The social effects of the economic crisis

12TH MEDITERRANEAN CONFERENCE OF THE RED CROSS AND RED CRESCENT

Crisis Responses and Preparedness
Working Group B: The Social Effects of the Economic Crisis

San Marino, May 26th 2015

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We shall focus on

- Mapping the impact of economic crisis, the austerity measures and their mismanagement
- What were the social effects of the economic crisis in a comparative perspective
- How the Euro-Mediterranean region evolved in the recent decade,

- **FEMISE (2010), "The Euro-Mediterranean Partnership at Crossroads", November.**
- **FEMISE-EIB (2010), "FEMIP: The crisis and exit strategies in the Mediterranean partner countries", November.**
- **FEMISE (2014), "Macro and Financial Crisis Management in the Southern and Eastern Mediterranean Countries: Diagnosis and Prospects" (FEM34-24)**
- **EUROPEAN COMMISSION, EUROSTAT**; CreditSuisse

Impact of the crisis on output

- While there has been some recovery since the depths of the recession in 2009, both output and employment levels in the EU28 remain lower than the pre-crisis levels.

- Outcomes were regressive and reinforced the adverse effects of the recession on the distribution of incomes.

- Indeed, the severity of the recession has been such that output has yet to return to 2007 levels in each of the largest Member States, excluding Germany where recovery has been most stable.

Impact of the crisis on output

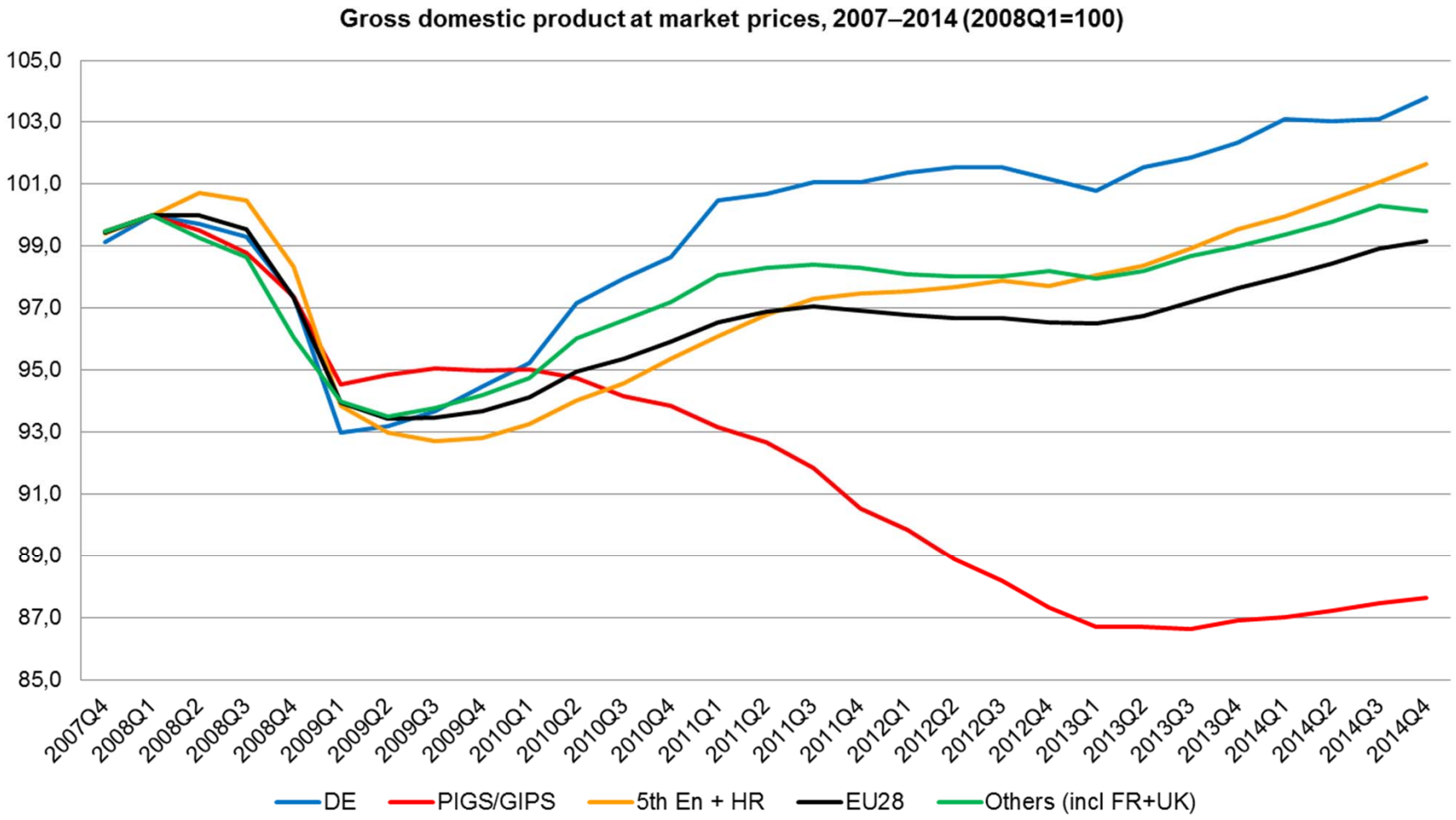
- Based on the latest official figures, in 2014Q4 the size of the EU economy has contracted by 1,7 % in real terms relative to the peak pre-crisis of 2008Q1.

- This is an average of contrasting patterns. Germany has increased its output by 3,8 % in 6 years and also positive figures are reported by the group of the 5th Enlargement, Central European Members States.

- Far worse is the situation of GIPS/PIGS, with an average contraction of 12,4 %, particularly Greece: -26,3 (a quarter of its original GDP), Spain: –5.8 %; Portugal: –7,7 %; Italy: –9.4 %.

- For the southern European countries this deep recession has no precedent in the peacetime economic history of most advanced economies.

