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Austerity measures – a danger for democracy and social rights

Report[1]
Committee on Social Affairs, Health and Sustainable Development
Rapporteur: Mr Andrej HUNKO, Germany, Group of the Unified European Left

Summary

There is growing concern that the restrictive approaches of budget consolidation currently pursued in many European countries may not reach their objectives, but risk further exacerbating the crisis. Austerity measures applied across Europe are viewed increasingly critically by international experts and organisations as they can undermine democratic and social rights, in particular for the most vulnerable categories of the population.

The Parliamentary Assembly should send out a strong signal by calling for a profound reorientation of austerity programmes, ending their quasi-exclusive focus on expenditure cuts in social areas such as pensions, health services or family benefits. Future national action should also include measures aimed at increasing public revenues by taxing higher income categories and property wealth more strongly, by shoring up the tax base and by enhancing tax collection, the efficiency of the tax administration and the fight against tax fraud, tax evasion and tax havens, corruption and the underground economy.

Current budget consolidation programmes should be further supplemented with measures fostering sustainable economic growth, including the creation of new quality employment and special support to be given to the young generation in the transitional period between education and employment.

1. Reference to committee: Doc. 12633, Reference 3785 of 24 June 2011.

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A. Draft resolution[2]

1. Since 2009, strict austerity programmes have been applied across Europe with the intention of consolidating public budgets. More recently, both the economic effectiveness of austerity measures and the root causes of the crisis are increasingly being questioned by international experts and organisations. The short- and long-term negative effects of the measures on democratic processes and social rights standards have also come in for criticism.

2. The Parliamentary Assembly is worried about the impact of current austerity programmes on democratic and social rights standards. It is concerned that the restrictive approaches currently pursued, predominantly based on budgetary cuts in social expenditure, may not reach their objective of consolidating public budgets, but risk further deepening the crisis and undermining social rights as they mainly affect lower income classes and the most vulnerable categories of the population.

3. In this context, the Assembly calls for a new evaluation of the current crisis, which recognises the role of the large rescue packages provided to European banks amongst its root causes. The Assembly believes that it is necessary to disconnect the long-term question of balancing public finances from financial markets and their specific dynamics and short-term interests. In the context of the European Union, the prohibition of monetary financing of States by the European Central Bank should be discussed.

4. Facing the consequences of “unbridled” economic liberalism, the European social model and its various national expressions should be protected as a common European vision and the welfare State should be further strengthened, including through new social partnerships placing the human being at the centre of concerns. The European social model must be characterised by the principle of the “Social Market economy” and not by “unbridled” economic liberalism.

5. The implementation of austerity measures is often linked to bodies whose character raises questions of democratic control and legitimisation, such as the so-called “troika” of the International Monetary Fund, the European Commission and the European Central Bank, or newly composed, technocratic governments as set up in several member States recently. The latest decision to establish the interlinked European Stability Mechanism and European Fiscal Treaty is expected to further intensify the pressure on member States to pursue new rounds of austerity measures.

6. The Assembly recommends a profound re-orientation of current austerity programmes, ending their quasi-exclusive focus on expenditure cuts in social areas such as pensions, health services or family benefits. It recommends taking measures aimed at increasing public revenues by taxing higher income categories and property wealth more strongly, by shoring up the tax base and by enhancing tax collection, the efficiency of the tax administration and the fight against tax fraud and evasion.

7. With a view to overcoming the current crisis and ensuring sustainable economic development, instead of the austerity approach, energetic measures in favour of economic recovery should be taken, based on the creation of new quality employment opportunities, equal access to employment and support to young people in transition from education to professional careers.

8. Although many of the decisions related to the so-called “sovereign debt crisis” are taken in the realm of European Union institutions and the eurozone, many countries of Greater Europe feel the need to further consolidate public budgets for various reasons, just as they continue to feel the impact of the persisting economic crisis. All the member States of the Council of Europe should therefore be actively involved when it comes to finding joint solutions for overcoming the current crisis situation in the most democratic manner and with the highest respect for social rights.

9. With regard to the protection of human rights (including social rights), the revised European Social Charter (ETS No. 163) remains the main reference, whilst the Strategy on innovation and good governance at local level containing 12 principles of “good democratic governance”, developed by the Council of Europe in 2007, should be further promoted as an important reference for modern democracies.

2. Draft resolution adopted by the committee on 22 May 2012.

10. In the light of this evaluation, the Parliamentary Assembly calls on the member States of the Council of Europe to:

10.1. prevent the undermining of existing democratic standards when it comes to decisions linked to the “sovereign debt crisis” and possible joint European action to be taken, by preserving maximum possible discretion for national governments and other national democratically legitimated institutions, in particular parliaments;

10.2. reflect on how such processes could be made more democratic in the future, also with regard to future economic policy making at the European level, and, in the meantime, act with utmost transparency when taking any far-reaching decisions which profoundly affect national economies and people’s lives;

10.3. where applicable, initiate a public debate on the social consequences and the impact on democratic sovereignty if the European Stability Mechanism and the European Fiscal Treaty should come into force;

10.4. consider measures aimed at modernising democratic structures and processes by means of new forms of participation and consultation of citizens, such as referenda, wherever the constitution or legislation provide for such possibilities;

10.5. closely assess current austerity programmes from the point of view of their short- and long-term impact on democratic decision-making processes and social rights standards, social security systems and social services, such as pension and health systems, family-oriented services or assistance services to the most vulnerable groups (people with disabilities, migrants, the unemployed, etc.);

10.6. design budget consolidation programmes not only based on savings to be applied to government budgets at various levels and social expenditure in particular, but also on higher income to be generated, in particular through increased taxes on wealthier income groups and large corporate profits and a more resolute fight against tax evasion, tax fraud, tax havens, corruption and the underground economy;

10.7. wherever possible, supplement budget consolidation programmes with measures fostering sustainable economic growth, including measures aimed at creating new quality employment and the conditions and the economic environment for successful individual initiatives and entrepreneurship, given that employment is a precondition for future tax revenues;

10.8. launch comprehensive economic recovery programmes aimed at overcoming high rates of unemployment and their negative economic and social consequences, including specific measures aimed at supporting the young generation in the transitional period between education and employment;

10.9. pursue and support efforts undertaken to increase the regulation of the financial sector, and of financial structures whose size, systemic integration, complexity or interconnectedness may jeopardise financial stability and the capacity of regulators to resist their demands, including measures concerning the shadow banking system, as requested by the European Parliament and as currently initiated by the European Commission;

10.10. examine the possibilities for introducing new taxes on certain types of financial transactions across Europe.

