

# 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**



**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

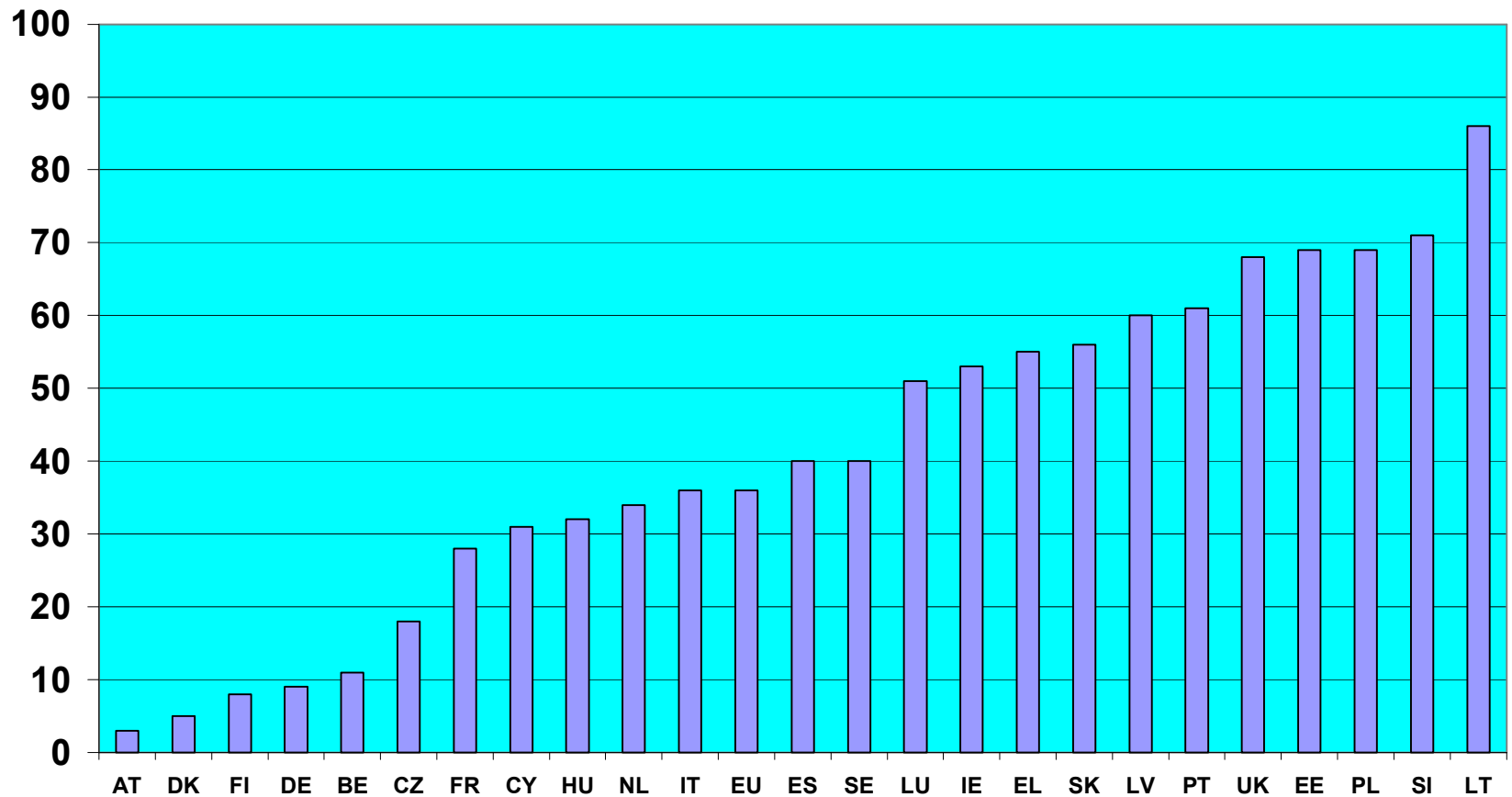
### Reduced profits/rent

### Falls in interest rates

