

Social Contradictions Shadowing Estonia's "Success Story"

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Introduction

On 23 April 2001, the Estonian media publicized an appeal drafted by twenty-six Estonian social scientists titled "Two Estonias." The main message of this dramatic document asserted that:

Estonian society [has] run into [a] political, social, and ethical crisis. Governance is alienated from the people to the extent that we have to speak about two different Estonias. Two-thirds of Estonian children grow up in poverty, people suffer from the lack of basic security, many young people want to leave the country. . . as long as most of the steam is used to create for foreigners a glamorous illusionary image of Estonia as a successful developed country, social problems will not find solutions. (Postimees)

Despite Estonia's comparatively good economic indicators of GDP growth and its position among the most advanced reform EU candidate countries, April 2001 opinion polls reported the lowest level of trust in the center-right government in the entire decade of independence (28 percent). Arnold Rüütel, a candidate with a Communist past, won the September 2001 presidential election. His success was interpreted as a victory of the "second Estonia." In the beginning of 2002, his government resigned. The new government included left-of-center populist forces, but it introduced no major changes in social policy. The parliamentary elections in March 2003 showed that the majority of voters expected major changes in the policy of providing more security. A political newcomer, the conservative party "Res Publica," promised "new politics" with the keywords of "order," "responsibility," and "security" from its highly populist campaign.

A decade of liberal reforms turned a devastated post-Soviet country into a nation highly regarded in international standards of freedom, democracy, and

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market economy (see Hansen and Sorsa 1994; De Melo, Denizer, and Gelb 1996; Michalopoulos and Tarr 1996; Feldmann 2000; Norgaard 2000; Karatnycky, Motyl and Schnetzer 2001; Panagiotou 2001). The social cost of this transition appeared as a focus of the domestic political agenda. Estonian reformers succeeded in the field of economic stabilization and growth, but they were not able to maintain a high level of public trust in reform policy. Estonia is not the only reform country in Central and Eastern Europe to face this issue. Kolodko (2001) mentions the slow rise of the living standard and increasing social dissatisfaction compared to the economic growth as a general feature of the post-Communist countries: “despite a high rate of growth, the living standard in the region was not improving fast enough . . . (at least from the perspective of people’s expectations), improvement in the standard of living was too slow and was causing increasing social dissatisfaction, which in turn led to a further loss of momentum. . . . the socio-political system of the CPEs got out of balance, despite a not-that-low rate of overall production growth [where economic achievements have not been followed with the same level of success in social areas].”

The social cost of reforms in Estonia had been very high indeed, and World Bank analysts recognized this fact (World Bank 1997; Milanovic 1998). Estonia’s GINI index (0.38 in 2001) had grown to the highest level among Central and Eastern European EU candidate countries, indicating income disparities (Åslund 2002, 311).

Until 2002, social justice was a secondary priority of the successive Estonian governments compared to the primary national goals to “forever” secure national security by joining NATO; to lay the fundamental structures for economic growth through hard monetary policy and full market liberalization; and to achieve a stable political and economic environment in the prosperous family of Western countries by joining the EU. After the successful EU referendum in September 2003, two of these primary national goals—membership in NATO and the EU—have been achieved. Consequently, social policy is moving to the forefront of Estonia’s political agenda.

The focus of this article is to describe the nature of the social issues from the restoration of Estonia’s independence in 1991 to the present day and give an overview of the social policy measures adopted during this period. Creating a new social security system from scratch that was compatible with market principles and fit with the scarce resources of a poor post-Soviet economy while meeting the high expectations of the people was a very complicated (and almost unthinkable) task in the 1990s. The article is based not only on theoretical and empirical analysis, but also on the author’s experiences in the political field, as one of Estonia’s first policymakers involved in the design of social reforms in the early 1990s.

Social Issues and Attempts to Find Solutions

Poverty

The economic cost of transition struck the Estonian people in 1990 with the start of price liberalization and separation from the Soviet economic system. Successful currency reform and an open market policy were introduced in June 1992.