B. Explanatory memorandum by Mr Hunko, rapporteur

1. Introduction: why examine austerity measures from a democratic and social rights point of view?

"Europe's big illusion consists in the belief that the crisis was generated by irresponsible budget management." – US Economist Paul Krugman (Nobel Prize 2008) in Der Spiegel, 23 April 2012

1. All member States of the Council of Europe are in some way confronted with the impact and consequences of the current financial and economic crisis. Starting as a financial crisis in 2008, the crisis quickly became an economic one. A recovery seemed on the horizon in 2010, but instead the crisis transformed into the so-called "sovereign debt crisis". Strategic political and economic decisions are currently being taken in many countries in connection with the crisis. Many European countries are preparing or already implementing austerity programmes that very often involve far-reaching cuts in public spending and in the remuneration of civil servants, privatisations, decreases in minimum wages, a decrease in the number of persons employed by the public sector, or tax increases on consumption, for political (ideological) or economic reasons (obligations resulting from membership of the eurozone or based on demands of international creditors).

2. On 15 September 2011, the Council of Europe Commissioner for Human Rights, Thomas Hammarberg, in a report on a country visit to Ireland in June 2011, stated that "budget cuts planned in Ireland may be detrimental for the protection of human rights. It is crucial to avoid this risk, in particular regarding vulnerable groups of people".[3] In the light of the first measures taken in member States since 2010, it has indeed rapidly become evident that austerity measures lead to reductions in social assistance benefits (pensions, disability, unemployment benefits, etc.) and to cuts in the quality of social services in general (health, education, childcare, etc.). As these consequences often concern categories of the population which are already economically and socially disadvantaged, austerity measures become an issue of social cohesion and of the protection of vulnerable groups.

3. The way in which many governments proceed to submit their national budgets to austerity programmes should also be questioned from the point of view of democratic standards. Very often, the sovereignty of States and governments facing crisis situations diminishes; decisions are taken on the basis of very short-term considerations, alleged urgent necessities and by following urgent procedures, whilst the aspects of transparency and democratic processes are neglected. In some cases, austerity programmes are imposed by international creditors (International Monetary Fund (IMF), European Union) as a precondition for granting further loans. This has been the case in a dramatic manner in Greece, where the so-called "troika" of the IMF, the European Commission and the European Central Bank (ECB) imposed drastic austerity measures. In the light of such tendencies, the rapporteur considers that governments should give citizens a say in if, how and when the State debt should be cut and should respect their international commitments and obligations with regard to democratic standards.

4. In the face of the impact of national austerity programmes on both social services and democratic decision-making processes, protests started to emerge worldwide throughout the year 2011. The main "nuclei" of the so-called "occupy movement", which also received the highest media attention, were the "Spanish Indignados" movement initiated in May 2011 in Madrid, the "Occupy Wall Street" movement in September 2011 and the "Occupy London" encampments in October 2011. In Greece, Portugal and Spain in particular, austerity measures led to huge public demonstrations. In order to take the broadest possible view, the rapporteur also wished to hear the arguments of some of the representatives of these movements as regards the political responses to be given to the worldwide crisis. This broad approach is reflected by the two expert hearings organised on this matter by the Committee on Social Affairs, Health and Sustainable Development in January and March 2012.[4]

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3. "Report by Thomas Hammarberg, Commissioner for Human Rights of the Council of Europe, following his visit to Ireland from 1 to 2 June 2011", Strasbourg, 15 September 2011, CommDH(2011)27 (English only).
4. The following persons were heard by the Committee on Social Affairs, Health and Sustainable Development: (1) on 24 January 2012 – Mr Heiner Flassbeck, Director of the Division on Globalization and Development Strategies, United Nations Conference on Trade and Development (UNCTAD), Ms Rebeca Mayorga Fernández, audiovisual journalist and student, Madrid (member of the Indignados movement), Ms Sonia Mitralia, Women's Initiatives against Debt and Austerity Measures, Committee for the Abolition of Third World Debt – CADTM, Greece; (2) on 22 March 2012 – Ms Monika Queisser, Head of the Social Policy Division, Organisation for Economic Co-operation and Development (OECD), Professor Arne Heise, Faculty for Economic and Social Sciences, University of Hamburg, Germany, Ms Madi Sharma, British member of the Employers' Group of the European Economic and Social Committee (EESC) of the European Union, and Mr Luca Scarpiello, Vice-President, European Youth Forum.

5. When adopting its opinion on “Over-indebtedness of States – A danger for democracy and human rights” in April 2011, the former Social, Health and Family Affairs Committee decided to suggest that a separate report be prepared on the austerity measures currently being implemented by a number of member States; a suggestion that was followed by the Parliamentary Assembly which referred the attendant motion to the Committee on Social Affairs, Health and Sustainable Development for report.

6. On the basis of this mandate, the rapporteur wishes to explore the objectives and consequences of various austerity programmes in member States. Given that, at the beginning of 2012, new effects of current austerity policies have emerged almost every week, the present report could be continuously updated – an obviously impossible task. The purpose of this work therefore is to give an overview of the consequences of austerity measures that have already become evident until May 2012, and to develop, on this basis, a set of recommendations. These are intended to contribute to public management and economic approaches involving long-term perspectives, transparent and democratic decision-making processes and the highest respect for European human rights standards, including social rights standards as enshrined in the revised European Social Charter (ETS No. 163).

2. Austerity programmes and their objectives across Europe

7. The central argument promoting austerity programmes across Europe has been that they were needed to overcome major public budget deficits often said to have been caused by extensive spending under social welfare budgets during the financial and economic crisis. Increasingly, however, many experts and international organisations are questioning the effectiveness of such consolidation programmes and have started to recognise that the financial crisis and the enormous rescue packages for European banks are amongst the root causes of the crisis situation, and not one of its consequences.

