

Time is working against us, but this is not what makes me worried. I am more worried about the fact that the feeling of danger has not touched the people. With the little time, and little economic and human resources we have, it is necessary to clearly define the goals, talk straightforwardly and act in a cold-blooded way.

Lennart Georg Meri (Postimees journal, 1996)

THE EMPLOYER'S MANIFESTO 2018

"RACE AGAINST THE CLOCK"



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"RACE AGAINST THE CLOCK"



On 3 March 2019, the new Riigikogu will be elected in Estonia. In addition to people, programmes will also be elected, which will serve as the basis for the coalition agreement. Under this agreement, decisions will be made for the coming years, which will affect the lives of all of us, and not just until the new elections in 2023, but for much longer.

This is the reason why employers also formulate their **manifesto** in 2018.



Toomas Tamsar
The director of Estonian Employers' Confederation

We want to inform all Estonian **employers** of what the key issues and tasks that we will face are in our opinion. What should we put more effort into?

We want to say to Estonian employees what they should pay more attention to in order to be highly valued in the future and to receive a good salary.

And above all, we want to tell **politicians** what is most important for the long-term growth of the people's well-being in Estonia. The improvement of well-being can only be based on a strong economy – there is no other way. If the economy is not going well, we cannot increase expenditures on culture, education, social welfare or health. We do not know how to best promote all aspects of life in Estonia, but we believe we know how things should be done with regard to the economy.

The most important question in these elections is **whether we choose progress or to maintain what has already been achieved**. We have asked this question repeatedly using different wording.

- Are we choosing an unknown but hopeful future, or a better yesterday?
- Are we investing or distributing?
- Are we doing new things or not?
- Are we building a future Estonia or a nostalgic Estonia for our youth?

In our opinion, these are the most important questions. Therefore, we encourage all readers of the manifesto to ask the same questions from politicians and monitor whether programmes and the election campaign promise the progression or maintenance of what we have.

If politicians promise you more grants and free things, then you can be sure – those giving such promises do not have any development-related ideas.

Your votes are bought with your own money. The state cannot give you anything that it hasn't taken away from you before.



Are we building a future Estonia or a nostalgic Estonia for our youth?

THE MOST IMPORTANT CHOICES OF EMPLOYERS. OUR BELIEFS REGARDING THE ESTONIAN ECONOMIC ENVIRONMENT

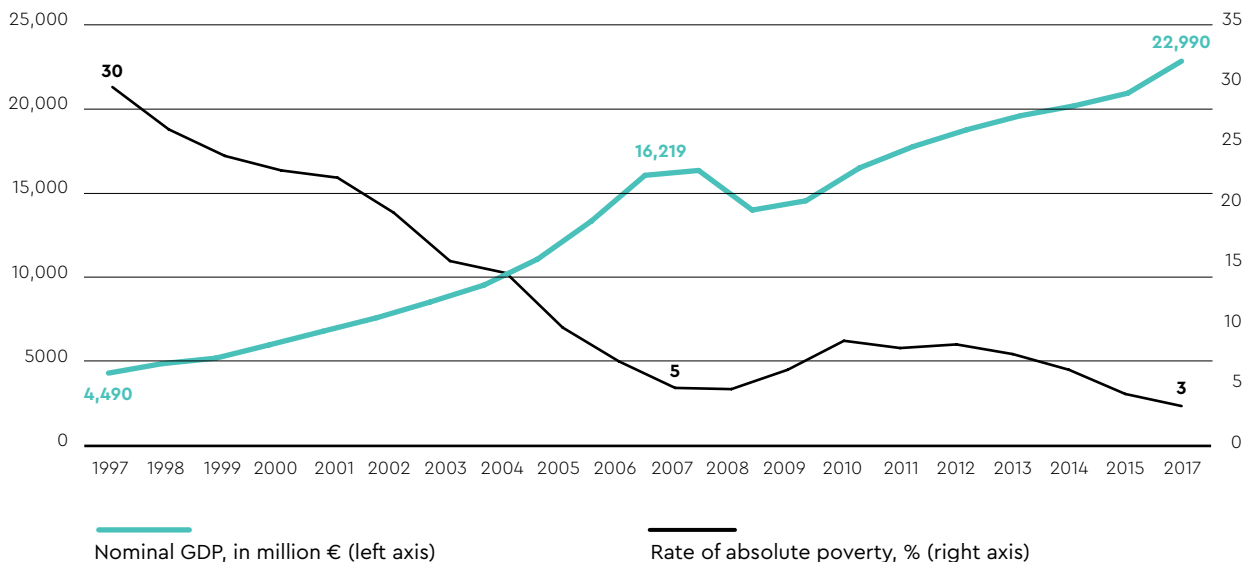
- Our mutual goal is to ensure the continuous improvement of well-being of Estonian people, which relies on economic growth.
- Estonia's economic policy is liberal and its highest value is the individual's freedom. It is the duty of the state to secure this freedom by intervening in business as little as possible.
- Estonia is a thin country – small, but active. It is based on the understanding that together with freedom, the individual is also responsible for his/her life and choices. The tax burden in Estonia is under 35%.
- The economic, tax and legal environment in Estonia is simple, clear, predictable and reliable.
- Estonia is an open country. We are open to new ideas, people and new technology.
- Estonia is the brightest country in Europe. It is based on effective and trusting co-operation. Our administration is fast, substantial and free of bureaucracy.

GROWTH OF WELL-BEING AS A GOAL

Estonian employers are promoting life in the country. The same is done every day by our teachers, doctors, state officials and others who consider Estonia their home. We feel responsible. We realise that we are also accountable for the continuation and prosperity of Estonia. Without entrepreneurs, the Estonian state wouldn't exist; without the Estonian state, entrepreneurship wouldn't exist in Estonia.

Our main objective is the continuous development of the well-being of Estonian people. It can only be based on economic development and the rule of law.

In 20 years, the economy has grown 5 times, reducing the proportion of people living in poverty by 9 times



IT IS THE HUMAN BEING, OUR GREATEST ASSET, WHO NEEDS TO BE THE CENTRE OF ATTENTION

The greatest value of Estonia is its people.

We must consider our population, our people, and their sustainable development as more important than anything else. Furthermore, the economic development working group working with the government in 2015–2016 found that it is indeed the increase in workforce and productivity that Estonia's development is most dependent on.

Independence and freedom mean responsibility. Not everyone is able to bear this responsibility in the same way and go along with development.

We should help these people.

The state does not leave anyone behind, but neither should it encourage the learning of helplessness. There is more poverty around us than we actually see or would like to see. We must not forget the unfortunate ones or those who cannot manage on their own, but we should not turn our country into a master class of learning helplessness. The wealth created by the Estonian working people cannot be divided between the favourite groups of politicians under the label of poverty elimination.

The future prospects of people depend most on their education and learning skills.

We need to redirect our best resources to the adaptation to, learning and development of a new era and a changing economy. The state and employers must support people in this matter with both help and guidance, but the biggest responsibility for change lies with the employees themselves.

We must choose whether to go along with short-term populism or stop, think, and make decisions, keeping the long-term future in mind. The state must look forty, rather than four years ahead.

In the whirl of this year's anniversary festivities, we have to make sure to not leave our children a country in debt due to consumption beyond our means like a messy dinner table.

Estonia's economic policy is liberal and its highest value is the individual's freedom. It is the duty of the state to secure this freedom by intervening in people's lives and business as little as possible.

Entrepreneurs must have their entrepreneurial freedom and people must have their personal freedom. However, the state of freedom and responsibility in Estonia is progressively shifting towards a nanny state. Therefore, every time state intervention is considered, it is necessary to carry out in-depth analysis, responding clearly to the question: "What would happen if the state were to not intervene?".

FORWARD-LOOKING STATE AND RESPONSIBLE GOVERNMENT

Estonia is an open country. We are open to new ideas, people and new technology.

We have to choose whether we direct our mutual resources to the present or the future. We must contribute more to the youth and ensure the best conditions for them to create and operate. Every euro invested in children and young people results in us receiving back more than ever. We are best protected from the volatility and unpredictability of the global economy by our educated and smart people, and our state's ability to react quickly and wisely.

The economic, tax and legal environment in Estonia is simple, clear, predictable and reliable.

Employers and employees pay taxes. The distribution of tax money is authority given to politicians and government officials, not a self-evident right. It is the authority to share our common money in a sustainable and responsible way.

