Youth Employment in Turkey

Hakan Ercan

International Labour Office - Ankara
Ercan, Hakan

Youth employment in Turkey

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<th>Description</th>
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<tr>
<td>ALMP</td>
<td>Active labour market policy</td>
</tr>
<tr>
<td>DİSK</td>
<td>Confederation of Progressive Trade Unions of Turkey</td>
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<td>EU</td>
<td>European Union</td>
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<tr>
<td>GNP</td>
<td>Gross National Product</td>
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<td>HAK-İŞ</td>
<td>The Confederation of Turkish Real Trade Unions</td>
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<td>İLO</td>
<td>International Labour Organization</td>
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<td>IMF</td>
<td>International Monetary Fund</td>
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<td>İŞKUR</td>
<td>Turkish Employment Agency</td>
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<tr>
<td>LFPR</td>
<td>Labour Force Participation Rate</td>
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<td>LFS</td>
<td>Labour Force Survey</td>
</tr>
<tr>
<td>MoLSS</td>
<td>Ministry of Labour and Social Security</td>
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<td>MoNE</td>
<td>Ministry of National Education</td>
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<tr>
<td>NUTS</td>
<td>EU Nomenclature of Territorial Units for Statistics</td>
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<tr>
<td>SGK</td>
<td>Social Security Institution</td>
</tr>
<tr>
<td>SPO</td>
<td>State Planning Organization</td>
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<tr>
<td>TESK</td>
<td>The Confederation of Turkish Tradesmen and Craftsmen</td>
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<tr>
<td>TİSK</td>
<td>Turkish Employer Unions Confederation</td>
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<td>TÜRK-İŞ</td>
<td>Turkish Workers Unions Confederation</td>
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<tr>
<td>TÜRKSTAT</td>
<td>Turkish Institute of Statistics</td>
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<tr>
<td>UN</td>
<td>United Nations</td>
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<td>UNDP</td>
<td>United Nations Development Fund</td>
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<tr>
<td>VET</td>
<td>Vocational Education and Training</td>
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<td>WB</td>
<td>World Bank</td>
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<td>YEN</td>
<td>Youth Employment Network</td>
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<td>YÖK</td>
<td>Higher Education Council</td>
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Youth Employment in Turkey

Hakan Ercan, Middle East Technical University, Ankara

Executive Summary

Turkey’s recent strong economic growth performance did not translate itself into a matching performance in employment creation. In recent years, unemployment has replaced inflation as the number one economic problem in public opinion polls in Turkey. There is widespread perception of insufficient employment opportunities. This is a concern shared by other emerging market economies as well. Turkey and many Latin American countries have endured decades of economic hardships of chronic inflation, financial crises, and macroeconomic instability. The requisite official line for employment creation was also shared in these countries: A country needs macroeconomic stability for attracting foreign direct investment and job creation. Necessary but not sufficient, this is an obvious labour demand side truth.

Economic recovery comes 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%.1 This seems to be a cap for the Turkish economy. It is a failing mark in the Turkish economic grade report.

On the population side, Turkey has almost completed its demographic transition. This transition refers to a process that starts with a high fertility – high death rate state and ends up with a controlled low fertility – low death rate state. While this process took most European countries a century, Turkey has completed its transition in about half that time.2 Turkish total fertility rate dropped surprisingly fast. It fell from 6.9 in 1945-50 to the replacement rate of 2.1 in the mid-2000’s. In any case, fast population growth rates now belong to history in Turkey. Behar (1999) convincingly argues that this trend is irreversible.

1. All rates are calculated by the author using TURKSTAT data available at www.turkstat.gov.tr.
2. Behar (1999) discusses the Turkish demographic transition at length. Shorter (1995) is an often-quoted source, as well.
Nevertheless, Turkish working age population (of 15+) grows at 1.9% per annum because of population momentum. The only thing that keeps unemployment rate from increasing is non-participation. Non-participants grow at 2.4% per annum. This suggests that the population that come out of agriculture drop out of the labour force. This is a mixed blessing. It keeps unemployment rate in check. At the same time, it is a waste of available human resources.

Individuals’ long-term success in the labour market in terms of ‘desirable’ jobs and wages is typically a supply side issue, one of human capital. For the most part, that means education (and then experience). Development literature is replete with analyses that look into the long-term positive relationship between education and growth. The relationship stands both at the aggregate level and at the individual level. This report will later highlight some stylized facts regarding education leading to better labour market outcomes.

Turkey’s economic growth performance came at the expense of serious income inequality and regional or rural-urban income disparities. Regional convergence is slow if there is one at all (Kurdar and Saracoglu, 2006). Such income discrepancies stand at the core of poverty (social exclusion) phenomenon. Employability is the panacea for social exclusion. The young age groups constitute a high-risk group in terms of new entrance to the labour market (see Section 1).

Youth employment creation is a critical component of a country’s long-term economic stability and growth. There are difficulties in Turkey in employment generation in general, in youth employment generation in particular. Turkey had a severe financial crisis in 2001. The recovery started in 2002 and growth continues to date. Turkey has grown continuously in twenty-one consecutive quarters. The recovery came without jobs in 2002-2004, however. In 2005-2006, the overall unemployment rate finally started to come down. It was 9.9% in 2006. This positive development was not reflected in youth unemployment rates, however. Youth unemployment rate stagnated at 17-18% in the past two years. This is the only labour market indicator that Turkey is on par with the European Union. Note that, new entrants lack a major component of labour market skill, experience. They will have a harder time to find jobs when there is a recession.

In addition, despite the move from five to eight years of mandatory schooling, the problem of child labour still needs to be addressed. Increasing urban youth unemployment rates in recent years brought political recognition and a sense of urgency to the problem of youth employment generation. This is a challenge shared by the European Union (EU) countries, as well. Policies directed at increasing youth employment are preconditions for long-term poverty eradication and social inclusion.

This report studies youth employment generation in Turkey. It describes and analyzes the general labour-market position of especially the urban youth. The report focuses on the salient aspects of the Turkish situation that have to be taken into account before assessing any labour-market issue. Present day Turkish demographics and
labour market dynamics are qualitatively and quantitatively very different from the
demographically mature and educated labour force dynamics of the EU or OECD
countries. The apparent stress on the EU countries as a basis of comparison is a result
of Turkish candidacy. Policy proposals will have to be necessarily in line with the EU
guidelines on employment.

Currently, the rate of increase in the working-age population is faster than the rate
of employment growth registered in recent decades. As a result, employment creation
in general – and women’s and youth employment in particular – has emerged as the
key labour-market challenge for Turkey’s development. We propose ‘more education’
and then lifelong learning for those who are leaving agriculture, ‘skill upgrading’ for
the increasing numbers of better-educated urban youth who are participating in the
labour market and not finding employment.³

This report provides first a current mapping of the Turkish labour market in
regards to youth employment issues. Secondly, the report concludes with policy sug-
gestions, which may later form the basis for the youth employment component of
Turkey’s future National Reform Programme on Employment, which is an EU candi-
dacy requirement. Concomitantly, Turkey will have to prepare a youth employment
strategy as a member of the United Nations Youth Employment Network (YEN), within
which ILO is a core partner. Thirdly, and maybe most importantly, this mapping
exercise may form the basis of specific pilot projects to be suggested to international
organizations. The evaluation of outcomes of such projects should prove to be valuable
in the context of how to allocate the EU’s IPA funds (pre-accession funds) most effi-
ciently in Turkey. (The desire of this author and his supporting organization, ILO’s
Turkey office, is to go the way of Ireland and give priority to invest in human capital
as opposed to building better roads first, as Greece or Portugal has done.)

Note that, international institutions’ labour agendas or guidelines are not at odds
with each other or the EU employment guidelines. Therefore, this report consults the
global employment agenda of the ILO and the Millennium Development Goals (MDG)
of the UN as well. Note further that, youth issues including youth employment are rele-
vant to the Millennium Development Goals: seven of the eight goals are related to young
people directly or indirectly. At the same time, UNDP’s National Human Development
2007 Report is focusing on youth in Turkey. Related work has also been undertaken on
various aspects of Turkish youth by UNICEF, UNFPA and the World Bank.

A significant global effort to promote ‘Decent Work’ for creating jobs, poverty
reduction, and sustainable development has been initiated by the UN. In its Ministerial
Declaration in July 2006, UN pointed to the necessity of the ‘Decent Work’ agenda for
the 1.4 billion working poor of the world. In order to keep this number at its present
level, 40 million new jobs should be created every year.⁴ This is a global jobs crisis.

³. Many non-participants are so-called ‘discouraged’ workers.
⁴. These numbers are taken from the World of Work magazine no. 57, published by the ILO.
The Declaration maps out some initiatives for governments to consider the employment impact of their policies. The move is in line with the EU’s ‘realignment’ of its employment strategy, now called a growth and jobs strategy, uniting macroeconomic policies and employment related guidelines and targets (the integrated guidelines). ILO is charged with promoting a decent work agenda for reducing poverty and obtaining equitable and inclusive development.

‘Decent Work’ agenda has four strategic objectives. These are creating jobs – generating opportunities for investment; guaranteeing rights of workers at work – in particular, disadvantaged workers; extending social protection by promoting inclusion; and promoting dialogue and conflict resolution – for peaceful negotiation and solving problems. These strategic objectives have almost one-to-one correspondence with the employment ‘pillars’ of the EU. None of the policy documents that Turkey will prepare, therefore, will be at odds with one another, be that it is prepared for the EU or for the ILO, for example.

Note also that, in February 2006, Turkey became a lead country of the United Nations Secretary-General’s YEN. YEN’s mandate is to pool the skills, experience and knowledge of a broad range of actors in an attempt to find durable solutions to the youth employment challenge. As a result, it has committed to take leadership on the issue through the development of a National Action Plan on youth employment, NAP. In this context, the Government of Turkey has undertaken to develop a National Action Plan on youth employment. This commitment also coincides with the imminent Turkish obligation to prepare a national reform programme on employment, in line with the EU candidacy requirements. Finally, as stated above, this year the Turkish Government has agreed in principle to implement ILO’s Decent Work Country programme, an important component of which is youth employment.

Therefore, after the requests of and consultation with the social partners and the Turkish minister of labour, the ILO – Turkey office has decided to commission a detailed study. This study was to assess the current situation of the youth labour market in Turkey, review current initiatives to promote youth employment, and develop policy recommendations in this area. The findings, which are recapped below, have been presented at a national workshop gathering ILO tripartite constituents and other stakeholders in June 2007.

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5. Core partners of the YEN, a Kofi Annan initiative, are the United Nations, The World Bank and the International Labour Organization.
6. Lead Countries have committed themselves to take the lead in the preparation and implementation of National Action Plans on youth employment, as called for by United Nations General Assembly Resolution A/RES/57/165 (December 2002) on Promoting Youth Employment. As of March 2006. There are nineteen ‘YEN Lead Countries’.
7. The author thanks the dissemination conference participants for their valuable suggestions. The academics who contributed to the discussion are Ömer Faruk Çolak, Meltem Dayıoğlu, Aziz Konukman, and İnsan Tunali. TÜRK-İŞ and DISK presidents, and HAK-İŞ and TISK representatives contributed their comments for the final version of this report.
Turkish youth employment prospects are not positive. The Turkish situation is different from the EU in that it is harder for young women to be formally employed than men are. Both the participation rates and the employment ratios are very low for young women. This may be explained in part by the rural-urban transition where former unpaid family workers would not participate at first in the urban labour market that requires higher skills. Given time, however, this group of young women will start participating more and one expects the group’s unemployment rate to climb as well.

Turkish policy-makers acknowledge the severity of the youth employment situation, but there are no specific actions aimed to tackle the problem. It may soon become a priority as the long-standing macroeconomic woe of the country, inflation, is now in the single digits due to an IMF-backed restructuring and stabilization program.

Low levels of human capital in Turkey could lead one to stress the importance of active labour market policies (ALMPs) for target groups including the youth. In this author’s opinion, this may not be the most efficient use of available resources. Uneducated-unskilled workers may not be the optimal beneficiaries of ALMP projects since they have remedial basic education ground to cover first, which necessitate an adult education-drive initially.

In any case, such strategic decisions on allocating funds to target groups will be made by the policy-makers with the involvement of social partners. They have a long history of working together in Turkey. Moreover, Turkish employers are also used to assume responsibility in providing training and employment to young people through the apprenticeship system.

The most important priority for the moment should be to finalize an employment strategy. Targeting youth employment may only make sense within the framework of a national action plan.

The following table of contents provides an outline of the report. Specific recommendations as policy components are at the end of the report in section six.
1. Overview of the current socio-economic context

1.1. Main macroeconomic indicators and poverty indicators

1.1.1. Macroeconomic indicators

The cumulative growth of the Turkish economy in the past five years is an impressive 40%. At this rate of 7% per annum in ten years, by the end of 2016, Turkish economy will have doubled its size from today’s value of US$ 395 billion to reach US$ 790 billion. By then, Turkish population will have reached 80 million. Per capita income in today’s prices may thus be US$ 9900. Note also that, current revisions in the national accounts that will make the country’s statistics ESA95 compliant will result in a larger GDP figure for today. Then, if Turkey can grow at a pace of 7 to 8% a year in the next ten years, it will hit the trillion dollar (€ 750bn) mark in its GDP and USD12500 (€ 9300) in today’s prices.

The economic growth of recent years came with a current account deficit. This deficit was $31.7 billion at the end of 2006. This deficit is not sustainable. However, positive developments in the foreign direct investment (FDI) flows helps Turkey to surge through unaffected for now. Net FDI inflows totalled an unprecedented $18.5 billion in a twelve-month period ending in October 2006. This made up more than half of the current account deficit. These flows are expected to remain strong as long as Turkey has macro-economic stability, which the EU process helps.

Turkey also has attracted large portfolio capital inflows in recent years as well. These flows had appreciated the Lira, which caused a rising trade deficit. Turkish growth periods come with large current account deficits therefore. A sharp correction to the Lira came in the second quarter of 2006 because of a global volatility shock. When the Turkish Lira is no longer overvalued, this helps exports and improves the current account deficit. When confidence is restored foreign portfolio investment

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8. Headline statistics in this report come from the Turkish Institute of Statistics. Concomitant with the ongoing informal economy discussion in Turkey (but not caused by it), TURKSTAT is revising its methodology in the calculation of national income. The result is expected to be an improved coverage of economic activity in line with EUROSTAT methodology and UN data collection and reporting practices. The base year in much of TURKSTAT’s macro-economic statistics standard is (UN) 1968. This will be revised to 1993 as in the rest of the OECD countries, which will be in line with the European standard of ESA95.
comes back, as they did in July 2006. This is a familiar cycle of events in the Turkish economy, which has recently broken an all time record of exports in March 2007. Recent surge in foreign direct investment after the start of EU candidacy negotiations has dampened the amplitude of these volatile cycles, but they remain important in a small open economy like Turkey.

Nevertheless, Turkey may finally be coming out of the volatile cycles of fast economic growth and sharp slowdowns. Its economic growth has been the most powerful in the OECD region. Financial and monetary policies encouraged consumer and investor confidence, reduced the risk premium in international borrowing, and significantly increased foreign direct investment and foreign portfolio investment. Annual CPI in 2006 registered 9.65%, PPI registered 11.6%; the target rate of the Central Bank for 2007 is 4%. This is not going to be possible. The consensus amongst economic agents is 7-8%.

According to purchasing power parity, Turkish economy is now the eighteenth largest in the world at US$ 750 billion (2005). In 2006, Turkish GDP grew by 6.1%. Turkey has grown continuously in the twenty-one quarters of 2002 to 2007’s first quarter. Per capita income exceeded US$ 5400. The Turkish economy reached a magnitude of US$ 395 billion. Exports exceeded US$ 85 billion in 2006.

On the negative side, there is still fragility because of the growing current account deficit. Turkish growth periods invariably are correlated with increasing current account deficits because Turkish imports rise faster than Turkish exports when the economy is booming. A healthy economy attracts portfolio inflows that appreciate the local currency that result in a deterioration of the trade balance that leads to a correction in the domestic currency. There are no short-term remedies for this situation. Foreign demand for Turkish exports must keep rising. The share of low value-added textiles in exports is being eclipsed currently by automotive and consumer durable exports. This transformation will take several years. In the meantime, Turkey will be vulnerable to changes in global financial markets, but not as much as it did as recently as in 2001.

Net debt to GDP ratio of Turkey fell to 44.7% at the end of 2006. It was 55.8% at the end of 2005. Turkey came close to fulfilling Maastricht criteria on public finance and public debt with a gross public debt to GDP ratio of 60.7%. Maastricht requires 60% although Euro area average is 70.8%. Turkey’s net external debt to GDP ratio was 5.2%. This makes the country less vulnerable to exchange rate crises. Current account to GDP ratio was still high at 7.9%. At the end of February 2007, the 12-month rolling current account deficit reached USD32.2bn (€24bn). Trade deficit was higher at USD 40.6bn (€30.3bn). Tourism and other current transfers shaved off 20% of the trade deficit. Turkish high-growth periods coincide with rising trade deficits. Strong Turkish economy attracts foreign portfolio investments that appreciate the lira, which causes imports to rise. This cycle used to end up with frequent crises in the past. Recent years’
macroeconomic stability and rising FDI because of EU candidacy may have changed the previous dynamics. Current weakness of the dollar against the euro is also helping the headline deficit, which is expressed in USD. (Turkey imports its energy and raw materials in USD and tends to export into the euro area.)

The unemployment rate has stagnated (non-agricultural unemployment rate is 12%; overall unemployment rate is 9.9%, coming down from a stubborn level that was stuck at 10.3%). The extended definition of the unemployment rate that includes discouraged workers is an alarming 18%, however. This is an indicator of the poor employment creation performance of the Turkish economy despite high growth rates.

In April 2007, unemployment rate fell to 9.8% (from 9.9% in the previous April) while the number of unemployed rose. Labour force participation rate was 47.9%. Unemployment rate was 11.6% in the cities, 6.9% in rural areas. Non-agricultural unemployment rate was 12.4%.

The number of employed persons went up by 466 thousand over April 2006 to 22.638 million. Agricultural employment declined by 20 thousand persons. Non-agricultural employment gained 486 thousand persons. The number of unemployed went up by 14 thousand to 2.45 million persons. Agriculture has 27% of employment, industry 19.5%, construction 5.5%, and services 48%.

1.1.2. Poverty indicators

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. Within the UNDP’s Millennium Development Goals (MDG) framework, the overarching goal of reducing by half the number of people living on less than a dollar a day or suffer from hunger is not a relevant target for Turkey.

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 48% of total employment in Turkey (2006-fourth quarter labour force survey): 90% of this figure belongs in agriculture, which constitutes 29% of total employment. Poverty rate in agriculture is 40%. (TURKSTAT methodology unfortunately underestimates the urban informal economy).

Despite steady decreases in poverty-measure by several methods, Turkey does face a serious challenge of relative poverty. Relative poverty is the state in which an individual is below the average welfare level of the society. In Turkey, a steady percentage (14-16% in years 2002-2005) of the population is “stuck” behind the relative poverty rate.

In Table 1.1, 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 1.1. Recent income distribution in Turkey by quintiles (percentage of income).

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<td>II.</td>
<td>10.3</td>
<td>10.7</td>
<td>10.3</td>
<td>10.8</td>
<td>11.0</td>
<td>11.2</td>
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<td>III.</td>
<td>14.5</td>
<td>15.2</td>
<td>14.5</td>
<td>15.2</td>
<td>15.0</td>
<td>15.8</td>
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<td>IV.</td>
<td>20.9</td>
<td>21.9</td>
<td>20.8</td>
<td>21.4</td>
<td>21.2</td>
<td>22.7</td>
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<tr>
<td>V. (Top)</td>
<td>48.3</td>
<td>46.2</td>
<td>48.3</td>
<td>46.1</td>
<td>46.3</td>
<td>43.9</td>
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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 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). 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.
1.2. Recent macroeconomic stabilization policies and reform agenda: Impact on employment and productivity

Turkey launched its final stabilization program in 2001. The IMF backed up this program, as usual. It was (and still is) a severe program that aimed to implement structural adjustment and eventually squeeze inflation out of the economy. Contracting demand in the last crisis caused GNP to become smaller by 8.5% in the first half of 2001 relative to the same period in 2000. The program succeeded in bringing inflation down and starting a period of continuous growth that goes on to date.

Employment growth, however, did not keep up with the GDP growth. In fact, after going up in 2001, unemployment rate has stagnated during 2002-2005. This was in spite of the decreasing labour force participation rates because of discouraged workers during the crisis. The reason for this was productivity growth caused by machinery and equipment investment by the private sector. In 2005, despite the increase in construction sector employment, which absorbs the male uneducated component (rural-urban young migrants) of the workforce, overall unemployment rate slightly moved up to 10.4%. Population growth keeps outpacing employment growth in Turkey and educated young people have difficulty in finding jobs (World Bank, 2006, p. iii).

