



# Fiscal Fallacies: 8 Myths about the ‘Age of Austerity’ and Human Rights Responses

## Introduction

Four years into the global economic crisis, political and economic malaise continues to besiege the eurozone and the US, the rising Eastern powers are stumbling, economic growth across the Southern hemisphere sputters, and worries of a repeat global economic recession—if not full blown depression—continue to unsettle people the world over.

While different countries and regions have been affected in different ways, the successive waves of the global economic crisis since 2008 have led to an austerity-driven “Great Regression” in human rights [around the world](#). Massive and prolonged unemployment and job precarity, rising levels of hunger, homelessness and food riots, deprivations in access to adequate health and education, greater income inequality, significant cuts in basic social protections, growing xenophobia and discrimination, sharp increases in suicide rates across Europe, and mounting social disintegration have emerged from the wreckage—undermining not just the realization of human rights, but their very recognition as fundamental norms to guide economic and social policy. Austerity seems to have permeated the core of economic policy-making in many countries across the world, where many governments have reversed their previously expansionary crisis responses in 2009 and 2010 by cutting back through 2011 and into 2012, even in the midst of economic malaise. Cuts have been widespread, including de-funding health, education and other social services, reducing grants to employment services, and in some cases reducing social protection, unemployment insurance and older persons’ pensions. These programs are taken as mere collateral damage in the quest for economic recovery, rather than what they are—

fundamental human rights to which everyone is entitled on the basis of their inherent dignity. While broad swaths of society are affected by austerity measures, evidence shows that women, children, older persons, ethnic minorities, immigrants, people with disabilities and people living in poverty suffer disproportionately. The enjoyment of human rights, in other words, has all too often become the foremost casualty of the “Age of Austerity.”

Despite evidence to the contrary, several myths plague mainstream debates over the enduring human consequences of the global financial and economic crisis. This briefing challenges eight widespread yet misguided perceptions about economic policy in times of crisis, and suggests a series of human rights-centered economic policy alternatives for governments to urgently consider in order to address the dark flipside of austerity-driven cutbacks—a deepening economic and social rights deficit.

Economic policy is public policy and therefore subject to international human rights law. Economic policy choices are a reflection of a government’s efforts to uphold its duties and obligations to human rights, particularly economic and social rights, in accordance with its own constitutional and international treaty commitments. Human rights norms, standards and principles also provide a [programmatic framework and operational redlines](#) for economic policy-making. Investing in people in line with international human rights norms and principles is not only legally compelling and morally right. It can also work to pull our economies out of the trappings of ever deeper, austerity-driven recessions—what Nobel laureate Amartya Sen called a “[spiralling catastrophe](#).”



## Myth #1: Governments caused the crisis through runaway public spending.

Governments, according to this pervasive myth, are at fault for the economic collapse because of their profligate overspending which led to unwieldy deficits, the crowding out of private sector initiatives and thus widespread economic malaise. In the EU context, some argue, it was the fiscal indulgence of the so-called “[Profligate Five](#)”—Ireland, Greece, Spain, Portugal and Italy—which drew down the whole regional economy. Government overspending being the diagnosis, deep cuts to public expenditure—“slimming the State”—is considered the obvious cure. So goes the conventional analysis of EU economic policy-making, as most recently captured by the EU Treaty on Stability, Coordination and Governance adopted by 25 EU States in February. This Treaty obliges all signatory States to enshrine a permanently balanced budget, or face exclusion from future crisis financing from the European Stability Mechanism. The ceiling for annual structural deficits, set at 0.5 per cent of GDP, can only be raised in a severe economic downturn or other “exceptional circumstances” to be defined by the European Court of Justice in Luxembourg, which would also have the new right to fine governments whose deficits rise above that deficit ceiling.

### Did you know?

In fact, in contrast to this popular myth, in most cases today’s high public deficits do [not](#) stem from overspending. None of the 12 eurozone members in the eight years before the crisis, for example, were in any significant debt, except Greece. Two of the hardest hit countries—Ireland and Spain—in fact had [budget surpluses](#), in stronger fiscal positions than France, Germany and Austria. Existing debt in most crisis-affected countries, in contrast to the myth, came as a direct result of the 1) bank bailouts to rescue the private financial sector from bankruptcy, 2) [crisis-induced reductions](#) in revenue collection, and to a lesser degree, 3) necessary economic stimulus programs, some of which paid for themselves through [benefits](#) to the larger economy. The existing deficits on

the whole are symptoms and consequences of crisis, in other words, not the cause.

Going deeper and beyond these symptoms of the crisis, then, what were the structural and root causes of the 2008 financial crisis? Although the origins of the 2008 financial crisis are myriad, two underlying structural causes are broadly cited. First, successive waves of de-regulation of financial activities is widely agreed to have been a [major contributing factor](#). By gutting the previous set of post-Great Depression rules of transparency, anti-fraud, basic exchange-based and other macro-prudential regulations needed to prevent systemic financial crisis, and failing to ensure systems of meaningful [accountability](#), governments in many regions opened the door for an aggregation of individual abuses which eventually contributed to a systemic melt-down.

A second broadly-cited cause of the financial crisis was in full play in the lead-up to the 2008 meltdown: [growing](#) income and wealth [inequality](#). The story reads like a perfect storm. In the three decades preceding the crisis, the top 1 per cent of income earners in the US—the epicenter of the 2008 financial crisis—doubled their share of national income to almost 16 per cent—the highest level of inequality of wealth distribution since 1929 before the Great Crash. As top income earners reaped increasing gains from economic growth, relatively little of their wealth went to creating demand for goods and services, but instead was funneled into de/under-regulated, high-risk, shaky investments such as derivatives. Low- and middle-income households who faced decreasing purchasing power over the same period, meanwhile, had to either limit their purchases (“belt-tightening for people who cannot afford belts” in Jeffrey Sachs’ apt adage), or go deeper into debt. For those with credit available, especially in their homes, the solution was a no-brainer. [Household debt levels](#) skyrocketed, doubling in the 1980s to over 100 per cent of GDP before the crisis broke.

