Economic and Social Council

Topic 3: Containing the impact of austerity measures on financially vulnerable social sectors

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1. Definition of key terms

Austerity: time period of the economic history, in which the govern of the western countries were forced to issue provisions to contain energy consumption following the oil crisis of the 1973.

Austerity measures: reduction of what the government has to spend or revenues in taxes, which governments have to do only if they are forced to by the bond market or other lenders. The aim of austerity measures is to lower deficits and avoid a debt crisis. States try to avoid the use of these measures since they act like contractionary fiscal policy, slowing down the economic growth, which makes it even more difficult to raise the revenue needed to pay off sovereign debt. Because of this they do so only if they are forced by the bond market or other lenders.

"Great Depression": Worldwide economic downturn, which comprehends the period of time between the 1929 and the 1939. It began with the stock-market crash in October 1929 in the United States and was the longest and most severe depression ever experienced by the economic industrialized Western world, which has changed the fundamentals of the economic institutions, macroeconomic policy and economic theory.

This economic crisis and period of low business activity caused drastic declines in output, severe unemployment and acute deflation in almost every country of the world, especially in the US the "Great Depression" represented the harshest adversity faced by Americans since the Civil War.

Global financial system: collaboration of financial companies, regulators and institution that do operate on a supranational level. It can be divided international banks and insurance companies, regulators, supervisors and institutions. The global financial system does also include the lightly or non-regulated bodies (shadow banking system), which covers hedge funds, private equity and bank sponsored entities.

Economic damage: damage which involve loss of profits, wages and earnings, future earning capacity, damage to real and personal property, and value. The measurement of this damage, which often result from a harmful act, is called economic damage quantification.

Budget deficits: indicator of financial health and consequence of the overcoming of the expenses of revenue. Tis term is mostly used by the government in reference to its spending rather than business or individuals. The accrued governments are reason for the becoming of the national debt.

Economic recovery: stream of business activity that are improved are do indicate the end of a recession. Like a recession, it is not always easy to recognize an economic recovery until at least several months after it has begun. Because of this, economists use a variety of indicators, which include gross domestic product, inflation, financial markets and unemployment, in order to analyse the state of economy and so try to determine whether a recovery is in progress or not.

2. Introduction

For the government it is important and necessary to safeguard all economic, social and cultural rights, including the rights to health, food, water, work, social security and education. These rights are directly affected by austerity measures, which do weaken safety nets and hamper realization of these ones. The International Covenant on Economic, Social and Cultural Rights provides measures to make sure to achieve the full realization of the right to health, having a positive obligation to ensure adequate financial regulation.

Where austerity measures result in retrogressive steps because they do affect the realization or implementation of human rights, the burden of proof shifts to the implementing State in order to provide justification for such retrogressive measures. In ensuring compliance with their human rights obligations when adopting austerity measures, counties should demonstrate the following aspects: the existence of a compelling State interest; the temporariness, reasonableness, proportionality and necessity of the austerity measures; the exhaustion of different and less restrictive ones; the non-discriminatory nature of the measures that are proposed; protection of a minimum core content of the rights; and participation of groups and individuals, which are affected in decision-making processes.

Many Governments of different States tried to keep in their mind their human rights obligations and have responded to the recent global financial crisis with austerity measures that significantly cut social sector spending. The consequence of this was a different impact on standards of living and so public investment in essential services has declined. Moreover, cuts in public sector employment and in funding for social safety nets have resulted in the denial or infringement of economic, social and cultural rights, particularly for populations that are already marginalized or at risk of marginalization and in some cases may violate the prohibition on discrimination in the enjoyment of human rights, such as the right to work. This human right does include the possibility to choose an employment, in just and favourable conditions of work and in being protected against unemployment. This is so important because it is connected with the realization of other human rights and meantime it constitutes an inseparable and inherent core of human dignity: The opportunity to work in justice usually provides livelihood, and insofar as work is freely chosen or accepted, it contributes to self-development and recognition within the community. Furthermore, this human right is connected to social security, which is widely recognized as an essential tool for reducing and alleviating poverty and promoting social inclusion.

