Urban unemployment in Latin America and Southern Europe under structural adjustment and austerity

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Abstract

This article examines and compares the rise of unemployment in the major metropolitan areas of Latin America and Southern Europe under structural adjustment and *austerity*. It suggests that despite the failure of IMF-led neoliberal restructuring to foster economic growth in Latin America, and notwithstanding its remarkable sociospatial impacts, Southern Europe has been imposed after 2008 a macroeconomic reform that recalls the market fundamentalism of the Washington Consensus. Based on quantitative evidence, this article concludes that *austerity* has fueled unemployment in the largest metropolitan areas of Greece, Italy, Portugal, and Spain in the aftermath of the financial crisis like structural adjustment programs did in Argentina, Brazil, Chile, Mexico, Peru, and Uruguay in the 1990s and early 2000s. As the private losses of financial entities at risk of bankruptcy were socialized and transformed into public debt, the social majorities of the periphery of the Eurozone have been forced to deal with the negative externalities of financial deregulation.

Keywords: Financial crisis, neoliberalism, debt, semiperiphery, metropolitan areas

Resumen

Este trabajo examina y compara el crecimiento del desempleo en las principales áreas metropolitanas de América Latina y de la Europa Meridional bajo el ajuste estructural y la *austeridad*. Sugiere que, a pesar de la incapacidad de la reestructuración neoliberal liderada por el FMI para promover el crecimiento económico y de sus notables impactos socioespaciales, la Europa del Sur ha sufrido después de 2008 una reforma macroeconómica que recuerda al fundamentalismo de mercado del Consenso de Washington. En base a evidencias cuantitativas, se concluye que la *austeridad* ha alimentado el desempleo en las mayores áreas metropolitanas de Grecia, Italia, Portugal y España tras la crisis financiera como los programas de ajuste estrutural lo hicieron en Argentina, Brasil, Chile, México, Perú y Uruguay durante los años noventa y en el inicio del nuevo siglo. Mientras las pérdidas privadas de entidades financieras al borde de la bancarrota fueron socializadas y transformadas en deuda pública, las mayorías sociales de la periferia de la Eurozona han sido obligadas a afrontar las externalidades negativas de la desregulación financiera.

Palabras clave: Crisis financiera, neoliberalismo, deuda, semiperiferia, áreas metropolitanas

1. Introduction

This article contributes to the study of the impacts of neoliberalism in the semiperiphery of the world-economy. It analyzes and compares the rise of unemployment in seven major metropolitan areas of Latin America (Buenos Aires, Lima, Mexico City, Montevideo, Rio de Janeiro, Santiago, and São Paulo) under structural adjustment in the 1990s and early 2000s, and in the Southern European metropolitan areas of more than two million inhabitants (Athens, Barcelona, Lisbon, Madrid, Milan, Naples, Rome, Turin, and Valencia) under *austerity* after the financial crisis of 2007-2008.

The concept of *austerity* evokes prudency and virtue. Mamede (2015) suggests that the very ingrained Judeo-Christian concept of *guilt* has stimulated the acceptance by the Europeans of the South of their individual *guilt* and their *deserved* sacrifice and punishment after years of alleged *excess* and *undeserved* wealth. Indeed, social cutbacks have been justified by the official discourse of *austerity* that was generated by the global economic crisis as the necessary consequence of the societies of the South having allegedly been *living beyond their means*. However, the reduction of social investment under *austerity* has been paralleled by the expenditure of an enormous amount of taxpayer money in the bailout of the financial system. As private debt was converted into public debt, the social majorities of the periphery of the Eurozone have been forced to deal with the negative externalities of the reckless behavior of the unregulated financial system under neoliberal globalization.

