

Avo Trumm

Poverty in Estonia

Overview of main trends and patterns of poverty in the years 1996–2002

Project «Poverty, social assistance and social inclusion – Developments in Estonia and Latvia in a comparative perspective»

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Fafo's preface

This publication is one of a series of reports, working papers and student contributions from the project “Poverty, social assistance and social inclusion – developments in Estonia and Latvia”.

The project is carried through in cooperation between Tartu University in Estonia, University of Latvia and Fafo in Norway. The Research Council of Norway has funded the project.

The cooperation between Fafo and Baltic research institutions dates back to the late 1980s and Tartu University has been a main partner since the early 1990s. The University of Latvia joined the cooperation in 2003. This cooperation has contained living conditions studies in 1994 and 1999 as well as studies of social policy developments. The current project started in 2003. Reports and papers from previous cooperation projects can be found on www.fafo.no.

The project contains 4 main issues:

- Poverty trends and structures of social exclusion
- Policy responses – understandings of poverty alleviation and social inclusion
- Social practice – the implementation and impact of policies
- Policy learning and possibilities for policy transfer

These four questions demand a multifaceted approach to methods and reporting, and are examined by a group of researchers in three countries. Consequently the reporting will be diverse and we try to let the reporting present the diversity of the project.

The project will be concluded in a seminar in Latvia in spring 2006. During the three years of research we have produced reports on poverty and social policy in Estonia and Latvia as well as comparative analyses containing also Norwegian perspectives. This report is one of several contributions on the way.

I want to thank the whole team of researchers and student from the three countries that have been engaged in the work. The main contributors have been Dagmar Kutsar, Avo Trumm, Riina Kiik and Jüri Kõre from Estonia; Feliciana

Rajevska, Linda Ziverte, Ilze Trapenciere and Zana Loza from Latvia; Tone Fløtten, Aadne Aasland and Liv Tørres from Norway.

We also want to thank the Research Council of Norway for funding the project.

Arne Grønningsæter (project leader)

1 Introduction

On 18 December 2003, the Minister of Social Affairs of Estonia and the European Commissioner for Employment and Social Affairs signed in Brussels the Joint Inclusion Memorandum of Estonia. The Memorandum outlines the principal challenges in relation to tackling poverty and social exclusion, presents the major policy measures taken by Estonia in the light of the agreement to start translating the EU's common objectives into national policies, and identifies the key policy issues for future monitoring and policy review. Progress in implementing such policies will be assessed in the context of the EU social inclusion process, whose goal is to make a significant impact on the eradication of poverty in Europe by 2010 (Joint Inclusion Memorandum 2003: 1).

The current report can be treated as a follow-up to the previous co-operation with Fafo and the University of Latvia on the mapping of the developments of social assistance in societies in transition in the frame of the project "Social policy and social exclusion in the Baltic countries". The project revealed that comprehensive understanding of the aims, tasks and functions of social protection in a troublesome socio-economic situation is needed in order to increase the effectiveness of the welfare system in supporting sustainable human development and ensuring cohesive society (Trumm 2002).

The lessons learned from the UNDP Poverty Eradication Programme show that the implementation of socio-political regulations is mainly a question of political will. Promotion of political will depends on the availability of objective information about the scope and character of the problem, about associated risks, negative and positive impacts, about costs and benefits of the required actions. In general, it is a question of social impact assessment and socio-political analysis.

The aim of the current report is to analyse the situation of poverty, inequality and social exclusion on the one hand and developments of respective policies in Estonia on the other. The report tries to indicate the main risks of social inclusion in Estonia in the years 2000–2003.

The report consists of six parts. The first chapter gives an overview of the main theoretical and methodological considerations of poverty research and introduces the data of the present study. The second part presents the socio-economic background of the study, highlighting the basic changes in economy, labour market and welfare provision, which have significantly affected the poverty situation of

Estonia in the period of societal transformation. The third chapter of the report is devoted to the description of the general dynamics of income poverty in Estonia in 1996–2002. The structure and patterns of poverty are thoroughly analysed in the fourth chapter. The last two parts of the project deal with the issues of inequality and income redistribution and long-term welfare dependency in Estonia. The report is based mainly on the data from the Estonian Household Income and Expenditure Survey (HIES) carried out by the Statistical Office of Estonia. The analysis applies the Eurostat poverty line (60 per cent of median disposable income with equivalent scales 1:0.5:0.3). The author of the report would like to express thanks to Ene-Margit Tiit and Aivi Themmas at the Institute of Mathematical Statistics of the University of Tartu for their assistance in a statistical data analysis.

2 Theoretical and methodological considerations

Determination of poverty

What ‘poverty’ means and how it should be measured is by no means universally agreed upon. The basic *conceptual discussion* concerns the absolute or relative nature of poverty. An absolute definition of poverty assumes that it is possible to define a minimum standard of living based on a person’s *biological* needs for food, water, clothing and shelter. The emphasis is on basic physical needs and not on broader social and cultural needs. Absolute poverty is when people fall below this level – when they cannot house, clothe or feed themselves (Oppenheim 1993: 6).

Ringen (1987:123) states: “According to the sociological school, poverty, like other problems of man in society, should be interpreted in social and not purely individual terms. Poverty is not just a question of the bare necessities of life, such as food, shelter, and clothing, but more generally of being able to cope in the kind of society where one happens to live. Poverty is not absolute, but relative”. Townsend (1979: 31) has defined the relative poverty in the following way: “Individuals, families and groups in the population can be said to be in poverty when they lack the resources to obtain the types of diet, participate in the activities and have the living conditions and amenities which are customary, or are at least widely encouraged or approved, in the societies to which they belong”.

Thus, poverty is not simply about lack of money but also about exclusion from the customs of the way of life in a particular society. While there are a number of difficulties inherent in this approach – for example, how do we establish what the norms of our society are, or what people choose to manage without – such a perspective has played a crucial role in establishing a new agenda for contemporary debates about poverty. Poverty should be seen in relation to the standard of living in a particular society. People should have a right to resources that allow them to participate in society, rather than merely exist.

Operationalisation of poverty

Operational discussion in poverty research is mainly concerned with the poverty indicators. Traditionally, a poor person is seen as a person who has little money – but little money for what; and how poor is poor? Uusitalo (1992: 11) defines poverty as severe material deprivation due to the lack of financial resources. Personal or household disposable income has been the most popular measure of poverty analysis. Förster (1994: 2) states: “The various approaches used in the literature to measure poverty all have in common the establishment of a cut-off-line below which persons or families are considered to have an inadequate level of income or to be poor”. The income based poverty analyses are highly prevailing in scientific literature (Förster 1994, Gustafsson and Uusitalo 1990; Ritakallio 1991; van den Bosch 1992; etc.), and even more represented, in administrative reports of policy-makers.

However, the income is not a sufficient measure of poverty. Duncan (1984: 36) argues

“[...] money income is an incomplete measure of a family’s potential ability to fulfil basic needs. It omits all of the goods and services such as housework and child care that a household provides rather than purchases for itself as well as the goods and services that a household may receive from others in exchange for its services”.

Holman (1981: 32) also stresses that income is not the only factor of poverty: “Some members of society are lacking not just income but the conditions, opportunities and educational resources, etc., enjoyed by others.” It is important to turn the attention to the fact that in societies with relatively equal income distribution (e.g. in affluent societies as well as in poor countries) some other factors – absence of housing amenities and durable goods, poor health, lack of informal help, etc. – could be more significant reasons for poverty than the income by itself.

Finally, taking the relative theory of poverty as the point of departure, we should adjust our methods of measurement accordingly. The concept, which answers to the challenge given by the theory of relative poverty, is the concept of social deprivation. Berthoud (1976: 12) defined a deprivation briefly as “[...] a lack of something other people have [...]” Holman (1981: 32) gives a more sophisticated definition. “Social deprivation is a condition in which there is a failure to attain certain social norms to which existing social policies are apparently intended to provide access”. Based on the concept of social deprivation, several deprivation indexes (e.g. Townsend 1979; Heikkilä 1990; Mack and Lansley 1985; Abrahamson et al. 1990; Vogel 1991, etc.) have been elaborated. Beside the income,

the data about housing, property, income in kind, social assets, social participation, etc., are taken into account. However, still the most commonly used method of measurement is to identify poverty with low income and to stipulate a poverty line that divides the poor from the non-poor.

Ringen (1987: 129) explains this in the following way: “It is not because of theory, but rather convention and convenience that poverty research continues to use this method. That is the way it has always been done, and besides, income data are what we have on hand. The measurement method used in much of recent poverty research has little or no theoretical justification. Instead of studying who are in fact excluded from the community because of multiple deprivation poverty research continues to rely on the single indicator of low income”. Such a criticism towards the mainstream poverty research has met with strong opposition. Oppenheim (1993: 6) agrees with the statement that “[...] poverty is not about the shortage of money [...]”, but adds: “[...] yet the lack of an adequate income is at its heart”. Therefore, the discussion about the poverty measures is still going on.

Data and methodology

The questions of poverty in Estonia have arisen as a research topic since the early nineties, when the first round of household budget surveys was carried out by the EMOR Ltd. in 1992.

In July 1995, the method of household budgets was revised and the survey was handed over to the Statistical Office of Estonia. The survey runs regularly and provides information about income and expenditures of the households, about household structure as well as about family relations, employment, education, living conditions, existence of durable goods, etc.

All households living legally and permanently in Estonia are considered as the study population (however, persons living in institutions are excluded). The survey applies systematic random sampling and the sampling frame is the Population Register. The sample size of the survey is equal to 820 households per month. According to the sample design, *the unit of analysis in the current report is a household*. It means that the household is treated as a whole – the members share their incomes and expenditure and subjectively identify themselves as a household. For this reason, in order to find the *expenditure* of a household, the individual outgoings of household members are added up as the common expenditure of the household, and to find the *income* of a household, the incomes of the household members are put together. The contribution of each household member in the household’s

economic activity (income, expenditure) is calculated according to *equivalence scales*.

The data are collected from households by face-to-face interviews and by diary questionnaire method. The survey consists of four parts:

1. An interview establishing the household size and structure and socio-demographic characteristics of household members,
2. A diary to register food expenditure,
3. A diary to register income, taxes and expenditure,
4. A post-survey interview¹.

The Statistical Office of Estonia uses its own network of interviewers; about 100 interviewers are specially trained to interview households and are permanently involved in the survey fieldwork.

Equivalent scales

All types of household wealth studies depend to an important degree on *equivalence scales*, which determine the proportion that each member consumes. In accordance with international social study practice, various methodologies for determining equivalence scales are used, most of which are founded on political consensus on the one hand, and long-term consumption traditions on the other. The specific values of equivalence scales depend on the organisation of society (including social and wages policy), climate, environmental conditions and housing policy, the level of urbanisation, and much more. All the characteristics indicating differences (divergence) of incomes are extremely dependent on the equivalence scale values, such as the Gini coefficient, the square of the coefficient of variation, the ratios between the deciles or the quintiles, etc. Those equivalence scales, which give relatively smaller values to the other household members compared to the first household member generally, lessen the divergence of household income.

In Estonian poverty research, three sets of equivalent scales have been used:

- first adult – 1; all other adults – 0.5; children (up to 14) – 0.3. This is a modified scale proposed by OECD for affluent societies where the commonly shared expenditures (housing, durable goods, etc) form a significant part of the total consumption.

¹ The methodology of the Household Income and Expenditure Study is thoroughly described in Household Living Niveau 2002: 119-128.

- first adult – 1; all other adults – 0.7; children (up to 14) – 0.5. This is an OECD ‘standard’ scale, applied also by Eurostat and recommended for European social statistics.
- first adult – 1, all other household members (including children) – 0.8. This scale has been elaborated proceeding from empirical data from HIES in 1998 by the Institute of Mathematical Statistics of the University of Tartu (Kutsar and Trumm 1999).

In fact, the impact of equivalent scales on the overall level of poverty is statistically insignificant. However, the different consumption load given to different age groups affects the pattern of poverty and may increase or decrease the poverty risk of different types of households. The detail analysis (see e.g. Käärik, Tiit et al. 2001) has revealed that equivalent scales 1, 0.5, 0.3 (OECD modified scales) exposes higher risk for retired and childless households, in the case of national scales (1, 0.8) the households with three or more children are the most vulnerable.

Poverty thresholds

The level of poverty and the number of poor are directly related to the methodology for determining the poverty threshold. The question does not concern only the level of poverty, but the different thresholds (as a result of applying different equivalent scales) may reveal different poverty structures as well. In this respect, the question of methodology is sensitive to the results of analysis.

