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Social impact of the crisis

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Macro-economic numbers are large: 4% fall in EU GDP in 2009

But who is bearing the cost?
Who will bear the cost in the future?

Fracture in public debate and academic research:

Macro-economics of GDP, unemployment rates, government debt, financial bail-outs

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Impact on individual households and future generations

Real economy (GDP)

Rise in un(non)employment

Reduced hours/wages

Reduced profits/rent

Financial markets

Failures/forced realisations

Falls in asset values/increased debt

Falls in interest rates

Support for financial institutions/companies

Increased transfers to persons

Reduced tax revenues

Government

Real economy (GDP)

Rise in un(non)employment

Reduced hours/wages

Loss of earnings potential

Reduced profits/rent

Financial markets

Failures/forced realisations

Falls in asset values/increased debt

Loss of security

Falls in interest rates

Support for financial institutions/companies

Increased transfers to persons

Reduced tax revenues

Government

High public debt

PERSISTENT EFFECTS OF CRISIS

“the human costs are still difficult to fully evaluate, both now and in the long-term” (Social Protection Committee and European Commission second joint assessment of the social impact of the economic crisis, 24 November 2009).

How can we analyse the distributional consequences?

- Ex ante – examination of social protection institutions and distributional mechanisms: modelling (stress testing).
- Studying past experience of financial crises and recession.

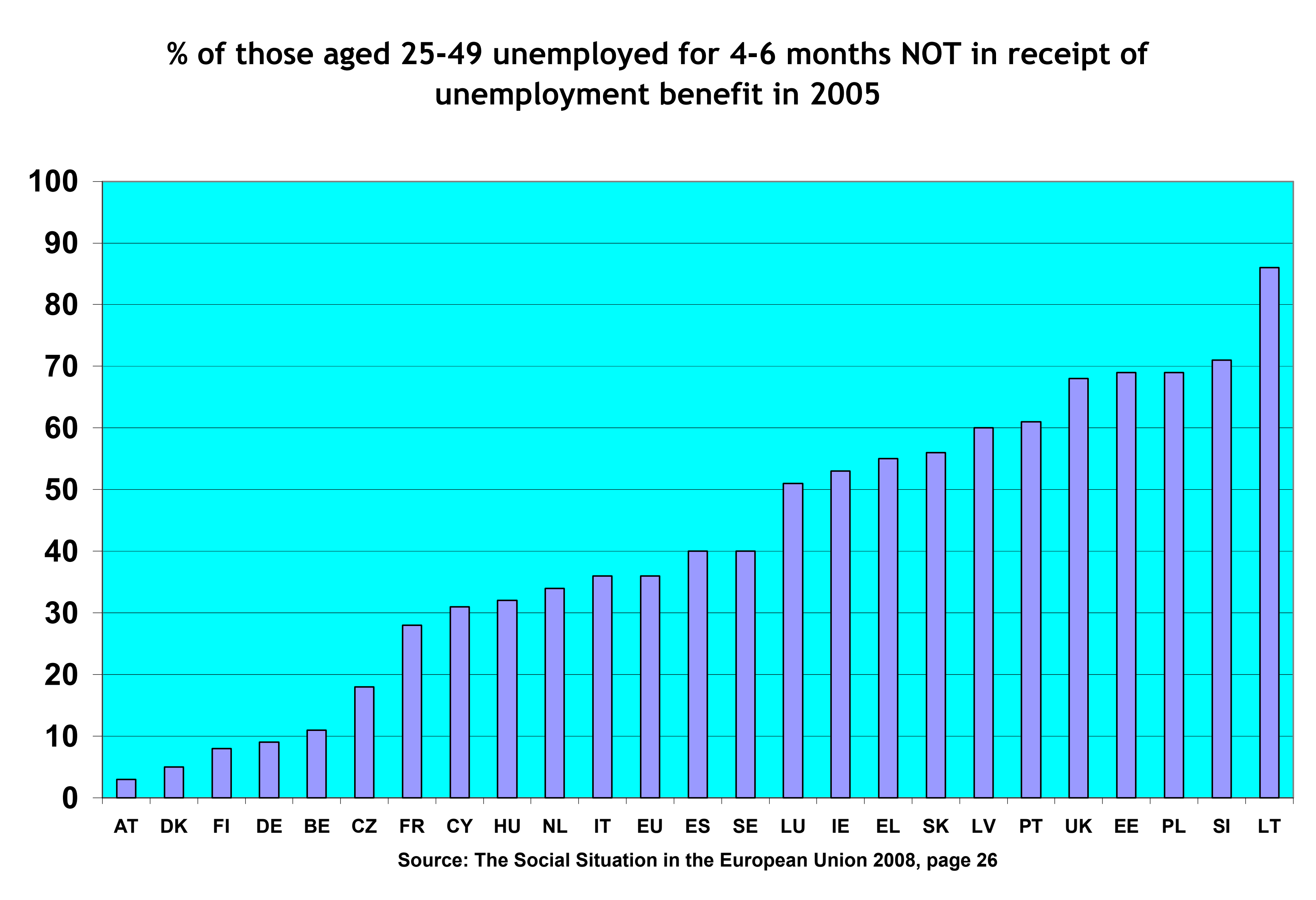
Must bear in mind that EU poverty rate was NOT falling in the pre-crisis decade, and that inequalities were rising in some Member States.