The relevance of the issue that is addressed in this article is highlighted by Donald *et al*. (2014), who urge scholars to focus their research on the impacts of *austerity* at the subnational and urban scales. According to these authors, the significance of the latter in the analysis of the economic, political, and social outcomes of *austerity* is evidenced by "the linkages between the urban origins of the Wall Street crisis, how that translated into a state crisis, and how that in turn affected cities and their ability to provide the infrastructure of collective consumption" (p. 4). Schipper and Schönig (2016) also identify the description of the urban outcomes of *austerity* as a major duty of urban researchers: "A counter-hegemonic understanding of austerity's ideological foundations, its urban impacts and the social power relations sustaining it is crucial to successfully combating austerity in Europe and elsewhere" (p. 9).

Meanwhile, Fujita (2013) argues that contemporary urban theory has failed to integrate the financial crisis, the global asymmetries, and the rise of inequality as central elements of analysis despite the importance of urban agglomerations in the growth and burst of real estate bubbles. According to this author, cities "have embodied what the crisis and its aftermath meant in the spatially condensed form" (p. 3). For Fujita, this has often been related to real estate and financial bubbles collapsing with tragic socioeconomic consequences—including dramatic increases in unemployment. According to Harvey (2012), cities are at the root of the global financial crisis as they were at those of previous crises, being real estate bubbles and bursts tightly linked to global financial speculation and being the built environment a major space of production and accumulation of surplus value.

In 1950, less than one third of the world's total population was living in urban areas. In 2014, more than half of our planet's inhabitants had already settled in cities, and by 2050 only one third is expected to live in rural areas (United Nations - Department of Economic and Social Affairs - Population Division, 2014). As Donald *et al*. (2014, pp. 3-4) put it, cities "are the centers of economic power and wealth, but they also are where the most vulnerable in society, particularly the young, the old and the poor, are concentrated." The latter have often seen public attention and resources channeled away from their urgent needs and allocated to new urban initiatives designed to make cities more attractive to foreign investment and visitors. As the territories where the most marginalized and vulnerable populations live and where dependency on public services and employment is greatest, and being these major targets of *austerity*, urban agglomerations have displayed a remarkable fragility in the face of neoliberal macroeconomic reform, and it is in the urban settings that its effects have been most evident (Donald *et al*., 2014; Schipper and Schönig, 2016).

Europe is one of the most urbanized regions of the world and cities are crucial actors in its socioeconomic dynamics. Besides demographic ageing, urban Europe faces major challenges such as suburbanization and sprawl, economic stagnation or recession, deindustrialization, high unemployment and underemployment, precariousness, rising inequalities and sociospatial polarization and segregation, and welfare reduction. Amid deindustrialization, many low-skilled professionals have been pushed out of the labor market or recycled into low-paid and precarious jobs within the service sector. Added to the reduction of public employment under *austerity*, this has impacted severely on the socioeconomic fabric of European cities (European Commission – Directorate General for Regional Policy, 2011). In the cities of Southern Europe, the crisis fueled income inequality and triggered the resurgence of old situations of severe material precariousness (Nel·lo, 2015).

This article interprets the post-2008 Southern European *austerity* as the reincarnation of the structural adjustment programs that were imposed on Latin America in the 1980s and 1990s. After a brief explanation of the research method, the first section of this article reviews relevant theoretical contributions on the impact of structural adjustment programs in Latin America. Additionally, it examines the evolution of unemployment between 1990 and 2002/2003 in seven major metropolitan areas of this region. The second section analyzes the evolution of public and private debt in terms of GDP in Greece, Italy, Portugal, and Spain between 2005 and 2015, i.e. before and after the global financial crisis. The third section examines the imposition of *austerity* across Southern Europe and its socioeconomic impacts, while the following part shows the evolution of unemployment in the nine largest metropolitan areas of the region between 2005 and 2015. Finally, the fifth and last section of this article provides a general discussion of the results and offers some final remarks.

