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THE UNEMPLOYMENT PROBLEM AND EMPLOYMENT CREATION STRATEGIES IN TURKEY: A COMPARATIVE PERSPECTIVE

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This is to certify that we have read this thesis and that in our opinion it is fully adequate, in scope and quality, as a thesis for the degree of Master of Science.

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ABSTRACT

THE UNEMPLOYMENT PROBLEM AND
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This thesis analyzes the Turkish unemployment problem in the 2000-2011 period, in a broad and comparative perspective with unemployment problem in the Netherlands, Ireland and Argentina. However, periods of concern for these three countries and Turkey differ, because each country experienced severe unemployment problem in different time periods. The main objective of this thesis is to evaluate current policies dealing with unemployment problem in Turkey and suggest more effective policy alternatives, with reference to successful policies of other countries.

It is found that current approach towards unemployment problem in Turkey is inadequate in many aspects; specifically there is no emphasis on job creating policies. Moreover, our discussions on the measurement of labour market indicators in Turkey and general characteristics of Turkish labour market showed that underemployment and marginally attached workers are neglected problems that have to be addressed in policymaking.

Keywords: Employment, Unemployment, Labour Force Indicators, Turkish Unemployment, Underemployment

ÖZ

KARŞILAŞTIRMALI BİR BAKIŞ AÇISIYLA TÜRKİYE' DE İŞSİZLİK SORUNU VE İSTİHDAM YARATMA STRATEJİLERİ

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Bu tez, 2000-2011 döneminde Türkiye'deki işsizlik problemini, Hollanda, İrlanda ve Arjantin'deki işsizlik sorunu ile karşılaştırmalı bir bakış açısıyla incelemektedir. Ancak, bu üç ülke ve Türkiye'de incelenen dönemler birbiriyle farklılık göstermektedir; çünkü her bir ülke farklı dönemlerde ciddi boyutlardaki işsizlik sorunu ile karşı karşıya kalmıştır. Bu tezin birincil amacı, Türkiye'de işsizlik sorununa ilişkin politikaları değerlendirmek ve diğer ülkelerdeki başarılı politikaları da referans alarak alternatif politikalar önermektir.

Türkiye'deki işsizlik sorununa mevcut bakış açısının birçok açıdan yetersiz olduğu ve özellikle istihdam yaratıcı politikalara vurgu yapılmadığı tespit edilmiştir. Dahası, Türkiye' de işgücü göstergelerinin ölçümlenmesi ve işgücü piyasasının genel yapısı ile ilgili tartışmamız, "eksik istihdam" ve işgücü piyasasının dışında kabul edilen ancak çalışmaya hazır işçilerin varlığının da ihmal edilen ve politika üretimine dahil edilmesi gereken sorunlar olduğunu göstermiştir.

Anahtar Kelimeler: İstihdam, İşsizlik, İşgücü Göstergeleri, Türkiye'de İşsizlik, Eksik İstihdam

To My Parents, Brother and Husband

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CHAPTER 1

INTRODUCTION

In the past ten years, Turkish unemployment rate has risen from 6.5 % (2000) to 9.8 % (2011). In the 2001 crisis, unemployment rate increased to 8.4 %, followed by a 1.9 percentage point increase in 2002. Once unemployment rate has risen above 10 %, it has remained in the range of 10-11 %, until the world crisis has become fully effective on Turkish economy in 2009. Then unemployment rate has jumped sharply to 14 % and has settled down to 9.8 % in 2011 after the recovery started in 2010. In addition to 11.9 % unemployment, underemployment rate was 4.5 % and the ratio of marginally-attached workers (workers who declare that they are available for work but are not actively searching for a job) to total labour force was 8% in 2010 (latest data available in detail). All available data suggest that unemployment taking different forms presents a serious and persistent problem in Turkey.

The main objective of this thesis is to determine the most important causes of unemployment in Turkey. It also focuses on the alternative solutions to this problem by examining job creation efforts in Turkey and in other countries. Most recent successful experiences of other countries are discussed in comparative perspective to derive lessons for the Turkish economy. For the Turkish unemployment problem the period of analysis generally covers the 2000-2010 period; however, we will, occasionally be referring to past data and past experience to elaborate on issues and to make comparisons when necessary. While examining other countries' experience, period of analysis has been extended to cover the 1980-2010 period to study the unique periods in which the reduction in unemployment was most significant. More specifically, the thesis aims to find answers to the following questions.

Are the current statistics adequate in reflecting the true extent of unemployment in Turkey? How can official statistics be improved to reflect a more realistic picture?

What insights does economic literature provide for the causes of high and persistent unemployment? How relevant are these for explaining the Turkish unemployment problem? What are the most prominent reasons for Turkish unemployment?

What are the main characteristics of the unemployment problem in Turkey? What problems does the unemployment profile present? What specific problems deserving special attention emerge from that profile?

How do Turkish policy-makers tackle the unemployment problem? More specifically, how successful are policies aimed at employment creation?

What is the recent experience of other countries in employment creation? In what respects do the successful efforts differ from Turkish efforts? How relevant are the policies introduced in other countries for the Turkish case? What are the lessons to be derived from the Turkish and other countries' experiences for the global unemployment problem?

There are some comprehensive studies examining Turkish labour market problems in current literature. For instance, "Background Study on Labour Market" (Tunalı, et al., 2003) and Turkey Labour Market Study of the World Bank (2006) summarize the general characteristics and discuss the fundamental problems of Turkish labour market. Some empirical studies investigate correlations between unemployment and other macroeconomic variables in the Turkish economy (see Küçükkale, 2001; Pazarlıoğlu & Çevik, 2007; Yılancı, 2009; Yılmaz, 2005; Demir & Bakırcı, 2005; Arslan, 2007; Onaran & Stockhammer, 2001; Tansel et al., 2008; Taymaz, 1999; Aktar & Öztürk, 2009). Moreover some studies concentrate on specific aspects of labour market problems such as flexibility, informality or underemployment (see Taymaz & Özler, 2004; Onaran, 2002; Bulutay & Taştı, 2004; Taşçı, 2006).

This thesis also involves a summary of general characteristics of the Turkish labour and working age population, in addition to a brief discussion on recent trends in labour market variables and their interaction with other economic variables. However, it has some unique contributions to

current literature. A chapter is devoted to a critical discussion about Turkish labour market statistics. In global Economics literature, there are some studies about the limitations of statistical definitions and their consequences on labour market indicators (see Bradburry, 2006; Brandollini et al., 2004; Kodrzycki, 2000; Jones & Riddell, 1998; Garrido & Toharia, 2003; ILO, 2008); however, there is no country specific discussion about the representative capacity of labour market statistics in reflecting major problems of the Turkish labour market. In this thesis, definitional limitations of Turkish labour market statistics are critically evaluated. Characteristics of both some groups of workers included in and some groups of "inactive" people excluded from the labour force by these definitions are analyzed in detail. While doing this, income generation and social participation are incorporated into the discussion as neglected functions of employment by the current definitions of labour market statistics.

This thesis also involves a critical assessment of the current strategies of Turkish governmental agencies responsible for labour market policies and the "National Employment Strategy" which is also another unique contribution. Finally, experiences of three other countries (the Netherlands, Ireland and Argentina) in confronting unemployment problem are discussed in an attempt to inspire labour market policies in Turkey. Such inter-country comparisons about the problem of unemployment are rare in global Economics literature (for instance, see Nickell and Nunziata, 2002; Mortensen & Pissarides, 1999; OECD, 1999; Blanchard & Portugal, 2001). They are limited to specific aspects of unemployment problem such as labour market flexibility and generally do not attempt for broad policy suggestions. There is not any comparative study conducted for the Turkish case. In this thesis, labour market policies of the three countries are compared and evaluated in their specific context with a view to derive some useful policy advice for the Turkish case. However, this study refrained from arriving at conclusions that are overly rigid and strong regarding the inter-country comparisons, because the outcomes in these three countries are bounded by country and period specific properties. Yet, we believe that it is

a useful exercise for policy making and a unique contribution to Turkish literature.

The Plan of the study is as follows: After this introduction, we provide in Chapters 2, and 3, an overview of the Turkish labour market to serve as background for later chapters. In Chapter 2, Turkish labour market statistics are critically evaluated in terms of their adequacy, reliability and coverage to correctly reflect the unemployment problem. One of the criticisms is that employment definition is too extensive in its coverage to include even one hour of work during the reference week as "employment". Existing statistics fail to establish an effective link between income and employment status, especially for marginally-attached workers. The chapter draws attention to the failure of existing statistics to provide an adequate indicator of social welfare and thereby act as a sufficient basis for social policy. The chapter ends by calling for the development of new employment and unemployment indicators.

One of the main objectives of this thesis, is to correctly state the extent of unemployment problem in Turkey. A critical discussion about measurement of unemployment is included at the beginning, because it is important to understand its full extent, before attempting for solutions. Clearly, current definitions of unemployment and employment in official statistics are instrumental in hiding the problems of low labour participation and underemployment. Moreover, a combined analysis of poverty and employment status statistics shows that "being employed" in statistical terms does not guarantee being in a productive activity generating sufficient income for survival. The aim of this chapter is to draw attention to these problems confronting the labour market besides the simple unemployment rate and to suggest an alternative way of looking at employment statistics, which emphasizes the role of employment in improving the welfare of the society. This thesis is primarily concerned with progress in welfare of the working people and their dependents while suggesting policies for reducing unemployment. Therefore, a critical approach towards existing labour market statistics is necessary, in addition to suggestions for alternative statistical measures.

In Chapter 3, main characteristics of the Turkish labour market with special emphasis on unemployment profile will be examined. Distinct and troublesome characteristics of the Turkish labour market with a strong bearing on the unemployment problem such as low labour force participation, low female participation, high level of discouraged and marginally attached workers, high amount of young and "educated" unemployed will be discussed in detail. The ultimate aim of this chapter is to identify the most critical and structural problems of the labour market related to unemployment, with a view to attract the attention of policy makers.

In Chapter 4, the relevant literature on unemployment problem and its sources, covering both theoretical and empirical studies will be critically reviewed with emphasis on issues such as labour market regulation, labour market flexibility, international competition in product and labour markets, "jobless growth", and growth policies. This chapter will also provide a theoretical background for discussing sources of unemployment problem in Turkey and for evaluating other countries' experience.

Chapter 5, constituting one of the core chapters of the thesis, is devoted to a discussion of the relevance of factors identified as the main factors behind unemployment in the previous chapter for the Turkish case. The chapter will start with a brief critical review of existing explanations of Turkish unemployment. This will be followed by an examination of trends in labour market indicators in comparison to trends in some macroeconomic indicators such as growth rates, external trade, productivity and investment and a discussion on the relevance of labour market flexibility in the Turkish context. Next, there will be a discussion on employment creation efforts in Turkey such as investment subsidies and active labour market programs. The chapter will end by a critical evaluation of employment strategy of the Turkish government, announced in 2010. This chapter aims to determine the most relevant arguments about sources of unemployment in Turkey and to evaluate the existing strategies of dealing with the problem of unemployment.

In Chapter 6, in an effort to derive lessons for Turkey and make meaningful policy recommendations, employment creation efforts in other

countries before the eruption of the global crisis in 2008 will be examined with emphasis on the Netherlands and Ireland as the so-called "employment miracles of Europe" and Argentina. These three countries are unique examples for their significant success in reducing unemployment in the last 30 years. The Netherlands experience is mostly a case for examining the effects of changes in labour market flexibility on unemployment; the Irish case shows the impact of external demand oriented growth policy driven by the idea of minimal regulation on markets and the Argentine case is an example of internal market oriented growth supported with extensive social welfare policies. These three cases are like the summaries of our theoretical discussion in Chapter 4 under three broad headings.

