



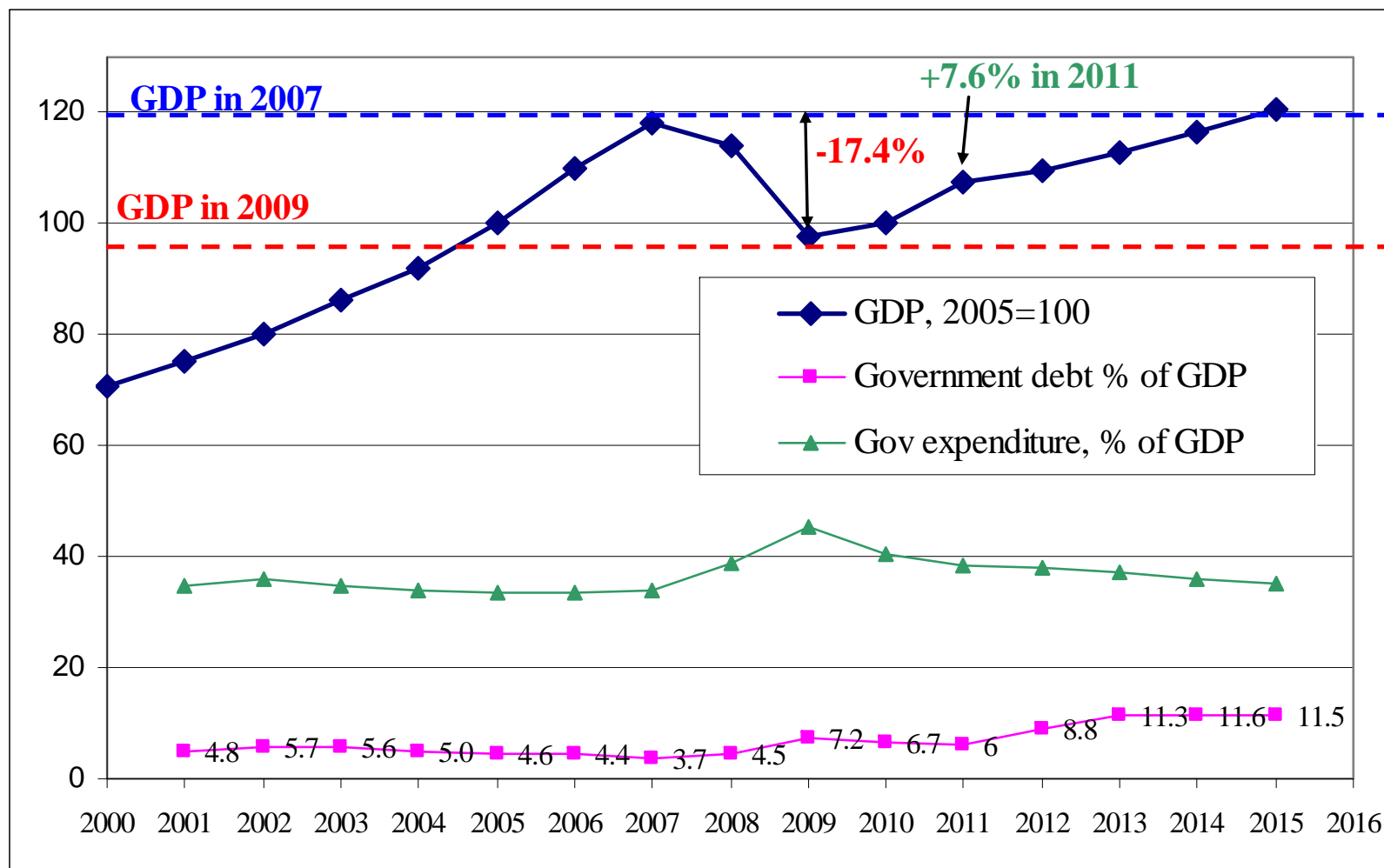
Wage and employment adjustments in Estonia, Latvia and Lithuania

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Motivation: are Baltic's the case of successful recovery (austerity and internal devaluation)?





