

A stylized map of Estonia composed of a grid of grey dots, with several dots highlighted in red to indicate specific locations or data points.

Boom and Bust Effects on Youth Unemployment in Estonia

MARGE UNT
November 2012

- Estonia is a small, open economy, highly dependent on external factors. In response to the recession, the youth unemployment rate reached its peak in 2010 – at 33 per cent it was one of the highest in the EU. It fell sharply in 2011, to 22 per cent, but this is still double the rate in 2007. Young people not in employment, education or training (NEETs) comprised 13 per cent in 2011. Eurofound has calculated that the annual cost of the NEET group is 1.5 per cent of GDP in comparison to the EU21 average of 1.1 per cent.
- Education resources play a crucial role in youth labour market opportunities. The most vulnerable are people with less than a secondary education. People graduating during the recession 2008–2011 are not more likely to continue their studies compared to those graduating during the boom years of 2001–2007. The only exception is people who obtained a BA. Compared to the economic boom, a downward substitution process is observable in the social position of young people during the recession. Only an MA seems to have retained a distinct value in the labour market, since the likelihood of those with such a degree becoming unemployed or taking precarious employment has not increased.
- In Estonia, mainly reactive policies have been developed to assist the labour market entry of the unemployed. However, there is clear need for a wider range of measures, including those related to formal education and training. Although education is not a miracle cure, it can still be said that, in addition to specific knowledge and skills, it also fosters flexibility. Generally, people who have been educated for longer are better able to engage in retraining, if necessary, and to adjust to economic changes. In order to promote a more proactive approach and more sustained prospects, the co-ordination of youth policy measures between the Ministry of Social Affairs (Employment Office) and the Ministry of Education and Research (education system) is vital.



Introduction	3
1. The Estonian Context	3
1.1 Bust to Boom and Back Again	3
1.2 Educational Attainment	4
1.3 Labour Market Regulations and Occupational Structure	6
2. Vulnerable Young People	7
2.1 Characteristics of Youth Unemployment	7
3. Insight into the Effects of Boom and Bust on Youth Trajectories	12
4. Responses to Youth Unemployment	15
4.1 What Measures Would Help to Improve the Situation of Young People?	15
5. Summary Table	17
References	18

Introduction

Young people's labour market entry opportunities are disproportionately affected by changes in overall labour market conditions. Young people's employment opportunities shrink during crises and young people also benefit more from economic booms (European Commission 2010). Recently, after the global economic crisis, young people's labour market vulnerability has been high on the social agenda as more than 5 million young people were unemployed in the European Union at the end of 2011. Faced with rising levels of unemployment, it is becoming harder for young people to find work and many may decide to prolong their studies (European Commission 2011). This could be an investment for the future provided that they will have opportunities to make use of their skills. In parallel, there is a growing share of young people who are neither in work nor in education or training. The share of such people increased from 10.8 per cent in 2008 to 12.8 per cent in 2010 for the EU as a whole. In Estonia, together with Bulgaria, Greece, Ireland, Italy, Latvia, Romania, Slovakia and Spain, over 14 per cent of the young generation is not in studies and not in employment. Thus, there are more than 7.5 million young unemployed and inactive people aged 15–24 in the EU. This generation, entering adulthood during an economic crisis, is sometimes called »the lost generation« (European Commission 2011), as previous research has demonstrated that unemployment at the beginning of a work career has a scarring effect with regard to both future unemployment and future earnings (Bell and Blanchflower 2010). The European Commission has also launched several initiatives since 2008 to combat youth unemployment and precarious employment (European Commission 2011).

Estonia could serve as an excellent case study for analysing the boom and bust effects on youth labour market outcomes. Estonia experienced an exceptional economic boom in 2000–2007 and was then hit by the deep recession in Europe amplified by the global economic crisis in 2008.

In this report, the Estonian context is presented in Section 1. In Section 2, the main indicators of youth employment – unemployment and inactivity – are analysed in relation to the labour force. In Section 3, some insight is provided into youth status after leaving school during periods of economic boom and bust. The report ends

with a discussion of possible policy responses to youth unemployment and a summary table presenting the main points of the report.

1. The Estonian Context

The context of labour market entry varies over time due to a number of different factors. We will address three major trends affecting youth labour market opportunities: the economic situation, changes in the education system, including educational expansion, and the upskilling of the occupational structure.

1.1 Bust to Boom and Back Again

First, economic reforms in Estonia were among the most radical in post-socialist countries in the early 1990s, particularly with regard to the highly liberal economic principles and modest role of the state. The dominance of liberal right-wing parties since 1992 has contributed to the dominance of trust in the free market's »invisible hand« and to the lack of any sufficiently strong political support for the development of proactive social policy (Lauristin 2003). Active labour market policies have low coverage and even lower levels of financing and provide limited re-employment assistance and employment security (Saar and Lindemann 2008). Indeed, international economists have characterised Estonia's labour market as highly flexible (Cazes and Nesporova 2003).

The Estonian economy went through a major recession in August 1998. On 13 August 1998, the Russian stock, bond, and currency markets collapsed and Estonian exporters lost their competitiveness compared to local manufacturers. Figure 1 depicts the sharp fall in GDP growth. This crisis was most painful for food products, as food-stuff exports fell by 44 per cent (Rei 2009: 18). In terms of workplaces, there had been a substantial decrease in employment in the first half of the 1990s and between 1997 and 2000 a further 44,700 workplaces disappeared.

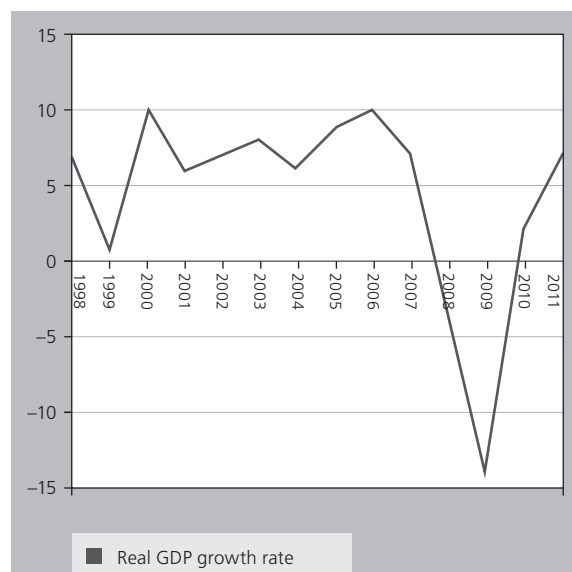
From 2000 to 2007, Estonia was among the fastest growing emerging market economies, with an average real GDP growth rate of 8 per cent (Figure 1). During this period, 77,600 new workplaces were created, among them 35,700 thousand for managers and professionals and 29,200 for blue-collar workers (Statistics Estonia 2012). The country tended to converge to the income levels of

the Euro area, with living standards exceeding those in most new members of the European Union. However, growth was unbalanced and driven by overexpansion of non-tradable sectors, particularly real estate and construction. It was financed by large capital inflows, which led to unsustainable current account deficits and high private debt. External financing became a key source of rapid credit growth, mainly to households for real estate purchases in the form of variable interest rate and foreign currency loans. Pro-cyclical fiscal policy and wages amplified the cycle (Brixiova, Vartia and Wörgötter 2010). Exactly ten years after the previous downturn, in September 2008, Estonia entered a new deep recession, the key events being the collapse of the real estate market and the global financial crisis. The combination of plummeting real estate prices and transactions led to a rapid decline in output and jobs in construction, finance and real estate services (Brixiova et al. 2010). Real GDP growth fell by –14.2 per cent in 2009 compared to 2008 (Figure 1). Overall employment dropped by 85,600 between 2008 and 2010; in 2010 there were the lowest number of working people during the past two decades: 570,900 (Statistics Estonia 2012). While aggregate outcomes improved during 2000–2007, large inequalities persisted across regions, ethnic groups and workers with different skill levels (Brixiova 2009).