The (Automatic) Social Safety Net

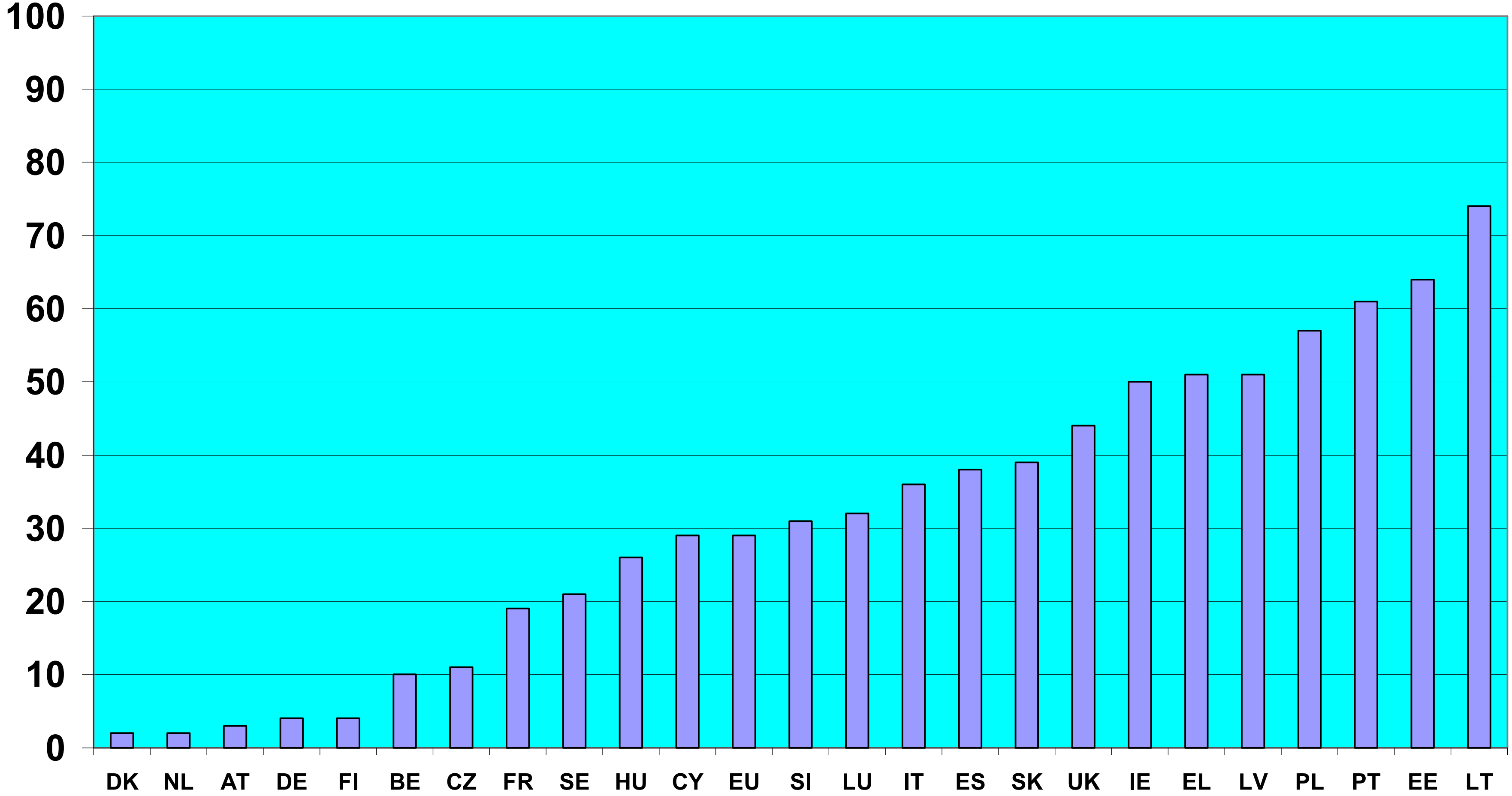
Real economy (GDP)	**Financial markets**
Rise in un(non)employment	**Failures/forced realisations**
Unemployment benefit	
Sickness/disability benefits	
Social assistance	
Reduced hours/wages	**Falls in assets/increased debt**
Income-tested in work benefits Short-time work allowances	State and defined benefit pensions protected
Reduced profits/rent	**Falls in interest rates**

