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Social Aspects of the Economic Crisis – Threats to and Opportunities for the European Union and for the Republic of Macedonia

Abstract

The global economy is in the throes of the strongest recession in history. This process is having direct negative impacts on the economic and social aspects of living standards. The EU and its candidate countries have their current policies oriented towards social security and the social protection of their citizens.

This paper analyzes several questions: How are the EU countries facing the threats of the crisis? Are there possibilities for protecting the people affected with social risks? How is social policy in the EU prepared for such threats? What could help policies of social cohesion and which aspects of social development and opportunity exist for the people? How realistic are they? Should social policies in such periods be oriented to maintain the stability of the societies?

Examining the social environment in small countries such as the Republic of Macedonia, how could they be organized towards realization of social policy during negative developmental periods? Are there some opportunities for better outcomes in small countries, or will they face the same threats, risks and consequences?

Additional factors are analyzed concerning the expectations of the people and the possibilities for entrepreneurs and businessman to discover and to use their chances. Even in periods of crisis, there are some opportunities that should be highlighted and presented as market chances. Identifying them, examining how they are linked, and discussing how to offer innovation and to realize these market chances during times of economic crisis are the main focal points of this paper.

Keywords: *economic crisis, social aspects, threats and opportunities, expectations.*

Introduction

Economy in the world is predominantly in the phases of the strongest recession compared with few decades ago. This process has direct negative impact on the economic and social aspects of the life of the people. EU and the candidate countries have their current policies for social security and social protection of the citizens. How EU countries are facing with the treats of the crises, are there possibilities for protecting the people affected with social risks? How social policy of EU is prepared for such treats? What could be the help of the policy of social cohesion and which aspects of social development and opportunities exists for the people? How realistic they are? Does in such periods the social policies should be oriented to maintain the stability of the societies? All these questions need answers.

Compare on the social situation in the small countries like the Republic of Macedonia the interest is how they could be organized for realization of the social policy in the negative developmental periods? Are there some opportunities for better effects for small countries or they will have the same threats, risks and consequences?

Also additional aspects should be analyzed about the expectations of the people and possibilities for entrepreneurs and businessman to discover and to use their chances. Even in the period of crises there are some opportunities that should be highlighted, and to be presented as a market chances. Which are they, how are linked and how to offer some innovation and to realize the chances in the market failure are the main interests of every country faced with economic crisis which continued in social crisis.

Social aspects of economic crisis in the world

The beginning of the crisis was predominantly financial. The biggest banks in US start with some problems of the risky loans and mortgages. These problems were very easily spread all around the world not only in the banking and insurance but also in the real economic sectors. The continuation of the crisis is going on with possibilities to produce social problems that could not been controlled.

The world economic recovery is not something like quick steps in dancing. It will be slow and painfully process which become obvious through rising unemployment, social instability and insecurity. These could bring the threat of social crisis and protectionism. As the World Bank President Robert Zoellick said in an interview: "What began as a great financial crisis and became a great economic crisis is now becoming a great crisis of unemployment, and if we don't take measures there is a risk of a great human and social crisis, with major political implications". He also said: "That's a good breeding ground for populist, protectionist policies," he added. "The finance ministers of the G7 and the G20 are displaying a certain relief because the contraction has slowed. Although we could still have low or negative growth, the situation is less bad," he said.

Economists and industrialists are conscious that the recovery will be slowing coming and weaker than expected. Dangers remain in the US financial system and in vulnerable emerging markets. The key thing that has to be cleaned up is the financial system. The US administration under President Barack Obama has taken measures and steps in the right direction, but there are still banks with serious difficulties related to consumer finance, credit cards and real estate. The United States economy depends more than Europe on the mortgage securitisation market, and that market has yet to recover. Also there were risks in Africa, parts of Latin America and in Eastern Europe. On the other side China could surprise on the upside, it has obtained good results from its stimulus plan, but still facing with economic problems. For countries like Mexico and Brazil, the main threat is losing access to finance. Russian economy is facing with complicated economic problems that slow done its economic performances and rise unemployment.

