



THE EMPLOYERS' MANIFESTO

The Estonian Employers' Confederation's proposals to the state,
employers and the working people

The Estonian Employers' Confederation
Autumn 2014

VISION OF VIBRANT ESTONIA

The Estonian society can be proud of itself – since regaining our independence the Estonian state has got its most important decisions right, including those relating to economy and taxation, having made them statesmanlike and prudentially. It's resulted in a society that has come a long way in two decades, setting standards for others in the same boat, a society that is now ready for a final breakthrough to become a highly developed country.

Good economic decisions along with educated but cheap labour fuelled our economy for two decades. Today there is a shared feeling among workers and employers that our once fast engine is slowing down. We have reached a point as a society where we no longer wish to do cheap labour but lack skills to do expensive alternatives. Breaking out of the so-called middle-income trap is Estonia's biggest challenge in its new stage of development.

Even though many countries can only dream of being trapped like us it's not the time to rest on laurels. The list of eager developing countries that ran out of steam half way through is much longer than that of countries that made the ranks of wealthy developed states. It's a sobering fact that many have remained trapped for decades.

Estonian people are rightfully expecting a further increase in living standards. As the number of tax payers is falling and the dependents group is growing we cannot afford the luxury of quietly "ticking over". Today's emigration shows clearly that the ultimate duty of the Republic of Estonia, which is to preserve the Estonian people and language, obligates us to build a prosperous society for all for decades to come.

ESTONIA'S THREE CHALLENGES

In the last half a century only 13 countries have successfully broken out of the middle-income trap. The best examples are Finland, South-Korea and Singapore. **They all invested heavily in education to get them out of the trap. This is also the most important challenge for Estonia.**

Today's Estonia is haunted by shortages of both work and labour: one side of the labour market suffers from lack of action with wages and taxes going unpaid, the

other side from surplus of work-hands accompanied by poverty, resignation and emigration. **Thus, challenge number two: to improve welfare and ensure the social system can withstand growing pressures, we must give everybody who is able and wants to a chance to contribute as much as possible.**

To achieve this, the society must support each and every individual who wishes to participate in the labour market in any form they can. Every person helped to cross over from tax consumers to tax payers means a financial gain for the society, as well as a return to community life and self-realisation for the person.

Today, international consultation companies recommend setting up regional head quarters in Latvia rather than Estonia. Estonia's third challenge is to restore the country's competitiveness.

ALL OF OUR RESPONSIBILITY

The erosion of Estonia's competitive edge is not something we can fix by tweaking a detail here or there. Reinventing Estonia's competitive strengths needs to be more than a political slogan for those looking to renew their mandate in approaching spring elections.

The Estonian politicians' statesmanship and courage will determine whether the society's pre-election debate includes real challenges or just pseudo-problems, whether the next government coalition dares to make the key decisions to initiate recovery or resorts to political make-up.

The Estonian journalists have a great responsibility in making sure that despite information pollution the society understands its key problems: security and economy. No party or politician deserves the luxury of participating in the elections 'on their own terms', without giving

thorough and meaningful answers on these two topics.

Employers too have a big role to play in Estonia's recovery. Their responsibility is to be ambitious and creative, to work and lead our people tomorrow more efficiently than today. Their obligation is to appreciate our country's biggest treasure – the working person –, to value his/her health and education. It is being ready to help restart Estonia's engine by becoming a constructive and proactive partner to government.

The biggest responsibility, however, lies with the Estonian voter. The voter, as the master of the country, decides to be either demanding, but fair, with those aspiring to run the country or promote the forces that seek the mandate with generic and populist slogans that evade meaningful discussion.

As employers, we keep a hand on the pulse of Estonia's economy and we believe that to boost it we need to make bold decisions, reinvent the country's competitive strengths and redefine the Estonian success story. This relates to far more than just economy – only a successful, dynamic and competitive country can fulfil the ultimate goal of our constitution – to guarantee the preservation of the Estonian language and people through the ages.

WHAT KIND OF A STATE WOULD WE BUILD NOW?

We must be daring and ambitious enough to verbalise Estonia's big narrative for the coming decades. We cannot accept anything less than a broad, society-wide, meaningful debate as if we were starting again from scratch. What should be the

optimal tax revenue allocation to ensure economic growth? How should education and social systems be run to ensure everyone interested can contribute in a most effective way? What makes Estonia the best destination for a foreign investor or talent? There's no better time to discuss these questions than in the run-up to the next parliamentary elections.

