MAIN ECONOMIC, POLITICAL AND SOCIAL CONSEQUENCES OF THE EUROPEAN CRISIS IN PERIPHERAL COUNTRIES

JEL classification: H69

Abstract
The European crisis has triggered a series of economic, political and social consequences in the European Union, particularly for the euro zone member states and this has generated a public discussion about the pertinence of a single currency. This paper presents some of the social, political and economic consequences. One of the main consequences of the crisis in peripheral countries is higher unemployment. The political reconfiguration at the national-level in some European countries is presented. The pressures on labor markets are high and there is a reconfiguration in the immigration and emigration in Europe.

Keywords: crisis, European Union, migration

1. INTRODUCTION
The economic, political and social consequences of the crises have been present in most member states but particularly in peripheral countries such as Greece, Ireland, Portugal and Spain. An increase in public debts, a boost in the risk premium, high unemployment, political instability and a change in migration patterns are among the challenges that peripheral euro zone member states are facing. The European economic governance has failed to find prompt and adequate solutions in the wake of the economic crises. Diverse instruments and mechanism have been setup to reduce the negative effects and help the countries in need. The economic consequences are widespread and the bailouts have
assisted in stabilizing some financial systems but have failed to thwart the economic downturn.

This paper analyzes the main economic, political and social consequences of the crises in peripheral countries by emphasizing some of the internal and external issues as well as the system failures that were present and released a spillover effect. The governments of these countries and their citizens are suffering the ample consequences of the crises and are, in some cases, frustrated by the slow and inadequate response by international and European institutions.

2. MAIN ECONOMIC CONSEQUENCES OF THE EUROPEAN CRISIS

The European Union (EU) is facing one of the worst economic crises over the past 60 years of history. The current crisis has placed the EU in a vulnerable position to international investors and demonstrated the system failures of an incomplete Monetary Union. The European economic governance has been seriously questioned for its lack of reaction towards recent problems.

The current crisis is the product of two crises: the financial crisis that began in September 2008 with the Lehman Brothers’ bankruptcy in the United States (US) which rapidly spread to the rest of the world, and the sovereign debt crisis that initiated in October 2009 when the former Greek Prime Minister Georgios Papandreou stated that the Greek public deficit was higher than what had been announced months before by the previous prime minister. The 2009-2012 period has been catastrophic for the EU in general, but mainly for the peripheral countries because they have fallen into an economic downturn.

The launch of the euro impacted on the risk associated with each of the countries belonging to the euro area, i.e. there was a convergence in the risk premium among all members of the Economic Monetary Union (EMU). In order to enter the EMU, euro area members have to pass economic tests, in addition to the Stability and Growth Pact (SGP) restricted public deficits, but the different characteristics of the economies of the euro-zone do not correspond to the same risk.

Interest rates on bonds of euro zone governments converged from 1995 to 1999. Since 1999, the risk associated with the bonds of euro zone governments was practically the same. The fact is that although 12 countries share the same currency, their economies do not necessarily have the same conditions. There were economies like Germany and Finland with high competitiveness, which contrasted to others like Greece and Spain with low competitiveness.

In the late 2008, the credit fell and investors observed very closely the public finances of governments. From 2009 the risk premium increased for peripheral countries like Greece, Ireland, Portugal and to a lesser extent, Italy and Spain, but in summer of 2012, the risk premium of the latter countries reached record levels. The European Central Bank (ECB)'s decision to buy an unlimited
debt in the secondary market in September of 2012 has helped to reduce the risk premium of the peripheral countries of the euro zone, so that for the first quarter of 2013, there has been a significant decrease in the risk premium.

The economies of Ireland and Spain have already been bailed out in order to stabilize their financial systems, in the case of Spain specifically its "Cajas", while the bailouts in Greece and Portugal have been implemented to generate solvency, because these economies did not have enough liquidity to cover the payment of short-term bonds. In all four cases the bailouts were implemented after a significant increase in the risk premium.

