



# Shrinking workforce pool and challenges of development of the Estonian economy

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International conference „Integration Challenges in a Radicalizing World“  
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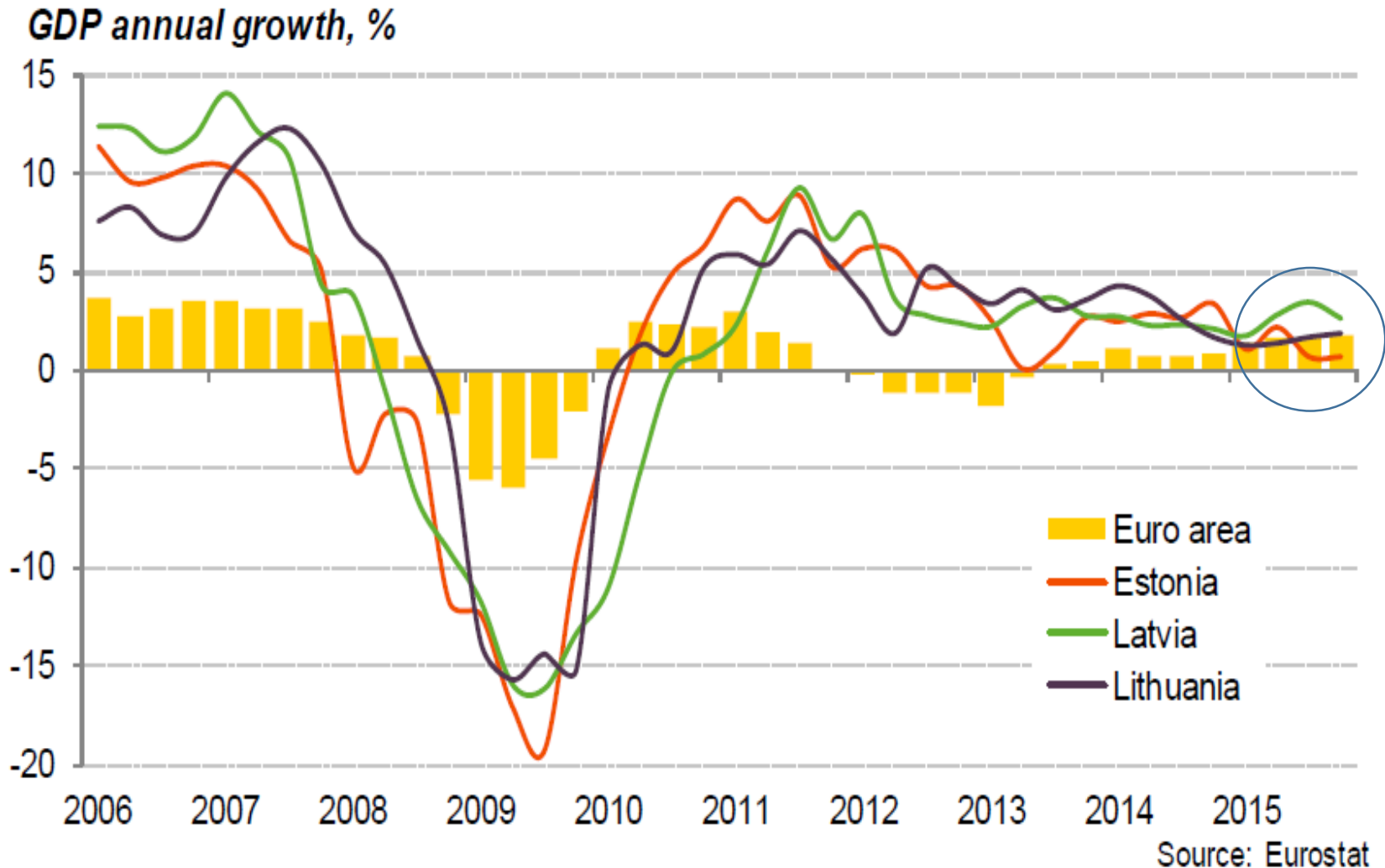


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# Dynamics of the GDP of 3B



„In a world with fewer young people, economic growth will be harder to come by.“

Foreign Policy March/April 2016 issue

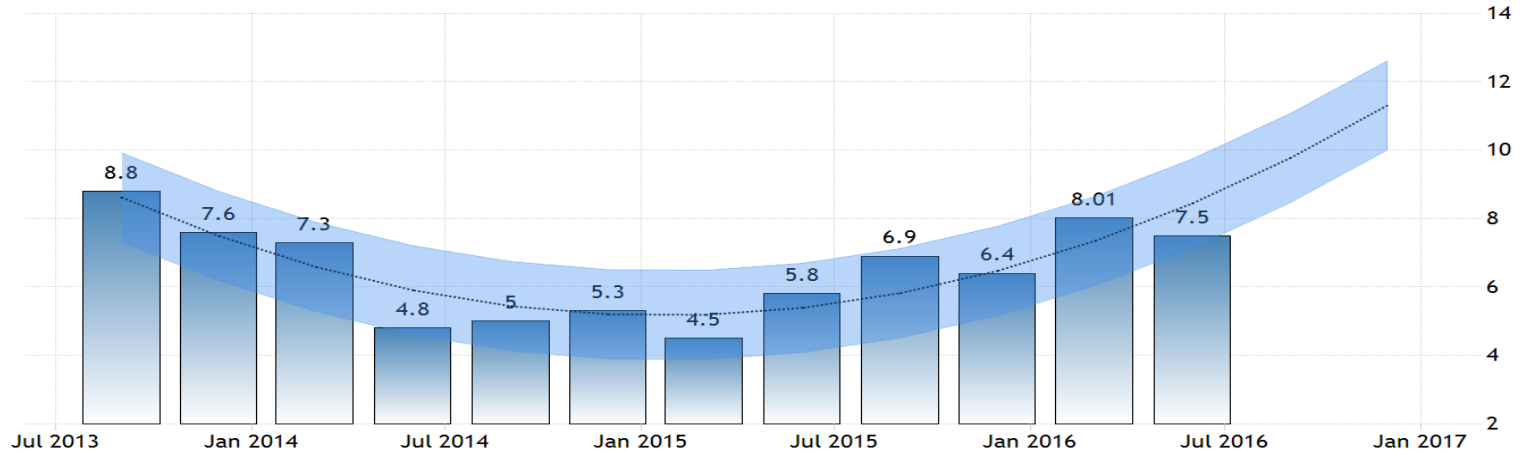
# But we are catching-up economies



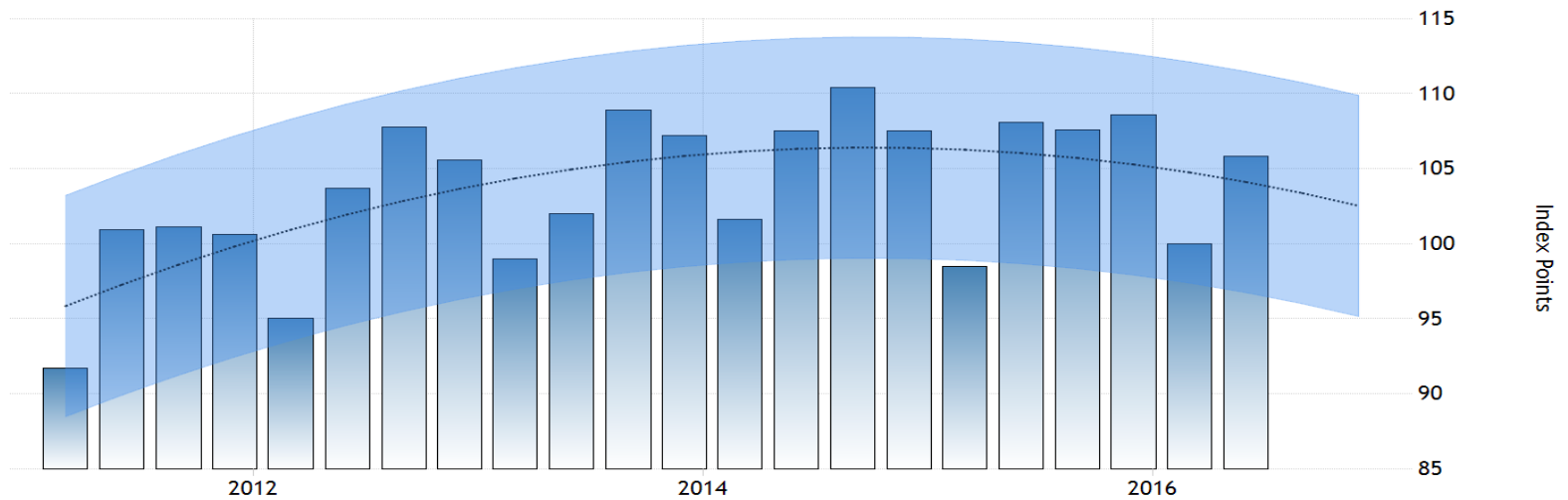
- For catching-up we need to create wealth, becoming more competitive on higher levels of the value-chain
- It's possible only by efforts of people as a one-percentage-point decline in the population growth rate will eventually reduce the economic growth rate by roughly a percentage point
- But our population is shrinking and qualified labor is in shortage
- Governments can offer incentives to boost fertility rates and lure more adults into the work force, but these half measures can only partially offset the larger forces at work and have time-related impact
- On top of that our competitiveness and productivity is stalled