VISION OF VIBRANT ESTONIA

The Estonian Employers' Confederation believes Estonia has a great potential to become a vibrant and dynamic society with a welfare level not far from that of developed countries. But first, we need to acknowledge the need to boost our competitive strengths and then, start making those key decisions in the near future. Near future being the next term of government beginning in spring.

The world's current troubles resonate also in Estonia. This is the time to reinforce the values we have held dear for centuries as well as adopt new ones to serve us in the future. Hard-working, clever and determined – isn't this how we like to see ourselves here in Estonia?

Dear reader – worker, entrepreneur, politician, journalist!

In our view Estonia has abilities and opportunities to carry on developing at a fast pace as a vibrant and dynamic society.

In the Employers' vision the vibrant and dynamic Estonia stands on three pillars: smart working, eager learning and good governance.

We present to you our vision for future and how to get there.

Toomas Tamsar

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The Estonian Employers' Confederation

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ECONOMIC ENVIRONMENT

VISION OF DYNAMIC ESTONIA

The Estonian economy has recovered from the global crisis mostly on the account of industrial export. The much-hoped-for steady fast growth has not, however, materialised. Estonia will have the potential to relaunch itself as a dynamically developing society with growing prosperity, if the new government starting in spring adopts boosting Estonia's competitiveness as its number-one priority. An important lesson from the crisis was that highly industrialised countries were the quickest to recover.

Manufacturing that uses and exports local resource is industry that helps to keep the majority of the value chain and profit in the country and, thus, requires a long-term vision from the state and a targeted development approach from business.

The key to Estonia's refuelled growth is the most efficient use of our only sustainable resource – human resource. Investing in people's health and education is just as important to the state and employers as it is for each individual.

The public sector must aid Estonia's relaunch by finding ways to streamline its work and restoring trust in our stable economic and tax environment.

To provide for a continuous growth of wealth in the society, we need to achieve a sustainable economic growth, keep creating jobs and balance foreign trade deficit. A dynamic Estonia can do this by keeping as much of the manufacturing value chain in Estonia as possible and using locally produced competitive energy.

The society is rightfully expecting that entrepreneurs utilise Estonian natural resources prudentially, with a sense of perspective. People are also rightfully expecting the state to have a long-term vision for the optimal use of our raw materials that balances welfare demands

with an acceptable environmental impact.

Since the scale of investments in this particular area is substantial, the state must realign its activities and policies accordingly. In a dynamic Estonia, the key environmental policy requirements and charges should be known at least ten years in advance. In an Estonia that values local manufacturing, the environmental charges are not used to manipulate ongoing budgetary revenues but to compensate the true financial value of the environmental impact. People must be systemically trained to respectfully utilise our key resources.

The dynamic development of the economy can only be secured by a competent and effective research and development policy that is organically linked to local economy and aimed at practical applications.

The primary purpose of structural funds in a dynamic Estonia is to move Estonian companies higher in their value chain and to increase export capability.

Smarter working will also require smarter leadership. As well as learning smart working, Estonia needs to learn smarter ways of organising work and managing businesses.

PROPOSALS

REINVENTED COMPETITIVENESS

- ✚ We support government plan to prioritise export and international competitive strength in the allocation of EU structural funds. The funds should primarily be directed at export subsidies, innovation, education and networking capability. The primary criterion for R&D funding must be, first, realistic applicability and only then the academic interest of universities. The strategic goal of subsidies is to get medium-sized enterprises investing in technology.
- ✚ Government must devise and publicise a budget strategy for the post-structural fund period.
- ✚ The legislature must launch a complete review of state functions during the next term of government and analyse ways to streamline its operations. Just like in the private sector, it must become a second nature for the public sector to strive for efficiency. The goal is to reduce the share of public sector employees in the workforce.
- ✚ The education system must provide basic business skills for all; the state and business leaders need to encourage more youths to become entrepreneurial.
- ✚ Business needs local governments to become competent partners, who are motivated to turn their local area into a competitive business environment. The government has to clarify the role of different institutions in promoting business activities and carry out subsequent performance reviews.
- ✚ In public procurement, the state must reduce the relevance of price and move towards value-based procurements.
- ✚ When transferring new EU regulations or in case of regulations already transferred, the state must apply, on the basis of cost-effectiveness figures from public impact assessments, justified exceptions to sustain the competitive advantage of local manufacturing.