This combination of skyrocketing household debt on the one hand, and ever-riskier and unsupervised investments on the other created a toxic cocktail that we are all still struggling to



recover from. It was the combination of this rapid accumulation of capital at the top, and the simultaneous explosion of debt at the bottom, which generated a level of intense financial fragility and risk not seen since the Great Depression. This was a key impetus to the financial crisis as soon as debts became unsustainable and debt defaults began, according to [International Monetary Fund \(IMF\) researchers](#) and the [UN Commission of Experts](#) on Reforms of the International Monetary and Financial System led by Nobel prize winning economist, Joseph Stiglitz.

Yet, the fiscal austerity policies adopted in many countries today wrongly see deficits as the biggest short-term problem, rather than financial regulatory failures, epic levels of inequality and [anemic demand](#) for goods and services—the ultimate pillar of growing employment and revenue generation. The slashing of public expenditure in healthcare, education, social protection and job programs required by these policies is making ordinary people pay disproportionately for a budget crisis they had no hand in creating. An austerity-driven, double-dip recession is now all but upon the [European Union \(EU\)](#)—an austerity trap [expected](#) to spawn ever-higher unemployment, fewer revenues for governments, and justification for further cutbacks in social services precisely when they are most needed, with ramifications across the globe.

### **Human rights responses**

A human rights-centered alternative to austerity-driven recession would move beyond simply treating the symptoms of the enduring financial and economic crisis to address some of the structural causes—chief among them, financial de-regulation and income inequality. Governments' duties [to protect human rights through adequate financial regulation](#), on the one hand, and to fulfill human rights through more expansionary and more equitable fiscal and monetary policies to combat income inequality and stimulate decent work in times of crisis, on the other, are essential now more than ever.

### **Myth #2: Deep cutbacks, especially to expensive social entitlement programs, are the only way to fix the deficit, calm the markets and thereby revitalize the economy.**

Starting in 2010, governments across the world sharply cutback in public spending fearing that climbing deficits would startle bond markets. Deficit hawks re-gained the edge, arguing for the need to “cut the way to growth.” According to this popular myth, high budget deficits—regardless of their origins—suggest to investors and creditors that governments aren't able to repay their outstanding [bonds](#) obligations. This leads to escalating costs to finance the debt (interest rates), which purportedly suppresses economic growth and employment generation. The best way to restore confidence amongst anxious investors and creditors, according to this position, is to “calm the markets” by decisively cutting public spending (especially on social “entitlement” programs which create debt burdens for generations) to urgently pay down the deficit, regain the trust of bond markets, lower interest rates and thereby increase economic growth. The “cut to grow” fever has caught fire, with [many low- and middle-income countries](#) joining the headline countries in Europe and the US to cut public expenditure, at times excessively, on the assumption that austerity will drive growth. The IMF, despite [warnings](#) against excessive austerity from its new managing director Christine Lagarde and from its own recent [reports](#), has not strayed far from this line, advising many countries to cut budgets in dire economic circumstances, according to UN [reports](#).

### **Did you know?**

In practice, however, evidence shows that when the economy is sputtering these types of “cut to grow” approaches to fiscal policy are dangerously self-defeating in that they often worsen the deficit level problem they attempt to solve. Governments from the UK to Ireland to



Portugal, Spain and Greece have tried to calm bond and financial markets by slashing their budgets in draconian fashion. Yet, the interest rates on their bonds have in many cases [increased](#). In each of these cases, growth prospects are actually worsening as a result, as lower levels of growth and higher unemployment coming as a result of public cutbacks decreases tax generation, making the fiscal crises even worse. In both [Greece](#) and [Ireland](#)—poster countries for the “cut to grow” school—austerity policies demanded in their agreements with the Troika—EU, European Central Bank (ECB) and IMF—arguably shrunk the national economies, compelling their governments to repeatedly adjust growth (and thus revenue) forecasts downward. As the economies slow and revenue becomes scantier, budget targets are ever harder to meet, and interest rates on bonds tend to rise, soliciting even deeper budget cuts. Greece’s debt to GDP ratio, for [example](#), was 130 per cent in late 2009. In late 2011, after two years of severe austerity measures, it had risen to over 160 per cent. After years of fiscal entrenchment, growth has continued to suffer in Ireland. [Spain is the latest casualty of the austerity trap](#), as its 2012 public budget slashing is set to reduce GDP in the country by 2.6 per cent according to the government’s own [estimates](#). [Spain’s borrowing costs](#), meanwhile, continue to soar. Even the [OECD](#)—not exactly a bastion of heterodox economics—stressed that “eurozone policy makers have to look for growth policies to offset fiscal austerity.” Given the interdependence of the global economy, UNCTAD is openly disquieted that EU austerity policies threaten a [global recession](#).

Austerity as a driving factor in economic downturns and fiscal deficit is not merely circumstantial to Europe in 2012. “[Austerity has never worked](#),” in the words of Cambridge economist Ha-Joon Chang. [Historical evidence](#), including from the [IMF](#), suggests cutting budgets during economic recessions has a tendency to actually increase deficits while deepening and prolonging the recession, worsening unemployment levels and extending the time economies take to fully recover in economic terms. Public budget-cutting in the midst of an economic recession is tantamount to digging oneself deeper and deeper into the same

hole, a never-ending austerity trap governments across the world, none more than in certain EU governments, seem intent on verifying. As conservative British economist Lionel Robbins once [admitted](#) in the 1930s, these types of austerity policies are “as unsuitable as denying blankets and stimulants to a drunk who has fallen into an icy pond on the ground that his original trouble was overheating.”

