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The political consequences of the economic crisis

Report¹

Committee on Political Affairs and Democracy

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Summary

The present global financial and economic crisis is the worst since the great depression in the 1930s. The Parliamentary Assembly is worried by the political consequences of the European sovereign debt, its impact on society and on the functioning of democracy.

It recommends an active involvement of national parliaments in European affairs and in the process of economic and financial governance and calls on governments to adopt a more European co-ordinated and unified approach to face the crisis.

1. Reference to committee: [Doc. 12066](#), Reference 3625 of 25 January 2010.



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A. Draft resolution²

1. The history of Europe and the world has shown that economic crisis may have extremely nasty consequences at many different levels. The Parliamentary Assembly discussed the consequences of the global financial crisis in January 2009 and the social impact of the economic crisis, the impact of the global economic crisis on migration in Europe, women and the economic and financial crisis and investing in family cohesion as a development factor in times of crisis in April 2010.
2. Already in January 2009 [Resolution 1651 \(2009\)](#) hinted that the present crisis “could possibly threaten to undermine the very foundations of democracy” and proposed to remind governments “that despite financial difficulties, citizen’s social, economic and human rights must be safeguarded”. Unfortunately, one and a half years later, many Council of Europe member states are no longer in a position to “stimulate the economy, notably by increasing aggregate demand in order to boost consumer spending, through greater public authority investment in infrastructure and housing”.
3. On the contrary, some governments are bound to reduce spending and therefore they will need one or more of the following measures: reduction of public investment, freezing or reduction of public service labour force, increase of taxes, increase of retirement age and freezing or reduction of salaries and pensions. Several governments have already announced cuts in public sector salaries. The social consequences will certainly be much more severe than those foreseen in previous Assembly debates. We already deplore the loss of three lives in Athens in the beginning of May.
4. The global economic crisis which confronts Europe today is extremely serious and challenges us all at not only national but also at European and international levels. It is therefore very important that European politicians work together to solve it on the basis of an equitable burden sharing for their population.
5. This crisis provides parties and movements of the extreme left and right with the opportunity to blame failures on mainstream parties in order to gain more popularity for themselves. It is to be regretted that in some countries mainstream parties adopted extremist language.
6. Recent national and European elections do not seem to confirm the fear that dissatisfaction with mainstream parties would lead to massive votes for extremist parties and movements. Extremist parties remain however a concern, in particular in the circumstances where populations refuse to accept the austerity packages imposed upon them.
7. The Assembly recalls that a common currency (a monetary union) implies a common monetary policy and notes that such policy does not work in the long term when there are wide differences on economic, budgetary and fiscal policies among their members. It regrets that the stability and growth pact which accompanied the introduction of the euro was not rigorously observed by many of the member states to which it applied.
8. The Assembly welcomes the announcement on 10 May 2010 of a package of emergency measures amounting to 750 billion euros – of which 250 billion from the International Monetary Fund – “to defend the euro and euro-zone economies”.
9. The on-going crisis has shown that we are still very far from a Europe without dividing lines: among the member states of the Council of Europe, there are members and non member states of the European Union. And among the European Union member states, there are those in the eurozone and those outside of it. It is worrying to see the difference in treatment of each category.
10. The Assembly therefore recommends that member states:
 - 10.1. adopt a less national policy and a more European coordinated, unified and coherent reaction to face the global economic crisis;
 - 10.2. pay more attention to the fight against corruption inside state institutions;
 - 10.3. reinforce the democratic process within the European Union through the active involvement of national parliaments.
11. The Assembly recommends that national parliaments:
 - 11.1. assess much more effectively the short, medium and long term economic consequences of legislation, with a particular emphasis on national budgets;

2. Draft resolution adopted by the committee on 1 June 2010.

11.2. monitor closely the reform process of economic and financial governance.

