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Labour market policy for
restructuring in Turkey:
The need for more active policies

Peter Auer and Natalia Popova

Employment Sector

INTERNATIONAL LABOUR OFFICE GENEVA

1. Introduction

This report has been drafted in the framework of cooperation between Turkey and the ILO. As outlined by the report of the fact-finding mission¹, the objective of the present report is to propose the elements of a more active labour market policy to accompany restructuring in Turkey. This endeavour is closely linked to the prescription for more active change management that does not hinder adjustment flexibility for firms but provides income and employability security to workers, as advocated by the Global Employment Agenda (ILO, 2002). Establishing the flexibility/security nexus should also be seen as an important contribution to the decent work paradigm: in fact, a dynamic analysis of jobs in the framework of decent work cannot be reduced to a snapshot at a particular point in time, but has to be more longitudinal. Therefore it has to include not only jobs in companies and public administrations, but also the institutions of social protection. For example, in the particular case of restructuring of State-owned enterprises (SOEs), decent jobs are lost, but it is the objective of labour market policies accompanying restructuring to either provide alternative decent jobs for the job losers or another decent status: e.g. training that leads to decent jobs and self-employment or early retirement benefits with “decent” income replacement.

Turkey is in the midst of a restructuring process that will displace thousands of workers from State-owned enterprises because of the policy of privatisation, which is being pursued in the framework of structural adjustment programmes. This is in addition to high levels of unemployment, especially for youth and the labour shedding that can be expected from a reform of the agricultural sector.

Turkish unions oppose privatisation to different degrees and the employer’s federation is also critical of the poor transparency and the irregularities of the privatisation process. Despite resistance, privatisation – as well as company restructuring due to other reasons – is taking place. The lacking consensus and dialogue on privatisation between the social partners are some of the factors that have led, in our opinion, to quick-fix solutions for workers’ adjustment rather than to a carefully planned process of redundancy management. While there has been some protection for workers (in fact, SOE workers are among the most protected, even when laid off), it is mainly passive, granting temporary income protection or facilitating the early exit of workers from the labour force. Active measures are as yet seldom used.

Although facilitating early retirement for older retrenched workers seems to be an unavoidable option (as their re-employment chances are tending towards zero), more active support for re-employment is needed for many of the younger workers. This requires better programme design, more programme alternatives, a better policy mix of programmes and some addition to the implementation structures of labour market policy accompanying structural change.

While such a new effort for a more active policy will not solve all problems that arise from restructuring that for many results in income and other welfare losses, it will contribute to the acceptance of the process of restructuring and if well managed, will contribute to adjustment flexibility of restructured firms, while giving more “employability security” to the workers concerned.

While these labour adjustment policies will not go the whole way towards an institutional framework allowing economic adjustment while protecting workers (the so-called

¹ See Mission report to Turkey/Ankara: November 21 to 24, 2001

flexibility/security nexus), they will contribute to it. In order to establish a whole employment system based on the flexibility/security model, Turkey needs to continue to design and implement the full institutional framework of employment and social protection. The first elements have been introduced (a job security law and an unemployment insurance scheme), but they have to be enhanced in the coming years and their coverage extended.

The present paper will first discuss some of the more general challenges that the Turkish economy and the labour market are facing. Before turning to the more specific questions of workforce adjustment.

Turkey is a diversified emerging economy with a growing export sector and a strategic geographical location at the crossroads of three continents. In 1999, industry (including construction) accounted for 27.1 per cent, agriculture 14.3 per cent and services 58.6 per cent of GDP (2000 Turkey Regular Report, EU Commission). The industrial sector is well developed, with manufacturing contributing over 80 per cent of the output. Main areas of specialization include textiles and clothing, ceramics and glass, steel, chemicals and lighter consumer goods. This potential should have a positive effect on the Turkish labour market and lead to the creation of decent jobs.

However, despite its potential strength, the Turkish economy has been crisis prone, suffering for example from chronic inflation, extreme volatility of economic growth and instability of the financial system. In the labour market, chronic underemployment persists as can be seen from a low and declining labour force participation rate. The problems of late-2000 and early-2001 are in fact part of long series of mini economic cycles where boom and bust follow each other rather rapidly. The latest crisis, which sent growth down to -7.4 per cent in 2001, was triggered by a financial crisis that resulted in capital flight, liquidity and credit crunch problems, and International Monetary Fund and World Bank intervention. Urged by the Bretton Woods institutions, the Turkish Government initiated an ambitious three-year economic reform programme. The IMF financed a US\$19 billion programme, which combines both structural and macroeconomic stabilization targets. The success of the reform will depend both on private sector support as well as the ability of the Government to carry the reform all the way and cope with its negative effects. Indeed while a positive outcome is expected in the long term, structural reforms are time-consuming and in the short run, the Turkish economy will experience negative effects and will have to manage the transition phase. The IMF envisages a 3 per cent GNP growth rate for Turkey in 2002.

Although political action to get the macroeconomic basis for microeconomic decisions right is of utmost importance for the labour market, this report does not deal with the economic situation in Turkey, nor does it offer solutions on how to overcome its chronic problems and put the economy on a sustained low inflationary growth path. It also does not question whether the instruments advocated by the Bretton Woods institutions (fiscal discipline, privatization, etc.) are adequate or not,² but tries to develop some ideas on how to cope with the adverse effects that

² For a strong critique on the pro-cyclical nature of these remedies in the downswing phase of the cycle, which usually deepens recessions, see Stiglitz, 2001. A careful evaluation of privatization and labour issues quotes Douglas North: "Transferring the formal political and economic rules of successful Western market economies to third world and eastern European economies is not a sufficient condition for good economic performance. Privatization is NOT A PANACEA for solving poor economic performance" (van der Hoeven/Sziraczki, ILO, 1997). But while it is not a panacea, it might be one answer to the productivity problem in SOEs and by careful planning and managing with involvement of the main economic and social actors, it might be one of the necessary elements for development. However, there might also be public solutions to the problem of low effectiveness, such as described by the "New public management" school or shown by examples throughout the world. However, whoever does the job of restructuring will create mass lay-offs that have to be dealt with.

these have on the labour market in the medium term. Before proposing solutions, a general picture of the labour market is drawn and some of the adverse effects of privatization on the labour market are discussed. The main objective is to advise Turkish constituents, in particular the employment services, but also the social partners on ways to handle lay-offs through active labour market policies. One important point here is that even those opposing privatization (some unions) or the way in which privatization is handled (the employer's federation) should have plans available on how to handle redundancies as these have happened in the past in the wake of privatization and will happen in the future. Accepting that such plans can be useful, even when things happen that one opposes, is certainly important to workers who are laid off. The solutions proposed might also extend to labour shedding *per se*, which will happen in many sectors, particularly in agriculture. In fact, helping labour force adjustment through the provision of income and active measures does not mean automatic acceptance of the policies of adjustment, but being able to adequately cope with the problems, once they arise. However, it is also true that measures that allow adjustment in security, do in fact increase the acceptance of structural change.

2. Labour market developments and trends in the 1990s

Low and declining labour force participation

Although the Turkish population growth rate declined over the last decade, Turkey still has by far the highest average annual population growth rate among the OECD countries (1.9 per cent for 1988-1999 and 1.5 per cent in 2000), but comes only in 163rd place in a ranking of all (207) countries and territories in the world (World Development Indicators, 2002, World Bank). The working-age population (15 to 64) growth rate was even higher (2.6 per cent) while employment growth rates averaged only 1.7 per cent over the same period (see Table 1). The resulting decline in labour force participation and employment rates indicates that a significant part of the Turkish labour supply resources are underutilized. The low participation and employment rates are of course not only the result of demographic causes and entry problems in the labour market but also the consequence of low growth, recession and structural shifts resulting in lay-offs and matching problems. If considered in a historical perspective, employment to working age population has been steadily declining since the 1970s and this suggests that a smaller portion of Turkey's potential labour force is economically active and employed today than it was 20 years ago. In 1975, Turkey's employment rate was one of the highest among OECD countries -- second only to Japan. In 1997, Turkey's employment rate was the lowest in OECD except for Spain (World Bank, 2000). In 2000, the Turkish employment rate fell below 50 per cent, while it increasing again in Spain (56 per cent). Female employment rates are especially low.

Volatile economic growth rates

While during the 1960s and early 1970s high population growth was matched by strong economic growth rates and migration, in the 1980s and 1990s average annual economic growth rates slowed significantly and became also much more volatile (the 1990s saw four mini bust and boom cycles) which, together with high inflation, creates problems of expectations and calls for stabilizing policies. The possibilities of emigration, of great importance for the labour market, also decreased as receiving countries resorted to restrictions.

GDP per capita is the lowest in the OECD area and, according to the World Bank, Turkey needs to grow at 7 to 10 per cent per year in order to reach the living standards of countries like Spain and Korea.

Table 1. Labour force participation and growth rates for population, employment and GDP, 1988-2001 (%)

	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Population growth	2.2	2.2	2.4	2.0	1.9	1.9	1.8	1.8	1.7	1.7	1.6	1.6	1.5	...
Population growth 15-64	3.0	3.0	3.2	2.7	2.8	2.7	2.6	2.5	2.4	2.3	2.2	2.2	2.2	...
Employment rate (Employment/Population 15-64)	...	...	54.5	...	53.2	52.0	52.0	52.7	52.5	51.2	51.1	51.0	48.2	45.1
Labour force participation	62.1	62.0	59.4	60.6	59.3	54.9	57.2	56.7	56.1	54.9	54.9	55.4	51.8	50.6
Employment growth rate	1.5	2.6	1.7	1.7	0.7	0.9	2.4	3.6	2.4	-1.8	2.8	2.1	-3.8	-0.3
Real GDP growth rate	2.1	0.3	9.3	0.9	6	8	-5.5	7.2	7	7.5	3.1	-5	7.2	-7.4
Employment elasticity to GDP	0.7	8.7	0.2	1.9	0.1	0.1	-0.4	0.5	0.3	-0.2	0.9	-0.4	-0.5	0.04

Source: Various issues of OECD Employment Outlook and OECD Historical Statistics

The reasons for not allowing Turkey to grow faster include low public and private (including foreign) investment rates, due to the volatility of growth, uncertainties in the banking system and the unpredictability of foreign financial capital investment that takes flight from emerging markets very rapidly if problems arise.

In addition, the lack of qualified human capital seems to be a deterrent for higher economic and labour force growth rates. Another problem is low levels of technology transfer, even in the agricultural sector. Low productivity growth in the agricultural sector, shown for example by a comparison in the share of employment and output (around 14 per cent of GDP in output, but around 45 per cent of employment, whereas in a typical Western developed country this relation varies from 1 to 7 per cent of GDP in output and from 2.1 per cent in Belgium to 18.5 per cent of employment in Greece in 1998. This slows overall growth and employment creation. Improved productivity in the agricultural sector, especially in the poorest regions, could thus have a large impact on improving overall growth and – under certain conditions³ – employment. It should be noted that in Turkey, like in many other emerging economies, agriculture has a buffering function, i.e. it absorbs workers made redundant in other sectors, usually industry.

During 1981-97, industry experienced high productivity growth and slow employment growth, while the situation was the opposite in the service sector. Employment in high value

³ Including for example an expansion of markets through further opening of the EU market.

added sectors, such as manufacturing, was – according to OECD - held in check by a combination of lack of capital investment, rising interest rates, exchange rate fluctuations, higher use of labour saving technologies and rising labour costs.

Table 2. Employment elasticity of GDP, 1998, 1995 and 2001

	1988	1995	2001
European Union	0.40	0.29	0.42
United States	0.52	0.52	0.24
Japan	0.27	0.07	-0.10
Canada	0.65	0.59	0.52
Austria	0.09	0.25	0.33
Denmark	0.50	0.64	0.15
Ireland	0.00	0.51	0.36
Netherlands	1.12	1.26	1.29
Germany	0.22	-0.18	0.00
France	0.22	0.47	0.90
Turkey	0.71	0.50	0.04

Source: OECD Historical Statistics OECD, 2000 and Labour Force Statistics, OECD, 2001

According to the World Bank, there are several supply-driven explanations for the declining labour force participation rates in Turkey – more people staying longer at school, more people choosing to stay home rather than enter the labour force or retiring earlier. Also, the gender breakdown of the labour participation rate (see Graph 1) clearly shows that women tend to stay at home rather than join the labour force. Women, especially from rural areas, previously involved in agriculture, migrate to the urban industrial centres. There, they usually remain unemployed since there are no jobs available for the low skills they possess. However, there are also cultural factors determining the role of the woman in the family that lead to low labour market participation. Employment rates by educational attainment show that low skilled women have particular problems in the labour market: in 1999, employment to population rates for those aged 25 to 64 with less than upper secondary education stood at 56.5 per cent but at about 80 per cent for those with tertiary education. While the differentials in employment rates between women and men for those with tertiary education in 1999 are 16 percentage points (84.8 per cent and 68.5 per cent respectively) they reach 55.5 percentage points for those with less than secondary education (82.2 per cent for men against 26.7 per cent for women). Thus, while education alone might not solve all problems, investing in education seems to be a major force in bringing about more labour force participation, higher growth and more gender equality. It seems that policies confining women to the home result in low growth and low living standards. Compared to the European Union, Turkish employment to population rates are not very different, but diverge substantially for women in all age brackets (see Table 3).