Turkey faces a bottleneck in quality job creation. In addition to the demographic transformation and rural-urban migration that causes working age population growth to exceed employment creation, there are other factors to the bottleneck. The recent ongoing transformation from labour-intensive modes of production to more capital-intensive ones has been facilitated by two events. The first one was the 2001 financial crisis. Turkish firms were forced to utilise their existing workforce better by investing in machinery and equipment in 2002-2004. Productivity soared. Eventually, rising productivity will be reflected in wages and living standards will improve. The second factor was China. Anecdotal evidence suggests that Chinese competition squeezed the profit margins in labour-intensive industries. This has hastened the shift to capital-intensive manufacturing and to services in the surviving firms. Turkish employment composition is therefore changing. The problem is that the typical former agricultural labourer lacks the human capital (educational attainment) that the new workforce requires.

Turkish export orientation and its integration with the global economy, including the culmination in 1996 with the customs union agreement with the EU, were sustained by low wages and devaluations. As the economy integrated with the world financial markets in the 1990s, growth became more volatile and susceptible to global sea changes. There were frequent crises. Under the conditions that prevailed in the past
decade, investment, hence long-term employment growth stability suffered. Only after 2002, helped with the positive economic prospects associated with EU candidacy, the outlook is better now. There remain the problems of the current account deficit and the social security deficit.

Turkish policy priorities were necessarily short-term for decades. Demographic pressures will exacerbate the unemployment problem in the medium-term, and social security financing stands poised to create long-term financing problems. Turkey is and will be having employment creation bottlenecks. Turkey would have to create 13 million jobs by 2010 to reach the Lisbon target of 70% employment rate! Its current workforce is 25 million. At historical employment creation rates, only about 10-15% of the target number may be reached.

1.3. Sectoral support policies and measures for priority sectors

Turkish 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 the newer designation of provincial investment incentives. Turkey has never adopted the approach of sectoral support policies or measures for priority sectors. Rather, State Planning Organization (SPO) identified regions or provinces that will benefit from investment incentives. 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 ‘priority’ provinces: 51 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. 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.

Incentives and support, therefore, should be designed for migration receiving provinces, which are local growth foci. Policy incentives must identify priority sectors. This still serves the purpose of alleviating regional income disparities as some fast growing provincial economies are in the poorer east and the southeast. Regional policies may now be made based on the EU nomenclature of territorial units for statistics (NUTS). TURKSTAT has already classified Turkey into NUTS-1 (12 units) and NUTS-2 (26 units) regions. NUTS-3 is the province level.
1.4. Recent social policy developments

Official social policy in regards to vulnerable groups’ employment issues (older persons, women, or youth employment issues) in Turkey does not exist independently on its own. Youth employment is reserved a paragraph in the employment section of the annual programs of the SPO. Another paragraph is reserved under the discussion of cultural and social aspects of the population where Youth and Sports General Directorate’s activities are discussed.

SPO has prepared its third medium-term program for the years 2008-2010. Development plan, medium-term program, and the annual program constitute the three basic economic documents of the state in Turkey. Medium-term program is the implementation document of the ninth development plan. It lists policies and priorities. The two headline targets are 4% inflation rate and 5.6% average growth rate. Primary surplus is forecast at 7% in the program years. Public net debt stock is forecast to be 34%. The program also foresees faster export growth than import growth to bring the current account deficit down to 6% of GDP. It does not quite explain how this will happen given the economic dynamics outlined in section 1.1.

The medium-term program foresees 1.4 million new jobs created in three years. This falls short of the increase in the working age population in the same period. Therefore, the program implicitly assumes that labour force participation rates will keep falling or unemployment will be going up.

Higher Planning Council has approved ‘National Aging Action Plan’, a first of its kind in Turkey. SPO and Children’s Protection Institution (a prime ministry general directorate) coordinated the preparation of the plan. The plan aims to promote the older persons’ participation in the cultural, economic, politic, and social spheres along with lifelong learning. The plan aims at reducing poverty in old age. Basic health care and long-term care expenditures will also be skewed in favour of the poorer older persons. This is a nice document. It is not likely to be implemented anytime in the short-run.

Turkish Economy Bank, UNDP, and Young Businessmen Association (GIYAD) earmarked USD10mn (€7.5mn) for micro-loans specifically for young entrepreneurs. UNDP will help administer the micro-credit scheme. The target group is 18 to 35 year-old vocational school graduates. There will be a steering committee. It will have representatives from the three project partners, academics, and local businesses. Initially, 5 provinces and 1500 recipients are targeted. GIYAD will train the candidates as a requirement for formal application.
2. Youth employment challenge: Analysis of the youth labour market

2.1. Population and labour force

According to the first census of the Turkish republic in 1927, Turkish population stood at 13.6 million. According to the de facto general census in 2000, Turkey’s population stood at 67.8 million. UN’s medium variant places Turkey’s population to a little above 100 million in 2050, where after the population stabilizes. According to the (latest available) TURKSTAT (www.tuik.gov.tr) Labour Force Survey (LFS) data, the non-institutional civilian population of Turkey has reached 72 million.

During the demographic transition, the state when the population growth rate is declining while potential labour supply, that is, the working age population, keeps rising is called a ‘demographic window of opportunity’. The working-age population of Turkey will be increasing at a decreasing rate until 2040 (see Table 2.1). Such an episode is a one-off ‘opportunity’ in a nation’s history. East and southeast Asian economies took advantage of their windows during the second half of the twentieth century to increase their productions.

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 1.88% per annum because of population momentum. By 2040, population will reach 96.8 million (UN medium variant, 2006 edition, see Appendix Table A1 and Table 2.1). 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 2.1, last row). The old age dependency ratio will rise swiftly from single digits in 2020 to 18% in 2050!

9. Labour Force Survey results are used.
11. http://www.die.gov.tr/nufus_sayimi/2000Nufus_Kesin.htm. The population is likely to be higher by about 0.8 million because of underenumeration, especially of 0-9 year-olds. UN medium variant apparently adjusts the population through indirect demographic techniques; TURKSTAT does not, and reports the ‘official’ count. Although this is less of a problem in later years where rural population remains constant, one should use the UN population projections in academic work on migration trends and labour force participation.
12. Current population growth rate in Turkey is 1.4% per annum. This will come down to 0% by 2050. Its population will be one million shy of the 100 million mark by then (according to the UN medium-variant).
13. The high growth periods in Japan (1960s) and Korea (mid-to-late 1980s) coincided with the period when the proportion of the economically active population increased significantly (Dowrick, 1996).
Table 2.1. Population and young and old dependency ratios: Turkey 1980-2050.

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<tr>
<td>0-14</td>
<td>18719</td>
<td>20500</td>
<td>20764</td>
<td>20370</td>
<td>19874</td>
<td>18834</td>
<td>17902</td>
<td>17346</td>
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<tr>
<td>15-64</td>
<td>25485</td>
<td>34550</td>
<td>43886</td>
<td>52725</td>
<td>59648</td>
<td>63632</td>
<td>64778</td>
<td>63393</td>
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<tr>
<td>65+</td>
<td>2111</td>
<td>2298</td>
<td>3511</td>
<td>4605</td>
<td>6548</td>
<td>10001</td>
<td>14105</td>
<td>18204</td>
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<tr>
<td>Total</td>
<td>46315</td>
<td>57348</td>
<td>68161</td>
<td>77700</td>
<td>86070</td>
<td>92467</td>
<td>96785</td>
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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%
65+ 4.6% 4.0% 5.2% 5.9% 7.6% 10.8% 14.6% 18.4%

Source: UN medium variant (listed in Appendix Table A1). Some peak values are highlighted.

As shown in Table 2.1, the relative weight of the 15-64 year-olds will start to recede as early as 2020 because of an increasing elderly population.\(^\text{14}\) In addition, since the number of 0-19 year-olds has already peaked in 2000\(^\text{15}\) (and currently is declining just as the population of 0-14 year-olds is slowly declining as seen in Table 2.1), Turkey will not have a ‘young’ population any more. This will take some getting used to in the collective and political mindset.\(^\text{16}\) Moreover, in 2040, the demographic window of opportunity closes as well (the number of 15-64 year-olds starts to recede - UN medium variant projection, see the penultimate column in Table 2.1). Therefore, the census years of 2000 and 2040 mark two significant milestones in Turkish demographics.

The population of 0 to 19 year-olds already reached its peak in 2000 at 27.7 million (this peak is in 2002 in TURKSTAT projections, at 26.9 million).\(^\text{17}\) It is slowly coming down after these dates despite the boost that the village out-migrants provide (see the next section). The peak of the wave in 2000 will push through the 20+ year-old population cohorts through the coming decades declining 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.

\(^\text{14}\) Note importantly that, it is the proportion that recedes; the level will keep rising until 2040.
\(^\text{15}\) See the next section for justification of some of these summary statements.
\(^\text{16}\) Not to mention the implications for Turkey’s EU membership bid.
\(^\text{17}\) TURKSTAT projections stay under the UN medium variant total population by about 800 to 900 thousand through the years. Nearly half of this difference comes from under-enumeration, of especially the 0 to 4 year-olds in rural areas from less recent censuses, which the UN adjustment corrects and carries on to later years. Some of the rest is under-enumeration of – mostly - girls in child cohorts, and other omissions. About a third of the difference, however, may be due to the gradual adding up of the small differences that result from the exponential growth rate, \(e^r\), that – apparently – the UN uses, and the geometric growth rate, \((1+r)\), that – apparently – TURKSTAT uses in its projections.
Roughly, 60% of the population in 2000 lived in urban locations with 20,000 or more inhabitants (65% according to city-village classification mentioned in a previous footnote). Between 1990 and 2000, the overall population grew at an average annual rate of 1.83%, falling below 2% for the first time since 1945. The growth rate was 2.68% in urban areas and only 0.42% 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 as well. 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. 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 matter as much as it did in the previous decades. 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). The east and south-east regions have been out-migration regions for decades. However, their population now constitutes less than 10% of the Turkish total. Once feared scenario of uneducated masses flooding the outskirts of the cities will not be.

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 labour force 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 the rest of this section, descriptive quantitative evidence will be provided to back up the above claims.

In Figure 2.1, Turkish population by census years and future projections are given. UN medium variant remains a little above the TURKSTAT projection because of under-enumeration adjustment. The difference reaches close to a million by 2050 (see the previous footnote) when both projections stabilize.\(^\text{18}\) UN accepts TURKSTAT’s city-village reporting in lieu of urban-rural division and projects accordingly. Therefore, TURKSTAT and UN city-village projections are in general agreement (except the enumeration correction). In Figure 2.1, TURKSTAT’s projection is shown for city and village. 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 2.1 (triangles denote rural population).\(^\text{19}\) As some dis-

\(^{18}\) In the appendix, UN medium variant population table is reported. TURKSTAT data are not listed however, because of space limitations. Some data have been entered from print resources. These are available from the author upon request.

\(^{19}\) These data are not available electronically but are reported in the print versions of the population census results of the TURKSTAT.
strict centres have smaller populations, city denomination overestimates the urban population and underestimates the rural population. Statistics seem nicer this way because relative to its middle-income status in the World Bank’s classification, Turkish rural population is high. Given time, both schemes converge.

**Figure 2.1. Turkish population in census years and future projections.**

![Graph depicting population trends](figure2_1.png)

*Source:* TURKSTAT and the UN. City is defined as province and district centres.

The figures from the 2000 census are in general agreement with the conclusions drawn in a seminal study by Shorter (1995). Using the 1990 census results, Shorter predicted that Turkey had entered a period characterized by a definite and *irreversible* decline in the rate of population growth. Based on the assumption that replacement levels of fertility will be reached in the period 2005 to 2010, Shorter’s study predicted that the population would stabilize somewhere between 95 and 98 million by the middle of the 21st century.

The *Total Fertility Rate* (TFR, for ages 15 to 49) - the number of children women would have by the time they complete their fertile period - stood at about 5.5 in 1970. It was cut by more than one-half by the end of the century. The TFR in 1998 stood at 2.6, slightly below its level in 1993 (HIPS, 1999). Despite the dramatic reductions in fertility recorded in the 1980s and early 1990s, the fact that individuals in their reproductive ages accounted for a large fraction of the population, dampened the slowdown of the population growth rate. The annualized population growth rate was recorded at

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20. Both TURKSTAT and UN projections, which utilize the 2000 census data, make the same assumption as well. Total fertility rate becomes 2.1 between 2005 and 2010. After this population replacement rate has been achieved, Turkish population grows by population momentum for about two more generations.
2.49% between 1980 and 1985 and 2.17% between 1985 and 1990, before reaching 1.83% in the 1990s.

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, 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).

When fertility rates come down fast, age composition of the population undergoes dramatic changes. Examination of the likely evolution of the age structure of the population in 1990 and beyond reveals a dramatic rise (from 44% to 52% by 2010) in the share of individuals between the ages of 20 and 54. The equally dramatic fall (from 35% to 26%) in the share of the youth (ages 0 to 14), combined with the increasing (from 4% to 6%) but still small share of the elderly (65 and over), point at a favourable dependency profile. In Figure 2.2, broad age group composition of the Turkish population is given for 1950 to 2050.

Figure 2.2. Population by broad age groups in Turkey, 1950-2050: Starting from younger age groups, each five-year age group moves up and to the right every ten years. In the age interval of 0 to 39 years, each of these reaches finally a stable value of approximately seven million individuals by 2020. Then young age groups slowly start to decline while older age groups keep pushing up (see also Figure 2.3 (b)).

Source: UN medium variant.
Figure 2.2 reveals important patterns in Turkish population dynamics. Firstly, the population of 0-14 year-olds peaked at 20.8 million in 2000 (see Table 2.1 and Figure 2.3) and will be slowly declining. This may have positive implications on the quality of education because absolute numbers are not increasing. Capacity (infrastructure) investment may be done once for a desired 12-year minimum schooling drive from its current mandatory level of eight years. Further investment then may be quality-improving investment even if the share of education in the budget remains constant.

**Figure 2.3. Population pyramids by broad age groups and gender in Turkey: 2000, 2020, and 2050.**

![Population pyramids](image)

*(a)*  
*(b)*

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

Secondly, 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 (TURKSTAT and UN forecasts, see Figure 2.3). There are approximately seven million people at each five-year age group. Similarly, the upper active age group of 45-64 is increasing in numbers at a decreasing rate. They will reach 10 million in 2020. About 70% of the population will be in the working age range in 2020. This number will keep rising until 2040. This phenomenon is the previously mentioned “window of opportunity” (see also Tunali, 1996). 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 2.3 (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. Private savings might also 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 (Tunah, 1996).

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. This problem is exacerbated by a high proportion of agricultural employment, which is above 25%. Rural-to-urban migrants generally lack skills that urban labour markets require. As a result, Turkish participation rates are low, especially for women. Moreover, Turkish employment creation performance is weak. Even Turkey’s recent strong economic growth performance did not translate itself into a matching performance in employment creation (Erçan, 2005). Finally, Turkey is already experiencing a high social security deficit. These symptoms are alarm signals for the future because the number of available decades to address these problems is not many before the old-age dependency ratio rises. Some of these issues are elaborated in the next section.

2.2. Internal flows between rural and urban areas and employment

Turkish urban population exceeded its rural population in the early 1980s. This was shown in Figure 2.1. In Figure 2.4, population growth rates between censuses are given. The arrows in Figure 2.4 highlight high urban population growth periods. These may be thought of as major urbanization waves, since fertility rates in Turkey were declining as discussed in section one. The increase must have been coming from population momentum and rural-urban migration. The peak growth rates are spaced fifteen years apart: 1950, 1965, and 1980.

If one had census data for the year 2010, then one could calculate rural and urban population growth rates between 2000 and 2010. That is the reason the year 2000 has a question mark. The year 2000 may yet be another high urbanization rate period, but
this may not to be known for sure until the 2010 census results. In any case, the assumed smooth rate shown in Figure 2.4 does not significantly affect medium term predictions in regards to labour force developments. Some support for this assumption is provided later in this section (regarding the specific pattern and the diminished stock of rural population). Note also that, high growth rates sharply fall in later census periods, whereas smoothly declining growth rates that is assumed by the UN may be cumulatively yielding the same number of migrants over a given period.

Figure 2.4. Annualized population growth rates in Turkey (percentage). The 2000-2010 population growth rates are not known yet, hence the question mark for the year 2000. (Growth rates calculated from the UN medium projection are shown for 2005 onwards.)

Source: From TURKSTAT census data for 1927-2000 and UN medium variant forecast for 2005-2045. The author marked with arrows major urban population growth rate jumps (i.e. migration waves to the cities).

21. The author intended to verify this prediction by using electricity consumption data in the migration receiving and sending provinces. However, in the poorer sending regions, there is much electricity ‘loss’ (read theft) that is disproportionate to the general transmission and theft losses overall. The receiving provinces have increased their industrial electricity consumption in 2000. However, before there was a significant upturn in employment, hence a possible intercept jump in the residential electricity consumption, 2001 financial crisis hit. There was jobless growth between 2002 and 2006 for five years. Because of such ‘noise’ in the electricity data, the author could not verify whether the periodic pattern seen in Figure 2.4 did indeed repeat itself.
One would think that a possible data source to check the current state of rural-urban population would be to use labour-force survey data. In Figure 2.5, the non-institutional civilian population of Turkey for 15+ year-olds is shown by city and village denomination. The picture replicates the relevant portion of Figure 2.1 by zooming into it. This is not surprising because TURKSTAT bases its non-institutional population estimates to the latest available census results (i.e. growth rates) and do not adjust until the next census. This has two implications. The first one is that TURKSTAT does not adjust its snapshot of Turkish population for labour force surveys. It will miss unexpected intercensal population movements if there are any. The second implication follows from the first one. In times of rapid change in internal migration movements, population weights and survey sampling of TURKSTAT will fail to capture the existing labour market situation correctly in Turkey (TURKSTAT never makes its population weights available to researchers anyway). The moral of the story is that, the question mark for the year 2000 in Figure 2.4 stays where it is.

**Figure 2.5. Non-institutional civilian population of Turkey, 15+ year-olds.**

![Figure 2.5. Non-institutional civilian population of Turkey, 15+ year-olds.](image)

*Source: TURKSTAT data at www.tuik.gov.tr.*

In Figure 2.6, 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 is five years for males, about four years for females. The effect of the move to eight years of mandatory schooling in 1998 was not yet felt at this segment. Note that, the ‘20,000+’ population definition is used in Figure 2.6 for urban classification.
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 2.6. 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. Without making fertility convergence assumptions for both groups, one may not impute the exact number. (Had the intercensal period been five years, 0-4 year-olds would have been excluded from the chart.) 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.

The dynamics of this migration movement may be inferred from Figure A1. Figure A1 (a) shows the village and city populations of Turkey for 1990 and 2000 censuses. Part of the expansion in the city population of 2000 in the 0-19 year-olds come from villages as has been shown in Figure 2.3. When one looks at the superimposed village population age-pyramids for the 1990 and 2000 censuses, one notices that, 0-19 year-old layers were ‘clipped’ vertically at the outer edge to arrive at ‘smooth’ (equal) population levels below 20 year-olds in 2000 (see Figure A1 (b)). This ‘clipped’ popula-
tion (out migrants) was then slapped into the city population pyramid of the year 2000. This extends the relevant age group in the pyramid more than it would have, had there been no migration. Therefore, starting with the 2000 census and further, the fertile age group in the villages will be smaller (add ten to the young ages) to produce the next wave of out migration. There will be fewer children in the villages because some future mothers have previously moved to cities. (See that the ‘pyramid’ is not a pyramid any more, young and middle age groups are about the same size in Figure A1 for the year 2000.) 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 as in Figure 2.6. Unless there is something extraordinary and whole extended families move out en masse all of a sudden, this author tends to think that previous ‘waves’ of rural-urban migration may not repeat. Instead, there may be a constant flow of the young to cities whose numbers would be gradually decreasing (but still in the millions). This seems to be the implicit underlying assumption behind the TURKSTAT and UN population projections.

If the above conjecture is the case, this makes it easier to analyze education and labour market trends. Internal migration would not complicate the picture, or may do so only transitionally for the coming decade or so. The 2001 crisis and the ensuing job-less growth period of 2002-2004 may have also subdued a strong wave.