Even for deficit hawks, history shows that the best way to pay down deficits is by getting the economy moving again by creating more and better-paying jobs. In times of recession, this can best be done through economic stimulus policies which invest in human and productive assets which can battle inequalities while driving growth. These can include monetary policies to lower interest rates, but also fiscal policies which increase public spending in downturns (also called counter-cyclical policies). Although it may seem counterintuitive at first to actually increase deficit spending during downturns, higher public spending in the midst of a recession can make up for the drop in private sector spending and stimulate the economy, especially if invested smartly in economic and social rights programs which simultaneously build long-lasting social and economic assets while also boosting the spending capacity of low- and middle-households whom have a higher propensity to spend than richer households. The resulting increase in tax revenues from growth can then be used to pay down the deficits over the medium term.

In late 2011, many mainstream economists began to speak out against budget austerity and for further economic stimulus, such as [Douglas Elmendorf](#), the director of the US Congressional Budget Office, Cornell University economist [Robert Frank](#), Indian economist [Deepak Nayyar](#), UC Berkeley economist [Brad DeLong](#), Harvard University economist and former director of the White House National Economic Council, [Lawrence Summers](#), and economist [Nouriel Roubini](#). As economic conditions deteriorated across the eurozone, the US, India and China into mid-2012, a deeper political shift against budget austerity has gained momentum, as seen in elections in France and Greece. By the June



2012 G20 summit, the US and other members had begun to [formally call](#) for less austerity, putting Germany increasingly on the defensive as it continues to call for austerity as the solution to the crisis.

### Human rights responses

Contrary to the “cut to grow” myth, countries have often paid down their high deficits only after economic growth rates, decent employment and tax collections resume. In addition to traditional economic stimulus policies, governments can also invest in social protection and unemployment insurance to stimulate growth. By putting resources into people’s pockets, especially those more likely to affect economic demand through spending, social protection programs can have a stimulating effect on the economy, particularly in times of recession. Low-income households already facing deprivations in income and opportunity are most likely to demand their basic needs are met, and can be powerful agents to stimulate their own economies from the ground-up by creating the sustainable conditions for the economy and government revenues to recover, at which point budget deficits can be addressed. Similarly, evidence shows that [improving early-childhood nutrition can boost GDP](#) by two to three percent in poor countries. UNICEF meanwhile has found that [increased learning achievements in children can increase a country’s long-term overall growth rate](#), and a girl’s future wages by between 10 and 20 percent with every extra year of primary school — with long-lasting waves of benefit to her broader family, community and economy.

In sharp contrast to the “cut to grow” myth which claims budget austerity is the only solution, evidence suggests that investing in ordinary people through social and economic programs, particularly when prioritizing [social protection floors](#)—affordable to even the poorest countries—can support the enjoyment of economic and social rights, while simultaneously adding the badly-needed fuel to help rouse and balance our global economy on the brink of recession.

### Myth #3: But deficits are problematic. Just like individual households and companies, governments must live within their means.

Just as families and firms need to live within their means to avoid the scourge of financial condemnation, so too—this misplaced assumption goes—must governments be constrained in the same way as the rest of us. Relying on borrowing to spend too easily opens the door to insurmountable levels of debt and even government default, with very real human and economic consequences. Living better today, this myth asserts, should not come at the expense of our children tomorrow.

#### Did you know?

Public deficit financing, in fact, is [not at all](#) like individual household or company debt. As elegant as it sounds, national governments don’t have the same types of financial constraints as households or companies. The simple analogy between sovereign governments on the one hand, and households and companies on the other is based on some misunderstandings about how modern monetary policies generally work.

First of all, government creditors cannot simply break up governments and sell their assets to recover any losses, as other types of creditors can. This means at the end of the day a government almost always has the upper-hand in debt negotiations. Second, businesses and households obviously do not control the money supply—an authority we vest only in sovereign States, and in some cases groups of States like the EU. And lastly, several common-place flexible financing practices of modern central banks are simply unavailable to family and business planners. They can and often do “create” money at their central banks, for example, use this money to buy bonds from their finance ministries, and in turn those ministries use the money from the bond sales to finance their deficits. The interest that is paid to the central banks which purchased the bonds is then refunded to the finance ministry at the end of the year, thereby generating resources for



governments to use to finance their deficits. This approach has long been widely used by Japan, the US and many other countries. While common among most modern central banks, this type of flexible financing by national governments is something that individual households and companies obviously cannot do.

Deficit financing in moderation is, in fact, [a standard and important economic policy tool](#) which has allowed governments worldwide the ability to maximize resources and invest in current and future human and economic potential. Like any tool, there are certainly risks of abuse. Excessive deficit financing can burden governments and their people with unsustainable levels of debt which eat up space in national budgets which could be better used to invest in economic, social or infrastructure programs. Prolonged deficit financing can also produce inflation when an economy is operating at or near full capacity or employment. The risk of inflation, however, is very low during economic slumps when there is a large amount of underused capacity in the economy (factories sitting idle, investment capital not being used by companies, etc.), high levels of unemployment, and general deterioration in the productive and human potential in the economy.

The two most important factors to successful, sustainable and equitable deficit financing is the interest rate at which governments borrow, and the purposes for which the deficit spending is used. First, on interest rates. The main way governments borrow money is by selling bonds to be repaid at a later date. Debt servicing in the future is not a problem as long as [interest rates](#) on borrowing remain low. Some of the wealthiest nations of the world, with the highest standards of living, often go for decades at a time servicing very large national debts. Belgium's outstanding national debt, for example, is valued at almost 100 percent of its GDP, and Japan, the global leader today in deficit spending, currently has a debt-to-GDP-ratio of 226 percent. Yet these remain strong economies with high standards of living, and relatively low interest rates. While there is some evidence that countries with high debt grow slowly, new empirical studies show that this is

far from a causal phenomenon. It may well be that [slow growth causes high debt](#).

Secondly, successful and sustainable deficit financing often improves future economic productivity, and therefore more than pays for itself over time through increased tax revenues. You see, not all deficits are created equal. High levels of deficits developed to invest in long-lasting social, economic and cultural assets in one place are not the same as deficits incurred to no end in another. The real issue determining the sustainability of a country's debt, in other words, is the end-use of government expenditure. Government borrowing is sustainable if it is used to finance investment, and if the rate of return on such investment is greater than the interest rate payable. Therefore, debt used sensibly and productively over the long term to create things of increasing value into the future (especially investments in human and other productive assets) can boost productivity and growth.