2. Method

This article relies on official quantitative data provided by Eurostat to examine the evolution of public debt, private debt, unemployment, and poverty or social exclusion in Greece, Italy, Portugal, and Spain between 2005 and 2015. Additionally, it analyzes statistical information from the same official source to grasp the evolution of unemployment in the metropolitan areas of Athens, Barcelona, Lisbon, Madrid, Milan, Naples, Rome, Turin, and Valencia during that period. The analysis of this quantitative information enables a general approach to the socioeconomic impact of *austerity* in the major countries and metropolitan areas of Southern Europe after the collapse of the financial system. Additionally, this article examines the quantitative data provided by Portes and Roberts (2005) on unemployment in the metropolitan areas of Buenos Aires, Lima, Mexico City, Montevideo, Rio de Janeiro, Santiago, and São Paulo in 1990, 1995, 2000, and 2002/2003. This information enables the comparison between the evolution of unemployment in the largest metropolitan areas of Southern Europe under *austerity* and that of their peers in Latin America under structural adjustment.

3. Structural adjustment in Latin America

Designed by the International Monetary Fund (IMF) and the World Bank according to the precepts of *trickle-down* economics, structural adjustment programs were implemented in the 1980s and 1990s across the so-called *developing world* with the official purpose of fostering economic growth. However, according to Easterly (2005, p. 20), "[i]f the original objective was *adjustment with growth*, there is not much evidence that structural adjustment lending generated either adjustment or growth". Przeworski and Vreeland (2000) prove that the latter was hampered by structural adjustment during its implementation and that the positive effects that were registered once those programs had concluded were insufficient to offset the damage. For Dreher (2006, p. 781), if economic growth was the main goal of structural adjustment, this was a "failure".

Pastor (1987, 1989) and Vreeland (2002) identify the reduction of the labor share of the national income as the most significant and consistent outcome of structural adjustment. According to Bogliaccini (2013), trade liberalization implemented under these programs was decisive for the destruction of formal industrial jobs, for the expansion of the informal sector, and for the deterioration of the income distribution in middle-income countries that had implemented policies of import-substitution industrialization (ISI) during the postwar. The removal of tariffs and trade protections fueled unemployment and, due to the lack or fragility of welfare structures, poverty expanded (Stiglitz, 2003). Moreover, Jorra (2012) identifies a direct relationship between structural adjustment lending and the probability of sovereign defaults. In fact, Damill *et al*. (2005, p. 34) argue that "when a country faces a crisis motivated by firm expectations of default, what is really costly is the postponement of the default and not the default itself." According to Stiglitz (2003), defaults and debt restructuring processes provide more capacity for recovery and economic growth and therefore increase the ability to repay.

Having received 30 loans in two decades, Argentina is identified by Easterly (2005, p. 20) as a paradigm of structural adjustment recidivism, "which itself is suggestive of limited effect of earlier adjustment loans". There is no evidence, according to this author, of per capita economic growth increasing with such recidivism, as "none of the top 20 recipients of repeated adjustment lending over 1980-99 were able to achieve reasonable growth and contain all policy distortions" (p. 1). The aggravation of urban poverty, inequality, unemployment, informality, segregation, exclusion, and polarization under structural adjustment evidences the failure of these programs of macroeconomic reform (Borja, 2005; Ciccolella, 2012; Ciccolella and Mignaqui, 2009; Díaz Orueta, 1997).

