

On the Differences between Lithuanian and Norwegian Models of Social Welfare Provision

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INTRODUCTION

Since 1988, the political support of the Nordic countries for the re-establishment of the Lithuanian state, for building democracy and for reforming the economy have contributed to close cooperation between the Baltic States and the Nordic countries. In 1995, Sweden and Finland joined the European Union and along with the other Member States encouraged Lithuania's accession to the EU. The EU's favourable attitude to regional cooperation specifically includes close ties between Nordic and Baltic countries. In addition, the "Nordic Dimension" of the EU is an additional factor that strengthens cooperation between Nordic countries and Lithuania, not only in the geopolitical field but also in regard to economic and cultural relations.

Norwegian and Lithuanian entrepreneurs are successfully making use of the advantages provided by a market economy. Norwegian companies have invested in the Lithuanian economy and their investments include the purchase of real estate, manufacturing and retail businesses. Personal contacts between scientists and artists of both countries are also expanding. But this cannot be said about relations between architects of social security systems, which still remain weak. Why have the experiences and achievements of the Norwegian and of the other Nordic welfare states received so little consideration in Lithuania? This is a question that remains to be answered.

For numerous reasons, the institutional social democratic Norwegian welfare state model might have been chosen as a point of reference for developing the Lithuanian social security system. One might argue that during the last decade the political situation for such a development was quite favourable. After all, Social Democratic parties ruled Lithuania in the period 1992-1996 and from 2001-2004. The Norwegian Labour Party held power throughout the greater part of the 20th century and currently leads a governmental coalition in the 21st century. Even under

the growing influence of globalisation, social democracy has been able to keep Norway on a rather favourable path without sacrificing its own social programmes.

One must, however, admit that Norway and Lithuania have experienced completely different stages in the historical growth and development of their states. The two countries differ considerably in their levels of economic development and in the characteristics of their welfare states. Norwegian capitalism, conditions within various markets and social conditions developed in a sustainable way during most of the 20th century. The general welfare in society gradually improved. The Lithuanian experience of Soviet socialism has been less beneficial. There are the well known negative consequences of a bureaucratically planned economy and the inefficiencies of the Soviet social supply model, which offered free but limited and very low-quality social services.

In addition, Norway's oil economy may seem to make the country an inappropriate choice for comparative purposes. However, the main elements of the Norwegian welfare state were put in place in legal and economic terms (as a proportion of GDP) long before the income from the oil industry significantly affected the economy. Norwegian politicians share the concerns of *Josef Knecht* (the leading character in the novel by Hermann Hesse entitled *The Glass Bead Game*), who feared that the dependence upon the glass bead game of his beloved Castalia would sooner or later make the province "vulnerable to the danger of aging, sterility, and decadence" (Hesse 2002, 274). These concerns have led to strict, self-imposed limits on government spending by most political parties.

One purpose of this paper is to compare the welfare state models in Norway and Lithuania. A second purpose is to identify the reasons why the Norwegian welfare state model has, thus far, been so little considered in Lithuania. A third purpose is to consider the possibilities for implementing the Norwegian welfare state model in Lithuania, taking into consideration some changes in that model that were enacted in the last decade of the 20th century. The methodology of this study applies critical social analysis, comparative methods and macro-social data from Norway and Lithuania.

MODELS OF WELFARE STATES

In Western political science discourse three basic models of the welfare state are identified: liberal, conservative and social democratic. The liberal model acknowledges the dominance of the market. Accordingly, the state, in the liberal model, has only a limited impact upon the distribution of welfare. It only guarantees minimal supports to citizens and it promotes *self-reliance* as the dominating ideology for citizenship. In the context of a liberal model, individuals are responsible for providing their own welfare and the state is a resource only when individuals fail to do so. The liberal welfare state system of provision addresses the individual who cannot provide for himself or solve his own problems. The various markets are expected to provide the basis for the general welfare of individuals in society. The state attempts to mitigate the problems of poverty, inequality and unemployment by providing a low-level of benefits. Keeping benefits low is a way of inducing people to participate in the labour market. The architects of liberal welfare state systems

worry that high benefit levels erode the will to work for a living. Generally speaking, social programmes focus upon elderly people and individuals with physical and/or psychological problems, i.e. they benefit people who are already wholly or partially excluded from participation in the labour market. The criteria for entitlement to state supports are generally very strict ones. The features of the liberal welfare state model include limited and low-level state supports and emphasise market forces and a self-reliant citizenry.

In the conservative welfare state model, the state is the main sponsor; however, the family assumes responsibility for the social situation of family members. Social services are provided only when the family is unable to cope with the responsibility of providing welfare to its members. The state preserves class differences, class subordination, and status differences through a variety of social insurance schemes, i.e. families from different classes with unequal status have a right to different social benefits and services, although the size of support depends upon contributions. The social insurance system is intended for working persons only; social benefits are calculated according to the size of income and work record; the unemployed are not insured. Allowances are distributed through various voluntary organisations and benefit funds. The main state concern is to guarantee that public expenses for welfare provision reflect the level of economic performance and growth. Social insurance schemes are financed from contributions by employees and their employers. There is a strong emphasis on the principle of subsidiarity. This principle is based upon family responsibility. If and when families fail to meet their obligations, the community, i.e. voluntary organisations *that are often affiliated with the Church* assume responsibility. The state will then provide support to help finance the efforts of these voluntary organisations. Only if and when the voluntary organisations fail to provide welfare in a satisfactory manner will the state directly engage itself in the provision of welfare. This strategy of subsidiarity emphasises decentralisation. The state is always the last option in a chain of responsibility that begins with membership in a family, and leads to membership in a community, which again is linked to membership in the general society.

