

Europeanisation of Employment Policy Making in the Baltic States

Kerstin Jacobsson and Charlotte West

Södertörn University College
Stockholm, Sweden

charlotte.west@sh.se

1. Introduction

On 1 May 2004, the European Union welcomed ten new members, all but two located in Central and Eastern Europe. These states, sharing a legacy of Soviet central planning and non-democratic regimes, faced from 1989 onwards the double challenge of developing functioning market economies and democratic political systems. The transition process was supported and reinforced by the decisiveness of these countries to become members of the EU. The path to EU membership was far more demanding for these new member states – and hence institutional change more far-reaching – than for those entering during previous rounds of EU enlargement (1973, 1981, 1986, 1995). Membership in the organisation was seen by national governments as a way to speed up and consolidate the transition process, as well as to secure an identity as a modern state.

With the 1993 Copenhagen criteria, the EU outlined the economic, political and administrative criteria required for membership: a functioning market economy; the capacity to cope with competitive pressure and market forces within the Union; and institutional stability guaranteeing democracy, the rule of law, human rights, and respect for and protection of minorities. These criteria went beyond what was required during earlier enlargements, even granting the EU influence in spheres where it does not have formal authority, including pension, taxation and social security systems (Grabbe 2003: 307f).

As shown in earlier research, the Europeanisation process thus inherently puts significant pressure on acceding countries. Specifically, through the Copenhagen criteria, the impact of the EU on national states has been linked to institution-building and development of administrative capacity within national civil services. Member states must have the ability and resources to transpose, implement, and monitor the body of EU legislation contained within the *acquis communautaire*.

The *acquis* covers not only hard legislation but also soft rules and guidelines, which are often in the form of general goals expressed without specific measures; these can be tailored to fit different national contexts and problems. At the same time, member states also must allow the EU Commission to monitor and assess their progress in certain 'soft' policy fields, such as employment and social inclusion. Monitoring by the Commission has, in some cases, contributed to changes in structures, processes, and procedures within national administrations (See chapter by Dahl).

Changes in new member states' administrative structures and processes, as well as the day-to-day work of national administrations, due to EU accession have been far-reaching and rapid. There are several reasons for this. It can partly be explained power asymmetry between these countries and the EU institutions, as they were at a much lower level of economic development, as well as their anxiousness to be integrated into western institutions (Grabbe 2003). The EU was also at a more advanced stage of policy development when they entered,

and the new member states were given no possibility to opt out of any of the accession treaty requirements.¹ Furthermore, the speed of adjustment was rapid. The period between the dissolution of the Soviet Union and accession to the EU was little more than a decade. After the Luxembourg Council in 1997, accession talks opened with the first group of countries in 1998, and with the second in 2000. Negotiations were concluded at the European Council in Copenhagen 12-13 December 2002. The 10 candidate countries became full-fledged EU members less than two years later.

There is plenty of empirical evidence that these countries have undergone a massive transformation in the last fifteen years and that many of these changes can be attributed to or were at least sped up by EU accession. The question is therefore not whether change has occurred, but rather what kind of changes and if we can see different kinds of changes in different countries. If so, how can we explain these differences?

Many Europeanisation studies have found more homogeneous outcomes in the new member states than in the EU-15 (Schimmelfennig and Sedelmeier 2005, Grabbe 2003). These studies suggest two possible explanations for similar outcomes in the countries of Eastern and Central Europe: the strong accession conditionality and the simultaneous and systematic transformation of these states. In particular, the latter reduces institutional inertia and provides for a greater openness to influence from external actors.

However, Schimmelfennig and Sedelmeier's study, along with that of Grabbe, suggest that although outcomes from Europeanisation may be more uniform in the new member states, pressure for reform does not necessarily lead to homogeneous outcomes in all policy areas. Grabbe notes that there have been few empirical studies of policy areas – such as employment – that are considered to be "soft" (REF). As previously mentioned, the *acquis* contains both hard and soft elements. It is therefore useful to examine what happens in sectors subject to only minimal EU regulation, but that are nonetheless under pressure to adapt to EU rules and norms. In this study, we examine a policy sector in which coordination is achieved on the basis of soft law.

For the new member states, employment and social policy was covered under Chapter 13 of the *acquis communautaire*. It includes areas where there is binding legislation, such as health and safety at work, labour law, equal treatment between men and women and anti-discrimination. But concerning employment policy specifically, there are no legal obligations to implement precise policy measures. The Commission rather refers to “a very important general obligation to coordinate the respective policies in order to develop a homogeneous social framework in line with the principle and rules of the EU treaty.”² In short, employment, and other policy areas including social protection and pensions, are part of the ‘soft *acquis*,’ where no formal legal compliance is required but there nonetheless exists strong pressure to meet EU standards. In particular, pressure from the EU in the case of the EES is coupled with financial incentive via the European Social Fund, which provides funding for human resource development in the lesser developed regions of the EU.

In order to examine how the Eastern and Central European countries have responded to pressure from Brussels in the field of employment, we consider the case of three new member

¹For example, after the Maastricht treaty in 1992, which transformed the European Community to the European Union, the UK and Denmark were able to opt out of the economic and monetary union. However, for the 10 countries that entered the Union in 2004, the requirement to adopt the single currency was set out in the accession treaty.

²<http://europa.eu.int/comm/enlargement/negotiations/chapters/chap13/index.htm>

states: Estonia, Latvia and Lithuania. Like the other former Communist countries, the Baltics originally had centrally planned economies and non-democratic political regimes. Out of the eight new member states in Eastern and Central Europe, however, only the Baltics were former Soviet republics. So in addition to the transition experienced by all former Communist Bloc countries, Estonia, Latvia, and Lithuania were faced with the further challenge of having to heavily transform, or even create, the whole state apparatus, including governmental, legislative and administrative bodies and structures. While this made the Copenhagen criteria a truly lofty goal, it also implied an openness to influence from external actors regarding policy, structures and practices.

So how much influence has the EU had in terms of policy, structures, and practices in the field of employment in Estonia, Latvia, and Lithuania? How have these states responded at an organisational and administrative level to the ambitions and governance activities of the EU in this field? Are there any differences between the countries in terms of outcomes? With these general questions in mind, we look at the reorganisation of states in response to EU demands. We examine how states adapt to Europeanisation, more broadly, and as a complement to existing EES research, we look at some of the difficulties faced by the policy makers responding to the EES in the new member states. In particular, we explore some of the challenges (lack of institutional and administrative capacity, for example) faced in the Baltic states as national public administrations respond to EU demands. In connection with this, we also explore the ability and potential of national and local actors to make effective use of opportunities provided by Europeanisation, including the economic incentive provided via the European Social Fund. We focus on national adaptation in terms of 1) formal institutions/organisational structures, 2) political processes and procedures and to a lesser extent 3) policies.

This study is based on official policy documents, as well as interviews with approximately 60 national experts: ministry officials; staff at implementing agencies, including local and national public employment services and vocational training institutes; social partner representatives; and several foreign policy advisors and academic researchers in these countries. We also interviewed the country desk officers for Lithuania and Estonia at DG Employment in the European Commission. The interviews in Latvia were conducted in June 2003 and June 2004; the interviews in Lithuania in March and April 2004 and June 2005; and the interviews in Estonia in May 2004 and May 2005.³

2. Europeanisation: national adaptation of EU rules

A growing number of studies have been concerned with the outcomes and mechanisms of Europeanisation (Knill and Lehmkuhl 1999; Radaelli 2003; Cowles et al 2003; Schimmelfennig and Sedelmeier 2005). In this chapter, we cannot give due credit to this literature, but instead sketch out a perspective to structure our analysis of the Europeanisation of employment policy in the Baltic states.

What do we mean by the term *Europeanisation*? Generally speaking, we see Europeanisation as the process by which EU rules and norms – including practices and ways of thinking about policy – are incorporated into domestic policy-making (cf. Radaelli 2003). This presupposes that European practices, institutions, policies or discourses are first developed at the EU level. In turn, they create pressure for reform and various kinds of change in structures, policies, and

³We gratefully acknowledge the collaboration of Ragnar Olofsson, who did the interviews in Latvia, and Ruta Avulyte, who assisted with translation in Lithuania.

processes at the domestic level. The adaptation pressure varies according to the type of EU rule in question, as well as the degree to which it fits with pre-existing practices and administrative structures in member states. Some kinds of ideas and practices may be more compatible with or easily adapted to the national contexts of some states than with those of others. Others may create tension or conflict, and the national and the European must in some way or another be reconciled.

This book focuses on the national adaptation of EU rules. As Bengt Jacobsson explains in the introduction, we look at “the micro processes where rules are interpreted, deciphered and translated.” To do this, we see and study states as organisations that affect and are affected by their wider environment. In the case of the EU, this means that individual member states are deeply embedded in the European environment, which contains ideas and norms that provide a script for how states ought to be or behave. Different policy areas have different scripts, or templates, that frame appropriate behaviour and responses. However, these scripts are not fixed, and states themselves play a role in the making, interpretation, and re-interpretation of these rules. Changes at the national level cannot therefore be seen or studied in isolation from the wider European environment of which member states are a part.

Because we see states as part of this larger European environment, we view them as characterised by complexity rather than homogeneity. For instance, different parts of the state administration can be differently affected by Europeanisation and adopt different adaptation strategies. Rather than being autonomous and coherent entities, states are characterised by fragmentation and segmentation, with different parts of the state developing varying relationships to their environments. (B. Jacobsson et al 2004). As Lindvert and Vifell (2006) argue in their study of the employment strategy in Sweden, Europeanisation can lead to intensified sectorisation of organising practices within public administrations. In turn, internal inconsistencies are created within the state organisation itself, as different parts of the state are exposed to different pressures from Europeanisation.

