

## TRENDS ON LABOUR MARKET DURING THE CRISIS

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*“Labour markets stand at the vortex of the crisis,” the G8 leaders stated during the recent summit conference which took place in July 2009 (Putting ... 2009). Though the economic crisis has an impact on the labour market carried by a certain temporal shift, its effects give rise to social problems which only may be relieved with years. One of the most serious problems is unemployment, especially when the lack of employment limits the possibilities to find work and unemployment may turn out as long-termed. Long-time unemployment and low-rated social benefits pave the way to the poverty. However, the crisis may have somewhat positive side-effects — it may excite new ideas and point out new solutions to facilitate the recovery from the crisis.*

### Introduction

The global financial and economic crisis has had a dramatic effect on the economic and enterprise environment of Estonia. One of the most direct outputs of the crisis is reflected in the Estonian labour market situation — first and foremost in the intensive growth of unemployment indicators. A continuous growth of unemployment started in the late autumn of 2008 and has sharply increased in the first half of 2009. According to the preliminary data of Eurostat, the seasonally adjusted unemployment rate of Estonia was 17% in June 2009 and 15.8% in the second quarter being one of the highest unemployment indicators in the European Union (Euro ... 2009), following Spain and Latvia (Euro ... 2009). In fact, the Estonian unemployment rate in the second quarter was considerably lower in comparison with the estimation published by Eurostat forming 13.5% (Estonian Labour Force Survey, 2nd quarter 2009). The number of registered unemployed persons at the Estonian Unemployment Insurance Fund was 67,000 by the end of June 2009 and the respective share of the registered unemployed comprised 10.2% of the labour force aged 16 to pensionable age (Estonian Unemployment Insurance Fund ... 2009).

The collapse of real estate market and the global financial crisis that started in 2008 has affected countries in different ways and may lead to different impacts in the society. So, much more variable policy options than before depending on the economic circumstances and institutional constraints of countries must be at hand. By 2010, a steep rise in unemployment has been forecasted for Europe (The Global ... 2009). Unemployment in Estonia has increased nearly threefold during the last year. A dramatic growth in unemployment is a sign indicating that the government should instantly start different activities to put the unemployed into practice by using the best practices of Europe and the experience of non-profit organisations for this purpose. The ILO reports have emphasized that only bold and swift action is required to reactivate the world economy in order to avoid a social recession from occurring (The Financial ... 2009). The article concentrates on the labour market rates during the crisis by using the labour market data of Labour Force Surveys of Statistics Estonia, Estonian Unemployment Insurance Fund and Eurostat, and analyses the statistical profile and former employment status of the unemployed. The unemployment situation may be alleviated by active labour policy, and also several solutions brought out during the state of crisis which may help to sustain employment and prevent the occurrence of long-term unemployment.

## **The situation of Estonian labour market in the context of EU Member States**

*The global economic crisis has had a serious impact on the Central and Eastern European countries (CEE) that became members of the European Union in 2004. Macroeconomic imbalances, chronic dependence on external financing and a large-scale economic and trade integration with the Old Member States of the European Union (EU-15) are the underlying reasons why the New Member States located in the Central and Eastern Europe suddenly found themselves deeply affected by the economic recession. The CEE countries were hit hard due to a series of factors that emerged simultaneously within a short time. This, in turn, highlighted how the previously fast economic growth became unsustainable once the external environment took a turn for the worse (Galgóczi ... 2009). The report submitted by the United Nations Economic Commission for Europe points out among, other things, that in the conditions of overheated economy too much emphasis has been laid on fiscal retrenchments of state budgets and, as a result, funding for social and safety net programmes has been reduced. The European emerging economies will also now suffer from having relied on economic growth to trickle down to the poor, instead of aiming for pro-poor growth and redistribution (The Global ... 2009)*

*Estonia is experiencing a similar lesson because expeditious economical growth since 2005 started to decelerate in 2007 and downturned in 2008. The impact of the crisis may be directly seen in the Estonian labour market situation (Figure 1). The unemployment rate was 4.1% in the first quarter of 2008, but it became 11.4% by the first quarter of 2009 — increasing about three times during the year. The average unemployment rate of the Member States of the European Union increased only 1.7 percentage points during the same period — from 7% to 8.7% (Labour ... 2009).*