### 2.3. Implications of the Turkish population structure

#### 2.3.1. Employment and human capital implications

The population structure of Turkey thus signals the above-mentioned important potential benefit of increasing numbers of the potentially active age group, and two alarm signals. The first signal is that, TURKSTAT-Labour Force Surveys reveal an average annual growth rate of employment that is smaller than the rate of increase in the working age population. Judging by the present-day trends for employment growth in Turkey, job creation rate (which was 0.8% per annum during the 1990s to present) is not expected to match this influx of participants. It did not match it in the recent past. Working age population has increased by 2.2% per annum since the late 1980’s (Ercan, 2003). In the 1990’s and 2000’s, working age population increased at a rate of 1.88% per year. As a result, unemployment rates have been steadily creeping up before they have levelled in 2002 and remained there at 10 ± 0.5%. As the unemployment rate was more or less constant for a long time (until 2001 where there was a steep hike and a new level), labour force participation rates (LFPR) were decreasing, which they still are, especially for women. These developments are summarized in Figure 2.7.
What saves Turkey from its unemployment rate going up is the increase in the number of non-participants that is larger than the population growth rate of those who are 15 year old or above. Employment growth rate in Turkey has been stuck at 0.8% per year since the 1980s including and up to 2006! This pattern of unemployment may soon change, however, as urbanization and education levels steadily go up. Former unpaid family workers in agriculture will be looking for jobs in the near future, as opposed to the present pattern of dropping out of the labour force once they arrive at the cities.

Second signal is positive on the employment side, negative on the earnings side. The increase in service sector employment is at times higher than the average increase in the working age population. As the share of service employment in total employment will be going up, this sector will be picking up some slack, but at low wages. All depends on the pace of agricultural out-migration in the near future. If new employment creation levels are less than the level of new entrants, either unemployment should rise, or LFPR should fall. So far, both are happening.

The above-mentioned increase in the level and share of potentially active population might be put to good use in Turkey (as in Asia in the 1960’s and 1970’s). Asian countries utilized their window of opportunity by concurrent policies aiming at educational and technological improvements.

Turkey will have to increase its average human capital level. Otherwise, there may not be long-term productivity gains in any sector. Worker productivity increase is the prerequisite for employment to shift from low productivity sectors. The trend is slow-

Source: TURKSTAT data, author’s calculations.
ly but surely in favour of dissolving rural employment. Turkey may be about to go through a process of yet faster urbanisation. Turkey has close to 30% of its workforce in agriculture. Until recently, agricultural support programs have been a major component of government spending. Because of recent and current IMF sanctioned stabilization programs, however, agricultural subsidies are mostly phased out. This development should quicken the leisurely pace of rural to urban migration.

In the future, therefore, female LFPR will go up. This will initially exacerbate the urban unemployment problem. The reason is that, agricultural unpaid family workers initially drop out of labour force in the cities as they migrate. Later, more and more of them, as they become educated, participate in the labour force. This will be true both of young males and of females. Current non-agricultural employment growth rates will not be sufficient to absorb this surplus. This problem is expected to hit its peak around 2015-2020 before demographic pressures start to ease.

2.3.2. Current agenda in labour force participation

The Spring European Council (2006) stated the aim of increasing employment as a top priority for reform. A key objective is to increase labour-market participation, especially by young people and particularly young women, along with older workers and people with disabilities. Some of these key EU priorities obviously fit with Turkey’s main priorities and objectives. Although the current public debate on employment in Turkey does not focus on older workers and people with disabilities, urban youth unemployment does receive attention.

There is also awareness of the need to increase significantly women’s labour-force participation in Turkey, but the current situation of female former agricultural workers is probably regarded as more of a blessing at present. This is because, having been unpaid family workers in agriculture, many women who are past education age generally stop participating in the labour market when they move to urban areas. Those women who do participate are likely to be employed informally in low-paid personal services like house cleaning. In Istanbul and in the northwest, young migrant women are likely to find informal employment in the textiles and garment industry. They work until they get married, after which they tend to drop out of the labour force.

As a result, Turkish overall participation rates keep falling: 48%. The urban participation rate is lower at 46%. The female activity rate is very low at 24.8% (2006). The labour force participation rate for youth is 32%. This situation may be proving convenient for policy-makers, who need not worry about designing, financing and implementing active labour-market policy (ALMP) measures for the dropouts.  

22. This is admittedly a difficult task. For example, how would one build and promote the skills of older women with few formal educational qualifications? Has it ever been done successfully elsewhere and to what extent?
Hence, labour-market exclusion and related policies and practices in Turkey essentially have a different context and scope than in the non-agricultural, urbanised and formal EU. Policy developments and priorities at EU level, though generally applicable, are not yet equally relevant given the demographic and labour market situation in Turkey. ALMP measures may fail to make much impact, given so much informality in the labour market and the low level of education (the median education level of the workforce is six years; 62% of employed people have less than high school education). Instead of designing clever and innovative ALMPs, the author’s opinion is that instituting 12 years of mandatory schooling to replace the current eight years would have impacts that are more beneficial.

First, a longer period of mandatory schooling would keep young people out of the labour force while and until they complete upper secondary schooling. Secondly, this measure would create potentially more employable and trainable workers, especially if the outdated education system in Turkey were to be overhauled as well. Thirdly, more education would increase female labour-force participation, a desired objective. Turkey is no exception to this principle; a college education has the greatest impact for women (see Table 2.2). Women who are high school graduates are natural candidates for ALMP measures; their labour-force participation rate is only 31%. Nevertheless, Turkey needs practical solutions as well. These would yield some results in the medium term, while the country waits for the positive overall labour market results from a general education drive.

### Table 2.2. Labour-force participation rates (LFPR) (percentage) by schooling level

<table>
<thead>
<tr>
<th></th>
<th>Male LFPR</th>
<th>Female LFPR</th>
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</thead>
<tbody>
<tr>
<td>Less than high school</td>
<td>72</td>
<td>24</td>
</tr>
<tr>
<td>High school</td>
<td>74</td>
<td>31</td>
</tr>
<tr>
<td>College</td>
<td>85</td>
<td>68</td>
</tr>
</tbody>
</table>

Source: TURKSTAT-LFS data (2006)

Critical points in the Turkish case that explain recent labour supply trends appear to be: a) the low quality of its workforce on average (its education level), and b) now defunct agricultural subsidies that helped to hold 35-40% of the working population in low productivity agricultural activities up to 2000’s. Note also that, while the overall female LFPR has been falling for all women across all education groups in Turkey, at any given year, higher education (especially college) invariably means higher LFPR for women in the LFS data. (The results for men are not this strong.) Ercan (forthcoming) finds that the most significant coefficient for women’s LFPR in a cross-country econometric examination is the tertiary (college) enrolment rate.
Turkish LFPR for men and women are lower at each age group relative to its income level. (Turkish summary data are given in Tables 2.3 and 2.4 for the overall population and for youth, respectively.) For women this difference is huge, ten percentage points in the prime-age group of 25-44, for example (Ercan, forthcoming). That is, current female LFPR of 25% should have been 35%. Although, by 2030, Turkish female LFPR trajectory will have settled to what it should be, given the expected trends in per capita income and education levels, transitional dynamics in the near future depends on political decisions regarding mandatory schooling. Even then, it is not obvious that Turkey would quickly make up for its current low LFPR in the recent future for either gender. The signs are definitely not there yet. Eventually, however, LFPR will increase. Tertiary enrolment rate, which is dependent on secondary enrolment rate that depends on mandatory schooling requirement, is the most significant determinant of a fast rise in prime-age female LFPR, for example. Turkey will get there. How fast is not known now.
Table 2.3. Summary labour-force statistics of the civilian population (by gender).

<table>
<thead>
<tr>
<th>Year</th>
<th>Civilian population</th>
<th>15+ civilian population</th>
<th>Labour force</th>
<th>Employment</th>
<th>Under employment</th>
<th>Unemployment</th>
<th>LPR (%)</th>
<th>Unemployment rate (%)</th>
<th>Non-agricultural unemployment rate (%)</th>
<th>Employment rate (%)</th>
<th>Unemployed employment rate (%)</th>
<th>Non-participants</th>
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<tr>
<td>2000</td>
<td>55,590</td>
<td>35,711</td>
<td>29,567</td>
<td>18,079</td>
<td>1,485</td>
<td>1,573</td>
<td>7.4</td>
<td>17.4</td>
<td>57.1</td>
<td>7.2</td>
<td>15,194</td>
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<tr>
<td>2005</td>
<td>60,841</td>
<td>47,450</td>
<td>32,634</td>
<td>20,812</td>
<td>1,028</td>
<td>1,360</td>
<td>7.9</td>
<td>16.0</td>
<td>59.7</td>
<td>5.0</td>
<td>18,896</td>
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<tr>
<td>2010</td>
<td>66,187</td>
<td>46,271</td>
<td>30,906</td>
<td>21,561</td>
<td>1,021</td>
<td>1,467</td>
<td>6.6</td>
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<td>53.1</td>
<td>4.0</td>
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<td>71,411</td>
<td>56,646</td>
<td>37,554</td>
<td>27,873</td>
<td>2,579</td>
<td>2,696</td>
<td>15.3</td>
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<td>44.2</td>
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<td>2020</td>
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<td>53,668</td>
<td>39,773</td>
<td>28,319</td>
<td>2,445</td>
<td>2,608</td>
<td>15.0</td>
<td>13.7</td>
<td>42.3</td>
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<td>16,013</td>
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<td>1,305</td>
<td>1,212</td>
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<td>1,266</td>
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<td>4.3</td>
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<td>15,344</td>
<td>1,217</td>
<td>1,344</td>
<td>7.9</td>
<td>22.3</td>
<td>34.5</td>
<td>5.0</td>
<td>21,701</td>
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### Table 2.4. Summary labour-force statistics of the young population of 15-24 years of age (by gender).

<table>
<thead>
<tr>
<th>Year</th>
<th>15 - 24 civilian population</th>
<th>Labour force</th>
<th>Employment</th>
<th>Under employment</th>
<th>Un-employment</th>
<th>LFPR (%)</th>
<th>Un-employment rate (%)</th>
<th>Non-agricultural unemployment rate (%)</th>
<th>Employment rate (%)</th>
<th>Under employment rate (%)</th>
<th>Non-participants</th>
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|      |                             |              |            |                  |               |          |                        |                                      |                   |                          |                  |
|      |                             |              |            |                  |               |          |                        |                                      |                   |                          |                  |

**MEN**

|      |                             |              |            |                  |               |          |                        |                                      |                   |                          |                  |
|      |                             |              |            |                  |               |          |                        |                                      |                   |                          |                  |
|      |                             |              |            |                  |               |          |                        |                                      |                   |                          |                  |
|      |                             |              |            |                  |               |          |                        |                                      |                   |                          |                  |
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|      |                             |              |            |                  |               |          |                        |                                      |                   |                          |                  |
|      |                             |              |            |                  |               |          |                        |                                      |                   |                          |                  |

**WOMEN**

|      |                             |              |            |                  |               |          |                        |                                      |                   |                          |                  |
|      |                             |              |            |                  |               |          |                        |                                      |                   |                          |                  |
|      |                             |              |            |                  |               |          |                        |                                      |                   |                          |                  |
|      |                             |              |            |                  |               |          |                        |                                      |                   |                          |                  |
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|      |                             |              |            |                  |               |          |                        |                                      |                   |                          |                  |
|      |                             |              |            |                  |               |          |                        |                                      |                   |                          |                  |

**Sources:** TURKSTAT Household Labour Force Survey.
2.4. Education trends

This section first describes the linkages between education and employment growth. It then summarises the salient points of skill-biased technological change in the world that increases the wage inequality in more flexible labour markets such as the US. The implications for the EU countries that have more rigid labour market institutions are different. There are higher unemployment rates and it is harder for the youth in Europe to get into the labour markets. Turkish case should be analyzed in the light of these global perspectives for the report’s policy proposals to make sense, as Turkey obviously is not an isolated economy.

Compulsory education is short (five years until 1997, eight years afterwards) in Turkey. The reason for this was the high proportion of agricultural employment. Currently at 30% of total employment, it has been steadily coming down from over 40% since the late 1980’s. Children over the age of twelve in farming families were automatically classified as unpaid family workers in the TURKSTAT’s Labour Force Survey (LFS) until 2000. For many decades, families and policy-makers deemed five years of education to be about right in rural areas. Although average urban education levels were higher, compulsory education level remained at five years. This attitude has changed at the same time as rural-urban transition speeded up (as the move to eight years of compulsory education attests to) but stopped there, instead of going up to twelve years of compulsory education.

Early school leaving does not appear to be a serious problem in Turkey at the level of compulsory schooling. As to acquiring basic skills (i.e. the quality of education), the picture is mixed, but hard evidence is hard to come by. However, anecdotal evidence and the results of the nationwide university entrance examination strongly suggest huge regional discrepancies in the quality of education.

Briefly, Turkey has a low average level of human capital; six years of formal education is the median in the general population. The situation is gradually improving, however, since the change to eight years of compulsory schooling. A declining rural population and subsequent access to urban schooling opportunities will also help.

2.4.1. What good is education for employment and growth?23

Abstractioning from short-term business cycle fluctuations, long-term determinants of individuals’ employability are human capital variables, education, experience, and migration. Arguably, education plays the dominant role, at least initially, when it is the only component of human capital during the search for the first job. Recent troubles in France, for example, stressed the importance of social exclusion, which start with an

inadequate access to quality schooling or vocational training, preconditions for employability.

Economists have long agreed on the benefits of higher average education levels and a country’s long-term economic performance. Major provisions of education had been summarized, for example, in OECD (1996). It provides for higher living standards, better health outcomes, increased productivity, and superior well-being for women, and good government (the buzzword is governance these days). It produces knowledge and skills. It contributes to economic growth and therefore to reduction of absolute poverty. It also allows one productive use of one’s own labour, which is the primary asset of the poor.

Long standing tenets of the relation between education and development may be made as follows. Investment in education leads to the accumulation of human capital, which is the key to sustained economic growth and therefore increasing incomes. Note that, education by itself does not generate growth! Education helps create employable individuals and it causes positive externalities mentioned in the above paragraph.

On the demand side, economic growth, hence labour demand by firms, requires macroeconomic stability, well-functioning labour markets, and an open economy. ‘Well-functioning’ may mean different things around the globe. In the U.S., it means flexible labour markets where churning does not have a negative connotation and both employment and wages may adjust, in general. In Europe, a rather forced notion of flexicurity has been put forward to mean flexibility with job security. The desired mix depends on whether one lives in France or The Netherlands, or elsewhere.

Labour market problems in the emerging markets are somewhat different in size or scope from the EU and the US. Latin America and Turkey, for example, similarly lack ‘adequate’ employment opportunities. That is, employment growth was historically less than the increase in working age population. Turkey and many Latin American countries have endured long decades of chronic inflation and financial crises. One needed macroeconomic stability for attracting foreign direct investment and job creation. Despite this apparent truth, Duryea and Székely (1998) made a convincing argument that, demographics and education; the supply side factors drive the labour market outcomes in Latin America. This author is of the same opinion regarding Turkey.

The most significant Turkish advantage in the EU may be its young population, which may well turn out to be its disadvantage. Turkey must impart its young population competitive contemporary skills. Two million high school graduates take the university entrance examination in Turkey every year. The majority, 70%, of these are general high school graduates. They lack occupational competencies.

Younger generations in the world are progressively better educated. This has
implications for unemployment’s composition, wage inequality, and gender gap. At the low-skilled end of the older generations, the proportion of the long-term unemployed may rise. This is the situation in Italy, for example. Wage ratio of the college graduates to high-school graduates may rise if today’s production technology, meaning labour demand, favours the high skilled. This is the situation in the US in the 1980s and 1990s. Gender wage gap may close as education and associated labour force participation rates rise, but overall wages may go down because of increasing supply of workers because of young educated women entering the labour market.

The usual pattern for workers is that real wages increase at a decreasing rate until the peak years of working life between 40 and 50, then slowly declines, presumably because of dated skills. Consequently, labour and development literatures attribute a special importance to the so-called ‘prime age’ group of workers who are between 25-55 years old. They have the highest participation rates, a stylized fact that has clear implications for a country’s development structure. Even in The Netherlands, rising education drives the rise in female employment (Schettkat and Yocarini, 2001) Education facilitates the implementation of technology, which is the real driving force of sustainable economic growth.

Contemporary labour market linkages, through which the above stated education and participation patterns are observed, may be outlined as follows. There have been major shifts in the world labour markets especially in the past three decades. Most notable is the gradual shift of employment since 1950 from goods-producing industries to service-providing industries across the development spectrum. Economic integration and openness (globalization) dictated that this picture is similar in the world because of global economic reforms of the 1980’s and 1990’s: trade liberalisation followed by capital account liberalisation. Labour market implications of these developments for the low-skilled end of the worker spectrum were devastating. The US has performed well in terms of job creation relative to the EU. The cost was an increasing share of low wage jobs and rising wage inequality as the top skilled workers’ wages took off at the same time. EU tries to answer the same job creation challenge through the concept of flexicurity as mentioned before.

24. Rising wage inequality is discussed in the next sub-section.
25. Along with other factors such as more flexible and part-time work arrangements that facilitate women’s entry into the labour market.
26. Flexicurity in the Turkish context is discussed later in the report.
2.4.2. Rising Returns to Skill in the World: Human Capital and Employment Trends

In the developed countries, especially in the U.S., a dominant feature of the labour markets of the recent decades was the rising wage inequality between high-skilled and low-skilled workers (e.g. Borjas and Ramey, 1994). That is, the ratio of wages of college graduates relative to high school graduates and high school drop outs displayed an upwards trend in the U.S, and this in the face of an increasing relative supply of college graduates. Apparently, demand for skill has outpaced the supply, and this wage premium to skill has been observed across industries. There was a plethora of suggested explanations for the phenomenon, from increased labour force participation of women reflecting demographic changes, to declining unionization and manufacturing jobs, which most adversely affected less skilled men, to international trade (e.g. Murphy and Welch, 1992).

Concomitant and correlated with these explanations, the role of technology was later stressed in the literature: new production technologies created in the manufacturing sector tended to be labour saving. As manufacturing declined, service industries have been on the rise, with the related rise in part-time employment (which is relatively more preferred by women) in the developed countries with flexible labour market institutions. This had a profound impact on wages and fringe benefits (the quality) of jobs (Blank, 1990). All told, low-wage jobs grew and income distribution worsened in the U.S. because of technology induced structural change in industry and other sectors.

Concisely stated, in the 1980’s and 1990’s, wage inequality has increased between the high-skilled and low-skilled workers in the US. This was caused by skill-biased technological change favouring high-skilled workers, across all industries. At the same time, some low-skilled jobs have been deskillen: Typical union worker of the 1970’s, white high-school graduates working in the automotive industry, disappeared. Workers that are more educated can adapt to such rapidly changing work environments. Schooling raises productivity and it improves the ability to learn.

In short, technological change facilitated globalization: Telecommunication, computer, and robotic technologies. Information technology reigns supreme and it has scant use for the unskilled. This has implications for the education systems worldwide.

2.4.3. Implications for Turkey

How did these developments reflect themselves in middle-income developing countries like Turkey? Note that, “... middle-income countries that have gone through a similar process of liberalization and integration into world factor and product markets have experienced a strong increase in the demand for skilled labour, and rising labour
earnings inequality (this has been the case in Mexico, Argentina, and Chile, among others).” (Revenga, 1998.) Note also that, increasing education levels (one of the two more important components of human capital, the other being experience) affect both wages and participation rates positively. As urbanisation and education levels increase, women participate more. As they are more likely, in general, to be unskilled relative to men, they stand to be at the losing end of the above-described picture.

A few reasonable predictions may thus be made for Turkey. On the supply side, firstly, Turkey has close to 30% of its labour force in the agricultural sector, which is high relative to the rest of the world (even relative to Egypt). Most of this employment (especially for women) is in the form of unpaid family labour. Agricultural subsidies helped keep this population in the rural areas, now these are gone and urbanisation is steadily on the rise. Secondly, as urbanisation and education levels increase, women participate more.

First, therefore, “modern education must be designed to meet economies’ increasing demands for adaptable workers who can readily acquire new skills rather than for workers with a fixed set of technical skills that are used throughout their working lives.” World Bank (1995, p. 24)! That is, “the global economic environment is demanding higher worker skills.” (Vorkink, 2006). Such skills are not in abundance in Turkey (see the following section), and its education system is not turning out skilled individuals as evidenced by standardised international competency examinations at the secondary level.