EESTI VABARIIK 100

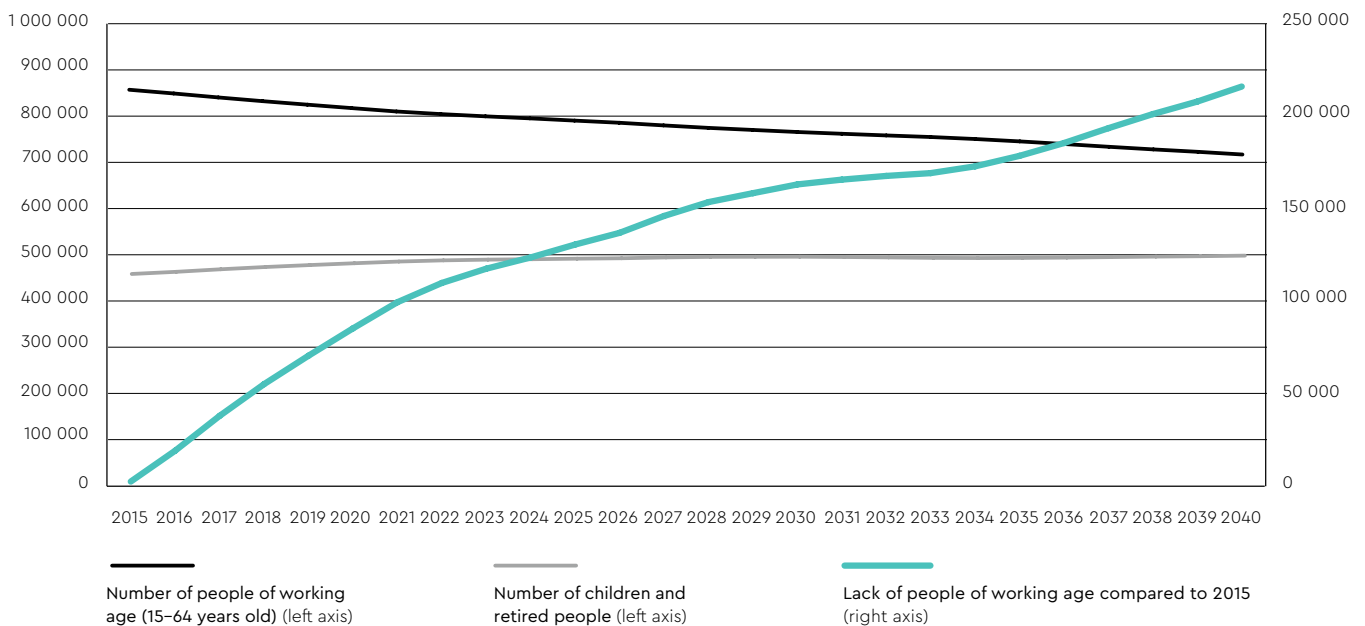


In the whirl of this year's anniversary festivities, we have to make sure to not leave our children a country in debt due to consumption beyond our means like a messy dinner table.

The population in Estonia is decreasing, and there are less and less working people, who have to maintain an increasingly heavier country. In our previous manifesto, we emphasised the need for state reform. Meanwhile, Estonia has made great progress in this area, starting with changes to the administrative-territorial reform. Now we have to go forward and consistently reduce the weight of the burden that working people carry in terms of taxes.

Population projections 2015–2040

Source: Statistical Office's forecast in 2015



Heads of government must understand their responsibility to the people: when dealing with many irrelevant issues, they lose time and resources and important things are not done.

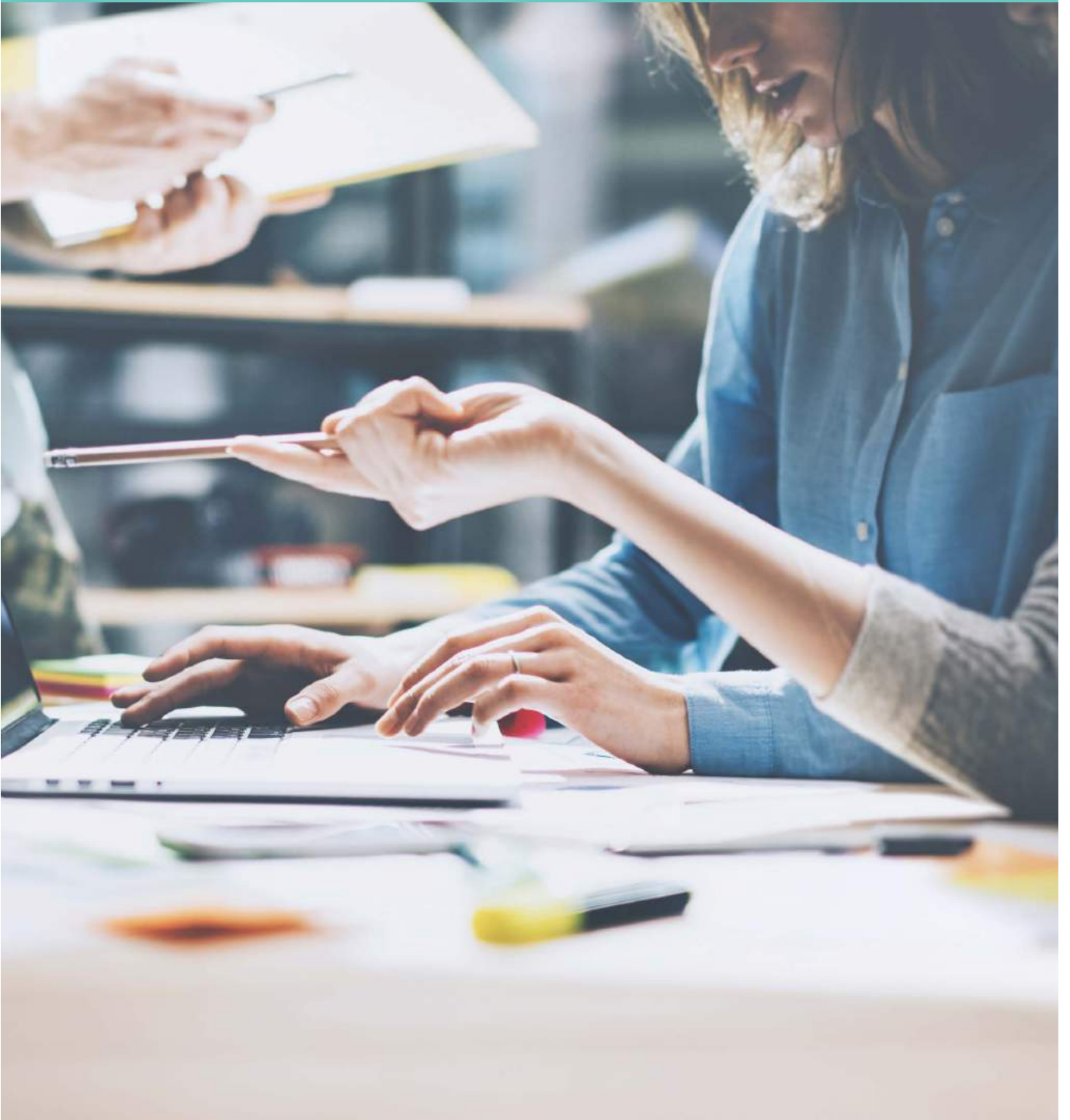
IT IS TIME TO CHANGE

Estonia is the brightest country in Europe. It is based on effective and trusting cooperation.

Our administration is fast, substantial and free of bureaucracy.

Unfortunately, this is wishful thinking. Estonia is not yet vivid, efficient or trusting, but we have all the advantages and reasons to aspire to it. We are only hindered by comfort, and sometimes indifference.

I LABOUR MARKET





At the time of writing this manifesto, the employment rate in Estonia is exceptionally high (at the beginning of 2018, the employment rate among people aged 20-64 was 79% in Estonia, the average in the 28 EU Member States was 72.9%). At the same time, the lack of workers has been the main obstacle to our economic development for many years.

In this situation, we must powerfully share the message: "People are our most valuable asset". At the same time, our subsidy system is not reflecting today's labour market situation. Unemployed people should be ensured subsistence, but the system must facilitate a quick return to work.

It is also important for Estonia to have a reserve for the reduction of the public sector in order to increase added value, and at the same time ease the situation of taxpayers and attract the workforce to the private sector. At present, public sector employees account for 21% of the employment rate, but without reducing the amount of officials, it will be 23% after 10 years. Töötukassa had an average of more than ten thousand vacancies each month in 2017.

In the next 20 years, we will be lacking 20% of the current working age population in Estonia necessary to keep the same amount of public services for dependents as provided by today's tax burden. Therefore, we cannot hope that the internal reserves of Estonia will cover the needs of the workforce. The workforce, which comprises taxpayers, consumers, bearers of ideas and culture, is an important economic resource, essential for economic development. All countries around the world are looking for relief from foreign specialists, but in this regard, Estonia is not as attractive as developed countries. In the workforce market chapter of the World Economic Forum's 2017-2018 Global Competitiveness Report, Estonia's ability to attract talent receives a low score (ranked 60th-70th among 137 countries). Our immigration limit is only 1,300 people. Every year, we lose about ten times more people. At one point, this will negatively impact the wallets of all of us. If at the moment, we have three working people for each retired person, then without immigration, there will be two working people for one retired person in 2040, and only 1.5 in 2060. The lack of workforce has been continuously compensated by innovation, but it is a costly and time-consuming process. And furthermore, innovators are still highly qualified people that we are lacking. So why refuse a helping hand?

