



International
Labour
Office
Geneva

**Employment Sector
Employment Working Paper No. 84**

2011

**Growth, Employment Policies and
Economic Linkages: Turkey**

Erinç Yeldan
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Employment
Policy
Department

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First published 2011

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ILO Cataloguing in Publication Data

Yeldan Erinç, Ercan Hakan

Growth, employment policies and economic linkages : Turkey / by Erinç Yeldan and Hakan Ercan ; International Labour Office, Employment Sector, Employment Policy Department. - Geneva: ILO, 2011
1 v. (Employment working paper ; No 84)

ISBN: 978-92-2-123781-5; 978-92-2-123782-2 (web pdf)

International Labour Office; Employment Policy Dept

employment / unemployment / decent work / employment policy / poverty / economic recession / Turkey

13.01.3

ILO Cataloguing in Publication Data

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Printed in Switzerland

document2

Preface

The primary goal of the ILO is to contribute, with member States, to achieve full and productive employment and decent work for all, including women and young people, a goal embedded in the ILO Declaration 2008 on *Social Justice for a Fair Globalization, and*¹ which has now been widely adopted by the international community.

In order to support member States and the social partners to reach the goal, the ILO pursues a Decent Work Agenda which comprises four interrelated areas: Respect for fundamental worker's rights and international labour standards, employment promotion, social protection and social dialogue. Explanations of this integrated approach and related challenges are contained in a number of key documents: in those explaining and elaborating the concept of decent work², in the Employment Policy Convention, 1964 (No. 122), and in the Global Employment Agenda.

The Global Employment Agenda was developed by the ILO through tripartite consensus of its Governing Body's Employment and Social Policy Committee. Since its adoption in 2003 it has been further articulated and made more operational and today it constitutes the basic framework through which the ILO pursues the objective of placing employment at the centre of economic and social policies.³

The Employment Sector is fully engaged in the implementation of the Global Employment Agenda, and is doing so through a large range of technical support and capacity building activities, advisory services and policy research. As part of its research and publications programme, the Employment Sector promotes knowledge-generation around key policy issues and topics conforming to the core elements of the Global Employment Agenda and the Decent Work Agenda. The Sector's publications consist of books, monographs, working papers, employment reports and policy briefs.⁴

The *Employment Working Papers* series is designed to disseminate the main findings of research initiatives undertaken by the various departments and programmes of the Sector. The working papers are intended to encourage exchange of ideas and to stimulate debate. The views expressed are the responsibility of the author(s) and do not necessarily represent those of the ILO.

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¹ See http://www.ilo.org/public/english/bureau/dgo/download/dg_announce_en.pdf

² See the successive Reports of the Director-General to the International Labour Conference: *Decent work* (1999); *Reducing the decent work deficit: A global challenge* (2001); *Working out of poverty* (2003).

³ See <http://www.ilo.org/gea>. And in particular: *Implementing the Global Employment Agenda: Employment strategies in support of decent work*, "Vision" document, ILO, 2006.

⁴ See <http://www.ilo.org/employment>.

Foreword

Despite relatively positive economic performance in the years prior to the global economic and financial crisis, countries in the Mediterranean basin face important employment and labour market challenges. The unemployment rate especially amongst youth is one of the highest in the world and their labour markets are characterized by high incidence of underemployment, employment in the informal economy and poor working conditions. The gender gap, particularly the low labour force participation of women, is a major challenge. Limited opportunities for productive employment together with more demand for labour in European countries have resulted in labour migration from East and South Mediterranean countries towards the Northern shore of the Mediterranean. The recent global economic and financial crisis led to economic downturn at varying degree in different countries, however, it shed light on the structural challenges of unemployment, poverty and inequality.

In the current political, economic and social context giving effect to the ILO Global Jobs Pact adopted in the 98th Session of the International Labour Conference (June 2009) is of paramount in order to promote productive employment and decent work in these countries. The promotion of productive employment and decent work is high on the agenda of the Euro-Mediterranean Partnership and is an utmost priority in the countries of the region. At the first Euro-Mediterranean Employment and Labour Ministers Conference in 2008 Ministers highlighted the urgency of challenges relating to employment, investment in human capital, and decent work for all and committed themselves to a Framework of Actions which would “contribute to developing a genuine social dimension within the Euro-Med agenda”.

The European Union has long actively supported the uptake of decent work as a global goal. As part of the Renewed Social Agenda the European Commission has “reaffirmed its commitment to promoting the internationally-agreed Decent Work Agenda, including through cooperation with the ILO and other partners, and the mobilisation of all relevant policies”. Furthermore, cooperation to enhance the response to the economic crisis has been recently intensified between both institutions.

Against this backdrop, the International Labour Office (ILO) and the European Commission (EC Directorate-General for Employment, Social Affairs and Equal Opportunities) developed a joint action oriented research project on “Expanding the knowledge base on decent work in Mediterranean countries.” The research undertaken focused on three main themes: 1) economic growth and employment; 2) labour market policies and 3) labour migration. The findings from the research are of great interest for policymakers as well as researchers and are reproduced in a series of working papers. They open up new avenues for research under future programmes.

This paper on Turkey’s employment and economic growth linkages, written by Erinc Yeldan from Bilkent University and Hakan Ercan from Middle East Technical University, brings to light current and emerging issues concerning Growth, Employment Policies, and Economic Linkages in Turkey within the framework of the pervasive world financial and economic crisis. The first part of the study provides a broad overview of the recent macroeconomic developments in Turkey. The authors review recent trends of the key macroeconomic indicators such as the exchange rate, the interest rate, and price inflation, and report on the post-1998 macroeconomic path of the Turkish economy. The second part of the study provides an assessment of the existing empirical studies on Turkish growth-employment linkages. In section three, the authors assess the labour market situation in Turkey and analyze the impact of structural change in Turkey’s labour market. Section

four is devoted to a growth-employment mapping including the poverty implications. Section six is devoted to the impact on employment of the global economic and financial crisis. The final section discusses a set of policy options and viable alternatives for a transition towards “employment rich growth”.

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Contents

	<i>Page</i>
Preface.....	iii
Foreword.....	v
1. Introduction.....	1
2. Overview of Recent Macroeconomic Developments.....	3
2.1 Growth.....	4
2.2 Macroeconomic policies.....	4
2.3 Incentive policies.....	7
3. Growth and Employment.....	8
3.1 Sources of Growth.....	8
3.2 Employment elasticities.....	10
3.3 Jobless growth.....	10
4. Labour Market Indicators.....	11
4.1 Labour Force and Employment.....	11
<i>Unemployment</i>	14
4.2 Sectoral employment and structural change.....	16
4.3 Skill composition of the labour force and the unemployed.....	17
4.4 Specific categories: Population trends and migration.....	17
<i>Rural-urban migration: A young age phenomenon</i>	21
5. Employment-Poverty Mapping.....	22
5.1 Growth-employment nexus: Poverty implications.....	22
5.2 Current account deficit and employment.....	24
5.3 Macroeconomic policies: Relevance for wages and poverty reduction.....	25
6. Global Financial and Economic Crisis and Turkey.....	28
6.1 Impact on Turkey.....	28
6.2 Further implications for ‘more decent’ jobs and unemployment.....	30
6.3 Country response.....	31
Conclusion.....	32
References.....	35
Appendix.....	37

1. Introduction

During the 2000s, despite rapid growth and a significant surge in exports, Turkish economy could not generate jobs at the desired rate. Open unemployment rate, which stood at 6.5% in 2000, has jumped to 10.3% in 2002 in the aftermath of the February 2001 financial crisis. Since then the Turkish gross domestic product has increased by a cumulative 30% in real terms. Yet, employment generation capacity of this rapid growth had been dismal, and the open unemployment rate could not be brought down below 9% by the end-of 2007, just before the eruption of the current global economic crisis. Despite rapid expansion of production in many sectors, civilian employment increased sluggishly at best, and labour participation remained below its levels as observed during the 1990s. Currently (as of April 2009) open unemployment rate stands at 14.9%, one of the highest among the OECD countries.

By some, the inadequate job creation of the economy is due to the excessive regulatory framework and the tax burden; while others from the *structuralist* tradition see the problem as one of “*joblessness*”, and regard it as a global phenomenon of the deflationary environment under the finance-led global economy. Note, however, that, Turkey’s low (net) employment creation rate, which is 0.8% on average per year for the period 1988-2008,⁵ is at least partially due to its demographic structure and still ongoing rural-urban transition. This point will be elaborated later.

One of the explanations of the jobless growth phenomenon rests its arguments on the rigid regulatory framework and the excessive tax burden claimed to be prevalent in the Turkish labour markets. Turkey indeed has one of the highest tax burdens in its labour markets in comparison to the OECD averages. Tunalı (2003), for instance, reports that the social security contributions of the employers reach 22%, and together with other taxes on labour employment, create an additional tax burden for employers reaching as much as 35% over net wages. Tunalı further argues that employment protection laws may have increased the insecurity faced by the workers as employees try to avoid severance payments by shifting their labour demand to workers mostly from the informal market. This undoubtedly has adverse consequences for tax revenues and on the formal industrial relations.

Ercan and Tansel (2007) provide a preliminary account of the new Labour Act (2003), which, by some, is regarded as the main source of the problem. The Law is criticized (mostly by the employers) because job security clauses make the employers reluctant about expanding formal employment. Ercan and Tansel (2007) also summarize the workers’ unions’ opposition to this argument. Union leaders are on record that although the new labour act introduced “flexi-time” and “flexible work” regulations for the first time in Turkey, these ‘flexibility’ policies apparently were not enough for employers to expand employment. (Indeed, Ercan, 2006, provided preliminary evidence that, post-2001 crisis recovery was jobless because of productivity increases in 2002 and 2003.) In fact, existing studies claim in this regard that labour market regulations and other “distortions” in the *formal* economy may actually not be binding for the larger segment of the labour market (Agénor *et. al.* 2006). Onaran (2002) for instance argue that wages actually exhibit a high degree of flexibility as the power of trade unions has eroded significantly in the past two decades.

⁵ The rate is the trend coefficient of the logarithm of the level of employment. Turkish labour force surveys, which are conducted by Turkstat, started in 1988. Headline labour statistics are also reported on the Central Bank web site, www.tcmb.gov.tr.

On another note, the jobless growth problem is regarded as a direct symptom of the current IMF program as implemented in Turkey together with an excessively open capital account and widespread financial speculation. According to this line of thought, due to virtually unregulated capital account and given the high real rates of interest prevalent in the Turkish financial markets, Turkey is observed to receive massive inflows of short term finance capital. As a result, the domestic currency, *Turkish Lira* (TL), appreciates and Turkey suffers from a widening current account deficit. Appreciated currency brings forth a surge in imports together with a contraction of labour intensive, traditional export industries such as textiles, clothing, and food processing. This leads to contraction of formal jobs and increased informalization of economic activities (see Yeldan, 2006 and 2008, and Pamukçu and Yeldan, 2005).

On a more general scale, the joblessness phenomenon is taken as a global issue and is explained as a reflection of the rise of finance capital over industry in the last quarter of the last century. Ghosh (2003) for instance claims that what we see in the global commodity markets is not a simple job-flight problem, but is a problem of *job-disappearance*, that is, industrial jobs are disappearing everywhere. Studies by UNCTAD (2003), Patnaik (2003) and Singh (2003) support this argument. Following the demise of the corporate capitalism of the post-Bretton Woods system characterized by regulated trade and finance flows, the global economies are suffering from deflationary pressures everywhere; and that unemployment rates tend to rise all around the globe.

Moreover, China's and India's opening up to the global markets and the collapse of the Soviet system together have added 1.5 billion new workers to the world's economically active population (Freeman, 2004, 2005; Akyüz, 2006). This means almost a doubling of the global labour force and a reduction of the global capital-labour ratio by half. Concomitant with the emergence of the developing countries in the global manufacturing trade, about 90% of the labour employed in world merchandise trade is low-skilled, suffering from marginalization and all too frequent violation of basic worker rights in informal markets (see, *e.g.*, Akyüz, 2003, and 2006, Akyüz, Flassback and Kozul-Wright, 2006).

The current global financial and economic crisis has had profound impact on this fragile structure. The ILO estimates that the loss in jobs due to the global crisis may reach up to 50 million; bringing its estimates of global open unemployment to 230 millions, the highest level ever recorded. As the quantity of jobs relative to need has fallen, there is also a significant global problem with respect to the quality of jobs. The ILO estimates that 22% of the developing world's workers earn less than \$1 a day and 1.4 billion (or 57% of the developing world's workers) earn less than \$2 a day.

In this study, we particularly focus on both the macro- and micro-economic aspects of the growth – employment – poverty nexus in Turkey's over the 2000's. To this end, one ought to study relevant linkages between fiscal policy decisions, private sector choices, and external balances that we believe are essential in order to analyze the impact of stabilization policies and fiscal reforms on labour market adjustment and public debt sustainability. We pay particular attention to the evolution of the external balances, especially the widening current account deficit in the aftermath of the 2001 crisis. We further study the patterns of technological change across various production sectors and the composition of value added in the aforementioned period. We also dwell on the evolution of the wage cycle and the spread of informalization in the labour markets, and follow the poverty incidence of informalization and joblessness over the medium to long run.

We organize the report as follows. In section two, we provide a broad overview of the recent macroeconomic developments in Turkey as they pertain to the problems of employment and decent work. Here we study the evolution of the key macroeconomic prices such as the exchange rate, the interest rate, and price inflation, and report on the post-1998 macroeconomic path of the Turkish economy. In section three, we provide and assess

the empirics of existing studies on Turkish growth-employment linkages and report on the analytics of various possible macroeconomic policies, and internal and external macroeconomic shocks that hit Turkey. In section four, we assess the microeconomic conditions and technology and other policies that affect labour markets in the medium to long run. We report on the dynamics of the wage cycle and informalization of the labour relations together with its incidence on poverty. We provide an analysis of the components of labour demand and the resolution of the labour market equilibrium. Section 5 contains a growth-employment mapping with poverty implications. Finally, in section six, we discuss the country response to the global financial crisis. We conclude in section seven with a discussion of policy choices and viable alternatives towards transition to employment-enhancing growth.

2. Overview of Recent Macroeconomic Developments

Turkey experienced a severe economic and political crisis in November 2000 and again in February 2001. The crisis erupted when Turkey was following an *exchange-rate based disinflation programme* led and engineered by the IMF.⁶ Over 2001 the GDP contracted by 7.4% in real terms, whole sale price inflation soared to 61.6%, and the currency lost 51% of its value against the major foreign monies. The burden of adjustment fell disproportionately on the labouring classes as the rate of unemployment rose steadily by 2 percentage points in 2001 and then another 3 percentage points in 2002. Real wages fall abruptly by 20% upon impact in 2001 and could not recover since then as of the time of writing this report.

The IMF has been involved with the macro management of the Turkish economy both prior and after the crisis, and provided financial assistance of \$20.4 billion, net, between 1999 and 2003. Following the crisis, Turkey has implemented an orthodox strategy of raising interest rates and maintaining an overvalued exchange rate. The government was forced to follow a contractionary fiscal policy, and promised to satisfy the customary IMF demands: reduce subsidies to agriculture, privatize, and reduce the role of public sector in economic activity.

The post-crisis economic and political adjustments were overseen by the newly founded *Justice and Development Party* (AKP) which came to power enjoying absolute majority in the parliament in the November 2002 elections. AKP abandoned the discourse manipulating anti-IMF and anti-liberal reactions in the country immediately after taking office and showed no hesitation in fully adopting neo-liberal policies. The distinguishing feature of the AKP government in this respect was that it has undertaken the mission of executing the neo-liberal project under the discourse of a “strong government” without confronting any strong popular opposition (ISSA, 2006; Cizre and Yeldan, 2005). The AKP had acted faster and more boldly than any preceding government in implementing the above neoliberal agenda in an attempt to respond to the requests of international capital.