This chapter on discussing and comparing the experience of successful countries is included in this thesis, because apart from the theoretical reasons of unemployment, these experiences show which policies have helped reducing unemployment in real economies, which were subject to many political, social and international influences other than purely economic factors. Such a discussion is complementary to deriving solutions to unemployment problem in Turkey. However, since these are experiences for three different countries, in three different time periods (although some parts of these periods overlap), in three different geographies and with many country-specific differences, they are not totally comparable. Actually, chapter 6 does not attempt to make a one-to-one comparison of these three countries, rather the aim is to evaluate these policies within their specific context and single out the specific policies which may be applicable to the Turkish case with the necessary modifications. On the other hand, since each of these countries represent a different model of growth and employment creation, a comparison of success between these models is useful when all the period and country specific differences are taken into account.

Chapter 7 summarizes the main findings of the study and concludes by policy suggestions and a brief discussion of challenges to be faced by the policy makers while pursuing these policies.

CHAPTER 2

LABOUR MARKET INDICATORS IN TURKEY

In the discussion about the labour market and employment in Turkey, the primary data source that the arguments will be based upon is the Household Labour Force Surveys (HLFS) conducted by the Turkish Statistical Institute.

The survey is composed of two stages, field application, and data processing. The field application part of the survey is completed within 15 days following the reference period. The first week of each month starting with Monday is the reference period during which employment status of the interviewees are questioned. For sampling, all the registered addresses in "2000 building list" are divided into blocks containing 100 households. In the first stage, 258 blocks are chosen four times a year; in the second stage, households are selected among those blocks. Each household is visited four times during 18 months; each month about 13,000 households are visited and the three monthly sample size is 123,000 people, 90,000 of whom are 15 years old or above. Visiting households four times allows monitoring the effects of economic changes on households. Households are visited by the interviewees who register down the answers to the survey questions with the help of a portable computer.

Several labour market indicators are designed and data obtained is processed in line with the norms and standards of International Labour Organization (ILO) and European Union Statistical Office (Eurostat). The questions are designed to include these norms and standards; however, they are modified in accordance with the Turkish social and economic conditions. In this regard, they are comparable with labour statistics of other countries. While obtaining the values representing the population indicators from the sample, weighting methods are used. Hence, it should

be kept in mind that the labour market indicators are always subject to "pitfalls" of statistical analysis. The statistical methods used in data processing are beyond the scope of this study.

Although the surveys started in 1966, the data obtained until 1988 are not comparable with the ones obtained after that date due to changes in definitions, coverage, and methods. In 1988, the questionnaire was redesigned for compliance with the standards mentioned in the Thirteenth International Conference of Labour Statisticians by ILO. Moreover, major changes in sample size, questions, and application frequency of the survey took place in 2000. The three-monthly sample size was increased from 15,000 to 23,000 and each household started to be monitored during four periods to monitor the effect of economic changes on them. Some changes also took place in 2004 for compliance with the Eurostat standards. The number of questions was increased; the sample size became 37,000. In 2005, the number of questions was again increased and the monthly results depending on the moving averages of three months started to be announced each month[1].

Definitions of major labour statistics, collection of household labour data and methods of data processing are compatible with the standards of ILO, which enables making international comparisons on labour force indicators. Field application is conducted by interviewers who ask the questions, clarify ambiguous points, and record the answers via portable computer. This refers to healthier collection of data as long as the sample is determined meticulously to represent the whole population.

2.1. Definition of Employment in the Statistics

One of the main criticisms about labour force statistics is about their representative power of the extent of the unemployment problem in Turkey. "The ILO Resolution concerning the statistics of the economically active population, employment, unemployment and underemployment" defines the

[1]The paragraphs about statistical methods are brief summaries of the related information from TUIK, 2007a; TUIK, 2008a; Taştı & Sezer, 2008.

"employed" as "all persons who during a specified period" were in the "paid-employment" or "self-employment" category, and these two categories are further divided into "at work" and "not at work" subcategories (ILO, 1982, pp. 2-3). TUIK (Turkish Statistical Institute) also defines employment under the two categories: "at work" and "not at work". In the "at work" category, persons who work at least one hour during the reference week as a regular employee, casual employee, or employer, and persons who are self-employed or unpaid family workers are considered. "Not at work" category is composed of employers and the self-employed who are not working during the reference week due to various reasons and regular workers who will return to their jobs within 3 months or who are receiving at least 50% of their wage or salary from their employer during their absence (TUIK, 2012b).

From the workers' side this "one-hour" criterion is too short to represent solid jobs out of which sufficient income could be derived, thus the relevancy of "one-hour" criterion should be questioned. TUIK's answer to this criticism is that the effect of "one-hour" criterion on employment has very limited effect on employment. It is argued that in the labour force statistics of 2006, the share of people who worked only one hour during the reference week in total employment is 2 ‰, percentage of people who worked less than 10 hours is 1.16 % and that of workers who worked less than 16 hours is 3.4 % (TUIK, 2007a, p.25).

According to TUIK's labour force statistics database in the year 2006, the number of workers working 16 hours or less is 696 thousand people out of 20.4 million employed persons. In TUIK HLFS database, there is no data available for people working *less than* 16 hours, data is available for people working 16 hours or less. If calculated according to information in TUIK' s study (2007a), in 2006, 694 thousand people were working less than 16 hours a week which by no means is a negligible number. If all of them are considered unemployed this raises the number of unemployed from 2.3 million to 3 million. This raises unemployment rate to 13.2 % from the official statistic of 10.2 %. According to same statistics in the year 2010, 1.2 million out of 22.5 million (5.3 %) employed have been working less than or equal to 16 hours during the reference week. If these people are counted as

unemployed, unemployment rate for the year 2010 raises to 16.6 % from 11.9 % (TUIK, 2012a). Moreover, most of the employed involuntarily works lower hours, as indicated by 754 thousand workers who declared to be in time-related underemployment (TUIK, 2012a).

In a study conducted by ILO (Bastealer, 2008 as cited in ILO, 2008), 19 countries around the world were selected to re-estimate unemployment rates using a stricter employment duration criterion. Ten hours of weekly work is chosen to be the benchmark, because the survey respondents, who considered employment as their main activity, worked more than ten hours a week. In this approach, the unemployment rate increased by 0.2 percentage points to 1.5 percentage points, which is thought to be insignificant. For instance, in Argentina the rate has increased from 9% to 10 %, in the UK from 5.3 % to 6.5 % and in the Netherlands from 4.5% to 6 % (as cited in ILO, 2008, pp.8-10). For Turkey, when calculated using statistical data given by TUIK 2007 study (percentage of people who worked less than 10 hours in total employment is 1.16 %; TUIK, 2007a), unemployment rate increases from 10.2 % to 11.2 %.

Although many countries adopt the "one-hour criterion", some countries have stricter limitations on employment hours. For instance, the United States and Israel include unpaid family workers who worked 15 or more hours in the reference week while calculating employment (The US Bureau of Labour Statistics, 2012; Central Bureau of Statistics of Israel, 2012).

In a working group paper presented in the eighteenth conference of labour statisticians by ILO (2008), several explanations for adopting one-hour criterion are given. It is argued that the main purpose with the criterion is to include all the persons engaging in any type of work under employment definition. Another reason for such a criterion is said to be the need for obtaining an accurate measure of labour productivity where "total volume of employment in the denominator should correspond to aggregate production in the numerator". Finally, there are practical reasons like any choice of hour rather than one-hour should be arbitrary and should not be universal; also, there should be the need for statisticians to report "hours of work" and "income from work" for the unemployed and economically active population (ILO, 2008, p.7).

It is important to include all people who are employed under the definition of employment. The crucial issue is what should be understood from employment. The definition should be extended from an activity of production during a specified period without any concern for income generation, to an activity of production out of which enough income for survival should be derived. Critics of *one-hour criterion* are opposed, because they consider labour would be viewed as a "social factor" and employment as a "means for social participation". Their opponents interpret the criticisms as an "emphasis on the importance of allocation of time by people to different activities". By doing this, critics are believed to be distinguishing between employed persons who devote the essential part of their time to work activities from other social categories (students, homemakers, and retired persons) who devote most of their time to non-work activities. According to opponents, this distinction results in the "sacrifice of consistency" between employment and production for "statistical consistency" between employment and other bodies of statistics, such as statistics of "employment and education" or the statistics of "employment and living conditions" (ILO, 2008, p.8).

There should not necessarily be such an inconsistency between employment and production. Hourly employment data is collected in the HLFSs; therefore, indicators about production and productivity could accurately be estimated from the data collected. The most important issue is to obtain sound measures of employment and unemployment. Employment is a "social" indicator representing the income generation activity of the whole population for its livelihood. It is also an indicator of productive activity informing how efficiently labour is used as a factor of production. All types of employment and all hours of work should be calculated and estimated from HLFSs, then a benchmark hour or income should be set for the definition of employment to obtain a good social indicator, by using which social policy could be designed. Amount of income or work is definite for basic means of survival, which should be calculated as in the case of poverty surveys. In addition, those who are working under the defined hours or for less than the defined income should be eliminated from the number of the employed, depending on their desire and efforts to

work as long as the defined criteria. Thus, employment should not be overstated by the strict *one-hour criterion*.

This approach clearly does not demand an abolishment of the employment indicator calculated by the current standard. However, it is believed that welfare debate and social policymaking should be based on an alternative view of employment, which emphasizes its roles in income generation and participation in social life. The extent and urgency of the unemployment problem cannot adequately be understood from an overstated measure of employment in terms of working hours.

The whole idea is that employment and unemployment statistics should not be collected only for the sake of obtaining a crude measure of how many people should be considered as working and not working. It is also a subjective argument that the differences in the definitions only result in marginal increases, as long as it represents about 700 thousand people, as in TUIK's example for the data of 2006. Those definitions are not necessarily scientific truths; they involve sacrifice of some information for the sake of obtaining some other information. In this thesis, employment is considered as the measure of productive activity for sure; nevertheless, the most neglected social aspect of employment will also be the focus of analysis. Therefore, it is believed that the current definition of employment in Turkish statistics ignores a tremendous amount of free time and human resource waste and therefore alternative measures of employment should be calculated depending on income and poverty criteria.

2.2. Statistics of Employment Status and the Relation between Poverty and Employment

When the hourly employment data is decomposed into employment status, it is seen that the greatest proportion of people working less than or equal to 16 hours are the self-employed, unpaid family workers, and casual workers (see table 2.1). These categories represent "casual" types of employment without continuous and secure income generation. The percentage of those three groups in total employment decreases as the working hours increases.

Table 2.1. Turkey: Share of "casual" types of employment in total employment and working hours, 2008-2010

Hours	2008			2009		2010	
	self employed %	unpaid family workers %	casual employees* %	self employed %	unpaid family workers %	self employed %	unpaid family workers %
1-16	34.6	45.2	13.4	36.9	43.2	34.7	39.9
17-35	35.8	36.6	10.7	33.8	0.0	28.9	31.2
36-39	39.4	27.5	14.5	33.4	27.6	31.1	26.8
40-49	22.0	12.2	8.0	19.7	13.1	19.7	13.1
50-59	20.0	11.5	7.5	17.0	10.2	17.1	11.0
60+	50.2	14.3	13.4	41.7	14.1	20.1	14.1
Total	**23.5**	**12.7**	**6.7**	**20.8**	**13.5**	**20.1**	**13.6**

Source: TUIK, 2012a and own calculations

*Starting from 2009, regular and casual employee categories are combined in the questionnaire and from 2009 onwards casual employees are included in "employee" heading.