Energy, water, housing, and medical services had all been perceived in Soviet society as free from the state. In the post-Soviet system, they were market commodities with a real price to be paid by the people. At the same time, pensions and salaries were reduced due to the low public income level. As a result, large groups of people who had felt economically secure in Soviet society (such as agricultural and industrial workers, teachers, doctors, engineers, researchers, and pensioners) suddenly lost incomes and found themselves in poverty. Poverty, a lack of resources to satisfy basic needs, was a characteristic of a major part of the population. In 1991–92 the majority of society members equally impoverished were forced to make substantial modifications to their consumption behaviors. Those who did not immediately fall into poverty were aware of the serious danger—it could happen to anyone.

With the economic situation improving and society becoming more stable following the 1990s, the welfare resources that had disappeared have begun to be restored and the general level of poverty began to be reduced (see table 1).

In the mental atmosphere of post-socialism and domination of the libertarian faith in the "invisible hand" of the market, rapidly growing economic differentiation was not met with adequate redistribution or social protection measures. It was presumed that economic growth would automatically reduce poverty, and indeed, the level of poverty in the Estonian transition period has fallen. The number of those living under the poverty line of 50 percent of the income median fell from 13 percent in 1992 to 7 percent in 1997 (Kutsar and Trumm 1999). At the same time, the income gap between a majority of citizens and the small, economically affluent group rapidly widened. The effect of redistribution is marginal (only 2–3 percent) due to the proportional income tax and comparatively low level of public expenditure on pensions and other social protection (14.8 percent of GDP in 2001, compared with the 27.6 percent in the EU in 1999). According to the survey conducted in summer 2001 by the Estonian Open Society Institute (Pettai 2002), 31 percent of the population classified themselves as in the lower strata, compared with only 10 percent in the higher strata. Thinking about the situation in 1985, people felt quite different, as the share of the lower and higher

TABLE 1. Distribution of Inhabitants by Poverty Levels (%)

	Below poverty line	In poverty risk	Out of poverty risk
1997	37	19	44
1998	31	19	50
1999	28	17	55
2000	28	17	55
2001	26	17	57

Source: Social Sector in Figures 2002 (Ministry of Social Affairs, www.sm.ee).

TABLE 2. Self-classification of Respondents to Different Social Strata (%)

	Where were you in 1985?	Where are you now, 2001?	Where do you imagine being in 2010?
Lower strata (1+2+3 on 10-point scale)	10	31	23
Lower middle (4)	15	22	13
Middle (5)	23	23	16
Higher middle (6)	18	14	13
Higher (7--8+9+10)	34	10	35
	100	100	100

Source: Pettai 2002.

strata was reversed. Imagining the situation in 2010, many people are expecting remarkable improvements (see table 2).

According to a Nordic-Baltic survey of living conditions, the economic situation of families in Estonia could be described by subjective feelings of deprivation concerning capacity for preserving a certain lifestyle or consuming certain goods and services. From this survey, the following picture of material living standards in 1999 emerged: 72 percent of the population could only dream about a week's holiday abroad; 47 percent could not afford to buy fashionable clothes; 26 percent had to give up visits to theaters, cinemas, or concerts once a month; 20 percent could not afford to host friends; 13 percent could not afford meat, chicken, or fish at least three times a week; 11 percent could not cover urgent medical expenses (*Living Conditions...*: 62).

From 2000 to 2002 living standards improved remarkably. According to December 2002 survey data from the Department of Journalism and Communications at Tartu University, there is a clear decrease in the share of people who cannot afford to realize their needs, especially basic needs (such as clothes, medicine, and food). Traveling is still on the top of unrealized living standards (see table 3).

Despite stable economic growth during the last three years, Estonia is still one of the poorest among what will probably become the ten new EU member states. For Estonians, the bitterness of poverty is doubled by the everyday contacts with their affluent Finnish neighbors. The salary of an average Estonian worker is less than 20 percent of the average Finnish salary. In comparison with EU prices and salaries, the cost of goods (mostly imported from the West) in Estonia are rising more quickly than salaries. In 1999, the Estonian GDP per capita was 37 percent of the EU average, whereas prices were 57 percent of the EU level. This is one of the reasons why the consumer does not feel better, even with statistical economic growth. Dynamics of wages and prices during growing market competition rapidly divided Estonian society into "winners" and "losers." The "winners," who were

TABLE 3. Share of Respondents Ages 15–74 Who Can and Who Cannot Afford the Mentioned Goods and Services (% , in Ranking Order of Those Who Cannot)

