Inequalities on the labour market in Estonia during the great recession

Kerly Espenberg

Defended on April 9, 2013 at the University of Tartu.
The thesis is available digitally http://dspace.utlib.ee/dspace/handle/10062/29346
Supervisors: Kaia Philips (Ph.D, Associate Professor), University of Tartu, Estonia
Jaan Masso (Ph.D, Senior Research Fellow), University of Tartu, Estonia

The recent crisis which has also been named the Great Recession, was the most severe recession Estonia has experienced since regaining independence. As a small open economy with a small domestic market, Estonia is vulnerable to external shocks. The global financial crisis and the slump in private capital flows affected the country heavily. The crisis had a severe effect on the Estonian labour market, the most severe in EU comparison after Latvia.

In this thesis a system of inequalities in the labour market is developed and the development of these inequalities during the financial crisis in Estonia is analysed. The aim of the thesis is to ascertain what changes have occurred in inequalities on the labour market and which labour market groups have been most vulnerable since the onset of the recession in Estonia. Analysis covers what adjustment mechanisms were used in the Estonian labour market to cope with the crisis, what was the role of institutions and what were differences between industries based on gender, age, nationality and educational level.

The results of the analysis indicate that the Estonian labour market was highly flexible during the Great Recession. All three adjustment mechanisms – reductions in employment, wages, and working hours – were used. At the beginning of the crisis the increase in employment was one of the highest (in EU comparison) in Estonia. In Estonia wage decreases were much more widespread than in other EU countries. Adjustment via working hours occurred mostly at the beginning of the recession. In EU comparison Estonia clearly stands out, since employment, hours, and wage adjustments occurred in the very early phase of the recession and the negative consequences for the labour market were particularly severe. In international comparison Estonia is highlighted as a best practice example where a country was enabled to overcome the crisis due to successful implementation of rather severe measures despite its small size and the severe effects of the crisis on the economy.

In the Estonian public sector, austerity was mainly achieved via internal devaluation, mostly via pay cuts during the recession. Decreases in employment and hours were used less. Wages were reduced in many Estonian public sector organisations as early as 2008–2009 which was
exceptional in Europe. In the private sector the adjustment mechanisms were remarkably different across sectors. In those sectors which suffered the most during the recession, all three adjustment measures were used.

Wage inequality measured as a P90/P10 ratio remained largely unchanged during the recession, indicating that those at the upper and lower ends of wage distribution experienced wage cuts to a similar extent. Middle-wage earners, however, were hit harder during the recession. Labour market institutions (minimum wage, trade unions) had a limited influence on inequalities on the labour market during the recession.

Analysis has shown that inequalities emerging on the Estonian labour market were to a great extent caused by sectoral and occupational segregation. Changes in inequalities during the global financial crisis can be divided into two groups. The first group includes those inequalities that were short-lived and diminished during the recovery period. The second group of inequalities includes those that demand appropriate policy attention now. The experience of the recession indicates that, as in other EU countries, the most vulnerable groups on the labour market in Estonia were the young, non-Estonians and the lower-educated. During the recovery the share of long-term unemployed has increased the most among the elderly. Proper policy measures need to be applied in order to bring these people back to the labour market.

In addition to mapping general labour market developments during the crisis, one group was more specifically surveyed in the thesis: university graduates. It is often claimed that Estonia’s higher education system ‘overproduces’ social sciences graduates and that their labour market prospects are gloomy compared to those of real sciences graduates. However, the results of our analysis do not support this hypothesis. Unemployment remained low in both groups even during the crisis, but contrary to popular belief, a social sciences education is worth more on the labour market than one in real sciences in terms of wages, at least at the master’s/doctoral level and shortly after completing studies. The wage differences are partly explained by differences in work experience: compared to real sciences students, those in the social sciences are more engaged with the labour market while studying, and if we exclude extramural students the wage gap is in favour of graduates of real sciences.

The gender wage gap between university graduates is about the same in magnitude as the overall gender wage gap in Estonia (25%). The gender pay gap varies considerably across fields of study undertaken – from close to zero in services to more than 40% in health and welfare. Occupational segregation is the most important factor explaining part of the wage gap, but the role of traditions and norms inherent in society also play an important role. Therefore, changing attitudes is necessary.