Parliamentary Assembly
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COUNCIL OF EUROPE
CONSEIL DE L'EUROPE

**Doc. 11807**
27 January 2009

# The consequences of the global financial crisis

**Report**[1]
Committee on Economic Affairs and Development
Rapporteur: Mr Kimmo SASI, Finland, Group of the European People's Party

*Summary*

The global financial crisis has plunged the Council of Europe member states and the industrialised countries in general into a severe recession, with a daily litany of alarming statistics about falling consumption, production and investment and rising unemployment.

Governments and central banks are seeking to soften this economic downturn through lowered interest rates and higher spending and tax cuts, but they are also fighting to stabilise the battered financial system with injections of liquidity at growing expense to the taxpayer. Public confidence in the functioning of the economy has been undermined, and dissatisfaction with worsening living conditions has given rise to social unrest. The credibility of governments is at stake.

The report emphasises that greater attention should be paid to the most vulnerable among those affected by the crisis, and that the protection of social and economic rights should be a top priority. It endorses the international efforts that are being made to redress the situation, and calls for greater solidarity between states, not least towards the developing countries. It supports the G20 Summit's recommendations to stimulate the economy, provide liquidity, strengthen financial institutions and protect savings.

1. Reference to committee: Urgent debate, Reference No. 3503 of 26 January 2009.

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**A. Draft resolution**

1. The Parliamentary Assembly notes with concern that a sustained period of economic growth has turned into an almost global recession, which for many countries, it is feared, could be both deep and long. This downturn is largely due to the financial crisis that hit the global economy in 2007-2008, although it coincides with what appears to have been the end of a boom cycle marked by a period of highly inflated commodity and energy prices and the collapse of housing prices. However, the causes of the financial crisis are clear. Growth during the boom cycle was prolonged by interest rates that were maintained at too low a level. Unsound management practices, notably in banks and non-bank financial institutions, became widespread, and financial incentives for their employees were set too high. Complex financial instruments were developed which lacked transparency, and risk management systems failed to operate effectively. Greed was rewarded through excessively generous remuneration systems, which often continued even as financial institutions made huge losses.

2. The Assembly is painfully aware that the deteriorating economic situation is likely to lead to high unemployment, the loss of hard won income and assets and mounting indebtedness for those already in debt. At this time, the Council of Europe Parliamentary Assembly reminds the governments of Council of Europe member states of their responsibility to protect citizens' social and human rights. It is essential that the economy should be redressed as soon as possible but that in the meantime social safety networks should counterbalance the economic downturn. Those countries that have maintained sound state finances during the growth years are now better positioned to guarantee the benefits of existing social safety networks for their citizens.

3. Accordingly, the Assembly is extremely concerned by the disastrous impact that this financial crisis and its economic consequences are having on the living conditions of the citizens of Europe and of the world, which could possibly threaten to undermine the very foundations of democracy.

4. The Assembly considers that the financial institutions have failed in their duty to provide information and the public authorities have not lived up to their responsibilities in regard to supervision of the risks posed by the spread of increasingly sophisticated financial instruments and have, accordingly, not protected citizens and financial players engaging in high-risk transactions.

5. The Assembly welcomes the holding in Washington on 15 November 2008 of the summit of the 20 major economic powers in the world (G20) and the commitments entered into on that occasion by those attending. It fully endorses the summit's recommendations designed to stimulate the economy, provide liquidity, strengthen financial institutions and protect savings.

6. However, the Assembly deplores the fact that the G20 action plan makes no reference to protecting the social and economic rights of citizens in a period of crisis. In this context, the Assembly fully supports the statement of the Officers of the ILO Governing Body, adopted on 21 November 2008, calling for six specific measures "to address the impact of the crisis on the real economy to protect people, support productive enterprises and safeguard jobs", as well as the statement by the Council of Europe Commissioner for Human Rights on 17 November 2008 calling for "a serious programme for the protection of economic and social rights".