Table 3. Employment rates in Turkey and the EU for 1990-2001 (%)

Employment rate (Employment/population 15-64)	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Turkey - Men	76.9	...	...	...	73.8	74.6	74.5	74.7	74.1	72.8	71.0	66.0
Turkey - Women	32.9	...	...	...	30.6	31.5	29.8	27.5	27.9	29.1	25.3	24.1
EU – Men	74.2	...	...	...	70.0	70.4	70.2	70.8	71.6	72.3	73.4	73.2
EU – Women	48.2	...	...	...	49.1	49.8	50.0	50.9	51.8	52.9	54.1	54.9

Source: Various issues of OECD Employment Outlook

On the labour demand side, volatile growth rates also impact negatively on participation rates. While employment elasticity over the longer term is above European levels (see Table 2), showing the importance of labour-intensive sectors such as agriculture, the volatility of growth leads towards an inconsistent correlation between GDP and employment growth (see Table 1). If in 1989, 0.3 per cent GDP growth was accompanied by 2.6 per cent employment growth, the situation was reversed the following year, when 1.7 per cent employment growth corresponded to 9.3 per cent GDP growth. In 2000, Turkey recorded a 3.8 per cent decrease in employment, while GDP grew 7.2 per cent. Subsequently, between 2000 and 2001, GDP declined by 7.4 per cent and employment by 0.3 per cent. This hints at the importance of stabilizing policies that would also stabilize expectations on future growth, investment and employment.

According to the OECD, high and increasing labour costs in the formal sector were responsible for a substantial shift of employment towards the informal sector. However, it is difficult to establish the counter argument and conclude that low wage costs would have contributed substantially to maintain employment in the formal sector, as there are other reasons that make the informal sector attractive (absence of taxes, controls, etc.). The argument that real wages have been artificially high in the SOEs, which in turn have reduced competition in the labour market as a whole, seems to have more substance and was confirmed by our interviews: there seems to be something like “political employment and political wages” with relatively good social protection in the SOEs. An indicator for this is also that wage growth has fluctuated significantly in the SOEs, even surging in election years. Tansel (2002), analysing the large difference in earnings between the pre- and post-retrenchment of workers from SOEs, notes that the higher earnings in SOEs probably reflect non-competitive rents. The OECD recommends that SOEs should be subject to more competition, via privatization, in order to avoid labour market distortions. The IMF and the World Bank share this position.

Low growth and poverty

The low employment potential of growth in Turkey seems also to be closely linked to high poverty rates and low elasticity of poverty with respect to growth. While this is partly explained by the unequal distribution of income (the Gini coefficient for Turkey is around 0.50 for the mid-1990s,⁴ see Table 4), and the absence of income protection, it is also affected by the

⁴ Gini coefficients (which measure income distribution: 0 being the most equal and 1 the most unequal) stand at in between 0.42 and 0.51 depending on the time of measurement and the base for measurement (household income, wage income, total income, etc) but seem to have declined over time. This is lower than in developing countries (e.g. South Africa 0.69, Brazil 0.61, Ivory Coast 0.55: all figures for the middle of the 1990s) but higher than in EU countries where they vary between 0.25 and 0.35. The Turkish Gini coefficient also varies by region (0.64 in Istanbul and 0.33 in Zonguldak: income inequality is much higher in richer than in poorer regions. In gender terms

inadequate levels of education and training on the labour supply side. Lack of adequate education does not allow for improvement of the labour supply and for a smooth intersectoral transition of the workforce from agriculture to industry and services. Also, the OECD states that poverty is further aggravated by the way government spending is targeted and suggests that social spending should be better targeted. As stated in the Global Employment Agenda (ILO, 2002), participating in employment is the best way out of poverty and should be at the centre of economic and employment policies. Income support to working families and permitting at least one member to participate in primary revenue creation through salaried or self-employment would be ways to achieve better targeting.

Table 4. Summary of the evolution of the Gini coefficient in Turkey

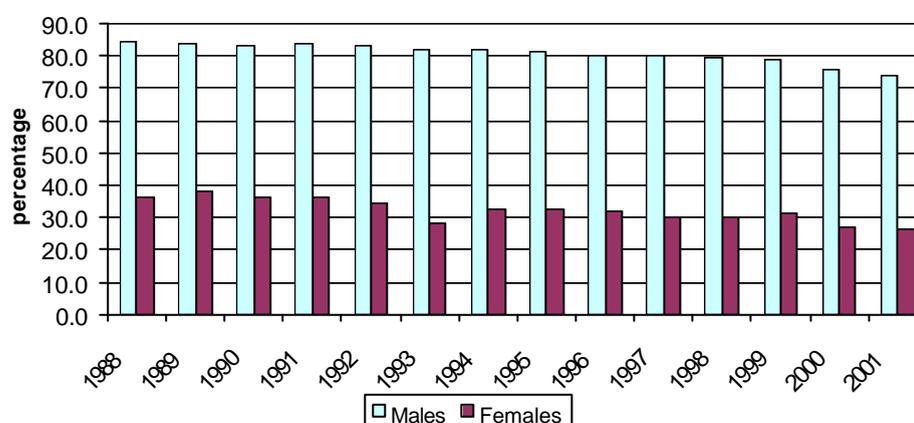
Source and reference year	SPO* (1963)	Bulutay, Timur and Ersel (1968)	SPO (1973)	SIS** (1973/4)	SIS (1978/9)	SIS (1987)	SIS (1994)
Gini coefficient	0.55	0.56	0.51	0.47	0.4	0.43	0.49

Source: A. Erinc Yeldan: *The Impact of Financial Liberalization and the Rise of Financial Rents on Income Inequality: The Case of Turkey* (WIDER Working Paper No.206, November 2000)

*SPO – State Planning Organization, Turkey

**SIS – State Institute of Statistics, Turkey

Graph 1. Male/Female participation rates



Source: *Labour Force Statistics 2001, OECD and OECD Employment Outlook, July 2002*

Stable sectoral distribution of employment

Overall, from 1988 to 1999 (see Table 5), the employment shares of the different sectors remained fairly stable, with the exception of the decline in the mining sector, which was relatively extensive but minor in absolute terms. During the same period, total employment increased by 20 per cent. The bulk of the Turkish population has traditionally been engaged in

women constitute 35% of total income receivers but receive only 10% of income earned. (Source: UNDP and Zehra Kasnakoglu: *Income distribution in Turkey, who gets what?*)

<http://www.tusiad.org/yayin/private/autumn_97/html/kasnak.html>

agriculture -- 45 per cent on average per annum. Agricultural employment is also segregated: over the period, on average 33.2 per cent of all men worked in agriculture but 73.5 per cent of women. The other important sources of employment are manufacturing (14.9 per cent on average per annum), wholesale and retail trade, restaurants and hotels (12.4 per cent on average per annum) and community, social and personal services (13.8 per cent on average per annum). If compared with the EU, where around 5 per cent of the workforce is employed in agriculture (with a spread from 18.5 per cent in Spain to 2.1 per cent in Belgium and Luxembourg), 20.3 per cent in industry (24.2 per cent in Italy to 14.5 in the Netherlands and Luxembourg) and around 70 per cent in services (73 per cent in Luxembourg to 57 per cent in Greece), we can see that Turkey has still a long way to go in order to come closer to the employment structure of a developed economy. In Turkey, agriculture still remains the most important source of employment and the large fluctuations point to its cushioning role for jobless workers. Further, Turkey has also a high share of self-employment in agriculture as well as in non-agricultural activities -- in the latter category the share is 25 per cent (only around 7 per cent of the self-employed are women, 93 per cent are men).

Table 5. Employment in Turkey, by sector, as a percentage of total employment, 1988-1999

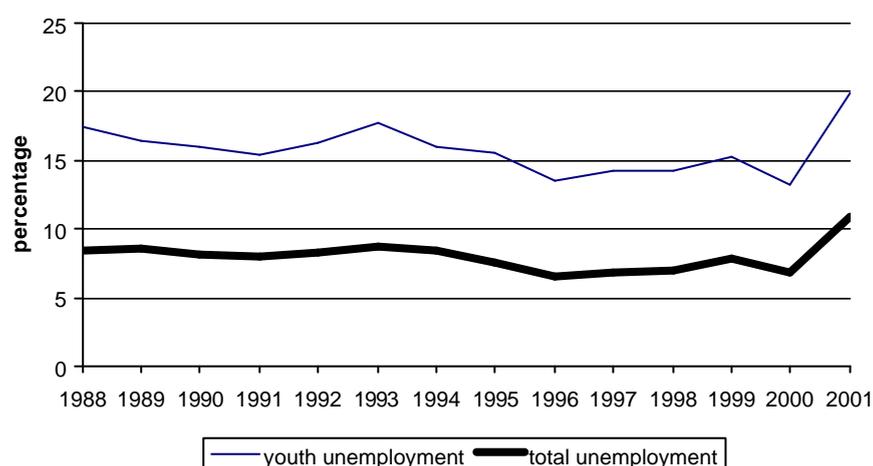
	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Total employment (000)	18445	18856	19946	19452	19959	19905	20396	21378	21698	20815	21958	22049
Agriculture, Hunting, Forestry and Fishing	47.4	48.2	46.9	47.6	44.7	43.4	44.2	47.8	45.9	39.5	43.4	45.8
Mining and Quarrying	1.2	0.8	1.1	1.1	1.0	0.8	0.8	0.6	0.7	0.8	0.8	0.6
Manufacturing	14.3	14.8	14.8	14.0	16.5	15.1	14.6	13.8	14.4	17.3	15.0	14.1
Electricity, Gas and Water	0.2	0.2	0.1	0.1	0.3	0.6	0.5	0.5	0.4	0.5	0.5	0.4
Construction	5.5	5.2	4.7	5.1	5.4	5.9	6.0	5.7	6.2	6.4	6.1	5.4
Wholesale and Retail Trade and Restaurants and Hotels	11.3	11.2	11.4	11.6	12.5	12.8	13.0	12.2	12.5	14.0	13.2	13.4
Transport, Storage and Communication	4.3	4.3	4.3	4.1	4.2	4.8	4.5	4.0	4.2	4.4	4.3	3.9
Financing, Insurance, Real Estate and Business Services	2.3	2.4	2.2	2.2	2.3	2.5	2.3	2.3	2.1	2.5	2.3	2.4
Community, Social and Personal Services	13.7	12.9	14.6	14.1	13.1	14.1	14.0	13.0	13.5	14.5	14.3	14.1

Source: Yearbook of Labour Statistics 2001, ILO

From entry to exit unemployment?

From 1988 to 2000, total official (ILO definition) unemployment decreased by about 1 percentage point, but has increased dramatically since. It stood at 10.6 per cent in 2001 against 6.6 per cent in 2000. But development by gender was uneven: women's unemployment decreased by 27 per cent while total male unemployment increased by 14 per cent up to 2000. However, between 2000 and 2001 the increase was about the same for both men and women. While seeking a first job as a reason for unemployment has steadily declined, at least up to 1999 (from 65.4 per cent to 38.6 per cent of all unemployed, more so for men than for women: see Table 7), entry unemployment still is the most important reason for being unemployed. The latest developments show again a dramatic increase in youth unemployment for both sexes (see Graph 2).