This result is not surprising due to the nature of occupations in different employment statuses. For instance, waged and salaried workers are expected to work 40 hours or longer within a week due to regular and generally formal nature of their jobs which are more costly to the employers because of obligations such as minimum wage or social security contributions. Accordingly, formal and regular character of this type of employment makes it easier to measure whereas the casual categories involve much more difficulties in measurement.

It should also be mentioned that “casual employees” and “regular employees” categories were abolished in employment status statistics in 2009 and they were combined to represent the category of “employees” since then. Since “casual employees” category represented a smaller part of the employed (6.7 % in 2008), compared to the category of “regular employees” (54.3 % in 2008), casual workers have practically disappeared from employment statistics, thanks to their merger with the regular workers. Casual workers represent the most vulnerable category in total employment due to unstable nature of their jobs, whereas regular workers are more superior to casual workers in many aspects, such as working

hours, wage payments, social security coverage, poverty, employment duration, etc. Elimination of this category from employment statistics is unfortunate, because this category definitely requires more attention and a more detailed statistical representation to deal with their specific problems.

In addition to the doubt on the correct measurement and estimation of these categories of employment status, there are remarkable differences in terms of poverty rates between these categories and the rest of the employed. Since it is mentioned that employment is seen as a social indicator, which provides livelihood for the whole society, the relationship between poverty and labour force statistics is an issue that needs to be investigated.

Table 2.2 below shows the results of 2002-2009 TUIK Poverty Studies according to employment status. It indicates that self-employed, casual, and unpaid family worker categories have higher rates of poverty than the unemployed do. The only categories having lower poverty rates than the unemployed are "regular employees" and "employers". The result is striking, because it means that about 40 %[2] of the employed in 2008 have greater poverty rates than both the average poverty rate and the poverty rate of the unemployed. Ironically, it is obvious that some of the employed are so poor that they cannot even afford unemployment.

Such a relationship between poverty and employment status, could be interpreted as a failure of the economy to create enough jobs with adequate remuneration. Alternatively, it could also be interpreted as a failure of labour statistics to correctly measure employment and unemployment as social welfare indicators. These three categories have both the highest poverty rate and the lowest working hours. This "coincidence" reinforces the argument that the hourly criterion is too loose to define employment as a means of income generation. This also supports the argument that these

[2]The share of the employed with a higher poverty rate than the average is calculated using 2008 data, because starting with 2009, casual workers have been incorporated into the category "employees" with the previous category of "regular employees" which had relatively lower poverty rates.

"casual work" categories need specific attention and effort to be determined by the HLFSs.

Table 2.2. Turkey: Poverty rates according to employment status of household members, 2002-2009

Year	2002	2003	2004	2005	2006	2007	2008	2009
Total	**27**	**28**	**26**	**21**	**18**	**18**	**17**	**18**
Employed	25	26	23	19	16	14	15	15
Regular employee	14	15	10	7	6	6	6	7
Casual employee	45	43	38	32	29	27	29	27
Employer	9	9	7	5	4	3	2	2
Self-employed	30	32	30	26	22	23	24	23
Unpaid family worker	35	39	39	35	32	29	32	30
Unemployed	**32**	**31**	**27**	**26**	**20**	**26**	**18**	**20**

Source: TUIK, 2009a

The analysis of labour market statistics with poverty statistics is helpful for investigating the shortcomings of the current labour market statistics. The inconsistency between poverty and employment statistics point out that the link between income and employment in statistics is weak; therefore, employment indicators are far from being meaningful social variables.

2.3. Definition of Unemployment

Accurate measurement of unemployment, which is the indicator of underutilization of human resource and labour market tightness, is an issue as important as defining employment in the national statistics. Types of job seeking channels and the utilization of these channels as included in the unemployment definition determine the unemployment rate. While some channels are included in unemployment definitions of some countries, other countries limit job-seeking channels that will be included in the definition of unemployment. For this reason, the real unemployment situation in the economy can be understated. Whenever "employment" is defined too widely, to include those workers who even work for one hour week, its counterpart

"unemployment" should not have a definition, which is too narrow for explaining the real situation of the labour market.

In the ILO guidelines, it is argued that the people who can be considered as unemployed should be "without work", "currently available for work" and "seeking work" (ILO, 1982, p.4). "Seeking work" condition is important in distinguishing between the unemployed who belong to labour force and those who are no longer attached to it. The tightness of the seeking work condition determines the quantity of discouraged workers and those who are "marginally attached to labour force", it is also important for identifying the unemployed. TUIK defines "the unemployed" as people who are not at work or are not laid off with a formal job attachment to return to work within three months, who used any of job seeking channels in the previous three months, and who will be available for work within two weeks (TUIK, 2008a). Those job seeking channels include active and passive methods such as applying to employers and employment offices, looking at newspaper and website adds, taking examinations, waiting for the results of applications and even requesting help from relatives and friends (TUIK, 2007b, p.90).

Although some countries, such as the US, do not consider looking at ads as a job seeking activity, Turkey has a wider coverage including many job-seeking alternatives. Moreover, among several countries Turkey is in fact the one with the most loose definition of "seeking work condition". The US, Canada, Australia, Israel, and EU countries consider people who have been looking for work during the four weeks preceding the reference week. Time condition is limited to one week in some countries such as Japan or Pakistan (The US Bureau of Labour Statistics, 2012; Canada Labour Statistics Division, 2012; Australian Bureau of Statistics, 2012; Central Bureau of Statistics of Israel, 2012; Pakistan Bureau of Statistics, 2012; Statistics Bureau of Japan, 2012; Eurostat, 2012a).

Job seeking duration for the definition of unemployment is a subjective measure that depends on the social and economic conditions and cultural habits of society; therefore, it is difficult to determine an international standard, without the risk of understating the problem of unemployment. Brandollini et al. believe that the total effort devoted to job seeking is

"dependent upon individual resources, search costs and expected returns"; thus, "the reliability of an arbitrarily set job seeking condition" is questionable (2004, p.11). For instance, they ran a test of search intensity investigating the frequency of search actions. They found that for older men and women in Central-Northern Italy, older men in Southern Italy and young females in Southern Italy, there was no significant difference between the unemployed and the potential labour force in terms of search action (2004, p.23). Some even argue that there is no necessary duration of job search for measuring the number of unemployed people. Nevertheless, it is important to set a reasonable benchmark for obtaining an accurate though not perfect measure of unemployment for policy concerns.

In an attempt to determine the number of people who are not "actively" searching for employment but available for work, The US Bureau of Labour Statistics (BLS) employs the concept of "marginally attached workers". Marginally attached workers are defined as "persons who currently are neither working nor looking for work but indicate that they want and are available for a job and have looked for work sometime in the preceding 12 months" (Bradburry, 2006, p.3). This measure should be used for determining the extent of long-term unemployment and should be added up to the official unemployment rate as an alternative measure of unemployment or labour underutilization. In European countries, about a fifth of all people who declared that they were seeking work were left out of the total number of the unemployed in the 1990s because of the four-week requirement (Brandollini et al., 2004, p.2). For the US, inclusion of all marginally attached workers as well as discouraged workers raises the unemployment rate by 0.8 %(Kodrzycki, 2000, p.36).

Extension of the unemployment definition affects unemployment levels of the countries differently due to economic circumstances and job seeking habits of the residents even among countries with similar economic circumstances.

2.4. A Further Insight to Employment and Unemployment: Marginally Attached Workers and Underemployment

In the previous section, it was argued that the limitations about "active job search" have important implications for the measurement of unemployment. Therefore, "marginally-attached worker" category is introduced to labour force statistics to measure joblessness in a broader perspective. However, significance of this category apart form the unemployed is another issue of controversy. In this regard, researchers have investigated whether the marginally attached workers group are behaviourally distinct from "the officially unemployed" group. Clark and Summers (1979) reported that "many of those classified as not in the labour force are functionally indistinguishable from the unemployed". Flinn and Heckman (1983), in contrast, examined young workers' transition probabilities into employment and rejected the hypothesis that the distinction between unemployment and being out of the labour force was behaviourally meaningless (as cited in Bradburry, 2006, p.5).

In their work, Jones and Riddell acknowledge that among marginally attached workers they have found a "waiting" group which should better be classified as unemployed than not-in-the-labour force and the remainder of the marginally attached are behaviourally somewhere between the unemployed and non-participants. In addition, they believe that the non-employed are very "heterogeneous" thus no proper distinction between the unemployed and non-participants should "fully capture the variable degrees of labour force attachment" (1998, p.149). They assert that during a non-employment spell, many individuals frequently change classification, with brief periods of labour force withdrawal after repeated spells of unemployment (1998, p.150). Some also believe that the categorization is dependent upon the questionnaire design and some question the meaningfulness of job seeking requirement without related questions about acceptable job characteristics, specifically the wage rate (Lucas and Rapping, 1969 as cited in Jones & Riddell, 1998, p.150).

Garrido and Toharia (2003) have examined the effect of European Commission regulation (introduced in the year 2000) on unemployment in

Spain. The regulation eliminated “passive job seekers” from the definition of unemployment, “passive” meaning who did not satisfy the search criteria in labour force surveys. Specifically, those who were only registered to public employment offices and not using any other search method, were considered “inactive”, and were not counted as unemployed. To determine whether there was a significant distinction between the “unemployed”, the “excluded” and the “inactive”, the authors calculated the probabilities of these groups for moving into employment. The unemployed had the highest probability of entering employment within one quarter, followed by the excluded and the inactive. However, there was a significant difference between probabilities of the excluded and the inactive; whereas those of the unemployed and the excluded were closer. Therefore, they concluded that the “excluded” was a distinct group from the unemployed in terms of their labour market behaviour; nevertheless, it was also inappropriate to count them among the inactive, since they exhibited higher propensity to find employment than the inactive (Garrido & Toharia, 2003).

Brandollini et al. discuss that the number of unemployed is traditionally the measure of labour market tightness however; tightness is also dependent upon the number of less committed job seekers (2004, p.9). As they investigated the effects of ILO standards on European and Italian unemployment, they calculated the transition probabilities into employment of the unemployed, potentials (who have been looking for work but not in the previous four weeks) and other non-participants. They found that the transition probabilities to employment for the potentials are much greater than that of non-participants and generally close to probabilities of the unemployed (2004, p.14).

In the Turkish HLFS, people out of the labour force are divided into 7 categories: People who are not working but available for work, seasonal workers, household chores, people in education or training, the retired, unable to work (disabled, old or ill), and others. People who are not looking for but available for work are divided further into two categories: discouraged workers and others. Discouraged workers are defined as persons who are not looking for work because they believe that there is no work available in the region which is suitable for them, in addition, who are

available to start working within two weeks. There is no benchmark for how long it has passed from their last search activity. “Others” category under the “not looking for but available for work” heading consists of persons who are not looking for work due to reasons like being a seasonal worker, a housewife, a student, being retired or disabled or having other source of income (TUIK, 2012b). Therefore, “people who are not looking for but available for work” category is equivalent to “marginally-attached” workers.

There is no time constraint for previous job search activity; moreover, there is no question in the HLFS for obtaining information about the nature or the duration of their search activity, as well as how long has passed since their last job search attempt. Thus, no layering could be made among the people who are considered as having a “more loose” attachment to the labour force.