2.5. Employment trends

In Turkey, 22.3 million people were employed in 2006 (see Table 2.3 in the previous section). The Turkish employment rate is a low 43.2%. Agricultural employment is currently at 29% of total employment; manufacturing employment is 19%; construction is 6%; most working people are in services. Agricultural employment continues to decline after the phasing out of agricultural subsidies that used to keep people on their family plots.27

Employment rates of the prime age male population (25-54) in Turkey and the EU are very close (80% and 85%, respectively). The difference is in the huge disparity in female employment rates. These are very low in Turkey. Female labour force partici-

27. These support practices are also responsible for the low average education and skill level of the Turkish population. They locked up a huge part of the labour force in the low-productivity agriculture sector for decades. Children would become unpaid family workers, and five years of basic education was regarded as enough. (Daughters were deemed to need even less education – 12% of all women in the labour force are illiterate, 50% have only received primary education.) Mandatory schooling was raised to eight years only in 1997.
pation has fallen below 25% in 2006. This observation is a consequence of the low educational attainment of women. Male and female college graduates have similar employment ratios (see for example, Tunali et al., 2004 and World Bank, 2006).

Among academics in recent years, a consensus figure of 600-700,000 new jobs per year emerged as the bottom line level to maintain the unemployment rate at its present level. This is not happening. What ‘helps’ Turkey now is the increasing non-participation rate (which is exactly what will condemn Turkish growth in the medium term, - another dilemma in itself). It is possible that non-agricultural employment growth could have absorbed the increase in potential labour supply, but this is out of the question with these exit rates from agricultural employment. In 2006, the Turkish unemployment rate was 43.2%. The employment share of small firms (employing one to nine people) in total employment is 64%. This combination of low-skilled former agricultural workers and the prevalence of small firms are conducive to informality in the job market. Strict and formal enforcement of regulations is lax.28

Working time in manufacturing remained flat in 2004 and 2005. However, TURKSTAT data may not be reliable, as the employment index and hours-worked index are highly correlated. That is, the hourly data does not show the expected leads and lags vis-à-vis employment in the business cycle turning points. This suggests a methodological problem that TURKSTAT refuses to acknowledge or remedy. As a result, Turkish labour economists may not analyze hourly levels of productivity and wages.

Workers covered under a collective bargaining scheme peaked in Turkey in 1991 to 1992 at 1.54 million workers (www.tisk.org.tr, employers’ unions confederation website has the statistics). At the peak of union power, 15% of workers were engaged in 500 strikes. Days lost through industrial disputes reached 4.96 million. In 2003 to 2004, unionised workers’ numbers have come down to 954,000. Fifty-three strikes involved 5,100 workers in 2003 to 2004. Days lost through industrial disputes were 238,000. Union membership went down by one third in twelve years.

2.5.1. Youth employment trends

The 15 to 24 year olds constituted 23.7% of the Turkish labour force in 2006 (see Tables 2.3 and 2.4 in the previous section). Employment remains a problem for this group and oddly enough more so for the educated youth group. Paradoxically, with such low average education levels and the demand by employers for better-qualified workers, educated young people (high school and above) have higher relative unemployment rates in urban Turkey (recent TURKSTAT Labour Force Survey results).

28. TURKSTAT reports that the proportion of workers not covered by social security in the workplace is 48% in 2006Q4. This figure is 88% in agriculture and 35% in the non-agricultural sector.
This may be an alarming indicator of school ‘quality’ and difficult entry conditions for new entrants. Employers do not require the services of ‘these’ vocational or general high school graduates. Another factor contributing to youth unemployment may be that rigid employment protection regulations disproportionately affect the young first-time job seekers, as in France.

The 15-24 year-olds have the most unfavourable participation and unemployment rates compared to the rest of the population. Close to 40% of unemployed young people are first-time jobseekers. This ratio has been constant in the past few years.

There is no quantitative evidence to suggest that youth employment is more affected by low wages or temporary contracts, which are general labour market problems. The main problem in youth employment is the transition from education to work.

Youth employment will become an even more urgent issue in Turkey. This is because labour force participation rates (LFPR) for urban youth, especially women, are likely to increase from their current low levels. Urbanisation is the first reason for this. The second reason for increased LFPR is the increasing education levels. Turkey has legislated compulsory schooling level from five years to eight in 1997. Higher educational attainment levels lead to increased LFPR for both sexes.

Judging by the trends in employment growth in Turkey, the job-creation rate of 0.8% may not match this influx of participants. It did not match in the recent past. So far, the working age population has increased by 2.2% per year since the late 1980’s (Ercan, 2003) and 1.88% since 2000. Unemployment rate remained level at around 10% since 2002.

On top of the above underlying trends in the labour market, recent cyclical conditions, namely, increasing productivity growth rate of late did not help the employment prospects of the youth, either. After a severe crisis in 2001, Turkey has recovered and has registered high growth rates in the past three and a half years. This recovery, however, did not reflect itself in employment creation. Employment level was stagnant throughout 2002-2004 and only recently started a mild upward trend. This was due to heavy private sector investment in machinery and equipment, which has caused private manufacturing industry productivity rates to soar (Ercan, 2005a).

Most recent World Bank report on Turkish Labour Markets (2005) highlighted the following:

- Educated youth unemployment is a serious problem: 39% of 20 to 24 year old college graduates are seeking work.
- From 1980 to 2003, the working age population increased by 23 million. Only six million jobs were created.
- Turkey needs to create 13 million jobs by 2010 if it wants to meet the Lisbon targets of the EU.
• Turkey has one of the lowest employment ratios in the world: 44% (2004).
• Women’s LFPR is below 25%.
• Employers do not hire new workers because of the tax burden. They prefer to pay overtime. This adversely affects first time job seekers.

2.5.2. Informal employment

Informal employment in today’s context need better be discussed within the framework of flexicurity (labour market flexibility and job security). The European Commission’s concern that the current balance between flexibility and security in many Member States has given rise to increasingly segmented labour markets is also an issue for the Turkish labour market. Turkey has both a flexible (informal) segment and a secure (formal) segment in its labour market. However, they do not overlap. There are demographic and institutional reasons for these particular circumstances. Mainly, rural-urban migration of the less-skilled population (median schooling level for rural males is five years) will keep fuelling the urban informal employment, despite the falling overall participation rates of women. Clearly, this is not the idea behind the concept of flexicurity. In section 3.2.3, these issues will be fleshed out.

In relation to job creation, especially for the new entrants, one should discuss what is needed in Turkey to establish conditions of ‘flexicurity’ (i.e. whether it is a reasonable framework to reduce informality in the Turkish labour market - note that there is not a widespread public debate on the issue yet.) In 2003, Turkey introduced for the first time flexible types of work contracts into its labour code. These flexible contracts have not however become in widespread use in Turkey during the past three years. There have been other reasons for labour market developments in Turkey over this period that are more related to crisis recovery. Therefore, the verdict is still out on the flexibility and job creation issue in Turkey. As to the security part of the concept, security does not exist in the informal segment, and it is arguably too secure in the formal (large and unionised) private and public sector segment. Changing jobs is hard because of the very stringent severance pay regulations, which are not however honoured in the informal segment. Arguably, Turkey has introduced flexible forms of employment but left the security clauses intact in its labour law. But this is not an indication of “flexicurity” having been a prominent policy priority in Turkey. If this had been the case, the new labour law that has replaced the decades’ old law would have been the subject of greater consideration and consultation (see a later section on the new labour law).

Nevertheless, informal employment does receive political attention. In October 2006, the Turkish Ministry of Labour and Social Security began a ‘Fight Against Informal Employment’ project (acronym KADIM in Turkish). In the press release, it was stated that the informal economy is 50% of the GDP (a third of unrecorded eco-
nomic activity seems to be reasonable for Turkey). Provincial governors and district governors would play a defining role in the KADIM project (there were no specifics). This reminds one of the provincial employment boards that were set up a few years ago. They do not function well because they are headed by provincial governors who are state-appointed bureaucrats. They tend to be more concerned with administrative details then formulating initiatives jointly with the social partners.

One of the aims of the KADIM project is stated as preventing foreign illegal labour migration. The current number in Turkey is given as 100,000 (source not mentioned). It was also said that, if even half of these positions become formalised Turkish labour, this would mean TL 5.7 billion (US$ 4 billion @ 1.4 TL/US$) of fixed investment (sic).29

The press release did include an important policy stance of the Government however. Turkish employer associations have long complained about overhead labour costs. The release acknowledges that reducing such costs would help the fight against informal employment but would seriously reduce public revenues. An example was given; a one-point reduction in social security premium would cost the social security administration TL 600mn (US$ 430 million) per annum. This loss can be compensated for by an additional 315,000 newly active, insured at the minimum wage.

Finally, the release calculates 10.6 million people to be unregistered. Blue-collar non-compliance was given as 3.9 million people, self-employed non-compliance was given as 3.8 million people, and there were 3 million unpaid family workers. The loss of state revenue is cited as TL 17 billion (US$ 12.1 billion) per annum from this informal employment. The self-employed and unpaid worker numbers must be coming from agricultural employment (they are mostly unregistered and the numbers match). The calculation smacks of the simplicity of blanket statements that suggest simple (and wrong) solutions to complex problems.

Case in point: There are 7.1 million retirees in Turkey. Many are relatively young thanks to once extremely generous retirement provision. Of these, 4.1 million continue to work after retirement - 58% of the total. This is an important resource for the informal economy because they do not need additional social security coverage. They constitute 17% of the working population.

Relative poverty is closely related to informal employment status, which is itself related to inadequate human capital levels. While the poverty rate for regular workers was 6.6% and 4.8% for employers, it was 32% for casual workers and 26.2% for the self-employed - who are mostly unregistered in Turkey - in 2005 (TURKSTAT data). This is not a future to relegate Turkey’s young population by denying them a chance to improve on their human capital levels.

29. Calculation details were not provided.
2.5.3. Child labour

Turkey was one of the initial six countries to undertake direct action to combat child labour in cooperation with ILO. Following the 12 years (1992-2004) of substantial contribution of ILO-IPEC (International Programme on the Elimination of Child Labour) to Turkey country programmes, the Government has developed a comprehensive policy and programme framework, clearly identifying national priorities and objectives for the elimination of child labour in Turkey. The National Time-Bound Policy and Programme Framework for the elimination of Worst Forms of Child Labour (WFCL) takes a holistic approach to a multi-faceted problem, taking into consideration the links between child labour and the socio-cultural and economic conditions within which it occurs. Within this framework of principles and commitment, the Government has adopted as its basic target the elimination of WFCL in 10 years (2004-2014).

In response to the Government’s commitments, IPEC has provided support by waging an attack on the main causes of child labour, including poverty and a lack of access to quality education. The IPEC Support Project was formulated in close consultation with governmental and non-governmental organizations, UN agencies, and other donor organizations. The direct action programmes geared towards withdrawing children working in seasonal commercial agriculture, children working in street trades and children working in furniture manufacturing from work environments and mainstream them into education.

The latest Child Labour Survey, conducted in 2006 by TURKSTAT with ILO-IPEC, is an extension of earlier surveys conducted in 1994 and 1999 and shows that the incidence of child labour is falling. According to the results of the three surveys, the proportion of children working (6-17 age group) which was 15.2% in 1994 dropped to 10.3% in 1999 and then to 5.9% in 2006. In the 6-17 age group 958,000 out of the 16,264,000 children were working in 2006. As for the 6-14 age group, 320,000 children out of a total of 12,478,000 were working. Compared to data from the 1999 survey, the proportion of children in this group who are working dropped from 5.1% to 2.6%. The recent survey also shows that of all working children 41% are employed in agriculture, 28% in industry, 22% in trade and 9% in services.

Note that, dropping out of school is detrimental for work life productivity. These children are by necessity in the informal sector and their foregone general skill accumulation makes them candidates for lifelong membership in the secondary segment of the labour market.

There have been some attempts in the alleviation of child labour problem in Turkey by the Government through conditional cash transfers to low-income families.
These programs which provide support to families and make this aid conditional on children attending school or after-school programs have been somewhat successful.

2.6. Unemployment trends

The unemployment rate in 2006 was 9.9%, compared to 10.3% in 2005. Non-agricultural unemployment rate is 12.6%. There are currently 2,446,000 unemployed persons out of 24,776,000 persons in the labour force. The low level of labour force participation rate (48% overall) and very low level of labour force participation rate for women (24.9%) keeps Turkey very far from the EU’s Lisbon agenda employment targets. These targets were 70% participation rate overall, 60% for women, and 50% for older workers 55 to 64 years of age.

Long-term unemployed people (unemployed for over a year) comprise 37.5% of the total of unemployed people, and this proportion is rising. This increase is because population growth in Turkey keeps outpacing employment growth, and educated young people have difficulty in finding jobs (World Bank, 2006, p. iii).

2.6.1. Youth unemployment trends

In Turkey, the labour market situation of young people remains difficult (similarly to the EU). Unlike in the EU, however, the situation is worrying for young urban women in Turkey. The youth unemployment ratio has been stagnating at a high level of around 9% in 2002-2005 (8 % in the EU-25).

The unemployment rate for youth aged 15-24 is 18.7% (858,000 unemployed in 2006). The unemployment rate among educated youth is 23.4%. Turkey has a serious bottleneck in job creation for its young cohorts, especially for the educated portion.

Taşçı and Tansel (2005) have studied youth unemployment durations in Turkey. Table 2.5 reproduces their Table 1 (p. 521). It gives the percentage distribution of unemployment duration by gender for the 2000-2001 LFS raw data. The figures show that the percentage of the long-term unemployed is higher among young women than among young men. These figures are 16% for men and 25.3% for women.

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30. Turkish labour economists prefer to use figures for the urban labour market to make meaningful comparisons with the EU. Close to 30% of total employment is in agriculture, mostly in rural areas.
31. Youth unemployment ratio (as opposed to unemployment rate) is defined as the proportion of unemployed young people (aged 15-24) among the total population in the same age group.
Table 2.5. Unemployment duration by gender for youth,
Turkey 2000-2001 (percentages).

<table>
<thead>
<tr>
<th></th>
<th>N</th>
<th>Less than 3 months</th>
<th>3-5 months</th>
<th>6-8 months</th>
<th>8-11 months</th>
<th>Over a year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Male</td>
<td>2066</td>
<td>36.8</td>
<td>33.3</td>
<td>10.8</td>
<td>3.3</td>
<td>15.9</td>
</tr>
<tr>
<td>Female</td>
<td>1152</td>
<td>30.5</td>
<td>27.0</td>
<td>13.1</td>
<td>4.2</td>
<td>25.3</td>
</tr>
</tbody>
</table>

Source: Taşçi and Tansel (2005), Table 1, p. 521.

Taşçi and Tansel (2005) also report that the highest percentage of the long-term unemployed comprises of high school and vocational high school graduates, 24.8% and 20.6%, respectively. The lowest percentage of the long-term unemployed comprises of non-graduates and for middle school graduates, 10.9% and 15.3%, respectively.

This is a socially undesirable and unwelcome state of events. Part of the reason for this outcome may be that, the educated youth are likely to have higher reservation wages and more motivated to be looking for jobs in the formal sector of the economy. Nevertheless, this state of events reduces the societal value of education in general, and further reduces the societal value attributed to vocational education and training in particular. When ingrained, negative attitudes towards education and training make it hard to design and implement policies to combat unemployment, especially youth unemployment.

The Turkish labour market, therefore, has the following characteristics:
• higher than EU average urban and non-agricultural unemployment rates,
• a low employment rate,
• a high youth unemployment rate,
• a high share of agricultural employment,
• low human capital levels in the workforce,
• an inadequate education infrastructure and outdated vocational training system.

2.7. Wages and working conditions

Gross manufacturing wages increased by 11.7% in the third quarter of 2006 (year-on-year) and reached US$ 930. Public sector gross manufacturing wages reached US$ 1477; private sector gross manufacturing wages reached US$ 877. The public sector still employs 8.5% of the formal, larger manufacturing sector workers. (TURKSTAT sample consists of establishments that have ten or more workers.)

The only other source of data on working time and wages (and also workforce qualification) data in Turkey is TISK’s (Turkish Employer Unions Confederation)
annual publication on labour statistics and labour cost for the formal large unionised
(mostly in manufacturing) segment of the Turkish labour force. TISK publishes since
has come out in October. The report is a well-known reference on labour and tenure
issues in the formal large unionised segment of the Turkish labour market. It is also
used as a reference by labour unions and the Ministry of Labour and Social Security.
Since TURKSTAT does not make its wage data from its labour force survey available,
this annual TISK report and TURKSTAT’s quarterly manufacturing survey employment
and wage index are the only two sources of relatively timely time series wage
data in Turkey. (TURKSTAT publishes the results of its annual manufacturing survey
with lags of two or three years.) TISK surveys workplaces through its member employer
unions. Questionnaires are then compiled and analyzed at headquarters.

According to TISK, hourly labour costs have gone up by 11%; annual labour cost
per person has gone up by 9.5% in 2005 (2006 results will not be out in time for this
report). The hourly labour cost in 2005 in manufacturing was $9. (Consumer prices
rose by 8.2% in 2005.) The real gross hourly wage increased by 1.2%, and the net
hourly wage increased by 1.7% in 2005. Employment in TISK member workplaces has
gone up by 3% (highly seasonal construction and sugar sectors are excluded).

TSIK (2006) survey covers 400 establishments and 200,000 employees (500
employees per workplace, which is very large for Turkey). Metal and metal objects
sector comprise 130 establishments of the 400 (average number of workers per workplace
is 660 in this sector). This is ‘the’ competitive modern manufacturing base of
Turkey. Food industry establishments are fewer in numbers (there are only seven TISK
members) and employ fewer workers per establishment (115 workers). Only 11% of
TSIK members’ employees are women.

Turkish gross minimum wage in 2006 was 531 TL/mo (US$ 380/mo @ 1.4TL/$). Its
net was 380 TL/mo (US$ 270/mo). A new entrant unionised worker’s cost to his or
her employer was 1172 TL/mo (US$ 837/mo) in the metal sector. This is 2.2 times the
gross minimum wage. This worker receives 388 TL/mo as base wage and 324 TL/mo
in additional compensation in bonuses, meals, etc. as stipulated in the union contract
for 712 TL/mo (US$ 509/mo). This net wage is 1.9 times more than the net minimum
wage. Union premium (not corrected for skill differences) is high in Turkey.

More than half of TISK members’ employees have six or more years of tenure
with their firms. (Construction is an exception; 29% do not reach one year of tenure).
Not surprisingly, TISK is an outspoken critic of the harsh severance pay regulations in
Turkey (much more on this later in the report). Since 70% of all TISK members’
employees belong to unions (ranging from just 7% in construction to a high of 95% in
sugar production), labour costs are an issue where employer and worker unions are
historically intimate with each other, as expected. TÜRK-İŞ is the largest workers union
confederation. Its member unions represent 87% of unionised workers (118,000 out of 136,000).

Note that, the TISK publication ignores the recent years’ surge in labour productivity (output per worker per hour) in manufacturing (6% growth in 2005 only). Productivity growth also helps explain stagnating employment growth (which is improving lately). Wages did not grow nearly as much as the surge in labour productivity in the past years (and remained almost flat since 2002) because of the slack in the labour market. Therefore, unit labour costs have been on a downward trend since 2000 in manufacturing.

Most workers in TISK member establishments are married (79%). Two-child families are the norm, 31%. The average education level of TISK members is high. More than half (55%) have high school or vocational high school degrees, 7% have finished college (the average for the Turkish workforce is six years of education). Labour turnover is about a quarter of the workforce (80% in construction).

TISK member establishments are big. All of them employ more than 50 workers. This is the cut-off employment level for compulsory statutory employment for disabled persons, ex-convicts, and other compulsory employment (like terrorism victims or workplace doctors). TISK members’ employment include 3.6% disabled persons, 1.6% ex-convicts, and 1.1% other compulsory employment for a total of 6.2% of their employment. In the cement sector, this proportion reaches 13% because of environmentally related compulsory employment.

While looking nice on paper, these regulations actually fuel informality in the rest of the economy. Many smaller (than average TISK member) Turkish SMEs would be exactly 49 people in size and outsource some services because of the critical threshold. Sub-contractors are notorious for non-compliance or evasions like firing the worker before his or her year is completed so as not to qualify for severance pay benefits.

Although non-wage labour costs are high, one should mention that wages are low in Turkey. The competitive position of Turkey is evidenced by its rising exports and its manufacturing labour costs per unit value added being the lowest among its usual comparator countries in the EU and the OECD region (Portugal, Spain, Greece, Poland, Mexico).

Part of the reason for high taxes in the recorded economy is rampant tax evasion. The director of the Revenue Administration of the Ministry of Finance recently announced a recent tax law amendment. The minimum wage will not be taxed for a family with seven children. This was the Ministry’s move in relation to the frequently voiced demands of the social partners to make the minimum wage tax-free.
3. Review of policy and programme effectiveness in addressing youth employment: Relevance to labour market requirements

Given the broader macroeconomic framework and its impact on employment, this section looks at the policies that may have a direct impact on the employment of young people. Although there are no specific measures to promote youth employment, young people may participate in general measures for education, training and active employment policies.