Income-tested benefits for pensioners

But there are holes in the safety net



% of those aged 25-49 unemployed for 4-6 months NOT in receipt of unemployment/sickness/disability/social assistance benefits in 2005



Source: The Social Situation in the European Union 2008, page 26.

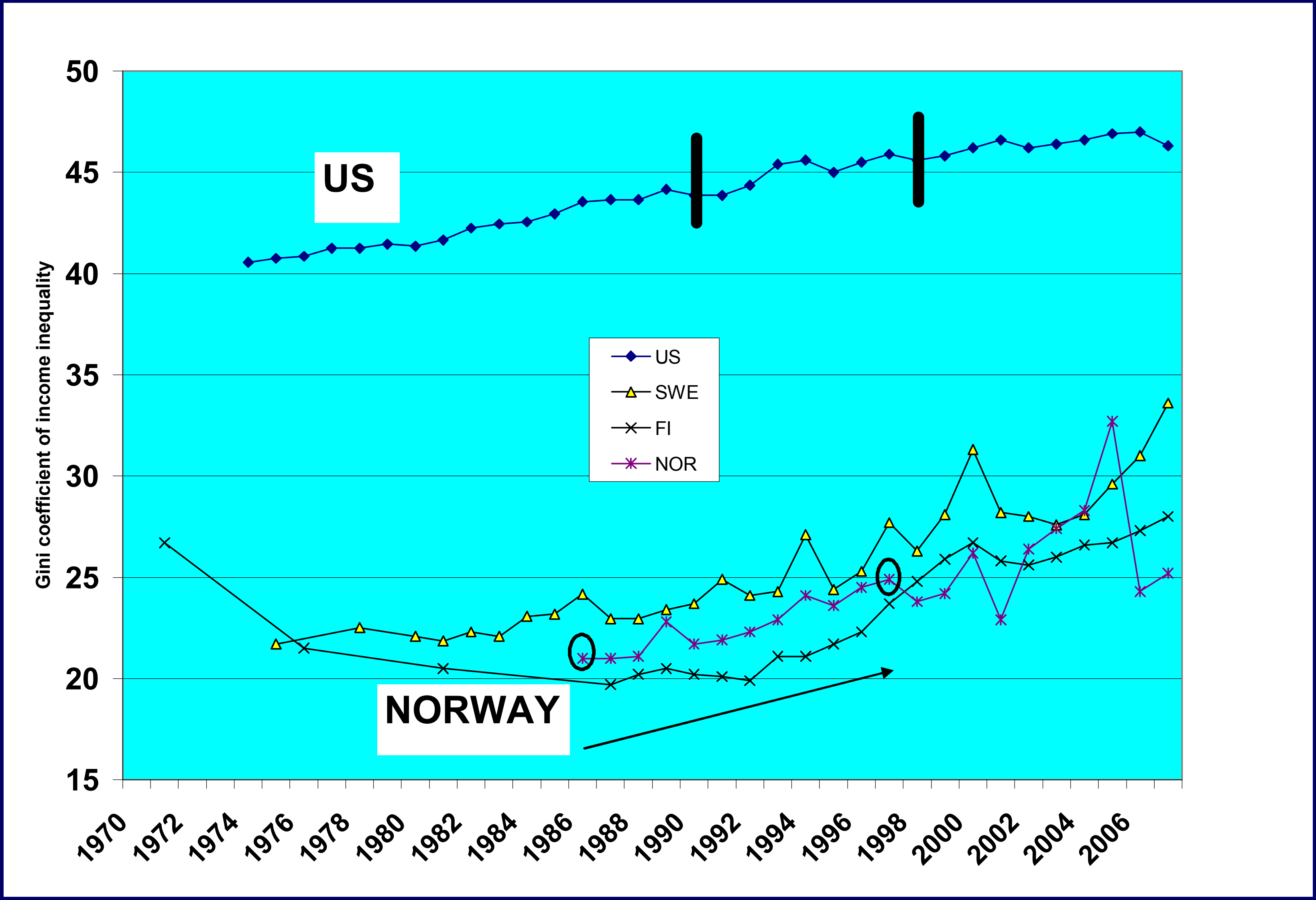
Looking back to the past

