



Working Paper

Ethnic Inequalities in Labour Market Entry in Estonia

The Changing Influence of Ethnicity and Language Proficiency on Labour Market Success

Kristina Lindemann

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Editorial Note:

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Abstract

The aim of this paper is to find out how ethnicity and Estonian language skill affect labour market entry in Estonia. This paper focuses on the quality of the first job of ethnical Estonians and non-Estonians in the years 1991–1997 and 2001–2006. The main question is to what extent ethnicity and Estonian language skill influence the occupational attainment of youth in their first job. The data to be used are taken from Estonian Labour Force Surveys conducted in the years 1995, 1997 and 2002–2006. Results from linear regression analysis indicate that although the investment in country-specific human capital gives some advantages to non-Estonian youth, still Estonian language proficient non-Estonians are less successful labour market entrants compared to ethnic Estonians. Thus both ethnicity and Estonian language skill have a significant effect on the occupational status in the first job. Although education is important in shaping labour market opportunities of the youth, it appears that returns from education differ between ethnic groups. In addition, the investment in Estonian language skills gave higher returns in terms of occupational status in the period 1991–1997, whereas in the years 2001–2006 Estonian proficient non-Estonians reached considerably lower occupational status in their first job than Estonians.

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1 Introduction

Although education is proven to be a key resource for young people in the job competition in European countries, also other individual characteristics may shape the success of labour market entry. Studies show that the ethnic background has a significant effect on youth labour market outcomes in many European countries. There are various potential explanations why ethnic inequalities become evident in the transition to working life, such as discrimination, language skills, different motivations, socio-cultural background and lack of social networks, but often it is not possible to find a single plausible reason for the disadvantages of ethnic minorities (Heath & McMahon 1999, Kalter & Kogan 2006, Heath & Cheung 2007).

The aim of this paper is to research ethnic inequalities in the labour market entry in Estonia. There are two large ethnic groups living in Estonia. In 2007, 69% of the population were Estonians and 26% were Russians. Other larger ethnic minorities are Ukrainians and Byelorussians, who mostly speak Russian (Statistical Office of Estonia 2008). Before World War II, about 94% of the population was Estonian. During the Soviet Union period, the share of ethnic minorities in the whole population grew considerably mainly due to the labour migration flows from other parts of the Soviet Union. Arriving immigrants were rather similar to Estonians in terms of educational level and they did not attain lower labour market positions compared to the natives. After the collapse of the socialist system a large proportion of these minorities stayed to live in Estonia. Thus they had to get accustomed to their new minority position in society (Pavelson & Luuk 2002, Pettai & Hallik 2002). Therefore Estonian ethnic minorities are not traditional immigrants for whom the integration into the new society is an intended and conscious choice. A different societal context also results in some restrictions on applying often used immigration theories.

The aim of this paper is to find out how ethnicity and Estonian language skill influence the success of labour market entry of young non-Estonians and Estonians. The majority of analysed non-Estonian labour market entrants are born in Estonia. The institutional context of labour market entry has changed significantly in the last two decades. Thus two time periods are in focus, the years 1991–1997 and 2001–2006. The main question is how ethnicity and Estonian language skill influence the occupational attainment of young people in their first job. According to the human capital theory it is expected that in the case of equal human capital, such as identical educational level and good Estonian language skills, the labour market success of minorities should be similar to that of natives. Still there might be ethnic disadvantages that are not explained by educational level and language skills, meaning that the returns from similar human capital might be lower for ethnic minorities than for natives. Therefore, this paper researches how ethnicity influences the returns from education in terms of occupational attainment in the first job.

This paper is structured as follows. In section 2 the main theoretical explanations for the role of ethnicity in labour market entry are discussed. Section 3 gives an overview of Estonian country context fo-

cluding on ethnic differences in the labour market, the educational system and society in general. In the next section, hypotheses about labour market entry are introduced. After a description of data, method and variables the discussion of results follows. Conclusions are made in section 7.

2 Theoretical explanations for the role of ethnicity in labour market entry

Different human capital can be a reason behind the dissimilar opportunities of natives and minorities in the labour market. According to the classical approach the human capital is an investment in order to raise the level of skills and knowledge. This means that the productivity of an individual in the labour market increases. Such investments are, for instance, attaining education or participating in training. Higher investments are rewarded with higher returns in the labour market (Mincer 1958, Becker 1962). Studies have shown that education is a crucial resource that influences youth opportunities in European countries. Education is particularly important for entering the first significant job as labour market entrants do not have previous work experience (Müller & Gangl 2003).

However, the usefulness of human capital depends on the specific labour market, which means that human capital is imperfectly transferable across countries (Chiswick 1978, Friedberg 2000). This leads to the argument that differences between natives and immigrants might also be explained with country-specific human capital, such as language proficiency and cultural knowledge. This idea assumes that the concept of human capital is broader than just people investing in education and skills. Thus, language proficiency and cultural knowledge as country-specific aspects of human capital are more useful in some societies than in others (Kalter & Kogan 2006). Particularly language proficiency influences a spectrum of job opportunities available for immigrants. The ability to speak the language of the host country may be required for fulfilling job tasks. In addition, fluent language speakers have greater access to information about jobs and they are able to mediate their qualifications to potential employers (Dustmann 1994, Dustmann & Fabbri 2003).

