

## **Estonian way of globalisation**

Globalisation in Estonia as advantageous for  
youngsters and ethnic Estonians

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## **ABSTRACT**

This paper takes a closer look at the labour market flexibilisation in Estonia throughout the 1990s and the 2000s. Estimations of flexibility of Estonian labour market depends on the focus: those, who characterise the labour legislation, tend to stress its rigidity in terms of high level of employment protection; while those, who study labour market developments in general, and moves between jobs and employment statuses, tend to praise Estonian labour market for its flexibility. We follow the argument of real processes, while present overview of both labour market developments (general as well as mobility-centred) and regulatory framework, affecting these developments. Since the regaining the independence, two processes contributed to flexibilisation of Estonian labour: marketisation and globalisation. Very high level of mobility had been attained during marketisation, especially during early transition. The whole period after early transition is characterised by decreasing flows between jobs and labour market statuses, although the incidence of flexible forms of employment was low as well. Globalisation brought about less mobility than marketisation, exemplifying stabilisation of labour market after tremendous shock. Significant differences in mobility outcomes of marketisation and globalisation could not be attributed to the differences in regulatory environment. Neither the regulatory environment itself was outcome of any explicit strategy of flexibilisation.

To determine who are the losers and the winners of recent socio-economic developments we use data from the Estonian Social Survey 2004.

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### **INTRODUCTION**

After annexation in 1940, Estonia was during fifty years politically and economically integrated into former Soviet Union. Only in 1991 the country regained its independence and returned to democracy and to the market economy. In this one-and-a-half post-soviet decade, Estonia has been going through profound reforms touching upon all areas of politics, economy and society. These reforms included trade liberalisation, large-scale privatisation, the introduction of the Estonian currency kroon, an overhaul of labour market regulations, etc.

An important feature of political context of Estonian market reforms is related to the role of international institutions in the market reforms. In the 1990s, the main impact on socio-economic choices came from such international financial organizations as World Bank (WB) and International Monetary Fund (IMF). Also Estonian labour market policies were generally developed in the direction suggested by the World Bank (Vodopivec 2000:4). The recommendations of international financial organizations were both strict and concrete, their following was obligatory to earn positive assessments of transition from the international authorities (Kennedy 2002). These recommendations were the best argument in favour of or against the possible choices in most important economic decisions.

Since the late 1990s economic reforms became subordinated to the EU accession aspirations. Since then the strategic objectives of Estonian economic policy were presented in documents prepared for EU and the framework for institutional development came under the influence of the EU (Rajasalu 2003). But just as with the impact of the WB and IMF, social standards were not prioritized in the process of pre-accession monitoring (Lauristin 2003). At the same time, in Estonia, EU membership has been perceived as increasing the pressure for stricter regulation of labour market (Eamets and Masso 2005).

The domination of liberal right-wing parties in all governmental coalitions since 1992 has contributed to the creation of a minimalist state, to the domination of the libertarian faith in the 'invisible hand' of the market and to the lack of sufficiently strong political support for development of proactive social policy (Lauristin 2003). Also, the dominance of the right has not helped the

development of the social partners and social dialogue. This right-wing domination has not been total however. The governments led by Prime Minister Mart Laar in 1992-1994 and 1999-2002 included also political parties of social democratic orientation. This resulted in certain tensions and contradictions in government policy. The social democrats, in charge of social policy in these coalitions, succeeded to establish certain elements of a universal social security scheme. However, these schemes were never backed up by the necessary financial means because fiscal policy was in the hands of right-wing parties.

One can find quite different estimations of flexibility of the Estonian labour market. These estimations to a large degree depend on the focus: those, who characterize the legal framework, first of all labour legislation, tend to stress its rigidity in terms of high level of employment protection; while those, who study labour market developments in general, and especially job mobility and moves between employment statuses, tend to praise Estonian labour market for its flexibility. In this paper we follow the argument of real processes, while present overview of both labour market developments (general as well as mobility-centred) and regulatory framework, affecting these developments. But first of all we introduce the temporal dimension of our analyses.

The paper is organized as follows. We start with a brief description how marketisation and globalisation have structured labour market developments. In the next section we review the regulatory environment affecting flexibility. We then present the data and variables used in the analyses of the losers and winners of recent socio-economic developments, followed by a discussion of empirical results. We conclude with a description recent political reactions with regards to labour market flexibility and a brief discussion of our findings. Our analysis is based on data from Estonian Social Survey 2004.

## **MARKETISATION AND GLOBALISATION AS STRUCTURING LABOUR MARKET DEVELOPMENTS**

Experts had proposed different versions of periodisation of development of the Estonian economy since regaining the independence in 1991, but most proposals are quite similar in terms of essence of periods: usually early transition, followed by recovery and economic boom, also recession as related to crisis in the Russian economy and following recovery and economic boom are distinguished (see for example Eamets 2001). In this paper the same logic is followed: the developments in the labour market and trends in the inequality are characterised through the four periods:

- A. Early transition (1990-1994)
- B. Recovery and economic boom (1995-1997)
- C. Recession (1998-1999) as outcome of globalisation
- D. Recovery and economic boom (since 2000).

