Introduction. The recent macroeconomic shock affected European countries in different ways. Nonetheless, their governments reacted similarly. While in the early stages (2008–2010) they implemented stimulus fiscal packages, the worsening of economic conditions plus the pressures coming from financial markets pushed governments into a process of fiscal consolidation. The aim of this paper is to analyse the impact of the different policy reactions of European governments to the recent economic crisis on income distribution and poverty, giving special attention to children. For this purpose we extracted data from the European Union Statistics on Income and Living Conditions (EU-SILC). This survey reports the necessary economic and social information at household and individual level for 30 European countries over the period 2008–2012.

Distributional changes during the crisis. While the changes in the market conditions pushed inequality up in the majority of the countries, governments tried to limit the negative distributional consequences associated to the crisis. Nonetheless, a more detailed analysis shows that changes in social transfers and taxes promoted a reduction of inequality especially in the first period (2008–2010) (Figure 1). While the changes in market conditions continued to widen the income distribution, government interventions became less redistributive in the second period (2010–2012) (Figure 1). Indeed, social transfers led to a worsening in income distribution in about two out of three countries.

Poverty changes and ability of the government to support children’s living conditions. Children were more affected than others during the recent economic crisis. While overall poverty rose on average by nearly 2 points between 2008 and 2012, child poverty increased on average by around 3 points. Nonetheless, these results do not provide any insight in terms of the relative contributions of the market and of government policies to the changes in child poverty rates.

For this purpose, we built an index that proxies the ability of government policy in protecting poor children. Our data show that the measures implemented by the policy makers during the first period (2008–2010) increased the ability to
reduce child poverty in the vast majority of countries (Figure 2). Nonetheless, there has been a reversal in this pattern between 2010 and 2012. In particular, governments showed a decreasing ability to reduce child poverty (Figure 2). Thus, it is possible to argue that not only did the crisis affect the most vulnerable but also that the policies implemented by European countries contributed to worsening children’s living conditions.

Figure 2. Changes in the effectiveness of government policy in protecting poor children, over the period 2008–2010 and 2010–2012

Source: Author’s calculations based on EU SILC data.
Notes: Positive means more ability to protect poor children. For Belgium and Ireland data refer to the period 2008–2011. Blue indicates a worsening of the ability of governments to reduce child poverty.

**Conclusion.** This paper provides evidence on the impact of the different policy reactions of European governments to the recent economic crisis on income distribution and poverty. If the increase in social transfers and the reduction of the tax burden in the early stages of the crisis partially mitigated the negative consequences of the recent macroeconomic shock on poverty and inequality, the implementation of the austerity packages provoked a reversal in this pattern.

Therefore, it is possible to suppose that the more recent policies implemented by European countries continue to worsen living conditions for their population. Indeed, many governments continue to consolidate their fiscal position through further rationalization in their social protection system. Although the need to adjust is undeniable for some European economies, sometimes the way in which they operate is less justifiable.

Irrational cuts in social as well as education and health spending are detrimental not only for the present but especially for the future generations. Moreover, past experiences show that the fiscal consolidation could become an illusion when austerity is pushed to extremes with negative economic consequences in the long run. All in all, it could be necessary to rethink policy strategies to ensure that adjustment policies care about people’s living conditions and especially those of children.

1 They are: Austria, Belgium, Bulgaria, Cyprus, the Czech Republic, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, Ireland, Italy, Latvia, Lithuania, Luxembourg, Malta, the Netherlands, Norway, Poland, Portugal, Romania, Slovakia, Slovenia, Spain, Sweden, Switzerland, the United Kingdom