7. The Assembly is convinced that strong and effective measures are needed to soften the recession and that the reform of the global financial system can be successful only if it takes into consideration, among other things, the following principles:

7.1. the stability of the financial markets should be ensured by providing liquidity, restoring lending to enterprises, especially small and medium-sized firms, and households and guaranteeing the functioning of financial institutions;

7.2. the level of employment should be raised by stimulating the economy, notably by increasing aggregate demand in order to boost consumer spending, through greater public authority investment in infrastructure and housing, and by stepping up education and training for the unemployed;

7.3. markets and financial products should be made more transparent to enable savers to be better informed about the risks incurred;

7.4. a sense of morality and ethics should be fostered among economic and financial players, particularly with regard to remuneration and benefits, and an ethical code of conduct adopted under which they should operate; in particular, remuneration systems that foster high risk and short-term profits should not be allowed;

7.5. there should be more active parliamentary control and involvement of parliamentarians at national and pan-European levels in order to monitor the application of rules and regulations;

7.6. improved rules governing the financial markets, including rules of accountability, should be created so as to ensure better coverage of the rule of law in this area;

7.7. there should be intense international co-operation between the IMF, the Basel institutions, the G20, the central banks and the financial supervisory authorities with a view to developing effective rules and an international framework for the supervision of financial regulations; the international financial institutions should develop effective early warning systems;

7.8. the credit rating system should be developed so that ratings better reflect reality and the auditors of financial institutions should more closely investigate exposure to risk;

7.9. off-shore tax havens should not escape appropriate financial control;

7.10. governments should be reminded that, despite financial difficulties, citizens' social, economic and human rights must be safeguarded in order to avoid undermining the very foundations of democracy;

7.11. economic measures should promote growth that is both economically and environmentally sustainable; such measures should not lead to a level of indebtedness that endangers new growth nor should they be in contradiction with climate goals;

7.12. governments must do everything possible to restore the public's confidence in the functioning of the economy.

8. Finally, the Assembly emphasises that in this time of crisis, it is vital that economic solidarity, co-ordination and co-operation should be exercised, not only among the Council of Europe member states and between the industrialised states, but also vis-à-vis the developing countries.

## B. Explanatory memorandum, by Mr Sasi[2]

### 1. Introduction

1. At its meeting in Barcelona on 9 January 2009, the Assembly Bureau endorsed the request by the leaders of the political groups that the Assembly should hold a debate under urgent procedure on the consequences of the global financial crisis during the first part of its 2009 Ordinary Session, and decided to refer this matter to the Committee on Economic Affairs and Development for report. The committee appointed the rapporteur at its meeting in London on 23 January 2009. The Assembly having decided on 26 January 2009 to hold this debate, the committee approved this report at its meeting on Tuesday 27 January.

### 2. Overview of the financial crisis

2. This report, which makes no claim to being exhaustive, will not go in detail into the origins of the financial crisis that began in the United States in 2007. Afloat in excess liquidity derived largely from huge Asian savings, United States banks and home-loan institutions had, for some time, stepped up their practice of providing mortgage loans to borrowers at high risk of being unable to repay them (so-called "sub-prime" mortgages). By mid-2007, it was realised that this growing practice was running into difficulty, with declining house prices and home foreclosures up by 93% on the previous year.

3. The banks and home-loan institutions involved had often sold on these risky debts to other financial institutions, which bundled or packaged ("securitised") them into "mortgage-backed securities" and other more complex financial instruments for sale to investors, often through the intermediary of other financial institutions. These sometimes did not look too closely at what they were buying and selling, lured by the temptation of higher yields in a low interest-rate environment, the prospect of mammoth bonuses and falsely reassuring ratings from the credit agencies. The power of United States regulatory agencies to intervene had, in the meantime, been curtailed by a free-market philosophy resulting in deregulation.

