Democratizing Welfare in Estonia

by Robert J Jackson

for Professor Stephens

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Introduction

In this paper I will discuss the various forms of welfare Estonia provides for its citizens and focus on how democratization influenced its social policy after 1989. I will use Gøsta Esping-Anderson's books *The Three Worlds of Welfare Capitalism* and *Why We Need a New Welfare State* as a guide for assessing the degree of commodification and stratification among Estonian citizens and use several theories on transitional governments and social policy for explaining how and why this has happened.

The turmoil of establishing independence and economic restructuring was difficult for all the post-communist states. Due to the rapid restructuring and emergence of many political parties in the Baltics, one can hardly credit or blame any single party for the transformation of social policy. However, in general the Baltic States disfavored anything associated with the Soviet Union and, specifically, ethnic Russians. As such the Baltic countries have moved away from the universalistic social policies typically associated with the rule of the Soviet Union in the area. Indeed, as Aidukaite (2004: 43) points out, "it is interesting that no left-wing party had come out in favour of the universal model of social policy." This is especially true of Estonia, where the parliament has tended to vote in favor of things that disproportionately disaffected and disenfranchised their ethnic Russian minority.

My assessment of Estonia reveals a fact peculiar among post-communist states. Estonia had a political system of large, frequently changing coalitions that facilitated the movement of financial ministers. The model for other post-communist states was to empower and depoliticize their financial minister. Estonian financial ministers remained connected to the ruling party or coalition. Since the ruling party or coalition consistently agreed with rapid privatization, it was allowed to continue. A rare exception among post-communist states, the Estonian Parliament and President never lost an election to communists, for the Estonians felt that economic reform was disproportionately detrimental for Russians. Therefore the economic champion among post-communist states achieved its success due in large part to deeply resentful attitudes towards the Russian ethnic minority (Anderson 1999: 110; Crampton 1994: 404). In short, Estonians used the process of democratization to assert their domination over ethnic Russians, as I will demonstrate below with Estonia's strict heritage and language requirements for citizenship. The Estonian's unity against the Russians and desire to align with the West directly shaped its social policy.

Following the work of Anton Steen (1997) and Jolanta Aidukaite (2003, 2004, 2006), I will argue that Estonia moved from a highly universal to a less universal system, and show how it did not directly copy any of the Western models of welfare. Politicians began Estonia's restructuring with Neo-Liberal market principles, emphasizing fiscal and monetary restraint and individual responsibility, but adhered to some of the principles of universal welfare distribution typical of its Nordic neighbors in primary social policies (Steen 1997: 316 and Aidukaite 2004: 27). Therefore, I will classify Estonia's current welfare state as a hybrid of Social Democratic and Liberal welfare regimes.

The remainder of this paper is divided into three parts. First I will briefly explain the political and social policy prior to Estonia's separation from the USSR. Second I will explain the transitional period, focusing on the link between democratization and the implementation of social policy. Last I will classify certain of Estonia's social policy in terms of western theories on welfare capitalism and discuss current levels of commodification and stratification.

Part 1: Overview of Estonia's Political and Social Policy Prior to 1989

The goal of this section is to explain what post-communist Estonia inherited from the political and social legacies of its communist era. How will Estonia's past shape its future political and social development?

In the 19th Century, Estonians endured shifting occupations and allegiances to Swedes, Russians, and Germans. They experienced the same imperial Russification in the mid-19th Century as the rest of the Baltic region, but Baltic Germans maintained land ownership and elite positions in government, and in 1915 Germany occupied Estonia. Mounting Estonian nationalism and fear of Bolshevism around the turn of the century led to a declaration of independence in 1918 and the establishment of an independent republic in 1920. The Estonian's relationship with Swedes, Russians, and Germans will be shown to have a continuous effect on their political development since 1920 and, in turn, on their social development in recent history (Crampton 1994: 93).

