

Arne Grønningsæter

# **Social Policy in Transition – Income maintenance in Estonia, compared with Norway**



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Income maintenance in Estonia,  
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# Preface

This paper consists of my dissertation for the Master of Arts in Comparative European Social Studies. I have left out an appendix about the fieldwork. The paper works as a part of a Fafo-project on social policy and social excusion in the Baltic countries. It was also presented at a workshop at the IFSW European Seminar in Helsinki/St.Petersburg 13 – 15 June 1999. The title used for the presentation was “Welfare Policy in Transition – Norway and Estonia Compared”.

I want to thank those who helped me with collecting information about the Estonian Social policy development; Tiit Kaadu, Dagmar Kutsar, Lauri Leppik, Rünno Luimiste, Marju Lauristin, Georg Männik, Tiina Savi, Kirsten Haahr, Sean Krepp and Mart Einasto, Without their generous help it would have been impossible to get the necessary information about Estonia.

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My personal aim when I started to work on the project was to learn about Estonia and about social policy. The conclusions came out relatively different from what I ex-  
pected when I started the work. The comparison between Estonia and Norway has, also helped me to see some tendencies in Norwegian social policy.

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Arne Grønningssæter

# **Abstract**

The aim of the project is to assess and compare present status and changes in the social policies in Estonia and Norway. The project is in four main parts, the theoretical framework, the case of Estonia, the case of Norway and the summing up of similarities and differences. The analysis focuses on four comparative dimensions; public/private, distribution/redistribution, labour market connection and accountability. With the aim of presenting a background picture, the cases start with a presentation of the current system of income maintenance. With the aim of creating a dynamic approach, changes are described and analysed in separate paragraphs. The role of the different change agents – both national and international – are be focused on. The national actors are political parties/the parliament, the government, ministry officials, employers' organisations, trade unions, health and social policy oriented NGOs, and pressure and interest groups. The International actors are The International Monetary Fund (IMF) and The World Bank (WB), the European Union (EU), organisations linked to the United Nations (UN) (e.g. ILO, UNDP, UNICEF), the Council of Europe (CoE), the Nordic countries, aid agencies and international NGOs.

The aim of the theoretical framework is to create a background for the case studies. The framework should help in relating the case studies to general trends.

The Estonian case is the centre of the study and has been accorded the most space. Important sources for the case study were interviews with key persons in Estonia. The universalistic, public pension scheme forms a basic pillar. The role of the private sector is increasing. The schemes moves towards less redsitributive effect between groups, but increased life-time levelling effect. The labour market connection will be strengthened, although the universalistic pension will play the role of poverty reduction. Trust, efficiency and sustainability increases, but this will be depending on economic and political development. The Estonian political environment is moderately optimistic. The national agents are seen as important on a broad range of issues, while the international agents are seen to be connected with specifically defined issues. Except for the political establishment, the national organisations are considered weak. Premises for the establishment of an Estonian model is laid in the national social policy discourses. Adjustments to EU policies will in the future be the main international driving force.

The comparative perspective is maintained by the Norwegian case. Even though Estonia is the primary case, using a western state like Norway has at least two purposes. It brings the comparison between the western welfare states and the countries in transition to the fore. The universalistic National Social Insurance is continuing to be the cornerstone of the income maintenance schemes. In Norway, too the role of the private sector is increasing. The schemes will have less redsitributive effect between groups, there is a danger of a new class division between the pensioners that are covered by private supplementary schemes and those who are not. The labour market connection will

be strengthened, although the universalistic basic pension will play the role of poverty reduction. Trust, efficiency and sustainability are depending on the ability to adjust to political economical and demographical challenges. The climate of the social policy discussions is changing towards concern about “just distribution”. Interest groups, organisations in society and labour are setting important premises. Adjustment to EU policies will also in the future be the main international driving force.

The project focuses on comparing changes and has revealed shows some interesting similarities between the two countries:

- Development towards almost the same kind of “three-pillar” pension system.
- Increased importance of private pensions and stronger labour market connections, linked to the development towards these three-pillars.
- Increased use of workfare, especially linked to means-tested benefits.
- Same kind of political priority of groups
- Implementation of new schemes of benefits for families with small children
- A high level of support in the opinion for an active, public social policy oriented towards equality

The structure of the income maintenance system seems to move in a relatively similar direction. The universalism of the first pillars of the pension systems and the basic structure of the social assistance systems are similar. The importance of the different elements of the structure will, however, be linked to the level of the benefits that each element represents. The Norwegian schemes seem to yield relatively more than the Estonian. The Estonian system, however, has a national norm for social assistance, while the Norwegian system does not. The Estonian model has been characterised as a Scandinavian model with a somewhat higher importance of the market. The political aims seem to be much the same as in Norway.

There is a tendency towards convergence of the two cases, representing a Scandinavian country and a Baltics country. The influence of the EU and other organisations promoting a liberalist market approach are making themselves felt in both cases. Demands from the public opinion are there. A discussion about convergence concludes that regional political exchange and discourse might be more important than expected. The Scandinavian and the Baltic countries are close neighbours. The fact that the Baltic model seems to be relatively close to the Scandinavian might be a result of these kinds of regional exchanges.

## **Abbreviations**

CEEC	Central and Eastern European Countries
CIS	Commonwealth of Independent States
EEA	European Economic Area
ESO	The European Social Observatory
EU	European Union
ILO	International Labour Organisation
IMF	International Monetary Fund
MSA	The Ministry of Social Affairs of Estonia
NGO	None Governmental Organisation
NOSOSCO	Nordic Social Statistical Committee
OECD	Organisation for Economic Cooperation and Development
OSCE	Organisation for Security and Cooperation in Europe
RTV	The Norwegian National Social Insurance Authority
SHD	The Royal Norwegian Ministry of Health and Social Affairs
SSB	Statistics Norway
UN	United Nations
UNDP	United Nations Development Programme
WB	World Bank

# **1 Introduction**

## **1.1 Background, motivation and aims**

Estonia is relatively poor in a European context, while Norway is one of the richest countries in the world. Estonia with its soviet heritage is a country in transition, while Norway is one of the stable Scandinavian states and welfare regimes. The fact that these countries are so different might help in creating insight. It can be useful to describe the contrast to see the situation in both countries more focused.

My main reason for going into this issue, is that I believe in active social policy as a means for creating a just society. Social policy is important for the development of human conditions that can create basic distribution of resources and contribute to a good life for everybody. Justice and distribution are difficult concepts. The Rawlsian principles of justice and of a just distribution (Rawls 1971) (Kangas 1998) give one approach to such a moral discourse. An ideally just society does not exist, but I see working for a more just society as an important aim, and hope that analysing social policy might reveal new approaches to that struggle.

Estonia has historically been part of the Nordic, Scandinavian-Finno-Ugrian, and north-western Europe. After the end of the soviet occupation, Estonia is again back in a normal connection with the family of nations that it has been a part of for hundreds of years. It is important for Norwegians to relearn basic knowledge about Estonia. I see this project as a part of my own relearning process.

The Estonian Prime Minister, Mart Laar, has said:

“We will develop a welfare society, but we do not want to copy the welfare monsters that our Nordic neighbours have developed.”

This quotation illustrates some of the dilemmas and attitudes forming the social policy debates in the Baltics today. The Baltic countries have had to build up a new system of welfare policy and services after the Soviet system broke down. The Nordic welfare states seem to be performing relatively well. One would expect that they would be seen as ideals for the development of a new welfare policy. From a Scandinavian point of view it is surprising that important political actors in the Baltic States see our welfare states as monsters.

Marju Lauristin, member of Riigikogu (Estonian National Assembly) and former Minister of Social Affairs in Estonia, has said:

“We will not create a welfare state but a welfare society. The state can not take the whole responsibility.”

This view is much closer to what one hears in the Nordic and Norwegian debate. The argumentation is that it is impossible to keep a welfare society without broad co-operation between the state, the municipalities, the local communities, civil society, the family, and the market. It is interesting to see if this understanding is true. Do we see, in countries in transition as well as in western countries, the development of a new kind of mix between public and private responsibility?

The European welfare states are under pressure. This pressure is of an ideological, structural and economic kind. It is the result of changing challenges, not least on how to cope with the diversity of post-modern European society. Theories about globalisation and modernisation, and of international trends in welfare policy development sets the context and background for the dissertation (Bauman 1998) (Carter 1998) (Giddens 1998). The countries in transition face the same challenges as the western welfare states, but have to solve them in a shorter time and with fewer resources.

I had to limit the scope from a general angle, interest in social policy development in the Baltic and Nordic countries. I have chosen to focus thematically on economic benefits and transfers – on income maintenance. This is one of the cornerstones of the welfare state, and might carry most of the symptoms of the current situation. I have also chosen to concentrate on Estonia and Norway. Of the three Baltic countries Estonia is the closest to Norway and I have contacts that could help me in the collection of data. Norway represents the neighbouring Scandinavian countries, and it is my point of departure, since I am Norwegian.

Table 1.1 shows some basic information of the two countries in an international context. The huge difference in GDP is a good illustration of some of the challenges in comparing these two countries.

Table 1.1 Some basic figures on Estonia and Norway compared with average industrialised countries, Eastern Europe and the CIS, and the World.

	Estonia	Norway	Industrialised countries	Eastern Europe and the CIS	World
GDP per capita 1997 (1987 USD)	2,984	27,620	19,283	1,989	3,610
GDP per capita 1990 (1987 USD)	3,683	21,975	17,618	2,913	3,407
Real GDP per capita (PPP\$) 1997	5,240	24,450	23,741	4,243	6,332
Human development index 1997	0,773	0,927	0,919	0,754	0,706
Human development index, rank	54 of 174	2 of 174	-	-	-
Inhabitants – 1996	1.475.000	4.382.000	-	-	-
Life expectancy at birth 1997	68,7	78,1	77,7	68,6	66,7

Source: UNDP (1999) except for "Inhabitants 1996", which is taken from Encyclopædia Britannica – 1997 Book of the Year.

## 1.2 Definitions of the key concepts

**Welfare state:** “A welfare state has as its worded aim to secure welfare, and the state implements active measures and uses its political power to reach this aim” (Seip in Kuhnle/Solheim 1994). The system of welfare policies and institutions include *distributive* mechanisms: employment, education, health and social services, transfers and benefits - as well as *participatory* systems e.g. work place democracy and civil society. This understanding of the welfare state is broad, but it is impossible to have a meaningful understanding of the welfare state without this broad context.

**Social policy/welfare policy:** Michael Hill says, “study of social policy is the study of the role of the state in relation to the welfare of its citizens” (Hill 1996). I prefer to use the concept of social policy as the policy concerned health and social services as well as means of economic redistribution, while I understand welfare policy as a broader concept including other services e.g. education and participatory systems and institutions.

**Income maintenance\***: The systems of income maintenance in this paper are divided in three categories, social insurance, social assistance and family support.

A general definition of social insurance is difficult, because the systems differ from country to country. A general point is the pooling of risks without differentiating contribution according to exposure to risks. There is also a condition of contribution to the funding system. There is an involvement of the state, and participation is generally of a compulsory nature for the majority of wage earners (Clasen 1997). The Estonian and the Norwegian social insurance schemes are universalistic and cover every inhabitant of the country. The benefits are based on demographic, health or social criteria. You have the right to the benefit when you fill the criteria. What you get out of the system is often related to your previous contribution, but this is not always the case. The system aims to compensate for lack of labour market income caused by the mentioned criteria.

Social assistance is based on a different principle. The benefits are means tested. Social assistance is often seen as the last security net and the level of support is linked to an understanding of poverty in the actual country. The receivers of social assistance are in most cases among the poorest.

Family support represents different schemes that aim to compensate for extra expenses caused by having children.

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\* The different countries develop a language that is relevant for their specific system. When different persons translate these concepts into English, similar schemes might end up with very different names. I have tried to adjust the concepts to each other, but in some cases this problem might lead to confusion. In the Norwegian case I use the name “National Social Insurance” for the Norwegian word “Folketrygden”. “Folketrygden” covers all the public income maintenance schemes except for family support and social assistance. When I use the phrase “social insurance system of Estonia” I include all income maintenance schemes except social assistance.

## **2 Outline of the project and methodology**

### **2.1 Outline of the project – dimensions of comparison**

The aim of the project is to assess and compare present status and changes in the social policies in Estonia and Norway. The project will be in four main parts, the theoretical framework, the case of Estonia, the case of Norway and the summing up of similarities and differences. In all four chapters the analysis will focus on a set of comparative dimensions. These are:

- public/private
- distribution/redistribution
- labour market connection
- accountability

With the aim of presenting a background picture, the cases will start with a presentation of the current system of income maintenance. With the aim of creating a dynamic approach, changes will be described and analysed in a separate paragraph.

In addition to the dimensions and changes, the role of the different change agents – both national and international – will be focused on. The following influencing agents are included:

- Local/national actors: political parties/the parliament, the government, ministry officials, employers, trade unions, health and social policy oriented NGOs, and pressure and interest groups.
- International actors: The International Monetary Fund (IMF) and The World Bank (WB), the European Union (EU), organisations linked to the United Nations (UN) (e.g. ILO, UNDP, UNICEF), the Council of Europe (CoE), the Nordic countries, aid agencies and international NGOs.

The following box can illustrate the structure.

	Estonia	Norway
<u>Description/changes</u>	Public – private Distribution – redistribution Labour market connection Accountability	
<u>Influencing agents</u>	International actors Local/national actors	

## **2.2 Main Methodological approach/ comparative research**

Comparative methods in social policy studies might help in creating an understanding of social policies in general and of the situation in the countries involved. A case oriented approach is often qualitative in form and has a holistic approach to the analysed unit. The problems with the case oriented approach are the limited possibility for generalising or theory testing (Fløtten 1998). This study involves only two cases described along the same dimensions. By using a theoretical framework that includes knowledge about several welfare systems, the cases are linked to more general trends. By relating the two cases to each other and to social policy development in general, it is also possible to see contrasts. This can help us to understand the development in the different systems (Stjernø 1995).