Part-time employment is still not widespread in Turkey. It does not even have its own heading in the summary labour-force survey news bulletins of the Turkish Statistical Institution. This is similar to the Mediterranean countries of the EU.

3.1. General policies

As mentioned in section 1.4, there is no official comprehensive policy in regards to youth in Turkey. There is neither a specific law nor a sole governmental body for youth. Youth rights and services are included in general laws. (There are even different definitions of youth in these different laws or regulations.) The services included in these laws are carried out by various departments in different public institutions, such as General Directorate of Youth and Sports, Ministry of National Education, National Agency, Social Services and Child Protection Agency, Ministry of Labour and Social Security, Ministry of Health, Ministry of Culture and Tourism, General Directorate of Social Services, Family Research Institute, General Directorate of Security, local authorities, among others.

The General Directorate for Youth and Sports, governmental body under Prime Ministry, gets its mandate on youth from Article 58 in the Constitution on the “Protection of the Youth.” One of the departments of the General Directorate for Youth and Sports is the Department of Youth Services responsible for the youth issues and operates youth centers, camps and clubs in addition to organizing cultural activities.

Youth employment is mentioned in the employment section of the Ninth Development Plan (2007-2013) of the State Planning Organization. The Plan highlights the unemployment problem among young people and as a measure to decrease it, the need for new mechanisms that would respond to the demands of the economy.
and the labour market and, particularly, increase the employability of young people. Employment related issues and the unemployment problem, particularly the urban youth unemployment, have only moved up to the top of the public’s economic agenda in recent years. The Plan describes the strategy to increase the sensitivity of education to labour demand as revising existing education programmes in vocational education and higher education and determining new education programmes according to manpower requirements. However, there have been no funded initiatives thus far.

This state of events will change as Turkey starts preparing its policy documents required of it by its EU, ILO, and UN commitments. For instance, an official policy document for youth and youth employment provisions in Turkey will be the Joint Inclusion Memorandum with the EU, which is still to be published. It will serve as a precursor of the national reform programme on poverty, an EU requirement. Also, Turkey has joined the UN Youth Employment Network, (YEN) and committed to drafting a National Action Plan on youth employment.

Note that, Turkey does not have a youth development policy. Employment related issues and the unemployment problem, particularly the urban youth unemployment, have only moved up to the top of the public’s economic agenda in recent years. Decades of chronic high inflation, series of economic crises, and a succession of failed stabilization programmes (the final 2001 IMF programme has succeeded in terms of growth and reducing inflation rates) had to occupy the economic agenda.

3.2. Employment and labour market

Turkey does not have an employment strategy yet. Work will start on a national reform programme (NRP) on employment after the Joint Assessment Paper with the EU is published. Each EU candidate and member country commits to annual targets in its NRP and the European Commission assesses these at the end of the year. Since Turkey still did not commit to a National Reform Programme on employment (or poverty), youth employment related initiatives remain disconcerted and ineffective.

Part of the problem relates to skill upgrading. Labour market skill-upgrading programs need to be run under the supervision of the Turkish Employment Agency (İŞKUR) or by the Ministry of Labour and Social Security. Since, training and education is met by the same word in Turkish (eğitim), Ministry of National Education (MoNE) has virtually a monopoly not only on general education, but on vocational education and training, and lifelong learning, as well. The outdated MoNE curriculum has resulted in a grave and gross mismatch in the qualities of the vocational system graduates and the demands of the industry.
3.2.1. Education and training

From the labour supply side, a must condition for factor productivity increase is a well-educated labour force. In this context, the eight-year compulsory basic education law in 1997 was a step in the right direction. It must now be followed by a move to twelve years of compulsory education. Failing to do this, just like Portugal and Malta, Turkey will remain at the bottom of the educational attainment ladder in the EU for decades to come. (Portugal remains also on the bottom rung two decades after its membership in the EU. It has waited for membership to increase its compulsory basic education requirements.)

Education is a very good address for the EU’s IPA - structural adjustment - funds. Even if the education budget may stay at its present real levels for some years, an upbeat note will come from the fact that the young age group in Turkey has stabilised in numbers. The 0 to 19 year olds number around 20 million. The downside of this demographic development is that, beyond the compulsory level, schooling ratio is about half, so a move to twelve years will necessitate serious infrastructure investment.

Currently, Turkey has approximately 2.4 million students in secondary schools. A move to 12 years of mandatory schooling would require about twice that many number of students being schooled in about a decade (enrolment ratio is about one half), in order to reach comprehensive enrolment (95%). The move from five to eight years of compulsory schooling required, on average, US$ 3 billion per annum of expenditure since 1997 (World Bank, 2005, chapter one). This may be a good indicator of the required expenditure for a drive to 12-year schooling. One may therefore surmise that the overall cost over a decade or 12 years would be approximately US$ 25 to 30 billion. This is a large outlay.

Although expensive, the impact of such a drive would be felt throughout the labour force. Male and female college graduates have similar employment ratios (see for example, Tunali et al, 2004; World Bank, 2006). This strongly suggests that lack of educational opportunities is the main reason for the low female participation rates in the Turkish labour market. The author believes that social inclusion is mostly about having a decent job, the road to which starts with having marketable skills.

A recent OECD (2006) report, just like the World Bank’s (2006) education report that preceded it, criticised the Turkish education system. The Turkish system channels an elite few to some good schools like science high schools or ‘Anatolian’ high schools where the medium of instruction is English. This is done at the expense

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32. The report assesses the recent macro-economic developments, and praises Turkey for its recent success in its growth rates and falling inflation rates. At the same time, it prescribes strong (and unpalatable) medicine in order to remove the causes of remaining macro-economic fragility. Its labour-market related policy proposals were not received well by the workers’ unions.
of the rest of the system, the ordinary public schools. Average Turkish literacy and math standards are low in international comparisons. Graduates of better schools manage to pass the highly competitive nationwide university entrance examination and then move on to formal sector jobs. Since only general secondary education is geared to providing access to the much-coveted tertiary education, industry demand for vocational skills is unmet.

This education structure fuels and perpetuates labour market segmentation. Far reaching reform and strong political resolve (which will remain absent for various reasons) are required to make headway. Anticipated faster rates of rural-urban migration will exacerbate the education (and later labour force participation) problem in the near future.

A vocational education and training (VET) system linked to the labour market need of creating ‘employable’ individuals and compatible with international standards is evidently essential for the long-term human resources development policies in countries like Turkey.

European Training Foundation (ETF) produced a review of the vocational education and training system of Turkey, at the end of 1999. This report concluded (as outlined in 2000 EC regular report on Turkey’s progress towards accession) “a clear link between the requirements of the labour market and the skills acquired by the graduates of the vocational schools is needed”. The ETF report focused on three main recommendations for the future development of the system: a) increasing the efficiency of the vocational training provision, b) building the institutional capacity, c) improving the provision of continuing training, in particular, with regards to SMEs. Later reports (Akpinar and Ercan, 2003; Corradini et al., 2004) repeated the recommendations, as not much has changed. This stagnation is partly because of a peculiar Turkish educational institution, which is discussed below.

Religious vocational high schools are part of the Turkish vocational school system. In their inception, these vocational schools were few and they educated the ‘imam’s and orators (‘hatip’s) for the state administered mosque system. The only higher education outlets for their graduates were the few faculties of theocracy. Women may not become ‘imam’s in Islam as in Christianity. Although, female enrolment was initially very limited in these schools (1% in 1975), they later have opened up to women. In time, female enrolment proportions in these schools reached the same levels as in general high schools (Ercan, 2003). They had practically become general high schools with a strong religious component in the curricula.

Starting with the 1999-2000 school year, however, new regulations for nationwide university entrance examinations made it next to impossible for vocational school graduates to further their education in subjects that are unrelated to their vocational high school background. The name religious vocational high school was not mentioned
in the regulations but the move was against them. At their peak in 1996-1997, religious schools had an enrolment of over 68,000 and accounted for 27.5% of the students enrolled in vocational and technical schools. By 2000-2001, the numbers were down to 18,000, around 7% of the total.

The Technical Vocational Education System (TVET) currently has 36% of secondary education students. This figure has been constant since 2000. Although development plans drafted in the 1970s and beyond, placed the emphasis on vocational training and envisioned a share of 65% for the vocational and technical component of the secondary school system, this target was not reached.

Turkish vocational and technical education system has a strong organizational infrastructure and regional reach (Akpinar and Ercan, 2003, chapter 3). It is free and lower income families favour the system for their children quickly to acquire marketable skills. A weakness of the system is a lack of strategic planning by responsible authorities, who are resistant to change (Ercan, 2003; Corradini et al., 2004). To this author’s knowledge, MoNE does not use any labour market projections or skills needs analysis and reform the curricula accordingly.

Transition to work is also problematic. There are more unemployed graduates compared with the same age group’s unemployed population (13.5% vs. 11.4% for 2002, see Tunali et al., 2004). This reflects the fact that the qualifications of graduates do not meet the demands of the labour market.

A technical obstacle to promoting vocational training in Turkey was the absence of internationally recognized occupational competency certification. This obstacle has been removed by the enactment of the law on certification. The first positive development came soon afterwards. The Ministry of Culture and Tourism, British Edexcel International, and the Turkish Hoteliers Association joined forces to provide high school graduates with EU-recognized tourism certificates. Training will be provided by three universities in Istanbul, Izmir, and Antalya.

**Apprenticeship system**

The Turkish apprenticeship system is well established. The infrastructure for a system that enhances the professional certification process with a school diploma seems to be in place.

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33. The main authority for the Turkish vocational training system is the Ministry of National Education (MoNE) responsible for the training of skilled workers, technicians, apprentices and others in industry, tourism and trade. Within the tertiary education sector, the Council of Higher Education (YÖK) is responsible for two-year Technician Training Centres that have been set up as part of universities throughout the country.

34. Recent Turkish regulations require certification in the tourism industry.
Turkish apprenticeship training involves the theoretical and practical training of youths who work for businesses in order to learn a vocation after completing compulsory education. They must be at least 14 years old. Those under the age of 19 cannot be employed at a workplace without an apprenticeship agreement between the worker and the employer. Between 1997 and 2001, 620,000 young people received training in courses organised by the MoNE. In 2001, there were about 250,000 students in the entire VET system, roughly half of whom were in apprenticeship training (Tunali et al., 2004, Chapter 6).

Enterprises and social partners are involved in the VET system. Businesses are responsible for the practical training of candidate apprentices and apprentice students. Those businesses, which employ candidate apprentices or apprentice students, are legally required to have a Master Trainer, even if they have only one trainee. Moreover, if the business is training 10 or more apprentices (or apprentice students), then it will have to establish a Training Unit for this purpose.

The only follow-up study on the employment of those who have completed their apprenticeship training was conducted in 1997 by MoNE’s METARGEM directorate (which oversees the VET system). There are no special support mechanisms for employment for the graduates of the apprenticeship system. However, the very working of the system provides the apprentices with certain advantages. In the METARGEM survey, 89% of the respondents stated that they were gainfully employed after graduation or certification. A good portion, 40%, simply kept on working in the workplace that provided the training. Informal networks of friends and acquaintances landed jobs for 36%.

\[ \text{Lifelong learning systems in Turkey: Private Sector Initiatives} \]

In the present economic debate, one frequently hears about active labour market policies (ALMPs), youth vocational training concepts, and the need for reform to tackle the skill deficiencies of the Turkish labour force. Young vocational school graduates (those who are 15 to 24 years of age) have a higher unemployment rate than general school graduates of the same age. This is reflected in the observation that two thirds of secondary school graduates are general high school graduates. Universities can accommodate a fraction of these (less than 9% of over two million who take the nationwide college entrance examination every year). Many young people will therefore have

35. For the general population, Tunali et al. (2004) conducted an analysis of transition to work using TURKSTAT’s labour force survey results. In the Turkish private sector, the highest rates of transition to employment age group are 25-29 for men, and 20-24 for women. Male rates suggest university graduates; female rates suggest low paying trade and services.
diplomas but no competencies. This leads to frustration and, at the same time, it provides a large pool of potential ALMP recipients.

Turkey has recently witnessed an unprecedented private sector initiative, regarding its vocational schools. The largest industrial family holding of Turkey, Koç Holding has been making full-page announcements in the national newspapers. The slogan is ‘Meslek lisesi memleket meselesidir.’ (Vocational school is a countrywide concern - the slogan rhymes in Turkish). They will be granting scholarships at a scale previously unmatched. Koç Holding will grant scholarships targeting regional boarding school students who are usually from less privileged rural backgrounds in the less developed regions of Turkey. Half of the scholarship recipients will be young women.

According to labour force surveys, one third of the unemployed lack occupational qualifications and skills. They are not employable. Many of those that cannot get into college (a small fraction does) face a serious risk of long-term unemployment. Unemployment rate in Turkey has hardly budged in recent years despite economic growth. The irony is that employers cannot find qualified personnel for their vacancies in technical professions. To this end, Koç Holding will provide scholarships for four consecutive years to 2000 students per year to those attending vocational schools.

Turkish students do not prefer vocational schools, as the social status associated with a college degree is higher. The nationwide university entrance examination severely penalises vocational school graduates. Attending a vocational school makes it very hard to get into a college other than one that is related to the student’s field. Koç Holding provides incentives for Turkish young people to choose vocational education by first providing a scholarship, and then providing practical training in their firms. These recipients will be given employment priority in Koç firms. This is a commendable private sector initiative. The outlay is planned to be $12.5m.

Tirkonfed (Turkish Confederation of Industrialists and Businessmen Associations) jointly published with Sabanci University’s “Education Reform Initiative” a report titled ‘Skills, Competencies and Vocational Education: Policy Analysis and Proposals’ in November 2006. The document is a recent example on the Turkish consensus of the poor quality of the vocational education system. It cites the consequences of poor quality as unemployment and lack of social cohesion, and low productivity in private businesses. The report reiterates the risks associated with this problem. It names unemployment and social exclusion, low productivity in the private sector, and falling behind in international competitiveness rankings. It criticises decades-long rigid planning practices and targets set by public bureaucrats that ignored student and family inputs. The report purportedly focuses on the individual student, skills, and competencies within a lifelong learning context. As also evidenced by the Koç Holding scholarship initiative, Turkish private sector now regards itself as a stakeholder in vocational education and lifelong learning. This is a welcome development.
The Turkonfed report analyzes recent demographic and economic developments in order to develop its policy proposals. It reiterates the finding that countries with higher levels of worker qualifications, which had also achieved macro-economic stability conditions that are necessary for sustained increases in factor productivity, grow faster than the rest. These countries are more competitive. When Turkey manages to restructure its vocational education and training system according to existing and potential future demand, it may have an efficient vocational education system that imparts skills and competencies in demand. The report’s number one policy target is stated as ‘reducing curriculum differences between general and vocational education and imparting all secondary school graduates fundamental skills within a lifelong learning perspective’. That is to say, Turkey must have students who have learned how to learn. The existing system fails miserably (as evidenced by educated youth unemployment rates) in its insistence on a version of “manpower-planning” (and this without even education or labour demand projections - not that the approach would have worked!). For example, machinery-usage training on a set of outdated machines passes as vocational training in Turkey. The Ministry of National Education is greatly responsible for this failure because of its unrelenting insistence to administer the system and its total disregard of outside criticism.

The Koç Holding initiative and the recent report by Turkonfed (2006) on skills and competencies are examples of crosscutting private sector involvement in vocational education and lifelong learning. The uplifting part of these developments is that both were private sector initiatives that were concomitant but independent. When the Ministry of National Education and the State Planning Organization considers and accommodates these initiatives, this author believes that there will be progress on the issue of lifelong learning.

The strong element of the present vocational education system in Turkey is its existence in all regions. Its weakness is its cumbersome governance by the Ministry of National Education and its outdated equipment and programmes. A modernization drive is necessary along with a transfer of the system to the Ministry of Labour and Social Security. That way, lifelong learning will also be better managed and both systems will use the same infrastructure.

3.2.2. Enterprise development:

Transparency International (Berlin) has recently announced its 2006 results of the Bribery Index. The former survey took place in 2002. The survey questioned the business image of the top thirty countries that account for more than 80% of world exports. Close to 11,000 businesspersons from 125 countries were asked the following ques-
tion: “How much do the firms from country X offer unregistered payments or bribes?”-rate on a scale from one to seven.

Turkey has been included in the survey for the first time. It immediately ranked among the top four in the world. Turkish businesspersons rank highly in offering bribes in order to secure foreign contracts. Indian and Chinese businesses share the dubious honour with the Turks. This observation mainly stems from the fact that most Turkish foreign contracts are in Russia, a country that belongs to the top four in bribery itself. Swiss and Swedish firms engage in the practice the least. Corrupt business practices are thought to be more common in Turkey than in the industrial countries. Such practices increase business costs and lower the quality of output in government contracts. Turkey ranked 69 out of 159 countries in the 2005 Corruption Perception Index.

Much of the problem is due to excessive red tape. Turkey requires the most permits and licenses in Europe for establishing a business. The World Bank (2006) is another recently published report (*Doing Business*). The report investigates the number of licenses and permits and their cost in establishing a new business in many of the world’s countries. It also reports a ranking for ease of doing business for individual countries. Turkey and transition countries in Europe require the most bureaucratic transactions; Scandinavian countries require the least. Note that there is a high degree of cross-country correlation between the amount of red tape and perceived levels of corruption, which is detrimental for a sound business environment.

In Turkey, there are 32 separate legally required transactions. The Czech Republic comes second with 31 transactions. Denmark requires seven; Sweden requires eight legal licences or permits. Turkey is also the most costly country in Europe for the total cost of these bureaucratic transactions. They cost 28% of per capita income (over EUR 1,000). Turkey ranks 93rd out of 155 countries in an index of ease of doing business.

### 3.2.3. Flexicurity issues: Recent addition to the Turkish debate

Labour flexibility is typically implicitly or explicitly associated with economic growth performance. This association has been enforced in the volatile global economic environment of the 1990s. Regional crises are now more contagious and spread across continents among the emerging market economies. Under these economic conditions, what then is the optimal balance between the economic need of flexibility and the individual worker’s need for job security of which severance pay is a major component? The concept has been important for some years in Europe now that it is called flexicurity.

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36. This sub-section draws freely on Ercan (forthcoming).
The flexicurity related issues in the context of job creation and social inclusion are only recent additions to the labour debates in Turkey. Only since the beginning of 2006, have politicians and social partners been talking about the concept. The way flexicurity is translated into Turkish (güvençeli esneklik), ‘with security flexibility’, the emphasis is on security: Secure forms of flexible employment. For women who are more likely to be employed without social security, this security emphasis in the social debate is a welcome concept. Employers’ associations commend the flexibility element of the concept. Workers’ unions criticise this attitude and hold the security clauses in the Turkish labour code close to their hearts, emphasising the need to protect the job and not the worker. This is the current context of the debate about flexicurity in Turkey, and as such, it represents a contrast to the Danish position, the source country for flexicurity policies.

The problem is that workers’ unions represent less than 10% of the employed in Turkey. A flexicurity debate, which takes place only between the usual social-partners (employee and employer unions), is thus severely limited and flawed. Excluded from the debate are current and former agricultural workers, almost all service sector employees, and almost all women workers; that is, the unregistered or unorganized components of the employment picture. These are the very groups for whom this report is trying to map a youth employment situation.

At this stage public debate on the new concept of flexicurity (as the 1990s Danish labour market practices to combat unemployment came to be known from 2000), is limited to only knowledgeable labour market actors in Turkey. Outside of the academic domain, TISK’s (Turkish Employer Unions Confederation) monthly magazine İşveren (Employer) has only recently (in June 2006) published an information article on flexicurity. It starts with the definition of the concept and provides the four by four flexibility/security trade-off matrix of Wilthagen et al. (2003) (without referencing the source). The article proceeds with the four typologies of the European social models as published in the Belgian think-tank Bruegel’s policy brief (Sapir, 2005).

Sapir (2005) has grouped EU member states along the axes of equity and efficiency (in labour market and social policies). Low-low countries are the Mediterranean countries; high-high countries are the Nordic countries; low-equity high-efficiency countries are the Anglo-Saxon Member States; and high-equity low-efficiency countries are the continental Member States. Medeiros (2006), in his presentation to SYSDEM experts in Brussels in September 2006, reported the results of a clustering analysis, which employed Eurostat data, along flexibility and job security dimensions. These results have the same four groups as Sapir (2005) and an additional eastern (new

37. European Commission System of Independent Labour Market Experts. There is one for each member and candidate country plus Norway.
member states) group (a few countries belong to different groups in Medeiros and Sapor studies). Continental Member States are closer to the centre in the Medeiros (2006) analysis. Turkey is not included in the above-mentioned studies. This author is of the strong opinion that Turkey would have belonged to the Mediterranean group, which consists of Spain, Italy, and Greece in both of the studies.

