

## Why actors vary?

### A study of Estonian pension and unemployment insurance legislation

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Transformation of the post-communist welfare state has won academic attention already for years. Reasons why the interest still persists are manifold. Firstly, it represents one mode of worldwide attempts to update the welfare state to demands of postindustrial society. Secondly, some common European features of welfare policy changes can be revealed in CEE countries, shift toward contribution based social security schemes and promotion of social dialogue to be mentioned as just two most fundamental among them. On the other hand, although European countries face broadly the same difficulties, comparison of social policy making confirms that responses vary from country to country. Even the postcommunist countries with the similar political legacy demonstrate different solutions to the welfare reform challenges.

“We find different national trajectories of welfare state adjustment in response to broadly similar challenges. The different reform paths are influenced and shaped by a series of factors: the partisan complexion of government, the power resources and aggregation capacity of trade unions and employers, the system of interest mediation, the room for maneuver granted by the nation’s polity and, last but not least, the institutional legacy of the welfare regime.” (Leibfried, Obinger, 2001, 5)

Policy making process in transition countries provides rich empirical data to test some mainstream theoretical conceptions. One of the latter often raised in recent works on the welfare state is the neo-institutionalism notion of the “path dependency” (Pierson 1994, Bonoli, 2000; Esping-Andersen 1999, Palier 2001). According to Bonoli & Palier “the new institutionalism approach seems particularly helpful to account for the outcomes observed and explains the resistance of different structures to change through past commitments, the political weight of

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welfare constituencies and the inertia of institutional arrangements. These different factors lead to institutional continuity or “path dependency” (Bonoli, Palier, 2001, 58).

Some opponents argue that this thesis does not hold for transitional countries because of upheaval in their government regimes. K. Hinrics questions the validity of path dependency in welfare reforms’ analysis because current reforms are so divergent (Hinrics, 2001, 78). Prominent scholars of post-communist governance Offe, Elster and Preuss (1998) support the path dependency theory in a peculiar way claiming that in realms, where a former policy does not exist, policy changes will occur quicker. We can call it as “zero-path dependency” for post communist regimes.

In the current paper we try to analyze how these various assumptions hold in the case of two quite similar reform initiatives in Estonia – introduction of unemployment insurance and introduction of three-legged pension system. These policies are similar in many aspects. They both are based on contributions and benefits depend on them; their resources are allocated in separate funds instead of the state budget and supervised by the semi-public bodies; there is a consensus among Estonian political parties about the necessity and substance of those reforms. We also believe that strong interest of international actors like ILO, IMF, WB and EU toward introduction of social insurance principles in both fields has a role to play in policy formation.

Despite of mentioned similarities, outcomes and legislative process itself diverged. In the case of unemployment insurance non-parliamentary actors were actively involved, majority of proposals made by social partners has been enacted. Contributory pension legislation, in contrary, took his shape in result of the work done by close circle of experts without engagement of labor market partners.

Here we approach our central research question – why actors vary despite of similarities in the nature and socio-political context of reforms? To answer the question we employ new institutionalism approach and look at the balance between parliamentary and non-parliamentary actors in these two policy areas. For the former we analyze the party composition of the legislative and executive bodies, compare political parties’ programs and coalition agreements. For the latter our focus is on the configuration and character of pressure groups that had access to the policy making process. Many scholars (Pierson, Adolino & Blake, Offe, Preuss et al.) argue that fragmented and poorly institutionalized interests are not able to influence reform process and

to use veto points even if they exist in the decision-making framework. So the level of institutionalization of the vested interests deserves our special attention.

The issue of pressure groups brings us to another question often raised in welfare reform literature. What is the role of public support in the fortune of reforms? In this aspect pension policy and unemployment protection vary remarkably. Big share of pensioners in the electorate and the universal nature of the old age as a social risk turn the pension insurance into a sensitive topic for the broad public. Unemployment insurance receives less popular support because every employed person has to bear costs whereas benefits are concentrated mainly in decreasing areas of the labor market and in lower strata of working class.

### **Parliamentary actors**

What was the actual role of parliament in passing the laws on pension insurance and unemployment insurance? Did the parliament-executive nexus differ in two cases under study? How divergent have been positions of major parties on these issues?