	Can afford*	Cannot afford	Does not need it, did not answer
Traveling	33	45	22
Buying, renewing a car	23	44	33
Buying, renewing a computer	30	38	32
Renovation, reparation of an owned apartment or house	56	36	8
Support for close relatives	41	33	26
Buying, renewing a refrigerator, washing machine, etc.	56	32	12
Subscribing newspapers, magazines	51	28	21
Buying books	57	26	17
Entertainment, hobbies	55	25	20
Theater, concerts	57	25	18
To invite guests, make gifts	70	18	12
Buying clothes	82	14	4
Buying medicine	88	8	4
Buying food	95	3	2
Paying for heating, electricity, etc.	96	2	2

Source: Dep. of Journalism and Communication, Tartu University, Research Center Faktum.

*Includes answers "sometimes can afford, sometimes not."

mostly young, ambitious, urban, and educated, enjoyed all the pleasures of the new consumerism. The "losers" comprised a more mixed group, characterized by older age or ethnic, social, psychological, and moral characteristics. These traits prevented rapid and smooth adaptation to the new economic and political environment, and this group felt more and more deprived of opportunity.

Structural changes in the labor market created social and economic gaps. This opened new opportunities for urban youth with modern technological and social skills, English fluency, and high entrepreneurial ambitions, but it closed doors for the people over the age of forty who worked in traditional industries, agriculture, and public services.

Employment

The economic transition in Estonia, as in most post-Communist countries, is related to a constant decrease in employment. The biggest decrease took place during the first economic reforms in 1993 and 1994 when total employment fell by 5.3 percent and 7.5 percent respectively.

Looking at the changes in employment by economic sectors, growth has been rapid in the tertiary sector (finances, trade, services) while there has been a significant decrease in the primary sector (agriculture, hunting, forestry, and fishing)

and secondary sector (mining, processing, energy, construction, gas and water supply). Some of the workers whose positions were made redundant from primary and secondary sectors have found employment in service industries. As a rule, however, these persons have insufficient qualifications and are not prepared to relocate for new employment.

In Estonia, unemployment grew at a steep and continuous rate until 1996. After that, unemployment remained around 10 percent. It increased again under the impact of the Russian economic crisis and restructuring of economy in 2000, reaching 13.6 percent. Since then, it started to decrease a bit, stabilizing again around 9 or 10 percent.

Unemployment is mainly structural, that is there are available vacant jobs that cannot be filled due to a lack of workers with suitable qualifications. Estonia also faces regional structural unemployment—vacant jobs are located in one part of the country and the available labor is located in another. The growth of unemployment also has been augmented by a lack of enthusiasm for retraining and in-services training, the low mobility of workers, and the psychological inability of job seekers to adjust to the changing market economy environment.

Youth unemployment, already reaching 24 percent, is expected to rise even more in coming years. One of the reasons for this rise is the low quality of training in vocational schools. Another reason lies in specific minority problems in Estonia. An analysis of unemployment by nationality shows that unemployment is notably higher among non-Estonians who do not speak Estonian than among Estonians (Pavelson and Luuk 2002). On the international labor market, Russian-speaking youth without sufficient knowledge of the Estonian language or foreign languages are in a weak position. The national integration policy, which includes language training and vocational education for Russian-speaking youth, may hold a solution and should be a priority (see “Integration of Estonian Society, Monitoring 2000” and other publications of the Integration Foundation, www.meis.ee).

Unemployment rates also differ notably between various counties. Developing unevenly between regions, concentrating of foreign investments in the area of the capitol, and lagging behind in traditional industrial and agricultural areas are outcomes of rapid structural reforms in the Estonian economy. Solutions are found in the development of infrastructure and small business, with hope directed toward implementation of EU structural funds.

Only recently labor market problems in Estonia have attracted serious attention, although the previously mentioned trends have been evident since the beginning of the 1990s. It is acknowledged now that the measures for the social protection of the unemployed in Estonia are extremely modest. In Estonia, the unemployment benefit is the lowest in Europe, forming less than 10 percent of the average net salary. In 1994, during my service as the minister of social affairs, we tried to push a bill on the development of active labor market services and higher support for unemployed people through the government. At the time this plan was not accepted, as unemployment was presumed to be a marginal problem. Only in 1999 was the Employment and Training Development Plan, which defined key issues and strategies for the Estonian labor market over the following five years,

drafted under the auspices of the Ministry of Social Affairs. The situation of the unemployed will be considerably improved with implementation of a new system of labor market protection, consisting of an unemployment insurance scheme along with benefits (launched in 2002), extended opportunities for retraining, and subsidies for the self-employed and employers who hire people from "risk" groups. Full implementation of this plan with financing from the European social fund is expected between 2004 and 2006.

