

Crisis and social division in Europe: causes and effects in Spain¹

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The crisis which we have been experiencing since 2007 at a global level is extraordinarily complex, and its effects on some of the most basic characteristics of our societies are only just beginning to be seen. There is a risk that the financial crisis of 2007 has been evolving into a crisis of social cohesion since 2010 –at least in some countries, such as Spain– and this transformation process involves different factors which feed off each other. For this reason, it is not easy to predict to what extent the social cohesion of societies like the ones in Europe, in which this characteristic had become a symbol of identity, may be affected.

Extreme impact of the crisis on the labor market

Everyone is well aware of the enormous impact the financial crisis has had on unemployment levels in Spain, and this has, in some cases, been exacerbated by the rigidity of the labor market and the over-protectiveness of labor relations. However, through a comparative analysis we can see that rather than being a quantitative issue – related to more or less flexibility– we are faced with a qualitative difference in terms of the flexibility model and the political and business management which result from it.

We know that there isn't always a direct relationship between the economic situation and an increase in unemployment (this depends on productivity and how work time is distributed). This variability has already been highlighted in the EU reports on this issue at the beginning of the crisis (EU-SPC and EU Commission, 2009). The example given by the OIT (Torres, 2009) seems to be particularly relevant: the reduction of hours worked in Spain (- 2% in 2009 compared with the previous year) was lower than the average for a total of 35 high-GDP countries (- 2.2%), compared with a reduction of -3.8% in Denmark and -3.1% in Germany, where there was a much lower impact on unemployment rates. At that time in Germany, more than 1.5 million workers had already joined the subsidized reduced working hours program (Kurzarbeit). The relationship between these two issues is obvious.

The dual labor market model in Spain has shown an extraordinary level of flexibility, overreacting in its reaction to the reduction in economic activity, and the number of unemployed people has increased by 2.7. This has mainly been in the secondary sector of temporary, low-skilled positions, and has therefore mainly affected young people and foreign workers. In contrast, in France, where the labor market also appears to be dual, but with a very different political and business flexibility model, employment levels have remained higher thanks to high levels of social and labor protection, as well as broad internal flexibility practices, which, on the other hand, have generated high levels of sub-employment. Here, the problems which foreign workers had entering the labor market existed prior to the crisis, and there haven't been any major changes in this respect.

¹ Summary and commentary on the study 'Crisis y fractura social en Europa - Causas y efectos en España' (Obra Social 'la Caixa', Colección de Estudios Sociales, n. 35, octubre 2012).

In the United Kingdom, the general flexibility model, with strong negative incentives due to the weakness of unemployment protection systems, has caused a large increase in unemployment, 69% as of 2010 –with high figures as well in certain sectors of households without employment–, and, above all, has had a negative impact on working conditions and salary compensation. However, this has been partially compensated for by a minimum protections system which has been carefully designed to provide social coverage for precarious and sub-employment. Here, the gender and ethnic gaps have increased due to the crisis.

In Denmark, levels of unemployment are significantly lower than in the other countries analyzed –thanks to its well-known system of ‘flexicurity’– and only one in three people remain unemployed after a year (compared with 58% in Spain). However, restrictions imposed on assistance programs have limited their protective capacity to deal with the crisis, and have led to an increase in unemployment.

Comparative analysis suggests that the main factor of the economic crisis affecting job destruction in our country is not exclusively due to an economic structure with broad sectors of low productivity – specifically due to the collapse of the construction sector– but is also related to the dual flexibility management model. This, therefore, is where we should start to take collective action to reduce the social consequences of periods of recession.

It will be difficult for the labor reform legislation, which was recently passed in Spain within a context of market contraction and which aims to reduce the duality of the labor market in the long term (to reduce it), to have any real impact on short-term job recovery. Particularly as it has eliminated important employment protection mechanisms which, combined with a large amount of internal flexibility, seem to have helped other countries, such as France, to avoid increases in unemployment. In the medium term, keeping workers in their jobs, albeit working fewer hours, seems to be a very reasonable way to keep human capital waiting for economic recovery.

