Policy Brief

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Poverty and legitimacy crisis in the European Union

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Executive summary

The debt crisis in 2008 exacerbated the problem of poverty throughout the world. First, we focus our attention on the consequences of the crisis in the European Union, highlighting how poverty rates have changed since the crisis in member states. Second, we consider what the European Union is doing in order to fight poverty. The European Union cannot directly decide which social policies to implement, as welfare policy is decided exclusively at the national level. Every member state has a different welfare system, and it is not easy for the European Union to ask for a standardization of welfare systems among European countries, because this would require many reforms. Further, in many cases, there are huge differences in terms of social policy among European states. We consider how the European Union is working in this context. Third, we consider this problem as a crucial chance to increase European legitimacy in the eyes of European citizens. We consider whether the European Union is ready to solve this issue, which in turn would make a more integrated political framework possible.

Introduction

The European Union had to face economic crisis since 2008, and it was possible especially thanks to international treaties (ESM and Fiscal Compact for example), which developed a more integrated political and economic European framework. On one hand these treaties were helpful to get over from economic budget problems and debt crisis of European countries, but on the other hand, economic crisis directly affected citizens of all member states. It means that if economic instability in the Eurozone was reduced, not all issues (due to the crisis) are solved. One of these issues is poverty. Since 2008 poverty has increased in many areas of the European Union, demonstrating that it is possibly too early to say that the European Union has recovered from the disastrous consequences of the economic crisis. It is important to evaluate the extent of poverty (and poverty trends), as this question gives us important insight into the future of European political integration, especially in the area of social policy.

The European Union has demonstrated that it can manage economic problems with unanimous consensus, but in order to deepen its influence in other political areas, it also need to start addressing the issue of poverty. If the European Union wants to increase its legitimacy, it needs to address the unequal level of social provision between member states, aiming for a more standardized framework which would guarantee certain benefits to all European citizens. Why is legitimacy important for European Union? Many scholars suggest that the European Union lacks democratic legitimacy (Hix and Follesdal, 2006) by emphasising how European political processes and institutions cannot be considered democratic. Citizens cannot directly elect the executive, and the European Parliament, which is the only institution directly elected by citizens, it is not involved in many political decisions, especially those that are considered the most important. Democratic legitimacy has many different dimensions: Schmidt (2013) lists, *inter alia*, input, output and throughput dimensions. The input dimension indicates the process of how citizens' will is transferred in political institutions, for instance by the process of voting. The throughput dimension is related to the transparency of the political process, through which decisions are taken. Finally, the output dimension assesses how political institutions are able to produce public policies in order to solve collective problems.

Scharpf (1999) believes that when talking about the European Union we have to consider democratic legitimacy, in both the output and input dimensions, as meaning its ability to achieve the goals citizens collectively care about, and to involve the political participation of citizens. As I have already said, citizens do not choose their executive representatives, they choose only the European parliament representatives. The Lisbon treaty improved the input legitimacy, but as already stated, the European parliament cannot make decision in important policy areas. Scharpf (2006) notes that the European output dimension is also insufficient, because European institutions are not able to solve citizens' problems without the consensus of all member states, which sometimes have conflicting interests.

After the economic crisis in 2008, national governments and parties have been tempted to blame bad social conditions (due to the crisis) on the European Union, demonstrated by the rise of Eurosceptic political parties. Within the Eurozone, the most evident example of Eurosceptic parties is SYRIZA in Greece, which in 2015 used an anti-Euro rhetoric against the austerity policies imposed in the Eurozone (Katsanidou and Otjes, 2015). Verney (2015) demonstrates how the Eurozone crisis has led to the lack of legitimization of both domestic and EU political institutions in

Greece, leading to the SYRIZA victory in the election of 2015. Another example is Italy, where the economic crisis also helps explain the media attention on EU affairs, especially in reference to issues such as the sovereign debt, austerity measures, and unemployment (Bobba and Seddone, 2018). The Lega Nord party presents Italy as a victim of European integration in several sectors of social, political and economic life (Caiani, 2014). The Five Star Movement also promotes an anti-austerity and anti-euro political discourse, with the aim of reducing the political power of European technocrats (Tronconi, 2018). Italy and Greece are two examples. However, scholars suggest that we need to take Euroscepticism seriously, especially if seen as a sign of popular discontent towards European unification (De Wilde and Trenz, 2012).

