Parliamentary Assembly
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COUNCIL OF EUROPE
CONSEIL DE L'EUROPE

Resolution 1651 (2009)[1]

Consequences of the global financial crisis

Parliamentary Assembly

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 2007-08, 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 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, it fully supports the statement of the Officers of the International Labour Office 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".

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1. *Assembly debate* on 29 January 2009 (8th Sitting) (see Doc. 11807, report of the Committee on Economic Affairs and Development, rapporteur: Mr Sasi). *Text adopted by the Assembly* on 29 January 2009 (8th Sitting).

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 by 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 International Monetary Fund, 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. The Assembly considers it appropriate to ensure a constant monitoring of the social impact and the human dimension of the financial and economic crisis in the Council of Europe member states.

9. The Assembly emphasises that member states must also invest in people in order to face economic and social challenges resulting from the financial crisis. In a globalised and interdependent world, human resources are a key factor for economic, social and democratic stability. Therefore, the Assembly calls on the Standing Conference of European Ministers for Education to develop educational policies in view of these challenges and invites the Secretary General of the Council of Europe to strengthen education in the Organisation's work programme.

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