12. Finally, the Assembly welcomes the initiative of the Political Affairs Committee to organise, together with the Committee on Economic Affairs and Development, a hearing on the political impact of the economic crisis on society, with the participation of the Human Rights Commissioner.

B. Explanatory memorandum by Mr Zingeris, rapporteur

1. Introduction

1. The report has its origin in the motion for a recommendation on “The economic crisis and the legitimacy of democracy in Europe” (Doc. 12066). At its meeting in January 2010, the Political Affairs Committee wished to change the title as it was not the legitimacy of democracy but its functioning which was at stake. At its meeting in March the committee approved the new title proposed by the rapporteur.

2. The global economic crisis has had an impact on the minds of people in Europe, paving the way to increasing radicalisation. Leaders of non-parliamentary parties of the extreme left and extreme right are taking every opportunity offered by the harsh economic situation to gain more popularity. Dissatisfaction for the ruling parties tends to increase abstentions and this also plays in favour of extremist parties. On the other hand, the dimension of the crisis in Greece (and other countries) and the brutal measures implemented to fix the situation have already triggered social unrest, which could undermine democracy itself. If there is a danger for democracy in Europe, what should the Parliamentary Assembly do to avoid it?

2. Historical reminder

3. In October 1929, the collapse of the New York Stock Market gave way to the Great Depression. American investors recalled their short-term loans from Germany and, in early 1931, one of Germany's three largest joint-stock banks collapsed. The German economy depended on American loans and, without them, production dropped and exports also declined. The number of unemployed rose from two million in 1929 to 6 million (one fourth of the working population) in the early months of 1932. The German governments from 1929 to 1933 failed to solve any of the grave economic problems of the day: mass unemployment, inflation and industrial decline.

4. Faced with economic hardship, the Germans lost faith in the functioning of democratic institutions. The middle classes and the working classes were the most discontented groups, having been ruined by two economic collapses within six years. They turned to the two extreme parties for desperate remedies: the Nazis and the communists. In the general election of September 1930, the Nazis won 6.5 million votes, took 107 seats in the Reichstag and became the second largest party in the country. The communists obtained 4.5 million votes and 77 seats. Although the social democrats remained the largest party, they had lost much popularity and support.

5. In order to avoid what was perceived as a real threat of a Bolshevik Revolution in Germany, Hindenburg invited Hitler to become Chancellor in January 1933. It took him very little time to crush opponents and to become the autocratic ruler of Germany, thus paving the way for the Second World War and for the Holocaust.

6. The Great Depression was not the single, or even the most important cause of the Second World War. In addition, for a substantial number of reasons – not least the existence of the Council of Europe and the European Union – the situation today cannot be compared to that of the 1930s. It is, however, our role to avoid, by all means available, any serious consequences of the present financial crisis.

3. The economic crisis in Europe

7. The financial crisis that has hit the global economy since the summer of 2007 is the worst since the Great Depression of the 1930s.

8. It was triggered by an unreasonable growth of “bad” credit and amplified when a major US investment bank (Lehman Brothers) defaulted in September 2008. Confidence collapsed, investors massively liquidated their positions and stock markets went into a tailspin. From then onwards the European economies entered the steepest downturn on record since the 1930s.

9. The transmission of financial distress to the real economy evolved at record speed, with credit restraint and sagging confidence hitting business investment and household demand, notably for consumer durables and housing. The cross-border transmission was also extremely rapid, due to the tight connections within the financial system itself and also the strongly integrated supply chains in global product markets. Real GDP in the European Union area is estimated to have shrunk by some 4% in 2009, the sharpest contraction in its history. Forecasts for 2010 indicate a very limited growth. Unemployment, which has risen some 4% in the last two years, is not expected to ease in 2010.

10. The crisis affected all countries in some ways, but certain countries were more affected than others. By measuring [currency devaluation](#), [equity market](#) decline and the rise in [sovereign bond](#) spreads, a picture of financial devastation emerges. Since these three indicators show financial weakness, taken together, they capture the impact of the crisis. The [Carnegie Endowment for International Peace](#) reports in its [International Economics Bulletin](#) that a central and an eastern European country – [Hungary](#) and [Ukraine](#) – were the European countries most deeply affected by the crisis.