Deficit hawks like to argue that the pain inflicted by austerity measures in the short-term will provide real long-term gains by controlling deficits and instilling confidence in financial markets. They argue that future generations should not suffer from our current government largesse. But this myth misses a key part of the picture. The social, economic and political well-being of future generations depends on the type of society, economy, and government which we build now—one which has progressively invested in essential educational, health, housing and decent work programs, or one which is permanently under-resourced, under-capitalized, and crippled by the downward spiral of deepening deteriorations of physical, ecological, technological and, perhaps most importantly, human capabilities.

### **Human rights responses**

If governments engage in deficit spending to achieve higher levels of decent, well-paid employment, equitable economic growth and thus increased tax revenues over the longer run, and do so at affordable interest rates, then there is no reason why the actual level of deficit spending (as a per cent of GDP) should in itself be a problem. Targeted, transparent and



accountable deficit financing in this respect shouldn't be seen as shameful, but taken for what it is: an essential tool in maximizing the resources available for the fulfillment of human rights. In one way, then, governments are like households—they need to weigh both sides of their balance sheet. Deficit financing creates liabilities and assets. The real question is what you get for what you spend. Governments which borrow to invest in programs with a real return in social, environmental or economic terms are doing a service to their people, just like a family who takes out a loan to put their child through school or pay for a life-saving medical procedure. Generating resources to efficiently and equitably invest in people—through education, healthcare, social services and other fundamental human rights—and the environment can boost the overall human, economic and ecological assets of the economy, essential for both increased productivity and human dignity.

#### **Myth #4: The leading central banks, international financial institutions, credit rating agencies and other economic policy makers are neutral expert bodies.**

This myth assumes the regulatory, oversight and assessment functions of our central banks, international financial institutions and other economic policymakers are being carried out effectively, impartially and legitimately because these experts know best about complex fiscal and monetary matters. The world's largest and most influential credit rating agencies meanwhile claim to be objective and nonaligned arbiters of the financial performance of businesses and governments. We should trust their technical expertise, it is assumed, and accept that their assessments serve as the backbone for decision-making on the global financial economy as few else understand its complexity from the inside.

#### **Did you know?**

The central banks and banking regulators of the US, UK and Europe on the one hand, [and the IMF](#) on the other were disastrously wrong about the basic “efficient market hypothesis,” which stated that private financial actors should not be regulated because, out of a sense of self-interest, they would not risk over-leveraging themselves. As mentioned above, these institutions neglected to take meaningful steps to address the growing threats posed by the high levels of over-leveraging in financial markets in the years prior to the financial crisis, despite many warnings from influential economists. What's more, most of the central banks and financial regulatory agencies effectively supported much of the comprehensive financial de-regulation and failed macro-prudential oversight alluded to previously.

If these institutions could have been so wrong on such fundamental issues, there is little reason to have confidence they are correct today about [prioritizing inflation-targeting over employment-support](#) and financial regulation in the midst of a slow recovery and low inflation. The US Federal Reserve, the UK Exchequer and the European Central Bank, for example, could all take more pro-active steps to address the current recession by allowing more flexibility in the inflation rate in rich countries as a way to incentivize companies [holding trillions of dollars in capital](#) to begin investing and hiring – as suggested by IMF chief economist [Olivier Blanchard](#) and others. The leading central banks have so far refused to act more boldly. Although these entities are often shrouded in a mystique of infallibility, people have little reason to accept their claims on face value, and should instead take their policy advice with skepticism while considering all other possible alternatives.

The questionable authority of the private credit-rating agencies, meanwhile, also played a [significant role in the making of the financial crisis](#) which sparked the current global economic crisis. By giving AAA-ratings to many of the mortgage-backed securities structured in the shadow banking system (non-bank financial institutions), these agencies encouraged investors (including pension funds



and other socially-minded bodies) across the world to buy enormous quantities of what later turned out to be "toxic" and worthless assets. Why would credit ratings agencies make such bad judgments? It's a simple question of who pays the piper, according to [experts](#). The fact that credit rating agencies were paid by the very owners of the assets they were rating led to conflicts of interest in which the raters were prevented from giving impartial, reliable grades. Today, the three major credit ratings agencies are joining the army of deficit hawks by reinforcing the "cut to grow" myth (#2 above) by downgrading or threatening to downgrade the bonds of many governments which have borrowed funds in the bond markets to stimulate their economies into recovery. Such actual and threatened downgrades have important political ramifications, [empowering politicians and the business lobby](#) to put pressure on governments to cut spending – even in the midst of a recession. Since these ratings agencies are treated as serious, neutral and objective evaluators of whether a country's economic policies render a sovereign default more or less likely, they are seen as impartial arbiters of a government's financial performance, and thus beyond the realm of public (or political) scrutiny.

More fundamentally, this myth is based upon the fallacy that economics is a technocratic exercise with decisions made by neutral and objective scientists. The field of economics has in recent decades moved away from its origins in the social sciences toward a model more attuned to the natural sciences, dealing almost exclusively with matching a preconceived mathematical modeling of human behavior to a messy, complex reality. In so doing, this myth of a neutral economic science attempts to downplay the very political nature of economic policy-making and puts forth an image of a detached, apolitical and technocratic economics built on independent and universal laws.

Political factors—not purely objective ones—very often drive economic policy-making, however. Why would central banks ignore the negative employment consequences of their efforts to keep inflation so low? Why has the US adopted a policy of maintaining a strong US dollar despite its impact in a worsening trade

imbalance and lost jobs at home? Why has the US, UK, the IMF and the ECB prioritized pushing the costs of bank bailouts onto citizens in the form of cutbacks in public expenditure and increased deficits over supporting debt restructuring? Arguably, the answers to such questions have much more to do with politics, [policy capture](#) and the [political power](#) of financial interests than they do with basic insights and principles of economics or econometric models. Even researchers within the IMF have admitted as much in a [stinging account](#) of the influence of financial lobbying in the lead-up to the 2008 financial crisis: "our analysis suggests that the political influence of the financial industry can be a source of systemic risk...the prevention of future crises might require weakening political influence of the financial industry."