Increase in inequality and poverty

However, inequalities caused by the market do not have to translate directly into inequalities in terms of income. Here as well, the experiences of the countries analyzed show great diversity. For example, Denmark is the country with the highest level of market income inequality, and this inequality even grew the most during the period of the crisis which was analyzed. However, it remains the most egalitarian country in terms of income distribution among households, thanks to the strength of its social transfers. On the other hand, France and Germany, where market differences didn't increase significantly during this period, saw a big increase in inequality of available income. The United Kingdom actually saw a reduction in income inequality up to 2010, due to income increases at the lowest, and also highest, levels.

Compared with these cases, Spain's welfare state model is less efficient. It is the country which has seen the smallest reduction in market-related inequalities, although there has been a small reduction in poverty risk thanks to social transfers (from 49% to 52% between 2007 and 2010). As a result of this, Spain, which out of these five countries was the one with the lowest level of inequality in terms of market income before the crisis, is now in a worrying third position in the EU-27 in 2010 in terms of income inequality (Gini index), and has also increased its extremes of social inequality: the richest 10% now have five times more income than the poorest 10% –a 16.3% increase since 2007– mostly due to the worsening of the situation for those at the lowest level.

The increase in unemployment in our country is one of the main causes of this situation, but it is not the only one: the level of poverty risk for working people has increased by two percentage points in Spain, similar to Denmark, whilst remaining stable in the rest of Europe (in countries such as France), and even decreasing in the United Kingdom.

This phenomenon of expansion for the working poor can be explained in part by the erosion of working conditions which have accompanied the explosion of unemployment rates, but also by the collapse of the strategy of combining several low incomes in a household when the salary of one of its members is lost. However, the most worrying element is the reduction of the lowest incomes, which has significantly increased the number of people situated below the most severe poverty line – below 30% of the equivalent average income. Among the countries analyzed, Spain has experienced the highest increase in severe poverty –one percentage point, taking it to 5.2%– double that of the other countries. France and Denmark have also seen large increases in poverty levels, although they had much lower levels to begin with, which might be due to the assistance mechanism reform processes carried out in both countries. On the other hand, countries like the United Kingdom and Germany have actually managed to reduce their levels of severe poverty. Spain is also the country to have seen the biggest increase in poverty intensity: poor people have seen the line rise even higher. This breaks the trend which we had been seeing in our country over the last few decades of a reduction in severe poverty, and the gradual narrowing of the gap with countries of reference which we had been seeing in recent years.

Only people over 65, particularly those who live with a partner, have seen any improvement in this respect, and women to a smaller extent. In contrast, young people and couples with children have been much more affected in Spain: severe poverty in young people under 25 has increased by one point to 7.1%, and in couples with children it has increased by 1.6 points to 6.5%. Both of these situations occupy the number one position, by a large margin, among the countries analyzed. In this respect, the trend is very different to countries such as Denmark and the United Kingdom, where severe poverty has increased for people over 65 years old. In fact, in the United Kingdom, even the situation for young people has improved significantly.

These different dynamics are directly related to certain options in the social policies. The consequences in our country may be particularly serious due to the restriction of vital itineraries, possibly even leading to a risk of chronicity in the sectors with greatest vital projection –young people– as well as due to the processes of generational reproduction implied in couples with children.

The impoverishment of foreign nationals due to this crisis is a more general trend throughout Europe, with the United Kingdom being a particularly noteworthy exception among the countries analyzed. This trend stands out even more when it is inverse to that of the national population, as is the case in France, where poverty has been reduced among French nationals, and to a lesser extent in Spain, where Spanish nationals have maintained the same levels as before the crisis. In some places more than others, the foreign population has taken on the role of “shock absorber” for the social effects of the crisis, bearing the brunt of the consequences: unemployment, impoverishment, repossessions, etc. This is going to become a determining factor for social integration processes, especially among recent arrivals.