Urgent attention should be given to the social impacts of the financial and economic crisis. Lessons from other and previous crises show that social consequences need to be tackled rapidly, as they lead to a quick increase in unemployment, disease, poverty and hunger.

Very often Governments find themselves constrained, with a contracting fiscal space for social policies. Policymakers face tremendous challenges to protect social expenditures and to provide necessary social services and transfers, which are also critical to achieving the development goals. Pensions are under severe strain because of the collapse of capital markets. People around the world have lesser access to social services, benefits, remittances and credit.

The crisis is going to have severe negative social impacts. According to the World Bank, 45 million people will fall under extreme poverty and as a result 400,000 children will die in 2009. This comes on top of the vulnerability created by the food and energy crisis, which pushed more than 130 million people into poverty in 2008. It is expected that urban slums will triple, and 50 per cent of men and women globally will remain below two US dollar a day poverty line in 2009. Addressing the social impacts of the crisis is an urgent imperative for protecting the people.

The global slowdown in economic growth is expected to lead to significantly higher levels of unemployment. In major developed countries and export-oriented developing countries, unemployment is already on the rise as activities in finance, construction, automotive, manufacturing for export, tourism; services and real estate slow notably. The International Labor Organization (ILO) estimated that the number of unemployed could rise by 20 million, reaching 210 million women and men by the end of 2009. The ranks of the working poor living on less than one dollar a day could swell by 40 million, while those on less than two dollars a day could increase by over 100 million.

Social aspects of economic crisis in European Union

Long period European economy had good results and permanent grow. It had impacts on the possibilities for better social security and social protection of the citizens. The concept of the welfare state was presented as a model in which many countries compare their capacity for providing better conditions for their citizens.

The current economic crisis that affected all countries in Europe creates different opinion about the capacity of welfare state. Ideas that make proud many generations about social policy of their countries become unrealistic because of the lack of finance to cover the needs for social rights and benefits.

EU unemployment rate was long period in the framework of 3 to 5%. In the first four months of 2009 EU calculated that unemployment is more than 10%, in some states more than 14%. With this duplication of unemployment more than 30 millions people start their suffering because of lack of income. The current concept of welfare state could not produced sufficient money to cover the people needs based on their rights for social benefits. The implication of job losses occurring in the immediate short term must be viewed in a long-term context. The current crisis is following a period of robust global economic growth, which some had described as "jobless growth", where job creation has not been sufficient to meet the demand for work by a growing global labor force. Contractions in economic activities can be expected to worsen labor market conditions for workers, who have been facing increasing economic insecurity even during the economic boom.

The informal, grey and black economy starts to grow. As a result of unemployment people start to use informal kinds of activities to survive. For example, in Germany before the appearance of the crisis the grey economy participated with 6% in the GDP. In April 2009 it is estimated that grey economy participated with 18% in the German GDP.

There are other examples for failure of the possibilities for protection of the children, elderly people and other venerable categories form the negative influence of the crisis. Restrain from the marriages, restrain from the foundation of the family, children born, increasing of abortions, are among the examples that are social consequences of the economic crises.

That is why the government in each member state of the EU should take appropriate measures and to pay more attention on the social aspects of the crises. They are still neglected and if they continued could be complicated with security issues.

Where is the position of EU? Worldwide market opening and deregulation in favor of the financial industry through free trade agreements were part of the EU's Lisbon agenda to make the EU the most competitive economy in the world. The EU financial industry needed to compete with US financial industry which was very profitable due to a large home market, sophisticated investment banks and a low level of regulation. Now all this orientations seems different.

Many years in the EU, regulation was seen as an unnecessary cost and barrier to competitiveness - particularly by the UK, which wanted the

City of London to be able to compete with the under-regulated US financial industry. This all contributed to the financial turmoil over the last months.