2.1. Background: developments having led to the “sovereign debt crisis” persisting in 2012

8. The financial and economic crisis, which started to touch Europe in 2007, had been building up since the end of 2006 following the breakdown of the real estate market in the United States. It reached one of its peaks on 15 September 2008 with the bankruptcy declared by the American investment bank Lehmann Brothers, which plunged international financial markets into turmoil. Throughout the period of 2008/09, the crisis evolved in nature and scope and transformed into a larger economic crisis in many countries, whilst the underlying financial crisis continued and debates on future reforms and regulation of financial markets were pursued amongst governments worldwide, in particular in the framework of the G20 group. Meanwhile, the last Financial Stability Review by the ECB states that “Risks to euro area financial stability increased considerably in the second half of 2011, as the sovereign risk crisis and its interplay with the banking sector worsened in an environment of weakening macroeconomic growth prospects” and that “the transmission of tensions among sovereigns, across banks and between the two intensified to take on systemic crisis proportions not witnessed since the collapse of Lehman Brothers three years ago”.[5]

9. From late 2009, a so-called “sovereign debt crisis” started evolving as a result of the rising government debt levels around the world, and intensified in early 2010 and thereafter. According to further figures by the ECB, general government gross debt has risen steadily since 2007, with an important increase between 2008 and 2010 and a slower but continued increase in the general government debt-to-GDP (gross domestic product) ratio from 66.2% of GDP (in 2007) to 88.5% (expected for 2012).[6] From the very beginning, public money was used to save the financial system from collapse, and debt ratios which hardly raised an eyebrow before came to be seen as too high. Investors lost confidence amidst alarming reports from the private ratings agencies which dominate the market.

10. Amongst the root causes to be examined more closely is a dysfunction of the Stability and Growth Pact of the European Union:[7] initially intended to ensure that member States maintain budget discipline by imposing limits of annual (3% of GDP) and overall debt for State budget deficits as well as a so-called “no-bail-out principle”, these rules have often been bent or even bypassed by many member States, including so-

5. European Central Bank (ECB): “Financial stability review December 2011”, presented at the press briefing by Vice-President Mr Constâncio, Frankfurt, 19 December 2011 (English only), www.ecb.int.
6. European Central Bank (ECB): “The size and composition of government debt in the euro area”, Occasional Paper Series No. 132, October 2011, www.ecb.int.
7. Comprehensive information available on the website of the European Union, http://europa.eu (“Stability and Growth Pact and economic policy co-ordination”).

called “core” countries such as Germany and France. This situation was made possible by one of the weaker points of the Monetary Union from its very beginning: the distinction between a joint monetary policy and decentralised budgetary policies which remain in the hands of each national government.[8]

2.2. European responses to the “sovereign debt crisis”

11. The “sovereign debt crisis” has then been accelerated by the downgrading of the sovereign debts of different countries by the "Big Three" global credit rating agencies, US-based Standard and Poor's, Moody's, and Fitch Ratings: firstly Greece, Portugal and Ireland, later on also the United States (in August 2011) and nine eurozone countries (in January 2012). In the meantime, experts have started calling for better regulation of rating agencies in order to ensure more transparency and competitiveness.[9]

12. In the course of these events, on 9 May 2010, governments of European Union member States created the European Financial Stability Facility (EFSF) including a rescue package of at least 440 billion euros aimed at ensuring financial stability across Europe. To fulfil this mission, the EFSF has been authorised to raise the funds needed to provide loans to countries in financial difficulties and to finance recapitalisations of financial institutions through loans to governments, including non-programme countries.

13. However, any financial assistance to a country in need is linked to strict policy conditions which are set out in a memorandum of understanding between the country concerned and the so-called “troika” including the European Commission, the European Central Bank and the International Monetary Fund; they often include measures such as the requirement of fiscal increases and State expenditure cuts or structural measures aimed at liberalising the labour market and certain protected sectors. Decisions about the maximum amount of a loan, its margin and maturity, and the number of instalments to be disbursed are taken unanimously by the eurozone member States’ finance ministers. If a country in difficulty fails to meet the conditions, the loan disbursements and the country programme would be interrupted until the review of the country programme and the memorandum of understanding is renegotiated.[10]

14. European leaders furthermore agreed to introduce a balanced budget amendment.[11] While the interest rates in particular reached very worrying levels in a few eurozone countries, such as Belgium, Greece, Ireland, Italy, Portugal and Spain,[12] the “sovereign debt crisis” has always been perceived as a problem for the whole eurozone.[13] In addition to the EFSF, the European Stability Mechanism (ESM) was established by the European Council on 24 June 2011 as a permanent crisis resolution mechanism and is intended to be ratified by mid-2012 following a decision taken at the end of March 2012.[14]

2.3. Increasingly controversial interpretation and perception of austerity programmes

15. Since the beginning of the “sovereign debt crisis” in 2009, austerity measures applied by individual member States have been imposed as a precondition for the reduction of public debt, the consolidation of public budgets, increases in international competitiveness and, eventually, economic recovery. This idea, initially promoted by the IMF and European Union institutions, was acknowledged by the national governments of most member States. Austerity programmes were therefore developed all over Europe, and not only in the countries most concerned by the crisis, and not least due to the pressure that member States of the eurozone exert on one another to follow the same path.[15]

16. Only at the beginning of March 2012 was Greece granted a debt swap after agreement by holders of 85.8% of the debt who are subject to Greek law and 69% of its international debt holders, thus ensuring the country an additional bailout by the European Union and the IMF amounting to 130 billion euros. However, the Greek bailout was to be granted on the condition that the country would be implementing a further round of

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8. Dombret, Andreas (member of the management board of the Deutsche Bundesbank/German Federal Bank): “Europäische Staatschuldenkrise – Ursachen und Lösungsansätze” [European sovereign debt crisis – Root causes and approaches to a solution], presentation given to the association Deutsche Alumni, Frankfurt, 20 December 2012.
9. Alessi, Christopher; Wolverson, Roya: “The credit rating controversy”, Council on Foreign Relations, New York, 19 January 2012, www.cfr.org.
10. Comprehensive information available on the EFSF website: www.efsf.europa.eu.
11. “European fiscal union: what the experts say”, *Guardian*, 2 December 2011, www.guardian.co.uk.
12. Central Intelligence Agency (CIA): “The world factbook”, public debt by country (in % of GDP), information retrieved on 14 March 2012 (updated weekly), www.cia.gov.
13. “How the euro became Europe's greatest threat”, *Der Spiegel*, 20 June 2011, www.spiegel.de/international/europe.
14. Comprehensive information available on the EFSF website: www.efsf.europa.eu.
15. Pietras, Jennifer: “Austerity measures in the EU – A country by country table”, European Institute, www.europeaninstitute.org (information retrieved on 13 March 2012).

austerity measures, including a decrease in minimum wages, a reduction of 150 000 public servants by 2015, the continuation of privatisation, and the prohibition of collective wage negotiations against the rights stated in the revised European Social Charter, the Charter of Fundamental Rights of the European Union and the respective International Labour Organization (ILO) agreements.[16] Underlying this tendency, the short-term considerations of the financial sector still seem to be prevailing over the long-term considerations of public policies intending to stimulate sustainable economic recovery.