There is a range of difficult challenges in comparing Estonia and Norway. One is the lack of comparable data. There is a lot of available literature on the Norwegian social policy, while the available literature in English or Scandinavian language on Estonian social policy is more limited. The difference in economic level makes it difficult to define comparable variables and measures. Kangas (1999a and 1999b) describes the difference by stating that even a poor person in a western country would be rich in Estonia.

One of the consequences of the mentioned differences, has been a pragmatic approach to the data collection. An important part of the information about Estonia was collected through qualitative methods, fieldwork and interviewing. Information about Norway was collected through studies of literature and documents.

## **2.3 A study in four parts**

### **The theoretical and conceptual framework**

The aim of the theoretical framework is to create a background for the case studies. The framework should help in relating the case studies to general trends. It is based on literature studies. The main background literature is following two angles, comparative and international social policy, and studies of countries in transition.

The first step has been to use elements from the analysis of different welfare state models – or regimes. The division of welfare states in three groups like the “Conservative”, the “Social-democratic” and the “Liberal” models (Esping-Andersen 1990) is relevant for this study. The problem with this approach is that the new regimes emerging from the countries in transition are not included. Since the main issue in this dissertation is to try to understand the changes, the next phase is to approach the concept of transition, both in the established western welfare states and the new emerging welfare states in Central and Eastern Europe. There seems to be a common trend among e.g. Esping Andersen (1996), Kuhnle/Soheim (1991), Clasen (1997) and Rhodes (1996) that there are several challenges, but only moderate changes in the western welfare states.

The changes in the countries in transition are obviously much more dramatic, described by e.g. Simpora (1995), Deacon (1997 and 1998a) and Standing (1997)

The description of the comparative dimensions is to a large extent taken from the same kind of literature as mentioned above. Some statistical data is used as supplementary illustrations. The dimension “public - private” is chosen because the privatisation process from state to market is a main aim of the transition. The dimension “distribution -redistribution” is chosen because one of the main aims of the income maintenance systems is distribution of resources. “Labour market connection” is one of the main characteristics dividing the different welfare state models. “Accountability” is chosen as a dimension mainly because of the method of collecting data in Estonia. It is based on the assumption that accountability would be one of the main interests of the interviewees.

The main idea behind the review of influencing agents – or change agents – is to understand more about the relation between national and international participants in the change process. Except for Deacon (1997 and 1998b) who is interested in the role of international organisation, most of the analyses point to economical development, rather than organisations and institutions.

### **The case of Estonia**

The Estonian case is the centre of the study and has consequently been accorded most space. It was necessary to collect new information, since the access to existing literature is limited. Important sources for the Estonian case study therefore were interviews with key persons in the Estonian society. The most relevant method is semi-structured interviews. By using a detailed questionnaire, it would not have been possible to catch the complex, unpredictable and individual points of view that the interviewee might present. On the other hand it has been important to secure that the interviews cover the same dimensions and situations, otherwise they might be useless as basis for the description of the case (Bell 1993) (May 1997)

### **The field work and the interviewing**

An evaluation of the fieldwork and interviewing as well as the interview guide is found in appendix 1. I wanted to interview key actors in the decision-making process. The interviewees were found through important groups/agencies related to social work and social policy:

- Bureaucrats and politicians within the ministry of social affairs
- Members of Parliament
- Researchers – social scientists
- Trade unions and professional associations.
- Employers association
- Private sector – e.g. insurance companies

It was necessary to find a logic order of work. Consequently the development of the interview guide was based on a first draft of the theoretical framework. The interview guide focused on four main issues:

- General overview of social insurance and social assistance.
- Changes
- Main issues in the public debate
- An evaluation of the change agents – nationally and internationally.

The first two points were linked to the dimensions of comparison. A scale of influence used for the different actors supplemented the last point. The interviews ended with the following question to the interviewees:

What do you think is the ideal welfare model for Estonia?

### **Literature studies and other sources**

These interviews have been supplemented with public documents and statistics, as well with relevant research on Estonia, the Baltics and other countries in transition. The reports from the NORBALT living condition study (Grøgaard 1996, Dietz 1996, Aasland et al. 1997a and 1997b) as well as the Baltica survey (Moskalewicz et al. 1998 and Hanhinen et al. 1998) give important background information. Other basic sources are papers from the Estonian Ministry of Social Affairs (MSA 1999) (Leppik 1999a and 1999b). Kangas (1999a) analyses the relation between poverty and social policy and points to the fact that Estonia performs quite well statistically when one uses relative measures, but that the problems become obvious in an absolute comparison with e.g. the Scandinavian countries.

### **The case of Norway**

The comparative perspective is maintained by using a second case, Norway. The case of Norway is based on literature studies and other written sources. Even though Estonia is the primary case, using a western state like Norway has at least two purposes. It brings in the comparison between the western welfare states and the countries in transition. The “hidden agenda” is that a comparison with countries in rapid change might help us to understand countries where the changes are much slower. For the Norwegian case there are several relevant sources, e.g.:

- Studies of the Norwegian welfare system - e.g. (Langeland 1999) (Dahl 1994) (Kuhnle and Solheim 1994)
- International research where Norway is one of the compared countries - e.g. (Plough and Kvist 1994a and 1994b)
- Ministerial green-papers and white-papers - (SHD 1995 and 1999a)
- Public statistics (NOSOSCO 1997) (SSB 1997)
- Analytical articles and debates in daily newspapers

- My own knowledge of the Norwegian system - both as a social worker and as a participant in public debates.

Two ministerial green papers, on welfare policy (SHD 1995) and on distribution of income and living conditions (SHD 1999a) provide basic material on the Norwegian social policy. An analysis by Langeland et al. (1999) about the welfare society in the 21<sup>st</sup> century is a central document in the description. Also in this case the statistical material is illustrative rather than an analytical tool.

A main challenge in collecting the information about the Norwegian case consists of finding data relevant to a comparison with the Estonian case.

### **Similarities and differences**

By linking the theoretical and conceptual framework to the two case studies we ask whether there are trends that can be identified. This part seeks to identify similarities, differences and common developments.

## **2.4 Evaluation of the methods**

A comparative analysis demand comparative data, but there is limited access to this. It has therefore not been possible to use the same methods for collecting basic information in the two cases. Thus the process of making the descriptions comparable involves a process of interpretation. Another problem is linked to the differences between the countries. As shown in table 1.1 the economical level is different. This makes an understanding of social policy, social problems and poverty very different in the two countries. It is difficult to talk about the structure of the welfare systems, without looking at the level of the services. I have tried to limit this problem by including this aspect into the analysis.

The literature used in the study represents a broad range of theory, research and viewpoints. It should therefore be relatively representative for the actual field.

The selection of interviewees aimed at diversity, but the interviews can not be seen as statistically representative. The information is collected through five semi-structured interview and some informal talks. The first interview was used as a pilot. In general the data from interviews represents the interviewer's interpretation of what was said. The interviewees were asked to evaluate the different change agents in Estonia. The scores of influence are must be understood as the interviewer's understanding of the answer. The interviews gave interesting glimpses of the view of some important persons with different angles to social policy. The interpretations of the findings will therefore have limited possibilities for generalisation. The results might give supplementary knowledge to the wide range of comparative social policy theories, and hopefully help in understanding the described processes.

Language represents a limitation. My lack of Estonian language skills limited the access to Estonian sources. It also influences the understanding and the interpretation of the findings (Hantrais and Mangen 1996)

Reliability means that one obtains the same results from the same measurement on different occasions. The sources of information are open. (The interviews are on tape and there are detailed notes). The way of working implies, however, a degree of subjectivity. The validity of a study means that it measures what it intends to measure. This is mainly a question of the relevance of the dimensions of comparison and of the questions of the interview (Hellevik 1991). I believe in the relevance of the analysis. The project has been a process and, it has been necessary to adjust the focus when interesting issues have been revealed. This does not exclude other approaches, or other interpretations, but the four dimensions supplement each other and should therefore contribute to a holistic understanding of the cases.

## **3 Theoretical and conceptual framework**

### **3.1 Transition**

Jussi Simpura (1995) describes the development of a new social policy in the former communist countries and refers to the concept of *transition* as: “changes in political order and a deep restructuring of the economy as well as of everyday life”. Several social scientists also use the concept of transition, when they describe the process that the western European welfare states go through.

The political changes between 1989 to 1991 have changed the European political map totally. In Central and Eastern Europe the state apparatus that was based on the power of the communist party collapsed. This lead to a political change from one party states to multiparty democracies, from planned economy to market, from state ownership to private. These processes are basic for the creation of welfare systems. Consequently we got a revolution of the system of welfare delivery as well. The communist parties did not only dominate the state apparatus, they formed the basis for the functions and organisations within the civil society as well. The eastern countries therefore lacked the basic infrastructure for building up the non-governmental part of the welfare system. When Simpura defines *transition*, he also gives a description of the strength of the process. It was especially strong in the Baltic countries because it meant national independence in addition to the change in political, economic and social system.

Several scholars use the concept of transition when they describe the process in western welfare states as well. A resent example is Esping-Andersen (1996). For more than 20 years the phrase “the crisis of the welfare state” has been a part of the public debate. The use of the word crisis is in itself problematic, because it gives the impression that there are very urgent changes taking place. Solheim discusses the crises in the economical, political and socio-cultural subsystems of the Norwegian welfare state. She concludes that there is no crisis, but some “tendencies” towards crises. She links these tendencies to the reduced growth of the economy and reduced stability in the political sphere. She also says that the commitment to the welfare state in the public is relatively stable (Kuhnle and Solheim 1991) The word challenges might therefore be more apt than the word crisis.

Clasen (1997) mentions three aspects of change in the premises for the welfare state; labour market changes, changes in family formation and social relations, and the salience of new types of risks. There have been lots of adjustment like cut backs, change in criteria, tightening of access to services, reorganisation with the aim of higher efficiency, more use of “active” measures et cetera. The changes do not seem to be really fundamental in most of those countries. Therefore it is questionable whether it is a relevant to use the concept transition to understand the development of the western welfare states. Those who claim that there is a crisis in the western welfare states point to a po-

litical, economical and demographic crisis. The political crisis is described as an ideological shift towards more individualistic attitudes and less emphasis on collective solutions. The economical crisis is linked to the high costs and the pressure of European integration and increased international competition. The demographical crisis occurs e.g. because of the growing number of ageing people and the consequent pressure upon the pensions systems, as well as the changes in the family pattern towards smaller units. These three areas are common, however, for an analysis of both Estonia and Norway.

By comparing established welfare states with countries in transition from communism to market economy we might get a new perspective. The rapid transitional process might help us to see the active forces and hopefully reveal the same kind of forces within the established welfare states. By including change and future development into the analysis it might be possible to catch elements of this process.

## 3.2 Regimes

The categorisation of welfare states that is mostly referred to, is the division into three welfare regimes as presented by Esping-Andersen(1990). He describes a division into the liberal, the conservative and the social-democratic regimes. The “liberal” welfare regimes include countries like the USA and are characterised by means tested assistance, modest universal transfers or modest social insurance plans. The “conservative” regimes include Germany and France. They are strongly corporatist and the principle of subsidiarity gives the civil society and the family an important role. The most important social insurances are based on the individual’s position in the labour market. The social democratic regimes include Norway and Sweden and they are characterised by universalism. The main social insurance are state run and cover every inhabitant. Many have tried to challenge Esping-Andersens’s theories by adding new models. Some criticise the model approach and seem to be more interested in what the different welfare systems have in common and look to the historical and political background for the development in the different countries.

I will use the Esping-Andersen classification. Esping-Andersen is using old age pension, sick leave benefits and unemployment benefits as the basis for his analysis. This is very much in line with this project, and makes his classification relevant for the analysis. The Norwegian welfare state has a high level of de-commodification, an universalistic public pension scheme and is therefore close to the typical Scandinavian regime.

The mentioned typologies, however, do not include the post-communist countries in their analysis. There are many ways of grouping the European former soviet and/or communist countries. An often used one is a division into four geographical groups, The Baltics States, Central Europe, South Eastern Europe and The Slavic countries (UNDP 1998b). This grouping of the CEECs is an illustration of the diversity of these countries. In spite of western prejudices about the uniform communist countries these countries are very different both in the preconditions for change and in the

political choices they have made. Estonia, together with e.g. Czech Republic, Hungary, Poland and Slovenia, seems to go towards a variant of the western welfare state. This is different from the path of e.g Bulgaria, Romania and several CIS countries. They have chosen a “softer” market approach and slower privatisation. The result is, at this stage of the transition process, a new mix of welfare systems that is closer to the former soviet systems (Deacon 1998a). The development of social policy is following the general patterns of the country. It seems also to be a fact that the different international agencies and organisations – like the WB, IMF, ILO, UNDP etc. - have a different level of activity and consequently also different influence on the development of the different countries (Deacon 1997).

There does not seem to be developing one new central and eastern European model. There might be a Baltic model, but it is too far-reaching in this context to define such a model. An important part of the analysis of the Estonian case is whether Estonia, as one of the Baltic States, is developing towards one of the described models.

### **3.3 Public – private**

Liberalisation of the global economy as well as the integration process in Europe might be a drive towards privatisation of public services. Since the economical restructuring of the post-soviet countries mainly has privatisation as its aim, it is interesting to see how these processes are interconnected

The public - private mixes in the welfare systems of the different European countries are diverse. On one extreme you find the Scandinavian countries where the private sector plays a marginal role within the welfare state. The universalistic pension system, hospitals, institutions, health care, social work and childcare as well as the schools are publicly dominated. The private agencies and institutions, whether they are non-profit or commercially based, play a marginal, but often innovative and supplementary role towards the public sector. The continental model, exemplified by the German, represents a different example. The principle of subsidiarity has lead to an important role for organisations and foundations in organising health care and social services. The public funding is dominant in this system as well. The pension schemes are to a large extent the responsibility of the employers. The model is characterised as corporate because it integrates the different groups in all levels of the welfare state. In the liberal model – e.g. the American - the individuals play a different role and will to a large extend be dependent on his or her private insurance.