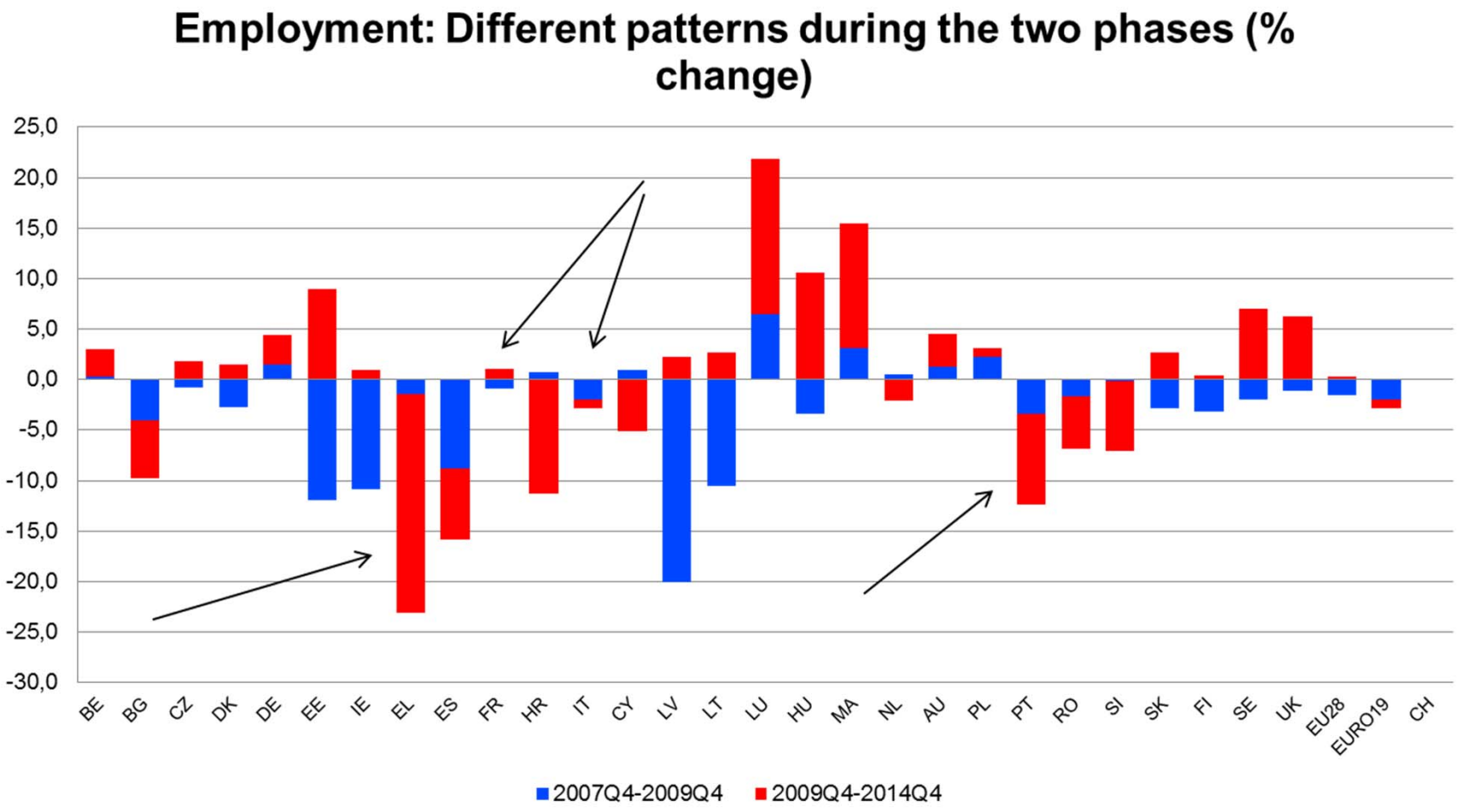
Context: Low and contrasted rates of growth



Impact of the crisis on labour markets

- Employment at the end of 2014 was over **5,6 million below** those in the peak pre-crisis quarter (2008Q3). The outlook for the PIGS is still heavily clouded, since the cumulative decline in economic activities and employment is continuing to diverge and concentrate on the Southern and Eastern Europe.
- 18 out of 28 countries, 52% of the European labour markets, are still below the pre crisis peak.
- There is no doubt that the most characteristic feature of the current economic crisis is the **loss of convergence** and the **emerging dualism** within the European economy. Some countries are emerging from the crisis, but other remains deep into recession.

Impact of the crisis on labour markets



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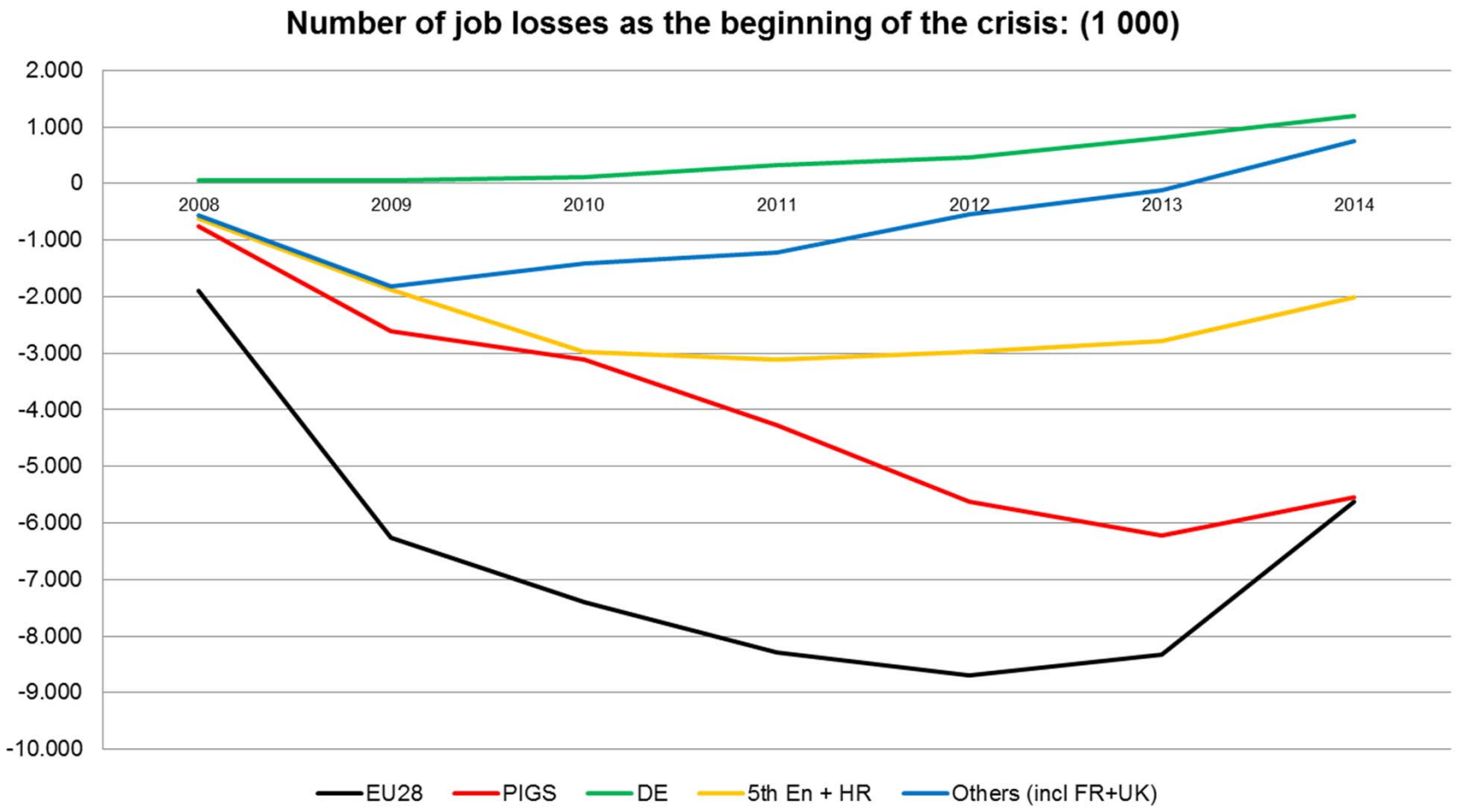

