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ARTICLE

The welfare systems of the Baltic states following the recent financial crisis of 2008–2010: expansion or retrenchment?

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ABSTRACT
This article aims to uncover major social security system reforms that were implemented following the recent financial and economic crisis of 2008–2010 and the post crisis period. Additionally, it explores the dynamics of the socioeconomic situation during the last 10 years, looking at how Baltic states compare with each other and how they compare with other central and eastern European countries in the EU. The findings show that retrenchment is difficult even during times of crisis. Although the Baltic states were affected by the crisis, especially Latvia and Lithuania, their social security institutions did not experience any structural shift.

KEYWORDS Baltic states; crisis; social security; retrenchment; welfare state; pension insurance; parental leave policies; unemployment insurance

Introduction

The welfare systems of the Baltic states have been under heavy pressure following the recent financial crisis of 2008–2010. The pressure had been felt most severely in Latvia and Lithuania, where cuts in social benefits and public wages were implemented in order to reduce government budget deficits. Although there are few studies documenting austerity measures implemented during the crisis (see, e.g. Nakrošis, Vilpisauskas, and Kuokstis 2015; Savi and Randma-Liiv 2015), the actual social security reforms carried out during the crisis and socioeconomic recovery that followed in Estonia, Latvia, and Lithuania received little attention in the comparative social policy literature. How much have social security systems in the Baltic states been altered because of the recent crisis? This is a question that has not yet been carefully investigated.

Hence, the aim of this article is twofold. On the one hand, it aims to uncover major welfare system reforms that were implemented following the recent financial and economic crisis of 2008–2010 and the post-crisis period (2011–2016). It focuses mainly on social security institutions, namely pension insurance, sickness, maternity, parental, paternity benefits, and unemployment insurance. On the other hand, it seeks to explore whether the crisis undermined the well-being of the population and to what extent. In exploring the changes in the well-being of the 'Baltic' population,

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this article focuses on major socioeconomic indicators (poverty, material deprivation, income inequality, the shadow economy, minimum wage, and average earnings) and looks not only at how Baltic states compare with each other, but also how they compare with other central and eastern European (CEE) countries in the EU.

This article focuses on three periods: the expansion of social policy in 2004–2007; the impact of the crisis and implementation of austerity measures affecting social security reforms in 2008–2010; and the post-crisis recovery, when temporary austerity measures were either abolished or made permanent between 2011 and 2016.

The article is arranged as follows: firstly, a short review of previous studies on the crisis and its impact on the welfare state, with an emphasis on Pierson's theory of retrenchment is presented. Secondly, the methodology of the article is introduced. Thirdly, a general discussion on the development of the welfare state in the three Baltic states is provided. Fourthly, reviews of socioeconomic indicators and how they changed over the period 2006–2016 follows. Fifthly, the categories of social spending are discussed. Then, we examine changes in social security institutions (pensions, sickness, maternity, parental and paternity leave, and unemployment insurance). Finally, concluding remarks are offered. The major argument of this article is that retrenchment is difficult even during times of crisis. Although the Baltic states were affected by the crisis, especially Latvia and Lithuania, their social security institutions have not experienced any structural shift.

Theoretical background

Despite the economic slowdown, political shifts to the right, increasing economic globalization, and an increasing public deficit in many modern welfare state countries, the welfare states of the developed OECD countries have shown remarkable signs of resilience (see e.g. Bonoli, George, and Taylor-Gooby 2000; Kunhle 2000; Vis, van Kersbergen, and Hylands 2011). What makes the welfare state such a stable phenomenon? To answer this question, we turn to Pierson's (1996) foundations for the analysis of welfare state retrenchment. According to Pierson, the politics of retrenchment is especially 'treacherous, because it imposes tangible losses on concentrated groups of voters in return for diffuse and uncertain gains' (2). Politicians rarely get credit for cuts to programs, precisely because the voters and interest groups do everything to prevent the worsening of their current situations by seeking conflict. Thus, retrenchment advocates experience a dispute between their policy preferences and electoral ambitions. They have to withstand the scrutiny of voters and powerful interest groups surrounding social programs in pursuing unpopular policies. Overall, Pierson claims that retrenchment is a very unlikely phenomenon. It might be possible under conditions of budgetary crisis, but even then radical restructuring is unlikely. Due to the unpopularity of retrenchment, governments seek to negotiate consensus packages rather than to impose one-sided reforms. Seeking compromise by itself diminishes the potential for radical reforms, yet cuts tend to increase support for the welfare state (Pierson 1996).

Recent studies tend to support Pierson's arguments. A study conducted by Vis, van Kersbergen, and Hylands (2011) examined whether the welfare states of the UK, the USA, Germany, the Netherlands, Denmark, and Sweden experienced any radical reforms following the financial crisis of 2008–2009. They found no supportive empirical evidence for the statement that the crisis might have brought about

a radical retrenchment of the welfare state. On the contrary, rather than retrenchment, emergency capital injections in the banking sector were observed in all countries. This was followed by Keynesian measures (investing in jobs, investing in infrastructure, tax measures, and tax relief), including the (temporary) expansion of social programs (activation measures for the unemployed, training programs, job search assistance). As emphasized by Vis, van Kersbergen, and Hylands, continuing public support was a major defensive mechanism of the welfare state against radical retrenchment. They found that voters cherished the welfare state even more because of the crisis as it protects people's incomes in the case of unemployment and shields them from job loss.