17. Doubts about the short- and long-term effectiveness of austerity measures have been expressed by many international experts and organisations (see also Chapter 3 below). Some commentators called austerity programmes "an ideology masquerading as an economic policy".[17] At the beginning of 2012, even the International Monetary Fund, the World Bank and the World Trade Organization issued a warning about the economic and social risks of austerity programmes in a "call to action" designed to boost growth and fight protectionism, and in their joint statement called upon member States to "manage fiscal consolidation to promote rather than reduce prospects for growth and employment" and to apply it "in a socially responsible manner".[18] They were most recently joined by the ILO which, in its "World of work report 2012", called the global employment situation "alarming" and warned against the "devastating consequences" of austerity measures which were judged counterproductive from the point of view of their objectives of supporting confidence and the reduction of public deficits.[19] Finally, several European leaders, such as Angela Merkel and François Hollande, recently agreed with ECB President Mario Draghi's proposal to round off the European fiscal pact's austerity measures with a "growth pact", even though there does not seem to be common agreement on the precise lines to be followed.[20]

18. In some countries which have been applying austerity programmes since 2010, such as Greece, Ireland or Portugal, it can already be observed that the measures taken led to further economic recession which affected growing sections of the population, thus deepening the crisis, without necessarily providing the expected effects for public finances and the economy more generally. The crisis also entered into its next round in Spain, where another bailout is expected to be required by the banking sector before the end of the year. At the same time, unemployment has reached almost 25% and austerity budgets significantly pushed up education and health charges, thus further undermining household incomes and prolonging the recession.[21] Likewise, the recession in Italy is expected to be longer and deeper than expected after a collapse in consumer spending following cuts in wages, benefits and pensions.[22] Whilst average youth unemployment is rising in the European Union as a whole, rates in Spain and Greece in particular remain over 50%.[23]

19. However, member States continue to follow strict austerity approaches such as the one promoted by the ECB, whose president argued only in February 2012 that the European welfare State was an obsolete model and that austerity measures needed to be rigidly pursued in order to prevent immediate market reactions; thus calling upon governments to make financial considerations a central determinant of their political decisions.[24] The long-term and self-energising effects of such tendencies are not to be underestimated: according to the former Commissioner for Human Rights, Thomas Hammarberg, "Austerity measures which exacerbate inequalities will only postpone problems and in some fields make it even more costly to resolve them at a later stage".[25]

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16. "Greece to go ahead with crucial debt swap", BBC News (Business), 9 March 2012, www.bbc.co.uk.
17. "Britain's self-inflicted misery", editorial of the *New York Times* opinion pages, 14 October 2011, www.nytimes.com.
18. Elliot, Larry: "IMF warns of threat to global economies posed by austerity drives", *Guardian*, 20 January 2012, www.guardian.co.uk.
19. "UN agency slams European austerity measures", *Der Spiegel*, 30 April 2012, www.spiegel.de/international/world; "UN-Organisation warnt vor Folgen der Sparpolitik" [UN organisation warns against consequences of austerity policy], *Die Zeit Online*, 30 April 2012, www.zeit.de
20. Kaiser, Stefan: "Austerity backlash unites European leaders", *Der Spiegel*, 27 April 2012, www.spiegel.de/international/europe.
21. Burgen, Stephen; Inman, Phillip: "Spain faces crisis 'of huge proportions' over unemployment and banks", *Guardian*, 27 April 2012, www.guardian.co.uk.
22. Inman, Phillip: "Italy's recession set to be longer and deeper than expected", *Guardian*, 4 May 2012, www.guardian.co.uk.
23. Broughton, Andrea: "EU unemployment stable but still high and youth unemployment rising", comment by the Institute for Employment Studies (IES), Brighton, 2 May 2012, www.employment-studies.co.uk.
24. Blackstone, Brian; Karnitschnig, Matthew; Thomson, Robert: "Draghi spricht sich für harte Linie bei Sparkurs aus" [Draghi declares himself in favour of a tough line in austerity policy], *Wall Street Journal,* 23 February 2012, www.wallstreetjournal.de.
25. Thomas Hammarberg, Commissioner for Human Rights of the Council of Europe, in his speech on "Realising the potential of equality bodies", delivered to the Equinet High-Level Meeting with Heads of National Equality Bodies, Brussels, 29 November 2011, CommDH/Speech(2011)15.

3. The negative impact of austerity measures on democracy and social rights

20. Since 2010, austerity programmes have been applied in a number of European States and have been widely justified as painful but indispensable measures. However, increasingly, the austerity versus growth debate has forced its way into the political discourse, namely the idea that comprehensive and positive economic recovery programmes are required instead of defensively responding to requirements of financial markets and undertaking further cuts in social services which were amongst the first to be affected by austerity programmes.[26] Moreover, with the first negative effects of austerity measures becoming visible, and the way in which some of the relevant decisions were taken, large sections of the population have started to feel increasingly threatened in their social rights and concerned about the state of democracy.

3.1. Misconception of the crisis as one of the root causes of ineffective austerity programmes

21. For some of the austerity programmes implemented since 2010 (in Greece, in particular), it has already become evident that they will not live up to the original expectations and that more positive approaches to economic recovery will be needed instead. The rapporteur in particular considers that certain of the root analyses of the current situation were misconceived: the rescue packages for European banks were amongst the origins of the current crisis, or they retroacted on State budgets, whilst affecting social rights (amongst human rights) and democratic processes. He is therefore convinced that the austerity programmes currently applied across Europe will not reach their objectives, but will further deepen the crisis with its implications for vulnerable parts of society, unless complementary measures to promote economic recovery are taken.

22. This evaluation is confirmed by recent analyses of international economic bodies. Thus, the United Nations Conference on Trade and Development (UNCTAD) stated in its 2011 trade and development report that: (1) the fiscal imbalances to be observed in many countries are a result and not a driving factor of the current crisis; (2) the significant increase of public debt in most European countries concerned could only be observed after the crisis and not before.