Soviet forces occupied Estonia in 1940 and formally annexed it into the USSR. The entire Soviet system was imposed upon Estonia SSR; it was forced to adopt the Soviet system of universal welfare along with all the other economic policies. Aidukaite calls it "authoritarian welfare", and says that it is characterized by providing "full employment, free medical care and free education for everybody", and further, "everybody was insured in all cases of loss of working capacity: old age, invalidity, illness and the loss of the breadwinner" (Aidukaite 2004: 43). However, in the soviet system poverty and social assistance programs were "highly restricted, fragmented and patchy" because poverty was not seen to be a problem in the face of full employment (Greve 1996: 201).

It was not until the Gorbachev era that Estonians, as well as Lithuanians and Latvians, could begin to reaffirm their national identity within the Soviet system (Crampton 1994: 404). Mounting secessionist movements, culminating in the so called "Baltic Way", a response to the 50 year anniversary of the Nazi-Soviet Pact in which residents of all three Baltic States formed a human chain spanning all three countries, unbroken, for 15 minutes, helped motivate and empower Estonians. Specifically, as described by Crampton, "on 11 November 1989 the Estonian Supreme Soviet declared that the Soviet annexation of the country had been a 'military occupation' and was therefore illegitimate; the Estonian party leader, Vaino Valjas, then engineered a skillful declaration *about* rather than *of* sovereignty. In December the Estonians set up their own national bank and announced that they would issue their own currency" (Crampton 1994: 405). Gorbachev's bewilderment of these events quickly led to his granting Estonia economic independence, final impetus for Estonia to begin creating a new, fully independent state.

Part 2: Discussion of Estonia's Democratization and Rapid Restructuring

The goal of this section is to explain how Estonians used democratization as an opportunity to restructure their government and social institutions. What is the link in Estonia between democratization and its development of social policy?

Democratization is generally considered to be a process of restructuring political and economic institutions. In Estonia, the origins of its recent political restructuring can be traced to the glasnost of the Gorbachev era, but it began officially in 1988 when the Estonian Supreme Soviet (the national assembly) announced its sovereignty from Moscow and then declared full independence in 1991 when the Soviet Union was splintering (Economist Intelligence Unit 2006: 4). Estonia, now independent, proceeded with a plan of rapid restructuring, led by a new Council of Ministers. When the dust settled, Estonia was restructured with a unicameral parliamentary democracy, with a unicameral 101-seat parliament, members chosen by direct election with a 5% nationwide threshold and proportional representation, and a president who served as a figure head and a prime minister who held executive power (Economist Intelligence Unit 2006: 1).

When deciding exactly how to restructure, the Council of Ministers was motivated by several factors: familiarity with a higher standard of living; links to foreign markets such as Finland, Sweden, and Germany; animosity toward Russians; and, decisively, strong ties with the World Bank, IMF, and other international organizations. These motivating factors will be shown to have a significant effect on their policies for economic restructuring.

The parliament began its political restructuring by redefining voting and citizenship rights, and many policies were directly targeted at ethnic Russians living in Estonia: "the Estonian Supreme Soviet passed a law making Estonian the official language and allowing a four-year period of grace for non-Estonian speaking bureaucrats to learn it" (Crampton 1994: 404); "franchise regulations were modified to exclude from the vote those who had been resident in a constituency for less than two years or in Estonia for less than five, the object being to disenfranchise the large Soviet garrisons and those Russians who had recently settled in the republic" (Crampton 1994: 404); a citizenship law was passed that "excluded a sizeable portion of the population (mostly ethnic Russians) that could not prove a family connection to someone who had been a resident of Estonia prior to 1940" (Economist Intelligence Unit: 2006: 5).

Indeed ethnicity is cited to be the number one social cleavage and ethnic liberalism the number one ideological cleavage for forming partisanship in Estonia, with Estonia and Slovakia being the only two in the survey of post-communist states to have ethnicity number one in both social and ideological cleavages (Higley 1998: 236). The result of these new laws assured that ethnic Estonians would control the government. The government then commenced policies for rapid economic restructuring.