Other studies (Greve 2011, 2014) showed that the crisis put welfare state cuts on the agenda in some countries (Greece, France, Ireland, Portugal), whereas others such as Germany, the UK, and Sweden followed the development path that was, to a large degree, historically already chosen, and avoided cuts and retrenchments (Greve 2011). Nevertheless, in some countries the crisis was used as a window of opportunity to change welfare states. This is especially relevant for CEE countries of the EU. Saxonberg and Sirovátka (2014) demonstrated how the crisis opened a window of opportunity for center-right governments in power (2007–2013) in the Czeck Republic to carry out small incremental reforms in social policy such as raising the pension age, introducing free days without health insurance benefits and making birth benefits means tested, which strengthen the neoliberal path. The introduction of a three-tier pension system and of greater freedom of choice in the parental leave system also contributed to liberalism, according to Saxonberg and Sirovátka (2014). In Slovenia, crisis-related reforms were also directed toward family policy. In 2012, the right-wing government did not change the family policy path; however, the number of family benefits recipients was reduced by making some universal family benefits (e.g. birth grant; additional supplement for families with three or more children) means tested, and many families had their benefits levels reduced. All of this was done using the austerity argument (Blum, Formánková, and Dobrotic 2014). In Lithuania, the crisis was used to retrench universal family benefits (see Aidukaite 2013).

Thus, previous studies showed that Western welfare states do not provide strong compelling evidence that the welfare state project was in danger because of the improvement and expansion experienced during the crisis in many western European countries. The studies on CEE countries of the EU proven that the generosity of the welfare state was trimmed during the crisis.

The most recent book edited by Schubert, de Villota, and Kuhlmann (2016) offered a detailed examination of welfare state systems and how they have progressed since the outset of the financial crisis in 2007 in all 31 countries including EU member states and candidate countries. The book revealed that European welfare systems 'cannot simply be reduced to one single challenge such as the financial crisis' (4). Evidence suggests that earlier domestic financial, organizational, and institutional problems put welfare systems under pressure. These problems were enhanced by the current crisis and then appeared in a more severe form (Schubert, de Villota, and Kuhlmann 2016). Drawing on articles contributed to a special issue of *Social Policy & Administration* that focused on the impact of the crisis on small European states (Ireland, Greece, Portugal, the Czech Republic, Austria, Slovenia, the Netherlands, and Belgium), Greve (2014) came to a similar conclusion. The crisis was used in small EU countries to change the welfare systems, 'although at different

paces and in different ways, to reflect differences in historical approaches and national beliefs as to what might be a good strategy to pursue' (Greve 2014, 393).

Overall, previous studies suggested that radical retrenchment in social policy during a crisis is not a very likely phenomenon. Some changes (cuts, trimmings) might occur if it is in line with the country's historical experiences, national belief on what constitutes good social policy, as well as the prior financial, organizational, and institutional problems of the welfare state. Therefore, in order to explore the impact of the crisis on the social security system, it is important to examine changes over longer periods including pre-crisis and post-crisis periods.

Methodology

This study follows Pierson's (1996) approach to measuring retrenchment. Pierson suggested relying on a combination of quantitative data on expenditures and qualitative analysis of welfare state reforms. For our quantitative overview, we used Eurostat data on social policy expenditures. The qualitative summary of welfare programs in the three Baltic states are based on the Mutual Information System on Social Protection (MISSOC) (2016) data and the data of the Social Security Association. This study seeks answers to these questions: How much have the social security institutions of Estonia, Latvia, and Lithuania been reformed? Have any major shifts in social security occurred? Which areas/benefits were most affected?

According to Pierson, there are three conditions that indicate structural shifts took place in the welfare state, allowing us to say that the welfare state has undergone retrenchment. These include '(1) significant increases in reliance on means-tested benefits, (2) major transfers of responsibility to the private sector, and (3) dramatic changes in benefits and eligibility rules that signal a quantitative reform of a particular program' (Pierson 1996, 7). Thus, we examine whether the changes in the social security systems of the Baltic states could meet any of Pierson's three criteria for welfare state retrenchment.

Pierson developed the retrenchment notion to study Western welfare states. The three Baltic states are among the leanest welfare states in Europe, at least when measuring the level of spending as a proportion of GDP. Nevertheless, there are plenty of reasons to use a retrenchment approach to study changes in Eastern Europe. Post-communist countries have a long history of social policy development which dates back to 1918 (see e.g. Aidukaite 2004; Inglot 2008). The communist period was marked by the expansion of social policy, which created strong groups of supporters of welfare programs. Even today, the citizens of Eastern Europe still want a caring state (Kornai 2002). The most recent study by Kuitto, who analyzed welfare policies in CEE countries and compared their development with established welfare states, has shown that social policies in the CEE 'do not fall behind the Western European welfare states at least when de jure regulations for the generosity and eligibility of social security provisions are considered' (Kuitto 2016, 164). This makes it even more important to analyze the retrenchment notion on CEE welfare states.

The 'Baltic' welfare state and the recent crisis

Numerous attempts have been made to place CEE countries into the existing welfare state typologies since the 1990s (Deacon 1992; Cerami and Vanhuyssen 2009;

Fenger 2007). Scholars have been intrigued by the question: do CEE countries shape any welfare models of their own? Or do they simply fall into existing welfare state types? The recent literature (Jahn 2017; Jahn and Kuitto 2011; Kuitto 2016) that focused on social policy performance in CEE countries (often in comparison with Western ones) have concluded that CEE countries do not form their own welfare state regime type. Instead, they form either hybrid cases (Kuitto 2016) or simply fall into different regimes (Jahn 2017). When it comes to the three Baltic states, they do not necessarily fall into the same category. For instance, according to the level and source of welfare financing, Estonia has more in common with Slovakia and the Czech Republic than with Latvia and Lithuania. The former countries rely heavily on contribution financing, while in the latter countries, together with Bulgaria and Romania, the relationship between contribution financing and tax financing is somewhat more balanced. Yet, the generosity of social insurance benefits measured as composed of the replacement rates, the eligibility criteria and the coverage rate, is higher in Latvia and Estonia (together with Slovenia and the Czech Republic) than in Lithuania. Lithuania falls together with Poland, Slovakia, and Hungary into the cluster of less generous countries (Kuitto 2016). A study (Aidukaite 2018) that focused on the detailed examination of social policy development in the three Baltic states also highlighted emerging differences among three countries. This is especially remarkable for family policy, pension insurance, and unemployment protection. If we try to place the social protection systems of the three countries into Esping-Andersen's (1990) welfare state regime typology, we may find a combination of features from different regimes. The low protection of children and unemployed in Lithuania makes it more similar to the liberal welfare state regime, while Estonia, with its generous policies for children and families, comes closer to the social democratic model. Latvia resembles the conservative-corporatist regime with modest child benefits and a heavy reliance on social insurance programs. Hence, the three Baltic states are not uniform in their social security arrangements.