11. The International Monetary Fund (IMF) has already approved financial assistance to Hungary, Ukraine, Iceland and Latvia in 2008 and to Serbia, Romania, Poland and Bosnia and Herzegovina in 2009. As is the usual practice, such assistance was linked to the adoption of severe measures of financial and economic austerity.

4. First reactions to the crisis

12. In December 2008, [Greece](#) experienced extensive [civil unrest](#) that continued into January 2009 and then again in late February 2010 when many Greeks took part in a massive [general strike](#) because of the economic situation and shut down schools, airports and many other services. In January 2009, the Government of Iceland was forced to call elections two years early after mass protests and clashes with the police due to the government's handling of the economy. Hundreds of thousands protested in France against President Sarkozy's economic policies. Prompted by the financial crisis in Latvia, the opposition and trade unions organised a rally against the cabinet of Premier Ivars Godmanis. The rally, which gathered some 10 to 20 thousand people, turned into a [riot](#). Police and protesters [also clashed in Lithuania](#). Communists and others rallied in Moscow to protest against the Russian Government's economic plans. Ireland and the United Kingdom also experienced street protests.

13. Beginning on 26 February 2009, an economic intelligence briefing was added to the daily intelligence briefings prepared for the President of the United States. This addition reflected the assessment by United States intelligence agencies that the global financial crisis presented a serious threat to international stability. In March 2009, the British think tank Economist Intelligence Unit published a special report entitled "Manning the barricades" in which it estimated "who's at risk as deepening economic distress foments social unrest". The report envisioned the next two years filled with great social upheavals, disrupted economies and toppled governments around the globe. *Business Week* stated in March 2009 that global political instability was rising fast due to the global financial crisis and was creating new challenges.

14. Eastern European governments seem more vulnerable as they have limited policy options to address the crisis and little or no room for fiscal stimulus due to budgetary or financing constraints. Deeply unpopular austerity measures, including slashed public wages, tax hikes and curbs on social spending will keep fanning public discontent in the Baltic states, Hungary and Romania. Dissatisfaction linked to the economic woes will be amplified in the countries where governments have been weakened by high-profile corruption and fraud scandals (Latvia, Lithuania, Hungary, Romania and Bulgaria).

5. The European sovereign debt crisis

15. The situation is, however, also extremely bad in western Europe. Late 2009 the new government in Greece announced that the country's financial situation was much worse than what was thought, not least because the previous government had falsified the national accounts. Early in 2010 it was clear that Greece would not be able to service its debt by itself. When such a situation happens (and it happens regularly to many countries) the usual "treatment" used to be IMF support linked to a more or less brutal austerity package.

16. Greece, however, being inside the eurozone, was considered different (from Hungary, Latvia, Romania and Poland) and European leaders, while incapable of assessing the magnitude of the problem, refused to seek IMF help fearing that this would strike a blow to the euro. It took the European Union three months of discussions about how to help Greece and at the same time making it pay for its mistakes and issue a warning to other over-spending countries and also to the markets.

17. This delay, which the public opinion, rightly, blames on Germany, did not avoid the implication of the IMF – with its austerity package – and resulted, *inter alia*, in the amount growing from some €30 billion to €110 billion. And the euro reached historical lows against other currencies. The lack of solidarity shown also fuelled nationalistic and even xenophobic discourse. Social unrest in Greece led to the loss of three lives.

18. The present Greek crisis has both external and internal causes. The external causes are of course linked with the global economic and financial crisis. Speculation on the capacity of Greece to honour its debt only made things worse. Among the internal causes are a slow growing not much diversified economy, government overspending (and cheating about it), endemic corruption and large-scale tax evasion. In addition, being in the eurozone, Greece lacked the possibility of using monetary policy to correct the situation where wages kept growing faster than productivity.

