SOCIAL COSTS OF THE EUROPEAN UNION IN THE CONTEXT OF THE ECONOMIC-FINANCIAL CRISIS

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Abstract: *The start of the financial crisis in mid-2007 at a global scale had a major impact on the European Union's economy. All member states have been economically affected, but the social effects were mainly of large amplitude. This paper focuses precisely on analysing the social costs which the economic-financial crisis has generated in the European Union. After finishing the study we have noticed that numerous social consequences of the recession have manifested intensely since the beginning of the crisis and continue to do so even today. These consist in the increase of poverty and social exclusion, rise in unemployment, decrease in birth rate, changes regarding the migration process, reduction in income, excessive indebtedness, the disparities between countries contributing to the augmentation of all these.*

Keywords: unemployment; poverty; crisis; social gaps; migration; birth rate
JEL Classification: G01

INTRODUCTION

The current financial crisis is unprecedented in post-war economic history. Although triggered by events from the US real-estate marked, the economic crisis extended in Europe and, due to globalisation, similar to a domino effect, spread across the whole world.

The economy's decline at the European Union's level dawned in the last trimester of 2008, reflecting the collapse of external demand, as a result of the impact the real-estate market correction had in some states (particularly in the USA), followed by severe financial constraints. The situation evolved from bad to worse, so that in 2009, the EU's economy was in the midst of the deepest and extended recession since World War II (European Economic Forecasts, Spring 2009, Brussels).

The exports and investments of the Union registered a sharp contraction, the public debt rising, the budgetary deficit growing, while private consumption reduced as the situation of the labour market deteriorated. While the economic recession continued, private consumption was affected by the

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adjustments on the labour market (loss of the jobs, increase in unemployment and decrease in income) and by the low trust in the financial sector.

In this context, a fundamental question arises: what were the social costs which the European Community supported during these years of downfall?

The purpose of this study is to offer answers to this question, by conducting a thorough analysis of the social effects caused by the crisis which swept the entire world, exposed the weaknesses within the functioning of the global economy and led to the necessity to reform the international financial architecture. In this respect, a series of statistic indicators have been taken into account, such as unemployment rate, poverty rate, birth rate, migration rate.

What could be noticed was that, even though initially it was thought that the European economy would generally be immune to the financial turbulences, compared to the United States, reality showed otherwise. All the other member states were economically affected, the social costs being mostly of great amplitude. These consist in the increase of poverty and social exclusion, rise in unemployment, decrease in birth rate, changes regarding the migration process, reduction in income, excessive indebtedness, the disparities between countries contributing to the augmentation of all these.

1. POVERTY

Poverty represents the absence or inadequacy of diet, debt, standards, services or activities which are commonplace or ordinary in society (Townsend, 1979).

People live in poverty if their income and resources are so limited that they are excluded from having a living standard considered acceptable by the society in which they dwell. Because of poverty they can face a series of disadvantages such as: unemployment, low income, meagre homes, inadequate medical insurance as well as education, culture, sports and recreation barriers. These persons are often excluded and ostracised from participating in economic, social and cultural activities, and their access to fundamental rights may be limited (European Commission, 2004).

Statistics supplied by the World Bank show that globally, a person out of seven currently lives in poverty. The same source estimates that approximately 1.3 billion people from the entire world live in poverty (with little over one dollar a day), and the most recent data supplied by the Food and Agriculture Organization, part of the United Nations, shows that, out of the entire global population, about 925 million suffer from hunger, the most affected being children. So, poverty has a decisive role in the death of at least 5 million children, every year, in the entire world.