"In light of the irresponsible behaviour of many private financial market actors in the run-up to the financial crisis, and costly government intervention to prevent the collapse of the financial system," declared [UNCTAD's](#) Secretary General recently, "it is surprising that a large segment of public opinion and many policymakers are once again putting their trust in those same institutions to judge what constitutes correct macroeconomic management and sound public finances."

### ***Human rights responses***

Today advocates of policies that will best enable governments to protect and fulfill economic and social rights must ask pressing questions about the degree to which those who are calling for fiscal austerity are basing these demands on sound, empirically-founded economics, or instead are merely taking advantage of the crisis to reduce the types social spending that they are already ideologically opposed to. Human rights advocates should question the myth that economic policy is an objective, neutral science conducted by benevolent technocrats. Economic policy-making is a highly contested terrain heavily influenced by political considerations and relations of power. As such, human rights law and policy can serve a fundamental role in exposing economic and social injustice, checking against the misuse of power as



influential and unaccountable today as any dictatorship in decades past, and promoting economic alternatives centered on norms of human dignity and prioritizing the most vulnerable among us.

### **Myth #5: Central banks must be completely independent from public scrutiny to avoid hyper-inflation.**

“The only good central bank is one that can say no to politicians,” The Economist famously declared, half jokingly, in 1990. And the myth still lives on. Central bankers, so the argument goes, must be insulated and detached from public policy and scrutiny to prevent governments from using monetary policy to run up out-of-control deficits, and thus stoke high levels of inflation, which is indeed bad for everyone. Instead, monetary policy should be run in a disinterested, objective and scientific manner, independent of political winds, by impartial and technocratic central bankers. Central banks should be in essence “benevolent dictators,” free from the pressure of voters but entrusted to do what’s best for all.

#### **Did you know?**

The decisions of central bankers can have more impact on jobs and growth in times of recession than many of the policies debated by legislators. Monetary policy, conducted by central banks, directly affects the resources available for the realization of economic and social rights, especially the right to work and in many countries the right to housing. It does this by influencing interest rates, exchange rates and the amount of credit available in the economy. Higher interest rates discourage borrowing and make credit more expensive. When central banks raise interest rates, economic activity slows and there is less job creation. When central banks choose to prioritize low inflation over all other considerations including employment, such as the ECB’s target of two per cent inflation, and they raise interest rates to achieve this preeminent goal, it can wreak havoc on growth in the real economy, pushing

needed commercial loans out of reach for companies and worsening unemployment.

Despite the human rights principles of public participation, transparency and accountability throughout the economic policy cycle furthermore, monetary policy decisions are largely made without democratic input, oversight or control. Independent from public scrutiny and accountability, a small, secretive group of central bankers are taking economic policy decisions which have clear and far-reaching impacts on the fulfillment of economic and social rights, with little or no public participation or scrutiny. While central banks have achieved relative autonomy from the influence of governments and demands from citizens, they have not insulated themselves from being heavily swayed by the interests of the financial sector they are responsible for regulating. As one former IMF economist concluded, “in practice, unfortunately, the New York Fed and the Board of Governors are quite deferential to financial-sector ‘experts.’ Bankers are persuasive; many are smart people, armed with fancy models, and they offer very nice income-earning opportunities to former central bankers.”

“Independence,” writes one commentator, “is politically viable only with accountability, and the best way to enhance accountability is for central banks to become more transparent and forthright about their objectives and tactics.”

#### **Human rights responses**

Central banks are in the end government bodies, and therefore subject to human rights obligations under international law. Taking these obligations into account when formulating monetary and financial regulation policies would as a first step require an open-book and transparent process, based on certain needed privacy safeguards but fundamentally biased away from the influence of private interests, affording more influence to public participation and the provision of public goods in the overall design of policy priorities. Channels of accountability would also need to be established to ensure that central bank decision-makers face consequences for failing to take into account their human rights obligations. Taking human



rights seriously would also provide an opportunity many central bankers are seeking to temper the single-minded, inflation-targeting obsession with other mandates to support decent work opportunities and affordable housing for all. Finally, meaningful human rights protection as a central policy priority of central banks would require the prevention of future financial crises through effective regulation in the public interest. To do so, governments and central banks would need the freedom to use all of tools available to implement policies in favor of the progressive realization of ESC rights.

**Myth #6: The social welfare state coupled with intractable labor protections are unaffordable, burdensome and discourage growth.**

A cadre of economic policy-makers is taking advantage of the democratic deficit arising from the urgency of the economic crisis to push through structural reforms to labor protections, pensions programs, public services and other socially-useful regulations, which they argue are desperately needed to create the conditions for investment, economic growth and employment in economies facing an enduring slump. Growth, they argue, requires a larger private sector, which means to them a smaller public sector. The package of preferred reforms tends to involve a weakening of labor protection laws and collective wage bargaining systems, deep reforms to public pension systems, the privatization of public services and so-called “entitlement” reforms, including slashing legally-sanctified social rights programs such as education, healthcare, social security and other social protections like unemployment insurance. The new conservative government of [Spain](#), for example, coupled [historic cuts](#) to social services and infrastructure with reforms to make workers more precarious by making it easier for employers to fire them. In Italy, the [ECB instructed the government](#) of its support for the

privatization of local water services, just months after a [public referendum rejected the idea](#). The [ECB also demanded](#) that the Italian government “design regulatory and fiscal systems better suited to support firms' competitiveness and efficiency of the labour market”—code language for undercutting the most basic of workers' rights protections.