As a result of the crisis, warnings from academics, parliamentarians, civil society and others went unheard. The Thatcher-Reagan free-market model that dominated thinking for 30 years has been discredited. The state is back in business and the survival of an open world economy is in question. Where to go now, what to plan for the future? French president Nicolas Sarkozy stated that the market is dead and the state intervention and regulation is necessary to protect the society, to save capitalism as a system. Not only the market but the capitalism as a system is facing with huge problems like never before and they need new solutions. The state should protect its citizens and the taxpayers who are suffering from the economic downturn that followed the financial crisis.

What should be position for new governance structures that will ensure that the financial sector is no longer allowed to fuel ever more speculative finance without serving the economy, society, or financing solutions to the food, energy and climate crises which every country is confronting today?

What can Europe do to prevent a big boost in unemployment? According to the forecasts unemployment will rise in EU. There will be time lag between reduction in economic activity and afterwards the real lay-offs. The financial sector is a very sensitive area. Apart from intellectual speculation there are also real speculators that complicated the possibilities for real solutions

How to minimize the impact of the crisis on the job market? Some of the recovery plans for employment are not sufficient. Big amount of money should be invested in creating jobs. Creating the investment climate and supporting the entrepreneurs and social partners to look at additional initiatives can be some kinds of tools or instruments at the European level. Also restructuring the budgetary resources and European Social Fund, European Globalization Adjustment Fund and also the exchange of best practices among member states are part of creating possible models for solving unemployment.

For instance, EU Commission proposed using public subsidies to keep people in jobs to train and re-train. In many cases it's giving good results. Because of the drop in demand some companies, instead of laying off workers, to keep them there with public funding, include from the European Union, in training and retaining upgrading their skills. In some cases even completing their secondary or high school education, because it

is more effective for the companies, when the recover comes to have this personnel and it certainly more appropriate from a social point of view. This is the most important concern for the people and for the impact on jobs of this crisis.

Open societies need the rule of law and open economies need some rules. An open society cannot exist without rules. The rule of law needs supervision. It's the same for open markets. It's not to come back to ideas of the past of controlled market because this was not a solution. It's to have the appropriate level of regulation. This is what in Europe is calling the social market economy, the social model. It is to stay committed to open competitive markets with an adequate level of regulation and social cohesion.

This crisis is difficult; it is very serious. The companies should use the crisis for appropriate restructuralisation and to go out of this crisis stronger. EU should resist any attempt to fragment the internal market. It's possible to keep markets open and reinforce social dimension.

EU leaders told the companies to cut working hours to save jobs after unemployment soared to the highest rates amid the global economic crisis. The push to turn full-time job into part-time posts mirrors the initiatives and recommendations that EU has agreed with representatives of employers and unions at the EU employment summit in Prague. The European Commission and ministers from the Czech, Swedish and Spanish governments agreed a loose set of proposals to boost employment, but failed to come up with concrete measures to tackle Europe's worsening jobs crisis. EU believes that cuts in working hours could save one million jobs.

The regulative aspects in the financial sphere and ideas to create investment climate need to be followed up with programs and with actions that will resulting in blocking the negative impact of the recession. European member states government's needs to give the economy a boost by investing in jobs. We have already seen a commitment from some of the EU countries governments to do precisely that with investment in constructions, public works, creating infrastructure etc. Other governments should, and probably will, follow these examples. While it is not easy to invest government money at a time when tax revenues may be going down and welfare payments are likely to increase. The main messages are: If money can be found to save the banks then money must be found to create new jobs, to stop the negative social processes. If the crisis has taught us anything it is that the market cannot do it alone. Government intervention

in the economy is necessary to avoid misery – and the risk of recession creating widespread unemployment and social crisis.

Social aspects of economic crisis in the Republic of Macedonia

How this crisis affects the economic and social aspects in the Republic of Macedonia? As a small land lock country with traditional links with EU countries, Macedonian economy has also negative effects of the current economic crises. The unemployment is increasing, the informal or grey economy participated with 45% of the GDP, the industrial production is decreasing and the trade deficit is bigger than ever, poverty rate is rising.