Moreover, the situation of casual and seasonal workers is somewhat ambiguous. A casual worker is employed if he/she is working in the reference week, is unemployed if he/she is not working but looking for work, and is out of the labour force if not looking for work within three months. This group is the most vulnerable group because they work under temporary contracts or no contract at all, their work is mostly seasonal and severely affected from economic shocks. They have neither permanent source of income nor job security. Evaluation of their labour force status with the standard methods used for other groups is necessary but misleading about their situation.

In addition to defining “marginally-attached” workers, other measures of labour underutilization and employment inadequacy are introduced to overcome shortcomings of definitions of employment and unemployment. ILO defines two measures for this purpose: “time-related underemployment” and “inadequate employment”. In order to be considered under time-related underemployment one should be “willing to work additional hours", "available to work additional hours” and should have worked “less than a threshold relating to working time in the reference week” (ILO, 1998, p.2). On the other hand, inadequate employment indicators should describe “situations in the workplace which reduce the capacities and well-being of workers as compared to an alternative employment situation”. Workers’

availability and willingness to change their current employment situation should be the criteria in the measurement of this indicator. The framework offered for such measurement involves three categories:

i. Skill-related inadequate employment, which is defined by inadequate utilization and mismatch of occupational skills
ii. Income-related inadequate employment, which is characterized by willingness to change the current work place for higher income
iii. Inadequate employment related to excessive hours, which means that workers are willing to change their work place for a decrease in working hours with a corresponding lower income (ILO, 1998, p.4).

From 2009 onwards, TUIK revised the methods and definitions to conform to the ILO definition of underemployment. In the current HLFS, underemployment is divided into two parts. Those who work less than 40 hours in a week and willing to work additional hours are defined as "time-related unemployed". Those who are at work and searched for work within the past four weeks to change their current job are calculated under "inadequate underemployment" (TUIK, 2012b).

In the ILO paper, reporting of an indicator called "labour underutilization rate" is offered along with the unemployment rate. Labour underutilization is defined as the sum of the number of people under the categories of labour slack, low earnings and skill mismatch. Labour slack category covers the unemployed, the time-related underemployed, discouraged workers, and other inactive people with labour force attachment. Low earnings category involves full-time employed with low monthly earnings, less than full-time employed with low hourly earnings and overly employed with low earnings. Finally, skill mismatch category has the workers employed in the jobs with skills required below their educational level (2008, p.17). Such an indicator will be very informative of the current situation of the labour market.

In the ILO study (2008), the labour underutilization rate for Turkey, for 2007 was calculated along with six other countries. Whereas the unemployment rate in 2007 equals 9.3%, labour underutilization rate is

29.9%[3]. Turkey has the second highest unemployment rate (after Bosnia with 27%) and has the lowest labour underutilization rate among all the other countries compared (Bosnia & Herzegovina, Mexico, Moldova, Panama, Philippines and Tanzania) (2008, p.29). It is argued that the main reason for lower underutilization rate is the higher unemployment rate. In other words, countries with lower unemployment suffer more from time-related underemployment, low earnings and skill mismatch (2008, pp.31-32). This is a reasonable claim. When people intend to accept low earnings, lower hours of work and jobs with lower skill requirement than they already have unemployment tends to be lower.

The analysis of the ILO study shows that the unemployment indicator has less informative value (than it is accounted for). Panama's unemployment rate was 5.7 % with 45.1 % underutilization rate; Philippines 5.4 % with 40.8%; Moldova 5% with 46.3%; Tanzania 3.3% with 51.9; and Mexico 3.4% with 30.2% (2008, p.29). Several authors also believe that unemployment rate is not sufficiently informative about the state of the labour market. For instance, Juhn, Murphy, and Topel (1991, 2002), and Murphy and Topel (1997) analyze non-employment and argue that the unemployment rate does not display the real situation in the labour market (as cited in Bradburry, 2006). Some suggest that labour force participation rate should be evaluated along with the unemployment rate (for example, Anderson, Barrow, and Butcher, 2005; Bradbury, 2005 as cited in Bradburry, 2006). Similarly, the European Council revised its labour market targets in 2000, replacing the goal of reducing unemployment with the goal of increasing employment rates (employment/population ratios) (European Parliament, 2000, as cited in Bradburry, 2006, p.7).

[3]Using recent data, labour underutilization rate is calculated to be 25 % for 2009 and 20% for 2010.

2.5. Conclusion

In this chapter, collection and derivation of labour force statistics are briefly summarized; some important criticisms about the reliability and representative power of the indicators are discussed. While doing this, the discussion is limited to descriptive issues, such as the relevancy of limitations on the frequency of job search activity for determining "the unemployed", or the extensiveness of the employment definition, which considers even a single hour of work in a week as employment. It is our contention that a complete analysis of the labour market statistics, of data collection and derivation methods along with a discussion of how precisely labour market statistics measure the problem of unemployment is more than necessary and will fill an important gap in current literature.

From this perspective, Turkish labour market data and its collection process is examined and it is found that collection methods and question content of the survey have been improved, definitions are compatible with ILO standards; therefore, the resulting indicators are internationally comparable. However, there are some doubts whether the statistics can fully indicate the current situation in the Turkish labour market.

Although employment definition of "at least one hour of work in the reference week" is almost universal, it is shown that the strictness of the hourly criterion causes a remarkable number of people, who are working less than 15 hours, to be considered as "employed". This definition enables international comparisons but leaves aside cultural, social, and economic differences among countries. In addition, it eliminates the necessity and difficulty of determining a benchmark value for weekly hours of work. On the other hand, this view of employment makes it solely a numerical variable, which only indicates the number of people that are contributing to production of GDP. In this study, employment is considered a social variable, which represents production capacity and income generation activities of the whole population. It is the basic indicator of the utilization of human resources for production, whereas unemployment represents inadequate utilization of the human resources at a country's disposal. High rates of unemployment and low rates of participation mean higher

dependency ratios for society. Thus, it is believed that the employment indicator reported by TUIK is not satisfactory as a social variable.

Another issue that has been criticized is the link between poverty and status of employment. Categories of unpaid family workers, casual workers and the self-employed suffer from high poverty rates, although they are in employment. A different definition of employment, extending weekly working hours beyond one hour, may be utilized at least for these categories or their employment status should be monitored more precisely so that they can be considered unemployed or underemployed whenever their capacity to seek for and find jobs are limited by the casual or seasonal nature of their occupations.

It is also criticized by many researchers that the looseness of the employment definition is not balanced by the looseness of the unemployment definition. The unemployment definition generally includes people that have utilized job-seeking channels in the previous four weeks and for Turkey duration is last three months. Discouraged workers and other marginally attached workers are not included within the realm of unemployment. It is important to distinguish between people that are actually willing to work and those who should not be considered as unemployed. Nevertheless, problems such as low number of available jobs, low pay, very long working hours, absence of social security or health insurance coverage, lack of transportation, gender discrimination, and cultural habits, which decrease attempts of people to search for jobs, should be incorporated into labour statistics. Accordingly, employment and unemployment statistics should reflect the real situation of the Turkish labour market and serve as indicators of human resource utilization.

The choice of social policy variables is more important than the definitions of employment and unemployment. Employment variable may continue to be defined as “one-hour of work in the reference week” and unemployment definition may only include “persons seeking work in the previous three months”; it may also be narrowed down to “four weeks” to allow international comparisons. In that case, policy makers should be supplied with additional information and supplementary indicators of the labour market. For instance, labour underutilization rate should be

calculated and should be a key part of policy proposals along with unemployment rate. Changes in employment and unemployment rates should be monitored and evaluated by taking into consideration the trends in labour force participation rate. Additional statistics such as labour force attachment or working conditions should be collected on the most vulnerable groups of the labour force, such as casual workers, so that special policies targeting them could be designed.

Studies should be conducted to determine job-seeking activities and labour force attachment of Turkish people. For this purpose, a further question on the duration of job search activity should be included in the HLFS. Afterwards job searching behaviour and the labour force attachment in the Turkish labour market could be examined in further detail. Moreover, different approaches to unemployment problem could be put forward under different unemployment definitions. For example, the number of discouraged workers who has not been looking for work in the past six or twelve months could be added to the number of unemployed to get another unemployment definition. Then this might be added up to the number of underemployed to obtain an indicator of labour market tightness.

In sum, it is suggested that the definitions of basic labour market indicators, employment and unemployment, should be changed to become more comprehensive, so that their focus should be on income generation and efficient utilization of human resources. Alternatively, while evaluating the labour market performance and composing policies for it, those basic indicators should be supplemented with indicators such as labour market attachment, labour utilization (underutilization) and labour market participation. This will result in a better understanding of the dynamics of the Turkish labour market and better design of policies, to tackle problems confronting the labour market.

CHAPTER 3

GENERAL CHARACTERISTICS OF THE TURKISH LABOUR MARKET

In this thesis, unemployment in Turkey is the focus of analysis; however, there are some distinct and troublesome characteristics of the Turkish labour market, which are attributed to or which aggravate the unemployment problem. One of these problems is low rate of labour force participation. Another important attribute of unemployment is high amount of discouraged and marginally attached workers. Although these problems to some extent relieve the pressure on labour market and unemployment, they cause underutilization of human capital; therefore, must be taken into consideration along with unemployment. Thirdly, for some higher levels of educational attainment, unemployment is unexpectedly higher. Finally, 15-19 and 20-24 age groups have the highest rate of unemployment. The last two characteristics worsen the unemployment problem, through their adverse effect on the duration of unemployment. Better-educated younger age groups are generally new comers to the labour market, as their entry to the labour market is delayed; they are trapped in long-term unemployment.

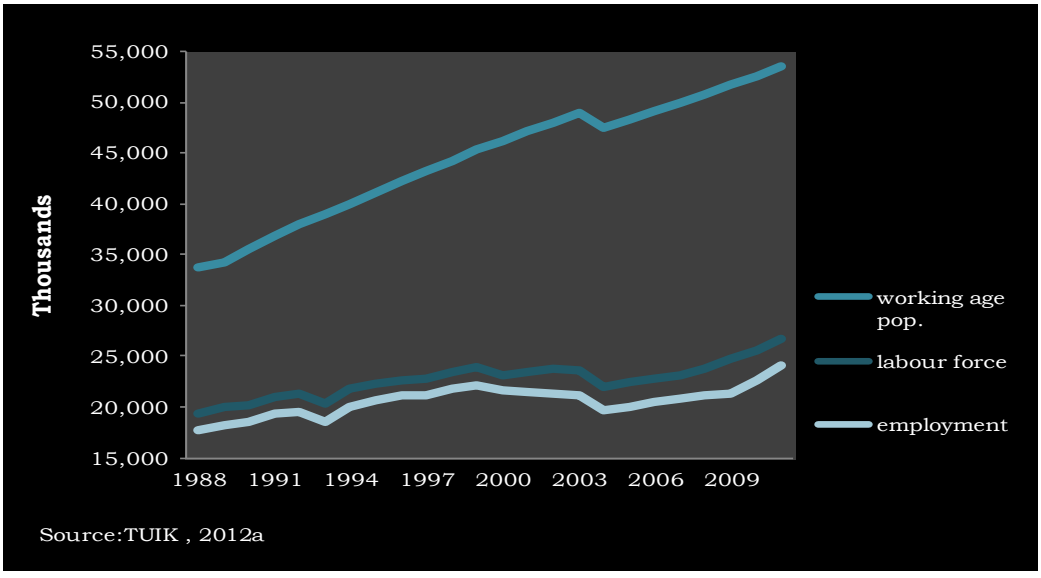
An extensive study of unemployment in Turkey cannot be complete without a brief review of the Turkish labour market. The ultimate aim of this chapter is to determine the most critical and structural problems of the labour market related to unemployment, with a view to attract attention of policy makers to those specific issues besides unemployment. For this purpose, Turkish labour market statistics will be analyzed in detail by using TUIK Household Labour Force Survey (HLFSHLFS) 2011 yearly results and TUIK HLFSHLFS database. In the previous chapter, changes in data collection methods, sample size, and definitions were mentioned. In addition to these changes, in 2010, Turkish HLFS data since the year 2004

were revised according to new population projections. For the key variables, such as labour force participation rate or unemployment rate, tables in this section include 1988-2011 data to understand the changes in these variables in a broader perspective. However, the recent changes should be kept in mind while making comparisons with the data of previous years.

