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The social impact of the economic crisis

Report[1]
Social, Health and Family Affairs Committee
Rapporteur: Ms Maria de Belém ROSEIRA, Portugal, Socialist Group

Summary

The current economic and financial crisis calls into question a number of assumptions which have underpinned the member states' economic policies over the last decades, such as deregulation, the primacy of economic criteria in all areas of life and overemphasis on profit and growth. The current crisis is to a large extent a crisis of trust towards the financial and political institutions and towards the global system, which provoked it.

The crisis is understood as a call for change, to translate the Council of Europe's values more strongly into economic as well as social policies. Thus, the report contains an array of policy recommendations to ensure linkages between social progress and economic development.

The report also shows that member states with an elaborate social and health protection system are also economically significantly better placed in meeting the challenges of the current crisis. Countries that have strong and efficiently-run social and health protection systems have valuable inbuilt mechanisms to stabilise their economies and address the social impact of the crisis. For other countries, the priority is to meet urgent needs, while building the foundation for stronger and more effective systems.

Finally, the rapporteur underlines the importance of strengthening dialogue between the various international organisations, in particular with the International Labour Organisation (ILO) and the World Health Organisation (WHO). It encourages greater involvement of the social partners so as to enable the Council of Europe to raise its political profile and play a more prominent role in the area of social rights.

1. References to committee: Doc. 11545, Reference No. 3437 of 18 April 2008 and Doc. 11834, Reference No. 3527 of 30 January 2009.

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A. Draft resolution

1. The current economic and financial crisis calls into question a number of assumptions which have underpinned the member states' economic policies over the last decades, such as deregulation, the primacy of economic criteria in all areas of life and overemphasis on profit and growth. The current crisis is to a large extent a crisis of trust towards the financial and political institutions and towards the global system, which provoked it.

2. In this context, the Parliamentary Assembly recalls its Resolution 1651 (2009) on the consequences of the global financial crisis and its Resolution 1673 (2009) on the challenges of the financial crisis to the world economic institutions.

3. The economic crisis has to be seen in connection with other major challenges that we are facing: climate change, the crisis of energy and of water supply, shortage of food, which have a significant impact in many regions of the world. The challenges of demographic change, the difficulties to have access to health care and the weakening of social security systems in many countries also urge us towards more sustainable policies. A coherent answer to this range of political challenges is required.

4. The Assembly understands this crisis as a call for change. Coming back to “business as usual” will not solve it. To meet the challenges of the crisis it will be necessary to come to significant changes in the economic and social policies of the member states of the Council of Europe.

5. Change should mean to translate the Council of Europe’s values more strongly into economic as well as social policies. It should also mean to significantly reduce the current level of unemployment in the Council of Europe member states. The Assembly is concerned about the increasing segmentation of the labour market, with more and more precarious employment situations and the growing marginalisation of specific groups such as long term unemployed, less skilled people, people with disabilities, or people from migration backgrounds.

6. The current situation fundamentally challenges the functioning of the social systems. For the Assembly, work is not just a productive factor but also a central element of human personality and of participation in society. In the current crisis, learning systems must be accessible and affordable for all members of a society, irrespective of the contractual form of employment. Innovative arrangements providing for transitions between jobs without a break in employment in some member states provide promising experience to avoid the loss of work and income.

7. Change should also ensure a dignified life for all people in Europe, particularly through the sustainable provision of quality social and health services which are essential for people to be able to take up opportunities.

8. Experience and research have shown that member states with an elaborate social and health protection system are also economically in a significantly better position to meet the challenges of the current crisis. Countries that have strong and efficiently-run social and health protection systems have a valuable in-built mechanism to stabilise their economies and address the social impact of the crisis. These countries may need to reinforce existing social protection systems. For other countries, the priority is to meet urgent needs, while laying the foundation for stronger and more effective systems.

9. Solidarity and adequate social security are the keys to overcoming the current crisis. They are also essential to ensure to a fairer – and thus sustainable – future global economic system.

10. In this context, the Assembly refers to and fully endorses the *Decent Work Agenda* and commitments made by the ILO and its constituents in their 2008 Declaration on Social Justice for a Fair Globalisation as well as the *Global Jobs Pact* adopted at the 2009 June session of the International Labour Conference in Geneva. These policies should be based on the following principles and ensure linkages between social progress and economic development:

> 10.1. devoting priority attention to protecting employment through sustainable businesses, quality public services and providing adequate social protection for all as part of ongoing national and international action to aid recovery and development;
>
> 10.2. boosting effective demand and helping maintain wage levels, including via macro-economic stimulus packages;
>
> 10.3. enhancing support to vulnerable women and men hit hard by the crisis, including youth at risk as well as low-wage, low-skilled, informal economy and migrant workers;

10.4. focusing on measures to maintain employment and facilitate transitions from one job to another as well as to support access to the labour market for the unemployed;

10.5. establishing or strengthening effective public employment services and other labour market institutions;