Income-tested benefits for pensioners

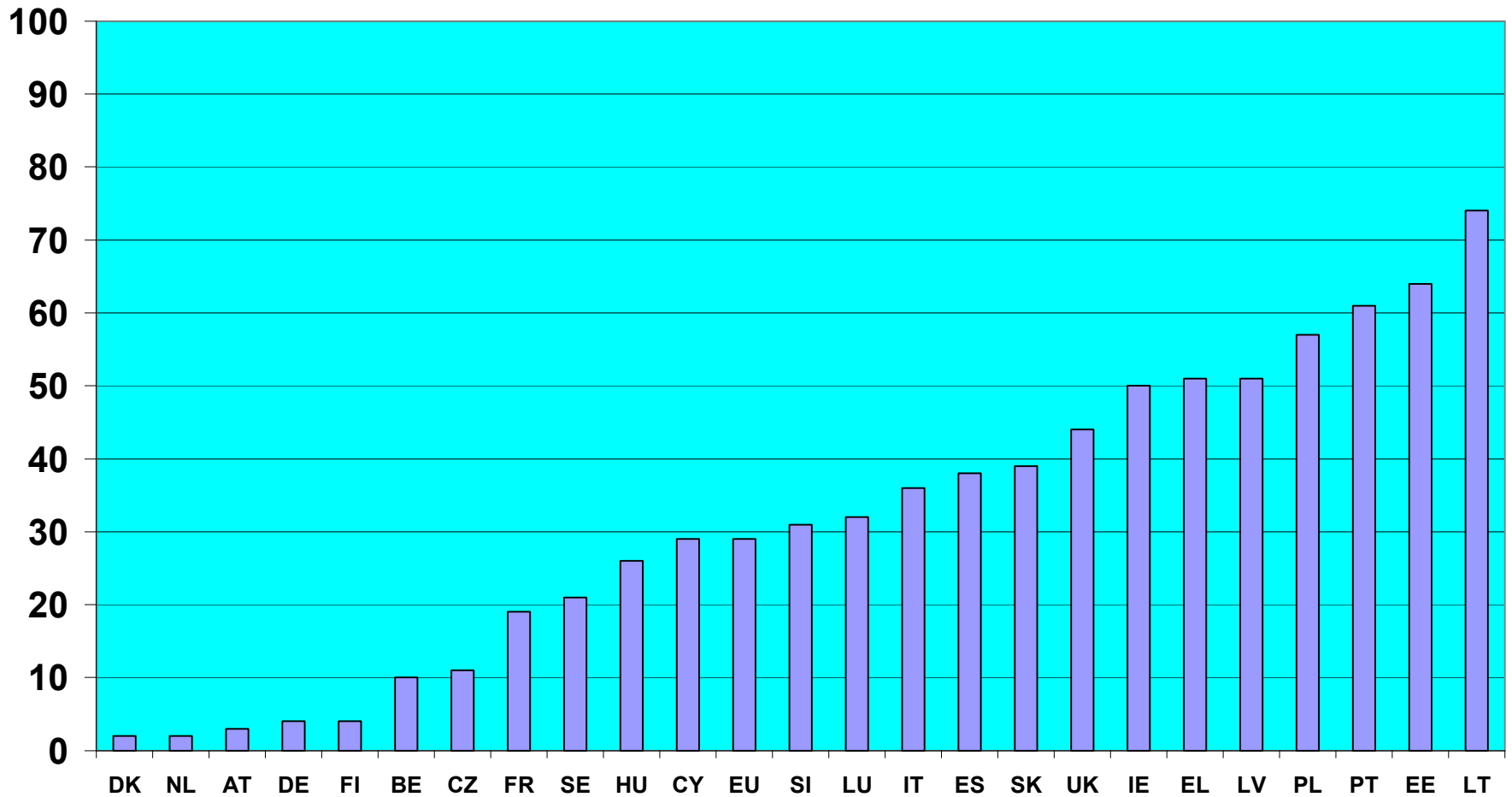
# But there are holes in the safety net

% of those aged 25-49 unemployed for 4-6 months NOT in receipt of unemployment benefit in 2005