*Comparison between the unemployment indicators of the first quarters of 2008 and 2009 reveals that the growth in unemployment was the fastest in Spain (7.8 percentage points) and in the Baltic countries (7.4 percentage points in each) (Figure 2). A steep increase in unemployment can also be detected in Ireland where the unemployment rate grew 5.6 percentage points during the year. There are also several countries (the Netherlands, Cyprus, Slovenia, Bulgaria, Germany, Poland and Slovakia with stably high unemployment rates) where unemployment has not increased considerably during the last year.*

*Since the beginning of 2009, a global jobs catastrophe is in the making (and will continue deepening). On current trends, unemployment and the number of working poor are forecasted to rise significantly in the course of this year. In addition, some 90 million people will enter the labour market worldwide in 2009–2010. Already before this crisis, signs of crisis could be noticed — subdued growth in productive employment, relative to the rise in output, and scant social protection, coupled with rising income inequality, featured together with excessive confidence in self-regulating markets characteristic of the countries that had chosen the liberal development trend. Young persons, migrants (notably women) working in precarious jobs (on the basis of fixed-term employment contract or part-time jobs) or in the non-observed economy are particularly exposed to the hardships of the current downturn (The Financial ... 2009).*

**With respect to the labour market groups in Estonia, young people aged 15–24 have suffered the most due to the economic crisis**

*In Estonia, young people aged 15–24 have suffered the most due to the economic crisis. Though the unemployment rate of young people of the EU Member States was on average twice as high as in Estonia (7.5%) in the first quarter of 2008, the unemployment of the youth in Estonia started to increase consistently from the third quarter of 2008 and surged to a 24.5% level by the first quarter of 2009. In consequence, the unemployment of the youth in Estonia increased more than three times during the year. The unemployment of non-Estonians has also notably increased during the last year. The rate of unemployment was 3.1% among Estonians and 6.5% among non-Estonians in the first quarter of 2008, but in the first quarter of 2009 the rate of unemployment of the referred groups was 9% and 16.1% respectively (based on the data of Estonian Labour Force Surveys 2008–2009).*

*Though the unemployment has constantly been somewhat higher among women in contrast with men in the majority of EU Member States, unemployment has become a bigger problem for the male group during the last year in Estonia. In Estonia, the unemployment*

rate of men was 13.8% and that of women — 9% in the first quarter of 2009, while in the countries of the European Union it was equal for men and women — 8.9% (Labour ... 2009). The above mentioned unemployment indicators refer to the fact that the global economic crisis has had quite a serious impact on the Estonian labour market. The fact can be extrapolated to all Baltic countries, where several former advantages (open economy and little intervention of the state) have made the Baltic countries very sensitive to external influences.

### **Recent developments at the Estonian labour market**

This analysis provides an overview of the results of labour market surveys carried out in the first and the second quarters of 2009. The intrinsic feature of today's economic situation is the fact that the effects of economic downturn reach the labour market faster than during the previous crisis at the end of 1990s. The reaction of labour market to the changes in the economy follows by quite a short temporal shift. This is caused by several factors: the openness of the Estonian economic environment, little intervention of the state in the economic and labour policy situation, an overheated economic environment which resulted in the blast of real estate bubble and the halt of construction sector. In Estonia, unemployment started to increase in the third quarter of 2008. Shrinking of the export market in the furniture, timber, textile and sewing industries, moving of jobs to the cheaper labour cost areas (CIS, Asia, etc.) and signs of the contracting construction industry had a great influence on the unemployment situation in Estonia.

The increase in unemployment was rather slow during 2008, but grew abruptly approximately by 6% during the first half-year of 2009. Data presented in Figure 3 show that the unemployment among males has increased sharply in the context of both genders. The reason for the high unemployment rate among men lies in the structural changes of construction and manufacturing industries: a huge number of male workers were discarded as a result of the slowdown in construction and shrinkage of export markets. The largest number of female workers has been discarded from the manufacturing and commercial industries, but also from the service industry and public administration. In the second quarter of 2009, the unemployment rate was 11.3% among Estonians and 17.6% among non-Estonians. The differences in the nation-based unemployment rates are rather irrelevant in case of women (the unemployment rate of non-Estonian women is 3 percentage points higher), but the difference is nearly twice as high in case of men — the unemployment rate is 13.7% among Estonian men and 22.7% among non-Estonian men (data are based on the Estonian Labour Force Surveys 2008–2009) (Figure 3).