In the social democratic model, the state assumes responsibility for the provision of welfare to every individual. The state pursues a full-employment policy and ensures that all individuals are provided with a dignified standard of living. All citizens enjoy an assortment of health and social rights. A social democratic welfare state pays decent social benefits and every individual has equal rights irrespective of gender, race and marital status. Poverty, inequality and unemployment are problems that are ameliorated by effective progressive taxation. Commitments to the individual, by society, are, in principle, unlimited. Social democratic welfare states doubt that the family or the market will be able to competently provide optimal welfare distribution (Esping-Andersen & Korpi 1987, 40-41). The characteristics of the social democratic welfare model are as follows: social rights are generally based upon citizenship, i.e. welfare is treated as a civil right; the public sector provides the primary services that are available to all individuals and a comprehensive *cradle to grave* health and social policy is practiced (Arter 1999, 185). Solidarity is an ideology that is promoted by public institutions. Traditional welfare state limits are overstepped, i.e. new needs are uncovered and new programmes address those

needs, there is a progressive development in the variety of services that are fostered by public institutions; the commitment to principles of universality and equality are maintained and a high degree of 'de-commodification' is preserved'. The social democratic model is characterised by high social expenditures, decent benefits, proper services, and a high degree of social inclusion.

Since Lithuania was a part of the Soviet state, the Soviet model needs to be summarised briefly in this paper. The Soviet model (Manding & Shaw 1998) was typified by centralised planning and it provided a basic level of welfare for its citizens by highly subsidising the costs of basic material needs. Health care and education were essentially free, apart from the practice of "tipping" professionals to get access to special facilities or preferential treatment. Housing and housing costs were almost free, food and transport were very inexpensive. However, welfare provision was closely linked to the labour market in several respects. First and foremost, much of welfare provision was provided by the employing enterprise rather than by an independent bureaucracy. In addition, there was considerable duplication between enterprise services and local government health, education, and housing services. The price of consumer goods was kept very low, and as a consequence, demand was effectively controlled through queuing. The provision of better services, or at least rapid access, was used to manipulate the supply of labour to strategic industries (such as the military) or geographically remote areas (such as the Far East). The social security system was explicitly linked to the length of one's working life and to the level of one's pay in its benefit eligibility formulae. The market was not allowed to dominate social life and the state guaranteed only minimal supports to the individual and did not encourage the individual to secure his or her own welfare. The family had only a limited impact upon the social situation of its members. This model was widespread throughout the Soviet republics constituting the USSR, including Lithuania.

SOCIAL POLICY IN NORWAY AND LITHUANIA AFTER WORLD WAR II

The Norwegian welfare state is an ambitious project and its goals are greater than merely satisfying the basic needs of its citizens. The social democratic welfare state model balances the goal of fully promoting individual freedom with the promotion of an assortment of comprehensive health and social programmes that are implemented by the state and its institutions. The understood presupposition for the complex network of services and supports is the realisation that *they are needed* to secure each and every individual and to provide each and every individual with an opportunity to fully develop and express their inborn potential. The ideals that grounded the social policies pursued by the Labour Party after World War II were not merely nominally referred to as being *universal*. The universal aspect of health and social welfare provision was meant to be a serious and determined approach to counteract the divisive workings of class in order to enable *every* individual to have opportunities for development.

The social rights of citizens, in this particular vision and version of the good society, obtain equal importance with the economic rights to private property and the

political rights to participate in the decision-making processes of a democratic society. Parties and trade unions representing the working class had supported welfare state reforms for a long time. Labour organisations put their trust in the institutions of the state. The state itself would be organised to secure social rights. Strong Norwegian employer associations consented to a high degree of state regulation and a state-run social insurance system. They understood that the regulations and the high social security costs would work to reduce class conflict in society. Social stability had a price, but in the long haul stability would lessen economic burdens and reduce some of the risks and transaction costs of doing business.

Economic growth in Norway after World War II coincided with the rule of the Norwegian Labour Party and its close relationship with the trade union movement and with business and industry representatives. Conditions were favourable for the development of a social democratic welfare state. Welfare state development occurred in phases that reflect the ways in which Norwegian social democrats aimed at balancing power relationships in society. Programmes that fostered equality in society were balanced by programmes that promoted economic efficiency. The Norwegian social democrats framed a welfare state policy that supported the expansion of the middle class. The traditional separation between social and economic policy was gradually dismantled and the two concerns were seen as being two sides of the same coin. One policy that fostered both social and economic goals was the national pursuit of full employment. This common goal and the programmes and practices that were designed to achieve this goal led to the incremental development of an institutionalised universal social welfare model by incrementally implementing one universal welfare programme after another (Kangas & Palme 2005). The consequence of achieving a consensus on national goals led to the development of a successful economy and a stable society with generally high levels of social capital. The modern roots of Norwegian social policy are embedded in the reconstruction era following WWII. In the joint programme prepared for the national elections in 1945, four and later six political parties spelled out the ideas behind a consensual and universal approach to social policy.²

In their vision, social legislation would be developed to make the public assistance system (i.e. the poor law) superfluous. Social insurance would be undertaken in a national programme which would be coordinated to enable a joint public insurance system for illness, disability, unemployment, and old age. The issue of child allowances would be reconsidered (Bull 1979, 343).³

Despite the fact that the Labour party governed with an absolute majority in the years 1945-61, only the child allowance was immediately introduced to replace a similar benefit provided by the Nazi occupation government in the years 1940-45. The social insurance system from the pre-war era was gradually extended to encompass the entire population, but the 1945 ambition of a joint legal framework had to wait until 1966, when the government was in the hands of the non-socialist parties. The generosity of the welfare state – which was introduced as a concept around 1950 – increased from 5.8 percent of GDP in 1948, to 10.6 percent in 1966. In the next decade this fraction would double again to 22.5 percent (Kuhnle 1983, 63). In 1998, public social expenditure had reached a 27.0 percent share of GDP, compared to the EU average of 24.6 percent (Stjernø 2004).

The goal of doing away with the Poor Law of 1900 has yet to be completely realised. New social welfare laws to replace the old law were adopted in 1964 and 1991, but both laws carried with them aspects of the past, such as the importance of allowing for local discretion in deciding benefits. A major improvement, however, was the replacement of lay people with professionals in the decision-making that allows for discretionary powers. Reformers hoped that a comprehensive social insurance system would do away with the need for supplementary social assistance. However, as late 2000 there were 130,000 recipients of social assistance (Hatland og Terum 2005, 137).