The financial crisis of 2008–2010 presented serious challenges for the Baltic states. They experienced a dramatic decrease in GDP growth, reduced trade, growing unemployment, and job losses from 2008 to 2010 (see Aidukaite 2013; Aidukaite, Moskvina, and Skuciene 2016; Ainsaar and Kesselmann 2016; Rajevska and Romanovska 2016). Nevertheless, after a few years, the Baltic states managed to return to pre-crisis economic growth levels. Some authors have even praised Estonia, Latvia, and Lithuania as being 'very successful' (see Wrobel 2015), and called them 'role models' (see Åslund 2013) from which other countries, possibly Greece, can learn. As is well known, the governments in Estonia, Latvia, and Lithuania implemented harsh austerity measures; each of them cutting public expenditure by about 6% and hiked tax revenues by about 3% of GDP (Åslund 2011, 2013).

Currently, the budget deficit in the Baltic states is among the lowest in Europe. Nevertheless, scholars of social policy research have not been so optimistic. They emphasized the negative consequences of the neoliberal transition including the outcomes of the recent global economic and financial crisis that was felt most in the Baltics during 2008–2010. The negative outcomes of the neoliberal transition can be summarized as follows: a negative demographic performance (Ainsaar and Stankūnienė 2011; Krūmiņš 2011); high outward labor migration (Park 2015; Sipavičienė and Stankūnienė 2011; Sommers, Juska, and Hudson 2011); weak social dialog (Woolfson 2008); dissatisfaction with subjective well-being (Gataūlinas 2013);

and overall damage 'to the cohesion and sustainability of society in the longer run' (Sommers, Woolfson, and Juska 2014, 411).

The social security systems of the Baltic states (especially in Latvia and Lithuania) also experienced trimming and cuts to varying degrees. In Lithuania, pensions, disability benefits, unemployment benefits, and family benefits suffered the most (Aidukaite, Moskvina, and Skuciene 2016). In Latvia, pensions, unemployment, and sickness benefits were a major target for trimming (Rajevska and Romanovska 2016). Estonia, however, has not seen significant changes in the social security system, only that a redirection of money to the second pension 'pillar' was briefly postponed, but pension benefits for current retirees were not trimmed (Ainsaar and Kesselmann 2016). Although, there are a few case studies (Aidukaite, Moskvina, and Skuciene 2016; Ainsaar and Kesselmann 2016; Rajevska and Romanovska 2016) documenting social policy changes in the Baltic states during the recent crisis, it is still unclear how changes look over a longer time span. What reforms, for example, implemented during the crisis were temporary and which were made permanent? Which institutions were reformed in the post-crisis period? These questions will be explored shortly. Before moving on to social security analysis, we will review the changes in major socioeconomic indicators.

Socioeconomic changes in the Baltic states from 2004 to 2016

To see how the crisis affected the socioeconomic situation of the population, the following discussion looks into the Human Development Index (HDI) rank, the shadow economy, Gini coefficient of equivalized disposable income, minimum wage, mean monthly earnings, and severe material deprivation. We compare selected or available data from the pre-crisis, crisis, and post-crisis periods.

Table 1 summarizes the major socioeconomic indicators of the three Baltic states in the context of other CEE countries of the EU. Overall, the Baltic states experienced an improvement in a majority of indicators. The HDI rank has improved if we compare the selected years of 2005, 2010, and 2015. Estonia went up from 38th to 30th place in HDI rank, while Latvia went from 48th to 46th place, and Lithuania went from 39th to 37th. The shadow economy decreased markedly over the period 2005–2015: from about 38% to 26% in Estonia, from about 39% to 25% in Latvia, and from about 30% to 26% in Lithuania. The minimum wage has gradually increased in all CEE countries of the EU if the years 2006, 2008, and 2015 are compared. Estonia is among the CEE countries with the highest minimum wage, where Slovenia is the leader (€791), followed by Poland (€409), and Estonia (€390). Latvia (€360) can be clustered in the middle position together with the Czech Republic (€332) and Hungary (€333). The lowest minimum wages are in Bulgaria (€174), Romania (€217), and Lithuania (€300).

Countries with a lower minimum wage have higher numbers of severely deprived people. Estonia has the lowest deprivation rate (4.5%) among the CEE countries of the EU, while Lithuania (13.9%) and Latvia (16.4%) occupy a middle position compared to other CEE countries. Estonia is also among the leaders when comparing mean monthly earnings. The mean monthly earning is currently highest in Slovenia (€1571) and then Estonia (€999). Latvia (€692) and Lithuania (€640) only have higher mean monthly earnings than Romania (€512) and Bulgaria (€420). All CEE countries, however, experienced an increase in the mean monthly earnings if the pre-crisis (2006), crisis (2010), and post-crisis (2014) years are compared.

Table 1. Trends in major indicators of CEE EU countries.