In order to comply with their human rights obligations, such as progressive realisation, prohibition of retrogressive measures, core minimum obligations, maximum available resources and prohibition of discrimination, States parties to the International Covenant on Economic, Social and Cultural Rights must justify austerity measures by demonstrating that such measures actually do protect the rights outlined in the Covenant and especially the rights of the most vulnerable. This is because of the negative impact of austerity measures, which is the result of the economic and financial crisis, are especially on disadvantaged and marginalized individuals and groups, such as the persons with disabilities, poor, children, older persons, women, people affected with HIV/AIDS, ethnic minorities, the unemployed ones, indigenous peoples, refugees, and migrants.

All this requires countries to demonstrate that all other alternatives have been exhausted and that the measures are necessary, proportionate, respectful of minimum core obligations and non-discriminatory.

3. Background information

Since the “Great Depression” in the 1930s, the origin of the worst global crisis, the word has many more problems. The causes of this crisis do reflect issues, such as the inadequacy of existing regulation and its failure of adapting to a growing global financial system, a lack of policy coherence vis-à-vis international human rights obligations, as well as a general lack of transparency and accountability, in the national and international financial architecture.

2011 is the year in which the global economy slowed down, this is why it is called "the second phase of the crisis", with particular effect in countries of Southern Europe.

Actually, the situation isn't that better: developed countries continue to struggle to counter the economic damage suffered, while developing countries are faced with continued uncertainty and diminished growth prospects.

Countries have spent enormous sums of money bailing out these institutions because of the problems that have followed from the crisis. This was why many States adopted contractionary measures ("austerity measures") intended to combat budget deficits that had been augmented by the crisis and the resultant bail-outs themselves. In this context, the imposition of "austerity measures" by Countries further exacerbated the impact of the global financial crisis, thereby stalling recovery. As a consequence, the ability of individuals to exercise their human rights, and that of States to fulfil their obligations to protect those rights, has been diminished, which is particularly important for the most vulnerable and marginalized groups in society: women, children, minorities, migrants and the poor, who suffer from decreasing access to work and social welfare programmes, and reduced affordability of food, water, housing, medical care and other basic necessities. Also, the negative impacts of the financial crisis and subsequent austerity measures are seen to exacerbate existing structural inequalities.

Austerity measures try to raise important concerns regarding the protection of economic, social and cultural rights as more as possible, including the principles of non-retrogression, progressive realization, non-discrimination and minimum core obligations. In order to remind to the countries of their obligations to use the most available resources to fulfil economic, social and cultural rights, the Committee on Economic, Social and Cultural Rights recently addressed a letter 2 to all Countries, to make sure that the impacts of the global financial crisis and austerity policies on employment, social welfare expenditures, and human rights generally are correctly recognized.

Moreover, the problem isn't only the negative impacting but also the realization of fundamental human rights because austerity measures have also failed to contribute to economic recovery. In response to the debt crisis, the recent imposition of austerity policies has failed in its aim to promote economic growth and investment by reducing fiscal deficits. Furthermore, there remain serious concerns regarding the adequacy of current efforts to address the root causes of the financial crisis, including inter alia, deregulation, rising global inequalities, power imbalances, and defective and unrepresentative systems of financial governance.

