INTERNATIONAL AND NATIONAL ACTORS IN ESTONIAN PENSION REFORM

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National social policy today is increasingly determined by global economic competition and international organizations. One can speak on globalization of social policy and on socialization of global politics. On the other hand, national and political interests persist. This interplay of different interests and actors makes policy process more complicated because more interim and final agreements are needed.

Globalization of policy-making process is receiving increasing academic attention amongst prominent researcher of welfare state and social policy. G. Esping-Andersen (1997) discusses national adoptions to the contemporary worldwide processes, Leibfried and Pierson (1995) raise question on social Europe as the common welfare model in integrated Europe, Deacon (1997) argues that international organizations will increasingly influence the social policy making in national states. The latter text “Global Social Policy” serves as departure point for current paper on Estonian pension reform. Deacon studies presence of international organizations in post-communist Hungary, Bulgaria and Ukraine and analyzes impact of them on social policy making. He demonstrates also, that different international actors favor different welfare models, which encounter broad variety of national political interests. We would like to examine, how conclusions drawn by Deacon fit into Estonian social security policy of 1990-s.

From the many areas of social provision we will focus on pension policy because of two reasons. Firstly, pension reform is probably the major social reform touching extremely broad variety of social groups, political actors, public and business institutions. At the same time successful solution in this social security area predicts largely sustainability of economic and human development. Secondly, national old age pension systems have become ever closer to the single three-legged-stool model

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promoted mainly by the World Bank (James, 1996) but also by other international organizations.

The main objective of the current paper is to investigate the role of international organizations in shaping of the Estonian pension reform by putting their activities into domestic political context. We will compare policy platforms of international actors with those of major political parties and influential pressure groups assuming that fit between international and national visions is important for policy applications. In the final part of the paper we impact of studied policy agents on principles and tempo of pension reform. We suggest also some answer to the very basic question whether national policy makers are loosing their power, or international actors are enforced to adjust their views to the country-specific conditions?

Development of National Social Policy Agenda

In most post-communist CEE countries social issues have been faded out from policy agenda in the early stage of transition. Political parties with strong social programs, powerful trade unions or civil pressure groups did not exist also at Estonian political arena. Therefore old-age social security issues have not been a topic in the electoral campaign of 1992.

Estonia inherited a traditional PAYG defined-benefit pension system from the Soviet Union. This system was slightly revised in the Act on State Living Allowances (1993) initiated by executive political actors and replaced only in 2000 by the Act on Public Pension Insurance. During this transition period principles of solidarity have been more profound as the doctrine of personal contributions and savings (Toots 2001).

In parliamentary elections of 1995 pension policy became an important issue. Firstly, during electoral campaign the amount of pension payments was raised twice, what certainly contributed to the electoral victory of the large catch-all-type party coalition supported primarily by rural and older voters. Secondly, a comprehensive reform was launched in 1997 based on a three-pillar pension system model. To elaborate the reform concept a Commission on Social Security Reform (CSSR) has been established. It is worthy to mention that out of five members two had explicit relations
the World Bank (WB) and one to the Council of Europe\textsuperscript{2}. Another interesting detail is that although Minister of social affairs was 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 (VVk, RT I, 1997, 37/38). 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.

Two first years of centrist Coalition party in power were marked by numerous incremental amendments in pension policy, since 1998 the nature of governmental initiatives becomes more radical. 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 social security system, have been passed by parliament. Two remarkable features on these changes must be stressed. Firstly, in the coalition agreement private sector is seen as the main provider of old-age social security. This is quite a surprise because governmental parties of considered 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 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 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.