Indicators/Country	BG	CZ	EE	LV	LT	HU	PL	RO	SL	SV
HDI rank, 2005	55	31	**38**	**48**	**39**	35	36	64	26	42
HDI rank, 2010	58	28	**34**	**48**	**44**	36	41	50	29	31
HDI rank, 2014	59	28	**30**	**46**	**37**	44	36	52	25	35
Shadow economy, % of GDP, 2004/2005	36.5	18.3	**38.2**	**39.4**	**30.2**	24.3	37.3	51.1	27.3	19.2
Shadow economy, % of GDP, 2015	30.6	15.1	**26.2**	**23.6**	**25.8**	21.9	23.3	28.0	23.3	14.1
Severely materially deprived people, % of total population, 2006	57.7	9.6	**7.0**	**31.3**	**25.3**	20.9	27.6	38.0	5.1	18.2
Severely materially deprived people, % of total population, 2008	41.2	6.8	**4.9**	**19.3**	**12.5**	17.9	17.7	32.7	6.7	11.8
Severely materially deprived people, % of total population, 2015	34.2	5.2	**4.5**	**16.4**	**13.9p**	19.4	8.1	24.9p	5.8p	9.0
Minimum wage (€), 2006	81.79	261.03	**191.73**	**129.27**	**159.29**	247.16	232.90	89.67	511.90	182.1
Minimum wage (€), 2008	112.49	300.44	**278.02**	**229.75**	**231.70**	271.94	313.34	138.59	538.53	241.19
Minimum wage (€), 2015	173.84	331.71	**390.00**	**360.00**	**300.00**	332.76	409.53	217.50	790.73	380.00
Gini coefficient of equivalized disposable income, 2006	31.2[b]	25.3	**33.1**	**38.9**	**35.0**	33.3	33.3	38.3[b]	23.7	28.1
Gini coefficient of equivalized disposable income, 2008	35.9	24.7	**30.9**	**37.5**	**34.5**	25.2	32.0	35.9	23.4	23.7
Gini coefficient of equivalized disposable income, 2015	37.0	25.0	**34.8**	**35.4**	**37.9**	28.2	30.6	37.4	24.5	23.7
Mean monthly earnings, 2006	193	714	**599**	**431**	**441**	608	648	332	1.198	519
Mean monthly earnings, 2010	332	922	**777**	**573**	**525**	729	793	444	1.470	758
Mean monthly earnings, 2014	420	909	**999**	**692**	**640**	774	948	512	1.571	908

Source: Eurostat (2016); Schneider (2015); UNDP (2015).
Data for the Baltic states are provided in Bold.
b – break in time series; p - provisional value.

The crisis seems to have reduced income inequality in the three Baltic states as the Gini coefficient of equivalized disposable income went down from 33 to 31 in Estonia, from 39 to almost 38 in Latvia, and from 35 to slightly above 34 in Lithuania, when comparing Eurostat data for 2006 and 2008. In the post-crisis period (2015), however, it went up again to 35 in Estonia and Latvia, and to 38 in Lithuania. Thus, the three Baltic states, together with Bulgaria and Romania, are still among the EU countries with the highest levels of income inequality.

The Baltic states are still laggards in the EU when it comes to the at-risk of poverty rate (averaging about 22% in 2015), which is higher than the EU-28 average (17%)

(Eurostat 2016). In the Baltic states, poverty rates remained flat during the economic boom, the crisis (except for Latvia), and post-crisis periods. This reminds us once again that economic growth does not automatically reduce poverty. Other measures such as an increase in wages and social benefits are necessary.

Overall, the overview of the major social indicators suggests that the situation in the Baltic states has not only returned to the pre-crisis period, but even improved for many indicators. The shadow economy declined as tighter measures were taken to improve tax collection. Minimum wage and mean average earnings increased, especially in Estonia. The poverty rates stayed surprisingly flat during the pre-crisis, crisis, and post-crises periods in Estonia and Lithuania, while Latvia saw an increase in poverty in 2008 and 2009.

The overview of socioeconomic indicators shows that nothing dramatically changed in the CEE countries of the EU during the last 10 years. We can still observe more or less similar countries' cluster groups distinguished by other scholars (Bohle and Greskovic 2007; Jahn 2017; Jahn and Kuitto 2011; Kuitto 2016): Slovenia, the Czech Republic, and Hungary as the best performers; Bulgaria and Romania at the bottom; the Baltic countries, Poland, and Slovakia, with some variation according to different indicators, in the middle. If the three Baltic states are compared, Estonia, after the crisis, has taken a remarkable step forward. Severe material deprivation is much lower in Estonia, and poverty is slightly lower than in Latvia and Lithuania. As for minimum wage and average monthly earnings, Estonia joined the leading CEE countries of the EU.

Categories of social spending in the Baltic states

Social protection expenditures increased slightly during the crisis and post-crisis periods in all three Baltic states. This may not come as a surprise since the study by Prasad and Gerecke (2010) shows that, on average, social expenditures increase over the course of crises. The social protection expenditures in the three Baltic states, however, still remain among the lowest in the EU. In 2014, the three Baltic states spent around 14–15% of GDP on social expenditures. This is much lower than the EU average (about 28%), and even lower if compared to other CEE countries of the EU. Only Romania, in the size of its social expenditure, closely follows the Baltic states.[1] Castles (2009), however, claims that aggregate social protection expenditure is not the best way of measuring social policy success because not all spending is equally efficient. The increase or decline in expenditure can mask an increase or decline in unemployment and in the numbers of social assistance benefit recipients. An increase in social expenditure can also mean an expansion of social policy through implementing new welfare programs or an increase in the level of welfare benefits. Therefore, it is important to examine different spending priorities. Castles's (2009) study demonstrates that differences in the poverty and inequality of advanced nations largely depend on the extension and the generosity of cash spending on working-age programs. Working-age programs (comprising income support payments with respect to incapacity, unemployment, families, and social assistance) are more effective than others (age-related, healthcare, and social services) in alleviating poverty and inequality.

If we examine disaggregate categories of social security expenditure in the three Baltic states, we find spending patterns similar to those in many other industrialized

countries. Age-related cash benefits remain most heavily financed in all OECD countries, and the Baltic states are no exception. In Estonia and Lithuania, slightly more than 44% of total spending goes to financing old-age benefits. In Latvia, age-related spending is higher at 53%. Old age expenditure in the Baltic states is above the EU average, which is almost 40%. Expenditures on sickness/health are another heavily financed category in the Baltic states. All three Baltic states, however, spend less than the EU average (29%) on sickness and healthcare, and on survivors' benefits (the EU average is about 6%).[2]