# Simple chain: growth of costs with the shortage of the resources

ESTONIA WAGE GROWTH



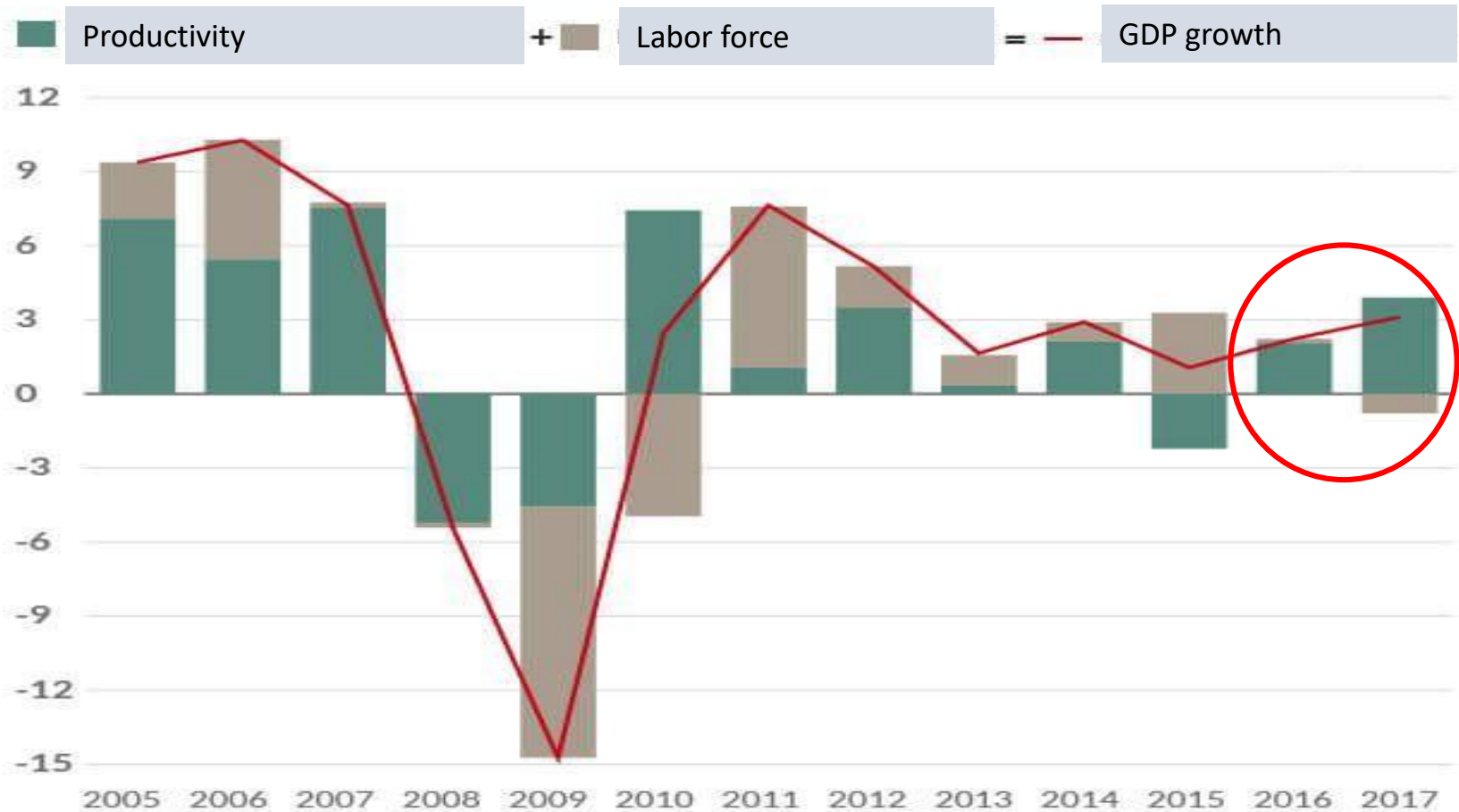
ESTONIA PRODUCTIVITY



SOURCE: WWW.TRADINGECONOMICS.COM | EUROSTAT

# Sources of growth

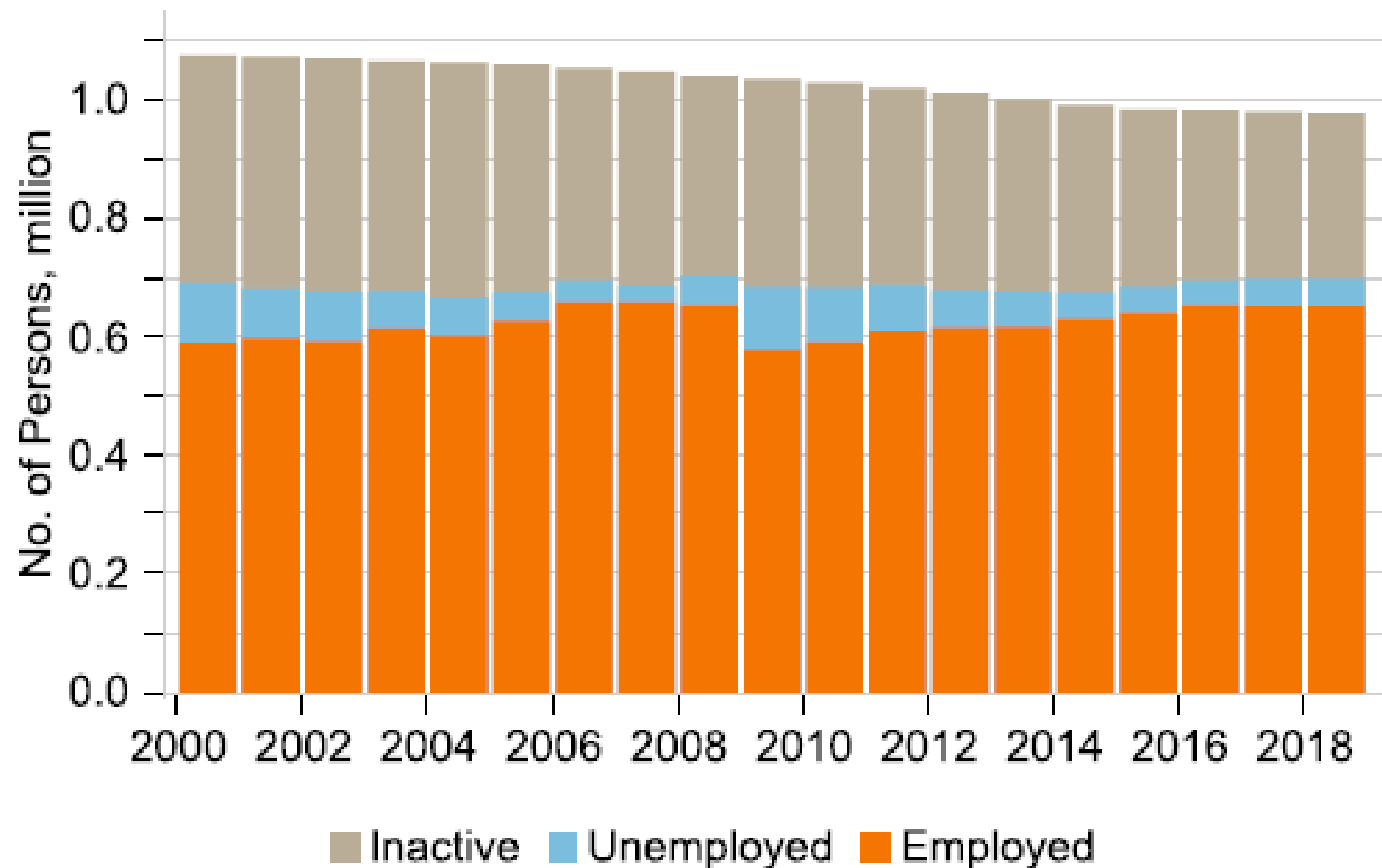
## Sources of growth of Estonian economy (by share)



