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## **REPORT**

**FOR THE GENERAL COMMITTEE ON  
ECONOMIC AFFAIRS, SCIENCE, TECHNOLOGY  
AND ENVIRONMENT**

### ***The OSCE: Region of Change***

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## **REPORT FOR THE GENERAL COMMITTEE ON ECONOMIC AFFAIRS, SCIENCE, TECHNOLOGY AND ENVIRONMENT**

**Rapporteur: Mr. Tony Lloyd (United Kingdom)**

As the effects of the global financial downturn started to unfold four years ago, governments of participating States across the OSCE region deployed an arsenal of stimulus measures to cushion the inevitable fall of trade, growth, and employment.

In the United States, the 2009 Recovery Act dedicated \$787 billion to prevent massive unemployment and spur economic activity. Kazakhstan adopted a \$25 billion stimulus package to save its banks, encourage loans to small businesses, and modernise its transportation network. Across the European Union, countries devoted a significant portion of their GDP (between 1 and 4 per cent) to aid their car industries, the housing sector, or invest in infrastructure.

Recalling landmark programmes such as the Marshall Plan, which set the basis for a prosperous era of economic development and integration in Europe, governments noted the importance of international co-operation and solidarity to rebuild the global economy.

Today, however, orthodox financial policies prevail.<sup>1</sup> In Europe in particular, regressive spending cuts are the predominant approach to tackling the crisis, regardless of the political leaning of governments. Going further, the EU Fiscal Stability Treaty will require the introduction of balanced-budget constitutional amendments in order to streamline fiscal discipline within the Eurozone.

We are witnessing the great impact credit rating agencies have on the formulation of today's economic and financial policies. Over-reliance on analyses which are sometimes influenced by conflicts of interest and often taken as undisputable has opened the door to widespread financial speculation. Fear of a credit downgrade has encouraged many OSCE participating States to implement deficit-cutting plans.

Yet, there is a great deal of evidence that the austerity policies introduced to answer Europe's sovereign debt crisis are starving growth and leading to a negative circle of demand collapse.<sup>2</sup> Indeed, the Institute of International Finance (IIF) recently acknowledged that austerity is "excessive when carried out across the board," and encouraged governments to move beyond strict fiscal discipline to "avoid the risk of an austerity overload" on the world economy.<sup>3</sup>

As parliamentarians, we have a key role to play in overseeing and debating the economic policies implemented by our governments. As a unique forum bringing together representatives from North America, Europe, and Asia, the OSCE Parliamentary Assembly has a central role to encourage greater economic solidarity, foster policy coordination between participating States, and to discuss new approaches to tackling the economic crisis and promoting growth.

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<sup>1</sup> Friedrich Ebert Stiftung: "Budget Consolidation and the European Social Model – The Effects of European Austerity Programmes on Social Security Systems," March 2011, <http://library.fes.de/pdf-files/id/ipa/07891.pdf>.

<sup>2</sup> Institute for the Study of Labor: "Further Austerity and Wage Cuts Will Worsen the Euro Crisis," February 2012, <http://ftp.iza.org/pp37.pdf>.

<sup>3</sup> Institute of International Finance: "2012 Policy Letter," 9 April 2012, <http://www.iif.com/download.php?id=4RtvvsC+2w8=>

## Bearing the Cost of Austerity

At our Annual Session in Vilnius in 2009, discussions in our General Committee underlined that “responses to the current crisis should keep in mind that those who are most affected by the crisis are not necessarily banks and investment firms, but rather, average people who have lost their jobs, their homes and their livelihood.”

Three years later, we are all witnessing that those bearing the social cost of economic failure tend to be the young and the old, the women more than men, those with disabilities, and those individuals coming from marginal and ethnic communities. Moreover, austerity-driven cuts have targeted healthcare and education budgets,<sup>4</sup> even though the healthy and the educated have greater chances to be employed.

In the short-term, the crisis has put considerable pressure on individuals and family budgets. With little confidence in the future, families have slowed down consumption – one of the engines of our economic model – in order to face up to cuts in income and the higher cost of living. Foreclosures and stricter loan policies have also increased the level of housing exclusion across the OSCE region.<sup>5</sup> We are witnessing growing income disparity, with the rich becoming richer and the poor getting poorer. Overall, the crisis has exacerbated poverty, increased inequality, and has rendered vulnerable a wider segment of our populations.