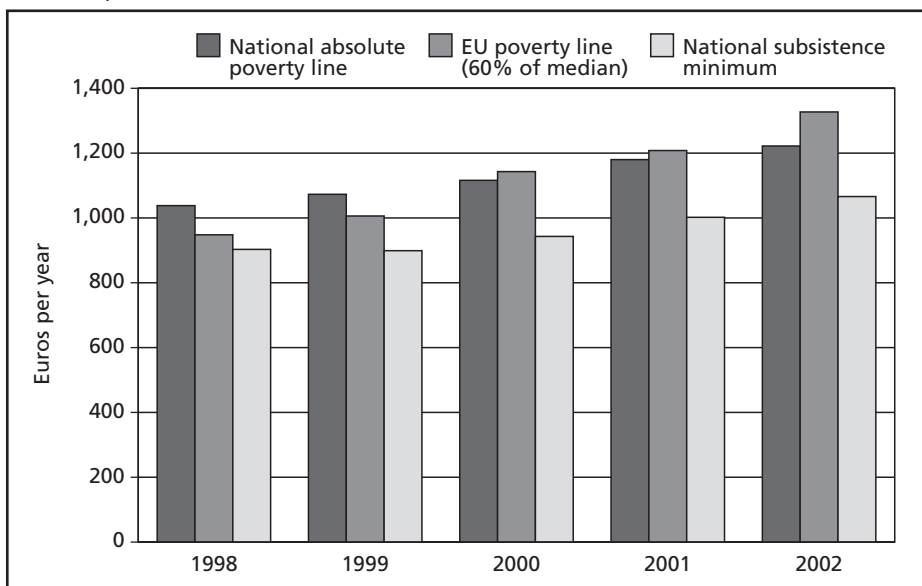
In the context of the European Union, the set of 18 common statistical indicators of social exclusion and poverty endorsed at the Laeken European Council in December 2001 are applied to monitor the progress of Member States and Acceding Countries in the fight against poverty and social exclusion. The indicators cover four important areas: financial poverty, employment, health and education (Dennis and Guio 2003: 1). The main indicator of poverty is the “at-risk-of-poverty threshold”, which is fixed for each country at 60 per cent of the national median equivalised income. The focus of EU social reporting is therefore on the relative rather than the absolute risk of poverty: this risk is defined in relation to the general level of prosperity in each country and is expressed with reference to a central value of the income distribution (op. cit.: 2).

However, the analyses of poverty (e.g. Kutsar and Trumm 1999) have shown, that in transition societies, where for a large part of the population the incomes are low (varying relatively little from the income median), the relative poverty line is abnormally low with few households falling below it. Keeping this point in mind,

the absolute poverty line calculated in relation to the socio-economic situation of the country could give more explanatory results. Figure 2.1 gives a comparison of three income-based poverty thresholds: one, proceeding from a relative poverty concept (60 per cent of national median equivalised income) and two absolute poverty thresholds – national poverty line² and estimated subsistence minimum³.

The national absolute poverty line based on real expenditures is adjusted annually according to the change in cost of living and has increased during the period by 18 per cent, at the same time the growth of the EU relative poverty threshold was 67 per cent. From a socio-economic point of view, it means that the growth of income of the population far exceeds inflation and that the general standard of living is increasing. The growing resources enable the households to consume more and “extra” (those goods not included in the subsistence minimum).

Figure 2.1 The poverty thresholds of different poverty lines for one-person households in 1998-2002 (HIES data, calculations by the Statistical Office of Estonia and the Ministry of Social Affairs of Estonia)



² The method has been elaborated by the Institute of Mathematical Statistics of Tartu University and proceeds from real expenditures of households. For details, see Kutsar and Trumm 1999.

³ The estimated subsistence minimum is the minimum amount of means of livelihood needed to maintain and restore working capacity. The estimated subsistence minimum of a person for 30 days includes the costs of a minimum food basket, primary goods and services. The cost of the food basket is calculated based on suggestions from nutritional scientists, according to which the energetic value of the minimum food basket is 2400 kcal per day (the social sector in figures 2001: 11). The method has been agreed on in tripartite negotiations between the government, employers and trade unions.

As a result, it seems that the EU poverty line defines the cost of subsistence in a more “generous” way.

However, the situation becomes more complicated in the case of households consisting of more than one person. The different equivalent scales applied in the EU and national poverty line makes the picture different. Table 2.1 presents the consumption coefficients and poverty thresholds for different household structures. It is revealed that the EU equivalent scale tends to underestimate the share of individual consumption of household members and the national scale gives to the children and spouses a too high consumption load⁴. The ratio of the national and the EU poverty thresholds is the greatest in the case of households with many children (EU poverty line is about 2/3 of the national poverty threshold).

In the EU comparative context the poverty threshold of Estonia (using Purchasing Power Standards⁵) is rather low and forms only 1/3 of the EU-15 average

Table 2.1 Consumption coefficients and poverty thresholds for different household structures in 2002 by different equivalence scales (HIES data, calculations by E-M Tiit and author).

Household structure	Total consumption coefficient		Poverty threshold (EUR per year)		EU/ national threshold ratio (%)
	National (equiv scale: 1:0.8:0.8)	EU (equiv scale: 1:0.5:0.3)	National	EU	
One-person household	1	1	1222	1324	108%
1 adult + 1 child	1,8	1,3	2200	1721	78%
1 adult + 2 children	2,6	1,6	3177	2118	67%
1 adult + 3 children	3,4	1,9	4155	2516	61%
2 adults	1,8	1,5	2200	1986	90%
2 adults + 1 child	2,6	1,8	3177	2383	75%
2 adults + 2 children	3,4	2,1	4155	2780	67%
2 adults + 3 children	4,2	2,4	5132	3178	62%
3 adults	2,6	2	3177	2648	83%
3 adults + 1 child	3,4	2,3	4155	3045	73%
3 adults + 2 children	4,2	2,6	5132	3442	67%
3 adults + 2 children	5	2,9	6110	3840	63%

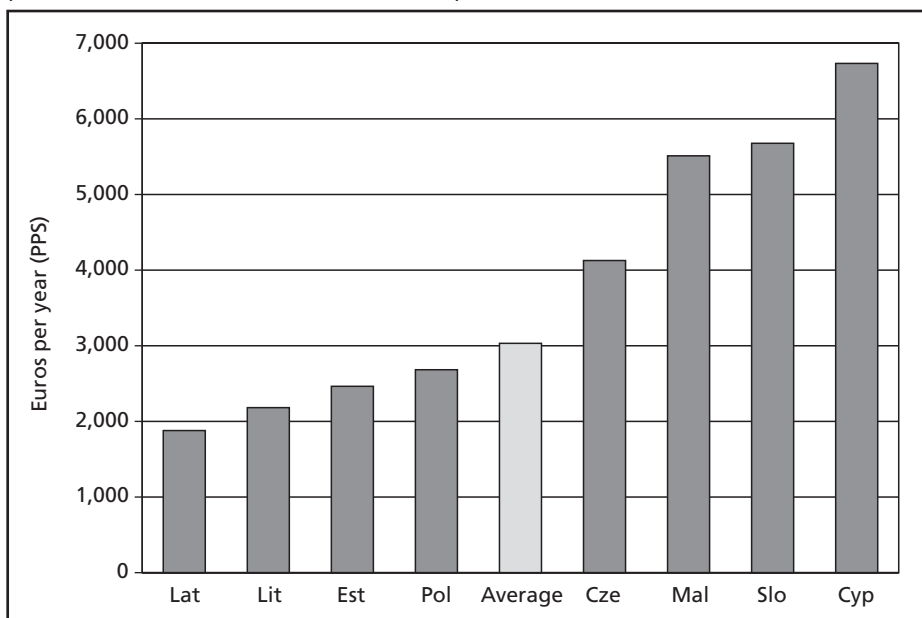
⁴ The issue of the revision of the national equivalent scales has recently been raised by the Ministry of Social Affairs and the Statistical Office of Estonia. Experts have expressed the opinion that the OECD’s ‘old’ equivalent scales (1:0.7:0.5) may have the best fit to the Estonian social and economic situation.

⁵ For the details, see Methodology of calculation of common cross-sectional EU indicators. Eurostat 19.04.2004 (Doc. IPSE/65/04/EN).

and about one half of the poverty threshold of the poorest EU-15 country – Portugal. Among the ten new member-states the Estonian poverty threshold is one of the lowest as well (figure 2.2).

Finally, taking into account the comparative character of the project, the poverty line endorsed by EU Laeken commitment (60 per cent of the median equivalent disposable income with equivalent scales 1:0.5:0.3) has been taken as a key-indicator of poverty in the current report.

Figure 2.2 Poverty thresholds (euros per year PPS) of the EU new member states in comparison (calculations based on Dennis and Guio 2003).



3 Socio-economic background of the study

Poverty and the structure of society

The discussion about the social or individual nature of poverty is a well-known part of social philosophy and goes back to the times of Plato and Aristotle. Individualists have a strong belief in a person's own capabilities. A human being is a cognisant actor, a maker of his own life, and success (wealth) or lack of it (poverty) is determined by individual choices. According to this approach, poverty is inherent in all societies and operates according to natural laws. A collectivist approach assumes that every person is a social creature, who even as an individual exists only in a relationship to others. Thereby, welfare is socially determined, poverty is defined socially, and social relationships are an essential source of well-being (Kangas 1998). However, today even the extreme individualists acknowledge that individual choices are determined by the society and consequently poverty is a social phenomenon and always operates in a certain social context. The nature, level, and structure of poverty depends on the social economic and cultural circumstances of the given society, and the comparative poverty research is above all a question of theories of poverty, social structure and society (Øyen 1997). The most striking example of the societal differences of poverty is a comparison of developed and developing countries. Øyen (1997: 8) voices the concern: *Why researchers in developing countries are using nonsensical poverty measures formulated in developed countries for another time and another context, and why so many of us are locked into a poverty paradigm that seems to take us nowhere, either as researchers or as policy makers?*

In the frames of the current report, the context of transition society plays a crucial role. The proper interpretation of the results of the study depends to a large extent on the understanding of the nature and impact of the economic, social and cultural changes that have taken place in Estonia and in other former socialist countries during the last 15 years.

Kutsar Tiit (2000) has argued that the transition countries should not be understood as countries that have “lagged behind” the developed countries. The totalitarian system diverted them from the traditional developmental track

(mainstream) and they have undergone different social, economic and political experiences. During the transition, the former socialist countries are turning towards the mainstream again.

In transition societies, the extensive rise of poverty levels can be attributed to the combined effects of disruption impact and of policy dislocation. “Disruption impact” refers to the scale of income reversals suffered as a result of the break-up of an integrated economy. Dislocation refers to the adversities encountered in the move to a new economic structure (Poverty in transition ... 1998). The characteristic feature of the “transitional poverty” is its massiveness⁶ and its structural nature. Ladanyi and Szelenyi (2000) reveal that during the transition there have been not only a substantial increase in the proportion of the population living in extreme poverty, but also the actual character of poverty has changed: Under socialism, poverty was mainly a life-cycle phenomenon, today social class and possibly ethnicity and/or gender appear to play a more significant role in predicting or explaining who becomes poor. Another evidence of transition is an increase of permanent poverty and spatial segregation of the extremely poor from the rest of society (Tarkowska 2000). The “new poverty⁷” hits those groups most that were less prepared to face new challenges. They were probably never among the best off, but in the former system, most of them had gained existential security and some sort of, perhaps token, self-esteem (Ferge 1999: 3).

Poverty as a phenomenon could be explained by *individual factors* (e.g. low coping skills, poor health, maladaptation, passivity, etc.) or structural characteristics of the society (reproduction of the class system, macroeconomic policies, structure of the economy, welfare policy, etc., table 3.1). Certainly, the individual abilities and aspirations play a significant role among the risks of falling into poverty. However, the rapid increase of poverty in all post-socialist countries is not only the result of a catastrophic failure of coping strategies, or of individual capabilities, but is caused mainly by the structural changes in these societies (Kutsar and Trumm 1998).

The poverty in the Baltic countries represents maybe the most evident case among the societies in transition. The extent and the speed of social, economic and political changes in this region has been the highest compared to the other

⁶ “ [...] No region in the world has suffered such reversals in the 1990s as have the countries of the Former Soviet Union and Eastern Europe. The number of the poor has increased by over 150 million. To put this into perspective, the figure is greater than the total combined population of France, the United Kingdom, the Netherlands, and Scandinavia... ” (Poverty in transition 1998: 6).

⁷ The term “new poverty” has been widely used (Tarkowska 2000, Gorniak 1999, Ferge 2000, etc.) in order to separate the poverty incidences caused by structural changes from life-cycle dependent traditional poverty.

Table 3.1 The structural and individual risks of poverty in transition societies (Kutsar, Trumm 1998).

INDIVIDUAL RISKS	<i>Fatal, independent of an individual</i> , e.g. decrease or loss of functional capacities due to age, illness or disability, or belonging to a minority group, an unfortunate region, etc. Dependent on an individual, e.g. low human capital (education, professional and social skills, self-help mentality, etc.)
HOUSEHOLD RISKS	<i>Household structure</i> , e.g. unfavourable proportion of breadwinners in relation to the dependants (single parent, many children) Life cycle of the household e.g. young family with small children, retired couple, etc.
LABOUR MARKET RISKS	<i>Reconstruction of the economy</i> , e.g. heterogeneous regional pattern, changed needs exposed to labour force (risks for those with low qualification), low salary vs. high prices <i>Disadvantaged by the employer in the situation of equal choice</i> , e.g. being a woman in pre-retirement or retirement age, low education/qualification, bad health or disabled, poor skills in the state language, low social skills, etc.
SOCIO-POLITICAL RISKS	<i>Resources and organisation of social protection</i> , e.g. the coverage, type, structure, etc. of benefits and services <i>New socio-political understanding, values, etc.</i> , e.g. shift from state paternalism to individual responsibility, reliance on enterprising spirit, marketisation and decentralisation of social care, etc.

countries of Central and Eastern Europe and resulted in high costs of transition expressed in a tremendous decrease of well-being of individuals. For that reason, we need to apply the approaches, methods of analysis and interventions that take the specific features – economic, political, and social – into consideration. This necessitates an analysis of the processes of reproduction of poverty in the particular region .