Pressures from Europeanisation can vary greatly depending on the kind of EU governance in question – as well as the policy field to which it is applied. Different kinds of governance include hard law (the Community method or legislation), soft law (open method of coordination), and economic incentive (often connected with the Structural Funds). This spectrum is not exhaustive, and different governance methods can include both hard and soft elements. For example, the EES has a constitutional basis in the Employment Chapter of the Amsterdam treaty, which establishes institutional structures, such as the Employment Committee (EMCO, Article 132). This gives a legal backing to the strategy at the EU level, while governance methods used at the national level rely primarily on discursive and other 'learning' mechanisms (K. Jacobsson). However, the 'hardness' of the EU employment strategy increases when we consider its connection to the European Social Fund, where there is strong economic incentive for states to develop human resources priorities such as active labour market policy and lifelong learning.⁴

Hard EU legislation – for example, directives on gender equality in the workplace – leaves little room for (re)interpretation at the national level. The content and aims of the law are

⁴The four Structural Funds are the European Social Fund (ESF), the European Regional Development Fund (ERDF), the European Agricultural Guidance and Guarantee Fund (EAGGF), and Financial Instrument for Fisheries Guidance (FIGG). While some resources for the development of social and economic infrastructure are also available through the ERDF, the ESF is most relevant for Community support for employment policy in the new member states.

clear-cut, and individual EU citizens who feel that their rights have been violated have recourse to the European Court of Justice in Brussels. Soft law, on the other hand, is by its very nature intended to be adapted to national peculiarities. A good example of this is the Lisbon target of 70% employment for the EU as a whole by the year 2010. Since the member states that have been most successful (UK, SE, NL, DK) have already met the target, it is clear that policy measures in these countries would vary quite significantly than those needed in countries such as Greece and Italy, which currently have employment rates of less than 60%. (That does not, however, rule out the possibility that other member states would look to the 'success stories,' to take inspiration from the experiences of other member states.) Consequently, how states respond to EU demands is partly determined by the nature of the rules themselves.

However, whether we are talking about hard or soft law – or a combination of the two – domestic factors are also important when states chose national adaptation strategies. Domestic factors can include state traditions and administrative legacies, such as centralised decision-making compared to strong regions and municipalities. Political ideologies and policy paradigms can also be important. For instance, in some countries the government plays an active role in the provision of social welfare policy, while in others the prevailing view is that social welfare should be the responsibility of individual. Another example is that some states have strong labour unions that play a decisive role in the formulation of labour market policy, while others have very weak national traditions of social dialogue. Institutional arrangements and governance structures are chosen accordingly. Additionally, state resources and administrative capacity are an important mediating factor in adaptation strategies chosen by states. State resources can include finances, staff, and expertise. Political feasibility – whether or not a policy is controversial and/or if it is met with public resistance – and political will – how committed policy makers are to a particular policy goal – also affect what types of policies may be implemented. All of these issues – administrative legacies, political ideologies, and state capacities – can mediate national responses to Europeanisation (Cowles et al 2001; Featherstone and Radaelli 2003).

In conclusion, while the type of governance allows national civil servants varying degrees of flexibility in how they respond to a particular EU rule or regulation, national responses and reactions can also be restricted by environmental constraints (cf. logic of appropriateness) and existing domestic administrative systems and political traditions (B. Jacobsson et al 2004). It is therefore up to empirical investigation to show how pressure from Brussels and national strategies and actions blend together in the political and administrative practices of member states. As described above, rules but also procedures and policy paradigms can be incorporated into domestic policy-making. That means that structures – formal and informal – and processes as well as concrete policies and discourses, as ways of talking and thinking about policy, can be adapted in response to EU level developments, i.e. Europeanised.⁵

3. Soft governance in employment policy

3.1 European Employment Strategy

Although its founders had originally envisioned harmonisation of national social policy at the EU level, social commitments were, from the very beginning, expressed as broad political aims rather than concrete policy measures. The main focus regarding employment policy was

⁵Schimmelfennig and Sedelmeier, for instance, distinguish between formal, behavioural and discursive adoption of EU rules. They analyse the institutionalisation of EU rules at domestic level in both terms of transposition of law, restructuring of domestic institutions and change of domestic political practices (Schimmelfennig and Sedelmeier 2005: 7f).

on securing freedom of movement for workers and health and safety at work, both issues that fall under the hard *acquis*. But the 1992 Maastricht Treaty – marking the shift from the European Community to the European Union – provided an impetus for renewed discussion about the nature and development of social side of the EU. This led to the expansion and increased use of several soft policy processes such as the European Employment Strategy and the open method of coordination in social inclusion and pensions, designed to encourage coordination – but not harmonisation – of social and employment policy at the European level.

Recognizing the need to address social issues, the EU Commission launched the European Employment Strategy at the Luxembourg Summit in November 1997 in Chapter VII of the Amsterdam Treaty. The EES is based on four pillars of employability, entrepreneurship, adaptability, and equal opportunity. Important elements of the strategy include active labour market policies; integration between social and economic policy; promotion of social dialogue; investments in education and lifelong learning; and reforms of tax and benefit systems to make them more 'employment friendly' (K. Jacobsson and Svenningsson 2003). Another important aspect of the EES is its partnership principle, which advocates the involvement of all relevant ministries, implementing authorities, local and regional authorities, as well as the social partners. In particular, the EES stresses the importance of a bottom-up approach, by integrating trade unions, employers' organisations, and local authorities into the policy-making process. The EES should also be seen more broadly as part of the soft *acquis*, which was briefly explained in the introductory section of this chapter.

In terms of the concrete procedures of the EES, the Council of Ministers sets ten annual employment guidelines which are then to be reported on and evaluated on a national level in the member states. Each member states must then submit a National Action Plans (NAP), to be reviewed by the Commission. The NAPs are most often coordinated by the national ministry of social affairs and labour, but institutional responsibility varies from member state to member state, and all ministries relevant to the formulation of labour market policy theoretically should be involved in the process.

After receiving the National Action Plans for the 25 member states, the Commission, in turn, drafts a Joint Employment Report (JER) on the state of employment within the Union. The EES also grants the Council the authority, upon qualified majority voting, to issue recommendations to individual Member States about particular problems that should be addressed by national policy makers. These specific recommendations are then included in the JER.⁶ In addition to the reporting system, the EES also has built-in arenas for discussion and reflection on policy options and outcomes (such as the Employment Committee but also a Peer Review Programme and bilateral exchanges to promote mutual learning⁷) as well as organised scrutiny in the form of evaluations, monitoring, comparisons, benchmarking and rankings (Jacobsson 2004b). Bengt Jacobsson has in the introductory chapter of this volume named these activities regulative, meditative, and inquisitory. (These distinctions will be elaborated upon further at the end of this section). The EES is accordingly a type of soft

⁶Since the mid-term review of the Lisbon strategy in 2005, the National Action Plans have been replaced by the Lisbon reform programmes, streamlining the EES with other similar processes such as the Broad Economic Policy Guidelines. The reform programmes, now include a chapter on employment, very similar in form and content to the previous NAPs. The integration of the EES into the the Lisbon reporting process has been an attempt to achieve a more coherent reform process at the EU level and to reduce the number of parallel plans worked out in the fields of economic, employment, and social inclusion policy in response to EU coordination cycles. Furthermore, it allows for longer-term planning – covering periods of three years – rather than the previous reports that only covered one year.

⁷See, for example, <http://www.mutual-learning-employment.net>.

governance with a considerable leeway for national policy makers and implementers to make their own decisions regarding how they adapt structures, policies, and procedures in response to EU demands.

However, although the majority of the activities of the EES – such as mutual learning and benchmarking – can be considered ‘soft,’ it is also important to keep in mind that the EES is strengthened through its connection to the European Social Fund. In addition to the legal backing the EES has via the Employment Chapter of the Amsterdam treaty, the Social Fund is also governed by strict regulations and criteria that states must fulfil in order to be eligible for funding. This clearly increases the ‘hardness’ of the EES. In particular, the Social Fund provides financial incentive for member states to develop policies in the area of human resource development, including active labour market policy and employment promotion measures. The EES therefore should also be examined by the *economic incentive* it provides for states to adopt particular policies. The ‘hardness’ of the EES is more apparent in the new member states through ESF funding, because these countries are more dependent on these resources in order to achieve national policy objectives (Hartwig 2004).

The role of the ESF may be particularly important for the smaller member states, like the Baltics, where national funds available for employment policy were – at least up until accession – rather limited. A particular focus of both national governments and the EU Commission has been on the development of administrative capacity for the management of the ESF, as can be seen in the frequent references in the *Regular Reports* about the need for institution- and capacity-building. For example, the new member states participated in pre-accession programs to develop the necessary administrative capacity to absorb the community support from the Structural Funds. Once again, this points to how pressure from the EU for reform of national public administrations is connected to various governance mechanisms in different policy areas. In this case, through the ESF, the EES is at least indirectly linked to the reform of national public administrations. Pressure from the EU in this case is not narrowly restricted to employment policy alone, but also increases pressure for reform of the public administration itself.

3.2 The EES as a script for employment policy

Throughout the entire accession process, the Commission stressed the need for all areas of public administration, including those dealing with employment policy, to be ready to participate as full members after May 2004. In turn, the continual monitoring and regular reporting to the Commission on the progress on meeting the obligations of Chapter 13 helped to facilitate coordination between the various actors involved in the formulation of different aspects of employment policy. Much of the emphasis of Chapter 13 was on the preparation for the new member states to be able to participate in the EES, as well as their ability to manage and absorb the resources provided through the Structural Funds.

As we stressed in the section on national adaptation of EU rules, how states respond to EU norms and rules is not just dependent on the type of rule in question. Although we see the EES as a sort of a script for how states ought to govern employment policy, domestic factors such as administrative legacies, political ideologies, and state capacities can mediate national responses to the EES. It is a useless exercise to attempt to say whether or not the “Europeanisation” of employment policy in the Baltics can be attributed solely to the EES. Because the EES itself is not an isolated process, it must be viewed in the larger context of human resources development, as well as the entire soft *acquis*.

It is therefore impossible to separate the effects of the EES from the effects of the ESF because they are linked both in theory and in practice. Furthermore, through the Commission documents, both the EES and the ESF are also connected to reform of the state bodies that administer national labour market policy. Although the links may not always be clear – from the perspective of local actors, in particular⁸– the EES (and the ESF) must in some way be taken into account in national policy-making.

The EES contains elements of all three types of governance activities – regulative, inquisitive, and meditative – identified by B. Jacobsson in the introduction to this book. He describes regulative activities as traditional law and rule-making based on obligatory participation and sanctions (although he notes that regulation increasingly is increasing accompanied by other types of governance entail voluntary compliance). The most clear cut example of traditional regulatory activities in the case of the EES are the common employment objectives issued annually by the Commission, as well as the country-specific recommendations issued by the Council based on Qualified Majority Voting. Furthermore, the EES has a legal basis in the employment chapter of the Amsterdam treaty. The EU is able to regulate in the sense that it sets common goals and objectives for all member states, but the actual content and measures of how to reach those goals are still determined by national policy makers.

Inquisitive activities are types of governance that require states to allow evaluation of, enquiry into, and in some cases ranking of, national practices and policies by external actors. This can in some ways be seen as a type of *audit*, whereby national states make their “accounts” publicly available to other actors in their environment (Dahl). The EES is inquisitive in the sense that member states allow their activities in the field of employment to be evaluated by the European Commission. The NAPs can be seen as a kind of national account or “story” about employment policy which is then evaluated by the Commission. In turn, the Commission ranks states according to their performance on the various guidelines (progress since the previous report) and benchmarked against other member states as well as their own progress since the previous review. The JER can be seen as a kind of audit by the Commission, which issues specific country recommendations and highlights “best practices,” which can in some senses be seen as the equivalent of receiving a “good grade.”