Source: StatEST

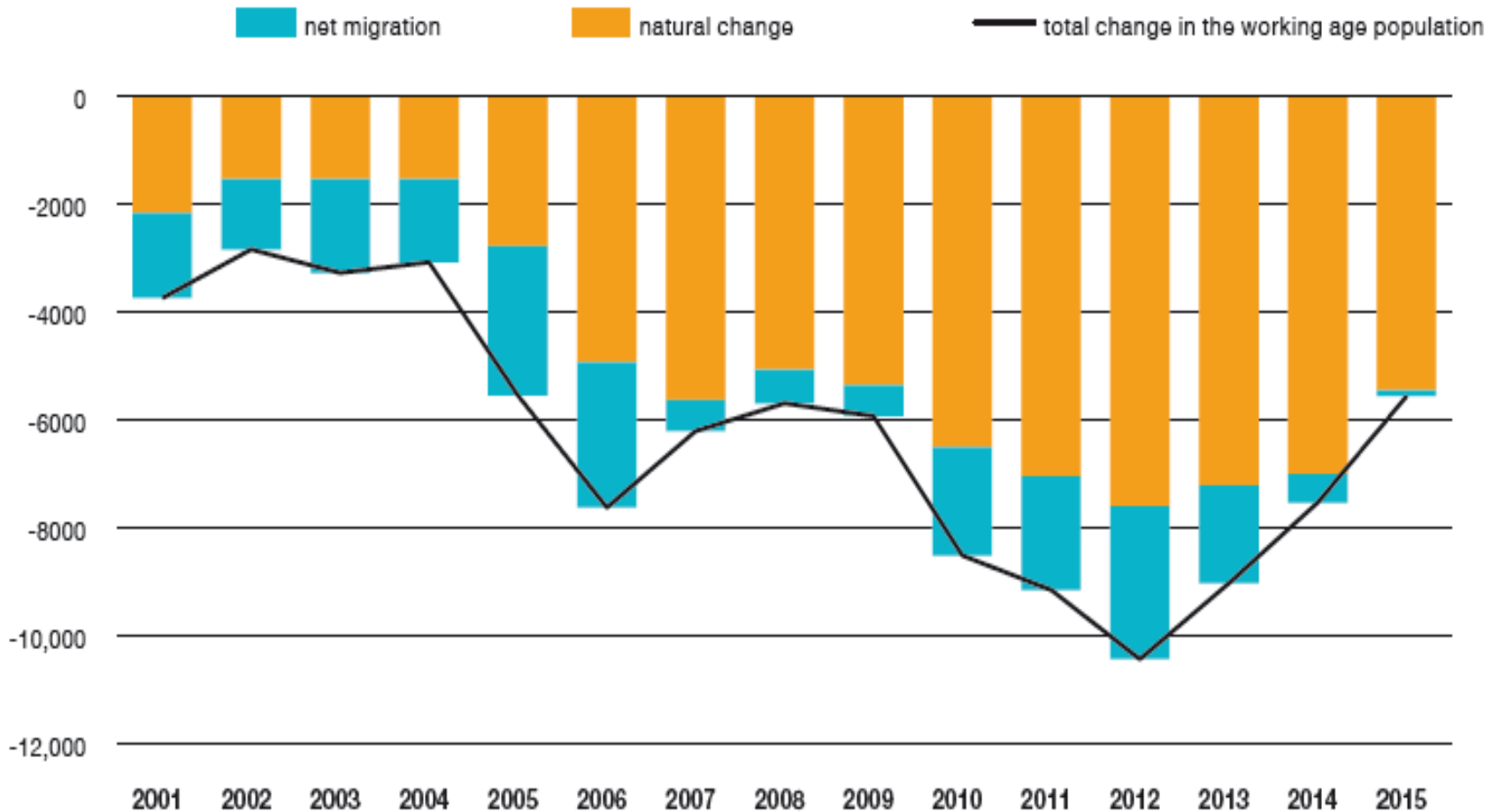
Äripäev

# Estonia: Working age population, 15-74 years old



Source: Swedbank Research & Macrobond

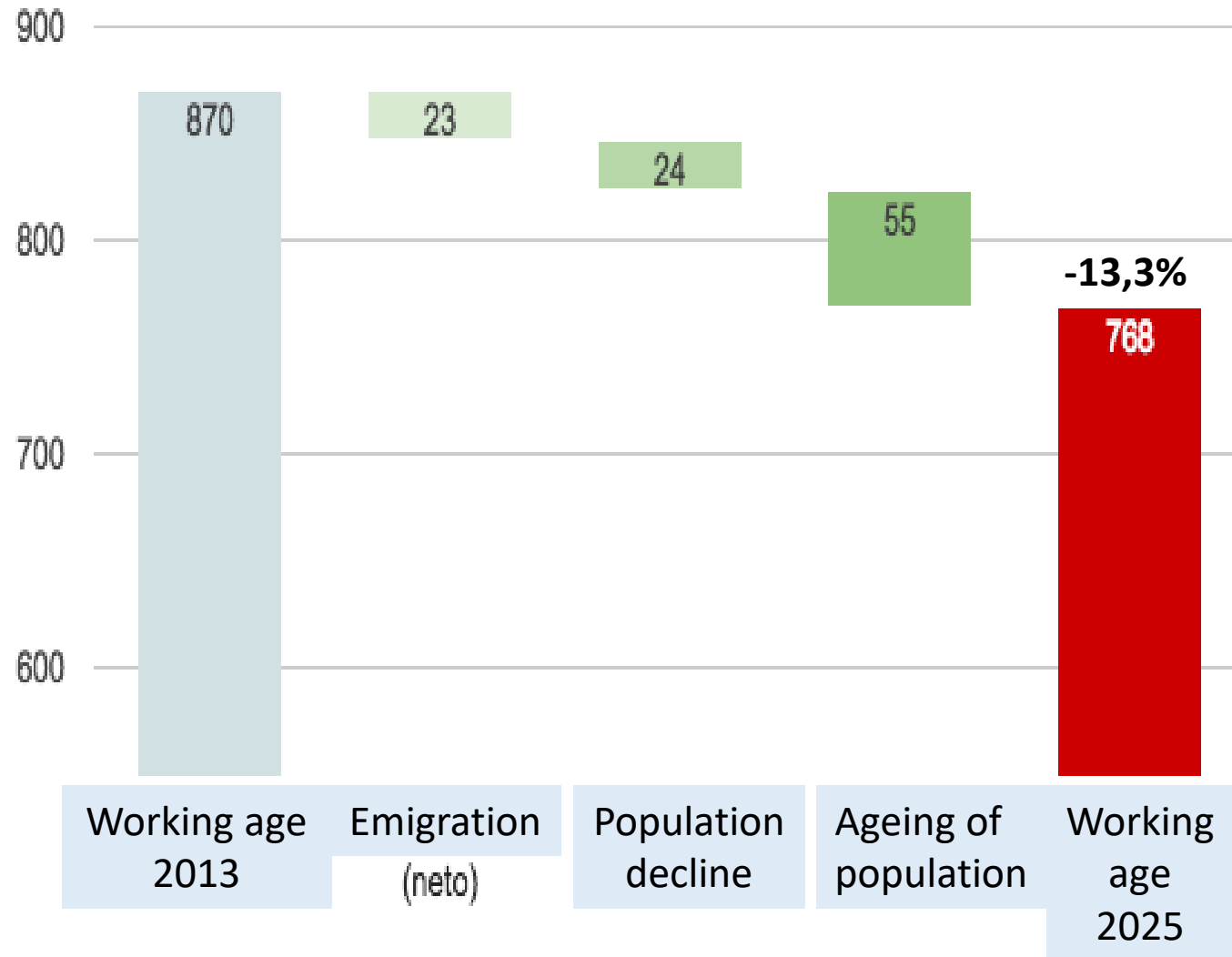
# Change in the working age population 15-74