Returns from human capital may differ for ethnic minorities and natives, which raises the question of labour market discrimination. Discrimination may mean direct discrimination from employers, but also unequal treatment through legal restrictions or institutional contexts. It can become evident through social exclusion from networks and social relations that are important for economic advancement (Heath & Cheung 2007). Discrimination may also mean that the employer values personal characteristics (such as race, ethnic background and gender) that are unrelated to productivity (Arrow 1973). In the economic theory, the most discussed explanations of discrimination are taste-based discrimination and statistical discrimination. The idea of taste-based discrimination derives from the work of Gary Becker (1971). Its main assumption is that some employers, employees and costumers prefer not to work with or communicate with members of minorities. They hold the taste of discrimination, which is the reason why employers expect that employing minority workers should be balanced by these workers' lower wage or higher productivity compared to others. However, if there are also non-

discriminatory employers in the competitive markets, the taste of discrimination is improbable to persist over time (Arrow 1998). Theories of statistical discrimination are based on the idea that employers have imperfect information about the productivity of workers. Employers will discriminate against minority applicants if they believe that members of the minority group are less productive than the majority and if the cost of gaining information about applicants is excessive. Such behaviour of employers is based on some kind of previous experience with the group (Arrow 1973, 1998; Phelps 1972).

Thus, when making a decision about hiring a job applicant, employers most probably take into account information about the human capital, meaning that education and language skills are important factors influencing employers' choices. Still, also the processes of discrimination may have significant influence on youth opportunities of getting a job. The job market signalling theory presumes that hiring is an investment decision for employers made in uncertainty due to the lack of information about all capabilities of the applicant. When making the decision the employer considers signals and indices. Signals are characteristics the applicant can change, like education, while indices are unalterable attributes, such as ethnicity and gender (Spence 1973). The clarity of signals depends on the institutional context of the country. A greater emphasis on specific skills and a closer link between schools and employers means that the signals to the employer about the potential productivity of a given job seeker are very clear, which makes the entry to the labour market easier (Breen 2005).

3 An overview of the Estonian context

3.1 Ethnic groups in society and labour market

The labour market entry of ethnic groups in Estonia is related to changes in a broader societal context. The societal position of Estonians and other ethnical groups changed after Estonia regained its independence in 1991. Non-Estonians had to accept their new minority position, while politics and public discourse began to strongly emphasise the ethnical Estonians' majority position in society. The situation started to change in the second half of the 1990s when the Estonian parliament passed a resolution regarding the principles of the state integration policy. The need to integrate ethnic communities into one multicultural society was increasingly recognised also in public discourse (Heidmets & Lauristin 2002). Laws about citizenship and the official language have had a major influence on non-Estonians' societal position. In 1993, the parliament adopted the Aliens Law. As a result of this law many non-citizens became de facto stateless persons (Pettai & Hallik 2002). In 2007, about 115,000 persons with undetermined citizenship and almost 92,000 Russian citizens lived in Estonia (Lauristin 2008). The decisive precondition for getting citizenship is the knowledge of the Estonian language. Although theoretically it is in accordance with international practice, in reality the implementation of this requirement has proven to be complicated (Hallik 2002). According to the Language Law (adopted in 1995), the only official language is Estonian. Therefore proficiency in the Estonian language has become a central issue for non-Estonians, because apart from being essential for getting citizenship it is

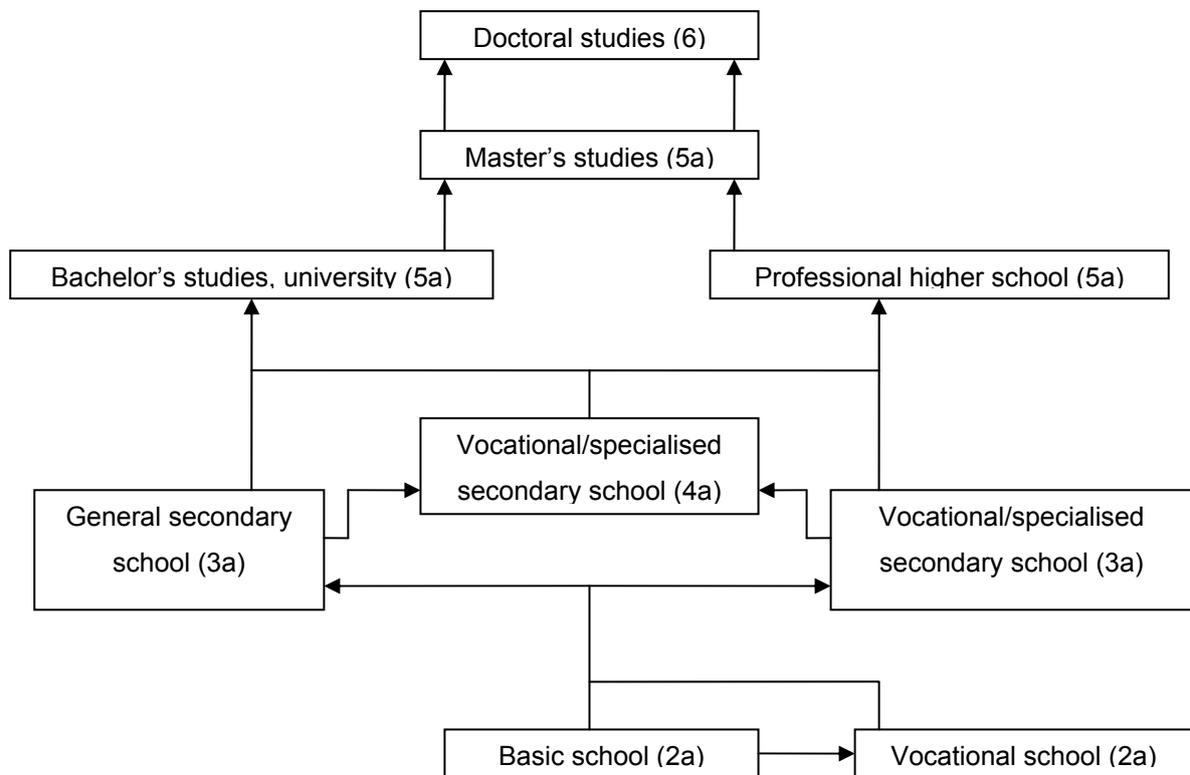
also often necessary for access to professional jobs. In 1989, about 15% of the Russian-speaking population was proficient in Estonian. The share of people speaking Estonian has increased. In 2005, 42% of Russian-speakers estimated their ability to speak the Estonian language as average or good. Among youth aged less than 30 years this proportion was 59% (Proos 2005).

