

# EURO CHALLENGE

## 2013

- ∞ **PURPOSE:** to provide teachers tools to promote and enhance the student's ability to develop and present the chosen issues. Ultimately, increasing the chances to succeed in New York.



Presented by Gloria Guzman, Education Specialist. FRB of Atlanta – Miami Branch

- ∞ **Disclaimer:** The views expressed are those of the presenter and do not necessarily reflect those of the Federal Reserve Bank of Atlanta or the Federal Reserve System

# Unemployment

- ☞ People in the *labor force* without jobs
- ☞ Unemployment refers to the inability for willing workers to find gainful employment
- ☞ Labor resource not being used efficiently
- ☞ Unemployment is a macroeconomic phenomenon that directly affects people

# Measuring

∞ **Unemployment Rate** - % of the civilian labor force that is unemployed.

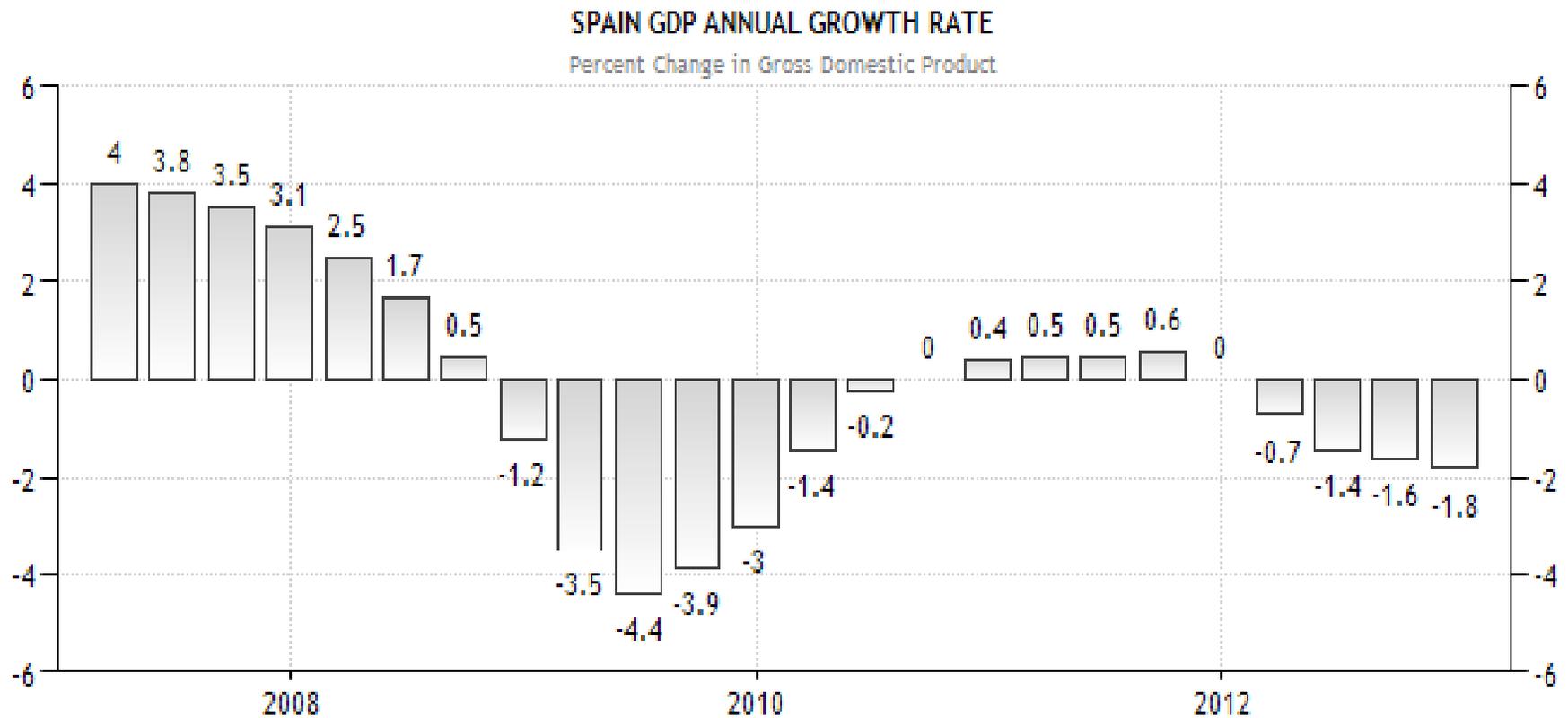
∞ Willing, able and looking

**Employment rate** - % of the working age population (ages 15 to 64 in most OECD countries) who are currently employed.

# Unemployment & GDP

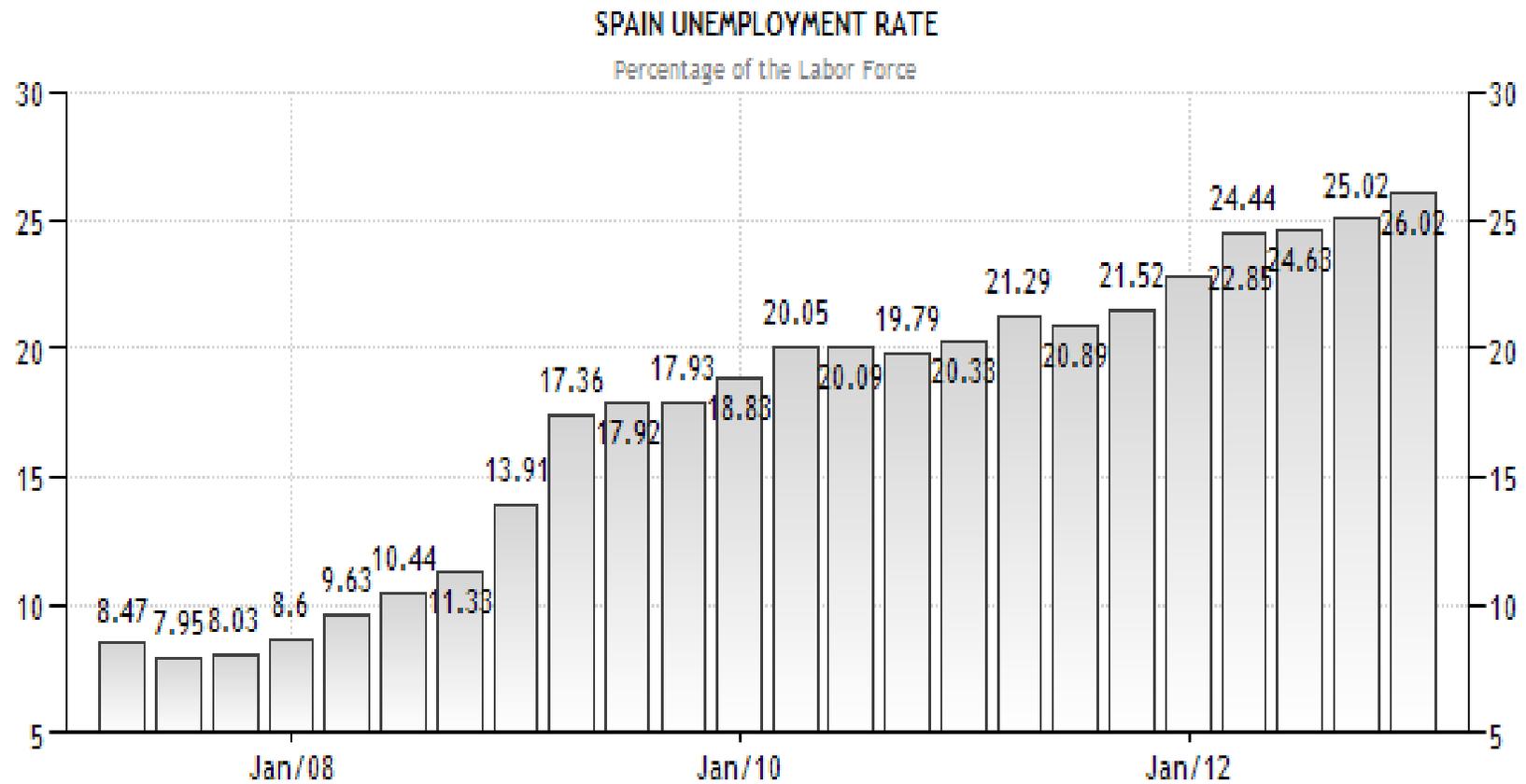
- Both are economic indicators
- Negative correlation
- Labor is a part of F.O.P. => goods & services (GDP)
- Okun's law*\*- relationship between unemployment and GDP (understand the costs of unemployment)
- % change in real GDP = 3% - 2 x (change in unemployment rate)*

