, http://www.ilo.org/global/research/global-reports/world-of-work/WCMS_179857/lang-en/index.htm
- ⁴ European Commission (2012) 'Tackling the financial crisis - Banks', http://ec.europa.eu/competition/recovery/financial_sector.html
- ⁵ Banks not directly bailed out were supported through the injection of financial support and blanket guarantees. See J. Menon and G. Finch (2010) 'Barclays received government support, says CEO Varley', Bloomberg, <http://www.bloomberg.com/news/2010-12-02/varley-says-barclays-benefited-from-government-liquidity-support.html>; and C. Calderon and K. Schaeck (2012) 'Bank bailouts, competitive distortions, and consumer welfare', Banco Central do Brasil, http://www.bc.gov.br/pec/depep/Seminarios/2012_VIIISemRiscosBCB/Arquivos/2012_VIIISemRiscosBCB_Ceasar_Calderon.pdf
- ⁶ 'Communication from the Commission to the European Council: A European Economic Recovery Plan' (2008), European Commission, p.2, http://ec.europa.eu/economy_finance/publications/publication13504_en.pdf
- ⁷ *ibid.* p.3. In general there was a remarkable degree of consistency in efforts to stimulate economies across member states. The ERP recommended adopting social protection measures that would provide incentives to work, whilst also preserving purchasing power. In response, Spain increased its national minimum wage and Italy spent €3bn on aid to low-income households. Across Europe, banks were nationalized to prevent the long-term damage of their collapse. Governments took steps to rescue their automotive, construction, and housing sectors, recognizing the key role of these sectors in the economy, and in any future recovery. The 2008-2010 period was notable for the protection of jobs through active labour market policies in several countries. These interventions supported businesses to keep people in work. In Germany, unions also helped workers retain jobs by adopting a temporary reduction in hours. Taxation changes, such as tax cuts and rebates and the lowering of taxes on goods were amongst measures implemented to kick-start demand. In the UK, a temporary cut in VAT was implemented, and in the Netherlands and Italy tax rebates were given to households and companies.
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- ⁹ J. Smialek (2013) 'Stiglitz says more fiscal stimulus needed in U.S.: Tom Keene', Bloomberg, <http://www.bloomberg.com/news/2013-04-09/stiglitz-says-more-fiscal-stimulus-needed-in-u-s-tom-keene.html>
- ¹⁰ P. Johnson (2013) 'Opening Remarks' in response to Spending Round 2013, London: IFS, http://www.ifs.org.uk/budgets/sr2013/paul_johnson.pdf
- ¹¹ J. Leschke and M. Jespen (2012), 'Introduction: Crisis, policy responses and widening inequalities in the EU', *International Labour Review* 151: p.293.
- ¹² Fawcett Society (2012) 'The Impact of Austerity on Women', London: Fawcett Society, p. 6, http://www.fawcettsociety.org.uk/?attachment_id=407
- ¹³ Reuters (2010) 'Portugal govt to freeze real wages until 2013', <http://www.investing.com/news/interest-rates-news/portugal-govt-to-freeze-real-wages-until-2013--paper-119257>
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- ¹⁹ OECD (2012) 'Health spending in Europe falls for the first time in decades', Paris: OECD, <http://www.oecd.org/newsroom/healthspendingineuropefallsforthefirsttimeindecades.htm>

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- ²¹ J.M Silva (2013) 'The Economic Crisis and Access to Medicines in Portugal', presentation at the European Public Health Alliance, http://www.epha.org/IMG/pdf/Jose_Manuel_Silva_-_Economic_Crisis_Access_to_Medicines_in_Europe.pdf
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- ²³ 'Frontlines Report April 2013', ITUC, http://www.ituc-csi.org/IMG/pdf/en_ituc_frontlines_full_report_april_2013_web.pdf
- ²⁴ K. Busch, et al (2013) 'Euro Crisis, Austerity Policy and the European Social Model: How Crisis Policies in Southern Europe Threaten the EU's Social Dimension', Berlin: Friedrich Ebert Stiftung, <http://library.fes.de/pdf-files/id/ipa/09656.pdf>
- ²⁵ O. Bontout and T. Lokajickova (2013) *op. cit.*, p. 33
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- ⁴⁷ N. Cooper and S. Dumbleton (2013) *op. cit.*
- ⁴⁸ R. Wilkinson and K. Pickett (2010) *The Spirit Level: Why Equality is Better for Everyone*, Penguin: London, pp. 52-3
- ⁴⁹ *ibid.*, p. 148
- ⁵⁰ *ibid.*, pp. 73-102
- ⁵¹ *ibid.*, pp. 103-119.