#### **The high unemployment of males is a serious risk factor**

The high unemployment of males is a serious risk factor, because men, who are oriented to taking care of their families and cannot contribute to it in the previous scope any more when made unemployed, fall quite quickly into despair. Numerous young men with a low level of education and little skills have been discarded from the construction sector and they cannot find a new job in the circumstances of economic fall. Misery caused by unemployment paves way to alcoholism and other addictions, home violence, crime and suicidal behaviour first and foremost among men. The unemployment level of females has steadily been somewhat lower in comparison with males, but women are usually more active in their job search. Women use different possibilities to find a job and agree to take also low-paid jobs that do not correspond to their educational level. The changes taken place in the structure of occupations indicate that the craft and related trades workers, elementary occupations, technicians and associate professionals, service workers and shop and market sales workers and plant and machine operators and assemblers are the occupations where the largest number of jobs have been lost.

The statistics given in Figure 4 show that the increase in unemployment has been first of all caused by the sudden growth in unemployment among the youth aged 15–24 which began in the second quarter of 2008 and deepened at the beginning of 2009, whereas the unemployment rate of young men (30.1%) is almost twice as high as that of young women (17.1%). There are several other substantial reasons for the sudden growth in the youth unemployment besides the economic fall. More and more youngsters who were born during

the period of “the singing revolution” have entered the labour market during the past years. The labour force participation rate of the youth aged 15–24 was 36.4% in the first quarter of 2007, but in the fourth quarter of 2008 the respective indicator was already 44.5% (Figure 4).

The profile of labour force of young people is numerically dominated by males who are mostly oriented to acquiring vocational education and therefore study for a shorter period than the females acquiring higher education. This is why males enter the labour market earlier than females. Another issue is the educational level of the 15–24-year-old men — 36% of them have only basic education. They managed to find a job easily in the construction sector during the real estate boom, but now finding a job has become almost impossible for them due to their low level of education and lack of professional skills. Many young people are trying to find their first job — the young people who have just graduated, school quitters and youngsters who have never worked before constitute 30% of the 15–24-year-olds. According to the results of Labour Force Survey, a half of young unemployed people have faced difficulties during the past 12 months in finding a job due to insufficient knowledge of the Estonian language, but this has had no serious effect on the unemployment rates of the 15–25-year-olds. During the past year, the difference between the unemployment rates of young Estonians and non-Estonians has shrunk from 7% to 4% (data based on the Estonian Labour Force Surveys 2008–2009). Unemployment is still of rather short-term nature at the moment — three-fourths of all unemployed have been searching for employment for less than a year. However, unemployment may become a long-term phenomenon in the constant lack of available positions. The period for the payment of unemployment insurance benefit is 270 calendar days in case of the insurance period lasting from 56 to 110 months. The period of unemployment insurance benefit payments is 180 calendar days in case of the insurance period lasting less than 56 months and upon the termination thereof the unemployed person is entitled to the state unemployment benefit (1,000 kroons per month) for another 90 calendar days. The people who have left employment on their own initiative, by agreement with the employer, due to a breach of duties of employment or service, loss of confidence or due to an indecent act or act of corruption have a right to apply only for the state unemployment benefit on certain conditions and the payment period thereof is 270 days (Estonian Unemployment Insurance Fund).

