Financial crisis and social aspects

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Summary

The widespread financial crisis by deregulation around the world has produced important effects on social conditions. Both pension funds and human development are being changed and had impacts on income distribution.

Crisis, Part 2: deficits and debt

Since August 2007 the world economy into crisis, and still no clear signs that the worst is past, rather they are persistent signs that the situation may become acute from one moment to another, although each region and submit its national economy peculiarities. However, when you are all intimately interrelated and largely governed by the process called financialization, the potential danger that looms over any of them, you can drag to any other and the global economy as a whole. Experience that has lived on the recent speculation in the European United (EU) in early May.

While it is true that in the economic field where the crisis has erupted is the financial sector, who has also been the designer and detonator, in turn, has been the most, and perhaps only, benefited from the same crisis, and even been an obstacle to get past this crisis (Cabrera 2010), putting in difficult conditions on the real economy sector. Companies in this part of the economy invested large volumes of resources in the financial sector, resources that have served to promote further speculation and strengthening of the crisis, now that demand for fresh and liquid resources to introduce them to the real economy the only response received credit astringency. In almost all areas of the real economy have suffered the ill effects of the hegemony of the financial system of large corporations. Product in the same financial system has allocated nearly all its resources to the sector itself, to increase speculation.

This has resulted in investment in the real economy continues a trend of global slowdown (OECD, 2008). A slowdown in investment that adds another feature that is not beneficial to the economy or regional or global, is that its development has been uneven. On this point we must draw attention to what is important so-called emerging countries, from which form the BRIC (Brazil, Russia, India and China) or some of Latin America (LA) have maintained a permanent attraction of investments. Part of the explanation of this fact has been the increase in prices of commodities, on the other hand, are goods which have also been subject to speculative process (R. Wray 2009), as part of the investments of financial capital introduced in this economic space, raising expectations of quick profits and the cost of speculation, to which is added the settled policy of the governments of several countries in LA to maintain high profits in the financial sector with the objective of obtaining foreign exchange in sufficient magnitude. This fact has been complemented with the process, so-called developed countries have continued contractionary trend in terms of investment. That while initially explained by the process of relocation of production, led to the paradises of low-wage countries and cheap raw materials, now in the midst of the crisis has resulted from the reduction in earnings expectations in form and adequate volume, despite some efforts are not well targeted by governments.

Another aspect is also important to note is that spending on the salvage they have done most of the world's governments in their attempt to salvage the financial system, not only appear to have been exhausted, but also has had only favorable effects on the financial system. What has led to increasing fragility of the possibilities for governments to adopt counter-measures that can generate incentives for investment. No doubt these "aids" have represented stratospheric quantities, such as that conducted in the first week of May, and that Europe has meant to dedicate "a ransom of 750,000 million and a string of purchases of government bonds" . What would neutralize the crisis but appears to be only a short-term palliative.

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Among the constraints to investment is important to take into account the deficits of all countries but in particular, deficits reaching as the U.S., the most indebted country on the planet-and a growing trend, which has reached 13 billion (million million) dollars. Another element that generates highly unstable and prone to speculation is the size of derivatives, which could amount to one trillion (16 times world GDP). In the case of the U.S. deficit, but had remained at an average rate of 150% relative to GDP, measured in 2005 dollars, but has come to have in 2009 a ratio of 385.3%. While analysts put this debt on more than 400%. Faced with strongly negative context, adds, as if all this were not enough, the decline in global trade could touch 12%.

While one could say that the case of Greece seems insignificant in terms of volume, no doubt he was attacked by the powerful mechanism by speculative reason that it is the weakest element, although there are undoubtedly other countries for the same reason may be targeted. The credit line was approved rescue in May at 110.000 million euros (80,000 by EU governments and 30,000 by the IMF), apparently have only served to mitigate the greed of the financial system, but not to control it. But beyond that have restricted purposes, the loan comes with a series of adjustment programs to generate adverse growing conditions and to leave behind the crisis. Programs such as the VAT increase, in the case of Greece, which has gone from 19, 21 and now 23%, with 10% sustained increase in fuel taxes, alcohol and snuff, to increase the legal age for retirement women 60-65 years by 2013 and for men, depending largely on life expectancy calculated. They are all measures that are trying to introduce in Europe, but instead of benefit, possibly harm.