In result of the next parliamentary elections in 1999 a new coalition was formed. In contrary to the former cabinet, this was composed from three equal partners, each having 5 portfolios in the cabinet. This clear party division inside the coalition

\textsuperscript{2} A.Hansson, councilor to the prime minister worked in 1993 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
contributed also to the more concrete and binding coalition agreement. When coalition agreement of the cabinets in 1994-1999 is first and foremost political declaration, then agreement of the cabinet in power since 1999 looks like program for actions including planned legal acts and dates for implementation. Concerning pension policy the main objective was implementation of the compulsory fully-funded pension scheme (second pillar) and conclusion with this act the long process of pension reform (Coalition agreement 1999) The issue of compulsory pension savings was debated since early 2000, and relevant legal act was passed by parliament in Fall 2001. As for the former coalition of 1995-1999, first year in power did not bring any principal decisions in pension reform also for that cabinet headed by M.Laar, well-known radical reformer. Perhaps “the political business circle” defined by Dunleavy & O’Leary had its influence on the tempo of the reform. The main preparatory work for completing the three-legged system was done in 2000 when electoral interest toward policy was declined after elections in 1999.

One can expect that with the last legal component of the pension system the long saga of reform will be come to the end and pensions will not be an issue of political debates any more. Still, this is not the case. In 2002 Estonia is approaching next local elections in fall and parliamentary elections in spring 2003. Already today we can see that left-wing political parties both in coalition and in opposition work hardly to amend existing laws on PAYG system to raise the benefits. As one of the main expert on pension reform, member of the Commission on social insurance reform L. Leppik pointed out, Estonia is continuing the line of “political enhancement of pensions” (Leppik 2002). It is important to note that there is no public debate or questioning about funded components of pension system what will demonstrate their real impact on living standard only in the far future.

Different publicity to the various components of pension reform indicates a forming division of political actors and pressure groups between pay-as-you-go and fully funded parts of the pension system. Left –wing political parties and socially oriented pressure groups (the Union of Pensioners) are concerned with the first one, whereas semi-public bodies and business oriented pressure groups (Insurance companies, banking sector) are interested in policy decision concerning the second and third pillars. This trend is present also in the last government coalition agreement (2002). One of the two
governing parties (the left wing Centrist Party) insisted that old-age pensions must be raised and compose in 2003 40% of the average salary. ³ Generally speaking, PAYG scheme is becoming a realm of input - policy (electoral support, bargaining between political parties), when funded schemes belong mainly to the sphere of output – policy (taxes and financial aspects of social insurance, management and administration of pension funds).

Insofar as Estonia is getting integrated into international organizations and EU can notice stronger external influence upon national social policy agenda. In coalition agreement of 1999 first time ever the Estonian government declares counting with Council of Europe and EU principles when developing social policy, although taking into account economical possibilities of Estonia. Government intended to ratify European Social Charter and European Code of Social Insurance, to work with temporary European agreements on social insurance and elaborate governmental positions in the course of pre-accession to the EU.

Council of Europe and EU can be regarded as sub global organizations whose principles in social policy are explicitly represented in Estonian policy memorandums (coalition agreements, governmental action plans) and debated in the parliament. Further there are also other international actors whose interests in shaping Estonian social insurance systems are not so transparent and publicly known. International Monetary Fund, World Bank, International Labor Organization and OECD belong to this group.

Social policy concepts of international organizations

Formation of national policies in contemporary world hardly can occur in isolation without interference by policy advisors, experts or observers from international bodies. In 1990-s when the golden age of neo-liberal thinking became over, social dimension became more important in activities of global organizations. Whilst Estonian political parties neglected social policy issues in the beginning of transition, international

³ These amendments concern current (i.e. PAYG) pension benefits.
organizations like IMF, WB, ILO and EC showed active interest to them 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 pointed out by B. Beacon “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).

**International Monetary Fund** (IMF) is known as an US-based advocator for the New Right economic and social policy. According to its ideology, social spending can raise only when economy grows, social needs can by no mean justify state budget debt. Still, when post-communist regimes emerged in Central and Eastern Europe, IMF revised its structural adjustment policies. The fund stated that in addition to the “macroeconomic stability, a marked based environment for trade and investment”… “…sound social policies, including social safety nets to protect the poor. cost effective social policies and employment generating labor market policies” are required (IMF 1995).