**Did you know?**

There is in fact [no solid evidence](#) that gutting labor protections, decreasing worker wages or stripping unemployment guarantees will benefit the broader economy at all, let alone increase the amount of employment in a crunch. Quite the contrary. New [empirical evidence](#) from the International Labour Organization (ILO)—an organization which includes government, labor and business stakeholders—shows that poorly-designed reforms to labor regulations in times of crisis actually hurt, rather than help, investment and also impinge upon the quality and quantity of work. Historically, employment protections and union density have consistently decreased across rich countries, according to the [OECD](#), hitting historic lows in the lead-up to the crisis, and [driving increased wage inequality](#). In fact, wages have been dropping for decades prior to the economic crisis, with new [evidence from the IMF](#) suggesting that it was precisely the inequality in earnings in the US which fed the financial instability leading to the 2008 crash to the begin with. According to this line of inquiry, stronger wage equality, labor protections and collective bargaining power can stimulate purchasing power and demand, and actually help prevent future financial crises, suggesting precisely the opposite of this erroneous myth. As preeminent labor economist Richard Freeman [writes](#), “The best summary of the data—what we really know—is that labor institutions reduce earnings inequality but that they have no clear relation to other aggregate outcomes, such as unemployment.” Further, poorer individuals and those who earn their income from their labor have a higher marginal propensity to spend the money they earn than richer households and those who earn their income from investment capital. As a result, rising income and wage inequality reduces aggregate demand quite severely and thus constrains



economic dynamism and inclusive growth significantly, according to [experts](#).

The case for a smaller public sector, in the meantime, is by no means self-evident. Many of the countries which have weathered the storm of the economic crisis, and consistently rank at the top of human development indicators—places like Sweden, Denmark, France, and increasingly Brazil—have some of the largest public sectors anywhere.

### Human rights responses

As human rights enshrined in international law, governments have duties to respect, protect and fulfill the rights to a decent wage, clean and healthy working conditions, to associate and strike, as well as other fundamental social rights which form the foundation of the modern social welfare system, independent of their effects on economic competitiveness in a global economy. As the UN Committee on Economic, Social and Cultural Rights—the main body to interpret what economic and social rights norms and principles mean in changing times—made [explicitly clear](#) this year, any austerity measures or other crisis-response policies which do not respect the following human rights criteria can be determined, in essence, unlawful. First, any policy that may impede the progressive realization of economic, social and cultural rights must be temporary and limited to the period of crisis. Second, the policy must be necessary and proportionate, in that not adopting it would put human rights at even greater risk. Third, the policy must not be discriminatory in effect and must comprise all possible measures, including tax measures, to support the social transfers needed to mitigate inequalities that can grow in times of crisis and ensure the protection of most vulnerable groups. And lastly, the policy must identify and protect the minimum core of economic, social and cultural at all times.

Hasty, imprudent attacks on core economic and social rights protections like decent wages, collective bargaining, and social protection in a time of economic crisis may very well adversely affect low- and middle-income households for a long period beyond the economic slump. As such, and especially

considering the existence of financing alternatives to austerity, they are likely unlawful under the International Covenant on Economic, Social and Cultural Rights (ICESCR). They also represent sloppy, ideologically-driven and plain bad economics.

### Myth #7: Austerity is justifiable because there are no other alternatives.

The continuing economic crisis seems also to have prompted a crisis in innovative policy ideas and alternative financing arrangements. Governments promoting austerity policies consistently fall back on the argument that the economic crisis—no matter the causes—has tied their pocket books, with no other solutions except backsliding in public expenditures on economic and social rights programs.

### Did you know?

For many countries, perhaps the biggest fiscal fallacy is that there is any fiscal crisis at all. Austerity is neither necessary nor is it inevitable. Resources abound in many countries, if governments would only take steps to properly generate and channel them into protecting and fulfilling their human rights duties under international law.

Alternatives to austerity are, in fact, numerous. Evidence from [UNICEF](#) suggests that opportunities to identify and expand countries' resource bases are abundant, and that more expansive fiscal policies are on the whole completely feasible in financial terms. Each country is unique, with potential risks and trade-offs at every step, but generally speaking governments have five sets of tools to mobilize and use resources effectively—together referred to as the [Maximum Available Resources \(MAR\) Star](#): 1) Re-allocation of government expenditure to more rights-realizing programs; 2) Increasing government revenue, especially through tax policy in equitably ways; 3) Improving monetary policy and financial regulation to protect rights; 4) Deficit financing or restructuring existing debt, and finally, for



some countries, 5) Raising funds through international cooperation.

Let's start with tax policy. Taxation is a key vehicle for redressing social inequalities, and goes to the heart of the accountability bond between a State and its people. Progressive, non-discriminatory tax policies carried out by capable and accountable tax authorities can generate substantial sums to offset public budget deficits and compensate for the social costs of the crisis, especially in countries with very low tax bases, such as [Ireland](#) and [Guatemala](#). New sources of financing are also quite feasible, such as [financial transaction taxes](#), or the [Robin Hood Tax](#), which have been [proposed](#) as a way of promoting greater financial sector accountability, mitigating some of the worst forms of speculation, while simultaneously recuperating some of the public costs incurred as a result of the global financial and economic crises. According to a [study](#) by Bill Gates for the G-20, at its lowest rate the FTT would yield about \$48 billion across the G20, with higher rates offering up to \$250 billion dollars per year.

Illegal tax evasion by companies and rich households meanwhile causes an endemic drain on the availability of revenues for the progressive realization of rights, especially in countries with already high levels of poverty, inequality and already low tax bases. Governments worldwide lose \$3.1 trillion annually to tax evasion, according to [estimates](#). This equates to about half of the world's total expenditure on healthcare. While high-income countries are among the biggest losers in absolute terms, low- and middle-income countries are particularly vulnerable to tax evasion. Official [studies](#) put the amount lost to illegal capital flight in developing countries at between 6-9 per cent of GDP. This is on average half these countries' total tax take of only 13 per cent of GDP. In Europe, meanwhile, financial [modeling](#) shows that had the UK government taken decisive steps to end illegal tax evasion between 1997 and 2010, there would simply be [no debt](#) in this highly-indebted country. Spain meanwhile loses € 88 billion annually to tax evasion, 38.5 of which could easily be captured with the right policies according to [estimates](#) by the country's Union

of Tax Inspectors. Instead, the government decided to slash public spending by € 18 billion through historic cutbacks to public expenditure in [education](#), [health](#), [research](#), [employment programs](#) and [infrastructure](#). As [summed up](#) unambiguously by the UN Special Rapporteur on Extreme Poverty, "A human rights approach ... requires States to take steps to eliminate the prevalence of tax evasion, a problem that reduces the resources available for measures to realize human rights."