Against this backdrop, social policy addressing poverty are even more relevant. They can foster political integration and showcase how the European institutions can solve collective problems. But, social policies in the EU are very heterogeneous. Members states, as Esping-Andersen shows (1990), have different welfare system with huge differences from one another. Moreover, economic restraints further prevent policy actors from activating social reforms at the national level. On top of these challenges, citizens continue blaming supranational institutions for the negative economic situation and the effects of austerity policies. It is a dangerous "pass the back", which, as Ladi and Tsarouhas (2014, p. 179) highlight, could undermine the future projects of European Union integration: where following the austerity rationale has led to a further shrinking of national administrations and of welfare institutions and provisions. Citizens are finding it difficult to accept this new Europe, especially in regions where until recently growth and infrastructure development had been linked to EU structural funds.

The financial crisis has been transformed into a social and political crisis, and extremism is gaining ground. Within this context, I am going to assess the evolution of poverty rate and how it changed since 2008 economic crisis as well as differences among countries. With this analysis in mind, I will examine what the European Union is doing against poverty.

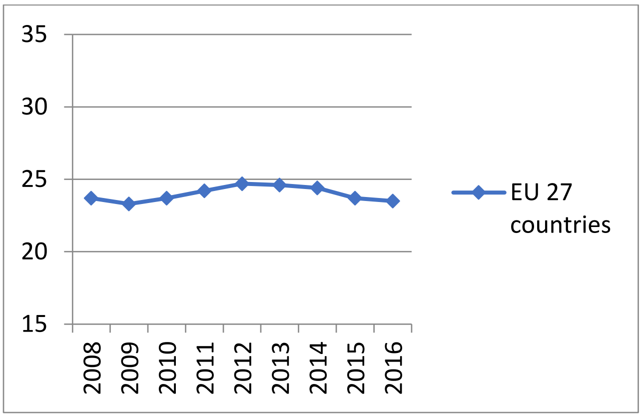
Economic crisis treaties and poverty in the European Union

Vis-à-vis rising debts, some member states signed international treaties, such as , ESM and Fiscal Compact. ESM is a permanent crisis mechanism that, in the event of crises endangering the overall Eurozone stability, provides financial assistance under strict terms (Feld et al., 2016). The Fiscal Compact is a set of rules that establish thresholds, such as, notably, the balanced budget (Fabbrini, 2013). These treaties have ensured stability gains, but they have also affected the expenditure capacity of member states. It is therefore important to understand how the 2008 economic crisis hit on member states - a look at poverty rates over time is a good starting point.

I have considered "people at risk of poverty or social exclusion" from Eurostat dataset[1] as a poverty indicator. Figure 1 shows overall changes in poverty rate in the European Union (27 countries, without Croatia) between 2008 and 2016.

[1]See, http://ec.europa.eu/eurostat/web/income-and-living-conditions/data/database

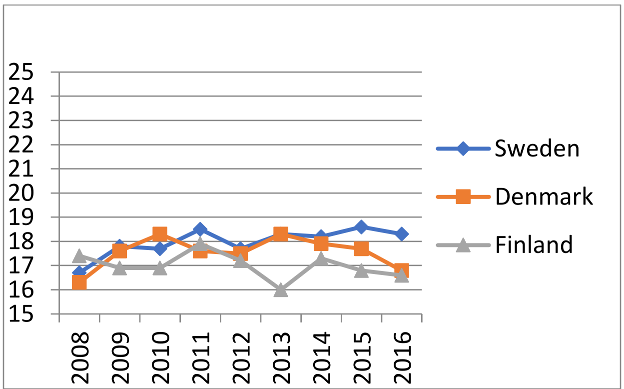
Figure 1



Source: own elaboration, based on Eurostat data.

There have been some changes, but little ones. In the period, the overall poverty rate diminished slightly (from 23,7% in 2008 to 23,5% in 2016). Before I have said that there might country-to-country differences. Let me begin with Sweden, Denmark and Finland. Figure 2 shows that Sweden is the only country with a constant growth of its poverty rate. Denmark and Finland also show a relatively stable poverty rate.

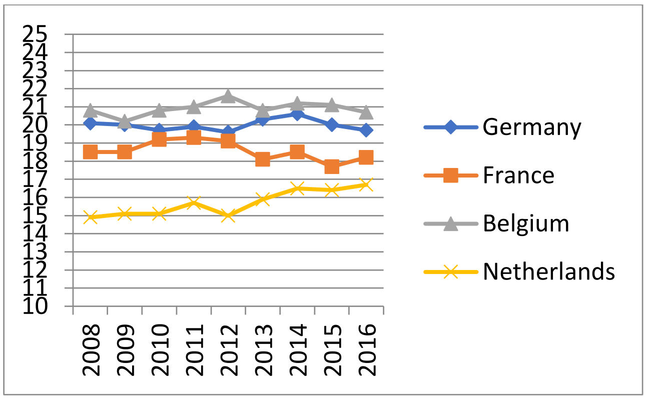
Figure 2



Source: own elaboration, based on Eurostat data.