Other countries besides Greece has a deficit of almost 14% with a debt of about 115% of GDP, also show some conditions to fall prey to the voracity speculative, since they have a proportion of fiscal deficit and public debt to GDP in the following order, for example, Portugal (9.4% and 77%), Italy (5.3% and 116%), Ireland (14.3% and 64%) and Spain (11.2% and 53.2%) (El Financiero, 2010). But with all the critical situation of these countries that is in itself, is largely due as much to global financial crisis, as the greedy attitude of financial speculation. (Eurostat 2010 e).

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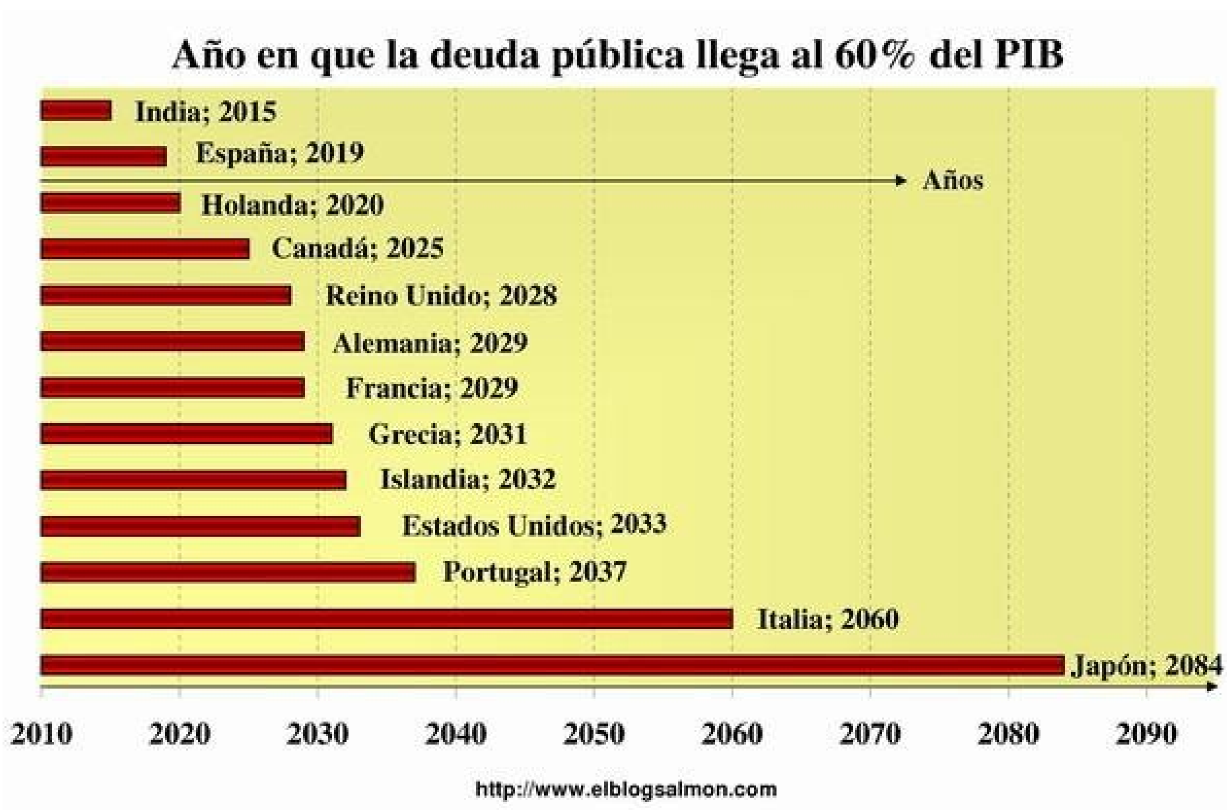
Source: Eurostat

Another success stories is the total debt of U.S. that while he had remained at an average rate of 150% in relation to GDP in 2005 dollars, has been a change in trend from 1982 to reach have in 2009 a ratio of 385.3%. However, these are estimates based on data from the Federal Reserve (Fed) and the Department of the Treasury, and other scholars will appreciate a debt beyond 400%. Its debt to March 2010, including health and retirement systems for state employees reached a funding gap can be between $ 1 trillion (bdd) and 3 bdd. While the deficit by March 2010 amounted to 82, $ 690 million (million dollars) in April, nearly four times the deficit to the same month of 2009, which was 20.910 million dollars as stated by the Department of the Treasury (www.americaeconomia.com).

