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The Heavy Legacy of the Financial Crisis on Social Protection

In the middle of the corona crisis, which is strongly affecting economies all over the world, a recently published study of the Max Planck Institute for Social Law and Social Policy is more topical than ever. The book "European Welfare State Constitutions after the Financial Crisis" scrutinises the reforms in social protection implemented during the European financial crisis that started to spread in 2007/2008. "The pandemic is now hitting the social systems of countries that still have not recovered from this crisis. The then adopted austerity measures have led to severe cuts in the safety nets", states Prof. Ulrich Becker, director at the Institute and head of the research team.

Most states under investigation that were strongly affected by the financial crisis (Italy, Spain, Ireland, Portugal, Cyprus, Hungary, Latvia and Romania) received financial assistance from either the IMF, the World Bank and/or the EU - under the condition that they reduce public spending. Consequently, cuts have been undertaken particularly in social protection areas with heavy budgets, notably old age pensions. Lowering pension levels, changing the contribution conditions for pensions and raising the retirement age were among the most common interventions. Moreover, healthcare reforms were conducted with the aim to save money. Social assistance benefits, family allowances and unemployment benefit payments were also reduced.

Holes in Social Security Nets

The austerity measures tore large holes in the social safety nets: there were pension cuts of up to 40 percent in Greece. In some countries like Cyprus and Spain access to healthcare services became more difficult, or was altogether barred, for a considerable percentage of the population. In Spain, jobseekers' contributory unemployment benefits were reduced from the seventh month onward, with the intention of putting economic pressure on recipients – which, however, can hardly work in times where there is simply a lack of jobs on offer. Thus, the measures led to a certain loss of social rights for the citizens of the respective countries. The situation remains problematic to this day, and is aggravated by the current pandemic, especially with regard to healthcare provision since healthcare systems are still largely underfunded.

Resurrection of Social Rights by Courts

The in-depth study also examined the impact of judicial review on safeguarding social rights. As a reaction to the curtailment of the latter in times in which they are specifically needed, a number of complaints have been brought before courts, notably constitutional courts. At the centre of judicial constitutional review were pension reforms. In Italy, the Constitutional Court overruled limitations of the revaluation of pensions, as did the Latvian Constitutional Court in three decisions on cutbacks in pension rights, and the Romanian Constitutional Court, which argued that cutbacks in already acquired rights to pensions financed from contributions would violate the constitutional right to pensions. In Greece, the Council of State concluded that the measures imposed on pensioners were, in sum, disproportionate. One year later, it also pointed to the state's obligation to provide sufficient health services. Decisions by courts in Portugal resulted in several corrections of the reforms, which alleviated the hardship. As varied as the judgements are, they point, on the one hand, to the fact that clear rules for the conditions under which cutbacks in social benefits can be justified are indispensable. On the other hand, they have resurrected the important

role of social rights.

A Lesson for the Corona Crisis

Beyond the national level, the financial crisis left the EU without an institutional solution that could help avoid similar situations and bridge the ever-growing disparities between Member States. The lack of a European solution becomes clearly visible now, in times of the corona pandemic. The pathway to find such a solution may not lead to new and stable institutional settings, although some well-constructed ways for more financial transfers between the Member States seem advisable. The solution will rather lie in spontaneous initiatives of financial support.

Nonetheless, there is one overall lesson which should be learned from the financial crisis, the observance of which would also help overcome the pandemic crisis: "We need a substantial and commonly accepted agreement on how to balance the economy and social protection in the future", concludes Prof. Becker.

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Becker, Ulrich/Poulou, Anastasia: "European Welfare State Constitutions after the Financial Crisis", Oxford: University Press, 2020.