Graph 2. Youth unemployment and total unemployment rates in Turkey (1988-2001)



Source: Labour Force Statistics, OECD, 2001 and OECD Employment Outlook, July 2002

Table 6. Youth unemployment in Turkey, according to sex, 1988-2001

	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
Male youth unemployment rate (%)	17.2	16.9	16.6	17.5	17.9	18.7	17.5	16.9	14.8	13.9	14.9	15.8	13.7	20.7
Female youth unemployment rate (%)	17.9	16.0	15.0	11.7	13.6	16.0	13.5	13.2	11.2	15.1	13.0	14.2	12.2	18.3

Source: Labour Force Statistics 1981-2001, OECD 2002

The biggest concentration of unemployed, after those seeking their first job, is found in the manufacturing sector, with men accounting for 20.3 per cent in 1999 and women 14.9 per cent. For both sexes, data shows that unemployment is on the rise in this sector. For men, other

sectors of high concentration of unemployment are construction as well as wholesale and retail trade, restaurants and hotels, which also display an increase over recent years. For women, those sectors are trade and social, community and personal services.

These developments are due to a combination of increased enrolment rates in education and a certain shift from entry to exit unemployment (from difficulties to access jobs to losing jobs) because of job cuts in certain sectors such as industry.

Table 7. Unemployment by sector, as a percentage of total unemployment, 1990-1999

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
MEN										
Total male unemployment (000)	1,103	1,300	1,237	1,225	1,218	1,052	956	994	1,041	1259
Agriculture, Hunting, Forestry and Fishing	9.7	10.1	9.2	12.1	10.3	18.1	4.7	7.9	5.1	5.2
Mining and Quarrying	1.1	1.5	1.2	0.3	0.8	0.2	1.2	0.8	0.9	0.5
Manufacturing	11.8	15.4	16.5	12.8	14.8	13.9	14.4	12.2	19.6	20.3
Electricity, Gas and Water	0.3	0.2	0.1	0.2	0.5	0.6	0.1	0.2	0.4	0.4
Construction	11.2	13.0	11.2	19.3	15.4	13.9	11.2	13.6	12.2	14.5
Wholesale and Retail Trade and Restaurants and Hotels	10.0	11.9	9.8	10.9	10.8	12.4	13.4	13.6	13.0	12.9
Transport, Storage and Communication	4.8	4.6	5.7	2.9	4.4	3.5	5.1	4.8	3.8	5.6
Financing, Insurance, Real Estate and Business Services	1.5	1.5	0.9	1.6	0.8	1.8	2.1	1.0	0.5	1.9
Community, Social and Personal Services	6.8	6.7	6.2	6.9	9.5	7.1	8.8	6.3	8.0	8.6
Unemployed seeking their first job	42.8	35.2	39.1	33.1	32.6	28.6	39.1	39.4	36.5	30.3
WOMEN										
Total female unemployment (000)	512	486	508	497	522	470	376	550	416	471
Agriculture, Hunting, Forestry and Fishing	5.3	4.3	4.5	4.4	6.5	12.8	5.6	2.7	3.4	2.1
Mining and Quarrying	na	na	na	na	na	na	na	na	2	na
Manufacturing	7.0	11.7	9.6	13.7	10.7	11.5	7.2	9.6	13.2	14.9
Electricity, Gas and Water	na	na	na	0.2	na	na	na	0.2	0.2	0.2
Construction	0.8	0.8	0.8	1.8	1.5	1.1	0.5	0.5	0.5	1.1
Wholesale and Retail Trade and Restaurants and Hotels	4.5	5.6	5.1	5.0	7.9	7.0	5.3	7.1	9.1	9.3
Transport, Storage and Communication	0.8	0.6	0.2	1.4	0.2	0.2	1.1	0.2	0.7	0.2
Financing, Insurance, Real Estate and Business Services	1.6	3.1	3.9	3.2	3.4	2.8	3.5	2.4	3.6	4.2
Community, Social and Personal Services	6.6	8.4	6.5	9.9	7.5	7.9	8.8	8.0	8.4	7.4
Unemployed seeking their first job	73.2	65.4	69.3	60.4	62.1	56.6	68.4	69.5	60.3	60.5

Source: Yearbook of Labour Statistics 2001, ILO

High underemployment

Turkey's unemployment rates are moderate by OECD standards but high if compared to other middle-income countries. According to the World Bank, examples in this regard are Mexico and Korea. In Mexico, at the peak of the 1982 debt crisis, unemployment reached only 6 per cent. In Korea, it averaged only 2.8 per cent during 1985-95 and 6 per cent after the East Asia crisis (World Bank, 2000). In countries like Turkey with a tradition of much informal employment (estimated to concern around 50 per cent of employment) and self-employment and a deficient welfare system, open unemployment rates do not reveal much about the reality of the labour market.

A smaller part of the underemployed appears in statistics collected by the Turkish Statistical Institute.⁵ The highest number of underemployed for both sexes is concentrated in the agricultural sector and the trend over the last three years is increasing. High female underemployment is observed in community, social and personal services and high male underemployment in construction. Also, underemployment is high for both sexes in manufacturing. Overall, the worrisome trend is that the absolute number of both female and male underemployed persons is on the rise (data for 2000 and 2001 is not considered because sample size is too small for reliable estimates). For both sexes, the share of those seeking a job because of insufficient income is the highest, followed by those working less than 40 hours because of economic reasons (see Table 8).

⁵ Data relates to:

- Employed persons who work less than 40 hours because of economic reasons during the reference period and are able to work more at their present job or are capable of doing a second job. The economic reasons include slack work for technical or economic reasons, lack of work, inability to find a full-time job, initiation or termination of employment during the last week.
- Persons who are not in the above group and want to change their present job or are seeking a second job because of an insufficient salary or because of not working in their usual occupation.

Table 8. Underemployed persons by type of underemployment, as a percentage of total underemployment, 1990-2001

	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000*	2001*
MEN												
Total (000)	1,195	1,337	1,485	1,358	1,533	1,283	1,256	1,189	1,238	1,842	1,351	1,192
Seeking a job because of insufficient income	71.9	78.2	81.5	83.9	80.9	81.1	82.0	80.1	86.2	84.4	81.0	80.4
Seeking a job because of not working in his/her usual occupation	3.1	2.9	2.2	1.7	1.8	2.8	2.5	3.0	2.3	2.1	2.6	2.2
Working less than 40 hours because of economic reasons	25.0	18.9	16.4	14.4	17.4	16.0	15.4	16.9	11.6	13.5	16.5	17.5
WOMEN												
Total (000)	114	148	216	159	256	223	204	144	139	200	168	145
Seeking a job because of insufficient income	50.0	64.9	78.2	71.1	66.8	52.9	55.4	64.6	77.0	74.5	59.5	65.5
Seeking a job because of not working in his/her usual occupation	7.0	2.0	1.9	1.3	1.6	3.1	4.4	10.4	5.8	5.5	2.4	4.8
Working less than 40 hours because of economic reasons	43.9	32.4	19.9	27.7	31.6	43.5	40.2	25.0	17.3	20.5	38.1	29.7

Source: State Institute of Statistics (SIS), Turkey

* Sample size is too small for reliable estimate

However, it appears from ILO EMP/ANALYSIS work on the working poor (Majid, 2001) that in developing countries with large informal sectors, poverty is usually not linked to unemployment to the same extent as in developed countries, the reason being that those collecting benefits are usually better off than the unprotected working poor of the informal sectors. Only a small portion of the unemployed in Turkey collect any benefits at all and the new benefit system introduced in 2002 foresees benefit payments for a limited period of six months with rather restrictive eligibility criteria. We do not yet have evaluations of the working of this system. Being poor and being barred from regular employment has many unwanted consequences such as child labour and low enrolment rates in schools (which tend to perpetuate the situation) informalization of employment, low productivity, poor public health, high infant mortality and sometimes-illegal activities and crime. (See also Boxes 1 and 2).

Box 1. Poverty in Turkey

According to a joint study by the World Bank and the Institute for the Future of Labour (Forschungsinstitut zur Zukunft der Arbeit - IZA) in Bonn, Germany, Turkey does not face a problem of absolute poverty by the standards of a developing country. The study defines absolute poverty as a household, which 'consumes less than the cost of a minimum food basket for its members.' In Turkey in 1994, the cost of a minimum food basket was US\$36 a month for an adult. Further, the paper argues that poverty in Turkey affects specific groups of the population and employment and earnings are among the key determinants of poverty risk; however, economic vulnerability is considered to be the main problem. This means that there are a large number of people living close to the absolute survival minimum and they are the ones most susceptible to falling into absolute poverty as a result of economic downturn.

The highest poverty rate is observed among households headed by the self-employed in agriculture, followed by casual employment in construction, regular employment in manufacturing and self-employment in trade. Together these four groups represent 55 per cent of those vulnerable to poverty, 56 per cent of the poverty gap¹ for Turkey and 63 per cent of the poor population as a whole.

It is important to note that households headed by regular employees still have high poverty rates. According to the ILO, the working poor rate (the ratio of the working poor² to the employed population) in 1997 for Turkey was 2.6 per cent. The variation in earnings for regular employees is influenced by factors such as education, profession and type of contract. Also, the high level of poverty among them is explained by the high dependency rate (almost two-thirds of household members do not work). This is very typical for new migrants, employed under regular employment contracts in the manufacturing sector. Usually, their families have a very low female participation rate and a large number of dependents.

The study suggests that inter-family ties constitute the most important safety net in Turkey. Mostly the non-poor benefit from State transfers. The study concludes that the key forces behind changes in poverty and vulnerability in Turkey for the period 1987-1994 were macroeconomic and demographic factors and they were counterbalancing each other. Rises in inflation and unemployment rates were pushing poverty up and the fall in fertility, rising educational attainment and migration were operating in the opposite direction.

¹poverty gap – is the mean shortfall from the poverty line (counting the nonpoor as having zero shortfall), expressed as percentage of the poverty line (World Bank: *2001 World Development Indicators*).

²working poor – are defined as those who work and who belong to poor households. Poor households are those who live below the international poverty line (\$1 a day) (Majid Nomaan, Employment Paper 2001/16: *The Size of the Working Poor Population in Developing Countries* (Geneva: ILO, 2001), p.2).

Box 2. Working Street Children

The ILO InFocus Programme on Child Labour: IPEC has been working in Turkey towards the goal of the total elimination of child labour since 1992. In 2001, IPEC conducted a rapid assessment research on one of the worst forms of child labour: children working in the streets.

The children can be divided into two groups. The first works on the street during the day, sometimes during the evening and night, but finally goes home to stay with their families. They are supposed to be under the protection and supervision of their families. The second group work and live on the streets. They have left their homes and/or their families have disintegrated.

The great majority of children working on the streets in Turkey belong to the first group, and are involved in selling napkins, chewing gum, water, sunflower seeds, lottery tickets and other small items appropriate to the season. Children work in congested city streets and at intersections and are exposed to noxious pollutants from motor vehicles, the risk of being run over or hit by cars, abuse from older gangs of drug abusing street hawkers and customers. Scavenging is the worst form of work that these children engage in. This exposes them to infectious diseases including hepatitis A and B, AIDS/HIV, tetanus and coliform.

The children interviewed were between seven and 17 years old, with a median age of 12. The majority were males. They were from very poor, large nuclear families with an average household size of eight. The majority of children had attended or continued to attend school. Only 13 per cent of the sample had never attended school; however, school dropout rates were high: 25 per cent of all children interviewed. The most of the parents seemed to be ignorant about the risks their children were exposed to. Furthermore, child labour is legitimised by its cultural acceptability. Working on the streets was considered to be an 'apprenticeship' for adult life in that it teaches self-discipline and how to overcome hardships in life while contributing to family income.

Not every poor family has the same attitude towards child labour. Families who do not send their children to work on the streets in general have fewer children, they value education for their children and they attribute psychological value to their children rather than only economic value.

The full range of causes that generate child labour requires analysis and a variety of intervention strategies. These strategies should seek to implant broad preventative and rehabilitative approaches. Effective prevention requires family empowerment, basic education, capacity building, awareness raising and social mobilization. Rehabilitation measures should seek to offer different solutions and provide a comprehensive socio-economic package of services encompassing education, health and nutrition, social protection and shelter.

Source: B. Aksit, N. Karanci and A. Gündüz-Hosgör: Turkey: Working Street Children in Three Metropolitan Cities: A Rapid Assessment (Geneva: ILO, IPEC, 2001)

Better general education, but more effort needed for extending vocational training

Over the 1989-1999 decade, the illiteracy rate decreased by 45 percent for males and 36 per cent for females, and the high school enrolment rates for males and females almost doubled. Primary school enrolment rates for males went up 17 per cent and for females 21 per cent. Overall in all educational categories, except for vocational junior high school, the number of students increased. This success can be attributed to Turkish Government efforts to improve education. In 1997, the Government increased the duration of compulsory education from five to eight years (Basic Education Law No.4306), which is expected to have further positive impact on the educational status of the population.

