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from :	Council Secretariat
to :	Permanent Representatives Committee (Part I) / Council (EPSCO)
Subject :	**Second joint assessment by the Social Protection Committee and the European Commission of the social impact of the economic crisis and of policy responses** **- Main Findings**

Delegations will find attached the main findings of the second joint assessment of the social impact of the economic crisis and of policy responses, as resulting from the work of the Social Protection Committee and of the European Commission.

The Social Protection Committee

SECOND JOINT ASSESSMENT BY THE SPC AND THE EUROPEAN COMMISSION OF THE SOCIAL IMPACT OF THE ECONOMIC CRISIS AND OF POLICY RESPONSES

In light of the mandate received by the Council, the SPC presented at the June EPSCO Council the first SPC-Commission joint assessment of the social impact of the economic crisis and of policy responses. The exchange of information conducted by the SPC as from December 2008 highlighted the potential usefulness of mutual social vigilance. It also illustrates that coordinated policy responses can help to address the direct social impact of the crisis, particularly on the most vulnerable groups, and to restore public confidence.

One year into the crisis, as very first signs of economic recovery become apparent, the full impact of the crisis on labour markets and public finances is still to be faced. Many governments have started looking back at their action over the past year, in order to evaluate the first impacts and prepare for 2010. In this context, the second joint assessment of the Social Protection Committee and the Commission on the social impact of the crisis provides an input to the reflection of Member States.

The present note provides an updated outline of the main findings emerging from this second assessment and presents a comprehensive overview of Member States' challenges and policy responses. It builds on the responses of SPC/ISG members to the second Commission questionnaire on the crisis received until 16 October 2009.

The main findings of this updated joint assessment will be transmitted to the upcoming EPSCOCouncil.

Main findings

Strong policy intervention focused on recovery and social protection systems acting as automatic stabilisers played a major role in mitigating the social consequences of the crisis. However, its human costs are still difficult to fully evaluate, both now and in the long-term. First signs of economic recovery are now apparent, but the full impact of the crisis on labour markets and public finances is still to be faced. The European Commission forecasts that unemployment is likely to reach 10.3% by the end of 2010 and that social expenditure may rise from 27.5% to 30.8% of GDP between 2007 and 2010.

The social consequences of the downturn have now unfolded. There are 5 million more unemployed than at the beginning of the crisis. Many households have seen their income drop, and considerable numbers are more exposed to poverty and over indebtedness. Some have lost their homes. Workers on short term contracts were among the first to be hit by the downturn. Migrants and young and older workers, who are more likely to be in precarious positions were especially affected, but categories of workers who were so far relatively well protected also became unemployed. Unemployment rates may remain high for a while with the inherent risks of long-term unemployment and social exclusion.

The scope, magnitude and effects of the crisis vary greatly among the EU Member-States. Although drops in GDP always are always associated with rises in unemployment, this association varies across countries. In one year, unemployment rose from 2.7% to 3.5% in one country and from 6.1% to 19.7% in another. In addition, the social situations of Member States varied greatly before the crisis, both in terms of unemployment and poverty levels.

The second reporting on the social impact of the crisis confirms the first trends in benefit take-up that were observed in April 09. The direct impact of the recession is still apparent in the increase of unemployment benefit recipients during 2008 and into the third quarter of 2009. The impact on the number of claimants of social assistance is now clear. Numbers of claimants continued to increase in the countries that were first or most hit by the crisis, and pressure on last resort schemes has also started to increase in most other countries. Some countries continue to report rising numbers of families defaulting on their mortgage payments or facing repossession or increased rates of over-indebtedness. Funded pension schemes have faced a sharp decline in the value of investments backing pension liabilities.

Members States policy responses vary in size and emphasis. A Commission estimate shows that spending on overall recovery measures varies from less than 1% of GDP to more than 3.5%. According to the Autumn Commission economic forecast, as a result of automatic stabilisers and of discretionary measures to reinforce social benefits, social expenditure in the EU are expected to increase by 3.2 percentage points of GDP between 2007 and 2010. This forecasted increase varies from less than 1 pp in three countries to 6 pp or more in four countries.

Member States have also made use of the **European Social Funds** to enhance support to the unemployed, to maintain workers in employment and to respond to the needs of the most vulnerable groups facing structural barriers to integrate the labour market. They used the flexibility offered by the ESF by adjusting their operational programmes, modifying them where necessary in these areas. Member States also used the simplification tools put forward by the Commission to improve the effectiveness of the fund.