After a rapid decline, Estonia has recovered quickly. Therefore, lately Estonia has been used as an austerity success story. In 2011, it had a faster economic growth rate than any other EU country, at 7.6 per cent (Figure 1). Estonia is also the only EU member with a budget surplus and had the lowest public debt – 6 per cent of GDP – in 2011. Fitch affirmed Estonia's A+ credit rating (<http://www.businessweek.com/news/2012-06-01/estonia-rating-affirmed-by-fitch-amid-economic-recovery>) at the beginning of June 2012. The growth was driven by industrial exports, which recovered more rapidly than expected, contributing to an increase in employment and falling unemployment since the end of 2010. The recovery of the industry sector was due to the good economic situation in the main export countries in Scandinavia. In addition, the improvement of labour market indicators can be partially attributed to labour migration to foreign countries, especially at the end of 2010 (Estonian Bank 2011). These are those people who work abroad, but who are still residents of Estonia. It is called commuting migration.

At the same time, the risks to economic growth due to the spread of the Euro area's debt crisis have increased. The external environment may thus hinder Estonia's future economic development.

Figure 1: Real GDP growth, percentage change on previous period in Estonia, 1998–2011



Source: Estonian Statistical Office

1.2 Educational Attainment

This is the second major trend affecting young people's labour market opportunities.

The share of early school leavers¹ among 18–24 year olds remained at 13.9 per cent (Table 1), slightly below the EU27 average of 14.4 per cent in 2009. The issue concerns mainly the male population. Compared to 16.3 per cent in the EU27, the percentage of males leaving school early is 18.4 per cent. Reducing early school leaving has been a serious concern of policymakers. The measures include teaching Estonian to non-nationals already in pre-school, developing counselling systems and introducing customised measures for children with special educational needs. In autumn 2010, a new Elementary Schools and Upper Secondary Schools Act was introduced which

1. Early school leavers are defined as people aged 18–24 who have only lower secondary education or less and are no longer in education or training.

obliged teachers to contact parents in case of pupils' absenteeism or truancy. The roles and responsibility of the different parties involved were also defined (student, parent, school, local municipality) (Turk, Nurmela 2012). In 2011, the percentage of early school leavers fell to 10.8 per cent, which is better than the 11 per cent sought by 2015 according to goals set by the Estonian government in the document »Estonia 2020«.

After elementary school, around 70 per cent of students opt for general secondary school; only 30 per cent continued studies at vocational schools in the 2000s. In 2010, 26 per cent of elementary school graduates continued in vocational education (Reinhold and Vaher 2011). The forecast by the Ministry of Education and Research foresees a further decrease as there is growing competition between general secondary and vocational schools for students due to demographic decline (Ibid.). Although it is not an official target, it is obvious that the current school reform, within the framework of which small secondary schools are being merged, it is expected that more pupils will opt for vocational school in future. There has been fierce criticism concerning the pressure to opt for vocational schools as the small and highly flexible labour market does not support narrow and early specialization (Saar 2004). Vocational school graduates do worse than general secondary graduates in the labour market in terms of pay and unemployment due to the lack of support systems, such as close cooperation between employers and vocational schools and the quickly changing and small labour market (Ibid.). Mailis Reps, former Minister of Education and Research, has pointed out that ongoing educational reform in general secondary schools is causing a lot of instability and the aim of directing more young people into vocational schools is short-sighted due to the lack of a broader framework.

According to Statistics Estonia, most of students enrolled in vocational education in the academic year of 2010/2011 were studying in the vocational upper secondary programme after elementary school (62 per cent), 36 per cent of students were receiving post-secondary vocational training and 1.3 per cent were taking vocational courses without educational requirements (mostly they do not have basic education). Female pupils outnumber males in general secondary education, while males dominate in vocational education. The proportion of female and male students in vocational education is the opposite of general secondary education – male

students accounted for 57 per cent. In vocational secondary programmes 67 per cent are male, but in post-secondary vocational training the figure is only 40 per cent (Estonian Education Information System (EHIS)). The most preferred field of study for men is engineering and engineering trades. Women mostly study personal services, business and administration. Estonian vocational education has been reorganised and has received substantial investments in recent years. In 2009, a new Development Plan for the Estonian Vocational Education and Training System 2009–2013 was developed and aims to increase the quality and competitiveness of vocational training and tighten the links to the labour market.

While vocational education at the secondary and post-secondary levels became increasingly unpopular, tertiary education expanded rapidly through the emergence of private institutions of higher education, the emergence of fee-paying students in public schools and the reorganisation of specialised secondary schools as professional higher education schools. Until the early 1990s, the Estonian higher education system was highly centralised and institutionally homogenous. Thereafter, a considerable expansion took place through the establishment of new private universities and professional higher schools, the reorganisation of specialised secondary schools as public professional higher schools and new legislation allowing foreign universities to establish departments in Estonia (Saar and Unt 2011). Following the Bologna Process, Estonia implemented a new system from 2002/2003. It has a two-cycle (bachelor/master) structure, known as the »3+2 model«.

The attainment of qualifications in tertiary education has grown steadily in the past five years. In 2009, the figure in the age group 30–34 was 35.7 per cent, but in 2011 it was 40.2 per cent (Table 1). Noticeable growth was observed in 2010 when the attainment of qualifications in tertiary education reached 39.7 per cent, which is much higher than the EU average of 31 per cent. Concerning gender differences, in the early 1990s the share of female and male students was equal, while in 2010/2011 females outnumbered males at all levels of higher education. In professional higher education programmes, the share of female students was 58 per cent, in BA studies 59 per cent, in MA studies 66 per cent and in PhD studies 58 per cent (Tõnisson 2011: 14). Study preferences are traditional: the share of men is the lowest in education (2010/2011: 10 per cent) and health (13 per cent) pro-

grammes, while men are in the majority in engineering, manufacturing and construction (*ibid*: 15).

Table 1: Youth educational attainment in Estonia, 2009 and 2011 (%)

%	2009	2011
Early school leavers*	13.9	10.8
Having tertiary education, 30–34-y-o	35.7	40.2

Note: *18–24 year-olds with a basic education or less and not studying.

Source: Estonian Statistical Office.

Figure 2 offers an insight into the overall number and profile of higher education graduates from 1992 to 2010; the most radical changes have taken place in the tertiary sector. In the 1990s, around 4,000 graduates obtained a higher education each year. Thereafter, there was a rapid expansion of higher education between 1998 and 2005, when almost every year the number of graduates increased by approximately one thousand. In 2004/2005, 11,528 people graduated from higher education institutions. Since then, the number of graduates has fluctuated around the same value. It is also noteworthy that the expansion of higher education occurred mainly before implementation of the Bologna Process in Estonia.

In terms of graduate profiles, almost all graduates obtained a BA at universities in early 1990s. Thus, the Estonian higher education system was very unified. Thereafter, the number of lower tertiary graduates

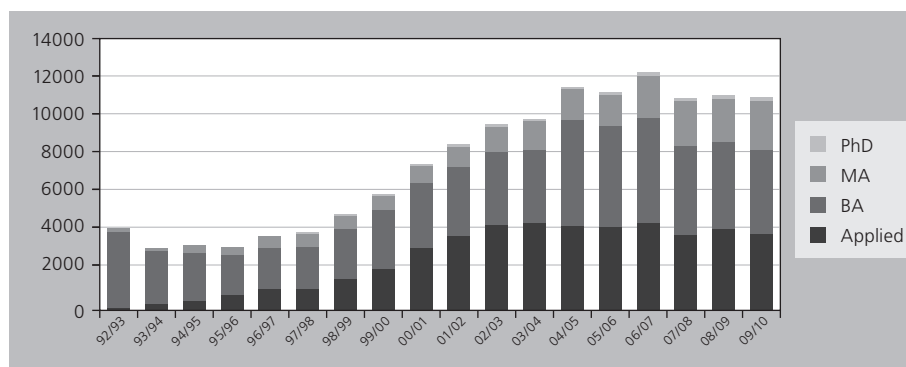
started to increase rapidly. In parallel to the expansion of lower tertiary programmes, a growing number people opted for master’s programmes. According to the typology presented by Arum et al. (2007), Estonia has had a diversified higher education system since the 2000s. While the primary tier comprises university courses, the secondary tier comprises both professionally and occupationally oriented programmes.