Transition and transformation of the Macedonian society and economy have been finished. Very few state owned companies are in their final phases of privatization or restructuring. Since 1993 the long period or more than 10 years Macedonian GDP grow with around 1,1% annually. This period has been finished. In the last 5 years the grow rate of GDP was around 4-5%, in some years around 6%. As a result of impact of the economic and financial crisis, both Macedonian economy and society have faced with threats that could stop the positive results of the economic recovery. Macedonian government adopted three packages of measures with aim to overcome this treats. Many of them were welcomed form the companies and chambers of commerce with expectations that they could help in solving their problems

The repercussions of the crisis in the social sphere become evident. The crisis has create the danger of further increasing unemployment, poverty, collapse of the middle class, disintegration of family networks, erosion of work ethics, and other various social elements. In view of the social dimensions of the crisis, an appropriate social safety net for the disadvantaged people must be recognized as an integral part of a recovery programs. Social instability threatens the credibility of economic processes and may eventually undermine the country's long-term growth potential.

That's why is very important on the state level to highlight the social impact of this changes particularly in terms of the labor market and social stratification. Providing a comprehensive understanding of the social impact of the crisis, could be very important and conducive to a constructive development of efficient measures in pursuit of the economy's successful reform and long-term progress.

Macedonian economy must achieve extensive economic restructuring on the one hand, while protecting socially vulnerable groups

and maintaining social stability on the other. Reducing poverty and improving living standards and social environment need to be done rapidly through achieving high economic growth. A sizeable amount of public resources would be required for economic and corporate restructuring. Limited resources, small amount of foreign direct investments would further reduce the funds available to ameliorate the effects of the crisis on the poorest and most vulnerable groups.

The foremost priority for solving unemployment is the creation of new long term jobs strategy and short-term jobs through public works, investment in construction of infrastructures, social network needs etc.

Considering that the speed of employment recovery is generally slower than that of economic transformation and recovery, and that the level of unemployment stays on the same level or around 35%, some further measures are very important and should be implemented. Therefore, the unemployment policy of the government should include more fundamental measures for structural high unemployment and poverty in preparation for the possibility that the number of the poor and the long-term unemployed would increase continuously. However, it still fell short of satisfying the requirements of the poor (which would include, among others, stable food prices, health and education services and so on), especially after the economic crisis.

Macedonian Economic Chamber urged the government to secure a stable currency and to put a focus on supporting the production and exporting operations as key elements in the monetary and economic policy. In the part of capital investments, the emphasis should be put on the infrastructural project by giving preference to the domestic producers, in line with the prescribed regulations.

The packages of Government's measures aimed at tackling the ongoing economic crisis should be considered urgent and oriented to ensure macroeconomic stability, with an emphasis on stable exchange course of the currency denar. The packages of measures aimed at mitigating the consequences of the economic crisis in the country. More than 70 anti-crisis measures, encompassing three fields: budget rebalances, loan support to companies and other stimulating measures intended for the companies.

The global economic crisis has begun to affect steel industries worldwide, with a severe impact on national steel industry, Macedonia's steel manufacturer Maksteel. The current market situation and the current

price ratios give hope that this negative result could be overcome by the end of the fiscal year unless some unexpected disruption occurs.

Conclusions and recommendations

Faced with high structural unemployment, fiscal pressures and ageing societies, many western economies have started to reform their over-extended welfare states. China and India have accelerated their growth thanks to a reduction in the political control of their economies. Central and eastern European countries show that the more market reforms you accumulate, the faster is your longer-term growth. These and other initiatives have reduced the crippling statist bias and extended the role of markets and civil society. The present crisis means that the states must take further measures to release entrepreneurial activities, offsetting declines in gross domestic product caused by the financial crisis and the legacy of attempts to manage it, especially the hugely increased public debt. But is the financial sector an exception? Can the crisis be interpreted as a pure market failure, which requires more public intervention? It is easy to agree on the facts – increased leverage and asset bubbles in many economies, as well as serious errors made at the top of huge financial conglomerates. Symptoms, however, should not be confused with causes, and it is with respect to the causes that there is serious disagreement.