When it comes to expenditures on working-age related benefits, Estonia leads, having the highest spending on families/children (11%), which is well above the EU average (8%), while Latvia and Lithuania spend less on families and children, at about 8% of their total social expenditure, respectively. All three Baltic states spend very little on unemployment and housing, well below the EU average (6% and 2%). Latvia is a leader, devoting more than 4% of its total spending to unemployment, while Estonia spends more than 3%, and Lithuania is at the bottom with slightly less than 3% devoted to unemployment. Lithuania, however, is a leader when it comes to social exclusion benefits. It devotes 4% of its total spending for this purpose. This is well above the EU average, which is less than 2%. It must be mentioned that the Baltic states spend more on disability benefits than the EU average (7%). Estonia devotes 12% of its total expenditure for disability, while Lithuania spends 9%, and Latvia spends slightly more than 8%.[3]

Overall, Estonia spends 27.7% of its total expenditures on work-related cash; while Latvia and Lithuania spend 22.92% and 24.24%, respectively. Following Castles's argument that working-age cash's (disability, unemployment, families/children, social assistance) generosity matters more in reducing poverty and inequality than age-related (old-age pensions) and others (healthcare and social services), it comes as no surprise that Estonia has fewer severely deprived people (4.5%) than Latvia (16%) and Lithuania (14%) (see Table 1).

In the following discussion, we examine the design of social security systems in the Baltic states and how they changed from 2004 to 2016.

Changes in the Baltic states' social security systems from 2004 to 2016

This section provides an overview of the social security systems in the three Baltic states, revealing differences and similarities. It also highlights whether any changes were made during the three time periods.

Pension insurance

The pension insurance system in the Baltic states is established with the 'three pillar' model (see Aidukaite 2006; Casey 2004). The 'three pillar' pension reform was carried out in the three Baltic states from 1996 to 2004. The period of 2004–2007 was one of stabilization (no significant changes were implemented) and expansion as pension benefits were gradually increased (see Aidukaite 2006, 2013). The MISSOC data allows us to examine changes in eligibility conditions, financing, benefits structure, and the actors involved. There are significant differences in the design of first and second 'pillars' among three countries. The first 'pillar' is a state-managed scheme based on current contributions (pay-as-you-go) in Estonia and Lithuania. In both countries, the

minimum eligibility requirement for the first 'pillar' pension is 15 years of contributions. The pension paid from the first 'pillar' is earnings related. There are, however, differences in how the old-age pension is calculated. In Estonia, it consists of a basic part, the pensionable service period component (calculated for employment before 1999) and insurance component (depends on the amount of social tax paid on the salary of the pensioner since 1999) (Pensionikeskus 2016). In Lithuania, the size of the retirement pension depends on the length of employment, the amount of income received, the insured income of the current year approved by the Lithuanian government, and the amount of the basic pension (SODRA 2016). There are also some minimum and maximum ceilings implemented for an old pension in Lithuania. In Estonia, old-age pensions are indexed each year. The index depends on the cost of living and on the annual increase in the social tax received. In Latvia, eligibility is based on contributions and the duration of affiliation (notional defined contributions). This means that the benefit level from the first 'pillar' is earnings related, but dependent on life expectancy and notional investment returns. It is, however, enough to have at least a 10-year insurance period to qualify for the first 'pillar' pension.

The three Baltic states also differ in how the second 'pillar' is organized. In Latvia, the second 'pillar' is a state-funded compulsory pension scheme. It is compulsory for all employees born after 1 July 1971 and voluntary for employees born between 2 July 1951 and 1 July 1971. According to Trumm and Ainsaar (2009), the second 'pillar' in Estonia, although managed by the private funds, is considered to be a part of the government system because of its mandatory character and the state's financial contributions to it. It is mandatory for those born in 1983 or later; however, no voluntary membership is available for those born earlier. Contrary to Estonia and Latvia, Lithuania opted for voluntary membership in a second 'pillar.' It is a voluntary, privately managed, funded pension scheme. In Latvia and Lithuania, the second 'pillar' is financed by redirecting money from a mandatory state social insurance contribution (pay-as-you-go) fund. It was envisaged that contributions to the second 'pillar' would increase gradually. The starting point in Latvia (2001) was 2% of total social insurance contributions directed to the second 'pillar'; in Lithuania (2004), it was 2.5%. However, due to the global financial crisis, governments in both countries reduced the contributions (from 8% to 2% in Latvia in 2008; from 5.5% to 2% in Lithuania in 2009) (the MWL 2012; Gudaitis 2010). In 2012, the contribution rate in Lithuania for the funded scheme was temporarily reduced to 1.5%; in 2013, the contribution rate was increased to 2.5% (the MSSLL 2014). From 2014 to 2019, however, it was returned to 2% again. For Latvia, changes in the contribution rate redirected to the second 'pillar' were as follow: in 2012, the contribution rate directed to the second 'pillar' was still 2%; it increased in 2013, and in 2014 amounted to 4%; in 2015, it made up 5%; in 2016, contributions increased to 6%. Hence, the contributions to the second 'pillar' in Latvia still have not reached the pre-crisis period, which was 8%.

The second 'pillar' in Estonia is financed partly from additional contributions by employees and partly from the relocation of a share of the pension insurance, which is part of a social tax. If a person pays 2% of gross income for compulsory old age insurance, the state will contribute another 4% (Trumm and Ainsaar 2009, 161). As documented by Ainsaar and Kesselmann (2016, 187), 'in 2009, the government decided to freeze government contributions to the second "pillar" until the end of 2010 and let people choose for themselves whether or not to continue contributing to

their own accounts during these 2 years.' This meant that participation in the second 'pillar' became voluntary. Only 37% of previous contributors remained in the second 'pillar' of funded pensions. For those who decided to stay in the second 'pillar,' the state promised to contribute 4% on its part from 2014 (Ainsaar and Kesselmann 2016).

In all three countries the benefit level paid from the second 'pillar' depends on contributions and investment returns. The reduction of state contributions to the second 'pillar' has meant that intergenerational solidarity has increased, as more money stayed in the first 'pillar,' meaning possibly higher pensions for current retirees. We should, however, keep in mind that the increase in pensions also depends upon political will, demographic situations, economic growth, and the success of the tax collection system. The third 'pillar' is a voluntarily funded private pension scheme (Aidukaite 2006, 2013; Casey 2004).