The structure and functioning of the labour market changed significantly in the beginning of the 1990s. The centrally planned Soviet Union labour market with the goal to have no unemployment was replaced with a labour market working according to market principles. The unemployment rate began to rise quickly in 1992, and since that period the risk of unemployment has been higher for non-Estonians than for Estonians. The labour market situation stabilized in the middle of the 1990s when the economic well-being in terms of GDP started to increase. The impact of economical crises in Russia reached the Estonian labour market in 1999. The situation started to improve in 2001, and in next seven years Estonia experienced a rapid economic growth. This meant also that the situation in the labour market was more favourable. Despite the economic improvement the unemployment rate of young non-Estonians stayed twice as high as that of young Estonians (Toomse 2004, Statistical Office of Estonia 2008).

The Estonian labour market has been ethnically segregated since the Soviet Union period, when this tendency was supported by Soviet labour policy. Immigrants who arrived in Estonia were mostly employed in all-union enterprises, which were companies established by Moscow and operating with imported raw materials from other parts of the Soviet Union. A high share of immigrants was employed as skilled blue-collar workers. In addition, all-union enterprises imported specialists and managers who had attained their education outside of Estonia (Pavelson & Luuk 2002, Pettai & Hallik 2002). As a result, today non-Estonians work more often in positions related to industry and have more often blue-collar skilled worker positions (Statistical Office of Estonia 2008). In addition, these all-union enterprises had few contacts with the local community, which meant that social networks were divided along ethnic lines (Vöörmann & Helemäe 2003). Social networks of ethnic groups have remained separated after the transition to the market economy, which is one reason behind non-Estonians' lower ability to compete with Estonians in the labour market (Pavelson & Luuk 2002).

3.2 Ethnic groups in the Estonian educational system

Figure 1 gives an overview of transitions in the Estonian educational system. Usually children start their studies at age 6 or 7. Primary and lower secondary education are attained in basic schools. After 9 years in basic school students can continue in general secondary or vocational school. Until the year 1999, there was also the possibility to continue in a specialised secondary school, which combined vocational training with academic tracks. Although it is possible to continue studies at the tertiary level after finishing vocational secondary education, general secondary schools still prepare students best for further studies at the university (Saar & Lindemann 2008).

Figure 1. The Estonian system of education

Since the Soviet Union period the language of instruction in basic and secondary schools has been either Estonian or Russian.¹ There are Russian schools in all larger cities and also in smaller towns where the share of Russian inhabitants is high. In general, this means that many Russians and Estonians study in separate schools. There are only few schools that have parallel Russian and Estonian groups. The number of pupils in Russian schools is declining constantly. In the year 1991 about 37% of all pupils studied in Russian schools, whereas in year 2007 about 21% of all pupils attended these schools. The proportion of students studying in Russian is higher in vocational schools than in general secondary schools, 28% and 20% respectively (Estonian Ministry of Education and Research 2008). Theoretically, all Russian school leavers should be able to speak Estonian fluently enough to cope with the labour market and continue their studies. However, many Russians find that the quality of teaching the Estonian language at schools is not sufficient (Saar 2008a).

¹ Russian schools are currently reformed (since 2007). The aim of the new education reform is to turn Russian secondary schools into bilingual schools, where 60% of studies are in Estonian. This paper focuses on the years 1991–2006 when reforms had not yet started.

After attaining the secondary education it is possible to continue studies at university or a professional higher school. The language of study is Estonian in public higher education institutions. There is also a possibility to continue studies in Russian at private educational institutions, where students have to pay tuition fees. In total, 10% of all students in higher education are studying in Russian. Approximately half of the school leavers from Russian secondary schools who continue their studies do it in Estonian. The share of students studying in Russian is higher at the professional track compared to the academic track, 20% and 8% respectively (Estonian Ministry of Education and Research 2008). Graduates from both tracks can continue their studies at Master level, although students who have attained university education are more likely to continue their studies.

4 Hypothesis

According to the human capital theory, education should have a major effect on labour market success. Studies show that the effect of the educational level on the outcomes of labour market entry is rather strong in Estonia compared to other European countries (Täht et al. 2007). The importance of education in finding the first significant employment has changed very little since the beginning of the 1990s, even though there have been significant structural changes. For instance, the number of students participating in higher education has significantly increased in the last decade. However, it has not had a negative impact on youth labour market entry as young people with higher education generally get a job corresponding to their educational level (Kogan & Unt 2005). In the years 2002–2005, the initial social position of youth with a higher education has even risen compared to earlier years, whereas secondary education has somewhat lost its value (Saar 2008b).

This indicates that at least the general level of education is a significant signal for employers. Still, the strength of signals from the educational system depends on the institutional context of a country. In Estonia most labour market entrants have rather general skills obtained in the educational system, and even vocational qualifications do not guarantee a smooth transition to the labour market (Täht et al. 2007). The cooperation between schools and employers is weak as both participate quite passively in organising the transition of youth to the labour market (Saar et al. 2008). The main problem of school leavers is their entry into the labour market, because signals from the educational system are rather limited. Employers have little information about the actual skills of school leavers (Saar 2005). The weakness of signals from the educational system opens up the possibility for employers to let personal preferences and also prejudice play a role in the selection process of applicants.

