Anu Toots

# Transformation of the Estonian Welfare State in the 21st Century

## Saying Goodbye to Bismarck?

### Introduction

About at the same time when Gøsta Esping-Andersen (1990) published his seminal work on 'worlds of welfare', former communist countries in Central and Eastern Europe (CEE) started to build their model of welfare capitalism. The academic community followed this important social transition with great interest that resulted in impressive amount of research literature. One of the favourite topics for decades has been the attempt to define the type of welfare regime in post-communist countries.[1] However, the interest towards further developments in the Eastern European welfare states has decreased and latest reforms are largely neglected in the international research literature. Few existing studies evaluate developments and perspectives in selected Eastern European countries rather differently, ranging from very optimistic[2] to very pessimistic.[3] The dominant view sees CEE as still underdeveloped and in transition from post communism to the welfare democracies evidenced by the lower social expenditures compared to the mature welfare states. Indeed, 30 years of freedom have not narrowed the welfare expenditure cap between West and East except for a few cases such as Slovenia and the Czech Republic.[4] Baltic countries continue spending only 15–16 per cent of GDP on social welfare, which is about half of the EU average.[5] Such focus on welfare state outcomes solely leaves

1 Jolanta Aidukaite, 'Old welfare state theories and new welfare regimes in Eastern Europe: Challenges and implications', *Communist and Post-Communist Studies* 42, no 1 (2009), 23–39; Alfio Cerami and Pieter Vanhuysse (eds), *Post-Communist Welfare Pathways: Theorizing Social Policy Transformations in Central and Eastern Europe* (Basingstoke: Palgrave Macmillan, 2009); Dorothee Bohle and Bela Greskovits, *Capitalist Diversity on Europe's Periphery* (London: Cornell University Press, 2012); Kati Kuitto, *Post-Communist Welfare States in European Context. Patterns of Welfare Policies in Central and Eastern Europe* (Cheltenham: Edward Elgar Publishing, 2016).

2 Sonja Avlijaš, 'Revisiting the Baltic growth model: From neoliberalism to the social investment welfare state', *Sciences Po LIEPP Working Paper* no 66 (2017).

3 Mitchell A Orenstein, 'Reassessing the neo-liberal development model in Central and Eastern Europe', in *Resilient Liberalism in Europe's Political Economy,* ed. by Vivien A Schmidt and Mark Thatcher (Cambridge: Cambridge University Press, 2013), 374–402.

4 Denis Bouget, Hugh Frazer, Eric Marlier, Sebastiano Sabato and Bart Vanhercke, *Social Investment in Europe. A Study of National Policies* (European Social Policy Network, 2015); Stefano Ronchi, 'Which Roads (if any) to Social Investment? The Recalibration of EU Welfare States at the Crisis Crossroads (2000–2014)', *Journal of Social Policy* 47, no 3 (2018), 459–478.

5 ESSPROS, European System of Integrated Social Protection Statistics, Welfare expenditures as % of GDP, 2019.

https://doi.org/10.36250/00983_07

institutional mechanisms of policy making uncovered and makes hard to understand factors and actors behind the processes.

This article seeks to contribute filling this gap by empirically studying recent social policy reforms in one of the Baltic countries – Estonia. In many aspects, Estonia is regarded as a success story of post-communist transition. It has successfully transited from planned to market economy,[6] recovered fast from the Great Recession of 2009,[7] has the most stable political party landscape in the Baltics[8] and has managed to stop massive emigration.[9] At the same time, several important welfare and social sustainability indicators have stagnated. The overall poverty level, large income disparities, limited coverage of unemployment protection and health care show no improvement throughout decades despite the overall increase in the nation's wealth.

The current article aims to understand to what extent this state of affairs can be explained by the institutional design of the Estonian welfare state and recent changes in it. In terms of institutional set-up, the Estonian welfare regime can be labelled as quasi-Bismarckian. Similarly to the Bismarckian (Continental) welfare regime, social insurance administered by semi-autonomous funds forms part and parcel of the Estonian welfare state. Differently from the ideal-typical Bismarckian model, social dialogue here is weak and governments enjoy a policy making environment with few veto points. The article argues, that the flawed nature of the welfare state design accompanied by favourable international factors explain why in the 2010s Estonia has so easily moved from tripartite social insurance to a direct state management of the social system. Such trajectory from tripartism to etatisation (that is, bigger role of government and taxes) characterises recent changes in mature Bismarckian countries (Germany, France) as well.[10] Yet, the quasi-Bismarckian design of the Estonian welfare state allows neoliberal and paternalist currents to effect policy decisions more profoundly.

The article is structured as follows: the first section contextualises the study by briefing the genesis of today's Estonian welfare state. Next sections track the main changes in the welfare state financing and governance in the first two decades of the 21st century and elaborate similarities and differences in both decades. The concluding section reviews

6 Bohle and Greskovits, *Capitalist Diversity;* Zenonas Norkus, *On Baltic Slovenia and Adriatic Lithuania* (Budapest: CEU Press, 2012).

7 Bruno Palier, Jan Rovny and Allison E Rovny, 'The Dual Dualization of Europe: Economic Convergence, Divergence, and their Political Consequences', in *Welfare Democracies and Party Politics: Explaining Electoral Dynamics in Times of Changing Welfare Capitalism,* ed. by Philip Manow, Bruno Palier and Hanna Schwander (Oxford: Oxford University Press, 2018), 281–297.

8 Martin Mölder, 'Fluid Voters behind a Stabilising Party System? Investigating Party System Parameters in Estonia', paper presented at the 41st ECPR Joint Sessions of Workshops in Mainz, 11–16 March 2013, *Workshop 31,* 'Party System Dynamics: New Tools for the Study of Party System Change and Party Transformation'.

9 Allan Puur and Luule Sakkeus, 'International migration and demographic challenges of Europe', in *Estonian Human Development Report 2016/2017. Estonia at the Age of Migration* (Tallinn: Eesti Koostöö Kogu, 2017).

10 Bruno Palier (ed.), *A Long Goodbye to Bismarck? The Politics of Welfare Reform in Continental Europe* (Amsterdam: Amsterdam University Press, 2010).

main findings in the light of changes in Western Bismarckian welfare regimes and asks, whether fiscal prudence has been replaced by the new paradigm of state paternalism?

## Becoming a 'boringly normal' welfare state, 1991–2004

Because economic and social situation was extremely unstable in the first half of the 1990s, policy decisions related to the welfare institutions were hectic and *ad hoc.* Overall, choices made on governance of the welfare programs reflected Bismarckian principles of autonomous social insurance institutions. Social insurance and health insurance were enacted in 1991 and the Estonian Social Fund (ESF) and Central Sick Fund (CSF) were established to administer the insurance contributions. However, the government was heavily overrepresented in fund boards whilst employers were not included at all.[11] In financial matters, the Sick Fund was closer to the Bismarckian principles – it collected contributions and allocated them to the health care providers according to the number of insured persons; sick leave benefits were linked to the wage of insured persons. ESF in comparison paid numerous benefits – all kinds of pensions, child and family allowances, incapacity for work benefits and unemployment allowances. The level of benefits and eligibility rules were set by the parliament that made social insurance highly vulnerable to political voluntarism and allowed the ruling parties to manipulate the system.