# Spain's GDP annual growth rate



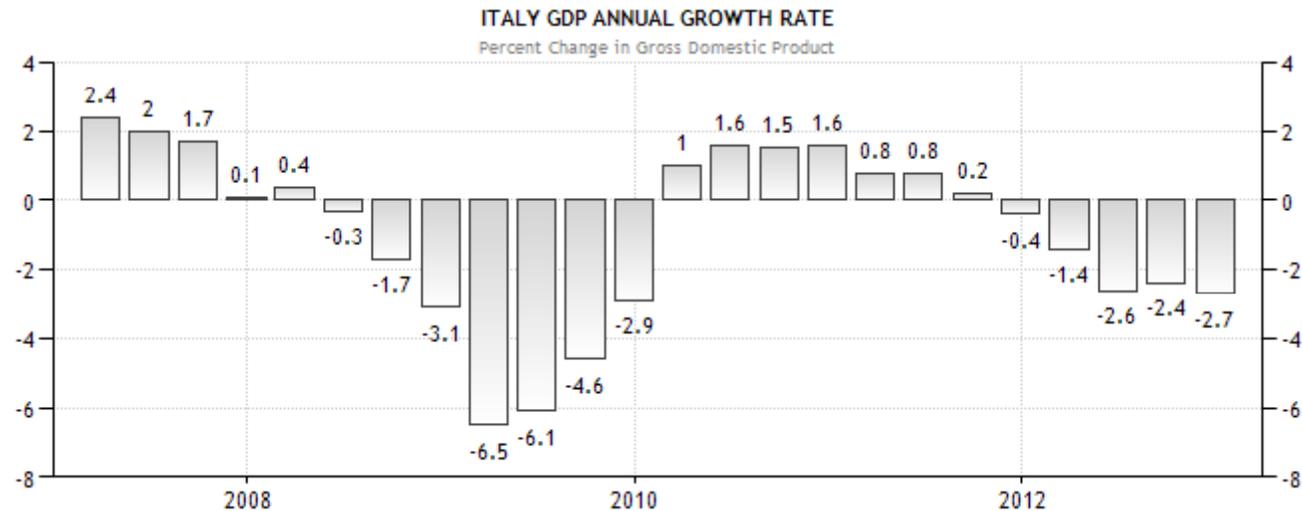
SOURCE: WWW.TRADINGECONOMICS.COM | INE

# Spain's Unemployment Rate



SOURCE: WWW.TRADINGECONOMICS.COM | INE

# Italy's GDP annual growth rate



SOURCE: WWW.TRADINGECONOMICS.COM | ISTAT

# Italy's Unemployment Rate



SOURCE: WWW.TRADINGECONOMICS.COM | ISTAT

# Greece's GDP annual growth rate



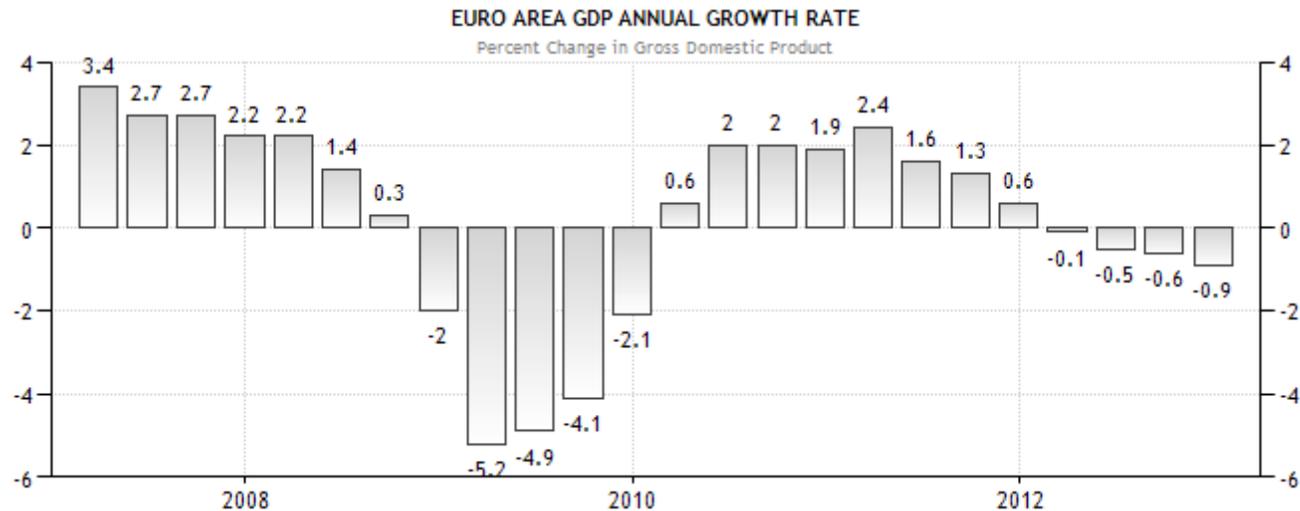
SOURCE: [WWW.TRADINGECONOMICS.COM](http://WWW.TRADINGECONOMICS.COM) | HELLENIC STATISTICAL AUTHORITY

# Greece's Unemployment rate



SOURCE: WWW.TRADINGECONOMICS.COM | HELLENIC STATISTICAL AUTHORITY

# Euro Zone annual GDP rate



SOURCE: [WWW.TRADINGECONOMICS.COM](http://WWW.TRADINGECONOMICS.COM) | EUROSTAT

# Euro Zone Unemployment rate



SOURCE: WWW.TRADINGECONOMICS.COM | EUROSTAT

# E.U. Unemployment

- ∞ The European Union unemployment went up by 1.796 million as of 12/12 from 12/11.
- ∞ U.R. 11.70%
- ∞ 3 groups- low, medium & high
  - Low unemployment (below 5%)
    - Austria
  - Medium unemployment (5%-10%)
    - Germany, Luxembourg and the Netherlands.
  - High unemployment (10% and above)
    - the rest of the countries with the highest in Greece (26.8) and Spain (26.1)

# Causes of High Unemployment

## ∞ Interaction of negative shocks and institutions

- Negative macroeconomic shocks
  - worsening of terms of trade
  - restrictive macroeconomic policies to reduce inflation
  - technology
  - international competition

# Causes of High Unemployment

## ∞ Institutions

- wage bargaining,
- employment protection,
- barriers to labor mobility
- taxation on employment
- Unemployment Benefits

# Contributing Factors

- ✎ 12% of employment was in the R.E. industry
- ✎ Collapse.....
- ✎ High H/H Debt
- ✎ Upside down values
- ✎ Government Labor Laws
- ✎ Generous UI benefits- 2 yrs
- ✎ Poor education system
- ✎ Ability of the economy to accommodate changes in technology.
- ✎ Competition of a more global market

# Policy implications

- Protect workers, not jobs
- Couple UB with pressure on the unemployed to take jobs and active measures to help them finding jobs
- Ensure that employment protection includes social costs, but does not inhibit job creation and labor reallocation
- Reduce the costs of low skilled labor and support labor participation through make work pay policies, rather than minimum wages
- Increase competition in the product market
- Reduce barriers to labor mobility