23. According to UNCTAD's findings, the austerity programmes imposed upon certain countries – currently and in the past – by the IMF have in many cases had a negative impact on GDP growth and fiscal balances by deeply altering public revenue schemes, thus cancelling any intended positive effects. Research has shown that the real outcomes of such programmes stayed far behind the initial IMF forecasts and that the positive effects of IMF programmes were therefore largely overestimated.[27] The organisation estimates that currency devaluation is a more sustainable measure to increase an economy's competitiveness. As such, devaluation is not possible in the eurozone; the only possible measures are either internal devaluation (by diminishing salaries and social charges), which leads to a reduction of internal demand immediately, or else the generation of positive development stimuli. Finally, if austerity measures are to be effective, they have to address the wealthier population segments by increasing taxes on high incomes and property, as such measures only slightly affect private expenditure and thus have higher "multiplier effects".

24. The perception of a certain inefficiency of austerity programmes is backed up by a recent study of the German Friedrich-Ebert Foundation (Friedrich-Ebert-Stiftung) presented to the committee in March 2012 by one of its authors, Professor Arne Heise. According to him, many of the current austerity programmes (of which seven were examined in depth as examples) focused too strongly on expenditure cuts and had negative redistributive effects. They therefore catalysed the crisis and failed to provide long-term solutions to the most pressing European problems such as unemployment, poverty, regional imbalances or public infrastructure. The study also consolidated the hypothesis that austerity measures applied in the context of the "sovereign debt crisis" were, in many countries, used as a pretext for social expenditure cuts that had been planned beforehand.

25. In the context of the mentioned study, the example of Iceland was particularly highlighted as it was apparently one of the countries that had placed particular emphasis not only on budgetary cuts as consolidation measures, but on tax increases aimed at achieving a positive primary balance in the shortest time possible. In this respect, the Icelandic Government took a number of socially positive measures: it not only increased social insurance contributions from 5.34% to 7%, raised VAT by half a percentage point and increased a number of consumption taxes, but it also raised the capital levy on yields from 10% to 15% and introduced a supplementary tax on high incomes, whilst an increase in corporation tax is planned.

26. Pignal, Stanley; Spiegel, Peter: "EU austerity critic's views gain credence", *Financial Times*, 5 March 2012, www.ft.com. Heise, Arne; Lierse, Hanna: "Budget consolidation and the European social model", study on behalf of the Friedrich-Ebert-Stitung (Friedrich Ebert Foundation), March 2011, www.fes.de.
27. UNCTAD (TDR 2011), "Trade and development report, 2011 – Post-crisis policy challenges in the world economy", United Nations publications, Sales No. E11.II.D.3, New York and Geneva.

Furthermore, the introduction of a stronger control mechanism for the financial sector and the nationalisation of private banks played a crucial role in overcoming the crisis. Although Iceland, as one of the countries not part of the eurozone, and thus not submitted to the same constraints as some of the member States, is in a special situation, it still chose an ambitious and positive approach to budget consolidation which should generally inspire all member States of the Council of Europe.[28] In May 2012, the economic indicators of the country were at their best: economic growth in 2011 had stabilised at 3%, inflation was under 3% and unemployment had gone back to 7%. According to Icelandic decision makers, this success was due to "steadfastness" against pressure from the European Union and respect for the political principle that losses of the private sector must not be "nationalised".[29]

26. Notwithstanding the first critical voices raised with regard to responses to the crisis and the first examples of where alternative measures have been implemented successfully, most countries seem to continue to follow the recommendations made by the European Commission in 2010 according to which fiscal consolidation based on expenditure cuts was considered more effective and having a longer lasting impact than consolidation by tax increases whatever their nature.[30] However, more recently this approach has been increasingly questioned by economic analysts and political decision makers. The European Parliament's "CRIS Committee" (Special Committee on the Financial, Economic and Social Crisis) in a 2011 resolution, for example, recommended a broader response to the crisis which relied on the principle of deepening European integration and the strengthening of the welfare State by supporting social inclusion, job creation and sustainable growth. It furthermore called for a long-term vision for Europe, for a "comprehensive, socially inclusive and cohesive reform package addressing the weakness of the financial system and aiming at fostering long-term investments for sustainable growth and employment creation", whilst more strictly regulating the financial sector and its players.[31]

3.2. Impact on democratic processes

27. As the Assembly already stated in its Resolution 1832 (2011) on national sovereignty and statehood in contemporary international law: the need for clarification, European integration, in particular the introduction of the euro, has entailed the transfer to the European Union of a number of policy areas which were traditionally under national sovereignty, particularly in matters of economic and monetary policies, and is increasingly affecting choices of fiscal and social policies. Increasing economic integration is having similar effects even on countries which are not members of the eurozone or the European Union. In times of crisis and austerity programmes, a clear diminution of national autonomy can thus be observed, which means that crucial political decisions are transferred from national democratic processes to a level of decision making much further away from the individual citizen.

28. The core problem with Europe's economic governance is lack of democratic accountability. The fundamental question is how member States' governments can tell each other what to do, when some of them have been democratically elected to do something else. In this context, there are regular calls for a democratic economic government of the eurozone, which had already been suggested by some during the early years of monetary construction.[32]

29. Within different countries, various threats could recently be observed concerning democratic decision-making processes. In Germany, the rapporteur's own country, for example, Chancellor Merkel, in a 2011 press statement concerning the European Financial Stability Facility, underlined that it was important to find ways of "designing parliamentary participation in such a manner that it will be in line with the markets and will generate appropriate signals there".[33] Worrying news had already come from Spain in 2010 where the government proclaimed a "state of alert" according to military law when faced with a major strike by air traffic controllers reacting to pressure on their salaries and working conditions and to the government's intention to privatise some of the airports.[34]

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28. "Budget consolidation and the European social model", op. cit.
29. Wolff, Reinhard: "Der demokratische Weg als Rettung" [The democratic path as a salvation], *Die Tageszeitung* (TAZ), 1 May 2012, www.taz.de.
30. European Commission, Directorate-General for Economic and Financial Affairs: "Public finances in EMU – 2010", European Economy 04/2010, Brussels, http://ec.europa.eu.
31. European Parliament: "CRIS Committee Final Resolution, adopted in plenary on 6 July 2011, executive summary", www.europarl.europa.eu.
32. Collignon, Stefan: "Democratic requirements for a European economic government", *International Policy Analysis*, Friedrich-Ebert-Stitung (Friedrich Ebert Foundation), December 2010, www.fes.de.
33. "Pressestatements von Bundeskanzlerin Angela Merkel und dem Ministerpräsidenten der Republik Portugal, Pedro Passos Coelho" [Press statements by the Federal Chancellor and the Prime Minister of the Republic of Portugal], Berlin, 1 September 2011 (based on the minutes of the press conference), www.bundesregierung.de.