Meanwhile, [monetary policy alternatives](#), like [those](#) in [Argentina](#), which balance inflation stabilization with full employment-oriented targets and financial stabilization functions can mobilize countless resources to offset decreased revenues in hard times. Facilitating rights-fulfilling financing and directed credit toward strategic, decent-job generating sectors could also make economic growth more inclusive and employment-intensive.

For countries with high levels of sovereign debt (especially debt accrued illegitimately), meanwhile, debt restructuring presents real possibilities to prioritize obligations to the wellbeing of their people over commitments to their creditors. Debt relief and restructuring efforts in the past have been widely successful. The heavily indebted poor countries debt relief efforts helped to cut debt repayments from 20 per cent of government revenue in 1998 to less than 5 per cent in 2010, according to [studies](#). This has for the most part allowed governments to re-invest in essential social and economic programs. Primary school enrolment jumped to 82 per cent from less than 50 per cent in the late 1990s in [Tanzania](#), for example, after school fees were abolished as a result of the country being granted debt relief in 2001.

In an unprecedented step, Norway became the first creditor nation to [assume co-responsibility](#) for the adverse human impacts of its own development loans in 2006. Deeming its Ship Export Campaign a "development policy failure," Norway unilaterally cancelled the relevant debts of five countries, among them Ecuador, which in 2004 spent [six times more in debt servicing than health care](#). In doing so, Norway became the first creditor country to cancel debt in the name of justice rather than in



reference to the borrowing country's levels of indebtedness or poverty alone.

The human rights impacts of debt servicing and other financial obligations have also been of [consistent concern](#) to human rights treaty bodies. A recent [visit](#) to Latvia by the UN Independent Expert on Foreign Debt and Human Rights aimed to evaluate the human rights impact of the EU-IMF stabilization program in the country. With wide stakeholder support, this human rights expert has also developed a set of [Guiding Principles on Foreign Debt and Human Rights](#) to give clear direction to lenders and borrowers on how to balance a debtor State's contractual obligations arising from its external indebtedness with its international legal obligations to respect, protect and fulfill all human rights.

UNCTAD has long called for a more [balanced approach to sovereign debt restructuring](#), including a fairer burden of adjustment between borrowers and private sector creditors. It advocates a temporary debt standstill, whether debt is public or private, accompanied by exchange controls, including the suspension of convertibility for foreign currency deposits and other assets held by residents as well as non-residents. More controversially, UNCTAD says the IMF should not be involved in the negotiations between sovereign debtors and private creditors since countries affected are among the shareholders of the fund, which is also a creditor. Rather, this international body argues for an independent and fair international arbiter, which would allow debtor countries in difficulty to declare a unilateral "standstill" on debt payments, with creditors having to abide by the terms for debt restructuring as decided by a fair and independent debt workout procedure. [Civil society groups](#) meanwhile are calling for a rethink of current debt sustainability criteria that would not be based on debt-to-export ratios, but on sustainable development criteria and human rights norms and principles.

### **Human rights responses**

International human rights law, as specified in the ICESCR and the International Covenant on the Rights of the Child, compel governments to

use the maximum of available resources to realize economic and social rights. Availability does not only refer to resources under the command of the government, but those that could be available through international cooperation or improved management and generation of resources. In this sense, governments, in complying with their international commitments, are responsible for exploring alternatives and where possible broadening their fiscal space by [mobilizing the maximum amount of resources](#) possible in equitable, participatory, transparent, accountable rights-realizing ways.

### **Myth #8: There is nothing we can do about it.**

This myth suggests that regardless of our disagreements with the way economic policy processes are being conducted in our names, we have little choice. Public participation and accountability are nice ideals, but the abruptness of needed reforms simply outpaces the possibility of providing the information and transparency needed. The rhetoric, language and letter of the law of human rights are nice platitudes, but offer no meaningful tools or avenues to dispute economic decisions, and cultivate actionable alternatives.

### **Did you know?**

By shifting the burden to governments to prove its policies are designed and implemented in rights-realizing ways, human rights norms, principles and mechanisms—beyond being a manifestation of international law—offer potent empowering tools to turn the tide towards more just, resilient, inclusive and sustainable economic policy alternatives to austerity.

"No global economic and financial crisis diminishes the responsibility of State authorities and the international community with regard to human rights," affirmed the United Nations [Human Rights Council](#) in 2009. As the UN Special Rapporteur on Human Rights and Extreme Poverty, further [confirmed](#): "while States have discretion to adopt policy measures according to their own context, human rights



are not dispensable during times of economic hardship and States must design and implement all policies according to their human rights obligations.”

Currently, 160 countries—including most countries implementing austerity measures today—have bound themselves to ICESCR—an international treaty which gives depth to the economic and social rights guarantees already in the Universal Declaration of Human Rights. As part of their obligations, government parties to the Covenant have legally committed themselves to improving the full realization of economic and social rights progressively over time by using the “[maximum of available resources](#)” to this end.

Unjustified, unnecessary, disproportionate and discriminatory cuts in public programs designed to fulfill the human rights to education, social protection, health, food, water, or housing—measures which disproportionately affect those who had no hand in causing the economic crisis—are not only immoral and economically counterproductive. For most governments, they are expressly [unlawful](#), as the UN Committee on Economic, Social and Cultural Rights explained in an unprecedented letter to State parties to the Covenant in the context of deepening economic crisis in the spring of 2012. In other words, governments in crisis must justify that any cuts which affect rights are reasonable in reference to existing alternative resources which could be raised (through, for example, tax policy reforms) to recompense the losses in the public budget. In the rare cases where there are no alternatives, budgeting must be undertaken with the utmost care with respect to ESC rights, and must not lead to discrimination in law or in practice. Budgeting during an economic downturn must not undercut minimum essential levels of basic needs in society, and must embed the principles of transparency, public participation, accountability and remedy for harm done. It does not take much to deduce that many of the austerity packages in countries worldwide are likely to amount to “retrogressive measures,” and thus be considered unlawful under the Covenant.