Despite the universalistic ambitions of the social democrats, the Norwegian welfare state did not fully bloom into a comprehensive and generous entity until the 1970s (cf. Kangas and Palme 2005, 31). The Labour Party had an absolute majority and it faced a weak opposition until the year 1961. As a consequence, the Labour Party could allow itself to pursue other political priorities, such as creating jobs in industry and stimulating economic growth. The Norwegian historian Edvard Bull claimed that the improved social insurance benefits of the 1950s resulted from fundamental changes in the labour market, which had little use for the elderly or for very young workers (Bull 1979, 341-2). On the other hand, the British social historian Asa Briggs points out that Great Britain, at this time (the 1950s), "was in a period of relative 'affluence', not of austerity, [and] that both the ideals and the practices of the welfare state came under closer scrutiny" (Briggs 1983, 286). The Norwegian Labour government could not fail to notice that the British social revolution of the late 1940s was followed by a Conservative victory in the elections of 1951. The prime minister at the time, Einar Gerhardsen, devoted only four pages to social policy in his memoirs of this period. He insisted that from 1945 to 1955, reconstruction had to be given the highest priority and this meant that the Labour government could not accept Conservative party demands to abolish the means-test for old-age pensions (Gerhardsen 1971, 167-168). However, the social and economic priority par excellence of the period, that of providing employment to all was included in a 1954 amendment to the Constitution of 1814, which did not mention any other social rights.

Thus, there was no Norwegian social revolution after WWII. The future welfare state was to be developed in incremental steps, in close cooperation with labour unions, major business interests and the other political parties. During the 1970s, the Social Insurance Law of 1966 was made more comprehensive by including sickness benefits to the self-employed. In 1978, full pay was introduced for the employed during periods of illness. Equal benefits for wed and for unwed mothers were enacted in 1981. The pension age was reduced from 70 to 67 in 1973. Pensioners with no accrued pension benefits were provided with a supplement that almost doubled (79.33 percent) the amount of their basic pensions in 1998 (Hatland 2005, 38).

As Stein Kuhnle has remarked, Norwegian, as well as Nordic social policy can be characterised by consensual solutions (Kuhnle 2000, cited by Kangas & Palme 2005, 286). This emphasis on consensus correlates with the conceptualisation of solidarity shared by modern social democratic parties. As outlined by Steinar Stjernø (2004), the contemporary version of this idea seeks to create social integration and a sense of community in a way that includes the whole nation, irrespective of

classes. Accordingly, the “universal welfare state corresponds rather closely to this most recent development of the concept of solidarity” adopted by social democrats in the 1960s and 70s (Stjernø 2005, 153). In effect, the social reforms of this period institutionalised the universal character of the Norwegian welfare system.

While Lithuania formed part of the Soviet Union, the dominating political and ideological statements and actions consistently denied the necessity of developing a welfare policy. Welfare problems were considered to be non-existent and it was claimed that the few social problems that did exist would disappear automatically because the state satisfied all of the needs of its working people. The characteristics of the Soviet social development model are as follows: centralised planning, the provision of a basic standard of living and a basic level of welfare solely from the workings of the state, free health care and education, the possibility of free housing and the availability of low-cost housing, inexpensive food and transport costs for the individual. In the former Soviet Union, there was no recognition of the need to have a social policy and what one might refer to as a labour market did not actually exist.

The official ideological position stated that all people who were able to work would be employed and in this way they would earn a living. There was full employment and the social security system was organised for all people who were employed in the USSR. In the case of illness, everyone was provided with free medical treatment and sickness benefits were paid out that equalled the wages one received. The amount of a pension was, to some extent, dependent upon the income one had during the final working years. The social security system was linked to work experience and pay levels were used to calculate benefits. Social security was administered by trade unions, which were also responsible for administering kindergartens attached to industrial enterprises, employee housing, sanatoriums and holiday matters.

The workplace mattered a great deal whenever benefits or other forms of participation in the social welfare system were at issue. From 1950, rapid economic growth did occur in the Soviet Union and particular enterprises were able to attract a workforce by offering their employees a professionally manned welfare system. Resources for social security were allocated from the state budget, with no contributions for social security paid by employees/citizens. Officially, there was no unemployment and, consequently, there were no social problems. Nevertheless, the Soviet model did provide comprehensive welfare services at a relatively low level (Manding & Shaw 1998, 3-7).

THE DEVELOPMENT OF A SOCIAL SECURITY SYSTEM IN INDEPENDENT LITHUANIA (1990-2006) AND ITS MAIN CHARACTERISTICS

At first glance, the Soviet Lithuanian social welfare system would seem to have more in common with the Norwegian social welfare system than the current Lithuanian model. As a consequence, it would seem logical to suppose that the transformation to the social democratic social welfare system would have been easier to accomplish during the early stages of the rebirth of Lithuanian independence in 1990-1991. However, the mood in Lithuania, at that time, and the coalescing political

forces rejected any ideas that too closely resembled ideas from the recent Soviet past. Even suggestions that reminded one of any aspects of the Soviet past were denigrated. The voices demanding change spoke about building a free market economy and they were uninterested in hearing about alternatives to that plan. Gradually, a kind of market fundamentalism dominated Lithuanian political discourse. Representatives of differing political parties and the mass-media were active in this political process, but the agenda was set by the Lithuanian Free Market Institute, which provided the debate with its key concepts. An aura of urgency pervaded political discourse. The ideological undercurrent which provided the basis for discussion was the sometimes uttered understanding that this is a moment of fundamental importance. Our window of opportunity will not last very long and we have to get it right, here and now, or we will fall far behind all of the others. We need a scientific approach to be able to develop our economy.

After the collapse of the Soviet Union and the restoration of Lithuanian independence, there have been some discussions about the choice of an appropriate welfare state model (Paluckienė 1999, 37). Representatives of the Ministry of Social Security and Labour and some advisers from the Social Policy Group decided upon support for a Bismarckian model. The Bismarckian model is based upon contributions made by employees who participate in the labour market and who pay state social insurance contributions to the State Social Insurance Fund. A corporative Bismarckian development in the Lithuanian social security system is confirmed by an analysis of the major social security laws that were passed in 1990-1991 and the reform of the state social insurance system in 1995. A new social security system was designed which was based upon the contributions of the employed. Its characteristics include:

- The amount of a pension would depend upon previous pay and the employee's work record.
- The amount paid for sickness benefits would be linked to pay.
- The calculation of social benefits would be based upon the idea of a negative income tax. (In practice, this meant that total personal income, including wages and social benefits, were always larger for those whose wages had been larger.)
- The State Social Insurance Fund was to be financed by contributions deducted from one's wages.
- The amount paid for child care benefits was always larger for insured women than for non-insured women, for example, students (Guogis, Bernotas & Ūselis, 2000, 136).