Before the financial crisis broke, the euro zone economy was growing around 2% per year. However, in 2009 there was a drop of the economic activity of 4% (Figure 1). Figure 1 shows the economic growth in the euro zone and forecasts for 2013. This figure illustrates how after the fall in the economic activity of 2009, there was another with a lesser extent in 2012, the latter as a result of the sovereign debt crisis in peripheral countries. According to the International Monetary Fund, the forecast of economic growth for the euro zone in the coming years will be below 1.5%.

![Figure 1. Economic growth in the euro zone and forecasts from 2013 to 2016](source: International Monetary Fund, World Economic Outlook Database, April 2013)

Some experts have mentioned that economic crisis in the euro zone is a result of high spending in recent years. However, when comparing debt (% GDP) in the euro zone with the US, from 2000 to 2008 the euro zone debt has remained stable (Figure 2). The increase in debt, as a result of the financial crisis in late 2008, has been lower in the euro zone than in the US, so that argument is not entirely valid.
Public debt in the euro area members varies considerably to euro zone average. Figure 3 shows the public debt (% GDP) of some euro zone members. Countries like Greece and Italy have owed public debt with values close to 100% (% GDP), since 2000 while other countries in Figure 3 have had values close to 60% until 2008. With the financial crisis almost all countries increased their public debt, however, countries like Greece, Ireland, Spain and Portugal had sharp increases. The sovereign debt problem is not that the euro zone has overspent, but some peripheral countries recorded increases in public debt.

The US is not exempted of some states spending more than the average. However, the difference from the EU is that there is an adjustment mechanism that serves the states with economic troubles, whereas in the EU there is no such mechanism. The US has a centralized budget that is more than 20% of its economy, while the EU’s budget is 1% (fiscal policy remains at national level). Although the European Stability Mechanism (ESM) was created, it cannot be compared to the adjustment mechanisms that exist in the US.

Source: International Monetary Fund, World Economic Outlook Database, April 2013.
The impact of the sovereign debt crisis has hit European countries differently. On the issue of unemployment is where the greatest differences were noticed in the euro zone, because labor markets in the euro zone have different degrees of flexibility (Bernal-Verdugo, Furceri & Guillaume, 2012). Figure 4 shows that Spain and Greece had high unemployment rates in 2012, with levels close to 25%, while Germany had an unemployment rate very close to 5%. Figure 4 also shows that from 2008 there has been a substantial increase in the unemployment rate in countries like Spain, Greece and Portugal, while in Germany the unemployment rate decreased.

Source: International Monetary Fund, World Economic Outlook Database, April 2013.
Table 1 shows the current and projected unemployment rates in 2013 and 2014. The euro area will have an increase in the unemployment rate in 2014, but other countries will have a reduction from -0.87 (United States) to -0.04 (Japan). Therefore, in 2014 the unemployment will remain a great issue across Europe.

The underlying problem in the euro zone is the competitive gap among member states. Figure 5 shows that Unit Labor Costs (ULC) vary significantly in the euro area because while in Germany the ULC have been decreasing considerably in the last decade hence becoming one of the most competitive countries, in Spain, Greece, Ireland and Italy their ULC have increased in the last decade. Since 2009, most countries in Figure 5 show a significant reduction of
ULC. The difference in the competitiveness of euro area countries is significant, and it is one of the variables that explain the vulnerability in that area.

Although members of the euro zone share the same currency, the economic and financial results are different, so that the financial problem of a small country affects the entire euro zone, while in the US, financial problems or competitiveness gap in the states has no effect on the whole country because there is an adjustment mechanism on a centralized budget, which is much greater than in the EU.

![Figure 5. Unit Labor Costs (nominal) of some euro area countries](source: AMECO Database, European Commission)

The response of the European institutions has varied over time and has been differentiated. On the one hand, the ECB implemented programs to provide liquidity and to reduce the interest rate from the beginning of the financial crisis. When the sovereign debt crisis began, the ECB bought government bonds to reduce risk premium, whereas in September of 2012 the president of the ECB

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bought the debt without limit, reducing the risk premium. On the other hand, the institutional response to stop public debt was the Treaty on Stability, Coordination and Governance, which further restricts the range of public deficit of the euro zone countries.