10.6. increasing equal access and opportunities for skills development, quality training and education;

10.7. avoiding protectionist solutions as well as the damaging consequences of deflationary wage spirals and worsening working conditions;

10.8. promoting core labour standards and other international labour standards that support the economic and employment recovery and reduce gender inequality;

10.9. engaging in social dialogue, such as tripartism and collective bargaining between employers and workers as a constructive process to maximise the impact of crisis responses to the needs of the real economy;

10.10. ensuring that short-term actions are coherent with economic, social and environmental sustainability;

10.11. ensuring synergies between the state and the market and effective and efficient regulation of market economies, including a legal and regulatory environment which enables enterprise creation, sustainable enterprises and promotes employment generation across sectors;

10.12. recognising the contribution of small and medium-sized enterprises and micro-enterprises to job creation, and promoting measures, including access to affordable credit, that would ensure a favourable environment for their development;

10.13. increasing investment in infrastructure, research and development, public services and “green” production and services as important tools for creating jobs and stimulating sustained economic activity.

11. The Assembly considers that sustainable social and health protection systems to assist the vulnerable can prevent increased poverty and address social hardship, while also helping to stabilise the economy and maintain and promote employment. To this end, it encourages the member states of the Council of Europe to give consideration, as appropriate, to the following:

11.1. introducing cash transfer schemes for the poor to meet their immediate needs and to alleviate poverty;

11.2. building adequate social protection for all, drawing on a basic social protection floor including: access to health care, income security for the elderly and persons with disabilities, child benefits and income security combined with public employment guarantee schemes for the unemployed and working poor;

11.3. extending the duration and coverage of unemployment benefits, which should go hand in hand with relevant measures to create adequate work incentives recognising the current realities of national labour markets;

11.4. ensuring that the long-term unemployed stay connected to the labour market through, for example, skills development for employability;

11.5. providing minimum benefit guarantees in countries where pension or health funds may no longer be sufficiently funded to ensure that workers are adequately protected, and considering how to better protect workers’ savings in future scheme design;

11.6. providing adequate coverage for temporary and non-regular workers.

12. The above agenda closely interacts with other dimensions of globalisation and requires policy coherence and international coordination. The Assembly considers that international cooperation is particularly important on the following issues:

12.1. building a stronger, more globally consistent, supervisory and regulatory framework for the financial sector, so that it serves the real economy, promotes sustainable enterprises and decent work and better protects savings and pensions;

12.2. promoting efficient and well-regulated trade and markets that benefit all and avoiding national protectionism. Varying development levels of countries must be taken into account in lifting barriers to domestic and foreign markets;

12.3. shifting to a low-carbon, environment-friendly economy that helps accelerate employment recovery, reduce social gaps and support development goals in the process.

13. The Assembly notes that in almost all areas of reform, the revised European Social Charter contains norms which are recognised by most of the member states. Yet both the public and political decision makers are both insufficiently aware of its content. The rights it enshrines must be publicised more widely, and feed into the process of creating a social Europe. The Assembly accordingly calls on member states to ensure that the European Social Charter's relevant key elements are incorporated in national reforms, so as that they can become a reference standard for European social policy.

14. Finally, the Assembly underlines the importance of strengthening dialogue between the various international organisations, in particular with the International Labour Organisation (ILO) and the World Health Organisation (WHO). It encourages greater involvement of the social partners, which would enable the Council of Europe to raise its political profile and play a specific role in the area of social rights.

B. Explanatory memorandum by Mrs Maria de Belém Roseira, Rapporteur

1. Introduction

1. The Report of the High Level Task Force on Social Cohesion in the 21st century, established by the decision of the Third Summit of Heads of States and Government, was adopted by the Committee of Ministers on 17 December 2007. The report stressed that the promotion of social cohesion should be "one of the major elements of the work of the Council of Europe, for which it is a strategic concept, intersecting closely with the achievement of the core objectives of human rights, democracy and rule of law".

2. On 18 April 2008, the Bureau of the Assembly approved the motion for resolution presented by Ms Maria de Belém Roseira and others, which stated that "in order to disseminate the recommendations of the High-Level Task Force among parliamentarians as widely as possible, these should be considered and discussed by the Parliamentary Assembly" – and to this end it entrusted the Social Affairs Committee to prepare a follow up report on this subject.

3. The Report of the Task Force focused on five major challenges, notably (1) Globalisation; (2) Demographic Changes; (3) Migration and Cultural Diversity; (4) Political Changes/Democratic Functioning; and (5) Socio-economic and Health-related Changes. It identified four priorities/recommendations for social cohesion:

3.1. Reinvesting in social rights (social rights to be more strongly promoted and health and education to be developed as rights);

3.2. Greater sharing of responsibilities between public authorities, citizens and social partners;

3.3. Strengthening mechanisms of representation as well as social and civic dialogue in order to improve participation in democratic processes;

3.4. Building confidence in a common and secure future with particular focus on a new social contract, which would also include work/family reconciliation.