Generally economic restructuring towards a western oriented liberal market is accomplished in two ways: currency stabilization and privatization. The first government of Estonia, led by Prime Minister Mart Laar "formed the most open, free-market economy of all the former Soviet Union countries, and reoriented trade away from Russia towards Finland and other Western countries" Economist Intelligence Unit 2006: 5). Laar's government effected currency stabilization by creating a currency board pegged to the DM, and created an open market aimed at providing benefits to Western investors; these had the combined effect of diminishing the sustainability of Estonia's Soviet style industrial plants and factories operated mainly by ethnic Russians (Aidukaite 2004: 17).

The problems inherent to economic restructuring facing Estonia were the same as with most other post-communist states. Elites faced the threat that their constituents would turn on them in the middle of the restructuring process if transitional costs were not mediated by either some form of social security or political assurance that reform is working. More specifically, transitional costs, as described by Adam Przeworski, can be calculated with his model "J-curve" (Przeworski 1991: 163). He theorizes that growth in a developing state will follow a curve where output over time decreases, then, after reaching a desperate low, begin to increase. This curve is necessary for removing value subtracters since at the bottom of the curve the use of high cost inputs will be too expensive for a firm to make a profit. For example, firms using high cost energy will be forced to find an alternative source of energy or close. Further, this curve presents trouble for ruling elites if the dip occurs in the middle of an election. To solve this problem, for example, Poland and Russia have opted to de-politicize their financial ministers, Laszek Balcerowicz and Yegor Gaidar respectively, who stayed in power throughout regime changes. The J-curve, of course, is very unpopular, since closures result in unemployment.

In Estonia quite the opposite situation happened. Financial ministers were never de-politicized and were easily changed by the incoming parties and coalitions. Further, their unicameral legislature with a low election threshold required that parties form coalitions to hold a majority in the parliament. This model for economic restructuring would be doomed in other situations, but it happened that in Estonia all the political parties, whose constituents were now by law ethnic Estonians, agreed on -- above all else -- doing what was necessary to move away from Russian influence and disenfranchise their ethnic Russian minority. So when in 1995 a new government was voted into office, Estonia's path toward economic reform continued in the same trajectory.

Reconstruction, however, had an unfortunate side effect on the Estonian agricultural sector. In addition to the ethnic Russian industrial workers, the move toward an open market had a negative effect on Estonian farmers. Ilkka Alanen criticizes the guidelines established by the World Bank to decollectivize the farming sector for focusing too strongly on the family farm model; agriculture output decreased from 1991 to 1999 (Alanen 2004: 5-57) because small farms lacked the resources necessary to match the output of large or co-opt farms.

The result of Estonia's biases and intentions prevented the development of elaborate social security systems. As Estonia rapidly developed an open market aimed at drawing investments from the West, its industrial plants and factories were forced to close. This very dissolution of the industrial economy was aimed at disenfranchising ethnic Russians, but it also eliminated the bargaining power of the existing labor unions; and the consonance among political parties against ethnic Russians assured that Neo-Liberal economic reform worked, thus eliminating the need for strong social security measures to restore faith in the restructuring process.

Part 3: The State of Welfare in Estonia

The goal of this section is to compare and identify similarities in Estonia's current welfare programs with Western welfare regimes by assessing the current degrees of commodification and stratification.

I will divide my comparison into three sections, from 1991 to approximately 1995, when Estonia voted in a new government, from 1995 to approximately 2004, and a section on Estonia's overall effort and strategies to reduce poverty. As mentioned above, Estonia cannot be said to have directly assimilated any single model for social policy. Instead, it is seen as a hybrid of Social Democratic and Liberal welfare regimes. In 1991, Estonians pushed away from Soviet market and economic principles, and in general any ties to Russians, by closely following the social policies of its Nordic neighbors during the early states of its rapid restructuring and further by following Neo-Liberal market principles typical of Liberal regimes. Neo-Liberal principles were institutionalized as Estonia rapidly privatized its agriculture industry, nearly eliminated its industrial plants and factories, shunned tariffs, subsidies, bail-outs, and restrictions on foreign ownership; these features together attracted huge foreign investment that led to a new boom in technological manufacturing and a growing service sector (Economist 2005). Moreover, Estonia's labor union participation decreased sharply from 1988 to 2002, reducing their essential role in expanding social rights (Aidukaite 2003: 421).

