



## **Young people entering labour market in Estonia**

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## Introduction

Youth unemployment has become an increasingly problematic issue in several countries as a result of the economic recession in the past few years. The case is even more problematic in Estonia with the unemployment rate among the youth (i.e. those aged less than 25 years of age) turning to a steep increase in 2009. The purpose of the current article is to outline based on earlier research the labour market risks faced by youth in Estonia that are affecting their smooth transition from school to work. Hopefully this will give some further insight into the reasons behind the high increase in youth unemployment in the current recession and will indicate the policy areas where improvement is needed to better anticipate fluctuations in youth unemployment rates. A further article will be published by the authors of the current report in October 2010 that will also give an overview of the available policy measures targeting youth labour market problems. Combining the problem areas outlined in the current report and the available policy measures published in October 2010 will give a possibility to draw conclusions on the areas where policy measures are lacking.

## 1. Definition

According to the definition of the International Labour Organization (ILO), young people are those at the age of 15-24. The ILO definition is widely used in several EU Member States, but also in statistical organisations such as the Eurostat and national statistical institutes (Ministry of Social Affairs, 2006). In the Estonian labour market system, youth are generally regarded as those between 16 and 24 years of age – as defined in the Labour market services and benefits act this is the definition of the youth risk group in the labour market. Persons younger than 16 are not eligible to register themselves as unemployed at the Unemployment Insurance Fund (*Töötukassa*). Although, youngsters at least 13 years of age can register themselves at the Unemployment Insurance Fund as job-seekers<sup>1</sup>.

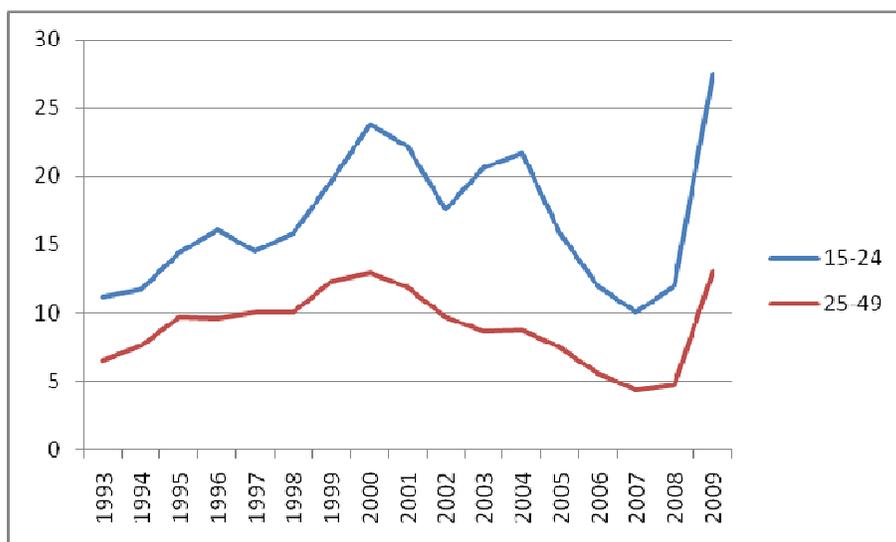
## 2. Labour market trends for youth

Youth unemployment has always been higher than that of prime age workers (i.e. aged 25-49). Although, the gap between the two age groups has varied (see also figure 1, more detailed employment indicators in annex 1). Still, it is important to note that a large increase in youth unemployment seems to be rather persistent based on the experience of other countries as well as the so-called Russian crisis in the Estonian labour market at the end of 1990s. Namely, it is pointed out by Unt and Saar (2006) that after the Russian economic crisis in 1998, the general unemployment rate in Estonia increased but especially among the youth. After the Russian crisis, the unemployment level started to decrease gradually in the beginning of 2000s. However, youth unemployment remained higher than before the crisis for a longer period. As shown in figure 1, while the unemployment rate for persons aged 25-49 reached the level of 1998 after four years (by 2002), it took seven years for youth (by 2005). It is also indicated based on the experience of Western

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<sup>1</sup> According to the Labour market services and benefits act, persons can be registered at the Unemployment Insurance Fund either as unemployed or as job-seekers. Job-seeker is a person seeking employment and is registered at the Unemployment Insurance Fund as a job-seeker. A job-seeker has to turn at least once in every 30 days to the local employment office for mediation services.