# Suggestions

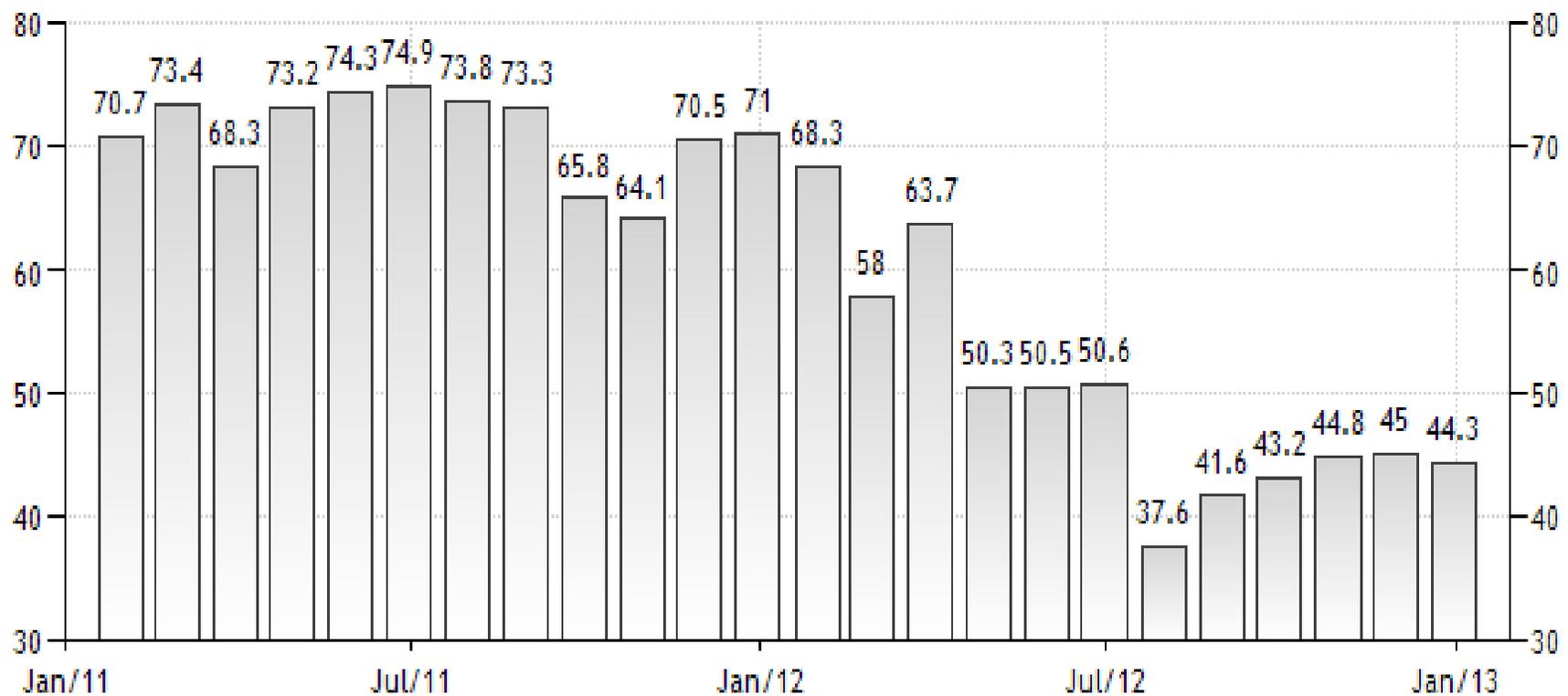
- Policies that accommodate structural reforms
- Policies to sustain labor mobility and to regulate migratory flows
- Policies to support convergence in income per-capita
- Policies to improve the governance and decision making

# Impact on Individual

- ☞ Unemployment always hits individuals the hardest.
- ☞ Psychological: self respect, purpose, sense of achievement
- ☞ Health issues
- ☞ Income - Spending power
- ☞ Family tension and problems
- ☞ Standard of Living
- ☞ Loss of skills