Period of introduction of radical reforms (1989–1994)

The first stage of transition in Estonia (1989–1994) includes the collapse of the socialist political and economic system, restoration of independent statehood and a period of rapidly implemented liberal socio-economic reforms – monetary and taxation reform, price liberation, end of subsidies, privatisation, etc – often characterised as a «shock-therapy». Estonia’s economic reform has been one of the most radical among the post-socialist countries, particularly with regard to its highly liberal economic principles and the modest role of the state. The wide-scale and

fundamental reorganisation of economy brought out a structural crisis, which caused a sharp drop in production and greatly reduced the public finance available. Total economic production in 1993 amounted to 34 per cent of the level of 1989 (Kutsar and Trumm 1993), many factories and enterprises lost their markets and closed down. Between 1991 and 1993, GDP fell by 33 per cent (Human Development under Transition 1996: 69). During five years, the severe economic breakdown reduced the employment rate from about 80 per cent in the late eighties to 65 per cent in 1994⁸. The first receivers of unemployment benefits were registered in the summer of 1991. The fall in GDP did not immediately lead to high unemployment because of the sharp drop in labour force participation (in 1989 the total labour force of Estonia was 842.600 persons; in 1994 it had dropped to 749.400). However, between the years 1992–1994 the total unemployment rate increased from 3.7 per cent to 7.7 per cent (Eamets 2001: 46).

Intensive structural reallocation of the labour force is typical of the labour market development in Estonia. The share of the primary sector in the total economy started to fall already in 1990 and the number of employed in the primary sector dropped from 177.000 in 1989 to 118.000 persons in 1993 (op. cit.). However, in the structure of the employment, the share of primary sector in 1993 still formed 16.6 per cent compared to 21.2 per cent in 1989.

Parallel to the decline of productivity and employability, the income levels of the population decreased as well. The real wage of the employed in 1993 formed 60 per cent of that in 1991 (Estonia. Living Standards 1996: 2).

The breakdown of the Soviet economic and political system brought to an end the state-socialist welfare state as well. The main socio-political task of Estonia was to introduce a new ‘western-type’ welfare state under conditions of massive social problems and with extremely limited resources. As support to the economic development was a first priority, the establishment of a “free-market economy” pushed social policy issues aside. In most of the Central and Eastern European countries, the prevailing political attitude has favoured the building of a residual social policy model (Simpura 1995: 19). However, the understanding of the aims, tasks and regulations of social policy during that particular period were not clear, and the real reforms implemented reflect more or less compromises between diametrically opposed principles (Kornai 1997) under conditions of societal crisis and limited resources. In the Estonian case, the welfare system from the very beginning of the reforms combines the elements of liberal and social-democratic welfare regimes. The legislative framework of the social policy includes concepts taken from the Nordic welfare model (equal rights, universalism, central role of the state, etc.), while the mechanisms of implementation are rather similar to the

⁸ Highest yearly employment decline (6.8 per cent) was registered in 1993 (Eamets 2001: 54)

Anglo-American welfare regime (Trumm and Kutsar 2003: 15). A similar situation can be found in Latvia (Grønningsæter et al. 2003).

The cornerstones of the long-term process of reformation of the welfare system were: 1) the taxation reform in 1990 (establishing the independent budget for social protection costs); 2) the implementation of contemporary health (in 1992) and pension insurance (in 1991) systems (in order to increase individual contributions and responsibility); 3) the launch of means-tested social assistance in 1993 (providing relief for unemployment, poverty and social exclusion) (Trumm and Kutsar 2003).

Nevertheless, the real implementation of the reforms was complicated. Also, the outcomes of the implemented policies did not correspond to the initial expectations, and thus were not necessarily always appropriate. Leppik (1995) describes a situation where the Estonian government introduced monthly compensations and increased child benefits in 1990 in order to cover the additional costs related to the price liberation and even to raise the living standard and soften the social effect of economic changes. However, those additional transfers could not keep pace with the rapid inflation, and as a result, the living standard continued to fall. Another example concerns the pension system – in 1991 old-age pensions were increased despite the lack of resources. Because of budget breakdown, the pensions were replaced by living allowances for the elderly in 1992, which reduced the income of pensioners below the subsistent minimum.

All these changes in the course of a short period, led to an enormous decrease in living standards of the population. The NORBALT Living Conditions Study carried out in 1994 revealed that only five per cent of the respondents evaluated their current material situation as better than in 1989⁹, nearly two thirds found the current situation to be the same as five years ago (Fløtten 1996: 140). On an average in Estonia, 46 per cent of all expenditures was spent on food in 1993. Food products represented more than half of the total consumption for more than 60 per cent of the households (Kutsar and Trumm 1993). At the same time, nearly one in three Estonians reported frequent problems buying essential food products and medicines (Fløtten 1996: 135).

UNDP's report "Human Development Report" (1996:67) refers to the survey carried out in 1994, which revealed that only four per cent of the Estonian population estimated their personal family situation as "good". In spite of this low satisfaction level, this has been changing progressively, after several years of

⁹ The material situation of the households in 1989 was impacted by rapid inflation (1700 per cent per year) and permanent shortage of primary goods (including food, clothes, petrol and other everyday necessities), lack of appropriate medical and housing services (e.g. deficit of medicines and heating materials) and can be characterised as a "deprivation from a normal everyday life".

pessimism. The report of the survey said: “Families now eat better, rent is paid more regularly and the number of persons only able to meet their current expenses between pay-days has decreased. Families’ household goods and their satisfaction with their standards of living have also increased”¹⁰.

To conclude, the social costs of the economic and political reforms in Estonia have been extraordinary high. The negative effects of transition reached almost everyone and poverty was massive. However, poverty, high in absolute terms, was low in relative terms. In spite of the rapid income differentiation (the Gini coefficient in 1993 was about two times higher than in 1988 (0.23 in 1987–1988 versus 0.40 in 1994¹¹), the poor material situation was equally distributed and collectively shared. Kutsar and Trumm (1993) revealed that at the initial period of reforms the poverty in Estonia had temporal character without clear social structure and particular risks.

Attempts to establish the official poverty threshold as a means-test standard for social assistance in 1993 failed – the main argument was that we all are poor. Consequently, the poverty threshold was renamed as a subsistence minimum.

Period of stabilisation (1995–1999)

The Estonian economy started to recover from economic recession in 1995, when GDP showed a positive trend for the first time. The positive GDP growth continued until 1998 and reached its peak in 1997 (9.8 per cent). 1998 witnessed an economic slowdown due to a crisis in the financial sector, a decline in foreign demand and a crisis in the Russian market. However, the economy recovered rapidly from the crisis and the GDP increased by 7.3 per cent in 2000. Parallel to the growth of the economy, the labour force participation continued to decrease (table 3.2). Such a jobless growth is a characteristic feature of all former socialist countries (see e.g. Brusse and Hemerijk 2003, Kunz 2002).

During the stabilisation period, the restructuration of economy continued at a high speed. In 1994, 14.2 per cent of the employed worked in the primary sector, in 1998 the corresponding figure was 8.9 per cent. At the same time, the tertiary sector increased from 53.4 per cent (1994) to 58.9 per cent (1998) (Labour Force 2003: 175). As a result of rapid privatisation starting at the early nineties, the proportion of people employed in private sector from the total number of employed has increased from about 6 per cent in 1993 to 60 per cent in 1998 (Eamets 2001:

¹⁰ Cited from *Human Development under Transition* (1996: 67)

¹¹ Cited from *Human Development Report for Europe and the CIS*, 1999: 21).

68). The private sector expansion can be explained by the privatisation of large public sector enterprises and the establishment of new private firms (e.g. based on foreign investments), especially in the tertiary sector.

Unemployment in Estonia continued to grow. In 1998–1999, the unemployment rate exceeds the level of 10 per cent and reaches highest level – about 90,000 persons (13.7 per cent of the labour force) in 2000 (table 3.2 and 3.3). The most

Table 3.2 Selected employment indicators of Estonia for the population aged 15–69 years in 1994–2003 (ELFS data)

Year	Labour force participation rate*			Employment rate**			Unemployment rate***		
	Males	Females	Total	Males	Females	Total	Males	Females	Total
1994	77.8	63.0	70.0	72.1	58.0	64.6	7.3	7.9	7.6
1996	74.8	61.9	68.0	66.8	56.2	61.2	10.6	9.2	9.9
1998	73.7	61.6	67.3	65.7	56.1	60.6	10.8	8.9	9.9
2000	72.9	61.3	66.8	62.3	53.5	57.6	14.6	12.7	13.7
2002	71.3	60.6	65.7	63.5	54.7	58.8	10.9	9.8	10.4
2003	71.7	61.7	66.4	64.3	55.5	59.7	10.3	9.9	10.1

* The share of the labour force in the working-age (15–69) population

** The share of the employed in the working-age (15–69) population

*** The share of the unemployed in the labour force

Table 3.3 Unemployed persons by duration of unemployment in Estonia in 1994–2003 (Estonian Labour Force Survey Data)

Year	Less than 6 months		6–11 months		12 months or more		Total	
	Thousands	%	Thousands	%	Thousands	%	Thousands	%
1994	21.5	38.8	11.9	21.5	22.0	39.7	55.5	100.0
1995	27.4	40.3	19.1	28.0	21.6	31.7	68.1	100.0
1996	20.2	29.5	10.4	15.1	37.8	55.3	68.4	100.0
1997	21.7	33.0	14.0	21.2	30.1	45.8	65.8	100.0
1998	22.9	34.7	12.1	18.3	31.1	47.1	66.1	100.0
1999	27.6	34.3	16.0	19.8	36.9	45.9	80.5	100.0
2000	35.7	39.7	13.4	14.9	40.8	45.4	89.9	100.0
2001	29.9	36.1	13.0	15.6	40.1	48.3	83.1	100.0
2002	21.3	31.7	10.4	15.4	35.5	52.9	67.2	100.0
2003	25.6	38.7	10.2	15.4	30.4	45.9	66.2	100.0

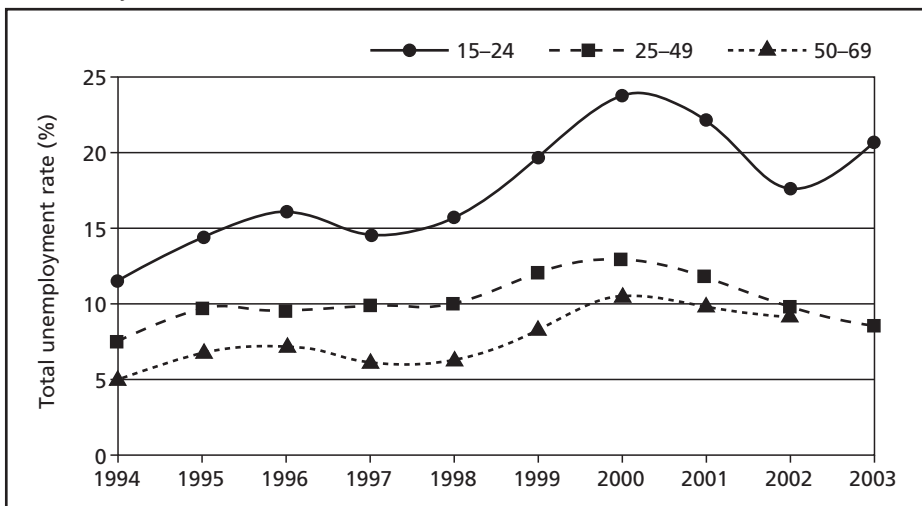
Source: Labour Force 2003: 184.

vulnerable professional groups on the labour market were unskilled or narrowly specialised workers in big industries and agricultural workers, and specialists employed in the big industrial enterprises and former collective farms. NORBALT Living Condition Survey (carried out in 1999) revealed that the highest percentage of the unemployed in 1999 had previously been engaged in manufacturing (27 per cent), and the main reasons for being unemployed were redundancy (29 per cent of cases) and closure of the enterprise (17 per cent, Marksoo 2002: 98–99). The same survey revealed that 30 per cent of the unemployed had only a primary education (op. cit. 97).

During the stabilisation period the average age of the unemployed decreases and youth, just starting their professional career, bear the highest risk of being unemployed (figure 3.1). The high youth unemployment rate is mainly caused by the education system, which does not meet the needs of the labour market. In addition, the reform of vocational and higher education has not yet given results. The risk to remain unemployed is higher for young people with lower qualification. In 1992 the share of 18–24-year-old persons who had left school on the level of primary or lower secondary education was 10 per cent; however, in 2000 this share was already 17 per cent (Indicators of sustainable development 2004: 44).

Decrease in employment, intensive restructuration, and insufficient active labour market policy measures (e.g. counselling, training and re-training) have led to the expansion of long-term unemployment (table 3.3). The share of the long-term unemployed was at its highest in 1996, when 55 per cent of all unemployed had been without work for more than eleven months. Since 1997, the share of

Figure 3.1 Total unemployment rate in Estonia in 1994–2003 by age groups (Estonian Labour Force Survey Data)



long-term unemployment as compared to the total unemployment has been rather stable, amounting to about half of all unemployed. Eamets (2001: 148) concludes that this is a serious tendency: in many small (rural) communities, one can observe that people who have been long-term unemployed have lost their human capital and ability to work.

In the field of social policy, a new social welfare law, passed in 1995, formed a legal framework for the introduction of the principles of contemporary social policy into the real practice in Estonia. To prepare the bill, social welfare laws of Denmark, Sweden and Finland were used (Suni 1995: 36–37). The social welfare law regulates the provision of social assistance, which consists of social benefits and social services. The main social assistance cash benefit is subsistence benefit. The main social services provided in the framework of social assistance cover counselling, provision of prosthetic, orthopaedic and other appliances, home services, housing services, foster care, care and rehabilitation in social welfare institutions, and other social services to support coping (Social Welfare Act, §10¹²).