Some aspects of the established social insurance system reflected the communist legacies. Similarly to other Central and Eastern European countries, the burden of insurance contributions was not shared between labour market partners but put on the shoulders of employers. Until the introduction of funded pension insurance and unemployment insurance in 2002, the entire insurance contribution in Estonia was paid by employers as 33 per cent of payroll.[12] By designing the social insurance in such a 'proletarian' way, policymakers ignored a fundamental principle that makes the Bismarckian system function efficiently – linkage of contributions with benefits. In the 1990s, Estonia did not practice individual social insurance accounts and the earned wage had no effect on pensions or other social benefits. In a transitional country with high share of shadow economy and poor tax enforcement capacity it became clear quite soon that existing arrangement of social insurance cannot provide necessary means for the welfare. Political parties suggested two ideologically different solutions to the problem. The ruling conservative party (KMÜ)[13] preferred to strengthen the control of labour market partners

[11] Government Decree, Eesti Vabariigi Valitsuse määrus Eesti Sotsiaalfondi Nõukogu koosseisu kinnitamise kohta, VVm 06.05.1991 nr 51, *RT* 1991, 10, 159.

[12] Social insurance contributions (33 per cent) are labelled in Estonian legal acts as 'social tax', divided into pension insurance (20 per cent) and health insurance (13 per cent).

[13] KMÜ, Koonderakonna ja Maarahva Ühendus – an electoral union of centrist technocrats and farmers; ceased to exist after the 2000s.

over social insurance funds.[14] Neoliberals (Pro Patria)[15] saw enhancement of individual responsibilities and opportunities as the best way to the efficiency of the welfare system. By the end of the 1990s both political forces have achieved some success – collection of health insurance contributions was forwarded to the tax authorities and the Central Sick Fund transformed into the autonomous public Estonian Health Insurance Fund (EHIF), individual pension insurance accounts were introduced and the principal decision to reform pensions into the three-pillar-system has been made. However, one has to be cautious in seeing these measures as conscious actions to build up a sound welfare regime. The main concern of all political parties was to improve the overall tax compliance and secure financial resources to govern the country. The choice between the Bismarckian and Anglo–Saxon welfare model remained pending. Social insurance, established in the early 1990s as the basis of the Estonian welfare system proved to be rigid as every institution (Guy Peters 1999) continued to influence future reforms despite the growth of neoliberal ideas in the mid-2000s.

The building of the Bismarckian foundation of the Estonian welfare state was finalised in the first years of the Millennium by the introduction of the unemployment insurance. Compared to the pension and health insurance, it resembles authentic Bismarckian principles of tripartism at most. Both labour market partners were actively involved in drafting the legal acts, which resulted in decreased government role in unemployment insurance.[16] Contributions were more or less equally shared between workers and employers and the public Unemployment Insurance Fund (UIF) was established to govern the system. Trade unions, employers' organisations and the government had equal representation in the Fund board, decisions were made on the basis of simple majority rule and any party had the veto power.[17] Differently from other social insurance schemes, the contribution rates were enacted as flexible (0.5–2.8 per cent for workers and 0.25–1.4 per cent for employers) in order to adjust to the actual labour market situation. The exact rate was negotiated by the tripartite UIF board and enacted by the government for four years.[18] As we will see later, this flexible arrangement initially meant to strengthen the power of labour market partners turned to be the Achilles's heel of the system allowing the government to override social partners.

In parallel with unemployment insurance, the parliament was proceeding the bill on mandatory funded pensions in 2001. This 'second pillar' was aimed to complement the public PAYG pillar and the voluntary funded 'third pillar' enacted some years earlier. The Act on mandatory funded pensions changed the allocation of social insurance

14 Coalition Agreement, 'Koonderakonna ja Maarahva Ühenduse ning Keskerakonna valitsuskoalitsiooni programmilised seisukohad', 1995.

15 Pro Patria as a political party has experienced several merges, splits and ideological transformations. In the early 1990s when lead by Mart Laar it stood clearly at neoliberal positions, in the 2000s moved towards conservative and nationalist positions.

16 Anu Toots, 'Why Do Actors Vary? A Study of the Estonian Pension and Unemployment Insurance Legislations', in *Politico-Administrative Dilemma: Traditional Problems and New Solutions,* ed. by B. Guy Peters, Georg Sootla and Bernadette Connaughton (Bratislava: NISPAcee, 2006).

17 Unemployment Insurance Act, Töötuskindlustuse seadus, *RT I,* 13.03.2019, 181.

18 Ibid.

contributions, which marks an important breaking point with the principles of conservative–corporatist welfare model. Previously, the entire revenue from social insurance (20 per cent of payroll) was under the control of the Social Insurance Fund. With the introduction of the mandatory funded pension pillar, only 16 per cent of social insurance contributions went into the public pension budget, whereas 4 per cent was forwarded to the private banking sector according to the individual pension plans of insurers.

It is noteworthy that the introduction of the neoliberal three-pillar pension system was sanctioned already earlier by a conservative-left government coalition. Their Government Decree[19] stressed the link between economy and pension policy, and emphasised the need to motivate individuals to save for old age. Why was the left-centre coalition advancing a neoliberal market oriented reform plan? In case of the Estonian pension system, one should look at the first government of the transition period. Then Prime Minister Mart Laar (1992–1994) had close contacts with neoliberal U.S. think tanks and IMF;[20] he also had an impact on the composition of social insurance reform task force (1997–2001) that involved several Estonians with former work experience in IMF or World Bank.[21] Thus, we see here a so-called 'short-run path dependency', which means that in transition countries, the very first events of the transition period may have a profounder effect on the outcome of reforms than far historical layers.[22]

In sum, at the turn of the Millennium, the reforms of fundamental importance for Estonian welfare state governance were accomplished. At the same time, these reforms remained the last building blocks of the Bismarckian model. The idea of Laar's II cabinet (1999–2002) to introduce in Estonia occupational pensions similar to the ones in Continental Europe was never realised. The same holds for work accident insurance, which occasionally still appears in party manifestos. In parallel with the deceleration of the Bismarckian path, neoliberal tendencies start to manifest themselves as the enactment of the three-pillar pension system already demonstrated. The growing popularity of the neoliberal Reform party accelerated these currents whereas financing of the welfare state through social insurance set in the early 1990s counteracted them. The share of main welfare receipts by contributors has stayed unchanged throughout the 25 years *(Figure 1).* Employers pay 80 per cent of the total welfare budget, which is about 15 per cent higher than typical in Western Bismarckian countries.[23]

19 Government Decree, Valitsuse tegevuse põhieesmärkide kinnitamine 1997. ja 1998. aastaks. *RT I,* 1997, 46, 766.

20 Orenstein, 'Reassessing the neo-liberal development model'.

21 Anu Toots, 'International and National Actors in Estonian Pension Reform', in *Delivering Public Services in CEE Countries: Trends and Developments,* ed. by Jane Finlay and Marek Debicki (OECD LEED Programme, Bratislava: NISPAcee, 2002, 246–259).