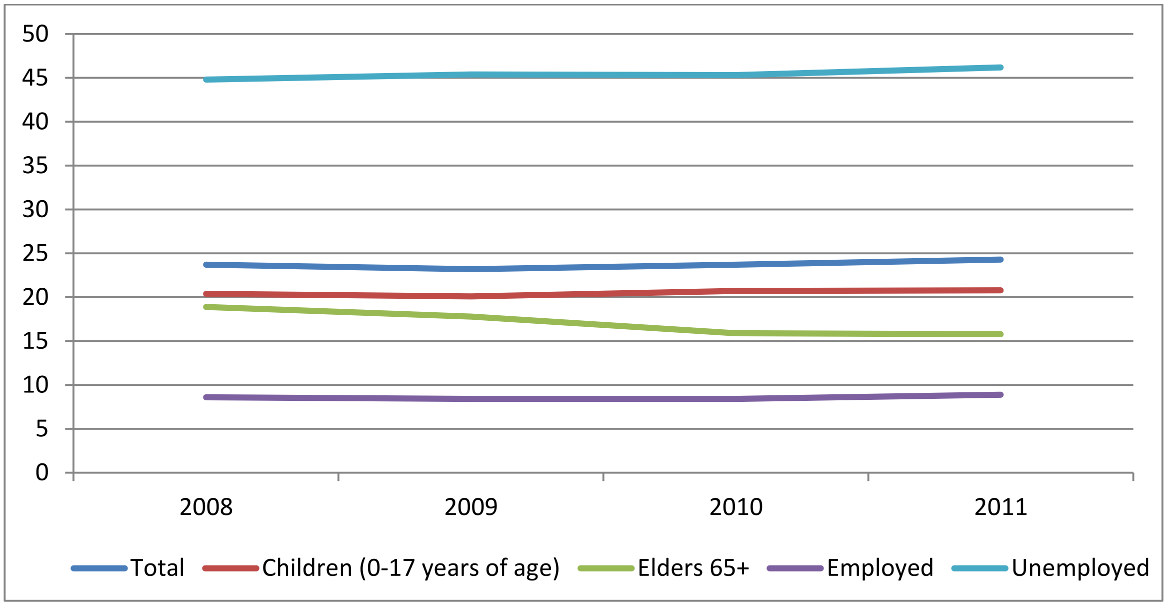
As a consequence of the economic crisis, the situation in the European Union looks pretty bad, because this involved a multitude of social costs, having a negative impact on employment, deteriorating working conditions and raising the number of homeless persons. Those most affected by this situation are the most vulnerable categories of persons: children, young people, women, certain ethnic minorities, persons with a migration context, single parents and handicapped persons. Also, another problem is the difference between women and men which is clearly visible.

Currently, 25 million European children are threatened by the risk of social exclusion. Some drop out of school to work and help their parents, especially in the areas hit hard by the crisis, a fact which will in the future involve a high risk of their transformation into marginalised adults, trapped in a "cycle" which is passed on from generation to generation.

Children face a higher poverty risk on an average of over 20%, as it can be seen in Figure 1. The elderly are themselves exposed to a higher risk of poverty and the scale of the demographic problem which the EU is facing only intensifies the problem, which will cause the poverty risk for the elderly to increase in the long-term.

Amongst the Union's countries, the northern countries have the lowest percentage regarding infantile poverty (with an average of 16% for Finland, Sweden and Denmark), while the highest percentages can be observed in Bulgaria, Romania, Latvia and Hungary (Between 40 and 50%).

Figure 1 - The rate of poverty risk in the EU-27, total, by age and professional status between the years 2008-2011 (% of the total population)