Before this İşveren article was published, a discussion in a TISK meeting introduced the concept of flexicurity. TISK organized a ‘Women’s Employment Summit’ in February 2006. The summit’s closing brief included some important observations. Legal infrastructure in Turkey concerning equal opportunities is on par with the developed nations, but what are lacking are institutional and educational infrastructures (verbatim translation). One in four women is in employment and mostly women are employed in agricultural or informal employment; the reason for women’s low employment is low educational attainment and consequent lack of skills and competences; one in five urban women is unemployed, one in three young educated women (high school and above) is unemployed.

The reasons behind this negative employment picture of women were stated as the lack of an appropriate national employment strategy, and labour regulations being excessively protective for women while at the same time lacking EU-style flexicurity methods, which make establishments very reluctant to hire women. High labour overhead costs that fuel informality, and low levels of general and vocational human capital are identified. To this author’s knowledge, the first discussion in Turkey about a lack (in practice) of EU-style flexicurity instruments in terms of labour market problems took place in a general meeting of several NGOs. Women’s organizations seem to embrace the concept, which contrasts with the position of the mostly male workers unions.

More recently, definitions of and background information on flexicurity has started to appear on the web pages of various unions. Ministry of Labour and Social Security’s monthly bulletin includes translated articles on flexibility on a frequent basis. Workers, unions are yet to be convinced on the merits of flexicurity.

Social Security modernization in Turkey:

In a related note to high employment costs, one must briefly mention a major labour market institution. Social Security Institution (SGK) has finally been operationally activated in Turkey and subsequently the Constitutional Court has declared a portion of its legislation unconstitutional. The court wanted to keep the privileged white-collar public employee pension and health care provisions intact. SGK sought to unite the tripartite pension system of Turkey: Bağ-Kur that covers agriculture and the self-employed, Emekli Sanıği (ES) (Pensioner’s Chest) for government employees,
and SSK (Social Insurance Institution) for blue-collar workers. SGK has been established a while back but there were disputes about its operations and status. For example, the Ministry of Labour and Social Security was reluctant to give up its power over the former institutions.

The crux of the matter is as follows: Turkish life expectancy at 74 years is lower than the European life expectancy of 80 years but Turks spend 27 years in retirement as opposed to 21 in Italy or France, for example. This is because the average retirement age in Turkey is 47(!) whereas it is 59 in Italy and France. Although such an early retirement age is not possible any more in Turkey, the damage had been done by past politicians. Once established as a right, Turkish Constitutional Court annulments of previous reforms forced the reformers to adopt a gradual phase-in of increasing retirement ages.

As of January 2007, there would have been one pension institution for all types of working people. Uniformity in benefits is a thorny issue, however. ES has traditionally been the most generous of the three and many in the public service fear a reduction of benefits. The present system is not sustainable, which prompted the move for reform in the first place. Turkish social security deficit is expected to reach 5% of GNP in 2007. Pension payments amount to US$ 33.5 billion, health expenditures amount to US$ 16.4 billion. Revenues do not match the expenditures. The deficit is rising exponentially; there is an urgent need for reform.

The recent social security reform that attempted to unite the tripartite structure of pension institutions in Turkey did attempt to increase the retirement age. For those who start working in 2007, current retirement regulations would remain the same until 2036. Afterwards, the retirement age would start to rise to reach a retirement ages of 68 in 2075.

Part of the solution, supplemental private pension systems in Turkey began in late October 2003. The deadline for transferring previous life insurance contracts to the private pension system without any transfer costs have now passed and 88,000 people have transferred. The total number of participants in this crucial part of the social protection system has reached 993,000, which is a satisfactory outcome in three years.

3.3. Labour legislation and labour market policies

3.3.1. Labour legislation: A critical assessment

In recent years, economic growth in Turkey has followed on from years of hardship, although jobs have not arrived in parallel to growth. Flexibility, in an informal labour market setting, in terms of falling real wages and employment losses was wide-

38. Freely draws on Ercan’s (2005) EEO Review (Spring) article with additional comments.
spread, despite protective laws that have not been (or could not have been) applied. A new labour code in 2003 aimed at formalising flexibility and combating informal employment.

The process of EU accession has provided strong incentives for various institutional changes in Turkey. Labour market regulations have been an important area in the adoption of the EU acquis. The new Turkish Labour Code (2003) replaced a decades-old former law. The Labour Act no. 4857 came into effect on June 10, 2003. It replaced Law no. 1475 that had prevailed for many decades. It includes a number of innovations that stand to change the long existing labour market practices in Turkey. However, it is still early for an econometric impact analysis of the new law for two reasons. Firstly, the law has been in effect only for a short time. Secondly, Turkey has been recovering from a severe economic crisis since 2002, but this recovery was jobless until late 2004. Therefore, the productivity increase argument and employer reluctance to hire under the new (and weak) job security regulations argument may not be disentangled now (although the empirical evidence points to the productivity argument).

The new law’s innovative feature is its formal introduction (or, in some cases, official acceptance of existing practices) of new modes of employment like part-time work regulations and flexible hours arrangements. Purportedly, the new code tries to link national labour market practices to policy developments and priorities at EU level. What makes the new Labour Act original for Turkey is that it entails flexibility and atypical forms of employment, which were not recognized in the previous labour law as these changes met with union opposition.

The new Labour Act did not touch Turkey’s rigid employment protection schemes. This is frequently mentioned as an important factor that contributes to the widespread informal employment arrangements. Employers demanded flexible employment regulations. A balance had to be struck between making enterprises more competitive and productive through flexible forms of employment and satisfying workers’ demands for job security.

Employer associations’ demand for greater flexibility in working time (flexitime) that would enable them to eliminate overtime (and reduce labour costs) was met in the new labour code, despite labour union opposition. As long as normal weekly working time does not exceed 45 hours and daily working time does not exceed 11 hours, the arrangement of weekly working time is left to the employer’s and employee’s mutual agreement.

The law also regulated compensatory work and short-time working. The objective of the short time working arrangement was to allow a temporary decrease in work-time in order to prevent imminent lay-off. This is important in times of crisis. In Turkey, much of the employment cost is not related to actual working hours. Firms, therefore, may not reduce their labour costs by much even when there is no production. Later,
compensatory work may be undertaken by workers within a two-month period to compensate work stoppage for compelling reasons (e.g. a general economic crisis). Compensatory work cannot be considered overtime work and cannot be performed during rest days.

In addition to working time flexibility, the new law also introduced employment mode flexibility (atypical or non-standard work). These changes include part-time employment, fixed term contracts, and temporary employment. None of these forms was acknowledged before in Turkish regulations. A fixed-term contract is an employment contract whose termination is pre-determined by objective provisions such as reaching a specific date or completing a specific task. Fixed-term contracts cannot be renewed unless there is strong reason requiring their renewal. In case of renewal, it will be reclassified as an open-ended labour contract. This is expected to prevent their misuse in the form of successive fixed-term contracts. A part-time worker’s normal hours of work are substantially less than the normal hours of work of a comparable full-time worker in the rest of the industrialized world, 20 hours a week. The law simply recognizes and regulates this form of work. On-call work is part time employment where a call to work is made by the employer. The duration of work has to be at least four consecutive hours in a day unless otherwise specified by the parties. In a temporary employment relationship, user firm, interim work agency and the temporary worker are involved. The worker has a contract with the agency rather than the firm. During the negotiations phase, proposal for this form of employment met with great opposition from the labour unions and the opposition party. In the end, its scope changed: An employer may hire out his workers to another workplace to be utilised in a similar job for at most six months. This is renewable only twice. This is referred to as temporary work in the Turkish code.

All job security regulations are for the formally employed and benefits relates to the defined contribution and defined benefit. (There are no means tested social transfer programmes for the needy in Turkey.) The poverty surveys of the TURKSTAT repeatedly identified the (socially excluded) poor as non-participating (rural) women; uneducated (unskilled) component of the labour force across all age groups and both men and women; and casual daily-wage workers who are not covered under any social security organization.

Termination by an employer through a written notice of dismissal has two set of rules: One for workers who are provided with increased job security and another for workers who are not provided with increased job security. (The distinction was made for the sake of growth and job creation in small and medium-sized enterprises.) Increased job security is provided for workers employed under an open-ended labour contract. They must have been working for a period of at least six months in the establishment where at least 30 workers are employed (this is very large for Turkey; 90% of
manufacturing establishments employ less than ten workers). Depending on the tenure with the firm, advance notice durations are set. If the employer does not wish to comply with the notice period, he has to pay advance notice compensation. Expiration of the fixed-term contract is the second mode of contract termination. A worker who is not covered by increased job security provisions may be dismissed for any reason or for no reason. The employer may not dismiss abusively (burden of proof of abusive dismissal lies with the worker). The worker will be entitled to severance compensation if he/she has had at least one year of service with the employer.

In short, the termination rules hardly cover more workers than the previous regulations. These larger firms would likely to be formal, large private sector establishments, which are likely to be unionised. They had termination security clauses in their union contracts. Another rigid component of the employment protection legislation is the severance compensation. Severance compensation was very important in the Turkish labour relations system because there was no unemployment insurance system before 1999. The fact that there were no amendments to the existing system in the new Labour Act is due to labour union opposition.

Severance compensation is the lump-sum payment made to a worker if he/she worked for at least one year and if his/her labour contract is terminated according to stipulated specifications. These specifications are death; compulsory military service; retirement or disability benefits; female worker getting married; worker’s termination of employment for a ‘just’ cause; employer’s termination of employment except for reasons of serious misconduct and immoral behaviour.

Severance pay institution is worldwide and Turkey has one of the more generous and rigid implementations of this institution on paper. When it comes to implementation, public sector and formal large (more than 30 employees, who are likely to be unionised) private sector blue-collar employees are covered by severance pay legislation. Informal sector small establishments will not abide by the law. Unregistered employment is common and registered low-skilled workers are likely to be fired at the last day of their annual contract and rehired the next day. They do not become eligible for coverage this way.

Turkish severance pay regulations are the most severe in the world according to World Bank (2006). For twenty years of service, 20.1 months’ (112 weeks’) salary is paid for severance pay in Turkey (OECD average is 6.1 months’ pay; there is no statutory severance pay in the US).39 Turkey has now instituted unemployment insurance.

39. Severance compensation is thirty days’ pay (last daily gross wage) for each year of service at that workplace. This may be increased by individual or collective agreements. There is a ceiling on severance compensation, which is the retirement bonus of the highest-ranking civil servant (the undersecretary to the prime minister). This is a popular benchmark public position in Turkish labour practice. This cap not withstanding, the stipulated provision is the most generous in the world – Netherlands come close - (and possibly the most circumvented as well).
UI, therefore, covers the unexpected wage loss component of the severance pay institution. Turkey should now move towards a system of predictable and permanent wage loss compensation for separations. Note that, in Europe, severance pay regulations do not apply to retirement.\textsuperscript{40}

Unemployment insurance Act no. 4447 was dated August 25, 1999 and was introduced before elections and before the rest of the new labour law. Later it was absorbed into the New Labour Act. Payments began in March 2002. Insured blue-collar workers who lose their jobs benefit from the unemployment insurance system but not civil servants or the self-employed. The amount of monthly compensation is thirty times half of last net daily income of the worker. It cannot exceed net minimum wage. In order to be eligible for unemployment benefits, a worker must have been formally employed and insured for at least 600 days during the three-year period before contract termination. He/she must have been continually employed in the final 120 days prior to contract termination. In order to qualify, the worker must also register with the Turkish Employment Office in person, seeking a new job. Payment duration depends on the length of employment and it ranges from six to ten months. It soon became obvious that far too few workers could meet these stringent eligibility requirements. The fund grows at a rate much faster than the benefit payments.

Severance pay is not the only tool of labour market rigidity. Including unemployment insurance payments, employers contribute to social security 21.5% to 27% of base pay. This is very high; moreover, the state does not contribute; workers contribute 14% of base pay. The government oversees a snowballing social security deficit (over 5% of GDP, around US $ 20 billion) on an annual lump sum basis. The new labour law stopped short of changing anything about labour costs. As a result, out of an outlay of 100 by the employer, only 53 find its way to the employee (TISK, 2006). Turkey is the OECD champion in this indicator.

Pay for actual normal working hours constitutes on average 37% of labour cost in Turkey. Gross wage components like statutory bonuses or social assistance comprise as much (37%) of total labour cost. The remaining 26% is employers’ legal obligations (excluding taxes forwarded to the Ministry of Finance on behalf of the worker; this is also a statutory employee obligation). (OECD average is 19%.) This low dependence of labour cost to actual working hours introduces an undesired rigidity in times of a crisis. Firms’ labour costs may not be significantly reduced even when there is no production. Most of the labour cost is for keeping the worker on the payroll.

\textsuperscript{40} One may consult the proceedings of a recent Peer Review meeting organised by the European Commission on severance pay reform in Austria. The papers are available at www.mutual-learning-employment.net
A critical assessment

The alleged strength of the new law for employment creation was its introduction of flexible forms of employment. Its weakness (from an employment creation point of view) is its keeping the previous law’s employment protection legislation intact (in practice).

It is still early for a thorough evaluation of the new labour law in terms of formal job creation. It has been in effect since the summer of 2003. This is a short time for adaptation after many decades under the previous labour act. Moreover, this first phase of implementation coincided with the jobless recovery period after the severe financial crisis of 2001 and early 2002. TURKSTAT data on employment growth for 2004 and 2005 does not attest to a success of the new instruments. Unemployment is only very slowly coming down, and urban educated youth unemployment rates have not budged.

The incidence of economic recovery since 2002 and jobless growth prompted a heated public debate, which continues to date. Employer organizations were quick to criticise the new Labour Act (2003) that has replaced the old one. The job security clauses (which amount to a firing tax on the employers) and severance pay were blamed for the employer reluctance in expanding employment (never mind that the applicability of job security clauses being rather limited). The question was (unfairly in this author’s opinion) posed as why would one still need severance pay, now that Turkey has finally institutionalised unemployment insurance.

On the other hand, the new Labour Act specified, for the first time in Turkey, flexitime and flexible work regulations. These were strongly opposed by the workers unions. Workers unions countered the employer’s job security argument with a forceful “Now, you have all the flexibility you had wanted for decades, and you still failed to create jobs.”41 42

As it is, one is not in a position now to assess the new labour law’s impact on the labour market. Because of the productivity increase factor, one may not yet debate whether the new labour law had the ‘right’ mix of flexibility and job security, ‘flexicurity’, for Turkey.

Nevertheless, one may talk about an interim grade report. In the second half of 2004, employment started to grow and 644 thousand new jobs were created in that year. TURKSTAT reported that non-registrants increased from 51.7% to 53% of the

41. From a speech by Salim Uslu in April 2005, the president of one of the three major workers union confederations, HAK-IŞ (the other two are TURK-IŞ and DISK).
42. The specific reason for the lackluster employment performance in 2002-2004, however, was partial labour productivity increase (Ercan, 2005). Productivity has been improving in private Turkish manufacturing sector while real wages have been going down. Almost two years into the macroeconomic recovery, employers started hiring again after having invested in equipment and machinery. This observation has also been borne by increasing capital goods imports, which is an indicator of future production and productivity increases.
total workforce from 2003 to 2004. Most of these were unpaid family workers in agriculture. In urban areas, 37% of all workers did not belong to a social security organization. These numbers imply that only 30 thousand out of 644 thousand new jobs were those that had social security registration! The new labour law introduced flexitime regulations and flexible modes of employment, citing a need for formal employment creation against high informal employment. If one had to judge the Labour Act’s performance in its second year with 2004 data only, the picture did not look nice at the time.43

As a result, the severance pay debate rages on. Academically speaking, severance pay is a compensation mechanism for unforeseen permanent income loss (because of job termination) or foreseen permanent income loss (because of retirement). The mechanism for unforeseen temporary income loss component of job termination is unemployment insurance.

In the debate, employers association TISK (Turkish Employer Unions Confederation) posits that there is no further need for severance pay, now that there is unemployment insurance. This argument ignores permanent income loss compensation. Labour unions counter with the argument that, severance pay is simply a component of gross wage. This argument conveniently ignores (especially for smaller establishments) a cash management crisis that will ensue in case of a (by definition) unforeseen economic crisis. (The problem of the firm here is the well-known design problem of an insurance ‘pool’ against such an eventuality. The new ‘mandatory’ Austrian system removes this uncertainty component from the firm’s point of view; a desirable outcome that requires universal coverage, which is only possible by legal regulation.) Moreover, recent empirical findings, on the impact of severance pay on the labour market, find that firing tax view that dominated the academic literature since Lazear (1990) is not necessarily the one that is observed. Given the institutional setup of many EU countries, severance pay is much more like a transfer payment than a tax from the firm’s point of view (Garibaldi and Violante, 2005).

This outcome may not be considered a success in terms of formal employment, which the new law sought to expand by introducing flexible labour market institutions. Note that, informal (unregistered) economy does not necessarily mean small and clandestine. In many otherwise formal establishments, it is common practice to register workers at the minimum wage and provide additional compensation in so-called ‘envelope wages’. This is because of the high tax wedge on wages in Turkey. Net pay is

43. The employment picture did not improve later by much, either. By June 2006, the non-institutional civilian population of Turkey has risen to 72.6 million, with an annual population growth rate of 1.4%. The working-age population has risen by 870,000 from June 2005, reaching 51.6 million; its annual growth rate is 1.7%. Employment growth rate was only 0.6%!
about half of gross wage and only 40% of net take home pay in large formal private
manufacturing is related to actual hours worked. The rest is fixed overhead. Add to this
the lack of marketable skills (low levels of education) of most Turkish workers; the
work environment is conducive to unregistered work.

Non-compliance with the rules encourages flexibility (minimal hiring and firing
costs) for unskilled workers in low value-added, low-productivity activities such as
working from home in the garment industry, and clothing industry production of brand
names in small firms. The smaller the firm, the more likely there is to be non-compliance
with labour and tax regulations. Enforcement against undeclared work is weak in
Turkey. High employment taxes and weak enforcement of labour laws still sustains
flexibility without security in the Turkish labour market.

3.3.2. Active Labour Market Policies in Turkey

A recent paper by Bergemann and Van den Berg (2006) surveys the effects of
active labour market policies (ALMPs) in Europe. They assess the impact on measur-
able labour market outcomes like employment and income. They focus on adult (over
25 years of age) female individuals without work in European countries. They consider
prime-aged women because they acknowledge the fact that younger individuals
often face a different set of labour market policies in the EU (the so-called ‘compre-
hensive approach’).

For attacking the urban youth unemployment problem, Turkey may well set up a
youth unemployment task force, as The Netherlands did. The transferability issue of
this Dutch practice has already been discussed by a Turkish labour economist and it
may be found in www.mutual-learning-employment.net website.

Nevertheless, studying ALMPs for prime-aged women is still instructive in order
to expose the main elements of typical ALMP practices. Bergemann and Van den Berg
(2006) evaluate skill-training programmes, monitoring and sanctions, job search assis-
tance, and employment subsidies for prime-aged women. They relate the results to the
relevant level of female labour force participation (LFPR) using OECD online statis-
tics database.

One must mention at the outset a key difference with Turkey, because it bears
directly on a discussion of transferability. During the past decades, female LFPR has
risen in most European countries. It has fallen and it keeps falling in Turkey. Therefore,
the European challenge is on the margin: assisting more and more (relatively less
skilled) women to participate in the labour market. The Turkish challenge is on the
body mass: assisting (uneducated) women to participate in the labour market, young or
old. Note that, in the labour economics literature, a low participation rate implies a high

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sensitivity of female labour supply with respect to wage (a high wage is associated with a better job, or synonymously a better occupation, because of higher productivity). “In Europe, historically, the average education level of non-participating women in economies with low female LFPR was not particularly low, so that the potential for their productive participation was relatively high.” (!) (Bergemann and van den Berg, 2006, p. 5.) This certainly is not the case for Turkey (see Table 2.1). In this author’s opinion, Turkish older women need more than a reasonable push that may come from a targeted ALMP initiative, for example. A similar programme is likely to be more expensive and less efficient (in terms of policy effects) in Turkey than it would have been in Galicia, Portugal, or rural Ireland now (countries identified in the EU’s EQUAL and Peer Review websites, http://www.peer-review-social-inclusion.net/ and http://ec.europa.eu/employment_social/equal/index_en.cfm).

The results of the surveyed studies are nonetheless informative. The majority of the studies that the authors surveyed found positive effects of training on labour market outcomes of women, for all types of training. (In countries that already enjoy a high female LFPR, like former East Germany, Denmark, and Sweden, there were no gender specific effects, as expected.)