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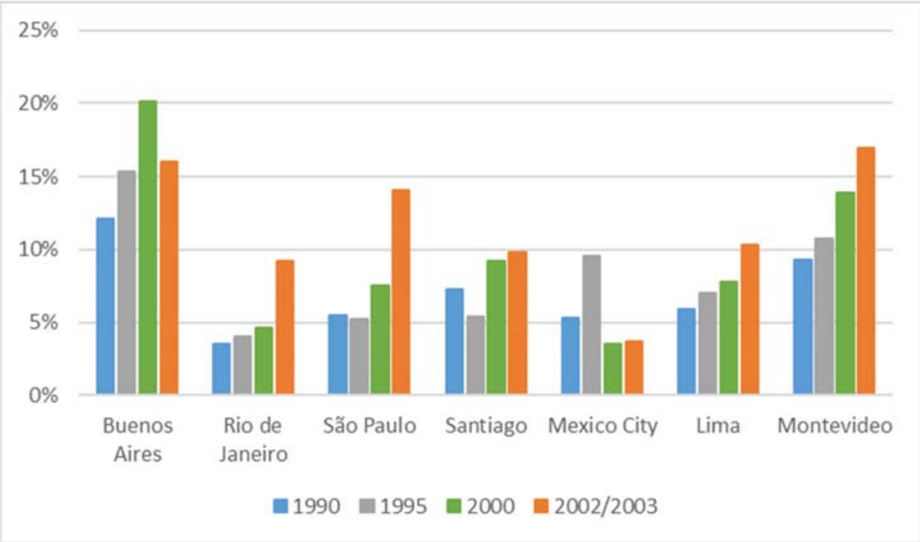
The impact of structural adjustment was especially remarkable in the greater Latin American cities, which experienced demographic growth without economic growth and rising levels of inequality, unemployment, informality, and poverty. Indeed, the sociospatial segregation that had been a key feature of the metropolitan areas of Latin America since the period of ISI aggravated and became chronic under structural adjustment. While deindustrialization had a strong impact on the urban working class, massive privatizations and the reduction of the state with the subsequent decrease in the number of public employees weakened the urban middle class (Portes and Roberts, 2005; Roberts, 2005). Meanwhile, the growth of the producer service sector deepened the polarization between a small number of high-skilled and well-paid jobs on the one hand, and a large and growing pool of informal, precarious, and unprotected low-skilled and low-paid workers on the other (Pradilla Cobos, 2010, 2014). For Davis (2006, p. 14), urbanization under economic crisis in the Global South is "the legacy of a global political conjuncture —the worldwide debt crisis of the late 1970s and the subsequent IMF-led restructuring of Third World economies in the 1980s—".

Elaborated with data from Portes and Roberts (2005), figure 1 displays the evolution of unemployment in seven metropolitan areas of Latin America during the 1990s and early 2000s under structural adjustment. It evidences that the growth of the unemployment rate was especially dramatic in the metropolitan area of Buenos Aires, where it soared from 12.1% in 1990 to 20.1% in 2000. The growth of the unemployment rate was also significant during that decade in Lima and Montevideo, where it increased from 5.9% to 7.8% and from 9.3% to 13.9% respectively. In the metropolitan areas of Rio de Janeiro and São Paulo, however, the expansion of unemployment was more remarkable in the beginning of the following decade. Between 2000 and 2002/2003, the unemployment rate rose from 4.6% to 9.2% in Rio de Janeiro and from 7.5% to 14.1% in São Paulo. In Santiago, unemployment dropped between 1990 and 1995 but rose significantly between 1995 and 2000 from 5.4% to 9.2% of the labor force. In Mexico City, the unemployment rate grew from 5.3% in 1990 to 9.6% in 1995 but dropped in the following years (Portes and Roberts, 2005).

Figure 1. Unemployment rate in seven major metropolitan areas of Latin America in 1990, 1995, 2000, and 2002/3