- ⁵² M. Kumhof and R. Rancière (2010) 'Inequality, Leverage and Crises', working paper, Washington: IMF, <http://www.imf.org/external/pubs/ft/wp/2010/wp10268.pdf>
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- ⁵⁴ K.B. Fredriksen (2012) 'Income Inequality in the European Union', OECD Economics Department Working Papers, No. 952, p.11, <http://dx.doi.org/10.1787/5k9bdt47q5zt-en>
- ⁵⁵ OECD (2013), 'Crisis squeezes income and puts pressure on inequality and poverty', Paris <http://www.oecd.org/els/soc/OECD2013-Inequality-and-Poverty-8p.pdf>. The UK and Portugal are only exceeded in net income inequality by Israel, USA, Turkey, Mexico and Chile.
- ⁵⁶ L. Ball *et al* (2013) 'The Distributional Effects of Fiscal Consolidation', IMF working paper, Washington: IMF, <http://www.imf.org/external/pubs/cat/longres.aspx?sk=40699.0>
- ⁵⁷ Eurostat (2013) 'Gini coefficient of equivalised disposable income', <http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&language=en&pcode=tessi190&plugin=0>
Net income inequality increased between 2010 and 2011 in Portugal (from 0.337 to 0.342), Greece (0.329 to 0.335) and Italy (0.312 to 0.319). In each case they recorded falls over the year to 2010.
- ⁵⁸ Bain and Company (2012), 'Bain projects global luxury goods market will grow overall by 10% in 2012, though major structural shifts in market emerge', <http://www.bain.com/about/press/press-releases/bain-projects-global-luxury-goods-market-will-grow-ten-percent-in-2012.aspx>
- ⁵⁹ In Spain, incomes grew for the richest tenth (from 23 per cent in 2008 to 23.9 per cent in 2011), while the poorest saw their share decline (from 2.3 to 1.6 per cent), by far the lowest share in the European Union. Italy saw its richest take an increased share of income from 23.7 per cent in 2008 to 24.2 per cent in 2011, while income for the poorest tenth fell from 2.7 to 2.3 per cent. Portugal has witnessed a similar trend since 2010, as the income for the richest rose from 26.6 to 27.2 per cent (the highest in Europe), whilst the poorest remained flat over the same period (at 2.9 per cent). In the UK, the poorest have seen their income share decline from 2.9 per cent in 2009 to 2.8 per cent in 2011, whilst the richest took a greater share, rising from 25.4 to 26.0 per cent over the same period. Eurostat (2013) 'Distribution of income by quantiles', http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=ilc_di01&lang=en
- ⁶⁰ Eurostat (2013) 'Distribution of income by quantiles', http://appsso.eurostat.ec.europa.eu/nui/show.do?dataset=ilc_di01&lang=en
- ⁶¹ Total \$283.2bn, equivalent to €217.3bn (as at July 2013). EU stimulus measures over 2008-10 totalled €200bn, as per Note 5. 'Today's ranking of the world's richest people', (2013) Bloomberg, 12 July, <http://www.bloomberg.com/billionaires/2013-07-12/aaa>
- ⁶² Eurostat (2013) 'People at risk of poverty or social exclusion', http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&language=en&pcode=t2020_50&plugin=1
The poverty indicator used is those 'at risk of poverty or social exclusion', which corresponds to the sum of persons who are: at risk of poverty or severely materially deprived or living in households with very low work intensity. Persons are only counted once even if they are present in several sub-indicators. At 'risk of poverty' are persons with an equivalized disposable income below the 'risk of poverty' threshold, which is set at 60 per cent of the national median equivalized disposable income (after social transfers). Material deprivation covers indicators relating to economic strain and durables. Severely materially deprived persons have living conditions severely constrained by a lack of resources, they experience at least four out of nine following deprivations: they cannot afford: i) to pay rent or utility bills, ii) to keep home adequately warm, iii) unexpected expenses, iv) to eat meat, fish or a protein equivalent every second day, v) a week holiday away from home, vi) a car, vii) a washing machine, viii) a colour TV, or ix) a telephone. People living in households with very low work intensity are those aged 0-59 living in households where the adults (aged 18-59) worked less than 20 per cent of their total work potential during the past year.
