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on the social impact of the crisis: employment, demographic challenges and pension systems

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The recent global economic crisis has revealed the limits, the sticking points and the structural problems of the European and global development model. The negative growth and employment trends already evident in European economies during the entire preceding period worsened after the credit crunch which has assumed the overall characteristics of a structural crisis affecting the neo-liberal development model.

The impact of the crisis on the labour market and insurance institutions has been dramatic and calls for an in-depth study of these phenomena and also a radically different development model. While the development of employment and unemployment has common characteristics, it has not been the same in all EU countries: the extent and severity of this development depend on the degree of dependence of each national economy on its export sector, the international financial system, foreign direct investment, etc., and also on long-term social and economic characteristics.

According to the most recent available Eurostat statistics (Annex 1 – Tables 1, 2 and 3), *employment in the EU* has fallen by 1.9%, a figure which does not correspond to the fall in GDP over the same period, which fluctuates at about 4.9% (delayed impact). The unemployment rate in the EU which was already high before the credit crunch (between 2000 and 2006 the unemployment rate was of the order of 8-9%), has again increased and is set to further deteriorate owing to the phenomenon of delayed impact. According to Eurostat, unemployment in EU27 in August 2009 was 21.8 million compared to 15.2 million in the eurozone.

It is worth pointing out at this juncture that the structure and impact of unemployment are not the same in all EU countries, and the ways in which it is measured have also been widely criticised, since they fail to take into account a significant proportion of the active population who periodically work part-time. In most countries, the real unemployment rate is far higher than the official rate, while at the same time the number of long-term unemployed is also rising. Furthermore, the budgetary problems facing Member States and also the relatively limited funds provided by the Social Fund mean that it is impossible to take substantive action to address the problem.

Despite the fact that there has been a great increase in the number of workers with flexible working arrangements (Treaty of Lisbon) over the last few years, not only has Europe's economy failed to become more competitive, it is also beset by problems of effective demand. The objective of full employment (the Lisbon Strategy) has remained a dead letter, indeed it is acknowledged that any likely growth scenario in the near future will be accompanied by high, and even unprecedented, rates of unemployment (the phenomenon of growth with unemployment).

The self-employed, who in some economies account for a large share of the active population, are equally affected by the economic crisis, but in many countries no social protection network exists to cushion the adverse effects of the crisis for this group.

Finally, we cannot but mention the increasing pressure on conditions of employment and living standards due to the present global crisis. The jump in the number of part-time workers and workers with fixed-term employment contracts, the deregulation of the labour market and the deterioration of the working environment with tragic consequences, as in the case of France-Telecom where 25 employees have committed suicide - all of these factors are leading

to worsening of conditions of employment and labour relations. Fear of unemployment is also a factor behind 'voluntary' wage cuts for workers, and this has a direct impact on the income available to them and their livelihoods.

The second focal point of this document is the *demographic question*, which, as EU data and analyses indicate, is directly linked to the difficulties affecting insurance funds.

The problem is caused by the low rate of employment, a general dismantling of the welfare state, the new structure of unemployment (part-time work, fixed-term employment contracts, etc.), persistent unemployment affecting EU economies, intolerable pressure on average income and moonlighting. We must finally stop blaming the increase in life expectancy (something positive for mankind), which is the result of more general technological and scientific developments, but this does not dispense with the need for policies to improve the demographic situation in many EU countries.

The prevailing view is that demographic trends in the EU are characterised firstly by a decline in fertility and, secondly, by an increase in life expectancy. These trends mean that the population of the EU will tend to decrease slightly, but that the population age will significantly increase.

The revelation in September 2006 – and the admission by the World Bank – that the basic assumption on which many statistical and actuarial studies for the insurance sector are grounded reflects crude political positions based on cooked-up figures and on the 'World Bank's crusade in favour of the capitalist system and private insurance funds' cast doubt on the reliability and usefulness of many studies in this sector.

The large number of migrants entering the EU every year (Table 5, Net migration and natural population growth) is a significant parameter which is usually omitted from official statistical and actuarial studies. If we look at demographic challenges facing the Union from the point of view of the viability of insurance institutions, we are all forced to admit that a large number of migrants could make a significant contribution to ensuring their viability, if only action were taken to eradicate moonlighting and the limited insurance rights enjoyed by the majority of migrants – factors which mean a significant loss of revenue. Nevertheless, some countries still need policies to strengthen the family.