Source: Statistics Estonia

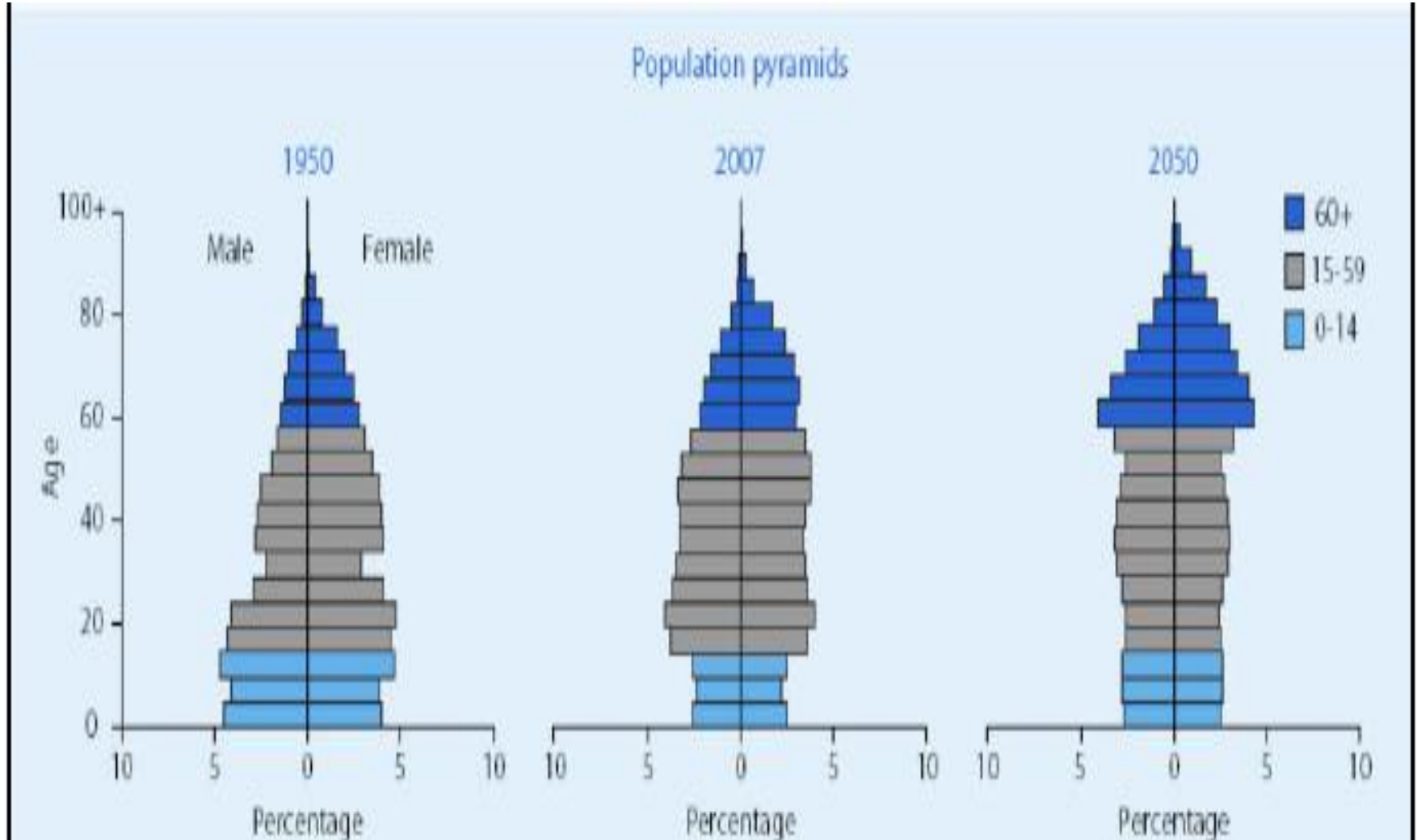


# Change in the working age population by 2025 (th.)



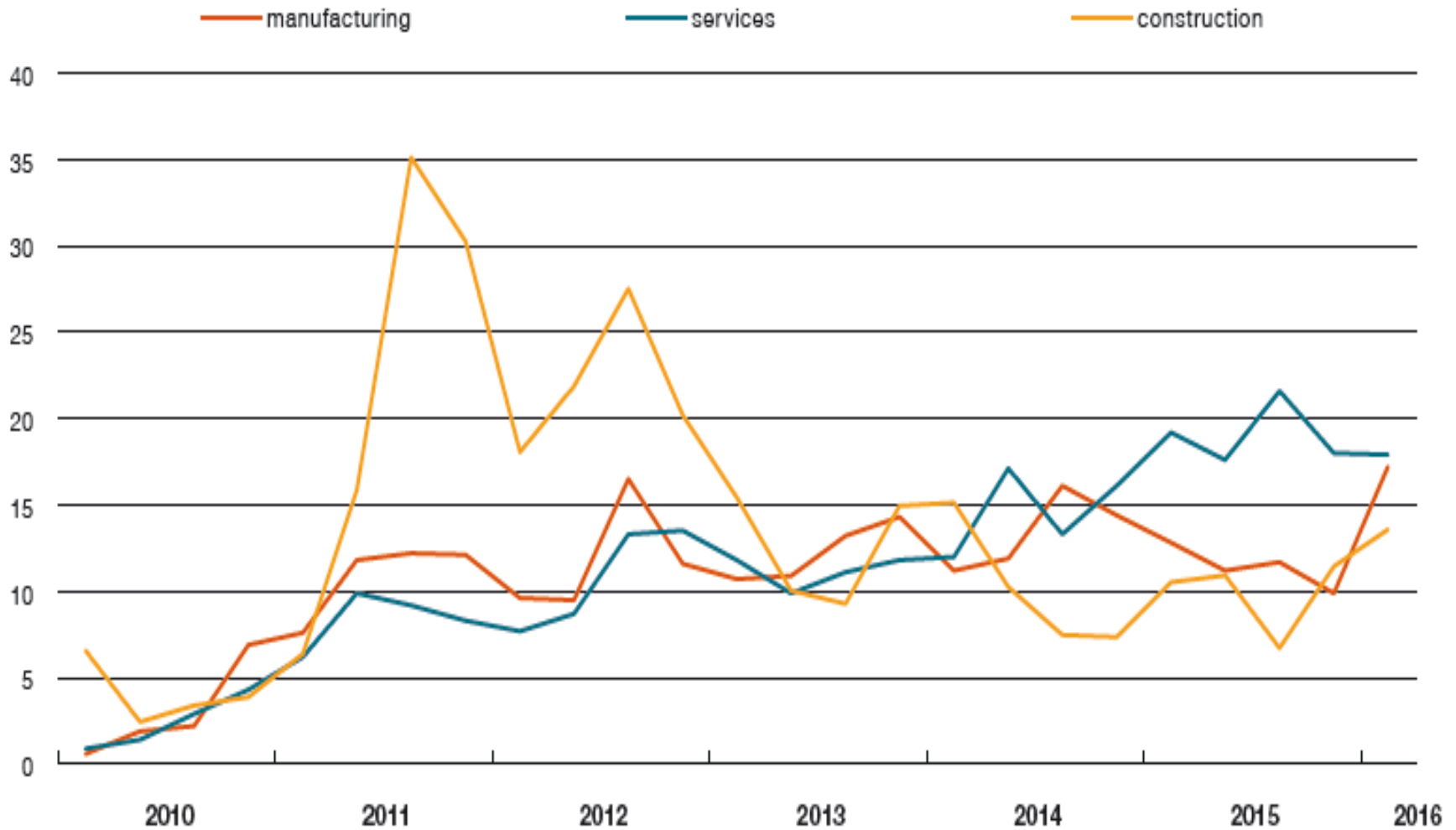
Source: EKK

# Estonia's demography challenge



*Countries with shrinking working-age populations have found it nearly impossible to produce strong economic growth.*