1.3 Labour Market Regulations and Occupational Structure

The new Employment Contracts Act adopted in 2009 creates more flexible regulations in terms of the possibilities for employers to hire and dismiss employees. The positive side of it should be that as employers take less risk when hiring newcomers, it might make it easier for young persons to enter the labour market. At the same time, it might mean higher volatility in their work careers.

When analysing young people’s labour market opportunities, it is also essential to pay attention to the demand side. If we agree with job matching theories, the occupational attainment of graduates not only depends on their educational attainment, but even more on the type of jobs available on the labour market. If there is a growing need for professionals and managers in the labour market, tertiary graduates easily find a matching workplace. The flipside of the coin is that the less educated are especially harshly crowded out of the labour market if those two processes take place in parallel (Gangl 2003). If the

Figure 2: Differentiation in higher education: graduates by type of higher education between 1992/93 and 2009/10



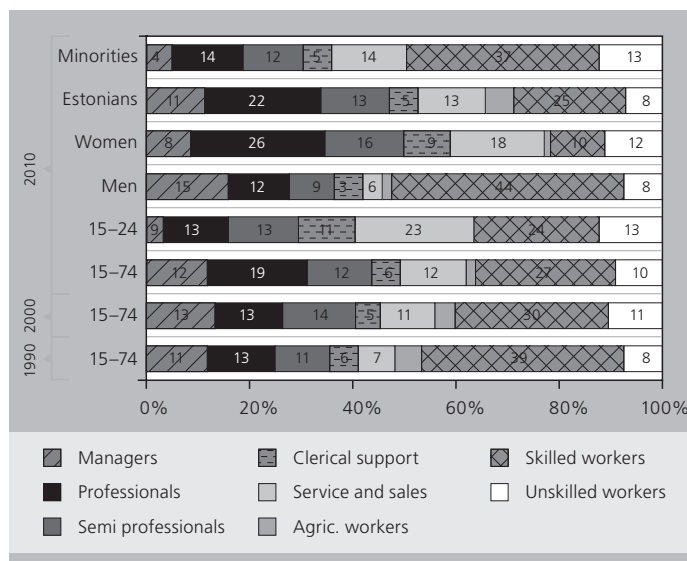
Source: Tõnisson, 2011: 7.

expansion of higher education is faster than the creation of new workplaces at the top of the occupational ladder, then fresh graduates face greater competition for the top positions. In all CEE countries, but especially in Bulgaria, Poland, Lithuania and Estonia, occupational upskilling has taken place at a much slower speed than the expansion of tertiary education, which might have generated oversupply and devalued degrees (Saar and Unt 2012). Of course, increasing the numbers of highly qualified workers does not necessarily create an oversupply and devalue degrees when professionals and managers are underqualified.

What does the occupational structure look like in Estonia? Estonia has a significantly higher proportion of unqualified workers in the workforce, while the proportion of white-collar workers is notably lower compared to most European countries (Saar 2008). In comparison to the European average, the current structure of the production sectors and the technology used in them in Estonia is heavily based on blue-collar workers. Data show that between 1990 and 2010 the percentage of lower white-collars (clerks and service workers) and elementary occupations increased, while the share of skilled workers decreased (Figure 3). However, there was practically no change in the percentage of jobs at the top of the occupational hierarchy (those of managers and semi-professionals) during the same period, except for professionals, whose share increased. This was partly caused by the fact that the 2008 crisis hit the other occupations more – growth in absolute numbers is more moderate. There are significant differences in occupational positions by gender and ethnicity. Men are more likely to be either managers or blue-collar workers. Women dominate in professionals and service and sales worker groups. Ethnic minorities work predominantly as blue-collar workers; they are considerably less likely to occupy positions at the top of the occupational structure.

In sum, the supply of educated labour has increased, but the demand for highly educated labour has not changed remarkably. Therefore, there is a conflict between the current economic structure, which needs simple and cheap labour, and the relatively high educational level of the new workers.

Figure 3: Occupational structure in Estonia, 1990–2010 (%)



Source: Estonian Statistical Office, authors' calculations.

2. Vulnerable Young People

In this section, we address youth labour market opportunities from a number of different angles. A wider range of youth labour market indicators will help us to better understand young people's disadvantages, disengagement and underutilisation in the labour market.

2.1 Characteristics of Youth Unemployment

First, let us take a more general look at youth employment and unemployment dynamics during the boom and bust period, 2005–2011. Youth employment shows how much of all age groups, 15–74, are working (Figure 3). The youth employment rate fluctuated between 25 per cent and 35 per cent between 2005 and 2011, following the GDP growth line (Figure 1). During boom years, the youth employment rate increased, reaching 36 per cent in 2008. Due to the economic crisis, the youth employment rate decreased to 23 per cent at the beginning of 2010; thereafter there has been a gradual increase. The annual average employment rate was 25 per cent in 2010. In 2011, there was a further increase and the average employment rate was 31 per cent, 6 per cent higher than a year before.



Table 2: Main youth labour market indicators, 2008 and 2011 (%)

%	2008	2011
Employment rate, 15–24-y-o	35.9	31.0
Employment rate, 15–64-y-o	69.5	64.9
Unemployment rate, 15–24-y-o	12.0	22.3
Unemployment rate, 15–64-y-o	5.6	12.8
Long-term unemployment incidence, 15–24-y-o*	37.0	54.2
NEET, 15–24-y-o**	11.4	16.8
In education, 15–24-y-o	89.1	87.0

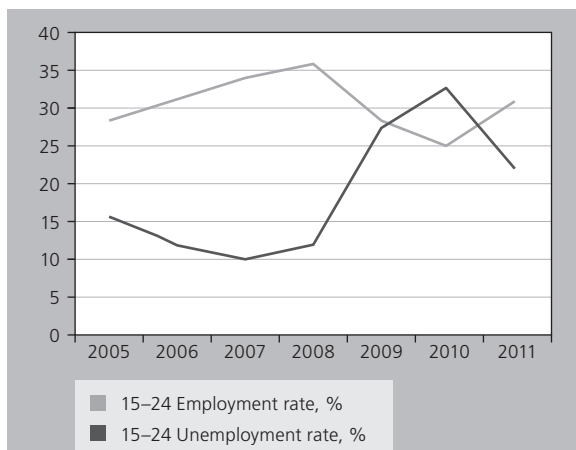
Note:

*Calculated as a share of all unemployed.

**Those not in employment, education or training.

Source: Estonian Statistical Office, authors own calculations.

Figure 4: Dynamics of youth employment and unemployment, 2005–2011 (%)



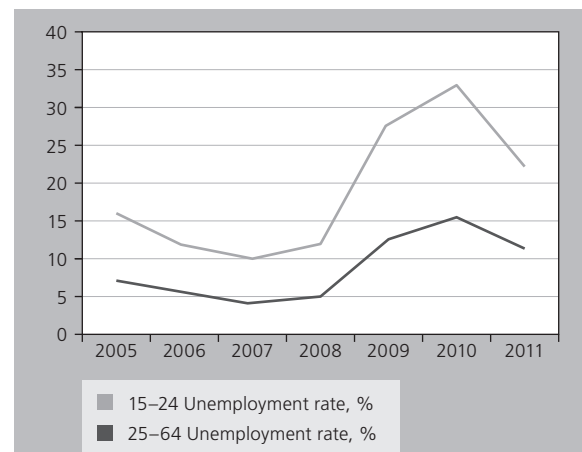
Source: Estonian Statistical Office.