3.1. Trends in Labour Market Variables and the Characteristics of the Labour Force

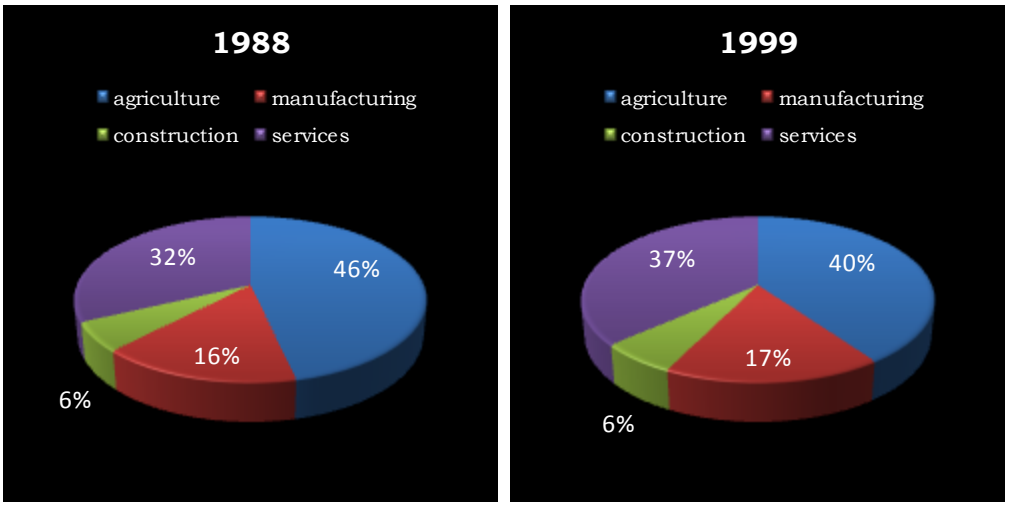
Turkey is faced with the challenge of a still fast growing working age population in its fight against unemployment. The annual average growth rate of population was 1.24% in 2010, and projections indicate that it is decreasing down to 0.08% until 2050. However, population will continue to grow, reaching about 91.6 million people by 2050 (UN, 2012a). It is estimated that in the next 30 years the number of children of ages 0-14 will stabilize whereas the working age population of ages 20-54 will almost double (Hancıoğlu et al., 2004, p.49). However, the pressures from growing working age population are not totally reflected on the labour market. As Figure 3.1 below clearly shows, labour force growth lags far behind working age population growth.

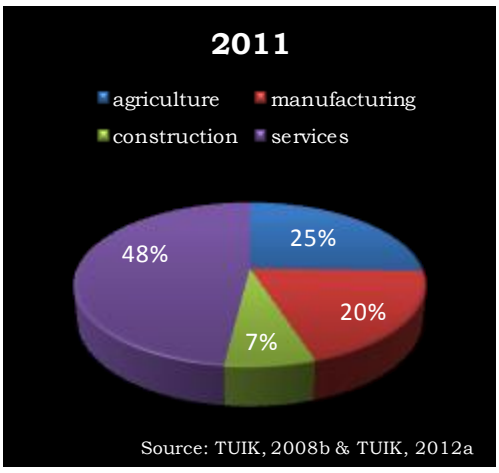
Figure 3.1. Turkey: Trends in Labour Force Indicators, 1988-2011



This is explained by the low and decreasing labour force participation (LFP). In 1988, the first year of HLFSs, LFP was 57.5 %. During 1989-2004 period, LFP had a decreasing trend, in 2000 LFP declined to 49.9% and in 2004 to 46.3; in 2011, it is 49.9 % (TUIK, 2012a). The issue of labour force participation will be discussed in detail in the next section.

Figure 3.2. Turkey: Sectoral Composition of Employment, 1988-1999-2011





Source: TUIK, 2008b & TUIK, 2012a

Main trends in the Turkish labour market can be summarized as increasing working age population, decreasing labour force participation, and shift of labour from agricultural sector towards services sector. Although decreasing participation rates help easing the pressures on the labour market, where working age population is growing rapidly, employment growth performance is not promising to cope with the already low demand for jobs. Figure 3.1 indicates that increases in employment are small and for some years, growth rate of employment is negative.

Table 3.1- Turkey: General characteristics of the labour force, 2011

(Thousands)

classification		Working age population (15+)	Labour force	% of total labour force	Labour force participation rate
by location	**Turkey***	**53,593**	**26,725**	**100.0**	**49.9**
	Urban	36,973	17,594	69.1	47.6
	Rural	16,620	9,131	35.9	54.9
by gender	Male	26,320	18,867	74.1	71.7
	Female	27,273	7,859	30.9	28.8
by age	15-24	11,534	4,529	16.9	39.3
	25-34	12,482	8,236	30.8	66.0
	35-44	10,448	6,960	26.0	66.6
	45-54	8,358	4,491	16.8	53.7
	55+	10,769	2,509	9.4	23.3
by educational level	Illiterate	5,863	1,203	4.5	20.5
	Less than high school	32,801	15,628	58.5	47.6
	High school	9,286	5,365	20.1	57.8
	Univesity or above	5,643	4,476	16.7	79.3
*Subtotals may not add up to total due to rounding up					
Source: TUIK, 2012a; TUIK, 2012c and own calculations					

In addition to the main trends, basic characteristics of the Turkish labour force should be reviewed to develop further insights into Turkish labour market and its problems. Table 3.1 shows that Turkey's labour force

is mostly urban; however, rural labour force participation rate is higher than urban participation rate due to higher female participation in the rural areas. Males constitute a larger part of the labour force, as a reflection of lower female participation. 15-34 age group represents 48 % of the labour force, meaning that Turkey has a young labour force. On the other hand, Turkey has a poorly educated working age population, most of which (72 %) has a secondary school diploma or less. The educational status of labour force is slightly better due to participation rates increasing along with educational level. Nevertheless, 63% of the Turkish labour force has lower than a high school diploma, while only 17 % of the labour force is university graduates or have post-graduate degrees.

3.2. Labour Force Participation

Table 3.2. Labour Force Participation for Selected Countries

(Thousands)

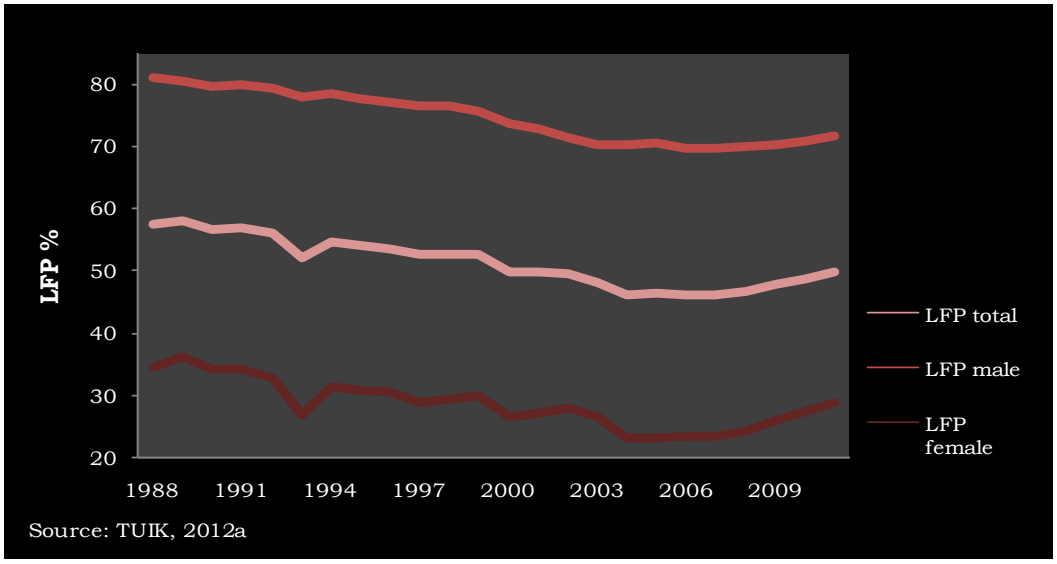
Countries	Labour force participation %	Male labour force participation %	Female labour force participation %
Argentina	65	78.4	52.4
Azerbaijan	63	66.8	59.5
Egypt	48.8	75.3	22.4
France	56.1	62.2	50.5
Germany	59.8	66.8	53.1
Greece	53.7	65	42.9
Ireland	63.6	73	54.4
Japan	59.5	71.8	47.9
Korea	60.9	72	50.1
Lithunia	55.7	62.1	50.2
Pakistan	54.3	84.9	21.7
Phillipines	63.8	78.5	49.2
Poland	53.7	61.9	46.2
Romania	52.4	60	45.4
Turkey	**47.9**	**70.5**	**26**
U.S.	62.2	69.5	55.3
U.K.	65	71.9	58.4
Group average	**58.0**	**70.0**	**46.2**

Source: World Bank, 2012

When labour force participation rate of several countries from different regions of the world are compared in Table 3.2, below, Turkey has the lowest LFP rate after Egypt. Low LFP of Turkey is attributed to low female participation. Although male LFP rate is slightly above the group average level, female LFP rate of Turkey is the lowest, after more conservative Islamic countries, such as Egypt and Pakistan, where women have more limited access to labour market due to social norms and perhaps regulations.

Figure 3.3 displays that total, male, and female participation rates, which had a decreasing trend until 2004, has had an increasing trend thereafter.