The establishment of the State Social Insurance Fund, which was completely separated from the state (national) budget, testifies to the fact that social security in Lithuania was based upon the labour market. It is particularly well illustrated by the fact that unemployed people, who were not registered at the Labour Exchange, had no access to health care apart from vital primary health care services.

A limited number of welfare state functions and services were created in Lithuania in 1990-1991. There were social security and health care systems, an education system, housing and transport compensations, and a few social benefits. The Lithuanian state social security system consisted of social insurance, social assistance and special

additional state pensions. The state social security system was created to serve and was adjusted by the free market system. It was administered by centralised institutions and by local authorities. However, in Lithuania, most of the political, media, and academic voice understood the proper role of the state as being a passive rule-keeper, i.e. an attitude which supports a weak state and provides considerable latitude for a free market economy. This attitude did not provide a favourable environment for the development of a social democratic welfare state, which would need to acknowledge a strong state role and a high degree of state intervention.

In the early days of the re-establishment of Lithuanian independence, and while the aforementioned reforms were being made, there was considerable external pressure from the IMF, the WB, the WTO and the OECD. These are all organisations that aim at building a liberal welfare state in which the market and non-profit organisations dominate in society. As time passed, the mood in the country began to change and internal political support for the development of a liberal welfare state diminished. Opposition against the idea of a liberal welfare state increased and became quite strong, as the election results in 2000 and 2002 verify. The ordinary people living in Lithuania wanted their state to assume responsibility for combating unemployment, inflation and poverty. Some wished to return to the safety provided by a truly socialist system and to a predictable daily life and future. Many people, especially elderly ones, believed that the state should provide people with care in all of the difficult stages of life. However, no fully progressive tax system was ever created in Lithuania. There has always been an exemption for a minimum income in the taxation levied upon an individual's work income. It should be noted that a recent opinion poll estimated that 62.1% of the population responded negatively to the idea of paying higher taxes in order to secure better social benefits. Nevertheless, the results of a 1999 sociological survey indicate that most of the Lithuanian population consider social benefits to be a necessary component of their state. A primary complaint uttered by many respondents pointed to the low pensions in Lithuania and to the low amounts provided by unemployment benefits (Morkūnienė 1999).

As a matter of fact, from 1990 to 2006, a Bismarkian social insurance system did exist in Lithuania. In theory, the scheme belongs to a category containing corporative welfare states, but in practice only very low benefits were paid to recipients because of the relatively low level of economic development achieved in Lithuania during that time frame. Only a very few of the social assistance programmes were aimed at fighting poverty, and programmes to fight poverty are also a characteristic of corporative welfare states. In the period 1997-2006, state social security allocations for social insurance accounted for about 85%, approximately 13% was allocated for social assistance and about 2% for special additional state pensions (Lazutka 2001, 141).

The corporative model was specifically selected in an attempt to increase incentives to participate in the labour market. Motives were very different from the imperial *blood and iron* policies that Bismarck supported when he created the model. No pressures were felt from labour movement leaders or from employers' organisations and the political agenda in Lithuania was far removed from Bismarck's own political agenda (Guogis 2003, 7). It should be noted that the Lithuanian corporative model differed considerably from the model that Bismarck originally introduced in Germany, and that it differs from the Bismarkian systems created

in Belgium and in Luxembourg. The differences refer to the special state benefits reserved for particular groups (privileged clients of the new state). The new state clients spring from the roots of former privileged groups within the Soviet nomenclature. Their privileges do not contribute to social justice in the country. On the contrary, social justice is the victim when special additional state pensions are awarded to particular groups of people, including former members of the armed services, scientists, judges, artists and the like.

The introduction of voluntary private pension funds has further contributed to social inequality and differentiation. They are particularly popular among those young people who earn considerably more than most other workers do. Two years after the legislation permitting voluntary private pension funds, (2003-2006 private pension reforms were enacted) half of the labour force in Lithuania are already participants. From a critical analytic point of view, the introduction and the popularity of private pension funds mean that Lithuania will gradually abandon the corporative model. By introducing institutions which shore up the basic presuppositions of a residual or marginal model for social welfare provision, the liberal and free market fundamentalists are entrenching their position.

The intensification of the trend toward the residual or marginal model in Lithuania is testified to by the increased dependency upon the market. Quantitatively, it is expressed by calculating the degree of decommodification. The degree of decommodification in the Lithuanian social security system was never high, but the low scores have continued to decrease. In 1997, the degree of decommodification reached 23.8, while the indicator for 2000 only stood at 22.2 (Guogis 2002a, 43). The Conservative government's withdrawal of many exemptions for welfare recipients, in the beginning of 2000, also testifies to the conclusion that Lithuania has been turning away from the provision of state supports. The intensification of liberal free market thinking and residual or marginal welfare system supports during the period of 2003-2004 was predicted by Guogis, Bernotas and Ūselis in their study "Lithuanian Political Parties' Notion of Social Security", which was completed in 2000. This report points out that only 3 marginal political parties came out in favour of the universal institutional model of social security, while the 17 other parties either did not have any prevailing opinion or supported the liberal residual or marginal model for social provision (Guogis, Bernotas & Ūselis, 2000, 88).

The Nordic experience demonstrates how welfare state policy can depend upon the voice of the electorate and the relative strength of different political forces. Under the rule of a left of centre government the boundaries of the welfare state tend to expand, while under the rule of a right of centre government the boundaries of the welfare state tend to narrow. This responsiveness to the voice of the electorate is difficult to uncover in Lithuanian politics, thus far, in the short history of a re-emerged period of independence. Most Lithuanian political parties have accepted the ideology of market fundamentalism and they have not dared to dismantle existing state economic and social structures, due to the fear of inadvertently catalysing a social cataclysm. According to the widespread understanding of social democratic welfare states, the representation of left of centre parties in government is seen as being an important guarantee for the maintenance of a strong welfare state policy, but in the Lithuanian case this understanding can only partially be confirmed. The

provision of social support is relatively low in Lithuania, and the rule of Lithuanian Social Democrats in coalition with Social Liberals, in the years 2001-2004, did not substantially change matters. Cash payments remain all too low. There is a great need to develop a common point of view, one that can unite the entire political spectrum, regarding family needs and the role of the state in support of families. Social services are developing, but much still needs to be done.