Since 2010, the Troika (the ECB, the European Commission and the International Monetary Fund (IMF) insisted in implementing austerity policies to the bailed out countries, however there was a change of discourse where austerity measures were requested for longer periods and with flexibility. The serious economic problems of Spain and Greece have caused a relaxation of the Troika in the pursuit of austerity.

3. POLITICAL CONSEQUENCES OF THE EUROPEAN CRISIS

The citizens of the EU have suffered the consequences generated from the global financial crisis (US), the banking crisis (Ireland), and the sovereign debt crisis (Greece), among others. The economic and political decisions taken by government officials have had important repercussions in the quality of their lifestyle. Citizens and politicians protested against the austerity measures and as consequence, in some countries, their heads of state or government had to resign.

The economic crisis has unleashed many debates in the academic world but few have discussed about the political consequences at the internal and international level. In particular, we briefly analyze in this section what happened in Portugal, Ireland, Greece, Italy and Romania to highlight the impact on the internal policy of the aforementioned events.

Since the beginning of the crisis the Portuguese government had stated that they would not resort to a EU bailout. In March 2010, the Portuguese Parliament approved the first SGP that included a reduction in social spending, an increase in taxes for the wealthy and privatization of public companies, among others. Two months later, the Prime Minister of Portugal, Jose Socrates, was able to overcome a censure motion presented by the Marxist left politicians for his crisis measures. In March 11th, 2011, he presented his 4th austerity plan that was rejected by the opposition and provoked the resignation of his government.

While still in function, in April 2011, Jose Socrates requested the activation of a EU bailout, and formally began to negotiate with the IMF and the EU. On May the 3rd, the Portuguese Prime Minister announced that the IMF-EU bailout rose up to €78 billion for three years. Nevertheless, the political tensions generated by the crisis became an insuperable obstacle for Socrates’ government. The Portuguese crisis broke off the day before the approval of the new Financial Stability Mechanisms in the euro zone.

In 2008, the fiscal banking crisis affected Ireland. Brian Cowen’s management as first Prime Minister of the Irish Republic coincided with the financial and banking crisis of his country. The government tried by all means to avoid asking for external aid. The euro zone members offered financial aid,
however Cowen wanted to avoid a reform package with his creditors, which was a requisite associated to the bailout mechanism approved by the EU. Cowen had to abandon his first position due to the fear of the aid-associated demands. On November 22nd, 2010, the by then Prime Minister of Ireland announced that the government had to increase taxes and lower expense to admissible levels. Ireland had to be bailed out on November 2010 for 85 billion euros by the IMF and the EU in order to underpin its banking sector. After accepting the IMF-EU bailout, the Irish government sank, leaving the Prime Minister’s position unsustainable. According to a poll in Ireland, the bailout reached historical minimums with only 8% of satisfaction to the government’s performance. To the Irish people, a bailout means national humiliation, betrayal and to surrender their autonomy to the European Commission, the ECB and the IMF. Hence, Cowen turned in his resignation and called snap elections.

In April 2010, the then Prime Minister of Greece, Georgios Papandreou, heir to a political dynasty, sought support from his European partners to reduce an inherited debt. During the crisis, Brussels fiercely pushed the Greek government to approve the bailout deal. The Greek people, outraged by cuts and austerity measures, protested in the streets and organized general strikes. The first bailout was not enough so a second bailout was necessary.

In this precise context, Papandreou expressed his intention to hold a referendum on the European bailout plan and the membership of Greece in the Eurozone. The Greek Prime Minister was confident that the vote would confirm Greece as a member of the EU.

The internal and external reaction was immediate to Papandreou’s announcement; it generated a market panic as well as anger from its European partners. Particularly, Germany and France pushed the Greek Prime Minister to return to the original plans of the bailout. Finally, Georgios Papandreou backed off to the international pressure. This failure and abandonment of his initiative forced him to resign to reach an agreement to form a new unity government in Greece.