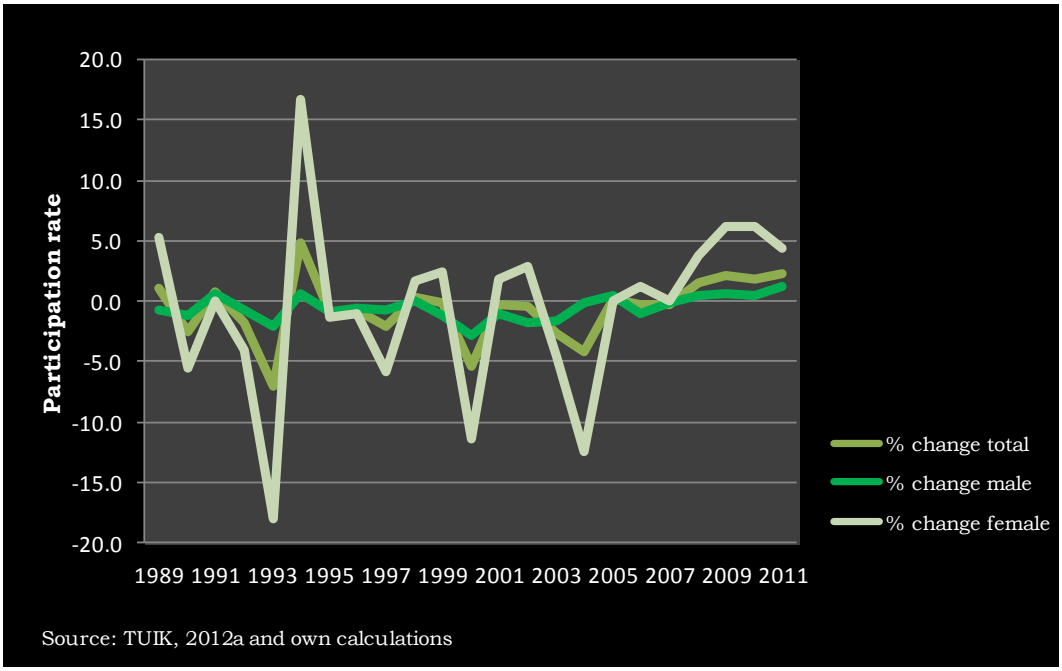
Figure 3.3. Turkey: Labour Force Participation Rates, 1988-2011



The movements in female participation rate are sharper and more visible (see figure 3.4). This implies that low female LFP is more vulnerable to economic conditions. Moreover, female LFP rate tends to increase after major economic recessions and once the immediate effect of the crisis starts to vanish, it begins to diminish. For instance, in 1994, it increased from 26.8% to 31.3%, and then fell down gradually until 1998. It again increased from 28% to 29% and then to 30% in 1999. In 2000, female LFP rate fell to

26.5%; however, as mentioned earlier, major changes in the HLFS took place in the design and implementation of the surveys in this year; therefore, the sharp decrease may partly be attributed to these (changes. In 2001, female LFP rate rose to 27% and to 28% in 2002. Once the immediate effects of the 2000-2001 crisis started to vanish, female LFP rate fell to 26.6% in 2003. After 2004, the decline in female LFP rate continued until the 2008 global crisis, and increased remarkably in 2009. The growth in female LFP rate has continued since 2009; however, with a slowdown in 2011.

Figure 3.4. Turkey: Changes in Labour Force Participation Rates, 1989-2011



Source: TUIK, 2012a and own calculations

In current literature, there are two types of behaviour regarding labour force participation during economic downturns. "Additional worker hypothesis" suggests that during economic recessions when the breadwinner of the household becomes unemployed, other household members, who are not attached to labour force prior to the economic crisis,

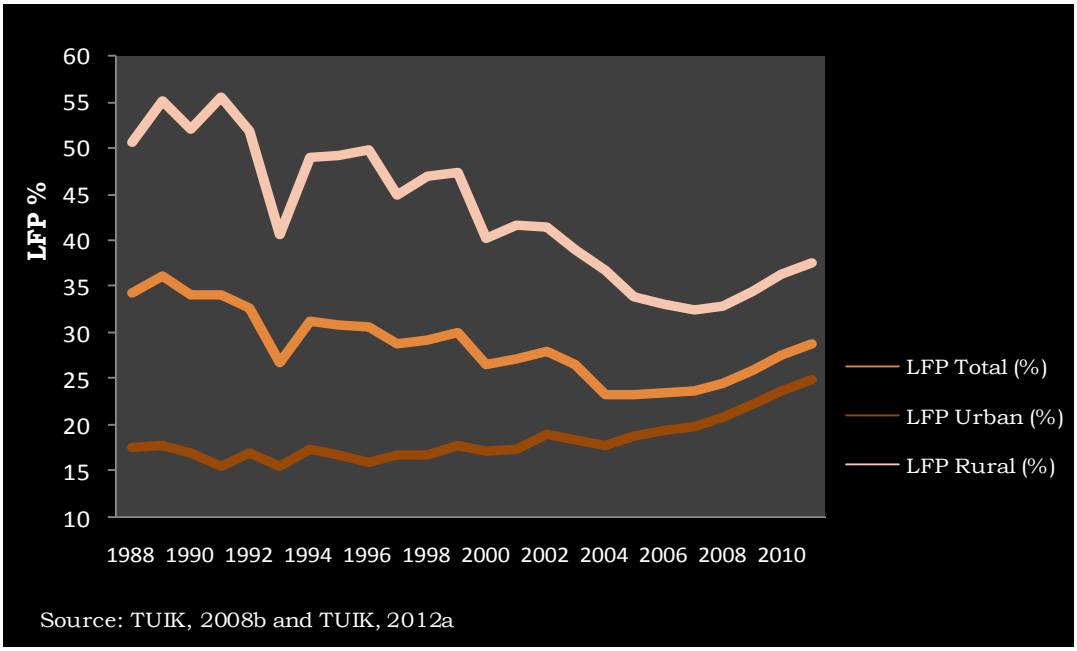
start looking for jobs. On the other hand, “discouraged worker hypothesis” claims that when the breadwinner loses his/her job, other members with secondary responsibilities for the maintenance of the household leave the labour force, believing that he/she could never be able to find a job during the economic downturn (Yamak & Maraş, 2006).

Yamak and Yamak (1999) tested the validity of these hypotheses for Turkey using six monthly data for the 1988-1996 period, found that “discouraged worker” effect dominates in the cities, whereas in the rural areas there is no relationship between unemployment rate and LFP rate (as cited in Yamak & Maraş, 2006, p.68).

In a more recent paper, Yamak and Maraş tested the hypotheses for the period of 1970-2005, using the total unemployment and labour participation rates, and for the 1988-2003 period, by using male-female and rural-urban distinctions. For the period of 1970-2005, they observed that the relationship between general unemployment and general LFP rate is negative; therefore, discouraged worker hypothesis is relevant. For the years 1988-2003, they have found that female participation was directly related to male unemployment rate in rural areas, whereas there was an inverse relationship between male unemployment rate and female participation in urban areas (2006, p.71).

As shown in Figure 3.5, the rural female LFP rate is remarkably higher than urban female LFP rate. As a result, the overall female LFP was more affected by movements in rural female LFP. Although there is a general increasing trend in urban female LFP rate, the effect of the fall in rural female LFP rate causes a declining trend in the overall female LFP rate. When female LFP rate data is examined, it is seen that “additional worker hypothesis” dominates “discouraged worker” effect, specifically in crises years, for the overall level of female LFP. As mentioned before, in years of economic downturns, 1994, 1998, 2001 and 2008, when male unemployment rate increases, overall female LFP rises; as economic recovery begins, it falls gradually. This trend is observed for both rural and urban female LFP.

Figure 3.5- Turkey: Female Labour Force Participation Rates, 1988-2011



Another hypothesis suggests that female LFP follows a U-shaped pattern during different stages of economic development. At low levels of income, when production is mostly agricultural, female LFP is high, due to their participation as an unpaid family worker. When specialization and industrialization begins, home production loses its importance and incomes rise. Less demand for labour due to productivity gains, social customs, and women's lower educational attainment result in a decline in female LFP. Afterwards, with the expansion of the services sector, demand for female labour and consequently female LFP starts to increase. Tansel has tested this hypothesis for Turkey using female LFP data for 67 provinces for the years 1980, 1985 and 1990. She has found that the rate of economic growth and employment share of agriculture had positive impacts on female participation, while employment share of industry had a negative impact (Tansel, 2002, pp.7-8).

In countries with a large agricultural labour force, where the agricultural sector is downsizing, LFP, especially female LFP, is affected negatively. The level and the composition of labour demand change as industrialization and

urbanization accelerate. As the demand for labour diminishes due to higher productivity of industrial and tertiary sectors, full-time male workers with better educational attainment are preferred to less educated female workers. Women, who may prefer flexible working hours for household responsibilities and child rearing, leave the labour force, until they are forced to re-enter and compensate for declining family income during economic recessions. In Turkey, LFP had a decreasing trend during the late 1980s, during the 1990s, and in early 2000s. However, in more recent years, it started to increase slightly, specifically after major economic crises. Therefore, the change in employment share of agriculture is the main factor explaining the trend in LFP, specifically female LFP.

3.3. Marginally Attached Workers

The problem of marginally attached workers is an issue closely related to labour force participation. As mentioned in the first section of this chapter, US Bureau of Labour Statistics (BLS) defines "marginally attached workers" as "persons who currently are neither working nor looking for work, but indicate that they want and are available for a job and have looked for work sometime in the preceding 12 months" (Bradburry, 2006, p.3).

In Turkey, persons who are out of the labour force are measured in seven categories. One of these categories: "people who are not working but available for work" will be renamed as marginally attached workers in this thesis, because the name "marginally attached workers" is meaningful to regard these people as workers and to distinguish them from the rest of non-working people. In TUIK's terminology, marginally attached workers are divided into two categories: "discouraged workers" and "others". Discouraged workers are defined as persons who are not looking for work (because they believe that there is no work available in the region, which is suitable for them) but are ready to start working within two weeks. There is no benchmark for the time that has elapsed since their last search activity. "Others" category under the "not looking for but available for work" heading consists of persons who are not looking for work due to reasons like being a

seasonal worker, a housewife, a student, being retired or disabled or having other source of income (TUIK, 2008a).

Since there are not adequate number of questions in Turkish HLFS to determine the true nature of attachment to the labour force, no layering could be made among, the people who are thought have "looser" attachment. Data for "people who are not working but available for work" category can be used to analyze the marginally attached workers category. According to HLFS data, the number of discouraged workers is 678 thousand and the number of marginally attached workers is 1.9 million in 2011 (TUIK, 2012a). Starting with 2004, the number of discouraged and marginally attached workers had a remarkably increasing trend until 2010. However, data of marginally attached workers, specifically discouraged workers has been fluctuating since 1988 and there was a big jump in 2004. This increase may partly be attributed to the changes in HLFS questions and methods and revisions according to new population projections. Therefore, the data is not reliable for drawing firm conclusions about the effects of economic events and long-term unemployment on job search behaviour of Turkish labour.

The ratio of discouraged workers to the number of unemployed is more remarkable. The total number of discouraged workers accounts for 26 % of the total number of unemployed. That is to say, if all discouraged workers were counted as unemployed, unemployment rate would increase from 9.8 % to 12 % for 2011.

Table 3.3 summarizes the general characteristics of marginally attached workers. Female and urban workers have higher shares in marginally attached workers. Although, the number of male discouraged workers is higher than the number of female discouraged workers, the number of female workers in the "other" category is higher. This may be due to the characteristics of the economy and the society at large, which also cause lower urban and female participation. More importantly, discouraged workers are concentrated in the 15-24 age group. High youth unemployment is the main cause of the concentration in these age groups.

Table 3.3. Turkey: The Profile of Marginally Attached Workers, 2011

(Thousands)

classification		Marginally attached workers		
		Discouraged	Other	Total
by location	**Turkey***	**678**	**1,267**	**1,945**
	Urban	384	894	1,278
	Rural	294	373	667
by gender	Male	406	446	852
	Female	271	821	1,092
by age	15-24	216	337	553
	25-34	175	319	494
	35-44	126	249	375
	45-54	99	207	306
	55+	60	155	215
by educational level	Illiterate	43	73	116
	Primary school or less	292	543	835
	Primary education or junior high school	160	237	397
	High school	125	292	417
	University or higher	58	122	180
*Subtotals may not add up to total due to rounding up				
Source: TUIK, 2012a				

Low LFP decreases the pressure on a labour market characterized with a high rate of unemployment. High levels of marginally attached workers, which is a problem related to the low LFP and high unemployment helps keeping unemployment at a lower level. However, the real status of marginally attached workers in the labour market is controversial. In other words, it is not clear whether they should be counted as "out of the labour force" or as unemployed. When underutilization of human resources is considered, low LFP and high amount of marginally attached workers are critical problems, which aggravate the problem of unemployment. Therefore, low LFP rate and marginally attached workers present formidable problems for the labour market.