# Spain's consumer confidence

SPAIN CONSUMER CONFIDENCE



SOURCE: [WWW.TRADINGECONOMICS.COM](http://WWW.TRADINGECONOMICS.COM) | INSTITUTO DE CRÉDITO OFICIAL

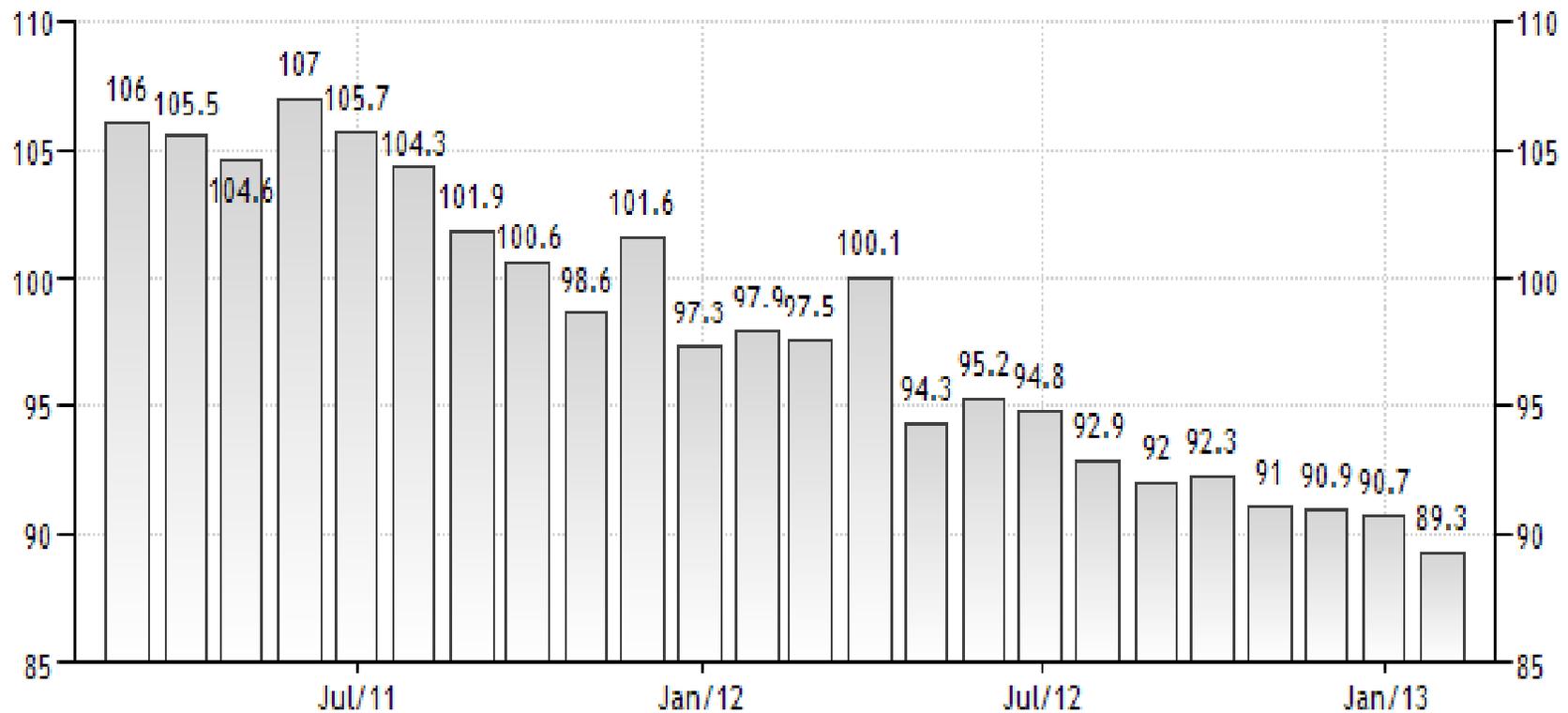
# Greece's consumer confidence



SOURCE: [WWW.TRADINGECONOMICS.COM](http://WWW.TRADINGECONOMICS.COM) | EUROSTAT

# Italy's consumer confidence

ITALY CONSUMER CONFIDENCE



SOURCE: WWW.TRADINGECONOMICS.COM | ISAE/ISTAT

# Impact on Society

- ☞ Confidence
- ☞ Tension over taxes rise
- ☞ Insecurity amongst employees
- ☞ Crime and violence
- ☞ Suicide cases
- ☞ Social outing