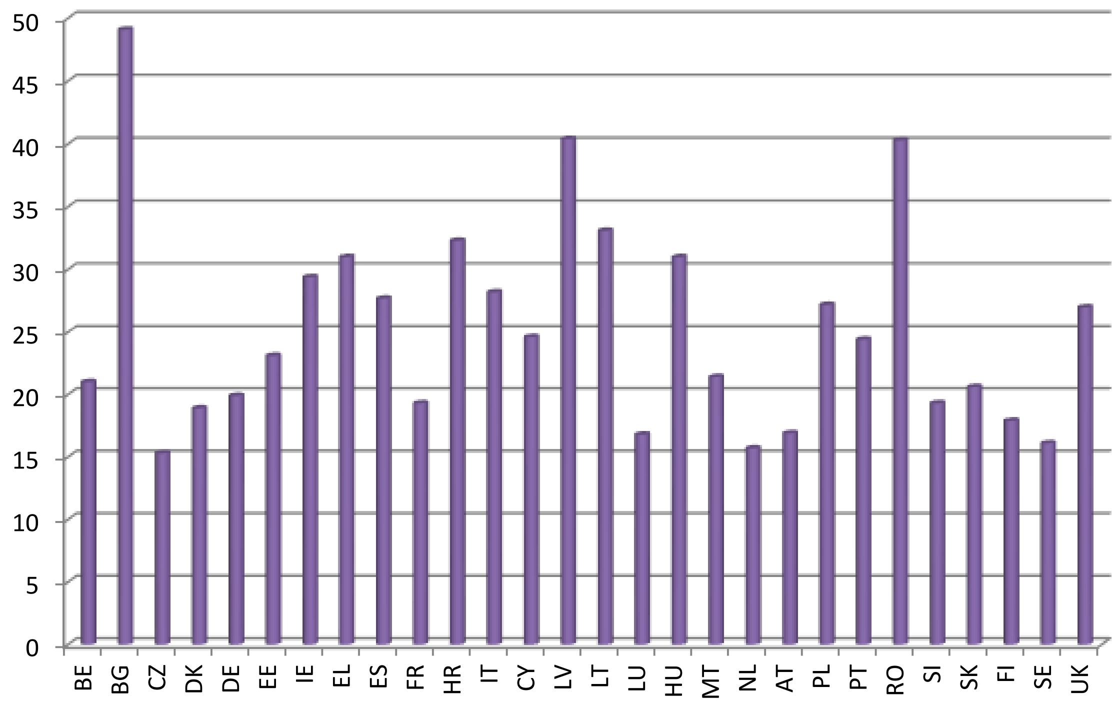


Source: The author's compilation using Eurostat data, 2013

Also, from Figure 1 we can assess that poverty risk for people out of work is approximately five times higher (45% compared to 8%) than it is for those employed, unemployment being the main cause of poverty in the active population. More so, the financial crisis enhanced the exposure to social risk for the migrant population, often being the first one affected in a circumstance of increased unemployment. Hence, in the first trimester of the year 2010, unemployment for foreign citizens exceeded 21%.

According to Eurostat statistics, in 2007, before the current crisis had made an appearance, 85 million European citizens (17% of the population) found themselves below the relative poverty threshold; two years later, in 2009, there were 115 million people subjected to poverty risk and social exclusion (23.1% out of the total community population), and in 2011, the number of people threatened by poverty increased to 119.6 millions, that is 24.2% of the EU-27 population. The countries which are most affected by poverty are: Bulgaria (49.1%), Romania (40.1%), Latvia (40.4%), Lithuania (33.1%) and Hungary (31%). At the opposite end we find the Czech Republic (15.3%), The Netherlands (15.7%), Sweden (16.1%), Luxembourg (16.8%), Austria (16.9%) and Finland (17.9%), as showed in the figure below.

Figure 2 - The rate of poverty risk in the European Union's countries in the year 2011 (% of the total population)



Source*:* The author's compilation using Eurostat data (EU-SILC 2011)

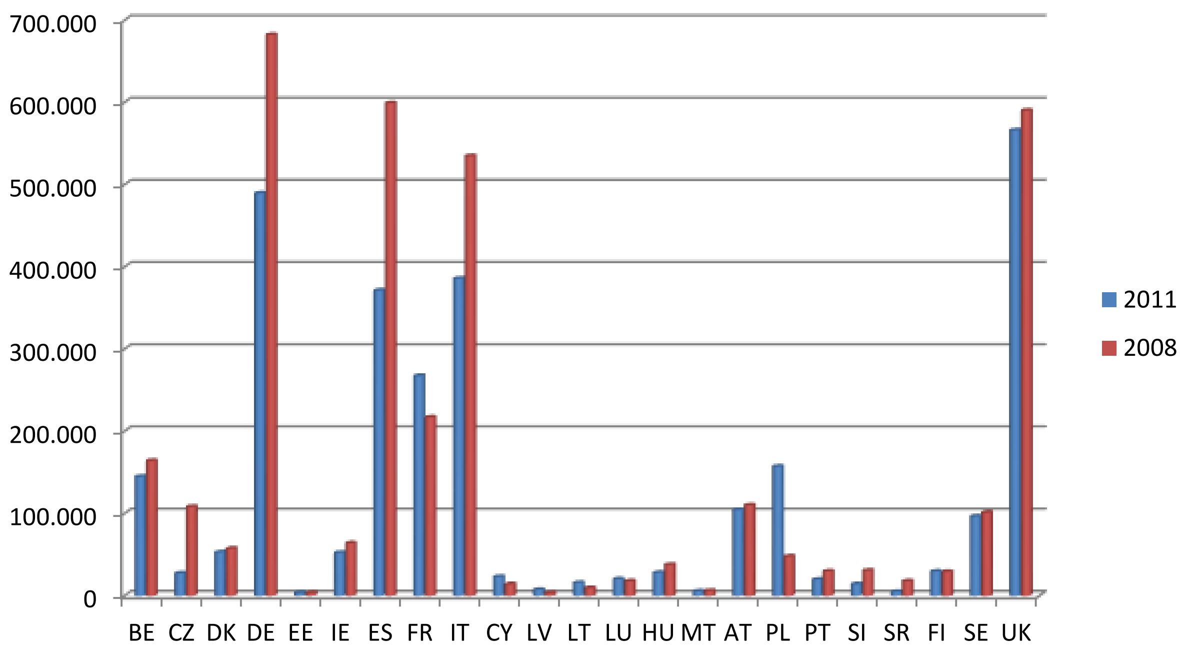
2. MIGRATION

Analysing the manner in which the current crisis affected the labour migration phenomena in the world in general, and in the European Union particularly, we have noticed that the OECD or The International Migration Association's reports pointed out that the previous economic recessions did not stop the increasing tendency of labour migration, people continuing to migrate to find a job beyond the borders of their native countries even in these periods (Koehler, et al., 2010). The same happened in the current situation, starting with the beginning of the crisis in 2007, the net migration flows in the European Union remaining generally positive.