Aging: Pensions and Policy for the Elderly

Estonia is one of the few European nations that has not managed to restore its pre-war population level. Since the beginning of the 1990s, the birth rate has been constantly lower than the death rate, with the number of births dramatically decreasing until 1997. After 1997, birth rates stabilized at a level of about half of the birth rates between 1987 and 1988. By 2001 figures, the average life expectancy was 76 years for women and 65 years for men. As of 1 January 2002, 15.5 percent of the population was age 65 or older. As a result of the steady negative tendencies in population growth, the share of the elderly members of Estonian society has been increasing and will constitute 25 percent of the total population by the year 2030.

Since 1994, the general pension age has been gradually rising. Legislation will set the pension age of both men and women at 63 by the year 2016.

When making decisions on the national and local levels of government and developing social policy, the demographic situation and forthcoming changes need to be taken into account—particularly families with children and the elderly. The government has prepared a national program for the elderly population, including the development of services concerning coping, healthcare, mental health, cultural activities, religion, and other relevant matters, but its implementation is hampered by the lack of resources. Managing problems concerning the elderly is still on the low level of priorities. Unlike the Soviet period, when pensions were paid from a general taxation of the whole Soviet Union and had a replacement rate around 70 percent of the previous salary, old age pensions now depend on the social tax, paid by Estonian employers, and the replacement rate in recent years has been below 40 percent of the EU-recommended minimum net salary for an unskilled worker: 40.9 percent in 2000, 37.4 percent in 2001, and an estimated 38.8 percent in 2002 (Postimees, 9 January 2003). When the average salary in the third quarter of 2002 was EEK 5853 (~USD 430), the average pension was only EEK 1825 (~USD 134). In forthcoming years, pensions should rise regularly, due to the pension indexation system, which was implemented in 2002 and bound to inflation and social tax revenues.

The pension scheme is currently financed from social tax revenues on a pay-as-you-go basis. The total rate of the social tax is 33 percent of the gross payroll, paid by employers and the self-employed; 20 percent is paid for pension insurance and the remaining 13 percent goes to the health insurance scheme. Considering the growing unemployment, it is impossible to raise the amount provided by labor by increasing payroll tax. Future solutions for higher pensions might be

contribution-based insurance schemes. The long-planned pension reform was successfully implemented in 2002. The new system consists of a so-called three-pillar pension scheme. The first, a tax-based pay-as-you-go component, will remain as is. A second, funded pillar is based on mandatory individual contributions to private (state guaranteed) pension funds, with 2 percent paid by the employee and 4 percent added from the employer's social tax. The third pillar consists of voluntary private pension schemes, supported by tax policy.

The positive feature of the social insurance schemes in Estonia, which make them similar to the Nordic system, is their universal character, based on social solidarity. All residents who have reached the pension age and have fulfilled a qualification period of fifteen years residency in Estonia are entitled to the old-age pension. No distinctions are made between citizens and noncitizens.

Family Benefits

Due to the decreasing birth rate, the growth of family benefits has been a priority in Estonian social policy. The system of universal family benefits includes child benefits, child maintenance fees, birth grants, and schooling grants. For families with three or more children, some additional benefits were introduced, such as the big families' support scheme. All permanent residents of Estonia and some categories of temporary residents are eligible for family benefits.

The present system with its universal, but low, benefits does not satisfy the needs of families. According to analysis (see Kutsar, Tiit, and Trumm 1999; Social Trends 2; Kutsar 2002; Social Sector in Figures 2002), families with children are most vulnerable to poverty risks related to unemployment, diseases, death of one parent, divorces, and so forth.