The economic crisis has had a dramatic impact on *the assets of insurance funds*, but also on the image of insurance systems among Europeans.

According to the OECD¹ in 2008 the overall fall in the value of pension funds assets was an estimated 24.1% in real terms. This amounts to approximately 5.4 trillion dollars. The EU countries where the greatest losses occurred (in percentage terms) were Ireland, Hungary and Poland. The smallest losses occurred in Greece and the Czech Republic. As far as the absolute fall in the value of pension funds is concerned, the country most affected was the UK, with a figure of approximately 300 billion US dollars.

However, the above losses were not evenly distributed either in EU or in OECD countries, owing to differences in the structure of insurance fund portfolios, but also owing to

¹ Pensions at a Glance, 2009.

differences in regulation from one country to another. Thus, in those countries where insurance funds invested over one-third of their assets in shares, these funds suffered the greatest losses in terms of returns on their investments.

Responsibility for these heavy losses should be attributed both to the policy pursued by the EU of encouraging insurance funds to invest the lion's share of their reserves in high-risk securities and to the failure of the ECB and national central banks to fulfil their duty to carry out prudential supervision, which was very limited or even non-existent.

Finally, professional pensions schemes (the so-called second pillar) have also suffered huge losses which the enterprises themselves have had to meet by injecting capital. Germany is a case in point. At the end of 2008, the thirty largest firms, according to the DAX index (the German stock exchange index) had 125 billion euros in reserves for future pensions, compared to liabilities of 191 billion euros over the same period. This corresponds to a deficit of the order of 65% which must be met by the pension companies' own capital.

We may conclude that the recent financial and economic crisis has affected Europe's pension schemes in varying degrees, depending on their structure and the regulatory arrangements in each national economy. However, a common point of reference of all the pension systems is that they are exposed not only to macro-economic risks, but also to market risks, strategic and management risks and implementational risks, while at the same time the number of those without insurance is increasing and moonlighting is becoming much more widespread, thereby undermining the social right to be insured and increasing the problems facing insurance funds.

Proposals

Any attempt to interpret the social outcome of the crisis on the basis of the same social and economic concepts which caused it will mire our societies in a vicious circle of underdevelopment and social decline.

In this context it is essential:

- to abolish the Stability and Growth Pact, which has managed neither to overcome the crisis nor to bring growth to Europe's economies. The course we steer together must be based on the principles of solidarity, the protection of jobs and social justice.
- the European economy cannot compete at world level on the basis of labour costs. It is futile and undesirable. If the EU once exerted an appeal it was because it had a convincing social model which respects labour rights and the social security and democratic rights of its citizens. From that point of view, the reference in the Council's decision (11 February 2010) to the IMF concerning 'supervision of the Greek economy' is clearly outside the framework provided by the Treaties, creates a dangerous political and legal precedent and will result in stricter application of the Stability Pact.

In this context, there is a need:

- to introduce special arrangements in the EU's intergovernmental and multilateral agreements to curb the phenomenon of social dumping at world level. There is a need to adopt social standards which must be implemented by every country. Within the Union's

internal market, improving competitiveness by undermining labour rights must be discouraged and improving the quality of products must be encouraged, while developing education, innovation, new sources of energy, science and technology.

- to increase the Community budget substantially and to refocus the priorities of the European Investment Bank on employment and social cohesion, the development of education, research and innovation, economic growth with environmental protection, and the adoption of new, clean and renewable sources of energy.

Proposals concerning the challenges presented by the insurance system:

The recent crisis has clearly shown that insurance schemes are faced with a twofold problem: firstly, the steady decline in insurance contributions owing to the dramatic effects of uninsured or partly insured employment; and, secondly, the deregulation of the market and the adoption of private sector criteria for managing insurance funds. Both the European Union and the national States have a heavy responsibility in this respect, having failed to create the indispensable regulatory framework to protect insurance funds from the machinations of speculators.

If the EU insurance model, which is now actually based on public insurance schemes, is to be reproduced, measures and policies must be adopted aimed at achieving the following objectives, inter alia;

- eliminating uninsured or partially insured employment;
- integrating working migrants into the insurance system;
- promoting integrated employment policies which will support the long-term unemployed and groups at risk from social exclusion;
- using the moveable and immovable assets of insurance companies for the benefit of social development with strict management rules and threefold controls (the State, workers and employers) - an approach far removed from stock market gambling;
- coordination at European level in gathering and making available an independent source of funding to boost insurance schemes' reserves, which will be raised by taxing financial transactions and will assist those categories of insured person which have not managed to obtain full pension rights due to their losing their jobs.