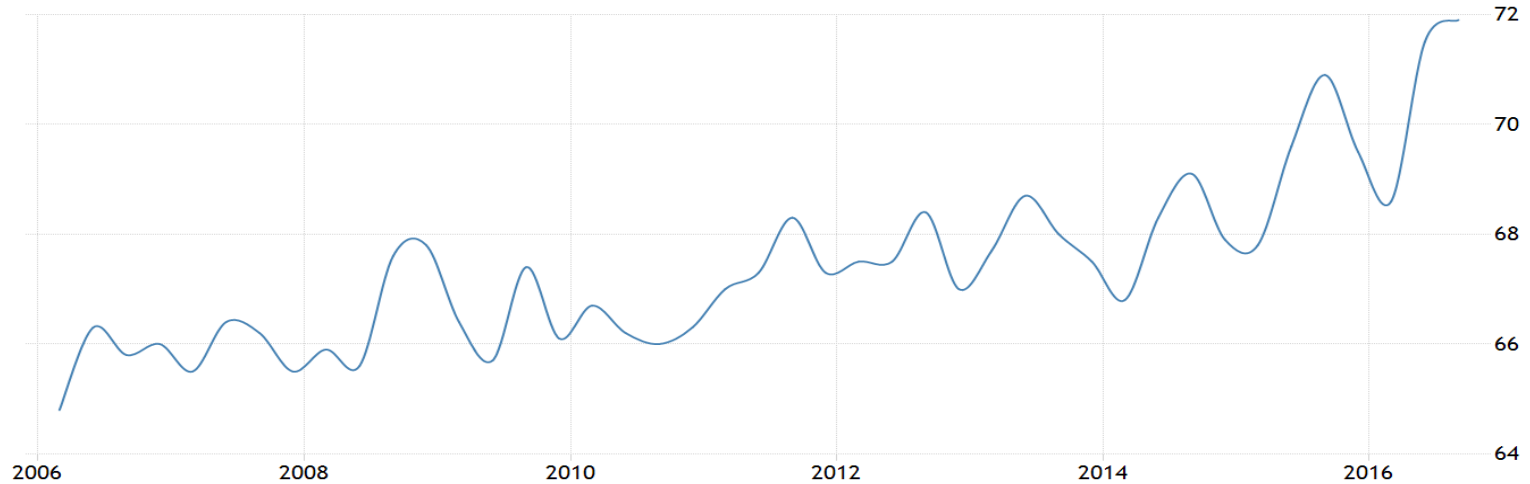
Figure 24. Labour shortage currently limiting production (% of firms, seasonally adjusted)