The EES can be seen as meditative in the sense that member states are invited to reflect upon and evaluate their own performance vis-à-vis the EU employment guidelines. The EES should promote mutual learning between countries through the promotion of best practice. Countries can take inspiration from the experience of other states. Furthermore, it should develop a common way of thinking and talking about employment policy by providing a framework for the discussion. In conclusion, we look at the EES as a script rather than a precise model. The aim is a convergence of goals, not means, and national policy actors interpret ideas and norms about employment policy on the way from the supranational to the national. Policy objectives are set at EU level and these are to be translated into national targets according to domestic needs, traditions, and available resources.

4. The national context

Enlargement, via the Copenhagen criteria, gave the EU legitimacy to encourage reform of national public administrations in order to cope with the demands of EU membership,

⁸Interviewees at local public employment offices, for example, had not even heard of the EES. Civil servants at the central level were more aware of the EES, although in several cases they were not aware of all of the details of the process.

including participation in processes such as the EES. As mentioned in the introduction, transition has meant that the public administrations of the new member states have been relatively open to influence from external actors and institutional inertia has been rather weak (Schimmelfennig and Sedelmeier 2005: 20). However, although outcomes from Europeanisation may be more uniform in the new member states, pressure for reform stemming from the accession process has not necessarily lead to homogeneous outcomes in all countries.

We above describe how the EES can provide a script for member states that allows considerable room for manoeuvre at the national level. Because the starting point for national actors is not the EU level but rather their own organisational context, it is important to take note of domestic factors such administrative legacies, political ideologies, and state capacities that mediate national responses to the EES. In particular, differences in the national context in terms of administrative legacies, political ideologies, and state capacities may explain differences in administrative arrangements or policy choices between countries. In order to understand how the EU script about employment policy is played out in practice in the three Baltic states, we will now briefly describe the economic, social, and political background that contextualise national responses to and adaptations of EU rules and norms.

4.1 Economic background

The Baltics were under Soviet rule from their forceful annexation in 1940 until the collapse of the USSR in August 1991. Prior to independence, the Baltics were economic satellites of Moscow under Soviet central planning. The economies of all three countries were dominated by an industrial-agricultural mix and were based heavily on trade with other Soviet republics and Communist bloc countries. Immediately after independence, total economic output decreased by 40-50%, and all three countries experienced a radical drop in standards of living, hyperinflation, energy crises, and soaring unemployment (Aidukaite 2003; Vanags 2005). Tight budgetary requirements, restrictive macro-economic policies, and mass privatisation caused additional upheaval and further restricted the policy options available to national policy makers.⁹

Economic growth resumed and unemployment rates started to level off and decline in 1995, as the Baltic economies stabilised. Throughout the late 90s, Estonia had slightly lower unemployment rates than Latvia and Lithuania (therefore never quite reaching the same crisis levels). According to Eurostat, unemployment rates peaked in Lithuania and Latvia in 1999 and 2000, respectively, following the Russian crisis in 1999.¹⁰ Lithuania, in particular, had an overall unemployment rate of more than 16% (1999). By 2004, however, there were positive trends in unemployment figures in all three countries with rates of less than 11 percent.¹¹

⁹Regarding the Baltic public administrations in general, the Soviet nomenclature left an administrative culture that can be characterized by an autocratic management style with little concern for efficiency as well as political partisanship and lack of transparency (Vanagunas 1997). Nakrosis describes the Soviet era as having a hierarchical administrative structure (and consequently, vertical not horizontal decision-making practices, such as those promoted by the EU, as in the case of the EES). So in addition to reforming the administrative and organisational *structures* necessary for a modern public administration, they were faced with the need to change the entire policy-making *culture*. This heritage from the Soviet era is important because at the beginning of transition there was a need to establish a separation between the public and private spheres (where there had been none before) as well as develop a politically neutral public administration with a merit-based and professional civil service, as promotion in the Soviet system had been based on loyalty to the party as well as nepotism (SIGMA).

¹⁰Latvia had an unemployment rate of 13.7 percent and the Lithuanian unemployment rate spiked to 16.4 percent. In 2000, Estonian unemployment reached 12.8 percent (Eurostat 2000).

¹¹According to Eurostat, 2004 unemployment rates (%) were 9.2 (EE), 9.8 (LV), and 10.9 (LT). To compare, the EU averages were 9.0 (EU-25) and 8.0 percent (EU-15).

Overall employment rates in 2004 were 63.0 (EE), 62.3 (LV), and 61.2 (LT), slightly lower than the EU average of 63.3 (Eurostat 2004).

In 2004, the Baltics, along with Poland, were the poorest countries to enter the EU, with the lowest GDP per capita (PPS) in relation to EU average.¹² However, despite their higher unemployment rates and lower levels of economic development, they have also had significantly higher economic growth rates. Cumulative GDP has more than doubled in all three countries in the period 1996-2003 (Vanags). In the last few years, the Baltics have been the fastest growing economies in the EU.¹³ Most of these increases are, however, due to growth in labour productivity rather than increases in employment (CEC 2005).

4.2 Creation of social security systems and the role of the EU

Against the background of economic transition described above, the Baltic governments operated in survival mode during the first few years after independence. Focus was on meeting basic housing, heating, and health needs. High levels of poverty were seen as an unfortunate but unavoidable outcome of transition, and were expected to normalise as economic growth resumed (Aidukaite 2003; Vanags 2005; interview Medaiskas 2004). As Aidukaite notes, “economic difficulties during the first years of independence... were a significant reason for social policy shortcomings” (Aidukaite 2003, p. 415). The general state of emergency meant that financial and political resources were diverted elsewhere. After the initial political crisis had somewhat stabilised, Baltic policy makers were concerned with restoring pre-war social security models as well as breaking with the more recent past. As explained by a former Lithuanian Minister of Social Security and Labour, “post-communist countries had bad experiences with overdeveloped solidarity systems, overdeveloped state power” (interview, 2004).

After the situation 'normalised' somewhat and the governments were no longer operating in survival mode, emphasis was on obtaining membership in Western organisations such as NATO and the EU. The latter meant that the public administration focused on the legal transposition of the *acquis* and capacity building; according to one Lithuanian interviewee who worked in the office of the Prime Minister, “priorities were driven by resources and administrative capacity.” In terms of employment and social policy on the overall EU accession agenda, interviewees in all three countries confirmed that social issues have been subordinate to economic concerns during the Europeanisation process. Policy areas such as social and employment policy that remained more sheltered from EU regulation (i.e. the soft *acquis*) received less attention than other sectors. The head of Department of the European Union Policy Analysis in the Office of the Prime Minister in Lithuania put it succinctly: “Ideologically, social policy is a priority. Factually, it has been constrained by the need to prioritise accession needs, and among them social policy is not number one for the very simple reason that social policy is not an EU competence”. However, the same interviewee did say that the EU has nonetheless had an impact on the development of social policy, and foresees an increased role for the EU via the Structural Funds. In fact, he wondered whether or not “we have enough national capacity to [make additional reforms] without pressure from Brussels... whether or not social policy can be reformed without further external pressure...” (interview, Zeruolis 2004).

¹²According to Eurostat, GDP per capita (PPS) in the Baltics is 50.6 percent (EE), 48.2 percent (LT), and 43.0 percent (LV).

¹³The EU-25 average real GDP growth rate was 1.1 percent in 2003 and 2.4 in 2004. In 2003, Lithuania was the fastest growing economy of the EU-25, peaking at 10.5 percent, followed by Latvia at 7.2 percent and Estonia at 6.7 percent, respectively. In 2004, growth rates remained high at 7.0 (LT), 7.8 (EE), and 8.3 (LV). (Source: Eurostat)

Different political and ideological leanings may in part explain variations between the three countries' social welfare systems. Estonia differentiates itself the most from the other two countries, having taken a very liberal approach to social welfare. It was the quickest of the three countries to dismantle the old system. It chose a very liberal social model – based on the Anglo-Saxon experience – with low, flat-rate universal benefits administered by the state (Leppik 144). In contrast, Lithuania chose a contribution-based social insurance system, at the same time considering the Scandinavian approach to be "too socialist" (interview, Mediaskas, 2004). Similarly, Latvia chose a continental-style contributions-financed social insurance system, inspired by the German model (Leppik).

Although all three countries have seen a majority of governments composed of parties from the centre-right, Lithuania differentiates itself somewhat due to the inclusion of the Social Democratic Party in its governing coalition since 2001 (under Brazauskas). The Estonian and Latvian political scenes have been totally dominated by centre-right parties. Latvia, for instance, has not had a single government since independence which had a significant representation of the Social Democratic or other leftist parties (Olofsson 2003). In Estonia, Res Publica, the party of former prime minister Juhan Parts (who resigned in March 2005 after controversy over an anti-corruption program), sums up its party platform as “compassionate conservatism,” very much reminiscent of the welfare debates in the United States and the UK.¹⁴

Partly in relation to their previous experience with a large and meddlesome bureaucracy with no division between the public and private spheres, there has also been a prevailing notion in the Baltics that social issues should be solved by the individual rather than the state (Aidukaite 2003; also civil servant and expert interviews). However, in a comparative perspective, the notion of individualism is somewhat more pronounced in Estonia than in the other two countries. According to a Swedish expert who worked on PHARE projects in both Estonia and Lithuania, in there is more public expectation that that the state should be responsible for labour market policy (interview, Svenningson 2003). In Estonia, in comparison, neither politicians nor the public have shown much of an interest for the state to take a very active role in addressing social issues (interview Letmaa, 2004). On the other hand, Lithuania has taken a more active approach to social welfare, also allocating more state resources to things such as active labour market policy.