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

**% 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.



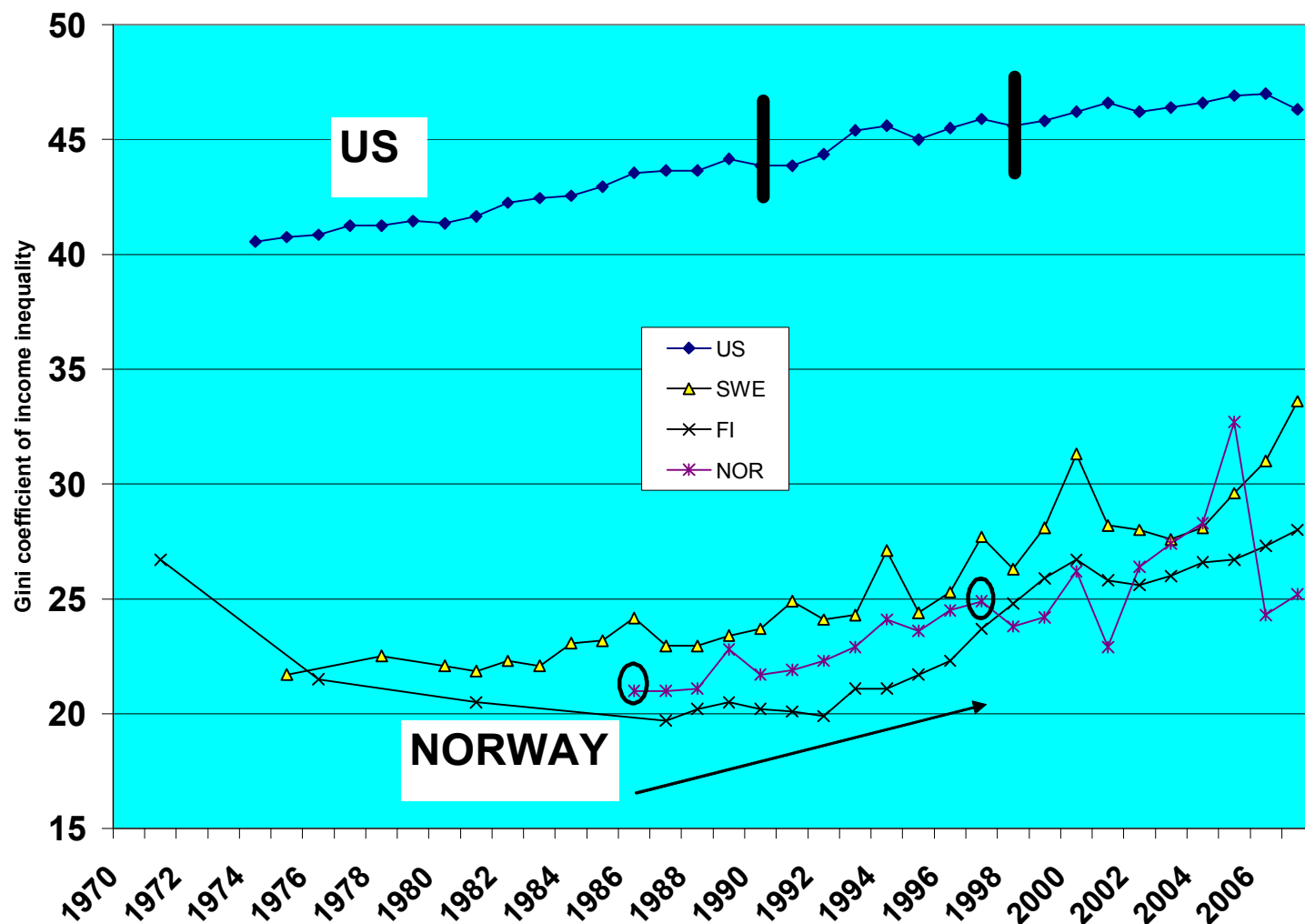