In the period of a rapid growth in unemployment, the activeness of registration of unemployed persons has continuously increased. According to the data of the Estonian Unemployment Insurance Fund, there were 64,000 registered unemployed persons in the second quarter of this year which comprises 70% of the total number of unemployed persons based on the data of Estonian Labour Force Survey carried out by Statistics Estonia. 62% of men and 83% of females registered themselves at the Estonian Unemployment Insurance Fund. The reasons for not applying to the Estonian Unemployment Insurance Fund were different. The unemployed people firstly pointed out an argument that turning to the Unemployment Insurance Fund was in principle unacceptable (36%), secondly it was mentioned that no suitable job could be found through the Unemployment Insurance Fund (24%), and finally the respondents stated that they had no right to apply for the unemployment insurance benefit (24%). 63% of the unemployed registered at the Unemployment Insurance Fund got unemployment benefits: one-third of them had a right to receive the unemployment insurance benefit and 30% had a right to receive the state unemployment benefit. 32% of the unemployed persons aged 15–24 were registered at the Estonian Unemployment Insurance Fund, but only a tenth of them were qualified to receive the unemployment insurance benefit and others were entitled only to the state unemployment benefit. 62% of the registered young unemployed persons do not have any opportunity to get unemployment benefits from the Estonian Unemployment Insurance Fund (data based on the Estonian Labour Force Survey carried out by Statistics Estonia, 2nd quarter 2009).

A serious shortage of vacant positions hinders the employment mediation activities of the Estonian Unemployment Insurance Fund to a considerable extent. The Unemployment Insurance Fund has made no job offers to 80% of registered unemployed persons and the rest have received 1–2 job offers. The main reason why the unemployed did not get the job offered to them by the Unemployment Insurance Fund was that the position concerned had

already been taken (36%). This is a reason related to the behaviour of employers, because, as a rule, they do not inform the Unemployment Insurance Fund about the fact that they have found an employee they had been looking for. The unemployed refused to accept job offers which were too far from home, low-paid or in case of which no transportation to work was available. The unemployed are looking for a permanent employment (28%) but would also accept a temporary job (68%). The misery caused by unemployment has made the share of those who would accept a temporary or part-time job grow. In 2008, 45% of the unemployed were willing to accept temporary employment and 38% were willing to accept part-time employment, these percentages grew to the level of 68% and 66% respectively by the second quarter of 2009 (data are based on the Estonian Labour Force Surveys 2008–2009). This may be considered as a sign for employers who could sustain workspaces during the crisis by using more part-time work and job sharing. Similar opportunities would be wise to apply during the upturn of the economy as this would help to substantially reduce unemployment.

**Economic coping of the unemployed and their families is seriously endangered when the payment period of unemployment insurance benefit comes to an end**

Due to the serious increase in unemployment in the first quarter of 2009, it may be assumed that the payment period of their unemployment insurance benefit will come to an end by the end of this year and the economic coping of the unemployed and their families will be endangered even more. The economic coping of unemployed persons is already now highly complicated. The unemployed exist mainly (63%) due to the income of spouses, parents or other relatives. The next sources of subsistence in row are unemployment benefits, deposits, savings, property sales and child and family allowances. The young unemployed live mainly on the income of their parents or close relatives. The unemployed in the best working age i.e. the 25–49-year-olds cope due to the support from their employed spouses, unemployment benefits, children and family benefits and savings. Some elderly unemployed people have, in addition to the income of their closest people and unemployment benefits, a possibility to live on their pension and savings. A half of the unemployed people have pointed out that they cope with great difficulties, one third cope with some difficulties and 15% of the unemployed manage to cope. The young unemployed who live on the income of their parents comprise the predominant proportion of the latter group (data of the Estonian Labour Force Survey, 2nd quarter 2009).

Unfortunately, the results of Estonian Labour Force Surveys do not enable to analyse the severity of economic situation and what the families of unemployed people miss the most. The social studies carried out in Estonia are focused on the income of individuals and households of the year preceding the survey period and the results are published with a rather long delay time. For example, the results of the social study carried out in 2008 (that concern among other things the incomes of individuals and households in 2007) were disclosed in June 2009. The statistics on subsistence benefits provided by the Ministry of Social Affairs appears to be almost the only and indirect possibility to assess the economic situation of the unemployed. These statistics reveal that in the second quarter of 2009 the subsistence benefit payments accounted for 41.3 million kroons which is 92% more than in the second quarter of 2008. The recipient of subsistence benefit payments is mostly a family with an unemployed member — these cases constitute 76% of all satisfied applications. In the second quarter of 2008, 14,600 applications submitted by the unemployed families for receiving benefits were satisfied, but in the second quarter of 2009 the respective indicator was already 25,400. A small state unemployment benefit (1,000 kroons per month) cannot cover the basic needs of the unemployed — almost 12,000 households with a recipient of the state unemployment benefit received also subsistence benefit in the second quarter of 2009. The rate of subsistence level is 1,000 kroons per month for an individual living alone or for the first member of household, and 800 kroons per month for the second and every next member of household according to the 2008 State Budget Act (Ministry of Social Affairs 2009).