Most Member States continue to strengthen their **policy responses** to the economic slowdown, in line with national Reform Programmes and the National Strategy Reports. As labour market conditions have continued to worsen in the second and third quarters of 2009, many Member States have strengthened and consolidated the set of **labour market measures** they had adopted at an early stage. These measures aim at preserving employment, supporting activation and promoting re-integration in the labour market, and anticipating and managing the adverse impact of restructuring. The majority of the new or reinforced measures focus on **flexible working time arrangements**, which are seen as effective means to maintain people in employment.

Member States have also further enhanced their **measures to support people's income**. Two countries have adopted comprehensive packages to reinforce their safety nets. New measures have especially been taken to strengthen **unemployment benefits** while paying attention to avoiding disincentives to get back to work. Member States have also reinforced **minimum income schemes** especially in countries where they appeared weak under the increased pressure created by the crisis.

Member States also report on the specific support provided to groups at risk, and notably the **youth**, families with **children** and the disabled. Some Member States also report on measures aimed at ensuring equal opportunities between **women** and men.

A few Member States have taken further measures to avoid and stem the direct consequences of the financial crisis on individuals and families. These include measures to **protect mortgage holders** against repossessions (e.g. renegotiation of mortgages for the unemployed), to address over-indebtedness, or to create incentives for banks to **give access to credit** to individuals, including people on low income. Overall the measures taken since the beginning of the crisis seem to have mitigated the worst impact that could be expected from the financial crisis on individuals since the repossession and over-indebtedness figures in Europe are still far below the trends observed in the US where more than 1.5 million households have lost their homes in the first 6 months of 2009.

The current economic and financial crisis may have a severe impact on the **health care sector** in several EU Member-States on both the supply and the demand sides. On the supply side, the economic and financial crisis may lead to a reduction in the level of funding for health and long-term care services as a result of budget cuts and lower tax revenues, while the demand for health and long-term care services may increase as a result of a combination of factors that contribute to the deterioration of the health status among the general population.

Several Member-States have included measures to mitigate the impact of the economic crisis on the health care sector within their recovery packages, in the following areas ***i)*** **investing in health infrastructure,** ***ii)*** **providing additional funding to the health care sector,** ***iii)*** **restructuring and reorganising the health care system**.

Regarding the longer-term impact from the crisis on the **pension schemes** and social security schemes in general, many countries observe that the effects of the current crisis are still currently hard to predict. Presently the bulk of pensions in payment are delivered by public PAYG schemes on which the crisis in financial markets has no direct effect. By contrast the book value of the assets of pensions funds have been significantly reduced and real issues of solvency could emerge if markets take long to recover. But apart from a few Member States this would primarily affect the incomes of future pensioners in the medium to long term. Therefore most Member States perceive their pensions systems as quite resilient. However, if the crisis deepens and continues for several years, even PAYG systems will be affected as unemployment and lower growth will reduce revenues from taxes and social contributions and weaken public finances.

In their replies to the October 2009 questionnaire, Member States also provided more detailed information on the **size of their interventions**, as well as on **first evaluations of the impact of the measures** taken so far. The large majority of countries indicate that it is still too early to fully evaluate the social impact of the measures. However, some countries report on stock taking exercises performed by the government, on the take-up of specific measures (e.g. number of benefit recipients, number of workers having participated in activation measures) or on the impact of measures on preserving or creating jobs. A few countries have commissioned independent ex-post or ex-ante evaluation of their overall recovery packages.

The preparation of the 2010 budget law is the occasion for Member States to review the measures originally taken in the light of constraints on public finances. This review also highlights the need to balance the burden of the policy responses across different levels of governments.

One year into the crisis, more Member States report a stronger emphasis on provisions aimed at ensuring **budgetary discipline**. This is done in the light of very high constraints on public finances, and/or to preserve the long-term sustainability of public finances in general and of social protection in particular. In addition to 2 countries who had already reported on this aspect in the spring 09, “**austerity" packages** of different sorts are planned or have been recently adopted in a number of countries. These packages include reforms of the public sector (e.g. redundancies and reduced wages for State employees), tax increases (especially VAT), etc.

As welfare systems continue to play their role of automatic stabilisers, social protection expenditures are projected to rise. However, their capacity to address the rising demand for social security varies greatly across Member states, and not all Member States have the financial room for manoeuvre to let automatic stabiliser play fully. The review of public finances and the preparation of the 2010 budgets have conducted some Member States to adopt fiscal consolidation packages that may weaken the effects of previous recovery measures aimed at preserving employment and/or sustaining demand. On the long run however, their aim is to ensure sound public finances and thereby support macroeconomic stability and future growth.