The Initial Period of Restructuring: 1991-1995

Political views in the period of 1991-1995 reveal strong attitudes toward Neo-Liberal market policies gradually coupled with a view toward Social Democratic social policy. Marju Lauristin, a prominent Estonian academic, proclaims, "We will not create a welfare state but a welfare society. The state cannot take the whole responsibility," and Estonia's first Prime Minister Mart Laar announces, "We will develop a welfare society, but we do not want to copy the welfare monsters that our Nordic neighbours have developed" (Grønningsæter 2003: 5).

On the one hand, after conducting interviews with experts working in Estonia's restructuring in the early 90's, Aidukaite (2003: 415) concludes that the state sought to provide support for the equal worth of all citizens. Specifically, many believed that the market would solve the economic and social problems, and that the main issue was a lack of resources; given their experience with Soviet communism, the political current held that strong state control was bad and there was a growing sense that the individual should become more self reliant. Therefore social policy would develop gradually, as the need arose, and would be secondary to open market policy. We will see this exemplified in pension reform below. In addition, a survey conducted in 1993 shows Estonia to have the most liberal attitude towards distributive justice; "65% agreed that in a just society people who are diligent and intelligent have a higher standard of material well-being, while people who are lazy and stupid have a lower standard of material well-being....and only 12% agreed that in a just society, the well-being of every citizens is more or less the same." This survey was conducted in 2002 with very similar results (Aidukaite 2003: 417).

One further consequence in Estonia's rapid restructuring toward a Neo-Liberal market policy was that labor unions saw a sharp decrease in participation in this period due in large part to the associate with obligation under the Soviet system but also as a direct consequence of Estonia's process of restructuring. The decentralization and the formation of a Neo-Liberal style open market had the added effect of opening up the labor market as worker and job flows underwent reallocation from the industrial and agricultural sectors to service and private firm sectors. In the early period of restructuring, job destruction increased more than job creation: "from 1992 to 1993, the rate of job destruction was about 15% and the rate of job creation was about 6% (Haltiwanger and Vodopivec 1999: 4). By 1994, the surge in new job markets began to fall into Western standards, as annual job creation and destruction rates were roughly around 10% each, respectively -- remarkably close to the U.S. averages (Haltiwanger and Vodopivec 1999: 36).

On the other hand, study conducted by the University of Tartu, Ministry of Social Affairs of Estonia, and United Nations Development Programme (UNDP) concludes that social protection is a major role for the state and is characterized by universality in three sectors: pensions, family benefits, and sickness insurance; it is closest to the Nordic Social Democratic model (Kutsar 1999: 27). The report gives specific details of Estonia's social policy in four areas: old age pensions, child benefits, sickness benefits, and unemployment benefits.

In this first period, Estonia's old age pension scheme was very simple, comprising of a basic pension differentiated only by the number of years worked. It was funded by a social tax that paid into the social insurance fund. Compared to western welfare regimes, Estonia's replacement rates for pensions is very low. In 1995, it was 37% of the average net salary, and by 1998 it saw a slight increase to 38.4%. The Nordic countries have 50% or more (Kutsar 1999: 27).

Estonia offers child benefits paid to all children. The policy is similar to the Nordic countries, Germany, France, and most post-communist countries, such as Poland, Latvia, and Hungary. The international child benefit is an average of one-tenth of the net salary. Estonia's benefit in 1995 was 8.3%, and 9.2% in 1998. Therefore Estonia still lags behind the western welfare regimes, but is ahead of most post-communist countries, as well as the UK and Spain (Kutsar 1999: 27).

The sickness benefit in Estonia is a payment based on medical insurance, paid to all people who pay their insurance premiums. In the case of illness, replacement rates are 80% of the average salary (60% for hospital treatment). The period for paying sickness benefits is 120 days, and the period for a parent to remain home with a newborn child is 140 days fully compensated. Except for the 80% replacement rates in the case of illness, these are some of the lowest in Europe (Kutsar 1999: 27).