First two of these periods relate to the marketisation of Estonian economy, while since the third period, developments in the Estonian economy were and are directly influenced by the state of global economy. The flexibilisation of the Estonian labour market, being an integral part/important parameter of both processes, is approached in this paper as having qualitatively different meanings, practices and outcomes depending on process and/or by periods.

Thus in the 1990s, structural changes in the Estonian economy could be approached both in terms of transition from state socialism to a market economy as well as in terms of movement from one (industrial, Fordist or modernist) to another (post-industrial, post-Fordist, postmodernist) model of economy (Terk 1999). These two developments take place in parallel and were intertwined, both of them were approached as presupposing the deregulation of economy to make available the significant reallocation of labour (as Vodopivec (2000:4) put it “to more productive uses”). In other words, flexibility of this period was about deregulation of command economy to make possible the restructuring of an over-industrialized economy as well as to overcome so-called labour hoarding<sup>1</sup>. Legislative and institutional changes were introduced as enhancing flexibility and supporting effective restructuring of economy: to ease the way for employers to terminate employment contracts, while the unemployment benefit system and establishing the Labour Market Board aimed to support the re-employment (Arro et al 2001). Estonian way of deregulation, just as that of other European transition countries, brought about the situation, where the burden of the adjustment to the initial economic crisis fell on employment (Rutkowski 2006). While changes in employment structure that took place in Europe and Japan over 25 years, they have occurred in Estonia over only four years (Masso and Heshmati 2003) under only moderate growth of unemployment (Eamets 2001). “Marketisation flexibility” brought about outcomes quite different from those expected in the case of market economies: a sharp drop in employment and labour force participation (see Figure 1). The Estonian transition model of the early 1990s – a combination of rapid deregulation and restructuring of the economy combined with low levels of social protection – led to an overall feeling of insecurity among the population.

The first years of the 1990s were characterised by high mobility and the intensity of worker transitions and job flows in Estonia surpassed those in most other transition economies (Cazes and Nesporova 2003; Noorkõiv et al 1997; Vodopivec 2000). Job reallocation rose dramatically and resulted in rise of hiring and separation rates, especially in 1992-1994 (Cazes and Nesporova 2003; Haltiwanger and Vodopivec 1999). Job destruction increased much more rapidly than job creation, resulting in an overall negative effect of structural changes on employment (Cazes and Nesporova 2001).

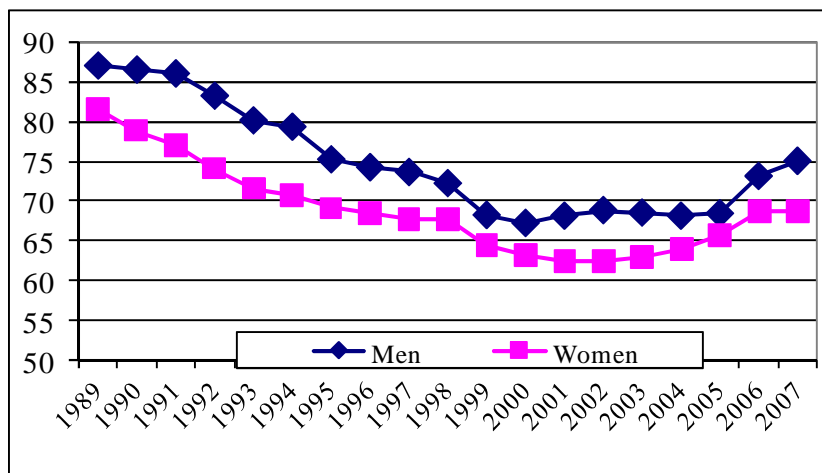


Figure 1 Labour force participation rate in Estonia, 1989-2007, %

Source: Statistics Estonia.

[http://pub.stat.ee/px-web.2001/I\\_Databas/Social\\_Life/09LABOUR\\_MARKET/09LABOUR\\_MARKET.asp](http://pub.stat.ee/px-web.2001/I_Databas/Social_Life/09LABOUR_MARKET/09LABOUR_MARKET.asp)

There were high probabilities of transitions between labour market statuses (employment, unemployment, inactivity), especially in terms of high rates of job-to-job moves up to 1994 (Figure 2). In 1993-1994, almost every fifth employed person experienced a job-to-job change, while every tenth employed had become unemployed or inactive. Outflows from employment to inactivity significantly exceeded outflows to unemployment (Figure 3), leading to a decline in labour market participation. Labour market pressures were primarily solved at the expense of vulnerable groups, first of all older workers.

Following this initial period of accelerated restructuring, the labour market gradually stabilized. This holds true for all types of labour market flows from and into employment, but the main changes was related to the significant decrease of both the rate and the number of people who experienced the job-to-job moves (Figures 2 and 3). Indeed, accession and separation rates had converged (Haltiwanger and Vodopivec 1999).