Figure 3 shows results from Belgium, France, Germany and the Netherlands. Between 2008 and 2016, Germany, France and Belgium have shown variations below 0.5%[2]. In the Netherlands, numbers have risen, from 14,9% in 2008 to 16,7% in 2016. .

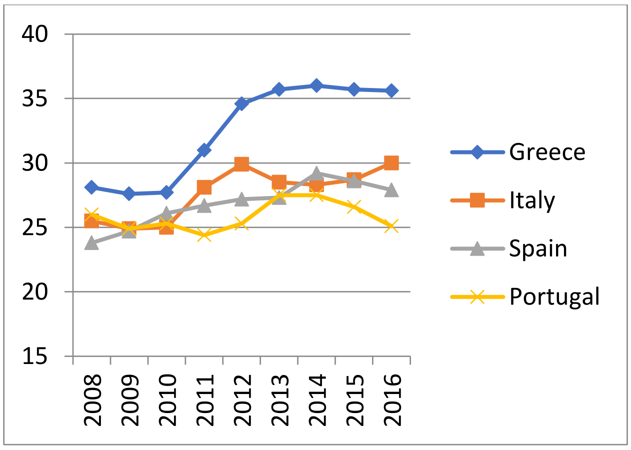
Figure 3



Source: own elaboration, based on Eurostat data.

Figure 4 pictures Portugal, Greece, Italy and Spain. Poverty is a major problem in these countries. Spain climbed from 23,8% to 27,9%, Italy from 25,5% to 30%, and the absolutely harsh worsening was in Greece, from 28,1% to 35.6%.

Figure 4

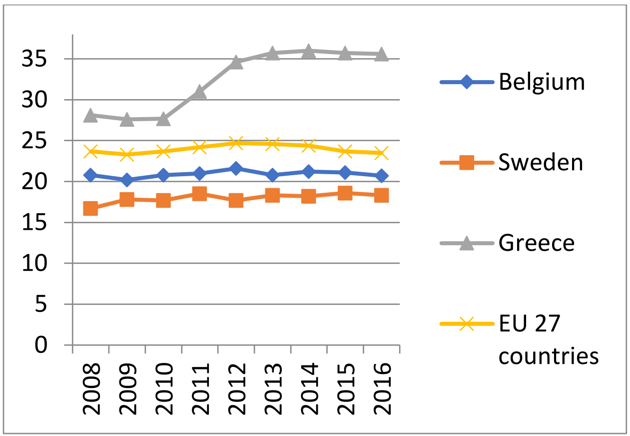


Source: own elaboration, based on Eurostat data.

So, poverty is a key issue for members states in Southern Europe. Figure 5 shows the stark difference between countries that registered worst poverty rates over 2008-2016 in the different sub-regions.

[2] People at risk of poverty and social exclusion in 2008 and 2016*: Germany* 2008: **20,1%**, *Germany* 2016: **19,7%**, *difference*: **0,4%**; *Belgium* 2008: **20,8%**, *Belgium* 2016: **20,7%**, *difference*: **0,1%**; *France* 2008: **18,5%**, *France* 2016: **18,2%**, *difference*: **0,3%**.

Figure 5

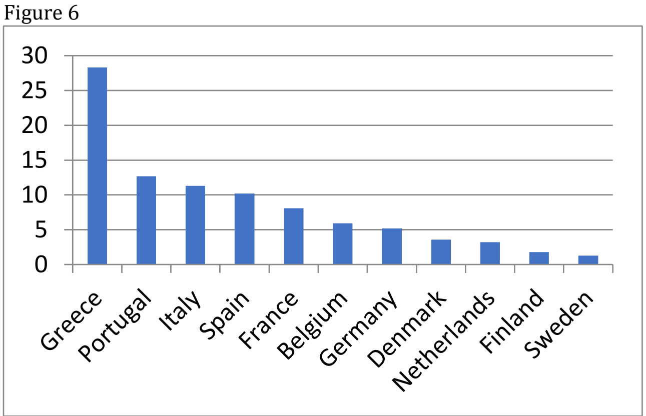


Source: own elaboration, based on Eurostat data.