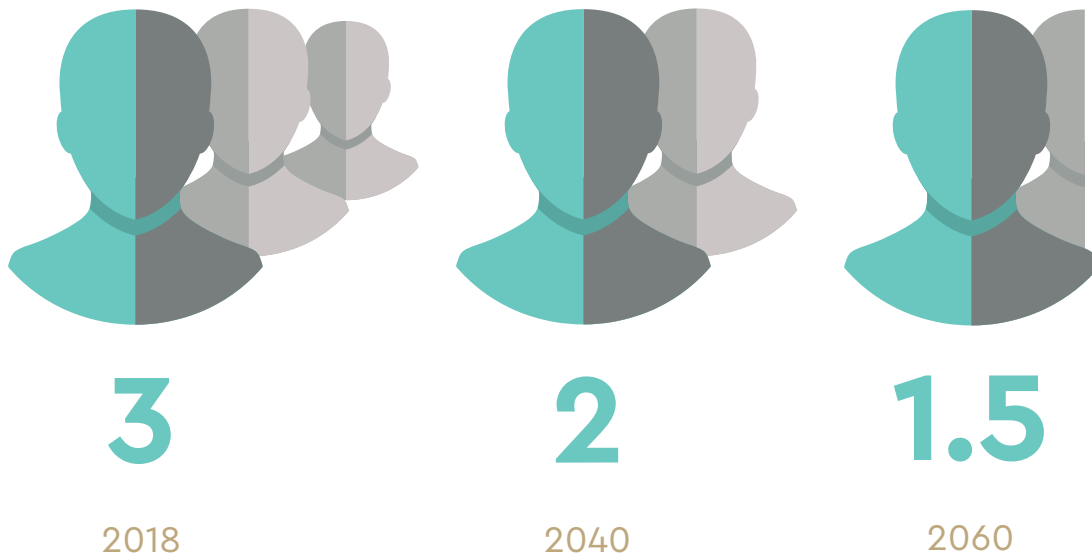
1. INCREASE THE SUPPLY OF THE LABOUR MARKET

At the beginning of 2018, the employment rate among people aged 20–64 was 79% in Estonia (the average of the 28 EU Member States is 72.9%). It is increasingly difficult for employers to find suitable people for vacancies.

A lack of specialists has been the main obstacle to our economic development for many years now. The birth rate does not offer a solution either: the trend is more likely that in 20 years, the deficit of the working age population will even be 20% higher. Instead of three working people for each retired person, there will only be two working people in 2040, and only 1.5 in 2060. All countries around the world are looking for relief in the form of foreign specialists, but in this regard, the situation in Estonia is not good. According to the Global Competitiveness Report 2017–2018 of the World Economic Forum, this is one of the biggest weaknesses of Estonia.

Amount of people of working age to every person who has reached retirement age

Source: Eurostat, calculations of the Estonian Employers' Confederation



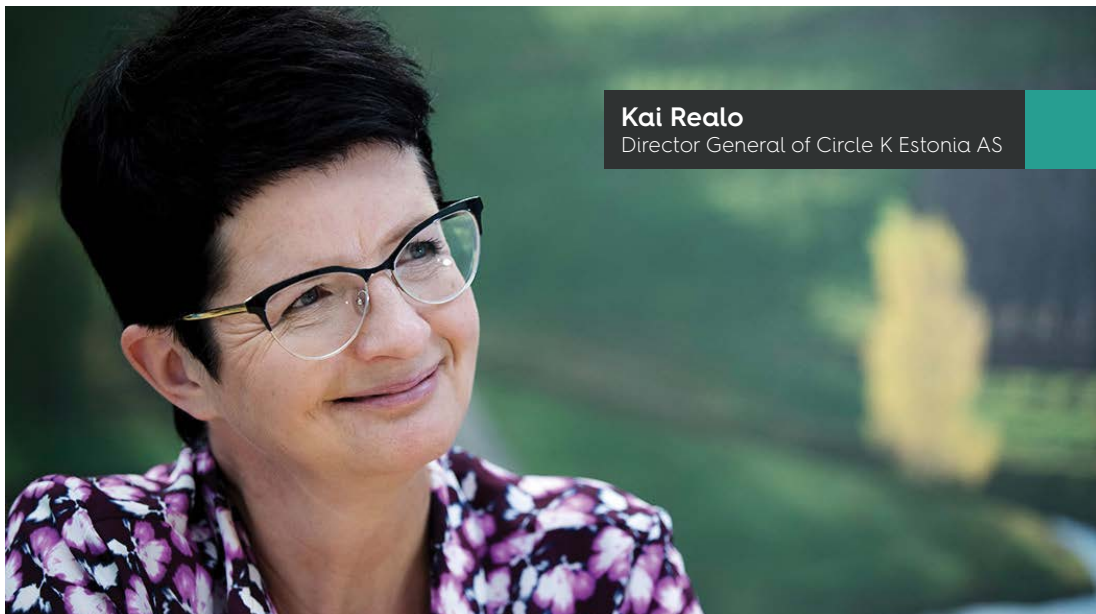
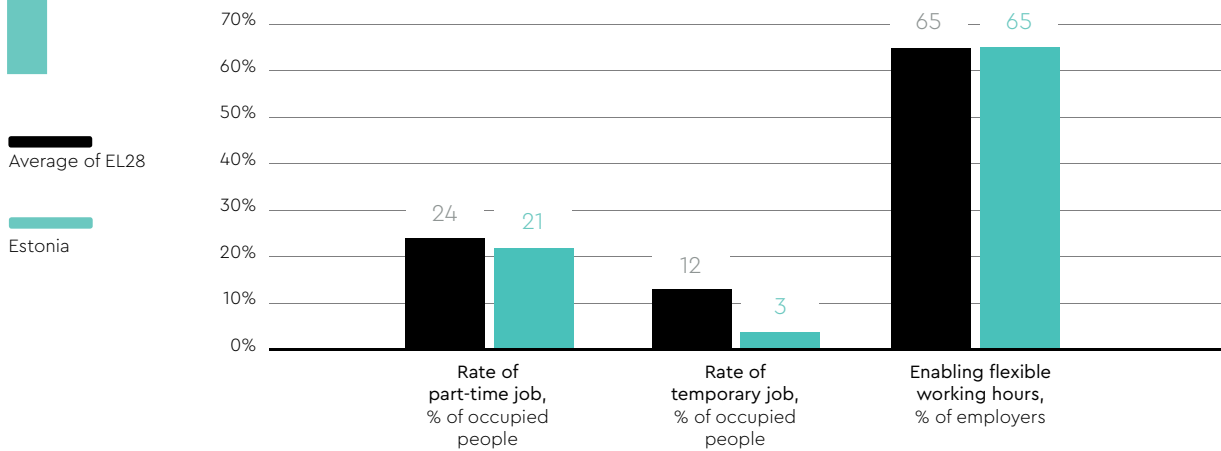
The number of working people is decreasing, and the number of dependents is increasing.

2. ENABLING MORE FLEXIBLE WORKING RELATIONSHIPS

The organisation of labour law in Estonia is among the most reasonable in the EU. To a great extent, it is flexibility that has enabled us to leave the previous economic recession behind and sustain a continuously high level of employment. However, since work relationships and working models are rapidly changing, the Estonian labour law has become outdated. The ageing population, the rapidly evolving technology, and the increasing share of flexible forms of work and micro entrepreneurship, require more flexible labour rights.

This is also one part of the solution to the workforce shortage problem.

The use of flexible working hours in Estonia



Kai Realo
Director General of Circle K Estonia AS

In 2017, only 1,200 employers declared the compensation of their employees' health expenses in the amount of 5 million euros, and paid labour taxes on them. A year before, 18.5 million euros was spent on occupational health-related medical checkups. Keeping in mind the growing shortage of workforce, it is important to have healthy employees and keep the number of sick days as low as possible. This is facilitated by a healthy working environment and greater contribution of the employment market operators to the employee's health. In addition to a safe working environment, workplace relationships are also important.

Most of the employees in Estonia are generally satisfied with the opportunity to have a say regarding company matters. According to the 2015 questionnaire of the Statistical Office, 99% of participants considered the relationship with a direct manager important, out of which 72% considered it very important.

Good communication between employers and employees helps to avoid conflicts, increase employee motivation and contribute more to work.

3. CREATING A HEALTHIER WORKING ENVIRONMENT

Due to the growing shortage of workforce, it is important to have healthy employees and keep the number of sick days as low as possible. This is facilitated by a health-promoting working environment and a greater contribution of the employment market operators to the employee's health. Apart from a safe working environment, relationships at the workplace are also important – 99% of employees consider it important to have a good relationship with their direct manager.

Labour law regulation in Estonia is among the most reasonable in the EU and, to a large extent, our flexibility has allowed us to quickly exit from the previous recession and to maintain a continuously high level of employment. However, since work relationships and working models are rapidly changing, the Estonian labour law has become outdated, which complicates the use of new forms of work. The lack of flexibility in legislation is confirmed by the comparison of the International Labour Organisation's statistics with the surveys on flexible forms of employment: although employees enable both flexible working hours as well as teleworking, the use of flexible employment contracts is smaller than the average of EU Member States.

EMPLOYERS' PROPOSALS ON THE IMPROVEMENT OF THE LABOUR MARKET

1.