All these are consequences of the crises. The treats still exist and the questions are when the end of the crisis could be expected. Are there some possibilities or opportunities for solving the crisis and to provide social development that will be in accordance of the level of the people needs and expectations?

Are there some opportunities in the model of the crisis, are some of them, any or maybe the time will be the best doctor or medicament for solving such types of problems. They could not be even presented in a form of magic formula for solving economic and social problems in every country.

Responding to the present crises requires a strong commitment and a coordinated and comprehensive response by the national states and the international community in order to bridge the gap in the implementation of the development goals. Foremost, priority attention needs to be given to mitigating the effects of the crises on the poor and the disadvantaged social groups. Immediate policy measures in nutritional support and education and measures targeting disadvantaged groups are

needed. The fact that financial and economic crises not only involve monetary costs, but also have a negative impact on the human rights of people must be recognized. Enhancing social protection, including unemployment benefits, pensions, child support and health-care schemes, is also necessary for cushioning the impact of crises on the well-being of women, men, girls and boys, and for long-term poverty reduction and society-building.

In spite of all these and other negative consequences, still the governments in EU countries concentrated their activities in solving the financial and monetary effects of the crisis. The main decisions and the biggest amount of the capital that is provided from the state budgets are for the stabilization of the banks and the biggest companies in the EU and US countries.

Beside the economic measures and given the critical contribution of social protection to meeting the development goals towards poverty eradication and to making a positive impact on economic growth, social cohesion and social development, basic social protection for all should be accorded as a high priority. A practical approach should be taken to extend basic social protection based on country-specific conditions, with the cooperation and participation of all development partners.

Concrete policy measures to counter the impact of current global crises may include immediate short-term measures as the implementation of large-scale internationally coordinated fiscal stimulus packages that are mutually reinforcing and consistent with sustainable development goals will be key to counteracting the social consequences of the present crisis. Also strengthened national and international political commitment to integrated economic and social policies for social development in times of crises needs to take immediate measures to protect the well-being of the poor and the disadvantaged, including guarding against back-pedaling in meeting international cooperation commitments. On the medium- to long-term measures could be to shift development policy away from focusing solely on moving people out of poverty to also include preventing many from falling into poverty or sinking into deeper poverty. In this regard, it is important to strengthen the safety nets and social protection interventions for the most vulnerable people. Incorporate basic social protection for all into national and international poverty reduction strategies. Allocate external financial resources to support low-income countries in their efforts to build and expand basic social protection systems.

The most important should be protecting employment and promoting entrepreneurship. Thus the people will avoid the worst effects of the financial crisis. They are the first to be hit whether as workers, households, or as entrepreneurs. In addressing the employment and social impact of the financial crisis, governments should actively involve the social partners, and to launch employment support initiatives. It could be done with activation policies, in particular for the low-skilled, involving personalized counseling, intensive (re-)training and up-skilling of workers, apprenticeships, subsidized employment as well as grants for self-employment, and start-up businesses. Also support should be given on the most vulnerable categories with financing projects for helping them. With enhance access for financing the business the SME and entrepreneurial companies will accept more workers and create jobs.

The main messages are: If money can be found to save the banks and companies, as results of their bad policies then money must be found to create new jobs, to stop the negative social processes. The damages from the crisis are like after the war, and the measure should create the same recovery to safe the social aspects of human needs. The market cannot do it alone, and that is why the Government's intervention in the economy is necessary to avoid misery – and the risk of recession creating widespread unemployment and social crisis.

The governments need to accelerate investments in infrastructure, energy interconnections, public works and all other sector which influenced sustainable growth-potential. The solution is to restart lending and stimulate investment in the economies, creating jobs and helping the unemployed to find new jobs.

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