The current⁷ IMF program in Turkey relies mainly on two pillars: (1) fiscal austerity that targets a 6.5 percent surplus for the public sector in its primary budget as a ratio to the

⁶ The underlying elements of the disinflation program and the succeeding crisis are discussed in detail in Akyüz and Boratav (2004); Ertugrul and Yeldan (2003), Yeldan (2002), Boratav and Yeldan (2006), Alper (2001). See also the GPN Report on Turkey (2005) and the web site of the *Independent Social Scientists Alliance* (www.bagimsizsosyalbilimciler.org) for further documentation of the crisis conditions.

⁷ Note that, Turkey did not sign a standby agreement with the IMF this year, yet.

gross domestic product; and (2) a contractionary monetary policy (through an *independent* central bank) that exclusively aims at price stability (via inflation targeting). In a nutshell, the Turkish government is charged to maintain *dual* targets: a *primary surplus* target in fiscal balances (at 6.5% to the GDP); and an *inflation-targeting* central bank whose sole mandate is to maintain price stability and is divorced from all other concerns of macroeconomic aggregates.

2.1 Growth

The post-2001 growth had indeed been high. Annual rate of growth of real GNP averaged 6.5% over 2002-2008. Growth, while rapid, had unique characteristics. *Firstly*, it was mainly driven by a massive inflow of foreign finance capital which in turn was lured by significantly high rates of return offered domestically; hence, it was *speculative-led* in nature (*a la* Grabel, 1995). The main mechanism has been that the high rates of interest prevailing in the Turkish asset markets attracted short-term finance capital, and in return, the relative abundance of foreign exchange led to overvaluation of the *Lira*. Cheapened foreign exchange costs led to an import boom both in consumption and investment goods. Clearly, achievement of the fiscal contraction under severe entrenchment of public non-interest expenditures was a welcome event boosting the hungry expectations of the financial arbitrageurs.

The *second* characteristic of the post-2001 era was its *jobless-growth* pattern. Rapid rates of growth were accompanied by high rates of unemployment and low participation rates. The rate of unemployment rose to above 10% after the 2001 crisis, and despite rapid growth, has not come down to its pre-crisis levels (of 6.5% in 2000). Furthermore, together with persistent *open* unemployment, *disguised* unemployment has also risen. According to TURKSTAT data, “persons not looking for a job, but ready for employment if offered a job” has increased from 1,060 thousand workers in 2001, to 2,289 thousands by 2008, bringing the *total* (open + disguised) unemployment ratio to 19% (see section four).

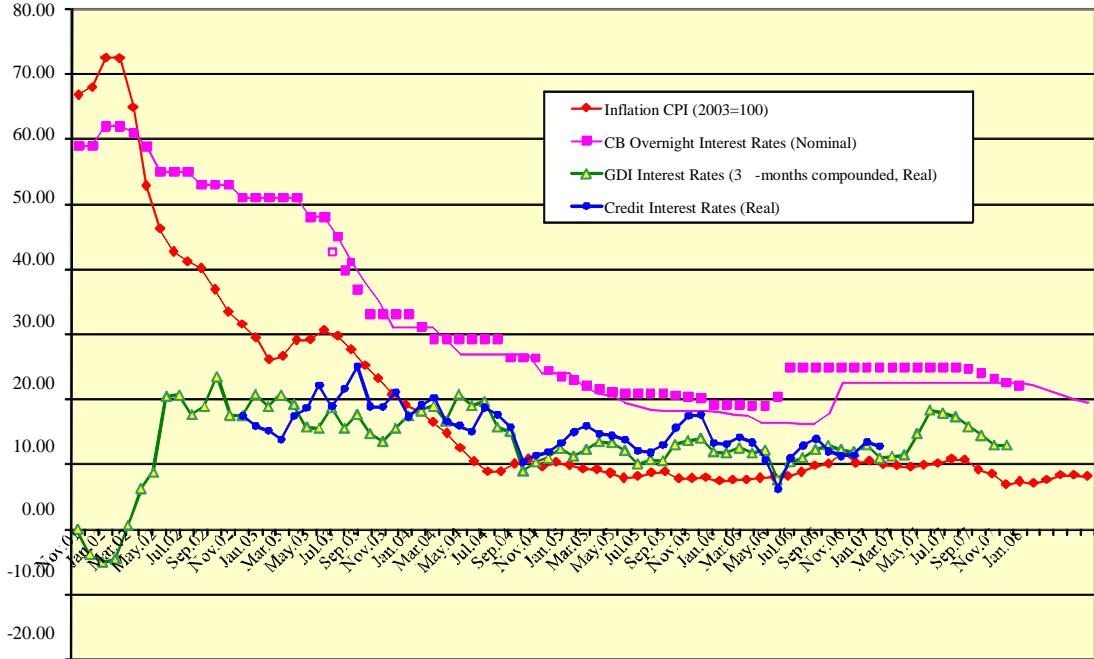
2.2 Macroeconomic policies

Together with rapid growth, disinflation has been hailed as another area of “success” for the post-2001 period. Inflation rate, both in consumer and producer prices, has been brought under control by 2004. Producer price inflation receded to less than 6% in late 2008 under deflationary environment of the global crisis.

Despite the positive achievements on the disinflation front, rates of interest remained slow to adjust. The real rate of interest on the government debt instruments (GDI's) for instance remained above 10% over most of the post-crisis period and generated heavy pressures against the fiscal authority in meeting its debt obligations (see Figure 2.1). The persistence of the real interest rates, on the other hand, had also been conducive in attracting heavy flows of short-term speculative finance capital in 2003 to 2005. This pattern continued after 2006 at an even stronger rate.

Inertia of the real rate of interest is enigmatic from the successful macro economic performance achieved thus far on the fiscal front. Even though one traces a decline in the general plateau of the real interest rates, the Turkish interest charges are observed to remain significantly higher than those that prevail in most emerging market economies. The credit interest rate, in particular, has been stagnant at the rate 16% despite the deceleration of price inflation until the 2008 global turbulence. The recent financial chaos that erupted in the housing and sub-prime credit markets of the US had necessitated for the CBRT to maintain high rates of interest against threats of contagion. Therefore, Turkey is now severely constrained in maintaining significantly high rates of interest into the next decade.

Figure 2.1. Inflation (CPI) and real interest rates

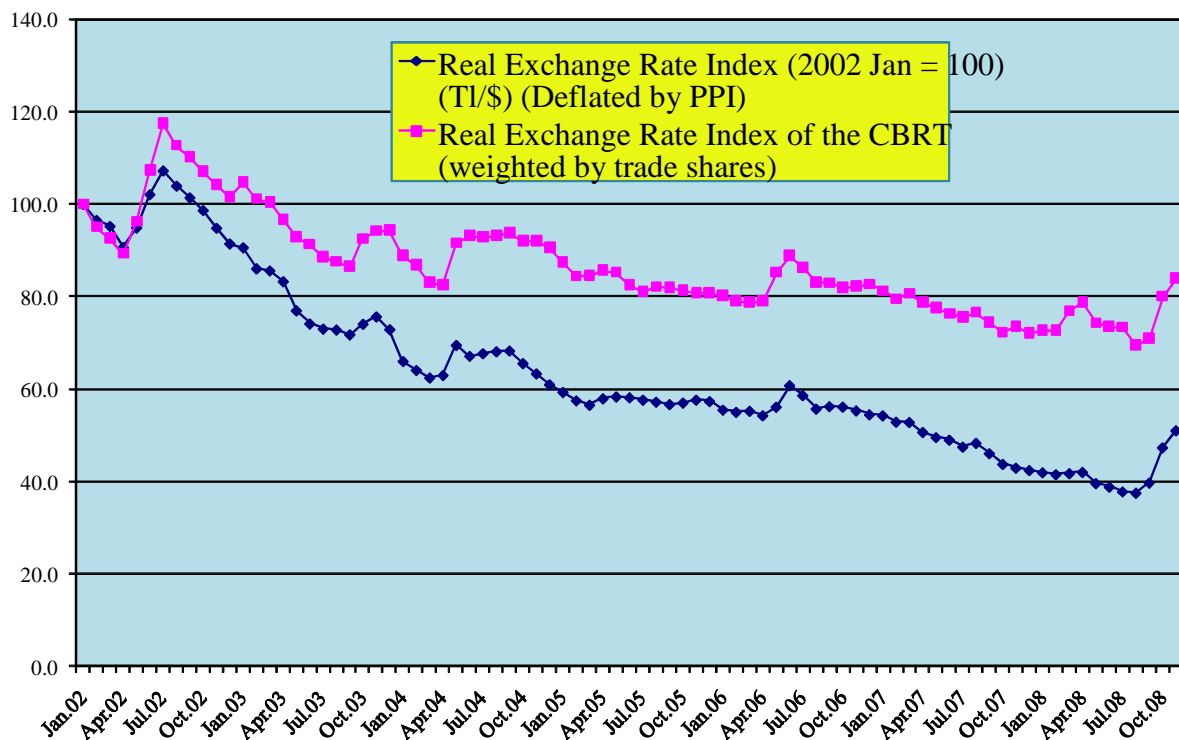


Source: TURKSTAT, www.tuik.gov.tr.

High rates of interest were conducive in generating a high inflow of hot money finance to the Turkish financial markets. The most direct effect of the surge in foreign finance capital over this period was felt in the foreign exchange market. The overabundance of foreign exchange supplied by the foreign financial arbitrageurs seeking positive yields led significant pressures for the Turkish Lira to appreciate. As the Turkish Central Bank has restricted its monetary policies only to the control of price inflation, and left the value of the domestic currency to the speculative decisions of the market forces, the *Lira* appreciated by as much as 60% in real terms against the US\$ and by 25% against Euro (in producer price parity conditions).

Figure 2.2 portrays the paths of the *bilateral* (vis-à-vis the US\$) and the *trade-weighted* real exchange rate (in PPP terms, with producer prices as the deflator) over 2000-2008. The currency crises of November 2000 through February 2001 are clearly visible in the figure. The recent blip in late 2008, on the other hand, had a minimal effect on the *real* value of the real exchange rate and was not enough to change the direction of the course of ongoing real appreciation.

Figure 2.2 Indexes of the Bilateral and Trade-Weighted Real Exchange Rate



Source: TR Central Bank and TURKSTAT.

The structural overvaluation of the TL, not surprisingly, manifests itself in ever-expanding deficits on the commodity trade and current account balances. As traditional Turkish exports lose their competitiveness, new export lines emerge. Yet, these proved to be mostly import-dependent, assembly-line industries, such as automotive parts and consumer durables. They use cheap import materials, are assembled in Turkey with low value added, and are re-directed for export. Thus, being mostly import-dependent, they have a low capacity to generate value added and employment. As traditional exports dwindle, the newly emerging export industries had not been vigorous enough to close the trade gap.

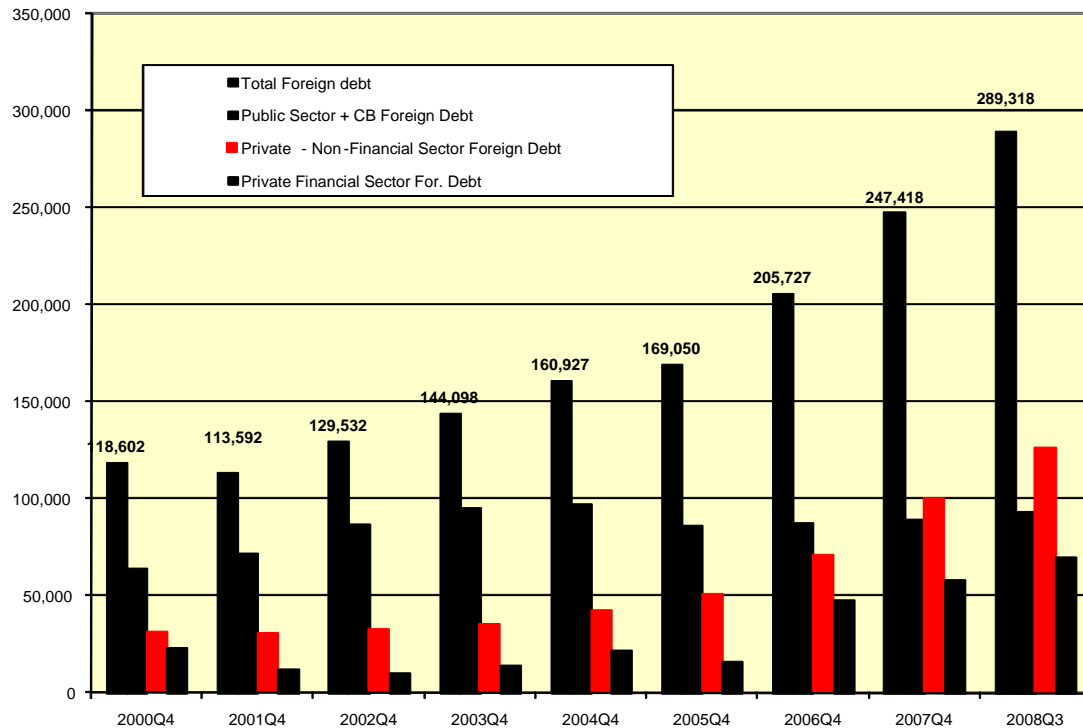
Consequently, starting in 2003 Turkey has witnessed expanding current account deficits, with the figure in 2007 reaching a record-breaking magnitude of \$38.1 billion, or 6.7% as a ratio to the aggregate GNP. In appreciation of this figure, it has to be noted that Turkey traditionally has never been a current account deficit-prone economy. Over the last two decades (80's and 90's) the average of the current account balance hovered around plus and minus 1.5-2.0%, with deficits exceeding 3%. This signals significant currency adjustments as had been in 1994 and 2001. In fact, the mechanics behind the culminating current account deficit of the post-2001 period can only be understood in the context of the speculative transactions embedded in the *finance account* of the BoP.

A significant detrimental nature of hot money led balance of payments financing was foreign debt intensity. The stock of external debt has increased by a total of \$150.2 billion over the end of 2002 to the end of the third quarter of 2008 (just before the global crisis had reached Turkey). This indicates a cumulative increase at a rate of 82.3% in US dollar terms

over a period of 5.5 years. This persistent external fragility is actually one of the main reasons why Turkey had been hit the hardest among the emerging market economies in the post 2008 global crisis.⁸

Another facet of the external fragility of the Turkish balance of payments regards the *composition* of debt. As far as the post-2001 era is concerned, a very critical feature of external debt driven current account financing was that it was mostly driven by the *non-financial private sector*, rather than the public sector. Within the private sector, non-financial enterprises explain 60% of the aggregate increase of private external debt over the post-2001 period and accounts for 70.9% of the total stock of private debt by 2008. We document the relevant data in Figure 2.3.

Figure 2. 3 Composition of external debt stock (million US\$).



Source: TR Central Bank, www.tcmb.gov.tr.

2.3 Incentive policies

Turkish employment and industrial support policies are designed for regions. ‘Priority Development Regions’ approach has dominated support policies for decades. This did not cause any income convergence as attested by many new designations of provincial investment incentives. Turkey has never adopted the approach of sector-specific incentive policies or measures for priority sectors. Rather, State Planning Organization (SPO) identified regions or provinces that will benefit from investment and tax incentives that are contingent on employment creation. The indiscriminate approach that is solely dependent on a measure of per capita provincial income without any sectoral priorities did not work. Regional income disparities persist after 30 years of subsidies. There are too many

⁸ Turkish GDP fell by 6.8% in the last quarter of 2008, and by 13.8% in the first quarter of 2009. The unemployment rate jumped from 9.9% in September 2008 to 14.9% in April 2009.

‘priority’ provinces: 49 of the 81, which simply suggests that there is much political influence in the process.