Further improvements can be made. In this context, it is very important to note that more emphasis should be placed on vocational training in order to facilitate young people's integration

into the workforce. The enrolment rates for vocational junior high school for both males and females have decreased and are already very low. There are positive signs -- the number of females enrolled in vocational high school from 1989 to 1999 rose by 79 per cent and for males over the same period by 70 per cent. Also, the 8th Turkish Five-year Development Plan foresees an increase in secondary level enrolment to 75 per cent in 2005 and the proportion of vocational and technical training to 35 per cent in 2005 (2000 Turkey Regular Report, EU Commission).

Table 9. Male/Female labour force by educational status as a percentage of total labour force, 1989-2001*

	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000**	2001**
Male Total (000)	13663	13990	14504	14759	14713	15135	15397	15650	15893	16250	16532	16253	16339
High school	6.7	7.0	7.7	8.8	9.9	10.5	11.4	11.7	11.1	12.5	11.6	11.9	11.8
Illiterate	9.0	8.0	7.4	6.6	5.4	5.3	4.9	4.9	4.7	4.3	4.1	4.2	3.8
Junior high school	8.4	9.0	8.8	9.2	9.4	9.5	11.2	11.1	11.5	12.3	12.0	11.5	11.9
Literate without any diploma	8.6	7.4	6.5	5.9	5.5	5.4	4.7	4.0	3.4	3.2	3.0	3.0	3.1
Primary education	...	...	...	...	...	...	...	...	...	...	...	0.9	0.4
Primary school	57.8	58.8	60.4	59.8	60.0	59.2	56.8	56.6	56.7	55.4	55.7	53.7	52.8
Universities and other higher educational institutions	5.4	5.5	5.3	5.4	5.9	6.0	6.3	6.8	7.1	7.2	7.4	8.0	8.4
Vocational high school	3.7	3.7	3.4	3.7	3.2	3.6	4.2	4.7	5.2	4.9	5.2	6.3	7.6
Vocational junior high school	0.6	0.6	0.5	0.5	0.5	0.5	0.5	0.3	0.3	0.3	0.4	0.4	0.2
Female Total (000)	6,267	6,160	6,180	6,056	5,059	6,040	6,102	6,153	5,931	6,149	6,656	5,778	5,929
High school	5.9	6.6	6.0	7.3	9.7	8.3	9.1	9.3	10.1	10.5	9.6	9.9	8.9
Illiterate	31.5	30.2	30.2	26.8	21.7	22.6	21.9	21.6	19.7	19.4	18.9	20.2	19.0
Junior high school	3.5	3.4	3.3	3.5	3.7	3.9	4.1	3.7	4.4	4.7	4.7	4.3	4.2
Literate without any diploma	8.5	7.4	7.1	7.8	7.0	6.8	5.7	4.7	3.2	3.1	3.7	3.9	4.1
Primary education	...	...	...	...	...	...	...	...	...	...	...	0.6	0.4
Primary school	43.8	44.7	46.0	45.8	48.1	49.2	49.2	49.9	49.3	49.2	49.8	44.3	46.3
Universities and other higher educational institutions	4.4	4.7	5.0	6.0	6.9	6.8	6.9	7.5	8.9	9.2	9.1	11.5	11.5
Vocational high school	2.1	2.7	2.2	2.7	2.7	2.1	2.9	3.2	4.2	3.9	3.6	5.2	5.4
Vocational junior high school	0.4	0.3	0.2	0.2	0.3	0.3	0.2	0.1	0.2	0.1	0.1	0.1	0.1

Source: State Institute of Statistics (SIS), Turkey

* Data between 1989 and 1999 is the average of the fourth week of April and October, starting with Monday and ending with Sunday. Year of 2000 and after is annual data; the seven days, which are before the first application day of the survey was used as the reference period.

**Sample size is too small for reliable estimate

While all efforts to improve education and training are welcome, there are also problems with increasing supply. One problem is the lack of educational opportunities: in vocational training supply of training places is clearly inferior to demand, and the same holds true for higher education. However, there is also the challenge of high unemployment for graduates of secondary schools (especially women) and to a lesser extent higher education and the ensuing under utilization of the skills of the labour force. While in general enhancing labour supply through investments in education and training has positive effects on the labour market (e.g. in terms of labour market participation, access to the labour market and structural adjustments requiring labour allocation from shrinking to growing sectors and activities) the demand side – the creation of jobs to absorb the educated labour force must match this effort on the supply side, although there might be some endogenous growth effects from education and training.

Conclusions

This short overview of the Turkish labour market has shown that Turkey still has a dual economy where fairly developed sectors coexist with underdevelopment, a large informal sector and poverty. Growth is extremely volatile and has resulted in mini bust and boom cycles. Together with an unstable financial system this volatility impacts on expectations in terms of investment and employment, especially since the 2001 crisis. The dominance and relative stability in terms of employment in agriculture shows that the country is still in a transition phase towards an industrial and service economy. Problems of insufficient demand for labour coexist with supply side restrictions, e.g. in terms of skills. Labour market participation is low and not noticeably catching up. On the contrary, participation, even for women, who already have very low employment rates, continues to fall.

Even if the potential of the economy is seen as good and some progress has been made recently towards stabilizing the economy with the help of the Bretton Woods institutions, Turkey is still a long way from economic stability and positive labour market development. On the labour market, the effects of change – if improperly managed - will in the short and medium term lead to more problems. Therefore this transition phase has to be well managed in order to allow smooth adjustment while giving at least a minimum of security to workers affected by these changes. Labour market problems are to be expected by the gradual shift from an agricultural society towards an industrial and service society (reinforced by a change in the subsidy policy) and also in the wake of privatization of SOEs, which will probably accelerate in the course of the implementation of the reforms requested by the Bretton Woods institutions. Moreover, the preparation for EU accession, especially on the macroeconomic side, could lead to labour market problems. In the following we will concentrate on the labour market consequences of privatization, but the measures proposed could also be extended – if financing exists - to other adjustment/redundancy situations.

3. Management of redundancies

Privatization and economic restructuring

Even though the purpose of this paper is not to discuss privatization *per se*, some preliminary remarks are required: firstly, it should be noted that acceptance of privatization in Turkey seems low. Trade unions usually oppose it, because they believe that the Government has no clear policy in this regard, that there are only a few examples of successful privatization, that the process is not transparent and that it leads to large-scale redundancies. Consequently, privatization leads immediately and surely to job losses and more hardship for workers, while the benefits – more competitiveness, reduction of public spending and eventually more employment creation - seem more remote and less certain.⁶ Tansel (2002) shows that a sample of around 500 retrenched workers from the cement and petrochemical industry had post-dismissal earnings of only around 35 per cent of their former State wages. They also lost social security coverage and other fringe benefits (subsidized meals, heating fuel, child support). Moreover, most of the post-dismissal jobs were created in the informal sector. The welfare losses were clearly enormous and consequently 93 per cent of the cement workers and 85 per cent of petrochemical workers said that they would have preferred to stay in their old jobs (Tansel, 2002). Resistance, the degree of which is different by union,⁷ seems to stem from these differences in the timeframe and certainty of hardship and benefits. Another problem is that benefits and losses seem to accrue to different groups in society.

But even the Turkish Confederation of Employers' Association (TISK) has reservations and is opposing the rather haphazard way in which privatization is carried out. Government is sometimes hesitant, but as privatization is a conditionality for loans, it can hardly escape the process. It was also criticised that the social partners are not involved in the discussions, but it seems that unions are opposed to sitting on the tripartite Committee that has been set up for the purpose by the Government. Our interviews clearly showed that the privatization agency, established by the authorities, could not proceed as planned.

The IMF states that the Turkish authorities need to put more effort into privatizing large-scale enterprises in order to create an attractive environment for the private sector. Rapid progress in privatization will help the Government to alleviate its borrowing needs and improve economic efficiency. Also, progress in privatization will be a key test of the Government's ability to carry forward the economic reform agenda. In addition, removing administrative barriers to investment will be a key.

Despite resistance,⁸ privatizations have been carried out since the late-1980s, although on a reduced scale. According to the World Bank office in Turkey, the lay-offs from privatization

⁶ The primary concern of the labour unions is the worker's displacement, which might result from privatization (Karatas (2001) p.111). Karatas cites several studies that confirm this view. For example a study by Tallant (1993) showed that union employment dropped by 35% in 22 cement plants that were divested and labour productivity consequently rose. However, he also notes that there is no comprehensive data set on the employment consequences of privatizations.

⁷ The left wing DISK opposes privatization more radically than TISK or HAKIS. The latter has a more pragmatic approach and sometimes favours workers' ownership as in the case of the steel mill in Kardemir.

⁸ Karatas (2001) also notes some of the reasons for objection: privatizations seem to have been lacking transparency, especially concerning the method of valuations of assets and the actual deals that have been made. He also notes that in many cases "competitive bidding processes have somewhat been ignored". In some cases, parliamentary commissions have been investigating allegations of fraud and the privatization agency has often had recourse to block sales instead of public offers.

were minor because of this resistance and consequently only a fraction of the money set aside for the social adjustment of redundancies was used.

While it is difficult to obtain an overview of the real extent of lay-offs, administrative data provided by the Turkish employment office (ISKUR), shows that since March 1995, 13,532 people were laid off in the wake of privatization.

This number seems to be rather low. According to Table 10, the share of SOEs has been declining both in employment and GDP. In 1995, there were about half a million people working for SOEs, 153,881 workers less than in 1988. According to the IMF's Tenth Review under the Stand-By Arrangement (Nov.21, 2001) in 2002, employment in SOEs is expected to fall by 49,000 due to retrenchment and attrition.

Table 10. State-owned enterprises' (SOEs) share in employment and GDP, 1988-1997

	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997
SOEs, employment (% of total)	3.5	3.4	3.2	3.2	3.1	3	2.7	2.3	...	...
SOEs, economic activity (% of GDP)	7	6.2	5.6	5.2	4.6	4.9	5.5	4.8	4.5	4.6
SOEs, investment (% of GDI)	24	21	24	20	15	13	11	7	10	11

Source: World Development Indicators 2000, World Bank

According to the Turkish Government, the share of SOEs in economic activity will have melted down to 1.1 per cent of GNP in 2002. In addition, the Government plans to rationalize personnel and benefit expenditures, including a hiring freeze for all budget funded SOEs and limiting replacement hiring to 10 per cent for all others; reduce labour costs by 10 per cent; pursue wage savings of TL 300 trillion; eliminate overproduction premiums for workers in idle units of SOEs; strictly limit overtime payments. This will result in TL 0.7 quadrillion (0.2 per cent of GNP) of cost savings. In addition, the Government plans to reduce non-wage operating expenses by instructing the SOEs to lower their planned general administration expenses (including reduced advertising, promotion and association memberships) and reduce their stock of inventories (Tenth Review Under the Stand-By Arrangement, IMF, 2001).

The level of foreign direct investment (FDI) in Turkey has been low (see Table 11), which is surprising since it represents a domestic market of 65 million (even though the average per capita income is only US\$3,000) and has a unique geographical location. Also, Turkey has had a free trade agreement with the EU since 1996 and a centuries-long trade history with the Middle East (World Market Country Analysis, 2002). The current privatization is unlikely to dramatically increase the FDI inflow (see H. Loewendahl and E. Ertugal- Loewendahl, 2001). In terms of independent FDI, Turkey still needs to catch up if compared to countries like Hungary and the Czech Republic.

According to the World Bank, corrupt practices in the bureaucracy are one of the major obstacles to FDI. It might be that with the speeding-up of the privatization process and a successful implementation of the IMF structural adjustment programme, FDI will increase. Further, in 2002, the Turkish Government plans to submit a new draft Law on Foreign Investment in line with the findings of the World Bank's Foreign Investment Advisory Service (FIAS) study.