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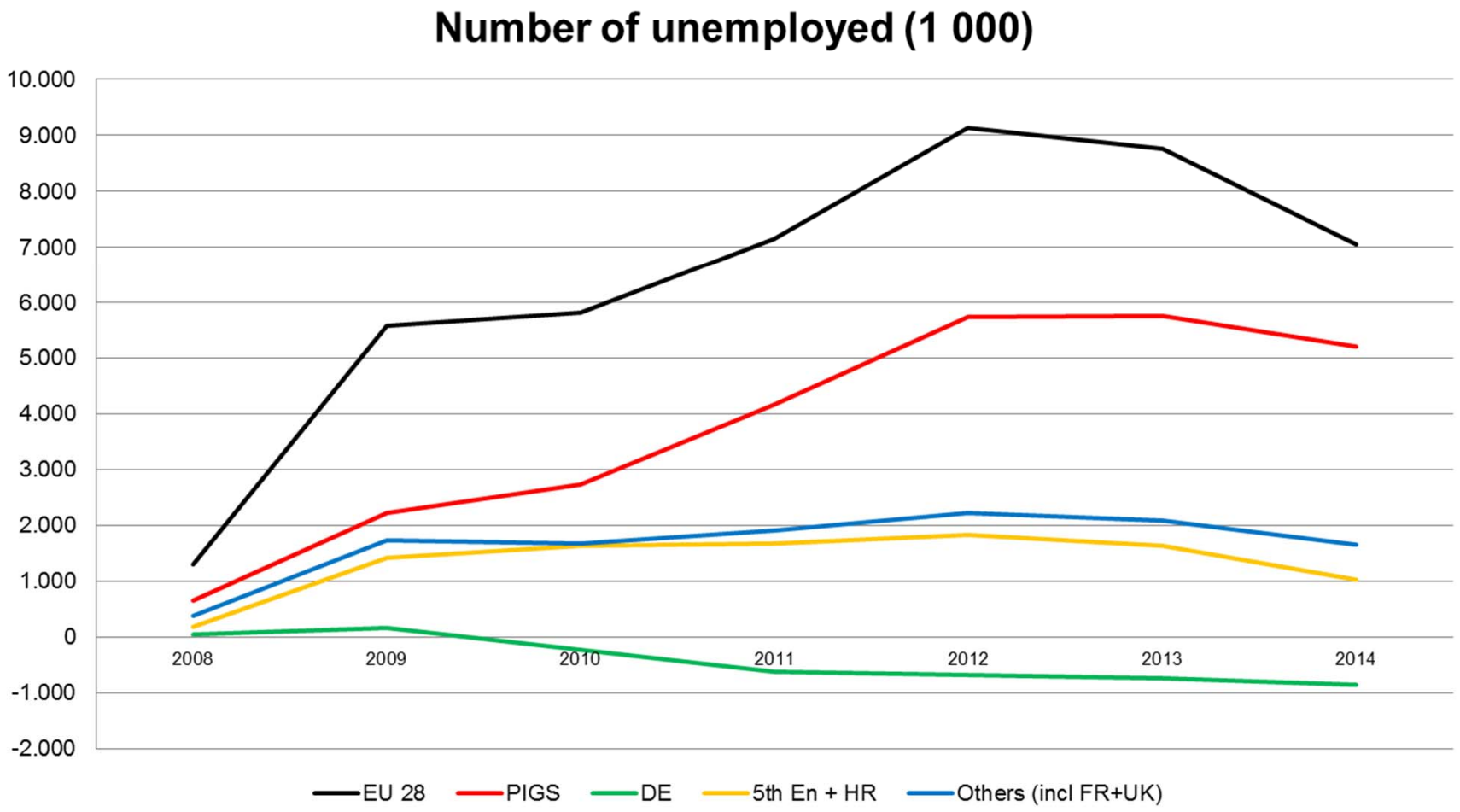


Rise of unemployment

Rise of unemployed with two recessions:

A) from financial crash and contagion to economic crisis;

B) B) from economic crisis to soverain debt crisis.

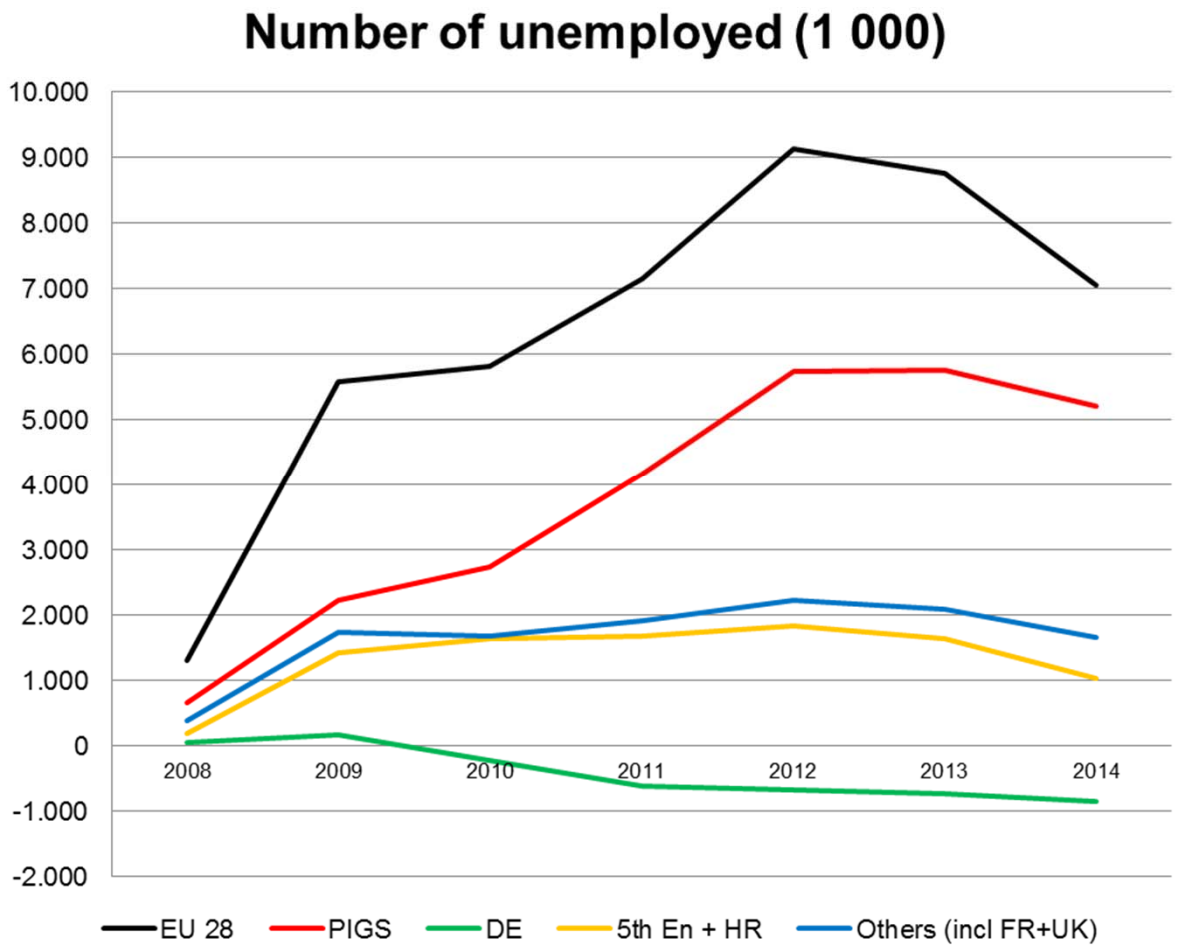
Effects: lower level of employment (job losses) and more difficulties to enter the labour market.

The number of unemployed people hit a historic high of 26.6 million (or 11% of the active population) in April 2013.

Rise of unemployment

Large divergences between countries.