Another essential legislative initiative in the frames of social protection in that particular period was a major pension reform, initiated by the government in 1997 aimed at establishing a three-pillar pension system¹³. All other adjustments in the system carried more or less regulative or administrative character.

In real life, the development of social protection continued to follow rather the marginal welfare model than the universalistic welfare state model, what was considered as a standard for the social welfare law in particular, and for the social protection system in general. Examples of such development in 1995–1998 are the reduced tax burden, erosion of the real value of universal benefits, and decreased expenditures on the subsistence benefits.

The stabilisation of society and the intensive growth of the economy did not bring relief to the problems that occurred after the implementation of the radical reforms. “Much shock, but no therapy” was a popular concluding estimation of the reform period. The first achievements of the economic reforms reached only limited segments of the population, who were able to enjoy at least a normal way of life without deprivations, while a majority of the population was still faced with the economic hardships and everyday coping problems. The modest role of the state and the unregulated distribution of opportunities did not diminish the effects of rapid differentiation and increasing inequality in Estonia.

Lauristin and Vihalemm (1997: 82) concluded that in the conditions of increasing segmentation of society the “poor-rich opposition” transforms into “division of people between winners and losers”. This expression refers to the

¹² Cited from Malvet and Mikkola M (1998).

¹³ The details of the pension reform in Estonia can be found in Leppik and Kruuda 2003.

principal change in the nature of poverty: poverty has become a multifaceted phenomenon with interrelated economic, social and psychological risks, which often results in the accumulation of social deficits (low income, poor education, unemployment, insufficient social networks, etc.). People, because of the lack of material resources, are unable to meet the new challenges of the consumer society, receive medical treatment, cover the housing costs, socialise with friends, and so on. A study focusing on social exclusion refers to the tremendous loss of cultural capital – attitudes, beliefs, orientations and behaviours. High levels of social stress – psycho-social stress from the changing realities as well as from facing new social problems (unemployment, poverty, criminality, and health problems) – have put social cohesion under strain (Kutsar 1997: 82). However, the poor social conditions, which have several times been highlighted by international organisations (UN, ILO, WB, etc) have never gained the attention of the governing right-wing coalition on the background of a good economic environment¹⁴, and were primarily the concern of social scientists and non-governmental organisations. A principal document of the national strategy for poverty reduction, prepared by social scientists in 1997–1999, did not meet the interest of the government and no action was therefore taken.

Preparation of EU accession (2000–2003)

European Union started accession negotiations with six of the applicants (Poland, Hungary, the Czech Republic, Slovenia, Estonia and Cyprus) in March 1998 in order to reach an agreement about the terms whereby the new EU countries would assume the rights and responsibilities of membership. At the opening of the agreement negotiations, in his statement the Minister of Foreign Affairs of Estonia Toomas Henrik Ilves, among other things said the following: “The social dimension is of increasing importance for Estonia. We are intensifying our efforts in areas such as employment, work conditions and vocational training in order to ensure equal opportunities for all members of society. Acceding to the amended European Social Charter is a priority for Estonia and preparations aimed at meeting this goal

¹⁴ Siim Kallas, then Prime Minister of Estonia, said in December 1996: “Economic policy gives the parameters, and other policy fields must adapt themselves to these. At first, a certain level of economic potential must be created in order to solve social problems, thus we cannot hurry to distribute possible benefits. Instead, investments are today’s main priority.” (cited from Blom 1997: 3)

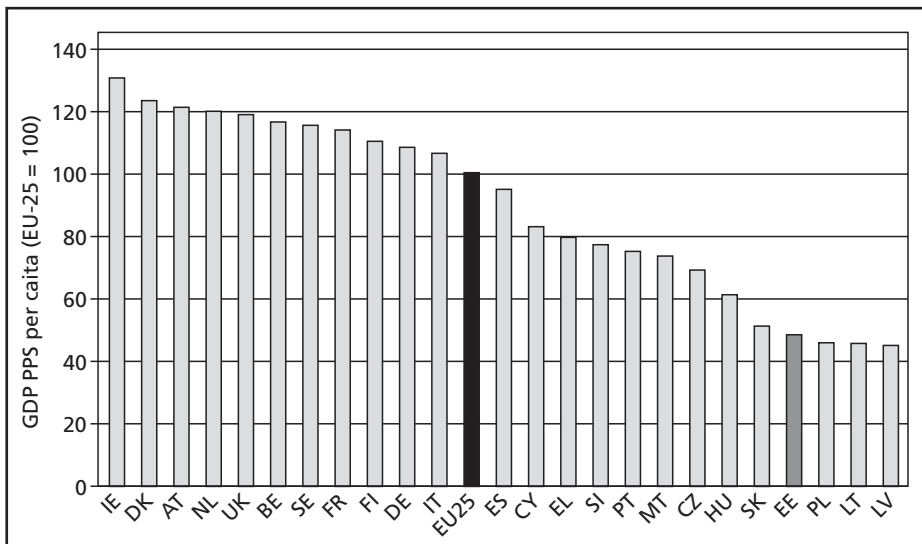
¹⁵ Cited from http://www.vm.ee/eng/euro/kat_308/2798.html (17.09.2004)

are currently being made”¹⁵. This statement probably for the first time prioritised the social issues on the governmental and international levels.

During the entry negotiations, Estonia adopted the EU’s existing legislation (the “*acquis communautaire*”) and elaborated policies for implementation of the *acquis*. In March 2004 the European Union, concerning Estonia’s accession negotiations, reached the following agreement:

“Estonia is ready to adopt in full and implement the *acquis* with no transitional measures in the chapters of Company Law; Competition Policy; Economic and Monetary Union; Statistics; Social Policy and Employment; Industrial Policy; Small and Medium-sized Enterprises; Science and Research; Education and Training; Telecommunications and Information Technologies; Culture and Audiovisual Policy; Regional Policy and Coordination of Structural Instruments; Consumer and Health Protection; Cooperation in the Fields of Justice and Home Affairs; Customs Union; External Relations; Common Foreign and Security Policy; Financial Control; Financial and Budgetary Provisions; Institutions as well as Other issues. However, the following overview includes also the chapters of EMU and Justice and Home Affairs, as accession to the European Monetary Union and the full implementation of the Schengen regime does not take place upon accession but in due course when the relevant conditions have been met and decisions taken”¹⁶.

Figure 3.2 GDP per capita in the European Union member countries in 2003 (PPS, Eurostat data)



¹⁶ Cited from http://www.vm.ee/eng/euro/kat_308/3454.html (17.09.2004)

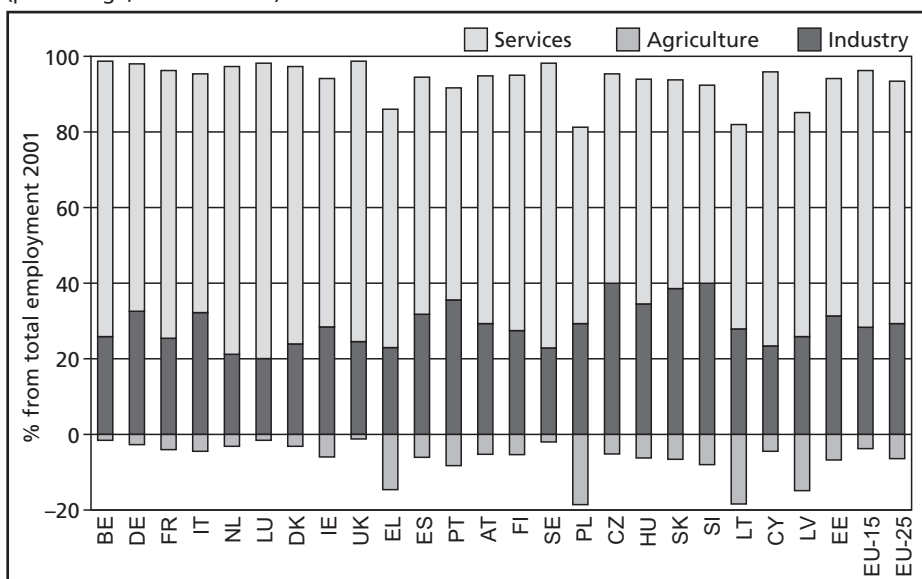
In the years 2000 and after, the Estonian economy continued to grow. In 2003, the GDP per capita has reached 49 per cent of the EU average (the same figure for the year 1997 was 32 per cent). However, Estonia still occupies one of the last positions in this respect (figure 3.2).

Economic growth resulted primarily from the rapid growth of exports to industrial countries, supported by foreign investment flow. During the whole period real wages have increased, (the highest – 12.3 per cent - was the real wage growth in 2001). Total public spending remained stable and in 1997-2003 was about 40 per cent of the total GDP (Joint Inclusion Memorandum).

Positive economic growth created preconditions for employment growth. In 2001, the previous trend of decreasing employment and increasing unemployment and inactivity changed – the employment started to rise and unemployment started to fall, but the inactivity grew still. Since 2001, the employment in Estonia has increased by 1–1.5 per cent each year (table 3.2). In 2003, the number of employed grew to 594,000 persons, which is by 9000 persons more compared to the previous year and the biggest of the last five years (Labour force 2003: 50).

The restructuration process in Estonian economy came to an end in the late nineties. The primary sector in 2001 formed about 6 per cent and the share of the tertiary sector reached 63 per cent of the total employment, which is similar to the modern economies of the EU-15 member states (figure 3.3).

Figure 3.3 Structure of the economy in the European Union in 2001 by employment sectors (percentage, Eurostat data)



Unemployment, reaching its highest level in 2000, decreased in the following years, and in 2003, the average unemployment rate was 10.1 per cent of the total labour force. Statistical analysis carried out by Venesaar et al. (2003) indicated that though the unemployment rate has been falling during the last years, the long-term unemployment has stabilised on a very high level.

Venesaar et al. (2004: 142), concluding the results of the study on long-term unemployment in Estonia, point out that in 2002 there were 35,500 long-term unemployed and 17,770 inactive working-age people in Estonia who had stopped looking for a job (were discouraged), accounting for 5.1 per cent of the working-age population¹⁷. The qualitative interviews carried out within the same study revealed that there are persons who have involuntarily left the labour market in the early 1990s and are still out of work.

Low employment and increasing unemployment became a priority issue in social policy. In November 1997, the heads of state and government of the EU 15 Member States had an employment job summit in Luxembourg. The main outcome of the Luxembourg meeting was the Employment Policy Guidelines, which introduced the employment targets of the union, and defined the four main priorities. In particular, these priorities are 1) new culture of entrepreneurship; 2) new culture of employability; 3) new culture of adaptability; 4) new culture of equal opportunity (Eamets 1999: 90). Since 1999, these new EU targets and principles have formed a basis for the development of the employment policy in Estonia. In March 2001, Estonia and the European Union signed the Joint Assessment of Employment Priorities in Estonia, which aims to assess the readiness of Estonia for the implementation of the EU employment strategy. Since the year 2000, the Ministry of Social Affairs of Estonia has prepared annual employment plans. The objective of the new employment strategy is to achieve high levels of employment among the employable population, prevention of long-term unemployment, and helping people who have been long-term unemployed and excluded from the labour market, to find work. However, the resources available for the realisation of this particular objective are rather scarce – the overall funding of labour market policy amounted to no more than 0.22 per cent of GDP in 2001 (2.8 per cent in the EU countries, Joint Inclusion Report: 6).

Ever since 1997, Estonia has pursued an active labour market policy. It was considered that benefit and training systems should ensure that they actively support employability, and provide clear incentives for the unemployed to seek

¹⁷ According to the latest labour force survey the long-term unemployment rate in 2003 was 45.9 per cent, the share of persons who have been unemployed at least for 24 months among all unemployed was 30.4 per cent (Labour Force 2003: 118).

and take up work or training opportunities. In order to support the entrepreneurship culture, an entrepreneurship subsidy – a measure to start one's own business – was introduced in 1998. The ongoing reforms are mostly related to labour quality and supply improvement in order to reduce corporate costs on training and retraining and sustain a free labour market. The number of unemployed entitled to active employment measures has increased from 11,4000 unemployed persons to 19,300 in 2001. The relative proportion of job seekers, participating in active measures was 10.7 per cent and 14.1 per cent respectively (op. cit.: 59). A principle change in the social protection of the unemployed was a full implementation of the unemployment insurance scheme from January 2003, which has increased the expenditure on the social protection of the unemployed to approximately 0.7 per cent of GDP.

In 2003, a bill about the new family policy measure – parental allowance – was passed in Parliament. The first payments, however, were made in January 2004.

As a result of economic growth, increased real wages, and a better labour market situation, the structural risks of relative income poverty have declined in the last years, and the poverty rates have been fallen.

However, in the last decade, drug abuse has grown into a problem that needs a solution fast. The statistics reveal a sharp increase in drug abuse in the last years, especially among children and young people. In addition to the fact that drug abuse is damaging to health and affects the ability to cope, it also increases crime and the spread of infectious diseases, including HIV. The first HIV-infected person in Estonia was registered in 1988. In 1999, the number of people with HIV was nine; in 2000 already 390 HIV-positive were registered, and in 2003 Estonia has 840 registered cases of HIV (data from the Ministry of Social Affairs). In 2002, the Ministry of Social Affairs declared HIV/AIDS a concentrated epidemic, which met the WHO international classification. The existing resources were found insufficient and the programme activities and resources were increased.