In the context of income maintenance the most important aspect will be the division of labour between public and private insurance, and between collective, mandatory and individual insurance. Another aspect is the division between public (mostly municipal) and private (mostly charitable) social assistance.

A development towards equalising taxation in the EU can lead to cutbacks in public funded services in the countries where the taxation today is high. Continued pressure towards convergence will probably mean that the Scandinavian countries have

to go through a process of privatisation in the sense that organisations and agencies within the civil society has to take over more of the welfare delivery. It is possible that the European integration process will influence the Scandinavian countries in the direction of a more continental like model.

In the former socialist and soviet countries the transfers were based on allowances and subsidies. The whole system was state driven (Wiktorow 1992). There is a division between these countries in the speed of the privatisation process and in the view of which services that should be public responsibility. It looks like the Baltic States have chosen a different approach to the Central European States. The public sector seems to play a more central role in the Baltic than in Central Europe. That is both linked to the role of the public in the social insurance system and social assistance.

### **3.4 Distribution – Redistribution**

Besides education and health-related services, the organisation of economic benefits is the most important symptom of the welfare policy. The welfare state forms a frame for *distribution and redistribution* of resources in society. The income maintenance systems are cornerstones in the distributional mechanisms. The first association this pair of words gives, is that of distribution between rich and poor. In addition to the class dimension there are e.g. a gender dimension and an age dimension (distribution between generations).

The table 3.1 indicates that the transfers, which are the dominant part of the income maintenance system, has a clear redistributive effect. It shows that income transfers significantly reduces poverty both in Estonia and in some Nordic countries (Norway is probably following the same pattern as Finland and Sweden). This is especially important when it comes to people over 55 years of age.

Table 3.1. The role of income transfer systems in poverty reduction in different countries. Poverty line is set to 50 % of national median disposal income.\*

Poverty line 50%	0-24	25-34	35-44	45-54	55-64	65-
AUSTRALIA 1994	28,5	36,5	33,7	50,4	58,0	82,3
CANADA 1994	32,8	28,3	33,1	41,0	54,5	95,8
USA 1994	33,1	2,1	7,1	17,0	42,7	76,8
UK 1995	33,9	4,4	2,0	50,6	78,9	91,9
FINLAND 1991	53,2	80,4	74,8	67,3	90,5	96,3
GERMANY 1994	50,1	25,5	39,2	62,0	75,3	93,4
SWEDEN 1992	36,0	8,2	76,5	70,3	93,0	97,9
NL 1991	50,4	14,1	44,2	79,2	89,5	97,1
POLAND 1995	47,7	24,1	19,5	33,3	72,3	87,4
CZECH 1992	64,1	87,2	89,3	75,5	96,6	98,9
HUNGARY 1994	44,5	46,7	35,3	27,6	63,9	92,2
SLOVAK 1992	60,7	84,6	85,7	83,3	93,9	97,5
SPAIN 1990	23,9	13,6	10,6	15,0	50,5	83,6
ESTONIA 1997	29,4	28,9	23,8	23,2	86,1	95,2

Source: Kangas (1999a), Kangas' source is Luxembourg Income Study.

A pension system with income based input and flat rate output will have a relative high level of redistributive effect. On the other hand a system where both the input and the output are based on income or the output is purely based on input, the result will be maintenance of differences. The Scandinavian universalistic system will represent a certain level of redistribution based on the fact that it reaches everybody. On the other hand the level of redistribution will be higher in the Danish system which has a flat rate outcome, compared with the Norwegian where the outcome is based on previous income.

An individual insurance system will necessarily have less of a redistributive effect than a tax based system that covers everybody. Pedersen (1998) points to the fact that the Scandinavian countries have the lowest degree of difference among old age pensioners i the OECD area.

In a system where the family economy is based on the husband's income, a pension-system that gives equal rights to the wife might be said to have a redistributional effect between the genders. This is changing with the increased number of two income families. Women work more part-time than men do. A factor that will influence the gender dimension is therefore how the wage-related part of the pension system looks. In the worst case there might be a transfer between low paid part-time working women

\* The figures are the poverty alleviation effect, R. This is pre transfer poverty rate minus post transfer poverty rate divided by pre transfer poverty rate and multiplied by 100. The higher the value of the R in the table, the larger proportion of the population has been lifted above the poverty line by income transfers.

to well paid over-time working men. Child care benefits and lone parent benefits will also be a way of protecting women with children from poverty.

The means-tested social assistance systems will necessarily work in a different way. It is all paid by tax and covers those with the lowest income – the poor. Lødemel (1997b) points to what he calls a paradox. In a country like the UK the insurance schemes are limited, while the social assistance system seems to be relatively generous. You will find the opposite situation in the Scandinavian countries, generous pension systems and tight social assistance. This phenomenon is a logic consequence, not a contradiction. The relation between social insurance and social assistance will have an influence on the distributive consequence of the income maintenance system

In contrast to these different ways of attacking the question of distribution or redistribution through the different pension schemes, Clasen (1997) argues that social insurance programmes in most European countries are mainly directed towards reproductions of inequalities in the labour market. He says that they represent more a horizontal than vertical income redistribution. He also says that there is an internal conflict in most of these systems between the object of status maintenance and solidarity. Solheim also argues along the same lines when she says that the distributional consequences of the pension systems are marginal (Solheim/Kuhnle 1991). The points made above show that to be able to analyse the level of distribution and redistribution of the different welfare regimes, it is necessary to go concretely into how the different schemes work.

### **3.5 Labour market connection**

Our societies are based on the principle of everyone earning his/her money by selling his/her workforce on the labour market. When you look at the ways of organising the income maintenance within the different welfare states it is not surprising that one of the main differences seems to be how the benefits are linked to the individual's position in the labour market.

First of all this is linked to the way the pension schemes and benefit systems are organised. Social insurance is the most obvious example. It can be the responsibility of the state, the pay-in is done through taxation. It can be the responsibility of the employer, and it can be the responsibility of the individual. In the universalistic Scandinavian model of the welfare state the individual's place in the labour market is less important than in the corporatist continental model, where the most important pension schemes are based on your work experience. The liberal approach is putting the main responsibility for the insurance/pensions systems on the individual. The means-tested social assistance is independent of the previous work experinece.

When Esping-Andersen (1990) classifies the three welfare regimes he uses the concept of de-commodification as his main criterion.

“De-commodification occurs when a service is rendered as a matter of right, and when a person can maintain a livelihood without reliance on the market” (Esping-Andersen 1990).

In its essence de-commodification is an expression of the link between the social insurance and the labour market. In a de-commodified system, the individual’s relation to the social security will be less dependent on his/her relation to the labour market. To be able to measure de-commodification within a welfare regime in the Esping-Andersen way, it is necessary to make rather complicated calculations combining the role of different schemes of income maintenance. The word will be used in a more general way here, as a description of the individual’s dependency on selling his/her workforce in the market.

Deacon (1997) points to a common characteristic of the corporatist and the communist models. They are both organising the basic welfare benefits linked to the workplace. That could be an argument for expecting a drive towards a corporatist model in the former communist countries. Manning and Shaw (1998) say that the occupational welfare to some extent has survived in Estonia.

One of the criticisms against the welfare state is that it does not encourage people to work, on the contrary it makes it too easy for people to leave work. The responses to this criticism have been several measures, e.g. tighter eligibility, cutbacks in benefits, active labour market measures, and workfare (or work for benefits). The level of work incentives in the welfare system also says something about the labour market connection of the different schemes. Many governments have seen these measures as a part of the general economic or labour market policy of the country. It has been seen as a way of encouraging entrepreneurship and job creation. Several critics of these measures have pointed out that they have very limited influence on the economics of the country. These politics have mainly had an impact on the individual level. Whatever the results are, these measures will influence both the generosity of the system and the labour market connection. The European Union has in the last years actively promoted active labour market measures, e.g. in the programmes for increased employment.

## 3.6 Accountability

The dimension accountability is about whether the population *trusts* the system, and if they have reasons for trusting the system. The question of reliability is linked to the *sustainability* and the *efficiency* of the system.

The historical experiences of the post-communist countries will probably lead to a low score of trust. One would expect people fearing a strong state. This will lead to scepticism towards a Scandinavian kind of model, as in that system the state is considered as too strong. On the other hand there is also an expectation in the population that the basic existence should be secured. It is difficult to see how the political institu-

tions of the transitional countries, that are described as “fragile and in poor societies”, should be able to meet these expectations (Kapstein 1997).

One of the problems experienced in the western countries is decreased trust based on fear of the elderly boom and financial constraints and cutbacks. “The crisis of the welfare state” as described in chapter 3.1 is partly a political crisis, a question of trust.

Different groups in society have an impact on people’s attitudes towards the income maintenance schemes. The labour movement has historically had the role of fighting for active measures promoting reduced income inequality. The role of the middle class is also essential. If the middle class believes that the system does not deliver according to their expectations, they have the resources and economy to find alternative ways of securing their social situation. In this way their behaviour might have a great influence of the sustainability of the system. The European welfare state is to a large extent a result of a compromise between these two classes. Today user groups and popular social movements will be important defenders of an active welfare state

One of the problems of the western welfare state is said to be that people expect more than it can deliver. This is called the crisis of expectations. If we go to the former communist countries the expectations are linked to the fact that people compare their level of living conditions with the western, and therefore see a connection between market economy and high standards of living. The very slow increase in living conditions (and sometimes decrease) creates distrust.

Criticisms of the welfare state has become a form of populist exercise. This might be the result of a bureaucratisation and difficult access to some of the services. The individual’s and the community’s experiences with service delivery and the quality of the welfare bureaucracy will be important for a continued support for a high level of welfare benefits and services. The welfare state is squeezed between individual freedom and the community (Langeland et al 1999). The general support for well-developed welfare services and benefits seems, to be relatively high and surprisingly stable, in spite of all these dilemmas

## 3.7 Influencing Agents

The relation between national and international actors in the development of social policy is important because the different change agents might have difference agendas and aims with their input to the debates. The main background question behind a discussion about national and international agents in the change process is therefore whether there is a move of influence and power from national to international agents.

### **Local/national actors**

The internal political factors are e.g. different ideologies linked to party politics, interest groups within the civil society and the organisations of labour and employers. The following agents are taken into the analysis.

- Political parties (both inside and outside the parliaments)
- The government
- Ministry officials
- Employer's organisations
- Trade Unions
- Health and social oriented NGOs
- Pressure and interest groups

These groups have different agendas and different aims. The relation between them will be dependent on formal power, organisational strength, economical resources, human resources and skills, public support and traditions.

### **International actors**

Deacon (1997) describes the emergence of a global social policy. The main message of his analysis is that social policy in different countries is increasingly influenced by international actors. He analyses the role and policy of different international actors. Deacon points to three main premises that have lead to a global social policy discourse: collapse of the cold war and communism, threat of global migration and trans-nationalism of the environment. In his analysis he includes organisations consisting of states as well as international NGOs and agencies. The post-communist states have been depending of foreign investments and international loans in their reconstruction of the economy. There has been an invasion of international consultants and agencies that in different ways have wanted to earn money or influence the situation. The Scandinavian neighbours of the Baltics for example promote their model through different aid and exchange programs. The EU on the other hand seems to be promoting a more German like model through their programmes. Critical voices in the CEEC seems to think that the most successful external pressure comes from the World Bank and the IMF promoting a more liberal like model. Another external factor could be Russia. The Baltics were a part of the Soviet Union and there are still Russians in all of the three countries. The role of the Council of Europe, the ILO, the OSCE and UNDP might also be important.

The situation in the western countries is a different one. Since they are in the role of the donor, they control the decision-making bodies of some of the most important and influential organisations. Thus the power of the money of the international organisations is smaller, not to say non-existent. The global market and international conventions might still have a significant impact on the development of the social policy. By

comparing western and eastern countries it might be possible to see this phenomenon in a more focused way.

The analysis of international actors includes the following:

- IMF and The World bank
- The EU and EEA
- The Council of Europe (CoE)
- Organisations linked to the UN (ILO, UNDP, UNICEF etc.)
- The Nordic connection
- Aid agencies
- International NGOs

There is one specific issue that need to be mentioned in this context. That is the so-called “three-tiered” or “three-pillar” system of social insurance. The three-pillar system consists of a pay-as-you-go social insurance pension (the first pillar), a mandatory system of regulated private pensions (second pillar) and individual private pensions encouraged by tax incentives. Barr (1994) says that these are typical elements of a western European system and should be applied to the new schemes of the countries in transition. The World Bank has generally promoted this way of thinking for the CEECs. Both Deacon (1997) and Standing (1996) discuss this system and points to the influence on development in the CEECs. There are, however, different ways of implementing such a three-pillar scheme. The WB is not completely in agreement with itself, e.g. whether the first pillar should be means tested or universalistic. The WB tend to prefer a means tested first pillar (Standing 1996).

## 4 The case of Estonia

The Norwegian newspaper Aftenposten published an article about cutbacks in the Estonian state budget on the 18<sup>th</sup> of July (Nordrum 1999). The article says:

“Supported by recommendation from the IMF, the three months old Estonian government has managed to get support in the National Assembly for a crisis like budget. One milliard Estonian Kroons is cut back from a total budget of 18 milliard Kroons.”

The article points out the fact that the prioritised groups in this hard budget are single mothers and families. It is necessary to support the families with children with the aim of promoting the number of childbirths in a country where the low birth rate will lead to a dramatic drop in inhabitants within a few years. The article maintains that the main reason for the budget crisis is the crisis in Russia. The growth expected this year is not coming. The expectations for the next year, however, is quite good. Thus many of the issues in the present dissertation is covered in this article. Firstly it is the question of the role of the IMF. Secondly we see that the soviet heritage is still influencing Estonian life. Thirdly we get a picture of strong budget discipline. Furthermore one see the social consequences of the economical situation. We also get a picture of political priorities and main issues on the political agenda in Estonia. And finally the article illustrates the speed of the changes. This budget compromise might even change the arguments used in this analysis. There might e.g. be a slowing down of some of the changes.