19. It is worth mentioning that a common currency (a monetary union) implies a common monetary policy and, as the recent evolution tells us, it cannot work when there are such wide differences on economic, budgetary and fiscal policies among their members. The decision to create the euro was political, not economic, and it was hoped that the economies of participating states would converge. They did not. At the outset there were a number of criteria set up to ensure compatibility but soon one country after the other found excuses for derogations.

20. But the situation in Greece is not unique. Many other European Union countries, within and outside the eurozone, share many of its features. Spain and Portugal also have non-competitive, slow-growing economies; Belgium, France, Germany and Portugal also have huge debts as compared with GDP; the United Kingdom, Ireland, Spain and France also have an important budget deficit as compared with GDP. According to the media (and to credit rating agencies) the countries most likely to experience some of the problems facing Greece are Portugal, Ireland, Spain and Italy, the so-called PIIGS.

21. The main challenge for the European Union was to avoid contagion to these countries. Otherwise it would be not only the euro and the European Union as such which would be at stake but it could very well be democracy itself.

22. At their meeting on 9 May 2010 the ministers for finance of the eurozone agreed on a package of emergency measures amounting to €750 billion – of which €250 billion came from the IMF – “to defend the euro and eurozone economies”. The amount involved is a clear indication that European leaders are prepared to go a long way in defending the common currency. Markets reacted positively to this agreement but it remains to be seen how it will work in practical terms.

23. Above all, a mechanism needs to be set up to ensure that the economies of states participating in the euro stop diverging and start converging. This means inevitably that such states will have to give up some of their sovereignty in the economic, fiscal and budgetary areas to a yet to be defined supranational instance. National parliaments will no longer have the last word in adopting national budgets and this is certainly a major consequence for democracy, in particular considering the present democratic deficit of the European Union.

6. European public opinion³

6.1. On the crisis

24. The Eurobarometer survey has registered significant shifts in European public opinion since spring 2008, with the economic crisis being the main driver of Europeans' perceptions and opinions.

25. The peak of the economic crisis appears to have been reached in the Autumn of 2009 and as of November 2009 we are at a turning point. For the first time in two years, the European Union economy is growing again. Whilst the worst of the recession may be over, the full impact on the labour market and public finances is still to come. Unemployment is now the main concern of Europeans for their countries.

26. The “crisis surveys” have also shown that the economic crisis widened the gap in living standards between the northern and western European countries, on the one hand, and those in the south and east of Europe, on the other. Vulnerable groups, in particular the unemployed, have been most strongly hit by the crisis. In summary, the economic crisis has had a profound impact; the recovery process has only just begun but it will be a long time yet before life in Europe is back to the pre-crisis situation.

27. In all European Union countries except Malta and Cyprus, expectations regarding the European and world economies are now more positive than was the case in spring 2009. The impact of the crisis is still felt more strongly in central and eastern Europe. In some of these countries, as well as in Malta, the change index records large negative shifts.

3. Most of the following information is taken from Eurobarometer 72, November 2009.

28. Europeans believe that the European Union offers adequate support to address the effects of globalisation. However, the view that the European Union has sufficient power and tools to defend its economic interests in the global economy has declined somewhat, though it is still held by a clear majority. The Greek crisis at the beginning of 2010 and the way in which it is being dealt with by the Union may substantiate this view.

6.2. On how democracy works

29. Compared to the autumn of 2007, there was a progression of the dissatisfaction on the functioning of national democracies (particularly marked in the countries of central and eastern Europe but also in Ireland, France, Greece and Spain).

30. Some 53% of Europeans declared themselves to be satisfied with the way in which democracy functions in their country, whereas 45% expressed their dissatisfaction. Satisfaction on the functioning of democracy at national level has reduced by 5 points compared to the autumn of 2007. At the same time, the dissatisfaction grew by 6 points.