In the second half of the 1990-s the official thinking of the Fund comes more engaged with long-term social policy strategies for emerging democracies instead of earlier short-term safety net ideology. This meant also greater interest toward social security reforms. The fund proposed that social security schemes should not act as disincentives to save or to work, that link between benefits and contributions should be strengthen and contributions should be kept relatively low. The main message given by IMF was that new pension schemes must be financially self-sustaining over a long period of time, therefore individual investments have to play greater role (Deacon 1997).

IMF formalized quite early its policy interests in the Baltic region. Since 1994 the fund had his permanent representative in Tallinn to monitor the reform process and economic development. Relations between the fund and Estonian government did not rely just on irregular consultations and recommendations. From 1997 up to 2001 the Estonian government and IMF signed annual Memorandums of Economic Policies. Although (unlike the World Bank) the Fund does not attach social conditions to its loans, the governments adopting IMF programs are nonetheless free to adopt measures to protect vulnerable groups (Deacon 1997). Let us give some data to illustrate this. In 2000 IMF provided a 39 mill. USD standby credit for Estonia. At the same time Estonian
poverty relief schemes declined in its value whereas pension payments increased even faster as salaries in the end of 1990-s (Toots 2001).

In monitoring Estonian pension policy reform the IMF was first and foremost concerned with the high level of social insurance contributions and investment rules for the II and III pillar institutions (IMF 2001). The effect of IMF upon pension reform was twofold. Despite of suggestions to lower level of taxation it actually rose up to 33,5% due to introduction of unemployment insurance in the beginning of 2002. In another direction – restriction for investments of pension funds capital, the IMF has been more successful. Funds would be free (and expected) to invest in foreign securities so as to diversify the risk to pensioners by making investment returns less dependent on the domestic economic and financial situation in Estonia (IMF 2001). Although one can hardly testify direct interference of IMF into Estonian pension reform design, the basic principles adopted follow the same advocacy for greater personal incentives and sustainability of the system.

**World Bank (WB)** as the organization closely connected to the IMF has become one of the most influential global actors in ongoing social security reforms. It is not merely a tool of intergovernmental politics rather an independent policy-making and agenda setting body. The growing number of countries transforming their pension systems into three-legged-stools can be regarded as an evidence of agenda-setting role of the Bank. Although a basic consensus on the pension policy exits between IMF and WB, they differ in instruments used for policy implementation. When IMF had simply the representative monitoring the social policy decision-making, WB brought loyal persons into very heart of policy formation. Because the Bank expanded its activities in the CEE and CIS many new staff members have been also recruited (Deacon 1997). Often they have been non-Americans but Europeans and even experts born in the country. Composition of the Social Security Reform Commission (CSSR) is an excellent example of such policy; the Minister of Social affairs in 1990-1992, A.Kuddo works since 1995 for the World Bank. In result, WB gained two advantages comparing to the other international organizations. Firstly, the very American neo-liberal thinking was complemented with European view on social welfare and gained therefore broader support. Secondly, the exploitation of country-born experts explicitly involved into policy
designing bodies gave more sound to the ideas of WB. For example, in the discussion document “Aims, choices and implementation plan of the compulsory funded pension scheme” concrete measures where viewpoint of the CSSR conforms to the position of the WB are mentioned.

**International Labor Organization** (ILO) represents quite opposite ideology in social welfare comparing to that of above studied organizations. Instead of minimal safety net concept, ILO relies on notion of social citizenship. ILO top officials argue that there is no paramount need to refuse Bismarckian social security model based on public pension schemes. They think that fiscalisation of social policy can erode democratic cohesion and demote social partnership in policy-making process (Deacon 1997). It may seem a surprise but social democratic thinking of ILO did not meet large support in Estonia. The reasons can be twofold. Firstly, for the broader public ILO associates with trade unions what did not make yet their renaissance after communism. So, the ILO is too Left-oriented for the public opinion. The same is true also for government parties what belong to the Right wing of the political spectrum. Secondly, the system of tripartite policy-making was in Estonia uncommon in 1990-s. Therefore the institutional structure of policy making was not well suited for the ILO principles. In result this organization has been more successful in completely new areas of post-communist social policy like unemployment and gender equality. In policies inherited from the old system as pensions for instance, the ILO was not, unlike WB, a real player.