DOMESTIC MANUFACTURING

- ✚ Estonian manufacturers need to step up their investments in R&D.
- ✚ The government's economic policy must prioritise the development of long-term competitive strengths of manufacturing that values domestic resource. The EU wants processing industry to produce 20% of GDP by 2020; the current figure in Estonia is 16.4%. The goal is to keep maximal part of the value chain in Estonia, to retain as many jobs and as much income as we can in home land. Adding maximal value to domestic resource must be at the heart of state funded R&D.
- ✚ The state needs to formulate a comprehensive, 10–20-year vision for the development of production based on Estonian resource. The priorities of other closely related policies, like the environment, investment and education, must support that vision, not work against it. As one of the first moves, the state must stop policies that hinder domestic production, such as the CO₂, environmental charges and education policy, which currently exist in isolation from economy.

QUALITY OF LEADERSHIP

- ✚ In an increasingly demanding environment the quality of leadership needs to improve alongside with work quality. Estonian employers must take the initiative to improve and enhance leadership skills of local businesses. The Estonian Employers' Confederation will encourage better employee welfare and development among its members, by promoting, for example, pay systems that motivate learning.
- ✚ We need to start recognising organisations with excellent leadership and organisational culture.

TAX POLICY

VISION OF FLEXIBLE AND WORK-FRIENDLY ESTONIA

Estonia has a favourable, simple tax system with very few exceptions. The tax policy principles, agreed at the beginning of the 1990s, have served us well but have now outlived their usefulness. The tax policy of a working Estonia must, above all, encourage working. When making investment decisions, there are two strong arguments – level of taxes on labour and trust in a stable tax policy – both of which are in short supply in Estonia at the moment.

The tax policy must encourage the main source of welfare in the Estonian society – working. This means we need to ease the tax burden on working. It's in the interest of the society to tax being wealthy rather than becoming wealthy.

The basis of making tax adjustments must change: adjustments must be clearly justified and have a long advance notice.

It's also high time to start making the tax policy and budget decisions in the light of structural funds coming to an end in the near future.

A flexible Estonia is mature enough to have an open debate about anything, including general taxation principles. The tax policy of a flexible Estonia does not prioritise budgetary revenues but focuses on

enhancing the competitiveness, creating value in a working person and achieving optimal employment rates.

A flexible Estonia is also a trustworthy Estonia that doesn't impose overnight new types of tax or change taxation, resulting in heavy administrative burden. Tax adjustments can only take effect with a sufficient advance notice.

A flexible Estonia pursues a tax policy that promotes our primary source of welfare – working. The tax on labour is considerably lower and budgetary balance is maintained by more jobs. Other forms of tax help to achieve the balance that is most conducive to Estonia's economic development, competitiveness and prosperity. And public sector costs keep going down.

PROPOSALS

- ✚ The state must act decisively and lower labour taxes to protect the competitive advantage of Estonian companies, attract new investors and jobs. The state budget deficit must be addressed through the creation of new jobs and cutting public sector spending. Business organisations must be engaged in the analysis of various options of increasing other forms of taxation to help find the optimal proportion of tax revenues.
- ✚ The state must take on a legal obligation to notify at least 13 months in advance of a tax change or a new tax. The notice period helps to avoid situations where taxation could be used to finance short-term state budget gaps or political promises. 13 months is also a sufficient time for a business to prepare for a change.
- ✚ Taxation measures must be used to enhance local governments' motivation to develop local business environments.
- ✚ Employers must support government's strive towards an honest tax environment. This must include disciplining cash in hand payers.
- ✚ Impact assessments for tax changes must be carried out by independent assessors and all existing and future assessments must be made public.
- ✚ The Tax Board must improve its efficiency by cooperating more closely with industry associations and employer representatives, which will improve its area and sector-based specialisation both at national and local level.
- ✚ To move closer to a working Estonia, we must abolish social tax minimum requirement to make the tax burden of part-time working comparable to working full-time.
- ✚ Employers recommend sharing social tax payments between the employer and the employee to raise individual awareness and sense of responsibility. Such a move must not reduce the employee's net income.

EDUCATION

VISION OF EFFECTIVELY LEARNING ESTONIA

Estonia is caught in the middle-income trap, the speedy development engine has run out of steam. We no longer wish to do cheap work but lack skills to offer any expensive alternatives. Effective lifelong learning will get Estonia out of this trap and guarantee continued fast development. Moving towards becoming a knowledge-intensive country is the only way to secure a better living standard for every working person.