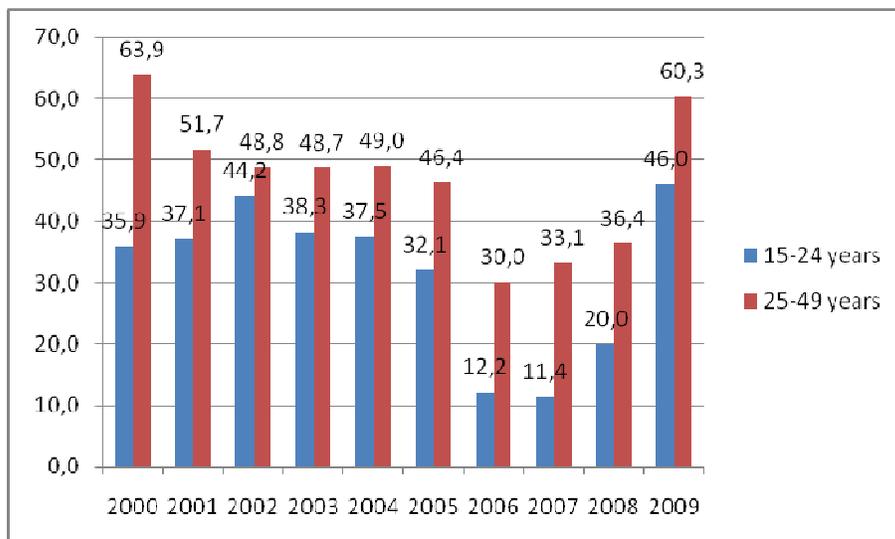
countries that during the recession in the 1990s, which was less severe than the current one, youth unemployment rates on average rose for nearly five years. Thus, upward trend in youth unemployment is likely to continue in the near term as well (Ha et al, 2010).



**Figure 1.** Unemployment rate among youth (aged 15-24) and prime aged workers (aged 25-49) during 1993-2009, %

Source: Statistics Estonia

Even though youth unemployment is considerably higher compared to the age group of 25-49, they tend to turn less to the local employment office for support in case of unemployment. Although it is true that with increased unemployment, the share has increased considerably (see also figure 2). According to the data by Statistics Estonia, in 2009 60% of persons aged 25-49 turn to the employment office while the share remains at 46% among persons aged 15-24 years. Still, this is more than two times higher as compared to the situation one year ago among the youngest age group. Most probably, the reasons behind low activity in turning to the employment office is the fact that young persons are mostly not entitled to the unemployment insurance benefit since they lack the required employment tenure and have not paid unemployment insurance premiums for the required period. They are only entitled to the flat-rate unemployment assistance benefit, which is very low and probably not enough to motivate youth to register as unemployed. During the period of recession, it could be expected that the services offered by the Unemployment Insurance Fund, especially those related to training, are of interest to the youth and the reason for increased activity in turning to the employment office. It can be concluded from these trends, however, that overcoming problems faced by young persons in the labour market can not be achieved merely through labour market measures offered through the system of Unemployment Insurance Fund. These measures can only address less than half of the young unemployed. Thus, a more wide range of measures needs to be implemented, including those related to education and (additional) training.



**Figure 2.** Share of persons turning to the employment office by age, 2000-2009, %  
Source: Statistics Estonia

Even though, youth unemployment has increased considerably, the share of youth active in the labour market has not decreased and has remained between 38-40% for the past three years (see also table in annex 1). According to Statistics Estonia, the main reason for young persons to be inactive in the labour market is obviously studies (in 2009 87% are inactive due to studies). It has been pointed out that as young people become discouraged with their employment prospects and long-term unemployment rises, the likelihood increases that they will leave the labour market completely (Ha et al, 2010). Since youth participation rates have not decreased in Estonia, it is important to take immediate action against youth unemployment to keep young persons from falling into inactivity. This could have pervasive effects over the medium term unless the decline in participation rates is matched by increased school enrolment (Ha et al, 2010).