In this context is that you must put the rescue undertaken by the U.S. government in the segment of the crisis, far more dramatic, between 2008 and 2009, which amounted to 800,000 million euros (mde), avoiding bankruptcy of its financial system. Almost all major banks and financial and insurance companies (Goldman Sachs, Citigroup, Bank of America, Merrill Lynch, AIG, Bearn Stearns, Fannie Mae, Freddie Mac, among others) are allocated resources such enormous magnitude. Some banks in European Union countries, such as (Deutsche Bank, BNP, Fortis, ING, Commerzbank, Royal Bank of Scotland and a long list), have also received benefits from EU governments.

The important contributions of European governments to rescue financial institutions have put these countries in a position of vulnerability, not the debt itself, but for now living in the world economy and especially the speculative mechanism which has been dragged debt. In this sense the general concern is understandable, since apparently the sovereign crisis in Europe has only just begun. Their central banks insist that the suspension of payments of Greece is impossible, because this crisis would drag the entire euro zone, not only to weaker countries. All this is combined to that in several aspects of society in several countries, if not all, will be generating adverse living conditions of society.

All these circumstances being experienced by governments creates conditions in the sense that now such governments "have to persuade their voters skeptical of the need for a more flexible labor market, social rights and cuts in public services ... How do going to get?, If these reforms are considered the culprits of rising inequality and to allow unjustified enrichment? " as noted Simon Tilford (Tilford, 2010). No doubt the austerity plans to come in the more targeted will occur a fall in demand will affect the world economy from Germany to U.S. via China and others. As it is evident that these high-powered dynamic countries in the immediate future could be in a more rapid deceleration.