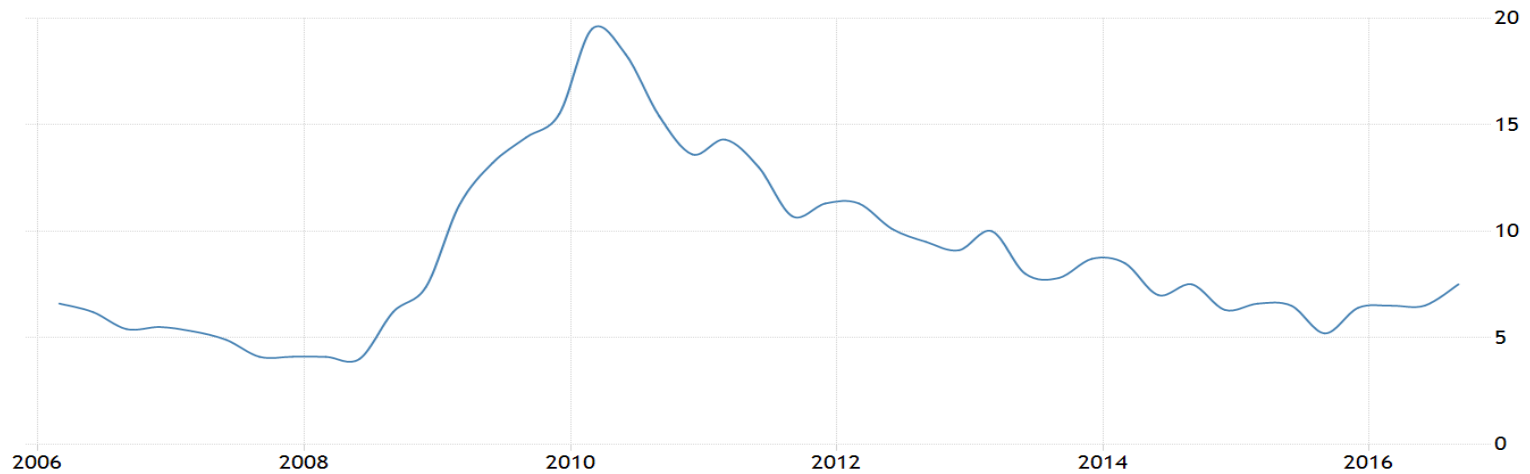
Source: Central Bank

# Estonia labor force participation rate

ESTONIA LABOR FORCE PARTICIPATION RATE



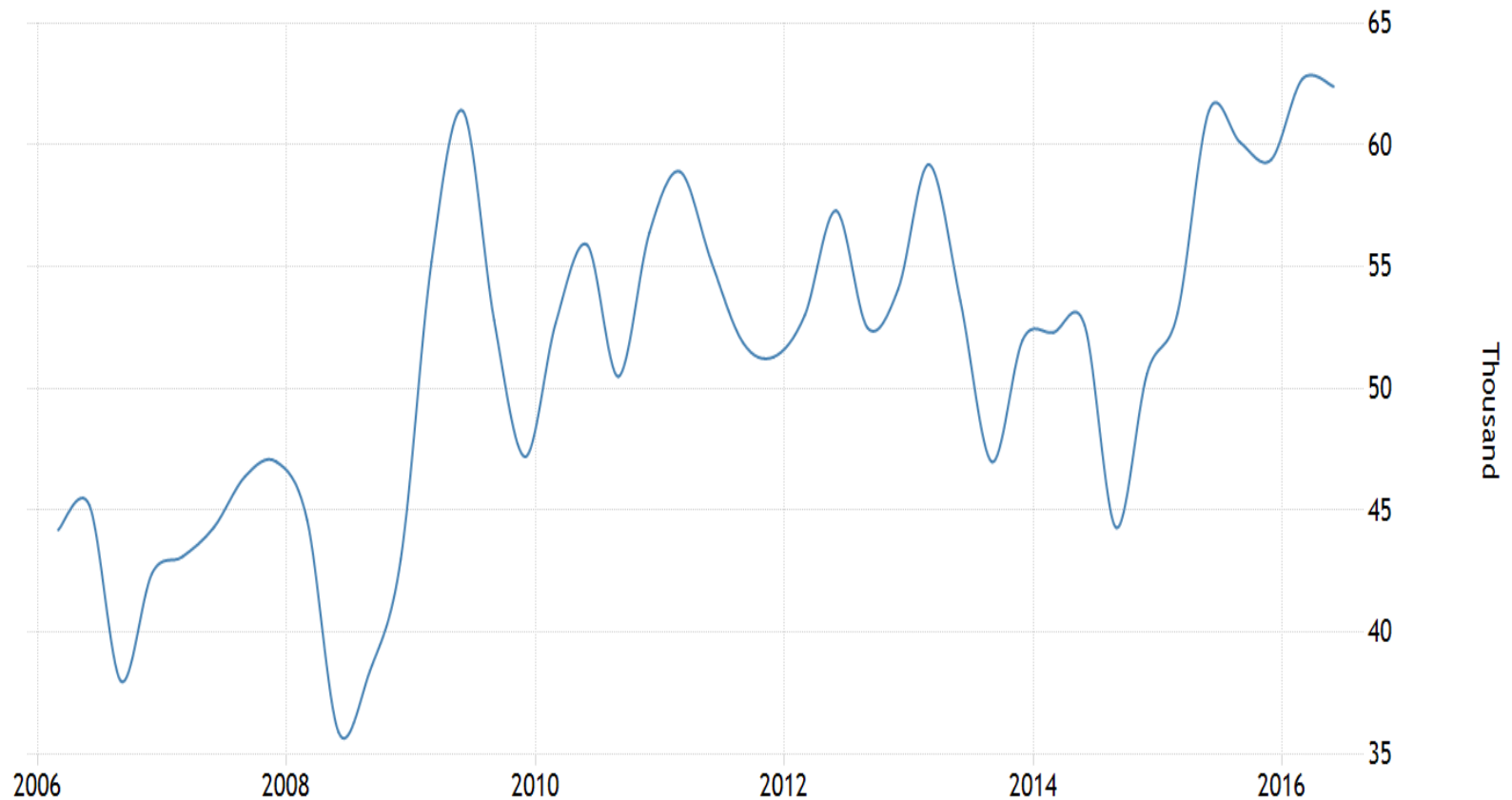
ESTONIA UNEMPLOYMENT RATE



SOURCE: [WWW.TRADINGECONOMICS.COM](http://WWW.TRADINGECONOMICS.COM) | STATISTICS ESTONIA

# Part-time jobs reserve is tapped, but needs some relief in regulations

ESTONIA PART TIME EMPLOYMENT

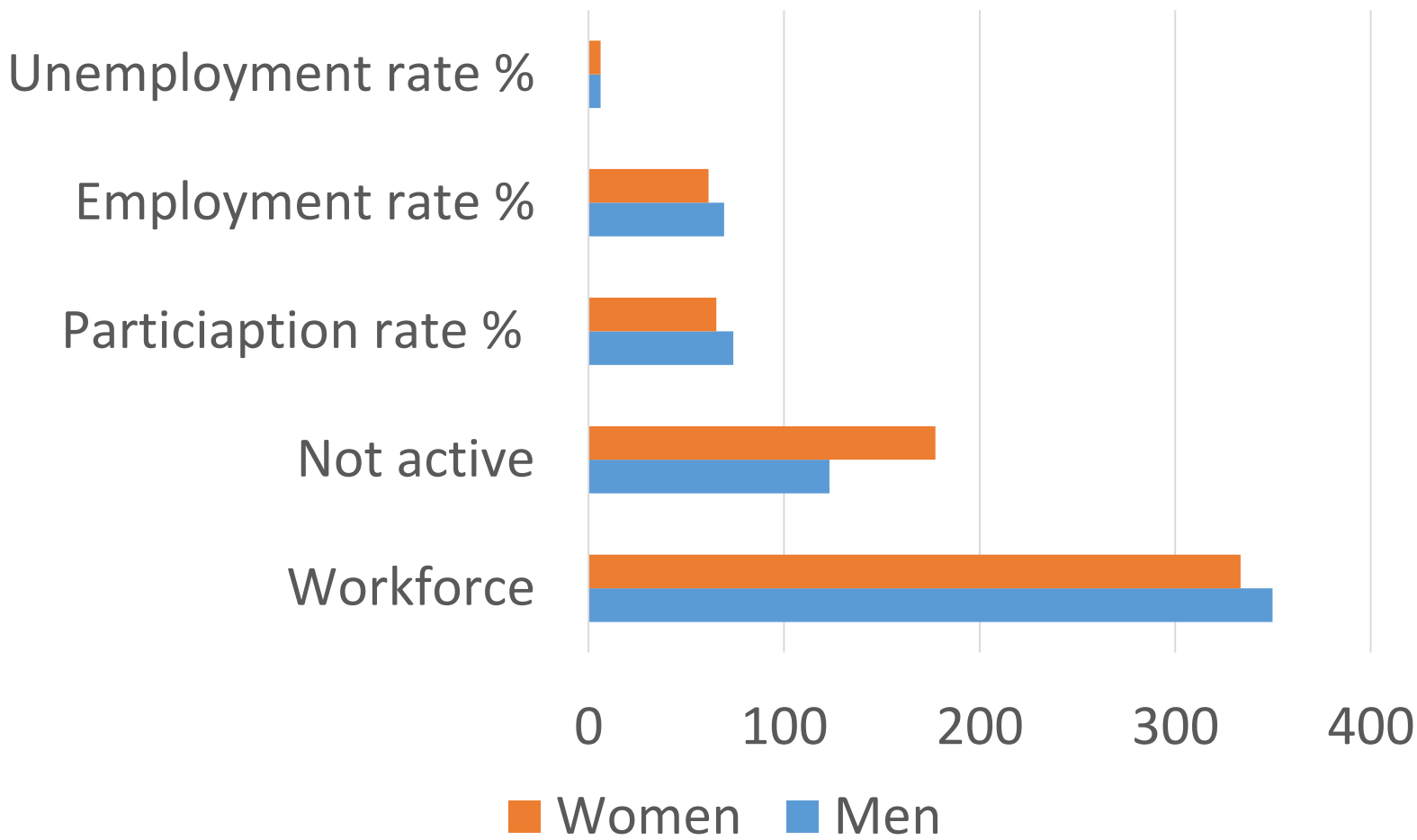


SOURCE: [WWW.TRADINGECONOMICS.COM](http://WWW.TRADINGECONOMICS.COM) | EUROSTAT

OECD: if its member states eliminated the gender gap in labor-force participation, they would see their GDPs rise by a cumulative 12 percent over the next 15 years.