## Looking back to the past

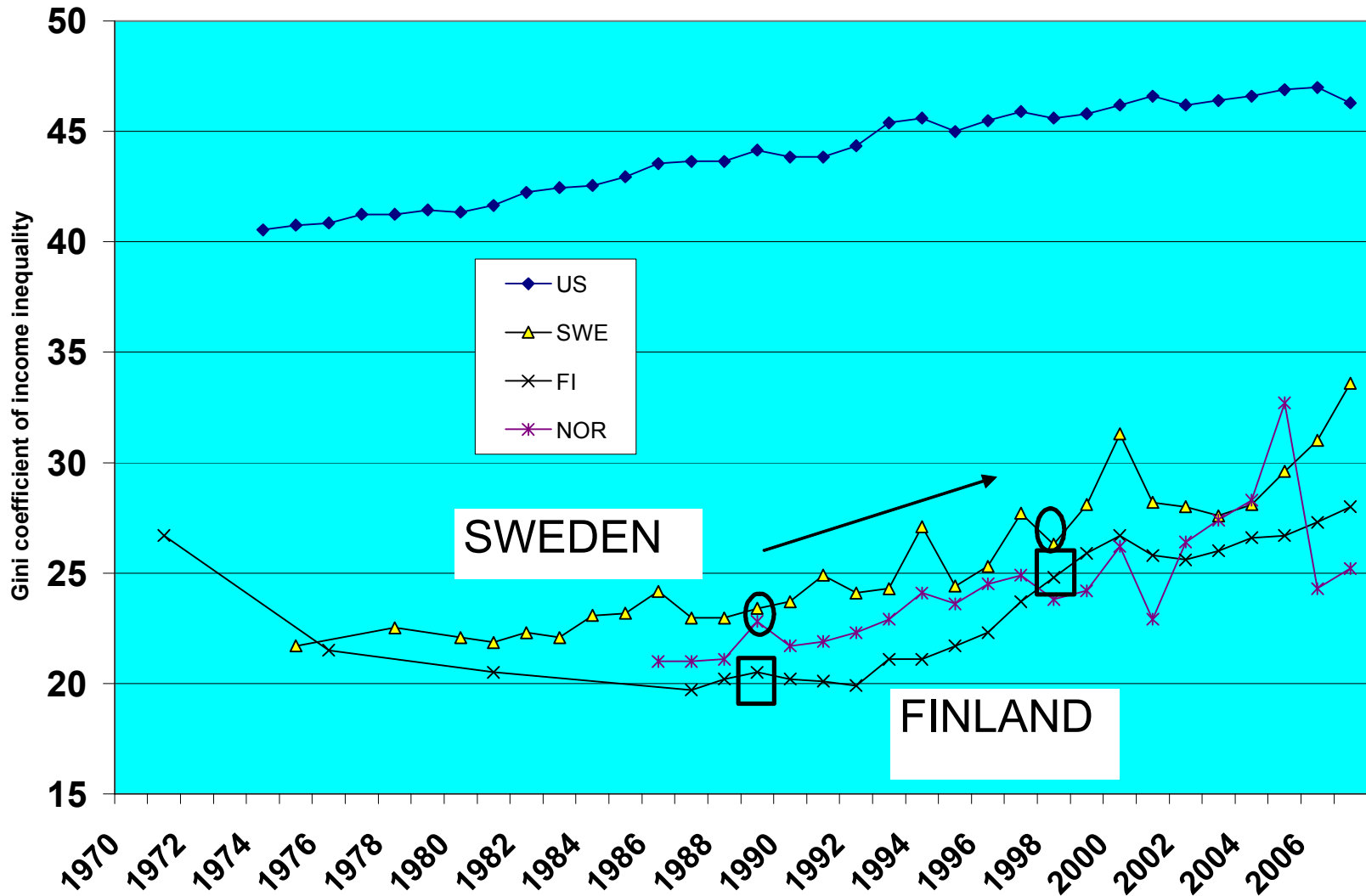
### *This time is different* (Reinhart and Rogoff)