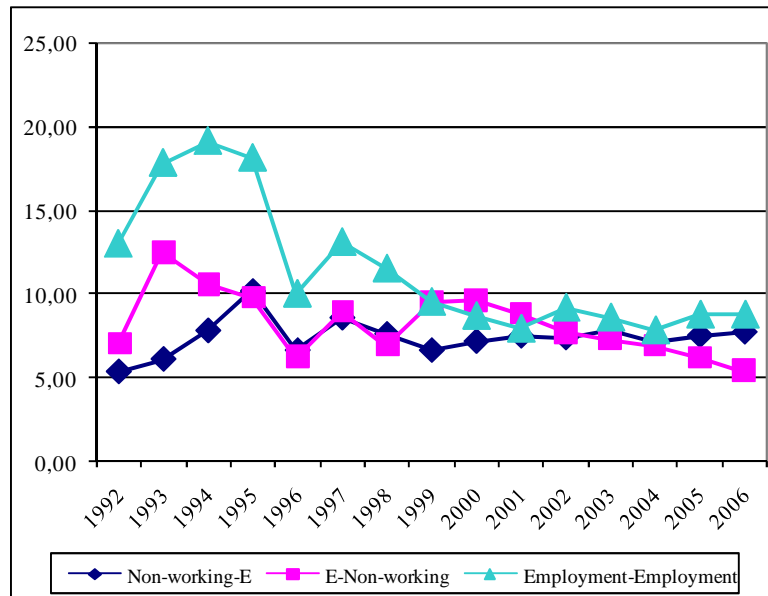


Figure 2 Labour market flows in Estonia, 1992-2007 (% employed)

Source: Own calculations based on the Estonian Labour Force Surveys (1995-2007).

By the late 1990s the transition to market economy were reaching its end (Terk 1999, Rõõm 2002). Thus, the degree of “necessary” reallocation of labour had been decreased and deregulatory pressure was lowered. But in the second half of 1998, the “Russian crisis” had happened, indicating that Estonia is part of global economy. The loss of competitiveness in the Russian market due to the devaluation of the rouble forced Estonian manufacturing industry to carry out extensive restructuring resulting in a significant reduction in employment. At the beginning of the year 2000 the unemployment rate increased to a record 14.9 percent among people aged 15-64 (Labour Force 2001). About this time the term “flexibility” emerged in the public debate. But neither experts nor politicians and employers had been attributed short- or long-term unemployment to the inflexibility of labour market.

Throughout 1997-1999 mobility further decreased on average when comparing to the early-1990s (Figures 2 and 3). It occurred first of all due to a further decrease in direct job to job movements (Rõõm 2002). Both changes in inflow into and outflow from employment were quite small. Only a slight decrease of inflow from inactivity into employment is worth mentioning.



Figure 3 *Flows from and into the employment, thousands, 1992-2007 (in thousands)*

Source: Own calculations based on the Estonian Labour Force Surveys (1995-2007).

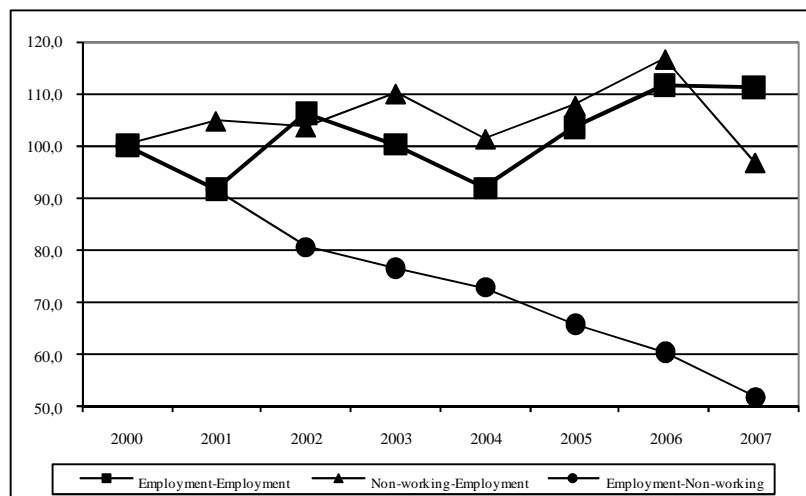


Figure 4 *Changes in flows from and into employment, thousands, 2000-2007 (2000=100)*

Source: Own calculations based on the Estonian Labour Force Surveys (2000-2007).

The labour market situation has been improving in the context of the economic boom experienced by Estonia since 2000. Unemployment has been declining and employment rates increasing. Despite of improving economic and labour market conditions, labour turnover was low, even compared with the recession of the late 1990s. Separations decreased but until 2003 outweighed the slowly increasing accessions. Since 2003, the accession rate was higher than the separation rate. It was the result not so much of an increase of accessions but rather of the decrease of separations. During the 2000s there was a quite significant decrease of outflows from employment (first of all into unemployment), while rather slight increase of inflows into employment (Figure 4). In 2007 the inflow into employment started to decrease.