In 2011, the Italian economy had been growing at 0.3% and public debt rose above 120% of GDP. In November 2011, the then Prime Minister of Italy, Silvio Berlusconi, immersed in lawsuits for fraud and sex scandals resigned as Prime Minister of Italy after the EU and the markets forced him to resign in order to support the Italian crisis in return. Indeed, the European crisis had achieved what the Italian liberal parties had failed to accomplish: to end the reign of Berlusconi on the Italian political scene.

Having lost the parliamentary majority, Berlusconi announced he would resign his position after the budgets with the adjustments required by Brussels for 2012 were approved. No doubt the strong action of the president of Italy, Giorgio Napolitano, had achieved what seemed impossible to many: to speed up

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1 [http://www.thejournal.ie/cowen-insists-i-will-lead-ff-into-next-election-2010-12/](http://www.thejournal.ie/cowen-insists-i-will-lead-ff-into-next-election-2010-12/)

Berlusconi’s exit of power. Until the end, after 17 years in Italian politics, Berlusconi kept the tension in a country where the economic and political times are difficult.

The crisis strongly affected Romania, which requested a loan of 20 billion euros to the ECB, IMF and EU. The adjustment measures applied by the Romanian Prime Minister, Emil Boc, included: to reduce by a quarter the salaries of civil servants and to raise VAT, among others. These measures were well received by the EU and the IMF, but strongly rejected by the Romanians. Consequently, Emil Boc resigned to the mass protests that rejected the austerity measures backed by the International Monetary Fund.

The internal and external pressures have created tensions in the political level, mainly in European governments and some of them have not resisted the attack. The situation is critical and the forced departure of governments has failed to reduce the effects of the European crisis. In some cases, it has had the opposite effect than the expected and has worsened the political crisis. Undoubtedly, the European crisis has shown the fragility of the system and has claimed victims in its wake, overthrowing governments.

With the looming threat of contagion and the uncertainty of the euro, European leaders decided to bailout the indebted countries like Greece. Countries like Germany initially disagreed with other Eurozone members with regard to the collective rescue of Greece. Germany’s position was simple: to exclude from the Eurozone those countries, which did not respect the rules and threaten the euro. However, the European Commission along with countries such as France pressured the German Chancellor to reach an agreement. Later, France and Germany agreed a plan to bailout Greece with the IMF and the Eurozone countries.

The crisis revealed shortcomings in the functioning of the Eurozone: the level of political and economic integration to support the euro is insufficient; there is lack of cooperation among the members of the euro zone; a tool to appropriately manage any crises was non-existent; there was a lack of control and supervision of the European Commission on the Public Accounts member countries.

At the European Council in 2011, the 17 members of the Eurozone, along with the countries, which aspired to join the EU, agreed to sign a new treaty that would put strict limits on spending and government borrowing with penalties for those governments that violated the limits. The other members of the EU were prepared to join the treaty, subject to parliamentary vote, except for the UK.

The Euro group’s role as coordinator and European economic governance body has become more important since the European crisis broke off. The Troika has imposed austerity measures to the bailed out governments; its mission is to monitor the fulfillment of the program according to its commitments. Both actors play an important role in decision-making bodies,

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3 Meeting of the finance ministers of the EU: The ECB President, Economic and Monetary Affairs Commissioner and the Chairman of the Eurogroup Working Group.
control and monitoring of the agreements reached at the respective bailouts environment requested by the European governments.

In the European political scene, substantial changes can be observed before and after the European crisis. The European political reconfiguration is partly explained by the changes that arose as a result of internal and external political pressures. Some governments were overthrown by strikes and protests, others lost the support of their coalition governments, and some succumbed to external political pressures.

4. CRISIS, UNEMPLOYMENT AND IMMIGRANT WORKERS

International migration is a global phenomenon that is growing in complexity, effect, and scope, and Europe is no exception. Most economies in the world are simultaneously countries of origin, transit and destination, for thousands of international migrants. Traditional immigration patterns are fuelled by changing demographic, economic, political and social conditions (Ratha, Mohapatra and Silwai, 2010). These patterns affect the size and structure of immigrant population as well as societies, markets and economies in countries of origin and destination. And Europe has been a key part of these dynamics.