To conclude, the questions of social development have received more attention in Estonia in the process of EU accession, and the EU Employment Strategy and the Joint Inclusion Memorandum form a strong frame for Estonia's social policy development.

4 Trends and patterns of poverty

Household poverty

Poverty defined in terms of income is a phenomenon related to a household. Household as a main micro-level economic unit determines the amount and distribution of resources according to the shared needs of the household.

Table 4.1 presents the poverty rates of different household types in 1996–2002. The figures reveal that on an average, the poverty rate has been quite stable over the period at a little less than 20 per cent with a slightly declining trend. The data reveal a rather traditional structure of poverty: single parents, young and retired living alone and households with many children carry the highest risk of poverty. Among them, young people living alone are at the highest risk of poverty. The situation where about 40 per cent of single young people are living in poverty refers to the malfunctioning of the labour and social policies. The best situation is that of childless couples in working- or retirement-age, and the case of retired couples, the poverty rate is only about a third of that in the population as a whole.

The changes in poverty rates for different household types do not follow a clear pattern. For most household types, the first year of the period under study seems to be the most complex. The lowest poverty rates are those of 1999¹⁸.

A comparison of the poverty trends of single person households at different ages shows that the poverty among youth and working-age singles is increasing, while among retired people a slight decrease is evident (figure 4.1). The situation can be explained by the permanent slight increase of pensions. The labour market perspectives for the youth have not improved significantly, because of the increase of the duration of the studies (about 60 per cent of secondary school graduates continue their studies in the high schools) young people enter into the labour market at a later age. At the same time, the level of allowances for students (scholarship, social assistance, etc.) is below the poverty threshold.

¹⁸ There is no clear socio-economic explanation for the remarkable decline of poverty rates in 1998–1999, followed by a rapid increase in following years. The Statistical Office of Estonia claims that the methodology of the survey (incl. sampling procedure and income definition) has not been changed. However, many households have an income close to the poverty line and even minor changes in income generation may lead the household into or out of poverty.

Families with children are traditionally vulnerable to poverty. At the highest risk are the households with three or more children (figure 4.2). Based on the 1998 HIES data, and applying the national absolute poverty line, it was revealed that the share of households with at least three children who live in direct poverty¹⁹, is on average three times higher than for households with no children and the addition of one child to the household increases the poverty risk of a household by 1.51 times (departure of the child reduces poverty 0.6 times) (Kutsar, Käärrik et al, 1999: 77).

However, the poverty rate for households with three and more children has decreased relatively more compared to households with one or two child(ren) and the differences between the poverty rates of the households with different number

Table 4.1 Poverty rates (60 per cent median disposable equivalent income, scales 1: 0.5: 0.3) for different household types in 1996–2002 (percentage, HIES data).

	1996	1997	1998	1999	2000	2001	2002
All 1-person households:	34.1	28.50	33.5	17.2	30.1	33.3	34.9
- under 30 years	25.9	20.3	14.3	16	33.6	31.2	39
- 30-64 years	29.6	28.1	30.3	20.1	28.5	32.3	35.9
- over 64 years	41.8	30.5	43	13.8	31	34.9	32.7
2 adults, no dependent children (both under 65)	-	12.7	14.7	14.7	11.8	13.6	14.6
2 adults, no dependent children (at least one over 64 old)	9.1	9.1	8.9	6.6	8.8	10.2	6.9
Other households without dependent children	12.3	12.3	15.8	14.8	13.1	11.1	12.8
2 adults with one dependent child	18.4	16.2	13.4	14.5	13.1	15.7	12.9
2 adults with 2 dependent children	16.7	12.7	13.7	16.7	16.6	15.7	15.1
2 adults with 3 or more dependent children	25.4	28.8	23.6	24.3	23.1	20.3	20.6
Single parent with dependent children	36.9	30.2	27.1	28.4	37.2	29.1	35.3
Other households with dependent children	18.1	20	19.4	18.6	18.9	17.9	15.1
All households	19.9	18.5	19.4	16.7	18.3	18.2	17.9

Source: Joint Inclusion Memorandum of Estonia

¹⁹ Direct poverty – a level of material resources which fails to meet the basic needs of the subject (primarily the need for food and a place to live). According to international standards, the upper limit of direct poverty is set at a level of 80 per cent of absolute poverty (in 1998 1064 EEK) (Kutsar and Trumm 1999: 10).

of children tend to decline. Such a development could be partially explained by changes in child benefit systems.

Figure 4.1 The logarithmic poverty trends for single person households of different age (HIES data).

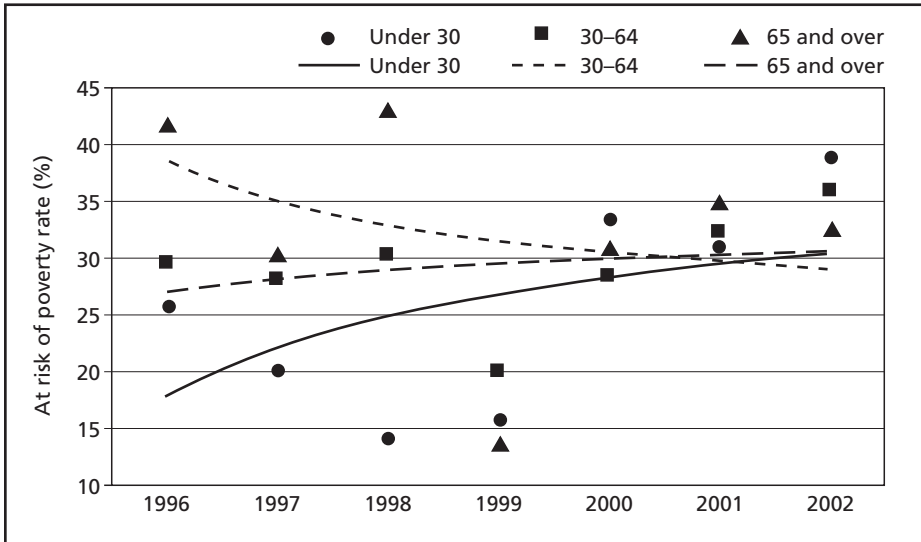


Figure 4.2 The logarithmic poverty trends for couples with different number of dependent children (HIES data).

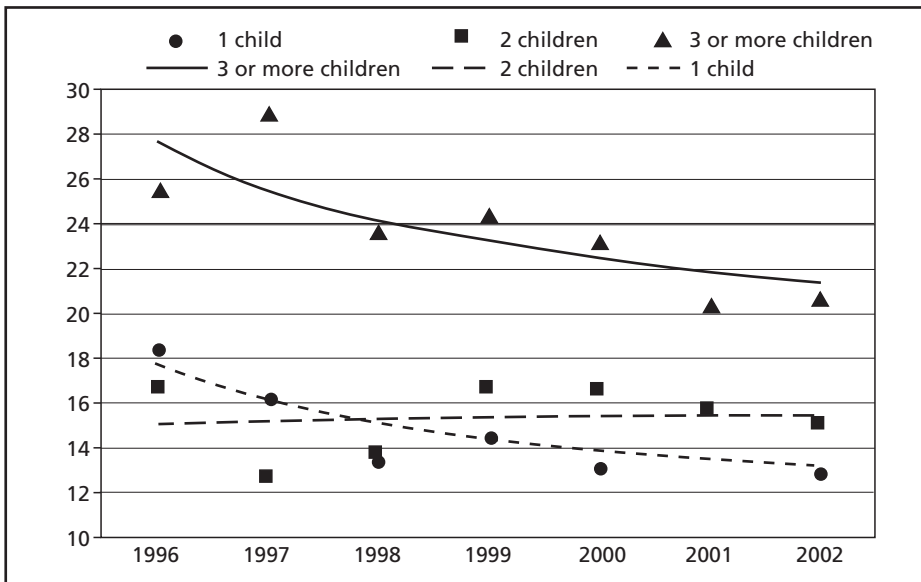


Table 4.2 Amounts of child benefits (EEK per month) in 1996–2002.

Child benefit for:	1996	1997	1998	1999	2000	2001	2002
- 1st child	130	150	150	150	150	150	150
- 2nd child	165	185	225	225	225	225	300
- 3rd and subsequent child	215	235	300	300	300	300	300

Source: Social Sector in Figures 2002: 16

The benefit for the first child (150 EEK per month) has not been changed since 1997, while the benefit for a second and subsequent child has been increased twice during the period of 1996–2002 (table 4.2). The amounts of the benefits compared to the average income of the household are relatively small, but may be relevant for those in the lowest income group. Additionally, introduction of supplementary childcare benefits for families with small (3–8 years old) or three and more children in 2000 might have reduced the poverty risk of households with higher number of children.

Individual poverty

For the ‘individual’ net disposable income, the household income is proportionally divided between the household members. However, such a calculation may not adequately reflect the real distribution of income within the household. Thereby the gender or age specific poverty rates represent the formal statistical probabilities and should be interpreted in the context of a household, i.e. if the poverty rates for women are higher than those for men, the reason may be that the single parents are mainly women who earn less than men, etc.

On an average, the risk of poverty is higher for women than for men (figure 4.3), but the gender difference is not significant (about 2 per cent points).

The main poverty risks for women are lower pay compared to men, caring about children, and the fact that, because of the higher life expectancy, they are more often pension recipients than men. The poverty rates for women have dropped more quickly during the period than those for men, and the gender difference is in decrease. The main political regulations beneficial to women have been the increases of pensions and family benefits. The women have also gained a more favourable status in the labour market, and as a consequence the gender pay gap has been diminished as well (in 1995 women on an average earned 73 per cent of the men’s average, in 2001 the corresponding figure was 76 per cent).

The risk of poverty is unequally distributed through the life. The traditional age-specific poverty risks are childhood, the period of family formation and retirement. The poverty rates are lowest in the case of single young adults and at the period of children leaving the family of origin (empty nest). The ‘individualised’ data from 2002 do not confirm the traditional ‘W-shape’ age-specific poverty model (figure 4.4). The poverty rates for different age groups are quite similar – about 20 per cent. The only exception is the small group of retired men, who on an average do not live alone and belong to the bigger household (retired couple or three-generation household) and share the total income of the household.

Figure 4.3 Poverty rates in 1996–2002 for men and women (HIES data)

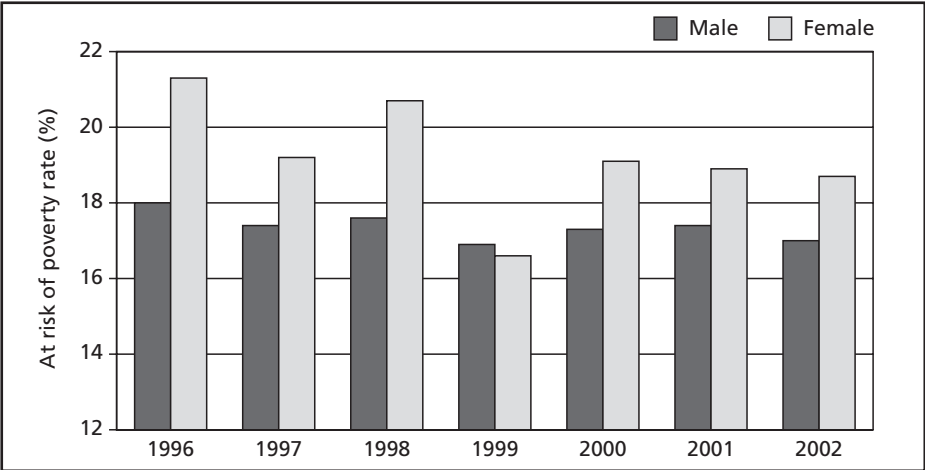
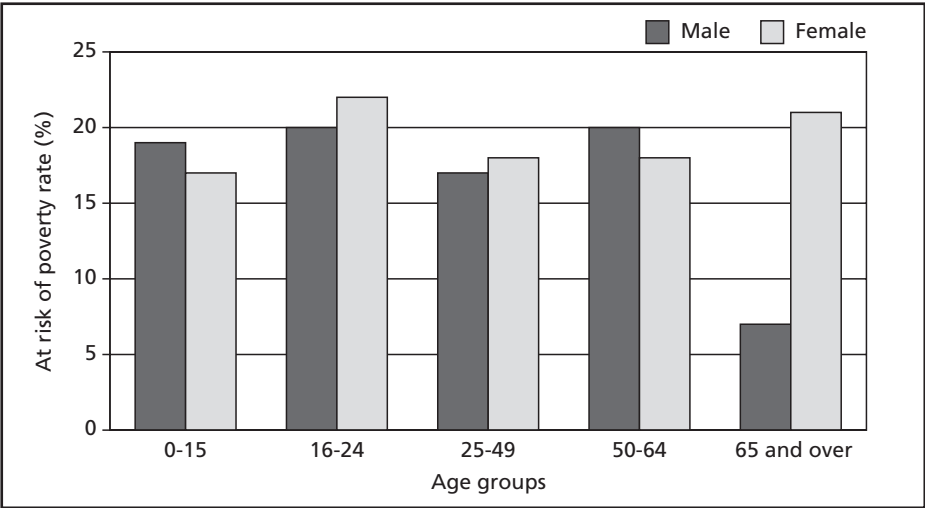


Figure 4.4 Poverty rates in 2002 for men and women by age groups (HIES data)



Social status of the individual is one of the most important determinants of income as well as poverty. In every society, the risk of poverty is the lowest among the population participating in the labour market and the highest among the unemployed. However, the correlation between the unemployment and poverty rate depends on the socio-economic circumstances of a particular country (figure 4.5).