### **The trends of registered unemployment**

In addition to the data of the Statistics Estonia's Labour Force Surveys, the unemployment indicators can be analysed according to the data of the Estonian Unemployment Insurance Fund. While interpreting the labour market statistics it should be borne in mind that the

unemployment rate calculated according to the results of Labour Force Surveys are characteristic of the labour market status of the whole 15–74-year-old population and that the statistics of Estonian Unemployment Insurance Fund allow to present unemployment indicators only on the registered unemployed. The results of the Estonian Labour Force Survey carried out in the second quarter of 2009 by Statistics Estonia show that a successively larger number of unemployed people turn to the Estonian Unemployment Insurance Fund to find a job. Turning to relatives, friends and acquaintances and on the other hand to the Estonian Unemployment Insurance Fund are equally pointed out as the main means of searching for a job (approximately 60% in both cases). Browsing job advertisements (56% of job seekers), contacting the employer directly (33%) and answering to job advertisements (25%) are also actively used in search for work (Estonian Labour Force Survey, 2nd quarter 2009).

The number of registered unemployed people grew more than twice during the first half-year of 2009 amounting to 67,100 unemployed persons or 10.2% of the labour force aged from 16 to pensionable age by the end of June 2009.

The number of registered unemployed persons has increased nearly fourfold during the last year (from July 2008 till June 2009). At the same time, the number of available job positions that employers have notified the Estonian Unemployment Insurance Fund of has decreased almost fourfold (Figure 5). This has caused a situation where the Estonian Unemployment Insurance Fund managed to offer on average only two available positions per 100 registered unemployed persons.

The average number of registered unemployed persons was 59,062 per month in the first half-year of 2009 being three times more than during the first half-year of 2008. 61,520 new unemployed people were registered during the first six months of 2009 — this was more than three times more than in the same period of 2008. The counties with the highest registered unemployment rates were Võru (15.1%), Ida-Viru (14.9%), Valga (12.7%), Põlva (11.4%), Pärnu (10.2%) and Lääne (10%) counties (Figure 6). The lowest registered unemployment rate was in Tartu (8.1%) and Hiiu (8.4%) counties. Increase in unemployment was the fastest in Ida-Viru county (9.8 percentage points) and in Võru county (9.8 percentage points) counties during the last year. Since the restoration of independence, the southern counties of Estonia (Võru, Valga and Põlva counties) and Ida-Viru county have constantly had high unemployment rates and the enterprise environment vulnerable to deteriorating external factors. The unemployment rate of non-Estonians that has for years been higher than that of Estonians has a direct effect on the employment problems of Ida-Viru county.

Similarly to the data of Labour Force Surveys carried out by Statistics Estonia, the proportion of males among the unemployed persons registered at the Estonian Unemployment Insurance Fund has increased considerably. The proportion of unemployed males that was 43% among all registered unemployed persons at the end of June 2008 increased to 55% by the end of June 2009. Table 1 presents an overview of the education of unemployed people.

**Low educational level and lack of the knowledge of Estonian language reduce the opportunities of finding a job**

The educational level of the registered unemployed is quite different, because in the context of steep increase of unemployment both people with basic education and higher education have become unemployed. However, almost a half of all unemployed persons are without vocational secondary education, vocational training based on basic education or vocational higher education which reduces their competitiveness at the labour market. If the critical condition caused by a low educational level is amplified by the lack of knowledge of the Estonian language or complicated age (below 24 or above 50), it becomes almost impossible for this kind of unemployed to find a job during the crisis. It especially concerns the registered unemployed males among whom the percentage of persons with primary or basic education was bigger compared to females.