Source: Own elaboration based on Portes and Roberts, 2005

4. Public and private debt in Southern Europe

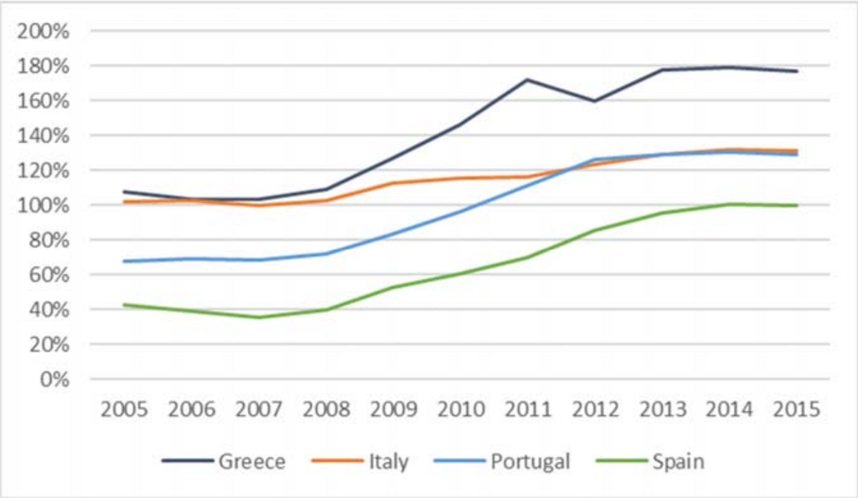
During almost four decades of financialization, technological innovation, and increasing outsourcing of the industrial production, the economies of the core overcame a sequence of financial crises that did hit hard the periphery and semiperiphery of the world-economy. However, this changed in 2008 with the collapse of the US *subprime* mortgage market and the bankruptcy of Lehman Brothers. Blyth (2015) explains that the global financial crisis was originated in the banking system and then expanded to the sovereign debt sector through the bailout and recapitalization of excessively leveraged, indebted, and unregulated financial institutions at risk of bankruptcy. With the only exception of Greece, this author indicates that there was no fiscal profligacy in the peripheral countries of the Eurozone before 2008 and suggests that the sovereign debt crises of Spain or Portugal have been consequence and not cause of the financial crisis.

Similarly, Palley (2013) argues that *fiscal irresponsibility* does not explain the indebtedness of the peripheral states of the Eurozone. For this author, the Eurozone crisis is a consequence of a "flawed neoliberal institutional design combined with flawed neoliberal economic policies" (pp. 30-31). He argues that the design of the euro, the policies implemented at the continental scale in the last three decades, and the institutional role of the European Central Bank (ECB) are key factors in the transfer of the debt crisis from the private to the public sector: "the public debt crisis is just the latest phase of the crisis, rather than cause" (p. 33). According to this author, most of the peripheral countries of the Eurozone had developed responsible fiscal management practices during the years prior to 2008, when "the model broke catastrophically and [...] asymmetrically, plunging the GIPSI economies into massive deficit while Germany suffered much smaller increases in its budget deficit" (pp. 41-42).

Meanwhile, Rodrigues and Reis (2012) suggest that the design of the Eurozone displays and reinforces the European core-periphery divide. They argue that, despite the crisis of the Eurozone having been generally interpreted as the consequence of alleged fiscal profligacy in the periphery, its causes are to be found in "the macroeconomic imbalances generated by the Euro and the operation of financial capital, as well as the irredeemable interdependencies between public, private, and foreign debts" (p. 192). For Blyth (2015), the creation of the Eurozone failed to deliver the expected convergence between European economies and instead generated remarkable divergences between the periphery and the core. In fact, peripheral States have been forced to plunge into debt and bail out their financial institutions to ensure that the payee banks of the core are paid. As a result, it has been the most vulnerable societies of the Eurozone paying the consequences of the reckless behavior and of the unregulated financial system (Blyth, 2015; Jones, 2014; Leahy *et al.*, 2015; Palley, 2013; Wahl, 2012).