Another test to prove difference across countries would be assessing another indicator of poverty: material and social deprivation.

Figure 6 shows the percentage of people suffering from material and social deprivation in 2016.

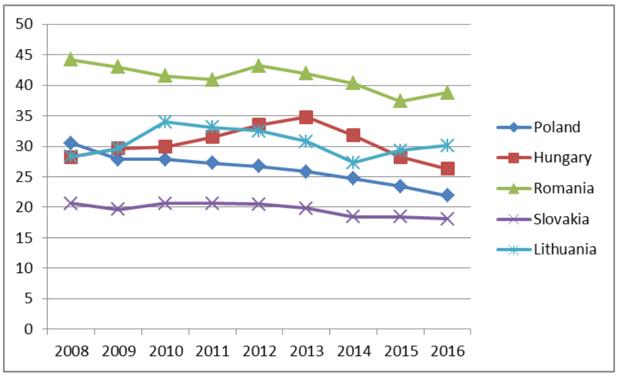
Figure 6



Source: own elaboration, based on Eurostat data.

Greece, Portugal, Italy and Spain show the highest rates of people suffering from material and social deprivation, while Sweden and Finland (northern countries) have the lowest ones. Now, Eastern European countries also show relatively high levels of people at risk of poverty and social exclusion with significant heterogeneity, but even in these countries poverty rate is more stable or has declined as we can see in figure 7.

Figure 7



Source: own elaboration, based on Eurostat data.

To conclude, I have demonstrated that there is a strong cleavage among member states in the poverty problem, and so the question is how the European Union could face this problem if the emergency regards only few countries. Moreover, the crisis hit the citizens' social wellness specially in Greece, Italy and Spain in a dramatic way, undermining the European Union legitimacy, as I am going to see later.

Overall, in this section, I have pictured the poverty problem across members states in different geographical areas.

The European Union and poverty: framework and perspectives

It is now crucial to look at EU actions for addressing poverty. Article 3 of the TEU makes explicit how central social goals are for the European Union. Aims include full employment, social progress, fight against social exclusion, promoting social justice, and cohesion. These goals are very ambitious, especially considering the fact that social policies pertain to the national level. Within a context marked by a tension between supranational and national levels of governance, what did the EU do to help countries in their fight against poverty? In 2010, the European Commission launched "*Europe 2020*", aiming at raising awareness and solving global challenges, such as reduction of gas emissions, unemployment, and poverty, which, in the original intentions, had to be reduced by 25%. In this vein, the European Commission instituted the "*Platform against poverty and social exclusion*" - a platform towards the implementation of a governance model where stakeholders at all levels (subnational, national and supranational) would have contributed to address key challenges, such as protection of unemployed people, social reforms in countries in need, and a more collaborative European context in social policies.

On top of this, the European Parliament and the Council established an aid fund for the most deprived ones. The European Parliament increased payments appropriations for two million Euros in 2016. In the same year, it also urged the Commission to make recommendations "regarding the policies to be put in place and the reforms to be made in order to combat poverty and social exclusion effectively in view of promoting social convergence, taking into account the specific features of each Member State"[3].

Still in 2016, ther Council acknowledged the relevance of the poverty problem. Against this backdrop, the Council recommended to keep poverty high in the agenda, asked for cooperation between members states and private actors and for furthering existing platforms against poverty. Cooperation among member states was also a central topic, a topic that, in the field of social policy, the Council also recognizes in its March 2018 conclusion.[4]

Despite such efforts, a number of scholars have argued that, if the EU wants to combat poverty, it has to aim for stronger political integration. For example, Maurizio Ferrera (2016) suggests that the European Union has to aim to be a European Social Union, where European institutions invest in social policy encouraging and sustaining national governments efforts in this field. Three steps are suggested:

1. Firstly, it is necessary to support with more strength the new paradigm of social European policy: this support has to come from the Commission and the European Parliament, but also from the most important élite (national governments and economics élite).
2. Secondly, it would be advisable to strengthen incentives (rewards and sanctions) to promote social reforms in national contexts.
3. Thirdly, it would be important to convince national politicians to recalibrate their goals in social policies. It is difficult to persuade national politicians and governments to adopt long-run investments in social policies, but European institutions have to make clear the benefits of such a long term perspective.

In the same direction, Vandenbroucke also (2014) lists some fundamental points: binding rules for minimum income schemes in all member states, common standards in

[3] Quoted from the resolution.