Young people were seriously hit by the crisis, as unemployment dynamics show (Figure 4). The impact of the economic crisis on unemployment from 2008 to 2010 completely wiped out the reduction experienced in the unemployment rate between 2005 and 2007. The youth unemployment rate changed dramatically as it rose from 7.5 per cent at the beginning of 2008 to 40.6 per cent at the beginning of 2010. Thus, the youth unemployment rate jumped by 33.1 percentage points within two years! Since the second half of 2010, the youth unemployment rate has started to decrease sharply. By the end of 2011, the youth unemployment rate was 22.7 per cent. We can note a substantial improvement in youth unemployment,

but the rate of unemployment is still more than twice as high as before crisis.

The youth unemployment rate has always been much higher than the adult unemployment rate. The two lines followed the same pattern, although the gap between the two age groups has varied (Figure 5); it widened more during the economic crisis. Young people face a twice or two and a half times higher unemployment risk than adults. Higher youth unemployment rates do reflect the difficulties faced by young people in finding a job, especially during the reduction of workplaces. Young people tend to be the last ones hired and the first ones fired. In addition, graduates who enter the labour market during recession years face especially harsh times in finding employment. In addition to the worsening economic situation, demographic trends have contributed to the vulnerability of this specific youth cohort. The large birth cohort of the baby boom, that took place at the end of the 1980s, has started to enter the labour market, tightening the competition for scarce workplaces during the economic recession years.

Figure 5: Youth and adult unemployment rate, 2005–2011 (%)

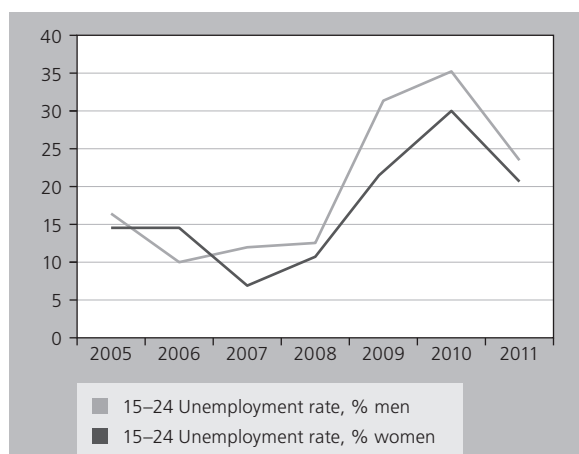


Source: Estonian Statistical Office.

Historically, in EU old member states, women have been more affected by unemployment than men, only the last crisis changed the gender order for a short time between 2009 and 2010 (Eurostat). In Estonia, male advantage is less prevalent. In 2005, unemployment among men and women was almost identical. Although in 2006 the female unemployment rate surpassed male unemployment, already in 2007 men were more exposed to un-

employment risk. By 2009, this gender gap had climbed to around 10 percentage points in favour of females. With the economic recovery since 2010, male and female unemployment rates have converged, although men are still more likely to be unemployed. The differences can be explained by the fact that sectors dominated by males were hit the hardest by economic recession, including construction.

Figure 6: Youth unemployment rate by gender, 2005–2009 (%)

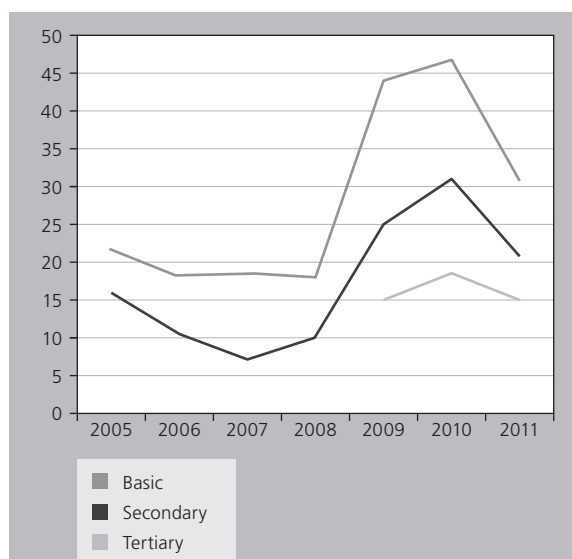


Source: Estonian Statistical Office.

The unemployment risk differs clearly by educational attainment, the least educated being the most vulnerable. Unemployment data for tertiary graduates are not presented for economically better years as the number of unemployed tertiary graduates aged 15–24 has been too small to calculate the representative unemployment rate based on Labour Force Survey data. During the last recession, the gap between educational groups increased, as also noticed by previous analyses in other EU countries (Gangl 2003). As Estonia entered recession in 2008, the unemployment rate rose 2.4 times for young people with secondary and basic education. This was one of the biggest rises in the EU, with comparable youth unemployment increases only in Spain, Ireland and the other Baltic States. The youth unemployment rate rose further in 2010, reaching almost 50 per cent for basic education graduates, 30 per cent for secondary and 20 per cent for tertiary graduates. However, one year later in 2011, Estonia was the only country among rocketing youth unemployment countries that managed to reduce youth unemployment substantially. In 2011, the youth unemployment rate in Estonia was close to the EU27

average (22.3 per cent vs 21.4 per cent). The youth unemployment rate was reduced by 20 percentage points to around 30 per cent for young people with basic education, by 10 percentage points to around 20 per cent for young people with secondary education and by 5 percentage points to around 15 per cent for young people with a tertiary education in 2011.

Figure 7: Youth (15–24 year-olds) unemployment rate by education in Estonia, 2005–2011 (%)



Source: Estonian Statistical Office, authors calculations.

Unemployment or, in more positive terms, job search, could be a normal stage in people’s life course if it has a short duration. People look for a job after graduation (or already during studies) or change workplaces. Also, the economy cannot expand without available workforce. Unemployment becomes a serious issue if it becomes long term. On a personal level, it is very important for unemployed individuals not to lose the social contacts and skills necessary for finding work. While in 2008, over one-third of young people were looking for a job longer than one year, by 2011 the share of long-term unemployed constituted over half of young unemployed people (Table 2). Long-term unemployment is more frequent among the less educated, men and the non-native population (Marksoo 2012).

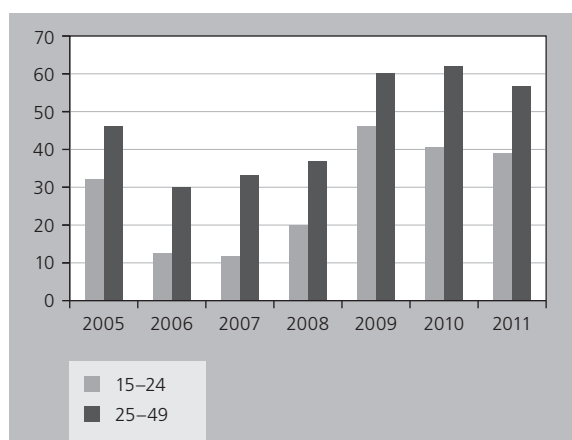
Even though youth unemployment is considerably higher compared to that of the primary working age group of 25–49, they tend to turn less to the local employment

office for support in case of unemployment. However, it is true that with increased unemployment the proportion of young people who turn to the Employment Office has increased considerably (see Figure 8). According to the Estonian Statistical Office, in 2009 60 per cent of unemployed persons aged 25–49 turned to the Employment Office, while the share remains at 46 per cent among persons aged 15–24 years. Still, this is more than two and half times higher compared to the situation one year ago among the youngest age group. Since 2010, the economic situation has improved and although youth unemployment rates are still very high, the share of unemployed young people is decreasing. In 2011, 39 per cent of unemployed young people turned to the Employment Office.