It is becoming clearer that we need to find application for both elderly people as well as people with reduced working capacity in Estonia. In the name of the long-term future, more attention must be paid to birth rates and family policy. Public sector employees are well qualified, but there are too many of them: 133,000 people, i.e. approximately 21% of the workforce.

PROPOSAL TO EMPLOYERS:

make the jobs accessible for elderly people and people with reduced working capacity. According to the experience of the rest of the world, it provides good results for the development of the country's economy and helps people to feel valued.

PROPOSAL TO EMPLOYEES:

take part in refresher training and retraining, because this is the only thing that helps one to also remain competitive in older age. Start now!

PROPOSALS TO THE STATE:

- while making demographic policy-related decisions, listen to the recommendations of scientists and follow the good practices of other countries, do not stay attached to old rules;
- revise your decisions on labour market and social benefits, as well as social protection. They must not include passivity-promoting elements;
- reduce the number of public sector workers by 3,000 per year over a period of 10 years. This will free up the workforce for the private sector, whose role in providing public services could also increase.



The whole potential of Estonia's work ability must be used to alleviate the labour shortage.

2.

The public has little knowledge and a lot of fears about the **external workforce**, and the state has shown itself to be indecisive in this area. This increases the number of illegally employed foreigners and those people whose labour taxes are not paid in Estonia.

PROPOSALS TO THE STATE:

- turn Estonia into a talent magnet – let's put some mutual effort in to bring them here;
- eliminate the immigration quota for specialists (people earning more than the average wage) in order to facilitate their official employment in Estonia.

3.

People are talking a lot about the wage gap in Estonia, when in reality, the **labour market** is **segregated** according to age and nationality. This reduces the ability of many people to participate in work and social life.

PROPOSAL TO EMPLOYERS:

support the integration of non-Estonians into Estonian life as much as possible, as it reduces fears in the society and contributes to better work results. There are already many employers in Estonia who can be considered as role models.

PROPOSAL TO THE STATE:

after 27 years of independence, it is time to have a uniform Estonian school system, and not have several parallel school systems in different languages.

4.

It is necessary to continue to increase the **flexibility of labour law**, because this is expected by both employees as well as employers.

PROPOSAL TO EMPLOYERS:

provide your employees with more and more flexible job opportunities. Take into account the needs of employees, as the employer must also be more flexible. This is where the whole world is heading.

PROPOSAL TO THE STATE:

allow employment contracts to define the workload in the range in order to encourage better employment, and especially part-time work. The conclusion of fixed-term employment contracts must be made more flexible.

5.

In order for people to achieve better results at work, to be less sick and stay longer at work, their health must be taken care of. Due to the loss of added value, tax revenue, and income, the employee, employer and the state are all losing out from each sick day.

PROPOSAL TO EMPLOYERS:

contribute to the health of your employees through sporting opportunities, health checks, healthy working conditions and, where appropriate, the provision of treatment options. It is worth it.

PROPOSAL TO EMPLOYEES:

your health is your most valuable asset, please take care of it. It is, after all, you who is responsible for staying healthy and complying with occupational safety requirements, not the state or your employer.

PROPOSAL TO THE STATE:

do not punish employers contributing to the health of their employees with taxes.

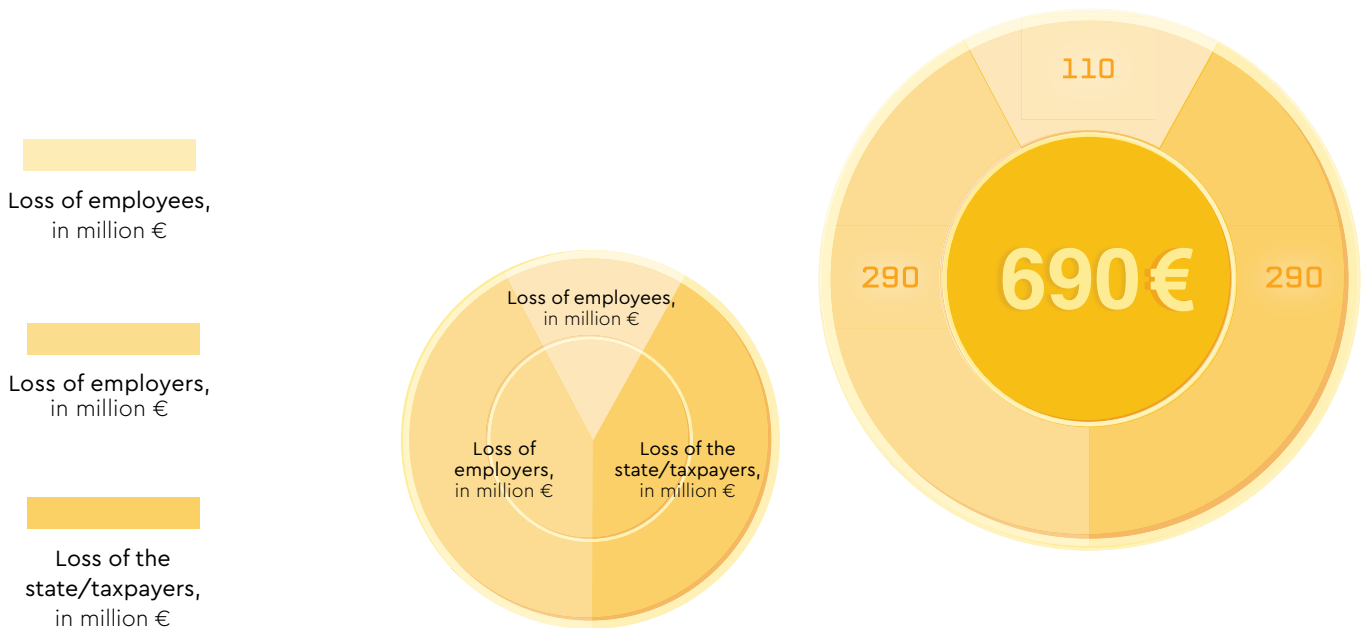
6. There are less **strikes** in Estonia, because they are generally not considered to be a way of solving problems. There are, however, **labour disputes**, as well as cases where employees quit their job due to poor management.

PROPOSAL TO EMPLOYERS:

improve and rethink the quality of management in your company. This is a major task for all significant sector leaders in Estonia (Source: the economic development working group 2016).

Approximate financial loss due to temporary incapacity to work in 2017 was 690 million euros, including:

Source: Estonian Employers' Confederation 2018 on the basis of the Centar survey 2017



An employee's temporary absence from work is harmful to all parties.

II ECONOMIC DEVELOPMENT OF THE COUNTRY

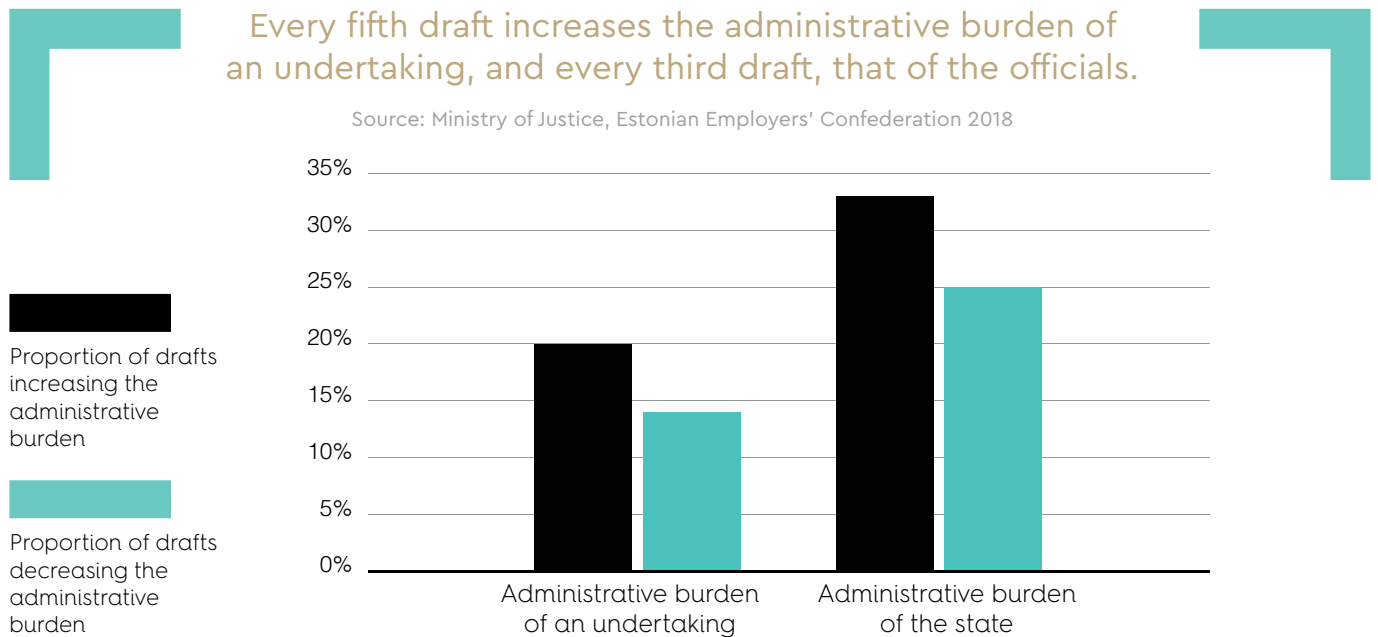


1. ESTONIA NEEDS AN ENVIRONMENT THAT CONTRIBUTES TO LONG-TERM ECONOMIC DEVELOPMENT

Regardless of the promising goals and speeches of politicians and ministries, with its laws and rules, Estonia is becoming more and more constrictive for employers. Law making is often superficial and incomprehensible. The country is governed in four-year cycles.