The rule of the coalition of Social Democratic and Social Liberal parties did contribute to some developments in regards to social welfare supports, but change has been very limited and mostly symbolic. In 2001-2003, the increase of old-age pensions amounted to 26 Litas (€7.50) on the average. Group I disability pensions rose by 32 Litas (€9.25) on the average. The automatic exemption allowed for work income increased by 40 Litas (€11.60). Minimal wages increased from 430 Litas to 450 Litas, i.e. from €125 to €130. Fees paid by full-time students decreased (€140 for 1 semester). During the rule of this coalition, unemployment decreased from 14% to 10% and, approximately 10,000 new workplaces were created in Lithuania. However, critics of the Social Democratic party did not acknowledge that these gains had anything at all to do with the policies of the governing coalition. The claim was made that all of the gains were due to the general economic recovery and to the accelerated growth of business. Some analysts made left-handed compliments by pointing out that they were willing to acknowledge that the Social Democrats, somehow, avoided doing things that might have prevented the economic recovery.

Although Lithuania has achieved a relatively high rate of economic growth this past decade, social developments have not kept pace. In the period 2000-2003, the economy and labour productivity grew by more than 6% (Starkevičiūtė 2004), but in 2003, average wages only reached 1185 Litas (€343), which is less than 38% of the average wage in the European Union. In other words, only those who earned 3000 Litas or more per month (€869) in 2003, were on a par with the average standard of living in the EU, and only 3% of all Lithuanian employees actually earned that much. Many more Lithuanians, i.e. 17.3% earned minimal wages (Lietuvos profsąjungos, 2003.12.24, 7). In 2003, the average old-age pension comprised only 38% of the average wage, amounting to 340 Litas (€98, 50).

One must add that in 2004 many social indicators slightly improved (minimal wages increased to 500 Litas and the average old-age pensions to 400 Litas). The years 1998-1999 brought an economic crisis to Lithuania, but most social indicators have greatly improved in the period following. During 2000-2004, a slow, but gradual rise in the payments to old-age pensioners and to those with disability pensions has been registered. In addition, there have been improvements in the minimum wage and in average wages, a gradual lowering of the unemployment rate and, finally, a significant decline in the level of poverty in 2003. Many people do believe that continued good economic performance in Lithuania (annual GDP growth 7-9%) will, in itself, produce better social supports. Be that as it may, the year 2006 still finds Lithuania lagging far behind the other EU countries when the quantity and quality of social provision is scrutinised. Lithuania is performing better than the EU average when economic growth and the growth in labour productivity are measured.

One of the obstacles on the road to higher salaries and better working conditions in the country has to do with the low rate of trade union membership and the

insufficient performance and activities undertaken by trade unions in the working world. This is true in spite of the fact that the Lithuanian Social Democratic Party has maintained closer relationships to trade unions than the other Lithuanian political parties have done. According to the experts of the Finnish Ministry of Labour and to researchers at the University of Helsinki, a survey entitled "Barometer of Labour Life in Baltic States" claims that membership in a trade union is less common in Lithuania than in it is in Latvia and in Estonia. Trade union membership decreased from 15% to 11% in a three year period (Lietuvos profsajungos, 2003.04.19, 7). The political weight of trade unions in the formation of social policy and in the decision-making processes determining social policy was, and remains, insignificant. An employer association (The Confederation of Business Employers) is far more influential.

At the turn of the present century, there were no organisations that exerted strong social power in society. There were no social movements or institutions of civil society that were particularly interested in increasing state powers, or state responsibilities, in Lithuania. The role of the state continues to be a diminished one, when compared to neighbouring states, and institutions within civil society remain very weak. At present there seem to be no prospects for the notion that Lithuanian civil society can be aroused enough to take sufficient action to promote the development of social policy goals or to begin any movement in the direction of a social democratic welfare state. The low level of participation in organisations within civil society has precluded the possibility for any echoing reverberation, in the event that any one voice or group called out for the construction of a social democratic welfare state in Lithuania.

According to the usual theory regarding the development of a social democratic welfare state (Paluckienė 1999, 39-40), strong social movements, and particularly, the mobilisation of working class wage-earners within the trade union movement are necessary. In addition, the development of other labour associations is recommended. This must then be combined with the power of left-wing and left of centre political parties. Together, these elements are seen as being the most important guarantors of a strong and social democratic welfare state. In Lithuania, the trade union movement and the actions of left-wing and left of centre political parties have had little influence in the struggle for greater social justice and income redistribution. This claim is confirmed by the share of state expenses in GDP, which in Lithuania varies between 20-30% at the beginning of the 21st century. In neighbouring countries, on the other hand, the share is much larger. In Estonia, Latvia and Poland this share accounted for 35%-40% in 2002 (Gyls 2003, 33), although mass-media presentations of these three countries consistently portray them as being more liberal than Lithuania. The share of social security expenses made up only about 11% of the GDP in 1997-2005 in Lithuania; with health care expenses included - only 16% of the GDP (Guogis 2002b, 84).

Potentially, an assortment of institutions within civil society can be used to develop and express social engagement and their activities could enhance and spread social attitudes that might support the idea that society should take more responsibility for the care of its citizens. However, the development of civil society in Lithuania is still moving at a slow pace, but this is similar to the experiences of other countries

in the region. The Baltic region is generally characterised by low participation in voluntary organisations within civil society. Communitarian sentiments are still too weak. The absence of stronger bonds allows individuals to forget about the problems that others face. Many groups are dependent upon the social policies and the level of social provision in society, including aged and disabled pensioners, the unemployed, etc. From a historical perspective, the expression of solidarity in Lithuania was a prevalent phenomenon at only a few crucial turning points in the past. These turning points include: the struggle for independence in 1918, the reconstruction period after World War II (1945-1949), and the re-emergence of Lithuanian independence from 1988-1991. Solidarity was not a prevalent sentiment in the Lithuanian population at the turn of the present century.