Transitional stress and the high risk of poverty due to more than one child in the family has strongly diminished the willingness of mothers to take additional risks connected with raising children in an insecure social environment. The whole system of measures, including gender equality, sharing family roles between wife and husband, support for home care, development of kindergartens, additional protection by employers and municipalities for families with children, expansion of flexible working hours, and opportunities for home work for parents of small children are envisaged in the national policy for children and families. Unfortunately, this ambitious program, which was ready for adoption by the Parliament, was put aside after the change of government at the beginning of 2002.

Other Forms of Social Assistance

To help low-income groups to cope with rising living costs, a cash benefit called subsistence support allowance was introduced in 1994. Subsistence benefits are paid to residents of Estonia whose cash income after payment of fixed housing expenses falls below the subsistence level. The government establishes the subsistence level, which serves as the basis for determining the right to and amount of subsistence benefits.

State social-assistance benefits are financed from resources allocated in the state budget. The administration of these benefits is divided between the state,

county, and local municipalities. The local governments administer the payment of benefits according to the rules set by government. The universal poverty line is calculated as a sum, which has to be guaranteed for everyday expenses of each household member after payment of mandatory housing costs. Currently, this level is EEK 500 (~USD 37) per household member per month, which is more than two times lower than the minimal living cost calculated by statisticians on the basis of the minimal amount of food needed. This sum is obviously not sufficient for decent life, or even satisfactory nutrition. The Estonian social assistance system is characterized by international experts as "focused on the poorest only" (Braithwaite, Grootaert, and Milanovic 2000, 138). Still, the cost of the social assistance is declared by the government to "overburden the state budget with the ineffective social aid benefits." The effectiveness of the social assistance system is an issue for continuing discussions. It is expected that, in the near future, the system of social assistance will be fully decentralized and all financing and management offices will be moved to municipalities. This solution only could be effective on the condition that local governments would have sufficient funding and administrative capacity for implementation of the newly targeted assistance system. This could turn out to be more costly than the present, formal and standardized procedure, and it will require more professional social workers to be employed by municipalities.

Health Care

Estonia was the first among the Baltic states to introduce a system of health care—in 1991, even before independence was fully restored. It replaced the Soviet "free of charge" healthcare system, which was fully funded from the state budget. Health insurance covers the costs of medical treatment, payment of cash benefits in the cases of sickness and maternity, and partial compensation for the cost of pharmaceuticals. According to the law, the insured are persons whose social tax has been paid into the state health insurance budget according to the Social Tax Act. Besides the insured persons, on the principle of solidarity, pensioners, registered unemployed persons, dependent family members of the insured persons (including children under the age of eighteen and students in full-time schooling), caregivers of infants under the age of three, caregivers of disabled children or adults, and pregnant women are covered by the health insurance.

In 2000 the Health Insurance Fund became a public institution, independent from the government. Its management is based on a multilateral representation of social partners, initially meant to follow the pattern of the German health insurance system. In practice the administration of the health insurance fund is still very controversial and does not fulfill public expectations. The main controversy lies in the unsolved problem of how to protect the interests of patients and guarantee access to high-quality health services for all in a time of increasing costs for services, rising prices of medicines, and low-paying wages for physicians and nurses. Despite all efforts to improve the situation through administrative measures, it is obvious that the main cause of dissatisfaction is poor financing. The 5 percent of GDP spent in 2001 on health insurance and health

care is not sufficient. Health problems are the first priority issue for citizens, and lack of confidence in health care is a source of permanent social stress.

The Role of Education

For the first time, in the UN Human Development Report of 2000, Estonia was included in the group of the most developed countries. The first signs of improvement had emerged in many areas, including incomes, life expectancy, and birth rate. The basis for improvements and Estonia's future progress can be found in the increasingly high level of education and the increasingly active role of women in society. Estonia is also a country of information consumption, actively

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using the advantages of a modern communication infrastructure. In fall 2002, 43 percent of the population had regular access to the Internet. Rapidly expanding telecommunication networks are creating new job opportunities and promoting regional development in remote areas. To cope with the social challenges in a

global neighborhood, a decisive role must be given to the modernization of vocational and academic training and the promotion of social mobility through education. As many recent surveys demonstrate, social mobility in the new Estonia is quite restricted, and educational opportunities for children living in different social environments are far from equal.