Probably, the reason why few young people turn to the Employment Office is that they are mostly not entitled to unemployment insurance benefit since they lack the required employment record 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 young people to register as unemployed (Nurmela and Leetma 2010). During the recession, it was evident that the services offered by the Employment Office were of interest to young people and the reason for increased activity in turning to the Employment Office. Still, currently over 60 per cent of unemployed young people have not turned to the Employment Office, which

increases their risk of further marginalisation. It can be concluded from these trends, however, that the problems faced by young persons in the labour market cannot be overcome merely through labour market measures offered through the Employment Office system. These measures can only address less than half of the young unemployed. Thus, a wider range of measures needs to be implemented, including those related to education and (additional) training (Nurmela and Leetma 2010).

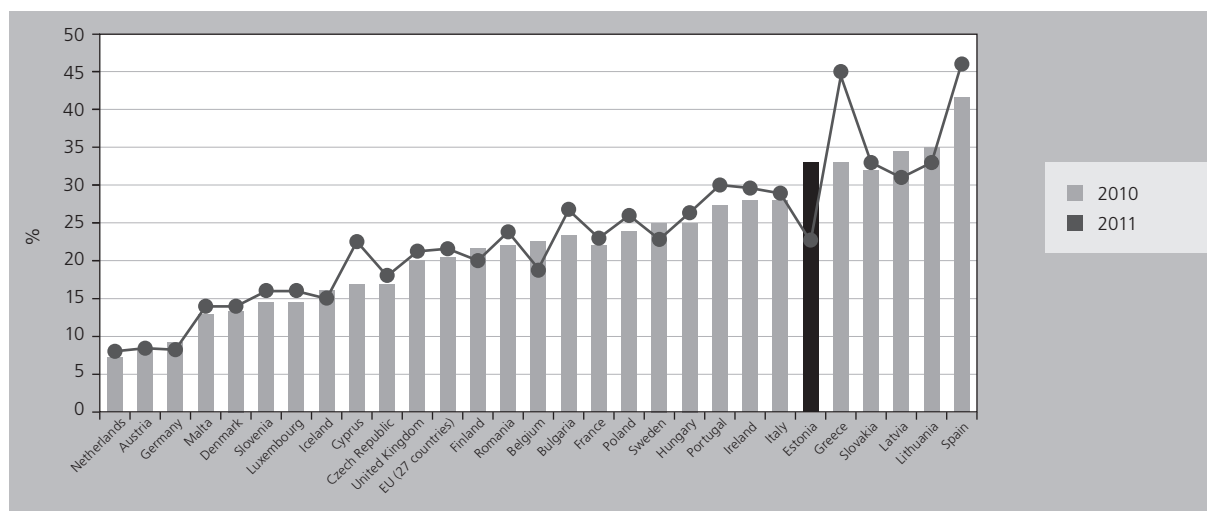
Figure 8: Share of persons turning to the employment office by age, 2005–2011 (%)



Source: Estonian Statistical Office, author's calculations.

How do the latest trends in Estonian youth unemployment dynamics look in the EU context? In 2010, the high-

Figure 9: Youth (15–24-y-o) unemployment rate in the EU, 2010 and 2011 (%)



Source: Eurostat.

est youth unemployment was observable in countries hit the hardest by economic crisis: southern countries such as Spain, Greece, Italy and Portugal, as well as the Baltic countries Ireland and Slovakia. Estonia stood between Greece and Italy in 2010. However, one year later, Estonia was the only country among those with rocketing youth unemployment that managed to reduce youth unemployment substantially. In 2011, the youth unemployment rate in Estonia was close to the EU27 average (22.3 per cent vs 21.4 per cent). In this respect, Estonia has made considerable progress.

The youth unemployment rate is often criticised as it is calculated as a percentage of the total labour force aged 15–24 and it does not reflect the situation of those not belonging to the labour force. Therefore, recent reports on youth unemployment also cover young people who are *not in employment, education or training* (NEET). Here unemployed young people and inactive people who do not study are taken together.

In 2008, every tenth person in the 15–24 age group was NEET (Table 1) in Estonia. Just two years later, in 2010, there were approximately twice as many young people aged 15–24 classified as NEET. Although there has been an economic recovery and the youth unemployment rate has fallen more rapidly than anywhere else in the EU, the share of NEET youth has decreased only marginally. In terms of government policies, unemployed aged 16²–24 are defined as a labour market risk group and in the Government Programme 2011–2015, one of the main focuses of active labour market policies is to decrease youth unemployment. However, there are very few special measures targeted at NEETs and the approach is rather to tackle the overall problem of unemployment.

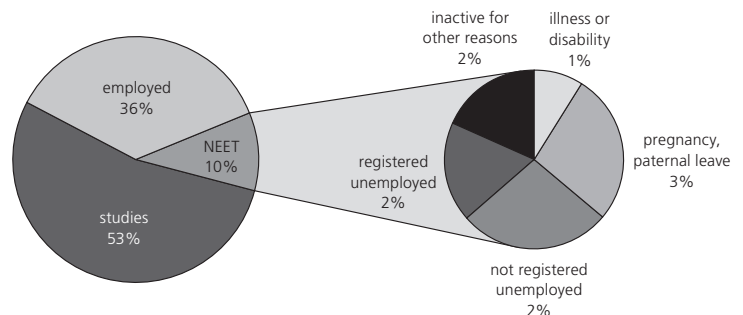
To summarise youth activity status, I present an overview of all 15–24-years old by their activity status in 2008 and in 2011 (Figures 10 and 11). What are young people doing? In both years, half of those in age group 15–24 are studying. It is often claimed that during a recession education absorbs part of otherwise unemployed people. However, in Estonia, descriptive data indicate that at least on average young people are not studying more as a consequence of the crisis. The employment gap between 2008 and 2011 is 5 percentage points: in 2011, 36 per cent of young people were employed in comparison to

31 per cent in 2011. Here it must be underlined that I am comparing the latest annual data that already show a significant improvement in youth labour market indicators.

In order to get a closer look at NEET young people, in second chart in Figures 10 and 11, all NEET young people are shown in their different subgroups. NEET young people are unemployed and inactive and not in education. Under »inactive not in education«, I separated for substantive reasons also those who are inactive due to illness or disability, pregnancy or parental leave.

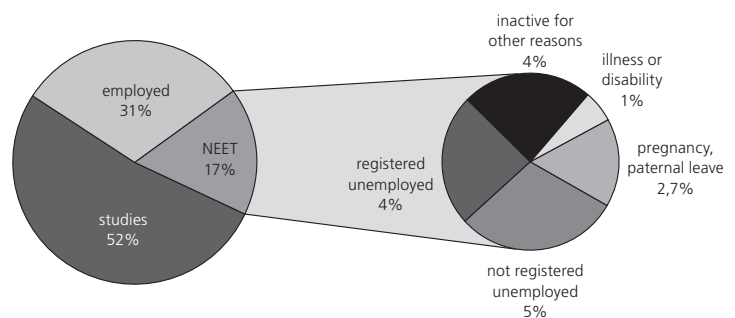
Who were NEET in Estonia in 2011? Half of them were actively looking for a job; around one-quarter were either sick or on parental leave; and another quarter were inactive for other reasons. If we leave out those who are inactive because of small children or sickness, that still leaves 13 per cent or nearly 24,000 young people left aside in 2011.

Figure 10: Youth (15–24-y-o) activity status in 2008 (%)



Source: Estonian Statistical Office and Employment Office, author's calculations.

Figure 11: Youth (15–24-y-o) activity status in 2011 (%)



Source: Estonian Statistical Office and Employment Office, authors calculations.

2. In Estonia, people aged 16 until retirement age can register as unemployed and claim unemployment benefits.

3. Insight into the Effects of Boom and Bust on Youth Trajectories

We shall now present a picture of the social situation of educational cohorts who graduated at different stages of the economic cycle in Estonia. Based on Estonian Labour Force Survey data, a subsample of young people is drawn who have completed primary, secondary or tertiary education within two years before the interview. At secondary level, graduates from vocational and general secondary education are differentiated as their probability of continuing education or labour market opportunities may vary. At the higher education level, people with professional higher qualifications, BAs and MAs are differentiated as the higher education sector has expanded recently and one could expect that labour market opportunities in this category vary according to the type and level of higher education. As some people start working already during studies or return to the education system after substantial labour market experience, the subsample is restricted to those not having work experience longer than five years. Thus far we have used the usual definition of young people aged 15–24, but higher education graduates are often older. Thus, excluding people based on age would not best reflect opportunities after graduation from higher education. Therefore, we rather focus on recent graduates (within two years), labour market entrants with less than five years' work experience. Most of the sample (99.5 per cent) are younger than 30 years of age.