4. The extent to which this "toxic debt" had penetrated the financial world became apparent as the crisis unfolded throughout the rest of 2007 and 2008. Major banks, home-loan institutions and insurance companies ran into trouble. Several filed for bankruptcy, were taken over or nationalised, mainly in the United States and Europe. Trust was undermined between financial institutions, which lost faith in the system, and banks virtually stopped lending – the so-called credit crunch – with predictable effects on consumption and investment. Stock markets plummeted as the crisis deepened in September-October 2008. Global financial markets were affected. The entire financial system was threatened with collapse, and governments and central banks soon stepped up their efforts to prevent it.

### 3. General assessment

5. The financial crisis has affected not only financial institutions but also governments at all levels, companies and consumers throughout the world. Its impact will be universal – not only economic, but also political, social, and environmental and in every field from health to education. One of the most damaging consequences of the crisis has been the loss of public confidence in the financial system that underlies the economy, and this must be restored. What is essential is that the effects of the crisis are wisely managed, that governments and central banks respond to the crisis by doing everything possible in a co-ordinated fashion to alleviate its effects. This has already highlighted difficult dilemmas: how far should governments go to save companies that threaten to go bankrupt, using taxpayers' money and indebting future generations? What should governments do to safeguard the interests of their citizens who have invested in failing, foreign-owned companies operating under their jurisdiction? Is there a danger that the rescue plans themselves will weaken the financial system and the economy further?

6. It is, of course, also essential that governments as well as the relevant international organisations see to it, again in a co-ordinated fashion, that all the appropriate lessons are learned from this financial crisis, and that measures are designed and adopted that will reduce the likelihood of such disasters in the future.

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2. The draft resolution was based on the statement adopted by the Committee on Economic Affairs and Development at its meeting on 26 November 2008, at
http://assembly.coe.int/ASP/APFeaturesManager/defaultArtSiteView.asp?ID=820

## 4. Economic outlook for 2009-2010

7. The economic effects of the 2007-2008 financial crisis will be felt throughout 2009 and beyond. Both the International Monetary Fund (IMF) and the Organisation for Economic Co-operation and Development (OECD) have predicted global recession in 2009. Of course, the financial crisis is not, strictly speaking, solely responsible for the downturn, coming at what might anyway have been the end of a boom cycle marked by a period of highly inflated commodity and energy prices.

8. The expected economic impact of the financial crisis for the OECD area of interest, largely representative of the Council of Europe area, is described in the latest *OECD Economic Outlook* (25 November 2008).[3] Although uncertainties surround its forecasts, depending on how quickly the financial crisis is overcome, the OECD sees the overall outcome "as the most serious recession since the early 1980s". Economic activity in the OECD area is expected to fall by an average of 0.4% in 2009, before rising slowly to 1.5% in 2010. Nevertheless, there are sometimes significant variations between countries, with a 9.3% drop in real GDP for Iceland in 2009 against 2008, for example, to a 4% rise for the Slovak Republic.

9. According to the European Commission's advanced interim forecast published on 19 January 2009,[4] world GDP growth is projected to slow down to 0.5% for 2009 as a whole (from 3.3% in 2008 and the exceptionally strong 5% average in 2004-2007). Starting in the second half of 2009, global growth is expected to rise gradually but moderately as the financial market situation improves and the impact of the macroeconomic policy easing (not least in the United States) gains traction. Overall, global GDP growth is expected to be around 2.75% in 2010.

10. With regard to unemployment, the OECD estimates that the number of jobless people in OECD countries will rise by some 8 million over the years 2009-2010, from 34 million (November 2008) to 42 million.[5] According to the EU Commission's interim forecast, the labour market situation started to worsen in most member states in 2008. Reacting with a certain lag to changes in GDP growth, employment growth is expected to turn negative this year, with EU employment falling by 3.5 million jobs. As a result, the unemployment rate is expected to increase to 8.75% in the EU in 2009 (and 9.25% in the euro area), with a further increase in 2010.