Table 1 – Employment rate by country

	2007Q03	2007Q04	2008Q01	2008Q02	2008Q03	2008Q04	2009Q01	2009Q02	2009Q03
EU-27	53.7	53.5	53.2	53.7	54.0	53.5	52.5	52.6	52.6
EU-15	54.3	54.2	53.9	54.2	54.5	54.0	53.0	53.0	53.0
Belgium	49.5	50.2	50.1	49.7	50.1	49.9	49.4	49.0	49.1
Bulgaria	49.9	49.8	49.7	51.0	51.6	50.8	49.5	50.1	49.8
Czech Republic	55.8	56.0	55.6	56.0	56.0	56.1	55.0	54.9	54.6
Denmark	63.2	63.3	63.1	64.2	64.1	63.8	62.2	61.9	61.9
Germany	54.8	55.0	54.5	54.6	56.0	55.9	54.8	54.9	55.2
Estonia	58.2	57.5	57.7	57.7	58.0	57.5	54.0	52.2	52.6
Ireland	61.5	61.0	60.5	60.1	60.0	57.8	55.3	54.7	54.3
Greece	49.3	49.0	48.9	49.6	49.7	49.3	48.5	48.9	49.0
Spain	53.7	53.4	53.0	52.9	52.5	51.2	49.1	48.7	48.5
France	52.4	52.1	52.1	52.5	52.7	52.2	51.7	52.0	52.0
Italy	46.3	46.0	45.6	46.3	46.1	45.7	44.9	45.2	44.8
Cyprus	62.1	62.4	61.4	62.1	61.8	62.0	60.6	61.1	61.0
Latvia	57.6	58.5	58.1	58.3	57.8	55.4	53.6	51.2	48.9
Lithuania	54.8	53.6	53.0	53.5	54.0	52.9	50.4	50.0	50.1
Luxembourg	54.1	53.8	52.8	54.1	53.4	52.3	54.8	55.5	55.6
Hungary	47.0	46.5	45.8	46.1	46.7	46.2	44.8	45.3	45.1
Malta	46.2	45.8	45.9	46.4	47.1	46.3	46.3	46.2	46.4
Netherlands	64.4	64.3	64.1	64.7	64.9	65.2	65.0	64.6	64.3
Austria	59.3	58.3	57.9	59.1	59.5	58.9	57.7	58.4	58.9
Poland	49.2	49.5	49.4	50.1	51.0	51.0	50.0	50.4	50.9
Portugal	58.0	57.8	57.8	58.1	57.7	57.5	56.6	56.3	55.6
Romania	53.1	50.3	50.0	52.0	52.8	50.6	49.6	51.4	52.3
Slovenia	57.9	56.6	55.6	56.8	58.2	57.0	55.0	56.1	56.8
Slovakia	52.3	53.0	52.9	53.2	54.4	54.2	52.5	52.0	51.7
Finland	58.2	56.8	56.4	58.6	58.3	56.9	55.4	56.4	55.9
Sweden	61.0	59.6	59.2	60.4	61.0	59.2	57.8	58.4	58.6
United Kingdom	59.4	59.6	59.4	59.3	59.2	59.0	58.3	57.7	57.9

Source: Eurostat, EU-LFS

Table 2 – Marginal Product (%)

	2007	2008	2009*
EU-27	2.9	0.8	-4.1
EU-15	2.6	0.5	-4.1
Belgium	2.9	1	-2.9
Bulgaria	6.2	6	-5.9
Czech Republic	6.1	2.5	-4.8
Denmark	1.7	-0.9	-4.5
Germany	2.5	1.3	-5
Estonia	7.2	-3.6	-13.7
Ireland	6	-3	-7.5
Greece	4.5	2	-1.1
Spain	3.6	0.9	-3.7
France	2.3	0.4	-2.2
Italy	1.6	-1	-4.7
Cyprus	5.1	3.6	-0.7
Latvia	10	-4.6	-18
Lithuania	9.8	2.8	-18.1
Luxembourg	6.5	0	-3.6
Hungary	1	0.6	-6.5
Malta	4	2.1	-2.2
Netherlands	3.6	2	-4.5
Austria	3.5	2	-3.7
Poland	6.8	5	1.2
Portugal	1.9	0	-2.9
Romania	6.3	7.3	-8
Slovenia	6.8	3.5	-7.4
Slovakia	10.6	6.2	-5.8
Finland	4.2	1	-6.9
Sweden	2.5	-0.2	-4.6
United Kingdom	2.6	0.5	-4.6
United States	2.1	0.4	-2.5
Japan	2.4	-1.2	-5.9