All in all, developments in Estonian labour market during the last twenty five years might be summarized as follows:

- A. Early transition (1990-1994): High mobility – the highest flexibilisation
- B. Recovery and economic boom (1995-1997): Rather high mobility - stabilization in terms of flexibility of labour market
- C. Recession (1998-1999) as outcome of globalisation: Rather modest mobility - stable level of flexibility of the labour market
- D. Recovery and economic boom (since 2000): Rather modest mobility - stable level of flexibility of the labour market.

As the highest level of mobility had been achieved during the period of marketisation (that of early transition), flexibilisation brought about by marketisation has turned to be significantly higher compared to flexibilisation related to the globalisation.

## **REGULATORY ENVIRONMENT AFFECTING FLEXIBILITY**

There is no doubt that during the marketisation of the Estonian economy the high level of external numerical labour market flexibility had been achieved. Another question is how it had been achieved, to what extent it is the result of deliberate strategy of labour market flexibilisation. It seems, that flexibilisation of labour market until last time had not been explicit aim neither of government nor of employers. While the Estonian state had been the main actor in the conceptualisation and implementation of economic reforms in general and labour market reforms in particular (Rajasalu et al 2003), employment issues were not considered a priority at the national level. The Ministry of Social Affairs was and is in charge of Estonian labour market institutions, but its role in the design of comprehensive employment and labour market policies was modest. Policy development has worked towards increasing flexibility in Estonian labour market, but had been focused on individual policy tools rather than on comprehensive reform packages (Leetmaa 2006). Moreover, this “single-item“ approach was largely reaction on the recommendation of international (first of all financial) organizations like the World Bank and International Monetary Fund (IMF), European Central Bank, and to growing extent – recommendations of the

European Commission. Given the different approaches of international organizations to the issues of labour market flexibility and security (see e.g. Keune 2008), the weakness of social dialog and civil society in Estonia, quite unusual government coalitions (party of social democratic orientation with right-wing parties), it is not surprising, that there were and are certain tensions and contradictions in employment and labour market policies of government.

As to *employment protection legislation*, its influence on the flexibility of the labour market had been assessed quite differently. The most common bases for assessment had been the OECD index of employment protection legislation (EPL). Estonia on most indicators of EPL strictness is above or close to the EU15 average and the CEE average, which is usually considered to be evidence of rather low labour market flexibility. The World Bank Doing Business indexes also point in the same direction (World Bank 2008). This “low flexibility” assessment of Employment Contract Law had been questioned, on the grounds of (a) real data on job mobility that is considered to be evidence of problems with enforcement of the law, practice of its application; (b) focus on the certain aspect of the legal regulations.

Thus, data of the Estonian Labour Force Survey 2006 show that approximately 5 percent of employees had no written labour agreement, i.e. the conditions had been agreed orally, while according to Employment Contract Act this is allowed only for jobs of duration less than two weeks. In addition to this, the Working Life Barometer in the Baltic Countries 2002 and 1999 measured to what extent employees and employers sign extra agreement on top of the employment contract, by which employee resigns some of his/her rights to the benefit of the employers. An example of such contract could be an undated voluntary notice of leave signed by the employee and left with the employer to be used when convenient. Such agreements significantly reduce formal protection of the employees. The frequency of making such an extra agreement declined in Estonia from 10 percent 1998 to 6 percent 2002 (Antila and Ylöstalo 2002).

A quite commonly used form of forced flexibility is false or dependent self-employment: employers insist that employees register themselves as self-employed (Industrial Relations in Europe 2004:153).

The data on the violations discovered by national labour inspections presented by Eamets and Masso (2005) shows that labour law is sometimes violated in a very high proportion of enterprises (46 percent). Violations include frequent non respect of EPL-type of regulations. Since in the case of voluntary quits these regulations (e.g. statutory compensation payments) are not applied, according to ample evidence employers force involuntary quits to be processed as voluntary quits due to agreement of parties (Eamets and Masso 2005).

As to law, some commentators find that Estonian legislation allows enough flexibility on the labour market due to the opportunity to use Obligations Act for regulation of non-permanent employment relations (Töö ja pere... 2006: 188) and (according to the Employment Contract Act) mutual agreement for regulation of permanent employment relations (by agreement of the parties, an employment contract may be terminated at any time if one party presents a

corresponding written request and the other party gives written consent to the termination of the contract). Hence, in practice the Estonian labour market is much more flexible than it appears from quantitative indices, based on formal legislation.

The government insisted on the need to create a more flexible regulatory framework for employment relationships, particularly to pass the new Employment Contract Act that had been in force since 1992. The debates over this Act started over and over again, but employers and government from the one side and trade union from the other were not able to reach a kind of agreement.