There have been no successful policies in any country that managed to stem the outflow of people from a declining region. This reflex of trying to keep people where they are remains the underlying idea of the incentive schemes conjured by Turkish policy makers and technocrats. Note that, one of the standard growth model predictions is that labour mobility would increase the convergence speed of per capita income levels between regions. One should not stop those who are moving out. One should adequately accommodate them at their destinations. This will require a sea change in the traditional attitudes of the economic agents in Turkey.

Recent Turkish *provincial incentive support schemes* require a minimum employment level of fifty persons. This means that hardly anyone will qualify as over 90% of Turkish manufacturing establishments employ ten or less persons. Fifty workers with the exception of some large-scale cement factories are quite unheard of in the 49 provinces that these incentive measures target. In the May 2009 package, there were some improvements in the scheme. Turkey has been divided into four regions with sectoral support schemes separately designed for each region. This is a step in the right direction but the impact is yet to be seen.

3. Growth and Employment

3.1 Sources of Growth

We assume that, what is required in this section is reporting the results of a growth accounting exercise (a TFP analysis) dissecting the components of a Cobb-Douglas production function to investigate the shares of labour and capital in GDP growth. Note that, it is well known in the literature (e.g. Senhadji, 2000), the contribution of TFP to output growth depends crucially on the share of physical capital in real output, usually denoted by ‘ α ’. This measure is also regarded to be more problematic in the developing or emerging markets.

There have been no recent and reliable studies that the authors are aware of or be confident enough to cite for Turkey. The well known references are dated now. Instead, we report two figures from Taymaz and Voyvoda (2009) who studied manufacturing output and productivity growth. Given the jobless growth incidence to be discussed soon and falling labour force participation rates (in section four), we believe that their manufacturing story has relevance for the urban Turkish economy. (The reader also should kindly refer to Table 2 and the discussion of the employment elasticity results.)

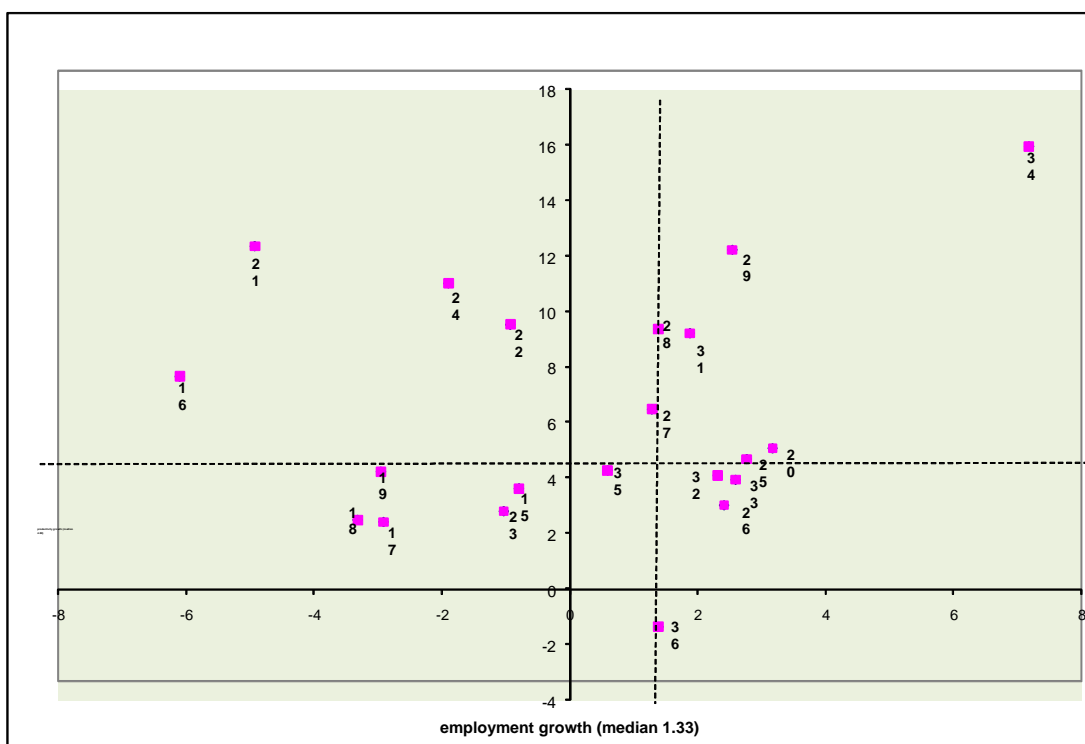
What had been the technology aspects of this outcome of poor employment creation? A recent study by Taymaz and Voyvoda (2009) shed some light on this question. Working with a fine breakdown of the manufacturing sectors, Taymaz and Voyvoda classified various components of manufacturing relative to their technology utilization. Depending on their place on the “technology ladder” sectors are scaled from “primary” sectors with relatively low technology utilization to upper scale in high technology use (see the original table below with its accompanying figure from these authors).

Table 3.1. Sectoral Classification and Aggregation

No.	Aggregate Sector	Activities	NACE 1.1
1	Primary	Agriculture, livestock	01, 02, 03, 04, 07
2	Energy	Coal, crude oil, natural gas, electricity energy	08, 09, 69, 70, 40
3	High-Technology	Computers, electrical, electronic and optical goods	76, 66, 69, 42, 33
4	Medium-High Technology	Chemical, machinery and automobiles	24, 29, 31, 34, 35
5	Medium-Low Technology	Cement, metallic products, plastic products	23, 25, 26, 27, 28, 35, 37
6	Low-Technology	Dairy products, textiles, paper and recycling	13, 14, 15, 16, 17, 18, 19, 20, 21, 22, 27, 36
7	Construction		45
8	High-Quality Services	Communications, banking, education and health	83, 84, 85, 88, 89, 91, 92
9	Other Services	Commerce, transport, public serv.	69, 70, 71, 73, 74, 75, 76, 77, 78, 79, 80, 81

Source: Taymaz and Voyvoda, 2009.

Figure 3.1. Average employment and productivity growth in manufacturing (2002-2007)



Source: Taymaz and Voyvoda, 2009.

Given a careful study of productivity gains contrasted against employment generation, Taymaz and Voyvoda report that *in most of the low- to medium- technology utilization segment, productivity gains were mostly based on labour shedding*. Among the high technology adopting sectors, chemicals, machinery and automobiles display a positive

association between gains in productivity and employment simultaneously (see also section 5.2 for a trade perspective on these sectors).

3.2 Employment elasticities

The dismal character of job creation under the post 2000 era can further be studied from a microeconomic perspective. To this end, we will look at the revealed elasticities of employment with respect to gross domestic product across different time horizons, and across various production sectors. Table 3.2 attends to this task. Calculated over a longer time horizon, employment elasticity with respect to aggregate income turns out to be 0.25 over 1989-2008. Over this broad time horizon, agriculture has a negative employment elasticity of 1.19; while industrial employment elasticity is 0.43 and that of services (including construction) is 0.55. A simple breakdown of this time horizon into two sub-periods (1989-2000 and 2002-2008), however, disclose the underlying characteristics of the post 2000 speculative growth with relatively less powerful employment generation capacity. Note the decline in employment elasticities of the non-agricultural sectors from an average of 0.68 in the pre-2000 period to 0.48 in the post-2000 period. The decline of employment elasticities is visible under all three main sectors.

Table 3.2. Output elasticities of employment by sectors (annual averages).

	1989-2008	1989-2000	2002-2008
Total	0.25	0.39	0.14
Agriculture	-1.19	-0.42	-1.66
Non-Agricultural Sectors	0.54	0.68	0.48
Industry	0.43	0.49	0.39
Services	0.55	0.76	0.47
Source: Turkstat and SPO			

3.3 Jobless growth

Another key characteristic of the post-2001 Turkish growth path has been its “jobless” nature. The rate of open unemployment was 6.5% in 2000; increased to 10.3% in 2002, and remained at that plateau despite the rapid surges in GDP and exports. Open unemployment is a severe problem, in particular, among the young urban labour force whose unemployment rate reached 26%. Along with the slow pace of job creation, workers in Turkey have been subject to considerable insecurity – a relatively high percentage are outside the formal labour market and real wages have fluctuated, as has employment in the private sector over the 2000s.

The urgency of job creation in Turkey can be seen by noting that Turkish labour force participation rate is below 50%. This is significantly lower than the EU average. In addition, about half of the Turkish work force is not registered with any social security institution and thus do not have access to formal social protection mechanisms (World Bank, 2003). In times of a crisis and the ensuing jobless growth period (which is likely to follow this crisis as well) this most vulnerable group of workers suffer the most. They are the first to be fired, especially in the informal textiles and clothing sectors as well as the construction sector, and the last to be hired, awaiting a recovery in Turkish exports or housing demand.

Note that, economic recovery may come without jobs in some cases, in the emerging markets as well as the U.S., because of productivity increases. Case in point: During the period 1980-2002, annual real GNP growth in Turkey averaged about 4%, compared to

average employment growth rate of only 0.8%. Even in the more recent period of 2002-2006 when economic growth rate has exceeded 7%, the unemployment rate has stubbornly remained unchanged around 10%. Employment growth rate in the period was also 0.8% (see section 4.1).⁹ This seems to be a cap for the Turkish economy. It is a failing mark in the Turkish economic grade report. This history does not bode well for the employment recovery prospects in Turkey, when the macroeconomic recovery starts some time in 2010.

Contractionary fiscal policies were also a cause of the jobless growth patterns observed in the 2000's. Turkish fiscal authorities were severely constrained by the dictates of maintaining a primary surplus at a given ratio to the GDP. The contractionary fiscal stance resulted in sharp falls in public expenditure programmes as well as in public employment. The stabilization program had taken its toll mainly on labourers in terms of lost jobs and declining real wages.

4. Labour Market Indicators

4.1 Labour Force and Employment

Turkish non-institutional population stood at 70.4 million in April 2009. Of these, 51.5 million were 15 years of age or older. Its labour force is only 24.3 million, though. At 47.2%, Turkey has the lowest labour force participation rate (LFPR) in the OECD region. Moreover, 17.6 million of its labour force is composed of men (72% of the labour force) and only 6.7 million are women. Male LFPR in Turkey was 69.7% in April 2009, female LFPR was 25.5%, which is the *lowest female LFPR* in its income group of countries in the world (Turkish per capita income exceeded USD 10 000 in 2008, which will fall significantly in 2009 because of the crisis). Table 4.1 tabulates pertinent data on the Turkish labour market that also includes the extended definition of unemployment. The data as reported by Turkstat are listed in the Appendix Table A1.

Table 4.1. Developments in the Turkish Labour Market (1,000 persons).

	2000	2001	2002	2003	2004	2005	2006	New Series			
	2000	2001	2002	2003	2004	2005	2006	2006	2007	2008	2009 April
15+ Age Population	46,209	47,158	48,041	48,912	49,906	50,826	51,668	48,485	49,994	50,772	51,507
Civilian Labor Force	23,078	23,491	23,818	23,640	24,288	24,565	24,776	23,250	23,114	23,805	24,316
Civilian Employment	21,581	21,524	21,354	21,147	21,791	22,046	22,330	20,954	20,738	21,194	20,698
Unemployed (Open)	1,497	1,967	2,464	2,493	2,498	2,520	2,446	2,295	2,376	2,611	3,618
Open Unemployment Ratio (%)	6.5	8.4	10.3	10.5	10.3	9.9	9.9	9.9	10.3	11.0	14.9
Disguised Unemployment ^a	1,139	1,060	1,020	945	1,223	1,714	2,087	1,959	1,805	2,298	..
Total Unemployment Ratio ^b (%)	10.9	12.3	14.0	14.0	14.6	16.1	16.9	16.9	17	19	..
<i>Civilian Employment by Sectors</i>											
Agriculture	7,769	8,089	7,458	7,165	7,400	6,493	6,088	5,713	4,867	5,016	4,965
Industry	3,810	3,774	3,954	3,846	3,987	4,284	4,407	4,048	4,314	4,441	3,981
Construction	1,364	1,110	958	965	1,030	1,173	1,267	1,189	1,231	1,241	1,157
Services	8,637	8,551	8,984	9,171	9,374	10,096	10,568	9,918	10,327	10,495	10,594

Source: Turkish Statistical Institute (TURKSTAT), Household Labour Force Surveys.

a. Persons not looking for a job yet ready to work if offered a job: (i) Seeking employment and ready to work within 15 days, and yet did not use any of the job search channels in the last 3 months; plus (ii) discouraged workers.

b. Total (open + disguised) unemployment accounting for the persons "not in labour force".

These low labour market rates are explained by the present *low levels of educational attainment* in Turkey. The average number of years of schooling of the labour force is six years, and of women is five years. Basic (elementary) education had been five years in

⁹ All rates are calculated by the authors using TURKSTAT data available at www.turkstat.gov.tr.

Turkey until late 1990's. In the ten plus years since it was raised to eight years, the average education level of the labour force barely moved up by one year.¹⁰ Unskilled rural-urban migrants do not participate in the labour market, where most would have been unpaid family workers in the agricultural sector. This trend, along with increasing schooling levels in urban areas, helps explain declining LFPRs (see Ercan, 2008) as Turkish population is still young.

Figure 4.1 provides a recent overview of the Turkish labour force participation rates (LFPR). *LFPRs have been falling*. The recent trend value between 2000 and 2007 was 0.9 percentage points a year, on average, for the total rate; male and female rates were close to this, as well.¹¹

The year 2008 exhibited the usual pattern of LFPRs. From the seasonal low of winter months, LFPRs climbed up, peaked in July, and slowly declined afterwards. What breaks the pattern recently is that the first four months' LFPR values in 2009 are now higher than the same period values in 2008 (latest available labour force survey, LFS, data as of writing this report is April 2009).¹² This may be the *added worker effect because of the crisis* (no quantitative validation is possible now as the micro-data files will not be available for another year, at least).

Note that, there has been a break in the Turkish population series (and therefore in the labour market series) (see Table A1). The year 2006 non-institutional population has been adjusted downwards by 4.5 million people because of the transition from a de facto to de jure census count. Updating of the address registers has eliminated these people from the Turkish census. As evidenced from the unchanging trends of non-agricultural labour market rate series for 2007 (when a final and finer adjustment was made to the figures), *almost all of the population correction has fallen on the rural areas*. This was most likely due to double counting of the out-migrant population from the rural areas. Elected village heads had an incentive to disguise their villages' declining populations, as the state funds are conditional on population levels.

This recent break in the population and LFS series make it impossible to calculate long-term growth rates of the Turkish population and LFPRs that include the latest years. Before the break, most recent growth rates were 1.9% per year (for the period 2000-2005) for the working age non-institutional population, 1.16% for the labour force, a dismal 0.38% for employment, and 5.1% for unemployment (2001-2005, as 2000 was a boom year). These numbers pretty much summarize the Turkish labour market. *Falling LFPRs helped Turkey avoid faster rising unemployment rates, as Turkey's net job creation rate is very low*. (This is the Turkish dilemma: Turkish non-agricultural sector creates almost as many jobs to match the rise in urban working age population, but almost as many come out

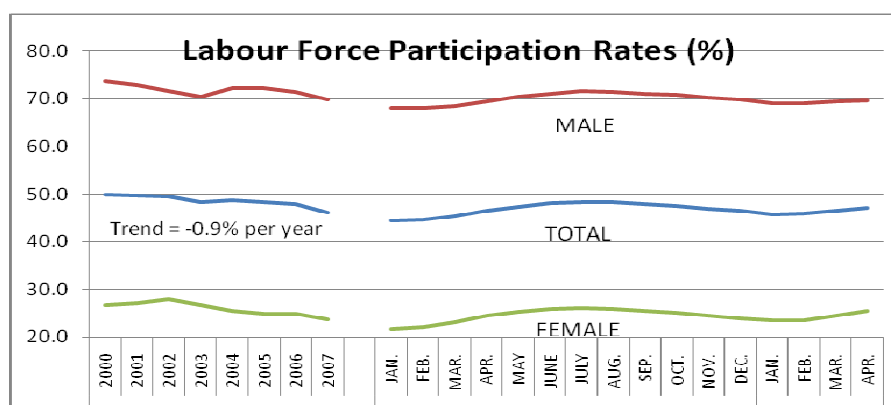
¹⁰ These low levels of educational attainment are related to the high shares of agriculture in employment and rural population in total population until recently. These high shares were driven by decades-long agricultural product subsidies that lasted until 2000. In the conservative rural settings, women's education was valued even less than men's education, which explains their lower average education levels (and their very low labour force participation rates in the urban areas once they move into the cities).