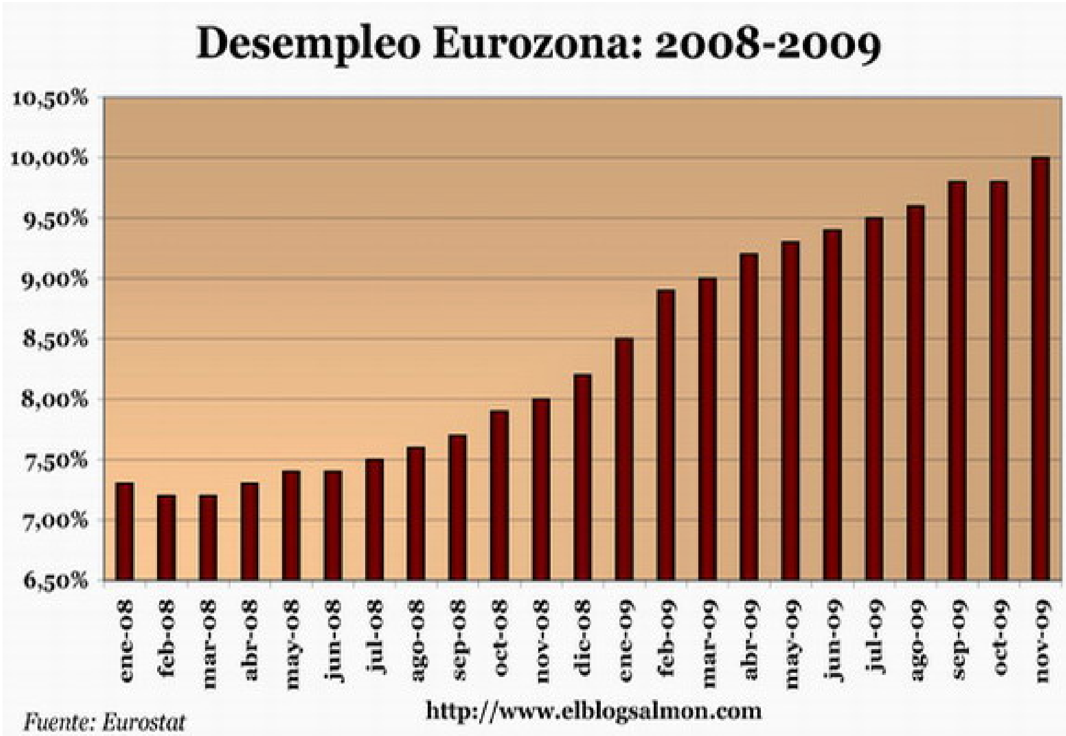


A first approach conclusive in the present conditions is that the different aid obtained by the different corporations that hegemonizing the international financial system have had negative effects not only by government borrowing, and of course, by the volatility that has undergone its debt by speculation, but also because they are having highly detrimental effects on the progress of the real economy, such as the doubling of unemployment, the deterioration in the volume and quality of employment and wage volume, which will place its mark on income distribution and poverty.

Unemployment

One of the most perverse effects and dynamic it has imposed the system on the fly financiarized real economy has been unemployment. This mecanism has had a strong impact both its volume and its permanence, and the impossibility of creating new jobs. But what is most dangerous is that unemployment is still at extended far more difficult and recovery, while evidence of the hegemony of financial capital that continues to deepen.

Unemployment has reached harmful levels, because, as stated recently by the International Labour Organization (ILO), unemployment has surpassed the 212 million people worldwide, while the number of poor has risen to over 100 million wake of the crisis. It is a fact that the situation by passing the real economy has imposed a sharp cut in personnel in all work areas. Although one of the most worrying aspects is that unemployment has accelerated economic zones generally had worked as a catalyst for the global economy.



By mid-2009, one of the most difficult moments he has experienced the crisis in the process, the level of unemployment in both the EU and U.S. reached a similar unemployment rate, reached 9.5%. Level to more than 25 years since they suffered in the U.S., and almost 10 years, the so-called euro zone. Also in Europe at that time, countries with higher unemployment were Spain (18.7%), Latvia (16.3%), Estonia (15.6%) and Lithuania (14.3%). These three Baltic countries have experienced the most violent increase in unemployment in the last twelve months. Estonia went from 3.9% to 15.6%, Latvia 6.1% and Lithuania 16.3 4.7% to 14.3%. But at that time was the argument that the crisis had bottomed out, so the unemployment rate would stabilize. However, these hopeful news was based on the good progress that began showing financial markets, a fact which was translated into further deepening of the recession in the real economy. But despite the smooth operation of financial markets, or perhaps because of its smooth operation, unemployment continued to gain ground and negative impact to date. However, there are two areas that retain some feedback. Apparently the recent financial relapse in the 3rd week of May 2010, has also been partly negative effect on the progress of U.S. labor market, which is undoubtedly one of its varied and contradictory causes.

At the end of the 1st quarter of 2010, unemployment in 16 nations in the euro zone had already reached 10%, in contrast to 9.9% of beginning of the quarter. Thereby becoming the highest rate since August 1998. While the group of 27 member countries of the EU, the unemployment rate in the 1st quarter came to 9.6%. Although there are dramatic examples of the unemployment rate, like that of Spain which has already exceeded 20%, while in Ireland reached 15.1% and Germany 11.8%. This is a highly complicated situation that is an expression of the weak and uncertain economic recovery is at a fairly low position.

In the specific case of U.S., since the beginning of the crisis have destroyed about 7 million jobs, and the total exceeds 14 million unemployed people. And at the same time has been dormant the possibility of creating new jobs. While it is true that this is the result of the permanence of the hegemony of finance capital, apparently also presents the feedback process back on impact rework labor market on the progress of financial market.