31. National disparities are very strong on this subject. In 13 member states dissatisfaction is higher than satisfaction, with particularly high rates of dissatisfaction in Romania (79%), in Lithuania (79%), in Bulgaria (77%), in Latvia (76%) and in Hungary (76%). On the other hand, satisfaction on the functioning of the national democracy is highest in the Scandinavian countries – Denmark (91%), Sweden (81%) and Finland (69%), in Luxembourg (90%), in Austria (76%), in the Netherlands (72%) and in Germany (68%). It should be noticed that the highest rates of dissatisfaction correspond roughly to the countries where the economic crisis was more severely felt.

32. Strong evolutions were noted compared to the preceding inquest of autumn 2007, with a major tendency to the reinforcement of the dissatisfaction into the functioning of national democracy in the countries where this was already sharpest. Thus, dissatisfaction is reinforced in the Baltic states and the eastern European countries of the Union: it progressed 23 points in Latvia, 18 points in Romania, 14 points in Estonia, 12 points in Slovenia and 10 points in Bulgaria.

33. Recent events in Greece and speculations on what might come for other countries of the eurozone, for the single currency and for the European Union as such will certainly influence European public opinion both on the crisis and on how democracy works in a considerable way.

7. Results of recent elections

34. Elections to the European Parliament took place in June 2009 in 27 member states of the Council of Europe. The economy was then at its lowest point both according to indicators and to the perception of Europeans. It was therefore a most suitable moment to evaluate the impact of the crisis on the voting. A survey was conducted one week after the elections.

35. The first indication was the steady decline of participation: turnout was 43%, down from 45.5% in 2004. Excluding the three countries where voting is mandatory, the highest turnouts were in Malta (78.8%), Italy (65%) and Denmark (59.5%). The highest abstention rates were in Slovakia (80.4%), Lithuania (79%) and Poland (75.5%). In certain cases the level and evolution of the turnout are compatible with the satisfaction/dissatisfaction of the functioning of democracy but this is not systematic.

36. The survey showed genuine divisions between different types of voter profiles: there were fewer women voters than male voters, fewer young voters than elderly voters, fewer unemployed voters than senior management voters, fewer voters who had left school early than voters who had continued an education programme and slightly fewer voters in big cities than in rural areas. This picture is consistent with the idea that abstention was greater among the voters who were more vulnerable to the effects of the crisis.

37. One third of the voters who said they voted in the national elections also stated that they did not vote in the European elections.

38. The analysis also showed that most of the abstainers decided not to vote primarily because of a lack of confidence in institutionalised politics in general. With regard to the reasons for voting, the most important factor by far for electors to vote was out of civic duty. In fourth position comes the European dimension as a reason to vote, after supporting a political party with whom voters had an affinity.

39. Looking at the results of the elections to the European Parliament country by country, 18 MEPs (out of 736) were elected from what can be considered extremist parties in seven European countries:

- In Austria the Freiheitliche Partei achieved 12.8% of the vote and elected two MEPs. In national elections in 2006 this party had 11% of the vote and in 2008 17.5%.
- In Belgium the Vlaams Belang achieved 9.9% of the vote and elected two MEPs. In national elections in 2007 it had 12% of the vote.
- In Bulgaria the Attack Party achieved 12% of the vote and elected two MEPs. In national elections in 2005 it had 9% of the vote. Bulgaria being one of the countries most affected by the crisis, this result does not show any political radicalisation.
- In France the Front National achieved 6.3% of the vote and elected three MEPs. In the previous elections for the European Parliament in 2004 it had 9.8% and seven MEPs.
- In Hungary the Jobbik Party achieved 14.8% of the vote and elected three MEPs. In the national elections in 2006 it had not passed the threshold of 4%.
- In the Netherlands the PVV achieved 17% of the vote and elected four MEPs. In the national elections in 2006 it had 5.9% of the vote.
- Finally, the British National Party achieved 6.26% of the vote and elected two MEPs. In 2004 it had 4.9% of the vote and no MEP.