4. The rapporteur believes that the recommendations of the High Level Task Force reflect the distinctive Council of Europe approach to social cohesion which is to treat access to rights for all as an essential reference for a cohesive society. However, she would like to make a few comments with a view to adding a broader dimension to the objective of social cohesion. These comments also draw on the hearing held on this subject by the Social Affairs Committee on 27 October 2008 in the Portuguese Parliament, and the rapporteur is grateful to all participants who have contributed to the discussion.

5. At its meeting on 12 March 2009 in Paris, the Committee approved the Bureau's proposal for a modification of the title of the report in order to include the subject on "the social impact and the human dimension of the financial and economic crisis in the Council of Europe's member states" (Reference No. 3527 of the Bureau on 30 January 2009) and the rapporteur has changed the structure of the report accordingly.

2. The European social model and demographic change

6. The rapporteur is convinced that the European social model reflects a common set of values, based on the preservation of peace, social justice, equality, solidarity, the promotion of freedom and democracy and respect of human rights. In the last 60 years this set of common values has allowed a growing Europe to successfully become an area of greater economic prosperity and social justice. Therefore social policies, when appropriately designed cannot be regarded as a cost but, instead, as a positive factor in economic growth. Although European states have different social systems, and have implemented these values in different ways, they commonly aim to attain a balance between economic growth and social solidarity, and this is reflected in the European social model as a unity of values with a diversity of systems.

7. Although applied in various guises, these social systems share a number of common characteristics: they all involve government intervention to reduce poverty and social exclusion, redistribute income more fairly, ensure high levels of health and social security and promote equal opportunities – and relatively high taxes to finance these policies. It is fair to say (and important to remember at present) that the European social model has also been a method of social engineering and that of managing social conflicts.

8. At the same time, it is obvious that today a new vision of the purpose of social policy is needed. Society is indeed undergoing profound upheaval. Ageing populations are increasing pressure on the workforce. By 2050, Europe could have lost nearly 55 million people of working age. Demographic decline is therefore not an abstract and distant event. It is already transforming society, the economy and relationships between individuals and generations. If nothing is done, the labour force will shrink dramatically in many OECD countries in coming years. Both firms and workers will have to adapt to the changes caused by globalisation and technological advances, especially as large, labour-rich countries, such as China and India, become better integrated into the world economy

9. It is therefore becoming a matter of urgency to establish a common approach to meeting the three major challenges of globalisation, technological change and demographic change. The crux of the matter is clear: the European social model must demonstrate its ability to respond effectively to these challenges.

10. Declining birth rates and increasing longevity have produced a significant increase in the share of elderly in the population of most OECD countries over the past three decades. The trend is likely to accelerate sharply in the next decade, as the baby boom generation begins to reach retirement age. These demographic changes may have significant fiscal and economic consequences and pose important public policy challenges for the countries involved.

11. Without major policy changes (such as for instance a re-balancing of social policies and expenditures between generations), the increase in the number of retirees relative to persons active in the labour force will reduce growth in material living standards and put public budgets under mounting pressure.

12. In European countries, it is expected that, by 2050, for every person in retirement there will be only one person in employment. This will put pensions at risk and increase tax pressures on the working population. While all countries are faced with similar challenges, the solutions must naturally take account of national circumstances. In this respect the rapporteur believes that controlled immigration can help Europe overcome the shortages of manpower likely to arise in certain regions or sectors. But it can be only one element in a much more global solution.

13. A new approach to policy on reconciliationof work and family life is also becoming essential. Parental leave, part-time work and flexible organisation of working hours are all of limited value if mothers are the only ones to benefit. Europe will have to “move into top gear” by encouraging women and men to work and consolidating the position of children in society. In addition, European countries need to introduce more active social policies which would essentially mean getting people off benefits and into work instead of keeping people in a state of dependency. We must respond to the demographic challenge by helping young people to enter into the labour market, by giving a new dimension to the policy of equality between women and men and by doing more to encourage the sharing of family and domestic responsibilities.

3. The globalisation paradox

14. The rapporteur believes that the current debate about the social impact of globalisation is characterised by a paradox. On the one hand, most economists highlight the lessons from economic history, namely that more open markets tend to be associated with greater prosperity. Indeed, freer trade and foreign direct investment help realise the welfare gains associated with exploiting comparative advantage. On the other hand, however, there is concern in the public opinion in many countries about the risks that globalisation may entail in terms of jobs and wages.

15. The promise held out by globalisation is to increase standards of living for all by virtue of greater specialisation and higher productivity, cheaper goods and services, better access to credit and capital, and quicker diffusion of technological innovation. At the same time, there are widespread perceptions in many countries that in its current form globalisation is not working. Increasingly, there is a suspicion that its benefits accrue only to a small portion of the population while others gain little, except greater anxiety and a growing sense of precariousness.