Therefore, during 2008, approximately 3.8 million people emigrated in one of the Union's member states and at least 2.3 million left the EU states for different destinations. According to Eurostat statistics, compared to 2007, before the crisis, immigration in the EU member states dropped by 6%, and emigration increased by 13%.

The country which has reported the highest immigrants, in 2008, was Germany (682.146), followed by Spain (599.075), the United Kingdom (590.242) and Italy (534.712). As shown in the figure below, the situation has changed over time, so, after three years of financial crisis, in 2011, the country with the highest number of immigrants became the United Kingdom (566.044), followed by Germany (498.422) and Italy (385.793).

Figure 3 - The number of immigrants in the EU member states in the year 2008, compared to the year 2011



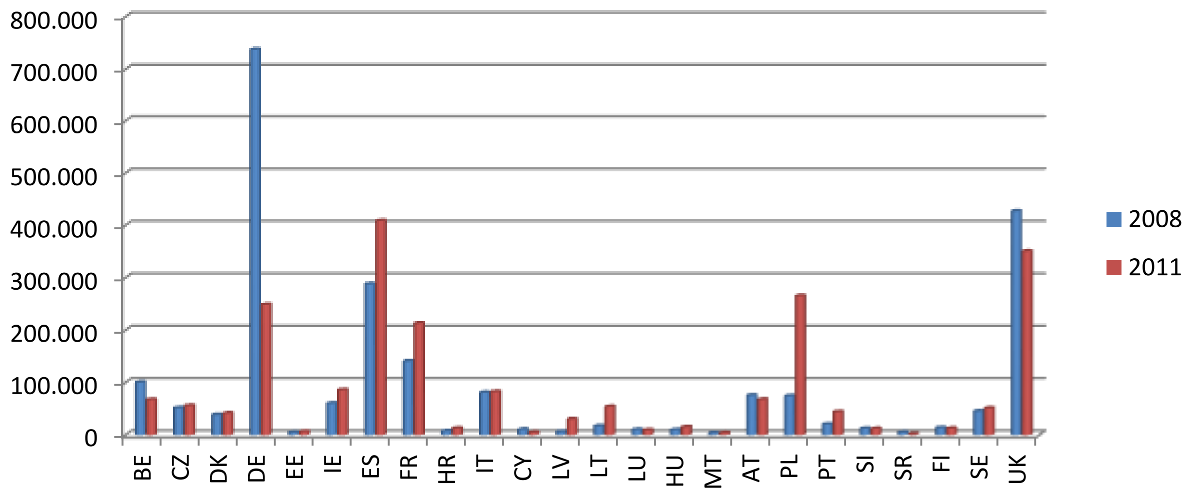
Source: The author's compilation using Eurostat data, 2013

*incomplete dates for Bulgaria, Greece, The Netherlands and Romania

Related to the number of the resident population, the country with the highest number of immigrants in 2010 was Luxembourg, with 33 immigrants per 1000 residents, followed by Cyprus with 24 and Malta with 18 immigrants per 1000 residents.

Regarding the emigration process, Germany reported the highest number of emigrants in 2008 (737.839), followed by Great Britain (427.207) and Spain (288.432). The situation changed drastically in 2011 when the leader for the number of emigrants became Spain (409.034) followed by Great Britain (350.703) and Poland (265.798), as shown in Figure 4. The main cause of this phenomenon is the unemployment rate, getting higher and higher in countries like Spain and determining the Spanish migration towards Europe and the USA.

Figure 4 - The number of emigrants in the EU states in the year 2008 compared to the year 2011



Source*:* The author's compilation using Eurostat data, 2013

*incomplete dates for Bulgaria, Greece, The Netherlands and Romania

Also, Luxembourg has the highest emigration rate relative to the resident population in 2010: 18 emigrants per 1000 residents.

3. UNEMPLOYMENT

The economic crisis pointed towards the importance of economic global activity based on responsibility. More so, it once again confirmed the fundamental truth according to which growth and prosperity are interconnected and no region on the globe can be independent in a globalized world economy.

Alongside the negative effects on the global economic growth, on the interest rate, the current account deficits and on the public debt, the economic crisis hit the European global market, resulting into reductions of the employment rates and increase of the unemployment rates in almost every member state of the European Union.