In most post communist countries welfare issues came into political agenda only in the second period of transition when major economic reforms on market liberalization have been finished. Until mid of 1990-s Estonian political parties avoided emphasis on social policy reform in their programs, trade unions were searching for their new identity in a completely altered environment.

Pension issues became into Estonian political agenda earlier than the unemployment protection, the first legal act on state living allowances was passed already in 1993. At the same time, radical solutions were postponed year by year and the reform, which led finally to the implementation of the World Bank model, started actually just in 1997. The government undertook more radical initiatives after only two years in power. In 1998 three new laws (Act on Social Tax, Act on Public Pension Insurance and Act on Pension Funds), which play crucial role in building up the new pension insurance system, have been passed by parliament. Two remarkable features must be stressed here. Firstly, in the coalition agreement private sector was seen as the main provider of old-age social security. This was quite a surprise because governmental parties of that period can be characterized as left-center oriented and not as neo liberal ones. Consequently, this advocacy for the private pension insurance did not stem from the ideological platforms of governmental parties. Secondly, private pension funds were not just

declared as a policy aim but also introduced in 1998. Thus Estonia arrived into a peculiar situation, where first and third pillar of the planned three-legged pension system were set up whereas second pillar did not exist. Once again we can see New Right trends in implemented pension policy, although thatcherism was favored rather by opposition whereas by coalition parties. So, the question arises what kind of factors urged market-oriented policy design despite of the absence of electoral support and ideology of governmental parties toward this line? Probably, relations with the IMF set up by the former cabinet of Mart Laar continued to influence social policy design what can be regarded as the short term path dependency (Toots, 2003).

As a result of the next parliamentary elections in 1999 a new coalition was formed. Concerning the pension policy its main objective was the implementation of compulsory fully funded pension scheme (second pillar) and conclusion with this the long process of pension reform. As for the former coalition of 1995-1999, first years in power did not bring any principal decisions in pension reform also for that cabinet headed again by M.Laar, the well-known radical reformer. Possibly “the political business circle” had its influence on the tempo of reform. The main preparatory work for completing the three-legged system was done in 2000 when electoral interest toward policy has declined after elections one year before. The issue of compulsory pension savings was debated in parliament since early 2001 and the relevant legal act was passed in fall.

With the last legal component of the pension system the long saga of reform game to the end. In the latest parliamentary elections in spring 2003 pension issues were not in the top of the campaign.

We believe that two kinds of conclusion can be drawn here. Firstly, positions of political parties on pension reform issues were rather similar, there was no party opposing the WB model as such. There was also no public debate about funded components of pension system what will demonstrate their real impact on living standard only in the far future. Consequently the latest pension reform issues were hard to use for political mobilization of voters. Secondly, pension insurance problems are divided according to the “issue ownership” lines. Left-wing political parties are concerned with the first pillar, whereas right-wing parties concentrate on the second and third pillars. The former advocate for stronger indexation and increase of benefits in the first pillar, the latter promise tax deductions for insurers and stability of the funded schemes. This

division of issues supported the situation, where parliamentary floor was not the main arena of reform debates and electorate did not form a united protest public.

The unemployment issue became burning in 1999 when the number of unemployed persons rose sharply in result of Russian economic crises. In this time a flat rate system of unemployment assistance existed with extremely low level of the benefit (25 EUR).

Coalition agreement signed after electoral victory by the two rightwing and one social-democratic party in spring 1999 put labor market policy at the prominent place. The main focus was on active labor market instruments but introduction of unemployment insurance based on the shared contributions was also declared. Once again in two first years in power only marginal amendments in the existing legal acts have been made. Thus, the pattern of decision making looked quite similar to that of pension policy. Unpopular reforms what increased contribution rates in social insurance have been postponed into inter-election period.

At the same time the government was not afraid to tighten eligibility rules for unemployment assistance schemes. This fact supports conclusion by Bonoli & Palier that flat rate benefit programs managed by the government solely are more easily subject to retrenchment than contribution based schemes. (Bonoli, Palier, 2001, 63). Generally speaking, unemployed people deserved much less attention from politicians than pensioners.

In the very beginning of the 2001 government proposed the Unemployment Insurance Act to the parliament and six months later it was passed. Comparing to the proceeding of the Act on Compulsory Funded Pension, it took some weeks longer. A closer look reveals that in the case of unemployment legislation twelve weeks was needed to reach the second reading, whereas in the case of pension legislation this happened already after six weeks.