Table 11. Foreign direct investment in Turkey, net inflows (% of GDP), and nine competitor locations*

	1994	1995	1996	1997	1998	1999	2000
Bulgaria	1.1	0.7	1.1	5.0	4.4	6.5	8.3
Czech Republic	2.1	4.9	2.5	2.4	6.5	11.6	9.0
Egypt	2.4	1.0	0.9	1.2	1.3	1.2	1.3
Greece	1.0	0.9	0.9	0.8	na	0.5	1.0
Hungary	2.8	10.1	5.0	4.7	4.3	4.1	3.7
Israel	0.6	1.5	1.4	1.6	1.7	2.9	4.0
Poland	1.9	2.9	3.1	3.4	4.0	4.7	5.9
Romania	1.1	1.2	0.7	3.4	4.9	3.0	2.8
Russia	0.2	0.6	0.6	1.5	1.0	1.7	1.1
Slovak Republic	1.9	1.3	1.8	0.9	2.6	1.8	10.7
Turkey	0.5	0.5	0.4	0.4	0.5	0.4	0.5

Source: World Development Indicators 2002 CD-Rom (World Bank)

* The nine competitor locations are identified by H. Loewendahl and E. Ertugal- Loewendahl in their paper 'Turkey's Performance in Attracting Foreign Direct Investment - Implications of EU Enlargement' (European Network of Economic Policy Research Institutes Working Paper No.8, Nov. 2001)

While, therefore, there are also internal changes in SOEs to make them more productive, a new wave and a general increase in privatization is expected in the coming years as a consequence both of the 2001 crisis and the subsequently negotiated loans from the Bretton Woods institutions. This means that lay-offs could be quite extensive in the future and come in addition to existing labour market problems, so that the need for adequate social accompaniment will be even greater.

Worker displacement

All countries have continuously to deal with restructuring of major industries: worker displacement is therefore a constant theme in the European Union and its member States; it is a big issue in the USA; and the former planned economies have been involved in massive restructuring of their economies with dramatic consequences for employment. It is difficult to estimate the job losses involved, but they amount to several million worldwide, due to a multitude of causes (for some anecdotal evidence see Hansen, 2002).

Structural change, especially in developing countries, still implies the shift of employment from agriculture to industry and services. In more developed economies the shift from industrial employment to service sector employment is still moving ahead. There are also intra-sectoral shifts in addition to these larger inter-sectoral shifts. As an emerging country, Turkey has to pass through a phase of structural adjustment in agriculture, which still employs half of the active population. But the present restructuring of the SOEs is more comparable to the restructuring of some of the major industries and conglomerates in transition countries or (the formerly nationalized) industries such as coal and steel in the developed countries, which has usually been accompanied by labour market policies. It is true that SOEs are found in many sectors in Turkey: their original function was socially important as they commanded not only the strategic sectors of energy and natural resources plus heavy industries, but also played a role as price regulator for other crucial sectors such as meat and fish. Their importance has already declined but restructuring is still going on and will probably accelerate. In the case of restructuring there are of course conditions that Turkey cannot (or not yet) replicate, such as being massively helped in adjustment by the creation of a supranational space such as the European Union, which developed from the European Steel and Coal Community, set up as its forerunner in 1951. The Steel and Coal Community backed social measures for economic adjustment substantially and early on. The EU has continued to finance this and all countries

have had their specific packages of social measures that allowed a smooth adjustment of these industries (see Auer, 1990). But the US has also run and is still running major employment adjustment, especially in the wake of trade developments. On a smaller scale than in Europe, worker displacement in the US has seen the use of regulation and of labour market policies.⁹

The social consequences of restructuring, including privatization, and especially the challenge of re-employment, are a worldwide problem, and it is a constant theme in all European countries and high on the agenda of the OECD (see ELSAC, 2002). As recently as May 2001, the EU Commission for Employment and Social Affairs announced a comprehensive package, which puts forward a proposal for effective legal guarantees for workers affected by corporate restructuring. The proposal focuses on advance information and consultation, incentives to businesses to plan company restructuring early and effectively. The proposal tackles other Community policies, such as Community competition law on mergers and acquisitions and the social consequences of such operations. The Commission plans to discuss with the social partners how to further elaborate the notion of corporate responsibility for facilitating change, including social accompanying measures in the case of corporate restructuring. Also, a review of the European Works Councils Directive is to be launched in the near future. According to Anna Diamantopoulou, the EU Commissioner for Employment and Social Affairs: ‘Business now operates in a global environment, which demands dynamic and adaptable companies. If adaptation to change is part of a company’s mental make-up and involves the workforce throughout, the company will reap the economic benefits of loyalty from workforce and customers. Smart businesses know this and are already doing it right. Failure to get it right can be costly.’ The ILO strongly supports such efforts and has set forth a number of concepts and measures to prevent, limit and leave enough time for planned action in regard to workers displacement in ILO Conventions No.158 and Recommendation No.166, both relating to termination of employment, in 1982.

Further, the ILO Global Employment Agenda stresses that: ‘The operation of [labour] markets, based on rules, institutions and bargaining power, has to make change acceptable while underpinning a process of rising productivity and prosperity. Intervention in these markets, ‘active labour market’ policies, influence both the supply of and demand for labour and can help strike a balance between flexibility for enterprises and security for workers and (adapting efficiently to change).’ In the ILO employment sector, conceptual and practical work has also been done on the issue of “socially responsible company restructuring” (Hansen, 2002).

Because of the importance of employment losses for workers, their families and communities, international experience has produced much information on how to counteract the adverse effects of worker displacement on workers and communities and what kind of legislative and policy steps can be taken in order to establish formal mechanisms to deal with worker displacement.

Processes and policies: What has been done and what can be done for displaced workers?

One must first distinguish between the organization of the process of adjustment and the measures applied during the process. The process refers to the steps that have to be taken either as a consequence of legislation or collective bargaining and/or company action in the case of so-called socially responsible companies. In most developed and transition countries such legislation exists (G. Bertola, T. Boeri and S. Cazes, ‘Employment protection in industrialized

⁹ For example, the WARN (worker adjustment and retraining notification) and TAA (Trade assistance) acts which foresee special notice, passive and active policies for workers displaced by trade.

countries: The case for new indicators', *International Labour Review*, vol.139, no.1, 2000) and it provides for notice periods, information and consultation with workers and their unions. These regulations usually prescribe dismissal only as a last step and measures to be taken to avoid it. They foresee an order of preference for dismissals. In this regard, employment protection legislation usually includes some form of seniority regulation, which protects the workers with longer tenure (first in, last out). It might be a paradox of workforce adjustment that those best protected by **employment protection** are actually those who go first because they enjoy the best **social protection** (e.g. early retirement). In many European countries (e.g. Germany, France), social plans have to be negotiated between employers, unions and workers in order to smooth the social impact of redundancies and to allow for reallocation of labour. These social plans usually foresee an array of measures to be taken both for preventing dismissals and managing exits.

There is abundant literature on the effects of employment protection legislation on the labour market and the current general wisdom would be that it might have some adverse effects on hiring, as the economic environment is increasingly uncertain; employers do not want to establish strong ties with their workers. Neoclassical economists also see employment protection legislation as responsible for high levels of unemployment. However, in a seminal study, the OECD found that while it might have some impact on the structure of employment (e.g. the share of long-term unemployment), it has an insignificant impact on the level of unemployment in the OECD countries screened (OECD, *Employment outlook 1999*). Our own studies have shown that the percentage share of those with long employment tenure (that relates quite well to employment protection) increased in most European countries over the 1990s and that a typical European country seems to have a large core of stable workers together with a smaller segment of temporary workers. Both parts, the stable and the flexible, are crucial to productivity. We have also found that there are trade-offs and complementarities between employment protection and social protection that have to be taken into account to allow an assessment of the impact on both workforce adjustment and the security of workers. (Auer, Cazes, 2000)

Employment protection at the company level can have a stabilizing effect for workers and firms (as employers who have to maintain their workers must also be effective in maintaining or expanding their markets in order to keep their employment promises) but it can also impinge on the needs for adjustment. Therefore, for the increasing adjustment needs of firms because of their volatile economic environment, employment protection can become a burden that eventually cannot be maintained. The way out of this particular trade-off between economic adjustment and the loss of employment protection and workers' security has usually been the provision of enough social protection to allow adjustment in security. This is in essence the objective of social protection measures used for cushioning the impact of restructuring: allow economic adjustment while protecting workers.

Therefore, employment protection, paralleled by collectively provided social protection, can be an effective tool of workers' protection that does not hinder necessary employment adjustment. And, if seen in such a broader frame (that includes social protection and active labour market policies), it should have the beneficial effect to induce employers to resort to prevention and internal adjustment, rather than to external adjustments.

But as employment protection legislation generally also provides a framework for workers and union involvement it has the beneficial effect of stimulating the dialogue in search of better solutions than dismissals and passive measures. In Turkey such employment protection legislation is embryonic. Under employment regulations and collective agreements, dismissals give entitlement to a fixed payment proportional to the time spent in a job.

While employment protection in the SOEs is *de facto* very strong and severance pay is awarded for regular employees in case of dismissal¹⁰ there was to date no employment protection act for the whole economy. After much controversy and outright employer opposition, an amended job security law is at the time of writing under discussion in parliament. If the law is voted it will oblige employers to give a valid reason for dismissal. They would not be able to dismiss an employee for union activities. The law also foresees a series of anti-discrimination clauses. It provides for advance notice to both the unions and the public employment services in the case of lay-offs of more than 10 people. The law has also to be seen in the light of the ratification by Turkey of Convention No.158 on the termination of employment and in the context of EU accession. However, 50 per cent of employment is not declared and collective agreements cover only 35 per cent of those in officially declared jobs. There is no provision in employment legislation against sex discrimination and, according to the 1998 UNDP report on human development, discrimination is institutionalized and a structural feature of the labour market. (European Commission: *Regional Policy, cohesion report, fact sheet*, February 2002).

Although the effects of the law will only be seen in some years' time, together with the unemployment insurance system, it forms the first institutional elements of modern labour market management with the involvement of the social partners. In a way therefore, employment protection legislation, together with social protection, can support workforce adjustment. There should of course be enough alternatives to dismissals and passive income protection measures on the bargaining table. Coping with redundancies requires the availability of alternatives to dismissal such as labour market policy measures and imagination, for example in the way to combine measures in order to meet a particular redundancy situation. In addition, efficient institutions for implementing change are required.

Passive or active labour market policies?

The basic choice that employers (here the government, but in other circumstances also private employers) and unions face when coping with redundancies – under the assumption that policies exist - is between active and “passive” labour market policies. A very practical definition of passive policies is that they usually do not impose training or work conditionality for benefit receivers. Active policies, on the other hand, would impose such conditionalities: benefits are only paid if recipients participate in training or employment. The border between both is blurred, however, because all unemployment insurance systems (which are, together with early retirement and social assistance the main passive income replacement schemes) usually impose an active job search conditionality. It should also be mentioned that recent policies in the US and Europe are tending to shift from “welfare to work”, i.e. they try to shift from income replacement payments without work or employment conditionality, to active policies.

What has been done in Turkey to address employment issues?

The “waves” of privatization that have occurred since 1986 have already seen the design and implementation of accompanying measures, financially supported by the World Bank. For example, the Privatization Implementation Assistance and Social Safety Net Project (PIAL) was run between 1994 and 1995 and since 2000 a new project, the Privatization Social Support Project (PSSP) is being implemented. PSSP builds on some of the experiences of the former PIAL project.

¹⁰ Severance payments are covered by article 13 of the Labour Law. After one year of employment a worker is entitled to 30 days of pay for each year of service (Tansel, 2002).

Under PIAL, a labour adjustment (LAP) project was run. It was financed by a US\$18.3 million World Bank loan. The project was run by ISKUR, the Turkish employment service in collaboration with KOSGEB (public small and medium sized industry development organization) and TOBB (chambers of commerce).

ISKUR delivered job and career counselling, social counselling, labour market information, job placement, and assessment of training needs and referral to appropriate training. It also referred people to temporary work programmes. Providers for training programmes were either private enterprises or public/private training institutions. Government or non-profit NGOs organized temporary community employment programmes.

KOSGEB delivered small business consulting assistance and small business incubator services. TOBB was responsible for the local economic development programme and its role consisted in exploring local potential through studies and promotional activities.

The results of the implementation of these programmes were:

- Privatization did not proceed as planned and hence fewer SOEs were privatized and consequently fewer workers were laid off. Only a fraction of funds were spent. All in all 3,937 workers were retrenched from 11 SOEs during the programme period and around 80 per cent of them were informed about LAP services. Thirty-seven per cent of the workers retrenched (around 1,450 workers) benefited from LAP services at an average cost of US\$1,160. A total of 1,299 received some form of employment counselling through the regular programmes of the employment services.
- Only a fraction of the workers laid-off participated in training and retraining (around 100 workers or 2.4 per cent of all those made redundant)
- The programme used most frequently was temporary work in which 440 workers (or 30 per cent) participated, but only 21 found work after participation
- Small business consultancy was used by a further 5.5 per cent of workers and this has led allegedly to the creation of 26 businesses with 91 employees
- Of the expected five business incubators only one was established (in the zone of Zonguldak). However, 25 new ventures with 150 direct jobs were created at a cost of US\$450 000.
- Local economic development studies concerned 30 sites. While there is no information on the results in terms of jobs created, evaluation underlined the importance of these programmes as they bring local organizations together and permit exchange and sharing of resources that should lead to concrete actions at a later date.