¹¹ Figures are drawn and growth (trend) rates are calculated from the numbers (levels) in the Appendix table A1, and its corresponding male and female tables (not reported here). Growth rates are exponential trend values (the coefficient on time) from a log-linear regression for each time series.

¹² TURKSTAT reports centred moving averages in its monthly LFS. April values are therefore the average of March to May surveys. Results are announced 45 days after this (in this case, in mid-July). The upshot is a 2.5-month delay in labour market statistics.

of agriculture with the net effect thus becoming very small; see Ercan, 2007, for more on demographic trends).

Figure 4.1 Labour force participation rates (percentage)



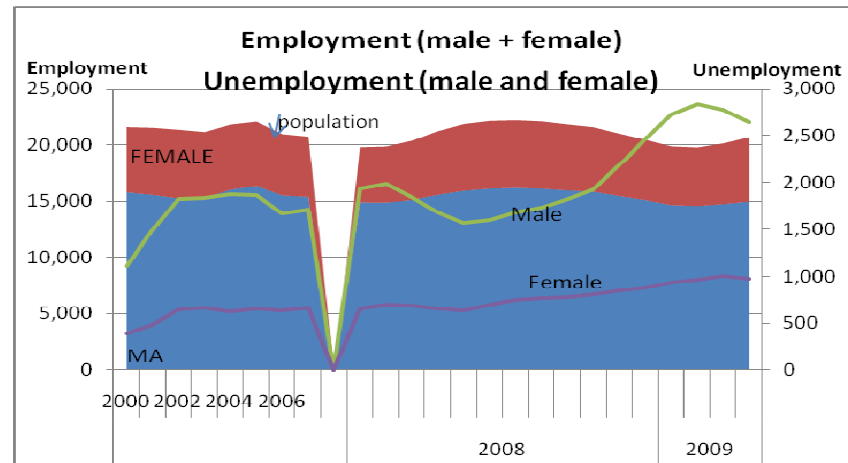
Source: Appendix table A1 and Turkstat.

The absence of women in the labour force has been the subject of much discussion in Turkey (e.g., Tunalı (2003)). As Turkey urbanizes, women in urban areas find that there are not many wage-earning opportunities, particularly for those with low education who may be recent migrants. A possibility is that labour market institutions, although regulations have been introduced recently, may be limiting the possibilities for part time and other flexible working arrangements that would permit women to participate in the workplace. This is similar to the case of Mediterranean and MENA countries. Tansel (2001) and Tunalı (2003) thought that the rate of decline in female participation has slowed and Turkey may be coming out of the bottom of a U-shaped curve in female participation rates – high in agrarian societies, falls with urbanization initially, but rises with more education. Turkish labour economists are still waiting for the upturn. Tunalı (2003) notes that persistently low female participation rates in urban areas remains a puzzle. Ecevit (2003) notes that demand issues may be a factor, which implies that the problem may not solve itself over time.

Figure 4.2 extends the discussion to employment and unemployment patterns. After the peak year of 2000, employment receded in 2001 to 2003, only to recover in 2004 and 2005 (Turkey has experienced *jobless growth in the post-crisis recovery that started in 2002*). Note that, when Turkey had its own crisis, the rest of the world was not in crisis (US recovered fast after its own 2001 crisis). Even so, employment was hit and the export-led recovery was jobless. The same thing may happen again. (The drop in employment level in 2006 in Figure 4.2 is because of the population correction in 2006.) Turkish employment rate was a low 40% in April 2009.

Turkish employment level for the year 2008 was 21.2 million and it is 20.7 million in April 2009. Corresponding figures for males are 15.6 million and 15 million, respectively, for females 5.6 million and 5.7 million. Note that, employment level is slightly lower in the first four months of 2009 relative to 2008, male employment more so. Female employment level has gone up in 2009 relative to 2008 in the seasonally rising employment months of spring. This may be the added worker effect. *Informal sector males bore the brunt of employment adjustment* in the crisis (as evidenced in the monthly LFS bulletins of TURKSTAT).

Figure 4.2 Employment levels (stacked male and female, in 1000 persons) and unemployment levels, 15+ years.



Source: www.turkstat.gov.tr.

Unemployment

Unemployment was steadily rising before the crisis (partly due to demographic pressures); it exploded when the crisis hit Turkey in late 2008. The rates that would have been eventually reached in a few years came upon Turkey abruptly. The rates corresponding to the level graph in Figure 4.2 are reported in Table A1 and the Turkstat web site. Turkish unemployment levels have grown steadily between May 2008 and February 2009. Between May and October, the rate was alarming, between November and February, the rate was explosive for males. In March and April there was a turnaround in the unemployment level, possibly because of the discouraged worker effect, as we have seen that employment level was lower in 2009 than it was in 2008.

Turkey had a 10-11% unemployment rate overall (and for males and females) in 2006 and 2007. All three rates reached 14% in December 2008, registering a steady rise that began in June, in the middle of the high season for construction and tourism! The rates peaked at 16% in February; since then they have registered a slight decrease. In May 2008, Turkey had 2.2 million unemployed persons; in February 2009, it had 3.8 million (3.6 million in April). For males, these figures are 1.6 million in May 2008, 2.8 million in February 2009, and 2.6 million in April. Female unemployment level went up from 630 thousand in May 2008 to one million in March 2009 (977 thousand in April). In nine months (from June to February), Turkish unemployment rate has gone up from 10% to 16%!

For an extended definition of unemployment, we now consider “discouraged” workers who gave up search because they do not believe that there are jobs available. TURKSTAT identifies them as “persons not looking for a job yet are ready to work if offered a job: (i) Seeking employment and ready to work within 15 days, and yet did not use any of the job search channels in the last 3 months; plus (ii) discouraged workers”. This number had been consistently rising over the course of 2000’s and by the end of 2008; there were 2.3 million of them. The excess labour-supply (unemployed + disguised) reached 19% of the labour force in 2008. In Figure 4.3, we report data on the rate of open unemployment over a broader time horizon: from 1998 when the Staff Monitoring program with the IMF had been established, on to the first quarter of 2009, the most recent data available. The fluctuations in the open unemployment rate are mainly due to the seasonal effects; and yet the broad rise of the unemployment rate after 2002 is clearly observable. Figure 4.4 complements these data with those of the disguised unemployed as defined above. The secular rise in the aggregate unemployment rate discloses the severity of the unemployment problem in the Turkish economy.

Figure 4.3 Open unemployment rate, quarterly, 1998-2009.I (Turkstat data).

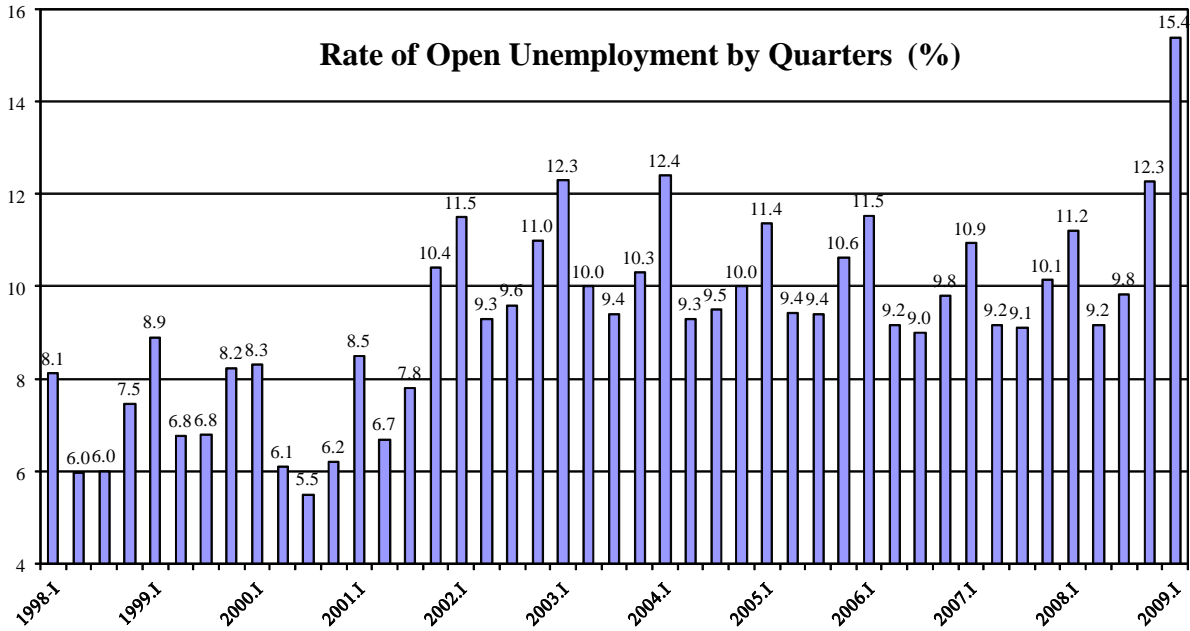
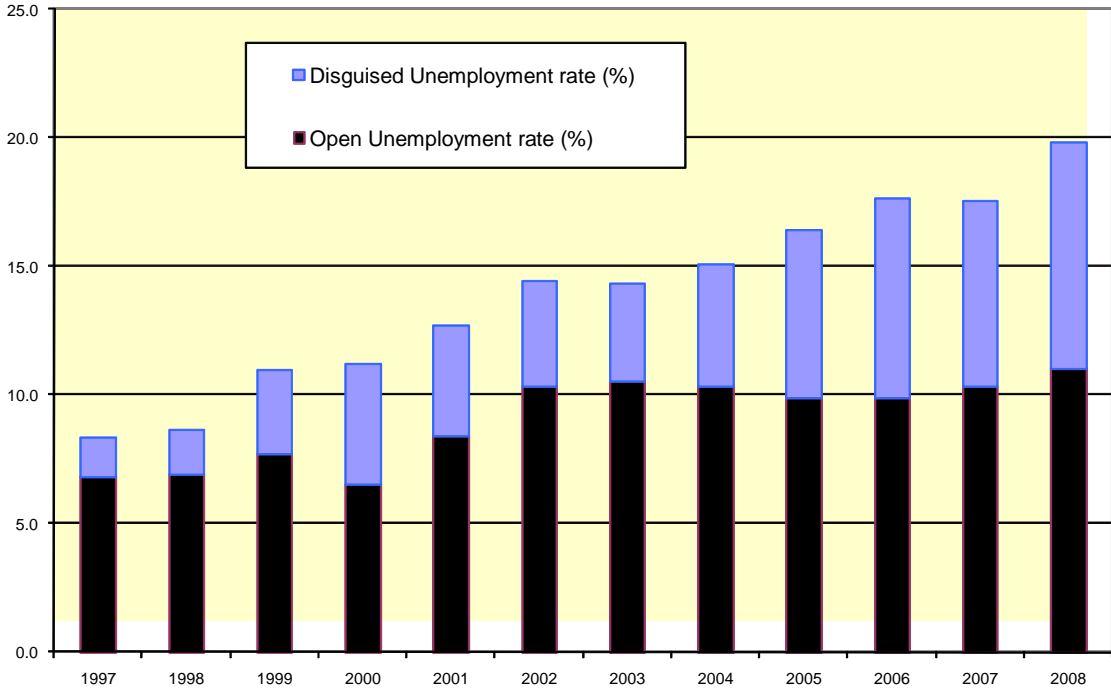


Figure 4.4. Extended definition of the unemployment rate (1997-2008).



Source: TURKSTAT, www.tuik.gov.tr.

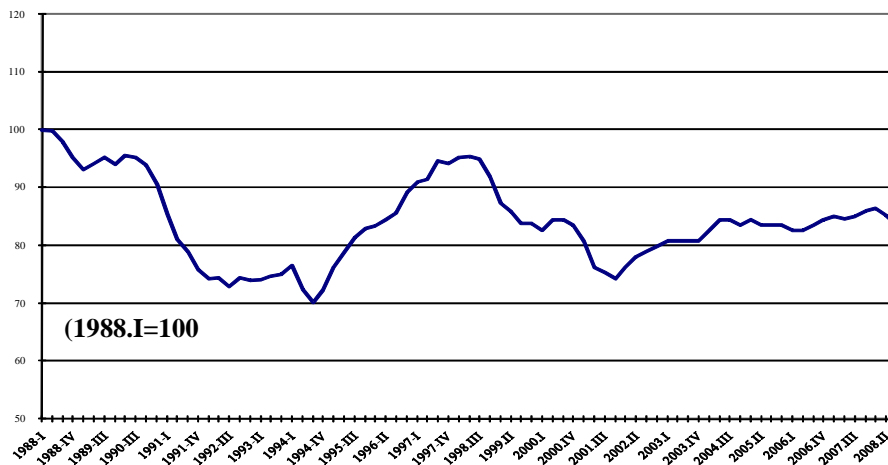
4.2 Sectoral employment and structural change¹³

The sectoral breakdown of the post-crisis employment patterns reveals massive depopulation in the rural economy where most jobs are in agriculture. Agricultural employment has been reduced by 3,073 thousand workers from 2001 to 2008. Against this fall, there had been a total increase of employment in the services sectors by 1,944 thousand, and by only 667 thousand in industry. This is the Turkish dilemma. Had it not been for the bleeding in the agricultural employment, Turkish urban economy almost matches in employment creation, the rise in the working age population. It is not that the urban economy does not create jobs (albeit low quality informal jobs mostly); it does; but the net effect is negligible, which is about 50 to 100 thousand in a good year.

The structure of the work force thus has been changing with population moving out of rural areas into urban areas, and yet this shift out of agriculture has not been converted into an expansion of the industrial labour force. The move was translated into “*marginalized / informal labour*” in the services sector.

Agriculture remains an important sector, employing close to 30 percent of the workforce. Although this percentage steadily has been falling, Ercan (1998) notes that this is still a high proportion in the group of middle-income countries, certainly the highest share in the OECD region. He also notes that while manufacturing employment is slowly rising, it is not keeping pace with the rise in manufacturing value added. See, for instance, the data portrayed in Figure 4.5 where the index of (formal) employment in the private manufacturing industry is shown. Over a long time horizon, from 1988 first quarter to 2008.III, formal jobs in private manufacturing industries had fallen until 1994, a crisis year, recovered until 1998, another crisis year, but kept falling until they have reached a new lower plateau for the 2000's. We have no reason to expect that, this pattern will change for the Turkish economy.

Figure 4.5. Employment index in manufacturing (1988-2008).



Source: SPO, Main Economic Indicators, various issues (www.dpt.gov.tr). Based on TURKSTAT's index of production workers in private manufacturing industry, seasonally adjusted⁴.

¹³ Section 5.2 is also relevant for understanding the structural change in the Turkish economy.

4.3 Skill composition of the labour force and the unemployed

Table 4.2 provides education specific labour force participation and unemployment rates before and during the crisis (May 2008 to May 2009). Total LFPR has gone up slightly from May 2008 to May 2009, possibly because of the added worker effect. The increase in male high school and college graduates' LFPR and female LFPR (except for illiterates) drive this rise. Note that, for college graduates, LFPR for both genders are much closer to the EU statistics than the average low rates for Turkey.

Table 4.2. Labour force participation and unemployment rates by education during the crisis.