The present government is a coalition between three very different parties, liberalist, conservative and social democrat. The biggest difference to the former government is probably mainly linked to the speed in which the reforms are implemented. The contradictions of Estonian politics might therefore be as much along the line old/new as right/left. All parties accept market economy and reforms. Another surprising phenomenon is the widespread acceptance of the necessity of the “shock-therapy”. Kutsar (1998) describes e.g. the dramatic effects of the reconstruction of the economy on living conditions, but says also that the shock therapy was necessary. The most evident disagreement among the informants, however, seemed to be whether the “second pillar” of the social insurance schemes should be implemented.

A discussion about a Nordic or a liberal model of welfare is on the political agenda in Estonia. A study of attitudes among influential groups (Lagesrspetz et al.1998) concludes that journalists held the most liberalist view while civil servants at the ministry of Social Affairs were relatively consistent supporters of a Nordic welfare state model. Welfare state models are not the main issues of the mentioned study, and there is no clear definition of a liberalist model. The study indicates, however, that there are differ-

ent views, especially as to the role of the state and the responsibility of the individual in the creation of a welfare society.

## 4.1 A description of the system

In the Soviet Union the pension system was the responsibility of the Union, not the republics (Wiktorow 1992). The breakdown of the Union therefore meant a break down of the pension system. Consequently, establishing a new pension system was one of the most urgent issues after 1991. This had a social as well as a political dimension because in addition to the obvious social needs, the ability to secure the living conditions of the pensioners became one of the symbols of the human face of the new system.

This following description contains the elements of the Estonian social security system that is the most important within the framework of income maintenance. In other words this is not a complete description of all kinds of economic support in the Estonian welfare system.

### Social insurance<sup>1</sup>

The first new act on old age pensions was passed in May 1992. In 1997/98 a new pension reform was carried through. This reform established the 3-pillar pension system (ESO 1999). The development of these pillars and the relation between them will be an important constitutional part of the final model of social welfare.

The social insurance system of Estonia comprises of five schemes:

- pension insurance (includes national, old age, invalidity and survivors' pensions)
- health insurance (includes health care and sickness/maternity cash benefits)
- family benefits (includes birth grants, child benefits, child care allowances)
- unemployment benefits (includes unemployment allowances, labour market grants and retraining stipends)
- funeral grants

Pension insurance and health insurance are financed from "social tax", paid by employers. Family benefits, unemployment benefits and funeral grants are paid by general state tax. (Leppik 1999a)

The first of the three pillars is a state managed pay-as-you-go scheme. It is universalistic in the sense that it is based on residence. The second pillar is a mandatory funded pension scheme, paid by employers and employees. This pillar is still not implemented, but according to the plans it is scheduled for the year 2001. The third pillar

<sup>1</sup> The description of the social insurance system is mainly taken from *the Questionnaire of the European Social Observatory on the social security system; Country Report – Estonia* (ESO 1999), from *Estonian Social Policy in a Comparative Perspective* (Kangas 1999a) and from *Social Protection in Estonia 1999* (Leppik 1999b), supplemented with information from the interviews.

consists of private pension schemes. These private pensions are promoted through tax deduction of the contribution.

The public pension scheme consists of “national” pension, old age pension, invalidity pension, and survivors pension. The old age pension is given to those who have reached the pension age, and have a qualification period of 15 years. The old age pension is the sum of the national pension rate and a length of service component. Included in this component is caring for small children, registered unemployment, military etc. (Leppik 1999b). The pension age is gradually increased and will be 63 years for both men (in the year 2001) and women (in the year 2016). The invalidity pension and the survivor’s pension are based on the same kinds of criteria. The invalidity pension is dependent of level of invalidity and the survivor’s pension is based on age and status. They both includ all permanent residents. The national pension is in general covering those who fall outside the other schemes because of too short length of service to qualify. Table 4.1 shows the level of benefits. It shows that the level of the national pension is 20% of average gross wage, while average old age pension is 36 %.

Sickness and maternity leave benefits are covered under health insurance along with support for medical treatment and pharmaceutical products. Sickness benefit covers from 60 – 100 % of average daily income. Maximum duration is 182 days. Maternity leave benefit covers 80% of previous income. Maximum duration is 126 days.

Unemployment benefits are flat rate on a low level (EEK 400 a month). Maximum duration is normally 180 days. Table 4.1 illustrates the level of the benefits related to the wage level.

Table 4.1 Levels of Estonian social security benefits – as of 010199

<b>The type of benefit</b>	<b>EEK</b>	<b>Euro<sup>2</sup></b>	<b>BEF</b>
National pension	800	51	2063
Old age pension (average pension)	1512	97	3898
Invalidity pension (total invalidity)	1210	77	3120
Invalidity pension (severe invalidity)	1025	66	2643
Invalidity pension (partial invalidity)	800	51	2063
Disabled child pension	820	52	2114
Survivors' pension (single adult)	861	55	2220
Survivors' pension (orphan)	984	63	2537
Survivors' pension (adult with 1 child)	1681	107	4334
Survivors' pension (adult with 2 children)	2501	160	6448
Child benefit (single child)	150	10	387
Child benefit (second child)	225	14	580
Child benefit (third and each following child)	300	19	773
Birth grant (first child)*	3000	192	7735
Birth grant (second and following child)*	2250	144	5801
Child maintenance benefit (up to 2 years)	600	38	1547
Child maintenance benefit (from 2 to 3 years)	300	19	773
School grant*	300	19	773
Start-in-life allowance*	5000	320	12891
Unemployment allowance	400	26	1031
Retraining grant	600	38	1547
Labour market grant to start one's own business*	10000	640	25782
Labour market grant to employers	1250	80	3223
Funeral grant*	1400	89	3609
Minimum guaranteed income benefit (after deduction of normative housing expenses)	500	32	1289
<b>Minimum wage</b>	<b>1250</b>	<b>80</b>	<b>3223</b>
<b>Average gross wage</b>	<b>4100</b>	<b>262</b>	<b>10571</b>
<b>Average net wage</b>	<b>3164</b>	<b>202</b>	<b>8157</b>

Source: ESO (1999)

The following quotation of one of the interviewees gives a good description of the process and debates in the development of the pension system.

"At first we had to stick to our own resources. The old pension system was the responsibility of the Union so we could not guarantee the source. We had to build up a sustainable system that also followed some understanding of social justice. The low pension age was another problem. The first pillar started in 92/93 and it was indexed according to working years. Those with high pension in the old system protested. The debate went on for a long time and is still going on. The system is now paid by the employers in special funds, and these funds can only be used for pensions. The new system with the first pillar is sustainable, but on a very low level. There is a debate about the management of the pension funds, how to control them etc. The third pillar is encouraged now, by tax deductions. The problem with this is that it does not cover the old people or those who do not have enough money to pay for the contribution. The third pillar is growing.

The second pillar should be mandatory and contribution based. It is still under debate. Without the second pillar the system will not work.”

### **Social Assistance**

The social assistance system – means tested – was invented in 92. This lead to an interesting debate about the poverty line. People said something like “We are all poor, why should we have a poverty line. The Estonian president is below the American poverty line”. The concept subsistence level was accepted. The criteria were set according to the minimal food basket.

The social service act was passed in February 1995. The law is basically built on the same principles as the social service acts of the Nordic countries, Finnish experts were active in its preparation. The main responsibility for the social services and benefits lies on the municipalities. The next step is to develop social services. It is an aim that all kinds of help should give incentives to people to manage themselves. The law covers the following services:

- Counselling
- Prostheses and remedy
- Home services
- Housing
- Services in the family
- Services and rehabilitation in a welfare institution
- Other measures with the aim of coping with a difficult life situation.

The social assistance benefits are based on the law of social services and can be divided into two kinds; subsistence benefit and supplementary social benefit. The subsistence benefit is based on the total account of household economy. It was EEK 500 for a single person and e.g. EEK 1200 for a 3-person household in 1998. Social assistance is directed towards the following target groups; the poor, disabled, elderly, children, those released from penal institutions and victims of crime. The government sets the subsistence level. Basic social assistance is paid by the state, while additional social assistance benefits and social services are financed from local taxes. (Leppik 1999a and 1999b)

### **Family support**

The Estonian child benefit scheme is universalistic and goes on to the child is 16 years of age. If he or she is a student it is extended until the age of 19.

Families with children are seen as the most important vulnerable group. The Riigikogu now discusses parental support. According to this plan you can get money according to number of children up to 8 years of age if the youngest child is under 3 years old. Three children will give EEK 1800, that is 1 ½ times the minimum wage. It is

meant to be an incentive to have more children and to encourage part time work. There is no roof of earning.

## **4.2 Public, private**

The Estonian welfare system seems to be state driven to a surprisingly high level. It is surprising because the media picture that is created is that the changes are very drastic and the new system is neoliberal in its approach. The basic pension scheme (first pillar) is a state driven scheme, the income is from two sources, the “social tax” paid by the employer and the general state budget funding. The second and third pillars are in principle build on private (collective or individual) insurance. It is, however, still not possible to say what the role of these two pillars will be. The second pillar is still not implemented. Since it will be mandatory, it will play an important role in the life of those who have a labour market connection. The importance of the third pillar will depend on the development of the economy of the individuals or the families. The question is whether the individual can afford the contribution to the schemes. The need for the third pillar will be dependent on the level of the two first. If they are seen to be sufficient, the role of individual private pensions will be limited.

How far privatisation will go is therefore not yet completely established. The public/private balance is linked to the relations between the three pillars. The universalistic first pillar is on a relatively low level today. If the level of the basic state driven pension system continues on that level, private pensions might take on an important role in the future. The private insurance market increases. In 1998 there was an increase of 50% in life insurance and 11% in non-life insurance (oral source: Männik).

The private sector has another problem. If the state is met with scepticism, this also applies to private insurance companies. They are met with low trust. A turbulent economy does not make private investments secure. It is problematic to invest the pension funds in a secure way in Estonia. This is one of the reasons for delay in implementation of the second pillar. When you ask people whether today's pension funds are secured, you get different answers. There is established a guaranty fund. Representatives for the political life and the authorities tend to see the fund as secure, while others will maintain that there still are problems.

The material on the social insurance point to the fact that there is no scheme for work accidents and occupational diseases. According to one proposal, this will be the responsibility of the private insurance companies.

## **4.3 Distribution, redistribution**

One of the most important functions of the pension schemes is protection against poverty. It seems that the general attitude in the population is strongly opposed to the in-

crease in income inequality. 61% believe income distribution should be much less, and 25% feel it should be slightly less. Altogether almost 87% think that income differences should be less than they are today\* (Aasland 1997b).

Table 4.2 Proportion of the population who has received income from different income sources during 1994. Per cent

	Men	Women	Total
<b>Pay from work</b>	65.5	51.1	58.0
<b>Income from business/farm work</b>	3.3	1.4	2.3
<b>Income from sale from home production</b>	1.8	2.5	2.1
<b>Income from occasional work/individual commercial activities</b>	6.8	1.8	4.2
<b>Unemployment benefit</b>	1.5	1.5	1.5
<b>Pension, existence-minimum money</b>	24.0	36.1	30.3
<b>Scholarship</b>	0.4	0.5	0.5
<b>Alimony</b>	0	1.6	0.8
<b>Child benefit</b>	2.4	34.8	19.4
<b>Benefit for taking care of a child</b>	0.3	5.4	3.0
<b>Social aid, one-time benefits</b>	1.3	4.1	2.8
<b>Income from renting of flats, cars or other personal belongings</b>	0.1	0	0.1
<b>Dividends</b>	0.4	0.2	0.3
<b>Help from relatives</b>	0.7	2.1	1.4
<b>Compensation for rent of dwelling</b>	1.3	4.2	2.8
<b>Sale of personal belongings</b>	0.3	0.3	0.3

Explanation: Columns do not add up to 100 per cent, because respondents could report more than one source of income

Source: NORBALT survey (Fløtten 1996)

Table 4.2 is taken from the NORBALT survey. We see here the proportion of the population that answers that they have got income from different sources. Since there might be more sources in each household, we cannot know the exact number of persons who rely on benefits, but the table shows that a significant proportion of the

\* Data from the NORBALT survey 1994

population gets support from the system. One out of three persons of 18 years or older received a pension in 1994 (Fløtten 1996)

Table 4.3 The role of income transfer in poverty reduction in Estonia in different age groups in 1997.  
Poverty line is 50% of median income.\*

0-24	25-34	35-44	45-54	55-64	65-
29,4	28,9	23,8	23,2	86,1	95,2

Source: Kangas (1999a) (See also table 3.1)

Table 4.3 shows how income transfers lead to a strong reduction in poverty especially in the age group above 55 years of age. This is an indicator that the social insurance fulfils the function of levelling the age-related poverty.

As the referred debate about poverty indicates, the measurement of poverty in the transitional countries is a complicated task. This become obvious in a comparative study where also western European countries are involved. By using the relative measures, e.g. measuring poverty as in table 4.3, the Estonian situation looks quite good. The percentage of poor people in the population seems to be relatively "normal", compared with the rest of Europe. If one, however, as in table 1.1 uses absolute figures, the whole country seems to be poor compared with western European countries. It is obvious that a national social policy will never be able to solve the poverty problems linked to the international distribution of resources. This problem also illustrates that it might be necessary to go back to measures of absolute poverty to understand the nature of distribution of resources in Estonia. To a certain degree that is what they have done when setting up the national subsistence level, based on a consumption basket.

Seen from one perspective the none-contributory and means-tested benefits – like social assistance – have the strongest effect when it comes to redistribution. On the other hand, when the benefits are as low as they are in the Estonian case, the total effect on distribution in the society will be rather marginal. This does not mean, that the benefits are not important for those who get them. The social assistance benefits should be based on an evaluation of the needs of the individual or the family. According to one of my informants, the system does not work like that. The Estonian budget discipline is very strong, and they do not use more money on a purpose than decided. Consequently when delivering social assistance the municipalities give out what they have, not what the clients need.