This author, therefore, proposes a policy with a general education focus, which is in line with lifelong learning. A general education drive to improve senior high school completion for the young must be complemented by adult education programmes, especially for the first and second-generation rural-urban migrant young and prime-aged female population. Adult education programmes are very similar to skill training programmes. They both aim to enhance employability and productivity (Bergemann and van den Berg, 2006, p. 10). After the adult education drive, they must be given job search assistance or further skill training as the situation merits. This approach does not depend on age, but it is likely to focus on the younger cohort anyway. Their expected future income gain is larger than the older cohort’s is. Such assistance has been found to have favourable effects on employment outcome measures in the EU. In a country like Turkey, where female LFPR is much lower than the male LFPR, this policy mix of front-loading adult education followed by ALMP initiatives for prime-aged women is likely to have a significant positive impact (if it can be financed and sustained, which are two big conditions).

Only after a drive such as that proposed in the above paragraph, can some of the initiatives mentioned in the EQUAL website become feasible in Turkey (e.g. the young social entrepreneur programme in Galicia). In the meantime, the government must also attempt to remove some of the institutional constraints on increased female LFPR such as promoting day care facilities (perhaps a national action plan for childcare could be
a way forward?44). This necessitates a dedicated monitoring drive and the removal of some institutional obstacles, which may come into effect any time, concomitant with the education/training drive. Social partners must be made a part of this monitoring activity.

A second institutional bottleneck in the Turkish labour market is a lack of flexible work arrangements to increase the employment of women. Part-time work arrangements account for most of the observed increase in female LFPR in Europe. The legal infrastructure is in place in Turkey now, but not the expected results yet. Any discussion on ALMPs in the rest of this report must be read with the preceding caveats in mind. An eclectic approach of collecting and collating various good practices around the world is not the way to go in tackling the youth employment problem.

The Turkish Employment Agency, İŞKUR, has been implementing Active Labour Market Programmes in Turkey over the past few years. Active labour market policies (ALMPs) in Turkey equate to training programmes.

The most significant initiative regarding active labour market policies (ALMP) was the actual launch of the “Active Labour Market Strategy” programme on January 2005, after some two years of preparations. The EU and Turkish Employment Agency funded 245 projects under this programme. The impact of this initiative was small. The project activities were hoped to increase the employability of the target groups in order to boost employment at the local level. The target groups were unemployed young people, women, long-term unemployed, people registered with İŞKUR, migrants from rural areas, ex-convicts, and all other unemployed person. As one can see, unemployed young people are one of the seven target groups in the most significant ALMP programme in Turkey to date.

Earlier, İŞKUR’s most significant project aimed at capacity building and funding some small local projects. The EU provided € 40mn, and the Turkish Government another € 10mn. Capacity building constituted training İŞKUR personnel and constructing eight pilot offices as model offices to be replicated later in other locations. Twenty provincial İŞKUR offices have now been built in this way. The project finished at the end of 2005.

After a few years of gaining experience, İŞKUR managed to train 11,400 participants in its ALMPs in 2005. This is slow going, despite much enthusiasm and goodwill on İŞKUR’s part. Its institutional capacity must go up by about tenfold, at least. The political climate is suitable for an unemployment drive. Turkish gross domestic product has been growing steadily since 2002, yet employment growth only started to

44. There has already been some civil society initiatives for pre-school. They may be financed and sustained.

The EQUAL policy brief “Tackling gender gaps = Tackling skill gaps” mentions all possible policy priorities on the issue.
recover slowly after 2004. This episode of jobless growth propelled Turkey’s unemployment problem to top place in public opinion polls.

Another significant ALMP programme of İŞKUR targets workers who become unemployed after privatization. They are eligible for generous unemployment benefits for ten months. During this time, they are re-trained in programmes of their choice. No statistics are compiled about their labour market status after completion of their re-training.

This author’s preliminary qualitative assessment of the state of ALMPs so far, is mixed. On the positive side, Turkey now has an institution like İŞKUR, which is well regarded by social partners. It has been involved (among others) in two major and significant training programmes mentioned above (privatization unemployment and the ‘New Opportunities Programme’). The awareness of social partners has been raised on the unemployment and youth unemployment issues. On the down side, İŞKUR’s institutional capacity is inadequate and the dimension of the unemployment problem in Turkey is large.

Most important down side, however, is Turkey still not having completed its Joint Assessment Paper and National Action Plan in Employment. Turkey, therefore, does not have an employment strategy. Without these, most ALMP efforts will be ineffective and isolated.

Note also that, unemployment at all age levels is a problem closely related to human capital levels: Lower the education level, higher the unemployment rate (except young vocational school graduates vis-à-vis the general school graduates, which reflects an outdated system). No ALMP will remedy this situation, and it is more cost effective to train those with better general education with presumably better results in the labour market.

A potentially more significant policy initiative may be in progress. In July 2006, an information dissemination seminar was organised on Belgium’s ‘Rosetta Plan’. The Rosetta Plan entails employing young workers (with high school qualifications and above) in larger establishments in proportions of between 3% and 6%. The plan provides incentives to employees to take up this employment. İŞKUR regards this programme as an important way for people to get hands-on experience through a significant ALMP. To this end, a feasibility project has started to evaluate the Rosetta Plan’s establishment and results. The evaluation will discuss whether the policy is transferable to Turkey and, if so, how to target the Turkish youth unemployment problem. Social partners will take part in the debate.

The initial responses of the social partners to a Turkish version of the Rosetta Plan were lukewarm (trade unions) or hostile (employers’ organizations). The largest confederation of trade unions (TÜRK-İŞ) proposed a pilot study in two provinces. The con-
federation of employers’ organizations (TISK) openly opposed the project, for the plan would burden firms with yet more mandatory employees. Large, formal sector firms employing over 50 workers are already required to employ three disabled workers or ex-offenders, in addition to mandatory provision of a day care facility and a workplace doctor (as a result, many establishments employ exactly 49 people and outsource some functions). The author’s experience with Turkish labour-market stakeholders suggests that the Turkish version of the Rosetta Plan is headed for a stillbirth. The difference in the scale of the problem between Belgium and Turkey, together with an understaffed İŞKUR, means that the likelihood of transferring this project is low. Moreover, given the labour market specifics of Turkey up to this point renders the Belgian approach likely to be irrelevant in Turkey. The sheer mass of potential beneficiaries with lower levels of human capitals in Turkey than the Belgian target group (of 20 to 30 thousand individuals) is the reason for this.

ALMP situation may be changing, however. In October 2006, the long-awaited law on Occupational Competence Institution has come into effect. The institution’s mandate is to establish principles regarding occupational and vocational competences, founding the required national occupational competence system, and managing activities to control, measure, evaluate, document, and certify competences. This necessary step will allow İŞKUR to meaningfully design and engage in active labour market policies. It will be able to grant (or monitor granting of) occupational competence certificates that are nationally valid (if İŞKUR’s institutional capacity is seriously strengthened). İŞKUR has less than 2500 employees (more than 600 at headquarters); Turkey has close to 2.3 million unemployed persons.

İŞKUR’s existence and its enthusiasm so far are strong points in its favour. Its institutional and financial capacity is a weaker element.

3.4. Equity and access

Labour market equity and access (social inclusion) may be analyzed in the context of poverty eradication through skill upgrading within this report’s framework. Rural-urban migration of the less-skilled population (median schooling level for rural males is five years) will keep fuelling the urban informal employment, despite the falling overall participation rates of women. Rural women tend to drop out of labour force when they move to urban areas, because they are unskilled. Turkey, therefore, fails to use one-half of its human resources.

These women may be enticed into participation through flexible work arrangements. However, they must be skilled first, which is not possible as one fifth of them are illiterate, for example. We therefore suggest an adult education drive. Later, these women would qualify for skills upgrading through active labour market policies and
job search assistance. Development economists continue to argue that educational attainment and labour force participation are highly correlated. This adult education drive should however be complemented with an increase in minimum education to twelve years from the current eight years.

3.5. Social dialogue: The role of social partners

Turkish social partners have a history of open communication channels to the government and providing their input to the labour market related issues. Their participation in the making of the new labour law is illustrative.

The new labour code had been in the making for some years. Written by a set of academics (appointed by the government, employer and workers’ unions), the process involved extensive debate and feedback by and from social partners. The aim of the commission, which was first convened in June 2001, was to implement a new labour law complying with EU regulations, and at the same time address employer and labour concerns. The new law thus sought to address labour market flexibility and job security issues in the national employment and labour market policy context.

Job Security Act (no. 4773) was passed before the general elections in November 2002 to become effective on March 13, 2003. ILO convention no. 158 on the termination of employment was the model for the Job Security Act. It increased protection against dismissal by improving the previous Labour Act and still existing Unions Act. Job security act was severely criticized by the Turkish Employers Union Confederation (TISK) for having gone too far in guarding the workers against dismissal. TISK objections resulted in these regulations to be binding for larger establishments (over thirty employees) from the originally proposed ten workers. This severely limited the applicability of these regulations.

Employers are generally content with the law except for the job security regulations and the continued existence of severance pay (in spite of the recently institutionalized unemployment insurance scheme). Worker unions see these two issues as their gains in the process. Social partners have a long tradition of getting together with the government through a Turkish institution called ‘Economic and Social Council’. When the ESC convenes, major NGOs and unions talk directly to the prime minister, some ministers, and the bureaucrats. This tradition of participation is taken as given and no major policy change will be implemented without widespread discussion and participation. Turkish Employment Agency (İŞKUR) also established a tradition of easy consultation and joint work with the NGOs and social partners.

Without an employment strategy, it is difficult to talk about a coordinated policy approach to youth employment that would involve social partners. A long tradition of open communication between labour market actors and the government is an asset.
Both formal (like the Economic and Social Council) and informal channels of communication are open. Employee, employer, and artisan organizations have access to ministers; all parties come together during frequent conferences or panel meetings as a matter of routine.

In addition, important labour market documents such as those submitted to the EU or prepared by the State Planning Organization (SPO) are usually prepared in consensus after considerable joint effort. This history suggests that, any coordinated policy approach to youth employment at the national or regional level will have been contributed by all parties concerned. European Social Fund resources will induce social partners to contribute to or design significant ALMP projects. Delegating much of the work to local committees with local İŞKUR and provincial resources may ensure that the structure can respond rapidly to new needs (within a general strategy framework implemented at the local level).

Turkish employers have a long tradition in getting involved in employment schemes through the widespread apprenticeship system. Apprentices and senior apprentices trained in workplaces may choose to complete remedial education provided by MoNE’s technical VET system and receive a vocational school diploma. At present, if the occupation is not covered in the MoNE curriculum (there are about 200 of these), Turkish Tradesmen and Artisans Confederation (TESK) certify apprentices as senior apprentice or master artisans. The latter allows one to establish a firm whose owner will take up apprentices and carry on the tradition. According to MoNE statistics, 38 200 people received senior apprentice (journeyman) and 31 thousand people received master artisan certificates in 2002-2003 academic year.
4. Review of the institutional framework with regard to youth employment policies

Ministry of Labour and Social Security (MoLSS) has lacked an institutional capacity to formulate and implement labour market initiatives. It functions as a regulatory bureaucratic institution. Since the Ministry may not fulfil its leadership role, there is a lack of policy coherence among governmental institutions regarding youth employment. This lack of coordination is seen also between central and local institutions such as the provincial job councils run by provincial governors.

SPO is yet to formulate employment related and regional policies in line with the EU directives. International organizations like the World Bank periodically produce critical reports on education, employment, and poverty in Turkey. SPO officials attend dissemination meetings. Young people themselves are not involved in youth employment issues.

Considering the size of the Turkish labour market (24.3 million with 10% overall unemployment rate) the institutional capacity of Turkish Employment Agency (IŞKUR) is inadequate. At its present state, it may not implement effective and widespread policy measures. At the time of writing this report, IŞKUR had 3062 staff, 681 of which worked in the headquarters. Even with such low personnel figures, 80% of its budget goes to salary payments.

Within the EU - Active Labour Market Strategy Programme (ALMS), some pilot offices of the Turkish Employment Agency were modernized. One target of the ALMS is that, IŞKUR be enabled at the end of the project to develop a real national employment strategy and a national action plan. The agency is far from realising this goal, in part, due to reasons out of its control.

There are no tax or legislative incentives in place to incite companies specifically to recruit young people or to create additional jobs for young people. Employment subsidies are provided to general employment levels at selected provinces. These provinces are those whose per capita incomes are less than $1500 per annum. There are 49 such provinces out of 81, mostly in the east and south-west of Turkey.

There have been positive policy developments regarding social security and vocational education. The government has finally attempted to establish an umbrella social

45. For the record, this author does not believe in target-group specific mandatory employment regulations.
security institution functional to end the tripartite structure that prevailed for decades. Efficiency gains are expected. Another important government initiative was the passing of a law for skill and competency certification. The long-run implications of this move on active labour market programmes, lifelong learning, and vocational education systems are far-reaching and positive.

Of equal importance to government measures, private sector institutions in Turkey have now recognized the problem of vocational education and lifelong learning. As discussed, the largest holding company of Turkey - Koç - has launched a scholarship programme to provide incentives for students to choose vocational schools over general schools. Moreover, the scholarships target less privileged children regionally and one-half of the grants will go to young women. An influential and prestigious NGO has also put vocational education and lifelong learning under the spotlight and dedicated its latest report to the issue. The Ministry of National Education is also an important ally. These were long-awaited and welcome developments.

Unemployment insurance eligibility requirements are stringent and they must be reduced. According to a planned amendment, regulations will be softened and all unemployed people will qualify for skills training regardless of whether they receive UI benefits or not. The UI fund has accumulated large sums relative to its payments. It is a performance indicator of the ongoing IMF-sanctioned macroeconomic stabilization programme.

Incidentally, it is hoped that a new economic initiative in the construction sector may have beneficial side effects on urban youth male employment. A mortgage law regulating consumer loans for house construction has been enacted in Turkey. The new low inflation environment (which is still high by western standards at 10% per annum) and trust in the good future of the economy (in conjunction with the accession talks with the EU) made this regulation possible. The results are expected to be a rise in construction activity, deepening financial markets, and a significant reduction in the informal economy (which is rampant in the construction sector). All of these developments will affect the GDP favourably. As a bonus, young male unskilled workers from the fringes of the big cities or fresh from their rural communities may be gainfully employed for some years.
5. ILO’s approach towards youth employment

Turkey is a signatory to the ILO convention no. 122 on global employment agenda. It does not fulfil its obligations. This may be a hint for future national reform programmes to be prepared for the EU or the YEN network of the UN.

The ILO currently develops decent work oriented approaches to economic and social policy. Its decent work agenda was mentioned in the opening pages of this report. The ILO recognizes decent work deficits in the world today in the form of unemployment, underemployment, unproductive jobs, unsafe work, insecure income, and gender inequality. In addition, many migrant workers are subject to exploitation and they lack representation.

The ILO states some indicators of decent work deficits:

- Half of the world’s workers and their families remain below the US$ 2 per day per person poverty line!
- Much of the world has a gender gap in the quantity and quality of employment. Women are more likely to work in the informal economy.
- There are 88 million unemployed youth (aged 15 to 24) around the world. This is one-half of global unemployment although the age group is only 25% the working age population.
- There are over 86 million migrant workers in the world.
- Economic growth fails to create new and better jobs that would lead to a decrease in poverty.

The ILO, therefore, focuses on the implementation of commitments regarding the promotion of full and productive employment and decent work for all at the major UN conferences and summits. It now started to develop time-bound action plans to 2015 in collaboration with relevant parties.

5.1. Identification of major areas of policy and programme intervention that need to be strengthened or developed in Turkey

The importance of youth employment has been recognized at the highest political level in the EU. The European Council has adopted in its meeting of 22-23 March 2005 the European Youth Pact, inviting the Union and Member States to draw up action
lines in three areas: employment, integration and social advancement; education, training and mobility; reconciliation of working life and family life.

A key challenge for Turkey with respect to the current employment creation and flexicurity situation is relaxing its employment protection legislation. Current harsh statutory firing costs (i.e. severance pay) may have two important employment consequences. The first one is widespread non-compliance (and informal employment). The second one is the negative impact on employment creation. Hiring is also difficult when firing is costly, firms would be reluctant to expand their workforce. Consequently, in the post-2001 crisis recovery period in Turkey, employers invested in machinery and equipment for three years. (They had chosen to increase the productivity of their existing employees over newly hired employees.) Hiring has been slowly picking up since 2005. The growth rate of employment did not match the growth rate of production, despite the newly introduced flexibility clauses. A recent Austrian severance pay reform may inspire a discussion in Turkey. The government and social partners jointly designed an insurance pool fund that is transferable between jobs, which will enhance worker mobility. Labour unions in Turkey will be hard to persuade to implement a similar reform.

A priority area for improving undesirable flexibility conditions in the context of the informal labour market would be compliance with the labour code. Officials from the Turkish Ministry of Finance and MoLSS routinely speak out against the unregistered economy and undeclared work. Avoiding taxation and social security contributions creates unfair competition for law-abiding companies, from low-productivity firms to large, formal, unionised businesses in the highly competitive food and textiles and clothing sectors. Ministers therefore pay some heed to the problem in discussions with employers’ organizations.

However, real inroads into the problem of tax evasion and undeclared activities are hampered by the practices of offering tax or social security amnesties following a number of years of non-compliance. Political parties generally offer such amnesties ahead of elections. This and other practices such as the under-declaration of income have undermined public trust in the state authorities’ powers to address the problem of undeclared work. Enforcement is lax. The amnesties and insufficient enforcement of the labour code is an implicit admission by state authorities that they cannot effectively police the system.

An important effect of the above picture relates to productivity. Informal employment and most undeclared work in Turkey are associated with low levels of human capital. Higher levels of education and training correlate positively with growth and
further development of human resources. As a result, employment indicators are not as good as the growth indicators. Turkey continues to find it difficult to create employment at a rate sufficient to maintain its unemployment rate flat at least. The reasons for this outcome, such as the decline in agricultural employment and low skill levels of the working population were discussed in the text. This author suggests remedial adult education for those with the lowest human capital levels and skills training for better-educated adult population. Despite growth and productivity increases, real wages remain stagnant in manufacturing because of this large slack in the labour market, which also hampers improvements in the standard of living.
6. Recommendations to the government

Turkish policy-makers recognize the need to create more jobs, especially for the urban youth. This has not been a priority so far because of fragile and volatile economic conditions. Finally, the latest-IMF sanctioned restructuring and stabilization program resulted in bringing more stable growth and low inflation. The cost of economic success, however, was employment performance. Unemployment crept up and stagnated until recently. Those jobs that were created were predominantly in the informal sector.

Despite the obvious need, the quality of basic and vocational education 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. The old age dependency ratio will move up to two digit values in mid century. In addition, the decline in the young population of Turkey has already started in 2000: The number of 0-14 year-olds is declining already.

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. Only non-participation saves the country from a climbing unemployment rate. This is undesirable in the medium to long term.

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 Turkish situation is different from the EU in that it is harder for young women to be formally employed than men are. Both the participation rates and the employment ratios are very low for young women. This may be explained in part by the rural-urban transition where former unpaid family workers would not participate at first in the urban labour market that requires higher skills. Given time, however, this group of young women will start participating more and one expects young women’s unemployment rate to climb further. Turkish policy-makers acknowledge the severity of the
youth employment situation, but there have been no specific actions aimed to tackle the problem.

Now, Turkey offers only informal (mostly construction) jobs to unskilled young males and informal (mostly textiles) jobs to unskilled young females in the non-agricultural sector. Reserving active labour market policies for skill upgrading for this cohort, Turkey must do its best to keep their younger brothers and sisters in school for as long as possible. This would buy the country about a decade when the demographic pressures would continue to ease, and pave the way for increased labour force participation rates, as the younger cohort reaches prime age.

### 6.1. Future steps to be taken to promote youth employment

Many of the issues discussed in this report imply policy recommendations. Some are already in process. For example, the EU accession process has generated an increase in foreign direct investment. This will help therefore labour law compliance. The main obstacles in the way of social inclusion, however, are unemployment levels, which are increasing with current demographic trends. New entrants are particularly negatively affected. There are no easy solutions.

Implications for education are easy to depict. Turkey must move to twelve years of mandatory schooling. It must revamp and upgrade its non-functioning vocational education system. Longer the status quo, later the labour force participation (LFPR) response, especially for women. If current young cohort is not adequately schooled and the median education level increases at its current slow pace, the LFPR of women will stay low relative to Turkey’s income group of countries. Of course, if the demand is not forthcoming, Turkey may simply be working towards creating more educated and unemployed persons. This requires a labour market conducive to job creation.