Education	Total			Total			Men			Men			Women			Women		
	LFP R	UNE (%)	UNE (%)	LFP R (%)	UNE (%)	Une. Diff.	LFP R	UNE (%)	UNE (%)	LFP R	UNE (%)	Une. n:##	LFP R	UNE (%)	UNE (%)	LFP R	UNE (%)	UNE (%)
All	47.4	9.2	48.2	13.6	4.4		70.4	9.0	70.5	13.6	4.6	25.3	9.6	26.6	13.6	4.0		
Illiterate	20.1	5.3	19.0	6.9	1.6		38.6	11.8	37.0	14.6	2.8	16.4	2.3	15.2	3.0	0.7		
Less than high	45.6	9.0	46.0	13.9	4.9		69.8	9.4	69.0	14.6	5.2	21.1	7.6	22.6	11.5	3.9		
High school	55.6	11.2	57.9	16.5	5.3		71.5	8.9	74.6	13.7	4.8	32.6	18.4	34.3	24.9	6.5		
College	77.5	8.1	78.0	10.5	2.4		82.7	6.8	82.9	8.5	1.7	69.7	10.4	71.0	13.7	3.3		

Source: Turkstat LFS.

Unemployment rates have gone up across the board. Leaving illiterates out of the analysis (whose numbers are low for men because of mandatory military service where illiterate conscripts are taught to read and write, and whose numbers mostly include older agricultural unpaid family workers for women) *college graduates have experienced the least rise in their unemployment rates. Female high school and college graduates are harder hit than men are, though.* This is because, in the urban setting where jobs are lost (agriculture is having a good year) women labour force participants are those with higher education levels than the average. Therefore, in case of a woman who loses her job, she is more likely to be a high school or college graduate than a man is.

4.4 Specific categories: Population trends and migration

In order to understand anything about the current and future Turkish labour market specifics, one needs to study the demographic patterns. What follows will also put the previous three sections into more solid footing.

According to the de facto general census in 2000, Turkey's population stood at 67.8 million.¹⁴ The working-age population of Turkey will be increasing at a decreasing rate

¹⁴ http://www.die.gov.tr/nufus_sayimi/2000Nufus_Kesin.htm. The material draws freely from Ercan (2007) where the exposition is longer. The migration-population analysis in this section does not use the newer de jure results, as Turkstat has not revised its labour statistics or rural-urban age-gender distributions according to the new weights. There was a population correction recently, which fell almost exclusively on the rural population count.

until 2040 (see Table 4.3).¹⁵ During this so-called *demographic transition* in a country, the state when the population growth rate is declining while potential labour supply, that is, the working age population, keeps rising is the so-called ‘demographic window of opportunity’. Although recent annual overall population growth rate is 1.4% in Turkey, working age population of 15 year-old and above individuals grows at a rate of 1.8% per annum because of population momentum.

The census year that marks the end of the demographic window of opportunity is 2040 in Turkey. The number of 15-64 year-olds reaches its peak of 64.8 million (a million less in the TURKSTAT projections) in 2040. Afterwards, this number starts coming down and 65+ year-olds will constitute the only rising proportion of the total population (see Table 4.3, last row). The old age dependency ratio will rise swiftly from single digits in 2020 to 18% in 2050.

Table 4.3. Population and young and old dependency ratios: Turkey 1980-2050.

Population	1980	1990	2000	2010	2020	2030	2040	2050
0-14	18719	20500	20764	20370	19874	18834	17902	17346
15-64	25485	34550	43886	52725	59648	63632	64778	63393
15-24	9117	11673	13611	13651	13569	13303	12738	11960
65+	2111	2298	3511	4605	6548	10001	14105	18204
Total	46315	57348	68161	77700	86070	92467	96785	98943

Proportion	1980	1990	2000	2010	2020	2030	2040	2050
0-14	40.4%	35.7%	30.5%	26.2%	23.1%	20.4%	18.5%	17.5%
15-64	55.0%	60.2%	64.4%	67.9%	69.3%	68.8%	66.9%	64.1%
15-24	19.7%	20.4%	20.0%	17.6%	15.8%	14.4%	13.2%	12.1%
65+	4.6%	4.0%	5.2%	5.9%	7.6%	10.8%	14.6%	18.4%

Source: UN medium variant. Some peak values are highlighted.

The *young population* in the age bracket of 15 to 24 is shown separately in Table 4.3. After reaching a high point of 13.7 million in 2010, their numbers will start to diminish. In the republic’s one hundredth anniversary, the country will have 13.6 million young people (in 2020). They have already seen their highest proportion in the population. This was 20.4% and it happened in 1990. They will constitute a smaller proportion of the population, going down to 12% in 2050. By 2040, the last milestone year of the Turkish demographics (see the next paragraph), there will be more old people who are over 65 than there are young people who are 15 to 24 years old. This will happen very swiftly. *Turkey will not have a ‘young’ population any more.* Moreover, in 2040, the demographic window of opportunity closes as well (the number of 15-64 year-olds starts to recede).

The population of 0 to 19 year-olds already reached its peak in 2000 at 27.7 million. The peak of the wave in 2000 will push through the 20+ year-old population cohorts through the coming decades and will decline in amplitude because of intercensal attrition. Education demand and the size of the potential labour force may be predicted with increased accuracy at this stage of the Turkish demographics.

Roughly, 60% of the population in 2000 lived in urban locations with 20,000 or more inhabitants (65% according to city-village classification that TURKSTAT uses).¹⁶ Between 1990 and 2000, the overall population grew at an average annual rate of 1.83%, falling

¹⁵ Current population growth rate in Turkey is 1.4% per annum. This will come down to 0% by 2050. Turkish population will be less than the 100 million mark by then.

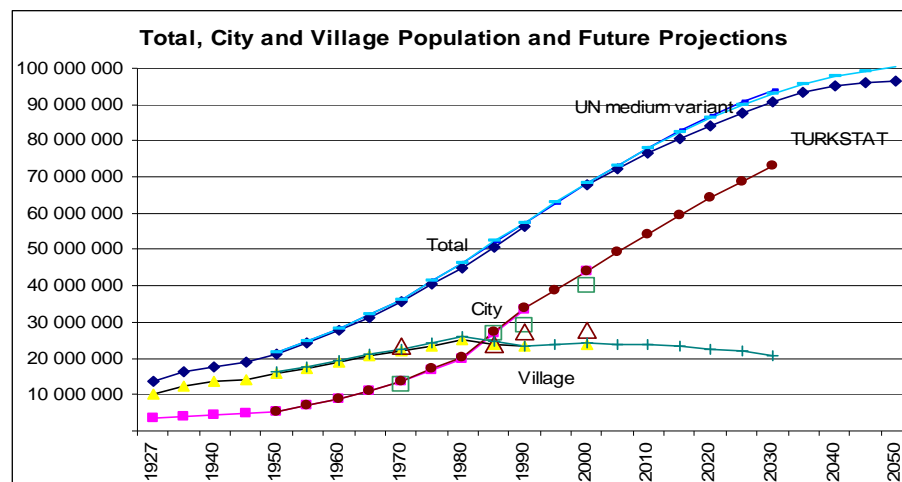
¹⁶ City is designated as province and district centres. Some district centres have populations less than 20 thousand. Therefore, this classification scheme overestimates urban population.

below 2% for the first time since 1945. The growth rate was 2.7% in urban areas and only 0.4% in rural areas. The large difference between the two is attributable to rural to urban migration. The village population has reached its peak at 24 million in 2000. The truly urban population, which is defined as the population that lives in towns where population is larger than twenty thousand, was 27.6 million in 2000.¹⁷ Village population is now diminishing in numbers as well as in proportion, just like in the case of 0-19 year-olds.

Therefore, rural-urban migration will not be as significant as it used to be. Moreover, rural fertility rates also declined fast in the past fifty years and thus contributed to the decline in the total fertility rate (Behar, 1999). These statements do not mean that actual current migration levels are insignificant. They very much are. These recent young migrants from rural to urban areas comprise the less-skilled component of the labour force and are significant culprits in the participation and employment creation problems that Turkey will face for at least two more decades. As will be explained shortly, half of the urban-population increase of nine million between 1990 and 2000 came directly from rural areas.

In Figure 4.6, Turkish population by census years and future projections are given. TURKSTAT's projection is shown here for city and village denominations. Village population is level for some time in the 2000s, and then it starts to decrease slightly through time. The truly urban population is defined as that population who lives in towns with more than 20 thousand inhabitants. These are shown as square labels in Figure 1 (triangles denote rural population).¹⁸ As some district centres have smaller populations, city denomination overestimates the urban population and underestimates the rural population. Given time, both schemes converge.

Figure 4.6 Turkish population in census years and future projections



Source: TURKSTAT and the UN (light blue). City is defined as province and district centers.

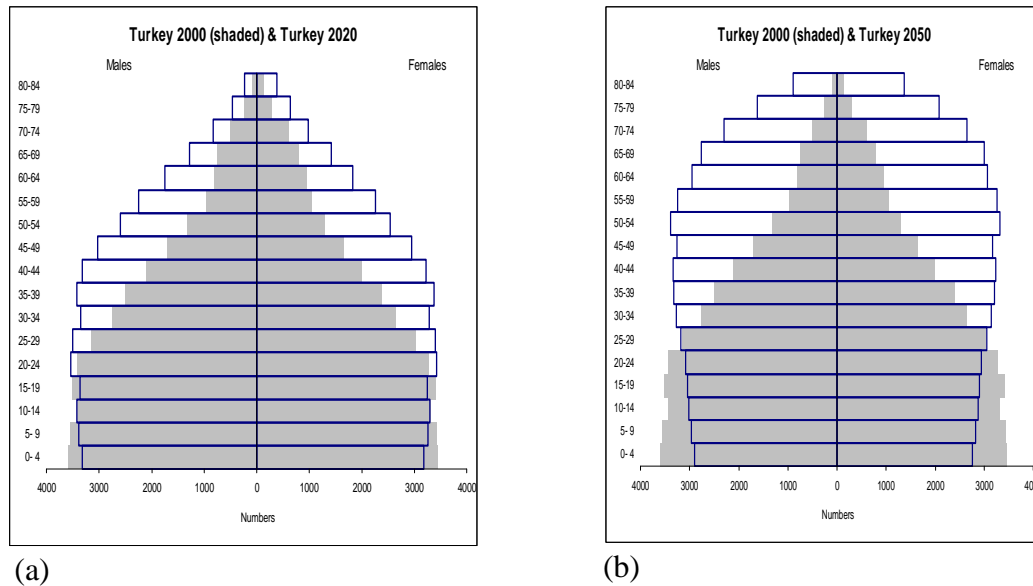
Turkish demographic transition process is mostly completed. This transition refers to a change from high fertility-high death rate state to controlled births-low death rates state, the first sign of which is the low birth rates presently encountered in Turkey: total fertility rate (children per woman) was 2.7 in 1993, less than 2.5 in 2000, and 2.1 in 2003 (Gürlesel,

¹⁷ The author compiled the statistic from the print resources of TURKSTAT for the 1990 and 2000 censuses.

¹⁸ These data are not available electronically but are reported in the print versions of the population census results of the TURKSTAT.

2004). This process has taken about a century in most European countries. Turkish transition was realized in about 40 to 50 years. Fast population growth rates are now left behind and this process is irreversible, a direct consequence of which is the inevitable change in the age structure of the population (Behar, 1999). In Figure 4.7, age pyramids for the years 2020 and 2050 are reported for a visual summary of these statements.

Figure 4.7. Population pyramids by broad age groups and gender in Turkey: 2000, 2020, and 2050.



Source: UN medium variant. Rowland's (2003) pyramid builder macro is used to draw the graph.

Briefly, the mobile segment of the potentially active population, 15-44, is increasing in numbers at a decreasing rate until it stabilizes at around 40 million in 2020. There are approximately seven million people at each five-year age group. About 70% of the population will be in the working age range in 2020. The year 2023, the hundredth anniversary of the republic, will see Turkey as a 'middle-aged' country. Working age population will keep rising until 2040. This phenomenon is the previously mentioned "window of opportunity". Afterwards, starting with the 15-19 year-olds in 2020 and moving down in age, the base of the pyramid will be gradually chipped away as seen in Figure 4.7(b). Turkish population will have 'matured'.

The favourable dependency profile of the coming decades presents opportunities as well as challenges to the government. Unless Turkey can smartly benefit from this window of opportunity that can only be observed once in a country's history, the increasing dependency ratio afterwards will upset social balances. *If employment opportunities are accommodating, a larger fraction of the population will be gainfully employed.* The tax base will most likely expand and consequently public savings will increase. Even if the share of spending on education were to stay constant as a proportion of the GDP, average quality of schooling is likely to improve. If adults have jobs, children will stay in school longer and can look forward to better labour market opportunities (Tunalı, 1996). Given the 'jobless growth' discussion above, this is the only scenario that will provide a way out.

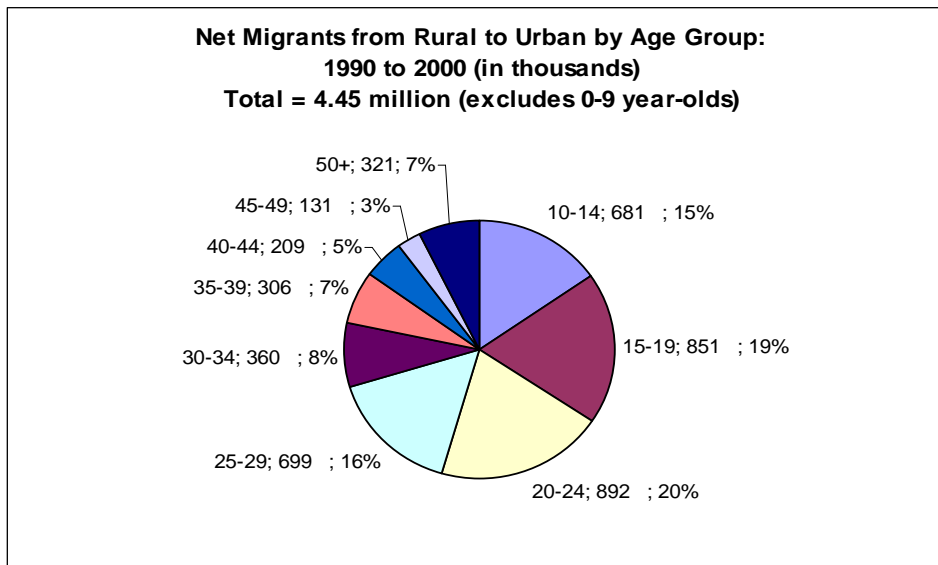
On the other hand, if demand falls short of the potential supply of working-age individuals, unemployment, poverty, and social unrest may lie ahead. On the labour supply side, *unless Turkey can improve its population's education level and impart its active*

population contemporary labour market skills, the window of opportunity may easily turn into a window of unemployment nightmare that has severe income inequality and poverty implications. Urban job creation volumes were not sufficient in either quantity or quality to match this potential supply. Most jobs created in the services sector, which is the only rising segment of employment, are low paying low quality jobs.¹⁹

Rural-urban migration: A young age phenomenon

Turkish urban population exceeded its rural population in the early 1980s. In Figure 4.8, the age decomposition of rural-urban migrants between 1990 and 2000 censuses is given. The age group 15 to 29 constituted 55% of rural-urban migration. Their median education level was five years for males, about four years for females. The effect of the move to eight years of mandatory schooling in 1997 was not yet felt at this segment.

Figure 4.8 Net migrants from rural to urban areas, 1990 to 2000 (in thousands).



Note: Using intercensal survival-rate method by age group, US Census Bureau's PASEX system has an Excel macro module CSRMIG that imputes net migrants.

Source: Imputed from the rural-urban age group data (Table 17 in TURKSTAT's 1990 Census Results, Table 5.8 in TURKSTAT's 2000 census results – print copies). Rural is defined as those towns whose populations are less than 20 000.