Since the beginning of the economic crisis 7,5 million jobs have been lost (2014Q4), from a peak of 9.0 million is 2012



Unemployment in EU and MP

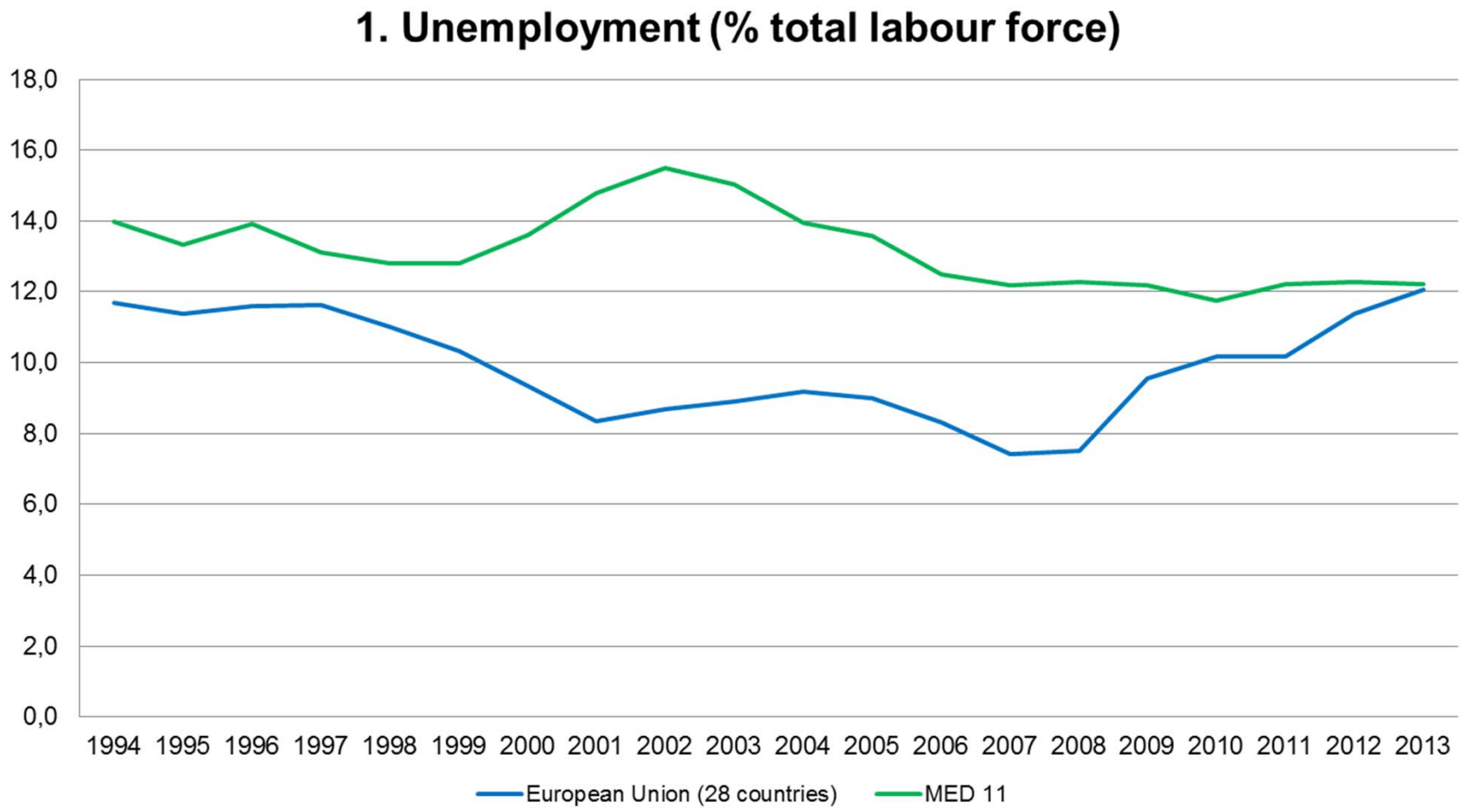
Considering the MP, the European crisis had only **marginal affects** their positive convergence to the EU.

- Growth picked up during the first decade and GDP per capita also evolved.
- Increasing integration in trade and FDI has been supported by a heathy macroeconomic management.
- The MP continued to experience growth even during 2008-2009 crises.
- The reforms and the opening their economies to trade and capital made a remarkable contribution in creating jobs and reducing the level of unemployment that remain stable at an average of 12 % of labour force.

Of course this compensate some difficulties in Tunisia, West Gaza, Libya, with unemployment rates higher than 15-20%, but other countries like Morocco, Lebanon, Turkey performed very well.