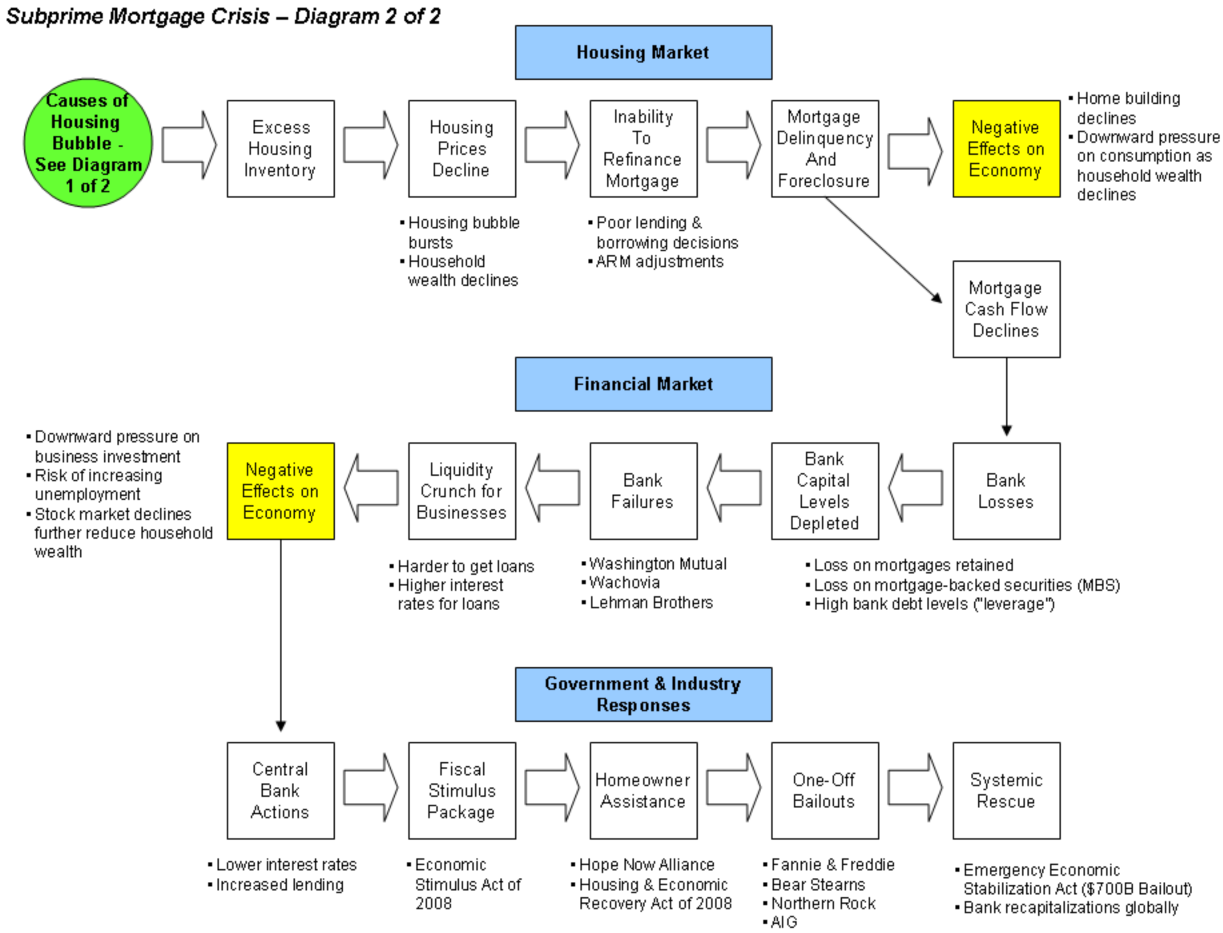
In developing countries, fiscal deficits are being reduced in order to avert negative reactions from financial markets. The financial crisis has conducted the current policy to threat the government expenditure when and where it is most needed, based on the questionable premise that austerity measures will stabilize economies and facilitate economic growth leading to the creation of a job. In contrast, human rights advocates have encouraged a rights-based response, which supports the protection of economic and social rights through investing in social and economic programmes, while simultaneously stimulating the economy. Moreover, these measures are helpful also to the construction of national stability by reducing the likelihood of political unrest (and potentially repressive responses) and strengthening the legitimacy of governments.

A response to the economic crisis, which is based on human rights, would call for accountability in the public and private sectors, social investment, improved job training and job creation policies, and a sound social security system. This approach comes from the right of all persons to an adequate standard of living, as pointed out in the article of the Universal Declaration of Human Rights, international human rights treaties and International Labour Organization (ILO) conventions.

Regarding the political environment, policy responses to economic crisis should be formulated and implemented within the parameters of international human rights law. Austerity measures that reduce the expenditure for critical social welfare programmes during times of crisis can undercut human rights norms and threaten the most vulnerable members of society.

4. Major countries involved

USA



Euro-Zone

The European Stability Mechanism is an international organization originally founded as the European Financial Stabilisation Found. It was created from the modifications, approved on 23rd of March 2011, of Treaty of Lisbon by the European Parliament and ratified by the European Council in Brussel on the 25th March 2011. It has been taken as an intergovernmental organization because of its structure formed on a council of governors and a council of administration and for the power to impose on countries, members of the organisation, choices of macroeconomic policy.