We might expect that collectivist sentiments would have been strengthened during the Soviet period in Lithuania. However, historical accounts testify to the fact that the collectivist orientation during that period was rather artificial in Lithuania, as it was in the other Baltic States. The collectivist orientation was an imposed attitude. In fact, Lithuanians were keen to act individually rather than collectively, and this fact may help to explain why there have never been strong trade unions, or influential social democratic parties, or movements to protest globalisation, or other well-known social movements in the history of Lithuania (Guogis 2003, 7).

Apart from the complicated economic situation (especially in the years 1990-1999) in the re-emerging independent Lithuanian state, the following reasons can be posited to account for the lack of activity or interest in the development of a Nordic style social democratic welfare state: 1. Left-wing and left of centre parties, and particularly, the Lithuanian Social Democratic Party, which was in power, did not aim to create a social democratic welfare state. This is probably due to the recent experiences and memories connected to the Soviet period in Lithuanian history. Anything seen as being too close to the rhetoric or ideology of the Soviet period was rejected. A desire for a completely different alternative reflected the general hopes for the future. 2. Lithuania lacked strong trade unions and there was insufficient experience in the ways in which corporative institutions work and no tradition of consensual decision-making between powerful societal organisations. 3. The general consensus to rely heavily upon market forces in order to promote economic growth led (almost by default) to the support for a residual or marginal model for welfare state provision. In tune with the thinking that grounds the residual model, the state allocations to pay for social programmes were kept at a low level. Relatively small expenditures for social programmes, which are only provided to people who are beyond the boundaries of the labour market, are seen as being necessary in order to motivate people to take the available jobs. The social rights that are guaranteed are insufficient to cover expenditures for those others who are not seen as being *the worthy poor*. 4. The consequences of the preceding three reasons shifted the burden of creating welfare to the family. When families are responsible for providing welfare to individuals needing care, the traditional role for women is strengthened. 5. Solidarity does not fully develop in the general society if it is firmly relegated to inner family relationships and, particularly, to the women in the family. 6. The role of corporative welfare institutions was de-emphasised after the pension reform of 2003-2004, when private pension funds were established.

SOCIAL WELFARE IN NORWAY UNDER GLOBALISATION

The end of the Cold War and the collapse of the Soviet Union coincided with the intensification of globalisation processes. In addition, there has been a coinciding entrenchment of neo-conservative thinking. Most Western countries, and this category now particularly includes most of the countries in central and eastern Europe that were formerly in the Soviet camp, have been profoundly influenced by the neo-conservative theory and policies referred to in this paper as market fundamentalism. Under globalisation, the Social Democrats have been retreating from left-wing thinking or any policies that would expand the parameters of the welfare state. They have consistently taken slightly left of centre positions in the developed European countries where they are most entrenched. Market fundamentalism in the ideas and practices of the USA, and the UK, have engendered similar thinking and parallel policies and practices in each and every Western country. Although there is resistance to facing the consequences of market fundamentalism in the USA and to a slightly lesser degree in the UK, the authors of this article recognise the spread of this way of thinking as a very serious setback to ameliorative social processes, social justice and income redistribution in society.

In the public administration of Western countries, there has been a shift in thinking that has provided support for the ideology and practice of New Public Management. This ideology now dominates the thinking in public administration in the USA, and in the UK, and to a lesser degree the thinking in continental European states. One general consequence of this development in most Western countries has been that social welfare provision has been seen as being an obstacle hindering the attainment of economic efficiency. This understanding has also gained ground in all of the Nordic countries, and it has influenced the practices in public administration in the social democratic welfare states, but the force of this trend has been weakest in Norway.

In the early 1990s, Norway suffered least from the economic recession that seriously affected its neighbours, Finland and Sweden. These two countries were forced to re-examine core aspects of their welfare states and to accept cuts in social expenditures. Norwegian GDP continued to increase by 2.9 percent annually, compared to the OECD average of 1.6 percent (Kangas & Palme 2005, 52). The Labour Party continued in power for most of the decade, and as a consequence, there were few domestic political challenges to the established social policy. Despite its oil-based economy, the Norwegian social welfare system was not insulated from international tendencies to enhance market reform, to modernise public administration, i.e. to privatise some public services by allowing the lowest bidders to provide those services under contract, and to relate to citizens by reducing them to consumers or users of public services. Incremental policy changes led to the introduction and augmentation of user fees for public services, including doctor visits.

Even with the accomplishments of Norwegian social democracy in promoting social policy goals, reducing poverty and inequality, and increasing employment and social inclusion during the 1970s, there were also critical voices on the left, at the beginning of the 1980s. Social philosopher Rune Slagstad (1981) expressed doubts about whether welfare state issues could continue to be solved satisfactorily by

continuing with the established social policies. The public debate about social policy became increasingly concerned about moral issues and demographic challenges. One fear concerned (what was assumed to be) the excessive consumption of health services and sick leave. Regarding old-age pensions, there was a continued tug-of-war between two political positions. On the one hand, there existed a wish to improve the lot of the elderly by providing them with more generous pensions. On the other hand, there was the persistent concern about mounting costs, as the number of retired people continued to grow and the build-up of income-related pension supplements continued (Hatland 2005, 39). These concerns accelerated under the non-socialist government that was returned to power in 1997.

Sickness benefits

To combat the spiralling costs of the health sector, recent policy has been characterised by efforts to rein in public expenses for health care and illness benefits. On the micro level there was an increasing emphasis on regulating the consumption of out-patient services by introducing and increasing user fees. In 2006, the basic consultation fee is NKR 125 or €15.70. Similar fees have been introduced to cover specialised out-patient services such as physiotherapy.

Employers who made proposals to reduce the incidence of sickness leave and the costs of sickness pay were met by resistance from labour unions. The corporative channel was put into action and, in 2001 the government, the unions and the employers reached voluntary agreement to modify current regulations, in the hopes that their modifications would reduce absences due to illness by 20 percent. Thus far, there is no indication that this goal will be reached (Blekesaune 2005).

In 2002, the non-socialist government that succeeded the Labour government of Jens Stoltenberg (2000-01) finalised the nationalisation of hospitals previously owned by local government. The object was to control costs by introducing performance-based budgeting. In this respect, the reform has been unsuccessful. After three years, hospitals exceeded their targeted activity by 17 percent and accumulated a deficit of NKR 5.3 billion (*Aftenposten* 1.6.05).