At first, all possible routes are presented as they might be mutually interdependent. For instance, continuing education might be linked to avoidance of unemployment or more educated young people are less exposed to unemployment risk at the cost of accepting lower level jobs. Afterwards, the probability of unemployment and continuing education is presented in terms of the educational levels of graduates during the boom and bust period.

Social Position of Graduates by Education during Boom and Bust

Figure 12 provides a descriptive overview of the social position of recent graduates. After graduation, people may decide to continue studies or start employment or job search or opt for inactivity. Here the trajectories of two

educational cohorts are contrasted: people who graduated during the economic boom between 2001 and 2007 and during the recession between 2008 and 2011.

The majority of young people with an *elementary school certificate* continue their education and therefore the overall picture does not change considerably. In both cohorts, almost 90 per cent of them continued studies after graduation. Those elementary school graduates who are aiming to enter the labour market have poor chances despite the economic situation. Around 5–7 per cent of graduates could be considered active in the labour market. If they are lucky enough to get a foothold, they usually start in routine services and sales positions. However, even during boom year, a considerable part of elementary school graduates active in the labour market face the risk of unemployment. During the recession, almost half of economically active (either employed or unemployed) elementary school graduates were unemployed. However, their overall unemployment ratio or overall share did not increase considerably. People with basic education and out of the education system are the most likely to opt for inactivity, which is alarming and indicates that hidden unemployment might be even higher than the current figures that are based only economically active youth.

The position of vocational education graduates has been more affected by economic situation as only a small part of them continue their education after graduation. However, it is noteworthy that there has been little increase in the share of those who continue studying: from 11 per cent to 14 per cent. Most graduates entered or wanted to enter the labour market: around 73 per cent from the boom cohort and 71 per cent from the recession cohort. However, their chances of obtaining a job differ dramatically by timing of graduation: in employment were 60 per cent of the boom cohort and 43 per cent of the recession cohort during the two years after graduation. Thus, while during the boom years, every tenth vocational school graduate was looking for a job, during the recession it was every fourth. One positive element is that the share of inactive people who are not studying has not increased. Rapid reintegration measures are needed for people looking actively for a job so that they do not lose hope and the motivation to enter working life.

The position of *general secondary education* graduates has changed little over time, as in both cohorts about

half continued their studies after graduation. Those who enter the labour market usually start in routine services and sales positions. In addition, the proportion of unemployed was twice as high for cohorts graduating during the recession between 2008 and 2011. However, it is surprising that, despite the worsening economic situation, the share of those continuing their studies did not increase. One positive sign is that the share of inactive people not in studies did not increase in the last cohort.

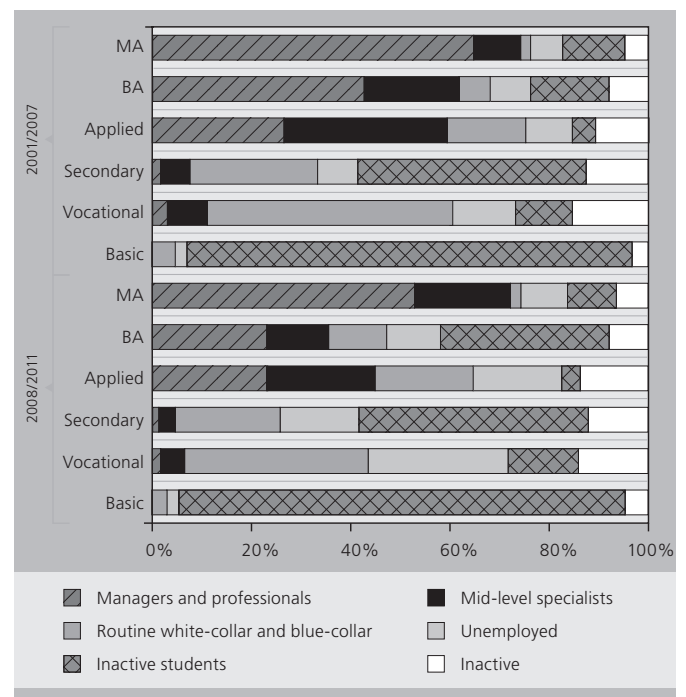
Next, people graduating from tertiary level institutions are analysed and compared. The situation of young people with *professional higher education* seems to be most difficult among tertiary graduates. They are more often unemployed than young people with any other type of higher education. Almost fifth of them were unemployed in the 2008–2011 cohort, while this share was lower in the 2001–2007 cohort who graduated during economic growth. The proportion of inactive students was very low among professional higher education graduates for both cohorts. Thus, their opportunities to continue their studies appear to be limited. In addition, their occupational position has declined in comparison to the 2001–2007 and 2008–2011 cohorts. The share of professional higher education graduates working in routine positions is the highest in the latest cohort, while a smaller proportion of them achieve top or mid-level specialist positions in this cohort.

The decline of opportunities is even more evident among young people who have attained a *Bachelor's degree*. In the 2001–2007 cohort, almost half of Bachelor's graduates achieved managerial or professional positions. In the recession cohort of 2008–2011, less than one-quarter of graduates with a Bachelor's degree were working as managers or professionals and the percentage of routine white-collar and blue-collar workers increased. At the same time, more and more BA graduates postpone their labour market entry and continue their studies. About one-third of them were students in the latest cohort. Thus, instead of working in managerial or professional positions, increasingly BA graduates are engaging in further studies. Such a choice might be conditioned by labour market requirements and the lack of opportunities for BA graduates.

It appears that young people with a *Master's degree* most often attain managerial and professional positions. However, the proportion of those in top positions has

decreased, as shown by a comparison of the 2001–2007 and 2008–2011 cohorts and they are opting more often for mid-level specialist positions. It is noteworthy that, at the same time, MA graduates' unemployment risk did not increase, nor did they more often accept lower level jobs. Thus, an MA successfully buffered the risk of unemployment and low qualified jobs during the last recession. However, they increasingly have to accept mid-level specialist jobs. The share of managers and professionals was considerably higher for those graduating during the boom years than those graduating during the recession. On the other hand, it is also important to note that MA graduates in the last cohort have mainly graduated with only three-year Bachelor's studies, while more MA graduates completed four-year BA studies in the earlier cohorts. Thus, the results might indicate that the perceived value of the degree from the 3+2 system might be lower than that from the 4+2 system.

Figure 12: Social position by educational cohort and type of education



Source: Author's calculations based on ELFS.

Youth unemployment rates by educational level presented in Figure 7, showing the marginalisation of young people entering the labour market. It is clear that unemployment risks are related to education. Young people

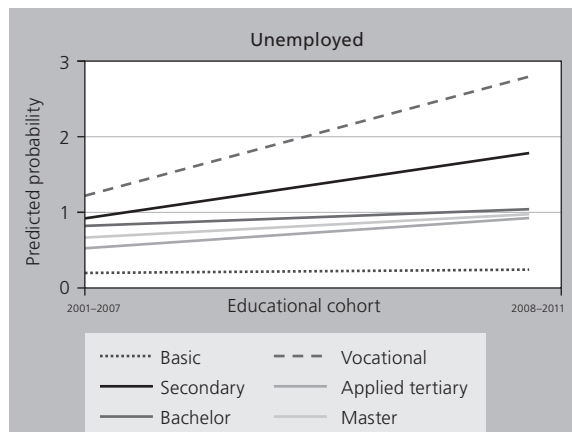
with a better education entering labour market are more successful in securing a job.