[4] Conclusion of Council, 23 March 2018.

labour market (as minimum wage for example), promotion of social investments in all countries, improvement of social recommendations in the European Semester, and the addition of welfare reforms in the clauses, in order to allow for more budget flexibility. This last recommendation is crucial. It proves that if we want to solve the poverty problem, we have to intervene in the economic policies too. A summary of useful guidelines to build European Social Union is shown in Table 1, where we can find some suggestions in political reforms at European level, and the role that European institutions (also the economic ones) have to play.

Table 1

European integration means European Social Union. How?	
Soft power (moral suasion)	Reforms in policy-making
• Support to the European Social Union from economic élite and national governments; • Persuading national politicians to recalibrate their social policy goals.	• Strengthening incentives (rewards and sanctions) to promote social reforms at the national level; • Binding rules for minimum income schemes; • Improving the social governance in the European Semester, adding welfare reforms in the clauses to concede more flexibility.

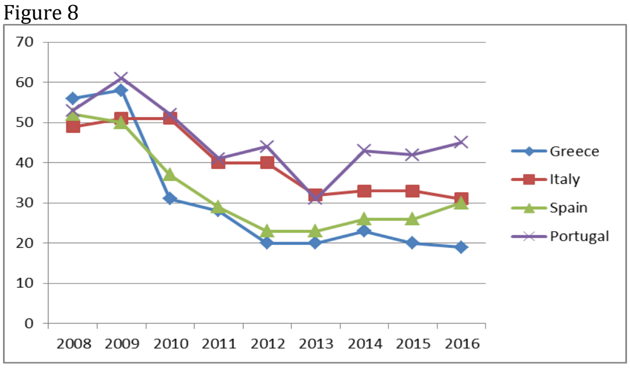
One of the main problems is the asymmetry between poverty and economic situation in European countries. When the poorest member states bear the higher costs of budget restraints, flexibility is a crucial drive for stronger social policies. Along the same lines, another field to continue the fight against poverty is to set binding minimum standards in social policies, for example, minimum wage and minimum income (Vandenbroucke 2014 and Cantillon 2015).

New economic rules, poverty problem, and European legitimacy

The European Union was born as an economic union (Cantillon, 2015). In the nineties, the monetary integration started bringing rules to hold sustainable financial positions across member states. The 2008 crisis urged a rethink of old treaties. In 2012, the Fiscal Compact strengthened fiscal rules in the monetary union by inscribing norms in the constitution of member states, therefore, reducing expenditure possibilities, and limiting capabilities for expansionary public spending (de la Porte and Heins, 2015). Following these measures, the European Union became a scapegoat for many member states (Hobolt and Tilley, 2014). According to Hobolt and De Vries (2016), "the crisis did indeed shape electoral behaviour: citizens who were personally negatively affected by the crisis and who disapproved of EU actions during the crisis were more likely to cast a ballot for a Eurosceptic party" (p.22). Some years ago, Follesdal (2006) highlighted the problem of mistrust: first symptoms of a legitimacy deficit came from Eurobarometer data on support for the existence of the European Community. "Such trust," as Follesdal writes, "seems necessary for the long term support of the multilevel political order, and for authorities' ability to govern. From this point of view, actual compliance and diffuse support, as measured by opinion polls, are highly relevant not only for empirical studies of perceived legitimacy, but also for normative assessments" (p. 462).

Trust in institutions is considered as a crucial element in legitimacy. Lack of trust is certainly an important problem for the overall legitimacy of the EU political system. Figure 8 shows a drastic decline of trust in all the four countries considered. The worst decline was in Greece, from 56% in 2008 to 19% in 2016. Spain and Italy also suffered from a sharp decline in trust, from around 50% to 30%.

Figure 8



Source: own elaboration, based on Eurostat data.

Within this framework, and looking at the link between trust and output dimension of legitimacy, the European Union should be able to intervene in collective action problems, and especially those problems that affect directly the life of citizens. Poverty is certainly one of such areas of interventions. Along these lines, if we want to strengthen EU legitimacy, a strategy is to strengthen supranational powers in the field of social policy through a coordinated action of member states, which unanimously decide to devolve power to supranational institutions in this policy area. With such a strategy in mind, it is on the member states to decide the future of the EU and its responses to deep social problems.

If this option sounds too idealistic, there are also more feasible strategies: the European Semester can strengthen coordination between social and economic policy (Cantillon 2015). Harmonization of financial goals and budget flexibility, tied to the implementation of social reforms, would also be an alternative route towards better policy outcomes and more EU legitimacy.

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