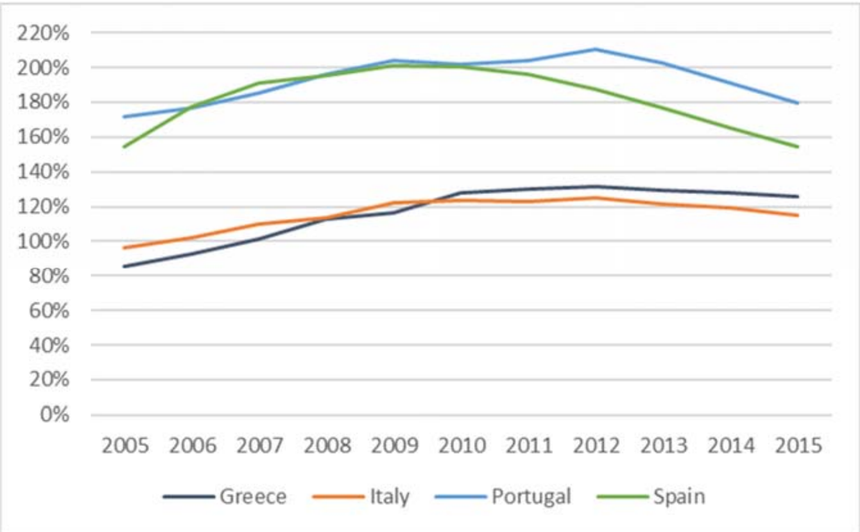
Figure 2 evidences that public debt levels were high but stable in Greece and Italy, sustainable in Portugal, and significantly low in Spain until the outbreak of the financial crisis. In 2007, the general government gross debt represented 103.1% of the GDP in Greece, 99.8% in Italy, 68.4% in Portugal, and 35.6% in Spain. However, this indicator would soar in the four countries since 2008 reaching 179.0% of the GDP in Greece, 131.8% in Italy, 130.6% in Portugal, and 100.4% in Spain in 2014 (Eurostat, 2017a). As shown in figure 3, what was remarkably high in Portugal and in Spain before the financial crisis was *private debt*, which represented 185.0% of the former's GDP and 191.2% of the latter's in 2007. These levels would continue rising until 2012 and 2009 respectively, reaching historical maximums of 210.3% of the GDP in Portugal and 201.4% in Spain (Eurostat, 2017b). However, it was *public debt* that received most attention in the European economic and political debate after the contagion of the *subprime* crisis. Allegedly excessive public spending by the peripheral members of the Eurozone before 2008 was used as the crucial justification for the imposition of *austerity* measures that were designed to protect the banking system at the expense of the social majorities.

Figure 2. General government gross debt in terms of GDP of Greece, Italy, Portugal, and Spain between 2005 and 2015



Source: Own elaboration based on Eurostat, 2017a

Figure 3. Private sector debt in terms of GDP of Greece, Italy, Portugal, and Spain between 2005 and 2015



Source: Own elaboration based on Eurostat, 2017b

5. Austerity in Southern Europe

Despite the remarkable failure of structural adjustment programs to foster economic growth and notwithstanding its negative sociospatial impacts, the periphery of the Eurozone has been imposed by the IMF, the ECB, and the European Commission after the global financial crisis of 2008 a similar macroeconomic agenda including tax increases, massive privatizations, welfare cuts, labor flexibilization, wage reduction, and service price increases (Blyth, 2015; Louçã, 2011; Tabb, 2014; Wahl, 2012). As Blyth (2015, p. 10) puts it, "[a]usterity is a zombie economic idea because it has been disproven time and again, but it just keeps coming." Due to the incapacity for the members of the Eurozone to issue their own currencies and manage their exchange rates, and due to the external pressure that was put on the peripheral states in the name of budget balance and stability, the devaluation of labor by means of wage reduction became the only strategy for boosting international competitiveness in a globalized economy (Blyth, 2015; Louçã, 2011; Rodrigues and Reis, 2012).

According to Papatheodorou *et al.* (2012, p. 65), "[h]aving razed the peripheries and semi-peripheries of the South, it is now the turn of the European semi-peripheries". The global financial crisis had a remarkable impact on the countries of the periphery of the Eurozone, which have suffered insignificant economic growth, high unemployment rates, and extraordinary levels of external debt after 2008 (Leahy *et al*., 2015). Between 2007 and 2013, the unemployment rate soared from 8.4% to 27.5% in Greece, from 6.1% to 12.1% in Italy, from 9.1% to 16.4% in Portugal, and from 8.2% to 26.1% in Spain (Eurostat, 2017c). Meanwhile, the percentage of people at risk of poverty or social exclusion increased from 28.3% to 35.7% in Greece, from 26.0% to 28.5% in Italy, from 25.0% to 27.5% in Portugal, and from 23.3% to 27.3% in Spain (Eurostat, 2017d).