22 Paul Pierson, 'Coping with Permanent Austerity: Welfare State Restructuring in Affluent Democracies', in *The New Politics of the Welfare State,* ed. by Paul Pierson (Oxford: Oxford University Press, 2001), 410–456.

23 Nathalie Morel and Joakim Palme, 'Financing the Welfare State and the Politics of Taxation' in *The Routledge Handbook of the Welfare State,* ed. by Bent Greve (London: Routledge, 2013), 401–409.

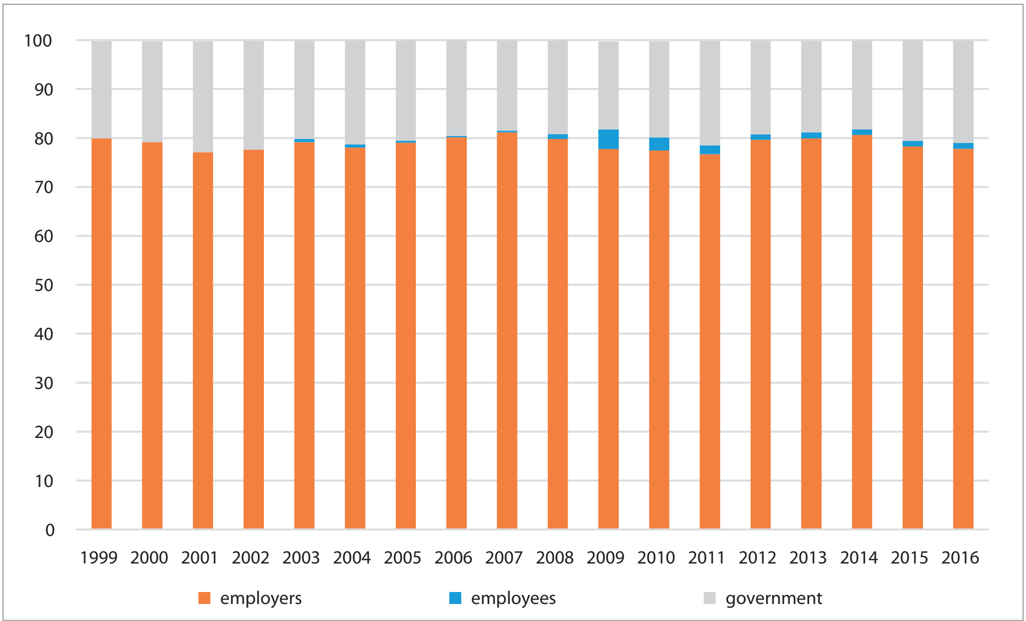



*Figure 1: Revenues of Estonian welfare state by contributors, % of total*
*Source:* Eurostat 2019.

### Goodbye Bismarck, welcome fiscus! 2009–2011

In 2004, Estonia together with nine other CEE countries became full members of the European Union. EU membership boosted economic growth, which reached 8–10 per cent annually in 2005–2008 and effected positively households' wealth.[24] Such optimistic situation made neoliberal *laissez-faire* ideas appealing to voters and the Reform party won the parliamentary elections in the peak of economic boom. The neoliberal Reform party got re-elected three times and governed Estonia 11 consecutive years (2005–2016), which had an important effect on the welfare state. In the policy agenda, economic development clearly outweighed social issues, and social policy reforms were undertaken only to vitalise the labour market. Moreover, the EU's active role in the labour market policy (LMP) forced Estonia to follow the EU guidelines. The EU approach was towards activation of both unemployed and inactive people that fit well to the ideology of the Reform party. The first wave of labour market reforms (2005–2008) followed the flexicurity approach making firing of workers easier but also providing more extensive retraining opportunities. The amended Labour Market Benefits and Services Act (2005)[25] introduced obligatory individual job seeking plans and extended public counselling

[24] Ringa Raudla and Rainer Kattel, 'Fiscal stress management during the financial and economic crisis: The case of the Baltic countries', *International Journal of Public Administration* 36, no 10 (2013), 732–774.
[25] Labour Market Benefits and Services Act, Tööturutoetuste ja teenuste seadus, *RT I* 2005, 54, 430.

services. These amendments mark an important turn also in the institutional structure of Estonian LMP. In 2009, the Unemployment Insurance Fund (UIF), which so far only administered insurance benefits, was merged with the Labour Market Agency responsible for matching job seekers and employers. So, UIF becomes the only and universal body to implement the LMP. Insurance contributions were used for all activities of the merged institution, including operational costs and non-contributory services that becomes the dominant approach in Estonian LMP.

Not all legal amendments foreseen by the first wave of LM reforms were implemented because in 2008 the U.S. born financial crisis reached Europe. Open economies of Baltic States were hit especially severely.[26] In Estonia, the GDP fell by 14.3 per cent in 2009; the unemployment rate rose from 4.6 per cent to 16.7 per cent in 2007–2010. Quite naturally, the expenses of unemployment benefits skyrocketed and the UIF faced an annual deficit of 50 MEUR.[27] The government's quick reaction to the crisis was fiscal – rates of unemployment insurance contributions were in 2009 raised twice up to maximum level allowed by the law. The same year, PM Ansip proposed to stop government contributions to the second pillar pension funds until the economic recovery. Despite disagreement with Social democrats and Christian democrats as coalition partners,[28] the proposed amendments were rashly adopted. As the Ministry of Finance explained,[29] the objective was to retrench public expenditures and to give the government more flexibility in using the state budget. Both actions – increase of unemployment insurance contributions and halt of government contributions to the funded pensions, mark the beginning of the era of fiscal orthodoxy advocated by powerful EU institutions – the European Commission and the European Central Bank (ECB).[30] Constrain measures also demonstrate the emerging transition from social dialogue to etatism when the government makes solo decisions that increase the financial burden of social partners without giving them more control over the revenues.