30. From the rapporteur's point of view, any decision-making process linked to the current crisis should be submitted to close parliamentary scrutiny. This should also include scrutiny of international rating agencies. Another tool to be considered, wherever appropriate and provided for by the constitution, could be referenda allowing for direct citizen participation in major decisions. Currently, such measures are highly contested amongst European decision makers. In April 2011, Icelandic voters rejected the debt repayment plan which had been approved by the government and parliament, and was intended to repay the £3 billion requested by the United Kingdom and the Netherlands from the crash of the banking system in 2008.[35] In autumn 2011, many were taken aback by the announcement of the Greek Prime Minister to hold a referendum on the proposed "debt swap" and the subsequent austerity measures;[36] a measure that was abandoned by Prime Minister Papandreou himself shortly afterwards upon national and international criticism.[37]

31. Nevertheless, the question of referenda found its way back onto political agendas in February 2012, when Irish Prime Minister Kenny announced that Ireland, probably as the only European State, would hold (in May 2012) a referendum on the European Union's new fiscal treaty.[38] According to activist movements like Attac, which takes a very critical view of neo-liberal trends, the European Union fiscal pact as currently debated would significantly limit one of the principal rights of national parliaments – for budgetary competence – in order to transfer greater parts of it to the European Commission. In an open letter to members of the German Bundestag, Attac therefore called upon parliamentarians to refuse the relevant treaty already at its first reading on 25 March 2012.[39]

32. The rapporteur very much supports the path chosen by countries like Ireland, given that, according to some legal experts, the fiscal pact process currently circumvents the legal procedures that would have guaranteed the participation and endorsement of national parliaments as well as the European parliament.[40] He draws attention to the way in which traditional democratic processes are threatened by speedy decision-making processes justified by the urgency of the "sovereign debt crisis" and strongly advises against further undermining the democratic *acquis* of Europe. An attempt at preserving traditional democratic processes is currently (spring 2012) being made in the rapporteur's own country, Germany, where the Bundestag is examining the possibility of guaranteeing its participation in decisions related to the ESM mechanism and the European fiscal pact through a specific fiscal pact participation law (Fiskalpakt-Beteiligungsgesetz (FBG)).[41]

33. At Council of Europe level, very few binding instruments exist as far as democratic standards are concerned. However, the Strategy on Innovation and Good Governance at Local Level, developed by the Council of Europe in 2007, and endorsed by its Conference of Ministers responsible for Local and Regional Government in November 2007, could be of interest in this matter. The strategy includes 12 universal principles of "good democratic governance" – including participation, transparency, ethical conduct and long-term orientation – that could possibly serve as a reference for any modern democracy.

3.3. Impact on the guarantee of human rights standards, including social rights standards, across greater Europe

34. The examination of various national situations reveals that social rights standards are severely compromised in some of the countries concerned, given that austerity measures are often applied to public social services and programmes, and thus tend to affect those already dependant on social welfare or disadvantaged with regard to accessing more costly services such as complementary services in the health sector.

35. Recent research has shown that women are disproportionally affected by the financial and economic crisis. First, they are not included in decision-making processes on an equal basis and can therefore not assert themselves to put forward their own political priorities. Second, when it comes to tax and benefit

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34. "Spanische Regierung ruft Alarmzustand aus" [Spanish Government proclaims a state of alert], *Welt Online*, 4 December 2010, www.welt.de.
35. "Icelandic voters reject Icesave debt repayment plan", *Guardian,* 10 April 2011, www.guardian.co.uk.
36. "Papandreou irritiert Griechen mit Abstimmungsplan" [Papandreou irritates Greeks with plans for a ballot], *Spiegel Online*, 1 November 2011, www.spiegel.de.
37. "Doch kein Referendum in Griechenland" [Finally, no referendum in Greece], *Frankfurter Allgemeine*, 3 November 2011, www.faz.net.
38. "Ireland referendum on EU pact to be held on 31 May", BBC News Europe, 27 March 2012, www.bbc.co.uk.
39. Open letter by Attac Germany to all members of the German Bundestag, 23 March 2012.
40. "Irish referendum crucial to challenge EU austerity treaty, Transnational Institute, March 2012, www.tni.org.
41. Deutscher Bundestag (German Parliament): "Vorschläge für Begleitgesetze zum ESM-Vertrag sowie zum Fiskalpakt im Ältestenrat vorgestellt" [Proposals for laws to accompany the ESM treaty and the fiscal pact presented to the Council of Elders], press release, 22 March 2012, www.bundestag.de.

reforms, women are often more affected than men, as a report by the Institute for Fiscal Studies in the United Kingdom shows. In particular, single women lose more as a percentage of their income than single men, largely because more than 90% of lone parents are women and because lone parents are a group that loses a particularly large amount from tax and benefit changes.[42] Finally, women also suffer from other types of cuts in social services, such as those concerning child benefits and childcare centres, which disproportionally affect single mothers and women on low incomes.

36. Another report of the Institute for Fiscal Studies, commissioned by the Family and Parenting Institute, shows that many families carry much of the burden of austerity programmes. Again in the United Kingdom, incomes among homes with children are expected to fall in real terms by 4.2% between 2010-11 and 2015-16. Families with three children are predicted to see their incomes fall by 6.8% by 2015-16, compared with those with only one child, who are set to see a 3.3% fall. Subsequently, experts warn that 500 000 more children will fall into absolute poverty between 2010-11 and 2015-16, with most coming from households where the youngest child is aged under 5.[43]

37. The most important legally binding instrument at European level is the revised European Social Charter, which ensures broad protection of social rights and includes, for example, protection against poverty and social exclusion (Article 30) and the right to housing (Article 31). However, a certain number of countries have not yet ratified this revised instrument. Amongst these countries are also some of those who applied austerity programmes to their public budgets and will continue to do so, such as Germany, Greece, Spain and the United Kingdom. In the face of continuous austerity policies, one should continue to urge these countries to ratify the revised Charter and respect a minimum level of social standards in any decision taken subsequent to the crisis. In addition, the particular situation of groups in need of special protection such as single parents, the elderly or children needs to receive special attention.