As can be seen from Figure 13, overall unemployment probability has increased most sharply for graduates with a vocational education or a professional higher education. It demonstrates that despite reorganisation of the vocational system in Estonia, their labour market position is very vulnerable to economic recession. The same goes for people with a professional higher education. Surprisingly, for others, unemployment probability has not increased significantly overall, including with regard to people continuing their education at the next level. This explains the low level of probability that people with elementary school or general secondary education will become unemployed as most of them continue their studies. In other words, only a minority leave the education system. However, it also demonstrates that BA and, especially, MA graduates are much better shielded against unemployment than people from professional higher education schools.

Figure 14 provides data on whether people are more likely to continue their educational career in order to avoid poor labour market opportunities during a recession. Surprisingly, people do not continue their studies more during a recession in Estonia. Despite the Bologna Process and the launching of various master's level programmes over the past decade, the probability of graduates from general vocational and professional education continuing their studies has not increased. One reason for the poor chances of graduates from general vocational education to continue in higher education is that their average marks in secondary school leaving exams (state exams) are lower. It is also unrealistic to provide almost simultaneously with vocational studies the same level of general secondary studies. Therefore, graduates from general vocational schools are much less able to compete for state supported study places.

There is still one group of people who are more likely to continue their educational career during recession, BA graduates. This is the only group whose potential unemployment is partly absorbed by the education system.

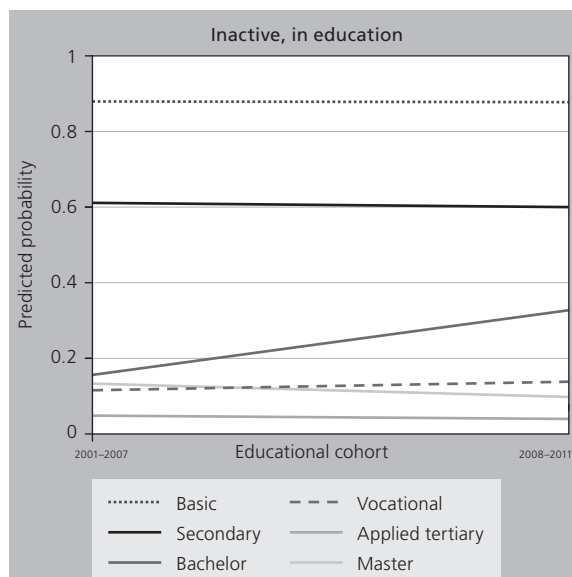
Figure 13: Predicted probability of unemployment by educational cohort and type of education



Note: Multinomial regression analysis, other independent variables are set to mean, model includes interactions between type of education and cohort.

Source: Author's calculations based on ELFS.

Figure 14: Predicted probability of inactivity due to studies, by educational cohort and type of education



Note: Multinomial regression analysis, other independent variables are set to mean, model includes interactions between type of education and cohort.

Source: Author's calculations based on ELFS.

4. Responses to Youth Unemployment

Fears have been expressed that a 'lost generation' might be a possible legacy of the current worldwide crisis (International Labour Organization 2010). Young people's disadvantages, disengagement and underutilisation in the labour market may result in lasting costs to the economy, society, individuals and families. This is particularly true of Estonia where, during the economic crisis, the youth unemployment rate has risen conspicuously compared to the average European rate. Youth unemployment risk is clearly associated with education in Estonia. It is easier for young people with higher education to enter the labour market and find work, while those with a lower level of education, especially basic, but also vocational secondary education, have a significantly smaller chance of success in the labour market if they leave the education system. The differences between educational levels have widened during the economic crisis.

Since vocational secondary education also fails to provide a good protection from unemployment, it might be inferred that what is being taught does not correspond to the needs of Estonia's economy. However, as Estonia is very small and open to cyclical changes, it is very hard to predict the need for specific qualifications in future. In particular, vocational school graduates typically gravitate to elementary occupations and craft and related trades, in which workers were the first to be laid off as a result of the economic crisis. As trade unions and collective agreements have very low coverage in Estonia, their positions are very open to labour market volatility.

It is crucial to solve the problems faced by young people in order to reduce unemployment in general as well as reduce the number of young people leaving the country to find work elsewhere. It is also very important to take into account the long-term effects of the aging of the Estonian population. While in 2008 there was one individual over the age of 65 for every four working-age people aged between 15 and 64, in 2020 the ratio will be 3:1 (Kask, 2009). Since we already have a shortage of young people, it is all the more important to be able to integrate them into the education system or labour market.

While analysing the possible responses to youth unemployment, one should first ask *how the target group can be reached*. In Estonia, compulsory schooling ceases at the age of 17 or on completion of basic education.


Thereafter, there is no surveillance system to target NEET youth. However, as is very clear from unemployment statistics, young people with a basic education are not prepared for the labour market. If they fail to continue their educational career, they are most likely to be marginalised in terms of very high unemployment risks as well as a high risk of precarious jobs. In addition, only around 40 per cent of all unemployed young people turn to the employment office (no statistics are available by educational level). Thus, even those having a clear motivation to enter the labour market are poorly connected to institutions. Spending periods of time as NEET may lead to a wide range of negative social conditions, such as isolation, insecure and underpaid employment, crime, and mental and physical health problems. These outcomes each have a cost attached to them and therefore being NEET is not just a problem for the individual but also for societies and economies as a whole. Eurofound has calculated that the annual costs of the NEET group is 1.5 per cent of GDP in Estonia in comparison to the EU21 average of 1.1 per cent (Eurofound 2011).

In order to keep track of NEET youth who are out of the education system and the labour market a monitoring system should be established for young people aged 16–18 (or 24) to prevent their detachment from society, providing them as early as possible with further formal education and training opportunities.

4.1 What Measures Would Help to Improve the Situation of Young People?

As described above, reducing early school leaving has been a serious concern of policymakers in recent years and the share of early school leavers among 18–24 year-olds has fallen considerably, from 13.9 per cent in 2009 to 10.8 per cent in 2011.

One shortcoming of Estonian school system is unequal preparation for school. In contrast to a number of other countries, children have difficulties if they cannot when they first go to school as school materials require a lot of reading even during the first semester. Estonian pre-schools prepare children for school, but in particular less affluent families or families in remote locations do not send their children to kindergarten due to the high costs. Therefore, it would be necessary to guarantee social support and transportation (for remote areas) for low in-



come families to attend kindergarten to offer their kids a better preparation for school age. Although it is a very long-term measure, it would take a life-course perspective and deal with causes of early dropping out. In addition, international studies have shown that investing resources is the most cost-effective way of reducing inequalities in early childhood.

A second set of measures should tackle prolonging educational careers at least until secondary school level and providing resources for young people to obtain qualifications. As the statistics show, a basic education is not sufficient to enable a young person to compete in the labour market. Low educated young people are more marginalised in Estonia than the EU average. Therefore, young people also need attention after obtaining an elementary school certificate. A common measure in this respect is to raise the obligatory school age to 18. In any case, there should at least be a guaranteed study place at secondary level for all elementary school graduates. For example, according to the Study Counselling Centre in Pärnu County, the local vocational training centre and the upper secondary schools were unable to accommodate 137 young elementary school graduates. In the circumstances of the economic recession, their prospects in the labour market are virtually non-existent and Counselling Centre workers argued that they are unable to provide any assistance to these youngsters. Current general secondary school reform might result in further polarisation of educational outcomes as many general secondary schools are either merged or closed down, narrowing opportunities to obtain a secondary education. However, it is hard to draw any stronger conclusions on possible outcomes of school reform as comprehensive analyses are missing.

In any case, it is important to allow young people, especially those with fewer educational resources, to study during the economic recession. It is also certain that young people need well functioning housing, education allowance and social assistance systems, since not all parents are able to support their children. This investment is important in both the short and long terms. It directly decreases youth unemployment and provides young people with meaningful activities.