4.3 Challenges in the modern labour market

As emphasised both at the EU level as well as by national policy makers, labour market challenges in the Baltics are not unlike those that policy makers in other EU member states must address. Similar to the rest of the EU (particularly the Continental and Southern welfare states), the Baltics are facing an increasingly ageing population, combined with low birth rates.¹⁵ In terms of the percentage of the population over age 60, the Baltics are some of the “oldest” countries in the EU. This is compounded by the fact that the Baltics have lower official retirement ages than the EU-15 (explained partially by lower life expectancies), which are gradually to be harmonised with EU standards over the next decade. Nativity rates in the

¹⁴<http://www.respublica.ee>

¹⁵In addition to low birth rates and ageing populations, the Baltics have over the last decade experienced a reduction in their already small populations due to out-migration of ethnic minorities (primarily Russian speakers).

three countries have dropped since the early 90s,¹⁶ which will likely cause labour shortages in the coming decades.¹⁷

However, despite many similar challenges to the EU-15, the Baltics also have unique issues in the labour market that can be attributed directly to their Soviet legacy. A particular problem for Baltic policy makers – especially in Latvia and Estonia – is the existence of significant groups of ethnic minorities, many of whom are not fully integrated into society. During the Soviet era, the demographic composition of the Baltics was radically altered due to the fact that a significant number of workers immigrated (sometimes involuntarily) there to work in Soviet industries. Today, about one third of the Estonian population is composed of ethnic minorities and closer to 40 percent of the population in Latvia.¹⁸ In particular, unemployment in regions that are dominated by ethnic minorities is much higher than in other parts of the country.¹⁹ The problem is less pronounced in Lithuania, as minorities compose less than 10% of the total population. However, there are still ethnic enclaves in various regions previously dominated by Soviet industries, such as the area around Ignalina Nuclear Power Plant (Zilcken 2005).

An additional problem for the Baltics is the low levels of social benefits (and unemployment benefits, in particular), due to a lack of state resources. Take Estonia as an example. Estonia's main unemployment benefit is the state unemployment allowance, which is available to all registered unemployed persons.²⁰ In 2004, the allowance was only about 16% (EEK 400/EUR 26) of the minimum wage. This is actually lower than the state subsistence benefit of EEK 500 (EUR 32).²¹ Because the allowance is so small and almost impossible to live on, most recipients must also apply for the state subsistence benefit. As has been noted both in national action plans as well as by our interviewees, extremely low levels of social benefits not only discourages individuals from registering at public employment offices (not to mention being difficult for registered recipients to survive on), it contributes to the persistence of a shadow economy. In turn, this decreases state revenues as this income is not taxed.

A final challenge, noted in policy papers and by our interviewees, is the low level of entrepreneurship and individual initiative, in particular among older workers. Although the

¹⁶In 2003, the birth rate was approximately 1.3 in both Latvia and Lithuania, while Estonia had a slightly higher rate of almost 1.4.

¹⁷Unless otherwise noted, statistics are taken from the Statistical Office of Estonia (<http://www.stat.ee/>), the Central Statistical Bureau of Latvia (<http://www.csb.lv/avidus.cfm>), and Statistics Lithuania (<http://www.std.lt/en/>). EU statistics are taken from Eurostat (<http://epp.eurostat.cec.eu.int>).

¹⁸Statistical Office of Estonia. Central Statistical Bureau of Latvia.

¹⁹For example, according to the Statistical Office of Estonia, 68% of the population in 2004 was considered to be ethnic Estonian. Twenty five percent was Russian. In the counties with the lowest and highest unemployment rates, respectively, Tartu county had the lowest at 5%, while the highest was in Ida-Viru at 17.9%. (The unemployment rate for the whole country was 9.7%). The population of Tartu County was 83% ethnic Estonian and 14% ethnic Russian. The population of Ida-Viru was 70% ethnic Russian and 5% ethnic Estonian (the remaining 25% primarily Ukrainian and Belorussian).

²⁰The state unemployment allowance was introduced in 1999. A second contribution-based insurance was introduced in 2003 (50% of former wages for the first 100 days of unemployment, then 40% for a max of one year). The national unemployment insurance benefit is also available to workers made redundant according to the law and its amount is determined by previous wages as well as length of employment. Because the most lack the necessary insurance eligibility period, only 25% of the registered unemployed received the unemployment insurance benefit as of 1 May 2004.

²¹This has been recognised as a problem for quite some time; in 2001 it was noted that “the current amount of the unemployment benefit is in conflict with the internationally recognized principles of social security (NEAP 2001 18). According to the 2004 NAP, the government planned to raise the subsistence level to EEK 750 (EUR 48) in 2005 and the level of the unemployment allowance to EEK 850 (EUR 54) in 2006. The raise in the UA will be accompanied by stricter benefit criteria, including an “active job search requirement.”

Baltics have well-educated labour forces, workers' skills are often outdated. In other words, there is a mismatch between labour supply and labour demand.²² Under Soviet central planning, workers – although highly educated – were trained for one lifelong occupation. Because the state guaranteed everyone a job (there was officially no unemployment), there was little need – or encouragement – for individual initiative. Promotion was based on loyalty to the Communist party rather than on professional merits (Vanagunas 1997).

As old industries and agriculture were phased out, and new jobs were created in services and commerce, many workers found themselves suddenly unemployed, with few skills or opportunities to adapt to changing economic realities. This has particularly been a problem for older workers who either have little opportunity or desire to pursue re-training. They have been made redundant by economic restructuring and are no longer competitive in the modern labour market. This is further compounded by the fact that, as has been emphasised by representatives of the ministries of education in our interviews, the vocational education systems are outdated and suffers from extremely poor infrastructure. Buildings and equipment are run down and the systems also suffer from a poor reputation left over from the Soviet era. Vocational education has thus been an unattractive option for young people, with many opting instead to pursue an academic education.

In conclusion – while the Baltics face several of the same social issues as the rest of the EU – there are also several factors which are rather unique to the post-Communist context: significant minority groups which are not fully integrated into the labour market (EE and LV), low social benefits that make it difficult for unemployed persons to sustain a reasonable standard of living, a lack of entrepreneurial initiative due to the previous system, and a mismatch between labour supply and demand. Although these issues are not exclusive to the Baltics, they are nonetheless important factors which colour national policy-makers response to EU rules and norms in the field of employment policy.

5. Organisational responses to the EES in the Baltic states

Before going into more detail regarding specific national responses to the EES in the field of employment policy, we will first briefly outline the organisation and administration of labour market institutions, concluding with a discussion about administrative capacity. As we mentioned before, the EES provides no particular model for the administration of employment policy, although it is common that states will “borrow” or take inspiration from the experiences of other member states. The EES script is rather a way to frame national policy making, by providing a template that sets a range of acceptable policy options. How member states administer employment policy is a matter of national concern.

On the most general level, the governance of labour market policy in the Baltics is characterised by centralised decision-making with relatively weak regions and municipalities. Of particular note is that Baltic labour market institutions were created in less than a decade; interviewees in all three countries stressed the newness the organisational bodies governing employment policy. While there were some Soviet-era institutions that functioned as a social security system, they cannot be understood in the same way that the “welfare state” is in Western Europe. Unemployment insurance, for example, did not exist since unemployment was officially non-existent. The state guaranteed that all citizens would have a job (Aidukaite 2003, p. 409).

²²Mentioned in the Estonian, Latvian, and Lithuanian National Action Plans for Employment 2004.

When the Baltic social security systems were built, employment policy was often placed under the jurisdiction of large social ministries, responsible for a broad array of issues including social welfare, pensions, and health. Health and pensions have generally received the most attention, and labour market policy has often been the last item on the social 'to do' list.²³ It is only in the last few years that employment policy has received somewhat more attention on the national agendas, not in the least because of the extra funding available through the European Social Fund.

5.1 National organisation and administration of labour market institutions

5.1.1 Lithuania

In Lithuania, the national institution responsible for policy formulation in the fields of employment, state social insurance, and pensions is the Ministry of Social Security and Labour. The Ministry of Social Security and Labour defines the tasks and policy goals for the labour market institutions, which are implemented by two independent agencies: the Lithuanian Labour Market Exchange (established 1991) and the Labour Market Training Authority (established 1992). The Labour Exchange, through its 46 municipal offices, is responsible for helping unemployed individuals find job placements as well as improve their abilities to compete in the labour market through active policy measures. The Labour Market Training Authority oversees and organises vocational training and counselling through its six regional training and counselling services and 14 labour market training centers (*Report on the Lithuanian Social Security System 2003*).

Other important actors in the field of employment policy include the Ministry of Education and Science (responsible for lifelong learning and vocational education), the Ministry of Finance (responsible for taxation of labour and social contributions), and the Ministry of Economy (responsible for economic growth policies). The Ministry of Social Security and Labour in Lithuania is seen by both national civil servants and domestic academic experts as one of the more “intelligent” ministries with strong administrative capacity and expertise at the central level (interviews, 2004).

5.1.2 Estonia

In Estonia, the Ministry of Social Affairs is the central organisation responsible for the formulation of employment policy. The Ministry of Social Affairs is a kind of “super ministry,” responsible for health, pensions, labour market policy, etc. The minister has most often had a background in health, with little experience or expertise in dealing with labour market issues. The agency that implements national employment policy is the Estonian Labour Market Board through its 16 local public employment offices (one in each of the 15 counties plus Tallinn). The Labour Market Board is responsible for the registration of unemployed persons, the administration and payment of the state unemployment allowance, as well as active labour market policy. The Ministry of Education and Science, located in Tartu, is responsible for the development of lifelong learning and development of the system

²³In Estonia, the social minister has most often had a background in health, with little experience or expertise in dealing with labour market issues. For example, it was not until 2003 when the government under Parts, the leader of Res Publica, that a vice minister responsible solely for labour market policy was appointed within the Ministry of Social Affairs. This increased the attention paid to employment issues (interview, Leetmaa 2004). Similarly, in Latvia, Ministry of Welfare was responsible for health until 2003, when the Ministry of Health was created. An interviewed Latvian official feels that employment and labour market policy receive more attention now that it does not have to compete with public health issues (interview 2004). Lithuania, in contrast, has had a separate Ministry of Health which was inherited from the Soviet system, although its roots can be traced all the back to the inter-war period (<http://www.sam.lt/en/sam/history/>).

of vocational education, and the Ministry of Economic Affairs and Communications is responsible for entrepreneurship as well as innovation.

5.1.3 Latvia

In Latvia, the Ministry of Welfare is responsible for active labour market policy as well as passive employment measures. The Ministry of Education and Science is responsible for education and training, including vocational education. The Ministry of Economy is in charge of measures promoting entrepreneurship and the creation of a friendly business environment. The main agency implementing labour market policy is the State Employment Agency, established in 1991. An interesting point for Latvia is that there is an institutional division between employment and unemployment, with the Ministry of Economy in charge of employment and the Ministry of Welfare responsible for unemployment (Olofsson 2003).

5.2 Administration of the EES and NAP

5.2.1 Lithuania

The national coordination strategy for the participation of Lithuania in the EES began in November 2000 with the initiation of the Joint Assessment Paper for employment policy priorities, which was drafted by an inter-ministerial working group composed of representatives of the relevant ministries as well as the implementing agencies. The final draft was submitted and approved by the Government as well as the EU Commission in January 2002. The social partners were only involved in the final stage of the preparation of the JAP, although the final draft was also approved by the Tripartite Council (interview, Pimpe, 2004).