16. The rapporteur believes that this paradox can be explained, first of all, by the unprecedented scale of globalisation. The range of countries which participate in globalisation is much broader than was the case in earlier episodes of international economic integration. In particular, Brazil, the Russian Federation, India and China (the so-called “BRICs” in the terminology of the OECD) are becoming major trade and investment partners.[2]

17. More fundamentally, a unique feature of the ongoing process of globalisation is that it concerns many labour-intensive services as well – and not just primarily industry as in the past. This is because globalisation goes hand-in-hand with the rapid adoption of information and communications technology. New technology and declining transportation costs and different costs or non-existence of social protection systems, facilitate the fragmentation of the production of both goods and services, and off shoring of certain tasks to other countries.

18. On the other hand, a major factor explaining the globalisation paradox is that economic integration is occurring in the context of wider earnings inequality and perceptions of job insecurity (for greater detail see the next chapter on the current international context). The policy challenge is therefore to ensure adequate incentives to work, learn and invest, while also avoiding socially-harmful and economically-inefficient income inequalities.

19. The rapporteur feels that it is crucial to address the concerns about the sustainability of the current globalisation regime: public support for furthering international economic integration (and the structural reform agenda more broadly) could wane if the perception that many workers do not benefit from it takes root. There is evidence that social conflict grows when inequalities are perceived to be rising excessively. Social support for pro-globalisation policies will be eroded if low-income groups and the middle class believe that such policies do little to improve their situation or that of their children. It is therefore essential for policy makers to ensure that income inequality does not rise excessively.

20. More generally, in the years after the Great Depression and before the Second World War, the first wave of globalisation of the international economy gave way not only to economic protectionism but, more importantly, to fascist and authoritative regimes in some countries. One of the reasons for the failure was the inability of governments to solve the so-called "Polanyi problem": how to manage the social disruption associated with unfettered economic competition and a global free-market economy.[3] Under the current circumstances, this "problem" might be of increasing relevance again.

21. In this respect, it is fundamental for policy makers to realise that they can play a major role in making the most from globalisation and reducing workforce adjustment difficulties. In other words, the rapporteur believes that "globalisation begins at home" which means that national policies and actions still matter. Establishing a code of good economic and social governance in enterprises and public policies is vital at the national level; it is a prerequisite for successfully addressing the globalisation paradox.

22. The rapporteur also wishes to stress in this context the importance of the "decent work agenda" of the International Labour Organisation (ILO). This concept refers to more than mere dignity. It involved four objectives: minimum standards of work, the minimum wage, social security and social dialogue between workers' representatives and employers. The decent work agenda indeed encompasses the "core labour standards" which set the minimum basis of social rights established by the international community. As an international legal framework on social standards it aims to ensure a level playing field in the global economy. According to the recently-adopted ILO Declaration on Social Justice for a Fair Globalisation, "the four strategic objectives are inseparable, interrelated and mutually supportive … to optimize their impact, efforts to promote them should be part of an ILO global and integrated strategy for decent work" (ILO, 2008).

4. The current international context and its consequences

23. Since 2007, social cohesion has been hit by a number of global developments, in particular financial turmoil, rising food prices and a shortage of raw materials. This has brought an end to the generally rapid growth and strong employment performance exhibited by the world economy almost uninterruptedly since the mid-1990s.

24. Indeed, the financial crisis which developed over the past year and erupted in August 2008 represents one of the more significant threats to the world economy. The credit crunch and the collapse of stock markets affected firms' investment decisions as well as workers' incomes and jobs. Several major economies in Europe practically entered into recession in 2008 and unemployment is on the rise. Important as rescue

2. This development has entailed a major increase in the number of workers whose outputs compete on world markets – it is significative that these four countries account today for 45% of the world labour supply, compared with less than one fifth for OECD countries as a whole.
3. cf. Polanyi, K. *The great transformation,* Boston, Beacon Press, 1957.

packages are, it is crucial to address the structural dimensions of the crisis as well. While the costs of the financial rescue packages will be borne by all, the benefits of the earlier expansionary period were unevenly shared.

25. Looking forward, a critical issue is the extent to which the current financial crisis and slowdown in the world economy may affect disproportionately low-income groups. This is all the more relevant given that, as recent ILO studies have shown, during the high-growth period, income inequality increased in the majority of countries, which may in turn damage the social fabric.[4]

26. The *World of Work Report 2008* demonstrates that as global employment rose by 30% between the early 1990s and 2007, the income gap between richer and poorer households widened significantly at the same time. What's more, compared with earlier expansionary periods, workers obtained a smaller share of the fruits of economic growth as the share of wages in national income declined in the vast majority of countries.

27. Likewise, during the same period, the income gap between the top and bottom ten per cent of wage earners increased in 70% of the countries for which data are available.[5] In combination with rising unemployment and job losses, the fallout from the financial crisis may have long lasting effects on vulnerable groups, and so existing income inequalities could intensify.