38. At European level, such data were confirmed by a 2011 OECD study taking stock of income inequality levels and trends across Europe presented to the committee in March 2012 by Ms Monika Queisser, Head of the Social Policy Division of OECD.[44] With regard to the “sovereign debt crisis”, she underlined that, whilst initial crisis responses generally raised social protection, pension reforms and reductions of pension levels subsequently resulted in widening income gaps, affecting mainly the poor. She considered that there was room for improvement of current tax systems by making these more progressive, for example by increasing relative taxes for high income categories.

39. Most recently, the serious social effects of austerity programmes have been highlighted by experts such as Cephas Lumina, United Nations independent expert on foreign debt and human rights, who considered that “the implementation of the second package of austerity measures and structural reforms, which includes a wholesale privatization of State-owned enterprises and assets, is likely to have a serious impact on basic social services and therefore the enjoyment of human rights by the Greek people, particularly the most vulnerable sectors of the population such as the poor, elderly, unemployed and persons with disabilities”.[45]

40. The present report will look into further specific national situations, but the consultation of various sources has shown that, beyond member States of the eurozone and the European Union, many member States of greater Europe united under the Council of Europe have in some way been concerned by the recent financial and economic crisis, and are also affected by the ongoing “sovereign debt crisis” to a greater or lesser extent. For Ukraine, for example, it has recently been estimated that economic growth is expected to slow down this year and could even decline sharply if commodity prices drop as a result of the recession in the eurozone.

41. Even those countries which do not belong to this zone are thus closely linked to it in their economic development.[46] The impact of the financial and economic crisis was also confirmed by the global wage report 2010/11 of the ILO, which showed that the largest impact of the global financial and economic crisis on wages could be seen in central and eastern Europe and central Asia.[47] Therefore all member States of the Council of Europe should strengthen consultation and co-operation in order to promote economic and social progress,

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42. Browne, James: “How could the government perform a gender impact assessment of tax and benefit changes? Observations: reflections on current events”, Institute for Fiscal Studies, London, June 2011, www.ifs.org.uk.
43. “UK recession: families ‘shouldering austerity burden’ says Institute for Fiscal Studies”, *Huffington Post* (United Kingdom), 4 January 2012, www.huffingtonpost.co.uk.
44. OECD: “Divided we stand: why inequalities keep rising”, Paris, 2011, www.oecd.org.
45. “Greek austerity measures could violate human rights, UN expert says”, UN News Centre, 30 June 2011, www.un.org.
46. Bozadzhieva, Martina: “Austerity measures, weakening growth in central and eastern Europe in 2012”, emerging markets insight by Frontier Strategy Group, 7 February 2012, http://blog.frontierstrategygroup.com.

not only because they can learn from one another's good practices, but also because their situations are closely interconnected. One of the aspects not at all addressed by the present report, but of growing concern for Europe’s future, is intra-European migration, which will, if not addressed by specific policy responses, lead to the development and growth of entire States being left behind.[48]

3.4. Perception of the crisis and austerity programmes “on the ground”

42. The exchange of views with NGO representatives from some of the countries most concerned has allowed the Committee on Social Affairs, Health and Sustainable Development to get an idea of how the financial and economic crisis has changed or continues to influence people’s everyday life. For Spain, for example, Ms Rebeca Mayorga Fernández, audiovisual journalist and student from Madrid, one of the early members of the “Spanish Indignados” movement, provided some insight into the current economic situation of many of her generation, including herself. She described a context where highly qualified young people could not find access to permanent employment and were obliged to move from one precarious job to the next, to continue their studies at their families’ expense, to apply for social benefits straightaway or to leave the country and work abroad if they had the educational (and financial) capacities to do so. Moving to make labour markets yet more flexible, governments continued to serve financial interests, whilst those most concerned were entirely left out of decision-making processes.

43. The *Indignados* viewpoint was confirmed by Mr Luca Scarpiello, Vice-President of the European Youth Forum, who, in March 2012, pointed out to the committee how important it was to facilitate in particular the transition between training and employment for young people and avoid that their later careers be marked by years spent on internships at the beginning of their professional lives. He also recalled that a lack of support for young people profoundly affected society in the long term: the forum estimated that financial losses linked to youth unemployment – through social benefits paid out, non-contribution to social security schemes or exclusion from consumption – accounted for 100 billion euros per year in EU countries alone. On the same occasion, British entrepreneur Ms Madi Sharma, representing the European Economic and Social Committee (EESC) of the European Union, reminded parliamentarians of the importance of fostering entrepreneurship, specifying that about 98% of growth was generated by small and medium enterprises, which were neither taken sufficiently seriously by many banks, nor sufficiently involved in early stages of policy design.

44. Information on Spain was completed by a similar report on Greece by Ms Sonia Mitralia**,** representative of the Women’s Initiatives against Debt and Austerity Measures (part of the Committee for the Abolition of Third World Debt – CADTM and its network). According to her, Greek decisions makers had in the meantime admitted that the “recipes” applied were expected to remain largely inefficient: the current objective of austerity measures was to reach a public debt level of 120% of GDP in 2020, that is to say the level of 2009 when the whole crisis started. Social cuts introduced by austerity programmes increasingly affected the middle class which had lost much of its purchasing power. Some of the consequences were that many children were not able to eat in school canteens, the number of homeless had significantly increased, unemployment rates had reached 20% in general and over 50% for young people, public services were cut and even basic medical services, such as those related to childbirth, had become unaffordable for some. Amongst the groups most exposed were young women, the elderly and mono-parental families.

45. Further examples for such negative effects can be found almost daily in the European press: only at the end of January, the Ministry of Education in Greece announced that food vouchers would be handed out to those pupils and their families who were most affected by the crisis, following media reports about undernourished pupils fainting during classes (concerning which the ministry reproached teachers’ unions for having disseminated populist propaganda against austerity measures by the State).[49] “Recorded suicides have roughly doubled since before the crisis … according to the Greek Ministry of Health and a charity organisation called Klimaka” in September 2011.[50] Their link to the economic, social and political crisis can be seen in the tragic suicide of a Greek retired pharmacist who expressed in his suicide note his view of an occupying government that nullified his ability to survive on a decent pension.