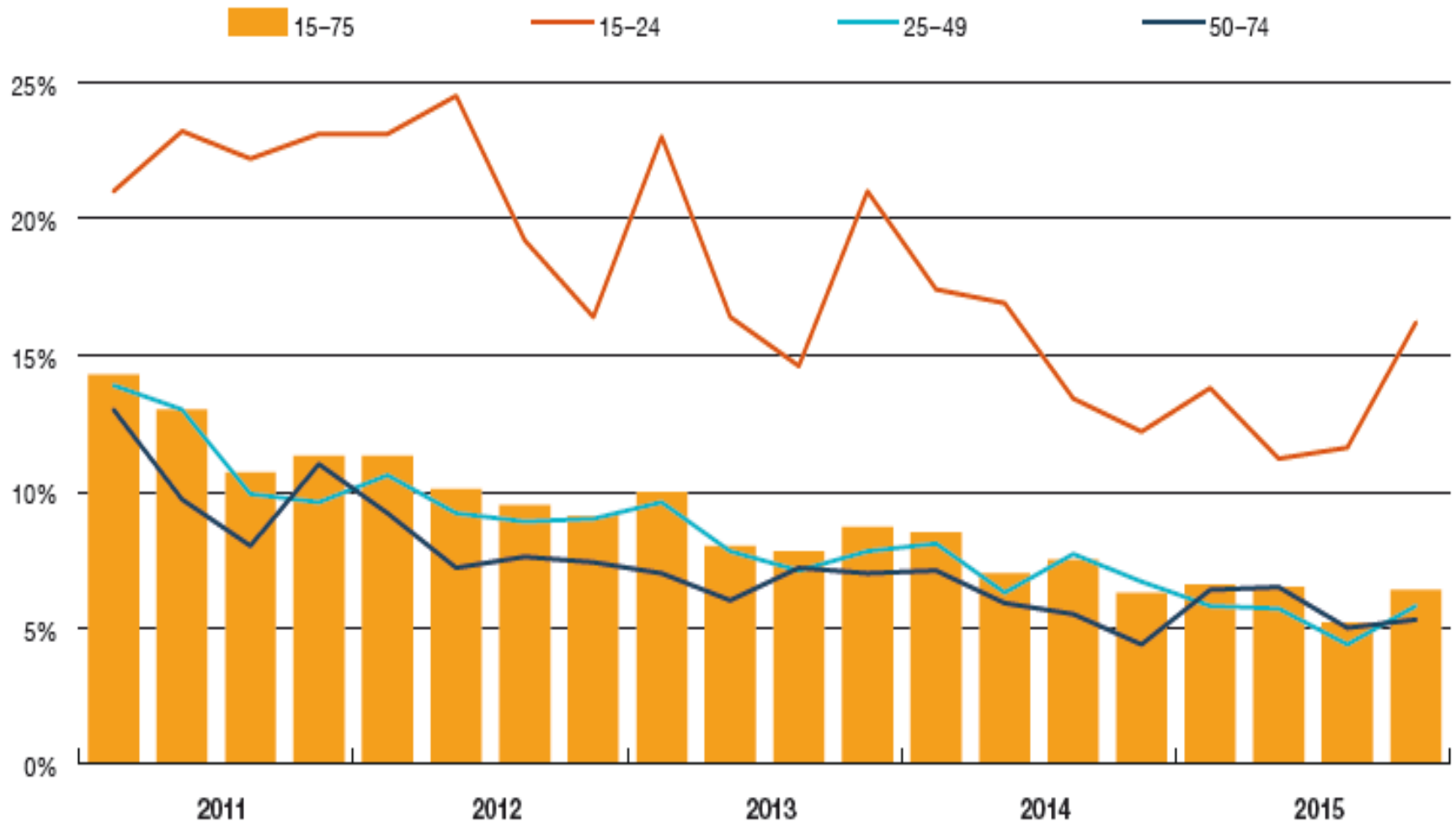
# Gender-based participation rate

Labor market of 15-74 yo by 2015



Source: StatEst

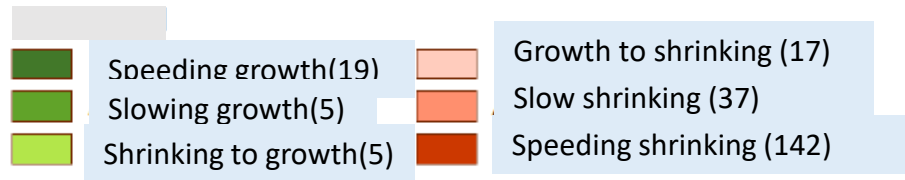
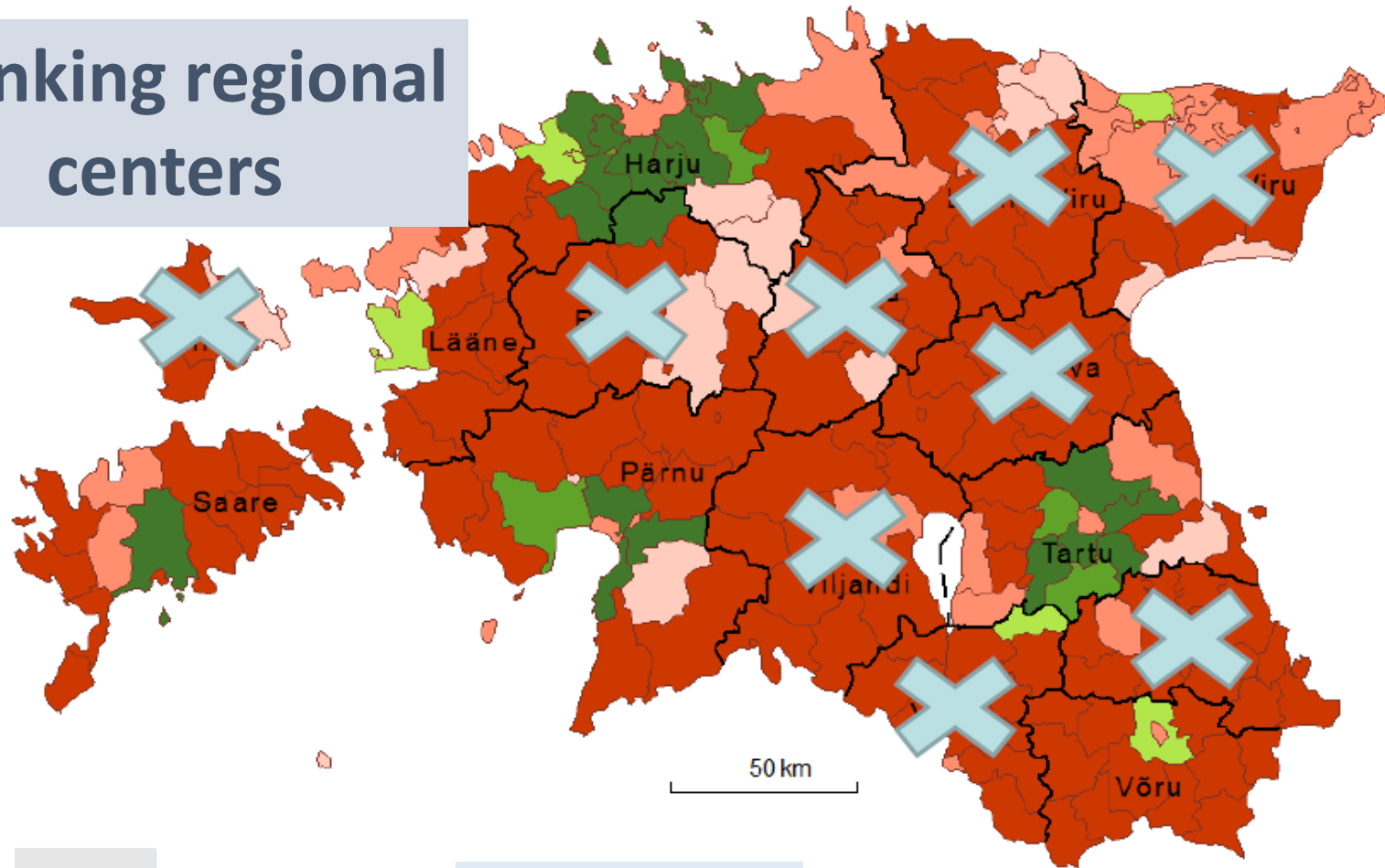
# Structural unemployment is age-sensitive