28. In this respect, some members of the social affairs committee also voiced their concern in Lisbon that social cohesion would be the first victim of the unfolding crisis. Increases in taxation would not serve to improve services or welfare benefits but to pay off debts and finance government deficits.

29. Other members underlined that economic and financial pains indeed tend to lead countries to pull back from globalisation and openness. It would be, however, wrong to forget that the international economic system has ushered in unprecedented growth and prosperity. It has helped countries to develop, alleviate poverty, improve social conditions, lengthen life expectancy, and carry out social and political reforms. As at the same time the great alternatives to economic integration failed, the choice is not between capitalism and non-capitalism; it is between "good capitalism" and "bad capitalism", between inclusive capitalism and non-inclusive capitalism, between entrepreneurial capitalism and a capitalism based on speculation. Yet, the global capitalist system cannot survive without the help and support from governments around the world and we need to find a fair balance between state and the market.

30. It would be wrong to put "capitalism in the dock", but it is necessary to return to the fundamentals such as the role of labour and production in the economy and the role of the state in the fields of employment, health and social cohesion. In other words, the state is back, but it is also looking evermore bankrupt. Ratios of public sector debt to gross domestic product (GDP) seem likely to double in many advanced economies. The fiscal impact of this financial crisis can, we have been reminded, be as costly as a large war. Thus, the legacy of the crisis is a disaster that governments of slow-growing advanced economies cannot afford to see repeated in a generation. The effort to consolidate public finances will dominate politics for years, perhaps decades.

31. It has also been argued repeatedly that, in order to be sustainable and bring positive outcomes for all, globalisation needs a new regulatory framework, which requires the introduction of an appropriate governance structure at the international level. However, as there is no consensus on how exactly to proceed, few positive steps have so far been taken to this end by bodies such as the G20 and the European Council and, in all likelihood, few will be taken in the foreseeable future.

32. At any rate, the massive injection of government funds has partially "deglobalised" finance at great cost to emerging economies. Moreover, government intervention in industry often has a strong nationalist tinge. It is also obvious that few political leaders are now prepared to go out on a limb for free trade. This all seems the result of a defective international monetary order and it is difficult to know at present how well market-led globalisation will survive all such stresses. Your rapporteur is hopeful, but not confident.

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4. *World of Work Report 2008: Income inequalities in the age of financial globalization, International Institute for Labour Studies*. International Labour Office, Geneva, 2008.

5. As the report has shown, the gap in income inequality is also widening – at an increasing pace – between top executives and the average employee. For example, in the United States in 2007, the chief executive officers (CEOs) of the 15 largest companies earned 520 times more than the average worker. This is up from 360 times more in 2003. Similar patterns, though from lower levels of executive pay, have been registered in Australia, Germany, Hong Kong (China), the Netherlands and South Africa.

33. As a consequence, the international governance regime will probably remain under-institutionalised and the task of protecting societies from the potentially undesirable consequences of globalisation will still fall largely, if not exclusively, on national-level institutions, however weakened these may be at the moment. Hence the need to focus on some of these institutions, in particular on those that have to do with workers' rights, trade unions and collective bargaining.

34. Without swift and co-ordinated action across nations, there is every chance of already rising resentment among the ever-swelling ranks of the unemployed spilling over into popular unrest, threatening the very existence of "open access" societies. Preserving the basic principles of the free market system must be the paramount purpose of policy around the globe, even though unfettered markets would seem manifestly to have failed us. Without such freedoms, societies become dominated by corrupt political and economic elites, excluding the less fortunate and depriving economies of their creativity and ability to innovate.

35. The risk of a severe backlash against free market policies, with creeping trade, financial and labour market protectionism, is now obvious. Lax regulation allowed financial markets to run amok, and anti-capitalist sentiment is now rising fast across the globe. Yet it is not the free market system as such that failed. Rather it has lost its sense of social and ethical purpose, became corrupted, and therefore also became unsafe and unfair. Therefore we need a socially more responsible market economy.

36. As was underlined by members, income inequality in the advanced economies is likely to worsen. Therefore, it is important to ramp up social programs to provide assistance to the innocent victims of the crisis and to repair the damage done to pensions, retirement accounts, and the housing market. Governments should use policy tools (fiscal, monetary, social) to ensure that low-income households do not disproportionately bear the costs of the economic slowdown. They should put in place appropriate social safety nets to help lower income households through the recovery period. In addition they should establish income limits (in compliance with the prevailing attitudes and traditions in each and every country) in order to avoid unacceptable income inequalities.

37. Moreover, the rapporteur favours an approach that combines strong social systems with active measures to assist workers during periods of transition, as is the case in Scandinavian countries. Well-functioning labour markets and quality in working life are the key to the kind of innovative Europe we want to emerge.

38. In this respect, the rapporteur also wishes to underline the essential role of social partners. Many of the solutions linked to improving flexibility and security in the workplace lie at business or branch level and depend largely on good cooperation between the two sides of industry. The discussions will not be easy, but the full backing of the social partners is vital. A joint contribution from them on the issue of flexicurity would be a very important step forward in Europe's quest for more and better jobs.