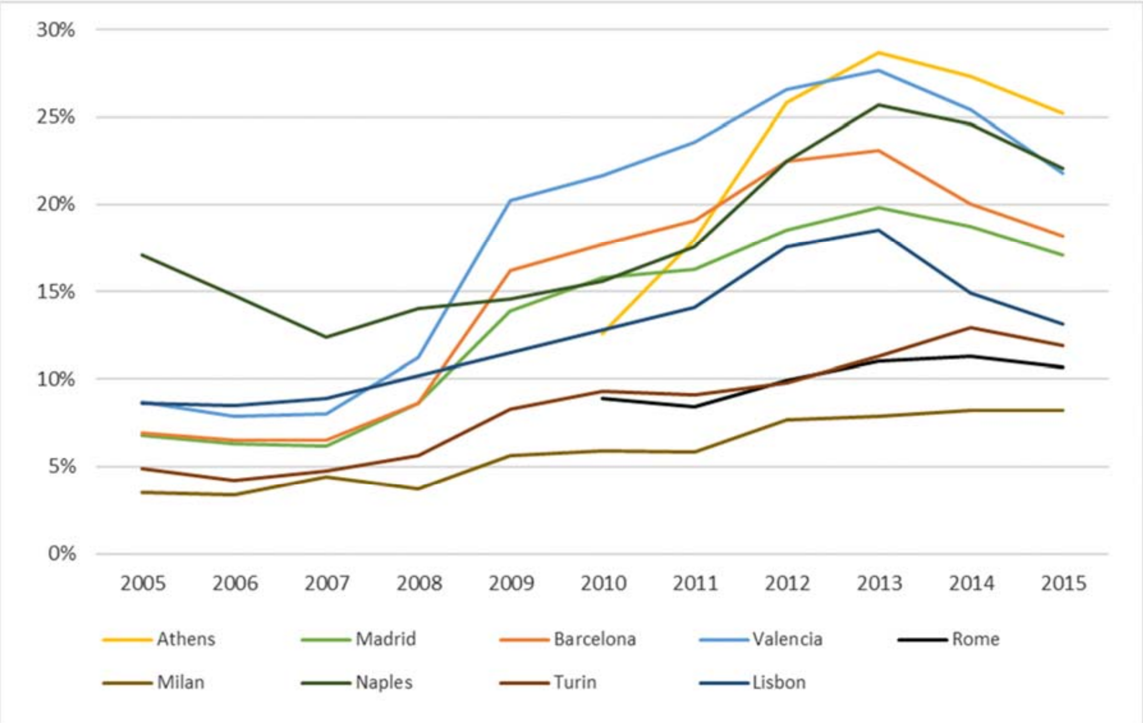
The reduction of welfare provision, public investment, and employment; the increase of taxes on labor and consumption; and the privatization of public assets and strategic industrial sectors under *austerity* have triggered remarkable socioeconomic impacts across Southern Europe—especially in its metropolitan areas (Seixas, 2015). According to Schipper and Schönig (2016, p. 7), the crisis and the way it has been addressed by the European policy makers have "dramatically affected urban regions: indebted homeowners have been evicted, masses impoverished, public budgets squeezed, municipal infrastructures privatized, public services downsized, and, above all, austerity measures implemented". While several European capitals were performing better than their respective national economies before 2008, this pattern has reverted after a global financial crisis whose negative outcomes have been deeper and more visible in the greater metropolitan areas of the European Union (EU) (Dijkstra *et al*., 2015).

Since the financial crisis, local authorities and cities have been active and passive actors in the implementation of *austerity* throughout the continent, the urban space thus becoming a major arena where the reduction of democracy in the name of financial expediency has been exposed (Donald *et al*., 2014; Musterd *et al*., 2015). According to Nel·lo (2015), the dramatic increase of house prices in several cities of Southern Europe until 2007 was followed, after the contagion of the US *subprime* mortgage crisis and the subsequent burst of the real estate bubbles, by a period of great difficulty for many households paralleled by an aggravation of urban segregation and polarization.

6. Unemployment in the largest metropolitan areas of Southern Europe under austerity

Figure 4 displays the evolution of the unemployment rate between 2005 and 2015 in the metropolitan areas of more than two million inhabitants of Greece (Athens), Italy (Rome, Milan, Naples, and Turin), Portugal (Lisbon), and Spain (Madrid, Barcelona, and Valencia).