### ***Human rights responses***

Human rights and social justice advocates have begun to strike back—in the street, in the courtroom and at the United Nations—to exact accountability for the profound casualties of the crisis.

Vibrant public campaigns in [Ireland](#) and [Greece](#), for example, are enacting independent debt “audits” to demand the democratic right to full information on publicly-guaranteed debts to determine exactly who owes what to whom and by implication, who precisely is being “bailed out” and who ought to pay, if anyone. Advocates are increasingly coordinating these actions within an [International Citizen Debt Audit Network](#) to challenge basic assumptions about the legitimacy of debt in times of crisis.

Human rights advocates are also challenging fiscal austerity measures on constitutional and other legal human rights grounds in the courts. Pensioners in [Latvia](#) for example challenged the constitutionality of a government reform restricting pension payments, and the Constitutional Court deemed the act unconstitutional citing the fundamental right to social security. The Court asserted that the State had the obligation to guarantee the minimum essential levels of the right irrespective of resources, and pointed to the fact that the government had not considered other less restrictive measures nor designed an effective remedy for reduced pensions. The Court refused to consider the conditions set out by international creditors as worthy of trumping Constitutional guarantees of the right to social security. The Constitutional Court of [Romania](#), meanwhile, [forced](#) the government to design alternatives to reducing the debt which would not affect fundamental rights. The [Hungarian](#) Constitutional Court meanwhile has been particularly active in challenging several government tax policies post-crisis, so much so that the government set out to amend the constitution to strip the court of its power to annul tax-related laws for all instances in which certain constitutional human rights were at stake. In the US, courts in [New Jersey](#) and [California](#) have received challenges to crisis-induced education and disability cuts, respectively. Claims have also been brought into the [UK courts](#) to challenge that country’s post-crisis economic and social rights deficits.



In a remarkable recent case, concerned British students brought a case against the government arguing that a policy tripling university tuition fees would effectively thwart equal university access for ethnic minorities, the poor and other marginalized groups, and was thus in breach of the right to education and non-discrimination set out in both the UK Human Rights Act and the European Convention of Human Rights. While judges did not overturn the policy, the High Court [did hold](#) that the Secretary of Business had "failed fully to carry out his public sector equality duties" and to give "due regard" to promoting equality of opportunity in education. Advocates in the UK meanwhile continue to [insist](#) that human rights provides a coherent, galvanizing alternative to government cutbacks.

Civil society has also spearheaded several litigation initiatives against credit rating agencies. A [criminal complaint](#) before Spain's Audiencia Nacional brought by the Observatori DESC and others against three major credit rating agencies (Moody's, Fitch and Standard and Poor's), for example, argued that the conflict of interest inherent in the biased determination of risk by these agencies breaches Criminal Code provisions against unlawful price manipulation and abuse of confidential information for private benefit. In articulating the public good being protected by these criminal code provisions, it challenged the notion that "market forces" are too abstract and indeterminate to be held to account, arguing that behind the market lie individual and corporate "subjects who should be held to account for their corresponding civil and criminal responsibility in these offences." This case parallels a number of similar legal challenges against credit rating agencies in various states of the US and Italy. Advocates in Illinois, Ohio, [Connecticut](#) and [California](#), for example, have accused different credit-rating agencies for acting fraudulently in providing factual evidence about investment ratings they knew to be false. Authorities in [Italy](#) meanwhile have also opened [investigations](#) against the three agencies for having downgraded Italy's sovereign rating based on untruthful and tendentious assessments, with reportedly significant damage to the country and its public finances.

Social justice advocates have even leveraged the United Nations human rights protection mechanisms to challenge austerity measures and insist on more people-centered economic recovery policies. The human rights dimensions of austerity measures in the [US](#), [Ireland](#), [Greece](#) and [Spain](#) have all been brought before independent UN bodies—compelling these governments to justify their conduct and openly answer before the international community. While it is true that these bodies can only offer non-binding recommendations and have no enforcement power strictly speaking, their observations have provided much-needed exposure, legitimacy and renewed strength to advocacy efforts back home. The [UN ESCR Committee reviewing Spain](#), for example, has provided renewed force to civil society advocacy and [litigation](#) efforts when it expressed concern over austerity-driven reductions in levels of protection afforded to the rights to housing, health, education, and work, among others, and urged the government to guarantee that all austerity measures maintain the current levels of economic and social rights' protection and are, at all times, temporary, proportional and non-discriminatory.

Wherever you are, your human rights are increasingly being sacrificed at the altar of financial stability. When individuals, households, communities, and whole nations must surrender their hard-won rights to education, adequate health care, and decent jobs in free and healthy conditions to balance budget sheets, the basic values of human dignity are turned on their head. Why shouldn't indicators of social and human well-being be monitored, prioritized and valued at least as much as financial balances and the production of tradable goods and services?

"Nothing about us, without us!" Ultimately, it's your choice: Stand back and watch as misguided, counterproductive, unlawful and wrong-headed austerity measures strip you of your human rights. Or fight back for human dignity in defiance of unneeded, disproportionate and unjustified cutbacks.

***Dignity or indignation—It's in your hands.***



## About CESR

The Center for Economic and Social Rights (CESR) was established in 1993 with the mission to work for the recognition and enforcement of economic, social and cultural rights as a powerful tool for promoting social justice and human dignity. CESR exposes violations of economic, social and cultural rights through an interdisciplinary combination of legal and socio-economic analysis. CESR advocates for changes to economic and social policy at the international, national and local levels so as to ensure these comply with international human rights standards.

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