- ⁶³ UNICEF, 'Report Card 10: Measuring Child Poverty', Florence: UNICEF, p.6 <http://www.unicef.org.uk/Documents/Publications/RC10-measuring-child-poverty.pdf>; Ruxton (2012), 'How the economic and financial crisis is affecting young people and children in Europe', Brussels: Eurochild, http://www.eurochild.org/fileadmin/ThematicPriorities/Crisis/Eurochild%20updates/Eurochild_Crisis_Update_Report_2012.pdf; and EAPN and Eurochild (2013), 'Towards Children's Wellbeing in Europe' http://www.eapn.eu/images/stories/docs/eapn-books/2013_Child_poverty_EN_web.pdf
- ⁶⁴ I. Ortiz and M. Cummins (2013) 'The Age of Austerity: A Review of Public Expenditures and Adjustment Measures in 181 Countries' http://policydialogue.org/files/publications/Age_of_Austerity_Ortiz_and_Cummins.pdf
- ⁶⁵ €55bn converted into \$ at 2012 rate of \$1:€0.778, used in OECD (2013) note 76,

- <http://www.oecd.org/dac/stats/Exchange%20rates.xls>. Council of the EU (2013) 'Council conclusions on Annual Report 2013 to the European Council on EU Development Aid Targets', 3,241th Foreign Affairs Council meeting Brussels, 28 May, http://www.consilium.europa.eu/uedocs/cms_data/docs/pressdata/EN/foraff/137320.pdf
- ⁶⁶ From 0.45 per cent of EU GNI in 2011 to 0.43 per cent in 2012, with 16 member states reducing their ODA. 'The European Commission calls on EU Member States to fulfil their commitments towards the world's poorest' (2013) European Commission, http://europa.eu/rapid/press-release_IP-13-299_en.pdf
- ⁶⁷ OECD (2013) 'Aid to poor countries slips further as governments tighten budgets', OECD, <http://www.oecd.org/newsroom/aidtopoorcountrieslipsfurtherasgovernmentstightenbudgets.htm>
- ⁶⁸ I. Ortiz and M. Cummins (2013) *op. cit.* Overall, 68 developing countries are projected to cut public spending by 3.7 per cent of GDP, on average, in the third phase of the crisis (2013-15) compared to 26 high-income countries, which are expected to contract by 2.2 per cent of GDP, on average.
- ⁶⁹ *ibid.*
- ⁷⁰ OECD, 'ODA net: 1950 – 2012', <http://www.oecd.org/dac/stats/Long%20term%20ODA.xls>
- ⁷¹ International Institute for Labour Studies (2013) 'World of Work Report', Geneva: ILO, <http://www.ilo.org/global/research/global-reports/world-of-work/lang--en/index.htm>
- ⁷² Deficits as a percentage of GDP have risen in Spain, Portugal and Greece between 2011 and 2012. Eurostat (2013) 'General government deficit/surplus', <http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&language=en&pcode=tec00127&plugin=1>
- ⁷³ Greece has the highest ratio at 156 per cent; the UK has seen its debt-to-GDP ratio rise to 90 per cent of GDP; Ireland, Spain, and Portugal all experienced Euro-era debt-level highs in 2012. Eurostat (2013) 'Euro area and EU27 government debt nearly stable at 90.0% and 85.1% of GDP respectively', Eurostat news release, http://epp.eurostat.ec.europa.eu/cache/ITY_PUBLIC/2-23012013-AP/EN/2-23012013-AP-EN.PDF
- ⁷⁴ European Commission (2013) 'Commission takes steps under the Excessive Deficit Procedure', http://europa.eu/rapid/press-release_MEMO-13-463_en.htm
- ⁷⁵ Eurostat (2013) 'Real GDP growth rate – volume', <http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&language=en&pcode=tec00115&plugin=1> As of May 2013, nine Eurozone countries were officially in recession, with Greece, Portugal, Spain, and Italy mired in deep slumps. Greece has faced five years of recession; Portugal is forecast to be in recession from 2010 until 2013; France has seen growth flatline; Italy, the Netherlands, and Spain are all facing two years of negative growth; Cyprus is forecast to see many years of negative growth.