Unemployment insurance

Since unemployment insurance only covers people who have had periods of regular work, policy reforms since the 1990s have particularly been aimed at reaching the long-term unemployed and young people with little or irregular work experience. The ambition has been to get members of this marginalised group sufficiently trained to succeed in the regular job market (Hyggen 2005). These efforts were combined with a workfare approach for the provision of social welfare benefits. However, recent studies show that many participants in these programmes actually end up with disability pensions, rather than job incomes.

Workman compensation insurance

Established in the Bismarckian tradition as the first social insurance in 1894, workman compensation is the first, and thus far, the only insurance to be fully privatised. In 2004, the then current mixture of private and public insurance was replaced by compulsory private insurance to be paid by employers.

Disability pension

In an effort to encourage people with long periods of illness to return to work, a short-term disability pension was introduced in 2004. A committee, led by Labour politician Matz Sandman, saw this as a means to stem the increase in the number of recipients of permanent disability pensions, which in 2003 were paid to 300,000 people (Blekesaune 2005, 194-5).

Old-age pension

Changes in the old-age pension system have been slow to appear and quite limited in their extensiveness. Perhaps this is true because these pensions concern the entire population as contributors and recipients. In the Nordic countries, Norway has the highest level of pensions (Kangas & Palme 2005, 285). Worries that the total costs of future pensions will exceed available funding, has led to a series of proposals to reform the pension system, to reduce costs and to encourage people to work longer. A proposal to do away with an early retirement plan that was enacted for a specific period of time was rejected by the labour unions. As a consequence, the pension system will continue to include contradictory measures that encourage early as well as late retirement. However, in 2005, the Norwegian Parliament decided that while the income equalisation aspect of pensions will continue to be a government responsibility, employers will have to contribute to the income-based parts of future pensions from 2006. The private sector will thus be obliged to make income level related contributions in addition to the basic pensions that are provided by the state. This will equalise pension entitlements in the private and in the public sectors.

Looking at all these changes, there is a slight trend to emphasise the principle of individual choice. This primarily means the creation of economic incentives to encourage particular behaviours, such as going back to work after illness, or finding work after periods of unemployment or disability, and for reducing the demand for out-patient services.

Marginal groups

At the margins of the Norwegian welfare state, there are still people who have been socially, culturally and economically excluded. Rather than including them in existing social programmes, there have been a number of ad hoc solutions to provide restitution for abuses of the past. Groups that have successfully claimed compensation include wartime sailors, gypsies, Jews, orphanage children, lobotomised psychiatric patients, and maltreated hospital patients. Linguistic minorities, such as the Sami and Finnish-speaking population, have been secured the right to use their own languages for official purposes. Homosexual practice has gradually been accepted and Norway was an early supporter for the right of homosexual couples to establish recognised partnerships. These modifications of the Norwegian welfare system have taken place under the blue skies of an expanding economy that has provided increased income and wealth to most Norwegians, but also increased income disparities that have been exacerbated by tax reforms favouring high-income earners. The Labour party, which was returned to power in the elections of 2005, has promised to end poverty. Kangas and Palme (2005, 45) point to empirical evidence that reducing inequality is beneficial for economic growth. It remains to be seen whether the Labour led

coalition government, which includes Left Socialist and Centre Party participation, will adopt the measures needed to accomplish the goal of ending poverty or whether their policies will reduce inequality in Norwegian society.

LITHUANIA AND NORWAY COMPARED

At the beginning of the present century, only small differences between the political parties in Lithuania could be recognised. Already when the initial reforms were made in 1990-1991, market liberalism was the prevailing tendency. The usual clarification proposes that Lithuanians needed to completely reject the Soviet legacy and market liberalism offered them a clear way to do so, while promoting a free market and democracy in Lithuania. Lithuanian economic structures and companies had to fight for their niche in the global division of labour. Competition and the grasp upon market segments were so keen that in some fields Lithuanian producers could only enter the global market by providing new products and new services. Lithuanian business representatives and most of the political parties agreed that Lithuanians needed to increase labour productivity and to reduce social expenditures.

Table 1

Selection of Social Indicators for Lithuania and Norway

	National income per capita (USD) 2004	Income inequality ¹ 2000	Relative poverty 2002	Public social spending ⁴ 2001	Public health care expenditure ⁵ 2002	Subjective well-being ⁶ 1999-2002
Lithuania	5 740	31.6	24.1 ²	14.7	4.1	36.0
Norway	52 030	26.1	6.3 ³	23.9	7.4	94.5
OECD average	33 470	30.8	10.2 ³	20.9	6.0	88.2
EU average		29.0		27.1		

Notes: ¹Evolution of the gini coefficient. ²The share of persons with equivalised disposable income, before social transfers and below the risk-of-poverty threshold, which is set at 60 % of the national median for equivalised disposable income after social transfers. Retirement and survivor's pensions are counted as income before transfers and not as social transfers. ³Proportion of the population below 50% median income poverty threshold. ⁴In percentage of GDP. ⁵Proportion of respondents with feeling of happiness "very happy" or "quite happy."

Source for national income data: World Bank (2006) *World Development Indicators*.

Source for other Lithuanian data: Eurostat data base/ESSPROS and Baltijos tyrimai 2002-2005.

Source for other Norwegian data: OECD (2005) *Society at a Glance: OECD Social Indicators*.

It is important to underscore the fact that after the fall of the Soviet Union, the new economic and political elite of Lithuania viewed the public sector and the possibilities to increase its efficiency with great distrust. This distrustful attitude toward the public sector is not found in Norway. Partial privatisation has been implemented in some spheres of Norwegian life. But the movement to privatise some aspects of the services provided by the public sector do not reflect a public

attitude that holds the public sector in disrepute. The move to completely privatise the public sector in Lithuania does reflect general attitudes of distrust and disfavour in large segments of the Lithuanian populace. The fact that the Nordic countries, in recent years, have privatised some public services has only served to reinforce opinion in Lithuania that privatisation is the correct path to follow. Questions of social justice are not raised when the paradigm for social democratic welfare states, i.e. The Nordic countries, appear to be following a route that will eventually lead them to the liberal state and the residual model for social welfare provision.