The global financial crisis at the end of 2008 severely disrupted economic growth and caused significant setbacks affecting migration patterns worldwide. According to the International Labor Organization (Awad, 2009), the current crisis will cost 20 million jobs worldwide, forcing individual migrants to go back home and discouraging those potential migrants. Under this panorama, labor markers are observing an increasingly job competition between natives and migrants.

The current context observes a world economy slowly recovering, fostered mainly by developing and emerging economies performance (Martin, 2009). Most developed countries are still struggling and there is not a specific date for a complete recovery. This slowdown has had many different effects. In the case of Europe, most economies shift to a fiscal austerity scenario to reduce expenses and future debt commitments.

This context has created a new “jobless scenario” with economic and social pressures around. OECD (2009) considered that it would take another five years before employment and labor demand are back to pre-slowdown levels. Martin (2009) considered that large developing and emerging economies would be leading the world post-crisis recovery. Asia and Latin American are key regions for this future scenario.

Southern European countries are among the areas highly affected by the crises. At the end of 2010, the native population began to struggle with unemployment and the impossibility to cover the monthly mortgages payments, increasing the risk of losing their homes. This new scenario increases pressure over the local economies, reducing the prospect for growth and development. Unemployment became a threat to the economy and social stability. Immigrant
populations in Europe have been suffering rising unemployment levels, doubling the impact observed on native population (Ratha, Mohapatra and Silwai, 2010).

Immigration flows to Europe have noticeably slowed in the last year, raising essential questions about the effect the current global economic crisis is having on inflows and return migration (Pajares, 2009). These questions appear particularly overwhelming because there has been no comparable recession in recent decades. The economic crisis has had an impact on both immigration and emigration flows in Europe (Awad, 2009). Immigration levels have slowed while emigration has increased in some EU countries. During the global economic downturn emigration levels of non-European residents increased in some EU countries, still unclear how many have returned to their home country or migrated to other destinations within or outside Europe.

At the beginning of 2000, about 20 million persons were unemployed in the EU-27, around 9% of the total labor force. By 2012 the unemployment rate for the Euro area-17 reached 11.8%. One of the most affected labor markets in Europe is Spain, by 2009 more than 4 million people were unemployed; representing 18% of the active population, and the unemployment rate for natives was nearly 16% and 28% for foreigners (Urso and Schuster, 2013). The prospective is that the unemployment rate could be higher without increasing emigration. In 2012 more than 280,000 Spaniards moved out of their home communities looking for jobs. The difference between the unemployment rates for foreigners and natives had been increasing, with the rate for foreigners almost doubling compared to that for natives (Kahanec, Zaiceva, & Zimmermann, 2009).

The impact of a high unemployment rate has been affecting the Spanish economy. In the beginning of 2010, more than 1 million households (1,220,000 households) have all of their active members on unemployment rolls. For some immigrant individuals, labor mobility became a constant, moving from industry to another in order to survive with the economic crisis.

Pajares (2009) considered that unemployment and the economic crisis have significantly deteriorated the living conditions of many foreign residents due to the higher rates of irregularity and employment in the informal economy, which has limited their ability to access unemployment benefits. The crisis has made it more difficult for immigrant labor to renew their work permits and to meet rent or mortgage payments in shared homes. The living conditions of immigrant communities are expected to get worse when more foreign workers run out of unemployment benefits. The economic crisis is affecting the Spanish demographic scenario, causing the flows to shift again. According to data from INE, more individuals are leaving Spain than moving to it. Net migration in 2011 was reported at negative 50,090 people, with 507,740 leaving Spain and 457,650 arriving.

Under this financial crisis, Spain appeared to be entering in a new phase of international migratory patterns. Spain is once again becoming a sending country, and to some degree, Latin America is playing a key role in this new
scenario (Urso and Schuster, 2013). According to INE, more than 15,000 Spanish individuals had left their country to establish residence in Latin America in 2011.