Key points on public sector adjustment during the crises

- **Low indebtedness at the start of crises** (in Estonia: 4.6% in 2008, to increase to 14% by 2014), **still heavy fiscal consolidation** (both revenue and expenditure measures)
- **Early application of austerity measures in 2009** – e.g. In Estonia already February 2009 (3 cuts in total ca 9.3% of GDP), both expenditure and revenue side (exacerbating cycles?, but high growth during recovery, in 2011 +7.6% in EE, 5.5% in LV, 5.9% in LT)
- **Different fiscal policies during the crises** - Estonia tight policy to join euro (in 2009 primary balance -1.8%, in 2010 +0.4%), Latvia turned to IMF, Lithuania had large deficit without IMF financing
- **Structural versus expenditure cuts** - in Estonian rather expenditure cuts, in two other Baltic States, esp. Latvia, more structural (e.g. reorganizations in health care and education)
- **Massive adjustments with little protests (esp Estonia)** – public consensus on the necessity of cuts, specific culture of patience, trust in national political institutions, agreements with unions and employers, perception of the need to reduce the number of bureaucrats



Wage adjustments

- **High wage flexibility:** low union density (still higher in PS: 20% vs 9% in EE), common performance related pay; in public sector within branches relatively even cuts across pay-scales (Masso, Krillo 2011) – e.g. in public administration -4.5% in EE, -10% in LV, -11% in LT

Porportion of employees, whose hourly wages were cut over the year

Indicator / group	2006	2007	2008	2009	2010, 1st quarter
All employees	22	14	17	45	45
Public sector	29	22	25	61	71
Private sector	21	13	16	40	44

- **Private-public wage gap** turned in favour of public sector (106% in 2008 =>96% in 2009 in Estonia), during recovery pressures from private sector: wage dynamics led by private sector
- **Wage inequality:** 1) working in the PS increases the wages of the low wage employees, decreases the wages of the high wage employees, still incidence of low-pay in PS, 2) Gender pay gap lower in PS (23% vs 31%); 3) inequality increased by delegated system of human resource management practices and performance orientation, 4) lower wages in health and education (c.f. other OECD countries, but especially in Estonia); strike of teachers in March 2012



Adjustments in employment and other working conditions

- **Employment adjustment in PS** less important adjustment measures (LV exception: -4.3% in 2009)
- **Labour market flows:** probability to enter employment higher for former PS employees; average job tenure rather increasing (as less new hires), possible problems in case of old workforce (like teachers)
- **Training** – in EE total training expenditure in civil service decreased in 2009 by 60 %, but recovered in 2010 thanks to the more active use of EU funds
- **Working conditions** (safety, intensity, health) – higher in public sector compared to private (source: Estonian labour force surveys)
- **Increased migration:** during the crises emigration rose especially in LV and LT (in 2007-2009 by 77 and 55%); though in general public sector employees are migrating less (lower migration intensions, lower share of people with foreign work experience), it is important e.g. in health care



Effects of adjustment

- **Room for restructuring in some sectors, e.g. education?** – in LV and LT, low class sizes (ca 15 vs 20-25 pupils in other EU countries) possibly enabled employment cuts (Aslund and Dombrovskis 2011; similar arguments also for health care)
- **Estonian health care case study:** in 2009 reduction in the number of services, reference price of all healthcare services decreased, maximum allowed waiting time of ambulatory specialised medical care increased => worsened accessibility to health care services (longer waiting lists, higher percentage of people not receiving medical aid)
- **Estonia rescue services case** – budget cut of 20% during 2008-2011: closing of commandos in remote areas (professionals replaced with volunteers), worsened life rescue capabilities, increased voluntary leaves
- **Possibly increasing unionisation** due to high insecurity (e.g. rescue sector) , though austerity measures also demonstrated weakness of unions (agreements reached via threat of lay-offs, low union membership as possible factor behind the high bargaining power of government)