- ⁷⁶ A. Faiola (2013) 'In Ireland, the promise and problems of Europe's recovery', *The Washington Post*, http://articles.washingtonpost.com/2013-02-26/world/37297531_1_irish-unemployment-irish-economy-irish-operations
- ⁷⁷ Reuters (2013) 'Ireland on road to recovery, but many left behind', <http://www.reuters.com/article/2013/07/28/ireland-economy-recovery-idUSL6N0FU1HK20130728>
- ⁷⁸ Ireland's market income inequality Gini index stood at 0.59 in 2009, the highest in the OECD; yet taxes and transfers reduce income inequality to just 0.33. See <http://stats.oecd.org/#>
- ⁷⁹ S. Olafsson (2011) 'Iceland's Financial Crisis and Level of Living Consequences', Working paper 3:2011, Social Research Centre, University of Iceland, http://thjodmalastofnun.hi.is/sites/thjodmalastofnun.hi.is/files/skrar/icelands_financial_crisis_and_level_of_living.pdf
- ⁸⁰ Iceland's real wage index rose by 1.5 per cent in the year to March 2013. A collective agreement between the government and unions, signed June 2011, stipulated a general wage rise of 3.25 per cent in March 2013. Source: 'Wage Index 2012-2013' Statistics Iceland, <http://www.staice.is/Pages/444?NewsID=9474>
- ⁸¹ Iceland's market income inequality Gini index rose from 0.38 in 2008 to 0.39 in 2010; Ireland saw an increase from 0.54 to 0.59 between 2008 to 2009 (figures were not available for 2010).
- ⁸² Eurostat (2013) 'Government debt in % of GDP - quarterly data', <http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&init=1&language=en&pcode=tipsgo20&plugin=0>
- ⁸³ K. Watkins (1995) 'The Oxfam Poverty Report', Oxford: Oxfam GB, <http://policy-practice.oxfam.org.uk/publications/the-oxfam-poverty-report-122886>
- ⁸⁴ K. Watkins (1995) *op. cit.*
- ⁸⁵ These policies are often referred to as the Washington Consensus. In 1989, the Washington Consensus established a list of economic policies which were considered during the 1990s by international financial and economic centres to be the best economic programme for driving growth in developing countries.
- ⁸⁶ Structural Adjustment Participatory Review International Network/World Bank (2002) 'The Policy Roots Of Economic Crisis And Poverty: A Multi-Country Participatory Assessment of Structural Adjustment', First Edition, Structural Participatory Review International Network (SAPRIN), http://www.saprin.org/SAPRIN_Findings.pdf
- ⁸⁷ Urban unemployment grew during the 1990s, rising from 5.8 per cent in the region as a whole in 1990-91 to 8.7 per cent in 2001. Argentina, Brazil, Colombia, Ecuador, Peru, Uruguay, and Venezuela saw increases of three percentage points or more. CEPAL (1999) 'Balance preliminar de las economías de América Latina y el Caribe' [Preliminary assessment of the economies of Latin America and the Caribbean], Santiago de Chile: CEPAL, <http://www.eclac.org/publicaciones/xml/2/9042/lcq2153e.pdf>

- ⁸⁸ Real wages in many countries have not yet managed to recover from the decline they suffered in the 1980s. That fall was particularly sharp for the minimum wage and the agricultural wage, which fell by 33 and 28 percentage points respectively between 1985 and 1995. According to Abramo, industrial and civil-construction wages fell by 13 and 14 points respectively during the same period. L. Abramo (1997) 'Mercados laborales, encadenamientos productivos y políticas de empleo en América Latina y el Caribe' [Labour markets, production chains and employment policies in Latin America and the Caribbean], Santiago: ILPES, <http://200.62.227.8/spanish/260ameri/oitreg/activid/proyectos/actrav/edob/material/cadenas/pdf/cp5.pdf>