The educational system does not diminish social cleavages. Instead, it adds to disparities between regions and social groups. The number of dropouts from the basic (nine-year) schools is increasing, already reaching 5 to 7 percent of pupils. As a rule, these are children from poor families. On the other hand, competition for access to the best high schools and universities is growing, as 70 percent of children attempt university education. Reforms in vocational training and higher education, meant to make vocational training more attractive and prioritize industrial specialties based on contemporary technologies, are the subjects of continuing debate.

Post-Soviet Legacy and Controversial Outcomes of Reforms

In the Soviet Union, higher wages for industrial workers, free social services in the work place at big state factories, and generous social security for pensioners were all part of the official ideology. Their aim was to demonstrate the “main achievements of socialism” for the rest of the world. Free medical care, free education, cheap flats, and comparatively high pension replacement rates were guaranteed for those who honestly wanted to work for the success of the Soviet homeland without any personal insurance contributions. Special pensions were delivered to persons with outstanding merits in serving the Communist system,

including officially recognized scientists, artists, heroes of socialist labor, and members of the Party and administrative establishment.

The economic and social reforms of the 1990s had a definite social and political bias. As the whole logic of restored independence developed from the idea of restitution, historical justice in the interpretation of social justice became a priority. Social reforms had to abolish privileges guaranteed by the previous Communist system to some groups. As a result, many pensioners, previous workers of major industries, and public servants felt themselves thrown into unexpected insecurity and deprived of their earned position in society by these reforms. A majority of the Estonian people worked hard under the Soviet regime and contributed to the relative wealth of Soviet Estonia and other Soviet republics. Estonia's advanced position was a matter of pride, feeding nationalist attitudes and legitimizing resistance to the Soviet regime as "ineffective," even among Estonian Communists. Ideological and political condemnation of the Soviet period and Soviet institutions as illegitimate devaluated a considerable part of the older generation from their symbolic capital and contributed to their feeling of social exclusion. This feeling had significant political implications—a majority of pensioners started to support the populist anti-reform Center Party.

Bitterness and disillusionment among some of the population was further aggravated by the restitution of property rights to the pre-war owners of apartment houses. Privatization of housing is a good example of an inevitable conflict between historical and social justice. Claus Offe mentions it as one of the fundamental contradictions of the post-Communist transition in Eastern Europe (Offe 1996, 108–130). The idea of privatization of state-owned housing by issuing vouchers to all inhabitants of Estonia was definitely inspired by the wish to have a just and democratic solution to the housing problem, giving everyone the same opportunities for participation in the emerging housing market as the owners of Soviet-period apartments. Every resident who had lived and worked in Estonia received a voucher, as a compensation for the years of underpaid work. One year of work was equivalent to one square meter of an apartment. The democratic character of this solution is remarkable in the context of the Estonian situation, where one third of those eligible for vouchers were Russian immigrants. But there was one exception: inhabitants of the flats that were returned to pre-war owners or their legal successors could not use their vouchers. This turned thousands of people living in nationalized houses in Estonian cities into "illegal renters" who lacked the opportunity to privatize their apartments. This group developed into the loudest group protesting against the whole idea of restitution, and they joined the ranks of political opponents to reforms, labeling restitution as "new repressions against the Estonian people." Among those "newly repressed" were many distinguished intellectuals of Soviet Estonia, to whom the nice apartments of emigrated or repressed capitalists were given by Communist governors for their scientific or artistic merits.

The main causes of perceived social injustice were related to new market relationships. Employment in privatized enterprises differed in principle from the secure life-long jobs provided by the Soviet state in its industries. Structural unemployment was created by layoffs and bankruptcies in previously over-industrialized

regions. The same types of unemployment occurred in rural regions after dissolution of the Soviet *kolkhozes* and *sovkhozes*. Regions with high unemployment lost social capital needed for development, creating a vicious circle, which led to lumpenization in entire areas, supporting the spread of crime, alcoholism, drugs and HIV.

Rapid privatization of small enterprises, growth in the services sector, and the expansion of trade created an increased labor market, but not everybody was able to adapt to its crude rules of competition. The ideological background of liberal reforms stressing individual entrepreneurship prevented any systemic approach to the social problem of unemployment. Unemployment was interpreted as individual failure, a lack of incentive to work. The unemployed become marginalized as losers. People who were afraid of losing jobs agreed easily with the lack of social guarantees in the work place and coped with miserable salaries.