Other problem: graduate's unemployment

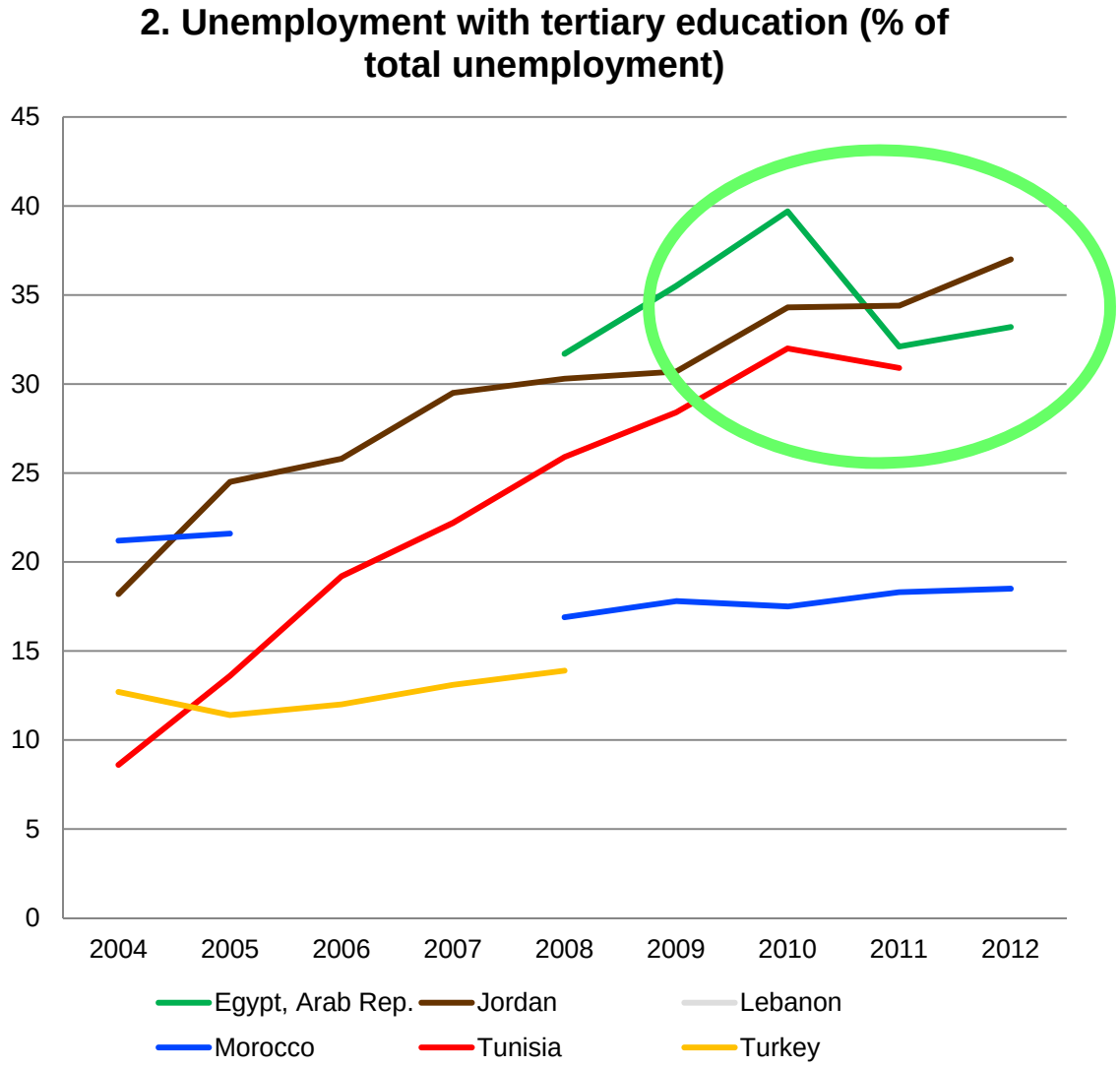
Unemployment in EU and MP



Unemployment in EU and MP

The second problem, still unresolved, is the graduate's unemployment which increased although the growth of the economy.

Particularly in Egypt, Jordan and Tunisia more than one third of the unemployed are graduates and their share was growing during the decade.

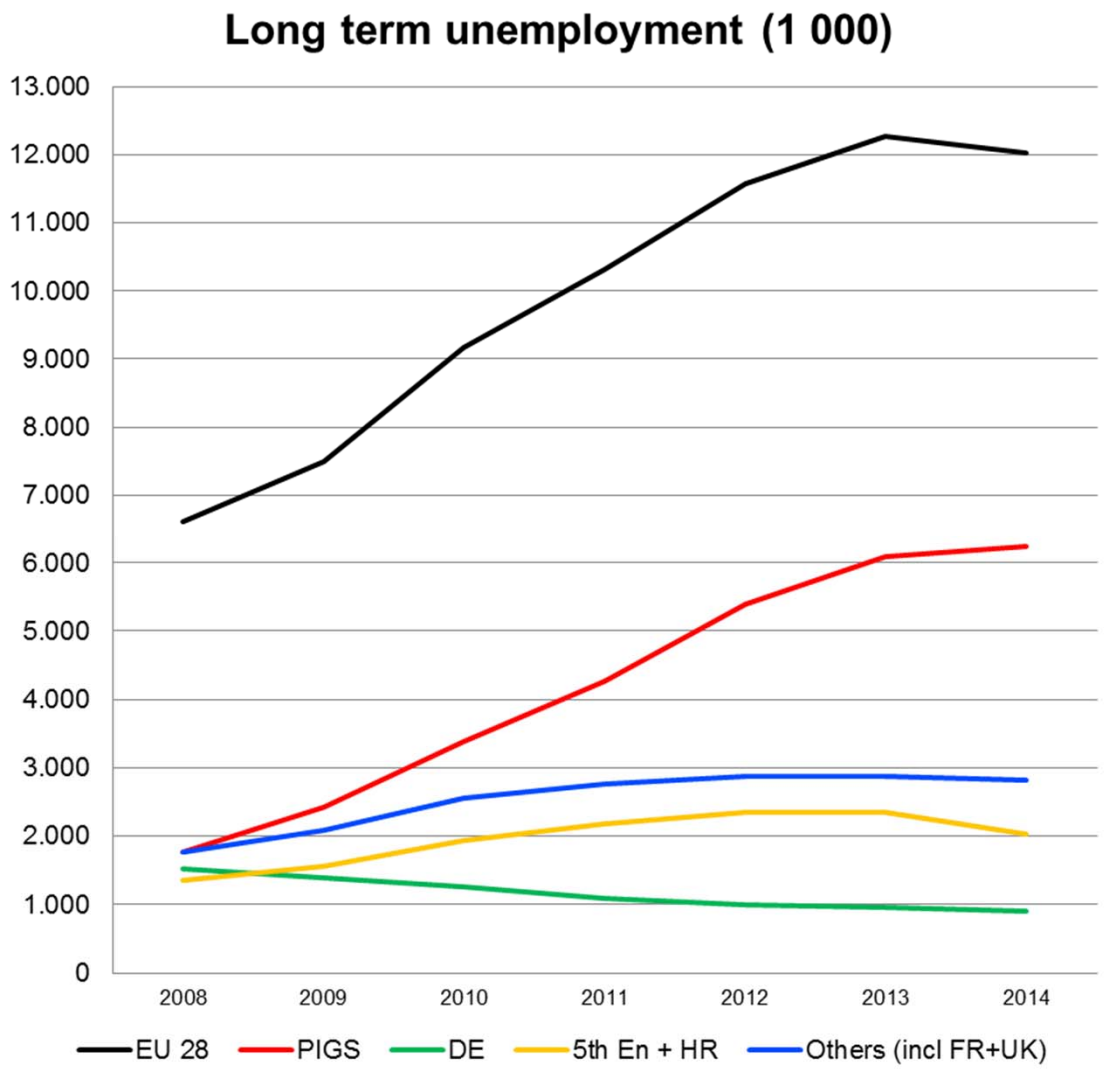


Long Term Unemployment

EU **long-term** unemployment increased even faster, to 12,0 million workers or 5,1% of the labour force in the last quarter of 2014 (from 6,6 million and 2,6 % in the first quarter of 2008).

As many as 49.9 % of all unemployed workers were out of work for more than 12 months at the end of 2014, compared to 44,2 % in 2009.

A common problem, but no common solution. **End of convergence and cohesion**?



Long Term Unemployment

Even by the highest estimates - which include people **discouraged** from looking for a job, thus not registered as unemployed - the jobless rate reached around 16 to 17 percent.

Long-term unemployment has a high negative impact on subjective wellbeing, and the highest levels of social exclusion have been found amongst the long-term unemployed.

