Facing the Crisis in Southern Europe: Demographic, Political and Social Service Dilemmas

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The Roatch Lecture
The Roatch-Haskell Special Event
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Spain? What’s that?
Area: smaller than TX, larger than CA

Source: ifitweremyhome.com using Google Maps
Population 2014: 20 per cent larger than CA

Source: US and Spanish census data
The unexpected migration

Source: INE
GDP 2013: larger than NY, CA 50 per cent larger

Source: OECD
GDP per capita 2013

Spain: 31,812
New York: 66,533
California: 56,768

Source: OECD
Unemployment 2014: much higher than US, but…

Source: OECD & BLS

<table>
<thead>
<tr>
<th>Country</th>
<th>Employment / pop</th>
<th>Unemployment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Spain</td>
<td>56.8</td>
<td>24.6</td>
</tr>
<tr>
<td>Italy</td>
<td>56.4</td>
<td>12.4</td>
</tr>
<tr>
<td>New York</td>
<td>56.9</td>
<td>4.8</td>
</tr>
<tr>
<td>Arizona</td>
<td>55.6</td>
<td>5.8</td>
</tr>
</tbody>
</table>

Source: OECD & BLS
Social protection: are we crazy spenders?

Source: OECD
1. The current crisis in Spain and Southern Europe
Not all crisis are born equal
A serious hiccup...
A serious hiccup…

…or a boom and a bust

A serious hiccup…

…or a boom and a bust
An unemployment-intensive crisis
...that has broken our way of coping with unemployment
People living in households with very low work intensity (population aged 0 to 59 years)

Source: Eurostat
Who's unemployed?

The shrinking role of family

1987

- Main breadwinner: 23%
- Spouse: 14%
- Sons/daughters: 57%

2013

- Main breadwinner: 38%
- Sons/daughters: 30%
- Spouse: 26%
Dumping the cost on the poor
Real income change across percentiles of the income distribution:
Spain 2007-13

Source: B Milanovic from LIS
Severe material deprivation 2007–14

Source: Eurostat
Inadequate social protection?
How effective are cash benefits to reduce poverty?

Below poverty line (60% of median income) 2014

Source: EU-SILC, tables ilc_li01, ilc_li09 & ilc_li10
How effective are cash benefits to reduce poverty?

<table>
<thead>
<tr>
<th>Country</th>
<th>Primary</th>
<th>Primary + pensions</th>
<th>All income</th>
</tr>
</thead>
<tbody>
<tr>
<td>France</td>
<td>31.3</td>
<td>-20.4</td>
<td>-10.7</td>
</tr>
<tr>
<td>Ireland</td>
<td>21.9</td>
<td>-11.7</td>
<td>-8.9</td>
</tr>
<tr>
<td>Spain</td>
<td>24.8</td>
<td>-16.4</td>
<td></td>
</tr>
</tbody>
</table>

Below poverty line (60% of median income) 2014

Source: EU-SILC, tables ilc_li01, ilc_li09 & ilc_li10
Who benefits?

- **Lowest 20%**
- **Highest 20%**

Source: OECD
2. The challenges ahead
An ill-designed Eurozone
An ill-designed Eurozone

A single currency, meaning a single monetary policy

- Interest rates, printing of money decided for all

But

- Very different economies
- No common fiscal or redistribution policy
- De facto limited mobility
The territorial breakdown
Territorial breakdown

Who cares for who’s brother/sister?

• National versus European redistribution

Dynamic regions

• What if you don't have?

• What if they don’t want to?
Is our welfare state the one we need?
From Bismarck to what?

Bismarckian («continental») welfare states

- Social insurance-based
- Maintain income rather than redistribute
- Based on male breadwinners, life-long jobs
- In the South, limited development of social assistance («welfare») and paradoxical familialism
From Bismarck to what?

Very dependent on balance between age groups

- Families are our safety net and care provider
- Little public support
- At the cost of reducing fertility
Towards «social investment»?

Social investment

• Origins in Scandinavian welfare policies
• Putting everybody to work
• Emphasis in child development, education, activation, social care
• Combined with basic security (pensions, health care)
• Virtuous combination of efficiency and equality
Towards «social investment»?

Can we get there?

- Path dependencies: existing entitlements, family roles
- Insiders and outsiders, resistance to changes
- Can we create jobs for everybody?
- Costs of transition
Recalibrating our social system

A trilemma:

• Relatively low taxation + tax avoidance

• Relatively decent coverage for insiders and the middle class

• Improving the situation of the poorest 10-15 per cent
Thank you very much