Besides cost containment measures on the supply side, welfare state expenditures were also retrenched. Quite in line with mature welfare countries, in Estonia too, retrenchment entailed more nuanced measures than simple cuts in benefits. The second wave of LM reforms (2009–2010) revised previously introduced flexicurity towards austerity and workfare. The regulations of the Labour Contract Act[31] were implemented selectively – only those regulations that made firing and layoff easier were in force, increase of unemployment benefits and expansion of categories eligible to benefit were postponed. Thus, from the initial flexicurity formula only flexibility was actually put into practice.[32] These developments, although introduced under the economic crisis arguments

[26] Colin Hay and Daniel Wincott, *The Political Economy of European Welfare Capitalism* (Basingstoke: Palgrave Macmillan, 2012); Bohle and Greskovits, *Capitalist Diversity.*
[27] UIF, 'Töötukassa Majandusaasta aruanne', 2011.
[28] Eesti Päevaleht, 'Ansip peatab riigi ja inimeste maksed II pensionisambasse, 1. aprill', 2009.
[29] Ministry of Finance, 'Valitsus otsustas 1. juunist peatada riigipoolsed sissemaksed teise pensionisambasse. 13. aprill', 2009.
[30] European Central Bank, *Convergence Report December* 2006 (Frankfurt am Main: ECP, 2006).
[31] Labour Contract Act, Töölepinguseadus, *RT I,* 2009. 5, 35.
[32] Raudla and Kattel, 'Fiscal stress management'.

as temporary once, in reality reflected the paradigmatic turn in Estonian employment policy. Social protection of labour market insiders including insured unemployed persons has been sacrificed to the workfare approach. Differently from the early years of the Millennium when the institutional fundament of Estonian labour market policy was laid down, employers and trade unions remained now inactive in protecting workers' rights. The government, at the same time, used its power position in the parliament and overrode the opposition as well as minor coalition partners.

In recession, cuts were implemented in the health care system as well. The new contract between the Health Insurance Fund (HIF) and health care providers lowered the price for services by 6 per cent but kept the amount of services at previous level.[33] The replacement rate of sick leave was decreased from 80 per cent to 70 per cent and the benefits for the first eight days had to be paid by employers instead of the HIF.[34] Amendments of the Health Insurance Act and Occupational Health and Safety Act were proceeded by the parliament jointly with the bill of the 2009 state budget amendment, which suggests that cuts in health expenditures were justified by the tense fiscal situation. The haste of the proceedings and neglect of labour market partners forced the Estonian Employers' Confederation to appeal to the Chancellor of Justice (CJ). CJ agreed that the employers' protest is justified.[35] However, the recommendation of the CJ to revise the bill was not heard.

So, under the crisis argument, an overall retrenchment of the health and unemployment insurance was carried out accompanied by the transfer of decision-making power from tripartite fund boards to the government. However, the ideological position of the governing neoliberals towards workfare only partly explains the rise of fiscal orthodoxy. The second reason was Estonia's firm decision to join the Eurozone as fast as possible. Therefore, compliance with recommendations of the ECB (2006) to follow strict budgetary balance, increase flexibility of labour markets and upskill the labour force became top government priorities. Recession made the EU fiscal policy even stricter and the European Commission together with the ECB called for strengthening the economic dimension of the European social model.[36] This approach was very much in line with the agenda of the Reform party, which used it to legitimate hard domestic reforms. Dukelow and Considine (2014) have found that calls for strict fiscal discipline were followed more closely in countries with right-wing governments and pro-EU public opinion.[37] In Estonia both conditions were present at the end of the 2000s. Differently from most European countries, here neoliberals did not lose the power in recession but on the contrary, even

33 EHIF, *Estonian Health Insurance Fund Yearbook* (Tallinn: Eesti Haigekassa, 2009).
34 Employers had to compensate sick leave from days fourth to eighth, compensation of days first to third was voluntary.
35 CJ, Õiguskantsleri märgukiri sotsiaalministrile. 10.09.2009 nr 6-1/090946/0905452.
36 Caroline De la Porte and Philippe Pochet, 'Boundaries of Welfare between the EU and Member States during the 'Great Recession'', *Perspectives on European Politics and Society* 15, no 3 (2014), 281–292.
37 Fiona Dukelow and Mairéad Considine, 'Outlier or Model of Austerity in Europe? The Case of Irish Social Protection Reform', *Social Policy and Administration* 48, no 4 (2014), 413–429.

strengthened it. The desire to have the Euro was so overwhelming among both the elite and the public that instead of getting punished by voters, the Reform party took credits from austerity measures.

Estonia was accepted into the Eurozone on 1 January 2011 that made domestic policy even more dependent on the public finance limitations set by the European Monetary Union, Maastricht criteria, and the Stability and Growth Pact. Sovereign debt, inflation level and fiscal sustainability became paramount and in order to comply with the EU requirements the Ansip IV Government (2011–2014) made the next two moves towards etatisation. First, a special fund for LM services was created within the UIF budget that included insurance contributions, transfers from the state budget and European Social Fund. With this step, insurance receipts were made available for non-contributing job seekers. Second, in 2011 the reserves of the HIF and UIF were consolidated to the state treasury in order to provide the government more freedom to manage the financial flows and improve liquidity. This plan was met with angry protests by all parties – the funds' boards, Employers' Confederation, Confederation of Trade Unions and opposition parties. As in previous cases, the government acted from the power position and carried the decision out. The Employers' Confederation reacted to this by withdrawing their representatives from the boards of the HIF and UIF.

In sum, by the end of the 2000s, Estonia has largely dismantled the Bismarckian principle of tripartite management of social security and openly declared the supremacy of sovereign debt and fiscal balance over fundamental principles of social insurance, such as counting with vested interests of contributors and targeted use of insurance revenues.

### Fiscal flirt and the rise of paternalism, 2012–2019

Estonia recovered from the recession quickly[38] and continued under the rule of the Reform party. Somewhat surprisingly, recovery was accompanied by remarkable growth in government loans, which increased starting with 2012 both nominally and as the share in GDP (See *Figure 4*). This principal change was largely left unnoticed because intensive reforms of the recession period became replaced with the 'fine tuning' of existing arrangements. The only exception was the third wave of the LM reforms that had the official objective to 'facilitate employment of those disabled people who wish to work'.[39] Indeed, economic recovery made the problem of labour shortage even more pressing and the only feasible solution was the activation of disabled people (Explanatory memorandum 2014). Disability pensioners composed about 10 per cent of the country's workforce and growing expenditures on disability pensions put the sustainability of public

[38] Palier et al., 'The Dual Dualization of Europe'.
[39] Coalition Agreement, 'Eesti Reformierakonna ja Sotsiaaldemokraatliku Erakonna koalitsiooni tegevuskava', 2014.

pension funds at risk.[40] Therefore, the work ability reform (2015–2017) had also a hidden objective – to improve the fiscal balance of pension funds and the state budget overall. From now on, UIF assessed the work ability of disabled persons and provided them individual job counselling, which increased exponentially the workload and expenditures of UIF *(Figure 2).*