At the same time, groups of white-collar workers remained employed in public institutions (governmental and municipal offices, education, health care, culture, social care, etc.) where higher salaries were reserved for only the higher ranking officials. Wages for the middle- and lower-rank staff remained low. As a result, the conflict between higher educational status and scarce economic opportunities among a significant part of middle-class families became an additional source of discontent.

The divide in Estonian society, described in the beginning of this article as an emerging discourse about “two Estonias,” is found in the everyday lives of people whose living conditions not only have not improved, but also become less promising. Economic progress means more opportunities for consumption, more travel and other pleasant leisure, and more possibilities for self-realization for approximately half of society. The other half of society experiences more self-restriction, more unfulfilled wishes, and more bitter feelings of exclusion and deprivation. The voices of the deprived, which in the beginning were perceived as marginal, are becoming louder. In ten years, the pendulum of public opinion has moved from the uncritical acceptance of liberal reforms to the opposite end—broadening public dissatisfaction and growing concerns expressed by social scientists, reflecting on the widening disparities in living standards, growing social exclusion, and rising unemployment. A generalized outcome to all unsolved social problems that emerged with transition from state socialism to capitalism is that depopulation is the most threatening social trend in contemporary Estonia. Grim demographic forecasts show that by the year 2030, the Estonian population could drop under the level of one million, with a quarter of them in pension age. Sources of depopulation are threefold: declining birth rate, high mortality among young men and children from accidents and diseases caused by stress, and outflow of the more active part of the younger population, seeking education and jobs in the West (see an overview of Estonian social problems in UNDP Estonian Human Development Report 2001).

After the EU Referendum: Perspectives of Changes in Estonian Social Policy

Estonia's experience has proved that successful economic reforms alone, that is, the liberal idea of an omnipotent “invisible hand” of the market, as opposed to

the idea of social solidarity and shared responsibility, do not guarantee social sustainability for a small and vulnerable nation. Estonia's goal is to remain culturally and socially viable in a global open-market environment.

The reasons why, after ten years of efforts, Estonia has not found a comprehensive and effective model of social policy are related not only to the scarcity of economic resources or poor administrative capacity of the renewed state. The main obstacle for developing proactive and efficient social policy was a lack of sufficiently strong political support. In all governmental coalitions since 1992, liberal right-wing parties have dominated. According to Esping-Anderson, this factor plays a decisive role in the formation of social policy regimes (Esping-Anderson 1990, 31–34). The efforts of the social democratic wing in the governments led by Prime Minister Mart Laar in 1992–1994 and 1999–2002 have succeeded in the implementation of some elements of a universal social security scheme concerning mandatory pension, health, and unemployment insurance and universal family benefits. However, because the fiscal policy in these coalitions was in the hands of right-wing parties, these schemes were never backed with appropriate financing tools. Conflicting interests between the main social and political actors during the reform process prevented the required consensus for the implementation of these costly social measures from being reached. The result of these inner controversies in governmental policies was bitterly disappointing, as the level of protection could not meet the expectations of the people.

People's expectations towards the role of the state in providing welfare and the readiness of people to cope with the difficulties of transition are interrelated and typical of the "economy of patience" that is characteristic in all post-communist countries (see Offe 1996, 45–49). Comparative surveys constantly show high levels of patience among Estonians, especially compared with the previous Soviet republics and even with other Baltic countries (see Lauristin and Vihalemm 1997, 119–126). Presumably, this high level of contentment with "shock therapy" reforms was not a result of their social outcomes, but one of the specific features of the hegemonic liberal "transition culture" (Kennedy 2002, 93).

During the 1990s reforms in Estonia, the main goal of national policy, strongly supported by public opinion, was to achieve membership in NATO and EU. The ideological framework of reforms was imported with "know-how" from the standards of success, set for the transition countries by international financial organizations, including the focus of EU accession monitoring on the "Maastricht" criteria. All successive governments, despite their political colors, had to follow these criteria to earn positive assessments of transition from the international authorities (Kennedy 2002, 102–103). The practical role of UNDP-related "human development" standards was comparatively weak, as their implementation was not supported by any clear economic or political advantages for the government, and these social standards were not prioritized in the process of pre-accession monitoring. Under these conditions, domestic, social and political actors who promoted social agendas (such as trade unions, pensioners' associations, or left-wing parties) did not have remarkable political influence.