11. Above all, in personal terms, unemployment is likely to be the biggest cost of the financial crisis, and deserves to be vigorously offset by a robust government response. The social and political consequences of the 1929 Crash and the Great Depression that followed, with its masses of unemployed, should not be forgotten. However, given the already massive interventions by governments and central banks in injecting capital into the financial system and in launching or planning to launch vast economic stimulus plans, this catastrophic scenario is unlikely to be repeated.

12. According to the OECD, inflation is set to fall in all OECD countries, from an average of 3.3% in 2008, to 1.7% in 2009 and 1.5% in 2010, reflecting reduced demand and sharply lower commodity prices, including oil. This will, of course, give a slight boost to household incomes. According to the EU Commission's 19 January forecast, a rapid weakening in growth prospects for the EU and the global economy, as well as deteriorating labour markets, set the stage for a significant downward revision to the inflation outlook compared to the autumn projection. Consumer-price inflation is now expected to fall from 3.7% in 2008 in the EU (3.3% in the euro area) to 1.2% in 2009 (1.0% in the euro area) and just below 2% in 2010 in both regions.

13. The *OECD Economic Outlook* sees United States output falling during the first half of 2009, then gradually reviving as the effects of the credit crunch wear off, the fall in the housing market begins to level out and the effect of lower interest rates is felt. However, the strength of the recovery will be dampened because of weak spending by households which have incurred large losses in their wealth. United States GDP is forecast to decline by 0.9% in 2009, before rising by 1.6% in 2010.

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3. Published twice a year (November and May), the *OECD Economic Outlook* analyses the major trends and examines the economic policies required to foster high and sustainable growth in its 30 member countries (23 of which are Council of Europe member states and two of which are PACE observer countries). Developments in major non-OECD economies are also evaluated. These include three Council of Europe member states and one PACE observer country.

4. http://europa.eu/rapid/pressReleasesAction.do?reference=IP/09/67. The EU Commission usually publishes its interim forecast in February and only for the EU's seven biggest economies and for inflation and growth in the current year. The present exercise resembles more closely the spring and autumn forecasts and is justified by the exceptionally rapid deterioration in the economic situation and outlook since the autumn and the importance of reflecting this in the annual assessment of member states' stability and convergence programmes.

5. Globally, according to the International Labour Organization (ILO), over 20 million people could be thrown out of work in 2009 as a result of the financial crisis.

14. The euro area will see a similar pattern, according to the OECD, with activity expected to fall over the first six months of 2009, as consumption and investment decline in the wake of tighter lending and the negative wealth effects of stock market losses and depressed housing prices. However, interest rate cuts[6] and the calming of financial market turmoil should then induce a gradual recovery. According to the interim forecast released by the EU Commission on 19 January, in 2009, real GDP is expected to fall sharply, by 1.8% in the EU and 1.9% in the euro area, before recovering by about 0.5% in 2010.

15. In the OECD's view, the recession is expected to be relatively harsh in economies most vulnerable to the financial crisis or to sharp declines in house prices. These include Hungary, Iceland, Ireland, Luxembourg, Spain, Turkey and the United Kingdom.

16. As for Japan, less affected by the financial crisis, a government budget stimulus should produce a short burst of growth in early 2009, but output is likely to stall over the second semester on account of weak external demand and a stronger yen. The OECD even warns of a risk that deflation may return. Japan's GDP is predicted to fall by 0.1% in 2009 then rise by 0.6% in 2010.

17. The global slowdown in growth will also affect the major emerging-market economies such as Brazil, China, India and Russia. Tighter international credit conditions, budgetary restrictions, lower commodity prices and reduced demand in global trade will all play a part. However, given the high growth levels characteristic of these economies in recent years, the downturn will still leave them in a relatively strong growth position (China, for example, from a peak of nearly 12% in 2006 to a forecast of 8% in 2009).