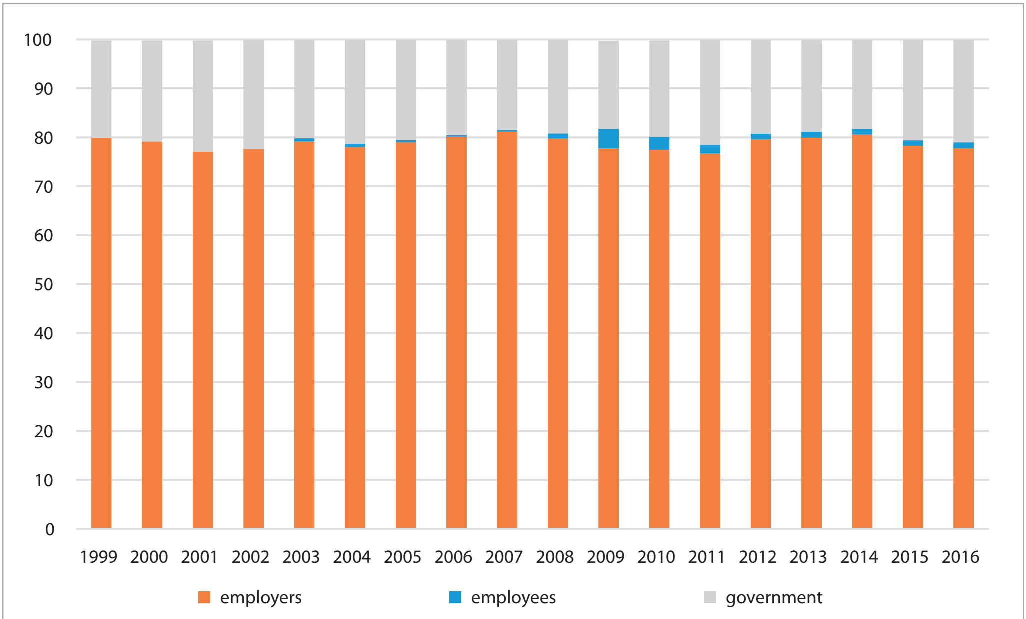
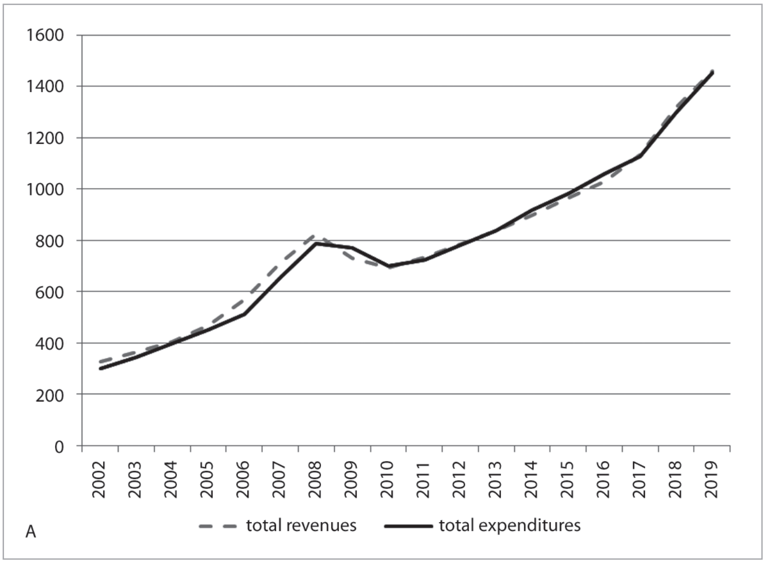



*Figure 2: Unemployment Insurance Fund expenditures, 2003–2018, thousands EUR*
*Source:* UIF Annual reports.

Unemployment benefits, which initially were the sole function of the UIF, today only make up 19 per cent of total expenditures. Despite the proposal of trade unions to implement the 2009 promises to increase the coverage of unemployment benefits, still only a third of the registered unemployed persons are entitled.[41] Besides that, the revenues for disability benefits were transferred from the public pension fund to the UIF. However, these measures did not eliminate the eminent financial pressure on the insurance based welfare system. Therefore, the Employers' Confederation voiced demands to lower social insurance contributions. For a neoliberal government it was hard to ignore this kind of proposal completely. So, rates of unemployment insurance contributions were slowly decreased in 2013–2016, but contribution rates to pension and health insurance remain at previous level. Although coalition agreements (2014, 2015) included the promise to set a ceiling to the social insurance contributions, it was not implemented.

[40] NAO, National Audit Office, 'Kontrolliaruanne: Riigi pensionisüsteemi jätkusuutlikkus', 2014; Praxis, 'Eesti sotsiaalkindlustussüsteemi jätkusuutliku rahastamise võimalused', 2011.
[41] UIF, 'Töötukassa Majandusaasta aruanne', 2018.

In 2016, the parliament voted non-confidence to the Reform party government, which ended the 11-year rule of neoliberals. The new coalition government with PM Ratas (Centre party) switched the focus of social policy from labour market to the health care. The insurance based national health care system suffered from two fundamental problems. First, health insurance contributions of the working population were not sufficient to cover all health care needs and waiting lists to special care were in steady increase. Second, the portion of uninsured residents without free access to the health care is considerably high, about 6 per cent.[42] The latter was the main worry of social democrats, whereas the former – of the PMs of the Centre party. Mainly because of power balance within the coalition, but even more due to the adherence to the fiscal discipline, only the budget deficit was effectively addressed. Previously, the HIF budget was made overwhelmingly out of the health insurance contributions and state subsidies composed only 1.4 per cent. Now, the government increased the subsidies from the general tax revenues to the HIF in order to compensate the health care of old age pensioners, but also – to transfer the emergency care to the HIF. This policy has been in place since 2018, state subsidies making about 7–8 per cent of the health budget.[43] Although this is a significant increase, it is not comparable with changes in the UIF where transfers from the state budget compose 55 per cent of the budget.[44] Transfer of tax revenues into social funds had effect on their entire budgets, which increased visibly since 2017–2018 *(Figure 3).* Since recovering from the Recession, the fiscal balance of revenues and expenditures is strictly kept in both funds.




[42] OECD, *Estonia: Country Health Profile 2017. State of Health in the EU* (Paris: OECD Publishing, European Observatory on Health Systems and Policies, 2017).
[43] EHIF, *Eesti Haigekassa. Finantsnäitajad* (Tallinn: Eesti Haigekassa, 2019).
[44] UIF, 'Töötukassa Majandusaasta aruanne', 2018.