On the other hand, non-Estonians may experience more difficulties in labour market entry due to the lack of Estonian language skills. The value of human capital depends on the societal context and the specific labour market (Friedberg 2000). In Estonia, the changes in societal order brought along a change in the evaluation of certain aspects of human capital. The importance of the Estonian language as a human capital increased, and this started to shape people's opportunities in the labour market. Proficiency in the Estonian language is a significant precondition for access to professional

jobs. In some cases, Estonian language proficiency is even required by law in public as well as in some private sector jobs. According to the idea of country-specific human capital, Estonian proficient non-Estonian youth should have similar advantages in job competition as Estonians. Thus, it is expected that, in addition to the educational level, also the Estonian language skill influences the occupational status of young people in their first job.

The transition from school to work has changed significantly in the last two decades in Estonia. In the socialist period, the educational system and the labour market were strongly linked, which meant that the state often organised the first employment (Saar 2005). After 1991 the role of the state diminished. In the years 1991–1997 labour market entry was strongly influenced by rapid societal changes. The context of transition from school to work was rather uncertain and unsettled. In the beginning of the 1990s many older and experienced workers had to leave their high labour market positions because of new conditions and requirements. Thus the youth attained more easily managerial and professional positions (Tallo & Terk 1998). At that time only a rather small group of non-Estonians were proficient in the Estonian language, because during the Soviet Union period learning the Estonian language was not necessary for managing in society. Therefore it can be presumed that this small group of Estonian proficient non-Estonians had a somewhat different motivation to learn Estonian than later cohorts for whom studying Estonian was emphasised at school and in society as a whole. The speed of societal reforms stabilized in the years 2001–2006, and also the transition to work became more predictable. The cohort who entered the labour market in the years 2001–2006 have attained their education mostly in times of Estonian independence, and the larger proportion of these youth is able to speak Estonian. However, the Estonian language skill was important for getting a professional job in both periods. It is expected that the effect of Estonian language proficiency on occupational attainment in the first job has not changed over time, and Estonian proficient non-Estonians achieve a similar occupational status as Estonians.

Nevertheless, also alternative expectations are possible. In the years 1999 to 2000, the Estonian economy was strongly influenced by the economic crises in Russia. Some studies indicate that in a difficult economic situation employers are more likely to indulge tastes of discrimination and ethnic differences probably become more significant. For instance, there is some evidence that when unemployment rates increase generally, those for ethnic minorities increase even more rapidly (Heath & Cheung 2007). At times of economic crises in Estonia, school leavers were clearly labour market outsiders as finding a job became more difficult. The economic conditions improved in beginning of the 2000s, which meant also that youth opportunities in the labour market increased. In particular the unemployment rate of Estonian youth was declining, while young non-Estonians remained in outsiders' positions.

In addition, different opportunities of young Estonians and non-Estonians in the labour market may be related to the institutional organisation of the educational system. Schools tend to be segregated along ethnic lines, as Estonians and Russian-speakers often study in separate basic and secondary schools. The influence of the language of study on labour market entry is quite unclear. It is possible that the

language of instruction in basic or secondary school might be a signal for employers about the Estonian-specific capital of a job applicant or even about the quality of education. In addition, employers' demands for the language abilities might be very high for some professions, which may mean that Estonians and Estonian proficient non-Estonians have different opportunities to employ their educational degree in the labour market. This might be the case particularly for youth who have attained a higher education and compete for the highest labour market positions. Thus, returns from education might be different for Estonians and non-Estonians. Therefore it is supposed that ethnicity and Estonian language proficiency interact with the educational attainment in affecting the occupational status in the first job.

5 Research design

5.1 Data and methods

This analysis is based on data from the Estonian Labour Force Surveys (ELFS-s) that were conducted in the years 1995, 1997, and 2002–2006. The content of the ELFS-s is defined by the Statistical Office of the European Union (Eurostat), and the survey is carried out by the Statistical Office of Estonia. It is representative for the entire working-age population living in Estonia (aged between 15 and 74). Face-to-face interviews were conducted in Estonian and Russian. The size of the sample varies by years; it was smallest in 1997, when 5,051 persons were interviewed, and largest in 2003, when it included 19,659 respondents.

Based on these seven ELFS-s a new sub-sample was developed. The ELFS-s for the years 2002–2006 consist of data about respondents' movements in the labour market in the previous year. Therefore youth who entered the labour market at most a year before the survey was carried out were included in the analysis. The 1995 ELFS contains data about labour market entrants in the years 1991–1994, and the 1997 ELFS has data about the years 1995–1997. At the time of labour market entry young people may still attend school, which means that the sample does not represent school leavers only, but also students. Therefore student status is controlled in the analysis. The total size of the analysed sample was 1,311 persons. Almost all labour market entrants included in the sample were 15–26 years old.

As a first step of the analysis a mean occupational status is used to describe general differences between groups. In the second step of the analysis an OLS regression is used to analyse the effect of ethnicity, language skill and other independent variables on the ISEI score in the first job. The analysis is conducted using Stata 10.1.

5.2 Variables

The dependent variable is the occupational status in the first significant job. The first significant job is defined as an employment that lasted at least six months and 20 hours per week. The occupational status is measured by ISEI scores² based on the ISCO-88 occupational scheme.³

Independent variables are ethnicity and Estonian language skill, gender, place of residence, education, studies at the time of first significant employment and the time of labour market entry (periods 1991–1997 and 2001–2006).