Greece

The Greek case is considered, by the European Union, a very important matter considering the possibility that such situation affects other markets of the European zone. For this reason, the UE, to avoid its own default, together with the International Monetary Fund has granted a loan of 45 million Euros to Greece. Such loan has been granted after an economic plan approved by the Greek government, facing to reduce its own public debt through meaningful spending cuts. Part of the public opinion is contrary to such funding and this has caused numerous protests in Athens between protesters and police, on the festivity of 1 May 2010.

Then, creditors' (IMF-union European-CEB) troika in the 2012 stipulate as condition, to decontrol the packet of international helps, the realization from the Greek government of new measures of austerity. Among them, it detached the proposal to reduce by 22 percent the minimum wages, giving a rush to the competitiveness of the Greek products.

Portugal

At the beginning of April 2010 the absence of development combined with an inadequate tax revenue, elements that, in a crisis context of trust of the investors, make the Portugal quickly unable of refinance itself and service the debt already negotiated. In March 2011, the Prime Minister José Sócrates was forced to resign after the rejection of the measures of austerity.

After having applied officially for funds for 80 million Euros, the European group approved the bailout of Portugal, granted on the condition that the Parliament approved the improvement of budget. The intervention of the amount of 80 million was granted in a situation of extreme emergency of funds for the State, unable to cover the reimbursements and the ordinary expenses. Subsequently the Portuguese parliament has been forced to discuss and to approve heavy measures of reduction of the deficit and the expenses, among the hardest of the last 50 years.

Ireland

Ireland entered a banking crisis since the bursting of the speculative bubble (Irish property bubble) with the abrupt drop in prices of the houses, among 2007 and 2008. The consequences of the crisis during the months of 2009 were hard:

- reduction of 7.5% of the GDP
- an unemployment rate that stands at about 13,8%
- a deflation of 6,5%
- an increase from 33,6 to 40,46 in the government deficit

The international anxieties, concerning a weakening of the Irish public finance, were initially connected to a bailout of 30 billion Euros, decided by the Irish government, to sustain the Anglo-Irish bank. The decided amount has caused an undue enlargement of the deficit. The surging of the SPREAD among the Irish debt securities and the German ones enforced the cues of mistrust of the market concerning the Irish finances and the capacity pf the country to repay the returns: on the 25th of august, the Irish CDS rise up to 322 points.

After that the ECB has already bestow medium-term funding between the Irish banks, the governance of Brian Cowen was forced to accept a bailout program concerning a loan of 85 billion of euro, an austerity programme and an expenditure restraint with cut of the social spending and new taxes.

United Kingdom

The widespread presence in the English banks of the "toxic assets" fostered the spreading of the crisis also damaging directly different European countries: the European stock exchanges accumulated since the crisis erupted manifold losses. The mortgage crisis ones struck at first the Northern Rock, fifth institute of British credit, specialized in home mortgages. In mid-September 2007, the diffusion of the news that the bank would not have been able to repay its clients because of the impossibility to purchase itself from the inter-bank market baited the panic among the savers that invaded the bank' counters in the attempt to claim back their savings.

The Bank of England and the FSA spread proclamations to keep the bank account holders calm. According to the British daily newspaper, Northern Rock had nevertheless continued to grant loans to clients to five times the amount of the salaries and up to the 125% of the value of the houses, despite all the warnings on the economic instability and the possible collapse of the quotations of the properties.

The British central Bank proceeded to the nationalization of the institute hocking around 110 billion pounds. The intervention of the Bank of England was extended then to the whole banking system, through interventions of recapitalisation and huge purchases of bond for various institutes. The Bradford & Bingley was also saved and nationalized, while actions of Hbos, Lloyds Tsb and Royal Bank of Scotland were purchased.

North Africa

In North Africa, the Algerian government has faced the fall of the price of the oil with the application of drastic spending cuts in its budget 2017, together with an increase of the VAT from 2% to 19%. The credit politics of the international Monetary Fund have also pushed the Egyptian government to increase the prices of staple products and services.