The ILO differs from the IMF and WB also in its institutional activities. To challenge strong influence of Bretton Woods’s unsocial discourse the ILO established some new institutional structures in CEE countries with the regional headquarters in Budapest (Deacon 1997). Estonia regained its membership status in 1992 and since then tripartite Estonian ILO Council exists to evaluate legislative proposals according to the ILO standards. An ILO Bureau and correspondent were working by the Ministry of Social affairs since 1994.

Analysis of meetings of ILO representatives with Estonian policy-makers brings us to conclusion that this organization has minor effect on Estonian social security policy. Perhaps this was not even a strategic aim of ILO because it focuses more on workplace issues whereas on old age pensions. In early 2000 a two-year agreement of ILO and
Estonian government was compiled according to what ILO took responsibility to assist different social projects in Estonia including pension reform. Unfortunately this agreement was not signed by ILO a thus never entered into force. Consequently, the main role of ILO in Estonian social policy was to strengthen European way of social thinking and to soften influence of US based monetary organizations.

Europeanization of Estonian Social policy started already in 1993 when Estonia became a member of the Council of Europe. Still the real boost to these processes was given with the decision of Estonia to apply for EU membership. The obligations to employ *acquis communautaire* forced Estonian government undertake concrete measures to harmonize EU and Estonian regulations in field of social protection. Given the principles of EU social policy different issues are put in the center when comparing with the Bretton Woods’ policy interests. Economic sustainability of the pension schemes is not very much the concern for European supranational bodies. Rather they call for equal treatment of men and women, and of all nationalities. Sufficient level of benefits is also concern of European organizations.

**Council of Europe** implies its norms to the member states via charters and conventions if these are ratified by national parliaments. Because there is no efficient mechanism of law enforcement the process of signing and ratification depends only upon national politics. For Estonian social policy decisions, Council of Europe seems to have a vague role. The new version of European Social Charter was signed in May 1998, but ratified two years later and entered into force just in the end of 2000. Process of the ratification of the European Code of Social Insurance presents another similar case with several postponements. This task was set in the “Government Action plan for integration into EU” in 1999 with the deadline of January 2000. Still, in the Spring 2002 this task remains unfilled. The Code sets only minimum standards and leaves open questions of financing and management, as well as definition of coverage with schemes. Because Estonia meets minimum standard for old-age benefits, there is no real obstacles for ratification of the code (Leppik 1999). Thus, absence of socially oriented lobby groups or political parties seems to be a decisive factor for delay.

Social security standards set by Council of Europe and **European Union** do not differ, rather one can see different policy focuses and variety of policy instruments. EU
has used to regard social policy as appendix to the “four freedoms”. Thus, export of the social security benefits and equal treatment of workers have been its main concern. In the process of accession negotiations Estonia has to harmonize national legal acts with EU directive 79/7 what amongst many articles sets a equal pension age for men and women. Although these amendments had to be implemented in Fall 2000, they were postponed until 2002 on decision of tripartite negotiations between trade unions, employer organizations and the government. They found that equalization of pension age must be detached from harmonization measures until 2016 as article 7 of the directive 79/7 allows.

Problems on social protection of migrant workers based on EU directives 1408/71 and 574/72 remain also unregulated with Estonian law. It is worth to mention that this is happening despite of the bilateral advice projects under auspices of Phare and Consensus III program started in 2000. Why development of European dimension in Estonian social security is so slow although everyone amongst Estonian policy maker’s favor joining EU as fast as possible? We believe that this happens because of different interaction patterns between political players.