71% of all unemployed persons registered at the Estonian Unemployment Insurance Fund during the second quarter of 2009 worked in Estonia before becoming unemployed. The situation of the rest of unemployed persons is presented in Figure 7. The displayed data show that one third of the registered unemployed did not have previous activity — they did not go to work, though they had no reasons that could hinder going to work. The number of

*the unemployed with no previous activity has increased 3.5 times (from 2,260 to 8,200) during the past year (2nd quarter 2008 – 2nd quarter 2009). It may be assumed that this is a rather heterogeneous group. Most of them are evidently discouraged persons excluded from the work-life who are not entitled to health insurance and who try to apply for the subsistence benefit to the local government, but the prerequisite thereof is registered unemployment at the Estonian Unemployment Insurance Fund. This group may also include people, who have mainly been active in the non-observed economy — they have worked unofficially, picked up occasional work or been involved in illegal business. The economic fall has remarkably restricted their activities and made them register as unemployed in order to get the subsistence benefit and live on it. Another huge and economically inactive group is the homemakers (24%), mostly women who turned to the Estonian Unemployment Insurance Fund when the situation of their families turned worse. The number of these people has grown almost 2.5 times during the last year.*

*A relatively large number of women with children and school graduates have turned to the Estonian Unemployment Insurance Fund during the last year. A major share of them are trying to find a job by registering as unemployed because the persons who have just graduated from school have no right to get the unemployment insurance benefit. The number of people have lost a job while working abroad and registered as unemployed at the Estonian Unemployment Insurance Fund has increased three times during the last year. It may be assumed that most of the people who return from abroad worked there as seasonal workers or on the basis of fixed-term contract. The main groups of previous occupations held by the registered unemployed were the following as of the end of June 2009: elementary occupations (excl. construction) (19% of all registered unemployed people who had a job previously), related trade workers and elementary occupations in the field of construction (16%), service workers and shop and market sales workers (14%), technicians and associated professionals and clerks (11%), skilled metal and machine workers (9%), plant and machine operators and assemblers (7%), drivers (6%), elementary occupations in other industries (6%) and managers (6%). During the last year, mostly construction workers and skilled metal and machine workers have lost work.*

*Among the registered unemployed people who worked previously, the main reasons for losing a job as stated by them in the second quarter of 2009 were as follows: layoff (35%), discontinuation of fixed-term contract (16%), discontinuation of employment relationship on the employee's own the initiative (11%), discontinuation of employment relationship by agreement of the parties (8%) and on the employee's initiative (by the fault of the employer) (6%) (Estonian Unemployment Insurance Fund). While analysing the reasons for the discontinuation of employment relationship it may be assumed that almost 60% of the registered unemployed people should receive the unemployment insurance benefit and manage to cope in a decent way for 180 or 270 calendar days depending on the insurance period. But this is not the case when considering all conditions laid down in the legislation. The unemployment insurance benefit was assigned only to 45% of all new registered unemployed persons during the first half-year of 2009 (Estonian Unemployment Insurance Fund). The rest of unemployed people have to cope with a 1,000 kroons of state unemployment benefit or apply to the local government for the subsistence benefit, because they have no legal right to get the state unemployment benefit. Thus, a rather large share of the unemployed registered at the Unemployment Insurance Fund must rely on the assistance of relatives and live on the subsistence benefit.*

## **Possibilities to relieve the situation of labour market during the crisis**

*Labour policy, which is considered one of the main and most effective alleviators of labour market difficulties, has been applied in the EU Member States since the beginning of Lisbon process in 1997. The Amsterdam Treaty set out the main directions of the European Union labour policy, besides that, recommendations for their successful implementation were worked out. The means and strategies of EU labour policy have been consistently elaborated and with the help of it a number of European countries have achieved a considerable decrease in unemployment and stabilization thereof at the level of 3–5%. The lowest level of Estonian unemployment indicators (the unemployment rate of 4% for people aged 15–74) was reported from the third quarter of 2007 until the second quarter of 2008.*