Figure 4. Unemployment rate (15 years or over) in the metropolitan areas of more than two million inhabitants of Southern Europe between 2005 and 2015



Source: Own elaboration based on Eurostat, 2017e

It evidences an increase of the unemployment rate between 2007 and 2013/2014 in all the metropolitan areas included in the study. During that period, the unemployment rate rose in Milan from 4.4% to 8.2%, in Turin from 4.7% to

12.9%, in Madrid from 6.2% to 19.8%, in Barcelona from 6.5% to 23.1%, in Valencia from 8.0% to 27.7%, in Lisbon from 8.9% to 18.5%, and in Naples from 12.4% to 25.7%. No data is given for Athens and Rome before 2010, but we do know that the unemployment rate increased from 12.6% in 2010 to 28.7% in 2013 in the Greek capital and from 8.9% in 2010 to 11.3% in 2014 in the Italian capital (Eurostat, 2017e).

7. Discussion and final remarks

The structural adjustment programs that were implemented throughout Latin America in the 1980s and 1990s did not foster economic growth (Dreher, 2006; Easterly, 2005; Przeworski and Vreeland, 2000) but fueled unemployment, informality, poverty, and inequality (Bogliaccini, 2013; Pastor, 1987, 1989; Portes and Roberts, 2005; Stiglitz, 2003; Vreeland, 2002). In the greater metropolitan areas of Latin America, the socioeconomic impacts of structural adjustment programs were dramatic. Unemployment rates soared fueled by privatization, labor deregulation, and deindustrialization. As we have seen, the expansion of unemployment was especially dramatic during the 1990s in the capital of Argentina (Portes and Roberts, 2005), a country that constitutes a paradigm of structural adjustment recidivism and was the *poster child* of the IMF until its economy collapsed in 2001 (Blustein, 2006; Easterly, 2005).

As we have seen, Blyth (2015, p. 10) defines *austerity* as a "zombie economic idea" that "just keeps coming" notwithstanding its many resounding failures. Despite the devastation caused by structural adjustment in Latin America and other regions of the Global South in the last two decades of the past century, Southern Europe has been imposed a similar neoliberal macroeconomic reform in the aftermath of the financial crisis. The periphery of the Eurozone has been forced by the IMF, the ECB, and the European Commission to plunge into debt and drastically cut public investment to bail out the financial system at the expense of the social majority (Blyth, 2015; Jones, 2014; Leahy *et al.*, 2015; Palley, 2013; Wahl, 2012). Despite the excessive levels of public debt that are currently registered in Southern Europe being the consequence and not the cause of the financial crisis as suggested by Blyth (2015) and evidenced by the official data of Eurostat (2017a), public debt was used to prepare the ground for the reincarnation of structural adjustment in Southern Europe.

The combination of crisis and *austerity* crushed the purchasing power of the societies of Southern Europe, impoverishing the poor and proletarianizing the middle class. Its significant socioeconomic impacts are evidenced by the dramatic expansion of unemployment at the national and metropolitan levels in

Italy, Portugal, and especially Greece and Spain between 2007 and 2013—paralleled by the spread of the risk of poverty or social exclusion mainly in the two latter (Eurostat, 2017c, 2017d, 2017e).

The severe *austerity* measures that were imposed across Southern Europe in the aftermath of the financial crisis recall the catastrophic market fundamentalism of the Latin American era of structural adjustment and the Washington Consensus. Like the latter in the greater metropolitan areas of Argentina, Brazil, Chile, Mexico, Peru, and Uruguay, *austerity* triggered a dramatic rise of unemployment in the largest urban agglomerations of Greece, Italy, Portugal, and Spain. As the private losses of large and small financial entities at risk of bankruptcy after years of reckless behavior were socialized and transformed into unsustainable public indebtedness, the social majorities of the periphery of the Eurozone have been forced to deal with the negative externalities of financial deregulation under neoliberal globalization.

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