The variable describing proficiency in the Estonian language and ethnicity is divided into three categories: non-Estonians who do not speak Estonian, non-Estonians who at least speak Estonian, and ethnic Estonians. Ethnicity means the person's self-reported ethnic affiliation. Respondents were asked the question: "What is your ethnicity?" All other ethnic groups except Estonians are coded as non-Estonians. In the years 1991–1997 this group includes about 83% Russians, 8% Ukrainians, and 4% Byelorussians. The majority of non-Estonians mentions that Russian is one of their domestic languages. Unfortunately it is not possible to distinguish between actual ethnic groups and domestic language of non-Estonians in the ELFS 2002–2006. The Estonian language proficiency is self-reported by the respondents. The respondents were asked whether they can understand Estonian, speak Estonian or write and speak Estonian. Some respondents also indicated that Estonian was their second domestic language. Thus, the category "non-Estonians who speak Estonian" includes people who can at least speak Estonian or who can speak and write Estonian or whose second domestic language is Estonian. The category "non-Estonians who do not speak Estonian" includes people who only understand Estonian or have no Estonian language skills.

The share of ethnic minorities in the whole population varies in different Estonian regions. The largest non-Estonian population lives in the county Ida-Virumaa, where they represent about 80% of the whole population.⁴ The size of ethnic groups is almost identical in Tallinn, where about 45% of inhabitants are non-Estonians. In other Estonian regions there are mostly Estonians, only about 14% of the inhabitants are non-Estonians (Statistical Office of Estonia 2008). The ethnic environment in these three regions is rather different, which may have an impact on the importance of language skills and ethnicity. Therefore the place of residence is controlled in the analysis. A distinction is made between the categories Tallinn, Ida-Virumaa and the rest of Estonia.

Education is measured as the highest educational level at the time of labour market entry. People who have completed at the most 9 grades belong into the category basic education or less. In Estonia, secondary education is divided into a vocational, a general and a specialised secondary track. Unfortunately, in the 1995 ELFS all respondents with vocational secondary education were coded under general secondary education; therefore it is not possible to distinguish between those tracks for the

² International Socio-Economic Index of Occupational Status.

³ International Standard Classification of Occupations (ILO).

years 1991–1994. For this reason vocational secondary education is not classified as a separate category. Specialised secondary education forms a separate category. The category “higher education” indicates that a person has applied for professional higher education or university education. The variable about studies during the first significant employment is also included in the analysis as combining studies and work is common in Estonia. Contrary to many other countries, working students often have permanent jobs with high occupational status in Estonia (Täht et al. 2007).

6 Empirical results

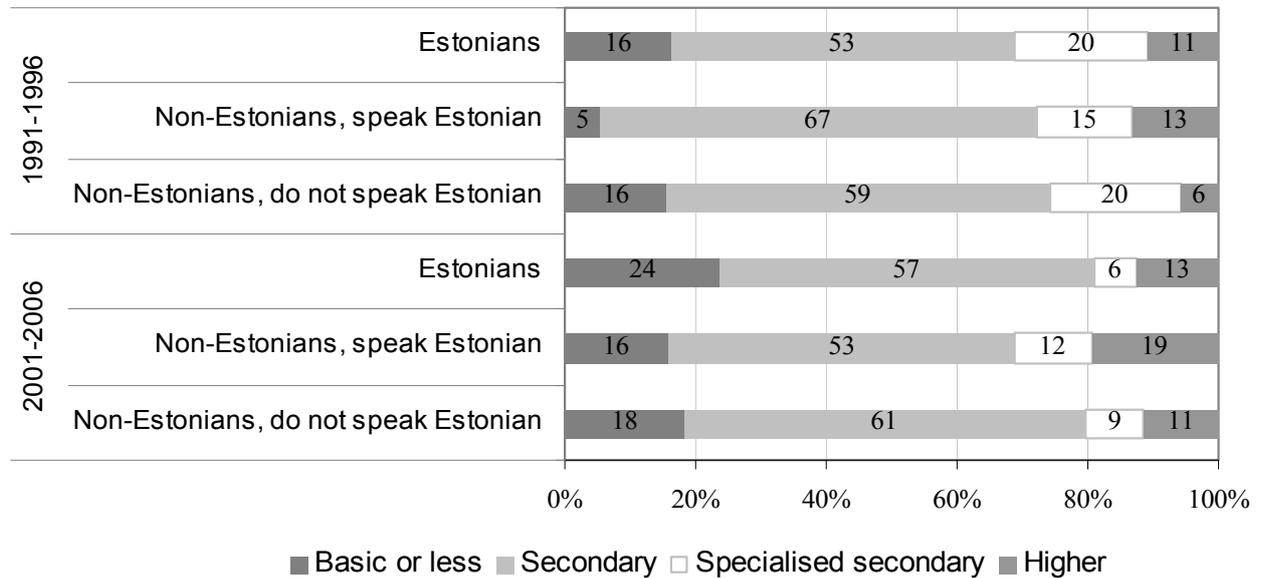
6.1 The descriptive overview

Figure 2 describes the highest level of education that youth have attained at the time of labour market entry in the years 1991–1997 and 2001–2006. In general, it appears that the share of youth entering the labour market with basic and with higher education has grown over time. In the years 1991–1997, Estonian proficient non-Estonians, compared with other groups, have least often attained only basic education and most often higher education at the time of labour market entry. On the other hand, only few non-Estonians who do not speak Estonian have attained higher education before entering the labour market. In the years 2001–2006 about one quarter of Estonians entered the labour market with basic education only. The share of Estonian proficient non-Estonians with basic education is also significantly higher. On the other hand, the proportion of youth entering the labour market with higher education is larger among all groups in the later period. About one fifth of Estonian proficient non-Estonians get their first significant job after graduation from higher education, while among other groups this percentage is somewhat lower.