18. The developing countries are likely to be particularly vulnerable to the effects of the financial crisis. On 9 December 2008 the World Bank forecast that world trade was set to contract in 2009 for the first time since 1982. Capital flows to the developing countries were projected to fall by 50%. The recession could cause crisis conditions in many developing countries and set back recent gains in fighting poverty, jeopardising progress towards the realisation of the Millennium Development Goals.

19. The United Nations Chief Executives Board, in an earlier statement, warned that the most serious repercussions of the crisis "will be felt most by those who are least responsible – the poor in developing countries."[7] The Board called on all states "to reaffirm and strengthen their commitments and pledges for development and humanitarian assistance. In the face of the current crisis, official development assistance (ODA) has become even more centrally important to the poor developing countries that are faced with financial constraints, declining liquidity and seriously worsening balance of payments positions."

20. Moreover, the Board called on all states "to re-engage in efforts to conclude the Doha Trade Negotiations. A healthy, open and rule-based trading system is essential to maintaining long-term economic growth to the benefit of all. At a time of strain on economic and social systems, we must resist protectionism and promote openness and inclusiveness."

## 5. Policy reactions

21. Governments and central banks have increased their level of intervention as the situation deteriorated. They have rescued systemically important financial institutions in order to avoid a total meltdown of financial markets; they have eased monetary policy, reducing interest rates in order to counter the recessionary effects of the credit crunch; and they have adopted fiscal measures designed to boost demand and employment, including government spending programmes and tax cuts, in a significant return to Keynesian policies. In addition, they have launched a more or less co-ordinated reform of the international financial system.

22. Throughout 2007 and 2008, the United States Federal Reserve Board responded to the growing crisis with several reductions in interest rates and major injections of capital into the ailing financial system, including banks and non-bank financial institutions. In October 2008, the United States Government adopted, after finally winning over a reluctant Congress, a US$700 billion bail-out plan (the "Troubled Assets Relief Program" – TARP), the largest in United States history. Half of this has been used, with many questions as to exactly how. The new United States Administration wants to use the other half, but is running into some opposition, even from its supporters, who want more transparency and a clear understanding as to conditions of use.

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6. On 15 January 2009 the European Central Bank cut its fixed refinancing rate to 2% (the third time since 15 October 2008, from 3.75 %), in response to weak growth and lower prices.
7. Response of UN Chief Executives Board to Global Financial Crisis, 24 October 2008, SG/2144, ECO/135.

23. But the new United States Administration also plans a major economic recovery package, a sort of fiscal new deal combining government spending and tax cuts. On 15 January 2009, the Democrats in the House of Representatives proposed a bill amounting to some US$825 billion, consisting of about 60% new spending (mainly on Medicaid, education, infrastructure and renewable energy) and 40% tax cuts, that has been worked out in consultation with the incoming president and which, following passage through Congress, should be adopted by mid-February.

24. To finance its response to the crisis, the United States Treasury is expected to borrow US$1.5 trillion in 2009, in addition to current debt that is carried over. The question may be asked whether this can be absorbed and, if not, whether Treasury bond prices might be in danger of collapse. Similar questions can be asked about the creditworthiness of European countries – the sovereign debt of Greece, Portugal and Spain has been downgraded, not to mention the vexed case of Iceland.

25. In Europe, the European Central Bank (ECB) and other central banks have lent massively to banks faced with the evaporation of inter-bank lending in order to provide them with necessary liquidity. These exceptional measures enhanced the ability of banks to refinance themselves and eased liquidity tensions in the money markets. Meanwhile, as concern about inflation in 2007-2008 has given way to recession and even worries about deflation, the central banks have lowered their benchmark interest rates in order to stimulate demand. Governments have also been involved in saving financial institutions in trouble, beginning with the nationalisation of Northern Rock in the United Kingdom and continuing with the United Kingdom Government's £100 billion plan to help banks limit their losses from distressed assets that was announced on 19 January 2009 – this on top of a similar £37 billion plan announced in October 2008.