The figure shows that the strongest interrelation between unemployment and (new) poverty can be revealed in the Baltic countries and Poland, where the social cost of transition has been the highest. The opposite is the case of Ireland, Portugal and UK, where the high rates of poverty occur in the conditions of low unemployment. The traditional character of poverty is, to a lesser extent, evident also for Southern Europe (Italy, Spain, and Greece). The biggest group of the countries represent relatively cohesive societies, with balanced economic and social development. Such a typology corresponds to the classification of the welfare regimes in Europe by Esping-Andersen (1996).

In Estonia, the difference between the poverty rates for employed and unemployed is bigger than in most of the EU countries' average. The poverty rate for unemployed has not been changed and represents about half of all unemployed persons (table 4.3). The only conclusion that can be made is that the social and labour policy measures (i.e. unemployment benefit and respective services as well

Figure 4.5 Relation between unemployment and poverty in the European Union in 2001 (percentage, Eurostat data).

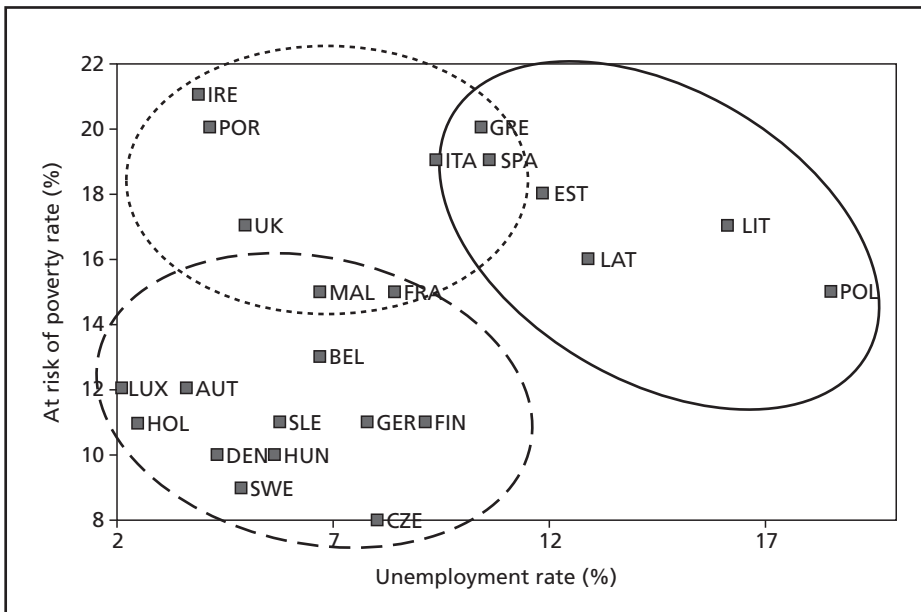


Table 4.3 At-risk-of-poverty rates in 1996–2002 in Estonia by social status (HIES data)

Social status	1996	1997	1998	1999	2000	2001	2002
Employed	11.9	11	10.4	10.9	9	9.1	8.7
Self-employed	23.4	25.5	26.1	19.8	16.8	15.8	13.1
Unemployed	48.1	44.2	50.1	48.2	49.5	46.9	48.4
Retired	22.8	20.1	27.2	11.2	18.1	21	20.6
Other inactive	26.7	24.6	25.2	27.9	27.9	27	28.3

as social assistance) are manifestly inadequate for ensuring at least the subsistence minimum for a person who has failed in the labour market.

The significant time-specific changes in poverty rates can be revealed only in the social group of self-employed, where the level of poverty dropped from one quarter to 13 per cent in the period of 1996–2002. The status of ‘self-employed’ in Estonia emerged only after the privatisation and economic reforms. Firstly, self-employment expressed some kind of substitution to the traditional regular paid work for those who lost their former employment status. Secondly, the self-employed were mainly persons without a regular job contract and, consequently, a permanent income (rural people living in a small farm and dealing with agriculture for personal needs, people selling products on the markets, temporarily working unskilled construction workers, etc.). Today, self-employment is more or less an equal alternative to the formal work contract possessing greater flexibility and decision-making and is more common in contemporary economic sectors and among the more qualified labour-force. To conclude, the decrease of poverty in the group of self-employed is the result of economic development rather than socio-political regulations targeted to this particular social group.

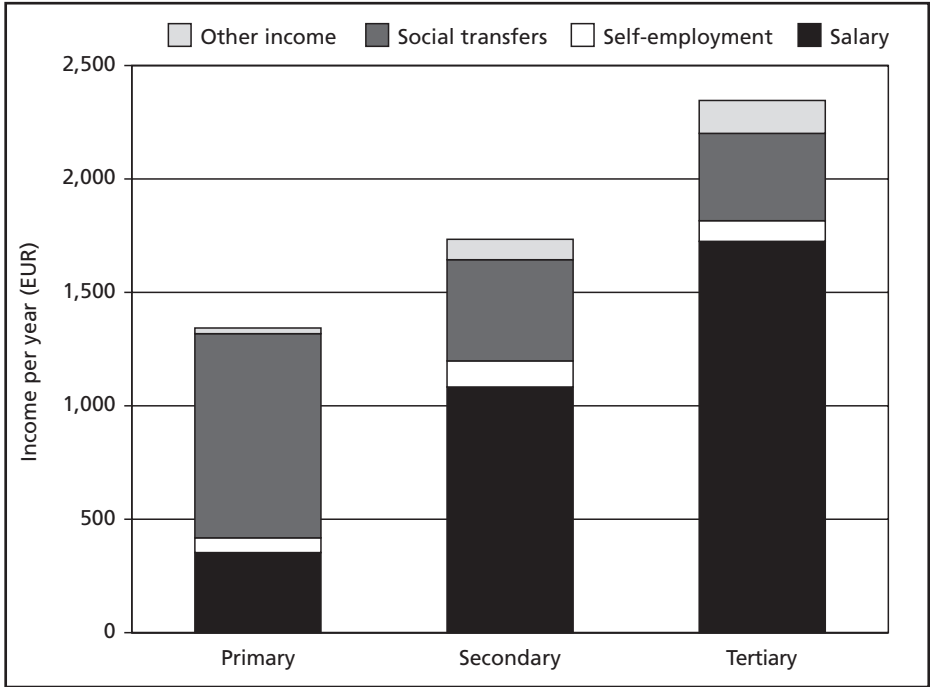
Education is an important determinant of the individual poverty risk. Higher education increases the competitiveness and flexibility on the labour market and as a result a higher income and lower vulnerability. The poverty rate for the households where the head of the household had primary education was in 2001 21 per cent, at the same time the same figures for secondary and higher education were 19 per cents and 9 per cent respectively (Household Living Niveau 2001). Again, because of the household-specific data the differences in poverty rates for various educational levels are less significant than expected. Figure 4.6 illustrates the impact of education on the income formation of the household. The total equivalent income level for households where the head had only primary education was 1343 EUR in 2002, while in the households with higher education it was 2346 EUR. The difference in average salary level of persons with primary and higher education is about five times and only social transfers (pensions, child benefits and social assistance) compensate the low income level of the least educated households.

The ethnic and racial dimension of poverty is a crucial issue in many European countries, where the ethnic minorities have the highest poverty risks compared to the other segments of the society.

Estonia has traditionally been a culturally homogeneous society. The minority-majority relationships became an issue because of the Soviet occupation (since the 1940s) and its ethnic policy. According to the 1989 census, about 40 per cent of the Estonia’s population were non-Estonians (mainly Russians, Ukrainians and Byelorussians). Today, the interrelations between Estonians and Russian-speaking non-Estonians (about 30 per cent of the total population) form the core of the ethnic affairs.

Numerous analyses of poverty, income and living conditions have to a large extent revealed a similar level of material resources among Estonians and non-Estonians. On an average, the non-Estonians have 1–2 per cent points higher poverty rates than Estonians. The difference was largest in 2001, when the poverty rate for non-Estonians was 20 per cent compared to 16 per cent for Estonians²⁰.

Figure 4.6 Average annual equivalent income of the household members in 2002 by education of the head of the household (euros per year, HIES data)



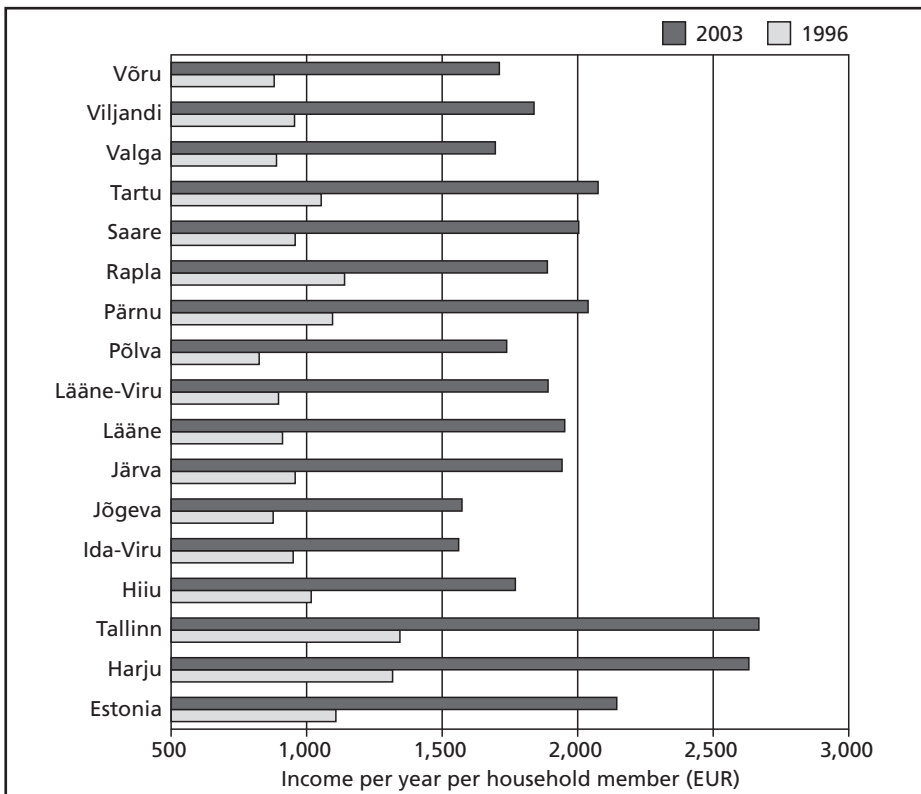
²⁰ The rates are calculated by the Statistical Office of Estonia applying OECD equivalent scales (1:0.7:0.5)

In spite of this, the non-Estonians are not significantly poorer in terms of income, and the statements about discrimination of minorities are more or less social and political myths.

The place of residence is also an essential factor supporting or hindering economic coping of the households. Different economic opportunities and socio-demographic structure of the population of the regions of Estonia cause large income differences between the regions. The average income in the most affluent county of Estonia – Harju (surrounding the capital city) – is 1.7 times higher than in the poorest Jõgeva (East-Estonia) (figure 4.7), and the disparities have been stable during the last decade.

Because of the regional income differences, the income poverty in Estonia has a clear regional pattern as well. The primary regional poverty risks are a predominance of low-paid jobs and high unemployment in a region (Kutsar and Trumm 1999: 6). In addition, the poverty risks are concentrated into the southern and eastern parts of the country. Ainsaar (2004: 184), analysing the regional factors

Figure 4.7 Average annual income per household member in counties of Estonia in 1996 and 2003 (Euros per year, HIES data).



of migration, revealed that “[...] higher average incomes are concentrated in bigger towns and their hinterlands [...]” and “[...] there is less poverty the closer the municipality is to the capital and the higher status the municipality has in the hierarchy of settlements.”

The regional character of poverty relates to the malfunctioning of the regional policy in Estonia. Jauhiainen and Ristkok (1988) confirm that

“[...] there are several challenges in the near future development of regional policy in Estonia. The lack of strategic approach means that regional policy has been casual and without a clear goal. The solution to tackle this problem is to implement the principle of programming and concentration to elaborate national strategic action lines and concrete action plans, to improve project appraisal by regional and local authorities, and to define clear target regions for the regional policy actions. The undefined role of regional authorities has created problems for efficient policy development. A solution is to target regional institutions responsible for implementation of regional policy, either existing county governments or associations of local self-governments.”

However, the regional policy measures oriented towards increasing entrepreneurship and modernisation of the economy in the regions may not reach the most vulnerable. Experience of many Central and Eastern European countries has shown that the opportunities achieved from the economic growth rarely, if ever, directly reach the poor. For example, the new jobs created are almost exclusively accessible only for persons with high qualifications and education, with previous work experience, etc. On an average, the education and qualification level of the poor is not the highest. Persons belonging to the vulnerable groups (families with many children, youth, retired, disabled, unemployed, etc.) are not preferred by employers. Therefore, the poor can benefit from the new jobs only on the condition of a significant increase in their personal competitiveness by improving their human capital. The economic growth is strongly correlated with the re-structuration of production, labour and technology. As a result, in the situation of stable and remarkable economic growth, the jobs traditionally filled by the poorer section of the population, tend to decrease significantly in numbers.

To conclude, the regional policy (as well as the economic policy as a whole), needs to be pro-poor. In particular, it means establishment of the direct link between the regional and social programs, introduction of mechanisms regulating the liquidation of existing jobs accessible to the poor (these mechanisms may include state subsidies to the employers for maintaining the jobs that are probably not profitable under conditions of economic competition, increase of compensations paid by the employer in the case of redundancies, etc.), and introduction of stimulating mechanisms (tax deductions, subsidies, etc.) for employers to promote an increase of new jobs in less competitive fields of economic activities, less attractive regions and for more vulnerable groups of the population.