As to labour market policies, these regulations had been updated more frequently, but still, they rather force unemployed to be flexible (to take up any bad job) than provide them with income security: unemployment benefits are low, have a low coverage, and thus provided very limited income security, although some improvement can be observed with the introduction of the unemployment insurance benefit; and that active labour market policies have a low coverage and even lower level of financing, and provide limited re-employment assistance and employment security (Saar and Lindemann 2008). Moreover, the unemployed are very heterogeneous with regards to the “push for flexibility”, as their income support during unemployment is very differentiated, depending on their previous labour market success (those with the long tenure are entitled for unemployment insurance and also compensation for job loss; those without permanent contract or rather low tenure, are entitled for unemployment insurance and others for very low unemployment benefits).

Thus, given the fact, that the Employment Contract Act came into force in 1992, and that it has been the basis for different indexes assessing rigidity of employment protection legislation, we conclude that rigid labour legislation allowed for a very high flexibilisation of the labour market during the marketisation phase (especially in the early 1990s), i.e. under the conditions of especially high uncertainty in Estonian society. Only in the early 2000s, when this uncertainty started to lower, the issue of rigidity of law had been taken up by employers and politicians. However, they were not strong enough to achieve substantial amendments. Recently they have been supported by international organizations: for example, the European Commission has emphasized the necessity of a flexibilisation of Estonian law (CEC 2007), although according to an analysis of approaches to flexicurity in EU countries, Estonia belongs to the group of fast-growing economies of Baltic states, where (“real”) flexibility is relatively high but social protection is the lowest in the EU, and income protection is also at a relatively low level. (Philips and Eamets 2007: 30).

## **DATA AND VARIABLES**

To determine who are the losers and the winners of recent socio-economic developments we use data from the Estonian Social Survey (ESS), which was collected in 2004 by the Estonian Statistical Office. ESS was established in the

framework of EU-SILC (Community Statistics on Income and Living Conditions) project with the primary purpose of providing information on social exclusion and income. A few country-specific sections such as work and educational history of the respondents were added to the original questionnaire. The target population of the survey is all private households in Estonia. The gross sample of 6,000 individuals was randomly selected from the updated population census 2000 database. All household members aged 15 or more were interviewed. The nationally representative sample of households included initially approximately 4,500 households and 10,000 individuals. In total 3,996 households and 8,906 individuals were interviewed. The fieldwork was carried out from March to July 2004.

We analyse five types of labour market transitions: (1) job-to-job mobility, (2) upward moves, (3) downward moves, (4) job-to-long-term unemployment, (5) job-to-inactivity. We include following variables to the models: gender, ethnicity (1 – Estonians, 2 – other ethnic groups, mostly Russian-speaking people), different labour market generations (labour market entrants, younger (30-39 years old) mid-career employees, older (40-49 years old) mid-career employees, older workers (over 50)). Educational attainment is classified according to the Estonian educational system into five different categories. The first category includes persons without any educational degree and those who completed primary or basic education (9 grades and less). We further differentiate between general and vocational secondary education. The fourth category consists of persons with lower tertiary education (vocational and applied higher education) and those who completed professional secondary schools. Persons with bachelor degree (or with former higher education) are classified as having higher tertiary education.

In order to control the impact of economic restructuring on labour market transitions and to emphasize the convergence or divergence in inequality between different studied groups we include industrial sector into analysis.

We separate four different periods indicated above: early transition (1990-1994), recovery and economic boom (1995-1997), recession (1998-1999), recovery and economic boom (since 2000).

All effects are calculated using logistic regression models.

## **RESULTS**

### **Labour market generations**

Inequalities between labour market generations seem to be rather stable during the whole period under the investigation, the older (over the age of 50) workers being rather losers of marketisation and later globalisation of Estonian economy. It holds true for both periods of economic boom and recessions (see Tables 1-3). Older workers were and are most exposed to the risk of declining work career: they experience less job-to-job moves, while the share of the downward moves

among all job-to-job moves is higher than in all other age groups, and the share of upward moves is lower compared to both labour market entrants as well as the younger (30-39 years old) mid-career employees. For them, the lowest risk of falling into long-term unemployment is hardly a very big advantage given their highest risk of moves into inactivity. It looks like the best strategy for older workers is to stick as long as possible to their “current” job. Otherwise, those who are close to pension age only have one choice: to take a lower-status job or to retire. Many of the (younger) other workers do not even have that choice, as they are just being pushed into “downward mobility”.

Table 1 Job-to-job moves since the 1990s (logistic regression models)

	1990-94		1995-97		1998-99		2000-04	
<i>Gender</i>								
Men	.11	*	.19	**	.21	**	.36	**
Women (ref.)								
<i>Ethnicity</i>								
Estonians	-.06		.23	**	.13		.17	**
Non-Estonians (ref.)								
<i>Age group</i>								
15-29	1.23	**	.79	**	.53	**	.71	**
30-39	1.10	**	.92	**	.63	**	.54	**
40-49	.67	**	.65	**	.60	**	.54	**
≥50 (ref.)								
<i>Educational level</i>								
Primary, basic	-.52	**	-.33	**	-.19		-.13	
General secondary	-.37	**	-.09		-.08		.01	
Vocational	-.48	**	-.16	+	.05		-.07	
Specialized secondary	-.24	**	-.13		.04		-.13	
Higher (ref.)								
<i>Industry</i>								
Agriculture	1.28	**	.09		-.37	**	-.60	**
Mining, transformative	.26	**	.07		.14		.10	
Distributive service	-.16	+	.35	**	.33	**	.40	**
Producer service	-.12		.15		.18		.25	*
Personal service	.14		-.07		-.08		.46	**
Social service (ref.)								
Constant	-2.25	**	-3.15	**	-3.44	**	-2.81	**
-2 Log likelihood	12,679		9,052		6,781		10,252	

Source: Own calculations based on the Estonian Social Survey 2004.