It has been referred that the strongest factors affecting the smooth transition of youth from school to labour market are the educational system and labour market regulations (Unt, Saar 2006). These two aspects are discussed in more detail below.

### **3. Education as a factor affecting youth employment prospects**

It has been explained by Unt and Saar (2006) that vocational education is often focused on when describing education systems: in countries where the majority of students obtain their secondary education in vocational schools and education is provided in close cooperation with employers, the graduates possess very specific skills that enable them to find work quickly. Since the organisation of education sends clear “signals” to employers, the latter base their decisions mainly on professional certificates and the earlier experience of the employee is not considered to be of primary importance. This is contrasted by the type of education system where secondary school graduates attain a general education and training takes place in the workplace. Experience is very highly valued in a system like this, as the employer has to cover the costs associated with training an employee. Nevertheless, the effect of the organisation of the education system on the ability of young people to join the labour market is not that straightforward – studies differentiate between short term and

long term effects, i.e. it may be easy for young people to enter the labour market, but once in the market, they have to undertake unstable jobs that require little qualification for a long period of time. (Unt, Saar 2006)

According to the data from 2006, 31% of upper secondary (ISCED 3) students are enrolled in vocational education track as compared to 69% in general education. The indicators are different by gender, i.e. 42% of male students and just 20% of female students are enrolled in vocational education (European Commission, 2009: 103). More recent reports indicate that the share of vocational education students has remained stable around 30% since 2004 (Ministry of Education and Research 2009). Thus, the majority of the young persons leaving labour market have followed the general education track with no vocational skills. Thus, it could be expected that working experience will have an important role for young persons entering the labour market and could possibly be problematic for many young persons.

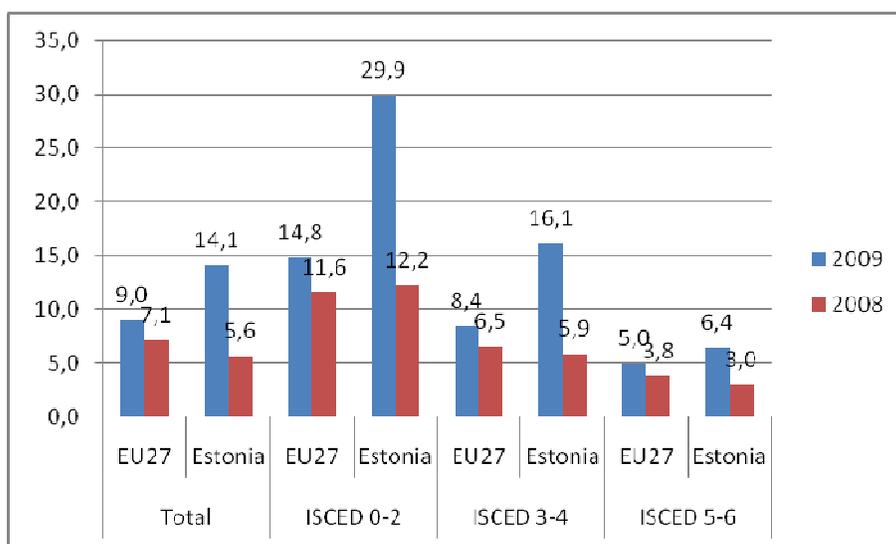
It has been pointed out by Saar (2004) that even two to five years of working experience reduces the risk of unemployment considerably compared to those who entered the labour market up to two years ago. Although, the unemployment rates for those who entered the labour market two to five years ago and more experienced workers do not differ significantly as is the case in some other countries, such as Sweden (Saar, 2004). Thus, based on previous research it seems that even though working experience is important upon successful transition to the labour market, the experience must not be very long compared to some other countries. At the same time, there is no more recent research evidence to show whether these conclusions still hold true today.