The unemployment benefits in Estonia are also extremely modest, at 10% of the average net salary; again, the lowest in Europe during this period. In the Nordic countries, the unemployment benefit is nearly 80%. Hungary and Ukraine have 70%. This benefit is paid for 24 weeks. The average in Europe is 71 weeks (Kutsar 1999: 27).

The Second Period of Restructuring: 1995-2004

Growing poverty rates -- especially in rural areas that relied on the agricultural sector -- and a corruption scandal within Prime Minister Laar's party led to a change in government in 1995 (Alanen 2003: 203). Under the soviet system "poverty and inequality were officially denied, but now poverty can be measured according to western models using indicators established by the World Bank (Alanen 2003: 204-207). To answer these problems and a void an economic crisis, a new coalition was formed between the Coalition Party, the Rural Union, and the Centre Party, which would continue with Estonia's restructuring but begin to solve many problems with its pension system (Anderson 1999: 245). As mentioned above, communist or extreme Leftist parties were not voted back into office and the new coalition was determined to continue with Estonia's rapid restructuring as scheduled. As such little change was made to social programs instituted in the preceding period except for in the area of pensions.

Continuing with pension reform was a major initiative of the new government. A new three pillar pension system was instituted. The first pillar is an earnings-related, non-funded compulsory pay-as-you-go system, designed to provide only basic security; the second pillar is a privately managed, compulsory funded system; the third pillar instituted in 2004, and therefore not very popular yet, is a voluntary funded system. Officially the second and third pillars were designed to boost individual responsibility and awareness, as well as avoid a "drop in the pension replacement rate due to unfavorable demographic developments" (Aidukaite 2006: 261).

Estonia currently has three social protection systems financed by a pay-as-you-go principle: pension insurance, health insurance, and unemployment insurance. Other protections such as family benefits, state unemployment allowances, funeral grants, and social benefits for disabled are financed from general state revenues (Leppik 2003: 40). Estonia's universal social assistance policies mainly benefit children and families with children, as well as foster children, the disabled, and those who are not eligible for a state pension. However, it has only one form of means tested transfer, called the subsistence benefit, which is paid in cash to low income families (Aidukaite 2003: 411).

Further developments in this period include a new Labor Market Services Act in 2000 that put an emphasis on active labor market policies, then in 2001 the budget for retraining was increased by one third form its 2000 level, financed by contributions from both employers and employees. The Employment Action Plan of 2002 was designed to further improve employability by "developing entrepreneurship and job creation [as well as] strengthening equal opportunities policies for women and men" (Leppik 2003: 83). These changes were instituted after the governments had recognized that only well targeted active labor policies can have any influence on reallocation.

It remains difficult to conclude, however, that Estonia closely follows a Social-Democratic or Liberal regime. It still bears features of both. It resembles Social Democratic regimes and the Nordic model in its universalistic principles as outlined above. However, it resembles Liberal regimes in several ways, including it's utilitarian market principles, low replacement rates in transfer programs, underdeveloped public social services, only moderate strength in unions, and decentralized wage bargaining. These factors can be partially explained by Estonia's lack of economic resources that has prevented cash benefits from approaching relative parity with the Nordic states. For example, as outlined by Arne Grønningsæter, "a striking difference between the Scandinavian and Baltic countries is the fact that in 2000 the GDP (Purchase Power adjusted) was more than 4 times higher in the Nordic/Scandinavian countries than in the Baltics... The benefits are on set on such a low level that almost every person is dependent upon individual measures in the market" (Grønningsæter 2003: 33). The conclusion that follows is that the lack of economic resources marginalizes and commodifies certain sectors, a feature typical of Liberal regimes. This is further demonstrated by the fact that the first pillar in pension reform is characterized by a relatively lower replacement rate than found in Nordic countries and that the second and third pillars, which transfer responsibility from the state to the individual for management of pensions.

Current Efforts to Reduce Poverty in Estonia

In the soviet system, poverty reduction was hardly a concern for policy makers because it boasted full employment. However after the rapid restructuring, poverty grew out of wage and property ownership disparities. To be sure, poverty is a social problem, and requires conscious social policy to reduce it since certain population groups lack the necessary resources to fight it individually. In Estonia the risk groups for poverty are groups whose material resources fall below the average. Therefore social policies target population groups that fall below this level (Kutsar 1999: 10).