Note: \*\*Effect significant at  $p < 0.01$ ; \* effect significant at  $p < 0.05$ ; + effect significant at  $p < 0.10$ .

Both labour market entrants and the younger (30-39 years old) mid-career employed had the most advantageous labour market opportunities as compared to older workers.<sup>2</sup> This relates first of all to the career opportunities (lower

incidence of downward and higher incidence of upward mobility among all job-to-job moves). Only during the recession of 1998-1999, those aged 30-39 years were not at the position of advantage in terms of (lower) incidence of downward mobility. With regard to the risk of labour market marginalisation (conceptualized as long-term unemployment), since the recession of 1998-1999, the labour market entrants seems to be even more better off compared to older generation than during the earlier periods. Compared to the 30-39 years old employed, they have the same risk of experience of long-term unemployment, but enjoy still better career opportunities.

Older (40-49 years old) mid-career employed enjoy also better career opportunities compared to older workers, but not to the same extent as the above-mentioned labour market generations, because their share of upward moves among all job-to-job moves is about the same as in case of older generations. This pattern holds true for all studied periods.

### **Gender**

Here the picture is more complicated compared to that of labour market generations both in terms of its variation by periods and its evaluation in terms of advantage or disadvantage. What is the same during all periods, it is the higher probability of job-to-job mobility among men and the lower probability of their recourse into inactivity. Given that men have a lower share of downward moves among all job-to-job moves, while their risks of long-term unemployment are similar to those of women, it seems that during the unfavourable economic periods (1990-1994; 1998-1999) men's careers are less exposed to the risks of "downward" pressure. At the same time it might be "balanced" by kind of self-selection that works among the women during the whole period under investigation (both during the economic booms and recessions): those women, who are exposed to higher uncertainty due to their lower level of education and/or their lower occupational position, preferred to avoid this labour market uncertainty by recourse to inactivity.

Since 2000, the economic boom seems to favour women, as the share of upward moves among their job-to-job moves is higher than that of men, while the risk of long-term unemployment is lower. But it is rather questionable, whether women will enjoy such an advantage during the recession as well.

### **Individuals with different human capital resources**

The impact of human capital on labour market opportunities differed by periods. The period of early transition and economic boom was favourable for highly educated employed: they moved between jobs to a greater extent as compared with all other educational groups; their share of upward moves among all job-to-job moves was higher, while risk of long-term unemployment was lower compared to those with lower, vocational and general secondary education.



*Table 2 continued*

	<i>Upward</i>								<i>Downward</i>							
	<i>1990-94</i>		<i>1995-97</i>		<i>1998-99</i>		<i>2000-04</i>		<i>1990-94</i>		<i>1995-97</i>		<i>1998-99</i>		<i>2000-04</i>	
Constant	-1.63	**	-1.21	**	-1.27	**	-1.44	**	-.29		-.15		-.79		-.80	
-2 Log likelihood	2,753		3,159		1,096		1,796		2,811		1,451		970		1,658	

*Source:* Own calculations based on the Estonian Social Survey 2004.

*Note:*

- \*\* Effect significant at  $p < 0.01$
- \* Effect significant at  $p < 0.05$
- + Effect significant at  $p < 0.10$ .

Reference group: lateral move



*Table 3 continued*

	<i>Long-term unemployment</i>								<i>Inactivity</i>							
	<i>1990-94</i>		<i>1995-97</i>		<i>1998-99</i>		<i>2000-04</i>		<i>1990-94</i>		<i>1995-97</i>		<i>1998-99</i>		<i>2000-04</i>	
Constant	-5.07	**	-5.45	**	-5.83	**	-3.98	**	-2.04	**	-3.14	**	-3.33	**	-2.23	**
-2 Log likelihood	3,755		2,622		2,290		4,672		6,283		3,367		2,979		5,027	

*Source:* Own calculations based on the Estonian Social Survey 2004.

*Note:*

- \*\* Effect significant at  $p < 0.01$
- \* Effect significant at  $p < 0.05$
- + Effect significant at  $p < 0.10$ .