**Interplay between international and national interests**

The analysis has shown that international organizations have different impact on Estonian pension policy design. Due to the nature of the organization and the dominant principles of policy making they are using different instruments. Broad organizations with the complicated institutional structure like ILO, CE and EU tried to use their existing internal units whereas IMF and WB sent their special representatives to the CEE countries. All mentioned organizations mainly make use of their experts to advice policy reforms in post-communist countries. European organizations worked on the very broad scale and co-ordination between various reform areas was random, recommendations often confronted each other (Deacon 1997). This catch-all style reduced their impact on the decision-making. US based IMF and WB concentrated their activities on welfare economics and employed for actions long-term experts. As we have seen with the WB,
country born experts who had their employment carrier in the WB have become the most influential players in national social policy design.

Another factor, predicting the ability of international actors to shape the content of reform was the fit of their ideology with that of government. For example, significant influence of IMF can be explained by the fact that both the Fund and two main coalition parties in 1990s *Pro Patria* and Reform Party favored neo liberal view on welfare provision. The permanent IMF representative in Estonia Basil Zavoico said “this country was lucky that it had S.Kallas / the radically minded central bank president from 1992-1995/ and M.Laar /pro-reform prime minister from 1992-1994/, who was almost a kind of suicidal reformer”. He expressed serious concerns that after dismissal of *Pro Patria* coalition with M.Laar as the Prime Minister “a lot of the momentum went out of the reform effort” and there is no any progress since 1994 (Zavoico, 1997). As one can see from the chronology of the pension legislation these worries became true. The pension reform get start in 1997 and only in the middle of 2002 the last necessary legal act regulating mandatory funded insurance, will enter into force. In 1995-1999 when a catch-all government with a vague ideological basis was in power no radical decisions, wanted by the IMF, has been implemented. Although a new Act on public pension insurance entered into force and private pension funds were introduced in 1998, the very hearths of social security system – contributions and eligibility rules – remain untouched.

The third point, relevant to the impact on decision-making deals with complexity of the reform process and policy preferences of actors. On the one hand, social policy is closely connected with economic policy. Discussion around this has become a classical dilemma for welfare state theorists. Every government executing its reform plans must clearly define its preferences and the price necessary to pay. 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. One must add that there is no permanently active pensioners’ lobby what would resist the New Right approach to the social security.

The fact, that support of domestic interest groups is important, is clearly illustrated by divergent destinies of the pension system second pillar and social protection
of migrant workers based on EU regulations. Legal procedures of both cases took years and deadlines have postponed several times. Nevertheless, the mandatory saving component of Estonian social security system is lately implemented but social protection of migrant workers stays still under discussion. In the former case business groups were very much interested in the policy outcome what is confirmed by the intense advertising campaign organized jointly by the government and insurance companies. In the latter case there are no actors at political arena who will move the preparatory work faster forward. Therefore this issue is pushed out from the pre-accession agenda by the other more acute for domestic actors problems (free movement of labor, agricultural subsidies etc.).

In conclusion we suggest that at input phase international bodies and the Executive are main actors whereas political parties presented in the parliament are not involved. In the second phase when proposals are debated in the Legislature international actors loose their access and national players like different pressure groups and political parties play decisive role. Estonian experience shows that the Legislature is able to dictate the speed of reforms process and seriously change international recommendations.

**Who roles?**

Current policy-making process is becoming ever complex and interfered. By implementation of certain principles or ideas both global and national context play their role. International organizations constituted originally for pursuing economic interests solely (WB, EU) have revised their fundamentals. In the second half of 1990-s their official thinking started to regard social policy not as a burden but rather as an investment paramount for sustainable economic growth. Consequently, approaches of different international actors are coming closer and sharp cleavage between US and European organizations are diminishing. On the other hand, national policy making bodies are not loosing their power, they still have votes of their citizens and enjoy support of the lobby groups. As the welfare state is more and more going to transform into welfare society, the spectrum of agents interested in social policy issues becomes wider. Semi-public and private bodies excluded earlier from the old-age social security provision are important players at policy arena today. On the basis of our study we believe that more ruling
power will have that body, which can adjust its visions to the country-specific conditions keeping global development trends also in mind.

References