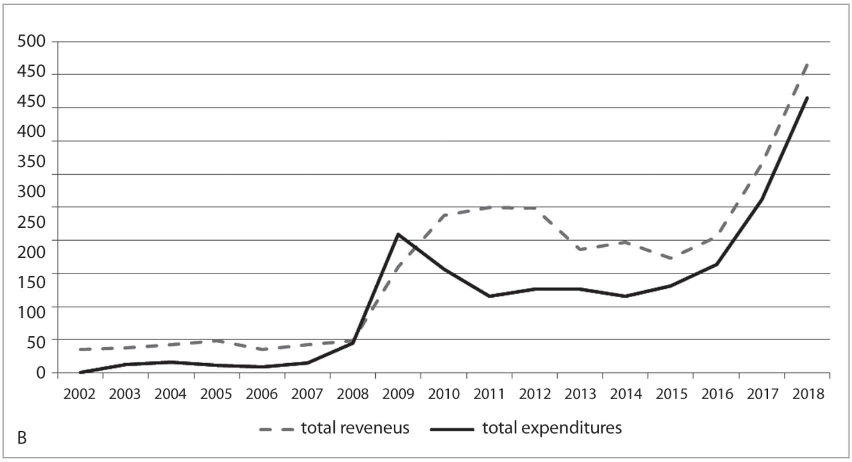



*Figure 3: Revenues and expenditures of HIF (A), UIF (B), 2002–2019, MEUR*
*Source:* HIF and UIF Annual Reports.

In the government's general fiscal policy, however, the approach has changed. All governments regardless of their ideological composition have been more keen to take loans, which increased the government debt in five years sharply from 4 per cent to 10 per cent of GDP.

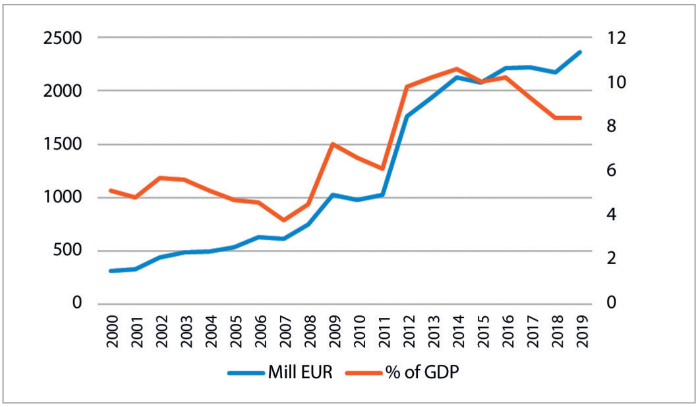



*Figure 4: Government debt, 2000–2019 in nominal value and as share of GRDP*
*Source:* Statistics Estonia, 2020.

In sum, in the 2010s, Estonia has principally revised the former principle of fiscal prudence. It is firmly kept as the key priority in governing the social funds, but visibly eased in the general budgetary policy. Furthermore, the Centrist-led coalition continued to strengthen etatist tendencies by using unilaterally reserves of social funds and blurring boundaries between insurance-based and tax-based programmes. This behaviour was addressed critically by the Chancellor of Justice[45] and the Auditor General[46] who claimed that the government is using social insurance revenues to finance running state expenditures.

## Conclusion

Tracing the process on reforms in major areas of social insurance during the first two decades of the 21st century allows concluding that the 'state is more present' in the Estonian welfare governance today than at the turn of the Millennium. Many characteristics of these reform efforts mirror developments in Western Europe.

Social policy reforms in France and Germany in the 1990s and 2000s have paradigmatically restructured the initial Bismarckian welfare regime. Marketisation, cuts in benefits, sacrificing social protection of labour market insiders, changing the financing mechanisms towards less insurance contributions and more taxes, and the state's more active intervention into the governance of social insurance are seen as factors questioning the preservation of the Bismarckian tripartite model.[47] A critical response to these claims argues that the German welfare model has remained resilient in its core, because accompanying social insurance revenues by state subsidies has been a long tradition.[48] Yet, despite disagreement in how exactly to define the regime change, there seems to be a consensus that governments play in today's social insurance systems a more powerful role.

Quasi-Bismarckian welfare systems in post-communist Europe may potentially be better prepared to a structural turn towards etatisation. First, their welfare institutions have been in place about 20–25 years only and even within this period experienced repeated restructuring. Second, the Bismarckian welfare model presumes a decentralised government, multiple veto points and strong non-parliamentary players. Most of Eastern European democracies, including Estonia have a unicameral parliamentary system with few veto points. Although the principle of checks and balances is written in the Estonian Constitution, controlling institutions such as the National Audit Office or the Chancellor of Justice do not have veto power. Social dialogue, which still suffers from discredited Soviet past is weak and non-structured. All this makes CEE governments that typically (as is the case in Estonia) control the parliamentary majority, a powerful actor and opens the political space for etatisation. The governments in Estonia acted unilaterally and neglected protests of social partners and constitutional review institutions (NAO, JC). Because of the low bargain power of the social partners, we do not see in

45 Ülle Madise, 'Õiguskantsler: haige- ja töötukassa reservi kasutamine on seadusega vastuolus', *BNS, Postimees,* 2017.
46 Janar Holm, 'Valitsuse käsi sügaval töötajate ja tööandjate hoiupõrsas', 2019.
47 Bruno Palier and Claude Martin, 'From 'a Frozen Landscape' to Structural Reforms: The Sequential Transformation of Bismarckian Welfare Systems', *Social Policy and Administration* 41, no 6 (2007), 535–554; Palier, *A Long Goodbye to Bismarck?;* Martin Seeleib-Kaiser, 'The End of the Conservative German Welfare State Model', *Social Policy and Administration* 50, no 2 (2016), 219–240.
48 Florian Blank, 'The state of the German social insurance state: Reform and resilience', *Social Policy and Administration* 54, no 3 (2020), 505–524.

Estonia the clarification of responsibility between the state and LM partners that has accompanied retrenchment in social insurance programmes in France or Germany.[49] In Estonia, insurance contributions were neither lowered nor substantially complemented by tax-financed instruments; government subsidies to the UIF and HIF were simply a fiscal flirt to mask budgetary problems instead of providing true relief to social taxes or improve the social protection of citizens. The statistical evidence also suggests that the government's rhetoric of fiscal prudence has been just a short-time slogan to get accepted into the Eurozone and an excuse to keep welfare expenditures low.

The current study was finalised at the moment when Estonia and several other Eastern European countries face an increase of populist parties and authoritarian principles. Viktor Orbán in Hungary and Robert Fico in Slovakia have called to strengthen the government's role in economy – Orbán nationalised private pension funds and Fico consolidated health insurers into a single state-run company.[50] Jüri Ratas in Estonia wants to dismantle the mandatory private pension insurance and increase current pension payments. Noteworthy, both opponents and proponents of dismantling use the argument of the state's responsibility to secure a decent living standard for the elderly. This dispute, which in 2020 is held in the Constitutional Court provides one more evidence that the discourse of fiscal prudence dominant during and after Recession is today becoming replaced by the paternalist discourse. If discourse is followed by structural reforms, we will see the further decay of initial tripartite Bismarckian welfare model.