Thus, the major changes in the three Baltic states during the period of 2004–2016 concerned the second 'pillar,' namely its financing. The rate of contributions to the second 'pillar' was reduced from 2008–2010 and it is still in place in Latvia and especially Lithuania. All three countries have taken measures to gradually increase the pension age. There is a plan to raise the retirement age to 65 years by 2025/2026 for both sexes.[4] The increase in the pension age has, however, been debated for a long time and these changes have more in common with the EU regulations than with the crisis itself. It should also be mentioned that during the crisis the level of benefits paid from the first 'pillar' was reduced in Latvia and Lithuania. The benefits returned to the pre-crisis level in 2012 in Latvia, and in 2015, in Lithuania. A further increase in pension benefits is being debated. Estonia was a special case as old-age pensions were increased during the crisis (for details see Ainsaar and Kesselmann 2016).

Sickness and maternity/parental/paternity benefits

In the Baltic countries, sickness and maternity/parental/paternity benefits are earnings-related. The entitlement or qualifying conditions for benefits are based on social insurance contributions and residency requirements. All expenses are paid from the compulsory social insurance money that is financed by the pay-as-you-go principle: in Lithuania, it is from the State Insurance Fund; in Latvia, from the Social Insurance Budget, and in Estonia, from the Health Insurance Fund (Aidukaite 2006, 2013). The examination of MISSOC data from 2004 to 2016 shows that sickness benefits were subject to change in all three Baltic states. The changes were mainly related to benefit levels. During the crisis period of 2009–2010, Estonia lowered sickness benefits from 80% of the reference wage to 70%. These changes are still in place. Additionally, three waiting days were introduced in Estonia, which is still in place. Before the crisis, in Estonia there was no qualifying period for sickness benefits, but during 2009–2010, a qualifying period of 14 days in employment was introduced and it is still in place. Latvia also trimmed its sickness benefit during the crisis period from 80% of the average national wage to 75% during the second and third days of illness, and after that, once again at 80%. The duration of payment was shortened from 52 weeks to 26 weeks if incapacity for work was uninterrupted. Lithuania experienced the most drastic trimming of sickness benefit during the crisis period. Before the crisis, sickness benefit for the first two days amounted to at least 80% of the insured person's average wage and was paid by the employer. For the third day, and onwards, the sickness benefit amounted to 85% of the insured person's average

compensatory wage, which was paid from the social insurance fund. In 2009, the sickness benefit for the third and seventh days was reduced to only 40% of average monthly compensatory wage payable from the social insurance board, and then if continuing, it went to 80%. These changes were in place until 2015. Starting from 2015, sickness benefits amounted to 80% of the employee's compensatory wage, payable by the employer for the first two days and onwards by the local state social insurance board.

In Estonia and Lithuania, maternity benefits did not see any change in the period of 2004–2016. In Estonia, maternity leave amounts to 100% of the reference wage and is paid for 140 calendar days, longer than in Latvia and Lithuania. In Lithuania, maternity leave is paid for 126 days and amounts to 100% of the insured person's average income during 12 consecutive calendar months prior to the beginning of maternity leave. Those mothers who do not qualify for maternity leave are entitled to receive a lump sum benefit paid 70 days before the expected date of childbirth. In Latvia, maternity benefits have not seen significant change; however, since 2012, the benefit level was tightened and dropped from 100% of the insured person's average earnings in the last six months to 80% of the insured person's average earnings in the last 12 months.

The parental and paternity insurance benefits have not seen any essential changes. There were, however, changes in eligibility conditions and payment duration, especially for parental benefit. In Lithuania, from 2004 to 2010, parental benefit saw an increase in the replacement level, from 70% of the insured person's average earnings during the last three months to 100% of the insured person's average earnings during last 12 months. During the years of 2008 and 2010, it was paid for up to two years; 100% of the insured person's average earnings if the child was less than one year of age or 85% if the child was less than two years old. Since 2011, the parental benefit has been reformed and the changes implemented are still in place. The parental benefit (paid to one of the parents, guardian, or adoptive parent) amounts to 100% of the insured person's average earnings and is paid for up to one year. Parents can, however, choose between one or two year's parental leave. If the parent chooses to receive the benefit until the child reaches the age of two, 70% is paid until the child reaches the age of one, thereafter 40% until the age of two. Lithuania has quite generous paternity leave. The father in Lithuania is entitled to 100% of the beneficiary's average income paid for 28 days. To qualify for all earnings-related benefits mentioned above, the insured person must have at least 12 months of contributions in the last 24 months before the first day of benefits are paid in the case of maternity and paternity leave; in the case of parental leave, it is seven months of contributions in the last 24 months.

In Latvia, the parental leave (paid from social insurance fund) was introduced as late as 2008, during the crisis. It amounted to 70% of the insured person's average monthly earnings in the last six months and was paid to a person raising a child aged less than one year (minimum and maximum ceilings were implemented). At least 12 months of social insurance contributions were required to qualify for a parental benefit. In 2015, the parental benefit was reformed. Currently, the parental leave can be paid for up to one year (in the amount of 60% of the social insurance contribution wage) or up to one and a half years (in the amount of 43.75% of social insurance contribution wage). If, at the same time, a parent chooses to work, 30% of the granted benefit will be paid. Latvia has a paternity leave that is paid to the father for 10 consecutive days and amounts to 80% of the insured person's average earnings in the last 12 months.

Estonia has a long history of paying various parental benefits since the 1990s (see Ainsaar 2001). The analysis of MISSOC data show that the periods 2004–2007 (before the crisis), 2008–2010 (crisis), and 2011–2016 (post-crisis) were marked by the further expansion (duration and generosity) of these benefits. As documented by Ainsaar and Kesselmann (2016, 184),

> In 2008, further changes were implemented: the payment period of parental leave benefits was extended by four months, i.e. until the child is one and one half years old; a working father gained the right to take 10 days of paternal leave with benefits equal to the average salary, during the mother's maternity leave or within two months of the birth; in cooperation with local governments, additional funds were invested into construction of child day-care facilities and to raise the wages of kindergarten teachers; additional parental leave was granted to one of the parents.