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

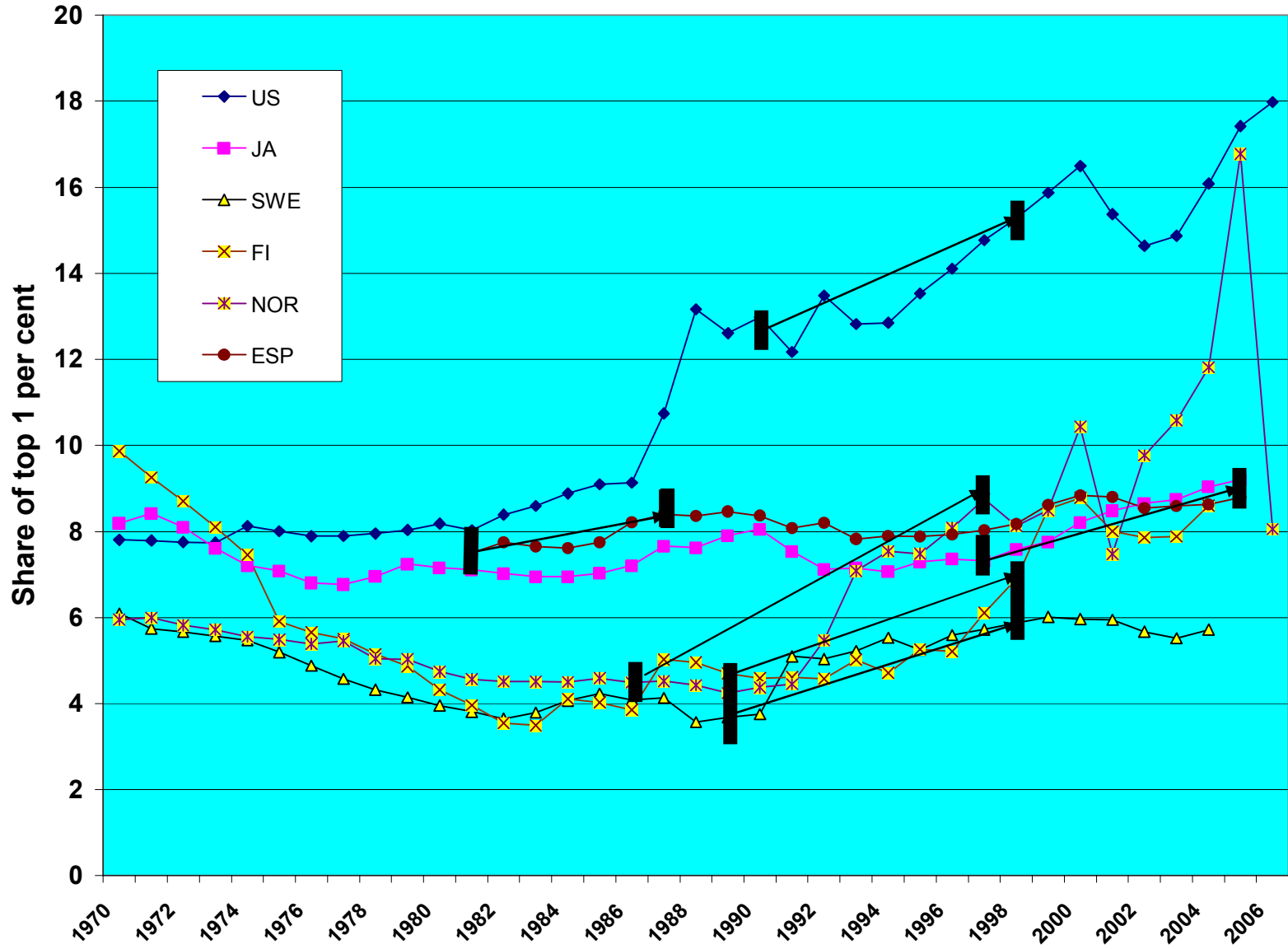
In US share of top 1% in total income fell from 24% in 1928 to 16% in 1931. Inequality fell from 1929 to the 1940s, although most of gain went to middle and upper-middle groups, as bottom 40% hit by depression.

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





# 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 safety 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”.