In the medium-term, rising inequalities are likely to increase social tensions, and lead to crime and disorder. Poverty and unemployment also provide fertile grounds for ethnic tension<sup>6</sup> and a negative view of immigration. In the longer term, the poverty and unemployment trap can be detrimental to the physical and mental health of individuals<sup>7</sup> and lead to the alienation of whole sections of society.

Four years after the start of the global economic downturn, many young people across the OSCE region are losing hope as they begin to bear a “wage scar” that may persist into their middle age. Prolonged unemployment, and fierce professional competition in times of recession, leads many of our young graduates to accept jobs where the pay is low and the opportunities for training and career progression are few.<sup>8</sup> In the long run, unemployment and under-employment leave young people with declining wage prospects, increased depression and stress, and higher suicide rates.<sup>9</sup>

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<sup>4</sup> Friedrich Ebert Stiftung: “Budget Consolidation and the European Social Model – The Effects of European Austerity Programmes on Social Security Systems,” March 2011, <http://library.fes.de/pdf-files/id/ipa/07891.pdf>.

<sup>5</sup> European Social Housing Observatory: “Impact of the Crisis and Austerity Measures on the Social Housing Sector,” February 2012, [http://www.iut.nu/Literature/2012/CECODHAS\\_Impact\\_ofCrisis2012.pdf](http://www.iut.nu/Literature/2012/CECODHAS_Impact_ofCrisis2012.pdf).

<sup>6</sup> UNDP: “Inequality, poverty, risk conflict in East Europe and Central Asia,” 3 June 2010, <http://content.undp.org/go/newsroom/2010/june/inequality-poverty-weak-safety-nets-risk-conflict-and-a-lost-generation-in-east-europe-and-central-asia.en>.

<sup>7</sup> M. W. Linn, R. Sandifer, and S. Stein: “Effects of unemployment on mental and physical health,” American Journal of Public Health, May 1985, <http://www.ncbi.nlm.nih.gov/pmc/articles/PMC1646287/pdf/amjph00281-0056.pdf>.

<sup>8</sup> The Economist: “The Jobless Young – Left Behind,” 10 September 2011, <http://www.economist.com/node/21528614>.

<sup>9</sup> New York Times: “Increasingly in Europe, Suicide ‘by Economic Crisis,’” 14 April 2012, [http://www.nytimes.com/2012/04/15/world/europe/increasingly-in-europe-suicides-by-economic-crisis.html?\\_r=3](http://www.nytimes.com/2012/04/15/world/europe/increasingly-in-europe-suicides-by-economic-crisis.html?_r=3).

## **The Opportunity Cost of a Stagnant Economy**

Across the OSCE region, bloated unemployment restrains the long-run growth potential of the economy. It forces governments to increase social spending and to cope with a net fall in tax revenues, ultimately resulting in greater public debt. For instance, in the United Kingdom, an additional 750,000 people are now unemployed, at a total opportunity cost (added benefits and lost revenues) estimated to be \$15 billion every year.

High unemployment comes with a costly price tag. Indeed, \$15 billion dollars could fund a quarter of Britain's annual education budget. In other words, governments are shifting budgetary expenditure away from long-term strategic investments to mitigate the short-term effects of the crisis and austerity policies. As such, stagnant growth depletes our social funds, lowers our ambitions, and mortgages our future.

The slow pace of the recovery makes it all the more important to engage in new and innovative ways to encourage economic activity. Discussions with parliamentarians from across the entire OSCE region have pointed to the great potential of green investment, and the necessity of educating a smarter workforce.

## **The Transition Towards a Sustainable and Green Economy**

Several international organizations and institutions, including our Assembly in Vilnius in 2009,<sup>10</sup> have underlined that the global financial crisis presented an opportunity for green investment to support the economic recovery. Indeed, the green economy provides a holistic response to the three major world crises – climate change, food security, and economic stagnation – while protecting the ecosystem, alleviating poverty, and fostering growth.

In recent years, it has become apparent that economic growth and environmental concerns can go hand in hand. Indeed, reports show that green investments have a dual positive economic effect – on supply and demand – leading in the long run to faster economic growth, thus automatically increasing employment and reducing poverty.<sup>11</sup> For instance, estimates suggest that, by investing in renewable energies alone, up to 20 million jobs could be created worldwide by 2030.<sup>12</sup>

Nevertheless, this transition toward a global green economy requires deeper international co-operation. While developed countries must take the lead by modifying their production and consumption patterns, developing countries should adopt sustainable practices.