For the first NAP, there were five individuals within the Labour Market Division in charge of coordinating the NAP. The task of the Ministry of Social Security and Labour, as the main coordinating body for the NAP, included approving the composition of a governmental Ad Hoc Committee (whose job was to oversee the work of the ministry). As coordinating body, the ministry set the agenda, coordinated and monitored the activities for various working groups, negotiated and reached agreement with all relevant stakeholders and partners on the final draft of the NAP, and finally presented the NAP to the EU Commission after approval by the national Government. The composition of the Ad Hoc Committee included representatives from the Ministry of Social Security and Labour, Ministry of Education and Science, Ministry of Economy, Ministry of Interior affairs, Ministry of Agriculture, Department of National Minorities, Department of Statistics, the Labour Exchange, the Training Authority, and the Labour and Social Research Institute (Lithuanian NAP 2004). The national parliament, the Seimas, has not been involved, although it received information after the document was approved by the government.

5.2.2 Estonia

In Estonia, the drafting of the NAP is also under the Ministry of Social Affairs. The Estonian JAP was submitted to the Commission in 2001. There was a formal working group set up for inter-ministerial coordination, but its role was not that great. It was confirmed by interviews that while some information was provided from all of the relevant ministries, it was limited to their areas of competence, rather than an overall review of employment policy. The NAP 2004 was actually drafted during summer by one individual (interview, 2005). Consultation of social partners and other actors was only formal, with very little significant input. An attempt to address this problem was made for the coordination of NAP 2005, but there was a general aura of uncertainty among civil servants in the Ministry of Social Affairs as they were unsure what institutional implications the changes at the EU level (i.e. shift to Lisbon Reform Programme) would have at the national level. A steering committee was set-up in March 2005, and the first meeting was held in the middle of the month, including representatives

from Education, Finance, Economy, Interior Affairs, and as well as social partners and local authorities. The initial meeting was primarily informative, but there had been an improvement in the coordination procedures from NAP 2004 (interview, Ministry of Social Affairs 2005). As in Lithuania, the national parliament has not been involved at all with the preparation of the NAP.

5.2.3 Latvia

Officially, preparation for the implementation of the EES in Latvia began in 2003 with the submission of the JAP to the Commission. The coordinating body for the EES is the Ministry of Economy, which is also in charge of monitoring implementation of NAP measures. In Latvia, the NAP steering group consists of representatives of the Ministry of Welfare, the Ministry of Education and Science, the Ministry of Agriculture, the Ministry of Regional Development and Local Governments, and the State Employment Agency. The Ministry of Finance was not formally included in the working group, only participating "if necessary" (Latvian NAP 2004). In 2004, the working group held seven meetings. The most important employment policy issues are also reviewed by the National Tripartite Cooperation Council, which includes representatives from the Cabinet of Ministers, as well as employer and trade union representatives. The main task of the Council is to ensure and promote the cooperation of the government, employers and employee organisations (trade unions) at the national level aimed at securing harmonised solutions to social and economic development problems considering the interests of the whole society and country (Latvian NAP 2004). The NAP for the respective year is adopted by the Cabinet of Ministers. The 2004 NAP was the first employment action plan to be approved by the Latvian Parliament.

5.3 Administration and allocation of the ESF

As we mentioned in section on EU soft governance in the field of employment policy, national responses to the EES must be looked at in conjunction with the European Social Fund, as this offers member states significant economic incentive for human resources development. For the 2004-2006 programming period, the ESF makes available close to EUR 3.6bn. In the new member states, an average of 30% of ESF resources of the ESF will finance the reintegration of the unemployed in the labour market (ALMP) as well as the development and modernisation of labour market institutions (Social Inclusion 2005 111). This points clearly to ways the EU puts pressure on national governments for public administration reform. Furthermore, it is also a clear example that 'money talks.' National actors at all levels of government are very aware of the opportunities provided through the ESF, and information campaigns have given it a much higher public profile.

5.3.1 Administration of the ESF in the Baltics

In all three countries, the leading institutions in the preparation for the administration of the structural funds have been the ministries of Finance, which are the designated managing authorities. The social ministries are in general responsible for the administration of the social fund, with other line ministries responsible at the measure level.

Departments responsible solely for the administration of the ESF have been created within the Ministry of Social Security and Labour in Lithuania, the Ministry of Social Affairs in Estonia, and the Ministry of Welfare in Latvia. The ESF departments in the intermediary bodies work closely with the departments responsible for drafting the employment NAPs. For example, in Lithuania the people who work with the EES and the ESF are in close contact with each other and meet on a regular basis, both in official meetings and in an informal capacity (the office of the individual responsible for the NAP and the office of the of the ESF division head in the MSSL are right next door to each other).

In terms of state reorganisation in response to EU demands, one of the most interesting aspects has been the creation of implementing agencies for the structural funds. While the line ministries are primarily responsible at the measure level, unique organisations have been created to deal specifically with the implementation of the ESF. Many of these organisations were originally established to manage PHARE pre-accession support, but have since been assigned a new role. A particularly interesting case is the creation of a single implementing agency under two different ministries in Lithuania. The Human Resources Development Programs Foundation, which used to manage PHARE, is responsible for the administration of application and project evaluation for both the Ministry of Social Security and Labour and the Ministry of Education and Science. While it has helped coordination between the two ministries, there have also been problems for the agency to balance the different needs and competencies of two different ministries. In particular, there have been problems regarding coordination of deadlines and duplicate paperwork (interview, June 2005). To cope with the demands of implementing the ESF, the agency has more than doubled its staff in the last year, growing to more than 70 people. The implementing agency itself has also been reformed to handle the increased workload, as well as to develop the necessary administrative required in order to be accredited as an implementing agency. The interviewed representative of the organisation explained that “it means the new structure was set up, and now we have new departments, including administration and implementation, financial control, financial administration of projects, evaluation and assessment, and quality assurance” (Lithuanian HRD Foundation, interview 2005).

Another example is Innove, a foundation for the development of lifelong learning in Estonia. Legally, Innove was established in 2003, but its precursor was an organisation called Vocation Education and Training Reform in Estonia. Now the agency is responsible for the Da Vinci program, Euroguidance, and the biggest part of the foundation will be dealing with implementing the ESF and the ERDF (interview, May 2004). Preparing to administer the funds was a long and tiresome process, according to the chairman of the organisation. She explained the reforms:

There was quite a bit of bureaucracy that had to be prepared, through this we had to enhance our capacity in three ways: 1) to have the right staff...this is not easy because nobody has the previous experience so it means you have to find capable people and then train them, 2) then we had to prepare the administration system so there were handbooks and guidelines 3) We also had to develop our supporting structures...Our internal procedures have to be quite detailed.

The creation and development of these agencies is a concrete example of the ways in which these states have reorganised and responded to EU demands in the field of human resources development, more generally, and employment policy, more specifically.

5.3.2 ESF allocation and priorities

How much money went to which priority had a lot to do with the administrative capacity of the institutions administering the funds. In Lithuania, for example, the biggest share of the structural funds in Lithuania has been allocated to the development of social and economic infrastructure. According to several interviewees, Lithuania needs both infrastructure and human resources development. The issue was not a question about which of the two Lithuania needed, but rather which was to come first. The final decision was based partly on an external assessment commissioned by the Ministry of Finance of how much national funding could be

invested in a particular sector, and partly based on an analysis of the capacity of the relevant ministry to be able to properly manage the use of the funds, i.e., “If there was no administrative capacity, there was no funding” (interview 2004).

Similarly to Lithuania, the discussion in Estonia was how much money the system could actually absorb and whether or not the resources would be used effectively. According to the ESF manager at the Ministry of Finance, “We really didn’t see that our implementing system had been involved in too many EU programs and therefore we foresaw that it could create some problems for our administrative capacity and also for our absorption capacity, whether we could spend all of the money for implementing ESF in a sound way” (interview 2004).

In Latvia, a special PHARE program prepared the public administration for the ESF prior to accession. “PHARE prepared the ground for the Single Programming Document, because without competence in the institutions and without institutional readiness we would never be capable of writing and implementing things that are foreseen in the SPD” (Interview, Ministry of Finance, Latvia, 2004). Other PHARE programs included projects to foster the development of bipartite social dialogue, IT support, development of statistical indicators, institution-building, and preparatory work to implement the EES upon accession. More recently, financial support through the ESF has been important for continued administrative capacity.

The total share of ESF in relation to the other structural funds ranges between 18.3% in Lithuania to 21.2% in Latvia (EE 20.5%). In addition to the 20-25% mandatory national co-financing (Council Regulation No 1260/1999), between the period 2004-2006, Lithuania will receive an additional EUR 163.8m, Estonia EUR 76.1m, and Latvia EUR 132.7m in community support.²⁴ While overall these numbers are quite small, these funds will be increasingly important for the development of both employment policy priorities as well as the institutions governing the labour market, as chronic under-financing has been cited in our interviews and national policy documents as one of the major impediments to developing of this field (esp in EE, but also in LV and LT).²⁵

Each member state must develop a number of concrete priorities under its ESF measure, and although the allocations are governed broadly by the Council regulations set out at the beginning of each programming period, each country has some ability to pick and choose which priority areas it places emphasis upon. One indicator of this is what the member state in question has chosen to focus upon is the distribution of funding according to each measure under the human resource development priority. Lithuania has identified five measures, including development of employability; development of labour force capabilities and the adaptability, prevention of social exclusion, and development of lifelong learning, as well as the improvement of human resources quality in scientific research and innovations. The largest share of ESF money will go to the development of lifelong learning, under the Ministry of Education and Science, followed by the development of labour force capabilities, including the modernisation of the public employment service. Similar to Lithuania, Estonia has identified the four measures, including the development on an educational system supporting labour market flexibility and employability, increasing the competitiveness of enterprises, inclusive labour market, and a rather unique measure, enhancing administrative

²⁴Figures from the Single Programming Documents 2004-2006 for each country, respectively.

²⁵See Appendix I at the end of this chapter for a breakdown according to % of funding allocated to each HRD priority, as well as the responsible intermediary body.

capacity (although the total funding is quite small for this measure), under the Estonian State Chancellery.²⁶ Over half of the Estonian ESF money will go to the first measure to develop to vocation educational system, under the Ministry of Education and Science. Over a third of the funding will also go to the development of measures promoting an inclusive labour market, under the Labour Market Board. Latvia identified three main measures: the promotion of employment, the development of education and continuing training (Ministry of Education and Science) and combating social Exclusion (Ministry of Welfare, State Employment Agency). The largest share of Latvian ESF funding is concentrated on the promotion of employment.

5.4. Administrative capacity: difficulties for implementation?

As accession approached, the Baltic public administrations had to prepare to be able to participate as full members of the EU. This meant being able to handle the extra workload that comes with EU membership. We can in this way look at administrative capacity as one domestic factor which could constrain how the national administration is able to respond to EU demands.