Due to data restriction it is not possible to distinguish vocational secondary education from the general track. However, according to data from the 2000 Population Census it can be assumed that non-Estonians have attained secondary education more often in vocational schools. In addition, 2000 Census data show that generally Estonian youth attain more often higher education than non-Estonian youth. The main reason for the lower share of Estonians with higher education in the current analysis is that Estonians enter the labour market more often before the end of their studies. About 35% of Estonian and 27% of non-Estonian labour market entrants are students.

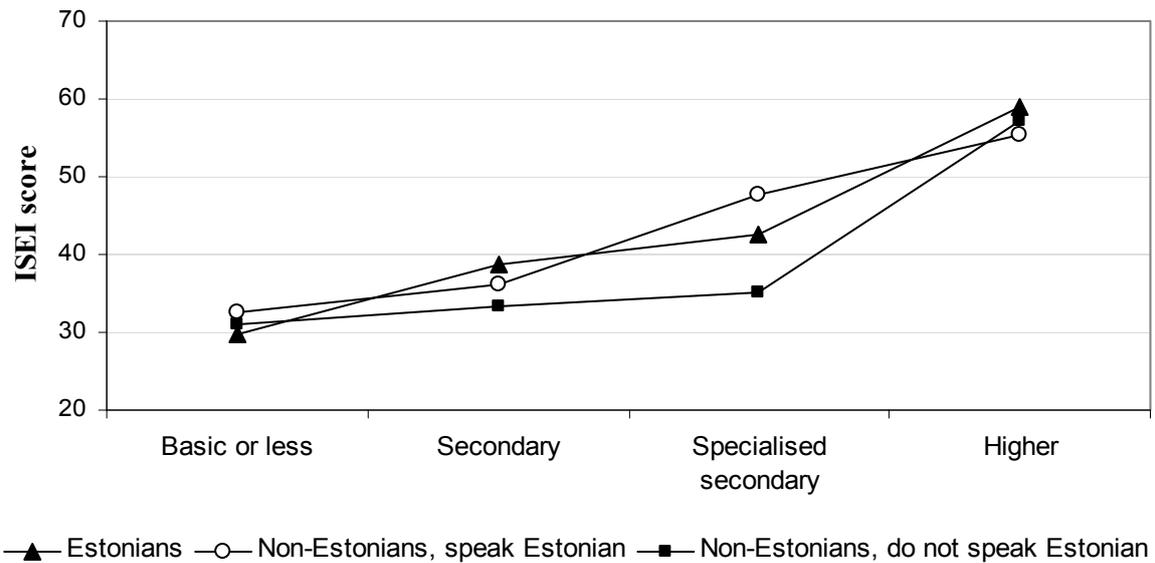
⁴ In 2006, about 173,000 people lived in Ida-Virumaa, 396,000 in Tallinn, and 776,000 in the rest of Estonia.

Figure 2. Highest level of education completed at the time of labour market entry in the years 1991–1997 and 2001–2006



Source: ELFS-s, author's own calculations.

Figure 3 gives an overview of the average occupational status in the first significant job by educational level attained at the time of labour market entry. Youth with a basic education get jobs with the lowest occupational status, and there are no differences between ethnic groups. Estonians and Estonian proficient non-Estonians who have attained secondary or specialised secondary education get a somewhat higher occupational status in their first job compared to non-Estonians who do not speak Estonian. Figure 3 also indicates that returns from higher education do not differ between ethnic groups, although due to the small number of cases the variance is large for Estonian non-speakers.

Figure 3. Average occupational status in the first job by educational level and ethnicity

Source: ELFS-s, author's own calculations.

6.2 The effect of ethnicity and language skills on the occupational status

Table 1 presents the effect of ethnicity and other variables on the average ISEI score in the first job. In the first linear regression model ethnicity and gender are included. There are no significant differences between Estonians and Estonian proficient non-Estonians. However, after adding the effect of region into the model the difference between Estonians and Estonian proficient non-Estonians becomes significant, indicating that non-Estonians are less successful. This disadvantage even increases after including the educational level into the model, which shows that in the case of similar educational levels Estonian proficient non-Estonians are getting a lower occupational status in their first job compared to Estonians. Still, education has a significant effect on the occupational status in the first job, and controlling the educational level improves the model considerably as the explained variance increases. In addition, model 3 shows that the student status improves the chances to achieve a higher ISEI score in the first job, which shows that most successful labour market entrants start working already during their studies.

In general, it appears that non-Estonians who do not speak Estonian are the least successful group in terms of occupational status in their first job. The Wald test indicates that those non-Estonians who do not speak Estonian achieve a significantly lower occupational status compared to Estonian proficient non-Estonians. This refers to the relative importance of language proficiency.