Source of Data: Eurostat

Last Update: 18/01/2010

*Forecast for 2009

Table 3 – Unemployment rate by country

	2007Q03	2007Q04	2008Q01	2008Q02	2008Q03	2008Q04	2009Q01	2009Q02	2009Q03
EU-27	6.9	6.9	7.0	6.8	6.8	7.3	8.7	8.7	8.9
EU-15	6.8	6.8	7.0	6.9	6.9	7.5	8.8	8.9	9.0
Belgium	7.2	7.0	7.0	6.3	7.7	6.8	7.9	7.5	8.2
Bulgaria	6.6	6.1	6.5	5.8	5.1	5.0	6.4	6.3	6.7
Czech Republic	5.1	4.8	4.7	4.2	4.3	4.4	5.8	6.3	7.3
Denmark	4.0	3.2	3.3	3.1	3.4	3.5	5.2	6.0	6.1
Germany	8.4	8.1	8.2	7.7	7.1	6.9	8.0	7.7	7.8
Estonia	4.2	4.1	4.2	4.0	6.2	7.6	11.4	13.5	14.6
Ireland	4.8	4.6	4.6	5.3	6.7	7.5	10.1	11.9	12.6
Greece	7.9	8.1	8.3	7.2	7.2	7.9	9.3	8.9	9.3
Spain	8.0	8.6	9.6	10.4	11.3	13.9	17.4	17.9	17.9
France	7.8	7.7	7.4	7.0	7.3	7.9	8.9	8.8	9.0
Italy	5.6	6.6	7.1	6.7	6.1	7.1	7.9	7.4	7.3
Cyprus	4.0	3.5	4.6	3.1	3.6	3.3	4.6	5.2	5.4
Latvia	5.9	5.3	6.5	6.3	7.2	9.9	13.9	16.7	18.4
Lithuania	3.9	4.2	4.9	4.5	5.9	7.9	11.9	13.6	13.8
Luxembourg	4.0	3.8	4.3	5.0	5.5	5.4	5.8	5.1	4.4
Hungary	7.2	7.7	8.0	7.6	7.7	8.0	9.7	9.6	10.3
Malta	6.2	6.0	6.0	6.0	5.7	6.3	6.6	7.0	6.9
Netherlands	2.9	2.8	3.1	2.8	2.5	2.6	3.2	3.3	3.4
Austria	4.6	4.0	4.2	3.4	3.7	4.0	4.7	4.6	5.1
Poland	9.0	8.5	8.1	7.1	6.6	6.7	8.3	7.9	8.1
Portugal	7.9	7.8	7.6	7.3	7.7	7.8	8.9	9.1	9.8
Romania	6.0	6.1	6.3	5.6	5.4	5.8	6.9	6.3	6.8
Slovenia	4.4	4.7	5.1	4.1	4.1	4.3	5.3	5.6	6.1
Slovakia	11.3	10.4	10.5	10.0	8.9	8.6	10.4	11.3	12.5
Finland	6.0	6.1	6.6	7.3	5.6	6.0	7.6	9.6	7.5
Sweden	5.5	5.5	6.3	6.8	5.7	6.2	7.9	9.2	8.1
United Kingdom	5.5	5.0	5.1	5.2	6.0	6.2	7.0	7.6	8.0