For employment policy, much progress has been made in recent years in developing administrative capacity at the central level but one of the major problems has been “spreading that capacity out into all of the little villages and all of the local centers and labour exchanges” (DG Employment, interview 2004). There have been intense efforts in the central institutions through staff training, for example, to increase the knowledge and skill levels of civil servants. This includes the attainment of language skills, training in monitoring and control methods, and IT training, in part through EU pre-accession assistance.

We now look at policy planning and evaluation as well as the modernisation of the PES as two areas where the EU has had an impact on national public administrations and policy-making.

5.4.1 Policy planning and evaluation

After independence, the Baltics did not have necessary monitoring and evaluation systems in place to follow up on the implementation of public policy or assess the effectiveness of programmes. Decisions were based on political priorities, with little focus on implementation, in the sense that little attention was paid to following-up on the effects of proposed plans and policies. This lack of administrative capacity has been cited repeatedly throughout the *Regular Reports* issued by the Commission on the progress of candidate countries towards implementation of the *acquis*. Specifically noted in the case of employment policy was a lack of a “policy evaluation culture” (Regular Report 2002).

In some instances this might have resulted in a weaker bargaining position for the Baltics in relation to the EU, because they did not have the statistical accounts and analysis-based policy making procedures to strengthen their own positions. According to a Swedish representative to the EMCO committee in Brussels, he was surprised that none of the new member states took an active role in any of the discussions he participated in. A Latvian interviewee explained, “To be honest I think that the Latvian administration never had the capacity to expertise level and scientific/statistical level to find the best arguments and say ‘No for our labour market this does not work. We need another priority’. ... it is a problem that we cannot

²⁶The Estonian State Chancellery is the implementing agency responsible for Measure 1.4, increasing administrative capacity, of the HRD Priority of the SPD. This type of measure (for developing administrative capacity) has been important for the new member states, but has not been a measure in the EU-15. The focus is primarily on strategic management capacity: the development of public service training priorities as well as the development of the public services training center (interview, Press 2005).

protect our interest, because of lack of expertise, knowledge, lack of human resources and lack of time” (Ruta Zilverre, 2004).

In the area of labour market policy planning and evaluation, the EU has clearly had an impact, including the following: more research- and knowledge-based policy-making, the establishment of policy analysis units in Estonia, use of indicators, external evaluation of vocational training system in Latvia (experts from the EU), increased transparency in response to evaluation, more strategic planning documents (e.g. in Estonia on lifelong learning), a more uniform and coordinated strategy (interview Praxis, Estonia 2004).

The establishment of a system of regular reporting and evaluating has also been important for civil servants in their day-to-day work. The regular evaluations by the Commission has started to establish annual reviews as a standard practice.

5.4.2 Modernisation of the public employment services

The public employment systems in all three of the Baltics have been troubled. For example, in Latvia, the State Employment Agency has had problems the effective delivery of labour market services to the unemployed as well as problems with data bases/collection (Latvian JAP 2003). The Estonian Labour Market Board has faced similar problems. After a 2003 review of the economic activities of the Labour Market Board, The State Audit Office of Estonia (Riigikontroll) found that “the accounting of the Labour Market Board and its local institutions or employment offices is characterised by disorganisation – both the Accounting Act and other requirements applicable to financial accounting were violated en masse.” The Audit Office found that the accounting in some local offices was still done according to cash-accrued principles, even though the national Accounting Act for public institutions stipulates the accrual method for accounting.²⁷ Furthermore, some offices have not yet even computerised their records (interview, Tallinn Labour Exchange, 2005).

Maybe the most notable impact of the EU is the modernisation of the public employment services in all three countries. Examples include the inclusion of a separate pillar in the Lithuanian Programme for Increasing Employment 2001-2004 on improving the governance system of the PES. In Estonia, this is marked by the adoption of a new labour market concept in May 2004, which envisions a re-orientation of both policy and financing towards active labour market policy as well as a planned modernisation of the labour market board that includes the introduction of an individualised case management system and improved information distribution system, based largely on the experience and advice of experts from the UK (CEC 2005).

However, even though the conception is considered to be “the most important policy development” by the Commission in the *Joint Employment Report I* (JER 2004 63), it may or may not be the first step in a total renovation and overhaul of the PES system. According to the Ministry of Finance:

I am not really sure the program entails a major shift in (the) provision of public employment services and one reason is that though it’s more target- and problem-oriented (equipped with clear indicators) it is not a national overarching strategy... Rather, it seems that it is a first step to deliver public funding for labour

²⁷For cash-accrued accounting methods, a transaction is only recorded after the money has been paid or received. For accrual, the transaction is recorded after it has taken place, regardless of whether money changes hands.

market gaps in a more programming-style way. That means that the financial resources will be more focused to a limited number of activities and target groups and more clear links between resources and outcomes can be established.
(E-mail communication from Ministry of Finance, 13 December 2004)

In Lithuania, administration of the labour market is two-tiered, with no regional governance structures. Policy is formulated in Vilnius and then implemented by the municipal labour exchanges. The national Labour Exchange acts as a coordinating body for the local agencies. This structure has remained the same since 1991-1992. Based on national and EU policy documents, there is evidence that there is at least some degree of pressure from the EU to strengthen regional influence over Lithuanian employment policy. According to the Report on the Lithuanian Social Security System reforms are under way, which are “aimed at coordinating the managerial structure and activities of labour market institutions under new conditions of the labour market and to develop adequate organisational capabilities facilitating the common process of coordination of the EU Employment Strategy.” The planned reforms include modernisation of territorial labor exchanges and improvement and diversification of services offered by territorial labor exchanges to employers and as well as development of the organisational prerequisites for use of the Structural Funds.

6. Procedural and policy responses to the EES

The production of the NAPs necessitates coordination between policy actors in order to produce coherent national plans. We therefore look at national responses in terms of political coordination but also. We also consider the role of NAPs in ‘real’ policy making in all three countries.

6.1 Political coordination

An important aspect of the formulation of employment policy, in general, and participation in the EES, in particular, are inter-institutional relationships:

This is THE issue. How to have closer relations between ministries inside the same country, because it is not the problem of just one ministry. Many people should deal with this. So to some extent this European Employment Strategy helps a lot because when everybody hears this, and they are obliged to go deeper into this. (interview, Lithuania Mission to the EU 2004)

Because of the small size of the Baltic public administrations, coordination still to a large extent depends on informal connections. “It is also a question of small states. Because these countries are so small and the ministries are so small, the people there pretty much know each other...” [DG Employment, interview 2004] As Olofsson concludes in his study of the EES in Latvia “personal contacts make many administrative procedures easier” (2003).

Although coordination has by all accounts improved somewhat in the last few years, the EES does not yet seem to have created the horizontal “synergies” between policy areas. As explained by the Ministry of Economy: “the Estonian public administration is built up in that way that if there is a policy document, for example, there is one ministry that is the ‘problem owner’ and the other ministries are just participating in the process. Concerning this employment action plan, the Min SA is the main coordinator and at least until recently we are just giving our input concerning the measure [for entrepreneurship]...” (Ministry of Economy, interview 2005)

One of the major problems for coordination in Latvia is that the NAP the members of the working group do not include any high-ranking staff, which was pointed out by an official at Ministry of Economy. The absence of higher-ranking officials in the NAP drafting process decreases the overall importance of the NAP in the national policy cycle. He felt that so far the attitude at the ministries had been that the coordinating job was “only formal”, but he also foresaw some improvements when the Ministry of Welfare would become in charge of coordination (interview, 2004).²⁸ An interviewed official at the Ministry of Welfare gives a similar view: In contrast to the pre-accession NAPs, the plan of 2004 “differs very much. The previous ones were very formal documents ... there were no such strategic solutions, just a description of what was going on ... But even without sufficient thinking one step forward of what we should do next year”. But even if this official thinks the work for the 2004 NAP is taken more seriously, he still thinks that coordination is insufficient and that especially the civil servants at the Ministry of Economy do not take the drafting of the NAP seriously enough (Ministry of Welfare, Latvia, 2004).

Coordination with national budgetary cycles

A big problem in all three countries is the coordination of NAPs with national budget cycles. In Latvia, for instance, the ministry of finance is not even formally involved in the NAP working group. The NAP involves no financial commitments. The amount of resources allocated for employment measures are consequently not based on the action plans (Väli 2004: 237). For example, the Estonian NEAP 2001 reports expenditures on labour market measures for 1995-1999, but does not provide much information on the planned budget for labour market policy for the next year. In a report by Raul Eamets at the University of Tartu, he points out that there was “problematic coordination between the setting of labour policy measures and the state budget appropriations.” This is partially due to the fact that the NEAPs were prepared before the state budget, and therefore it was not possible to estimate beforehand what finances would be allocated to labour market policy. This, however, seems to have changed with the NAP 2004, as the NAP was drafted at the same time as the 2005 state budget. Furthermore, the NAP 2004 is quite specific in terms of national funds allocated to labour market policy, particularly in connection to the ESF where co-financing from the EU is available. Many of these allocations were worked out during the negotiation for the National Development Plan 2004-2006. However, in some instances, the ESF funding are the only actual budgetary figures available (REF).

The situation is similar in Latvia. One problem that has been expressed by interviewees is that the Ministry of Finance is only included in the steering group “if necessary” (Latvian NAP 2004). That the Ministry of Finance does not participate in the working group around the NAP but is in charge of the money is seen as a problem at the other ministries involved. As expressed by the Ministry of Welfare, “We don’t feel the support from ministry of Finance” (Ministry of Welfare, interview, 2004). An employers representative likewise expresses in an interview that the Ministry of Economy has “developed different new good ideas and documents about the economic development but it has always stopped at the Finance Ministry (interview, 2004). An interviewed official at the Ministry of Finance does not understand the criticism: “we do not draft measures that support employment. We give money. This is the basic involvement. That is why the Ministry of Finance has not participated very actively in the discussions. This is not our competence.” However, the importance of the NAP is diminished because there is no coordination between policies and the national budget cycle.

²⁸There has recently been discussion in Latvia to move the jurisdiction of the NAP from the Min of Economy to the Ministry of Welfare.

6.2 The role of the NAP in national policy cycles

Of particular interest for this study is the fact that the NAPs in the new Member States seem to receive more attention in terms their relation to national policy strategies than in the EU-15. The Commission notes that the NAPs “must achieve greater political legitimacy and be an integral part of the decision-making process. The response of many new Member States is clearly encouraging” (JER 2004 3). Furthermore, the NAPs “receive a higher profile in many of the new Member States where they tend to be more forward-looking and play a central role in the policy cycle” (JER 2004 12).