Other data provided by ISKUR (see above) showed a total of more than 13000 workers laid off in the wake of privatization since March 1995. Of these, only 312 found jobs through the public employment office, 210 found jobs on their own, 640 were eligible for (early) retirement, 2,000 found jobs in some other ways or were retired but 10,000 remained unemployed (after having probably received severance pay and income compensation for eight months). These examples show the limits of labour adjustment in the wake of privatizations, especially the poor take-up and breadth of active labour market policies.

The evaluation report, produced by ISKUR as a follow up to the LAP, cites some of the problems of the programme: measures were sometimes poorly designed, and local employment offices sometimes could not handle the programme adequately because of a lack of experience,

staff and heavy workload. There was also a lack of resources available for local offices and those redundant had no access to benefits through the local employment offices. In fact these problems could stem from an insufficient room for manoeuvre for the local offices because of a top-down approach by headquarters.

However, other problems were the lack of demand for services, especially for the active components, because of the slow proceedings of privatization, the structure of the redundant workforce and the lack of adequate service providers.

Passive rather than active policies

One of the obstacles that active labour adjustment programmes encounter, not only in Turkey but everywhere, is the parallel existence of passive (income replacement) and active measures and unclear coordination between both. It appears from all our information that passive policies are clearly preferred to active policies.

Sometimes, active measures only come at the end of several months of income replacement as job loss compensation that is part of the adjustment package. This for example prevents early intervention. In most cases, however, income replacement is used for early exit from the labour market thus contributing to social protection but enhancing the problem of low employment rates.

The preference for early exit stems also from the workers selected for retrenchment. Most of them are unskilled and older. Therefore the acceptance of training measures is low, while passive components such as job loss compensation (paid for eight months) are often used as a tide-over to early retirement if those retrenched do not benefit from retirement or early retirement immediately.

Despite claims to the contrary, early retirement seems to be still the most popular option.¹¹ This is not only true for Turkey, but for most other countries in Europe as well. It is the preferred way out in the case of redundancies and apparently very difficult to change.

The change of the income compensation package as part of the new PSSP, which is financed through World Bank loans (extending for example the job loss compensation from eight to 16 months at half the replacement rate for allowing tide-over to early retirement, and including early retirement in addition to the regular severance pay) is a strong indication that this preference will continue.

However, the PSSP also contains as in the past the possibility of implementing more active measures in order to improve labour mobility: training and retraining, labour demand extension through micro and small businesses, and temporary community employment schemes.

Is there any chance of the adjustment policy becoming more active? Observers remain rather sceptical and the massive use of early retirement shows rather clearly that passive policies for early exit will again be overwhelmingly used. This is not particularly surprising as European countries have also used and continue to use the early exit channel when dealing with redundancy. This seems to be one feature of the welfare state and a compromise between the

¹¹ STATE MINISTER ONAL: "30,000 PUBLIC WORKERS WILL RECEIVE EARLY RETIREMENT"

"Speaking on the government's plans to reduce over-employment at state-owned enterprises through restructuring and privatization this year, State Minister Recep Onal announced yesterday that 30,000 public workers would receive early retirement this year. He recalled that the Government had issued a circular on this issue last December. Since the IMF is seeking the downsizing of the Turkish State to improve the efficient use of public resources, a reduction of over-staffing at state institutions was one of the most sensitive issues set out in Turkey's recent Letter of Intent." /Cumhuriyet/ (Turkish Press review 7.02.02)

social partners that is accepted by workers. While the discourse on the feasibility of these policies is changing, as demographic change will lead to unsustainable dependency ratios between the active and the inactive population, easy exit policies continue to be implemented unabated.

How to achieve a more active policy for redundancies

One can discuss whether or not early exit policies are in fact appropriate: they ensure an income at old age and give a better status than unemployment benefits. It is an honourable way out of the employment system and has become in many countries a social right. It seems to be a win-win situation: unions accept it as an instrument that workers accept, employers can numerically adjust their workforce and shift a large part of the adjustment costs to the collectivity, and governments avoid conflict around the issue of restructuring in general and privatization in particular. In some European countries there are even strikes for early retirement (France) in others it is always on the bargaining table when mass lay-offs loom. So why change something that works and has shown such longevity?

Reasons for change are: as fertility rates decline and life expectancy grows, retirement and especially early retirement will face increasingly financial problems and especially pay-as-you-go systems (where the active generation pays retirement for the inactive) will become increasingly unsustainable. In addition, the whole financing of the social protection system through contributions levied on employment will run into problems when falling activity rates lead to a reduction in the tax base. In demographic terms Turkey faces as yet less problems than Western, Central and Eastern European countries. In Turkey the old age dependency ratio (the ratio between active (25 to 59) and older inactive (+60) people) will also shrink but still be around four (active) to one (inactive) in 2040. It will fall below 2:1 in most EU countries. Turkey has therefore more demographical leeway for passive policies such as early retirement than EU countries and demographic problems will set in later. At the same time, however, it has also less means (in terms of GDP and taxes) for these costly policies and also faces the problem of low employment to population rates, which might make it necessary to search for active, employment-centred alternatives to these policies. But there is also a more immediate concern according to Tansel (2002) around a third of the retired rejoin the labour market but at much worse conditions.

Some proposals on a more active labour market policy

The following proposals aim to enhance existing active policies by increasing the number of options of active labour market measures, by using new combinations of measures and new implementation agents. We will also make proposals for better matching process between candidates and measures, and for more involvement of the social partners in this process.

On the process side, social partners could bargain, for example, in the framework of amended job security legislation on social plans in the case of mass lay-offs. Such clauses put usually an obligation on employers to search for solutions other than dismissals, prevent stress but usually foresee the use of publicly provided measures (such as early retirement, conversion training, etc.) for numerical adjustment of the workforce. It therefore puts more responsibility on employers and uses their organizational capacities but does not necessarily place an additional financial burden on them. It usually foresees information and consultation with union representatives. This of course would apply to all restructuring situations with mass lay-offs and not be specific for the redundancy situation in the wake of privatization.

In addition (or if the conditions to include these provisions into an enhanced law of job security are not available), for all questions relating to worker displacement as a consequence of privatization one could also use and expand the existing tripartite advisory committee. The committee could create a technical secretariat that discusses the measures, have experts calculating their costs and propose ways of financing. It has been proven that social partnership works best if there is a common acceptance of hard data (Auer, 2000). This acceptance could then lead on to pragmatic management of lay-offs. One condition is of course that both unions and employers' organizations turn their opposition into a more collaborative attitude, and that the committee becomes a forum that guarantees transparency on privatization.

Does the acceptance of a coherent set of labour market policies that deal with redundancy situations equal the acceptance of privatization? This position, voiced by some Turkish constituents, has already been a barrier for advance planning and effective management of social adjustment in the wake of privatizations. While it seems understandable because of the lack of transparency that usually accompanies privatization, it might put people made redundant in a trap. Privatization happens, despite the resistance of certain actors, and people remain unprotected or protected only with quick fix solutions if there is no advance planning of redundancy measures. The question therefore is not one of principles but pragmatic: what to do with workers displaced by privatization? We argue that it is better to have ready-made plans in the drawer when things that one might oppose happen after all, than to oppose policies and be basically unprepared when they happen.

Matching retrenched workers and labour market measures

While candidates are also interviewed by the employment services today, a more thorough "profiling" should be undertaken based on employability criteria. Workers could be classified in different categories from the least to most employable and be referred to measures accordingly. This requires skill and capacity assessment as well as initial information on the policy options available. It could be helped by the increase in policy options.

Such advanced profiling implies the matching of two rankings: one of persons according to their employability, the other of measures according to their capacity to integrate retrenched workers in regard to their employability deficit. For example, adaptability training would then preferably be used for younger workers with a higher degree of employability, while public works could be used for older workers with low employability.¹²

Increasing training take-up

It has been shown that training suffers from low take-up and uncertain reintegration results. The World Bank expected 15 per cent of retrenched workers to participate in training but only 2.4 per cent actually did. In other cases cited, such as the privatization of the paper industry, no laid-off worker is reported to have started a training course.

The reasons for the low take-up for training are the low skills and the remoteness from any training other than on-the-job. In addition, old age plays a role. High unemployment among the better educated and those who participated in courses further discourages low-skilled workers from pursuing training. Cultural factors play a role as well, for example, the relationship between the older and the younger generations. Many older workers feel that it might be more fruitful to offer education and training to their children not to them.

¹² For more information see: Eberts, R.W., O'Leary, Ch: "Profiling and referral to services of the long-term unemployed: Experiences and lessons from several countries" in *InforMisep Policies*, No.60, Winter 1997

Besides these supply side factors, there is also a lack of information on training programmes available and programme delivery is sometimes very poor.

The Public Employment Service usually outsources training services to private and public entities through competitive bidding, based on the quality of services provided.¹³ Under the biggest programme, the Employment Guarantee Training Programme, participants are usually placed in jobs after training. However, it seems that this condition is not always fulfilled. While enforcement of the guarantee might be one way to enhance training participation, goal attainment premiums could be an incentive for training providers to place their candidates in jobs or self-employment after participation. Under such a scheme, for each successful placement a premium is paid to the training provider. Another incentive could be to allocate special investment grants to successful training institutions, so that a virtuous cycle of efficient delivery is maintained and reinforced.

Better targeting of training could also reinforce its attractiveness for retrenched workers. This relates to profiling: a good match between worker characteristics and training measures should help render them more efficient. It seems that training for artisan employment, especially in Southern Turkey, now meets with more acceptance. There has also been some success with training for self-employment. Cultural factors – the desire of many Turks to be on their own account, exemplified by the fact that they often own small businesses when abroad - have played a positive reinforcing role. Redirecting training towards self-employment might be one option (See also Tansel, 2002).

If potential participants have been in training-intensive environments before, the probability of participating in further training increases. This is a powerful argument for life-long training, which obviously has to have started long before retrenchment. There should also be better information available on existing training programmes and on the chances to find occupation-specific jobs. This holds true for participant information as well as for information to the parties involved (unions, employers). It has also been proven that incentives (such as a top-up on income compensation schemes or a prolongation of benefit periods) increases take up in training.

While these are ‘soft’ ways to enhance participation, lately some European countries have introduced “learnfare”. “Learnfare” just as “Workfare” balances rights and duties of the unemployed: the right to benefits matches the duties for participating in training. If adequate training programmes with a proven record of good delivery exist, this is an option to increase take-up. However, if this is seen by the retrenched as coercion without any results on their employability, motivation in programmes will be low. Usually this is only implemented after some months of “passive” benefit receipt (usually six months, sometimes 12).

Clear certification that is accepted as a training signal by employers is a further means of enhancing training participation. While this certification could be based on qualifications

¹³ “Despite the fact that there are many adult education providers in Turkey such as volunteer bodies, local governments, and other official bodies, the Ministry of National Education is considered the main adult education provider. The General Directorate of Apprenticeship and Non-formal Education is the responsible unit for all sorts of adult educational practices through the country. There are 912 Adult Education Centres which are established in each sub-province (district). In addition to the Adult Education Centres, Practical Craft Schools for Girls, Advanced Handicraft Institutes, Technical Education Centres for Adults, Apprenticeship Training Centres, Turkish-German Vocational Training Centres and Evening Schools are the considerable adult education foundations of the Ministry of National Education.” (A. Duran: An overview of adult education in Turkey, paper presented at the ESREA conference, Geneva, March 7-10, 2002)

acquired in (vocational) schools it can also be based on the skills learned “on-the-job.” Such certifications have to be approved by the social partners and government.

Further thought is required on how to combine training with other policy instruments (see below).

Public temporary jobs and transitions to regular jobs

Contrary to estimates of the World Bank, which expected 5 per cent of participants to take part in public works schemes during the LAP period, the take-up for public temporary jobs was quite high and about 30 per cent of the retrenched workers have taken part in such schemes. The reasons are that they seem to signal continuity in a public job and thus prolongation of former job security arrangements,¹⁴ despite the fact that they are time-limited.