Therefore, in the euro zone as well as in the European Union, the number of unemployed people increased each month, the lowest level (turning point) being recorded in March 2008, according to Eurostat. Since then, the number of people affected by the unemployment in the euro zone increased by 3.7 million, reaching a total of 15.0 million in May 2009. In the same time in the European Union the unemployment increased by 5.4 million people, reaching 21.5 million.

Figure 5 - The increase of the unemployment rate in the EU member states in 2009 compared to 2008

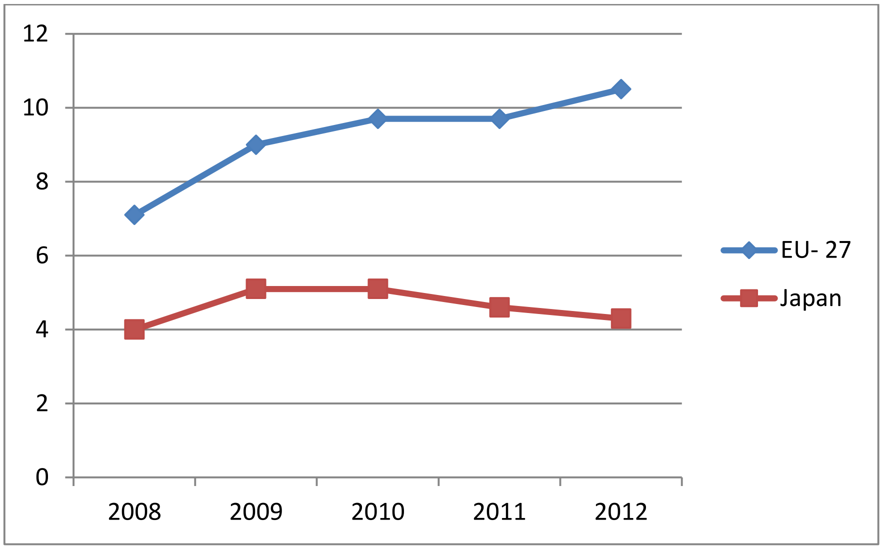
Country	Modification	Country	Modification	Country	Modification
DE	**0.4**	BG	1.4	CZ	2.5
NL	**0.6**	FR	1.7	HU	2.7
IT	**1**	AT	1.7	SK	2.8
BE	**1.2**	CY	2	RO	3.2
MT	**1.2**	Euro Zone	2	IE	5.7
DK	**1.2**	FI	2.1	ES	6.6
EL	**1.3**	UE-27	2.1	EE	8.1
LU	**1.3**	UK	2.2	LT	8.7
PT	**1.3**	SI	2.3	LV	9.4
PL	**1.3**	SE	2.3		

Source*:* The author's compilation from the European Commission data, 2013

As it can be seen, in all the EU-27 member states, the unemployment rate increased in the year 2009 compared to 2008. Romania had one of the biggest increase of the unemployment rate, ranking behind the Baltic countries, Spain and Ireland. Compared to the EU average, our country reported an increase by 1pp. the EU member states that managed this problem best were Germany, The Netherland and Italy.

According to Eurostat data, in the euro zone, the unemployment rate reached 10% in December 2010. In the EU-27, the unemployment rate reached 9.6% in December 2010, maintaining the same level of November 2010, compared to Japan where the unemployment rate during the same period of time was only a 4.9%.

Figure 6 - The unemployment rate in the EU-27 compared to Japan, between 2008 and 2012