*Several important factors contributed to the reduction of unemployment like the effect of expanding economy on the labour market; using the benefits of European Social Fund that became available in 2004 and enlarged opportunities for Estonian residents to work abroad. The means of European Social Fund were applied through the priorities of Estonian National Development Plan. The assistance was mainly aimed at developing human resources and enhancing the employment-related competitiveness. Estonia's expenditures on the labour policy have been modest and have consistently decreased since 2003. The expenditures on labour policy comprised 0.27% of the Estonian GDP before Estonia's accession to the EU, but by 2007 the relevant expenditures had reduced to 0.15% of GDP which positioned Estonia at the last place among other Member States. At the same time, Denmark and the Netherlands, known by their stable low unemployment rates, spent respectively 2.7% and 2.5% of their GDP for this purpose (Figure 8).*

*The labour policy measures are divided into active or passive. The purpose of applying active measures is to make the unemployed people more active (labour market trainings, start-up assistance, etc.) and the prevention of long-term unemployment (employment incentives, work practice and work exercises for the unemployed). Passive measures are such as payment of unemployment insurance benefit aimed at alleviating the consequences of unemployment.*

*Figure 9 displays the structure of Estonian and EU labour policy expenditures in 2007. Despite the fact that the average number of registered unemployed people was only 13,400 in 2007, and the state unemployment benefit was 1,000 kroons per month, and the unemployment insurance benefit payment period was, as a rule, 180 calendar days, the expenditure on the unemployment benefits accounted for a huge amount — 65% — of the total expenditure on labour policy in Estonia. The similar structure of expenditures is characteristic of the Southern European countries (Cyprus, Malta, Greece, Spain, Portugal), and Germany and Latvia which also had a huge proportion of passive measures and where the proportion of active measures was only 30–40%. Active labour policy was more actively than in other countries also applied in the Nordic countries — Sweden spent the most on facilitating employment which involved benefits for employers to hire people who are less competitive.*

*Denmark spent more than other countries on supported employment and rehabilitation to facilitate the employment of disabled people and other risk groups.*

*Finland has developed a large spectre of active measures. Compared to other countries, Finland was also more actively involved in job creation, job rotation and sharing a job between several people (Figure 9).*

*The low level of expenditure on the labour policy in Estonia, orientation to passive measures and the reduction of state budget costs made in the conditions of crisis give rise to a serious question whether it is possible to alleviate the large-scale unemployment with the help of the modest sums allocated to the labour policy. That is why all possibilities and the means from the European structural funds which are aimed at preventing long-term unemployment and facilitating employment need to be roped in more actively than before to reduce unemployment and create new jobs in Estonia. In addition, the experience and recommendations of other countries should be taken as an instruction how to sustain employment and reduce unemployment during the crisis.*

**Little expenditure on the labour policy and reduction of the state budget give rise to a question whether modest means of labour policy can alleviate unemployment.**

*In November 2008, the European Commission published its European Economic Recovery Plan, aiming to set out how decisive and coordinated action could respond to the economic crisis. The Plan sets out several public initiatives:*

- *measures to maintain employment having a 'preventive' character, in that they aim to keep people in employment by, for example, supporting enterprises or providing income support for workers who have accepted pay cuts to safeguard their jobs;*
- *measures to create employment, based on instruments promoting the transition from unemployment to employment — with a focus on the individual jobseeker;*
- *initiatives to financially support individuals in cases of redundancy, falling into the category of income support for unemployed people and those who have been made to leave the labour market.*

*Public support in maintaining and creating employment can be successful only when economic indicators improve. It is important to emphasise pro-growth policies to maintain and create employment by education, R&D, innovation, investment and access to financial sources. Employment support can be temporary, but it should apply to the whole economy and focus on keeping workers in employment. Governments should strengthen measures to maintain such income as state unemployment benefits, social assistance and pensions. Support for large companies in traditional industries should be conditional on restructuring. The above mentioned measures should be implemented by all Member States of the EU (Tackling ... 2009).*