It shows also that most retrenched workers seem to spontaneously prefer jobs to training. Therefore, action would be required if one wants to shift preferences towards training. But, should one shift from demand side measures (like public temporary jobs) to supply side measures like training? Part of the World Bank’s reticence to give a more prominent role to public temporary works stems from their bad evaluation records. This is clearly shown from the partial figures above (only a tiny fraction - 21 of the 1,200 participants - found regular work after having participated in the scheme) but is also clearly shown in other labour market policy evaluations (see: Meager, Evans, 1998, O’Leary, Nesporova, Samodorov, 2001). Notably the latter study found that for example in Hungary, participants in public works schemes actually did worse in terms of reintegration than a control group of similar, unassisted unemployed workers. However, such evaluations miss at least partially the point as they look for reemployment and wage raises in relation to pre-participation wages. While those criteria are valid for pure reintegration measures¹⁵ like training, public temporary employment has also to be judged by other criteria. For example, by the product/service that is produced (e.g. social care, environmental clean up, infrastructure). Studies taking into account producer of programmes and multipliers have been published in the 70s and 80s but not recently (Spitznagel, 1979). However, taking into account such criteria shows that while the reemployment effect of public temporary jobs is smaller than for other labour market measures, their net costs are low compared to gross costs because of the products and multiplier effects.¹⁶

They have other beneficial side effects as well: they constitute a good organizational frame in opposition to the isolating effects of “passive” benefit receipt (may be more of a problem in Western societies than in Turkey where large families still exist); they finance work and not welfare and might contribute to social cohesion and the maintenance of self-esteem of displaced workers. The big problem of these schemes is their time limit. This leads to the question of the follow-up after participation. In the absence of jobs, in many countries they

¹⁴ Public works was particularly appreciated after the earthquake when private companies hired temporarily unemployed people for public work projects: in nine provinces over 1,000 people participated and had employment for six months. While public works usually has a bad evaluation record, this partially misses the point because the target might not be reemployment, nor wage hikes after participation but income provision while being actively tied over to retirement. (See also below)

¹⁵ (Wage appraisal should be dropped altogether as it seems very difficult to attain higher wages after being made redundant from a well paid job in an SOE.)

¹⁶ Possible multiplier effects might be: purchase of material by the projects and income spent by participants (this of course is also true for pure income replacement schemes). The value of the service rendered or the infrastructure repaired/created has to be added to this.

opened up eligibility for unemployment benefits and sometimes led to revolving door effects and so-called secondary labour markets.

Transition economies (e.g. Hungary, Bulgaria, Russia, Ukraine and Estonia) with high long-term unemployment also have experience with public works programmes. Evaluation has shown that public works often provide dead-end temporary low-skilled jobs and that they might not always involve labour market reintegration. In general, public works have a low direct effect on new regular employment (less than 10 per cent are able to find jobs later on).

That is why some countries, like Slovenia, try to organize these programmes for the highly skilled unemployed with a possibility of converting them into permanent jobs. In Hungary, such programmes are linked to post-programme regular employment and training.

Newer studies advocate the reinforcement of the transitional aspects of such measures: all efforts should be devoted to finding regular employment for those participating in these programmes.¹⁷ The reinforcement of the bridging function of labour market policies, and thus the transition of individuals through the programmes towards the regular labour market, also calls for a stabilization of programme institution. The stress here lies on the supporting environment, servicing individual job seekers throughout the transition period till the first moments of the regular job. This supporting environment needs time to build up and requires a stable organizational framework, for example, efficient and reliable providers.

Enlarging the options

At present, besides counselling and the small business creation programmes, the two active labour market policy measures discussed above are available for retrenchment: training and retraining, and public temporary employment.

In many developed countries as well as in some transition countries, more options do exist, including:

Temporary wage cost subsidies

These compensate, for a limited period, income losses of displaced workers who are willing to take up lower paid jobs or are given at regular wage rates to employers that are willing to take them on. They have been used in France, but are also available in some other countries, including transition countries. Their take-up has remained limited and evaluation research has found high deadweight (jobs would also have been created without subsidies). However, they could shift the preference in hiring towards retrenched workers. If well designed and combined with other measures (e.g. implemented at the end of public works), they still could be an element in a larger package of redundancy measures.¹⁸

¹⁷ The newer “school” of labour market specialists in Europe has developed the concept of transitional labour markets, which more generally predicts a labour market in which people transit through different phases in their work life, including transitions in active labour market measures (Schmid, Gazier, 2002). Of more immediate use here are the transitional jobs programmes that among others exist in the US and in Sweden. “Transitional jobs programs offer temporary, subsidized employment and direct services in a supportive environment...the guiding philosophy of these programmes is that work is beneficial and that the best way to learn how to work is through paid work. (Hill, Kirby, Pavetti, 2002). While these programmes are mostly for the long term unemployed welfare recipients, the principles apply also to those who have been retrenched from a job.

¹⁸ In the case of Turkey, the top-up must be considerable. As “market wages” and wages in SOEs stand at a ratio of 1:3, it would need high subsidies to compensate for the loss of SOE employment. So only partial compensation seems possible.

Mobility grants

For a while mobility grants have been used quite substantially for allowing reallocation of displaced workers. They have been part of the traditional Swedish labour market policy, which in general was designed for accompanying structural change. The rationale for mobility grants is to allow workers to move geographically from areas of redundancy to areas with labour demand. They compensate for higher costs due to relocation. They are also part and parcel of an enlarged redundancy-accompanying package and might be combined with housing allocations.

Enterprise creation

These measures have already been part of the social and economic adjustment programmes of privatization in Turkey. They have been administered by KOSGEB and in part by TOBB. They have been one of the more promising areas of redundancy measures in other countries as well in some companies (e.g. British Steel, but the French Usinor-Sacilor steel mills also, have in the past been quite successful in stimulating enterprise creation in areas hit by structural change or severe business downturns (see Evans-Klock, 1999, Auer 1990)). The rationale is here to stimulate workers made redundant to set up on their own. Means for stimulating (small) businesses are the provision of venture capital (or information on its sources) and advice as well as the provision of business premises, often the refurbished sites of closed plants and offices. Subsidies have also been provided.

Among the most successful ALMPs in transition economies are those encouraging business start-up for jobless people. Yet, these programmes have been rather modest since there are few people willing to run a business on their own. The improved profiling of potential entrepreneurs since 1990 has resulted in better results. Surveys show that business start-up programmes are suitable for better skilled people who are more employable than other groups from the outset. Also, it should be noted that the success of such programmes depends on the overall economic situation in the country as well as on the availability of commercial loans, access to cheap premises, inputs and equipment, assistance in finding business contacts, and in marketing and sales.

Therefore, business start-up programmes are an indispensable part of the redundancy package. Of course, relying only on start-ups is no panacea for creating enough labour demand to compensate for job losses. It must go together with a regional industrial policy that also tries to attract foreign and domestic investment in the areas hit by restructuring. It has been proved that rather than create many isolated small businesses, the latter find good growth conditions in networks of small firms and especially in networks of supplier relations that link them to larger firms in the region.

A new combination of policies

The effectiveness of labour market policies might be dramatically enhanced if new combinations of policies were made possible, for example, when the acceptance for public works is high but low for training, training can be integrated into public works programmes. They might be organized like work-training schemes (in such a case workers participate one or twice a week in vocational training courses) or the training is done on-the-job. These apply both to low and high-skilled workers. The link between work and training could raise the acceptance of training in redundancy situations.

One could also establish close links between business start-up programmes and temporary public works: for example, the temporary work projects could establish or repair the

infrastructure necessary for the setting up of small firms. However, there might be the problem of displacement: public works might hinder the establishment of private firms or take business from private firms (e.g. for the setting up of infrastructure). However, as public work schemes are temporary, at the end of the subsidized period, workers employed in the projects could be taken on by private firms. Eventually a wage subsidy could be paid for a temporary period to those firms willing to take on retrenched workers from public temporary jobs. If the public works programmes had a training component, such temporary jobs could prepare workers more directly for the regular labour market: it seems that schemes that are the nearest to “real” economic activities, are usually those with the best reintegration results (Meager, Evans, 1998).

But, one could even imagine that public works act as an incubator for businesses and prepare participants for setting up on their own account. For example, if temporary public jobs act as a substitute for the public sector (in the environmental field, care activities, etc.), these activities could be organized privately after a while. Thus, public temporary programmes could be transformed into private enterprises, depending initially on public money, but subsequently becoming an economically attractive alternative.

Such combinations of policies might also involve funds from different sources: for example, World Bank loans could be combined with privatization proceeds¹⁹ and domestic public funds. Workers might also have to contribute to their employability in allocating parts of their redundancy money to active policies. The willingness to do so will increase with the placement rates in regular jobs that follow policy action.

There are of course institutional and legal limits to combinations of policies and funds, but a severe redundancy situation should induce policy makers to think in these terms and to find solutions.

A new combination of all of these measures, resulting in an efficient policy mix, will increase the active components of redundancy policies. But it might also be worthwhile considering the establishment of organizations that offer a “one-stop shop” for the delivery of these services. While the natural locus would be the local office of the Employment service, the workload of these offices often hinders efficient management of programmes. Therefore it could be preferable to outsource these services to special labour market intermediaries. They have been tested in many countries and should be part and parcel of the labour market policies accompanying privatizations. These labour market intermediaries usually act as interfaces between the different administrations and offer the services “bundled” to their clients.

Intermediary organizations

As separate entities, such intermediary organizations have taken over the task of placing redundant workers in new jobs. Different organizational forms exist for these intermediary firms: they can be specific units of (large) companies, specific smaller private companies, public/private companies, associations, etc. The staffing industry (temporary work agencies) is taking a growing share of this business. Of course, the public employment service is a major player in this field.

¹⁹ According to the Turkish Government, it raised US\$2.8 billion in privatization receipts in 2001 and it expected to raise about US\$1.5 billion in 2002.

Employment companies

Austria set up employment foundations (Arbeits-oder Stahlstiftungen) as a comprehensive approach to large-scale reductions in the steel industry. The foundations act within the framework of enterprise social plans in agreement with works councils and provide services packaged to individuals' needs, including vocational guidance, job search assistance, and support for establishing small enterprises. The steel companies provide services (in-kind contributions such as training premises and training personnel). Solidarity contributions are made by workers still employed (0.25 per cent of workers' gross wages), participants pay a modest subscription fee, and the Employment Service pays unemployment benefit to the participants. Like other active policy measures, the employment foundations are designed to cushion the negative aspects of structural reform and improve workers' chances of participating in economic improvements. A particular feature of the employment foundation approach is that the members are no longer isolated, dislocated workers, but are rather part of a new group whose "work" is to resolve their employment problem. An evaluation found that some 90 per cent of former members found a new job or were undergoing training. A success rate helped, no doubt, by the high level of commitment: Displaced workers can receive training for up to four years. (Information provided by Arbeitsmarktservice, Austria)

Source: Evans-Kloc, C. Kell, P., Richards P. and Vargha, C.: Workers displacement: Public policy and labour-management.

The task of these intermediaries is usually to bundle all services, which exist for redundant workers (advice and information, job placement, training and other labour market policy measures), and propose them to their clients. These clients might sometimes even have contractual relationships with the intermediary organization. Such intermediaries have the advantage that the company that made workers redundant does not have to deal with "outplacement" and the clear function of the intermediaries and their capacity of bundling measures can make them effective in dealing with displaced workers. Some of these have indeed been effective (e.g. British Steel, the Stahl- or Arbeitsstiftungen in Austria and some of the Beschäftigungsgesellschaften in Germany) (Evans-Klock, 1999, Bosch 1990, Auer, 1991). However, the danger is that firms are not active in redundancy prevention, nor in redundancy management, once such intermediaries do exist. And indeed, there are companies, such as for example Telia in Sweden, which have succeeded by the creation of their own "redundancy unit" to avoid redundancies or to successfully outpace a large number of redundant staff.

Community led approaches

Local development approaches towards downsizing of local industries is another way of dealing with the issues. They have been tried in Turkey with some success. The principle is that all important local actors such as unions, employers, trade and commerce associations, education and training institutions, local politicians and parties and the employment services work together towards a common framework. Of course, the local level should be coordinated with the national/regional level and the existence of a coherent framework (or tool box) for redundancy management and local job creation and reallocation would facilitate their efforts. The fine-tuning (or profiling) in order to establish the most efficient mix of measures should indeed occur at that level. Box 4 shows some of the steps that are necessary for such a local, community based redundancy management policy.