The Estonian social security system represents a large degree of redistribution. The flat rate benefits are financed from contribution, which is an earning related in-

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\* The figures are the poverty alleviation effect, R. This is pre transfer poverty rate minus post transfer poverty rate divided by pre transfer poverty rate and multiplied by 100. The higher the value of the R in the table, the larger proportion of the population has been lifted above the poverty line by income transfers.

strument, says Leppik (1999a). Clasen (1997) says that most social insurance systems in Europe are maintaining the differences in the countries. It seems that this phenomenon has a limited function in Estonia, as long as the first pillar is the only one really working in the pension system. When the entire three-pillar system is implemented, the pension system in Estonia will be working more in the same way as the pension systems in most of Europe.

Kangas (1999a) points to the so-called Rowntree curve. This curve was made in 1901 and shows that in a life cycle, the probability of poverty is highest in the phase when the family has small children and in old age. The pension and benefit schemes aim at levelling the poverty in those periods of life, and seem to a certain degree to manage to do that. The fact that the social insurance system is based on a pay-as-you-go system and that the most important receiver of money are the elderly, means that there is a redistribution between generations.

There might be a gender dimension to the redistribution. Estonian poverty research does not, however, give significant differences along the gender dimension. Women with social problems are single mothers. It seems that women use the welfare systems more than men, the family and child benefits are paid to the mother. Women seem to get the benefits that are meant for them. Men with social problems are living alone, e.g. after divorce. They are often marginalised, out of job, homeless, and with an alcohol problem. Many men do not get what was meant for them, e.g. unemployment and subsistence benefits. There is a hidden unemployment. (Oral source: Kutsar). An interpretation of this might be that the social pensions and benefits actually work in reducing the gender differences.

## 4.4 Labour market connection

The concept of social problems and social policy did not exist in the communist vocabulary. The old soviet system linked most of what we now will call social policy measures to the work place or to health care. One could therefore expect the new system to follow that path and link the new social policy to a large extent to the workplace. The system developed so far does not seem to have fulfilled that expectation. On the contrary, the system gives rights to the citizens independent of their role in the labour market. This is a characteristic the system share with the Nordic countries.

There are, however, some important elements that link the benefits to the individual's contribution through work. Firstly the level of old age pension is linked to the years in work/length of service. The second element is linked to the implementation of the second and third pillar of the pension system. The second pillar will be exclusively linked to the individual's position in the labour market, while the third pillar is linked to the individuals level of income, which again is linked to labour. The third element that is important in this context is the development of so called active measures. All interviewees mention the aim of developing this kind of system. The aim, as they present it, is to

build in incentive for people to work and even to create new workplaces through the social benefit system.

Social assistance is means tested and not linked to previous work. Today's system lacks incentives for work. This seems to be a commonly shared view among the interviewees. One mentions the necessity of developing systems for training and retraining. Another mentions the necessity of developing social work, active measures and training. A third maintains that the poor can be divided in several groups. Some are so marginalised that you hardly can expect them to come back to the labour market. Some need economic support that will help them to get to a level from where it is possible to start the way back to the labour market. And some need just the push given by active measures. The unemployment benefit represents the most extreme example of a benefit that is so low that people are urged back to work. The level is so low that people need social assistance in addition. It is as far as I have established the lowest in Europe. The benefit only replaces 10% of the wage the individual got from work.

The concept of de-commodification (Esping-Andersen 1990) measures the link between the social benefits and the labour market. The basic question that has to be asked to see if the system implies a high or low level of de-commodification is; can a person maintain a livelihood without reliance on the market? The Estonian system is basically universalistic, based on citizenship/presence in the country. The next aspect of the answer to that question is whether the benefits are sufficient. If we look at the benefit level in table 4.1 we see that the level of benefit is low, and in most cases below the minimum wage. One of the problems with the low level of benefits is that many receivers become dependent of the grey economy. A third aspect is the eligibility of the benefits. There are benefits for those with no earned rights, even though they are on a very low level.

## 4.5 Accountability

There is distrust both in the state and in the market. The questions of accountability can at least be divided into the categories of political and economical. The political will basically be a question of trust in the political system. The economical questions will to a large extent be a question on whether the process of economical transition has developed so far that the market is reliable.

One of the interviewees commented on the low level of benefits and said that since people no more get what they need, they feel social injustice is developing. This phenomenon could be a result of two different kinds of reactions. One possible explanation is what in the western countries is described as the crisis of expectations. The implication of this thinking is that the problem is not in the welfare system, but in the high expectations of the users or the population. The other way of understanding this is to see the problem in the system and to accept that the level of services or benefits is too low compared with the basic needs of the users, too low for a person to survive on them. It is argued that this is the result of a conscious strategy. The benefits are kept on

a low level to encourage entrepreneurship and to urge people into work, to care for themselves. This is very much the same way of arguing as the argumentation for active labour market measures. Many people have lost their money through bankruptcy in finance institutions. This leads to distrust both in the government and in successful people. Those who do well economically are not reliable, so people do not like to give money to these individual systems. This is a psychological obstruction towards change.

Distrust in the government – has been visible in the elections. The majority in the Riigikogu has changed in every election, so the governments have generally lasted on election period.

Turbulent economy creates problems for the establishment of sustainable pension funds. The employers now pay the pension system – by “social tax” - through special funds. These funds can only be used for pensions. There is a debate about the control and management of the pension funds. The third pillar is growing and encouraged by tax deductions. One of the problems of second pillar is that to secure the pension funds it is necessary to invest them in a foreign country. This is a result of the turbulence of the Estonian economy. It is a paradox to have to export capital from a poor country that really need investments to a much richer country. This is one of the reasons for the postponement of the third pillar.

The development of sustainable welfare systems will be very dependent on the general development in the Estonian economy. The last years there has been a substantial growth. 1999 promises to be worse. This is the background for the cutbacks that is mentioned in the introduction to this chapter. It shows the vulnerability of the Estonian economy. In the long run the forecasts are better. Already next year there is expected a new growth in the economy

The concept of “social market” is important in the Estonian social policy debate. This typical EU concept is used by those who support a market economy, but have an understanding of the necessity to reduce the negative consequences of the increased competition. There seems to be an understanding in the political system of the necessity of improving the welfare system to make it reliable and sustainable.

## 4.6 Changes

Crime, unemployment and poverty are the most important social problems. A survey mapping public opinion on social problems in Estonia concludes that these problems are perceived as prevalent, dangerous, and in need of urgent change. (Narusk 1998). A parallel study of the opinion of influential groups concludes that the most important social problems are crime against person, poverty, problems in education, health, declining birth rate, the nationality problem, and privatisation and housing conditions (Lagerspetz 1998). Both studies mention poverty as one of the most urgent problems, and one would expect a high degree of support for all kinds of measures fighting poverty.

One of the biggest challenges to the Estonian society in general is the demographical trend. The birth rate is presently so low that the number of inhabitants will decrease dramatically in the coming years. This will have a dramatic influence on the country's ability to handle economic and welfare development. In this perspective one can expect a lot of emphasis on measures that will encourage the families to have more children. One should therefore expect high priority on developing the maternity leave system, benefits, and support for families with children. The development towards such a priority was seen in the handling of this year's state budget. The discussion in the Riigikogu on "parental salary" is a good example of this priority. The demographical trends will lead to a growing proportion of elderly in Estonia. One could expect the politicians to be somewhat careful in developing the old age pension system. They would fear the expenses of a too generous pension system. On the other hand, in the political debates there seems to be an agreement on that the young families and the elderly are the worst off, and should be given priority in developing the social policy further.

The unemployment benefits today are the lowest in Europe. The unemployment benefits are also today one of the hindrances towards EU membership. One must therefore expect changes. There are plans for a two-tiered system consisting of contributory earning-related unemployment insurance benefits and flat-rate unemployment allowances financed from the general budget. (Leppik 1999b). The unanimous desire for an active labour market policy is also a driving force for changes in this system. So hand in hand with changes in the unemployment benefits one can expect a development of labour market services.

The responsibility for social assistance and services are with the municipal authorities. The municipal services are based on needs and means-tested. With the aim of developing these services it is absolutely necessary to strengthen the qualifications of those employed in the local services. This implies the necessity of developing a social work profession. Estonia was late in establishing a social work education. The first courses in social work started in 1991. Still only approximately 4% of social workers in Estonia have special training (Tulva 1998). Several of the interviewees mention a professionalisation of the social services and the development of better quality of the services as a precondition for reaching the aim of getting the users out of the dependency of the social services and benefits. In this perspective the professionalisation of the local social services is part of the active labour market policy. One of the interviewees predicted that these active measures represent a development towards a more paternalistic approach towards the weakest/poorest.

One of the main issues between the employers' and the employees' organisations are the question of payment of the social benefits. Today, only the employers pay the "social tax". The employers want the workers to take their share of the payment to the pension funds. The trade unions accept this in principle, but they demand improvements in the system before they are ready to accept the implementation of that principle. Their demand is better unemployment insurance and insurance for occupational injuries and sickness.

There is a "gap" between parts of the Estonian system and the EU "norm": Since Estonia is negotiating EU membership, there has to be changes to decrease this gap. The main problems are the absence of a supplementary pension system (second pillar),

low unemployment benefit, and weak a system of work accident and occupational disease benefits (Leppik 1999a). Some of the expected changes therefore will be depending on the progress of the EU negotiations. The Estonians hope to succeed and be able to join the EU around 2005/6. The EU question is also linked to the possibility of economic growth and support from the rich western countries. The hope is that EU membership will lead to a rise in the general standard of living conditions.

### **Changes and the dimensions of comparison:**

Implementation of 2<sup>nd</sup> pillar, new unemployment insurance, parental salary, growing insurance market, and growing civil society are all issues that will change the public private mix. Compared with the present situation this looks like a development that will strengthen the private sector. This will both be linked to the profit oriented as well as the non profit oriented part of the private sector.

The redistributive function of the income maintenance system will also change with the implementation of the second pillar and with an expected strengthening of the third pillar. The system will be less redistributive and more like the systems of Western Europe, a system of maintaining established differences in the labour market. It might be necessary to go in this direction to secure a sustainable system. The maintenance of income will always be an important function for the pension system.

The labour market connection will be changed through an introduction of the active labour market policy. At the same time the implementation of the second pillar means strengthening the links between pension and labour market. If the universalistic pensions and benefits are kept on a low level, we will see a less de-commodified system. If the employees are supposed to pay the “Social tax”, there is a new strengthening of the links between the labour market and the pensions.

The development of the accountability of the income maintenance system will be depending on at least two issues – ability to deliver and stability. A professionalisation is necessary to make the system able to deliver according to the demands. The low level of some of the benefits might weaken the accountability, the system will not be efficient enough to be sufficient. The most important issue to secure accountability though, is the strengthening of the national economy. EU membership might support sustainability in the system in two ways. The first is the general strengthening of the economy. The second is the necessity and probability of some kind of convergence towards the EU system – “the social Europe”.

### **A new model?**

One of the interviewees said:

“The Nordic model was very attractive, but it is not possible, it is a kind of ideal that you never reach. It is too expensive and will demand an impossibly high level of taxation. With such a system, there is a need for social control. The registration system is not good enough either. The most important is to give opportunities to those in working age with working abilities.”

The trade unions see the Nordic model as an aim. There is, however, scepticism against state involvement. The unions want to reach a balance where state involvement is more accepted. Another interviewee says that there is a development towards a kind of Scandinavian model, and points especially to the part of the system based on the municipalities.

The Estonian type of welfare mix is based on universal benefits combined with different kinds of insurance. There is a combination of market and universalism. There seems to be occurring a mixture of Scandinavian and American models - or the social democratic and the liberal model (Esping Andersen 1990).

## 4.7 Change Agents

The relation between the national and international agents is an aspect of the analysis of the change agents. Deacon (1997) underlines the importance of the different international organisations. The interviewer linked the question of influence to Deacons's analysis. Most of the interviewees knew Deacon's analysis, but expressed anger towards him. The reaction indicates that they felt he was under-emphasising the conscious work of the local decision-makers. It is important to stress that the answers to these questions are very different. One interviewee could give an answer like "the power is where the money is" while another could answer that the power is in the elected political system.

The questions laid out in the interview guide were quite general. The interviewees gave often more varied answers. The following points summing up the views on the different change agents are the interviewer's interpretation of the results. Despite all these reservations, the information that came out of the questions about change agents is quite interesting. The grey boxes are illustrations indicating the average impression of the interviewees as to the influence of the change agents.\*

### National

"Social security reforms have so far been influenced more by domestic logics (or of search for an Estonian path) than by the perspective accession to the EU." (ESO 1999). This statement is in clear contrast to the interpretations of Deacon (1997). The Estonian political debates seem to be quite concerned about finding a way that is based on historical presuppositions, internal national political debates and pragmatic and realistic solutions.

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\* The score is the average of the scores of the interviewees, following a scale from 1 to 5.

1: Low	2: Partially low	3: Average	4: Partially high	5: High
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**Political parties****Average influence score: 4**

Today's government consists of 3 parties that form a majority in the Riigikogu\*\*. The Moderate Party is social democratic and is a member of the Socialist International. As their brothers and sisters in the western countries they are connected to the trade unions, although not as closely in the Nordic countries. The two other parties in the coalition are The Reform Party that is characterised as neoliberal and The Fatherland Party that is characterised as conservative.

The government that was elected in 1995 consisted of two parties that are now in opposition. The Rural Union Party and the Coalition Party are both led by former communist leaders. Other important opposition parties are the Centre Party who had the first Prime Minister after independence and a party for the Russian minority - United Russian Party.

The political parties score high on the influence index (4). There is one reservation and that is linked to the fact that there is still low membership figures. It will take a long time before the parties are able to establish themselves as stable organisations, with a number of members related to their importance in the power structure. In the western countries the number of party members are decreasing. This is therefore a common challenge to the European political system. A special issue is the relation between the government and the parties in the Riigikogu. The answer to that is that the government is a majority government and that there are few conflicts between these two bodies.