The new member states began preparing to implement the EES in 1999, and by 2002 all 10 accession countries plus Bulgaria and Romania had submitted a Joint Assessment Paper (JAP) on employment policy priorities to the Commission. Based on an in-depth employment policy background review done in each country, the JAP provided a general overview of economic developments and labour market trends, identifying the country’s main priorities and necessary measures for employment policy. Since the JAPs, the Commission has annually monitored the progress of the new member states on implementing the priorities identified in the JAP. While the JAP was in some senses a broad overview of national employment policies, it was also “practice” for national policy-makers to get used to participating in this type of EU process. According to many interviewees, the subsequent National Action Plans have entailed a refining of the process and have consistently become more specific and detailed.

In Lithuania, for instance, the JAP marked an important step in the preparation to participate in the EES; the transition from the JAP (as a candidate country) to the submission of the first NAP in November 2004 represented the national government/ministries taking more “ownership” of the document.

To be honest, when we were preparing the JAP we were candidate countries. We had to work a lot to conform to the requirements of the EU. It was an orientation to be in line with EU policy. The situation is changing now because we will see it more as a national policy document (representative of Ministry of Social Security and Labour, April 2004).

While all interviewees in all three countries stressed that participation in the EU employment strategy has been a helpful exercise in the development of national employment policy, the role and profile of the NAP itself seem rather small at the national level. It is by and large a bureaucratic exercise that involves only those civil servants directly responsible for the drafting of the report. However, in particular, it has been important to the introduction of more analysis based policy-making, as well as developing more concrete indicators and targets. There is also an increased emphasis on implementation, and the NAPs are actually integrated into national policy to a much greater extent than has previously been the case in the EU-15 (cf. Jacobsson & Schmid 2002; Jacobsson & Vifell 2006).

One of the problems with the NAP, in all three countries, is that it is a re-active, rather than a pro-active document. However, the NAPs have become more precise during the years that the Baltics have been preparing for participation in the EES. Moreover, policy actors in all three countries have expressed the fact that the EES provides a good framework for thinking about policy, and the experience of drafting NAPs, even during the accession process, has helped to foster a “common approach” to the ways in which employment policy is dealt with. It has provided some sort of incentive for the ministries to come together. “The EU approach has

helped us seeing the issues in an integrated perspective and the ministries to move in the same direction” (civil servant, Ministry of Welfare, Latvia 2004).

Latvia has been following the EES very closely and has been drafting “practice” NAPs annually since 2000, although this was not an EU demand. However, the Latvian NAPs have had a very short-term perspective and have been overly concerned with following the procedural requirements of the EES. It has by and large been a compilation of measures in order to fulfil perceived EU expectations and thus been a reactive, rather than forward-looking document relevant for the national context. Olofsson & West (2004) have characterized the NAP process in Latvia as ‘passive adoption’ of EU rules rather than as ‘active translation’ into the national context. The drafting of the pre-accession NAPs have been characterized by imitation and attempt to follow EU guidelines indiscriminating rather than making independent analysis. Still, a change took place with the first real NAP in 2004, according to most interviewed (Latvia, Estonia, and Lithuania).

Like Latvia, Estonia has also produced four annual NAPs, but these documents have been lacking precise quantitative targets and it has appeared that the “objectives set out by the EES guidelines are taken over by Estonia as benchmarks and future goals” (Eamets 13). Väli (2004: 236) has noted that Estonia has no single document setting out a national employment strategy and that most of the strategic goals have been set in papers related to the EU. In her interpretation, this means that employment policy is considered as to belong to the EU rather than a policy field to which attention must be brought at national level. She concludes that the NAP is a concern of administration but without political support, which also decreases the motivation of the social partners to take active part (2004: 256). This is supported in our interviews: “My view is that in many cases our government is considering those reports for the Commission. They are not very much real attempts to change the policy at home” (representative Estonian Trade Union Confederation, 2005). As put by an academic expert: “they are very carefully following these guidelines that come from Brussels” (interview Eamets, Estonia, 2005). “I think it is true that they are following very much the last documents produced by the EU, sometimes word for word, I mean they are taking over these targets and objectives so in a way sometimes I am getting the feeling that they are not producing this paper for Estonia but for Brussels” (ibid).

Unlike the other two Baltics, which drafted annual plans, Lithuania has developed a medium-term national document governing employment policy, the “Program for Increasing Employment for 2001-2004.” This document is based on four pillars, which correspond broadly to the original EES, plus an extra pillar focused on enhancing employment policy integration, by increasing the administrative capacity and modernising the management system of the PES. Through the three-year plan Lithuania showed a more active and independent handling and a more active translation of EU rules and norms into national context prior to accession than for instance Latvia.

7. The EES: potential for partnership in the Baltics?

The EES advocates a decentralised approach for employment policy-making by involving the participation of all relevant actors, including local actors and social partners. In some countries, local actors have been able to bypass the national level and use the EES to increase their leverage over national actors (Jacobsson and Vifell 2006). However, there have currently been few instances in the Baltics where local actors and other interested parties have been able or interested in using the “opportunity structures” provided by the EES. We will now discuss two of the most important partner groups: local actors and the social partners.

7.1 Local actors

The involvement of local actors is also an important area where the EU has had an impact on employment policy in the Baltic states. Generally, EU accession has been important to the process of decentralisation, with all three countries taking on board the European Charter of Local Self-Government (EE 1995, LV 1996, LT 1999).

However, Lithuania is the only one of the three countries that has achieved a comprehensive reform of local government administration. In Estonia and Latvia, municipal districts are based roughly on Soviet units of administration. At the beginning of transition, the number of local government units in Estonia and Latvia were 249 and 559, respectively. At the end of the decade, these numbers were 247 and 552. Lithuania, on the other hand, reduced the number of local units from 526 to 56.

For Estonia and Latvia, the major problems at the local level are the small size of territorial units as well as insufficient funding to ensure the minimum quality of social services. The Estonian system of local administration is single-tiered. Estonian municipalities are responsible for the administration of such things as basic education, social services and primary health care, housing, utilities such as water supply and sewage, public transport, and road maintenance. The biggest challenge for Estonian municipalities is their small size; one half of Estonian municipalities have populations of less than 2000. This has clear implications for the ability of these municipalities to carry out their basic functions, let alone participate in the development of policy at the national level, or take advantage of funding opportunities through the ESF. One of the ways in which local authorities have been addressing their lack of administrative capacities, however, has been teaming up with each other in order to apply for ESF projects. There are also issues with the viability of local infrastructure as well; financing has thus far been concentrated on halting deterioration of existing facilities rather than investments in development of local infrastructure (Vanags 2005).

Like in Estonia, Latvian municipalities also face significant problems in terms of the small size of the administrative units. More than 70% of Latvian municipalities have a population of less than 2000 inhabitants. However, the Latvian system does have a second-tier of local government, with 26 regions that mainly perform a coordinating role. In Latvia, there has been a promotion of the “amalgamation of municipalities which are large enough to enable to provision of high quality services as well as to promote local economic development” (Vanags 2005).

Lithuania faces a different challenge in terms of local governance; its 56 municipalities are very large by EU standards, with an average population of 58,000. These local governments have responsibility for pre-school education, public works, administration of welfare payments, transportation, and emergency services, among others. The administration of welfare payments, for example, requires them to work with the local labour exchanges (Vanags 2005). In Lithuania, EU accession has also accelerated the discussion regarding the need to develop a regional system of governance for employment policy, giving local authorities as well as local labour exchanges a greater role in the policy-making process (Report on the Lithuanian Social System 2004).

There is little awareness of the EES as such locally, but more so of the ESF. Even if there is not necessarily an understanding of the EU processes locally, it is still integrated into their day-to-day work as it was considered when national policy was formulated at the central level.

One of the most important aspects in terms of preparation for EU accession was the hiring and training of EURES consultants at many local public employment offices in order to help facilitate labour mobility within the union. There have also been some initiatives to increase administrative capacity at the local level in order to prepare local agencies to apply for ESF funding. However, like the social partners, the ability of local actors to take advantage of opportunities provided by the EES via the ESF is still rather limited, and “local activism” is non-existent, as most efforts are concentrated on accomplishing their day-to-day tasks.

In Latvia, the EU has been important for vertical coordination, which did not exist before (Olofsson 2003). According to an interview at the State Employment Service in Latvia in 2003, there has been increased participation of municipalities the past 2-3 years. However, as put by a representative of the Union of Local and Regional Governments: “We were and are only observers to the NAP process. We do not have money or resources to participate actively” (2004). This representative feels that there is a centralised structure dealing with social and employment policies, but hopes that the structural funds will promote cooperation between actors at the local level. There are also examples of local PES working together with municipalities on employment policy in Latvia (Latvian NAP 2004).

In terms of the EES specifically, there are now local employment action plans in several regions of both Latvia and Lithuania. For example, local employment initiatives are highlighted as best practice in the Lithuanian 2004 NAP. The local initiatives are state-subsidised job creation in the highest unemployment areas of the country, and also involve the social partners. The project targets regions where unemployment rate is 1.5 times higher than the average national or where such an unemployment rate is likely to occur due to mass lay-offs. Within three years (2001-2003) the state subsidies for the local employment initiatives have created 1.24 thousand new jobs in high unemployment regions and had a 140% profit rate. This means that state subsidies for the creation of new jobs pay back within three years and return to the state and municipal budgets with a 40% profit (Lithuanian NAP 2004 146).

Attempts at creation of local action plans for employment just began last year in Estonia (Pärnu county). A notable exception to this is a socio-economic plan for the Ida-Viru region which was drafted already a few years ago (interview, ministry of Economy, 2005).

The biggest problem for the local authorities is a lack of time and resources to be able to participate fully in the opportunities afforded by the EES (similar to the situation of the social partners). While the EU has been important at placing emphasis on much needed reforms of the PES systems, as well as a recognition of the need to decentralise employment policy-making, there are still several challenges stemming from the local context that make it difficult to realise a real impact.

7.2 Social partners

The EU has been instrumental for promoting the role of social partners (Eamets and Philips 2004; Väli 2004), by supporting the development of tripartite structures, and more generally for the idea of involving various parties in policy making (partnership principle), including social partners, NGOs, independent agencies and local and regional actors. (Many interviewed experts cite social dialogue, along with gender mainstreaming, as the two areas that have received more attention mainly to do EU accession.) There has been funding from PHARE projects as well as bilateral assistance from individual member states (for example, from the Nordic countries via the Nordic Council of Trade Unions) for the development of national social dialogue.