Between 1990 and 2000, the city population of Turkey has increased by about nine million. About half of this increase is caused by rural-urban migration as seen in Figure 4.8. The actual number may be more than this as some of the 0-9 year-olds were migrants as well. They are excluded from the pie chart because some were born in the city as children of migrants and some were born as children of city residents. In any case, 10-29 year-olds constitute 70% of internal migration in the chart. *Rural-urban migration is a young age phenomenon*. This is partly due to young people moving on their own and young families with younger children moving into the cities. Older groups are more likely to stay put (rural ageing is already observed in Turkey).

Nevertheless, starting with the 2000 census and further, the fertile age group in the villages will be smaller who will produce the next wave of out migration. There will be fewer children in the villages because some future mothers would have previously moved

¹⁹ Informality is examined in another current ILO report by one of the authors and Dr. Meltem Dayioglu.

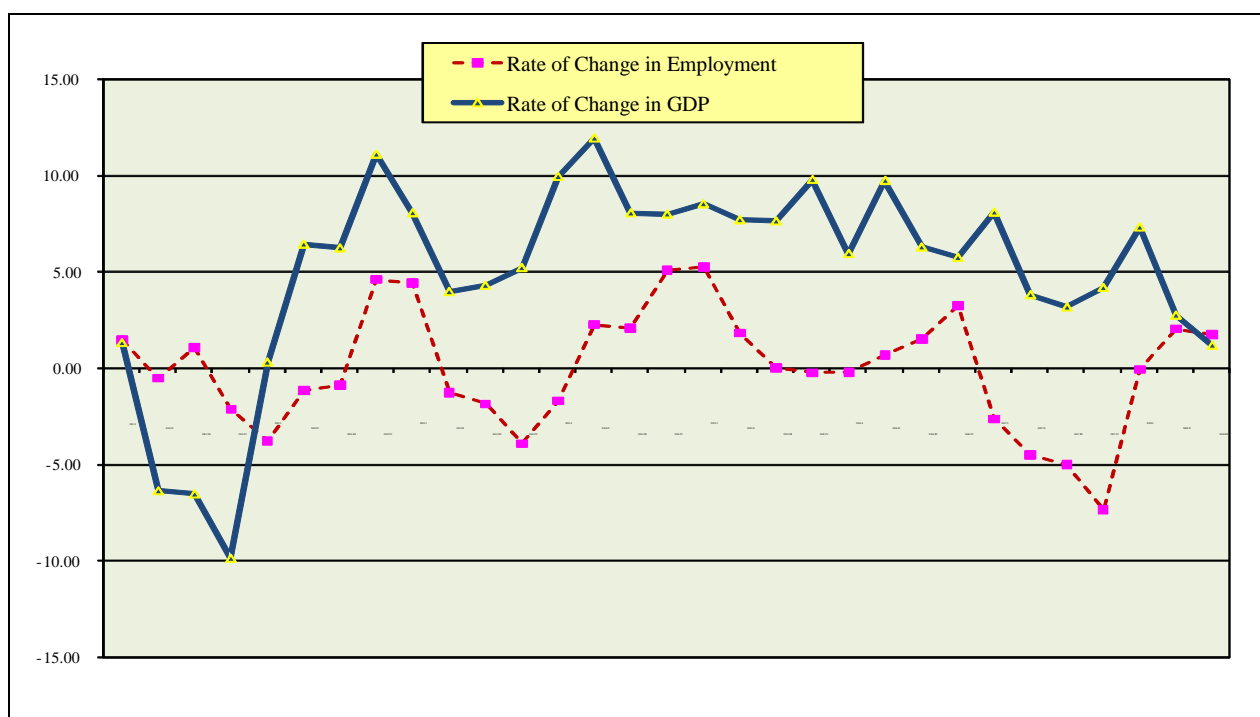
to cities. The rural contribution to the next census' city population becomes smaller, if young people are more likely to move out and older people tend to stay put. The migrating numbers would be gradually decreasing (but still will be in the millions).

5. Employment-Poverty Mapping

5.1 Growth-employment nexus: Poverty implications

From the analysis in the previous section, most striking observation on the Turkish labour market over the post-2001 crisis era was the sluggish performance of employment generation in the economy, which, in fact, had earlier demographic and policy roots. This observation of jobless growth is common in many developing economies as well.²⁰ In Figure 5.1, we plot the quarterly growth rates in real gross domestic product and contrast the *y-o-y* annualized rates of change in labour employment. In order to make the comparison meaningful, the changes in labour employment is calculated relative to the same quarter of the previous year.

Figure 5.1. Annual Rate of Change in GDP and Aggregate Employment, 2001.I to 2008.III.



Source: Turkish Statistical Institute (TURKSTAT), Household Labour Force Surveys.

The figure discloses that over 27 quarters of data between 2002.Q1 and 2008.QIII, the average rate of growth in real GDP had been 6.5%. In contrast, the rate of change of employment averaged *only* 0.8% over the same period, that magical number for the Turkish economy, again. Over the twenty-seven positive quarters shown in the figure for GDP growth, labour employment growth was *negative* in 14 of them!

²⁰ See, e.g., UNCTAD, *Trade and Development Report*, (2002 and 2003).

Remember also that the long-term demographic profile of Turkey was both an opportunity and a threat (section 4.4). The danger of imminent and perpetuating poverty is exacerbated by a high proportion of agricultural employment, which is still above 25%. Rural-to-urban migrants who are coming out of agriculture generally lack skills that urban labour markets require. As a result, Turkish participation rates are low, especially for women. This results in a cycle that will take a long time to be rid of. These authors do not expect the unequal income distribution problem to go away any decade soon as this secondary segment of the labour market, which also fuels informality in urban areas, is not likely to have access to better jobs with better pay. The following exposition provides additional justification for this statement.

Note that Turkey is a middle-income country and does not face a problem of absolute poverty. The percentage of population living on less than US\$ 1 per day was 0.01% in 2005 while the rate of people living on less than US\$ 2.15 per day decreased from 3.04% to 1.55% during the period 2002-2005. According to the 2003 survey of TURKSTAT, absolute poverty (in terms of a basket of basic food consumption) rate was 1.3%. The so-called 'general' poverty line (determined by food and non-food expenditures), however, left 28% of the population below the line (19.5 million people)!

There is much *regional income discrepancy* in Turkey with the eastern parts generally being poorer. In the east, family size tends to be larger as well. Out of the 19.5 million poor, 13.8 million live in families with five or more members. In 2003, the rural poverty rate was 37% and urban poverty rate was 22.3%. The alarming observation is that all of these rates were increasing from previous surveys.

The relevant observation here is that 82% of the so-called working poor work in the informal economy (formal economy participants' poverty rate was 15.3%). Unregistered employment is close to one half of total employment in Turkey: 90% of this figure belongs in agriculture, which constitutes 27% of total employment. Poverty rate in agriculture is 40%.

Therefore, despite steady decreases in poverty—measure by several methods, Turkey *does* face a serious challenge of relative poverty. The demographic analysis in section four was meant to convey the expectation that, it will be hard to get rid of, given the above reported results. (Relative poverty is the state in which an individual is below the average welfare level of the society.)

In Table 5.1, recent income distribution of the population is given. While there have been slight improvements in the middle quintiles, the bottom 20% of the population is stuck at 6% of total income. It took twenty years for this statistic to come up from 5.4%. During the same period, the top quintile's income has come down from a high of 55%, which used to be as bad as Brazil's income distribution.

Table 5.1. Recent income distribution in Turkey by quintiles (percentage of income).

Quintile	Turkey		Urban		Rural	
	2003	2004	2003	2004	2003	2004
I. (Bottom)	6.0	6.0	6.1	6.4	6.4	6.3
II.	10.3	10.7	10.3	10.8	11.0	11.2
III.	14.5	15.2	14.5	15.2	15.0	15.8
IV.	20.9	21.9	20.8	21.4	21.2	22.7
V. (Top)	48.3	46.2	48.3	46.1	46.3	43.9
Total	100.0	100.0	100.0	100.0	100.0	100.0

Source: TURKSTAT.

As expected, relative poverty is closely related to employment status. While the poverty rate for regular workers was 6.6%, it was 32% for casual (daily wage) workers, 4.8% for employers, and 26.2% for the self-employed in 2005. These statistics highlight the

problem of the *working poor* in the country. Agriculture has the highest poverty rate among all sectors. The poverty rate among persons who work in agricultural sector was 37.2% in 2005 (it was 41% in 2004 and 40% in 2003). In contrast, the poverty rate among persons who work in the industrial sector was 10% in 2005 (15.6% in 2004 and 21.3% in 2003). Service sector poverty rate is decreasing: The rate was 16.8%, 12.4% and 8.7% in 2003, 2004 and 2005, respectively.

5.2 Current account deficit and employment

An important question to ask here is “why did the Turkish economy suffer so severely from the global crisis, and why was it that the labour market bears the brunt of adjustments?” We argue that the answer to both of these related questions lie with the external and fiscal policies that were being pursued over the post-2001 period. As discussed earlier in this study, Turkish monetary authorities had been following a policy of maintaining high interest rates, coupled with a free external (capital) account.²¹

Operating under a “free floating exchange rate” regime, this high-interest rate policy has led to a rapid expansion of foreign capital inflows, especially in the form of short-term speculative “hot money” finance. These speculative flows could not expand labour demand by creating new jobs and bringing in new advanced technologies. The “hot” character of speculative finance resulted in currency appreciation and subsequent loss of competitive power for the traditional Turkish exports.

“Modern” manufacturing sectors, on the other hand, gained from this appreciation. These were sectors such as automobiles, automotive parts, and consumer durables. They typically display high import content, and the fact that imports got cheaper meant significant cost savings for these sectors. Thus Turkish exports of automobiles and consumer durables expanded during this period. However, being import dependent, such sectors displayed relatively low domestic value added content and had relatively low elasticities of employment.

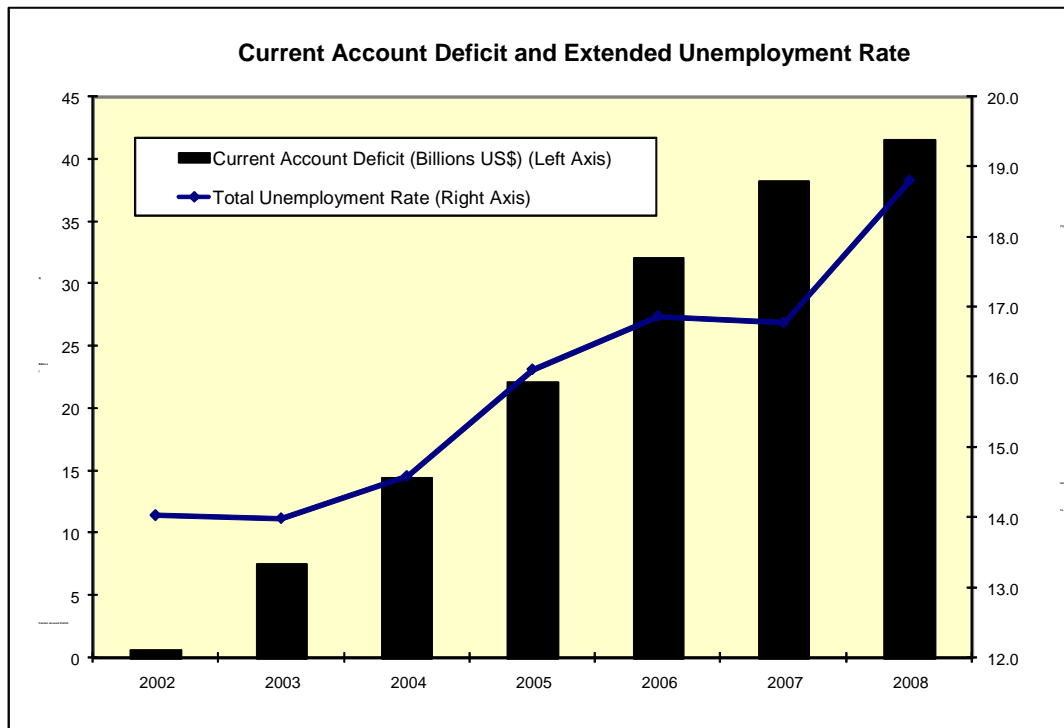
The appreciation of the exchange rate led to a loss of competitiveness and stagnation of the labour-intensive traditional Turkish exports such as textiles, clothing, small scale glass and ceramics. As employment demand dwindle in these sectors, the rising “modern” manufactures that has low elasticities of employment could not create employment levels enough to match the increase in the working age population. Note that, previously, the rural-urban transition dominated the labour force participation patterns in Turkey. Still important but ebbing away nevertheless as the rural population stabilized around 18.5 million (and therefore becoming a smaller proportion of the total population as Turkish population keeps growing), the lessening of the tide did not provide the respite that Turkey could have hoped for. The above mechanism that was first observed as the jobless growth of the post-2001 period picked up the slack left behind by the somewhat easing demographic pressure. The result is a rising unemployment rate, which will not let up anytime soon, because both forces are still in effect.

Figure 5.2 is instructive. In this figure, we depict total (open plus disguised) unemployment rate as a line graph with respect to the right axis. This rate is borrowed from Table 4.1. It is imposed on the current account deficit displayed with respect to the left axis. The portrayal of the rising unemployment along with an expanding current account deficit

²¹ Many scholars argue that the policy of maintaining high interest rates is a direct feature of the “IMF Programme” that had been implemented under the auspices of a series of “standby programs” since 1998 –the start of the *Staff Monitoring Programme* (e.g., Yeldan, 2008; 2006; ISSA, 2008).

is no surprise to the students of development economics. As Turkey consumed more and more of value added produced abroad, and found it cheap through its appreciating currency caused by speculative financial inflows, external deficit widened and foreign debt accumulated. The costs of this “speculative-flow led growth”, however, were realized as losses in jobs, and declining real wage incomes, which we discuss further in the next section.

Figure 5.2. Current account deficit and extended unemployment.



5.3 Macroeconomic policies: Relevance for wages and poverty reduction

In the preceding pages of this report, we indicated that Turkish economy had been suffering from a deep external fragility, which manifests itself with the excessive inflows of finance capital. The leading factor that stimulates this inflow is the very high rates of financial arbitrage that the Turkish economy is offering in the world capital markets. Lured by a high real interest rate policy, speculative arbitrageurs found the Turkish financial markets attractive and Turkey became one of the so-called emerging markets of the last two decades.