Every fifth draft increases the administrative burden of an undertaking, and every third draft, that of the officials.

Source: Ministry of Justice, Estonian Employers' Confederation 2018



2. GROWTH IN PRODUCTIVITY IS A KEY ISSUE FOR OUR BUSINESS SECTOR

Estonian companies invest little in research and development activities. The ratio of business sector expenditure to GDP in this area is two times lower than the average of the European Union.

3. THE STATE'S PARTICIPATION IN THE ECONOMY MUST BE REDUCED

The number of state-owned enterprises tends to increase: in 2017, there were 252 state or local government owned enterprises. In terms of activities, the largest share of state-owned enterprises was in electricity, gas, steam and air conditioning supply, as well as water supply, sewerage, waste and pollution management enterprises (about 20% of all enterprises in the field).

In addition, the state itself provides services that it could outsource from the private sector, and interferes in the market with excessive regulations. In addition, some of the paid services in the field of culture and public transport are subsidised by the state or the taxpayer's money. In this way, the state does not let the competitiveness of those service providers in the conditions of a free market economy reach a sufficient level to manage by themselves.



Taavi Veskimägi
Chairman of the Board of Elering AS

Regardless of the promising goals and speeches of politicians and ministries, with its laws and rules, Estonia is becoming more and more constrictive for employers. Over-regulation is increasing, law making is often superficial and incomprehensible. Law making is not, above all, based on common sense and logic, but has become a tool for financing politicians' unrealistic promises. The rushed processing of laws has become standard practice, because the country is governed in four-year election cycles. This, however, brings about a lot of populist promises, the fulfilment of which turn out to be beyond the reach of the state.

The reliability of the business environment has clearly decreased due to hurried and unnecessary regulations. The number of laws has gradually increased in recent years. According to a survey conducted by SEB, the main obstacle for a fledgling company is a high tax burden and excessive bureaucracy. Every year, more than half of the laws are amended at least once. Every fifth draft processed in 2017 increased the administrative burden of entrepreneurs, and only every seventh draft reduced it, whereas every third draft increased the administrative burden of officials. The state's supervision over entrepreneurs has exceeded the limits of reasonableness. The other aspect of the same problem is the discretion of the official. It is expanding, along with an unwillingness to provide clear answers or to take responsibility for their own decisions.

We need more legal clarity and transparency. As state policy does not support long-term development, the volume of investments is decreasing. The volume of new foreign investments has also decreased by half over the last decade, while labour costs per person employed have increased by more than half.

**Jaak Aaviksoo**

Rector of Tallinn University of Technology

Competitive advantage can be increased through greater innovation. The development of mankind and technological developments that are taking place in the world will have a significant impact on the entire economic sector in the coming years. Entrepreneurship should utilise domestic and international knowledge, and the potential of Estonian research and development activities; research and development organisations should in turn take the needs of the Estonian economy into account. This is especially the case in the industrial sector. We are faced with global challenges – an ageing population, changes in the skills required, growing demand for “tailor-made solutions” and industrial production in cities, digitalisation of industry, competition with new technologies. These challenges cannot be solved alone in the back office of the factory, universities and businesses should work together. The lack of internationalism is also becoming a problem in Estonia.

We should attract more talented people here, who know how to increase productivity. If there is no new innovation, we are destined to fade away, as we won't be able to continue to compete. Upon financing science, the state should define fields and volumes more clearly to ensure that research funds bring about better results in business.

EMPLOYERS' PROPOSALS ON ECONOMIC DEVELOPMENT

1.

During the ending government period, **state reform** has had a good start with administrative-territorial reform. The review of the functioning of the state needs to be **thoroughly continued**: the volume of law making and rules must be reduced by up to 25%, duplication must be eliminated, and the need for public services and processes of action must be critically reviewed.

PROPOSALS TO THE STATE:

- agree upon the long-term content, goals and schedule of state reform;
- reduce the number of services provided by the public sector, and through this, the number of public sector employees by at least 3,000 people per year over a period of 10 years; measure and publish the results once a year.

PROPOSAL TO RIIGIKOGU:

not start processing drafts without development intention, a thorough impact analysis, and an agreement between the parties.

2.

In our opinion, **Estonia's openness to the world** is one of the key issues in development: we must be open to new people, solutions and capital. We consider it important to link Estonia via new connections with the global movement of goods. For this purpose, **international rail, road and tunnel connections must be established**. We also need to invest in improving international flight connections, avoiding the mistakes that have been made thus far.

PROPOSAL TO THE STATE:

- consider increasing the volume of investments of companies with high added value as a priority for government on a local and national scale. Give government agencies and municipalities greater powers to make decisions that attract investments.

3.

The state's participation in business is only justified if it invests in infrastructure promoting entrepreneurship, or when the private sector does not manage with it alone.

PROPOSAL TO THE STATE:

continue the privatisation and transfer of public services to the private sector.

4.

There are not many natural resources in Estonia, but we have a significant human and data resource here. All resources should be taken into use in Estonia as economically as possible for the sake of national development, and they should not be sold abroad as cheap raw materials. Also, the blind preservation of Estonian nature and mineral resources does not increase the value of society. Through the skilful use of resources and the search for environmentally-friendly solutions, we have the opportunity to reach the top of the world.



We must be open and connected with the world, otherwise our development will stop.

PROPOSAL TO EMPLOYERS:

make increasingly more effort to create added value in the domestic resource-based industry and improve environmental sustainability.

5.

Digitisation has been one of the international trademarks of Estonia. We are known for this, however, the public sector still has many unused opportunities, and we need a longer-term strategy. In the private sector, Estonia also stands out with its uneven development, and the situation is not good in comparison with the European average. Estonia as a country with a reducing number of workforce, that has already got a taste of digitation, needs to regain speed in terms of information technology.

PROPOSAL TO EMPLOYERS:

digitise and automate business processes across value chains wherever possible.

PROPOSAL TO EMPLOYEES, INCL. FUTURE EMPLOYEES:

study IT-related subjects. Not everyone has to be an IT expert, but digital skills will in most cases be a fundamental prerequisite for many popular occupations.

PROPOSAL TO THE STATE:

the deployment of data analysis and artificial intelligence is inevitable. This helps to relieve the burden on the workforce and improve the quality of public services. The state should not be Estonia's largest IT-company, but a smart contractor.

6.

In Estonia, the promotion of research and development activities and the better integration of these two fields has, to a large extent, remained just empty words. "Estonia's ability to invest in the volumes of research and development activities is not comparable with that of large, developed countries, which is why Estonia's expenditures on research and development should be application based. Here, we could be at the forefront, and this is also supported by Estonia's image as an e-country," states the vision document "Information Society Vision and Implementation Measures" of the Estonian Association of Information Technology and Telecommunications.

PROPOSAL TO EMPLOYERS:

set goals in relation to your companies' development activities, and contribute more than before.

PROPOSAL TO THE STATE:

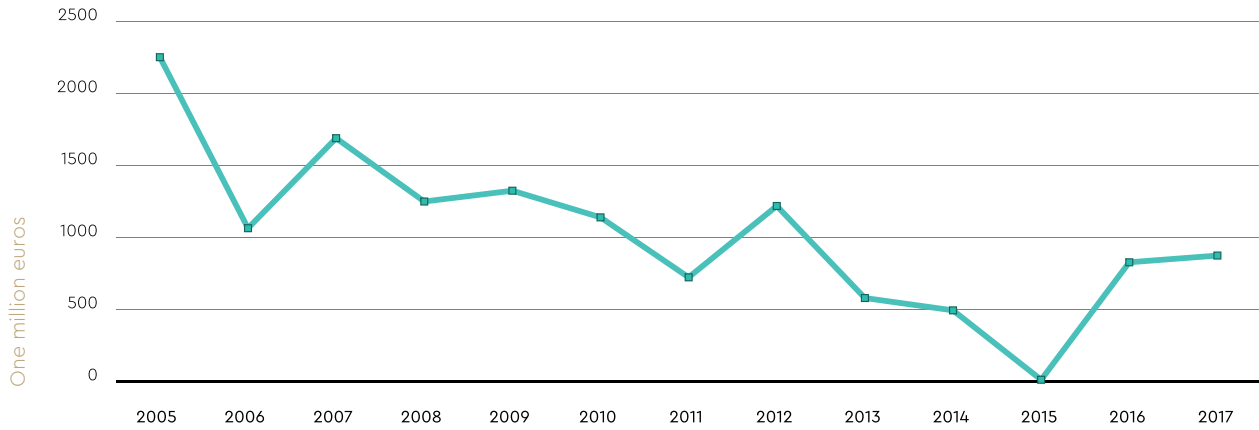
make an agreement across the parties that the state will increase the funding of research and development activities to 1% of GDP within 3 years, and will continue to maintain this level. The additional money should only be directed to those areas that support the development of the Estonian economy and society in particular.