Table 1. The linear regression model of the occupational status in the first job (robust standard errors between brackets)

	Model 1	Model 2	Model 3	Model 4
Ethnicity (ref. Estonian)				
Non-Estonian, speaks Estonian	0.65 (1.25)	-2.43* (1.43)	-2.85** (1.15)	-0.39 (2.30)
Non-Estonian, does not speak Estonian	-4.12*** (0.99)	-7.73*** (1.21)	-5.10*** (1.03)	1.45 (1.94)
Gender (ref. women)				
Men	-5.12*** (0.82)	-4.96*** (0.81)	-3.89*** (0.71)	-3.34*** (0.71)
Region (ref. Tallinn)				
Ida-Virumaa		0.18 (1.60)	-1.22 (1.15)	-0.65 (1.22)
Elsewhere in Estonia		-6.61*** (0.99)	-4.11*** (0.86)	-4.14*** (0.87)
Education (ref. basic education or less)				
Secondary education (including vocational education)			7.03*** (0.76)	8.27*** (0.87)
Specialised secondary education			11.78*** (1.21)	12.38*** (1.43)
Higher education			27.75*** (1.41)	28.59*** (1.59)
Studies (ref. not student)				
Student			4.29*** (0.77)	4.41*** (0.77)
Period (ref. 2001–2006)				
Years 1991–1997			0.98 (0.60)	0.71 (0.82)
Education * Ethnicity (ref. basic * Estonian)				
Secondary * non-Estonian, speaks Estonian				-6.79** (2.70)
Specialised secondary * non-Estonian, speaks Estonian				2.38 (3.73)
Higher * non-Estonian, speaks Estonian				-5.40 (4.10)
Secondary * non-Estonian, does not speak Estonian				-6.32*** (1.95)
Specialised secondary * non-Estonian, does not speak Estonian				-8.49*** (3.07)
Higher * non-Estonian, does not speak Estonian				-3.01 (4.91)
Period * Ethnicity (ref. 2001–2006 * Estonian)				
Years 1991–1997 * non-Estonian, speaks Estonian				4.50** (2.18)
Years 1991–1997 * non-Estonian, does not speak Estonian				-1.81 (1.57)
<i>Adjusted R-squared</i>	0.04	0.08	0.34	0.35
<i>N</i>	1311	1311	1311	1311

Note: *** effect significant at $p < 0.01$; ** effect significant at $p < 0.05$; * effect significant at $p < 0.10$.

Source: ELFS-s, author's own calculations.

In order to test the hypotheses the interaction between ethnicity and period as well as between ethnicity and education is added in model 4. The interaction between education and ethnicity shows that the effect of education on the first job ISEI score varies between ethnic groups. There is significant negative interaction between secondary education and Estonian proficient non-Estonians. It indicates that returns from secondary education in terms of ISEI score differ for Estonian proficient non-Estonians and Estonians. Significant negative interaction also appears between non-Estonians who do not speak Estonian and educational level. They are getting lower returns from secondary and specialised secondary education in terms of average occupational status compared with Estonians. The interaction between higher education and ethnicity is not significant. Although it could be argued that attaining higher education does not result in smaller payoffs for non-Estonians compared to Estonians, still the negative signs of parameter estimates contradict such a straightforward conclusion (e.g., effects might be insignificant due to the size of groups).

There is a significant interaction between ethnicity and period indicating that the Estonian proficient non-Estonians' occupational status in their first job differs considerably in the years 1991–1997 and 2001–2006 in comparison with Estonians. Although Estonian proficient non-Estonians' opportunities have changed over time, there has not been any change for youth who do not speak Estonian. Due to the significant interaction between ethnicity and period, separate linear regression models for the years 1991–1997 and 2001–2006 were carried out.

Table 2 presents these separate linear regression models for the years 1991–1997 and 2001–2006. In the years 1991–1997 there are no significant differences between the Estonians' and the Estonian proficient non-Estonians' labour market success. Still there is a clear disadvantage for those youth who do not speak Estonian, which, to some extent, is explained by their educational level. On the other hand, in the years 2001–2006 Estonian proficient non-Estonians get a significantly lower occupational status in their first job compared to Estonians. Adding the educational level does not reduce this difference, although educational level and being a student influence the occupational status in the first job significantly. Even more so, after controlling the educational level differences between Estonian proficient non-Estonians and those non-Estonians who do not speak Estonian disappear. The Wald test indicates that these two groups are not different in terms of achieved occupational status. Therefore the model shows no advantage for Estonian speakers in the years 2001–2006.

Table 2. Linear regression models of the occupational status in the first job in the years 1991–1997 and 2001–2006 (robust standard errors between brackets)

	1991–1997		2001–2006	
	1	2	1	2
Ethnicity (ref. Estonian)				
Non-Estonian, speaks Estonian	-0.24 (2.01)	-0.54 (1.74)	-5.27*** (1.72)	-5.04*** (1.55)
Non-Estonian, does not speak Estonian	-7.26*** (1.46)	-5.42*** (1.31)	-9.76*** (2.32)	-3.92*** (1.38)
Gender (ref. women)				
Men	-4.04*** (1.16)	-3.29*** (1.04)	-5.82*** (1.11)	-3.15*** (0.94)
Region (ref. Tallinn)				
Ida-Virumaa	-2.95 (1.86)	-2.97* (1.70)	5.61** (2.80)	0.81 (1.67)
Elsewhere in Estonia	-5.61*** (1.39)	-4.11*** (1.25)	-7.62*** (1.39)	-4.31*** (1.17)
Education (ref. basic or less)				
Secondary (including vocational)		7.02*** (1.22)		7.05*** (1.01)
Specialised secondary		12.94*** (1.60)		9.79*** (1.66)
Higher		26.72*** (2.26)		28.65*** (1.81)
Studies (ref. not student)				
Student		2.19* (1.18)		6.19*** (1.01)
<i>Adjusted R-Square</i>	0.07	0.29	0.10	0.41
<i>N</i>	641	641	670	670

Notes: *** effect significant at $p < 0.01$; ** effect significant at $p < 0.05$; * effect significant at $p < 0.10$.

Source: ELFS-s, author's own calculations.

