WHAT MODEL OF SOCIAL SECURITY SHOULD BE CHOSEN BY POST-COMMUNIST BALTIC STATES?

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The Baltic states had a very short period of time, after restoring their independence, to create their own social security systems. The inherited Soviet social security law could exist only temporarily, as it was a foreign non-existing country law and, besides of that, it was designed for the command economy, but not for the market oriented one. The need to create the national social security system was urgent and in the short time it was impossible to address and research properly all basic problems. So the problem of targeting in the social security was solved rather implicitly than explicitly formulated. But is was always present behind the basic decisions. The influential factors of these decisions also implicitly or explicitly addressed the problem.

It is hard to tell whether any of the Baltic social security system models could completely correspond to any well-known classification. The actual social security systems, designed in these countries after regaining of their independence, have mixed features of different models. With no claim to an exhaustive analysis in this report, it is still possible to clarify the influence of some important factors upon the decisions on social security.

Different factors influenced the formation of the new social security systems and the ways of targeting of social protection. One of these factors - the already mentioned inheritance from the Soviet period. The other factor was the direct or indirect influence of foreign experience, institutions and experts who advised on social security reform issues. The third factor was the necessity to adapt social security system to the market oriented economy and democratic political system. Under the influence of the above mentioned factors, new independent social security systems, more or less corresponding to European standards, were created in the Baltic states. Nevertheless, the different interaction of these factors and different national traditions conditioned that, in many aspects, the restored Baltic States chose different ways for their development.

Let us survey the above mentioned factors and try to evaluate their influence upon the foundation of the new social security systems and of the ways the targeting problem was addressed.

**Soviet inheritance.** The Soviet social security was operating in the Baltic states for about 50 years; therefore, it has formed certain way of thinking that is very difficult to overcome even until now. Below are mentioned only several features that may characterise the Soviet system.

- The State exclusively was responsible for the social security. There were no social security arrangements (for instance, pension funds, private care institutions, etc.) other than the State ones.
- Social security was primarily perceived as social protection, i.e. as the *privilege* rendered by a paternalistic state, but not the *right* of an individual to get insurance benefits on the basis of his previously paid contributions. The social security
laws were worded in a rather broad manner and often had less operation power than departmental instructions.

- The individual was forced to feel dependant: there was no need to take care of himself, because there was always the big power that did it for him. Due to this fact the individuals tended to consider themselves unable to act independently and demanded the government to solve all their problems (to find a job, give a flat, keep prices on a low level, etc.)

- The system of privileges was developed and permanently increasing. Many of particular social groups had special exclusive rights granted by the State.

- The financing system of social security was very complicated. Enterprises of different branches paid their employees’ contributions at the rates several times varying between the branches. The benefits did not depend upon these contributions. Moreover, part of the benefits was covered from non-contribution sources, and first of all from general state revenue. The employees themselves did not pay any contributions. They did not perceive why they should even do that. The big part of the social security measures were financed indirectly: for instance, by maintaining low prices for consumer goods and services, by providing free medical treatment, etc. Therefore, it was not possible to calculate what part of the GNP was really allotted for the social security.

- The problem of inflation was ignored. Once fixed the benefit amount would not be indexed by the legal regulations, but it could be voluntarily increased by a special governmental resolution. Such resolution was treated as an authority grant, but not as the right of a recipient.

- The administration of social security was divided between state dependent trade unions and public institutions. There was no reliable data banks of the insurers and the insured.

- There was no legal and administrative instruments to defend the social security rights of people. Disputes usually were solved at higher administration level, not in the courts.

The lack of experience and absence of qualified national experts has also to be mentioned as important circumstance inherited from the past. During the Soviet period, experts knowing the world-wide social security system practices were not trained. At a higher school, one could only receive education on Soviet labour and social security law. The foreign literature on the subject practically was not available. Additionally, the representatives from the Baltic republics, not like the experts from the other present post-communist countries, practically did not participate in International Labour Organisation (ILO), International Social Security Association (ISSA) and other international organisations’ activities.

The inherited Soviet social security system has influenced the development of new social security models in different ways, that sometimes even contradict each other:

- The new legislators were not able to remain completely free from public, as well as their own old way of thinking, therefore in many cases they have been, and still remain inclined to reproduce some Soviet stereotypes in the new legislation and action. It is particularly difficult to overcome the image of paternalistic state and eliminate efforts to create new privileged social groups. Both these factors result in wrong
targeting. Social security rights and benefits are extended for certain social groups that are able to make pressure, but are not mostly in need. The main principle to support those unable to work and poor in certain cases is replaced by the principle to support those merited by political reasons.

- Some decisions have been and still are based on the principle of contrast: it presumes that everything in the Soviet law was wrong and with no considerations should be done in the opposite way.
- The new social security system has been and still is obliged to take into account old system’s promises: the majority of previously acquired rights of people even if they are identified as wrong from the point of view of targeting must be respected. Therefore, gradual elimination of some old rights and replacing them by new ones must take a long time.