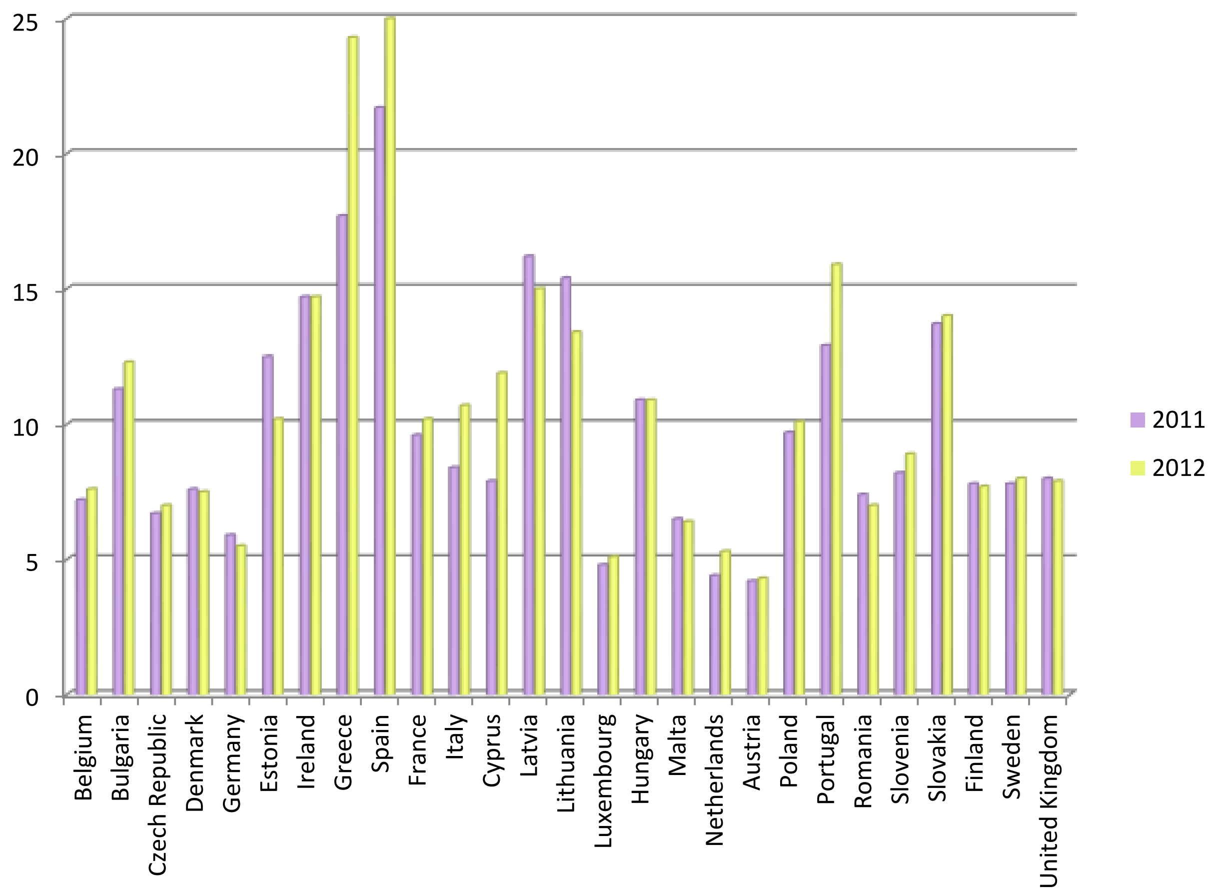
Source: The author's compilation using Eurostat data, 2013

Out of the member states, the ones with the lowest unemployment rates in the year 2010 were The Netherlands (4.3%), Luxembourg (4.9%) and Austria (5%) and the highest rates belonged to Spain (20.2%), Lithuania and Latvia both with 18.3%.

The number of employees started slowly increasing at the end of the year 2010, alongside with the number of worked hours. After stimulation for economic recovery, increased employment generated a considerable comeback of work productivity. Yet, in the euro zone as well as in the EU, between the years 2010-2011, the unemployment rate fluctuated only marginally and stayed at a constant 10% in the euro zone and respectively 9.7% in the EU.

In the second trimester of 2011, eight countries presented unemployment rates over 12% (the three Baltic countries, Spain, Ireland, Portugal and Slovakia) as shown in the figure below. However, the unemployment rate was below 7.2% (lower than the EU average valid before the recession), in 7 countries. Furthermore, the unemployment rate was situated below the pre-recession level in Austria and Germany, Belgium and Poland.

Figure 7 - The unemployment rate in the EU-27 member states between 2011 and 2012