Furthermore, their recourse to inactivity was lower than that of lower-educated. The recession of 1998-1999 had influenced the career opportunities of all employed irrespective of the degree of their endowment with human capital. The impact of education on moves to long-term unemployment and inactivity increased substantially. Higher education had turned into a clear advantage as those within this segment of the labour force experienced a lower risk of long-term unemployment and had a lower probability of moves into inactivity compared with all other educational groups. Interestingly enough, the economic boom at the beginning of the century had not substantially changed the pattern of relative (dis)advantage that revealed itself during the recession: human capital does not differentiate the career opportunities, while higher education protects against the long-term unemployment. What had changed, it is the linkage between human capital and moves into inactivity: this linkage decreased.

Crudely said: higher education generally provided with a certain advantage during the whole period under investigation, but while at first (from 1990 to 1997) this advantage was related to both better career opportunities (as compared to all other educational groups) and a lower risk of long-term unemployment (as compared to lower educated), later on (since 1998), the advantage of higher education (as compared to all other educational groups) revealed itself only in terms of shelter against the long-term unemployment and moves into inactivity.

### **Estonians versus Non-Estonians**

In Estonia ethnicity is considered to be an important dimension of labour market inequality, with the main distinction being identified between Estonians and other ethnicities (first of all so-called Russian-speakers, but more generally) usually referred to as 'non-Estonians'. With regard to this distinction, one may infer from the above-mentioned tables that inequality between Estonians and non-Estonians persisted through all the investigated periods, while the extent of advantage of Estonians over non-Estonians and the way how it revealed itself differed by periods. Estonians were exposed to a lower risk of long-term unemployment during the whole period under investigation. They also enjoyed better opportunities for career mobility during all periods except the recession of 1998-1999. In 1990-1994 the structure of job-to-job moves of Estonians was more advantageous than that of non-Estonians both in terms of higher incidence of upward and lower incidence of downward moves. During the economic booms, the higher probability of job-to-job moves seems to be rather beneficial for Estonians: as in 1995-1997, the share of downward moves among all job-to-job moves of Estonians were lower compared to that of non-Estonians, and since 2000 the share of upward moves among all job-to-job moves of Estonians were higher compared to that of non-Estonians.

**Winners and losers**

Table 4 summarises the results of our previous analysis indicating the main winners and losers during the two studied periods: marketisation and globalisation. A comparison of different labour market generations indicates that the winners within the Estonian labour market are younger age groups, especially during the globalisation period. Flexibilisation of the labour market and globalisation offered instant career opportunities for young people who just left education. Previous analysis showed the differentiation of labour market entrants according to educational level and age: young people with higher education have a very low unemployment risk while youngsters with primary or basic education have a very high risk to experience unemployment (Saar 2005). In spite of the lengthening entry process and worsening career chances at the end of the 1990s (see Täht et al 2008), younger labour market generations maintained their advantageous position in the labour market. Older workers have been the main losers.

*Table 4* *Winners and losers since the 1990s: comparison of career opportunities and risks of labour market exclusion*

	<i>Marketisation/Flexibilisation</i>			<i>Globalisation</i>		
	<i>Career</i>	<i>Labour market exclusion</i>	<i>Losers/winner</i>	<i>Career</i>	<i>Labour market exclusion</i>	<i>Losers/winner</i>
<i>Labour market generations</i>						
Entrants	+	+-	Winners	+	+	Winners
Younger (30-39 years old) mid-career employed	+	+-	Winners	+	+-	Winners
Older (40-49 years old) mid-career employed		+-			+-	
Older (over the age of 50) workers	-	+-	Losers	-	+-	Losers
<i>Human capital</i>						
Less-educated	-	-	Losers		-	Losers
Secondary vocational	-	-	Losers		-	Losers
Secondary general		-			-	Losers
Higher educated	+	+	Winners		+	Winners
<i>Gender</i>						
Men	+-	+	Winners			
Women	+-	-	Losers		+-	
<i>Ethnicity</i>						
Estonians	+	+	Winners	+	+	Winners
Non-Estonians	-	-	Losers	-	-	Losers

*Note:* + have advantage; - have disadvantage; +- have advantage in one type of moves and disadvantage in another type of moves.

The marketisation period was more favourable for men, but globalisation led to some convergence between the sexes in terms of risks and opportunities. The consequences of flexibilisation as well as globalisation seem to be the harshest for non-Estonians who have the higher risk of long-term unemployment and lower career opportunities.

The highly educated are the winners on the 1990s and early 2000s Estonian labour market. Our findings also identify the losers within the Estonian labour market, namely the workers with primary, basic or vocational secondary education which have the highest risk of labour market exclusion. Our Analysis suggests that this educational stratification of labour market exclusion has not changed substantially during 15 years; it has even somewhat increased during the recession period (1998-99). However, the impact of education on career opportunities differs by periods: higher education secured better opportunities of upward mobility during the marketisation, but not the globalization period.

