

EU Enlargement and its Impact on the Social Policy and Labour Markets in Estonia

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Structure of the presentation



- The current state of the labour market and social protection system
- The challenges of the EU accession
 - Migration
 - Labour market
 - Social protection
- Policy recommendations



The current state of the labour market

Estonian labour market is characterized by:

- Low and declining labour force participation and low employment rates
- High unemployment rates, a large share of long-term unemployed among the unemployed, high unemployment of young people and non-Estonians
- High regional disparities in labour market performance
- Mismatch of labour demand and supply (structural unemployment)
- The expenditure on labour market policies is very low in Estonia compared to the EU countries, and other transition countries in Central and Eastern Europe

Main causes of labour market problems



- Rapid changes in economic environment
- Disparities between labour market needs and vocational education system
- Under-financing of active labour market measures
- Relatively strong EPL
- Low regional mobility of labour force



The current state of the social policy

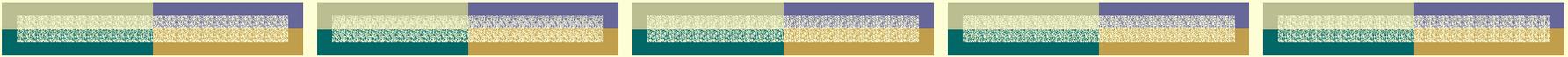
- Universal (or nearly universal) coverage
- Substantial role of flat-rate benefits with relatively low replacement rates
- Relatively few earnings related benefits
- Public administration of schemes with a relatively modest role for social partners
- Great reliance on contribution-based financing

Social protection expenditure in Estonia has accounted for 16-17% of GDP (in EU 28%)

Main problems of social policy

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- Too low value for protecting against poverty risk
 - Declining real values
 - Negative impact on work incentives
 - Ageing population's pressure on financing of social protection
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The challenges of the EU accession



• Migration:

- main pull and push factors of migration
- inflow or outflow of labour force?

• Labour market:

- structure of the labour force?
- development of employment and unemployment rates

• Social protection:

- social protection of migrant workers and their family members
 - health and pension insurance?
 - administrative capacity?
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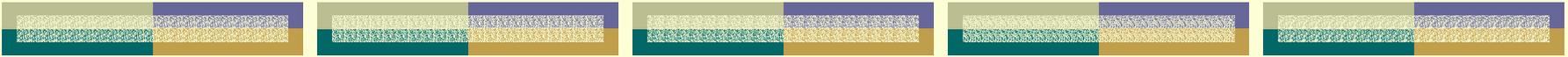
Migration flows

Estonian migration flows in the 1990s

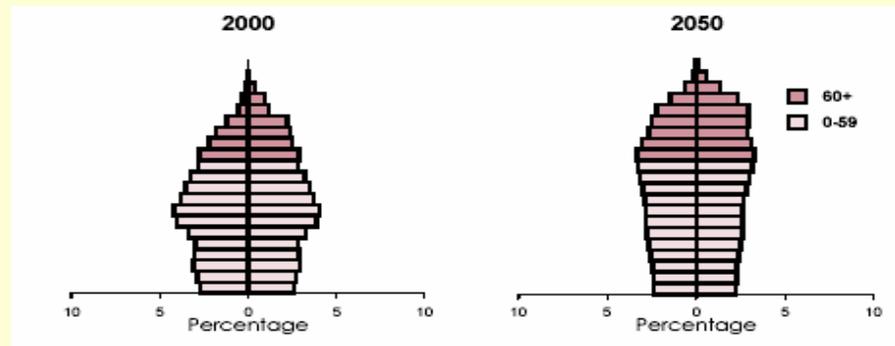
Migration flows	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Immigration	12,498	8,381	5,203	3,548	2,390	1,575	1,616	1,552	1,585	1,414	1,418
Emigration	12,326	12,403	13,237	37,375	16,169	9,206	9,786	7,235	4,081	2,545	2,034
Net migration	172	-4,022	-8,034	-33,827	-13,779	-7,631	-8,170	-5,683	-2,496	-1,131	-616

Source: Statistical Office of Estonia

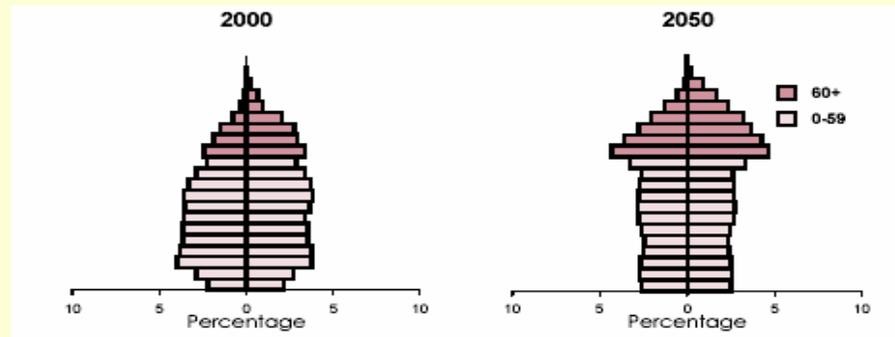
Migration: push and pull factors

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- Demographical processes and ageing of the working population
 - The labour market situation
 - Income gap
 - Qualification of the labour force and demand for services
 - Other push and pull factors
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Ageing of labour force