- ⁸⁹ The structure of the labour market changed, with a reduction in employment in the public sector and in large private companies, and an expansion in the informal sector (small entrepreneurs, non-professional self-employed workers, and domestic service). This trend considerably worsened the quality of employment. By 1996, for every 100 new jobs generated, 85 were concentrated in the informal sector. The informal sector was considered the largest source of job creation in the region. A.F. Calcagno (2001) 'Ajuste estructural, costo social y modalidades de desarrollo en América Latina' [Structural adjustment, social cost and development models in Latin America], in E. Sader (2001) 'El ajuste estructural en América Latina. Costos sociales y alternativas' [Structural adjustment in Latin America: Social costs and alternatives], Buenos Aires: CLACSO (Consejo Latinoamericano de Ciencias Sociales [Latin American Social Sciences Board]), p. 81, <http://biblioteca.clacso.edu.ar/ar/libros/sader/sader.html>
- ⁹⁰ R. Joly et al. (2012) 'Be outraged: There are alternatives', Oxford: Oxfam, p. 14, <http://policy-practice.oxfam.org.uk/publications/be-outraged-there-are-alternatives-224184>
- ⁹¹ An increase in inequality was reported in 14 of the 18 countries for which relevant data are available. UNCTAD (2012) 'Trade and Development Report', Geneva: United Nations Conference on Trade and Development, p.12, http://unctad.org/es/PublicationsLibrary/tdr2012overview_sp.pdf
- ⁹² K. Watkins (1998) 'Economic Growth with Equity: Lessons from East Asia', Oxford: Oxfam, <http://policy-practice.oxfam.org.uk/publications/economic-growth-with-equity-lessons-from-east-asia-121035>
- ⁹³ A.F. Calcagno (2001) *op. cit.*, pp. 81-7
- ⁹⁴ A. Franco-Giraldo, M. Palma, and C. Álvarez-Dardet (2006) 'Efecto del ajuste estructural sobre la situación de salud en América Latina y el Caribe, 1980-2000' [Impact of structural adjustment on the health situation in Latin America and the Caribbean, 1980-2000], *Revista e Salud* 2(7), pp.291-9, <http://www.revistaesalud.com/index.php/revistaesalud/article/view/109/308>
- ⁹⁵ K. Watkins (1998) *op. cit.*
- ⁹⁶ The definition of poverty and destitution, as well as the method used to estimate them, can be found in CEPAL (1999) *op. cit.*, p. 51.
- ⁹⁷ *ibid.*, pp. 81-7
- ⁹⁸ CEPAL (1997) 'The Equity Gap: Latin America, the Caribbean and the social Summit', Libros de la CEPAL series 44, <http://www.eclac.cl/cgi-bin/getProd.asp?xml=/publicaciones/xml/2/4702/P4702.xml&xs=/tpl-tp9f.xsl&base=/tpl/top-bottom.xsl>
- ⁹⁹ P. McCawley (2009) 'Mass poverty in Asia: the impact of global financial crisis', Policy Brief, June 2009, Sydney: Lowy Institute for International Policy
- ¹⁰⁰ K. Watkins (1998) *op. cit.*
- ¹⁰¹ The IMF published a report on 3 December 2012 in which it altered its policy on capital control and set out criteria for justifying the adoption of measures to control countries' capital inflows and outflows. This was a radical U-turn from the policies the IMF had imposed in the past. IMF (2012) 'The Liberalization and Management of Capital Flows: An Institutional View', Washington: IMF, <http://www.imf.org/external/np/pp/eng/2012/111412.pdf>
- ¹⁰² For example, *Progresá* in Mexico, which began in 1997; or *Fome Zero* (Zero Hunger) in Brazil, of which the *Bolsa Família* programme contributed to a 20 per cent of the drop in inequality since 2001.