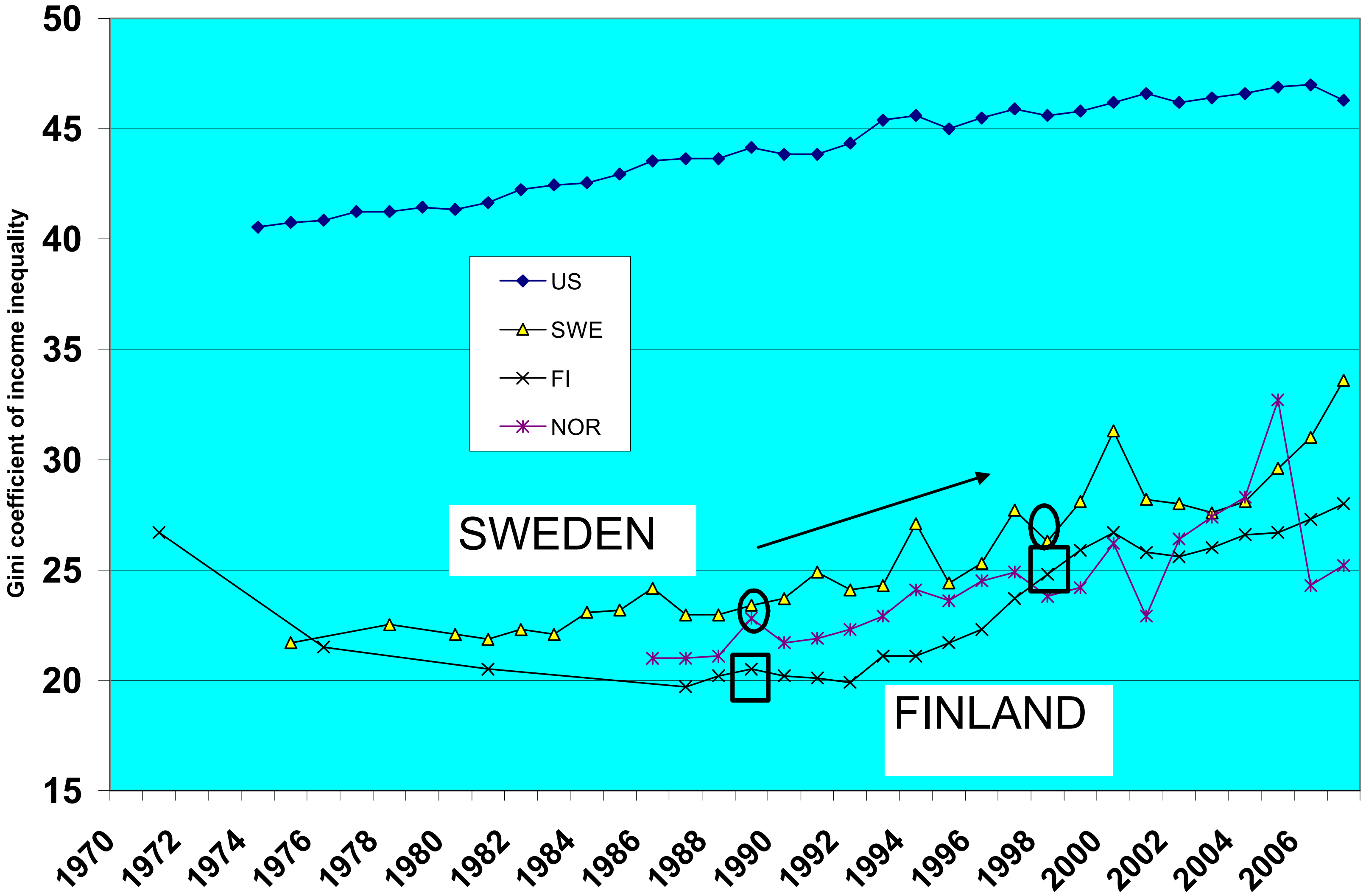
This time is different (Reinhart and Rogoff)

Not like 1929, which was watershed in US income inequality.

In US share of top 1% in total income fell from 24% in 1928 to 16% in 1931. Inequality fell from 1929 to the 1940s, although most of gain went to middle and upper-middle groups, as bottom 40% hit by depression.