Finally, we should stress the importance of coordinating youth policy measures between the Ministry of Social Affairs (Employment Office) and the Ministry of Educa-

tion and Research (education system). Currently, much emphasis is put on short-term measures assisting labour market entry. However, there is a clear need for a wider range of measures, including those related to formal education and training. Although education is not a miracle cure, alongside specific knowledge and skills it also fosters flexibility. Generally, people who have been educated for longer are better able to engage in retraining, if necessary, and adjust to economic changes.

Last but not least, currently very limited evaluation of current programmes is available. However, assessing the effectiveness of such present and future initiatives is crucial, especially in times of austerity when more efficient use of resources is essential.

5. Summary Table

Labour market situation in Estonia

- The labour market situation is highly dependent on the economic situation as Estonia is a small, open economy, highly dependent on external factors. From 2000 to 2007, Estonia was among the fastest growing EU economies, with an average real GDP growth rate of 8 per cent. But the country also experienced one of the biggest falls in GDP, -14 per cent in 2009. The economy is recovering rapidly after the global financial crisis: in 2011 GDP growth was again 8 per cent.
- There are 180,000 young persons aged 15–24 in 2011 in Estonia, the majority of them (52 per cent) in the education system.
- The youth unemployment rate reached its peak in 2010: 33 per cent of economically active youth were unemployed, significantly above the EU average of 21 per cent. The youth unemployment rate fell sharply in 2011, reaching 22 per cent, which is close to EU average of 21 per cent.
- The youth unemployment ratio, based on all 15–24 year-olds, was 9 per cent in 2011, the same as the EU average.
- Young people not in employment, education or training (NEET) comprised 13 per cent of the relevant age group in 2011 compared to 14 per cent in the EU.
- Eurofound has calculated that the annual cost of NEETs is 1.5 per cent of GDP in Estonia in comparison to the EU21 average of 1.1 per cent.

Vulnerable groups and trends in youth transitions

- People with less than a secondary education are clearly the most marginalised. Their unemployment rates were 30 per cent in Estonia and 28 per cent in the EU in 2011.
- People graduating during the recession of 2008–2011 are not more likely to continue their studies than those graduating during the boom years of 2001–2007. The only exception is BA graduates.
- Compared to the economic boom, downward substitution has been observable in young people's social positions during the recession.
- Only a master's degree seems still to have a distinct value in the labour market: neither unemployment nor the likelihood of being in precarious employment have increased in this group.

Measures to target youth unemployment

- To guarantee social support for low income families to cover kindergarten costs to reduce differences at school entry level.
- Monitoring system or obligatory schooling at least up to age 18.
- Guarantee a study place at secondary education level for all elementary school graduates. To develop well functioning housing, allowance and social support systems for disadvantaged young people.
- Coordination of youth policy measures between the Ministry of Social Affairs (Employment Office) and the Ministry of Education and Research (education system).



References

- Arum, R.T., Gamoran, A. and Shavit, Y.**, 2007. More Inclusion than Diversion: Expansion, Differentiation, and Market Structure in Higher Education. In Arum, R.T., Gamoran, A. and Shavit, Y. (Eds.), *Stratification in Higher Education: A Comparative Study*. Stanford, CA: Stanford University Press, pp. 1–35.
- Bell, D.N., Blanchflower, D.G.**, 2010. Youth Unemployment: Déjà Vu?, IZA Discussion Paper Series, Bonn.
- Brixiova, Z.**, 2009. Labour Market Flexibility in Estonia: What more Can be Done?, in: Department, O.E. (Ed.), *OECD Working Papers*. OECD Publishing.
- Brixiova, Z., Vartia, L., Wörgötter, A.**, 2010. Capital flows and the boom-bust cycle: The case of Estonia. *economic Systems* 34, 55–72.
- Cazes, S., Verick, S.**, 2010. What role for labour market policies and institutions in development? Enhancing security in developing countries and emerging economies, Employment Sector, Employment Working Paper International Labour Office, Geneva.
- European Commission**, 2010. *Employment in Europe 2010*, Social Europe.
- 2011. Youth Opportunities Initiative in: COM (Ed.), Brussels.
- Gangl, M.**, 2003. Explaining Change in Early Career Outcomes: Labour Market Conditions, Educational Expansion, and Youth Cohort Sizes, in: Müller, W., Gangl, M. (Eds.), *Transition from Education to Work in Europe*. Oxford University Press, New York, pp. 251–276.
- Kask, U.**, 2009. Rahvastiku areng ja jätkusuutlikkus, Ettekanne Koostöö Kogu konverents 20.11.2009. Statistikaamet, Tallinn.
- Lauristin, M.**, 2003. Social Contradictions Shadowing Estonia's »Success Story«.
- Leetma, R., Nurmela, K.** 2010. EEO Review: Youth Employment Measures 2010. European Employment Observatory.
- 2010. Young people entering labour market in Estonia. Praxis. eifügen
- Marksoo, Ü.**, 2012. Töövaldkonna areng 2010–2011. Sotsiaalministeerium. The year should be changed in the text accordingly!
- Rei, T.**, 2009. From Crisis to Crisis or Estonia Now and 10 Years Ago. *Eesti Statistika Kvartalikirj* 2, 18–22.
- Reinhold, M. and Vaher, K.** 2011. Kutsehariduse valdkonna statistika põhinäitajad 2010/11. õppeaastal. Haridus- ja Teadusministeerium.
- Saar, E.**, 2008. Expansion of higher education and opportunities in the labour market, in: Heidmets, M. (Ed.), *Estonian Human development Report 2007*. Eesti Koostöö Kogu Tallinn, pp. 20–27.
- Saar, E., Unt, M.**, 2012. Labour market returns to tertiary education in context. Presented at ECSR conference in Dublin, Ireland.
- Statistics Estonia**, 2012. www.stat.ee
- Turk, P. and Nurmela, K.** 2012. Estonia: ERM Comparative Analytical Report on Recent Policy Developments related to those Not in Employment, Education and Training (NEET). <http://www.eurofound.europa.eu/emcc/erm/studies/t1109042s/ee1109049q.htm> (accessed 15.06.2012)
- Tõnisson, E.**, 2011. Kõrghariduse valdkonna statistiline ülevaade 2011. HTM, Tartu.
- Unt, M.**, 2011. Youth Entry into the Labour Market and Early Career Outcomes, in: Saar, E. (Ed.), *TOWARDS A NORMAL STRATIFICATION ORDER Actual and Perceived Social Stratification in Post-Socialist Estonia*. P. Lang pp. 111–142.
- Viihmann, N. and Soosaar, O.** 2012. Tööturu ülevaade. 1/2012. Eesti Pank.



About the author

Dr Marge Unt is Senior Researcher at the Institute of International and Social Studies, Tallinn University.

Imprint

Friedrich-Ebert-Stiftung | International Dialogue
Hiroshimastraße 28 | 10785 Berlin | Germany

Responsible:
Jörg Bergstermann, Coordinator for Trade Union Programs in Europe and North America

Tel.: ++49-30-269-35-7744 | Fax: ++49-30-269-35-9250
<http://www.fes.de/gewerkschaften/>

To order publications:
info.moe@fes.de

The Friedrich-Ebert-Stiftung's International Dialogue Department promotes discourse with partners in Europe, the United States, Canada, Turkey and Japan. In our publications and studies we address key issues of European and international politics, economics and society. Our aim is to develop recommendations for policy action and scenarios from a Social Democratic perspective.

This publication appears within the framework of the working line »Youth unemployment in Europe«. Twelve country studies alongside with other policy papers can be downloaded from our website: <http://www.fes.de/lnk/youthunemployment>.

Project leader: Jörg Bergstermann (joerg.bergstermann@fes.de), project management: Cindy Espig (cindy.espig@fes.de).

The views expressed in this publication are not necessarily those of the Friedrich-Ebert-Stiftung or of the organization for which the author works.

This publication is printed on paper from sustainable forestry.



ISBN 978-3-86498-310-8