**The government****Average influence score: 4**

The government scores equally high on the influence index with the political parties (4). There are two sub-questions under the question of the influence of the government. The first one is the question about the relation between the government and the bureaucracy and the second is the relation to the Riigikogu and the political parties. Several interviewees underline that the government is the most important, and give a low score to ministerial officials. This is also mirrored in the score on the influence index. The Estonian government is a majority coalition, but what about the relation between the government and the opposition? One of the interviewees comments on this and said "there is not a big difference between the government and the opposition, the government has to adopt to the economic reality. So the social policy debates seem to follow a mainstream path". This is probably a good description of the general picture.

**Ministry officials****Average influence score: 2**

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\*\* Part of the information about the parties is in English and part of it is in Norwegian. It is not always obvious what party that is given what name in the different languages. The general picture should be correct.

The role of the ministry official is not very highly evaluated by most interviewees. The most interesting comment is that they are not very experienced. The analysis of influential group's opinion on social problems (Lagerspetz 1998) points to the ministerial official as pro a Nordic model of social welfare. It is not surprising that the public employees support a model of a strong public role in the welfare system.

#### **Trade Unions**

Average influence score: 2,6

#### **Employer's associations**

Average influence score: 2,5

The Association of Estonian Trade Unions (EAKL) was established in December 1989. They were the first in the Soviet Union to leave the Soviet Federation of Trade Unions. The score is low (2,6) and approximately the same as the employer's association on the influence scale. The minister of social affairs is a former trade unionist and the present president of the trade union is a member of the Riigikogu. There is a co-operation between the Moderate Party and the trade unions, although this is not as strong and organised as the Nordic party/union tradition of co-operation. The trade unions have established channels of influence.

The first employers' association was founded in 1991. There is still a long way to go before these organisations become as strong and influential as their Nordic neighbours. They are still relatively weak, but they are growing and quite ambitious in their work to establish and develop their influence. The average score is 2,5. This put them on the low side of the influence scale.

The unions and the employer's association are involved in collective bargaining and in three-part negotiations on issues that are quite important for the income maintenance system. Bargaining leads to a national standard of minimum wage, which later on is regulated by the government. The demand is now an increase of the minimum wage from EEK 1200 to EEK 1600. There is negotiation going on about reforms in the social insurance system. The employers want the workers to pay their share of the social tax. The trade union accept this in principle, but demand better unemployment benefits and insurance schemes covering occupational injury and sickness before they accept this change. The EAKL want the level to be the same as the minimum wage. The three-part negotiations are also important in relation to the work with the ILO.

#### **Health and social oriented NGOs, pressure and interest groups**

Participation in organisations within the civil society has been very low since the national uprising in the late 80'es. These organisations are in many countries important change agents within the social policy field. There are now signs of a growing activity in this part of the Estonian society. The interviewees mention e.g. the active veteran organisation as important, and also professional associations, "subcultures" of pensioners and representatives of local authorities as important in this field.

## **International**

The influence and importance of the international organisations is controversial. This chapter will give some snapshots of the understanding of the role of international organisations as they came into light through the interviewing in Estonia.

### **IMF and The World Bank**

<b>IMF</b> Average influence score: 4,2	<b>WB</b> Average influence score: 3,6
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The role of the World Bank and the International monetary Fund (IMF) is first and foremost that of monetary institutions, and their main issues are linked to the economic sector of the country. They have, however, also a social policy agenda. This is very thoroughly analysed by Deacon, but also by Esping-Andersen and Standing (1996), and Barr (1994). These analyses are not identical, but they have in common the acknowledgement of these institutions' influence as more than indirect through the economical system. The IMF got very high scores on the influence scale, while the WB got less, though both are on the high influence side of the scale. What is more interesting is perhaps the answer that said that the influence is on specific issues. The IMF was said to have been most interested in establishing a subsistence level and in that respect influence the social assistance schemes. Means tested benefits are a relatively simple way of reducing poverty as a destabilising factor of the economy. The WB was said to have most influence on the establishment of the three-pillar pension system.

### **The EU**

Average influence score: 4,4

The European Union (EU) get the highest score among the interviewees. One of them also says, "EU will win if there is a conflict with the IMF or the WB". The fact that Estonia is negotiating membership obviously gives EU influence. The social policy is mainly a national responsibility in the EU, but the social issues increase in importance. The social policy of the EU is mainly a question of labour market issues. There is, however a gap between the Estonian system and the EU "norm": This gap is basically linked to the absence of a supplementary pension system, the low unemployment benefit, and weak system of work accident and occupational disease benefits (Leppik 1999a). The EU influence is especially linked to setting standards. In addition there might be some political influence linked to the principle of subsidiarity.

### **Organisations linked to the UN (ILO, UNDP, UNICEF etc.)**

Average influence score: 3

The UN related organisations are characterised as the "soft" international organisations. Both the UNDP and the ILO have been engaged in the Baltic countries. The UNDP is publishing an annual human development report (UNDP 1997, UNDP 1998a). The average score on the influence scale is (3), but if we go behind that figure it looks like it is the ILO that raises the figures, and that the others are seen to have a low influence.

The influence of the ILO is linked to the conventions, and consequently the regulation of the labour market and safety at work.

#### **The Nordic countries and the Nordic connection**

Average influence score: 2,7

There is a close co-operation between the Nordic and the Baltic countries. This is not surprising since these countries are neighbours and have close historic connections as well. The relation between Estonia and Finland is especially close, due to the fact that they are closely related when it comes to language and history. There has been several development projects supported by the Nordic/Scandinavian countries (Aasland 1998) (Hansen 1997) (Steen 1998) The Nordic countries has their own interests in supporting stability in their neighbour areas and there is also an element of idealism in their support. It has been asserted that the Nordic countries have had a more or less missionary like attitude, to promote a Nordic models of society. The interviewees underline the importance of close co-operation, but give the Nordic countries a low score as influence agents. It is interesting though, that a majority points to the Scandinavian model as some kind of an ideal, but add that it is too expensive and more or less an unreachable Utopia. Estonian social insurance system, however, seems to have quite a lot in common with the universalistic approach of the Nordic system. Also the social assistance act is based on a Nordic model, and Finish experts have been active in the preparation of the law.

#### **Other organisations**

In this review of international agents one should also mention the Council of Europe (CoE). Their main influence is linked to the ratification of the European Human Rights Convention and the Social Charter.

#### **Summing up the change agents**

As seen in the previous analysis of the views of the interviews, the different agent might have both different strength of influence as well as influence on different issues. One way of illustrating this could be through the following table.

Table 4.4 Change agents by level of and type of influence.

	<b>Strong (&gt;3)</b>	<b>Weak (&lt;3)</b>
<b>Broad range of issues</b>	Political Parties Government	Ministry officials Trade Union Employers Association
<b>Specifically defined issues</b>	EU – CoE WB – IMF ILO	Pressure and interest groups Nordic countries UN – UNDP – UNICEF

The striking result of this analysis is that the national agents (except for the special interest groups) are seen as important on a broad range of issues, while the international agents are seen to be connected with specifically defined issues. Another striking part of the picture is that except for the political establishment, the national organisations are considered weak.

## **4.8 A short conclusion of the Estonian case**

A description of the social policy development in the CEECs concludes that there is a tendency towards greater selectivity and means testing. (Standing 1997). The finding of this project is in contrast to that, when it comes to the Estonian case. The development of the Estonian income maintenance can be summed up in the following way. The universalistic public pension is basic and will play the important role of poverty reduction. The role of the private sector is increasing. The schemes will have less redistributive effect between groups, but increased life-time levelling effect. The labour market connection will be strengthened. Trust efficiency and sustainability increases, but this will be depending on economic and political development. The Estonian political environment is moderately optimistic. In a holistic perspective, the main premises for the establishment of an Estonian model is laid in the national social policy discourses. Adjustments to EU policies will in the future be the main international driving force.

## **5 The case of Norway**

The Norwegian government issued a green paper on distribution of income and living conditions in June 1999 (SHD 1999a). It is the first time in this decennium that the government admits publicly that Norway has seen growing differences in living condition in the 90's. Another interesting phenomenon is the fact that the word poverty does not exist in this document. This seems to be symptomatic for the Norwegian self understanding of being one of countries most oriented towards equality in the world. We also see ourselves, as one of the few countries that has been able to fight poverty in an efficient way.

Most analysts seem to see the Norwegian success as depending on the strong oil economy. The oil economy may have saved the Norwegian welfare state from some difficult challenges, but the basis of the welfare state was laid before the Norwegian oil age. Norway is number two on the Human Development Index (see table 1.1). It is relatively easy to keep a high standard of welfare in a strong economy.

The Norwegian welfare regime belongs to the group of welfare states called the social democratic by Esping Andersen (1990). Universalism and high level of de-commodification are key characteristics.

The title of a newly published book about the development of the Norwegian welfare state, expresses a main dilemma in of the Norwegian welfare state, "Between freedom and community" (Langeland 1999).

### **5.1 A description of the system\***

The income maintenance system stands on two main feet. The social insurance is based on rights and objective criteria and the social assistance is means tested and based on need's assessments. These two schemes are supposed to supplement each other and altogether cover the needs of every citizen. The insurance system is state run and the assistance benefits are the responsibility of the municipalities.

#### **Social insurance**

The social insurance act was passed in 1967. The system from 1967 is still the basis for all public social insurance. Some schemes have been added (e.g. single parents) and

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\* The description is based on several public documents. The translation of technical concepts is a problem in these kinds of issues. I have in general used the English concepts that is used in "The Norwegian Social Insurance Scheme; A Survey". This is a paper issued by The Norwegian Royal Ministry of Health and Social Affairs. (SHD 1999b)

some changes have been made, but the basic system is still there. The most significant change is the very slow changes in the level of the G – the basic figure that is used for calculating much of the pension schemes.

The access to public social insurance is based on age, health or social criteria. It is a system of rights. If you fill the criteria of access, you get the benefit. In different ways the level of benefit is depending on previous level of income and years of work or years of membership in the system. Every inhabitant of Norway has to be a member and to pay a percentage of his/her income as a fee to the social insurance. This fee is paid as a part of the tax system. The employers pay a fee that is calculated as a percentage of the wages. The percentage is geographically differentiated according to a centre – periphery dimension.

The income maintenance part of the National Social Insurance scheme contains

- Old Age Pension

The old age pension has a minimum level of NOK 81 360 for a single person and 140 040 for a married couple. It covers every inhabitant. There is a supplementary pension based on previous income. It is not possible to give an exact level of replacement, but average will be approximately 50% of previous income. The pension age is 67. For those covered by national collective agreements there is an “agreed pension scheme” for people who want to retire between the age of 63 and 67.

- Survivors’ Benefits

This scheme covers widow’s/surviving spouse’ and a children’s pension

- Disability Benefits

The disability benefit system is built up according to the same system as the old age pension. The actual money is calculated according to a system of expected income to the year the person is 67. If the disabled person has extra expenses because of the disability or if he/she needs special attention of nursing, they might get additional benefits

- Rehabilitation Benefits

Rehabilitation benefit is given to those who has been on sick leave too long and are waiting for disability benefits, or to those who are under social or vocational rehabilitation.

- Daily Cash Benefits in the Case of Sickness and Maternity etc.

This scheme gives full replacement of the lost income. Income above NOK 272 000 is not calculated into the benefit (but the employer might do so according to collective agreements)

- Sickness

Duration 52 weeks. The employer pays the first two weeks. The National Insurance pays the rest.

- Maternity leave

Duration 42 weeks with 100% compensation, or 52 weeks with 80% compensation. The father must take at least 4 of those weeks, but can take more if the parents want to. There is also a system of “time account” that makes it possible to extend the period of support. The parent might combine part time work with a per cent maternity benefit (e.g. working 70% gives 30% benefit). There is a maternity grant (NOK 32 138) for mothers who do not have the right to the daily cash benefit.

- Sick child

If you have a child under 12 years old, you might receive cash benefit for a limited number of days when the child is sick.

- Daily Cash Benefits During Unemployment

The compensation level for unemployment benefits will normally be 62% of previous income. For a person who has been working full time maximum duration is 156 weeks (3 years)

- Benefits in the Case of Occupational Injury

The benefits are in these cases more favourable than in other cases.

- Benefits to Single Parents

Single parents can get a transitional support and support to education.

- Funeral Grant

The basis for regulation of the pensions is a figure – G – that is set every year and that is the basis for calculating the individuals’ “pension points” (P). The minimum old age pension as well as disability pension consists of G plus a special supplement (S). For those who have earned enough pension points the pension consists of G plus a supplementary pension (T). T is a function of G and the average of the individual’s best Ps. (Sandvig et al. 1996). The G is since 1.5.98 NOK 45 370. Minimum pension for a single person is NOK 81 360. The average pension in 1998 is for men NOK 111 000 and for women NOK 83 500 (RTV 1998).

A reason for explaining this is that since the 70’s, the G has not followed the general wage level development, while the S has done more than that. The difference between S and T is decreasing. The consequence is that the minimum pension is relatively higher than it used to be, while the wage related pension is relatively lower. In the

long run this will lead the system slowly, but steadily, closer towards a flat rate pension scheme. The “normal” old age pension will today be approximately half of the wage you have when leaving your job. The minimum pension is 36% of average wage\*.

### **Social Assistance**

The law on social services from 1991 is an updating of the law from 1964. This is again in direct extension of the poor laws. The responsibility for social services is municipal. Every municipality shall have at least one social service centre. These centres shall provide the following services:

- Counselling
- Social services
- Social assistance benefits

The social assistance benefits are means-tested and the municipality sets the level. In general the basis for calculating the benefits is related to the minimum level pension. There is no poverty line in Norway, although there is a debate whether it should be introduced (Fløtten 1999b). In the green paper on distribution of income and living condition (SHD 1999a) the Ministry of social affairs suggests a national norm for social assistance benefits. The aim is a more “just” distribution of the benefits.

### **Family support**

In several of the mentioned pension schemes there are special additional grants for children. In addition there are two important universalistic schemes that are especially directed towards children.