7.

Investors who create new jobs need a clear message that the state values their investments in Estonia. The trends of recent years have instead demonstrated the opposite: investing is becoming more and more complex. The continuously changing legal environment hinders investment. Less and less investments are being made in Estonia.

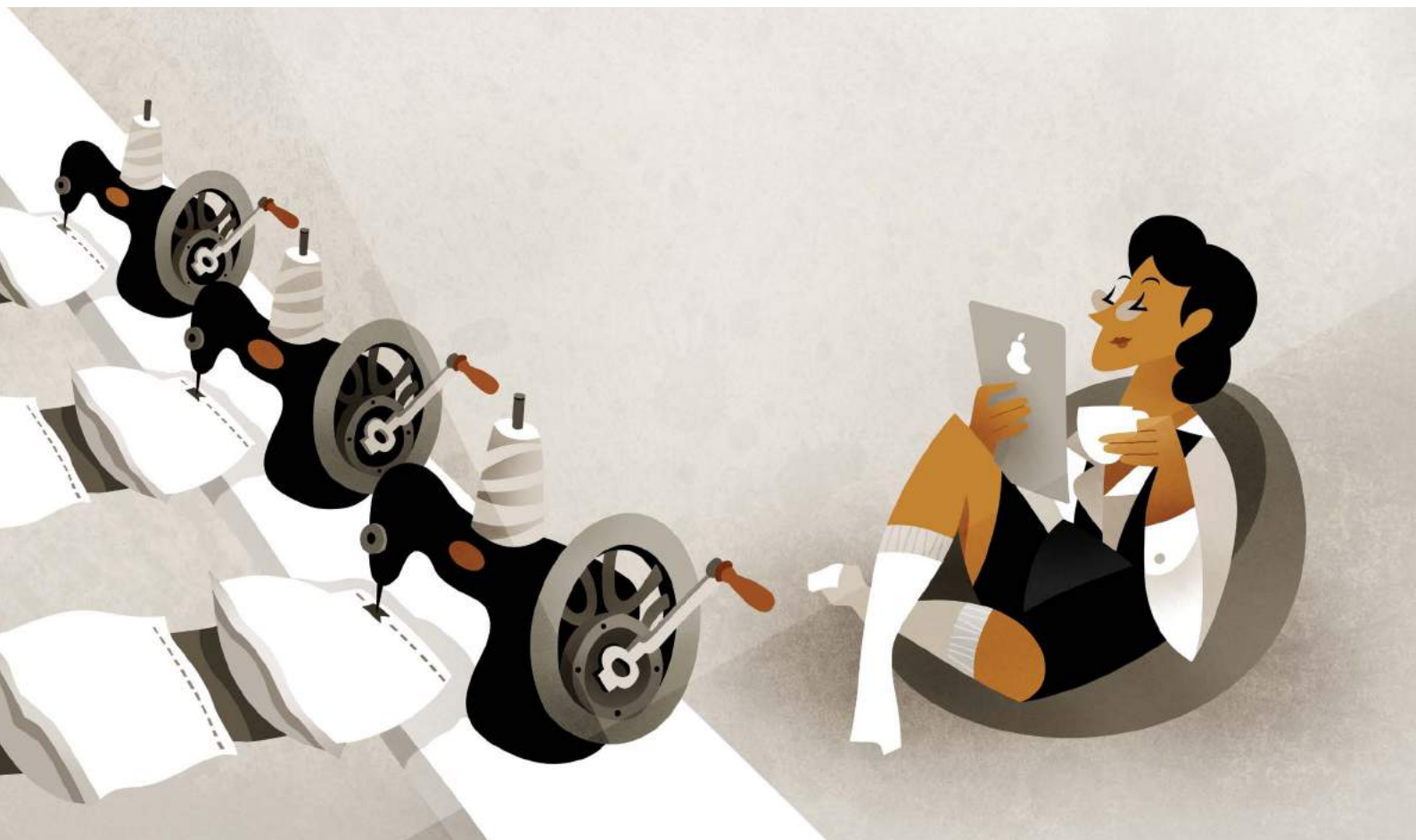
The flows of direct investments to Estonia have decreased by half in 10 years

Source: Eesti Pank



PROPOSAL TO THE STATE:

value investors who are creating new jobs more, give them a clear message that they are welcomed. Align your messages and goals across ministries and agencies.



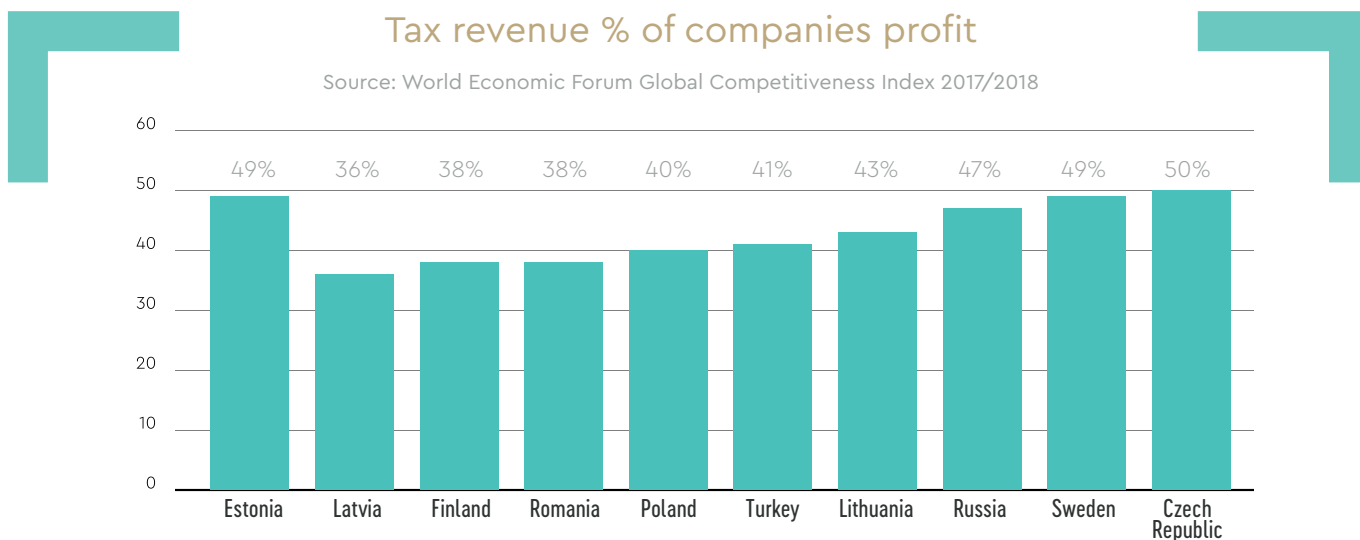
The new economy needs more of those who can operate new generation equipment or manage IT-systems.

III TAXES



1. TAXES MUST SUPPORT THE COMPETITIVENESS AND DEVELOPMENT OF ESTONIAN COMPANIES

Estonia's overall tax burden (34.7% of GDP in 2017) is not very high compared to Europe, but companies compete in the global market in their field of activity. In the 2017–2018 Global Competitiveness Report of the World Economic Forum, Estonia is ranked 104th out of 137 countries, taking into account the tax burden indicator of 48.7% of the corporate sector's profit.



Taxes in Estonia seem high to foreign investors.

Estonian taxes should also be competitive in terms of individual tax categories, as we also compete with countries outside of the European Union. Tax policy has not always taken this sufficiently into account, and the result is that the money of consumers and investors has moved to neighbouring countries together with taxes. However, foreign investors are particularly interested in the credibility and predictability of the economic environment, and the presence and price of local consumers or production factors in the country of operation. As for production inputs, we therefore recommend keeping the tax burden as low as possible. As Estonia is lacking in mineral and human resources, it would be wise to design the tax system in such a way so as to encourage alternative resources – innovation and investment. For this reason we recommend, first and foremost, to maintain a simple, proportionate and predictable tax system that has been successful to date.

2. TAX INCREASE MUST BE STOPPED

The constant tax changes over recent years have led all taxpayers to become confused by and mistrust the state. It has destroyed morality and badly affected the nationwide tax compliance. Experimenting with taxes must be stopped.