These two pieces of legislation have been processed in the parliament in parallel. Thus we cannot consider the impact of divergent party composition in parliament or political shifts in the coalition program. To explore divergent decision making patterns we should turn our analysis to non-parliamentary actors.

### **Non parliamentary actors**

As pointed out by some scholars, in old age security policy few (collective) actors are involved (Hinrics, 2001, 79). “It is predominantly money that is (re)-distributed, and even in countries with a federalist state structure, public pension policy is always under the jurisdiction of the central government. However, differently or to a much larger extent than other arrangements of protection (income replacement by in the case of unemployment or sickness, the provision of health care) income security during retirement is regularly marked by components of private welfare”(Ibid.). The latter notion is especially relevant to our analysis, because recent Estonian pension reform concerned primarily fully funded schemes managed by the market institutions.

The old-age social security in Estonia has been traditionally the monopoly of one actor – the government. Although the policy field did well exist in Soviet period there was not any non-parliamentary actor involved into pension policy arrangements. This vacuum was very soon after regaining the state independence filled with international organizations. IMF, WB, ILO and EC showed active interest in social security issues and expanded their activities into the Baltic region. Despite of very different nature of these actors they all had similar motive for policy intervention. As Deacon pointed out “concern to stabilize the process of market reform and prevent its slowing down, with appropriate attention to the social costs of transition” characterized activities of all these agencies (Deacon 1997).

The analysis has shown that international organizations had different impact on Estonian pension policy design (Toots, 2003). Broad organizations with the complicated institutional structure like ILO, CE and EU used their existing internal units whereas IMF and WB sent their special representatives to the CEE countries. European organizations worked on the very broad scale and co-ordination between various reform areas was random that reduced their impact on the decision-making. IMF and WB concentrated their activities on welfare economics and employed long-term experts for intervention. Country born experts who had their employment carrier in the WB have become the most influential players in Estonian pension policy design. To elaborate the reform concept a Commission on Social Security Reform (CSSR) has been established. Two out of five members had explicit relations the World Bank (WB) and one to the Council of Europe<sup>2</sup>. Another interesting detail is that although Minister of social affairs was

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<sup>2</sup> A.Hansson, councilor to the prime minister worked in 199 as expert of the World Bank, M.Jesse was in 1994 local counselor to the WB and later coordinator of the WB-Estonian Health Policy project, L.Leppik worked in Council of Europe as expert

responsible for the work of the commission, she was not a member by herself. In the relevant government regulation it was stated, that commission should pay attention to the financial aspects of social security reform, including cooperation in the field with IBRD. These institutional arrangements in the course of reform provide evidence how pension issues were quickly shifted from the broad public to the close circle of experts (Toots, 2003).

Another point relevant to the impact of non-parliamentary players deals with complexity of the reform process and policy preferences of parliamentary actors. Discussion around social equity and economic efficiency has become a classical dilemma for welfare state theorists. For Estonian neo liberal governments fast economic growth has been the ultimate goal. Therefore they adjusted their social reform programs to the fiscal and economic condition set by the IMF to get standby loans. Absence of an active pensioners' lobby that would resist the New Right approach to the social security on the one hand, and growing public trust toward private banking sector on the other, contributed to the successful intervention of financial institutions into pension policy reform. Private banks and insurance companies, who got the right to administer second pillar contributions, carried jointly with the government a powerful advertisement campaign in 2002. As a result, the number of persons who joined the second pillar was double as high as expected. The negative side of the story was a large deficit in the state budget and raising transition costs. Unfortunately, neither parliamentary actors nor non-parliamentary players from the business seem to be seriously concerned about the increasing financial pressure. B. Casey warns, "policy makers should rather concern themselves with ensuring income adequacy rather than pursuing the doubtful advantages of funding" (Casey, 2003).

Enactment of unemployment insurance provides a very divergent from the above case pattern of engagement. International actors (EU, and in some extent ILO) played a secondary role suggesting European standards of social protection only. Foreign experts or advisors were not involved, nor was any special non-parliamentary committee set up to design the insurance legislation. Instead trade unions and employer organizations took the initiative. Although unemployment and the relevant policy did not exist in former Soviet period, Estonia has a long tradition in cooperation of state authorities and labor market organizations. These well-established actors had the capacity to interfere into policy-making process when the legal

proposal was in the parliament committee. A detailed documentary analysis demonstrated that all joint proposals made by the central federations of employers and employees were taken into consideration, in many cases the draft law has been changed according to those proposals. The result was that an originally state centered draft transformed during negotiations in the parliamentary committee into a labor market centered act (Kallas, 2002, 75).