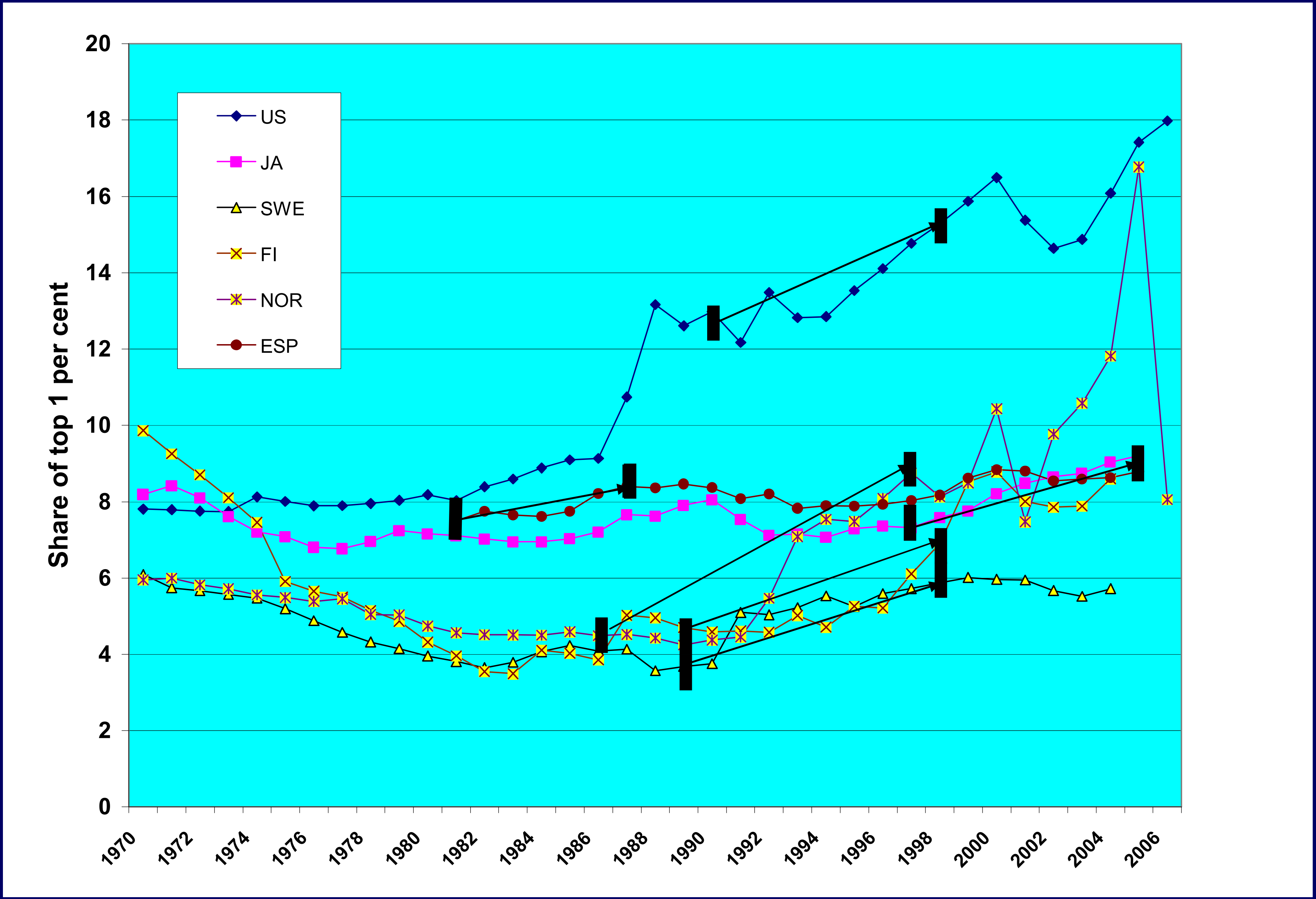
What happened to inequality more recently in banking-crisis induced recessions (as identified by OECD)?





Gini coefficient of income inequality
50
45
40
35
30
25
20
15
1970
1972
1974
1976
1978
1980
1982
1984
1986
1988
1990
1992
1994
1996
1998
2000
2002
2004
2006
US
SWE
FI
NOR
SWEDEN
FINLAND

At the top of the distribution: the share of the top 1%



Positive measures have to be taken US package (American Recovery and Reinvestment Act 2009) included:

- $15 bn child tax credit
- $ 5 bn tax exemption for unemployment benefit
- $ 5 bn extended Earned Income Tax Credit
- $87 bn for Medicaid
- $27 bn for subsidy of health care insurance for the unemployed
- $40 bn for extended unemployment benefits
- $20 bn for Food Stamp programme
- $14 bn for onetime social security payment
- $ 4 bn for job training

= $217 bn out of $787 bn package

It is not just inequality between rich and poor, but inequality between generations.

Need to offset effect of crisis on those growing up and entering the labour force. For example, the EU could introduce a minimum income for children, implemented by Member States to guarantee a specified % of national median income, financed by a solidarity levy on pensioners.

Conclusions

- Need to "join up" the public debate: macro-economics affects real people.
- Not easy to see the impact of crisis.
- Pre-crisis the EU had not succeeded in reducing poverty and inequality.
- Social protection has helped to offset automatically the losses of income, but there are important holes in the saefty net.
- Unlike 1929, previous postwar recessions induced by banking crises have been marked by rising inequality and top income shares.
- Positive policy measures have to be taken: it is "in our hands".