PROPOSAL TO THE STATE:

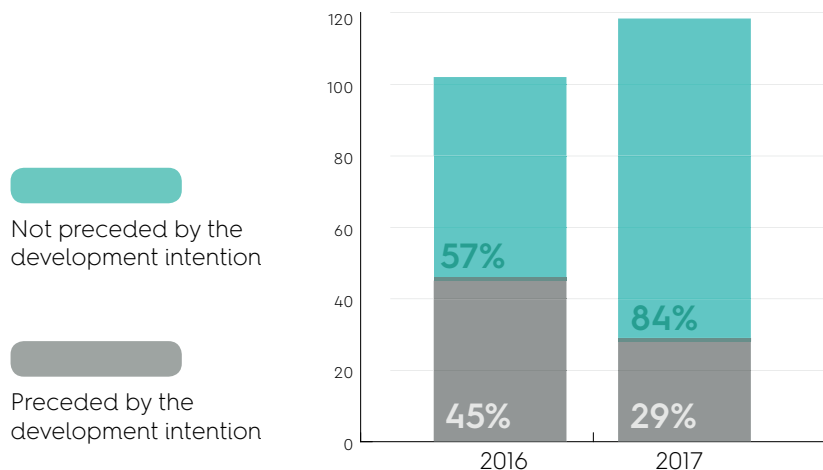
correct the clear mistakes and analyse whether the tax system in Estonia requires significant and extensive amendments or not.



The quick and unpredictable nature of tax amendments is the biggest flaw of the Estonian tax system. According to the Ministry of Justice, 56% of Estonian laws were amended at least once, and 27% of laws were amended two or more times in 2017. 71% of drafts were not preceded by the development intention. The preparation of development plans is, at the same time, important to ensure that legislative changes are thought through and that society is involved. Tax policy has lost the long-term perspective and clarity of objectives. Important tax changes have been made very lightly. Such developments in the tax system have created a lot of uncertainty. Insecurity in the tax environment reduces its attractiveness in the eyes of investors, which in turn undermines economic growth and well-being. We recommend the next government to take time and carefully think through whether the Estonian tax system needs more fundamental changes given the decline in our working age population, the need to support innovation and international competitiveness. Trust is also increased by the better involvement of stakeholders and analysis-based legislation.

The proportion of planned and notified legislative amendments decreased in 2016–2017

Source: Draft of the Riigikogu decision "The General Principles of Justice Policy until 2030", Ministry of Justice 2018



3. RESPONSIBLE AND SUSTAINABLE BUDGET POLICY

In order to reduce the need to raise taxes, we should already start getting used to reducing current expenditures in order to finance new ones. We must constantly think about how to increase productivity, investments, and export.

At the time of the manifesto, the economy is booming, but this is not going to last forever. There is sufficient uncertainty in the world and it is already certain that the amount of euro subsidies will decrease in the coming years, with the total share of national budget revenue currently at around 10%. The population is also ageing rapidly, which means a constantly increasing tax burden for a rapidly declining number of people of working age. In order to reduce the need to raise taxes, we should already start getting used to reducing current expenditures in order to finance new ones, and constantly think about how to increase productivity, investments, and export. In order to review current expenditures, they should be systematically analysed and savings opportunities should be sought.

EMPLOYERS' PROPOSALS REGARDING TAXATION

1.

Estonia stands out for its good tax discipline and effective tax administration. It is based on the simplicity, clarity and automation of the tax and administration system and on the optimal level of tax rates. However, some fields have already deviated too far from these principles. We recommend **rectifying the recent failings in tax policy**.

PROPOSAL TO THE STATE:

restore the uniform tax free income threshold and lower the rates of excise duty to such a level that excise goods are again bought from Estonia, not from neighbouring countries. Find solutions to reduce taxes and fees applicable to other energy carriers, as they are important production inputs.

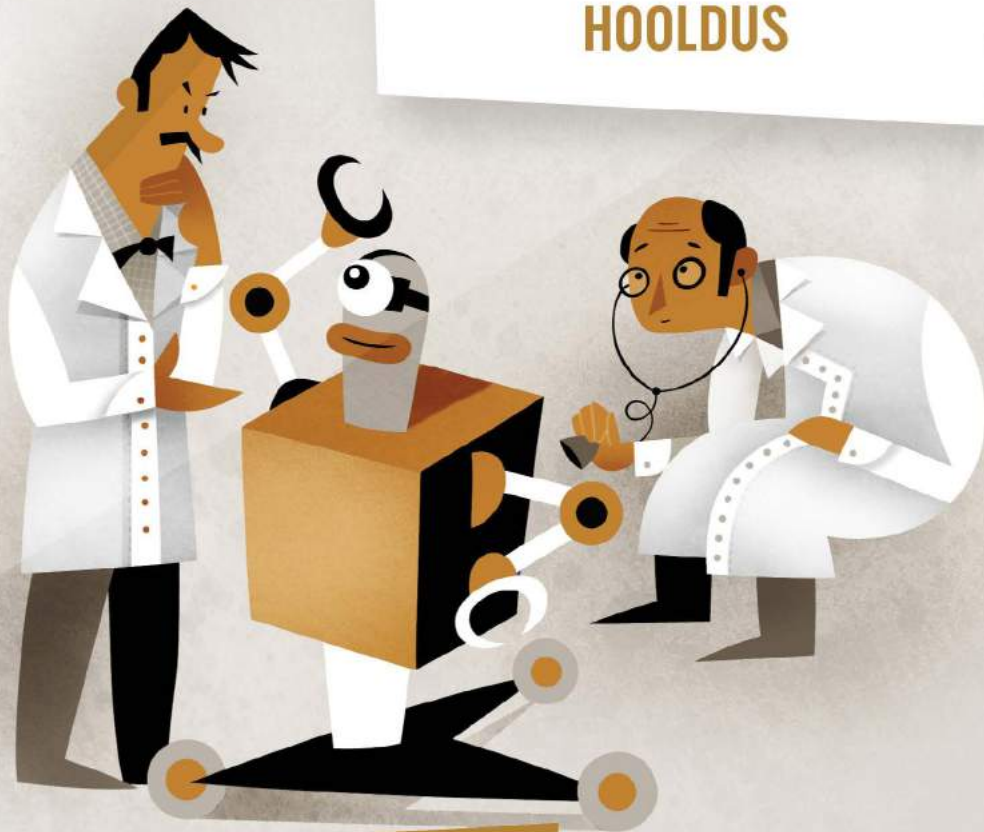
2.

Social tax is the biggest state-created obstacle for employers in creating new jobs. The Estonian system is special due to the fact that the entire social tax is paid by the employer. Like in other places in the world, it is also possible in Estonia to partly change the tax system so it would bring about favourable structural changes.

PROPOSALS TO THE STATE:

- reduce the minimum social tax rate so that part-time workers can get jobs more easily;
- establish a maximum social tax with the aim of making Estonia more attractive to top specialists;
- share the payment of social tax between the employee and the employer in such a way that the employee's net salary does not decrease;
- apply social tax incentives to trainees and apprentices in order to motivate cooperation between employers and educational institutions.

MAKSUVABA HOOLDUS



MAKSUSTATUD HOOLDUS



Maintenance of equipment is not taxed by the state, but the improvement in the workers' well-being and health is.

3.

The more **employers contribute to the well-being of employees**, the better the work relationships are and the happier people will be. Today, taxes are imposed on several expenses of the employer to employees, which are aimed at improving the health, mobility, competitiveness of people, and alleviating the burden of the national budget.

PROPOSAL TO THE STATE:

in order to increase the employer's readiness and ability to invest in employees' well-being, exempt the following expenditures of the employer from labour taxes:

- study leave remuneration (promotes lifelong learning);
- expenditures on childcare (facilitates the employment of parents of young children);
- health expenditures (helps reduce sickness and promotes the employees' quicker return to work);
- the so-called "employer's pension" (helps to include, on a voluntary basis, private financing to the pension system that is currently in high deficit).

4.

With today's tax system, local governments have no incentive to tolerate, or even less to attract bigger companies to their region. Often, additional obligations and additional work outweigh the positive factors.

PROPOSAL TO THE STATE:

We recommend creating a financial incentive for local governments to develop a business environment and attract investments.

5.

Too many **legislative changes** have been made without involving society. We consider it very important to share **impact analyses** with the public, since this is the only way to establish trust in changes.

PROPOSAL TO THE STATE:

analyse the impact of all tax changes on both the budget as well as the behaviour of people and companies, and disclose all impact analyses on such changes.

6.

The state needs to prepare for the worst times of the state budget.

If we do not prepare for the worst times early enough, it might bring about a sudden increase in taxes, the underfinancing of public services, or the inability to provide these services in a sustainable manner.

PROPOSALS TO THE STATE:

- create a strategy for reducing EU subsidies and prepare for a possible economic downturn, including increasing reserves during economic booms and creating financial discipline for the worst times; make the largest investments in the country's infrastructure when the conjuncture has deteriorated;
- to draw up the state budget every ten years from a zero basis, i.e. without taking the costs incurred in the past into account. We recommend drawing up the first such budget within the next four years, but no later than during the economic downturn.

IV EDUCATION



1. EDUCATION AND LABOUR MARKET MUST BE COMPATIBLE

The development of technology raises the welfare gap between people in the world: on one side, there are people with knowledge and skills, and on the other, the people without it. The supreme responsibility of Estonia is to ensure the youth have an opportunity to stay on the wealthy side. Therefore, the most important field in society is education.

According to the Organisation for Economic Co-operation and Development (OECD), 7% of current jobs in Estonia will disappear in the future, and about a third of the jobs will change considerably (sources: [OECD Economic Outlook 2018](#); [Kutsekoda 2017](#)).