Latin America offers a stronger economy for Spanish immigrants, most of them with relatively high levels of education and professional qualifications. Approximately 57% of the Spanish population overseas (1 million individuals) chose Latin America as their primary destination. Argentina, Venezuela and Brazil accounted for more than 300,000 Spaniards. The additional incentives include: a common language, historical and cultural ties, and the continued presence of family and friends who emigrated in past generations and stayed as permanent residents. Latin America has historically played an important role in Spain’s migratory cycles—both as a sender and as a recipient.

Germany is also experiencing new immigration flows from Spain. Highly qualified immigrants from Southern Europe had been arriving to the country in the search of new opportunities. Most of the Spanish immigrants arriving to Germany are young, well educated and multilingual. They recognized the negative economic and labor prospects at their homeland and decided to move abroad (Urso and Schuster, 2013). These new migrant patterns observe similarities to those conformed half-century ago. In the 1960s, guest workers from Southern Europe, and particularly Spain, were the first large immigrant group to move to West Germany looking for better job opportunities. Now a new generation of labor migrants is arriving to Germany, due to a lack of job positions and opportunities that their native land cannot provide.

Migration from Spain has specific characteristics; high skilled individuals are entering the German labor market to work in university laboratories, research centers and high-tech companies (OECD, 2009). Instead of applying to jobs others are not willing to do, they are moving into spaces where human capital is needed. Immigrants who came to Germany in the past were significantly less qualified than those who chose other countries as their new homes.

In the context of the crisis, the demand from the Spanish labor market is for fewer and more specialized workers. Maybe the major challenge in arriving at an assessment of the impact of the economic crisis on international migration is the lack of dependable and timely data. Many data remains unknown, but preliminary data is already emerging from national and international organizations that allow some tentative considerations to be made.

5. CONCLUSIONS

The global financial crisis led to a credit crunch globally, although in developed countries it was deeper. Despite having started in the housing sector in the US, in 2009 most developed countries had a sharp drop in production. And Europe was no exception, with several variations, but all of the countries in the EU registered an economic contraction.

The launch of the euro led to a convergence in the risk associated with the bonds of the euro zone governments. The global financial crisis led to an
premium, mainly in peripheral European countries. In 2010, a sovereign
debt crisis began in the euro zone and some countries were bailed out, like
Portugal, Ireland, Spain, Greece and recently Cyprus. This crisis was not
anticipated by the European institutions so they created new tools that would
help the economic governance of the euro zone, most notably: the Treaty on
Stability, Coordination and Governance, the ESM, the establishment of the
Troika and a new temporal function *de facto* of the ECB (the unlimited
purchase of government debt in the secondary market.)

The crisis increased sovereign debt of countries like Greece, Portugal,
Spain, Ireland, and Cyprus, causing such countries to request bailouts.
The bailouts came conditioned to austerity policies of public spending cuts and
tax increases, which would cause even steeper drop in economic
activity. The economic consequence of the financial crisis was that the
unemployment rate in countries such as Spain (27.17%) and Greece (24.5%)
increased to historic levels, which has led to social discontent.

The financial crisis caused a poor economic performance in the
EU Member States, which led to alternation of political parties in governments
where elections were held, as in the case of France and the UK, among
others. Also in some cases, the economic impact of the crisis led to call
snap elections, as in Spain and Greece, while in Italy, with a high risk
premium, the former Italian Prime Minister Silvio Berlusconi was forced to
resign to give way to a technical government headed by Mario Monti.

The financial crisis has had two main consequences on migration.
The first is that migration to peripheral European countries began to decline
and has even taken place the phenomenon of return, due to the high loss of
jobs in countries like Spain, Greece, Portugal, Ireland and Italy. The
second consequence is that internal migration has increased in the EU, because
it has increased the movement of people from European peripheral countries to
Germany.

The financial crisis in Europe has lasted for more than four years,
unemployment has increased mainly in the peripheral countries, there was an
alternation of political parties in government and increased internal
migration within Europe. Finally, the financial crisis has led to an unfinished
institutional change in the EU, which has been the result of different
preferences on economic austerity. The Franco-German axis has been
reconfigured, because some fissures have been generated as a result of the
preference of Germany for austerity policies.
REFERENCES