In total, this crisis has left Europe with 81 million people below the poverty line, and almost one in eight of these relates to Spain. This figure is relatively stable in Europe, but according to recent estimates for 2011 (the National Statistics Institute (INE) calculates 21.8%), the number of people at risk of poverty in Spain will have increased by 1.4 million since 2007. This trend is not in line with the rest of the EU.

The crisis and the limits of the familistic model

We have seen that family coverage continues to be a key element in the analysis of interrelations between economic context and the dynamics of social exclusion, particularly in countries like Spain. Only 6.4% of households affected by unemployment in Spain are one-person households. In contrast, the proportion in Denmark is four out of ten; France and the United Kingdom are in an intermediate position.

The rate of unemployment in Spanish households increases in relation to the size of the family, but not only due to a greater statistical probability. Total family unemployment –where all family members are unemployed– affects 7.6% of Spanish households and is one percentage point higher in households with a larger number of members, despite having a lower statistical probability. This figure is almost double that of the other countries analyzed, and is an indication of the limits of family coverage when employment problems affect all active members of the family.

In these cases, finding other resources to substitute work income may be vital. One in five households with total family unemployment includes someone over 65. In these families, the grandparent's pension may become an essential resource for the survival of the whole family. The number of families in this situation has tripled over the last four years and now includes around 300,000 families in Spain.

Furthermore, the size of the average family also increases in Spain in relation to the level of unemployment. Unemployment delays the emancipation of some young people, and forces others to return to their family home. At the moment, it is difficult to appreciate this phenomenon in statistical terms, but it has been observed through social intervention mechanisms. Long-term living with parents and the delayed emancipation of young people have become structural characteristics of Spanish society, and this is part of a common pattern with many other countries in southern and eastern Europe. The differences among the countries analyzed are dramatic, especially among the 25 to 34 age range: 36.5% in Spain, compared with 1.3% in Denmark, with France and the United Kingdom in an intermediate position. However, the crisis hasn't increased these figures, as might have been predicted; in fact, the number of young people living with their parents has actually gone down 3.5 percentage points. This reduction reveals the difficulties associated with stretching family coverage beyond pre-crisis levels. However, it should be noted that, despite this, the number of unemployed young people who live with their parents has almost doubled during this period.

The limitations of families in Spain to provide satisfactory coverage for young people, in a context where the labor market offers few opportunities, can also be seen in the increase in the number of young people who don't study or work. These situations, which are potentially problematic in the present and have a high chance of developing into social exclusion issues in the future, have increased in all age groups in Spain, but particularly in the over-20's, with an increase of more than nine percentage points between 2007 and 2009. One in four young people between the ages of 20 and 30 doesn't study or work; the highest proportion out of the countries analyzed. This proportion has also increased among the youngest group (16-20), reaching 14.4%. In no other country is the trend so general –affecting all ages–, so clear and so premature. In Denmark, the phenomenon is of little significance, and the United Kingdom and France are in an intermediate position.

It is important to note that these situations are occurring despite the strategy of many young people, and their families, to prolong their studies, particularly beyond secondary education. The number of young people between the ages of 16 and 20 who are continuing with their studies has increased by more than nine percentage points, and by 4.5 points for the 21- to 25-year-old group. We can see the same situation

here once again: greater effort by families due to the crisis and more situations which escape their protective capacity.

So we can see that the economic cycle does increase the number of these situations, but in different ways depending on the country, as a result of the combination of two types of factors: family origin –the presence in Spain of more families with a low level of education– and a school system which, in our case, has a notably high drop-out rate and fewer grants, which forces many young people into unemployment and inactivity. It is, therefore, in these areas where we need to focus our efforts if we want to reduce the trend of future social exclusion.

An increase in subsidized training for unemployed young people, particularly for those who have dropped out of secondary school, combined with a system of grants to help keep them in the classroom would seem to be a very reasonable short-term solution to reduce the risk of social exclusion for this group. The promotion of a professional training system with a dual model which allows direct contact with the productive system would also be an interesting strategy for the medium term. In this respect, the German model –in terms of professional training– and the Danish model –in terms of training grants– offer us enviable examples from which we can learn a lot.