40. From these results it appears that five “extremist” MEPs were elected in the less rich countries where the economic crisis was more severely felt (Bulgaria and Hungary), whereas 13 “extremist” MEPs were elected in the richest European Union countries (Austria, Belgium, France, the Netherlands and the United Kingdom). The sharpest increases in extremist vote took place in Hungary, the Netherlands and the United Kingdom.

41. Two of the countries where satisfaction with the functioning of democracy is lower, Bulgaria and Hungary, elected five extremist MEPs. However, two of the countries where satisfaction is higher, Austria and the Netherlands, elected six of them.

42. In the first round of parliamentary elections in Hungary on 11 April 2010 the share of the Jobbik Party increased to 16.7%. In the second round on 25 April it went down to 12%. Hungary is the only example of a country severely affected by the crisis where the vote for extremist parties increased significantly. The report on “Democracy in Europe: crisis and perspectives” by my colleague and good friend Andreas Gross (Switzerland, Socialist Group) also refers to this situation. In the national elections in the United Kingdom of 7 May 2010, the British National Party achieved 1.9% of the vote, way below its score at the European Parliament election but slightly up from the British national election in 2005.

43. According to the data available, there is therefore no indication of a clear link between the economic crisis, its perception by the European population or the judgment of Europeans about the functioning of their democracies and the vote or the increase in the vote in extremist parties.

8. Conclusions

44. It appears that, with the exception of Hungary, the economic crisis has not yet resulted in a considerable increase in the vote for extremist parties, at least in the countries of the European Union. Therefore the motivation for electing MEPs from extremist parties must be found elsewhere (see for instance Mr Agramunt’s report on the “Fight against extremism: achievements, deficiencies and failures”). It would be useful, however, to extend the analysis to the other members of the Council of Europe, and in particular Ukraine, Iceland, Serbia and Bosnia and Herzegovina, which were among the most severely affected by the crisis. The evolution in Russia and in Turkey, two other large economies differently affected, would also be of great interest.

45. It should be mentioned that one of the reasons why votes for extremist parties did not increase significantly may have been the fact that mainstream parties have shown a tendency of borrowing some of the radical discourse of extremist parties in order, on the one hand, to secure the votes of a part of the population and, on the other, to blame someone else (immigrants, Jews, speculators, etc.) for their own lack of efficiency.

46. The fact that the economic crisis has not increased the voting for extremist parties does not mean that it will not do so in the future. Much will depend on the ability of governments in coping with the aftermath of the crisis, namely its social impact. The increase of abstention throughout Europe is worrying because it shows both a dissatisfaction with the functioning of democracy and a distrust in politicians in general.

47. The vote for extremist parties is, however, a minor concern compared to the very serious risk of democracy being disrupted altogether as a consequence of social movements triggered by the refusal of populations to accept the austerity packages imposed on them as a result of what they see as the incompetence of their successive governments.

48. The clumsiness, to say the least, with which European leaders have dealt so far with the “Greek crisis” is also very worrying. The lack of mechanisms to face the situation at European level together with the lack of solidarity within the European Union, shown in the recent weeks not only by national leaders but also by European commissioners and the general public, are dangerous weapons in the hands of those who oppose the European ideals.

49. The crisis with which Europe is confronted is very much the responsibility of European politicians, both at national and EU levels. It is therefore very much the responsibility of European politicians to solve it and to ensure that their populations do not suffer too heavy a burden.

50. National parliaments should set up enquiry committees to investigate the responsibility of politicians in the development of the crisis and ensure that those found guilty are punished. In addition they need to assess much more effectively the short, medium and long-term economic consequences of legislation, with a particular emphasis on national budgets.

51. The Parliamentary Assembly should investigate the matter further in order to be in a position to recommend the right measures to avoid possible threats and dangers to the functioning of democracy. A conference on this subject should be organised by the Assembly.