One would therefore need

*education and labour market policies such as*

i) A concerted effort for more mandatory years of basic and vocational education: Compulsory education should be moved up to twelve years. Higher education levels will improve female labour force participation rates and help combat social exclusion. Note that, future educational success must start with the pre-school system, which covers only a fraction of children in Turkey.

ii) a demand oriented curriculum especially for vocational education,

iii) an adult education drive prior to skills upgrading through ALMPs: This is the first stage of skills training for prime-aged (mostly rural-urban migrant) women and, to a lesser degree, men, to be followed by ALMP initiatives including job search assistance.
iv) more active labour market policies including ones on entrepreneurship: Disabled individuals, women and the youth (first time entrants) are disadvantaged in the Turkish labour market. Youth targeted labour market programs may be implemented conditional on successful pilot projects’ outcomes, which are to be designed, funded, and implemented by, for example, ILO, UNDP, and the World Bank with government cooperation and support.

v) enhancing the institutional capacity and effectiveness of the Turkish Employment Agency (İŞKUR): It is not up to the gargantuan task of implementing the suggested ALMPs now.

as well as legislative action for

vi) less bureaucratic red tape, which is an obstacle to job creation,

vii) reasonable tax burdens on employment: Heavy statutory severance pay regulation must be reduced along with other labour market rigidities that stand in the way of job creation.

viii) EU acquires to be gradually incorporated into Turkish employment regulations: Effective enforcement will help fight informal employment. As the tax base improves, funding for social expenditures will be more feasible.

ix) the Turkish labour code to move from protecting the job to protecting the worker: Unemployment insurance should cover more workers and means-tested welfare programs must be gradually phased in. At the same time, legal obstacles hampering unionization in the workplace must be removed.

and finally

x) removal of two major institutional obstacles to ease women’s entry into the labour market: The first one is ‘monitoring’ with the involvement of social partners (such as monitoring the provision of day care facilities), and the second one is flexible work arrangements which are in place now on paper but not necessarily in practice.

xi) social welfare measures for disadvantaged groups.

In line with the above policy recommendations, some specific short-term activities may be as follows.

For the preparation of the National Youth Employment Action Plan,
• TURKSTAT conducts a specific Labour Force Survey on youth employment, disaggregated by gender;
• ILO-Turkey and UNDP hold a national conference on youth employment with the relevant stakeholders for increasing awareness;
• Analysis of youth labour market needs in selected provinces, which will result in the “Occupational Outlook” which is expected to become a periodic publication of IŞKUR.
The outcomes of these initial activities should lead to the design and implementation of target group specific training programs. Pilots should be conducted first. Successful activities may then be implemented widely.

For enhancing the institutional capacity of İŞKUR on the issue, the following needs to be done:

- Setting up and delivering training for İŞKUR officials in selected provinces;
- Preparing regional workshops for selected partners and İŞKUR on youth employment issues.

All proposals could be achievable but need considerable political will in terms of both institutional change and financing. All stand to succeed, although item iii, the adult education drive, is more appropriate as a starting point.

The first and second items are already seeing progress. Involving NGOs and social partners in determining and implementing policy strategies may be Turkey’s best chance of success in implementing policy proposals.

**6.2. Recommendations on coordination among governmental agencies**

There is one recommendation: Policy coherence. It is important and urgent for the Turkish education system and the Turkish labour market that, youth related policies must be ‘coordinated’. The reason for this sense of urgency is the short remaining years that are left of Turkey’s “Demographic window of opportunity”. It is a double-edged sword. One of its positive benefits, increased labour force participation rates of men and women, may only be realized through a workforce with better education levels and marketable skills that should be concomitant with an adequate job creation rate to reduce poverty. The second benefit is therefore conditional on the first one: It is a one-and-only-chance to set the social security balances straight and keep them there. Turkey has until 2040 after which the only rising proportion of its population will be 65+ year-olds. The numbers of 0-19 year-olds already started their slow decline. Ministry of National Education, Ministry of Labour and Social Security, State Planning Organization, and Turkish Employment Agency (İŞKUR) must be talking to each other and jointly designing policy. Social partners must be involved in policy formulation and implementation.

Significant pilot project input to governmental coordination may be provided by a new development in Turkey. With the start of the flow of the EU funds, there have been some projects that social partners got support for. A visible project was the ‘Strengthening of Social Dialogue in Turkey’ project (http://ab.calisma.gov.tr/mis website lists the projects). For example, in Uşak, to the west of Ankara, Textile Employers Union is implementing a ‘social security, total quality, and productivity
improvement’ project. The general objective was stated as improving productivity and competitiveness through bilateral social dialogue, raising awareness of labour regulations through pilot projects, and setting a model to other sectors’ employers. The specific objective is to inform employers and employees on social security, total quality, and productivity; and through awareness to increase the quality of the workforce and firm productivity and to promote union membership for both sides.

In Kayseri, to the southeast of Ankara, the textiles and clothing workers’ union, Öz İplik-İs, has embarked on a project for the betterment of women’s working conditions under the ‘Social Dialogue’ project. The specific objective is founding day-care centres for working women in Kayseri. This is extremely important in order to increase women’s labour force participation.

Another supported project under the ‘Social Dialogue’ project was on effective monitoring and analysis of local labour markets. Turkish Employers Unions Confederation (TISK) is implementing the project. TISK states the objective as facilitating the effective involvement of social partners in forming employment policies. The project’s specific target was to assist social partners to be effective players in collecting and analysing provincial level labour market data. The project calls for greater cooperation between provincial TÜRKSTAT and Turkish Employment Agency (İŞKUR) offices, form a pilot model of monitoring the local labour market, prepare provincial level employment reports, and form an Internet network and a website between seven largest provinces. These goals are commendable and the need is real. IŞKUR longs for a local labour market monitoring system. It did not have a pilot for this until now. This project is part of the ongoing effort to prepare a system of local labour market monitoring. IŞKUR must be well staffed or counselled to distinguish between short-term needs and longer-term currents in the labour market to design a good mix of active labour market policies.

A local initiative within the scope of the ‘Strengthening Social Dialogue in Turkey’ project came from Karabük, an industrial town in to the northwest of Ankara. A large iron and steel plant is the lifeline of its inhabitants. Iron and steel workers’ union, Çelik-İş implementing a project on forming innovative vocational education programs through social dialogue. They have a solid goal of developing a vocational education program for railroad technicians in Turkey. Local labour union, municipal administration, trainers, and the public organizations will come together for the goal. To this end, they had listed project activities such as forming a meeting platform, training-of-the-trainers seminar, preparation of specific vocational education and training sets, and defining related occupations and forming technician standards.

It is refreshing to see such initiatives. One should only hope that they would provide a much-needed input to design effective employment and youth employment policies.
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Appendix 1: Data Table and Figures

Table A1. Turkish population by age group and gender, 1950-2050 (UN medium variant).

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Note: The table above provides the Turkish population by age group and gender for the years 1950-2050, considering the UN medium variant.
Figure A1 (a). Turkish city and village populations in 1990 (shaded) and 2000 censuses.

Source: TURKSTAT population censuses. Rowland’s (2003) pyramid builder macro is used to draw the graph.

Figure A1 (b). Turkish city and village (shaded) populations in 1990 and 2000 censuses.
Appendix 2: Labour market data sources in Turkey

United Nations-related System of National Accounts (SNA) (1953, 1968 and 1993) is an example of having a generalized system of national accounts applicable in all countries. Turkish national accounts have been kept under SNA68. Due to the requirements of economic integration, the European Union has developed its own standard, the European System of National and Regional Accounts (ESA) (1979 and 1995). TURKSTAT is currently working on making the Turkish national accounts compatible with ESA95 (and SNA 1993).

Note that, such a standard system has significant benefits. It enables researchers and policy-makers to make reliable cross-national comparisons in many areas directly or indirectly related to the national income accounts, including growth rates, labour market details, inequality and poverty, etc. It also provides a chance to learn from other countries’ policy experiments, since the values are comparable. In an economic region like the European Union, the obvious benefit is the ability to help harmonise national policies with the help of compatible data. Turkey is the only country that remained in the SNA68 standard in the OECD region. This was unacceptable.

A Critical Analysis of Data Sources

Availability of detailed employment data is crucial to produce ESA95-compatible statistics for Turkey. The challenge here is to gather data from different sources and combine them in a meaningful way. The data sets that are described below have different level of details. Overall, The Household Labour Force Survey (LFS) gives the best representation of the whole population, including the informal sector. The other sources of data can be used to verify the information that LFS provides. However, LFS has only recently started collecting data on employment income. This definitely creates serious problems regarding the compensation of employees’ calculations.

Labour demand (establishment) side data:

In addition to decennial censuses, there are nine main sources of historical periodic regular data concerning employment and wages in Turkey. On the labour demand (establishment) side, these are as follows.

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46. In addition, there is, for example, an agricultural wage survey (2003). Purported to be annual, the results of such one time or irregular surveys come with some lag that renders them not useful for annual and timely compensation calculations. When they become available, however, survey data like this may be used to verify the validity of other data sources.
There have been eight general censuses of enterprises in Turkey, the last one conducted in 2003 (and asked questions about 2002). All enterprises in all sectors are covered. However, the results come with a significant lag.

**Annual Manufacturing Industry Survey (TURKSTAT)**

TURKSTAT conducts annual surveys of the manufacturing sector. All public sector enterprises and those private sector enterprises that employ at least ten persons are covered. As such, the survey is representative of formal and larger (for Turkey) establishments. General employment, production, sales, and wage bill data are collected. GSIS and annual surveys are conducted by different TURKSTAT departments. Annual survey results are published with a two or three year lag.

**Quarterly Manufacturing Industry Survey (TURKSTAT)**

The coverage of this survey is all of the public sector manufacturing establishments plus the larger formal private sector establishments. TURKSTAT sets the quarterly private sector sample as those 10+ worker enterprises that collectively account for 90% of private value added in manufacturing. This sample is admittedly large, formal, and mostly unionized relative to the micro-enterprise, private sector non-tradable good producing manufacturing segment. (The quarterly survey takes a sample from the GSIS that is limited to 10+ workers registered manufacturing industry establishments and all state manufacturing enterprises.) It reports data for the months of February, May, August and November to represent each quarter. Employment, hours-worked, wages (and productivity) data are reported as index numbers. Wage index for manufacturing production (and non-production) workers is the only timely time-series wage data available in Turkey.

The hours-worked data in this survey are not reliable. It does not show variation (it should have) over the employment data. That is, come recession or boom, everybody works approximately eight hour days in the manufacturing industry. Moreover, the sectoral trends of these quarterly employment data (that is, by three-digit industry classification), do not match (in fact, significantly diverge from) the trends from the annual manufacturing surveys (when they become available by some lag). One may not therefore ‘join’ these two series to obtain recent annual trends.

Sampling differences are understandable. However, there has been a long-standing systematic data collection and sampling problem in this sample. The result is that, reliable hourly productivity of workers may not be calculated which is correlated with long-term wage growth.
**Turkish Employer Unions Confederation's (TISK) annual wage cost survey**

TISK (Turkish Employer Unions Confederation) publishes since 1965 an annual report named “Labour Statistics and Labour Cost”. This is the only private data source on working time, wages, and workforce qualification for the formal large unionized manufacturing segment of the Turkish labour market. The 2005 analysis has come out in October 2006 (at www.tisk.org.tr). The report is a well-known reference on labour and tenure issues and is used by labour unions and the Ministry of Labour and Social Security, as well. Since TURKSTAT does not make its wage data from its labour force survey available, this annual TISK report and TURKSTAT’s quarterly manufacturing survey employment and wage index are the only two sources of relatively timely time series wage data in Turkey. (TURKSTAT publishes its annual manufacturing survey results with lags of two or three years.) TISK surveys workplaces through its member employer unions. Questionnaires are then compiled and analyzed at headquarters.

TISK survey in 2006 covered 400 establishments and 200,000 employees (500 employees per workplace, which is very large for Turkey). Metal and metal objects sector comprised 130 establishments of the 400 (average number of workers per workplace is 660 in this sector). This is ‘the’ competitive modern manufacturing base of Turkey. Food industry establishments were fewer in numbers (there are only seven TISK members) and employed fewer workers per establishment (115 workers). Only 11% of TISK members’ employees were women.

Turkish gross minimum wage in 2006 was 531 TL/mo (€279.5/mo @ 1.9TL/€). Its net was 380 TL/mo (€200/mo). A new entrant unionized worker’s cost to his or her employer was 1172 TL/mo (€617/mo) in the metal sector. This was 2.2 times the gross minimum wage. This worker received 388 TL/mo as base wage and 324 TL/mo in additional compensation in bonuses, meals, etc. as stipulated in the union contract for 712 TL/mo (€375/mo). This net wage is 1.9 times more than the net minimum wage. Union premium (not corrected for skill differences) is high in Turkey. Although useful to know, this is a small segment of the Turkish labour force, and the data are not official. However, wage trends for some high paying sectors (like petrochemicals) may be compared with the three-digit industry data of the TURKSTAT as a check.

Note that, more than half of TISK members’ employees have six or more years of tenure with their firms. (Construction is an exception; 29% do not reach one year of tenure). Not surprisingly, TISK is an outspoken critic of the harsh severance pay regulations in Turkey. Since 70% of all TISK members’ employees belong to unions (ranging from just 7% in construction to a high of 95% in sugar production), labour costs are an issue. High statutory labour cost regulations fuel informal arrangements that complicate the calculation of compensation of employees.
Labour supply (household) side data:
Household Labour Force Survey (TURKSTAT)

This is the main labour market data source in Turkey. The sampling unit in labour force surveys is the household. Households are chosen based on proportional probability sampling applied to population clusters that are obtained by a three-stage stratification scheme on region, rural/urban location, and size of the settlement, respectively. As such, the survey is a representative sample of the civilian population. LFS provides detailed demographic and employment-related data, including informal sector. It is now a monthly survey, covering all population who are 15 years of age or older, except for institutional population. It does not report its wage data, however.

In 2005, TURKSTAT started to publish the results of its Household Labour Force Survey (LFS) on a monthly basis. Each month is actually a three-month centred moving average. Thus, February, May, August, and November monthly results correspond to the previous quarterly surveys. Note that LFS data (that goes back to 1988, semi-annual until 2000) are the only source of employment and unemployment figures in Turkey. The questionnaire was revised in 2004 to conform to the EUROSTAT norms. However, TURKSTAT, interpreting its former law as precluding micro data dissemination, does not make its wage results available (nor does it publish them). This makes it impossible to check the statistical ‘quality’ of the data.

The second major change that was made in the context of the survey is the extension of the survey to cover and report according to NUTS 2 classification of the EUROSTAT. The sample size was increased to 12,300 households per month at the time of the change. Now, it is twice as large.

Administrative records data:
Social Insurance Organization (SSK)

Turkish pension system is complicated. It is three-tiered. Civil Servants Retirement Fund (Emekli Sandığı, ES) is for white-collar public employees, Social Insurance Organization (SSK) is for non-agricultural employees (public sector blue-collar and all private sector), and finally Bag-Kur is for the agricultural sector and self-employed people. Each tier strongly defends its right to existence, thus creating an

47. Another useful source (for earnings) would have been the Household Income and Expenditures Survey (HIES) that was conducted nationwide in 1987, 1994, and 2002/2003 (annual afterwards, and now called household budget survey). The results come with a two to three year lag, which renders the income data unusable for calculating compensation of employees in time for annual GDP reporting, for example. Nevertheless, this data source must be utilized in order to check for consistency and statistical validity of LFS wage statistics if they are ever made available.

48. The Turkish Employment Agency (İŞKUR) publishes vacancies. İŞKUR also administers the unemployment insurance fund. However, because of the large informal sector and because of the stringent eligibility requirements, official unemployment registration figures to İŞKUR are below the LFS results.
inefficient administrative system. Nevertheless, SSK and ES employment records fully represent the formal part of the Turkish employment (although not necessarily the wages; underreporting of wage income is commonplace in SSK - private sector - establishments.

A recent reform package tried to address some problem areas. It offered to unite all three tiers under one pension scheme (an umbrella organization called the Social Security Organization, SGK, is already in place). It also offered to increase gradually the statutory retirement age to 68 until 2035, and offered to limit the ‘dependent’ definition to immediate family members, as well as limiting the age of children for purposes of healthcare. The reform package is rejected by the Constitutional Court. Given time, however, SGK records will be more comprehensive regarding employment and wage data as the tri-partite system eventually will unite and informal employment recede.

**Civil Servants Retirement Fund (Emekli Sandığı - ES)**

Emekli Sandığı (ES) is the social security organization for white-collar public employees and military officers (and their survivors). All three institutions’ mandate includes health care, as well. There are 7.1 million retirees in Turkey (all three organizations). Many are relatively young thanks to formerly extremely generous early retirement provisions. Of these, 4.1 million continue to work after retirement, which is 58% of the total. This is an important resource for the informal economy because the retirees do not need additional social security coverage. They constitute 17% of the working population. This segment’s income will necessarily go un- or underreported and there may be no remedies for this situation. The pool will gradually diminish as these workers stop participating in the labour market and the retirement age gradually goes up.

**State Personnel Department (Devlet Personel Başkanlığı - DPB)**

Turkish code makes a distinction between civil servants and ‘other’ public employees. State Personnel Department makes this classification. For purposes of retirement, civil servants (mostly white collar occupations, but drivers and certain office support staff may also be civil servants) belong to Emekli Sandığı, ‘others’ will be covered by SSK (blue collar - workers in the state economic enterprises). DPB does not regulate the personnel regime of the armed forces. It publishes an annual report that accurately reflects public employment including municipal employment.

**Audition Administration for the State Economic Enterprises (Yüksek Denetleme Kurulu - YDK)**

YDK complements the public employment picture with the DPB. It provides an accurate current registry of state economic enterprise employment. These employees will be covered by SSK.
All told, LFS and administrative records provide a reliable employment picture that fully covers public and municipal employment. SSK registry data covers the formal part of the economy. Public wage data are also available and current from the Ministry of Finance records. LFS wage data would have contributed immensely to the wage picture of the remaining portion of the workforce. It is not available. Still, by making conservative and reasonable assumptions based on the previously mentioned data sets whose results are published with some lag, average occupational or sectoral wage computations may be made.

The following table gives detailed information about the type of data that is available from six of these nine data sets (annual manufacturing survey, TISK survey, and DPB are not shown - ES, SSK, and YDK data would comprehensively cover DPB records):

**Table A2. Information available in the employment related official data sets.**

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<td>Non-registered employees</td>
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*Note: Availability does not imply comprehensive coverage.*
Concluding comments about the data

Agricultural employment data availability is a big question. The LFS, representing all population and activities in the country, has this data, but there is no other periodic data set to compare its results. Although a large proportion of farmers are enrolled in the third pension scheme, Bag-Kur, enrolment in this program is not compulsory. Its data are not comprehensive.

For private industrial and service sector employment, there are reliable resources in addition to LFS. SSK reports average number of insured persons and average daily earnings. Its records should almost fully cover the formal sector employment.

It was mentioned earlier that, some public employees are covered by SSK, while the majority would be covered by Emeklilik Sanadı. The data from these two sources need be combined for sectoral employment. ES does not provide this detail, however. SSK, on the other hand, provides data on the number of employed persons and average daily earnings. Moreover, employees of the non-profit organizations have to be registered with SSK, so that data are available at both the LFS and SSK.

LFS is the only source for agricultural employment data by job status and unregistered employment data. Data about the self-employed persons and unpaid family workers are also available from the General Census of Enterprises (except agriculture).

Data limitations preclude a comprehensive analysis of the evolution of wage patterns over time in Turkey. On the demand side, the only available aggregate official periodic wage series come from annual and quarterly manufacturing surveys (there were also discontinued or infrequent surveys - such as the industrial sector employment and wages survey in 1994, employment and earnings surveys in 1997 and later - that did not constitute a time series). Annual manufacturing survey is not timely, quarterly survey apparently has sampling problems. Turkish Confederation of Employers Unions (TISK) has an annual labour cost survey. (None of these data is available at the establishment level.)

On the supply side, 1988-October round of the household labour force survey (LFS) asked the wage question (and the smaller 1989 survey). Wage questions were also asked in the quarterly LFS’s starting in 2001. Wage statistics were not reported or micro-data given to researchers by TURKSTAT. (TURKSTAT also does not give household panel identifier data, which makes it impossible to follow that portion of the households in outgoing rotation groups - that is, identifiers for the fraction of households that are surveyed again in another wave.) When one adds to the 1988-LFS, the household expenditure surveys of 1994 and 2002, one arrives at the sum total of household side (net) wage data that is publicly available in Turkey.