In Estonia, a parental benefit (100% of the reference wage), available to one of the parents, is paid for 435 days after the maternity benefit period ends. It is enough to be affiliated with the Health Insurance Fund (HIF) regardless of the length of service in order to be entitled to maternity and parental benefit in Estonia. The entitlement conditions have not been changed since 2004.

To sum up, sickness benefits have suffered trimming in all the Baltic states, while maternity benefits have not seen changes, except in Latvia. Parental and paternity benefits have experienced expansion in Estonia and Latvia, while in Lithuania parental benefits were slightly trimmed.

Unemployment insurance

All three Baltic states experienced rapid increases in unemployment during the crisis. The sharp increase in unemployment appeared in 2009, peaked in 2010 (at 16.7% in Estonia, 19.5% in Latvia, and 17.8% in Lithuania), and started to gradually decline since 2011. Estonia has managed to retain a lower unemployment rate (6.2% in 2015) compared to Latvia (9.9%) and Lithuania (9.1%). Yet, none of these countries have reached the pre-crisis situation when (in 2007) the unemployment rate was less than 5% in Lithuania and Estonia and approximately 6% in Latvia.[5] Unemployment decreased in the Baltic states and this could be an indicator of the economic recovery. One should keep in mind, however, that in the Baltic states the rate of emigration is very high (see e.g. Ainsaar and Stankūnienė 2011), especially in Lithuania and Latvia, and that makes it difficult to assess the decrease in unemployment. Previous studies (Aidukaite 2004; Ainsaar and Kesselmann 2016) also underlined that the level of unemployment benefits in the Baltic states is very low and the benefit period is so short that people see no point in signing up for unemployment benefits.

Unemployment insurance is very modest in all three countries. For instance, in 2012, Estonia (0.5%), Latvia (0.5%), and Lithuania (0.4%) spent much less on unemployment as a percentage of GDP compared to the EU-27 average (1.5%) (Eurostat 2016). The qualifying conditions are strict for unemployment benefits in the Baltic states. In Lithuania, at least 18 months in paid employment in the last 36 months, social insurance contributions, or citizenship for those who do not have a work record, is required. In Latvia, it is enough to be in employment and to have an insured period at least nine months in the last 12 months to qualify for unemployment benefits. In Estonia, it is necessary to have an insurance period of 12 months within a 36-month period. In Estonia, unemployment benefits can also be received on the basis of proven

need for those who do not qualify for unemployment insurance benefits. They are paid from the state budget (Aidukaite 2006, 2013; Social Security 2016).

The duration and level of unemployment benefits in all three countries depends upon social insurance contributions and work record. If the three Baltic states are compared, the duration of payment is shortest in Lithuania. It is paid for up to six months for those who have shorter than a 25-year work record, for those who have up to a 30-year work record it is paid for up to seven months, with a 30–35 year record it is paid for up to eight months, and for those whose work record is more than 35 years it is paid for up to nine months (Social Security 2016). Latvia comes next with nine months of payments for those who have insurance for a term of at least one year. In Estonia, it is paid for up to six months if the insurance period is shorter than five years, up to nine months if the insurance period is 5–10 years, and up to one year if the work record is 10 years or more (Social Security 2016).

The replacement rate for unemployment benefits is low in Lithuania. It consists of a fixed and variable component. The fixed component represents the State Supported Income (€102). The variable component is linked to the former insured income of the unemployed and the insured income of the current year approved by the government. It cannot exceed €303 (Social Security 2016). In Latvia, the monthly benefit varies according to the length of the insurance period and the duration of unemployment. The benefit is 50% of the insured person's average earnings in the last 12 months with one to nine years of coverage, 55% with 10 to 19 years, 60% with 20 to 29 years, and 65% with 30 years or more. The amount of benefits decreases over time: the full amount is given during the first three months, 75% of the granted unemployment benefit is given during the next three months, and 50% of the set benefit is distributed during the last three months (Social Security 2016). In Estonia, the value of unemployment insurance benefit is connected to the insured person's salary prior to unemployment, at first forming 50% of the insured person's average remuneration per calendar day for the first 100 days and then 40% of the same from the 101st day of unemployment (MSAE 2012; Social Security 2016).

Overall, an analysis of the Social Security data and MISSOC shows that the unemployment insurance has not experienced any structural shift during the crisis and post-crisis periods. In Lithuania, the ceiling for unemployment benefit was lowered in 2009 but increased again in 2015.

Discussion and conclusions

This article contributes to a better understanding of the changes in social security institutions that took place over the crisis and post-crisis periods in the three Baltic states. The Baltic states experienced a severe financial crisis in 2008–2010; however, the consequences of the crisis on social security institutions has not been fully debated. In this article, in order to capture major reforms, the changes in the legislation of social security institutions were reviewed from 2004 to 2016. The findings of this article show that social security institutions experienced some adjustments during the crisis and post-crisis periods. Table 2 summarizes major changes during three periods: the adjustments regarding the pension insurance had to do with the second 'pillar' in all three countries. The rate of contributions to the second 'pillar' was reduced and it is still in place in Latvia and especially Lithuania. In Estonia, the state's contributions to the second 'pillar' were stopped entirely during the crisis and then in the post-crisis period they were returned fully to the pre-crisis level. Unemployment insurance has not seen any changes in Estonia and Latvia. In Lithuania, the ceiling levels for

Table 2. Changes in social insurance institutions of the Baltic states, 2004–16.