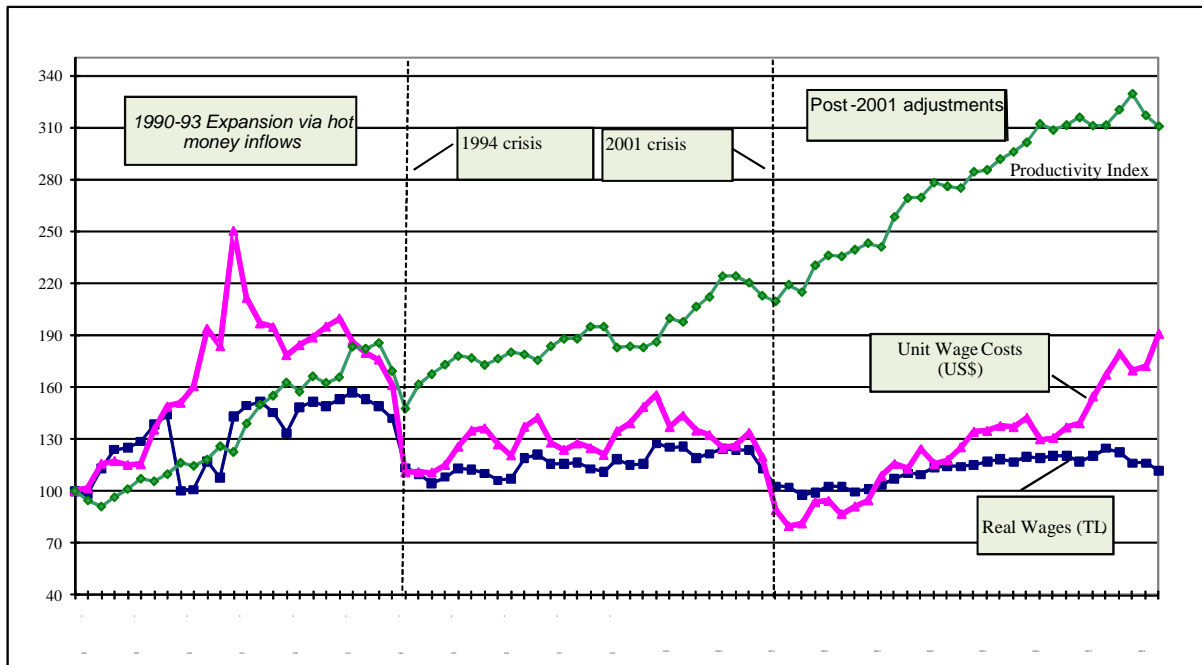
Turkish encounter with speculative finance began back in 1989 with financial liberalization and deregulation of the external capital account. Since then Turkey found itself, together with many other developing economies that had taken the same steps of high interest rates and appreciating currencies (at least until the next crisis). The elements of this configuration are well documented especially in the post-1997 Asian crisis literature (e.g. UNCTAD Reports in 1998 and 2001). Yet, such a transfer of the financial surplus through very high real interest rates would have repercussions on income distribution and poverty. It is clear that creation of such financial surplus would directly necessitate a squeeze of the wage fund and a transfer of the surplus away from wage-labour towards capital incomes in general and to the arbitrageur incomes in particular.

It is possible to find evidence of this surplus transfer in the Turkish economy from the path of the private manufacturing real wages. We depict the dynamics of the private

manufacturing real wages in Figure 5.3 over twenty years, 1988 to-current date. Real wage data are denominated both in Turkish Lira and in USD terms. The figure further contrasts real wages against labour productivity, which presumably should be in tandem in the end.

The wage cycle flows closely the expansion phases of the economy, cut short, alas, at almost regular intervals by the crises of 1994, 2001, and more recently of 2008. We witness that, after a brief surge over 1990-1993, real wages had plummeted during the 1994 financial crisis, and in a sense have endured the most of adjustment of the crisis then. During 1995-2000, private manufacturing real wages have kept their momentum in general, although they could not recover their pre-1994 crisis levels. However, after the 2000/2001 wave of crises, real wages in private manufacturing faced a second cycle of contraction. This contraction was especially pronounced in USD terms. In the meantime, productivity gains in private manufacturing accelerated especially after the first quarter of 2002. It is probable that this productivity surge is due mostly to labour shedding, rather than increased labour efficiency originating from advances in technology, although machinery-equipment investment item of the national accounts did show a rise in 2002 and 2003. As of the third quarter of 2008, index of labour productivity was 2.77 times higher than real wages in TL, and 2.05 times higher than the unit wage costs in US dollars.

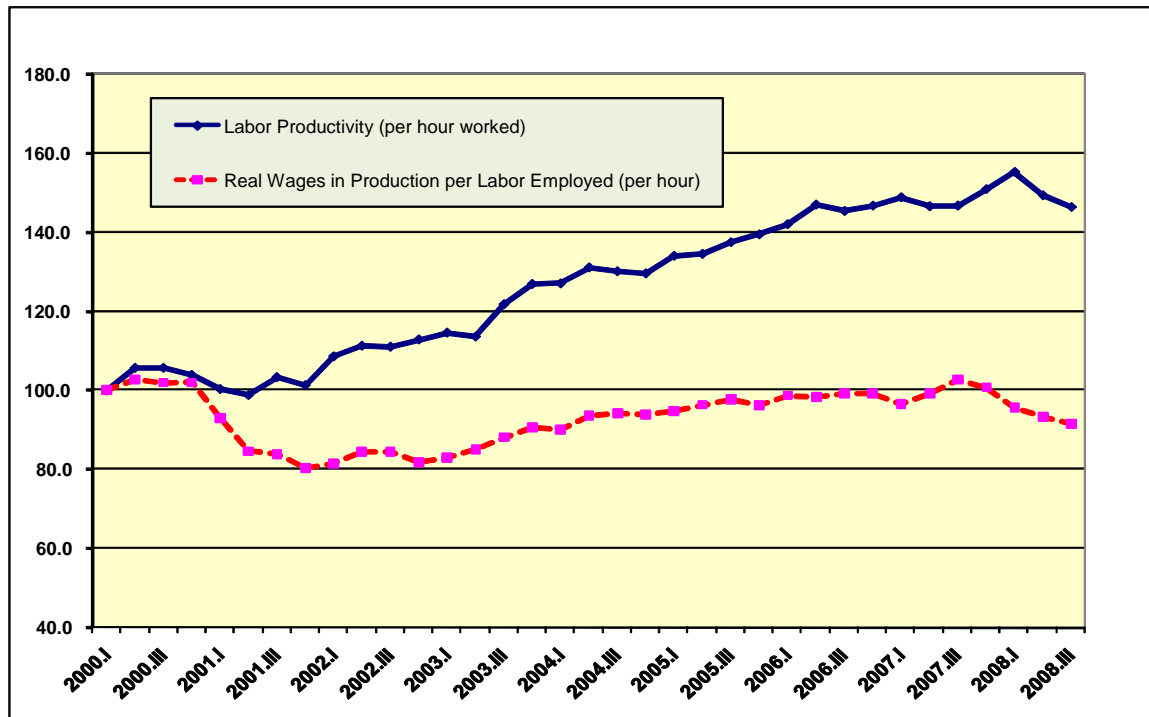
Figure 5.3. Productivity and Real Wages in Turkish Private Manufacturing.



Source: State Planning Organization (SPO), *Main Economic Indicators*, www.dpt.gov.tr.

The real wages contracted severely after the 2001 February crisis and this downward trend was maintained throughout 2002 and 2003. Calculated from 2000 to mid 2003, the decline in the private manufacturing real wages reached to 19.6%. The decline of wages in the public manufacturing sector has been 15.4% during the same period. Viewed from a more recent time horizon, if the index of real wages in total private manufacturing sector were assumed 100 in 2000, it becomes 95 in 2008 (see Figure 5.4).

Figure 5.4. Labour Productivity and Real Wage Rates in Turkish Private manufacturing.



Source:

SPO Main Economic Indicators, www.dpt.gov.tr.

This exercise shows very clearly, how the speculative financial gains were financed through squeezing of real wages. Each rapid rise in the financial arbitrage is closely associated with a downward movement of real wages and involves a direct transfer of labour incomes towards capital, both domestic and foreign.

The index of labour productivity, measured in real output per hours, shows a rapid increase with its level reaching to 158 index points (1997=100) by 2008Q3. Over the same period, wage remunerations, on the other hand, *remained below* its level in 2000.²² Note that, manufacturing wage index sample of Turkstat covers *formal* establishments. One could only guess at the situation in the informal sector where almost all small-scale manufacturing reside (with employment less than ten persons per establishment). Anecdotal evidence suggests that, net minimum wage (or below) is the norm at the informal segment with no social security coverage whatsoever.

Both the demographic pressures and the macroeconomic anti-inflation IMF stabilization context therefore work against poverty reduction. ‘Decent work’ as defined by the ILO, which is the precondition for poverty reduction, will be an elusive goal for Turkey for at least another generation, judging from the demographic trends, rural-urban migration patterns, and the skill level of the labour force.

ILO is charged with promoting a decent work agenda for reducing poverty and obtaining equitable and inclusive development. Its ‘Decent Work’ agenda has four strategic objectives. These are creating jobs and generating opportunities for investment; guaranteeing rights of workers at work, especially the disadvantaged workers; extending social protection by promoting inclusion; and promoting dialogue and conflict resolution

²² See Yeldan (2006) for a more detailed assessment of the labour’s position under the post-crisis adjustments of the Turkish economy.

for peaceful negotiation and solving problems. (These strategic objectives have almost one-to-one correspondence with the employment ‘pillars’ of the European Union, as expected.)

After the discussion up to this point, one may claim that Turkey fails in creating ‘decent’ jobs, especially fails to meet the job and skill upgrading demands of its disadvantaged youth, fails in the inclusion of its women, and (according to the ILO declaration at the 2009 meeting) also fails in promoting social dialogue. This is not a good report card, indeed.

6. Global Financial and Economic Crisis and Turkey

6.1 Impact on Turkey

The global crisis, which had erupted in the summer months of 2007, had started to take its toll on the Turkish economy beginning in the third quarter of 2008. After contracting by 6.8% in the fourth quarter of that year, Turkey entered 2009 with a new record of contraction of 13.8% in its gross domestic product. As export markets contracted and both consumption and investment expenditures dwindled, aggregate expenditures fell sharply.

The rise in unemployment levels was discussed in section four. Table 6.1 provides a summary of sectoral developments. The rise in agricultural employment based on non-wage family labour and self-employment is far from compensating the loss of higher quality jobs in industry. The severe decline in industrial employment is in tandem with the ongoing reduction in industrial output since the summer months of 2008. “Services”, on the other hand, is barely keeping its employment base.

Table 6.1. Shifts in employment by sectors under the global crisis.

(Percent Change Over the Same Month of the Previous Year)			
	2008	2009	2009
	Annual	1. Quarter	Feb-Mar-Apr
Agriculture	3.1	4.9	1.6
Industry	2.9	-8.1	-9.3
Services	1.5	0.6	0.8
Source: TURKSTAT			

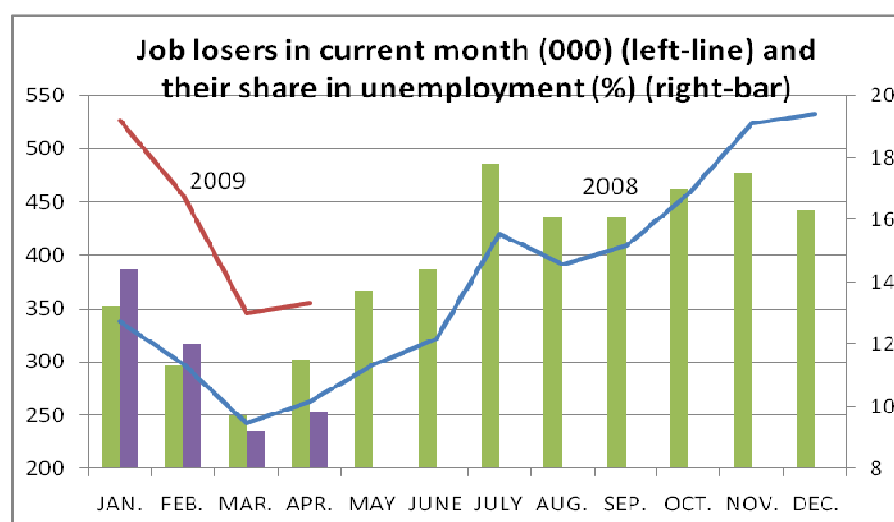
Table 6.2 provides reasons for non-participation. The proportion of discouraged workers has risen during the crisis. This proportion was 4.9% of non-participants in 2000, a boom year because of the initial expansionary effect of a stabilization program. In 2008 the proportion of discouraged workers climbed to 6.9% and most recently to 8.5%.

Table 6.2. Non-participation by reason.

	2007 Annual	2008 Annual	2008 Feb-Mar-Apr	2009 Feb-Mar-Apr
Those who do not look for a job, but are ready to work	6.5	6.9	7.6	8.5
Seasonal workers	1.1	1.2	1.6	0.5
House wives	45.1	45.2	43.7	44.3
Student	13.7	13.9	14.1	15.1
Retired	13.1	12.9	13.0	13.1
Unable to Work	12.0	12.7	12.5	12.4
Other	8.6	7.3	7.5	6.2
TOTAL	100.0	100.0	100.0	100.0
Source: TURKSTAT				

Current month's job losers are reported in the monthly LFS bulletins. Their sectoral breakdown is not given (micro-data availability is another year away for 2008). These and their proportion in unemployment are shown in Figure 6.1.

Figure 6.1 Job losers in the current month.



Source: Turkstat monthly LFS bulletins.

In the first four months of 2009, the number of job losers exceeded the number of job losers in the same period of 2008. The difference may be a proxy for job loss due to the present crisis. Cumulative difference for the first four months is 543 thousand. As the crisis hit Turkey in September and made its impact in unemployment figures soon afterwards, an estimate for job losses specific to the crisis could be nearly double this number, close to 1.1 million in eight months.

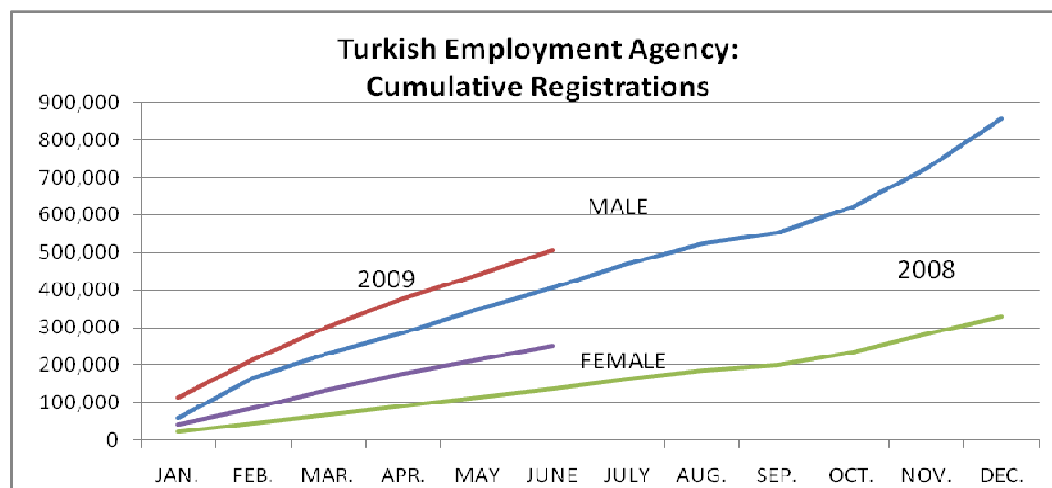
Note that, job losers in January and February of 2009 constituted a larger share of unemployment relative to 2008, but a smaller share in March and April. It may be that the bulk of the employment adjustment was swiftly done in Turkey between November and February.

6.2 Further implications for ‘more decent’ jobs and unemployment

Turkish Employment Agency (ISKUR) registrations for unemployment insurance comprised the job losers from the ‘formal’ (and small) segment of the Turkish workforce until very recently. ISKUR data are shown in Figure 6.2. Note that, the eligibility criteria for unemployment insurance are stringent in Turkey. Therefore, ISKUR registrations used to reflect the job losses in the formal sector for those who qualified for unemployment insurance. Job seekers only recently started increasingly to use the employment agency for job search. Given time, ISKUR registers may become closer in numbers to LFS statistics (barring agriculture). Inspection of monthly registration figures suggest that, most job losses are from the informal sector and are not reflected in the ISKUR statistics.

ISKUR registrations in 2009 are above the 2008 levels for the corresponding months (January to June) for both genders. Crisis is still raging. Examination of the monthly statistics reveals that October 2008 was the month that changed the trend upwards. Peak total (and male) registrations were observed in December and January (December and March for females) as 181 thousand and 156 thousand, respectively (LFS statistics in January showed 525 thousand job losses; note the discrepancy). Note that, registrations do not necessarily mean unemployment insurance recipients. For example, out of the 500 thousand registrants in June 2009, 306 thousand received UI benefits of, on average, 332 TL per person (€158 at 2.1 TL/€) (www.iskur.gov.tr).

Figure 6.2 Registered unemployment.