26. On 11 and 12 December 2008, the Council of the European Union approved a European Economic Recovery Plan, a framework for stimulus measures to be taken by the member states and by EU institutions totalling a target amount of €200 billion, equivalent to some 1.5% of EU GDP. Most of this consists of national stimulus packages already adopted or in the pipeline, but which do not always comprise new spending: for example €20 billion in France, €32 billion in Germany, €80 billion in Italy, €31 billion in Poland, €11 billion in Spain, and €20 billion in the United Kingdom. Aware that such measures would temporarily deepen budget deficits beyond the 3% of GDP allowed under the Stability and Growth Pact, the European Council "reaffirms its full commitment to sustainable public finances and calls on the member states to return as soon as possible … to their medium-term budgetary targets".

27. Both Japan and China have adopted sizeable economic stimulus plans (amounting, respectively, to US $276 billion in October 2008, and US$588 billion in November 2008).

28. The global scale of the financial crisis underlines the necessity for international co-operation to avoid measures that distort competition or effectively shift the problem to other countries. Unfortunately, this sort of solidarity has not been consistently exercised, and decisions have been taken unilaterally when they should have involved consultation. For example, when Ireland decided to guarantee bank deposits without limit, it attracted funds from countries without such generous guarantees. When the United Kingdom froze deposits in the British branch of Iceland's Landsbanki and put that country's Kaupthing Bank under the administration of the British Financial Services Authority (FSA), it turned a financial crisis into a complete collapse, requiring an international rescue operation involving the Nordic and other European countries and the IMF.[8] In this time of crisis, it is vital that international solidarity, co-ordination and co-operation should be exercised, not only between members of the European Union, but also vis-à-vis the more vulnerable Council of Europe member states and other countries in the EU's "neighbourhood".

## 6. Reform of the international financial architecture

29. One of the major consequences of the financial crisis should be a reform of the global financial architecture.[9] On 15 November 2008 the G20 met for a "Summit on Financial Markets and the World Economy", a so-called "Bretton Woods II" Conference in expectation of a thoroughgoing reform of the global financial system. It did, in fact, initiate that process. In the words of the White House summary of the results, the summit leaders "reached a common understanding of the root causes of the global crisis; reviewed

8. Following up the current affairs debate held by the Standing Committee in Madrid on 28 November 2008 on the "world financial crisis: the collapse of Iceland's economy", the Bureau, on 9 January 2009, referred this matter to the Committee on Legal Affairs and Human Rights for report and to the Committee on Economic Affairs and Development for opinion.

9. See also the report under preparation by the Committee on Economic Affairs and Development on the role and relevance of the world economic institutions in an era of globalisation (rapporteur, Mr Sasi).

actions countries have taken and will take to address the immediate crisis and strengthen growth; agreed on common principles for reforming our financial markets; launched an action plan to implement those principles and asked ministers to develop further specific recommendations that will be reviewed by leaders at a subsequent summit; and reaffirmed their commitment to free market principles."

30. It was agreed that "immediate steps could be taken or considered to restore growth and support emerging market economies by: continuing to take whatever further actions are necessary to stabilise the financial system; recognising the importance of monetary policy support and using fiscal measures, as appropriate; providing liquidity to help unfreeze credit markets; and ensuring that the International Monetary Fund (IMF), World Bank and other multilateral development banks (MDBs) have sufficient resources to assist developing countries affected by the crisis, as well as provide trade and infrastructure financing."

31. The summit leaders "agreed on common principles to guide financial market reform", including "strengthening transparency and accountability"; "enhancing sound regulation"; "promoting integrity in financial markets"; "reinforcing international co-operation"; and "reforming international financial institutions".