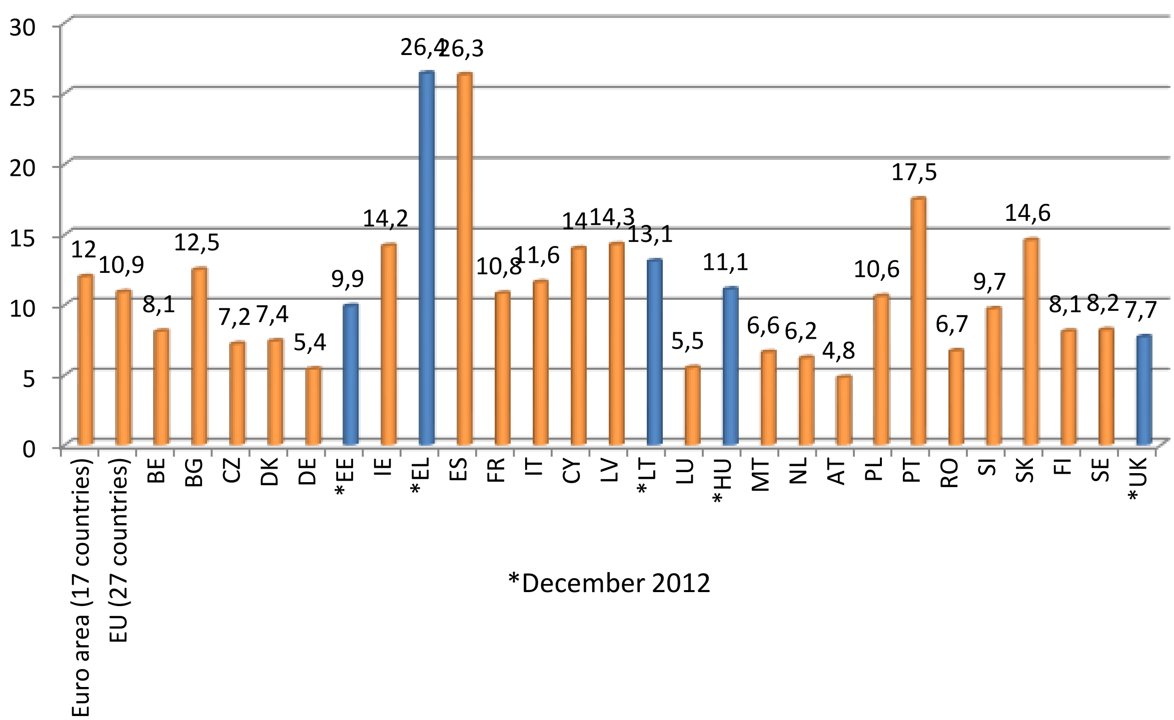
Source*:* The author's compilation using Eurostat data, 2013

As a consequence of these different evolutions, the higher share of the unemployment is presently concentrated in a few countries. Before the recession of 2008-2009, unemployment in Spain was only 10% of the total unemployment in the EU and 20% of the euro zone. With nearly 4.8 million unemployed people in the second trimester of 2011, unemployment in Spain represented almost a fifth of the total unemployment in the EU and a third of the total in the euro zone. A different evolution took place in Germany where the share of the total unemployment in the EU dropped between the second trimester of the year 2007 and the same period from 2011, from 30% to 16%.

Furthermore, the year 2012 brought even higher unemployment rates, in the EU-27 it increased from 9.7% to 10.5, and in countries like Spain and Greece the unemployment rate reached enormous values: 25% and 24.3%, as Figure 7 shows.

The Eurostat statistics indicate the fact that roughly 26 million people are currently unemployed. In February 2013 the unemployment rate in the EU-27 reached the threshold of 10.9%, and in the euro zone it reached 12%. Out of the Union`s states, Austria holds the lowest unemployment rate (4,8%), while at the other end Greece had 26.4% in December 2012, Spain 26.3% and Portugal 17.5%, as shown in the figure below.

Figure 8 - The unemployment rates in February 2013, seasonally adjusted (%)

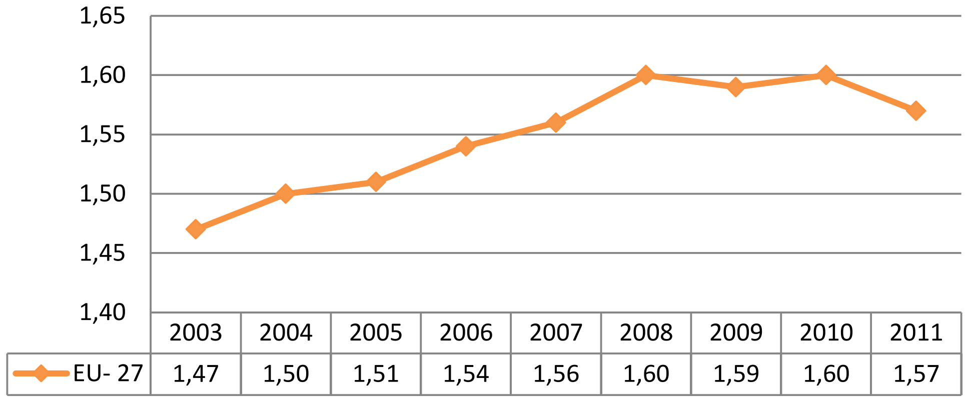


Source*:* The author's compilation using Eurostat data, 2013

4. THE BIRTH RATE

The economic crisis has strongly impacted on the birth rate of the European Union, especially in countries south of the euro zone. Starting with the year 2009, according to Eurostat data, birth rate ceased its growth and stabilized at slightly below 1.6 children per woman, a decreasing trend even in today.