Estonia needs high quality investments in technology to become a knowledge-intensive economy. To attract the investments, Estonia must prepare a considerable pool of trained professionals.

Employers must be involved in formulating the education policy to help match the education system output with labour market requirements. Learners must take more responsibility for their choice of profession and study results.

Lifelong learning must become a lifestyle for both employers and employees.

The entire developed world is currently facing the same challenges as Estonia: the population processes dictate that an increasing amount of work must be carried out by a decreasing number of working hands. The global 'war for talent' has been going on for the last ten years – only a large number of highly qualified workers can attract companies that offer expensive, complicated work to invest in the country. The strategy of a learning Estonia in the war of talent is the so-called production of engineers. Universities will knowingly train a large number of specialists in sciences and technology to create a pool of highly qualified workforce to attract investors. The logic of "first

engineers, then jobs" does not work in reverse.

A learning Estonia does not ask about nationality or citizenship. A learning Estonia has an image, and content, of a great place to work and study. Estonia's chance to ease the shortage of highly qualified professionals is to attract future talents to study in Estonia and create conditions that would make them want to stay working here.

A learning Estonia includes businesses and employer organisations in the reorganisation of vocational education and launches a work-based learning or apprenticeship system that has been a success in many countries. Collaboration between a business and a vocational school would start with the business opening its technology base for the school and effectively implementing the apprenticeship system, and end with designing curricula and deciding on state-commissioned training. A learning Estonia makes sure that vocational training does not only teach work techniques but also learning and development skills. Among other things, the vocational education must be reorganised to include a decent quality secondary education.

PROPOSALS

MATCHING EDUCATION TO LABOUR MARKET

- ✚ The quality of education must be improved through closer involvement of employers in education policy planning and implementation. Collaboration between employers and educational institutions must become a norm – both parties have an equal role to play in this. Estonian employers must be ready to engage in designing vocational and university curricula as well as creating measures for learning outcomes. Employers must also become active participants in trade associations to represent sectoral requirements for specialist training.
- ✚ The state must decidedly increase the proportion of sciences, engineering and technology in universities. It must match the state-financed education to the needs of the Estonian labour market.

EFFECTIVE VOCATIONAL EDUCATION

- ✚ To improve the link between vocational training and practical work life, employers and trade associations must have a strong input into developing the apprenticeship training that gets integrated into all curricula. If necessary, the Employers' Confederation will actively lobby among its members to create preparedness to sign up to the system. The state must find the means to compensate the employer for the implementation costs of the apprenticeship system; using EU structural funds in the initial stage and tax policy measures later.
- ✚ The supervision system must be based on a sustainable operating mechanism that doesn't depend on structural funds long term. Vocational schools, universities and businesses must develop much closer collaboration ties in supervision to achieve the best results in practical training. Businesses have to be guaranteed a supervisor motivation package. Employers offer the state an opportunity to use company environment as a learning base and educational institutions, in turn, must cover associated costs, incl. fair supervision pay. The pay of a full-time apprentice must be exempt from social tax as they are effectively studying, plus they must be given a health insurance cover.
- ✚ In the long term, the state needs to make secondary education compulsory because basic education does not enable people to be competitive or capable of development in a dynamic labour market. The focus of vocational education must shift from learning technical skills to acquiring so-called professional competences and learning skills – too many people entering the labour market currently are unable to participate in lifelong learning in real terms.
- ✚ A basic business course (study of economy and finance) must be integrated in curricula of all vocational secondary schools and universities, and a wide choice of business related elective and optional subjects must be made available. The business people and the state must encourage young people to become entrepreneurial.

INTERNATIONALISATION OF HIGHER EDUCATION

- ✚ Universities that increase the share of foreign students have a decisive role in attracting talents to Estonia. Employers must make every effort to offer foreign students more apprenticeships that may attract them to stay in Estonia as employees or entrepreneurs. The target is to triple the number of foreign students in Estonia by 2022.
- ✚ Estonia as a study and work destination brand: the state along with educational institutions, social partners and wider organised civil society must agree an action plan that furnishes Estonia with a content and image of a country where talents have exceptional work and study conditions.
- ✚ There is no such thing as free university education – it is higher education paid for by the taxpayer. To increase learners' responsibility for their results and choice of specialisation and to guarantee the most effective use of taxpayers' money, the state must replace

"free" university education with a system of training contracts. Under this system, the state gives out study loans that will be written off if a student graduates within a reasonable time and works in Estonia for a certain period after university.