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47. International Labour Office: “Global wage report 2010/2011, wages policies in times of crisis”, Geneva, 2011, www.ilo.org.
48. Berger, Jens: “Demographische Folgen der Eurokrise” [Demographic consequences of the euro crisis], NachDenkSeiten – Die kritische website, 26 April 2012, www.nachdenkseiten.de.
49. “Lebensmittelcoupons für griechische Kinder” [Food vouchers for Greek children], *Tageszeitung Junge Welt* (source: AFP), 12 March 2012, www.jungewelt.de.
50. Walker, Markus: “Greek crisis exacts the cruelest toll”, *Wall Street Journal,* 20 September 2011, http://online.wsj.com.

4. Conclusions and recommendations

46. The rapporteur is convinced that financial and economic policies, austerity measures and the question of regulation of financial actors increasingly affect human rights (including social rights) in Europe and the democratic foundation of Council of Europe member States. He thus invites the Assembly to convey a strong message to member States.

47. An important reference is the revised European Social Charter, which is yet to be ratified by a number of member States. In the field of democracy, few binding standards exist at European level. Furthermore, the Strategy on Innovation and Good Governance at Local Level, and its 12 principles of “good democratic governance”, developed by the Council of Europe in 2007, could certainly, beyond local democracy, serve as a general reference for any modern democracy.

48. Many of the decisions that were recently taken concerning the “sovereign debt crisis” or are expected to be taken in the near future do not meet the highest democratic standards, as they are, under the pretext of required urgent action, taken speedily by institutions which lack democratic legitimacy and are far removed from the concerns of the European people. Attempts to raise critical voices in the framework of referenda or protest movements are in many cases ignored, denigrated or brushed aside. Awareness of such threats to democracy should be raised whenever possible and European democratic standards, which are amongst European core values, should be protected and even developed by aspiring to higher and more modern standards of democracy, inclusion and participation.

49. From an economic point of view, cuts in government expenditure, social safety nets or wages are not effective measures against the current crisis, given that they especially affect lower income groups and further undermine their purchasing power and self-subsistence. Instead of trying to reach balanced budgets through public expenditure cuts, there is a need to address the wealthier social groups by increasing their taxes and introducing new ones. Such measures only affect private expenditure slightly and thus have higher “multiplier effects”.

50. The rapporteur is convinced that, rather than improving the situation, the recent and current European “bailout funds” worsen the crisis and do not sufficiently hold to account those responsible, such as worldwide financial institutions. The long-term question of public finances should be largely disconnected from private financial markets and their specific dynamics and short-term interests. Furthermore, the rapporteur strongly supports the idea of reinforcing regulation of the financial sector as currently debated at European Union level where a relevant debate has been initiated by the Commissioner for Internal Market and Services, Mr Michel Barnier, who recently launched proposals to limit the risks of financial services and to regulate Europe's financial sector, including the so-called shadow banking market.[51]

51. Wherever policies aimed at lowering budget deficits are deemed necessary, it needs to be ensured that they do not disproportionally affect middle and lower income groups and those categories of the population which are in need of special protection (children, the elderly, people with disabilities, migrants, etc.) or reduce their living standards. Alternatively, cuts in budget lines whose social consequences are limited, such as armaments policies, should be considered. Finally, the long-term consequences of some of the consolidation measures should be taken into account: some of the austerity programmes include the massive privatisation of public services which could then result in a lack of transparency and democratic control, as well as a threat to the quality of and equal access to some of these services, such as health services or family-oriented services.

52. Member States of the Council of Europe should also develop positive stimuli for social, sustainable and ecological economic development and comprehensive economic recovery programmes, especially in favour of the younger generation, which finds it more and more difficult to access stable employment and to contribute to the European economy in a sustainable manner.

53. In the light of these conclusions, the rapporteur suggests that the Assembly recommend that the Council of Europe member States:

– prevent the undermining of existing democratic standards when it comes to decisions linked to the “sovereign debt crisis” and possible joint European action to be taken;

51. European Parliament: “Mr Barnier counts on Parliament to back financial sector regulation”, press release of the Committee on Economic and Monetary Affairs, 21 March 2012, www.europarl.europa.eu; European Commission: “Green Paper on Shadow Banking”, 19 March 2012, Com(2012)102final, http://ec.europa.eu.

– reflect on how such processes could be made more democratic in the future, also with regard to future economic policy making at the European level and, in the meantime, act with utmost transparency in taking any far-reaching decisions which profoundly affect a country's economy;

– consider measures aimed at modernising democratic structures and processes by means of new forms of participation and consultation of citizens, such as referenda, wherever the constitution or legislation provide for such possibilities;

– re-examine current austerity programmes from the point of view of possible harm inflicted upon social rights standards;

– where appropriate after such an analysis, redirect austerity programmes towards sustainable economic growth in harmony with social and ecological standards;

– launch comprehensive and positive economic recovery programmes aimed at overcoming high rates of unemployment, especially amongst the young generation, and all their negative economic and social consequences;

– disconnect the long-term question of public finances from financial markets and their specific dynamics and short-term interests;

– pursue and support efforts undertaken to increase the regulation of the financial sector;

– introduce new taxes to be applied to high incomes and consider further measures aimed at increasing public resources in the future;

– consider applying a stronger approach to tax havens and introducing new taxes on financial transactions across Europe; these two issues are not developed further here given that the first was treated in depth in a report debated by the Assembly in April 2012,[52] and the latter will be dealt with in a report currently being prepared by the Social, Health and Family Affairs Committee.

54. Member States of the Council of Europe should generally co-ordinate their action concerning the current crisis situation so as to ensure coherent and effective policy responses. The mutualisation of debts and joint negotiations with financial institutions by different European Union member States could be one possible approach. However, such measures need to be taken in a context of expansion of democracy to European levels as they could otherwise represent a further reduction of national governments' autonomy in responding to crisis situations and elaborating economic policies.

55. Beyond individual measures of this kind, co-ordinated policy responses could possibly, in the long term, lead to a renewed vision of the future European economy and a new European social model based on social rights as an integral part of human rights.

56. The Parliamentary Assembly, as greater Europe's parliamentary forum and "democratic conscience", should call on member States to ensure the participatory rights of all democratic bodies and movements existing in a given country, in particular national parliaments, and to find new ways of giving citizens a say in the design and implementation of fiscal and economic policy measures which have a significant impact on the living conditions of the population.

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52. See Doc. 12894 and Resolution 1881 (2012).