Unfortunately the issue of poverty has been scarcely raised and insufficiently managed until very recently in Estonia's restructuring process. Since a national poverty line has proved elusive to establish, ministers substitute a "subsistence level, approved by the Parliament and serving as a basis for social assistance subsistence benefit" (Leppik 2003: 97). Therefore it does not cover, in many cases, the minimum food basket. In 1994, Estonia established a subsistence benefit, the only benefit that depended on income, to ensure the minimal economic survival of low income groups (Kutsar 1999: 24). Then in 2002, a new concept of "emergency social assistance" was introduced to facilitate poverty reduction; the new policy made local municipalities responsible for guaranteeing subsistence, especially food, clothes, and shelter, to anyone who lacked the means. Also the principles of the subsistence benefit were changed to allow local municipalities the option to refuse benefits to "working age persons who do not work or study and who have repeatedly refused offers of suitable work or to take part in relevant social rehabilitation programmes organized by the municipality" (Leppik 2003: 85).

Still poverty and further stratification remains a challenge in Estonia. Unemployment hovers around 9%; the difference between the highest and lowest incomes in Estonia is six times the greatest among Central and Eastern European states; the Gini coefficient, calculated in 2001 at 0.36, was the highest among candidate countries for EU accession; regional disparity is considerably rising despite Estonia's relatively small area (Leppik 2003: 95). Estonia faces grave challenges combating Poverty in the future of its political, economic, and social restructuring.

Conclusions

It can be concluded that Estonia's social policy has been influenced by several factors such as attitudes towards redistributive justice and a growing sense of individual responsibility, inspired by experiences with Soviet communism and addressed with the development of a Neo-Liberal market. Estonians recognized the value of universal benefits in some key areas, but above all sought to integrate with the West. I argue that this agenda was set and accomplished, despite political turmoil, due to a unified resistance to communism and tensions between Estonians struggling to establish personal responsibility and ethnic Russians. Estonia held elections during high transitional cost and voted in a new government that was not Leftist or former Communist party leaders but reformers on board with the rapid privatization and Neo-Liberal market reform already under way. This combination was a rare exception among post-communist states, and proved the reason for Estonia's economic successes later on.

Moreover, the dissolution of the industrial economy helped to dramatically decrease the loss in labor union participation and influence, and a generally low resource base to fund social programs prevented elaborate social policies from being created at any time during Estonia's post-communist restructuring. Further, Estonia's political and public sectors developed an attitude of personal responsibility which, complimented with a belief in supporting families and children, resulted in a hybrid welfare regime: Social Democratic for its universalistic benefits, especially in old age pensions, child benefits, sickness benefits, and unemployment benefits, but market dependencies to supplement the low transfer rates in these key areas.

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presentation
the result of my work shows that estonia may be classified as a hybrid between social democratic and liberal welfare regimes.

social dem because univeralistic in four areas: old age pensions, child benefits, sickness benefits and unemployment benefits.

pensions have been a problem for Estonia as well as the other baltic states. under the soviet system, all recieved basically the same pension.
--at the begining of the reform, the pension was funded by a social tax and the differences in transfers depended on the number of years worked.
-- then a 3 pillar system
    --pay go
    --mandatory funded
    --voluntary funded

liberal because of its recently developed neo-liberal market policies and a basic lack of a sufficient resource base to fund nordic style social programs.
    --eg as with the original pension plan, many of the transfer rates are too low, and there was a rapid increase in poverty rates, therefore the pension plan recommended by the world bank was adopted, but this plan made people depend on the market again for their own investments (second pillar designed to supplament the low replacement rates).

the area i focused on was the process of democratization in estonia.
    at the begining, growing animosity towards ethnic russians.
    --strict language and residence requirments for full citizenship rights.
    --failure in these areas meant that permenant residents could not vote in national elections
    -- desire for integration with the west (and away from things russian)
        -- liberal, open market (heavy industry could not sustain itself
        --

ironic that estonia's economic success and stable growth was achieved due in large part to its attitudes against its russian minority population.