32. The leaders "approved an action plan that sets forth a comprehensive work plan to implement these principles, and asked finance ministers to work to ensure that the action plan is fully and vigorously implemented."[10]

33. Progress will be reviewed at the next G20, to be held in London on 2 April 2009.

34. This work will run parallel to that of the Commission of Experts of the President of the UN General Assembly on Reforms of the International Monetary and Financial System, chaired by former World Bank Chief Economist and United States Presidential Adviser Joseph Stiglitz.[11]

35. What can already be said is that the International Monetary Fund, which had been viewed as an almost redundant organisation, has now regained its original role as international lender to countries experiencing balance of payments difficulties. It has recently arranged significant loans to Iceland, Hungary, Latvia, Serbia, Ukraine, and Pakistan. Of course, this reinvigorated lending role will inevitably lead again to questions about the loan conditions imposed by the IMF, usually involving budget cuts, and their impact on citizens, as was the case for example following the Asian financial crisis in 1997.

## 7. Social and economic rights

36. The Committee on Economic Affairs and Development of the Assembly, in a statement adopted at its meeting on 26 November 2008, welcomed the declaration approved by the G20, but deplored that it made "no reference to protecting the social and economic rights of citizens in a period of crisis". It is this dimension that has rightly been stressed in statements by Council of Europe representatives, as well as the Director-General of the International Labour Organization, Mr Juan Somavia, among others.

37. In a statement on 20 October 2008, for example, Mr Somavia stressed that world leaders should not just focus on financial institutions when they talk about rescue plans but, most importantly, on individuals, especially those most exposed. He stressed the need for "prompt and co-ordinated government action to avert a social crisis that could be severe, long-standing and global".[12] The crisis would significantly increase unemployment, so measures should be taken to extend social protection and unemployment benefits, facilitate training, strengthen placement services, and provide emergency employment schemes. The crisis had already undermined pension funds invested in the stock market, so pension systems should be given sufficient liquidity to avoid having to sell assets in a collapsed market in order to pay pensions.

38. On 21 November 2008, the ILO Governing Body issued a statement incorporating six measures "required to address the impact of the crisis on the real economy to protect people, support productive enterprises and safeguard jobs."[13] These were: 1. ensure the flow of credit to consumption, trade and investment and stimulate additional demand; 2. protect those most exposed (especially young women and men, informal and precarious workers, migrant workers, the working poor) by extending social protection and unemployment benefits, facilitating additional training and retraining, strengthening placement services, introducing or strengthening emergency employment schemes and targeted safety nets, safeguarding

10. www.whitehouse.gov/news/releases/2008/11/print/20081115-4.html.
11. www.un.org/ga/president/63/PDFs/gfc_concept.pdf
http://klekton.com/ga/president/63/commission/firstmeeting.pdf.
12. ILO/08/45.
13. www.ilo.org

pension systems and developing and enhancing social security and labour protection, including the extension of social security to all; 3. support productive, profitable and sustainable enterprises, together with a strong social economy and a viable public sector so as to maximise employment and decent work, with special measures to safeguard a supportive environment for investment and growth, particularly for small enterprises and co-operatives, which account for the largest share of working men and women in all economies; 4. reaffirm the ILO Declaration on Fundamental Principles and Rights at Work and its Follow-up (1998), recognising the particular significance of the fundamental rights, namely: freedom of association and the effective recognition of the right to collective bargaining, the elimination of all forms of forced or compulsory labour, the effective abolition of child labour, and the elimination of discrimination in respect of employment and occupation; 5. re-emphasise the importance of the tripartite social dialogue and co-operation between governments and the representative organisations of workers and employers in confronting the crisis and minimising the consequences for people, enterprises, rights at work and decent work; and 6. maintain development aid as a minimum at current levels and provide additional credit lines and support to enable low-income countries to cushion the crisis.