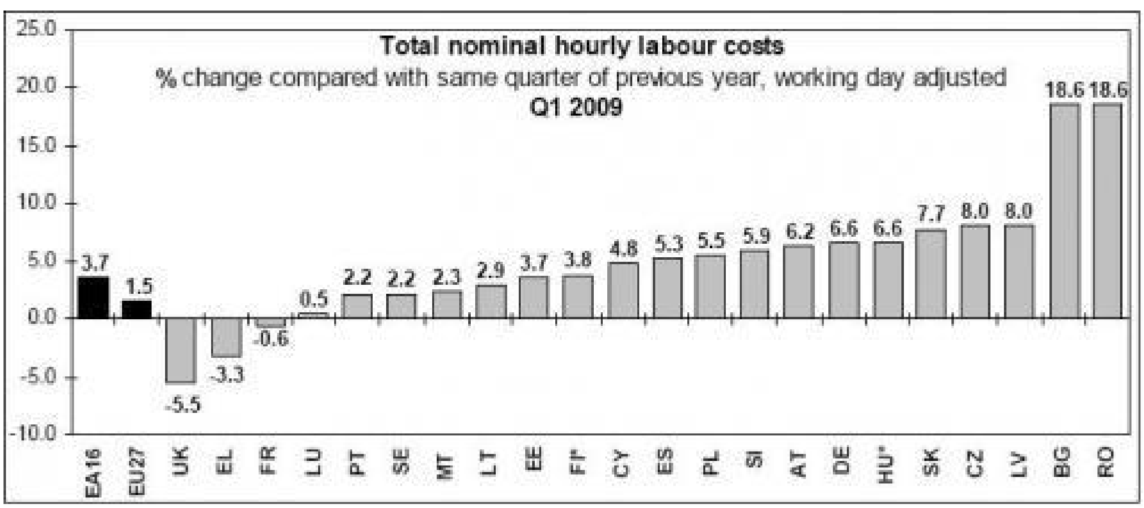
Regarding the employment status of women can be seen that while the unemployment level has not been explored more than men, largely is because the absorption rate of female labor force was still low (Eurostat 2010). On the other hand, the condition of men's work while it is high unemployment level, has done better work absorption (Eurostat 2010 a).

While the impact of unemployment has been felt especially in the real economy, agriculture, industry and services, the various governments are now imposing significant cuts, which will undoubtedly create massive layoffs, and which eventually produce deterioration of public services. Not only in the case of countries like Greece, Portugal or Spain, but this has touched both England, Germany and U.S. For example Great Britain intends to reduce its deficit, which now accounts for about 11% to GDP, with an adjustment of about 9000 million dollars. And it is in their plans to reduce public employees could reach 300,000 in the coming years (Sunday Times). In this context Germany seeks an adjustment of about 13 billion dollars and Italy one of about 29 billion dollars. Malicious programs that expand the level of unemployment and thus become more uncertain the outcome of the crisis, but if you say worsen the living conditions of large sections of their societies and others.

Low salaries, wages and casual labor control

The context imposed by the hegemony of financial capital is manifested in the deterioration of the real economy and hits one of the hubs, such as the labor market, particularly in the level of unemployment. But other implications are presented that deepen the disadvantages in various aspects of any job market, and of course, impose a deterioration in the conditions of reproduction of the labor force, skilled and unskilled, migrant or local, etc.. The situation is being generated will reduce the overall active workforce, which will undoubtedly encourage the conditions for stronger job insecurity, an effect which affect mostly the work better qualified and more durable, but also adversely affect the general working.

The measures both in Spain and Greece, as well as in Britain and Germany, such as wage cuts and control by their governments, will mean cuts in wages, poorer working conditions and unemployment, which not only allows but encourages impose low wages in the private sector. But it also creates conditions for temporary work to input. Situation appreciably affect the living conditions of society in both Europe and U.S.. For example, 40% of Spanish workers appear as temporary versus the European average of 15.3%, which are called temporary but not necessarily mean that the street will end soon, but this opens the door to job insecurity. And if it reaches that size today, the context suggests that tend to expand.