Five practical steps communities can take to prevent or minimize worker displacements

1. Educate and encourage employers in the community to adopt innovative employment security strategies and use socially responsible restructuring to help them remain competitive in order to preserve and create jobs
2. Develop an early warning network and implement a proactive business retention/layoff aversion strategy in the community to identify and assist troubled enterprises and avert layoffs and lessen the impact of displacement on the workers and the community
3. Create a rapid response dislocated worker adjustment capacity at the community level to provide leadership and support if workers are displaced
4. Use the rapid response capacity to help employers and worker representatives implement comprehensive worker assistance programmes at the plant and community level to alleviate or minimize the negative consequences of displacement on workers and their families
5. Initiate community economic assessment and planning efforts to help strengthen and expand the economic base and provide jobs for the dislocated workers

Source: Gary H. Hansen: A guide to worker displacement: Some tools for reducing the impact on workers, communities and enterprises (Geneva: ILO, April 2001)

Expected effects

While nobody can yet predict the exact outcome of the application of more active measures, expected effects will be:

- Better management of retrenched workers during a transitory phase
- Higher income replacement than for “passive” policies (make work pay)
- Quicker and more effective reallocation of labour
- More security for retrenched workers
- Better acceptance of privatization as part of economic restructuring

Table 12 is based on a scheme originally developed in a study of the European Commission on ‘re-adaptation aids in the coal and steel industries’ (Rees/Thomas, 1988). It evaluates the impact (1=strong impact; 4= weak or no impact) of different measures on the different functions that they fulfil: the Table shows that tide-over to early pensions or pensions, as well as early retirement pensions (the instrument used most frequently) was highly effective in terms of acceptance of restructuring, social security and withdrawal from the labour market. This differs considerably from another income-only instrument, severance pay, which was effective in acceptance for restructuring but had very negative ratings on reallocation, withdrawal from the labour market and social protection. It is true that many studies found that those who have accepted the “golden handshake” often ended up in long-term unemployment (White, 1983). Of course combined with early retirement, severance pay increases both the acceptance and the social protection aspect.

Among the active instruments used, mobility grants were rather ineffective for acceptance but good for reallocation and attained only a medium score in terms of social protection. Training got medium scores in all areas. Short-term work, a scheme used to avoid lay-offs,

showed a good record in terms of social protection, but did not do much for the acceptance of restructuring.

However, the Table does not indicate the scores for programme combination and does not discriminate by age or skills of those made redundant. Gender is a less important characteristic, as most of the retrenched workers in the steel and coal industries were men.

The Table also shows, that if reallocation is not an objective, early retirement is in fact the instrument giving the best protection to workers and contributes most to the acceptance of restructuring. Therefore, Turkish policies are quite well in line with those that have been enacted by the European countries that faced restructuring and privatization.²⁰

Table 12. Instruments and objectives of labour adjustment programmes

	Acceptance of restructuring	Optimal reallocation	Withdrawal from the labour force	Social protection
Tideovers				
-for unemployment	1	3	-	1
-for early retirement	1	-	1	1
Earning supplements	2	1	-	2
Early pension	1	-	1	1
Training allowances	2	2	-	2
Mobility allowances	3	1	-	2
Severance payments	1	4	3	3
Short-time working	3	-	-	1

Source: Peter Auer (ed.): *Workforce Adjustment Patterns in Four Countries: Experience in the Steel and Automobile Industry in France, Germany, Sweden and the United Kingdom* (Research Area: Labour Market and Employment, August 1991)

The different policies proposed above are curative in the sense that they apply once retrenchment has been made. However, retrenchment should only be a matter of last resort, when all efforts to maintain workers in productive employment have failed. As prevention is usually better than cure, before retrenchments are made, preventive action should therefore have been taken. These actions could consist in changing of working time and work organization or other internal adjustment measures.²¹

²⁰ However, acceptance also depends on wage replacement levels.

²¹ Possible preventive actions are:

Install advance warning systems (e.g. prospect markets regularly, observe competitors, anticipate impact of regulations on employment, etc.). These are not legally enforced or collectively bargained advance notification procedures, although their existence is an incentive for company action. The methods proposed go beyond what is legally required. They constitute the first preventive action of companies and should be an ongoing exercise in preventive internal labour market management (see below). If major changes are to be expected, such advance warning systems should also be able to analyse possible impact and design response options.

Anticipate changes in technology and work organization and invest in human resources and training: while this is not a 100 per cent guarantee against redundancies, it helps to create a more functionally flexible workforce. A multi-skilled workforce responds better to changes in production, is easier to transfer internally, while a provision of flexible skills introduces more employment stability than a narrow focus on very specialized skills. The latter might disappear with the production/service it was able to produce and provide, once a change in product and services is required. The same holds true with work organization: work organization based on flexible teams might more easily be changed, if required, than a traditional, hierarchical organized workforce.

4. Conclusions

The present report has given a short overview of the challenges that Turkey is facing: many of these are in realm of macroeconomic policies. However, as there is a link and a spillover between these policies and the labour market, getting the macroeconomic fundamentals (e.g. sustained and low inflationary growth, reliability of the financial sector and reform of State revenue and spending) right, will also have positive ramifications for the labour market. But the labour market is itself subject to reforms and the present introduction of some fundamental protection (for employment and unemployment) will – if social partners work together to enhance it - contribute to bring Turkey nearer to an employment system that provides flexibility and security for its workers. Such a system, as exists in many developed countries, contributes to macroeconomic stability by providing floors of income in business cycle troughs and in waves of structural changes.

Some of the specific findings and conclusions of this paper include:

- While privatization is still very controversial, it has been proceeding, sometimes at a slow pace. There have also been accompanying measures to “cushion” its social consequences, but these have overwhelmingly relied on passive, income replacement measures and not on active measures linking income replacement with active reintegration and reallocation policies.
- The paper puts forward a set of proposals for making this policy more active. Proposals include enhancement of programme design, the better allocation of people in programmes through “profiling”, an increase of policy options, a new combination of policies and additional implementation structures. The concrete composition of the policy package would be an ideal bargaining issue for the social partners.
- Making policies more active does however not mean that so-called “passive” policies should be abandoned. Income replacement is a necessary first step and for some might even be the last as for older unskilled workers, early inactivity might be the only solution. All other solutions would increase personal hardship without having positive economic consequences: retraining will be rather ineffective, and temporary public works might lead nowhere. However, for other categories of worker, active components have to be reinforced.

Employability is a prominent topic today. While it is also a rather vague and undefined notion, it has entered the realm of policy, for example through the Guidelines of the European Employment Strategy. The basic idea is that individuals should enjoy employability throughout their whole working life. Taken to the letter, employability might also be seen as a sort of general prevention tool: by investing in employability the workforce will be able to carry out jobs in an effective way while at the same time acquiring skills which empower it to be mobile. But why should firms invest in general training which permits individuals to move on in the labour market or allow them to be poached by other firms not investing in training? A first reason is that well trained individuals are a general asset for firms and that general skills are said to be important for a firm’s productivity, for example, in knowledge intensive sectors. In the case of adverse shocks, which require redundancies, the fact that workers might find other jobs quickly could alleviate the tasks of all those who are involved in managing adjustment.

This all adds up to what some big French companies have called “Gestion Prévisionnelle de l’Emploi” (Anticipatory employment management). These companies have designed packages which include the anticipation of training needs, the setting up of training courses matching these needs and also include possibilities for “outplacement” for redundant labour. Most of these firms have also established cooperation with the employment services in an effort to establish public/private cooperation.

Although preventive workforce management will not in itself prevent the occurrence of redundancies, it can introduce more certainty in internal labour markets and cushion the impact for companies and their workforce.

- A well-structured policy would start with special screening of retrenched workers in order to determine their employability level. This finding should be matched with a ranking of active labour market programmes: those least employable should then participate in longer-term measures with a high probability of compensating for some of their employability problems. Those most employable might need only occasional intervention. This procedure requires both a method of screening retrenched workers and the existence of various options between measures, as well as the possibility to combine these measures.
- Special employment-training companies that have specialized in the field could –in close collaboration with the public employment services - present a perfect interface between the various government agencies concerned and the clients.
- The whole redundancy package applied must be geared towards the specific needs of the clients and of the regions concerned by lay-offs. Solutions must involve the local actors and be in line with Turkish regulations and labour market institutions and see the involvement of the social partners. And, very importantly, all these policies will only be required, if preventative action and internal adjustment through reduction in working time and changes in work organization has failed.

On a more general note:

- The Employment office should promote training more aggressively and prepare people to accept and learn new occupations and skills. One way to do this is to link training to employment benefits. More efforts should be concentrated on vocational training in order to smooth the transition from agriculture to industry.
- Regional and local government authorities should accept greater responsibility for labour market outcomes. They should be actively engaged in fostering job creation and small enterprise development.
- Managers of SOEs should devote more resources to help redundant workers. They should upgrade and improve the already existing assistance for identifying employment opportunities, starting small businesses, learning new skills.
- More efforts should be made to attract FDI, which brings new jobs, new skills and new technologies.

Appendix 1: Danish labour market institutions

The working of such a fully-fledged flexibility/security system can be seen in Denmark. The country has a highly mobile labour force, as high as in the US, and employment protection legislation is generally considered very weak. Flows in and out of employment and unemployment are among the highest in the OECD and length of employment tenure is among the lowest: only the UK and US have shorter tenure. This system produces frequent spells of unemployment. Around 20 to 25 per cent of the Danish labour force on average enters the unemployment benefit system every year (some, however, have more than one unemployment spell per year) but remains there only briefly before shifting back to work (either to the same employer -- around 35 per cent of the unemployed -- or to another employer) or to one of the labour market measures (training, leave, etc.). This system produces frequent spells of unemployment. Around 20 to 25 per cent of the Danish labour force on average enters the unemployment benefit system every year (some, however, have more than one unemployment spell per year) but remains there only briefly before shifting back to work (either to the same employer -- around 35 per cent of the unemployed -- or to another employer) or to one of the labour market measures (training, leave, etc.). This system produces frequent spells of unemployment. Around 20 to 25 per cent of the Danish labour force on average enters the unemployment benefit system every year (some, however, have more than one unemployment spell per year) but remains there only briefly before shifting back to work (either to the same employer -- around 35 per cent of the unemployed -- or to another employer) or to one of the labour market measures (training, leave, etc.). The system provides adjustment flexibility to firms (also allowing early retirement), while protecting the incomes and employability of workers. The Danish example shows that it is not always necessary to have strict employment protection at the firm level, as there are trade-offs among employment security, social protection and labour market policies. Firms can also shift part of their labour costs (for employment adjustment in troughs or for training) to the State. But expenditure in labour market policy is high and the golden triangle needs high taxes to be maintained. Nonetheless both firms and their workers benefit and seem to tolerate the necessary taxation. While the system as a whole is specific to Denmark and thus not transferable, the principles might be a source of inspiration for rethinking the functioning of labour markets for other countries.

Source: Global Employment Agenda (Geneva: ILO, March 2002)

Appendix 2: An example of restructuring in transition countries

Project for Restructuring in Regions with Mining and Steel Processing Industries

The Steel and Mining Areas Employment project has been undertaken by the Bulgarian Ministry of Labour and Social Policy to help regions affected by economic restructuring in the mine and steel processing industries. The project is funded under the EU's Phare programme and the total cost is 65,000 Euros. The programme is being implemented in four regions: Sofia, Pernik, Bourgas and Rhodopi. The project below refers to Sredets district, which is part of Bourgas region, and includes 33 populated areas. Sredets' territory is 1,146 km² and the population is 17,940 people. The officially registered unemployed are about 2,000 people (mid-2001), which accounts for 30 per cent of the active population in the area (7,335 people).

Direct beneficiaries of the project will be:

- 74 registered unemployed workers and their families from the local steel-producing firm Promet
- Redundant workers from the steel producing companies Bourgas Copper Mines Inc., Black Sea Mines Inc., Autotrafic Ltd. and the National Forest Service.

Indirect beneficiaries will be:

- the rest of the unemployed on the territory of Sredets region
- the agricultural producers on the territory of Sredets
- the association of the milk producers
- honey producers on the territory of Sredets
- Sredets territorial district as a whole

The experience from previously funded Phare programmes and the analysis of the economic situation in Sredets region determined agriculture to be the most important sector, which should be further developed and in which the unemployed population should acquire skills. Cattle breeding for milk production, honey production and commercial floriculture were selected as activities with the highest potential for income generation. That is why it was decided to organize a training centre, which will provide courses in these activities. The project will run for 10 months.

Source: Ministry of Labour and Social Policy, Sofia, Bulgaria

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