5 Income re-distribution and poverty

Income inequality

Re-distribution issues are one of the major concerns of poverty policies. The descent into income poverty is the product of two forces: lower income and greater income inequality (Milanovic 1998: 85). All transition societies have experienced rapid decline of welfare, and income inequality is rising in all these countries. The fluctuations in people's income – first it fell, then it grew – and in its distribution have led to higher income inequality than ever in their lifetime. The greatest changes occurred during the early stages of transition, when real income contracted significantly but at different pace according to income group (Kolodko 1999). Figure 5.1 presents the income inequality trends in the three Baltic countries.

Estonia and Lithuania have a similar inequality trend: rapid increase of inequality in early nineties followed by a slight decrease since 1994 —1995. In Latvia, the level of inequality has been the lowest during the whole period but is still slowly growing and in 2002 had reached almost the same level as in Estonia and Lithuania. Kaasa (2003) analysed the factors influencing income inequality in transition economies in 1990 -1998 and revealed that income inequality in the transition countries is affected both by factors reflecting economic growth and the level of overall development (GDP per capita, shares of three main sectors representing changes in economic sector structure) and by macroeconomic factors (such as inflation and unemployment). Beside these, income inequality is influenced by demographic factors (e.g. urbanisation, share of young people and school enrolment) and political factors (share of the private sector, government's expenditure and expenditure on human capital (Kaasa 2003: 24). However, the impact of these factors on income inequality is different for different countries.

The Gini coefficient measures the extent to which the actual distribution of income differs from the equal distribution. Another income inequality measure is a *S80/S20 ratio* which compares the total equivalised income received by the 20 per cent of the population with the highest income (top quintile) to that received by the 20 per cent of the population with the lowest income (bottom quintile) and illustrates the range of the gap between the rich and the poor in the society.

The income gap between the rich and the poor in Estonia was the highest in 1994 (about eight times) and has slightly diminished to the level of 6.1 in 2002

Figure 5.1 Income inequality in the Baltic countries in 1998–2002, (Gini coefficient, Eurostat data).

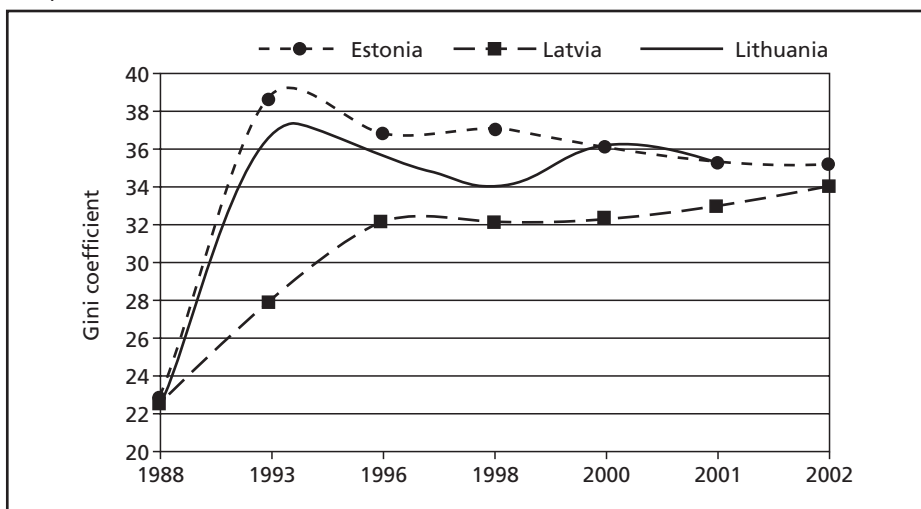


Table 5.1 S80/S20 quintile share ratio in 1992–2002 in the Baltic countries (Eurostat data)

S80/S20	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
Estonia	7.7	7.4	7.8	7.7	7.0	7.0	6.7	6.5	6.3	6.1	6.1
Latvia					5.0	4.8	5.4	5.1	5.5		
Lithuania					5.2	4.6	4.8	5.0		4.9	

(table 5.1). However, despite the growing income equality, Estonia still has the most unequal income distribution among the EU new member states and is followed by the closest neighbours – Latvia and Lithuania (S80/S20 ratio in 1999 was 5.1 and 5.0 correspondingly)²¹

The high level of inequality harms the social functioning of the society creating unequal opportunities for its citizens, followed by feeling of social injustice and distrust in the state institutions. For poorer segments of the population, the increase in inequality increases the risk of social exclusion and marginalisation.

²¹ The average of S80/S20 for the EU 15 was 4.6 and for the new EU 10 4.2 (see Dennis and Guio 2003 for details)

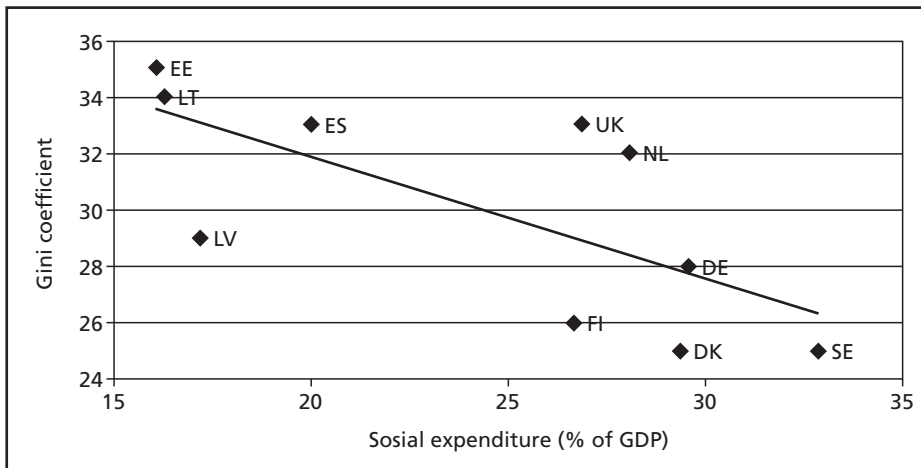
Impact of income redistribution on poverty reduction

The state regulates the level of inequality through its taxation and social protection system. Higher taxes and social expenditures contribute to a more even income distribution and in general reduce the risk of poverty and social exclusion.

Figures 5.2 and 5.3 present the correlation between the level of inequality and the shares of total taxes and social expenditures from the GDP. As expected, the Baltic countries demonstrate the lowest redistribution and the highest levels of inequality. The total tax burden in Estonia (35.2% of GDP) is approximately the same as in the United Kingdom and Spain, at the same time the level of social expenditure (16.1 per cent of GDP²²) is the lowest among the selected countries.

The modest redistribution of incomes in terms of taxes and social expenditures in Estonia refers to the liberal welfare state model, which rapidly has replaced the former soviet paternalistic care. According to Aidukaite (2003: 413), during the transition social policy became a low priority issue and the most important objective was to secure economic and political reform, while social issues were somewhat ignored, becoming a problem for the individual, instead of the society's problem²³. It is also obvious that during the first years of independence the

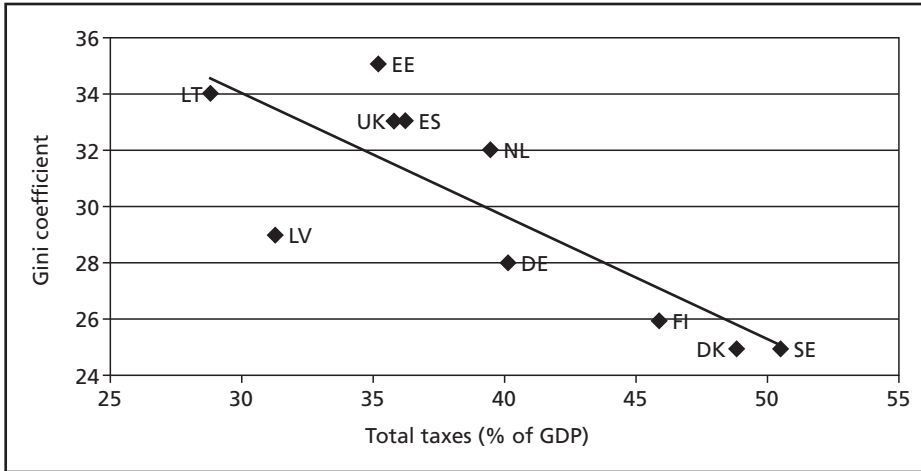
Figure 5.2 Proportion of social expenditures from GDP and level of inequality in selected EU member states in 2000 (Eurostat data) (Source: Nordic/ Baltic Social Protection Statistics 2000).



²² Different sources present slightly different figures, which may be caused by different methodology applied. The social sector in figures 2002 gives 15.6 per cent, Leppik and Kruuda 2003 even 15.2 per cent.

²³ Ferge (1997) has called this development pattern, universal in countries in transition, an "individualisation of the social".

Figure 5.3 Tax burden and level of inequality in selected EU member states in 2002 (Eurostat data) (Structures of the taxation systems in the European Union. Data 1995–2002).



economic crisis and permanent lack of resources were a significant reason for social policy cut-offs, but at present, the transformation of social policy is determined not only by budgetary constraints (op. cit.: 415). Deacon (1993, 1998), and also Kapstein and Milanovic (2001) stress the impact of supranational organisations (International Monetary Fund, World Bank, United Nations, etc.) in the formulation and implementation of a ‘minimal state’ type of social policies across Central and Eastern Europe. Last but not least, transformation of the cultural environment (e.g. increasing individualism, self-confidence, etc.) has played a relevant role as well (Sztompka 1996, Lauristin 1997, etc).

Social transfers and poverty

The Estonian social protection system includes three contributory social security schemes: pension insurance, health insurance and unemployment insurance. The other schemes - family benefits, state unemployment allowances, funeral grants and social benefits for disabled²⁴ – are non-contributory, being financed from general state revenues²⁵. The overall government sector spending in 2000 was 37.2 per cent of GDP. Among the social expenditures, state pension and health insurance form

²⁴ Source: Structures of the taxation systems in the European Union. Data 1995–2002.

²⁵ For the details about the Estonian social protection system, see e.g. Trumm 2002, or Leppik and Kruuda 2003.

Table 5.2 Expenditure on social protection as a share of GDP (percentage)

Expenditures	1997	1998	1999	2000	2001
State pension insurance	7.3	7.1	8.5	7.5	6.9
State health insurance	5.3	4.9	5.1	4.8	4.5
Health care from state budget		0.5	0.6	0.6	0.5
Child and family benefits	1.6	1.7	1.7	1.7	1.5
Social protection of the unemployed	0.1	0.1	0.3	0.3	0.3
Social assistance benefits and services	1.0	0.9	0.8	0.7	1.1
Total	15.3	15.2	17.0	15.6	14.8

Source: Ministry of Social Affairs of Estonia

the highest share (table 5.2). The structure of the social expenditures has been quite stable. However, the slight decrease of the share of insurance-based services from the total expenditure can be revealed.

Social transfers form a strong mechanism for relieving and preventing poverty. In this respect, it is important to assess the role of social transfers (e.g. pensions, child and unemployment benefits, etc) in lifting people out of the poverty risk. A comparison between the standard at-risk-of-poverty rate and the hypothetical situation where social transfers are absent shows that such transfers have an important redistributive effect (Dennis and Guio 2003).

The role of social transfers in poverty reduction is obviously important. In the absence of all social transfers, the poverty risk would be over 40 per cent in Estonia, instead of 18 per cent after all social transfer in reality (figure 5.4). It means that more than one fifth of the Estonian population are lifted out from poverty by the social transfers²⁶. However, here the pension payments carry the main burden in the prevention of poverty. If the pension was taken as a primary source of income for senior citizens rather than social transfers, the poverty rate without other social transfers would be about 25 per cent, which means that child and family benefits, unemployment payments, social assistance and other transfers have relatively little effect in reducing the risks of poverty.

Most of the social transfers are targeted to the particular social groups (children, disabled, unemployed, etc.). As a result, some groups benefit more from social transfers and are protected from the risks of poverty.

Age is a main factor determining the groups of 'winners' and 'non-winners' in income redistribution. Comparing the poverty rates before pensions and social transfers with real poverty rates (after transfers) it can be demonstrated that

²⁶ The share of old-age pensioners in the total population is 21.2 per cent.