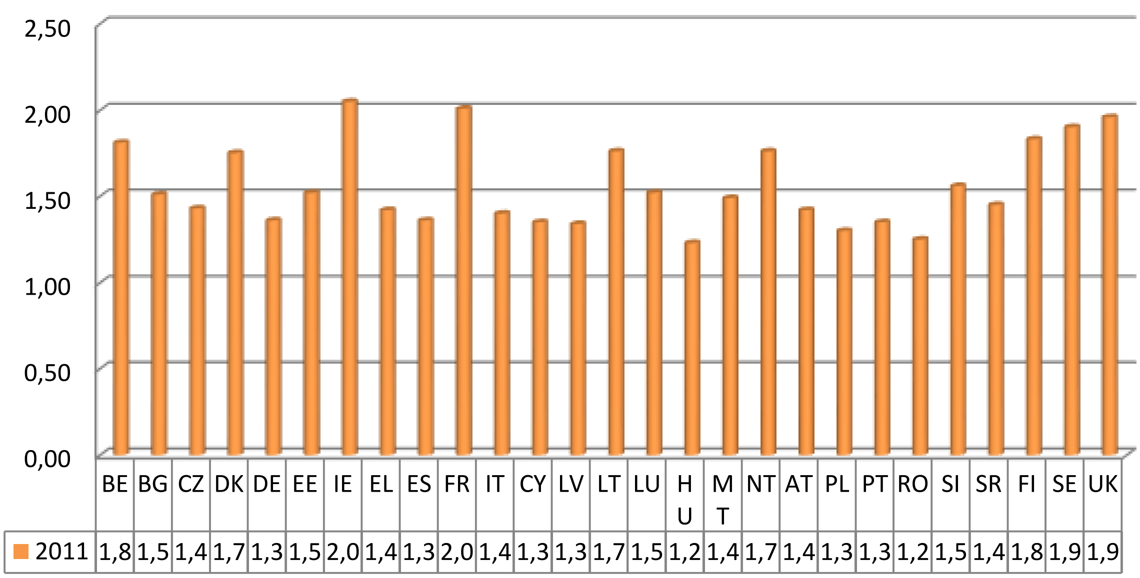
Figure 9 - The birth rate in the EU-27 between 2003 and 2011



Source: The author's compilation using Eurostat data, 2013

According to a study conducted by the Institute for Demographic Research in Germany, the main cause for the decreasing birth rate is unemployment. Therefore, because of the financial crisis, which left many people unemployed, the birth rate coefficient was in significant decline.

Figure 10 - The birth rate in the EU-27 member states in the year 2011



Source: The author's compilation using Eurostat data, 2013

The most affected EU member states were Spain, Hungary, Ireland and Latvia. For example, in Spain, before the crisis, the fertility rate was 1.47 children born per woman, and in 2011 it decreased to 1.36 children. Consequently, in Spain, between 2008 and 2011, the fertility rate dropped by 8%, while unemployment increased from 8.3 to 11.3% according to Eurostat data. Instead, in Germany and Austria, where the unemployment rate did not increase too much, an important influence of the crisis over the birth rate was not observed.

CONCLUSIONS

The main purpose of this paper was to present the impact of the economic-financial crisis on the European Union by analysing the social costs it generated.

As a result of the study we can state that the numerous social consequences of the recession manifested intensely from the beginning of the crisis and are still doing so.

Firstly, the number of unemployed people is currently about 10 million higher compared to the beginning of the crisis, according to Eurostat statistics. The direct impact of the recession continues to stand out concerning the number of people who receive unemployment benefits, from 2008 until today.

Secondly, a considerable number of citizens are increasingly more exposed to poverty and excessive indebtedness. One out of five young people of the EU is exposed to poverty risk. More and more young people cannot manage to find a place in education, professional training or in the higher education, and have limited chances in finding a work place. More so, the fact that 1 out of 10 young people who are working continue to live in poverty, illustrates that the quality of labour market integration for youth people is precarious.

The financial exclusion coming from the lack of basic banking services, as well as the high degree of debt, aggravated by the recent crisis, are obstacles in finding a job and thus can lead to persistent marginalization and poverty. Also, one of the extreme forms of poverty and insecurity that spread in the last years following the crisis, is represented by homelessness and the exclusion of owning a place to live.

Thirdly, the economic crisis emphasized the high exposure of the migrant population to social risks, often the first to be affected in a context of increased unemployment. For these people, the loss of their job often adds up to the lack of access to social security networks.

Last but not least, the new economic and social realities contributed to the decrease and then stagnation of a low level of child birth, in a way that, currently, all civilized countries face an accelerated decrease of child birth and fertility.

Therefore, the crisis brought substantial changes to the social situation in Europe, increasing the social gaps and amplifying the discontent of the European citizens. All these have deepened the discrepancies between the relative stable North, which is drifting more and more away from the rest of the Union, and the South of the EU, which continues to slide in the negative areas, especially when it comes to indicators such as unemployment and poverty.

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