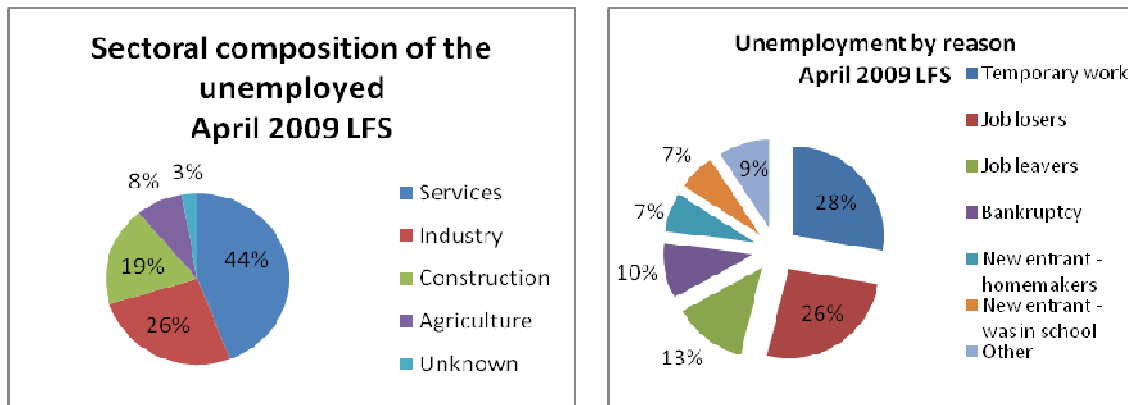


Source: Turkish Employment Agency.

As most job losses came from the informal segment who had no access to unemployment insurance, one may expect that this segment of the work force would not be too picky about wages and working conditions once the recovery starts and employment creation comes with a lag. The authors do not expect labour market developments in line with the decent work agenda of the ILO this year and the next.

Although, sectoral breakdown for current job losers is not available, these data are available for the unemployed. This information is reported for April 2009, below in Figure 6.3. Figure 6.3 suggests some comments on the structure of current crisis’ impact on unemployment. The sectoral composition of unemployment does not reflect the sectoral composition of employment. Sectoral shares in employment in April 2009 were services 51%, industry 19%, construction 6%, and agriculture 24%. Proportionately speaking, construction sector is the hardest hit, followed by industry. Agriculture is having a good year and its high share in employment is preventing even a worse picture for Turkish unemployment rates.

Figure 6.3. Unemployment by sector and reason.



Source: TURKSTAT.

Construction sector's recent demise, helped by the sudden stop of housing demand because of the crisis is also evidenced by the high share of temporary (seasonal) workers in unemployment. Construction sector contracted by 8% in 2008 and it is not expected to recover in 2009 or 2010, as new housing demand will remain weak. It seems tourism sector is not doing that well, either. Current job losers make up about a third of job losers in unemployment. Because of the break in the data series in 2006 and 2007, the author may not confidently comment on the relative values of bankruptcy, new entrant homemakers (added worker effect), school leavers or recent graduates' proportions (final category are the unknown at 9%). They made up a quarter of the unemployed in April.

The disproportionate share of construction sector in unemployment also corroborates the point that employment impact of the global crisis fell disproportionately on the secondary segment of the labour market. Construction sector employment reaches 7-8% of total employment in its best years. These workers, during this crisis, are therefore more than twice as likely to be unemployed than others.

Turkish incentive schemes including the recent anti-crisis measures definitely require worker registration and thus target *undeclared work*, which is an apt approach. In fact, proportion of Turkstat's definition of UDW is diminishing in the workforce to 40-45% range. This is misleading however, as an indication of the success of the measures in this context. Simply put (and as is evident from the unemployment insurance rosters in comparison to total jobs lost, about one in eleven, which also reflects the proportion of formal large private sector employment's share in manufacturing employment) undeclared workers felt the brunt of the employment losses and their proportion is diminishing in the workforce. This fact was acknowledged by a May 2009 report prepared by the Ministry of Labour for opening the Social Policy and Employment Chapter with the EU. It does not suggest increased audits against UDW, as this would have a detrimental effect on low-skilled employment in this crisis. Present packages that require worker registration to qualify were deemed sufficient for the time being. This is a practical acknowledgement of the fact that, because of recently increasing poverty levels, UDW will rise later into the recovery in 2011 and beyond. Turkish Employment Agency has paid out its record number of beneficiaries in April at 318 thousand, when the number of unemployed was twelve times this level.

6.3 Country response

The government was late in implementing anti-crisis measures and policy makers let the crisis hurt much more than was 'necessary' through their inaction. Not until April, the government revised its growth prediction from 4% to -4% for 2009, which made for far too

optimistic budgetary (tax) revenues expectations. As these were seen to collapse, no realistic ‘package’ could be designed as policy makers had no idea about how much money they had at their disposal. Such irresponsibility translated itself to 525 thousand jobs lost in the single month of January alone, followed by 375 thousand job losses in February. No measure afterwards could come in time to stop the intense sudden bleeding of employment.

The government did provide some ‘mini’ packages before the March municipal elections. One of the well-received measures was short-time work compensation (the government calls this the third package, the authors are not sure about what the previous two were about) to firms by the Turkish Employment Agency for up to six months. This way, those firms that assume that they could weather the storm got compensation for maintaining their employment levels. It especially helped automotive and consumer durables sectors early in the year that have later enjoyed special consumption tax deductions for their goods, starting mid-March (for three months and renewed for another six months in mid-June). (Turkey’s largest tax revenue item is this special consumption tax, which was instituted after the 1999 earthquakes but remained in force at 25% surcharge over the gross price that includes VAT – a tax on a tax on automotive, communications, and consumer durables.) This was the fourth package in the government’s reckoning. It came before the elections and it made an impact. Ford (Turkey) even took back its short time compensation application with demand for its cars rising (the measure targeted compact cars with engines less than 1600 cc where Ford, Honda, Toyota, and Renault are strong in Turkey).

Table A2 in the Appendix reproduces a rubric provided by the European Commission DG-Employment and filled by one of the authors. It is about the recent anti-crisis measures implemented by the Turkish government and their impact. The last column is a running commentary. Neither the measure nor the impact aspects were anywhere near adequate given the extent of the labour market impact of the global crisis in Turkey.

Conclusion

Turkish employment and youth employment prospects are not upbeat. This is in part due to the demographic situation. As the population growth rate slows down, unemployment pressure will gradually ease. Unfortunately, by then, the Turkish demographic window of opportunity (as defined in the text) will be over as well. This will happen in 2040.

This window of opportunity offers great potential for growth and fiscal balances. This is conditional on the labour supply developments: Turkey must impart contemporary skills to its young cohorts so that they are employable. Otherwise, the opportunity window would be a social exclusion nightmare. To date, Turkish long-term job creation and education level performances were below par in its income group of countries. Women must be brought to participate in the labour force. Education is a key determinant here. No long-term growth potential may be realized with half of the working age population in the sidelines.

The recent crisis has come to Turkey rather late but it hit hard swiftly. Most employment adjustment was over in late 2008 and early 2009 with a ballooning unemployment rate, especially for the young. This problem was awaiting Turkey because of demographic pressures (rural-urban migration) but the crisis skipped the intermediate steps and dumped the problem in Turkey’s lap in a few months as opposed to in a few years. Recovery prospects, if the 2001 crisis and ensuing jobless recovery is any measure, may be bleak. Turkey must brace itself for a long-term stance in its fight for job creation.

On the other hand, one of the authors is on record in Turkish monthly economic media that, 55% of the initial employment level in the last quarter of 2008 would not be affected

by the current crisis: Agriculture is having a good year and close to 30% of employment is still in agriculture in Turkey. When one adds the 10% public employment and 10% unionised workforce whose contracts will be renewed next year, and the overall top 5% in the highly qualified finance and service occupations, the adjustment was necessarily on the remaining vulnerable segments of the workforce in low skilled occupations. This statement pretty much summarizes the current state of the Turkish labour market. Bear in mind, however, that labour force participation rate is less than 50% in Turkey, and had it not been for the high proportion of discouraged workers for crisis and demographic reasons, unemployment rate would have been much higher.

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Appendix

Table A1. Labour force status by non-institutional population (total).

Years		Non-institutional population	Population 15+	Labour Force	Employed	Underempl.	Time-related underempl.	Inadequate employment	Unemployed	LFPR (%)	Unempl. Rate (%)	Non-agricultural unemployment Rate (%)	Employ. Rate (%)	Not in labour force
2000	ANNUAL	66,187	46,211	23,078	21,581	1,591			1,497	49.9	6.5	9.3	46.7	23,133
2001	ANNUAL	67,296	47,158	23,491	21,524	1,404			1,967	49.8	8.4	12.4	45.6	23,667
2002	ANNUAL	68,393	48,041	23,818	21,354	1,297			2,464	49.6	10.3	14.5	44.4	24,223
2003	ANNUAL	69,479	48,912	23,640	21,147	1,143			2,493	48.3	10.5	13.8	43.2	25,272
2004	ANNUAL	70,556	49,906	24,289	21,791	995			2,498	48.7	10.3	14.3	43.7	25,616
2005	ANNUAL	71,611	50,826	24,565	22,046	817			2,520	48.3	10.3	13.6	43.4	26,260
2006	ANNUAL	72,606	51,668	24,776	22,330	890			2,446	48.0	9.9	12.6	43.2	26,892
2006 ¹	ANNUAL	68,133	48,485	23,250	20,954	835			2,295	48.0	9.9	12.6	43.2	25,235
2007	ANNUAL	68,897	49,215	23,523	21,189	742			2,333	47.8	9.9	12.6	43.1	25,692
2007 ²	ANNUAL	68,901	49,994	23,114	20,738	689			2,376	46.2	10.3	12.6	41.5	26,879
2008	JANUARY	69,346	50,435	22,388	19,798	657			2,591	44.4	11.6	13.7	39.3	28,046
2008	FEBRUARY	69,416	50,500	22,541	19,864	755			2,677	44.6	11.9	14.2	39.3	27,959
2008	MARCH	69,479	50,564	22,921	20,389	772			2,532	45.3	11.0	13.4	40.3	27,643
2008	APRIL	69,549	50,627	23,561	21,228	792			2,333	46.5	9.9	12.3	41.9	27,066
2008	MAY	69,617	50,700	24,045	21,842	798			2,203	47.4	9.2	11.5	43.1	26,655
2008	JUNE	69,686	50,769	24,407	22,111	835			2,297	48.1	9.4	11.9	43.6	26,361
2008	JULY	69,754	50,833	24,587	22,163	796			2,425	48.4	9.9	12.5	43.6	26,246
2008	AUGUST	69,824	50,916	24,570	22,068	743			2,502	48.3	10.2	12.9	43.3	26,346
2008	SEP	69,893	50,994	24,403	21,802	751			2,601	47.9	10.7	13.4	42.8	26,591
2008	OCTOBER	69,960	51,073	24,297	21,567	778			2,730	47.6	11.2	14.0	42.2	26,776
2008	NOVEMBER	70,030	51,143	24,036	20,999	807			3,037	47.0	12.6	15.5	41.1	27,106
2008	DECEMBER	70,096	51,211	23,799	20,466				3,332	46.5	14.0	16.8	40.0	27,412
2008	ANNUAL	69,724	50,772	23,805	21,194	779			2,611	46.9	11.0	13.6	41.7	26,967
2009	JANUARY	70,166	51,323	23,523	19,873				3,650	45.8	15.5	18.5	38.7	27,799
2009	FEBRUARY	70,236	51,360	23,582	19,779		787	442	3,802	45.9	16.1	19.3	38.5	27,778
2009	MARCH	70,299	51,426	23,924	20,148		772	402	3,776	46.5	15.8	18.9	39.2	27,501
2009	APRIL	70,368	51,507	24,316	20,698		728	400	3,618	47.2	14.9	18.2	40.2	27,191

¹ Downward total population adjustment of 4.473 millions in the household labour force survey results according to the address based population registration system (rates are kept constant).

² Final revision according to the new population projections.

Source: TURKSTAT (1000 persons, 15+ years), www.tuik.gov.tr.

Table A2. Labour Market Policy Developments (recent anti-crisis measures).

Policy area	Description of measure(s) taken (if no policy measures are taken, please indicate so)	Aims and objectives E.g.: labour supply, labour demand, investments or aggregate demand	Legislative Status E.g.: proposal, debated in the parliament, adopted, in force	Positions of social partners	Preliminary assessment of the measure against:	
					Criteria for the measure to succeed in the short term (such as, for example, supporting incomes; maintaining employment; being targeted; timeliness)	Criteria for the measure to succeed in the long term (such as for example balancing public finances; addressing social inclusion; expected effectiveness)
Increasing labour productivity	May employment package.	Labour supply and demand (human capital investment for presently employed).	Adopted.	Positive.	The target is 200 000 ALMP recipients in present employment.	Increased productivity (to be seen in later statistics).
Increasing labour demand (indirect)	One-year extension (February) to broad tax incentives targeting 49 'underdeveloped' provinces.	Labour demand, regional convergence.	In force.	Indifferent to positive as these provinces are not manufacturing (thus union) bases.	Turkey has used similar broad incentive measures for its underdeveloped regions in the past forty or so years; to no avail (regional incomes did not converge).	This is old and useless reflexes surviving. They will be ineffective for the simple reason that the 'market' in population and purchasing power is in the west, just like Turkish export markets are in the west, not in the Arab lands.
Increasing labour demand	May employment package.	Labour demand	Adopted	Positive.	Employment increase (120 000 targeted in government supported service employment, like light maintenance and repairs in public property and park services).	Limited duration. No long term impact. Good for present consumption, employment, and anti-poverty efforts.
Increasing labour supply	May employment package.	Internship facilitation in firms.	Adopted.	Positive.	100 000 young interns are aimed to be supported for internships at firms with financial support from the Turkish Employment Agency.	The proportion in employment after the support measures expire in six months (to be seen).
Promoting lifecycle approach to work	N/A					
Making work pay	N/A					
Improving labour market matching	May employment package.	(See internship support above.)				
Offering social protection	Retirement pensions are exempt from confiscation for unpaid credit card or other personal debt.	Consumption demand, social protection.	In force since February.	Positive.	It supports incomes of one of the most vulnerable groups in Turkey, the retirees.	This is likely to remain in force because of press and social support. During the crisis, banks and credit card companies are sometimes cast as villains in the press.

Offering social protection	New union regulations (maintains broad sector unionisation, still barring occupational or workplace union organisation)	Labour demand (unionisation)	Proposal	Opposed	Higher union membership.	Will fail as the unions accuse the government of not implementing EU and the ILO norms in the proposal. ILO scolds Turkey for not conforming to decent work guidelines.
Offering employment security	Short-time work compensation paid out to firms by the Turkish Employment Agency.	Labour demand (employment protection).	In force (three-month renewals).	Positive.	The measure maintains employment in some sectors and it was relatively timely (before March elections).	Costly measure that will be discontinued. No budgetary allocation possible if maintained. It helped automotive and consumer durables employment where there was tax deductions for stimulating demand.
Offering employment security (indirect)	Reduction in special consumption tax in automotive, consumer durables, and housing.	Labour demand through stimulated consumption.	In force (mid-March to year-end).	Mixed.	Increased car sales that kept employment after the initial losses in automotive, also consumer durables, no effect in housing.	No long-term prospects as the government heavily relies on this tax as the bulk of its revenues; also 37 000 of the 56 500 cars that were sold in March were imports, maintaining foreign employment. By the end of May, however, Turkish cars reached a share of 46%.
Addressing labour market segmentation	N/A					
Improving wage setting mechanisms	N/A					
Investment in human capital	May employment package.	Labour supply and demand (human capital investment for the unemployed).	Adopted.	Positive.	The target is 200 000 ALMP recipients in present unemployment rosters.	Increased productivity (to be seen in later statistics).
Adaptability of education and training	N/A					
Other areas	N/A					

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