3.4. Composition of Employment and Underemployment

Table 3.4. Turkey: Composition of employment, 2011

(Thousands)

(thousands)		Number of employed	% of total employment	employment rate**
by location	**Turkey***	**24,110**	100	**45.0**
	Urban	15,507	64	41.9
	Rural	8,603	36	51.8
by gender	Male	17,137	71	65.1
	Female	6,973	29	25.6
by age	15-24	3,697	15	32.1
	25-34	7,368	31	59.0
	35-44	6,453	27	61.8
	45-54	4,181	17	50.0
	55+	2,411	10	22.4
by sector	Agriculture	6,143	25	-
	Industry	4,704	20	-
	Construction	1,676	7	-
	Services	11,586	48	-
by educational level	Illiterate	1,147	5	19.6
	Less than high school	14,224	59	43.4
	High school	4,729	20	50.9
	University or above	4,008	17	71.0
by status in employment	Regular employee	14,876	62	-
	Employer	1,244	5	-
	Self employed	4,687	19	-
	Unpaid family worker	3,303	14	-
by size of work place	1-9 people	14,159	59	-
	9-49 people	4,853	20	-
	50+ people	5,097	21	-
by social security coverage	Registered	13,971	58	-
	Not registered	10,139	42	-

*Subtotals may not add up to total due to rounding up

** Calculated for the classifications where working age population data is available

Source: TUIK, 2012a; TUIK, 2012c and own calculations

In Table 3.4, as a reflection of the urbanized nature of labour force, 64 % of employment is also urban. While working age female population slightly exceeds the working age male population, only 29 % of the employment is female, because of lower LFP and higher unemployment rates of women. In line with age structure and participation of the labour force, employment is concentrated on the 25-34 and 34-45 age groups.

Services sector is dominant in sectoral composition of employment followed by the agricultural sector. The proportions of people having lower educational levels than high school (59%) and of people with a high school diploma or above (36%) are similar to their shares in the labour force (59.7% and 36.5%, respectively). Employment rates increase as the educational level increases; however, a component of a higher employment rate is higher labour force participation of the educated. On the other hand, the other component, demand for educated labour, cannot be taken for granted. Therefore, it is not clear that the unemployment rate will decrease as more and more university graduates enter the labour market.

Waged and salaried workers constitute a greater part of the Turkish labour force, though the share of employers, own account workers and unpaid family workers who should be considered under “self employment” is also remarkable. The high share of “self-employment” (both employers and the self employed) is in large part attributable to low capital accumulation and high number of small-size enterprises. 59 % of the labour force is working in enterprises employing less than 10 people and 79 % of the labour force is employed by enterprises with less than 50 employees. The dominance of small size businesses may have consequences for the economy and the labour market such as low productivity, less opportunity and resources for investment and employment creation, and lower opportunities for workers to be unionized. It also explains the high rate of informality, where 42 % of workers are not registered to any social security institution.

A significant problem of the labour force, disguised in employment is the problem of underemployment. The definition and measurement of underemployment were discussed in detail in the first section of this chapter; therefore, it will only be briefly reviewed here.

ILO defines two measures for labour underutilization to determine underemployment: “time-related underemployment” and “inadequate employment”. In order to be considered under time-related underemployment one should be “willing to work additional hours, available to work additional hours” and should have worked “less than a threshold relating to working time in the reference week”. Inadequate employment is defined by three measures. Skill-related inadequate employment is inadequate utilization and mismatch of occupational skills. Income-related inadequate employment is defined by willingness to change the current work place for higher income. Inadequate employment related to excessive hours is characterized by workers’ willingness to change their work place for a decrease in working hours with a corresponding lower income (ILO, 1998, pp.2-4). In the current HLFS, those who work less than 40 hours a week and willing to work additional hours are defined as “time-related unemployed”. Those who are at work and searched for work within the past four weeks to change their current job are calculated under “inadequate employment” (TUIK, 2012b).

The total number of underemployed in 2011 is 1 million, of which 617 thousand people are in time-related underemployment, and 391 thousand people report inadequate employment in their current job. Underemployment rate is 3.8 % and the share of underemployed in total employment is 5.2 %. There was a significant decrease in the number of underemployed in 2004 (from 1.1 million in 2003 to 860 thousand), which is probably due to revisions made on the basis of new population estimates. In 2009, the number of underemployed increased remarkably (from 779 thousand in 2008 to 1 million) which may be a reflection of the adverse effect of the global crisis (TUIK, 2012c).

Time-related underemployment has a greater share in underemployment (see table 3.5). The underemployed are mostly male and working in the non-agricultural sectors. Underemployment is concentrated on literate workers with less than a high school diploma, and on workers without social security coverage, both for time-related underemployment and inadequate employment. Data for inadequate employment is not detailed to distinguish between skill, income and excessive hours-related inadequate employment.

However, most of inadequate employment may be income-related due to higher share of less educated workers without social security coverage.

Table 3.5-Turkey: Composition of underemployment, 2011

(Thousands)

classification		Time related under-employ-ment	In-adequate employ-ment	Number of under-employed	Number of employed	% of under-employed	under-employ-ment rate**
by location	**Turkey***	**617**	**391**	**1,008**	**24,110**	**100.0**	**3.8**
	Urban	328	272	600	15,507	59.5	3.4
	Rural	289	120	409	8,603	40.6	4.5
by gender	Male	425	324	749	17,137	74.3	4.0
	Female	192	67	259	6,973	25.7	3.3
by sector	Agricultural	254	71	325	6,143	32.2	-
	Non-agricultural	363	320	683	17,966	67.8	-
by educational level	Illiterate	28	4	32	1,147	3.2	2.7
	Less than high school	437	224	661	14,224	65.6	4.2
	High school	83	100	183	4,729	18.2	3.4
	University or above	69	63	132	4,008	13.1	2.9
by social security coverage	Registered	158	166	324	13,971	32.1	-
	Not registered	459	225	684	10,139	67.9	-

*Subtotals may not add up to total due to rounding up

**Underemployment rate=(unemployed/labour force)*100

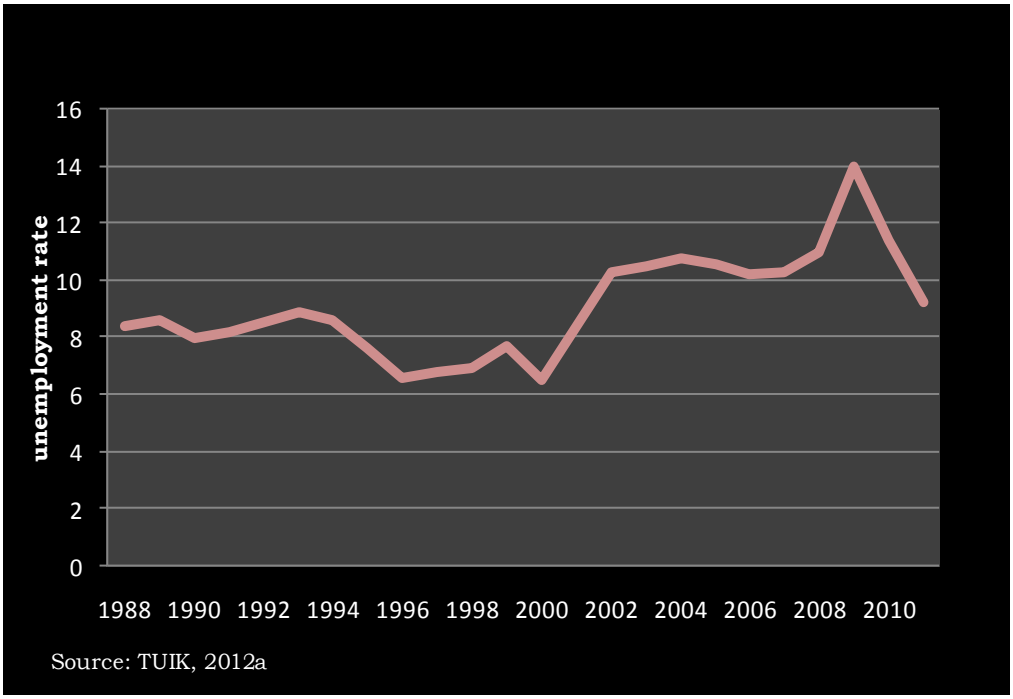
Source: TUIK, 2012a; TUIK, 2012c and calculations

3.5 Anatomy of Unemployment

A detailed analysis of unemployment is necessary to determine the reasons behind the unemployment problem in Turkey. Analysis of the interaction between unemployment and other variables, such as gender or educational level, will give an idea about the most disadvantaged and vulnerable groups in the labour market. It will also be useful for pinpointing

the main structural reasons behind unemployment problem in Turkey, as well as for proposing specific solutions targeting these groups.

Figure 3.6. Turkey: Unemployment Rate, 1988-2011



As shown in Figure 3.6, the rate of unemployment has been increasing since 1988, the year when HLFSs started. Specifically in the last decade, in years of economic downturns (2001, 2002, 2008 and 2009) unemployment has increased at a faster pace, and stabilized at a higher level, although economic recovery started. However, in 2011, unemployment rate (9.8%) fell below its average level during the last decade, which was higher than 10 % (TUIK, 2012).

Table 3.6. Turkey: Profile of Unemployment, 2011

(Thousands)

classification		Number of unemployed	% of total unemployed	unemployment rate
by location	**Turkey***	**2,615**	**100**	**9.8**
	Urban	2,087	80	11.9
	Rural	528	20	5.8
by gender	Male	1,730	66	9.2
	Female	885	34	11.3
by age	15-24	832	32	18.4
	25-34	868	33	10.5
	35-54	816	31	11.7
	55+	98	4	2.2
by sector of the last workplace*	Agriculture	213	8	-
	Industry	1,092	42	-
	Construction	682	26	-
	Services	641	25	-
by educational level	Illiterate	56	2	4.7
	Less than high school	1,456	56	9.3
	High school	636	24	11.9
	Higher education	467	18	10.4
by status in last employment*	Regular or casual employee	2,057	79	
	Employer	34	1	-
	Self-employed	82	3	-
	Unpaid family worker	52	2	-
by duration of employent seeking*	1-2 month	862	33	-
	3-5 month	611	23	-
	6 months-less than 1 year	423	16	-
	1 year or less than 2 years	428	16	-
	2 years and more	259	10	-

*Subtotals may not add up to total due to rounding up. Some categories also do not add up to the total number of the unemployed because some categories are not included in the table. For "status in last employment" and "sector of last workplace" categories those who quitted job before the last 8 years, for "duration of employment" category "the unemployed who have found a job and waiting to start" and "first time job seekers" are not included.

Source: TUIK, 2012a; TUIK,2012c and own calculations

Table 3.6 is a summary of unemployment data in 2011. Although the table reflects some of the characteristics of Turkish labour market, which are also reflected by the composition of labour force such as its urbanization or low female LFP, there is some unconventional information that needs special attention in analyzing the Turkish labour market. First, despite the fact that female LFP is low, female unemployment rate is higher than male unemployment rate. Unemployment data since 1988 shows that female unemployment rate has been generally higher than male unemployment rate.