- ✚ University education can be kept competitive by boosting the number of international, combined curricula where students spend part of their studies in a foreign university. The number of foreign lecturers in Estonian universities must also increase.
- ✚ The state must provide every year at least 100 student loans that would cover university fees and living costs in some world's top universities to study areas crucial for the state. The loan will be erased if after the end of studies the person spends at least five of the following ten years working in Estonia. Otherwise the loan must be paid back with interest.

LIFELONG LEARNING

- ✚ Taxation should be used to create motivation to participate in lifelong learning for both employees and employers. If the employer pays for the employee's formal education, then this investment in the quality of the workforce must be exempt from fringe benefit tax.
- ✚ The legislature must amend the adult education act so as to allow study leave only if it enhances the employee's individual development plan or is directly linked to training. Payment principles for study leaves must also change so that employer is only responsible for paying for 1/3 of the maximum leave period.
- ✚ At least 20% of the working population must be participating in lifelong learning at any time.

LABOUR MARKET

VISION OF SMART AND INDUSTRIOUS ESTONIA

The only lasting resource that has served the Estonian people through the times is the working person. In a situation where the number of working hands is falling due to birth rates and emigration and the number of dependents is growing there aren't many options left – we must do more expensive work with lesser hands. Today there are about 100,000 working age people in Estonia, who for one reason or other do not work.

The most important goal for the Estonian society in the next decade is to ensure that every individual who is capable and wants to, even if only part-time, can contribute to the labour market.

Flexible employment relations and flexible working allow workers to make the most of their potential, to compromise less between their work and personal life, and bring to the labour market those who currently prefer to stay away.

Helping people to return to the market in part-time capacity is not cheap, but economically and socially crucial. Every tax-consumer that we help back into work equals savings in social costs and additional tax revenue, plus personal gains from returning to community life.

About 100,000 working age people have been declared incapable of working. Many of them could make a contribution with the help from the society. Training and flexible work forms can help them get back into working and community life, to cross over from value consumers to value creators.

Many people temporarily absent from the labour market, e.g. on parental leave, may want to work a little during this time, but the logic of current benefits encourages doing nothing or doing it

underhand. An Estonia that values working ensures that doing something always pays better than doing nothing.

Finding a new job is hardest for older workers and those with least skills at the bottom of the wage ladder. An Estonia that supports working provides vulnerable workers with flexible opportunities to develop and learn new skills before, and not after, becoming jobless.

Reducing poverty is just as important for the society as increasing wealth. A smart working Estonia supports moving upward in the value chain, starting from the grass root level, from an unskilled to a professional. This will improve the living standard of today's unskilled workers, release their jobs to job seekers and improve the motivation of both groups to remain in Estonia.

The involvement of foreign labour is unavoidable if we want to alleviate workforce shortage. An inclusive Estonia offers excellent study and work conditions to foreign talents.

Estonia does not hope for a magic stick or trick to bring instant wealth to everybody, but relies instead on our nation's age-old characteristics: clever, hard-working and determined.

PROPOSALS

RETRAINING OF THE INACTIVE AND UNEMPLOYED

- ✦ Employers support the goal of the work incapacity reform to help people who require special work conditions back to work.
- ✦ The state must start organising preventive retraining to workers with low levels of education and pay, i.e. improve their employability before they become jobless. Retraining reduces poverty and long absence from the labour market.

FLEXIBLE EMPLOYMENT RELATIONS

- ✦ Estonian employers must embrace and promote flexible employment relations and flexible forms of working – such as part-time work, telework and contractual work – and share their best approaches.
- ✦ To promote part-time working, the state must abolish minimum social tax requirement, which currently makes part-time working unacceptably expensive for the employer.
- ✦ The state must link social benefits related to working to work load – working part-time mustn't mean that person loses all of their benefit.
- ✦ The state must abolish early retirement and introduce instead a flexible retirement age and a gradual work load reduction or so-called gradual retirement.

SUPPORTING WORKERS' PERFORMANCE ABILITY

- ✦ The state must design a measure to implement a multicultural management and working environment, which would encourage employment of foreign workers and non-Estonian speaking Estonians also in medium-sized enterprises.
- ✦ To promote investment in people, the state must exempt all employer's investments in employees' health from fringe benefit tax. The Estonian Employers' Confederation will aim to increase employers' awareness of the importance of compensating healthcare costs and investing in the working environment.