Source: Eurostat, EU-LFS

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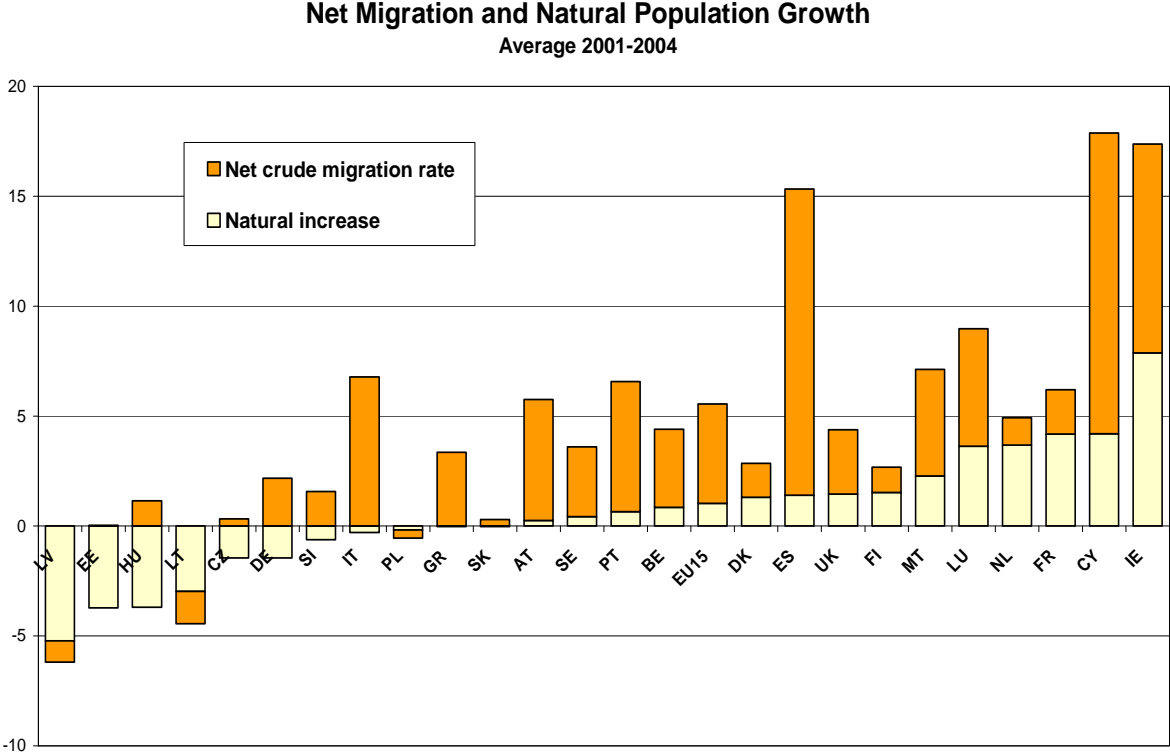
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Table 4 – Partial employment as a percentage of total employment

	2005Q02	2006Q02	2007Q02	2008Q02	2009Q02
European Union (27 countries)	17.9	18.2	18.3	18.3	18.8
European Union (25 countries)	18.5	18.9	18.9	18.9	19.5
European Union (15 countries)	20.4	20.9	21.0	21.1	21.6
Belgium	21.9	23.2	22.7	22.6	23.2
Bulgaria	2.5	2.1	1.9	2.4	2.6
Czech Republic	4.8	5.1	5.1	5.0	5.6
Denmark	22.0	23.6	24.3	24.7	25.8
Germany	24.1	26.0	26.3	26.2	26.3
Estonia	7.7	8.1	7.9	6.4	11.7
Ireland	:	:	18.1	18.5	20.8
Greece	4.8	5.9	5.8	5.5	6.0
Spain	12.8	12.2	12.0	12.0	12.9
France	17.3	17.4	17.4	17.0	17.2
Italy	12.8	13.4	13.5	14.7	14.4
Cyprus	8.9	7.8	7.0	7.7	8.4
Latvia	9.6	6.6	7.3	6.4	8.1
Lithuania	6.5	9.1	8.3	6.5	8.6
Luxembourg	17.4	17.1	17.4	16.4	17.6
Hungary	4.4	4.1	4.1	4.5	5.6
Malta	9.2	9.9	10.8	11.7	11.4
Netherlands	46.2	46.3	46.9	47.2	48.2
Austria	20.6	21.9	22.7	23.6	24.9
Poland	10.6	9.9	9.3	8.3	8.6
Portugal	11.5	11.4	12.2	12.1	11.7
Romania	10.7	9.7	9.6	10.1	10.0
Slovenia	8.9	9.7	9.9	9.0	10.7
Slovakia	2.4	2.8	2.7	2.2	4.0
Finland	13.6	13.6	13.6	12.9	13.4
Sweden	25.0	25.1	25.1	27.0	27.0
United Kingdom	25.5	25.3	25.2	25.3	26.1

Source: Eurostat

Table 5 – Net Migration and Natural Population Growth



Source: Eurostat. Figures exclude intra-EU flows and comprise regularisations of previously undeclared migrants