5. The social impact of the economic crisis

39. Social security systems are responding to the economic crisis by adopting measures that aim to alleviate the social impact of the downturn. But the severe pressure on schemes caused by the crisis may have policy implications in the medium- and long- term.

40. Budgetary pressures due to the enormous rescue packages cannot be absorbed “inflation free” and they will inevitably lead to pressures on government expenditure and hence social transfers. Thus, there is a risk that social transfer recipients should pay the bill.

41. According to an international survey conducted by ISSA (the International Social Security Association), a body that is linked to the ILO, public pension schemes suffered important investment losses in 2008.[6] These losses, combined with increased expenditure – primarily due to the rapid rise in unemployment – and a reduction in contributions, are placing intense pressures on some schemes.

42. Some of the impacts on social security schemes are obvious, starting with demands on unemployment insurance and social assistance schemes which will be suffering like all other social security schemes from the double burden of declining tax or contribution income and increasing expenditure due to increasing numbers of beneficiaries.

6. Survey on social security in times of crisis, published by ISSA, 23 April 2009.

43. Yet, in crisis conditions, the provision of social assistance and social security benefits paid to unemployed workers and other vulnerable recipients act as social and economic stabilizers. Benefits not only prevent people from falling further into poverty, but also limit the contraction of aggregate demand, thereby curtailing the potential depth of the recession. This should therefore be the time to strengthen social security benefits, where systems exist, or to introduce systems, where no such system exists yet.

44. It is critically important that increasing resources for social security are included as part of the respective economic stimulus packages. Such transfers alleviate the risk of poverty immediately for those who lose their jobs or are not able to work while, at the same time, stabilising the demand for goods and services produced by those who still have jobs.

45. The rapporteur wishes to underline the particular role of social security and health protection systems in restoring economic and social stability during the crisis and beyond. Obviously, governments should avoid cutting allocations to finance social security benefits; on the contrary, there is a clear need to enhance social security systems.

46. Governments have recognised the need, and are reacting using a variety of measures and additional allocations to different social security programmes are also part of the crisis response measures in many other countries.

47. In the rapporteur's view, three things are needed. The first is a fundamental overhaul of existing social security and health systems and the correction of mistakes made during the last two decades in countries where social security systems are already fairly developed. The second and perhaps more fundamental task is to introduce sound social security systems in countries where only rudimentary systems exist so far. The third and most challenging task would be to combine these two measures into a coherent long-term development paradigm for national social security and health systems.

48. The crisis bears the risk that we are only seeking short-term quick fixes to poverty and insecurity while neglecting longer term solutions that would help to correct the fundamental inequities in the global economy and society.

49. Finally, social and health protection and security systems are one of the most powerful expression of social cohesion as well as the most effective mechanism to protect individuals and the whole society against social risks. The impacts of the crisis on social security schemes are numerous: for example increase of requests on unemployment insurance and social and health assistance (as insecurity is an important cause of mental disorders and health related problems). These systems like other social security schemes will feel the impact of the decline of tax or contribution income and the increased expenditure due to the rising numbers of beneficiaries. The economic downturn also threatens savings and investments devoted to pensions and other branches of social security.

50. The rapporteur is convinced that social security can play an important role in re-establishing economic and social stability during the crisis and beyond. Therefore governments should avoid cutting allocations to finance social and health security benefits; on the contrary there is a need to enhance social and health security systems, in accordance with the idea that "health is wealth".

51. This very same was recognised by the ministers responsible for social cohesion of the Council of Europe member states, during the conference held in Moscow on 29 February 2009, in particular with regard to the promotion of social rights, sharing responsibilities and strengthening mechanisms of representation and social and civic dialogue and building confidence in a secure future for all, committing themselves, taking into account the transversal approach to social cohesion, to develop an integrated social cohesion policy in conformity with national conditions.

52. Given that the Council of Europe considers access to social security as a human right, the Council of Europe's legal instruments in this field (the European Code of Social Security, Protocol and Revised Code) provide substantive and quantifiable standards thus ensuring a decent level of protection. These instruments should continue their contribution to the integration of the social dimension into the future financial and economic order.

6. Concluding remarks

53. The economic crisis we are currently experiencing requires a new role for economic and social policies. We know from past experiences that severe financial crises cause economic recessions that are extremely costly in human, social and economic terms. There is every reason to believe that the looming recession we now face could be particularly severe unless we react quickly to block the channels by which it spreads to hit the lives of the most vulnerable people and enterprises.

54. The decisions taken in just about every country in the world to inject funds and bring down interest rates have proved incapable of firmly reviving the economy. The rapporteur thinks that finding a way out of the crisis depends crucially on the public authorities' ability to conduct long-term strategies and to equip globalised capitalism with institutions and rules.

55. The time has come to emphasise the social role of the economy, the economy in the service of individuals and their development, and not the role of individuals in the service of the economy and the increasing of wealth.