By and large, the new economic and political elites in Lithuania have only seemed to notice the successful business practices in Scandinavia. Achievements in other areas go unnoticed and unrecognised. Even the fact that Norway has huge public reserves, due to its oil resources, has seemed to escape recognition in the Lithuanian media. Whenever the Norwegian social security system is mentioned in the Lithuanian media, outlandish claims are made about its wastes and costs and there is no voice to correct the views that are expressed. The Lithuanian electorate has not encouraged its elite to formulate and implement a social democratic policy. On the contrary, a substantial part of the Lithuanian electorate leans toward right wing political and economic thought and action. This became particularly evident during the presidential crisis in 2003-2004. A paradoxical political and social situation arose. A major part of the electorate would clearly benefit from the adoption of social democratic policies, since the absolute majority of Lithuanians must manage on very small incomes. These facts of life would lead one to believe that Lithuanians would support social democratic and left-wing political parties. But this is not the case. The greater part of the Lithuanian electorate has systematically avoided any contact with left-wing parties or with any proposals to expand the public sector.

Rather than ask why Lithuanians made no efforts in the years 1990–2006 to create a welfare state based upon the Nordic welfare state model, the authors ask the following questions:

- 1) Given the recent moves to partial privatisation in Norway and in the other Nordic countries, does an institutional social democratic welfare state have a future given the pressures of globalisation and intensified economic competition? At first glance, globalisation and the concomitant intensification of economic competition seem to be deconstructing the social democratic welfare state.
- 2) Will the EU eventually establish its own common social welfare model for all EU Member States? If so, in what way will the Nordic model influence the future common EU model?
- 3) If the EU fails to agree upon a common social welfare model, will this failure negatively affect the possibilities for developing socially just programmes in the new Member States, including Lithuania?
- 4) If Norway and the other Nordic countries develop into liberal states, due to the pressures of globalisation, will this development destroy all hope of the establishment of a social democratic welfare state elsewhere in the world?

- 5) If globalisation slows or stops altogether, will that mean that the world has decisively divided into large and mutually hostile economic and political regions?

The authors believe that the above questions are the ones that need to be addressed in future studies. This paper has only provided a limited analysis about a few questions of importance that affect Norway and Lithuania and their relations. Obviously, further research is needed, and such research should include social and psychological insights and be historically anchored in order to characterise and distinguish the Norwegian and the Lithuanian cultures.

CONCLUSIONS

In comparing the Norwegian and Lithuanian welfare state models in the years 1990-2006, the following civil, political, social and economic factors should be emphasised.

First, unlike Norway, Lithuanian political parties, labour organisations and employer associations did not show substantial support for the development of a welfare state. There were no political movements in Lithuania which were interested in promoting extensive state regulation. On the contrary, there were extensive movements to limit the role of the state in Lithuanian society.

Second, the Norwegian experience of a welfare state includes a successful economy and a well-organised society. Lithuania's economic and social development since 1990 has been marked by relatively high rates of economic growth. However, social conditions have not improved in tandem with improvements in the economy. Living standards are still relatively low. Trade unions, labour organisations and employer associations lacked political influence in society in this period. The institutions of civil society in Lithuania were weak and continue to be weak.

Third, the Norwegian welfare state experience shows that welfare state policy is determined by the electorate. Left-wing and left of centre parties generally expand the welfare state, while right of centre and right-wing parties generally reduce the welfare state. However, neither tendency was found in Lithuania, since the re-establishment of Lithuanian independence in 1990.

The Norwegian social democratic welfare state experience has not been seriously discussed in the Lithuanian media at any time since the re-establishment of Lithuanian independence. This is due to the weak position of many central organisations within civil society, i.e. labour unions and to the external pressures that impinge upon the new Lithuanian state, i.e. the WB, the IMF, and other forces promoting globalisation. Finally, public opinion is still reacting against the idea of a strong central state, due to the negative experiences connected to Soviet rule.

The Positions Taken by Internal Forces within Lithuanian Society

Lithuanian political forces did not show any aspirations in the direction of building a welfare state based upon the Norwegian model or any other model within the Nordic countries. In Lithuania, since 1990, most of the elite groups, including

economic, political, academic, and media-based forces prefer the idea of the liberal state and the role this kind of state plays as a relatively passive enforcer of the rules of fair-play in the economic and political life of the nation. This attitude is, obviously, not a favourable environment for building a social democratic welfare state. On the contrary, the ideas and the practices of what the authors refer to as market fundamentalism has become the prevalent and dominating perspective in Lithuania.

External Pressures

Since 1990, all reforms were undertaken under the influence of powerful international financial organisations that aimed at creating a society characterised by economic liberalism. Those kinds of societies generally have a residual or marginal welfare state and those individuals who can afford to do so voluntarily pay for private insurance policies to cover the economic costs associated with disability, poor health, old age, etc. The emphasis and reliance upon pro-market solutions to welfare problems is ordinarily associated with the idea that the state should play a lesser role in society and that private groups and organisations are better able to create programmes that are tailor-made for the individual. Given these conditions, the interest in following a Bismarkian corporative direction for welfare service development slowly declined and a liberal path became dominant and entrenched.

Public Opinion

Internal political support for the building of a social democratic welfare state within the country was insufficient. The Lithuanian population demanded greater responsibility from the state for ways to combat unemployment, inflation and poverty. Some people wanted to return to the safety provided by a truly socialist society. Many people, particularly older people, believed that the state should take care of the needs of the elderly and of other people struggling with difficult life situations and trying stages of life. However, the majority of the population refused to pay higher taxes to have more social benefits. The Lithuanian electorate did not encourage the elite to formulate and implement a left-wing or left of centre social policy, although a major part of the electorate would have benefited from the services provided by a social democratic welfare state.

ENDNOTES

¹ De-commodification means that individuals are relatively independent of social security provisions stemming from the market powers (previous earnings and work record). De-commodification also means that there is an "easy entry" to the social security system and an "easy exit" from it (Guogis 2000, 79).

² The four original parties were the Labour Party, the Conservatives, the Liberals, and the Agrarian party. They were later joined by the Norwegian Communist Party and the Christian People's Party.

³ The text has been translated from the Norwegian by the authors.

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