# Unemployment's impact on Government

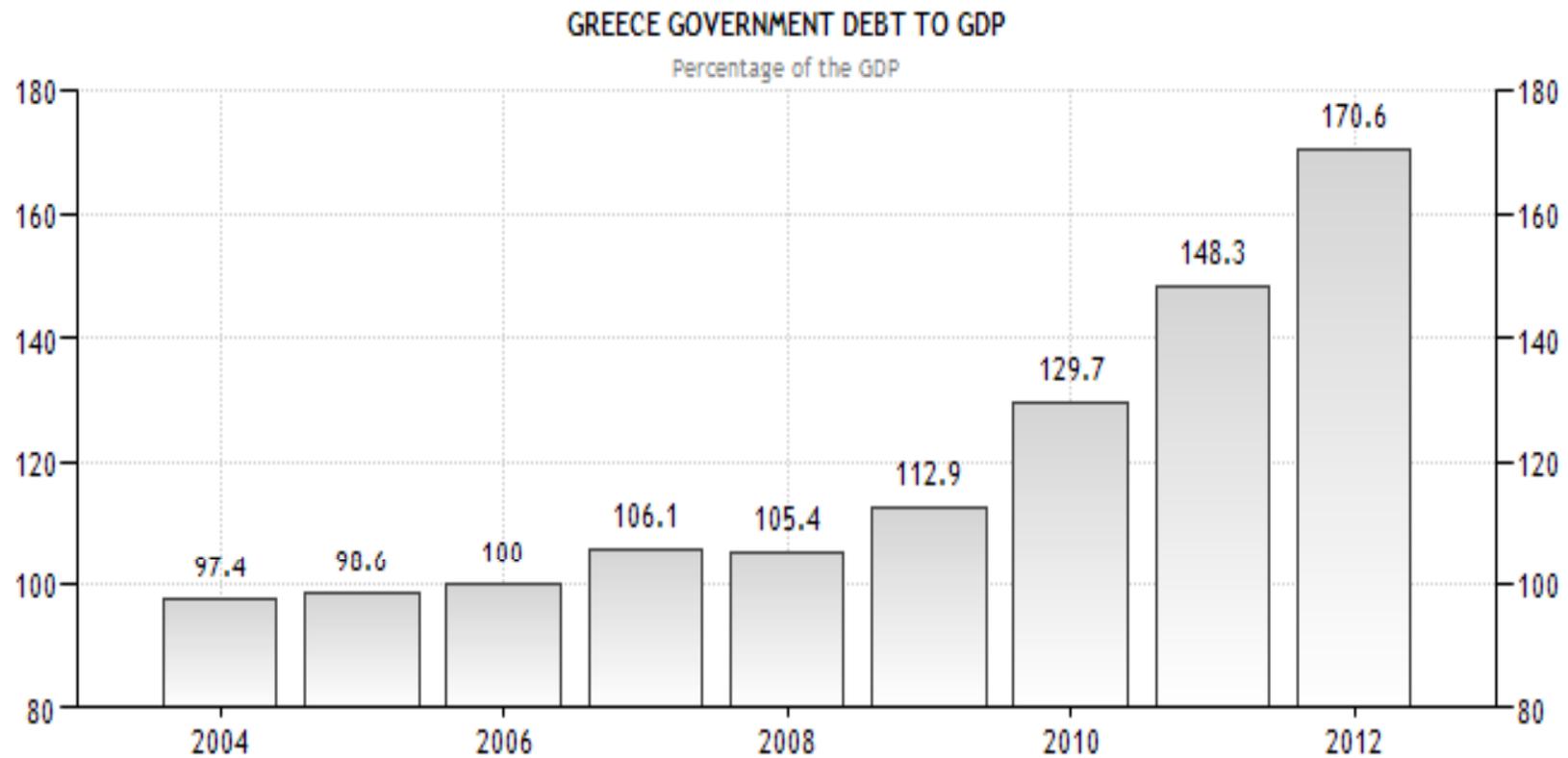
- ☞ Unemployment benefits - taxes or borrow.
- ☞ Lost tax earnings
- ☞ Political issues-instability
- ☞ Fiscal policy - Expansionary
- ☞ Monetary policy - easing
- ☞ Labor policies- too rigid
- ☞ Need to restructure-benefit policies to employment policies.

# Spain's Gov. Debt to GDP



SOURCE: [WWW.TRADINGECONOMICS.COM](http://WWW.TRADINGECONOMICS.COM) | EUROSTAT

# Greece's Deficit



SOURCE: [WWW.TRADINGECONOMICS.COM](http://WWW.TRADINGECONOMICS.COM) | EUROSTAT

# Italy's Gov. Debt to GDP



SOURCE: [WWW.TRADINGECONOMICS.COM](http://WWW.TRADINGECONOMICS.COM) | EUROSTAT

# Stats and graphs

☞ <http://www.tradingeconomics.com>

☞ <http://www.oecd-ilibrary.org/economics>