The amount of people without professional or vocational education is still very large among Estonian workers, being at 28.5% among adults (25–64 years old). The amount of people aged 18–24 with a low educational level, who are not studying, is 10.5% (source: [Basic Indicators of Adult Learning Statistics 2017](#)).

The aim of the Lifelong Learning Strategy is that by 2020, the division of primary school graduates between vocational secondary education and general secondary education is 35/65, but during the last five years, only 25–28% of primary school graduates have continued their studies in vocational education, and 69–70% of them continue in general secondary education.

And, as time passes, the competitiveness of people without professional education or skills in the labour market becomes worse. In addition, the provision of education in fields that do not have a future perspective in the labour market is not only costly for society, but also frustrating for employees, who were studying in good faith. Therefore, it is particularly important that the national ordering and funding of education is closely linked to labour market trends.

2. THE VALUATION OF EDUCATION IS THE MOST IMPORTANT MATTER WITH REGARD TO OUR DURABILITY

The average age of teachers is high (48 years old in elementary school) and the age distribution is only getting worse. Many of them work part-time at several educational institutions and cannot contribute to development activities of their workplace. Teachers do not apply new teaching styles and therefore, schools will not achieve the desired changes in learning and teaching.

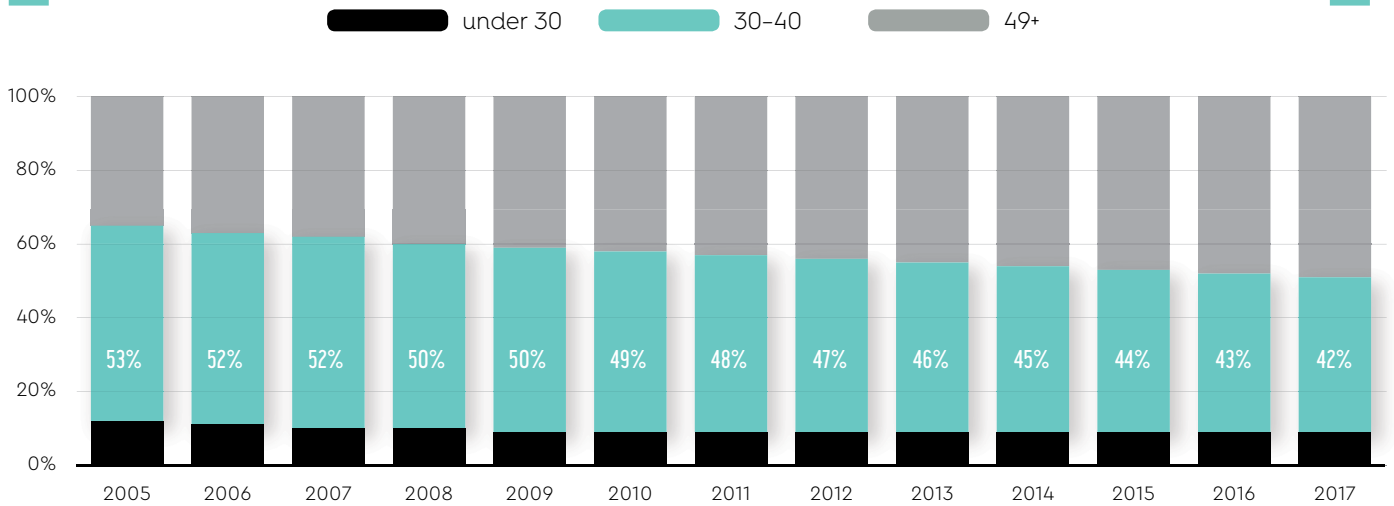
The training of employees of any area starts with a high-quality basic education, the foundation of which is laid by teachers. In Estonian schools, the situation is critical with regard to science and mathematics teachers. According to OSKA's applied research in the field of education and science, every fifth mathematics, chemistry, geography and biology teacher, and every fourth physics teacher is at least 60 years old. 24% of the teachers in vocational educational institutions belong to the same age group.

The teaching occupation is not attractive enough. The valuation and remuneration of teachers is not in harmony with the requirements of this occupation. The implementation of inclusive education will bring about different expectations about teachers' competences compared to the past.

We need many brilliant new generation teachers.

The average age of teachers in general education schools is increasing

Source: Statistical Office 2017



3. THE EDUCATION SYSTEM MUST BE OPEN, FLEXIBLE AND ADAPTABLE

"Due to technological changes, employees in all sectors need new skills, which is why they have to learn to quickly adapt to the changing work content and working environment. In addition to specialist knowledge, problem-solving and critical thinking skills as well as creativity are required. There must be a readiness for lifelong learning. Both the educational system as well as the student must adapt to it. We recommend to make the Estonian education and refresher training system more flexible and more responsive to the labour market's needs," was also stated in the final report of the economic development working group working with the government in 2015–2016.

EMPLOYERS' PROPOSALS REGARDING EDUCATION

1.

There is no free education, there is only taxpayer-funded education. Therefore, it is justified that the state orders studies from educational institutions in such volumes and in those areas that the labour market requires.

PROPOSALS TO THE STATE:

- make a national order for all school levels depending on the needs of the state. In this respect, the aim of the Lifelong Learning Strategy must be taken into account, according to which 65% of primary school graduates will continue their studies in general secondary school and 35% in vocational educational institutions;
- we repeat our proposal made four years ago: instead of free higher education, introduce a paid higher education, which is financed by the student with a student loan. If the student completes the studies successfully within the prescribed period, the state will wipe off the student loan.

2.

A lot of work has been performed in Estonia to establish **job-based learning** i.e. **apprenticeship**, and to **develop the internship system**. Changes do not come easy, because the motivation of stakeholders is not clear. However, job-based learning and internship play a very big role in the training of employees with the necessary skills.

PROPOSAL TO EMPLOYERS:

apply work-based learning more frequently in your companies. Also, offer more substantive, long-lasting apprenticeships. This will help, among other things, find the best employees for the future.

PROPOSAL TO THE STATE:

support the mentoring of internships necessary for the development of effective vocational education, including exempting the salary paid to interns and apprentices from social tax.

3.

So far, the expectations of the results of **the funding of education** (including vocational education) have been rather low, and the results have, in fact, a very limited impact.

PROPOSAL TO THE STATE:

increase the proportion of results in the vocational education financing model to one third. The better and more efficient the educational institution works in the training of students, the more money it gets from the state budget.

4.

Estonia has established a system **for the assessment of professional skills and for the issuing of professional certificates**. This motivates people to improve their skills, the more these certificates are valued.

PROPOSAL TO EMPLOYERS:

recognise these certificates more and give employees a clear message about their value.

PROPOSAL TO THE STATE:

in any case, maintain the independent issuing of professional certificates and the adequate funding of the system.

5.

The Estonian education system seems to consist of several different systems. We consider it important to increase flexibility; among other things, there should be no educational dead ends or rigid curricula.

PROPOSAL TO THE STATE:

ensure equal opportunities for graduates of vocational education institutions with general secondary school graduates to continue their studies at higher education institutions. For this reason, create a system for the graduates of vocational education institutions for enrolling in higher education institutions, supported by the state and universities. This would make vocational training more attractive and increase the competitiveness of university graduates in the labour market.

6.

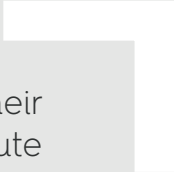
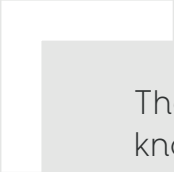
Teaching of future skills starts in primary school. In order to increase the proportion of programmes related to the physical and life sciences, engineering and technology in higher education, the life and technical sciences need to be made much more popular, and their curricula must be stronger. At the same time, we must ensure the availability of good teachers.

PROPOSALS TO THE STATE:

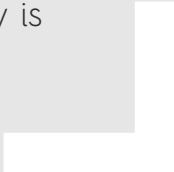
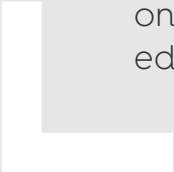
- increase the teachers' salaries in four years to at least 1.5 times the Estonian average, and the salaries of teachers of life sciences and vocational education to at least 2 times the Estonian average;
- significantly increase the integration of subjects;
- stop the division of the mathematics syllabus into narrow or extensive mathematics;
- increase the rigour with regard to compliance with the new learning approach described in the lifelong learning strategy, which is focused on the student;
- if we manage to agree that defence expenditures are important for Estonia, we must also be able to come to an agreement recognising the importance of innovation and education, which is not a matter for political disputes.



We need lively, financially secure and self-confident teachers.



The greatest determinant of the future of Estonian people is their knowledge and skills. It is our political choice whether to contribute more to the benefits redistributed between different social groups or to understand that the future of our children depends on our schools and teachers. Therefore, we must increase the teachers' salaries in four years so that they are at least 1.5 times the Estonian average.



The development of technology raises the welfare gap between people in the world: on one side, there are people with knowledge and skills, and on the other, the people without it. The supreme responsibility of Estonia is to ensure the youth have an opportunity to stay on the wealthy side. Therefore, the most important field in society is education.

The most effective way to reduce social
inequalities is to invest in education.

Lennart Georg Meri