Based on the overarching goal of transforming our approach to growth, international co-operation should take various shapes:

- financial support and technology transfers to encourage developing countries to move away from polluting industries;
- reforms to the global economic and financial structures to foster greater inclusion with emerging powers;

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<sup>10</sup> OSCE PA: "Vilnius Annual Session – Summary Report," [http://www.oscepa.org/images/stories/documents/activities/1.Annual%20Session/2009\\_Vilnius/2009%20Vilnius%20Report%20FINAL.pdf](http://www.oscepa.org/images/stories/documents/activities/1.Annual%20Session/2009_Vilnius/2009%20Vilnius%20Report%20FINAL.pdf).

<sup>11</sup> OECD: "Towards Green Growth – A Summary for Policy Makers," May 2011, <http://www.oecd.org/dataoecd/32/49/48012345.pdf>.

<sup>12</sup> New York Times: "Race Is on to Develop Green, Clean Technology," 29 January 2010, <http://www.nytimes.com/2010/01/30/business/global/30davos.html>.

- the smart and effective protection and enforcement of intellectual property rights (IPRs) to encourage innovation without hampering technology transfers;
- lower barriers to trade and investment to encourage the diffusion of green technologies;
- fiscal incentives to make pollution more expensive and encourage a better use of natural resources.<sup>13</sup>

Government support is essential to drive innovation and foster the kind of scientific collaboration necessary to spread green technologies.<sup>14</sup> In this respect, parliamentarians have an important role to play in highlighting the correlation between economic growth and the environment in their own countries. Given the OSCE PA's role in advancing the debate on environmentally friendly policies with regards to business and industry, the Assembly should put a greater emphasis on how these environmental discussions may generate economic solutions.

### **Educating a Smarter Workforce**

Furthermore, training policies can play a major role within the global policy framework of realising green growth and achieving economic recovery, all the more so since the economic crisis has triggered changes in the global demand for skills.

Indeed, the demand for jobs requiring low qualifications is decreasing, while knowledge-based industries entail increasing levels of education. In 2010, the European Centre for the Development of Vocational Training (CEDEFOP) forecast that the share of highly qualified jobs would increase by 16 million, from 29 per cent in 2010 to 35 per cent of all jobs in 2020. Meanwhile, the share of jobs demanding a low-level of qualification would drop by 12 million, from 20 per cent to less than 15 per cent.<sup>15</sup>

However, public budgets for education and training are under scrutiny. Most participating States have adopted a wide range of measures to curb current levels of expenditure, by cutting staff costs or investment on infrastructure and equipment, slowing down reforms, or reducing financial support to students.<sup>16</sup>

Yet, to emerge stronger from the global economic downturn, participating States need to base growth on knowledge and innovation. In this respect, investing in educational excellence can yield great long-term returns by stimulating economic activity and creating jobs across the OSCE region.

To combat unemployment, it is also vital to adapt our workforce's skills to tomorrow's trades. By putting a greater emphasis on continuing education, we can train those who are unemployed and increase their chances of returning to the job market. We can also help develop our professionals to retain a competitive edge in the global demand for skills.

Our Assembly should play a role in encouraging greater parliamentary oversight over education and training policies in OSCE participating States. Through the regular meetings of our Second

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<sup>13</sup> UN: "The Transition to a Green Economy: Benefits, Challenges and Risks from a Sustainable Development Perspective," [http://www.uncsd2012.org/rio20/content/documents/Green%20Economy\\_full%20report.pdf](http://www.uncsd2012.org/rio20/content/documents/Green%20Economy_full%20report.pdf)

<sup>14</sup> The United Nations Environment Programme proposes that 2 per cent of the world's GDP (or USD 1 trillion) be dedicated to green investments.

<sup>15</sup> CEDEFOP: "Skills Supply and Demand in Europe – Medium Term Forecast Up to 2020," 2010, [http://www.cedefop.europa.eu/en/Files/3052\\_en.pdf](http://www.cedefop.europa.eu/en/Files/3052_en.pdf).

<sup>16</sup> European Commission: "Education and Training in a smart, sustainable and inclusive Europe," 20 December 2011, <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=COM:2011:0902:FIN:EN:PDF>.

Committee, parliamentarians can benefit from a unique forum to exchange ideas, improve co-operation in the field of education, and underline the long-term economic implications of vocational training.

Together, we can also call on our respective parliaments to encourage greater labour mobility. Allowing the international recognition of diplomas and easing access to the job market for foreigners and immigrants constitute small but decisive steps that can provide a better allocation of resources within the OSCE region.