*The reports of the International Labour Organisation (ILO) point out that the global economic crisis and its consequences indicate that the world faces the prospect of a prolonged increase in unemployment, deepening poverty and inequality. Employment has usually recovered after the economy has fully recovered from the crisis. In some countries the simple recovery of previous employment levels will not be enough to contribute effectively to strong economies and to guarantee well-paid and satisfying work for people. Enterprises and employment are being lost. Addressing this situation must be part of any comprehensive response. There is a need for new policy options that would strengthen national efforts focused on the creation of jobs, sustainable enterprises, quality public services, respect workers' rights and protect vulnerable people.*

*These responses may include boosting effective demand for labour force and helping to maintain wage levels, helping jobseekers by implementing effective, properly targeted active labour market policies, enhancing the competence and increasing resources available to public employment services so that jobseekers receive adequate support and services, implementing their vocational and entrepreneurial skills for self-employment. It is also recommended to recognize the contribution of small and medium-sized enterprises (SMEs) and micro-enterprises to job creation, and to promote measures, including access to affordable credit. Using public employment guarantee schemes for temporary employment, emergency public works programmes and other direct job creation schemes should be supported, too (Recovering ... 2009).*

*ILO has suggested one more initiative for maintaining and boosting employment, i.e. work sharing which is a reduction of working time intended to spread a reduced volume of work over the same number of workers in order to keep workers and avoid layoffs or, alternatively, as a measure intended to create new employment. As a result of this measure, wages and salaries decrease, but the impact of this restriction can be alleviated by delivering salary support from the state budget. The result is a "win-win-win" solution: enabling workers to keep their jobs and not to lose their working skills through losing a job; assisting companies not only to survive the crisis, but to be well-positioned to prosper when growth returns; minimizing the costs of social transfer payments and, ultimately, social exclusion will decrease for governments and in the society as a whole (Work ... 2009).*

*National statisticians and analysts are expected to be ready to improve countries' capacity to produce and use labour market statistics (incl. wage trends), which serves as a basis for policy decisions, and to consistently collect and analyse labour market data to help countries benchmark their progress. It is important to collect and disseminate information on the countries' crisis response and recovery packages (Recovering ... 2009).*

## Summary

*Estonian economy and labour market are experiencing a deep crisis. This is shown by a continuing economic fall and growing unemployment. In Estonia, the most serious employment problem is the high unemployment rate of the youth, and the solution how to alleviate it cannot be delayed. The status of unemployed and hopelessness to find a job in the context of overall unemployment as the first employment experience for a just graduated student may be a traumatic experience for the whole life. As in Estonia the expenditures on labour policy are extremely modest compared to other EU Member States, the youth unemployment is a certain problem to be firstly focused on — to suggest they continue aborted education, to find work practice for them at different enterprises, to create work exercise centres, to establish work clubs and to engage them in voluntary services. These activities should be carried out by labour market institutions, companies, social partners, educational institutions, local governments and also non-profit organisations.*

*All possibilities and the means provided by the European structural funds which are aimed at preventing unemployment and facilitating employment should be used more actively than before to sustain employment, reduce unemployment and create new positions. The public should observe and also intervene if needed more actively to avoid crises-caused state budget cuts that could reduce the means and programs intended for the subsistence and activation of unemployed people. At present, we mostly have to do with short-term unemployment, but when it develops into long-term unemployment, the government has to spend several times more resources to bring the long-term unemployed, who have lost their skills and working habits, back to the labour market when the economy begins to recover.*

*Special attention should definitely be paid to ensuring the rights of employed people during the crisis. Forced underemployment (forced vocations and long-term part-time job) and constant salary cuts may cause poverty for many people and their families. In order to alleviate crisis, raising of direct taxes (social insurance tax, income tax, unemployment insurance tax, taxation of pensions) is out of question, because this will reduce the consumption possibilities of the population (first and foremost internal consumption), which in turn will put employer into a more difficult situation, facilitate the development of non-observed economy and, as a consequence, make the economic fall even more seriously.*

*The crisis may also carry positive connotations — it may give rise to new ideas and help to find new solutions in the field of labour policy and employment relationship. That is why the agencies engaged in labour policy should keep up with trends and use the implemented measures and knowledge of other countries to combat the crisis and in planning applicable activities for the recovery of the economy and labour market.*