Consequently, the success of non-parliamentary actors has been made by the political traditions of cooperation and by strong organization of employers and trade unions interests. P. Pierson points to the institutional strength of pressure groups as to the important predictor of their effective impact (Pierson, 1994). The fact, that active involvement in unemployment policy reform was limited within the top structures whilst rank-and-file members remain passive, did not play any important role in this case.

Involvement of social partners, particularly of the labor market institutions in welfare reforms has deserved attention of many researchers. Bonoli argues that the main concern in reform debates is management of the schemes, not the level of contributions or benefits (Bonoli, 2000, 125). He also says that government is used to be the player who favors “retrenchment exercises” whereas social partners can be obstacles for the government. (Bonoli, Palier, 2001, 57). In Estonia we see an opposite picture. Levels of unemployment insurance benefits and contribution rates have been the most debated issues whereas in management problems both sides came easily to the solution. It is also striking that in Estonia employers’ and employees’ federations stood for the lower level of social protection than the government. The latter preferred to enact European standard of replacement rate (40-50% of previous salary depending on insurance period).

The amount of resources was the only issue where the proposal of labor market partners has been rejected. As far the management of insurance was concerned government gave up its initial positions and agreed upon establishment of an independent semi public fund. Employer federation, trade unions and the government will each nominate two members to the funds council; the council itself elects the chairman. These facts demonstrate that institutional form of insurance was not so important for actors as the substance of benefits. We argue, that such state of affairs is caused by the weak path dependency in post communist unemployment policy.

Because the cooperation between the state and trade unions in the Soviet period had completely another context it did not cause rigid standpoints in the current reform process.

### **Path dependency revisited**

Our analysis has demonstrated that path dependency remains a complicated issue in post communist countries. We investigated legislative process in two different welfare areas. In the case of unemployment policy we could expect that no path dependency exists because there was no unemployment in the Soviet time. Relying on Offe et al. we could suppose that reforms in this area are going fast and smoothly. In the case of old age pension we could assume that path dependency exists because this has been a traditional responsibility of the government. Can these assumptions explain differences in the reform process?

As table below shows, there is no any clear-cut answer. Institutional framework and policy realm gave a complicated mix with diverse outcomes for the two studied cases. It seems that G. Bonoli's thesis about priority of institutional framework, which holds in established welfare states could not be so explicitly approved in post communist countries. For emerging welfare states institutions and policy content play equally important role in the reform process.

<i>Criteria</i>	<i>Pension insurance</i>	<i>Unemployment insurance</i>
Existence of policy area	Yes	No
Continuity of institutional framework	Changed	Present
Outcome of policy process	New institutions for the old policy	Old institutions for the new policy

*Table 1. Comparison of policy patterns in pension and unemployment insurance.*

When we look not at the whole process of pension reform but only on enactment of fully funded schemes we discover many similarities with the unemployment insurance legislation. Firstly, the time spent to parliamentary proceedings was approximately the same. Secondly, in both cases non-parliamentary actors have played an influential role. Thirdly, international

standards and models have shaped both unemployment and old-age insurance although in a different extent.

The main difference between two cases concerns the character of non-parliamentary actors. International actors intervened extremely actively into design of the pension reform and met no opposition from main political parties. The unemployment insurance legislation was designed by traditional domestic actors, international social security standards being modestly incorporated.

There was some variety in handling the public support for reforms. The structure of three-pillar pension system allows splitting beneficiaries into two different interest groups – current pensioners related to the current political authorities and future pensioners dependant of capital markets. This fragmentation of interest groups hinders formation of a broad strong opposition who can block radical reforms (Pierson, 1997). In the case of unemployment insurance there was no large public or media attention to the reforms, bottom - up interest groups were poorly organized. Thus, the question of public support was not seriously at the agenda.

Fundamental consensus about social insurance issues among political parties and their salient position contributed to the policy-making pattern where both old and new non-parliamentary actors played a remarkable role. Political parties have been more closely related to those actors whereas to their voters and citizens. Thus, not the changed policy environment only decreased the impact of path dependency but so did also new actors in policy-making process.

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