- ¹⁰³ K. Watkins (1998) *op. cit.*
- ¹⁰⁴ *ibid.*
- ¹⁰⁵ C.W. Dugger (2007) 'Ending Famine, Simply by Ignoring the Experts', *New York Times*, 2 December 2007, http://www.nytimes.com/2007/12/02/world/africa/02malawi.html?pagewanted=all&_r=0
- In Malawi, after a disastrous food harvest in 2005, almost five million people (of a total population of 13 million) needed emergency food aid. Two years later, in 2007, Malawi sold more corn to the World Food Programme than any other country in southern Africa and exported hundreds of thousands of tons of corn to Zimbabwe. This turnaround was the result of a state-lead programme to subsidize maize seeds and fertilizers that reached 65 per cent of the farmers..
- ¹⁰⁶ CODELCO (the national copper corporation) held 87.4 per cent of exploitation rights in 1980, and still had a 75.3 per cent share in 1990. The state-owned CODELCO is the biggest copper corporation in the world, but its share in Chile is now substantially lower than in 1990. P. Meller (2003) 'El cobre chileno y la política minera' [Chilean copper and mining policy], *Serie Estudios Socioeconómicos* [Socioeconomic study series] no. 14, CEPLAN, http://www.politicaspUBLICAS.udp.cl/media/publicaciones/archivos/57/capitulo_1.pdf
- ¹⁰⁷ For example, a debt of 1,000 was valued on the market and subsequently bought by market operators at its 'real value' of 200. The next step was for the debtor country to pay off that debt to the market operators that had acquired it, with a small margin, paying 210. As a result, a debt of 1,000 had been cancelled in exchange for one of 210.

- ¹⁰⁸ L. Ball et al (2013) *op. cit.*
- ¹⁰⁹ Inequality hinders productive investments, limits the economy's productive and consumptive capacity, weakens institutions and helps to erode social cohesion. Inequality is key to explaining how the same growth rate can lead to different rates of poverty reduction. In some cases, growth is accompanied by a substantial reduction in the number and percentage of people living in poverty. For example, Brazil's average growth rate between 1990 and 2009 was 2.5 per cent per year, and was accompanied by a slight decrease in inequality from 0.61 to 0.55 (though still high). During this period, the proportion of the Brazilian population under the national poverty line was reduced by half, falling from 41.9 to 21.4 per cent. However, in other cases, considerable growth has taken place without levels of poverty improving. In Peru, between 1997 and 2007, the proportion of the population living in poverty increased, despite the country having achieved an impressive annual growth rate of 3.9 per cent. R. Gower, C. Pearce and K. Raworth (2012) 'Left Behind by the G20?', Oxford: Oxfam, <http://policy-practice.oxfam.org.uk/publications/left-behind-by-the-g20-how-inequality-and-environmental-degradation-threaten-to-203569>
- ¹¹⁰ Eurostat (2013) 'Real GDP growth rate', estimates, <http://epp.eurostat.ec.europa.eu/tgm/table.do?tab=table&plugin=1&language=en&pcode=tec00115>
- For comparison, IMF (2013), 'World Economic Outlook, April 2013', Washington: IMF, <http://www.imf.org/external/pubs/ft/weo/2013/01/pdf/text.pdf> This estimates EU growth to be 1.3 per cent for 2014.
- ¹¹¹ M. Brewer, J. Browne, and R. Joyce (2011) 'Child and Working-Age Poverty from 2010 to 2020', London: Institute for Fiscal Studies (IFS), <http://www.ifs.org.uk/comms/comm121.pdf>
- The IFS has estimated that over the period 2010 to 2020 there will be an increase in relative poverty of 800,000 children (a 5.1 percentage point increase), 500,000 working-age parents (3.4 percentage points) and 1.4 million working-age adults without children (2.5 percentage points); totalling 2.7 million. For comparison, the increase in absolute poverty over the same period is expected to be 2.2 million.
- ¹¹² There were 121,202,000 persons living in poverty or at risk of social exclusion in the EU in 2011, representing 24.3 per cent of the total population (Eurostat, 'People at risk of poverty or social exclusion' If rates of poverty were to increase by three percentage points across the EU to 27.3 per cent, it would represent an increase of 14.963 million people. If poverty rates were to increase by five percentage points across the EU to 29.4 per cent, it would represent an increase of 24.939 million. Such increases could occur over a 10-year period, as illustrated by the IFS analysis of the UK (M. Brewer, J. Browne and R. Joyce (2011) *op. cit.*).