**International influences.** International organisations and institutions from separate Western countries made a considerable influence upon the development of social security systems in the Baltic states. Such international organisations, as the World Bank, International Labour Organisation, the Council of Europe, European Union, United Nations Development Programme and many others imposed active influence upon the decision making through their local assistance arrangements, consultants, as well as through the intensive training of local staff. The governments of Scandinavian countries, Germany and many others acted in the similar way according the bilateral agreements. Such aid has been very valuable, and it still is. However, the experts from different institutions and different countries have different standpoints and their recommendations often are contradictory. For example, World Bank experts tend to advise as the best from targeting point of view the flat-rate means-tested social assistance pension supplemented by private pensions funds arrangements. The European experts are reluctant to support this approach. Therefore, the wide view on the international scale must be well co-ordinated inside the country. Not always this is a success, particularly when the assistance receiving country has not strongly decided on its principles. This may cause the constant danger of inconsistency and discrepancies in a social security system.

As a matter of fact, social security systems in Europe (just like in all over the world) are based upon different concepts and different models. Moreover, they are constantly in development. So, it is not that the market economy is based on one particular social security concept, but on a great variety of them. Therefore, in originating new national systems it was not possible to distinguish any universal and to all transitional countries commonly applicable principles of social security system design. In originating new systems different models and various Westerns countries’ experience served as an example. This partially explains the diversity and, in some cases, inner inconsistencies of the systems.

**Reform towards the market economy.** The important factor that influenced the development of social security systems was the persistent endeavour to reorganise, as soon as possible, the economy according to the market principles. The social security system had also to follow this aim. Even though the general aim was clear, there were many reasons why the specific strategy of its realisation was rather difficult to accomplish.
The economic crisis that was particularly significant at the beginning of the transformation period virtually encumbered the development of the new social security systems. Due to the economic difficulties caused by this factor, the social security system could not develop, as it was foreseen. For example, during the first several years, old-age pension values lost much in purchasing power and became flattened, differences between insurance and non-insurance (assistance) pensions decreased, although neither the flat-rate pension system, nor essential decrease in pension values in the Baltic states was not planned. This fact made essential impact on the targeting problem as suggested the shift into flat-rate national pension instead of contribution related one. On the other hand, due to the financial restrictions, it was easier to eliminate the exaggerated promises and privileges of the former Soviet system.

Social security systems were being designed in the atmosphere of certain pressure. On the one side, there were efforts to minimise State’s influence and reject its paternalistic role, meanwhile strengthening the self-responsibility of an individuals. These and similar liberal ideas came from the disappointment with the dictatorial role of the former Soviet state. According to this way of thinking, the main part of social security had to be based on social insurance approach preferably administered by non-state institutions. Only those people who had contributed may have the right to get social insurance benefits; these benefits are contributions related, not means-tested and do not so much (if at all) take into account the situation of beneficiary (need, number of dependants, etc.). For the people who are not covered by social insurance only the social assistance means- or income-tested benefits should be available. From the point of view of targeting this approach seems rational, however, it may be criticised for awarding rather high benefits for well situated insured people who in reality do not need these benefits so much.

The opposite pole of the above mentioned pressure was strong tradition of laying absolute responsibility upon the State, for the welfare of its residents. According to this approach, the social insurance system should include also non-contributory part (non-contributory periods included into pensions records, the right to get unemployment insurance benefits for those who had never contributed, like graduated students, etc.). The non-insurance (assistance) part of social security should be extended far above from means-tested approach and provide generous benefits for various groups of population (families with children, single mothers, etc.) as well as certain measures for all population (free health protection, lowered prices of heating and so on). This approach also has important disadvantages from the point of view of targeting because of automatic awarding of benefits for big population groups. Many people of these groups are rich enough and do not need these benefits or may pay for the services themselves.

The actual social security systems were born in the Baltic states, if we may say so, from the compromise between the two (and not only between these two) opposite ideas. The Lithuanian example may illustrate the thesis.

Lithuanian social security system consists of two main parts: social insurance and social assistance. Social insurance is the dominating part that covers around 78% of total public social security expenditures.
The whole system of social insurance is mainly targeted to employees who are insured for all branches of insurance (basic and supplementary old age, disability and survivors pensions; sickness, maternity and funeral benefits; unemployment benefits). The self-employed people are insured only for the basic pension. Social insurance system is strongly based on contributory principle, so self-employed people contribute less because they have only partial rights to get pensions. There are no non-contributory periods. However, military conscripts and people on maternity/paternity leave are insured for basic pension. The contribution on their behalf is paid by the state. There are no exceptional rights or privileges in the reformed system. However, the special rights of certain professional groups (pilots, dancers) acquired before reform are respected in the form of the right to get special compensations. The core of the Lithuanian social insurance finances is extrabudgetary (i.e. not included into the national budget) Social Insurance Fund. Main income of the fund - obligatory contributions that the insured and their employers pay directly into the fund account.

The system of social assistance and social services is based on universal approach (i.e. no insurance contributions are required in order to get benefits) and is financed by general state and local governments revenue. It consists of ‘income-tested ‘special social benefit’ and benefits awarded on categorical basis for certain families with children and for people who have no social insurance rights. The means of these ‘categorical’ beneficiaries are not tested and the benefits in many cases are not the best targeted. Until now the less defined by the law is the sphere of social services. The targeting of social services remains under the responsibility of local social assistance administration.

All former ‘political’ and ‘merit’ privileges are shifted out from the social insurance system to the system of special ‘state pensions’ financed from State budget. This system hardly can be treated as the part of social security at all, and mainly is not targeted to the poor part of population.

The reform of social security in post-communist Baltic states is continued and the models chosen as a base for social system are still in the process of adaptation to the new realities. The improvement of targeting of social protection is usually declared as one of the most important aims of the advanced stage of the reform. Nevertheless the progress in reaching this aim still seems not satisfactory enough.