Based on the low share of young persons acquiring vocational education as compared to those studying in general education, a question emerges whether the presence of a vocation gives young persons any advantage in the labour market and thus whether their transition from school to work is easier. It has been shown by Kogan and Unt (2008) that school leavers with various educational qualifications hardly differ regarding the speed of entry to their first significant employment. Neither those with vocational credentials at the lower secondary level, nor tertiary educated school leavers (with an exception of those graduating from post-secondary vocational education and short tertiary education tracks), have been able to secure first non-casual employment quicker than the least educated. With the economy moving firmly in the direction of free market, in Estonia practically all recent school leavers have been experiencing problems at entry to stable jobs, though not necessary casual employment (Kogan, Unt 2008).

It has been confirmed by Saar and Helemäe (2006) that the probability of unemployment for people with a vocational education is considerably lower than that of people who were limited to basic education. However the probability of unemployment of respondents with general secondary education and secondary vocational education are practically equal, remaining at a substantially higher level than that of the respondents with higher education. This leads to the conclusion that higher education (usually received on the basis of general secondary education) provides noticeably better protection against labour market risks compared to vocational education. At the same time, exit from unemployment is noticeably easier for people with general secondary education. In the case of employees with little work experience, the difference is 1.5-fold: if among unemployed persons with secondary vocational education the probability of finding a job within a year is 0.39,

then among unemployed persons with general secondary education the probability is markedly higher – 0.62. (Saar, Helemäe 2006) Similar tendencies are shown in more recent reports as well. According to calculations by Nestor (2010), in November 2009 the unemployment of those below 25 years of age stood at 28.6%, the indicator for vocational education graduates in 2009 is 25.7%. This shows that persons with vocational education are not at a more advantaged position as compared to the youth in general. Thus, vocational credentials do not give today better opportunities in the labour market and is probably one of the reasons why the share of young persons choosing a vocational education track has remained low. At the same time, this might be a changing tendency in the long run. Employers' organisations have stressed the importance of vocational education and the need to develop it further. This might be a signal of expected changes in the role of vocational education in Estonia in the long run.

Although the specific vocational qualification does not give any significant advantage in the labour market, it is clear that the acquired education level is of importance (see for instance Saar, Helemäe 2006). It has been shown by Unt and Saar (2006) that in Slovakia, the Czech Republic, Latvia, Estonia and Hungary, an entrant's level of education plays an above average role in their success, just as it does in the United Kingdom. In Estonia, the unemployment rate of labour market entrants with secondary education is half that of entrants with basic education. In the case of young people with higher education, the difference in unemployment compared to those with inferior training is nearly six fold. The unemployment rate of young people with higher education in the new member states is equivalent to the European average, but the youth with lower education are marginalised to a considerably greater degree. (Unt, Saar 2006). This still holds true according to 2009 data as well. Based on Eurostat data, unemployment rate among persons with low educational attainment as compared to those with higher education differ almost 5 times (see also figure 3 below).



**Figure 3.** Unemployment rate by educational attainment in 2008 and 2009 in Estonia and EU27 countries (population aged 15-64), %.

Source: Eurostat

Clearly, at the most disadvantaged position in the labour market are those with low educational attainment. This indicates to the importance of keeping dropping out of school at a minimum level.

According to Eurostat data, the share of early school leavers (i.e. percentage of the population aged 18-24 with at most lower secondary education and not in further education or training) has remained around 13-14% since the beginning of 2000s. There have been no significant changes in the past years of recession as well. Also, this is at a comparable level to the EU27 average. According to the Action Plan for Growth and Jobs 2008-2011, the purpose is to bring the indicator down to 10% by 2011.

Another important question often discussed in terms of job opportunities for youth is the match between skills and demands in the labour market. This is a problematic issue subject to public discussions in Estonia as well. At the same time, there is not enough reliable data to analyse the issue in depth. Based on the Labour Force Survey, for instance, information is available on the self-assessment of employees whether they are well-matched for their job or over-/under-qualified. At the same time, this does not give any opportunity to assess whether the young persons entering the labour market have the skills level and qualifications required by employers or if further training is needed for them. This is an issue that needs further data collection and research to make any conclusions on the current situation in Estonia.