## Literature

Aidukaite, Jolanta, 'Old welfare state theories and new welfare regimes in Eastern Europe: Challenges and implications'. *Communist and Post-Communist Studies* 42, no 1 (2009), 23–39. Online: https://doi.org/10.1016/j.postcomstud.2009.02.004

Avlijaš, Sonja, 'Revisiting the Baltic growth model: From neoliberalism to the social investment welfare state'. *Sciences Po LIEPP Working Paper* no 66 (2017).

Blank, Florian, 'The state of the German social insurance state: Reform and resilience'. *Social Policy and Administration* 54, no 3 (2020), 505–524. Online: https://doi.org/10.1111/spol.12542

Bohle, Dorothee and Bela Greskovits, *Capitalist Diversity on Europe's Periphery.* London: Cornell University Press, 2012. Online: https://doi.org/10.7591/9780801465666

Bouget, Denis, Hugh Frazer, Eric Marlier, Sebastiano Sabato and Bart Vanhercke, *Social Investment in Europe. A Study of National Policies.* European Social Policy Network, 2015. Online: https://doi.org/10.2767/084978

CJ, Õiguskantsleri märgukiri sotsiaalministrile. 10.09.2009 nr 6-1/090946/0905452. Online: www.oiguskantsler.ee/sites/default/files/field_document2/6iguskantlseri_margukiri_haigus-huvitise_maksmine_ja_haiguslehtede_oigsuse_kontrollimine.pdf

49 Palier and Martin, 'From 'a Frozen Landscape''.
50 Orenstein, 'Reassessing the neo-liberal development model'.

Cerami, Alfio and Pieter Vanhuysse (eds), *Post-Communist Welfare Pathways: Theorizing Social Policy Transformations in Central and Eastern Europe.* Basingstoke: Palgrave Macmillan, 2009.

Coalition Agreement, 'Koonderakonna ja Maarahva Ühenduse ning Keskerakonna valitsuskoalitsiooni programmilised seisukohad', 1995. Online: www.valitsus.ee/et/valitsus/varasemad-valitsused/id/39

Coalition Agreement, 'Eesti Reformierakonna ja Sotsiaaldemokraatliku Erakonna koalitsiooni tegevuskava', 2014. Online: www.valitsus.ee/sites/default/files/content-editors/failid/kevad-koalitsiooni_tegevuskava.pdf

Coalition Agreement, 'Eesti Reformierakonna, Sotsiaaldemokraatliku Erakonna ning Erakonna Isamaa ja Res Publica Liit kokkulepe valitsuse moodustamise ja valitsusliidu tegevusprogrammi põhialuste kohta', 2015. Online: www.valitsus.ee/sites/default/files/re_sde_ja_irli_valitsusliidu_lepe.pdf

De la Porte, Caroline and Philippe Pochet, 'Boundaries of Welfare between the EU and Member States during the 'Great Recession''. *Perspectives on European Politics and Society* 15, no 3 (2014), 281–292. Online: https://doi.org/10.1080/15705854.2014.912396

Dukelow, Fiona and Mairéad Considine, 'Outlier or Model of Austerity in Europe? The Case of Irish Social Protection Reform'. *Social Policy and Administration* 48, no 4 (2014), 413–429. Online: https://doi.org/10.1111/spol.12068

EHIF, *Estonian Health Insurance Fund Yearbook.* Tallinn: Eesti Haigekassa, 2009. Online: www.haigekassa.ee/haigekassa/finantsnaitajad

EHIF, *Estonian Health Insurance Fund Yearbook.* Tallinn: Eesti Haigekassa, 2018. Online: www.haigekassa.ee/sites/default/files/uuringud_aruanded/2018_majandusaasta_aruanne_eng_0.pdf

EHIF, *Eesti Haigekassa. Finantsnäitajad.* Tallinn: Eesti Haigekassa, 2019. Online: www.haigekassa.ee/haigekassa/finantsnaitajad

Eesti Päevaleht, 'Ansip peatab riigi ja inimeste maksed II pensionisambasse, 1. aprill', 2009. Online: www.pensionikeskus.ee/uudis/ansip-peatab-riigi-ja-inimeste-maksed-ii-pensionisambasse/

European Central Bank, *Convergence Report December 2006.* Frankfurt am Main: ECP, 2006. Online: www.ecb.europa.eu/pub/pdf/conrep/cr200612en.pdf

Esping-Andersen, Gøsta, *The Three Worlds of Welfare Capitalism.* Princeton, New Jersey: Princeton University Press, 1990.

ESSPROS, European System of Integrated Social Protection Statistics, Welfare expenditures as % of GDP, 2019.

Government Decree, Eesti Vabariigi Valitsuse määrus Eesti Sotsiaalfondi Nõukogu koosseisu kinnitamise kohta, VVm 06.05.1991 nr 51, *RT* 1991, 10, 159. Online: www.riigiteataja.ee/akt/13070036

Government Decree, Vabariigi Valitsuse 5. jaanuari 2001. a määruse nr 3 „Eesti Haigekassa põhikiri" muutmine. *RT I*, 18.08.2018, 1. Online: www.riigiteataja.ee/akt/118082018001

Government Decree, Valitsuse tegevuse põhieesmärkide kinnitamine 1997. ja 1998. aastaks. *RT I,* 1997, 46, 766. Online: www.valitsus.ee/sites/default/files/rk_valitsused/valitsus/11.06.1997_koonderakond_maarahvauhendus_arengupartei_valitsuse_tegevuse_pohieesmargidsiiman.pdf

Hay, Colin and Daniel Wincott, *The Political Economy of European Welfare Capitalism.* Basingstoke: Palgrave Macmillan, 2012. Online: https://doi.org/10.1007/978-1-137-02071-0

Holm, Janar, 'Valitsuse käsi sügaval töötajate ja tööandjate hoiupõrsas', 2019. Online: www.riigikontroll.ee/Suhtedavalikkusega/Riigikontrolliblogi/tabid/310/ItemId/1055/amid/920/language/et-EE/Default.aspx

Kuitto, Kati, *Post-Communist Welfare States in European Context. Patterns of Welfare Policies in Central and Eastern Europe.* Cheltenham: Edward Elgar Publishing, 2016. Online: https://doi.org/10.4337/9781784711986

Labour Contract Act, Töölepinguseadus, *RT I,* 2009. 5, 35. Online: www.riigiteataja.ee/akt/13120899

Labour Market Benefits and Services Act, Tööturutoetuste ja teenuste seadus, *RT I* 2005, 54, 430. Online: www.riigiteataja.ee/akt/948762

Madise, Ülle, 'Õiguskantsler: haige- ja töötukassa reservi kasutamine on seadusega vastuolus'. *BNS, Postimees,* 2017. Online: https://majandus24.postimees.ee/4218859/oiguskantsler-haige-ja-tootukassa-reservi-kasutamine-on-seadusega-vastuolus

Ministry of Finance, 'Valitsus otsustas 1. juunist peatada riigipoolsed sissemaksed teise pensionisambasse. 13. aprill', 2009. Online: www.rahandusministeerium.ee/et/uudised/valitsus-otsustas -1-juunist-peatada-riigipoolsed-sissemaksed-teise-pensionisambasse

Morel, Nathalie and Joakim Palme, 'Financing the Welfare State and the Politics of Taxation' in *The Routledge Handbook of the Welfare State,* ed. by Bent Greve. London: Routledge, 2013, 401–409. Online: https://doi.org/10.4324/9780203084229-47

Mölder, Martin, 'Fluid Voters behind a Stabilising Party System? Investigating Party System Parameters in Estonia', paper presented at the 41st ECPR Joint Sessions of Workshops in Mainz, 11–16 March 2013, *Workshop 31,* 'Party System Dynamics: New Tools for the Study of Party System Change and Party Transformation'.