Sub-Saharan Africa

In sub-Saharan Africa, the allowances for the poor and the social security have been reduced. However the consumption taxes, such as the VAT, have been increased, impacting more harshly on poor people. Countries among which Botswana, Burundi, Mauritius, Mozambique, Namibia and Togo have constantly received from the International Monetary Fund the "suggestion" to retain these measures of austerity, despite the fact that in 2012 the Monetary Fund itself admitted that this approach is not always justified and it can strained the economic growth.

Brazil

In Brazil, the unprecedented decision to impose a limit on the public expenditure for 20 years, since 2016, have aroused strong criticisms, both inside and outside the country. The special relator of the United Nations on the extreme poverty and human rights, also condemned this measure, declaring this action "an obstacle to the realization of the economic and human rights.

Asia and Pacific Regions, Middle East

The economies of the regions of Asia and Pacific and of the Middle East have been compromised by the measures of austerity. During 2017, in Indonesia, Mongolia and Sri Lanka spending cuts have been made to the public expenditure. Even rich countries such as Qatar or Saudi Arabia have cut their economic balance to decrease the deficits of the state, giving priority to the cost-effectiveness, at the expense of the social security.

5. UN-Involvement

GUIDING PRINCIPLES ON HUMAN RIGHTS IMPACT ASSESSMENT OF ECONOMIC REFORMS

“These Principles square measure applicable once regressive economic reforms could contribute to deepening social and economic difference and should cause human rights violations with disproportionate impacts on the foremost disfranchised. These principles ought to be applied primarily within the context of acute economic and monetary crises, though they'll even be pertinent in less difficult economic times as a part of economic reform process “[1]

1) Some economic policies such as austerity, fiscal consolidation, adjustment, structural reforms, privatization, deregulation of labour markets, among others, can have adverse consequences on the enjoyment of human rights. These consequences are often foreseeable and should be prevented. The regressive impact on these measures on human rights will justify the applying of those Guiding Principles.

2) The Guiding Principles should be applied to different economic situations, notably (a) responses to severe economic and financial crises (sudden or gradual economic downturn and collapse of public or private monetary assets’ values), where the risk of adverse human rights impacts is heightened and in which an urgent response is required; (b) medium-term economic reforms —where austerity measures may stretch into multi-year processes that transcend the immediate responses to and implications of economic and monetary crises; and (c) longer-term processes, such as accompanying the systematic review of budgets and their spatial arrangement assessments, cumulative and long term effects of fiscal consolidation measures on human rights, or the effects of labour market reforms.

3) These Guiding Principles focus on policies and processes that States put in place in the immediate aftermath of an economic and financial crisis. However, it's equally necessary to contemplate the measures that States absorb the medium and long run to create transformative resilience for the protection of human rights, especially during healthy economic times, such as whether debt should be or shouldn’t be taken. Debt wont to enrich political or economic elites will compromise human rights, be it in the context of economic or financial crises. Experience has shown that transformative policy responses will strengthen establishments to alter States different people |and folks} — especially the poor and other people or teams that square measure disproportionately affected by commercial enterprise

[1] Cited from: https://www.ohchr.org/Documents/Issues/IEDebt/DraftGuidingPrinciples_EN.docx

consolidation associated alternative self-denial measures — to weather shocks and to recover fleetly following an economic and monetary crisis.

6. Useful links

https://www.thebalance.com/austerity-measures-definition-examples-do-they-work-3306285/

https://www.britannica.com/event/Great-Depression/

https://mdd.com/what-is-economic-damage-quantification/

https://www.ohchr.org/Documents/Issues/Development/RightsCrisis/E-2013-82_en.pdf/

https://www.ohchr.org/Documents/Issues/IEDebt/DraftGuidingPrinciples_EN.docx/

http://www.google.it/url?sa=t&rct=j&q=&esrc=s&source=web&cd=6&cad=rja&uact=8&ved=2ahUKEwiF96ah9p_fAhUO2xoKHZ7cCOgQFjAFegQICBAC&url=http%3A%2F%2Fwww.un.org%2Fga%2Feconcrisissummit%2Fdocs%2FAnatomy_26May_EN.pdf&usg=AOvVaw25bONfUi1FP5XR70qDVdUW/

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