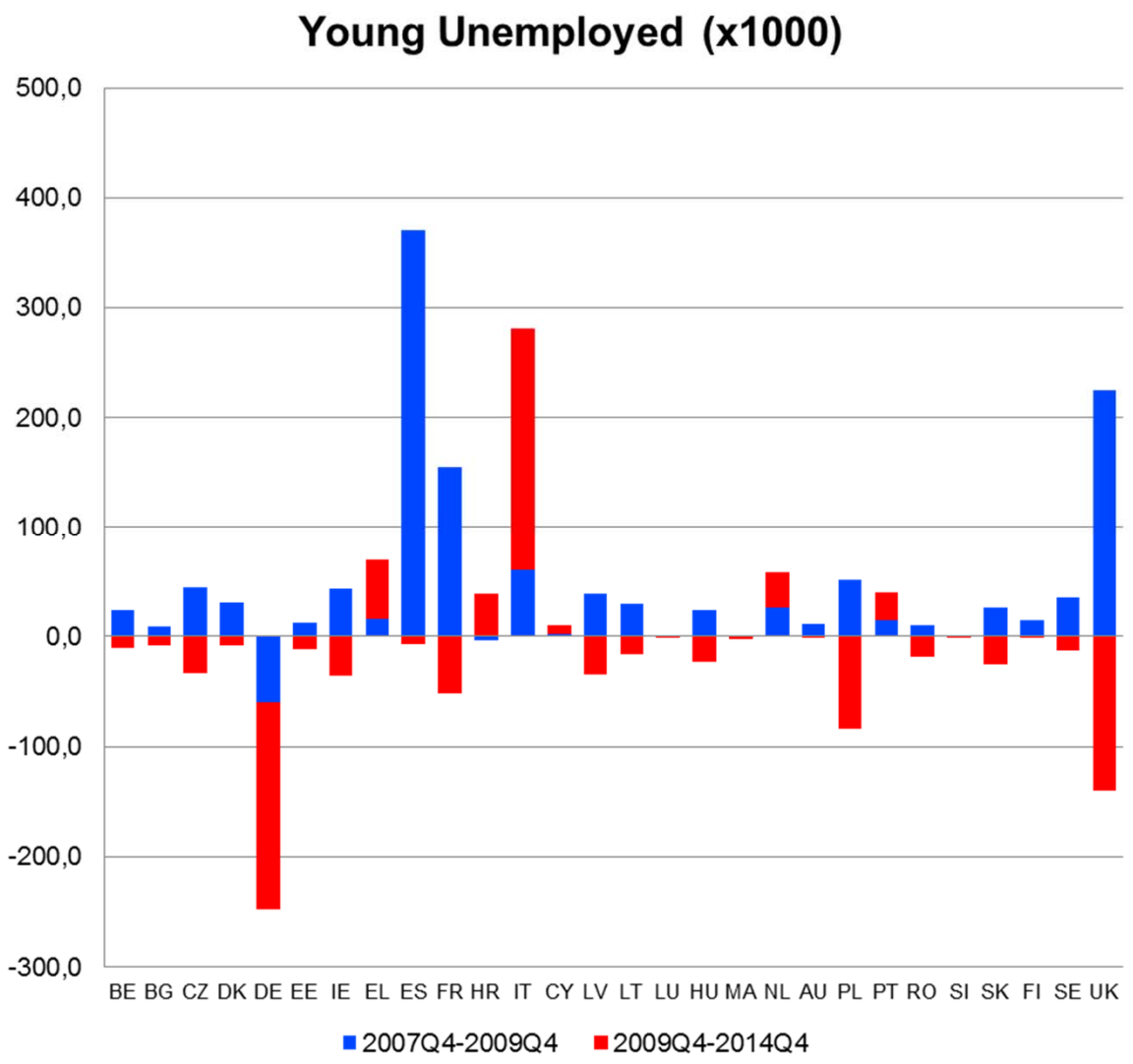
Long spells of unemployment reduce the odds of being rehired; thus long-term unemployment is a structural problem that cannot be addressed with the unemployment benefits or other automatic stabilizers that protect household incomes.

Long-term unemployment threatens social cohesion and leads to negative opinions about the effectiveness of democracy.

Impact of the crisis on young people

Youth unemployment is a particular problem with common features in most European countries.

Youth unemployment (under 25s) rose substantially during the period, reaching **5.7 million** in fourth quarter 2012. Then the evolution improved in several countries, although the level of unemployment in 2014 is still higher than the start of the crisis.



Impact of the crisis on young people

According to the European Commission, long-term unemployment and inactivity '**threatens an entire generation**' with nearly **a quarter of economically active young** people in Europe unemployed, but more than 50% in Greece and Spain, and 40% in Italy.

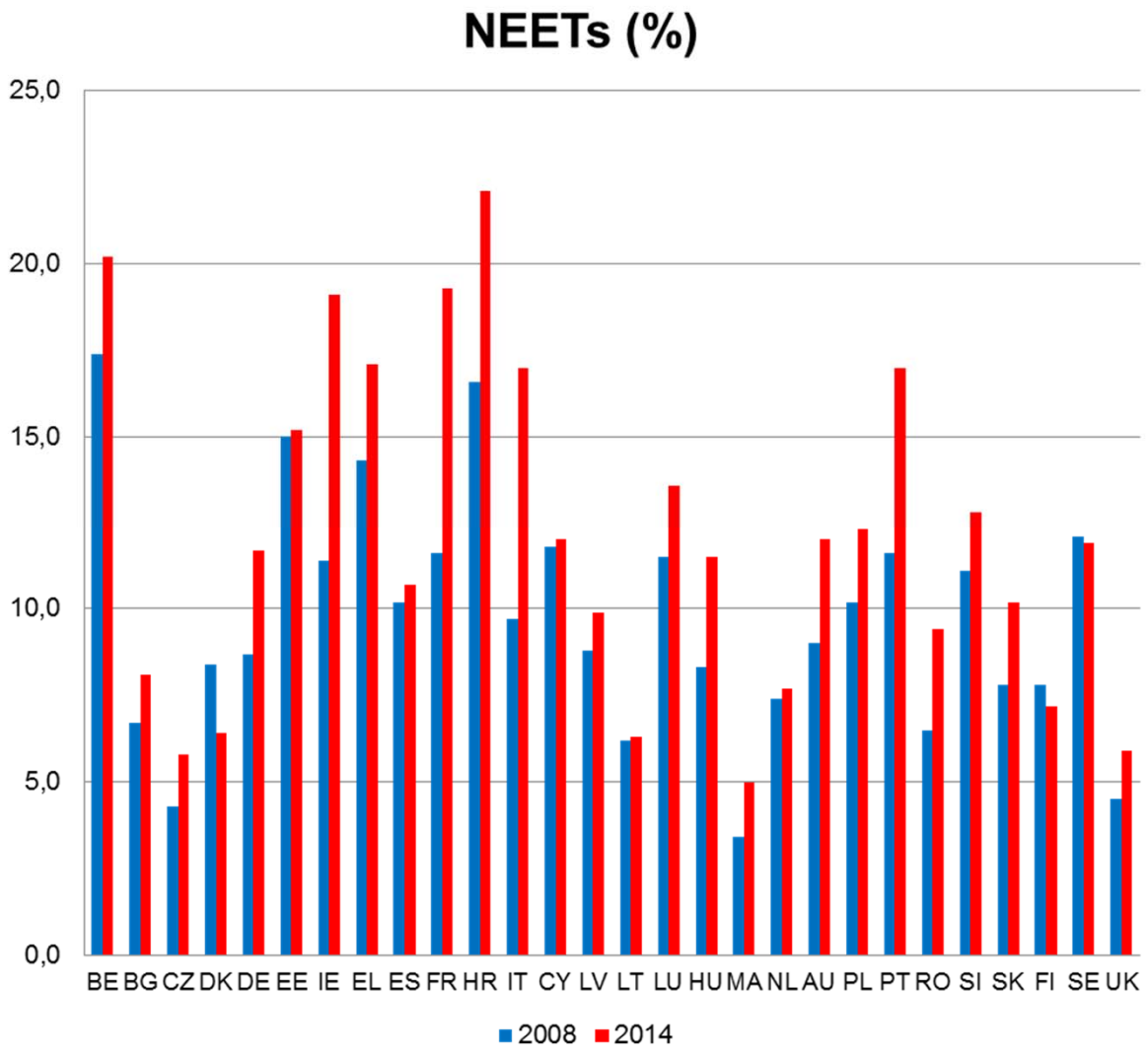
Those with lower educational levels are particularly affected. The negative effect for this generation, a **lost generation** as the European Social Protection Committee has pointed out(Social Protection Committee, 2013) is the fact **that they will be exposed to poverty when they are pensioners** due to long spells of unemployment.