#### **4. Labour market regulation as a factor affecting youth employment prospects**

As pointed out by Unt and Saar (2006), in addition to the organisation of the education system, the decisions of the employers regarding the employment of workers are affected by labour market regulations. The more costly it is to fire an employee the longer an employer will deliberate before hiring new employees. This especially affects young people's chances of finding work, since they are associated with higher risks: they require training and possess no work experience. Furthermore, the rigid regulation of the labour market might lessen the opportunities of young people to find work by decreasing the mobility in effect in the labour market and thereby also the chances of every unemployed person of becoming employed. However, strong labour market protection and especially strong trade unions and cooperation between various institutions can also create the conditions necessary for providing young people with access to the labour market. (Unt, Saar 2006)

According to research results of Unt and Saar (2006), in Estonia the situation seems favourable for labour market entrants with higher levels of education, since their risk of losing a job is not greater than that of experienced employees, and they have a significantly better chance than the latter of re-entering employment. The main problem with young people with higher education is entering the labour market. Once the new entrants have managed to find their first job, they are able to compete with older labour market participants. Finding their place in the labour market is most difficult for young people with basic education or a lower than basic level of education. It is very difficult for them to find work at first, and even later they are in considerably greater danger of losing their job than experienced employees with an equivalent level of education. (Unt, Saar 2006). Here, again the importance of reducing the level of school drop-outs is stressed. Unfortunately, there are no recent research results on the labour market mobility of young labour market entrants to analyse any changes in the current recession. However, it is important to note that during the past year, the Estonian labour market has become considerably more flexible in terms of the possibilities for employers to hire and dismiss employees. With the new Employment Contracts Act in 2009, the

labour market flexibility was increased. Thus, there is a reason to expect that this will make it easier for young persons to enter the labour market. At the same time, it remains a question whether young persons will be able to keep their jobs as well or are they exposed more to temporary and short-term jobs.

## **Conclusions**

A clear indication of the issue of youth labour market problems has been the steeply increasing youth unemployment rate in Estonia. At the same time as a positive tendency, the inactivity among young persons has not increased in the current recession. Thus it is even more important to take immediate action in terms of labour market measures targeted at the youth, before a so-called “lost generation” of youth could emerge who are inactive in the labour market, but are not in education or training as either.

Youth employment is the most affected by educational system, but also labour market regulations. Research has indicated that the impact of having a vocational qualification is not large on the Estonian youth unlike in some other countries. This is also possibly one of the reasons why the share of young persons with vocational education is low as compared to those with general education. Young persons are mostly impacted by their educational attainment. Unemployment rates of persons with the lowest and highest educational attainment differs almost five times. From this it can be concluded that developing vocational education further and reducing early school leaving to raise the share of persons with higher educational attainment is of most importance.

Labour market regulations also have an important impact on youth employment prospects. At the same time, considerably legislative reform has been undertaken in the area during the past year. With the new Employment Contracts Act, the labour market regulations are more flexible which should improve the initial access of youth to the labour market. However, it should be further researched whether this also means that it will be more difficult for youth to receive and keep jobs of good quality. Thus, more up to date research is needed in this field.

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- Data source:
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## Annex 1.

**Table 1.** Employment indicators by age group, 2000-2009, %

Age group	Indicator	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
15-24	Labour force participation rate, %	41,3	39,9	33,8	36,3	34,2	34	35,5	38	40,8	39,4
	Employment rate, %	31,5	31,1	27,8	28,8	26,8	28,6	31,3	34,2	35,9	28,5
	Unemployment rate, %	23,8	22,2	17,6	20,6	21,7	15,9	12	10	12	27,5
25-49	Labour force participation rate, %	87,4	86,9	85,7	86,2	86,4	86,2	89,5	88,5	88,4	87,8
	Employment rate, %	76,2	76,6	77,4	78,8	78,8	79,7	84,5	84,7	84,2	76,4
	Unemployment rate, %	12,9	11,9	9,7	8,6	8,7	7,5	5,6	4,3	4,7	13

Source: Statistics Estonia

Notes: **labour force participation rate** – (or activity rate) the share of labour force (total number of the employed and unemployed) in the working-age population; **employment rate** – the share of the employed in the working-age population; **unemployment rate** – the share of the unemployed in the labour force.