Western Europe



Estonia

Figure. Predicted population pyramids in Western-Europe and Estonia in 2050

Source: *World Population Ageing: 1950-2050*

Labour market indicators

Key indicators of the labour market in some EU Member States and Estonia in 2001

Country	Participation rate	Employment rate (age 15-64)	Employment in primary sector	Employment in secondary sector	Employment in tertiary sector	Unemployment rate	Unemployment rate of youth	Long-term unemployment rate
Estonia	69.9	61.1	7.1	34.2	58.7	12.4	24.5	5.8
EU15	62.2	63.9	4.2	26.4	69.4	7.4	14.9	3.3
Denmark	79.9	76.2	3.3	22.6	74.1	4.3	8.5	0.9
Finland	75.0	68.1	5.8	27.7	66.4	9.1	19.7	2.5
Sweden	75.2	71.7	2.6	23.3	74.1	5.1	11.1	1.2
Germany	71.4	65.8	2.4	28.6	68.9	7.9	9.4	3.9

Source: *Employment in Europe 2002*.

Income gap

Income per person in purchasing power parity in 1997-1998

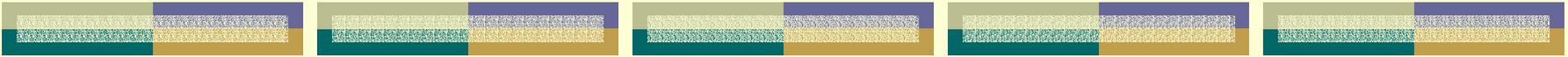
Country	1997		1998	
	USD	Share EU15	USD	Share EU15
Estonia	5,090	25	5,736	28
EU15	20,710	100	20,176	100
Denmark			23,830	118
Finland			20,270	100
Sweden			19,480	97
Germany			20,810	103

Source: 1997 – Brücker 2001; 1998 – Boeri et al 2001a.

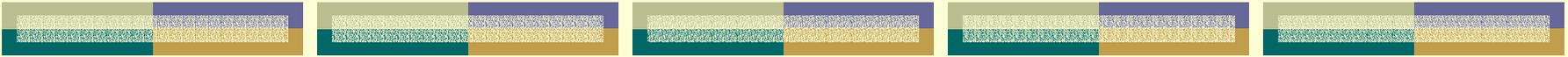
Possible problems due to migration

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- Migration of high-skilled labour force
 - Youth migration
 - Commuting in border regions
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Labour market

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- Promoting social dialogue especially on a sectoral level
 - Rising the employment rate
 - Ability to implement EU policies and obtaining the funding from the EU Structural Funds
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Social protection

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- Coordination of social security schemes for Estonians in EU member states as well as for migrant workers and their family members
 - Health insurance
 - Pension insurance
 - Extending relevant administrative structures both at Ministry level as well as within the implementing bodies
 - Conclusion of arrangement on mutual waiving of reimbursement of the costs of medical services
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Policy recommendations: migration policy

- There is no need to restrain migration of workers on behalf of Estonia in the short term
- Monitoring of migration flows and the analysis of their impact on the labour market is needed
 - young people
 - some occupations
- Long-term measures to cope with the impact of the ageing of population on the labour market and social protection systems, could include migration policies
- As the transitional agreements in Member States are reviewed, Estonia should prepare for protecting its interests in these cases

Policy recommendations: employment policy

- The administrative capacity of public employment services should be evaluated.
- As the generation of new programs must be justified a system must be created for regular evaluation of ALMP
- The creation of public in-service training and re-training services is crucial in fighting structural unemployment
- System for evaluating passive labour market measures (systems of early retirement and unemployment insurance) should be developed
- The emphasis should be placed on strengthening the administrative capacity of social partners and prioritising the social partnership approach in society

Policy recommendations: social policy

- The administrative capacity concerning the implementation of social security co-ordination rules must be improved
- The arrangements with other EU Member States on mutual waiving of reimbursement of the costs of medical services
- The existing bilateral social protection agreements need revision to avoid possible conflicts between the EU Regulations and bilateral agreements
- Accession to the EU may force a tightening of eligibility criteria of some of the current universal flat-rate social security benefits, to prevent increase of expenditure