However, despite recent positive developments, in particular the establishment of institutional structures for tripartite dialogue and consultation at the central level, social dialogue in the Baltics remains rather weak. In particular, bipartite dialogue is weak, due to the low administrative capacity of the employers' and employees' organisations as well as their low representation. Trade union membership, for example, is estimated at 12-14% in all three countries.²⁹

Many interviewees in all three countries, both from the government and from the social partners themselves, cite the lack of organisational capabilities of the social partners as a factor constraining the development of social dialogue, as well as active participation of the social partners in the EES consultation process. The problem is not so much the lack of a legislative framework for social dialogue, which exists in all three countries, so much as the lack of administrative capacity of the social partners. They have not utilised the EES as a bargaining chip vis-à-vis the national government, as social partner organisations have done in some of the EU-15.³⁰ Nor have they shown much interest or ability to be active players in the national EES process.

An inability to fully participate in the EES is particularly characteristic of the trade unions, which lack the capacity to participate in real negotiations. This is due both to lack of resources as well as the fact that they do not represent a majority of workers. On the most general level, many employees see little value in joining a trade union, partly due to their low representation as well as residual public scepticism lingering from the Soviet era, when trade unions were nothing but an arm of the Communist party. For example, in Lithuania, the trade union movement itself is split, and the trade unions have difficulties to cooperate even with each other. Conflicts between 'old' trade unions, which received a face-lift in the early 90s, and 'new' trade unions, which were created after independence, have "obstructed the integration of the labour sector as a whole into policy networks and thus their impact on EU matters" (Nakrosis 2003: 120).

However, despite the low general level of representativeness for both employers and employees organisations, tripartite councils do exist at the national level in all three countries. While they are by and large seen as forums for consultation and discussion rather than playing a central role in actual policy-making, the importance of these institutions has been growing in recent years, not in the least because of an increased focus upon the need to develop social dialogue by the EU. Another issue of course is the actual interest of the social partners to participate in social dialogue. An official at the Ministry of Welfare in Latvia says that the state has done what is can to set the conditions for social partnership: "From the state side we created the legal framework ... We have set the minimum requirements and now it is up to them to negotiate" (interview, 2004). A German policy advisor involved with a twinning project aimed to develop Latvian social dialogue felt that the social partners have not really understood the point in having social dialogue. The employers tend to have a short-term perspective (interview, 2004). According to an employers' representative in Latvia, this twinning project helped to promote social dialogue at the enterprise level, but attempts to promote sectoral social dialogue failed since neither unions nor the employers associations showed enough interest (interview 2004).

There have recently been some positive developments in social dialogue at the regional levels. In Estonia, for example, there are also attempts to establish regional tripartite committees and

²⁹See National Action Plans 2004 for all three countries.

³⁰See Jacobsson and Vifel 2006 for a discussion of the EES as an opportunity structure.

bodies, including involvement of local employers and employees organisations at the regional employment councils (under the local Labour Market Boards). However, the weak structures of social partners at the regional level are a constraining factor in the sense that both employers and unions have had difficulties in appointing members to participate in meetings (Väli 2004).

In terms of organisational capabilities, the employers are in general in a better position vis-à-vis the trade unions (except in certain sectors; for example, the trade unions are relatively well organised in the public sector) in terms of their ability to negotiate. Although they represent a relatively small share of companies, they in general have more financial resources. For example, according to the chairman of the Labour Relations Committee of the Confederation of Industrialists “our Confederation is considered to be one of the most powerful organisations in Lithuania, and lobbying is not at the last place in our activities. Rather often Parliament and Government do listen to what we say” (Interview, 2004). Similarly, in Latvia, the employers’ representative felt that “the priorities of the government coincide very much with our own” (interview, Latvian employers’ organisation, 2003).

Regarding EU accession, the primary areas of concern for the employers are EU health and safety standards and freedom of movement of workers within the Union (interviews, employers organisations, 2004 and 2005). Another issue that has been discussed at the national tripartite councils, and is of great concern for both employers organisations and trade unions, has been the establishment of Works Councils at the firm level. Trade unions are concerned because they fear these work councils will allow employers to circumvent real social dialogue by providing consultation through the works council “only on paper.” For their part, however, trade unions are primarily concerned with increasing their membership based, in addition to wage issues.

8. The EES in the Baltic States: Notes for a conclusion

What signs of Europeanisation can we see in the field of employment policy in the Baltic states? How much influence has the EU had in terms of policy, structures, and practices in the field of employment in Estonia, Latvia, and Lithuania?

The impact of Europeanisation of EU employment policy on the Baltic public administrations is most obvious at the organisational and procedural level: a number of new bodies have been created, some preceded the EES and were part of the general restructuring of social policy in the new independent states, while others have been more clearly a response to the EES. Also, but to a lesser extent, procedures for policy coordination have been developed. However, there are also legacies in policy thinking and organisation, which take time to break, such as the perception of a distinction between unemployment policy and employment policy and their connections to social policy and economic policy. The EES has here provided a challenge to rethink national employment policy.

The strong pressure and conditionality in the hard areas and the tough burden of work have meant that the soft areas were given less priority in the accession period, both by the EU and the national governments of the new member states. Interviews in Latvia and Estonia also confirm that employment policy had a low profile in the accession period, because there were no legal requirement or financial incentives involved.

However, despite the low salience of the issue from the EU side in pre-accession process, as well as soft rules with relatively weak monitoring, the Baltic States have made quite a few

efforts efforts to respond to and integrate the EES in their national policy making. There has been a strong willingness to comply, and the process is generally more alive than in MS 15 (not “just another strategy from Brussels”). The access to the ESF has been a watershed here. The economic incentive provided by the Structural Funds has significantly increased interest in human resources development in the Baltics. For example, a civil servant in the Estonian Labour Market Board stated that they meet whatever regulations they have to “because we desperately need the money” (interview, 2004).

The EES is more difficult to implement in the Baltic states than in the MS15 due in part to restrictive administrative capacity. For example, the implementation model implicit in the EES, where social partners are expected to play an important role in the implementation of the EES as well as an increasing role for regions and municipalities, does not fit well with the situation in the Baltic states, due to weakness of the social partners and the lack of local resources.

Still, many of the implementation problems we have found in the Baltic states are the same as studies of the MS15 have reported, at least if compared with their experience of the first five years of the EES: problems to apply for ESF means (very bureaucratic, lacking absorption capacity and dependent upon whether or not there is value added), coordination problems between various policy actors, lack of coordination with national budget cycles, problems with statistics and policy evaluation with no effective monitoring of measures, under-funding of active labour market policy from national sources (e.g. Spain), the passive role of social partners and little or no parliamentary involvement. Maybe the problems are not qualitatively different but differ rather in terms of magnitude.

As mentioned, EU membership has required extensive institutional reorganisation of the Baltic public administrations in general. National responses on an organisational and institutional level include: the creation of departments responsible for the administration of the European Social Fund (ESF); the hiring and training of ESF specialists within labour market departments, as well as efforts to strengthen the capacity of the labour market departments themselves; the creation of special implementing agencies for ESF projects; the development of bodies responsible for coordinating ministries; as well as an increased focus on monitoring, evaluation, and implementation of policies and programs. More concretely, one can see efforts in all three countries towards modernising the public employment services, an increased focus on active labour market policies, reform of vocational education and systems of lifelong learning, as well as possible moves to decentralise at least some elements of employment policy making. Additionally, there have been attempts to implement the partnership principle in terms of formal structures although this does not always work in practice (due in particular to weak administrative capacity of social partners). However, with the exception of departments created to deal specifically with structural funds-related issues, EU accession has increased the workload of ministries and agencies without an equivalent increase in the number of staff handling these issues (interview, Press, 2005).

On a policy level, in terms of the ways in which the EES has been incorporated into official policy documents, as well as “ways of speaking” about employment policy, the effect is significant. However, the biggest problem for the EES in these countries is a lack of administrative capacity to take advantage of the new opportunities afforded by the strategy. In particular, local actors struggle to accomplish their day-to-day tasks, and have little time to participate in meetings or to take stock of what is possible. Some concrete examples of problems the Baltic administrations have faced include understaffing, problems with staff retention (due to low salaries in the public sector), language barriers, lack of experience in the

policy field, poor coordination between various agents, lack of administrative capacity to apply for project funding from the ESF. However, in preparation for membership, relatively much money went, via PHARE, into increasing organisational and administrative capacity: staff training, study visits to other member states, recruitment of new staff, development of handbooks and guidelines, and bilateral twinning projects.³¹ This has been important due to the small amount of resources available nationally (interviews, 2004, 2004).

³¹These projects are described more in detail in the National Action Plans 2004.

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http://europa.eu.int/comm/employment_social/employment_strategy/nap_2004/nap2004lt_part2_en.pdf

The Commission's Assessments of National Reform Programmes for Growth and Jobs

Estonia

http://ec.europa.eu/growthandjobs/pdf/2006_annual_report_estonia_en.pdf

Latvia

http://ec.europa.eu/growthandjobs/pdf/2006_annual_report_latvia_en.pdf

Lithuania

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Lisbon National reform programme for growth and jobs 2005-08

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National Lisbon Programme of Latvia for 2005-2008

<http://www.em.gov.lv/em/2nd/?cat=11619&lng=en>

Lithuanian National Reform Programme for Growth and Jobs

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Report on social inclusion 2005: An analysis of the National Action Plans

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http://ec.europa.eu/comm/employment_social/social_inclusion/docs/sec256printed_en.pdf

10. Appendix

HRD PRIORITY BROKEN DOWN BY MEASURE BY INTERMEDIARY BODY AND IMPLEMENTING AGENCY, % OF TOTAL ESF FUNDING BY MEASURE

Lithuania

1. development of employability (MSSL)³² 21.5%
2. development of labour force capabilities and the ability to adapt to changes (MSSL) 24.8%
3. prevention of social exclusion and social integration (MSSL) 9.4%
4. development of the conditions for lifelong learning (MES)³³ 28.2%
5. improvement of human resources quality in scientific research and innovations (MES) 16.1%

Estonia

1. Educational System Supporting the Flexibility and Employability of the Labour Force and Providing Opportunities of Lifelong Learning for all (Min Ed, Innove) 52,8%
2. Human Resource Development Increasing the Competitiveness of Enterprises (Min Econ, Enterprise Estonia) 10,0%
2. Inclusive Labour Market (Min SA, Labour Market Board) 34,7 %
3. Enhancing Administrative Capacity (State Chancellery) 2,5%

Latvia

1. Promotion of Employment (43%) (Ministry of Economics, State Employment Agency)
2. Development of Education and Continuing Training (38%) (Ministry of Education and Science, Agency for Vocational Education Development Programmes)
3. Combating Social Exclusion (19%) (Ministry of Welfare, State Employment Agency)

³²Lithuanian Ministry of Social Security and Labour

³³Lithuanian Ministry of Education and Science