#### **RECENT POLITICAL REACTIONS WITH REGARDS TO LABOUR MARKET FLEXIBILITY**

The policy objective stated in the Estonian Action Plan for Growth and Jobs 2005–2007 is to balance increased security by the increasing of flexibility, a position shared by the employers. The government argues that with the introduction of the unemployment insurance system the security of workers had been improved, although ‘...increasing the flexibility of labour legislation has been left aside (Estonian Action Plan for Growth and Jobs 2005–2007: 52).’ Also, it claims that ‘Currently the flexibility of the Estonian labour market is hindered by the relative rigidity of the labour legislation, in particular concerning the termination of the employment and the high redundancy costs for the employer (ibid: 52).’ Consequently, a series of measures to increase such flexibility, including first of all a simplification of hiring and firing, were proposed. Employers, like the government, started to approach the implementation of unemployment insurance as an important new element of security for workers that needs to be balanced by more flexible employment relations, first of all by liberalisation of severance pay regulations. Their argument is that unemployment insurance together with severance pay decreases the motivation of people to be re-employed immediately. Moreover, severance payments are argued to obstruct firms’ flexible adjustment and to create labour market anomalies.

The Draft Employment Contract Act was sent to Riigikogu (Estonian Parliament) in June 2008. It was a result of almost a half of year trilateral negotiations between social partners and government. As a result, the total balance of responsibilities and rights is suggested to be shifted according to the interests of employers. Employees may loose to some extent in terms of

employment protection (shorter periods of notification about lay-offs, lower compensation for job loss), while provision of stronger unemployment protection is proposed (first of all in terms of level of income, but also in terms of coverage). The Draft Employment Act also suggests some additional support for life-long learning (mainly some additional free days). But responsibility for these “improvements” is shifted to the state and indirectly – to the employees themselves. Thus, substantial part of severance pay will be paid from the resources of the Unemployment Insurance Fund, to which employers are obliged to contribute to a lesser extent compared with employees.

## CONCLUSIONS

Since the regaining the independence, the Estonian labour market had been flexibilised as (rather indirect) outcome of two different processes: marketisation and globalisation. A very high level of job mobility had been attained during marketisation, especially during early transition. The whole period after early transition is characterised by decreasing flows between labour market statuses, in a way that first – during recovery from first marketisation shock – the fall was significant, while later on – since the beginning of globalisation era (1998-1999) – reduction of flows was rather gradual. Hence, the period of marketisation of the Estonian post-Soviet economy with its extremely intensive mobility (that had been achieved and fallen off very fast) was rather exceptional. Globalisation brought about less mobility than marketisation and exemplified a stabilisation of the labour market after tremendous shock.

Significant differences in mobility outcomes of marketisation and globalisation could not be attributed to the differences in regulatory environment – it was rather similar: supposedly rather high level of formal legal employment protection – provided by the Employment Contract Act that had come into force in 1992, combined with very poor unemployment protection.

Neither was the regulatory environment the outcome of any explicit strategy of flexibilisation. Until recently, flexibilisation of the labour market had not been an explicit aim, neither of the government nor of the employers. Only since early 2000s, under favourable economic conditions, employers and government started to prioritise flexibility and a push towards the “revision” of the Employment Contract Act with the explicit aim to reduce employers responsibilities towards their employees. It seems that the understanding of the timing of an explicit “demand for flexibility” is the key for understanding the preconditions for such an intensive flexibilisation that had occurred during Estonian early transition. The early 2000s might be characterized as the years of “decreasing uncertainty” and in this sense, they were very different from early transition. However, given the low level of unemployment protection, both the high speed of social changes and restructuring of economy contributed to the perception of uncertainty by the majority of population. And in turn, such a perception contributed to the greater

power of employers and greater vulnerability of employees with less resources and/or structurally disadvantaged ones (in terms of being employed in reorganised industries).

Less uncertainty as compared to the early transition period, however, is not the same as “too much security”. Data of our analyses show, that “too much security” discourse of early 2000s seems to be poorly grounded, given not only the low level of income security of the unemployed, but also the patterns of labour market mobility and their differentiation by ethnicity, labour market generation and level of education.

The fact, that level of job-to-job mobility during 2000s have increased only slightly compared to recession, brought by globalisation, while being lower than under marketisation, indicates that people are reluctant to take up the risks of looking for a better job, despite of favourable economic conditions. A suggested explanation would be that the costs of failure are too high, especially for people endowed with less resources. Such people had significantly greater risk to experience labour market exclusion. The youngest labour market generation and Estonians are the most evident winners of the globalisation period in terms of their advantageous (upward) job-to-job mobility, their higher success in avoiding labour market exclusion, and their ability to resist uncertainty. Differences in human capital do not contribute to the advantageous job-to-job mobility<sup>3</sup>, but do so for avoiding of labour market exclusion. Evidence on gender differences in mobility patters during the period of globalization are most difficult to interpret in terms of win or loss.

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#### Notes

<sup>1</sup> Under socialism there was constant excess demand for labour and widespread to cope with uncertainties in the delivery of inputs and to maximize subsidies for an enterprise (Campos and Coricelli 2002).

<sup>2</sup> Our analytical strategy is to compare older workers as losers with all other labour market generations.

<sup>3</sup> This does not necessarily mean, that education does not matter for occupational attainment, but that only the role of mobility in attainment of positions does not significantly vary between educational groups.