More than 40% of young employees (aged 15-24) in the EU are on **temporary contracts**, a figure that has increased since the crisis.

Impact of the crisis on young people

The number of young people neither in employment nor education or training (**NEET**s) has increased steadily over the last two years, and 13.2% (or **7.4 million**) fell into this category by the end of 2012; although the rate varies widely across Member States (European Commission, 2013).

The cost of the economic loss to European society of the disengagement of young people from the labour market at **€153 billion** in 2011, is a conservative estimate that corresponds to **1.2% of European GDP** (The European Foundation for the Improvement of Living and Working Conditions, 2012),



Poverty and social exclusion

The number of people living in poverty or social exclusion has been increasing.

The currently available statistics suggest that this represents 122.9 million people, **a quarter** of the population of the EU28.

Approximately 6.5 million more people since the peak of the recession.

When we look at the at-risk-of-poverty rate, the average rate is higher for people aged 25 to 29 years, more than **41,4 million** and for those aged 50 to 64 years, other **25 millions**.

The poverty risk is even higher among families of **unemployed workers with children**, and those people are becoming a new social question..

Part of the costs were compensated with social transfers, but more persons risk to enter poverty.

Poverty and social exclusion

The **social safety net** of each Member State has reduced the number to 82.4 million (from 122.9 million). The national efforts have limited the risks since the pre-crises peak and the total number increased only by 2 million. However the social cost is considered too high with large differences among countries.

There are several gaps in the social safety net that affects the effectiveness of social benefits in reducing poverty.

The sharp rise in unemployment among primary earners has raised the risk of poverty.

By 2010, total expenditure on social protection had increased greatly as a proportion of GDP in the EU as a whole. The financial transfers supported the reduction of the risk of poverty, benefitting an average of 8 % of the European population, ranging from 12 % in 5 enlangement Member States to 9% in PIGS.

Poverty and social exclusion

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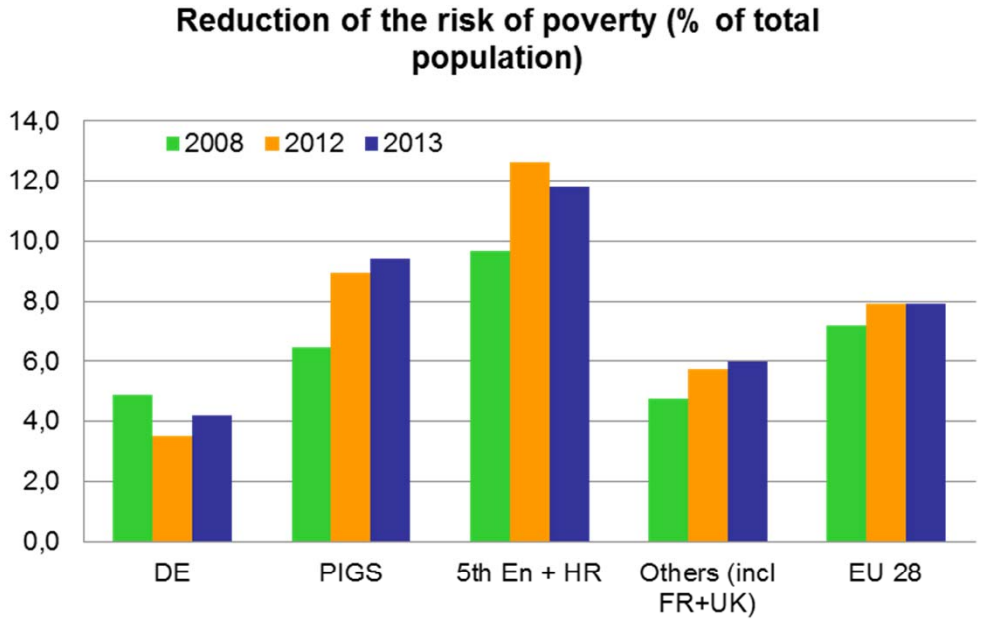
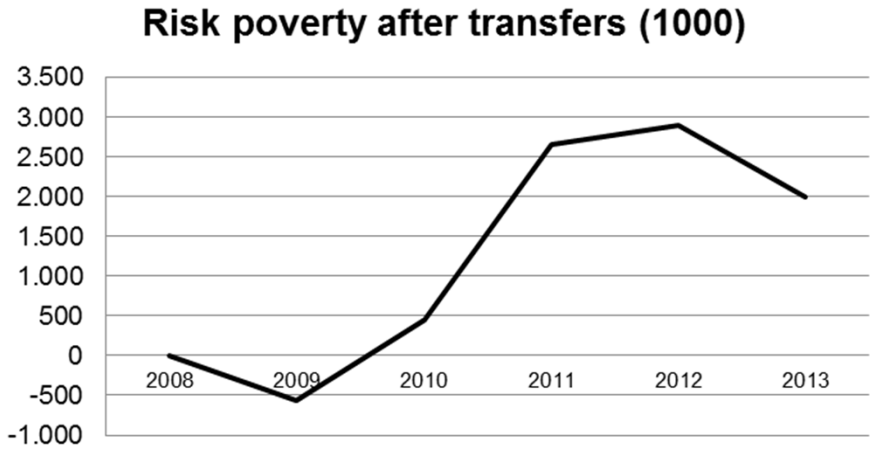
Despite the efforts, more than 2 million people are socially excluded each year.





Inequalities persisted (or grew)…

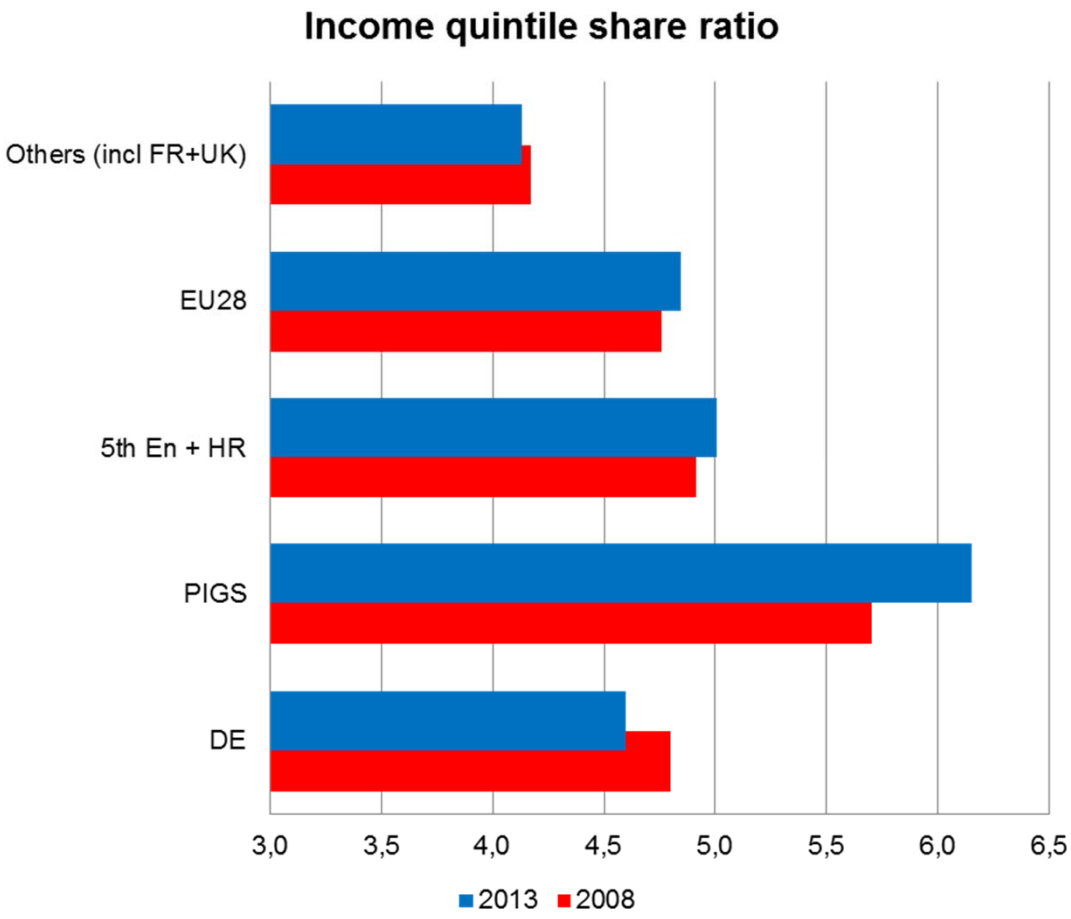
Income inequality in EU28 countries is at its highest level for the last two decades.