Figure 5.4 At-risk-of-poverty rates in Estonia before and after pensions and other social transfers in 1996–2002 (% , HIES data)

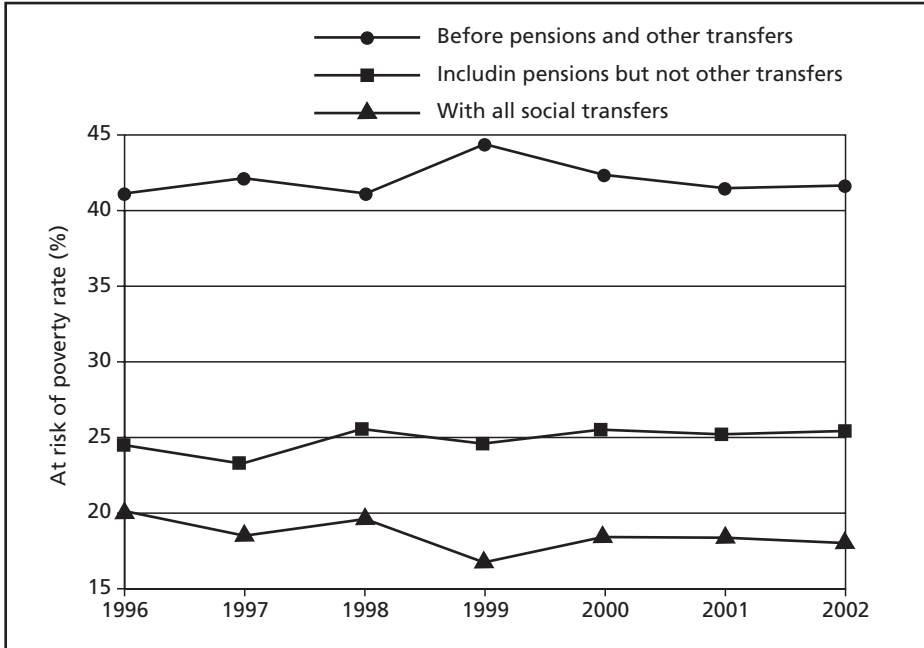


Figure 5.5 At risk of poverty rate before and after social transfers in 2002 by age groups (percentage, HIES data).

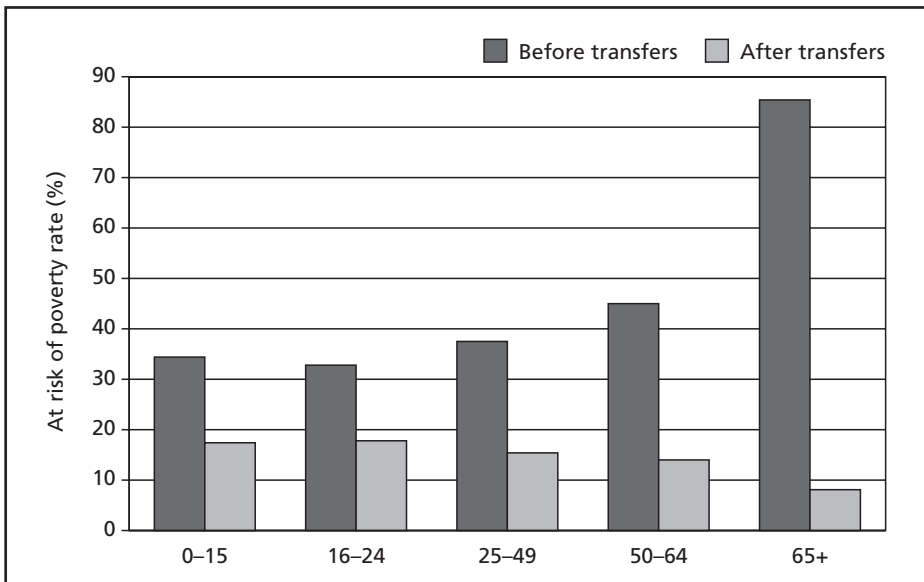


Table 5.3 At risk of poverty before and after social transfers in 2002 by social status of the head of the household (percentage, HIES data).

Social status	Poverty risk before transfers	Poverty risk after transfers	Lifted out of poverty
Employed	18.8	8.0	10.8
Self-employed	27.5	12.8	14.7
Unemployed	78.1	56.7	21.4
Retired	95.6	10.3	85.3
Inactive	88.2	42.2	46.0

pensioners benefit the most from income redistribution. The poverty rate before transfers – 85.4 per cent²⁷ - drops to the level of 8.1 per cent after transfers (i.e. less than a tenth) (figure 5.5). The effect of transfers is the least in the case of young people – about 15 per cent.

Besides pensioners, the unemployed and the inactive are the social groups who benefit the most from social transfers. In the households where the head of the household is unemployed, the poverty rate falls by 21 per cent. At the same time, the poverty reduction effect of transfers is 46 per cent (table 5.3).

The redistributive effect of social transfers on different types of households is less clear than in the case of individual characteristics. Again, the households including at least one retired person benefit the most, followed by the single-parent households and households with three or more children (table 5.4 next page).

²⁷ The poverty rates presented in this section (figure 15, tables 9 and 10) are based on the OECD equivalent scales (1:0.7:0.5). Calculations are made by Aivi Themmas.

Table 5.4 At risk of poverty rate before and after social transfers in 2002 by household type (percentage, HIES data).

Social status	Poverty risk before transfers	Poverty risk after transfers	Lifted out of poverty
Single in working age	46.6	18.7	27.9
Single pensioner	97.0	6.9	90.1
Retired couple	92.1	3.9	88.2
Couple (at least one in working age)	39.8	9.5	30.3
Single parent with dependent child	41.8	28.5	13.3
Single parent with 2 or more dependent children	48.1	27.9	20.2
2 adults with dependent child	20.5	11.8	8.7
2 adults with 2 dependent children	23.6	13.4	10.2
2 adults with 3 or more dependent children	39.7	21.5	18.2
2 adults with dependent and independent children	33.7	16.6	17.1
Two-generation household	37.7	15.0	12.7
Three-generation household	47.4	16.5	30.9
Other households	55.3	19.8	35.5

6 Subjective poverty

An income-based poverty definition determines the households or individuals with the low (or lowest – depending on poverty threshold) incomes. However, poverty does not mean only a lack of money, but also deprivation from goods and services, exclusion from opportunities offered by society, and thereby more or less a question of social and cultural norms, self-esteem, etc. Only the individual by him-/herself is able to integrate different aspects of poverty into a ‘multidimensional indivisible whole’. In other words – the poor are those people who perceive themselves as poor.

The Estonian Household Income and Expenditure Survey contains a question about estimation of the economic situation of the household (What is the current economic situation of your household?). In 2002, the households perceived their general economic situation as follows:

- the situation is very bad, there is not enough money for even the basic food – 7 per cent of respondents;
- we are able to manage, but we have money only for basic necessities – 47%;
- we are able to manage and can sometimes afford also other things besides basic necessities – 38 per cent;
- we can afford everything we need for a normal, non-luxurious life – 8 per cent, and
- we do not consider ourselves restricted in our spending ability – less than 0.5 per cent (Household Living Niveau 2002: 66).

Members of households who considered their situation as very bad received on average 1080 kroons per month²⁸, the second group – able to manage, but have money only for basic necessities – received 1799 kroons and the third group’s income average was 2871 kroons, which is more than the overall average (op. cit). Table 6.1 presents the estimates of the current economic situation of the household-by-household type.

²⁸ At the same time, the income poverty threshold for a single-person household was 1730 kroons per month.

Table 6.1 Estimation of the present economic conditions of the households in 2002 by household type (percentage, HIES data).

Household type	In a very poor condition	Can make ends meet	Can manage in general	Can afford a normal life	Can consume without any restrictions
Single pensioner	10.5	67.5	21.2
Single in working age	15.1	44.9	31.1	8.6	...
Retired couple	...	56.0	38.8
Couple (at least one of working age)	4.4	32.2	52.9	9.7	...
Single parent with child	13.9	52.2	29.2
Couple (1 child)	...	38.5	47.4	11.6	...
Couple (2 children)	...	31.2	50.7	15.1	...
Couple (3 and more children)	...	42.2	45.1	8.3	...
Couple with adult and underage children	...	42.2	45.1	8.3	...
Two generation households	6.3	42.0	42.5	8.8	...
Other households	7.1	53.4	32.7	6.8	...
All households	7.3	46.9	38.2	7.2	0.4

Source: Household Living Niveau 2002: 112)

The figures show that couples with two children give the highest estimate to their economic conditions; they are followed by childless couples where at least one member is of working age. Single-person households consider their economic conditions the worst.

If we label these seven per cent of households who lack money even for food (first group) as “subjectively poor”, we can demonstrate that the level of subjective poverty is much lower than the income poverty (table 6.2). Subjective poverty is higher than income poverty only in the case of single pensioner households. The gap between subjective and income poverty is the widest in households with many children. This fact can be explained by the logic that despite the low income the parents have a responsibility to “make ends meet” and ensure an adequate environment for their offspring at least at the minimum level.

However, the statement “*there is not enough money for even the basic food*” refers to extremely severe poverty and is probably not a good measure of subjective poverty. Estonian Living Condition Survey carried out in 1994 and 1999 (NORBALT 1 and 2), asked their respondents to assess their economic situation.

Table 6.2 Subjective and income poverty in 2002 by household type (percentage, HIES data).

Household type	Subjective poverty	Income poverty
Single pensioner	10.7	6.9
Single in working age	14.6	18.7
Retired couple	1.9	3.9
Couple (at least one of working age)	3.5	9.5
Single parent with 1 child	18.4	28.5
Single parent (2 or more children)	10.5	27.9
Couple (1 child)	1.6	11.8
Couple (2 children)	2.6	13.4
Couple (3 and more children)	5.5	21.5
Couple with adult and underage children	4.5	16.6
Two generation households	6.8	15.0
Three generation households	5.9	16.5
Other households	5.3	19.8
All households	7.3	17.9

In both surveys, one statement proposed to the respondents was “*we are poor*”. In 1994, 19.7 per cent of respondents perceived themselves subjectively as poor. In 1999 survey, the same figure was 10 per cent (Einasto 2002:116). Einasto found also, that different operationalisations of poverty do not agree with each other and households classified as ‘poor’ by one definition may not be ‘poor’ by any other definition. The correlation between the subjective poverty evaluation and income poverty in 1999 was 0.33 (at the same time the correlation between subjective and deprivation poverty was 0.41) (op. cit.: 118).

7 Conclusion

Poverty as a social problem in Estonia is an unintended outcome of the far-reaching societal transition. The extent and the speed of social, economic and political changes in Estonia has probably been higher than in the other countries of Central and Eastern Europe, and has resulted in high costs of transition expressed in a tremendous decrease of well-being of individuals. In the beginning of the nineties, the negative effects of transition (so called “shock therapy”) reached almost everyone and poverty was massive, but had temporal character without clear social structure and particular risks. A few years later, at the period of re-establishment of the main economic and political institutions and the introduction of societal reforms, poverty in Estonia gained a clear structural character, where the changes in the economic environment, labour market, and social protection system played a much more important role than individual or household-related characteristics (age, gender, education, household type, etc.).

The current report has focused on the analysis of poverty in the years of 1996–2002. This period under the study covers the stabilisation period in Estonia’s development. During these years, the economic recession had already passed and GDP growth was one of the highest in Europe. Estonia had passed also a troublesome period of economic and social reforms, and society had returned to the normal course of development. An implementation of the radical economic reforms and a “minimal state policy” resulted in rapid social differentiation of the population, and the nature of poverty started to change – from the “poor-rich opposition” into the “division of people between winners and losers”.

During the years 1996–2002, the poverty rate was quite stable at a little less than 20 per cent, with slightly declining trend. The pattern of poverty in Estonia had a rather traditional character – single parents, young, and retired living alone, as well as households with many children carried the highest risk of poverty, compared to other household types. Among them, the youth was exposed to the highest poverty risk. The analyses of changes in household poverty patterns revealed that poverty among youth and working-age singles is increasing, while among retired a slight decrease is evident. It was revealed also that the poverty rate for households with three and more children has decreased relatively more compared to households with smaller number of children, and the differences between the poverty rates of the households with different number of children tend to decline.

The social status of the individual is one of the most important determinants of income as well as poverty. In every society, the risk of poverty is the lowest among the population participating in the labour market and the highest among the unemployed. In Estonia, the difference between the poverty rates of employed and unemployed is bigger than in most of the EU countries' average. The poverty rate for unemployed has not been changed during the period of 1996–2002 and represents about a half of all unemployed persons.

Education is another important determinant of the individual poverty risk in Estonia. Higher education increases the competitiveness and flexibility in the labour market and, as a result, a higher income and lower vulnerability. The poverty rate for the households where the head of the household had only primary education in 2001 was 21 per cent, at the same time the same figures for secondary and higher education were 19 per cent and 9 per cent respectively.

Analyses of poverty, income and living conditions have, to a large extent, shown a similar level of material resources among Estonians and non-Estonians. As an average, the non-Estonians have 1–2 per cent point higher poverty rates than Estonians. The difference was at its largest in 2001, when the poverty rate for non-Estonians was 20 per cent compared to 16 per cent for Estonians.

The role of social transfers in poverty reduction in Estonia is obvious. In the absence of all social transfers, the poverty risk would be over 40 per cent in Estonia in 2002, instead of 18 per cent after all social transfer in reality. More than one fifth of the Estonian population are lifted out from the poverty by the social transfers, and the pension payments carry the main load in the prevention of poverty.

To conclude, the poverty rates in Estonia are in decline. More and more people experience that the growth of the economy and increase of employment have improved their personal material situation, and for them, the years of poverty are a thing of the past.

However, Estonia still has a great number of people who are poor; and for many people today's situation is not better (or is even worse) than it was before. Today, it becomes more and more evident that poverty does not only mean a low income. Poverty in Estonia has become a multifaceted phenomenon, with interrelated economic, social and psychological risks, which often results in accumulation of social deficits (low income, poor education, unemployment, insufficient social networks, etc.). Interviews with social workers reveal that the duration of the experience of poverty is permanently increasing, and the poverty culture and deepening social exclusion becomes evident. Unfortunately, still little is known about social exclusion in Estonia. What are the mechanisms of falling out of normal bonds of the society? What social groups, and why, carry the highest risks of exclusion? How long do people remain excluded? What are the most effective policies for increasing social cohesion? These are the questions that should be answered in the following phases of the project.

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