- Child benefit is universalistic and covers every child up till 16 years of age.
- Cash Benefit for Families with Small Children is a new scheme that covers children up till 3 years of age that are not in publicly funded day care centres. This scheme is very controversial and has been highly criticised from the social democratic parties and left wing feminist groups.

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\* The Norwegian average wage in 1998 is NOK 262.200 according to the national three-part committee for preparing of the wage negotiations.

## **5.2 Public, private**

The Norwegian welfare system is totally dominated by the public sector. The private sector plays only a limited role. The few private actors in this field play a supplementary role to the public.

There are two dominating public income maintenance systems. The most important is the National Social Insurance. The other is the municipal social assistance that is playing the role of the last safety net. There are three important private supplements. The first is the workplace based supplementary schemes. Approximately half of the old age pensioners and one third of the disabled pensioners are covered by these supplementary schemes (SHD 1995). They are covering all public employees and approximately 35% of the private employees (Hæreid 1999). For the public employees the scheme will give 66% of the wage they had when leaving work. The private sector schemes are more diverse, although many are following the same system as those for public employees. Another important private scheme is the "agreed pension scheme". It gives those people covered the possibility to leave work at the age of 63. The system covers employees that are in a workplace with a collective agreement. The third group of private pension schemes is the individual insurance. A little less than 40 % of all employees are paying to such schemes (Langeland 1999). Contribution to supplementary schemes and to individual schemes gives the right to tax deduction.

The structure of the National Social Insurance – combining a basic pension for all and supplementary pension – was meant to make private supplements redundant. These kinds of private schemes have however had a growing importance in the last years. Many experts have pointed to the development of a class division among pensioners – those with and those without private supplements.

## **5.3 Distribution, redistribution**

A survey on attitudes towards in-equality, pension and social insurance (Flaa and Pedersen 1999) reveals that 71% of the population think that the economical differences has increased during the last 10 years. 67% believe the differences will continue to increase in the coming 10 years. The most important, however is that the same survey also shows that there is a substantial support for a policy that supports economic equality. 24% think that this should be done only by securing a minimum income, while as much as 48% think that there in addition should be a policy supporting reduced differences.

The Norwegian social insurance schemes seem to be rather effective when it comes to protection against poverty. Table 5.1 shows that the poverty rate is drastically reduced as a result of public transfers and that the importance of the transfers has increased between 1979 and 1995. The transfers are especially important in the group of 65 years and older. Poverty is reduced with 98 %, from relatively high to extremely low. Fløtten (1999a) shows, however, that this kind of statistics will give different result de-

pending on how poverty is defined. Despite this, she concludes that the level of poverty among elderly in Norway is very low.

**Table 5.1 The effect of social security schemes on poverty in Norway**

	Poverty rate (50% of median) before income trans- fers %	Poverty rate (50% of median) after income trans- fers %	Absolute Reduction, % points	Reduction Coefficient
1979 – total	17,5	4,0	13,5	77,0
1995 – total	27,0	4,2	22,8	84,0
1995 – those over 65 year old	79,1	1,2	77,9	98,0

Source: Mäkinen (1999). Mäkinen's source: Luxembourg Income Study

Table 5.2 shows that the transfers and tax systems have an effect on the distribution of resources. The Gini coefficient is a measure of difference between the richest and the poorest in a country. We see also that the results of the transfers and taxes are a little lower in the late 90's than in the early 90's.

**Table 5.2 Per cent reduction in Gini coefficient in Norway as a result of transfers and taxation**

	Public transfers	Tax	Total
1986	26,2	10,5	36,8
1991	29,0	10,6	39,6
1996	28,2	9,9	38,1

Source: SHD (1999a)

The distributional consequences of the social insurance schemes are marginal according to Kuhnle and Solheim (1994). Their point is, however, that the system is relatively good in maintaining the income, the groups that have most to start with get most in the end as well. In this sense they are quite in line with the views of Clasen (1997) when he argues that social insurance programmes are mainly directed towards reproductions of inequalities in the labour market. My interpretation of these figures will therefore be that the schemes are working quite well in protecting people from poverty in phases of life with low income. Since the main system is pay-as-you-go there is redistribution between generations. The redistribution between groups in society is, however, rather limited.

One of the examples of this limited consequence is the relation between men and women. The system was criticised for gender bias. In the period when women were at home working as housewives, they were completely depending on their husband's earning of pension points. This is changing as women are going into the labour force. However female professions have lower wage than male professions, women tend to work more part time and often have a shorter career. The pension system will lead to maintenance of these differences. To compensate for some of this difference there is now a system where a person can earn pension points for being at home caring for children.

The fact that the insurance schemes are relatively generous and the assistance schemes are relatively tight, limits the redistributive effects of the Norwegian system. On the other hand, the system seems to be relatively successful when it comes to protections against poverty. The documented reduction in the Gini-coefficient also points to an effect on limiting the general differences between rich and poor.

## 5.4 Labour market connection

The Norwegian National Social Insurance scheme is a compromise between two different principles. These are the flat rate minimum income/protection against poverty approach and the income related insurance principle. On one hand it is a system of de-commodification because it covers everybody independently of his or her labour market connection. On the other hand the supplementary pension is linked to the persons previous income (and/or the spouse' previous income). To get full supplementary pension the individual should have earned pension points in altogether 40 years. The level of the pension is consequently based on both years of work and level of wage.

The private supplementary schemes are to a large extent based on the individual's position in the labour market. The consequence is that there is a "hidden" class division in the social insurance schemes between those who have been working their entire grown up life and are covered by the private supplementary schemes and those who are not.

Solheim (Kuhnle and Solheim 1994) divides the social insurance schemes in two groups, those replacing income and those replacing private support. She says that the last group is mainly directed towards children and women. In this group she puts the survivor's benefit and the benefits directed to single parents. Except for special support systems directed towards children, the other schemes are directly linked to the replacement of wage.

With the green paper on welfare policy from 1995 (SHD 1995), the so-called "work line" (Norwegian "arbeidslinja") became the official policy and the main slogan of the welfare policy. The work line is supposed to dominate the entire system of income maintenance. According to this green paper it is an aim to get every adult citizen into paid work. The only exception seems to be old age pensioners, but at the same time the green paper also discusses the possibility of promoting a higher retirement age. The green paper suggested active measures to decrease sick leave, occupation and work related rehabilitation, more flexible disability pension, and stronger emphasis on getting young disabled and single parents into work. The work line lead to e.g. shorter transitional periods for single parents, tighter eligibility for disabled pension, increased use of active labour market measures instead of unemployment benefits, and a strong emphasis on active measures and welfare in the field of social assistance.

This policy has been controversial. Critics have pointed to the fact that the tighter eligibility to disabled pension has mostly struck women with typical female health problems. Trade unions have pointed to the problems with people on workfare taking over

for normally paid work. There is also a debate going on about the work line contra “societal wage”. The work line is criticised for representing a moralistic approach, and on the more philosophical level it is a question whether the work line represent a strengthening of a communitarian approach. Terum (1996) asks why the social democrats, who have been the main driving force for a de-commodified system, also seem to be a driving force towards the work line. He says that the main reason is that work is seen as a good in itself.

The Norwegian system of today might be seen as a compromise between a work line and societal wage. The minimum pension is seen as a kind of minimum level and the social assistance benefits are regulated according to this. On the other hand the work line means that there is a drive towards implementing work incentives into the system. The Green Paper on Distribution of income and living conditions that came this year (SHD 1999a) signalises a new approach.

## 5.5 Accountability

The rumoured death of the Scandinavian welfare state is highly exaggerated. Since the 80's the critics of the welfare state have forecast its death. The welfare state is said to be too expensive. The demographical challenges are huge, the increased number of elderly will make it difficult to maintain the system. The ideological challenges are big, people want more individual choices than the welfare state is able to deliver. Last but not least globalisation will put the pressure on through international competition that will lead to a demand for lower social costs. European integration will have the same kind of impact. In addition to this more principal discussions, there are constant pressure from the public debate. The welfare state is criticised for being inefficient, for being low in quality, for not treating the users well, too long queues etc.

Despite all these discussions and criticisms, the Norwegian welfare state seems to be performing relatively well. According to Rhodes (1998) the high rates of taxation and high rates of non-wage costs threaten capital supply, “nevertheless, in general the Scandinavian model still performs better than the other two” models. He adds that in the future the Scandinavian welfare state will depend on a strategy adjusting to high wages and high skills (Rhodes 1996). The changes implemented during the last years have not altered the basic universalistic and state managed system.

The Norwegian economy depends on income from the oil industry. The oil resources are limited, and from approximately the year 2010, the income will decrease slowly. This will happen around the same time as a new “wave of elderly” will reach the country. This is a serious long-term challenge to the Norwegian political system, if the high level of welfare shall be sustainable. Tripartism has played an important role in disciplining the Norwegian economy. Both the employers' and the employees' organisations are strong. This social compromise has contributed to the maintenance of the welfare system.

The previously mentioned survey on attitudes towards in-equality, pension and social insurance (Flaa and Pedersen 1999) also shows that more than half of the population (56%) do not believe that the national insurance scheme will be sufficient in covering the individuals economical needs in old age. Another interesting figure from the same survey reveals that one third (33%) of the population support equal public old age pension for all, while a majority (57%) supports today's system where the pension is related to previous income.

All of these figures show a broad general support for the existing social insurance schemes in the Norwegian population. There is, however, also doubt among people whether or not the system is trustworthy. Both the fact that the majority expects increased differences and that more than half of the population does not believe that the public pension schemes will be sufficient for themselves are alarming. If people believe that they have to find alternative ways of securing old age economy, and if they start to act accordingly, this will significantly influence the system on the long run.

## 5.6 Changes

One occurring question in a comparison between Norway and Estonia is whether the Norwegian system moves towards a three pillar system, designed very much in the same way as the Estonian. The slow development of the old age and disability pensions in the direction of a flat rate pension is certainly there. The Norwegian schemes might be more generous, but this probably because Norway is a much richer country than Estonia. The private, supplementary and workplace based second pillar is becoming more and more important in Norway. The contribution to this pillar gives tax reduction, but in contrast to the Estonian case this is not mandatory. You can expect the Norwegian trade unions to put more emphasis on collectively agreed supplementary schemes, when the public supplementary scheme loses its significance. It is symptomatic that the government recently issued a white paper on a new law on supplementary work place based pensions (Hæreid 1999). The third pillar is already there, and the contribution gives tax reduction. It is also probable that this pillar will increase its importance if the first pillar goes towards a flat rate pension. The middle class is growing in the Norwegian post-industrial society. This group is the most probable user of the third pillar. It can easily become a problem for the National Social Insurance if the middle class no longer believe that they will benefit from the universalistic system.

In 1994 a group of researchers summarise several public working papers on social policy in this manner:

“The dominating “official” way of thinking can be summarised in the following way: It is dominated by “protestant work ethics” derived from a conservatism motivated by saving. It has a pragmatic relation to the basic values of the welfare state” (Dahl et al. 1994).

In 1995 the ministerial green paper suggests several changes in the welfare system. The “work line” leads to incentives for work for all. Tighter eligibility, active measures and workfare follows. Five years later colleges of the 1994-group ask, what will the welfare society of the 21<sup>st</sup> century look like? (Langeland et al 1999). Their conclusion is that the following 7 trends are the most important in the policy of social security and distribution.

- Development towards a flat rate pension system
- Increased importance of labour related supplementary pensions will lead to privatisation and new divisions in the pension system.
- Increased number of women living on social insurance benefits – despite the tighter eligibility and the work line
- Lower real pension age
- Change in family patterns leads to questions about relevance and legitimacy of the pension system.
- Problems of financing the system – due to lower tax rates and higher number of invalid pensioners and unemployed
- Still small, but tendencies towards increased economic differences

The first two points in the analysis present another way of describing the trend towards a three-pillar system. The group does not seem to be convinced that the so-called work line will have a strong impact. The analysis says that the numbers of people with disable pension will increase and that the real pension age will be lowered. I think they are right. The implication of this understanding is that there are other trends in society that means as much for the development of the social insurance as the political programmes. Since political support for a strong welfare state is high, the populist tendencies might be important for the development of the welfare state. This might imply that the values of the welfare state is rather strong in the population. The saving oriented conservatism will meet with limited understanding in the general public, confronted with a general understanding of justice. Such values contribute to an attitude saying that people should get their rights when they fulfil the criteria.

If we look at the social assistance benefits, however, we will probably see a different trend. It is easy to revive communitarian moralism when it comes to handling of the poorest. In this field the workfare will meet with an easier break through. Lødemel (1997a) describes the way workfare is implemented in Norway as re-implementation of the workhouse test. He uses the word re-commodification about the development of the social assistance schemes. The green-paper on distribution (SHD 1999a) seems to confirm this. In the report on the welfare society of the 21<sup>st</sup> century (Langeland et al. 1999) there is a summing up of the development of the social services as well. Two of these points seem relevant here.

- The State transfers responsibility to the municipalities. Services are given to private organisations through a system of bidding
- Continued professionalisation

The social assistance benefits can be seen as a part of the municipal social service. At the moment there is no clear plan for transferring the responsibility for benefit schemes from state to municipality. This would in practice mean from the National Social Insurance to social assistance benefits. In the 80's there were cut backs in the insurance scheme that lead to increased use of social assistance, but this tendency seems to have stopped. There have been suggestions to transfer single parents benefits, but today this is not on the open agenda. There is another interesting trend, however; In the Green Paper on Distribution of Income and Living Conditions (SHD 1999a) the government suggests a national norm for social assistance benefits. This is a new trend, especially since the Minister of Social Affairs comes from the Centre Party, which generally has been the most active party in supporting decentralisation of responsibility to the municipalities.

The prediction of a further professionalisation fits well with the idea of greater emphasis on active measures, whether it is workfare or other labour related and activity oriented measures. There will be a need for well-qualified staff, if the aim of getting the users independent of cash benefits shall work.