	Estonia			Latvia			Lithuania		
Social insurance institutions	2004/2007	2008/2010	2011/2016	2004/2007	2008/2010	2011/2016	2004/2007	2008/2010	2011/2016
Pension Qualifying conditions	-	State's contributions stop at the 2nd pillar	State's contributions returned to the 2nd pillar	-	Contributions reduced to the 2nd pillar	Contributions still lower than in 2008	-	Contributions reduced to the 2nd pillar	Still in place
Income replacement rates	-	-	-	-	Reduced	Returned to pre-crisis	-	Reduced	Returned to pre-crisis
Financing	-	-	-	-	-	-	-	-	-
Unemployment Qualifying conditions	-	-	-	-	-	-	-	-	-
Income replacement rates	-	-	-	-	-	-	-	Reduced	Returned to pre-crisis period
Financing	-	-	-	-	-	-	-	-	-
Sickness Qualifying conditions	-	Tightened	-	-	-	-	-	-	-
Income replacement rates	-	Reduced	Still in place	-	Reduced	Still in place	-	Reduced	Returned to the pre-crisis level with some modifications
Financing	-	The employer pays 4–8 days	Still in place	-	The employer pays for 10 days	Still in place	-	-	-
Maternity Qualifying conditions	-	-	-	-	-	-	-	Tightened	Still in place
Income replacement rates	-	-	-	-	Reduced	Still in place	-	-	-
Financing	-	-	-	-	-	-	-	-	-
Parental Qualifying conditions	-	Duration increased	-		-	-	-	-	-

(*Continued*)

Table 2. (Continued).

	Estonia			Latvia			Lithuania		
Social insurance institutions	2004/ 2007	2008/2010	2011/2016	2004/ 2007	2008/2010	2011/2016	2004/ 2007	2008/2010	2011/2016
Income replacement rates (R.R)	-	-	-	x	Introduced	Duration increased; R. R-decreased	-	Reduced	Still in place
Financing	-	-	-	x	-	-	-	-	-
Paternity Qualifying conditions	-	-	-	-	-	-	-	Tightened	Still in place
Income replacement rates	-	Introduced: 10 days equal to average salary	-	-	-	-	-	-	-
Financing	-	-	-	-	-	-	-	-	-

- – no changes; x – scheme does not exist.

unemployment benefits was reduced but increased again in the post-crisis period. Sickness benefits have been trimmed in all three countries. In Estonia and Latvia, the replacement rate for sickness benefits was reduced during the crisis and it is still in place. In Lithuania, the replacement rate for sickness benefits has been returned, however, with some modifications and benefits are still slightly lower than during the pre-crisis period.

The replacement rate for maternity benefits was trimmed only in Latvia. Significant changes in parental benefits were implemented in Lithuania, reducing the replacement level of the benefit if it is taken for two years. These changes are still in place. Estonia has taken measures to increase the duration of parental leave during the crisis and post-crisis periods. Latvia has introduced the parental benefit during the crisis. In the post-crisis period, however, the Latvian government took measures that reduced the replacement rate for parental benefit but prolonged the payment duration.

Overall, the social security institutions of the Baltic states have not experienced any radical changes. There were no significant changes in eligibility rules, benefit levels, and financing. Yet, it seems that solidarity has increased in Latvia and Lithuania with the reduction of the rate of contributions redirected from the pay-as-you-go pension scheme to the funded pension scheme. In this sense, the case of the Baltic states supports Pierson's argument that radical changes in social policy are unlikely to happen even under budgetary constraints.

Another question in this study was 'how do the Baltic states compare to the rest of EU and especially to the other CEE countries of the EU in their socioeconomic indicators?' An overview of major socioeconomic indicators suggests that the situation of the Baltic states has not only returned to the pre-crisis level but even improved for many indicators. The shadow economy has declined as tighter measures were taken in order to more properly collect taxes. Minimum wage and mean average earnings have increased, especially in Estonia. Unemployment, however, has not returned to the pre-crisis level and poverty has remained surprisingly flat during the pre-crisis, crisis, and post-crises periods for Estonia and Lithuania, while Latvia saw a slight increase in 2008 and 2009. If the Baltic states are compared to the rest of the CEE countries of the EU, they are still among the laggards when it comes to social protection spending, relative poverty rates, and income inequalities. The socioeconomic situation in Estonia, however, has improved significantly compared to Lithuania and Latvia. Severe material deprivation is much lower in Estonia, and relative poverty is slightly lower, if compared with Latvia and Lithuania. The minimum wage and the average monthly earnings are higher in Estonia. In this category, Estonia has joined the leading CEE countries of the EU, the Czech Republic, and Slovenia.

Thus, it seems the welfare state in the Baltic states has survived the crisis of 2008–2010. While the Baltic states have been blamed for being neoliberal welfare states (Bohle and Greskovits 2007; Sommers, Juska, and Hudson 2011; Sommers, Woolfson, and Juska 2014), they have kept a quite solidaristic social security system during the crisis and the post-crisis period. Nevertheless, the prior domestic issues, which appeared considerably before the current crisis, such as relatively low minimum wage and low social security benefits, still persist and manifest into unacceptable poverty levels (higher than the EU average), including the working poor, high income inequality (among the highest in the EU), and high labor emigration, especially for Lithuania and Latvia. An aging population has been also observed since the 1990s, and needs to be addressed in various ways through welfare state system reforms in all three Baltic states. As stated by Kunhle and Alestalo (2000), 'welfare states have seldom been established as a result of big plans or big fights, but

mostly as a result of complex processes and successive steps of social and political engineering in European history' (p. 9). The welfare state development in the three Baltic states should not be reduced to 25 years of transition. Social policy development dates back to 1918, including the pre-war period (1918–1940) and the Soviet period (1945–1990) (see Aidukaite 2004). The historical legacies, the domestic economic problems and political preferences, population dynamics, and the impact of Europeanization and globalization are more powerful explanations for the development of the Baltic welfare states than the changes during the current crisis. Future research should look more closely into these explanations and investigate why differences persist in the social security systems of the Baltic states, despite a similar initial historical, political, and economic starting point in the 1990s.

Notes

1. Based on Eurostat (2016).
2. Based on Eurostat (2016).
3. Based on Eurostat (2016).
4. At present, the pension age in Estonia is 63 for both sexes; in Latvia, 62 years and 9 months for both sexes; in Lithuania, 63 years and 4 months for men and 61 years and 8 months for women.
5. Based on Eurostat (2016).

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