56. It would be therefore essential to reverse the recession, not only by emergency measures to rescue banks and finance companies, but also by:

56.1. maintaining and enhancing social and health protection systems to support working women and men and their families who are now suffering job and income losses as a result of a crisis for which they had no responsibility;

56.2. ensuring that productive enterprises, and in particular small businesses which employ a large share of the workforce in all countries, are able to access affordable credit lines, avoid layoffs and wage cuts and prepare for recovery.

57. We must rebuild the regulatory regime for global finance markets to reduce chronic volatility and instability. The new regime for market economies must be founded on the old ethic that good hard work deserves a fair reward. Our financial systems must support, not undermine, fairness in society and the importance of sustainable enterprises and decent and productive work to stable, peaceful communities. We need financial policies that promote productive investment, restrain speculative behaviour, ensure transparency and rebuild credibility in the system. And in an open international system, the quality of national banks and other financial institutions practices and instruments should be subject to international standards of supervision.

58. The current crisis and its dramatic scale are, in the rapporteur's opinion, largely the result of the predatory behaviour of some economic players towards individuals and of the absence of codes of conduct applicable to enterprises and decision-makers to which we have shown a certain amount of indifference and indulgence. We all allowed the value of goods to overcome the value of values and the replacement of solidarity by greediness.

59. Politicians and lawmakers face now a massive challenge if they are to rebuild trust, and it is for us to take decisions that will re-establish the long-term stability of our economic system. There are no easy answers, but an honest recognition of the seriousness of what we face and the need to make hard choices for the future is a prerequisite to making the right decisions in the long run.

60. Public trust in our political institutions is also being severely tested. The euro zone faces huge pressures from a one-size-fits-all monetary policy, and there may be further shocks in the system to come. On the rule of law, we have already seen some public unrest as a result of falling living standards and the loss of jobs and opportunity. There are renewed pressures and tensions relating to migration, and protectionist tendencies are also on the rise. Yet, the rapporteur believes that the 'beggar thy neighbour' approach is simply not a solution.

61. The rapporteur wishes to stress again that one of the greatest casualties in all of this has been trust. However, trust is fundamental to the strength of the democratic process. It has taken a battering and the blame culture is omnipresent, where blame is not only directed at financial institutions and regulators, but at governments. 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. All of us have to do our best in our countries and communities to rebuild that trust.

62. Social cohesion should not be the first victim of the crisis. In other words, it is essential that the effects of the crisis are wisely managed and that governments and banks respond by doing everything possible in a co-ordinated fashion to alleviate its effects. Measures should be taken to extend social protection, facilitate training, and provide emergency employment schemes. It is especially important to protect those who are most exposed in the labour market, such as young men and women who do not yet have jobs.

63. For the Council of Europe, the most important thing is that the economic crisis will probably lead to fairly high unemployment among our populations. People will lose their hard-won income and assets. The main duty of the Assembly is to remind people that the governments of our member countries must take responsibility and protect our citizens, especially their social and human rights, even in this crisis. In democracies, their legitimacy depends on that.

64. Hence the need for concrete programmes which promote social cohesion and prevent any watering down of the already agreed human rights standards. These include obviously 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 still remains to be ratified by 22 member states.

65. It is now therefore time for the Council of Europe to apply renewed vigour to achieving the objectives for which it was set up, playing the part of an institution actively campaigning for the defence, promotion and spread of human rights.

66. It is easy, in the face of a crisis, to give in to the temptation of restricting rights, believing this to be a way of stimulating the economy. Yet, the rapporteur believes that, quite the contrary, the strengthening of rights would reinforce the public authorities and make them more determined to get the economy moving.

67. In the overall framework of human rights, social rights have a vitally important role. They are a factor in social stabilisation, and thereby help to prevent outbursts of social revolt caused by breakdowns which maintain a widespread perception of injustice (As Pope Benedict XVI has put it: “Someone whose dignity is violated with impunity becomes an easy prey to listen for the appeals of violence.”). It is social rights alone which, in an objective and binding manner, protect the right to dignity, to decent work, to the prevention of social risks, to fair trade and to protection of the environment. Only through social rights are the rights of generations to come protected, for children growing up in a deprived situation will not have the fundamental conditions that they need to develop their potential to the full.

68. It is important to emphasise that social cohesion is a political question, with a view to ensuring social justice. Social rights are a legal question, and a precondition for the achievement of social justice. The promotion of such justice, however, also requires economic rights.

69. It will be one of the main tasks of the Council of Europe in the 21st century to draw attention, through the European Court of Human Rights, to the legally binding nature of the human rights enshrined in the revised European Social Charter. Rights can be demanded. Charity is gratefully received, but it does not constitute a right.

70. This is why it is essential to highlight the binding nature of the human rights defined in the revised European Social Charter and the Council of Europe’s role as the “shield” protecting human rights in general, and social rights in particular, for it is through the granting to them of human rights that individuals acquire their legal personality and the right to develop their full potential.