39. The Council of Europe Commissioner for Human Rights, Mr Thomas Hammarberg, took up the theme of social rights in a statement on 17 November 2008.[14] "Enormous sums of tax payers' money have been poured into the banking system in order to prevent a global financial meltdown. Ordinary people have been forced to pay for the reckless practices of a few. On top of this, there are already signs that it is the less wealthy who will suffer most from the recession the world is now facing." He called for "concrete programmes which promote social cohesion and prevent any watering down of the already agreed human rights standards", which include economic and social rights" as enshrined in the Universal Declaration of Human Rights, the 1961 European Social Charter and the 1996 revised European Social Charter of the Council of Europe, which remained to be ratified by 22 member states. Mr Hammarberg also warned that "increased unemployment will place a further burden on state budgets and there will be less space for social assistance at a time when needs will inevitably grow. This is likely to cause tensions and perhaps even social unrest. There is a risk that xenophobia and other intolerance will spread further and that minorities and migrants may become targets. Extremists might seek to exploit and provoke such tendencies."

40. The President of the Parliamentary Assembly, Mr Lluís Maria de Puig, in his message on the occasion of Human Rights Day on 10 December 2008, warned that history has taught us that economic crisis generally entails a rise in prejudice and discrimination.

41. Thus, financial and economic turbulence can very easily spill over into the political and human rights spheres. This has been demonstrated again and again in history, and most recently in Bulgaria, Greece, Iceland, Latvia and Lithuania, where public dissatisfaction with deteriorating economic conditions, among other things, has resulted in social unrest and even street violence.

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*Reporting committee:* Committee on Economic Affairs and Development.

*Reference to committee:* Urgent debate, Reference No. 3503 of 26 January 2009.

*Draft resolution* unanimously adopted by the committee on 27 January 2009.

*Members of the committee:***MrMárton Braun** (Chairman), **Mr Robert Walter(Vice-Chairperson)**, **Mrs Doris Barnett** (Vice-Chairperson), Mrs Antigoni Papadopoulos (Vice-Chairperson), MM. Ruhi Açikgöz (alternate: **Mr Mustafa Ünal**), **Ulrich Adam**, **Pedro Agramunt Font de Mora**, Roberto Antonione, **Robert Arrigo,Zigmantas Balčytis**, Mrs Veronika Bellmann, MM. Radu Mircea Berceanu, **Vidar Bjørnstad**, Luuk Blom (alternate: **Mr Tuur Elzinga**), **Mrs Maryvonne Blondin**, MM. Pedrag Bošković, Patrick Breen, Mr Erol Aslan Cebeci, **Mrs Elvira Cortajarena Iturrioz**, MM. **Valeriu Cosarciuc**, Joan Albert Farré Santuré, Relu Fenechiu, Guiorgui Gabashvili, Marco Gatti, **Paolo Giaretta**, Zahari Georgiev, Francis Grignon (alternate: **Mrs Josette Durrieu**), Mrs Arlette Grosskost, **Mrs Azra Hadžiahmetović**, Mrs Karin Hakl, **MM.Norbert Haupert**, **Stanislaw Huskowski**, **Ivan Ivanov**, Igor Ivanovski, Miloš Jeftić, Mrs Nataša Jovanović, MM. **Antti Kaikkonen**, **Emmanouil Kefaloyiannis**, Serhiy Klyuev (alternate: **Mrs Yuliya Novikova**), Albrecht Konečný, **Bronislaw Korfanty**, **Anatoliy Korobeynikov**, **Ertuğrul Kumcuoğlu**, Flemming Damgaard Larsen, **Bob Laxton**, Harald Leibrecht, **Mrs Anna Lilliehöök**, MM. **Arthur Loepfe**, Denis MacShane (alternate: **Baroness Detta O' Cathain**), **Yevhen Marmazov**, Jean-Pierre Masseret, **Miloš Melčák**, **José Mendes Bota**, Attila Mesterházy, **Alejandro Muñoz Alonso**, **Mrs Olga Nachtmannova**, Mrs **Hermine Naghdalyan**, Mr **Gebhard Negele**, **Mrs Miroslawa Nykiel,** Mr **Mark Oaten**, Mrs Ganira Pashayeva, **Mrs Marija Pejčinović-Burić**,

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NB: The names of the members who took part in the meeting are printed in **bold**.

*Secretariat of the committee:* Mr Newman, Mr de Buyer and Mr Chahbazian.