- ¹¹³ In the UK, from 1985 to 2000, net income inequality rose four points from 0.31 to 0.35. If this trend continues, the UK will reach 0.38 points by 2025 (rising from 0.34 in 2010). If inequality rose by four points over the fifteen years to 2025 in other countries facing aggressive austerity measures, we could see Gini indices rising to 0.38 in Greece, Portugal, and Spain; 0.37 in Ireland; and 0.36 in Italy. The three most unequal developed countries, after taxes and transfers, are Turkey (0.41 points in 2009), the USA (0.38 points in 2010) and Israel (0.38 points in 2010). By 2025, the UK, Greece, Portugal, Spain, Italy, and Ireland could therefore all rank among the top three most unequal developed countries. See OECD Database, 'Inequality by country', <http://stats.oecd.org/>
- ¹¹⁴ Chile has the twentieth highest level of inequality in the world, with a Gini index of 0.52. Bolivia witnessed an increase of 16 percentage points in its net income inequality over a period of six years following its structural adjustment programme in the 1990s. If the UK, Greece, Portugal, Spain, Italy, and Ireland saw an increase similar to Bolivia, then net inequality would rise to 0.47-0.51 points, making these countries amongst the most unequal in the world. Perhaps more likely would be an increase in market income inequality, which if it rose by the same amount would bring Greece to 0.68, Ireland to 0.75, the UK to 0.68, Portugal to 0.68, Italy to 0.66, and Spain to 0.67, ranking them amongst the highest in the world. World Bank, Gini Index, <http://data.worldbank.org/indicator/SI.POV.GINI/>
- ¹¹⁵ A key factor in countries seeing a rise in working poverty has been the loss of workplace democracy and an inability to bargain for better wages, with low-waged employment concentrated in sectors that are typically less unionized.
- ¹¹⁶ P. de Beer (2012) 'The Impact of the Crisis on Earnings and Income Distribution in the EU', Brussels: European Trade Union Institute, p. 26, <http://www.etui.org/Publications2/Working-Papers/The-impact-of-the-crisis-on-earnings-and-income-distribution-in-the-EU>
- ¹¹⁷ In Indonesia, it took almost 10 years for poverty to return to pre-crisis levels (in 2008 poverty returned to its 1997 level). In Latin America, it took until 2005 for poverty levels to fall below the level in 1980, following an eight year decline from 1997 onwards.
- ¹¹⁸ 'Reliance on austerity is counterproductive, says former IMF mission chief' (2013) RTÉ News, <http://www.rte.ie/news/business/2013/0411/380836-too-much-austerity-in-bailout-imf-mission-chief/>
- ¹¹⁹ IMF (2012) 'World Economic Outlook: Growth Resuming, Dangers Remain, April 2012', <http://www.imf.org/external/pubs/ft/weo/2012/01/>; O. Blanchard and D. Leigh (2013) 'Growth Forecast Errors and Fiscal Multipliers', IMF working paper, http://www.imf.org/external/pubs/cat/longres.aspx?sk=40200_0
- ¹²⁰ IMF (2013), 'Greece: Ex Post Evaluation Of Exceptional Access Under The 2010 Stand-By Arrangement', IMF Country Report No. 13/156, Washington: IMF, p.2, <http://www.imf.org/external/pubs/ft/scr/2013/cr13156.pdf>
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This paper was written by Teresa Caverro and Krisnah Poinasamy. Oxfam acknowledges the assistance of Natalia Alonso, Jon Mazliah, Kevin Roussel, Catherine Olier, Max Lawson, Jaime Atienza, Angela Corbalan and Ferran Esteve in its production. It is part of a series of papers written to inform public debate on development and humanitarian policy issues.

For further information on the issues raised in this paper please e-mail advocacy@oxfaminternational.org

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The information in this publication is correct at the time of going to press.

Published by Oxfam GB for Oxfam International under ISBN 978-1-78077-404-6 in September 2013. Oxfam GB, Oxfam House, John Smith Drive, Cowley, Oxford, OX4 2JY, UK.

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