Looking from this perspective, growing dissatisfaction with the reform policy

in Estonia at the turn of the century could be interpreted as the weakening of the dominating liberal "transition culture," which was based on internalization of the external assessment standards. Our survey, taken at the end of 2002, proved that the general evaluation of transition was clearly related to the successful performance of Estonia on an international level. In sharp contrast with those positive evaluations was overwhelming dissatisfaction with the outcomes of reforms concerning social justice, employment opportunities, and living standard (see table 4).

Perceived failure or success of social policy is often the main reason for legitimization crisis in democratic societies (Habermas 1984, 74). If this is true for the established capitalist welfare states, then it is crucial for new democracies. This could be a main reason for the discursive change in public communication on social issues, which started in 2001 as a reaction to the appeal of social scientists. Taking Estonian accession to the EU and NATO as a given, Estonia's political elite became more sensitive toward the internal voices and domestic legitimization of the policies that rose to the forefront of their political agendas. A need for the new and socially focused paradigm in politics was one of the most popular themes during the election campaign of 2003, and it was stressed even more during the EU referendum campaign of August and September 2003. The main slogan of the official "yes" campaign was that as a member of the EU "life will become better" for the ordinary citizen. The expectation that accession to the EU would change the Estonian political agenda and bring about a more favorable solution toward social issues was explicitly expressed in the TV address made by the president of the Estonian Republic on the eve of the referendum.

As a new member of the European Union, Estonia will face serious challenges in some areas when it implements European standards of social policy. Economists from the World Bank have calculated that, at the present pace of economic growth, Estonia could catch up to the average EU living standards in fifteen

TABLE 4. Evaluation of Changes in Estonian Society (December 2002, National Survey)

	Positive evaluation of changes (%)	Negative evaluation of changes (%)
Changes in Estonian international position	78	5
Changes in Estonian economy	65	23
Changes in general	55	22
Changes in the level of democracy	54	22
Changes in standard of living	41	53
Changes in social justice	23	62
Changes in job opportunities	22	70

Source: Dept. of Journalism and Communication, Tartu University, Research Center Faktum.

to twenty years (Kolodko 2001). Nevertheless, rising living standards in terms of a higher GDP per capita would not automatically guarantee a better life for all citizens.

Despite the fact that the EU is leaving most issues of social policy to the jurisdiction of the member states, the priorities for Estonia's social policy as a new member of the EU should follow the general patterns set by the European Social Charter, including:

- rising expenditures in the social sphere. Between 1998 and 2001, Estonia spent on average 15–17 percent of its GDP on social protection, whereas the respective average indicator in the European Union was 28 percent;
- efforts to raise the living standard of the whole population. The most effective means here is more productive and decently paid work. This will counteract labor policies based on the hope of preserving cheap labor as an attraction to foreign companies;
- increasing the role of active labor market policy measures, interrelating labor market policy and regional policy, developing cooperation between labor market institutions and the educational system;
- a rising cost efficiency and quality of health care for improving public health;
- expansion of support for families with children and for the elderly, in terms of not only cash benefits, but also better services.

Realization of these objectives cannot be achieved by the state alone. The present-day social policy model in Estonia is a controversial mix of the Nordic-European systems of universal benefits (basic pensions, family allowances, public health insurance) and extreme implementation of the liberal residual principles in social assistance and social care (see Lauristin 1998). To develop a consistent model, the shared responsibilities of individuals, municipal governments, state authorities, and the nongovernmental sector should be clearly identified and mutually recognized. Unfortunately, this is not the case in Estonia or many other Eastern European countries where the legacy of state socialism is still strong in people's minds. According to public opinion polls, the majority of Estonians expect the state to play a major role in the provision of welfare, whereas official policy tries to raise the responsibility of municipalities to provide assistance and services, and places more of the burden on individuals (e.g., in cofinancing health care and social services). One of the new challenges is to increase the involvement of voluntary organizations and private initiatives for improving social welfare and health care.

Contradictions between the high expectations of people, inspired by Western standards of welfare, and Eastern European living standards cannot be overcome only through better social policy. This is a challenge for the continuing development of Estonian society as a whole.

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