Adverse working conditions

This complex situation will login to a series of arguments to add, expand and institutionalize mechanisms to promote labor flexibility, informality and precariousness. Especially because that has been raised as a central argument, namely that rising labor costs, expression of the context of shrinking demand which has increased costs, but this has not been the responsibility of workers.

The horizon of labor flexibility is creating the conditions for job insecurity, and finally a negative dynamic between them. Where unemployment play an important role in this process of feedback.

Growth of the informal or underground economy

In the context of unemployment and its various effects it has, labor flexibility and thus taking wages are highly relevant aspects. For example, the survey conducted by the Equal Opportunity Commission of Great Britain, warns that "after interviewing 8,000 European companies, the British are behind the European average. With only 48% of UK companies respond that they have introduced flexible working compared with an average of 90% in continental Europe. "No doubt the figure of half surprises British, but even more surprising is the average continental Europe in that category to the point of hesitation. However, the current context could raise any amount. The survey indicated the following countries are presented, and their level of use of flexible work: "Sweden, 94% Finland, 92%, Germany 90% UK, 48%."

Pensions

This series of negatives that have been identified, which have accelerated and deepened by the form of crisis management, both for its attack on working conditions, for the bad strategy pursued by governments in financial rescue are having a frontal impact to pensions. For example, in the case of

Spain the Council of Ministers has already raised the proposal to extend the retirement age to 67 years, in addition to other reforms in the pension system of widowhood, and the formation of a package of measures to group the contributory and non contributory pension, with the clear intentions of lowering the level of support and increase the number of weekly payments.

While it is true that during the period before the crisis were to improve various aspects of social security, the ongoing crisis and the strategies are on the way to impoverish pensioners, which although not yet deteriorated, unemployment The failure to create new jobs, flexible and precarious work, informality, as the contraction of government spending, have the effect of generating new and deeper damage, which are expressed in the narrowing of the scope and coverage social security. The lower government spending, will be reduced pension, extension of time for retirement: (Eurostat: 2010 c).

Welfare state in the process of contraction

The results in the short, medium and long-term crisis and its multiple effects on diverse aspects that make the living conditions of society tend to speak in the deterioration of social welfare. The construction of this facility had a long history of advances and setbacks. However, what is seen today from the past, is that the volume of wealth has not only grown significantly but also has concentrated heavily in the financial sector with its negative aspects in the real economy, and precisely because Therefore, it offers over the medium and long term deterioration of living conditions of society as a whole.

But at the same time is generating a process of greater inequality in income distribution. As noted Tilford in the English case "in Britain's top 100 executives of British companies earn 84 times more than full-time workers, while in 2000 there were only 47 times. The same applies to the United States, and perhaps in Spain "(Tilford 2010). Or in the French case on noted that "Les très hauts revenus: des différences de plus en plus marquées entre 2004 et 2007 (Le monde, 2010). But are not the only country in Europe has become more enequitativa the distribution of income and wealth, but in current conditions is accelerated (Eurostat 2010 d).

This process of creating and concentration of wealth in few hands first, and secondly, the enlargement of the deterioration of large social sectors of all societies, is increasingly necessary that the variables and mechanisms for measuring the human development so far used to give way to others to better expose the inequitable distribution of income. While the best measurement itself is not a solution, at least it will create an indicator that showed the actual conditions. This task of making the situation more realistic income distribution is a project of economists and Amartya Sen and Joseph Stiglitz, who have formed an international commission charged by the French government to find better mechanisms to measure economic performance terms of development and social progress "beyond GDP fetishism."

So follow the current conditions any costs targeted by governments to encourage you to reduce the effects of the crisis, apparently a failure. Since structurally adverse conditions continue, but comprehensive undertaking a rush to regulate the financial system while implementing a comprehensive economic and social strategy by governments.

Today the strategy of greater fiscal discipline, as recently as just outlined J. Stiglitz, would be a more mistaken. If in the previous cycle of the current crisis governments were wrong, giving all the money into the financial system, now apparently about to make another mistake. Since as noted by J. Stiglitz, "L'austérité mène au désastre" (2010). Guidance means in the current context, which would adversely affect the entire world economy, aggravating unemployment, deepening depression and make it more difficult recovery.

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