The retirement age is another debated question. There are two very opposite tendencies among the actors in this debate. There are those talking in favour of higher and those arguing favourably for a lower pension age. A working group under the SHD came up with a paper proposing a higher pension age, 68 years. The argument is that elderly people are important resources and that it is important to include as many as possible into the labour force. The increased numbers of elderly and improved health conditions are other arguments. One of the main issues on the agenda of the Norwegian trade unions has been a lower pension age. They want a flexible pension from the age of 62. Most people, however, support a more flexible system. And whatever the policy, it seems that in reality people retire earlier, whether it is by using disability pension, agreement based pension or sick leave benefits. Average pension age in 1994 was 61 year (SHD 1995).

We have seen a shift in the agenda from the mid 90's to the late 90's. It is still open what will be the result of this shift.

### **Changes and the dimensions of comparison**

The emerging three-pillar system will have an impact on the balance between public and private schemes. This implies a slow long-term privatisation process. It will also change the relation between the labour market based and universal benefits. It will probably also mean a lower level of redistribution, and a strengthening of the pension scheme's role in maintaining differences that are already present in the labour market.

The work line slogan does not seem to change the principles of the system very much, although there might be a tighter eligibility as a result of the different measures.

There might be some increase in the use of means tested measures, but it look like the universality of the scheme will be will sustained. (Lødemel 1994)

A national norm for social assistance benefits, as suggested by the Ministry (SHD 1999a), might contribute to a streamlining of the means tested benefits that in fact will make them look more like the universalistic ones. This might strengthen the redistributive mechanisms.

In the long run, the changes might imply a new model. The result might be a new division of welfare. The universalistic benefits will still cover the general population, but those covered by the second or third pillar will be the winners of the development.

## 5.7 Change Agents

### National

The social democratic ideology, in different versions, dominates the political scene in Norway. The social democratic party has been dominating both in the Storting (National Assembly) and in government. A mix of Lutheran and social democratic values flavours a much broader scale of parties and interest groups. Langeland et al. (1999) point to a surprisingly stable level of societal participation. But they also point to a decrease in party politic participation. It looks like people change from traditional political activity to more community based and ad hoc oriented activity.

The political landscape of Norway is also a result of a situation where it has for many years been impossible to form a majority government. This has changed the balance between the government and the Storting. The ministerial bureaucracies are strong and well organised.

The trade unions organise approximately 60% of the workforce and there is tradition for close three-part co-operation with the employers association. Already in 1978 Kolberg points to the strong influence of the professional groups on developing the social policy in Norway. There is a strong interaction between the trade unions and the professional associations. The user's organisations are also quite strong and well organised. The health and social oriented NGOs are also playing their part in the lobbying. These organisations organise relatively few services themselves. The privately organised services play a limited, but often innovative role. The integration between public and private organisations is strong, because many organisations depend on public funding for a substantial part of their activity. This description points to a well-organised civil sector. The co-optation is strong and most of the policy making comes out of a negotiated process.

## **International**

The direct influence on Norwegian social policy of the IMF and the World Bank are not important, as Norway is one of the donor countries. The same goes for UNDP and UNICEF. The Nordic co-operation is important, because of an agreement of the importance of co-ordination of laws and policies. Looking for international agents with a direct influence on the Norwegian policy we find two kinds of organisations. The first group consists of e.g. ILO and CoE. Their influence is in the form of conventions Norway ratifies.

Norway is closely linked to the EU through the EEA agreement. This agreement means that Norway is a part of the internal market and that the EU social policy has much of the same consequences for Norway as for the members of the union. There is no “gap” as in the Estonian case, but the question of indirect consequences is relevant. The influence might be political or through pressure from the market. There might be a pressure for convergence. If the EU agrees on equalising taxes, there is also a danger for cutbacks in public spending, with privatisation as a consequence. The reason for the use of the words “might” and “danger for” is that there have so far been very limited consequences on the social policy as a result of EU policies. It is left to the future to see if this influence will be more extensive. The EU example shows that the Norwegian social policy is not independent of international developments.

Another international organisation that has a kind of impact on the Norwegian policies is the OECD. Through analyses, reports and recommendations they put pressure on the country promoting market liberalism. The main impact of the OECD is that they have an influence on the agenda and the political debates (Bakke 1999)

## **5.8 A short conclusion of the Norwegian case**

The development of the Norwegian income maintenance can be summed up as follows. The role of the private sector is increasing. The schemes will have less redistributive effect between groups, there is a danger of a new class division between the pensioners that are covered by private schemes and those who are not. The labour market connection will be strengthened, although the universalistic basic pension will play the role of poverty reduction. Trust efficiency and sustainability depend on the ability to adjust to political economical and demographical challenges.

The climate of the social policy discussions is changing towards concern about “just distribution”. In a holistic perspective, the main premises for changes in the Norwegian system are laid in the national social policy discourses. Interest groups, organisations in the society and labour are setting important premises. Adjustment to EU policies will also in the future be the main international driving force.

## **6 Similarities and differences**

The differences between the two countries have been a methodological challenge as well as a basic motivation for the project. On the road through the two cases there is revealed interesting similarities and differences.

It seems that Estonia has managed to build up a social policy framework over a period of few years. The legal framework is there. The income maintenance systems are established in principle. There are, however, parts of the system that are not implemented. According to Kangas (1999a) "the social security programs seem to work well or at least satisfactory locating between the Scandinavian and the American extremes". This picture fits well with the findings of the present project. Estonia is e.g. very close to fulfilling the demands of the EU. Kangas returns to the problems of absolute poverty as a basic problem when the transitional countries are compared with the western. A combination of individualisation of society and lack of resources seem to lead to a situation where some people fall outside the welfare systems (Kutsar 1998). The Estonians present ambitious aims for linking income maintenance with active measures. This will demand a high standard of professional services. That is necessary in e.g. the municipal services and in the labour market services. There is still a way to go before the systems works according to the agreed aims.

The well-established Norwegian welfare state is also facing the demand for improved quality on the services. This might, however, be more a question of de-bureaucratization, than of establishing new services.

Table 6.1 Summing up developments in the Estonian and Norwegian income maintenance systems

	Estonia	Norway
The pension schemes	From universalistic and public towards a three pillar system (second pillar mandatory) Increased pension age (from a low level)	From universalistic and public towards a three pillar system (second pillar agreement based) Decreased real pension age (from a high level)
Social Assistance	Increased use of active measures, professionalisation of local services	Increased use of workfare
Family support	The economic situation of families and single mother are high on political agenda Proposal of a new system called "Parental wage"	Discussion about a national norm Cash benefit for families with small children newly implemented
Privatisation	New schemes will increase the private part, e.g. second pillar and new partly private unemployment insurance	Growing importance of second pillar will increase the private part
Labour market connection	Increased importance of position in the labour market when the second pillar is implemented	Increased importance of collective, private labour market based pensions
Distribution – redistribution	From a low level, gradually improving, but less redistributive  The system will increasingly maintaining labour market differences	Relatively effective protection against poverty. A relatively generous and wage related public pension scheme goes towards a flat rate system.  The system will increasingly maintaining labour market differences
Accountability	High level of public support Demographic changes combined with economical turbulence challenge the system	High level of public support Demographic changes challenge the system. Finance problems due to decreased tax level
National change agents	Party and parliament are dominating. Organisations and unions are weak, but growing in importance	Organisations in civil society and unions are strong and active participants in the process
International change agents	IMF – WB – EU plays a role in relation to important tasks	EU/EES – OECD play a role in the debates

The project has been focusing on changes. Table 6.1 shows some of the changes that have been found. With the aim of uncovering similarities and differences the two countries are put side by side. The table shows some interesting similarities:

- Development towards almost the same kind of “three-pillar” pension system.
- Increased importance of private pensions and stronger labour market connections, linked to the development towards these three-pillars.
- Increased use of active measure or workfare, especially linked to means-tested benefits.
- Same kind of political priority of groups
- Implementation of new schemes of benefits for families with small children
- A high level of support in the opinion for an active public social policy oriented towards equality

The most striking differences:

- The development in pension age, but from very different levels
- The organisation of the second pillar
- The international organisations, especially IMF and WB play a direct role in Estonia.
- The organisations of civil society, including the trade unions are much stronger in Norway than in Estonia.

The structure of the income maintenance system seems to move in a relatively similar direction. The universalism of the first pillars of the pension systems and the basic structure of the social assistance systems are also quite similar. The importance of the different elements of the structure will, however, be linked to the level of the benefits that each element represents. This will again influence the division of labour between the various schemes. The illustration below indicates a difference when it comes to the relative level of the benefits of the first pillar. The figures are not completely comparable, but should give a picture of the difference in levels of the public pension system.

Table 6.2 Relations between wage and public pensions

Estonia:	Norway:
<u>Minimum pension (national pension):</u> 20% of average wage	<u>Minimum pension</u> 31% of average wage
<u>Average old age pension:</u> 36% of average wage	<u>Average pension:</u> 48 –54 % of previous wage

Source: The Estonian figures are taken from ESO (1999). The calculation of the Norwegian average wage is set to NOK 262.200 according to the national three-part committee for preparing the wage negotiations.)

Due to the economical differences between the two countries it is difficult to find relevant measures for comparing the levels of benefits or the generosity of the system. The relation between wages and benefits is, however, an indicator. The Norwegian schemes seem to yield relatively more than the Estonian. In the real life situation the difference is probably higher than what one can read out of the figures. This is due to the lower wage level in Estonia. This latter difference is revealed not only in absolute figures, but also in purchasing power.

Also the social assistance system is in principle quite like in the two countries, but again we find that there is a difference in the level of benefits. The Estonian system, however, has a national norm, while the Norwegian system does not. This makes the comparison even more difficult without using more advanced statistical analysis than it is space for here. The social assistance benefits are in most Norwegian municipalities linked to the minimum pension in one way or another. A qualified guess indicates that the relation between the minimum pension and the social assistance benefits in the two countries are approximately the same.

A holistic view on the income maintenance systems in the two countries has revealed a development towards a large degree of structural similarities., combined with different importance of the pillars due to the different levels of the benefits. The Norwegian approach seems to be quite intact, but the private market will play a somewhat more important role. It is also a question whether the increasing importance of workfare in the social assistance schemes will decrease the level of de-commodification, and represents a re-commodification. The Estonian model has been characterised as a Scandinavian model with a somewhat higher importance of the market. The political aims seem to be much the same as in Norway.

Manning and Shaw (1998) say that elements of the old soviet occupational model have survived in Estonia. They add, however, that there is a new distinctive Estonian social policy emerging, and that it is to early to describe what will be the role of the different elements. In opposition to their conclusion, it seems that the Estonian welfare system is further developed and that there is a striking convergence of the two described systems. This might imply that Estonia has chosen a different path from other CEECs, and closer to the development of the Scandinavian countries.

To draw conclusions from the analysis of change agents seem to be an altogether more difficult task. The influence of the EU and other organisations promoting a liberalist market approach are making themselves felt in both cases. Demands from the public opinion are there. The new question that presents itself is whether the regional political exchange and discourse is more important than expected. The Scandinavian and the Baltic countries are close neighbours. (Hansen 1997) (Aasland 1998) (Steen 1998). The political parties have close connections and participate to a certain degree in common debates. The fact that the Baltic model seems to be relatively close to the Scandinavian might be a result of these kinds of exchanges.

Tilly (1997) says that effective social science does not concern cases or variables, but valid causal mechanisms. If we take that logic to be our guiding light, it is more probable that we will find the reason for the convergence in a common environment than in comparable processes. Lane and Ersson (1996) discuss convergence in European politics and divide the European countries into five groups. The division follows two criteria, affluence and relation to the EU. Their analysis concerns convergence of groups of nations. Their approach seems to be in contrast to Tilly's ideas. Estonia and Norway belong to different groups, but they are neighbours and there is close formalised co-operation between the Scandinavian and the Baltic countries. Although the three pillar system is presented as a World Bank way of thinking, the design of the different schemes in Estonia can be seen as a result of the local political development. Analyses of the Norwegian system will probably find reasons for the described development in the system itself and in the political and economical development in Norway. The European Union comes forward as a common factor in policy development in the two countries. The most important pressure from the EU on the Norwegian welfare policy is seen in the financing of the system (Hagen 1991) while the Estonians are mostly concerned about the "gap" (Leppik 1999a).

There seems to be no general convergence of income maintenance systems in Europe. Ginsburg (1997) sums up several theories by pointing to convergent demo-

graphic, fiscal and social pressures, but also pointing to the diversity of the response from the different regime types. Also the post-communist countries seem to head in different directions, e.g if we look at the relation between means tested and universalistic schemes.

Another kind of convergence is described by Gilbert (1999). He describes a shift from the “welfare state” to the “enabling state”. He links this change to a set of tendencies:

From expanding social rights	to linking rights to obligations
From focus on direct expenditures	to increasing indirect expenditures
From transfers in from of service	to transfers in cash and vouchers
From delivery by public agencies	to delivery by private agencies
From social provision for consumption	to social provision for investment
From reducing economic inequality	to restoring social equity
From social support	to social inclusion
From universal entitlement	to selective targeting
From unconstrained benefits	to use of incentives and sanctions
From de-commodification of labour	to re-commodification of labour

Gilbert describes this change as a shift in paradigm and that this shift implies a process of convergence. Ferge (1997) describes the same kind of shift in paradigm as the individualisation of the social. Several of the converging changes in the Estonian and Norwegian welfare states that have been revealed in this project are in line with the development described by Gilbert – e.g. the increased importance of private schemes and of workfare. The changes can therefore be understood as representing international trends. On the other hand, there are also trends that seem to go in another direction, e.g. the maintaining of the universalism. This project, therefore leaves little room to support the hypothesis about a shift of paradigm.

If we look at the convergence of the income maintenance systems of Estonia and Norway, we come back to the close regional connection and exchange as one of the important explanations.

A small disrespectful comment in the end: It does not seem that Prime Minister Laar was representative of the Estonian debate, when he characterised the Nordic welfare states as monsters.

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# Social Policy in Transition – Income maintenance in Estonia, compared with Norway



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