The income quintile share ratio across the EU is up to 5 times.

Inequalities have increased in Italy, Spain, Greece, Croatia, Cyprus, all countries interested by austerity measures, while inequalities have fallen in Germany, Netherlands, United Kingdom.

For the formers the incomes of the richest increased more then those of the poorest.

The economic crisis has added urgency to the need to address inequality. Uncertainty and fears of social decline and exclusion have reached the **middle classes** in many societies. Arresting the trend of rising inequality has become a priority for policy makers in many countries. (OECD, 2014)



Inequalities persisted (or grew)…

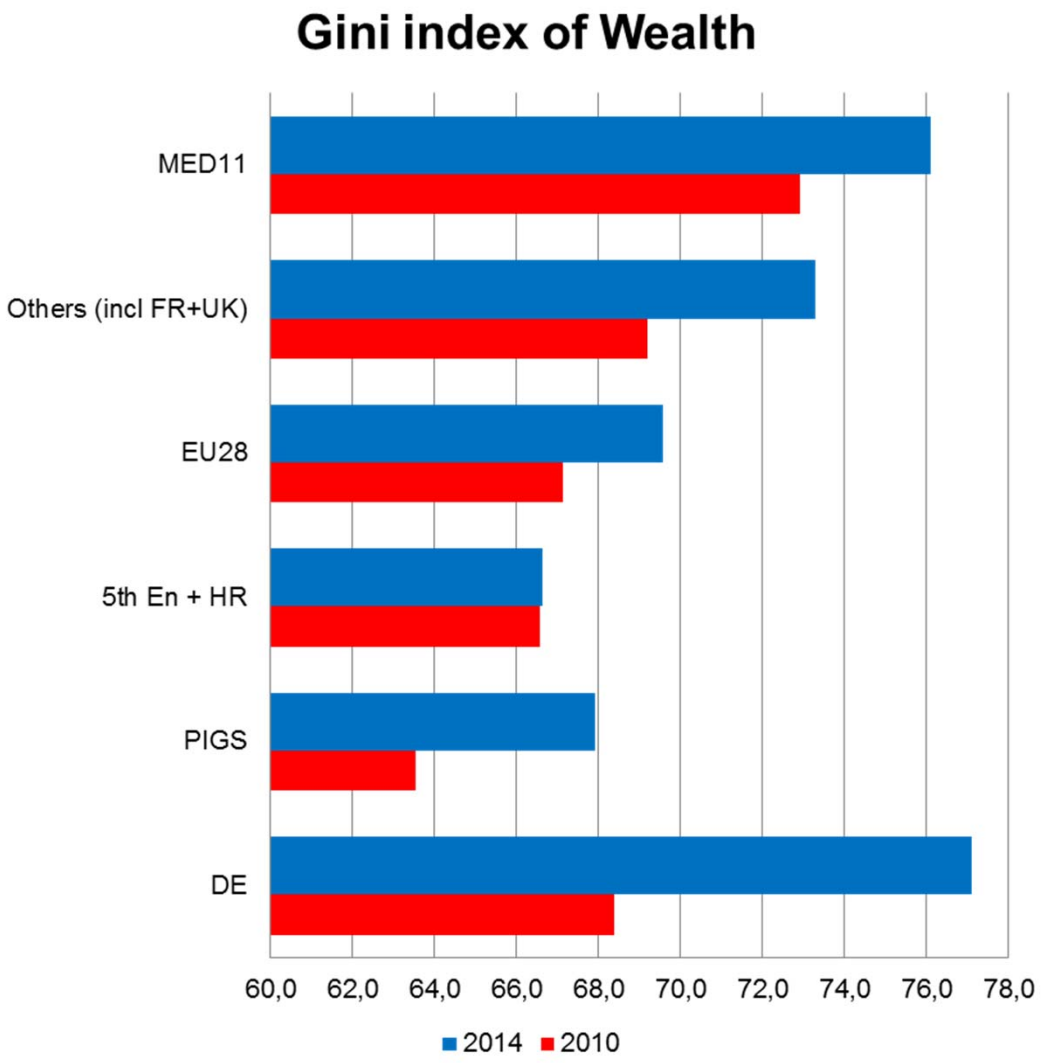
Similar results are produced by the Gini coefficient of wealth.

Inequalities appear higher in Med countries than in Europe.

Two groups have a wealth inequality below the European average, although increasing from 2010 to 2014.

Apparently wealth inequalities increased in all group of countries, except for the countries of the 5th enlargement.

Increased polarization of wealth more than on income



Who are worst hit?: Southern Europe or Southern Mediterranean

Factors of pressure in PIGS and MPs:

Policy responses to the social effects of the crisis have been misguided and inadequate Large share of **youth unemployed,** and young people too in the MPs;

Similar levels of unemployment and size even larger in EU.

Low productivity and limited employment creation.

Continuing structural reforms and addressing redistributive policies are needed to move further towards inclusive growth strategies.

«Inclusive growth» not only economic growth. Inclusivity has several dimensions: from social to distributional; it creates relationships among individuals and sectors and is build on positive leakages and creativity.

Who are worst hit?: Southern Europe or Southern Mediterranean

Factors of pressure in PIGS and MPs:

High unemployment, lower participation of young people indicates the low capacity of the Southern or MP economies to offer opportunities and employability promotion.

Growth strategies of the Barcelona Process were not enough (Galal, FEMISE). They should address the poor, the women and the NEETs and build their skills, their employability.

What is needed first and foremost is a new European strategy for qualitative growth and employment that recognizes that public debts cannot be sustainably reduced by austerity, but by growth.

Emerging societies from the crisis

1. More concerned citizens unwilling to tolerate further political patronage, corruption, tax evasion and dissipation of public resources

2. More informed citizens conscious of the constraints (many) and the opportunities (a few) of the European economic and social model.

3. More social solidarity networks at the local level, self-help groups as an alternative to the solidarity at European level.

Thank you!

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