NAO, National Audit Office, 'Kontrolliaruanne: Riigi pensionisüsteemi jätkusuutlikkus', 2014. Online: www.riigikontroll.ee/tabid/215/Audit/2313/WorkerTab/Audit/WorkerId/152/language/et-EE/Default.aspx

Norkus, Zenonas, *On Baltic Slovenia and Adriatic Lithuania.* Budapest: CEU Press, 2012.

OECD, *Estonia: Country Health Profile 2017. State of Health in the EU.* Paris: OECD Publishing, European Observatory on Health Systems and Policies, 2017. Online: www.oecd.org/estonia/estonia-country-health-profile-2017-9789264283350-en.htm

Orenstein, Mitchell A, 'Reassessing the neo-liberal development model in Central and Eastern Europe', in *Resilient Liberalism in Europe's Political Economy,* ed. by Vivien A Schmidt and Mark Thatcher. Cambridge: Cambridge University Press, 2013, 374–402. Online: https://doi.org/10.1017/cbo9781139857086.017

Palier, Bruno (ed.), *A Long Goodbye to Bismarck? The Politics of Welfare Reform in Continental Europe.* Amsterdam: Amsterdam University Press, 2010.

Palier, Bruno and Claude Martin, 'From 'a Frozen Landscape' to Structural Reforms: The Sequential Transformation of Bismarckian Welfare Systems'. *Social Policy and Administration* 41, no 6 (2007), 535–554. Online: https://doi.org/10.1111/j.1467-9515.2007.00571.x

Palier, Bruno, Jan Rovny and Allison E Rovny, 'The Dual Dualization of Europe: Economic Convergence, Divergence, and their Political Consequences', in *Welfare Democracies and Party Politics: Explaining Electoral Dynamics in Times of Changing Welfare Capitalism,* ed. by Philip Manow, Bruno Palier and Hanna Schwander. Oxford: Oxford University Press, 2018, 281–297.

Pierson, Paul, 'Coping with Permanent Austerity: Welfare State Restructuring in Affluent Democracies', in *The New Politics of the Welfare State*, ed. by Paul Pierson. Oxford: Oxford University Press, 2001, 410–456. Online: https://doi.org/10.1093/0198297564.003.0014

Puur, Allan and Luule Sakkeus, 'International migration and demographic challenges of Europe', in *Estonian Human Development Report 2016/2017. Estonia at the Age of Migration*. Tallinn: Eesti Koostöö Kogu, 2017. Online: https://inimareng.ee/en/migration-and-demographic-changes-in-estonia-and-europe/international-migration-and-the-demographic-challenges-of-europe/

Praxis, 'Eesti sotsiaalkindlustussüsteemi jätkusuutliku rahastamise võimalused', 2011. Online: www.praxis.ee/fileadmin/tarmo/Projektid/Tervishoid/Eesti_tervishoiu_rahastamise_jatkusuutlikkus/Eesti_sotsiaalkindlustussuesteemi_jaetkusuutliku_rahastamise_voimalused_taeisversioon.pdf

Raudla, Ringa and Rainer Kattel, 'Fiscal stress management during the financial and economic crisis: The case of the Baltic countries'. *International Journal of Public Administration* 36, no 10 (2013), 732–774. Online: https://doi.org/10.1080/01900692.2013.794428

Ronchi, Stefano, 'Which Roads (if any) to Social Investment? The Recalibration of EU Welfare States at the Crisis Crossroads (2000–2014)'. *Journal of Social Policy* 47, no 3 (2018), 459–478. Online: https://doi.org/10.1017/S0047279417000782

Seeleib-Kaiser, Martin, 'The End of the Conservative German Welfare State Model'. *Social Policy and Administration* 50, no 2 (2016), 219–240. Online: https://doi.org/10.1111/spol.12212

Taylor-Gooby, Peter, Benjamin Leruth and Heejung Chung, *After Austerity: Welfare State Transformation in Europe after the Great Recession*. Oxford: Oxford University Press, 2017.

Toots, Anu, 'International and National Actors in Estonian Pension Reform', in *Delivering Public Services in CEE Countries: Trends and Developments,* ed. by Jane Finlay and Marek Debicki. OECD LEED Programme, Bratislava: NISPAcee, 2002, 246–259.

Toots, Anu, 'Why Do Actors Vary? A Study of the Estonian Pension and Unemployment Insurance Legislations', in *Politico-Administrative Dilemma: Traditional Problems and New Solutions,* ed. by B. Guy Peters, Georg Sootla and Bernadette Connaughton. Bratislava: NISPAcee, 2006.

UIF, 'Töötukassa Majandusaasta aruanne', 2011. Online: www.tootukassa.ee/content/tootukassast/majandusaasta-aruanded

UIF, 'Töötukassa Majandusaasta aruanne', 2018. Online: www.tootukassa.ee/content/tootukassast/majandusaasta-aruanded

Unemployment Insurance Act, Töötuskindlustuse seadus, *RT I,* 13.03.2019, 181. Online: www.riigiteataja.ee/akt/113032019181?leiaKehtiv

## Further literature

Beramendi, Pablo, Silja Häusermann, Herbert Kitschelt and Hanspeter Kriesi (eds), *The Politics of Advanced Capitalism*. Cambridge: Cambridge University Press, 2015.

Ebbinghaus, Bernhard, 'Reforming Bismarckian Corporatism. The Changing Role of Social Partnership in Continental Europe', in *A Long Goodbye to Bismarck? The Politics of Welfare Reform in Continental Europe,* ed. by Bruno Palier. Amsterdam: Amsterdam University Press, 2010, 255–278. Online: https://doi.org/10.1017/9789048512454.011

Manow, Philip, Bruno Palier and Hanna Schwander (eds), *Welfare Democracies and Party Politics:*

*Explaining Electoral Dynamics in Times of Changing Welfare Capitalism*. Oxford: Oxford University Press, 2018. Online: https://doi.org/10.1093/oso/9780198807971.001.0001