71. The rapporteur is therefore in favour of a return to Keynesianism in public economic policies, now an ecological Keynesianism, requiring the state to fulfil its responsibility to intervene by conducting policies designed to protect employment and to create the conditions needed for the exercise of social rights. This is the only way of building a base of confidence and stability which will enable enterprises to obtain credit and families to attain the income stability and predictability capable of guaranteeing a level of consumption that can stimulate the economy.

72. The recognition, consecration and respect of social rights, in this context, are preconditions to the success of economic policies. Social rights are valid in themselves, for their consecration confers dignity on every person, as an individual and as a member of the community. Social rights are in fact part of the fabric of social cohesion, rectifying inequalities of both origin and situation. They nevertheless also play a structural role in the exercise of active citizenship, making them vital to the process of perfecting democracy and the rule of law.

73. Finally, the rapporteur considers that in nearly all areas of reform, the revised European Social Charter contains provisions which most of the member states accept. Yet the public and the political decision-makers are both insufficiently aware of its content. The rights it enshrines must be publicised more widely, and feed into the process of creating a social Europe. As it is also stated in the recommendations of the High-Level Task Force on Social Cohesion in the 21st Century: "it is necessary to add more value to the work of the Council of Europe on social cohesion which tends to remain too confidential, known only by a relative small group of civil servants and specialists."

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Reporting committee: Social, Health and Family Affairs Committee

References to committee: Doc. 11545, Reference No. 3437 of 18 April 2008 and Doc. 11834, Reference No. 3527 of 30 January 2009

Draft resolution adopted by the committee on 14 September 2009

Members of the committee: Ms Christine McCafferty (Chairperson) (alternate: Mrs Betty **Williams**), Mr Denis Jacquat (1st Vice-Chairperson), Ms Darinka Stantcheva (2nd Vice-Chairperson), Ms Liliane **Maury Pasquier** (3rd Vice-Chairperson), Mr Frank Aaen, Ms María del Rosario Fátima Aburto Baselga, Mr Francis **Agius**, Mr Konstantinos Aivaliotis, Mr Farkhad Akhmedov, Mr Milos Aligrudić, Ms Magdalina Anikashvili, Ms Sirpa Asko-Seljavaara, Mr Jorodd Asphjell, Mr Lokman **Ayva,** Mr Mario Barbi, Mr Andris Berzinš, Mr Roland Blum (alternate: Mr Laurent **Béteille**), Ms Olena **Bondarenko**, Ms Monika Brüning, Ms Boženna Bukiewicz, Ms Karmela Caparin, Mr Igor Chernyshenko (alternate: Mr Valery **Parfenov**), Mr Agustín **Conde Bajén**, Mr Imre Czinege, Mr Karl Donabauer, Ms Emilia Fernández Soriano (alternate: Mrs Blanca **Fernández-Capel Baňos**), Ms Daniela Filipiová, Mr Ilja Filipović, Mr André Flahaut, Mr Paul **Flynn**, Mrs Doris Frommelt, Mr Marco Gatti, Mr Ljubo Germič, Ms Sophia Giannaka, Mr Marcel Glesener (alternate: Mr Jean **Huss**), Mr Luc Goutry, Mrs Claude Greff, Mr Michael Hancock, Mrs Olha **Herasym'yuk**, Mr Ali Huseynov, Mr Fazail Ibrahimli, Mrs Evguenia Jivkova, Mrs Marietta Karamanli, Mr Włodzimierz **Karpiński**, Mr András Kelemen, Mr Peter Kelly, Baronness Knight of Collingtree, Mr Haluk **Koç**, Mr Oleg Lebedev, Mr Paul Lempens, Mr Andrija Mandić, Mr Bernard Marquet, Mr Félix Müri, Ms Christine Muttonen, Ms Carina Ohlsson, Mr Peter Omtzigt, Ms Lajla Pernaska, Mr Zoran Petreski, Ms Marietta de Pourbaix-Lundin, Mr Cezar Florin Preda, Ms Vjerica Radeta, Ms MariaPilar Riba Font, Mr Walter Riester, Mr Nicolae Robu, Mr Ricardo Rodrigues, Ms Maria de Belém **Roseira**, Ms Marlene Rupprecht, Mr Indrek Saar, Mr Maurizio Saia (Alternate: Mr Giacomo **Stucchi**), Mr Fidias Sarikas, Mr Ellert Schram, Ms Anna Sobecka, Ms Michaela Šojdrová, Ms Arũné Stirblyté, Mr Oreste Tofani, Mr Mihai Tudose, Mr Oleg Tulea, Mr Alexander Ulrich, Mr Mustafa Ünal, Mr Milan Urbáni, Mr Luca **Volonte'**, Mr Victor Yanukovych, Mr Valdimir Zkidkikh, Ms Naira Zohrabyan

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

Secretariat of the committee: Mr Mezei, Ms Lambrecht, Ms Arzilli