7 Conclusions

This paper focuses on ethnic differences in labour market entry that have emerged after the transition to the market economy in Estonia. The integration of ethnic minorities into the labour market has been a challenge for Estonia since regaining independence. The labour market position of non-Estonians has been more disadvantaged compared with natives in the whole period of independence. The latter has given rise to conflicting opinions in public discourse about the equality of opportunities in society. In general, it is widely accepted that Estonian language skills as an aspect of country-specific human capital are one of the main barriers for ethnic minorities' successful integration into the labour market. The aim of this paper is to assess how Estonian language skills and ethnicity influence youth transition to the labour market.

According to the human capital theory it was expected that education should be the main factor influencing labour market entry. The analysis shows that even though education has a considerable influ-

ence on the occupational attainment in the first job, still the effect of ethnicity on labour market outcomes is strong. In case of similar educational levels young non-Estonians are achieving a significantly lower occupational status in their first job compared with Estonians. This ethnic penalty is partially explained by the importance of country-specific human capital. Non-Estonians who do not speak Estonian are the least successful labour market entrants. Nevertheless, also Estonian proficient non-Estonians achieve a significantly lower occupational status in their first job compared with Estonians. Therefore it can be concluded that the investment into country-specific human capital does not provide the minorities with similar opportunities as those of the natives. Moreover, results indicate that returns from attained education differ for Estonians and Estonian proficient minorities. Non-Estonians who speak Estonian get lower payoffs particularly from secondary education in terms of occupational attainment compared with Estonians. Still the category "secondary education" is rather diverse as it contains both the general and the vocational track. However, the interaction between higher education and ethnicity is not significant. There is no evidence that non-Estonians would get lower returns from higher education compared with Estonians.

In addition, the results indicate the decreasing trend of the importance of Estonian language proficiency over time. In the years 1991–1997 young Estonians and Estonian proficient non-Estonians attained a rather similar occupational status in their first job, while youth who did not speak Estonian were clearly in a disadvantaged position. On the other hand, in the years 2001–2006 Estonian proficient non-Estonians attained a lower occupational status in their first job than Estonians. Furthermore, there is no advantage for Estonian proficient minority youth compared with youth who do not speak Estonian. However, there were significant structural changes during this period. The percentage of non-Estonians who speak Estonian is significantly larger in the years 2001–2006 than in the earlier period. For that reason the ability to speak Estonian might have been more beneficial in job competition in the years 1991–1997 because there were fewer other non-Estonian labour market entrants who were proficient in Estonian.

There are several possible explanations why ethnicity has a significant influence on the labour market entry in Estonia. Difficulties of non-Estonians to realize their human capital in the labour market may derive from the Estonian educational system. Public schools that provide basic and secondary education are divided on the basis of the language of instruction. The quality of teaching in Estonian and Russian secondary schools should not differ significantly according to the results of standardised state exams, except for some subjects (The National Examinations and Qualifications Centre 2008). The language of study in public higher education is mainly Estonian, while it is also provided in Russian in private educational institutions. On the other hand, the links between the educational system and the labour market are weak, which means that actual educational qualifications give little information to employers. Thus the language of study may be a significant signal for employers. They may prefer Estonian school leavers, who are used to manage in an Estonian language environment. Unfortunately, it was not possible to include the language of study in the analysis.

Studies in other European countries show that the labour market disadvantage of ethnic minorities might be explained by the process of social reproduction, meaning that second generation immigrants are less successful due to their disadvantaged social background (Heath 2007). Many non-Estonians who entered the labour market in the years 1991–2006 are at least second generation immigrants. However, contrary to classical labour market immigration those immigrants who moved to Estonia during the Soviet Union period were not characterised by lower educational or occupational attainment. Although non-Estonians experienced a decrease in labour market status and opportunities after Estonia regained its independence, it is still probable that the direct negative effect of a less advantageous parental social background on opportunities of youth is not that significant in Estonia.

The reason behind young non-Estonians' less successful labour market entry may also be labour market segregation and separated social networks. Majority and minority groups have often different access to social capital because of their advantaged or disadvantaged structural positions and social networks. Thus the inequality of social capital may offer fewer opportunities for minority members to mobilize social resources for attaining and promoting their careers (Lin 1999). In the Soviet Union period natives and immigrants were often employed in different enterprises and industries in Estonia. Therefore also social networks were separated along ethnic lines and these networks have remained disconnected even after the transition to a market economy. This has had a negative effect on non-Estonians' ability to compete with Estonians in the labour market (Pavelson & Luuk 2002). Although it was not possible to control social networks in the analysis, this may be one explanation for the smaller labour market success of young non-Estonians.

Finally, the potential explanation for non-Estonians ethnic penalty is discrimination from employers, which would mean that employers are not making their decisions only based on signals. They may prefer not to hire non-Estonian youth even if they can speak Estonian, which means that tastes of discrimination have an impact on hiring decisions. Although at the time of economic improvement the discrimination should become less significant, the economic growth in Estonia turned out to be more advantageous for Estonian youth as their unemployment rate decreased quickly, while young non-Estonians remained in outsiders' positions. In addition, the labour market allocation of individuals is closely embedded in networks of interpersonal relations (Granovetter 1985). These personal interactions leave room for discriminatory beliefs and preferences to play a role that would be much less likely in a market where only competitive forces are important (Arrow 1998). Still, on the basis of this paper it is not feasible to draw conclusions about discrimination.

On the other hand, employers may demand very high Estonian language skills, like high writing fluency. Language skills were measured in rather broad categories. In further research, a more specified measurement would be necessary to find out whether youth with very high Estonian language skills have fewer opportunities in the labour market than Estonians. However, this paper shows that non-Estonian youth are less successful labour market entrants compared to Estonians even if they can speak the Estonian language.

8 References

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