Source: Statistics Estonia

# Regions dry-up of businesses and people

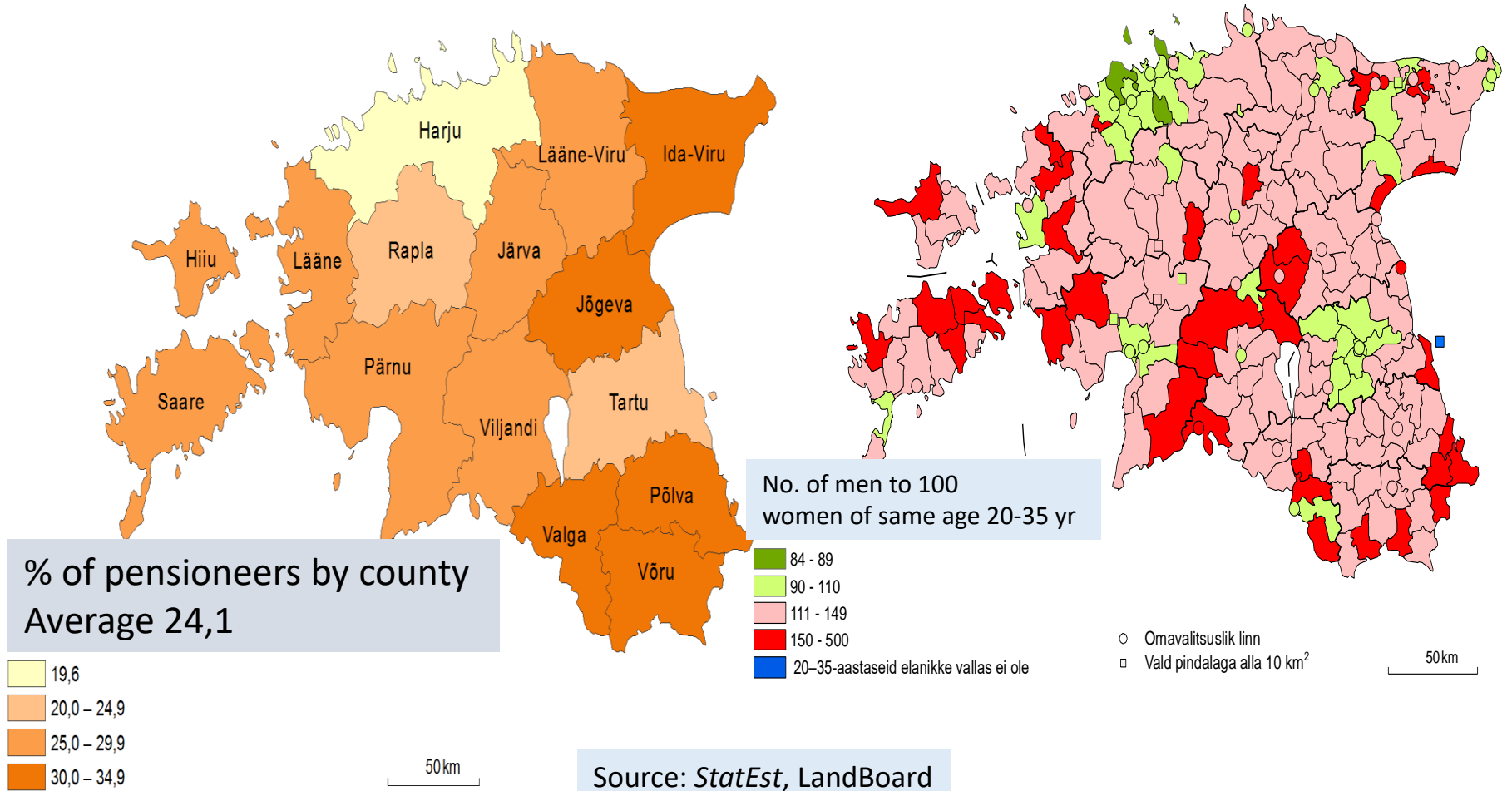
Shrinking regional centers



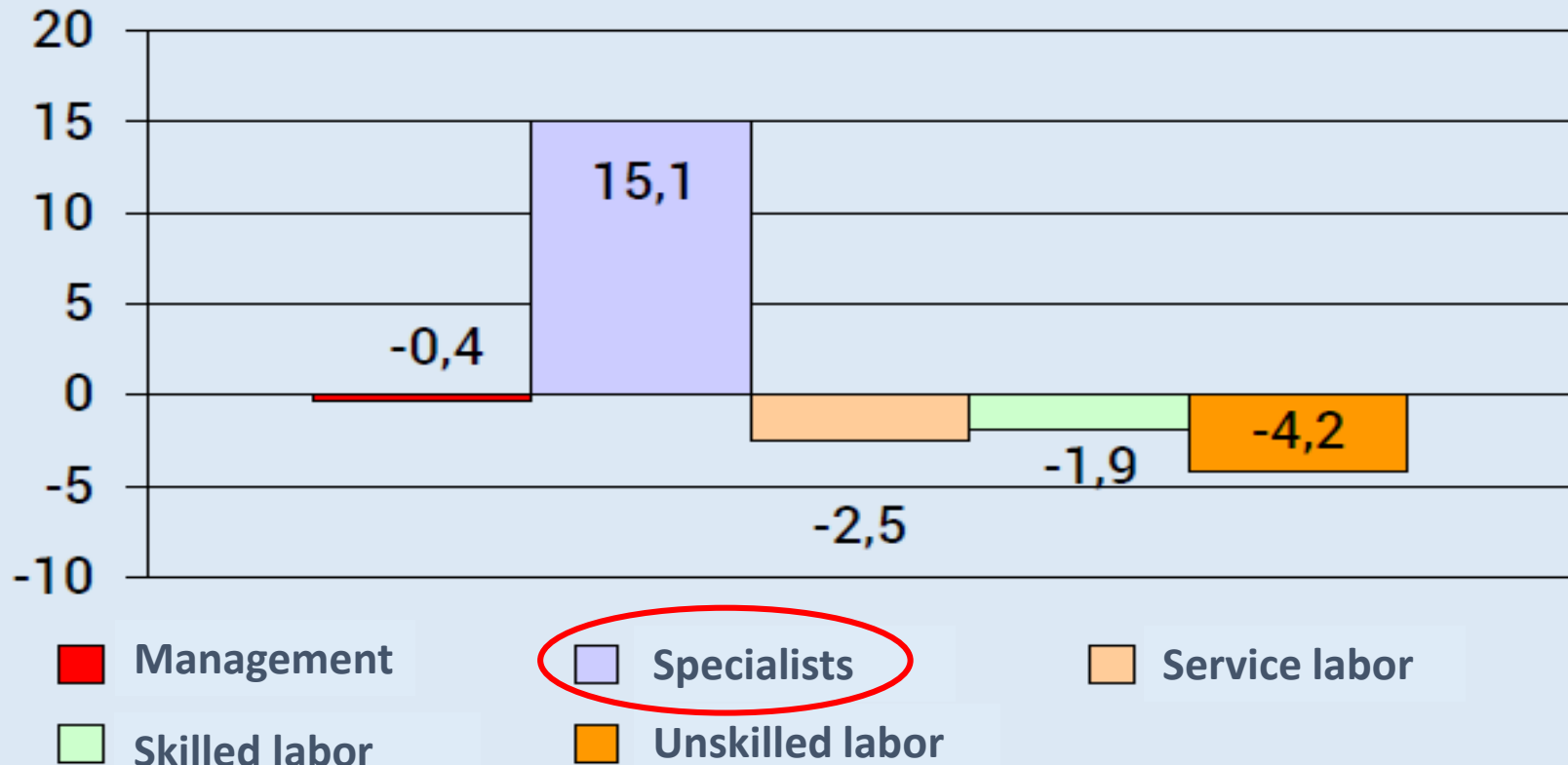
Source: StatEst, LandBoard



# Unrecognized impact to/from regional inequality



# Projections of structure of labor demand 2015-2024 (th.)



Source: Ministry of Economics

# Growing mobility and migration

6 areas to act for the public sector/Government

- More than 109 th. (more than a half in Finland) Estonians are living abroad. It's substantial reserve for general workforce pool, but on top of that substantial portion are young professionals with some experience of a different culture, mentality and business style
- Regional centers are drying up first of young women and then men of all ages
- Young people participation rate is too low in general and regionally disproportionate
- Disproportionate growth in the public sector employment drains resources from the private business sector
- Educational training not matching the needs of the economical development
- Vague support schemes for the first or part-time or elder's employment and absence of respective tax initiatives for businesses

# Immigration as a source

6 main obstacles, mainly in hands of the Government and public sector:

Partly objective

- Historical legacy and mentality triggered by it and strong fear of possibility of repeating it
- General reaction of smaller nation and structure of the society and people's settlement around the country
- Red tape setup for bringing in any immigrants from non-EU countries, but particularly still rigid rules for the immigrant employees and businessmen, although relieved lately a bit
- Deficit of the foreign language (English) based social/educational infrastructure and employment options for highly qualified immigrant employees' family members
- Improving rapidly, but still poor living environment in general (especially for high-end professionals) + too long distances and uncomfortable transport connections

The only thing no-one can help with is the „bad skiing“ weather

# Summary: challenges ahead

The growth of economy and respective social well-being is provided by investments, qualified workforce/jobs, productivity and competitiveness' growth

- investments are growing, but modestly, limited partly by market conditions and in a substantial extent by **shortage of qualified labor**
- **productivity** growth is too slow and is not balancing the impact of the decline of the available workforce
- as **the working force pool is shrinking** by definition, the only possible sources for encountering the latter would be:
  - 1) rise of the participation rate/fighting unemployment, especially regional disproportions/part-time jobs creation
  - 2) bringing in categories currently absent from the labor market (young, women, retired, expats, immigrants)
  - 3) coordinated educational and R&D policy
  - 4) creating stimulus- and support mechanisms for equalization of regional disadvantages for businesses and public service

# The PLAN?!





# Presentation given at International conference **Integration Challenges in a Radicalising World**

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please visit [www.misakonverents.ee](http://www.misakonverents.ee)



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