Secondly, there is remarkable youth unemployment. The share of the 15-24 age group in labour force is 16.9 %, whereas their share in the total number of unemployed is a massive 32 %. Moreover, the unemployment rate of this age group is 18.4 %, which is far above the general unemployment rate. Participation rate for the 15-24 age group is also significantly lower than the 25-49 age group, although unemployment rate for the 15-24 age group is higher. Hence, there is remarkable youth unemployment in Turkish labour market.

Classification by sector of last work place shows that the share of unemployed, who were previously working in the industrial sector is the highest In contrast, agricultural sector has the lowest share, in spite of the fact that this sector has been shedding workers in recent years.

The relationship between educational status and unemployment is inconsistent. Not only the illiterate have the lowest unemployment rate, but also high school graduates have the highest unemployment rate. Both LFP and employment rate increase directly with educational level. However, it is not possible to say that unemployment rate decreases or increases with educational level. The illiterate has the lowest LFP (20.5 % which is far below the general LFP of 49.9 %); this may explain their relatively lower unemployment rate. LFP of people with less than a high school diploma (47.6 %) is also lower than that of high school and university graduates (57.8 % and 79.3 %). On the other hand, unemployment rate of high school graduates is higher than unemployment rate of both people with less than a high school diploma and university graduates. This suggests that there is a

mismatch between skills gained during education, specifically high school education, and the skills required in the job market.

Chances of being in unemployment and job search duration have a negative relationship, depending on the shares of persons with different duration of job search. Number of people searching for a job diminishes as duration gets longer. A greater share of the unemployed are looking for jobs over a month and less than a year, which can be interpreted as a high turnover rate in the Turkish labour market. Such high turnover rate undermines the claim that Turkish labour market is relatively inflexible. Moreover, coverage of unemployment insurance is very limited and remuneration is low which makes opportunity cost of unemployment higher[4]. Hence, it is likely that job seekers end up accepting jobs with lower quality and lower wages more quickly.

Regional classification of unemployment shows that Istanbul, Middle East and Southeast Anatolia Regions have the highest unemployment rates, in spite of their lower LFPs (Table 3.7). Black Sea (East and West) and Northeast Anatolia regions have both highest LFP and lowest unemployment rate. The negative relationship between LFP and unemployment in regional comparisons suggests that "discouraged worker effect" may cause LFP to be low in the regions with high unemployment.

[4] Unemployment insurance premiums have to be paid at least 120 days without any break in payments and during 600 days prior to losing the job, for eligibility for insurance. The monthly remunerations to the unemployed continue for a period of 3 to 12 months depending on how long premiums have been paid. They are also dependent on the previous premium payments, but can not exceed “minimum wage” (Yeldan et al., 2010).

Table 3.7. Turkey: Regional unemployment, 2011

(Thousands)

Region*	Labour force participation rate %	Unemployment rate %	Employment rate %
TURKEY	**49.9**	**9.8**	**45.0**
Istanbul	48.8	11.8	43.1
West Marmara	51.2	7.1	47.5
East Marmara	53.5	10.0	48.1
Aegean	51.5	9.8	46.5
Mediterranean	48.1	8.6	44.0
West Anatolia	52.9	10.6	47.3
Central Anatolia	48.6	9.7	43.9
West Black Sea	54.7	6.0	51.4
East Black Sea	57.4	6.4	53.7
Northeast Anatolia	52.4	8.3	48.1
Middle East Anatolia	47.7	11.2	42.4
Southeast Anatolia	36.3	11.7	32.1
*Regional classifications are according to SRE Level 1 classification. For a detailed list of geographical classifications see appendix table 3.8			
Source: TUIK, 2012a			

3.6. Conclusion

In this chapter, trends in the Turkish labour market and general characteristics of Turkish labour were examined. This thesis is specifically concerned with the problem of unemployment in Turkey, and its solutions. For this purpose, it was considered important to study the current situation of Turkish labour market in detail. By doing this, it was hoped that the nature of the unemployment problem and the conditions that create it could be better understood. In this context, it was also necessary to briefly review other problems confronting the labour market directly related to the unemployment issue.

Our investigation of the recent trends in labour market indicators has shown that employment growth lags far behind the rapid growth of working age population. Low LFP rates decrease the burden on employment creation. On the other hand, low LFP means lower resources available for production. Low LFP is mostly due to lower female LFP, which is the result of Turkey being at an earlier stage of development. While the shift from

agriculture to urban sectors has initially decreased female LFP, due to the "additional worker" effects of economic downturns, in recent years female LFP has begun to increase in urban areas.

Another important attribute of unemployment and low LFP is marginally attached workers. The number of these workers is quite high and their addition to labour force would increase unemployment rate considerably. The status of these workers is controversial in current literature and there are different conclusions for labour markets in different countries (see the discussion in chapter 2). In Turkey, the data on marginally attached workers is not reliable, because of the inconsistent fluctuations in their numbers through time. In addition, HLFSs do not include detailed questions to shed light on these workers' degree of attachment to the labour force. Therefore, quality of data must be improved and further studies are needed to determine the real status of marginally attached workers in the Turkish labour market.

Apart from discussing the composition of employment, this chapter has also emphasized underemployment as an important problem of the labour market, besides unemployment.

Finally, the profile of the unemployed was examined to understand the relationship between several economic/social variables and unemployment to determine the reasons and consequences of unemployment. It is found that the relationship between educational levels and unemployment is inconsistent. For some lower levels of educational attainment unemployment rate is lower, whereas for some higher levels, unemployment rate is relatively higher. It is also found that 15-19 and 20-24 age groups have the highest rate of unemployment, which reflects the gravity of youth unemployment.

High youth unemployment and educational mismatch are identified as significant problems related to unemployment problem. Along with unemployment, low rates of labour force participation and high number of marginally attached workers are identified as other important problems confronting the labour market.

CHAPTER 4

REASONS FOR UNEMPLOYMENT

One of the main purposes of this study is to determine the possible causes of high unemployment in the Turkish economy. For this reason, economic literature about unemployment problem will be briefly reviewed to serve as background to the discussions in the following chapters.

There are different approaches regarding the problem of unemployment in economic theory. The classical view rejects the presence of involuntary unemployment, because in the classical model output is determined by the existing capital stock, given technology, and constrained by the labour supply and aggregate demand adjusts accordingly to assure stability in the system. Therefore, those who want to offer their labour services at the ongoing wage rate will always find employment (Klein, 1947). However, according to Keynesian theory, aggregate demand is dependent on the level of income and expectations and does not automatically adjust to changes in aggregate supply. Hence, shocks in aggregate demand and aggregate supply which cause deviations from equilibrium will change the level of employment and will create unemployment (see Klein, 1947; Rowthorn, 1999).

Phillips studied the behaviour of wages and unemployment in the UK for the 1861-1957 period, and found that "the rate of change of money wage rates can be explained by the level of employment and the rate of change of unemployment" (1958, p.299). Samuelson and Solow conducted a similar analysis with the US data, and plotted "price-level modification of the Phillips Curve" which started the unsolved debate of the trade-off between unemployment and inflation (Samuelson & Solow, 1960).

In the late 1960s, both Friedmann and Phelps introduced the hypothesis of "the natural rate" (see Phelps, 1995). Friedmann defined a "natural rate of unemployment" (NRU) at which real wages tend to rise at a "normal secular

rate". By "normal" he meant a rate "that can be indefinitely maintained so long as capital formation, technological improvements, etc., remain on their long-run trends" (Friedmann, 1968). According to him, NRU was attainable and deviations from it could be explained by the imperfections and structural deficiencies in the market.

After the idea of "the natural rate", many authors elaborated thoughts on the issues of "market imperfection and rigidities". One of the imperfections is "the frictional unemployment". Workers who are in search for better employment opportunities quit, firms change their organizational structure creating new positions and destroying old ones, hiring as well as laying-off workers (Salop, 1979, p.117). The other mechanism that has an effect on the level of "the natural rate" is the wage setting mechanism. Many authors have dealt with the microeconomic foundations of wage setting and the labour market dynamics (see Salop, 1979; Blanchard & Katz, 1997; Hoon & Phelps, 1992). The idea of NRU ruled out the relationship between aggregate demand and unemployment because unemployment is defined as an outcome of structural rigidities such as the wage setting mechanism.

In 1972, Phelps defined "hysteresis" in unemployment as "the loss of morale, skills, and capacity arising from long duration of unemployment" (Phelps, 1972 as cited in Phelps, 1995). In 1986, Blanchard and Summers, examined the trends in European unemployment and claimed that workers who were unemployed for a long time lose opportunity and skills to be reemployed and employers with longer horizons did not prefer middle-aged workers that were unemployed (Blanchard & Summers, 1986). Theory of "hysteresis" is a criticism of "NRU" which states that eventually unemployment will return to its equilibrium level. "Hysteresis" incorporates new dimensions to unemployment theory by emphasizing long-term effects of macroeconomic shocks on labour market and wage setting mechanisms.

Review of these theories suggest that the amount of employment is dependent on the amount of labour supply, "imperfections" and "rigidities" in the labour market, production technology, and changes in the level of aggregate demand. One of the major reasons for unemployment is higher growth rate of labour force than the growth rate of employment. In this thesis, amount of labour supply will be considered as given, and attention

will be focused on the growth rate of employment, because effects and implications of population policies are out of the scope of this thesis. However, it is believed that a complete long-term policy of unemployment should include measures on controlling high growth rate of population beyond available resources can support.

This thesis will be mainly concerned with the “imperfections” in the labour market and the role of aggregate supply and demand, which would explain the presence and persistence of unemployment. This chapter is divided into three parts; the first part deals with effects of output growth, technological progress, investment, and capital accumulation. Second part will review the effects of external demand on labour market. The last part will focus on the effects of labour market "imperfections" with a discussion of "labour market flexibility".

4.1. The Relationship between Unemployment and Economic Growth

4.1.1. Fundamentals of Growth-Employment Relationship

Okun’s law derives a positive relationship between output growth and employment; however, it has different interpretations. According to Smith (1974), Okun himself believed that the “causal forces” were running from unemployment to output, quoting: “The unemployment rate can be viewed as a proxy variable for all the ways in which output is affected by idle resources." An alternative view claims that Okun’s law is “a statement of by how much a given insufficiency in aggregate demand will affect unemployment” (see Fair, 1970; Nadiri & Rosen, 1969). A further interpretation of Okun’s law suggests short run sensitivity of unemployment to macroeconomic shocks and a long-term trend between unemployment and output growth, depending on the growth of the labour force, hours, and productivity (Smith, 1974, p.2-4).

In a study of G7 countries, for the 1960-1995 period, Moosa (1997) found that a significant relationship between output and employment exists; nevertheless, the strength of the relationship was variable among countries. In a study for Algeria, Tunisia, Egypt, and Morocco for the period 1990-

2005, Moosa (2008) could not find a robust relationship between the two variables. Sögner and Stiassny (2002) have found that the relationship between growth and unemployment has weakened over the years, while testing Okun's law for 15 high-income OECD countries during the period 1960-1989. Lee (2000) proved that the strength of the relationship has decreased for 16 high-income OECD countries over the period of 1955-1996.

In Tables 4.1 and 4.2, some developed and developing countries are chosen randomly to examine the trends in GDP growth and unemployment in the past ten years. Mostly, positive growth rates are observed over the 2000-2009 period, except for the year 2009. In 2009, negative GDP growth rates were accompanied by increases in unemployment rates (except for Germany and Thailand); however, the responsiveness of unemployment to the fall in GDP was variable among the countries. These differences may be due to differences in labour market flexibility, timing, extent of expansionary policies or growth and unemployment performance in the previous years.

In general, unemployment has been falling faster in rapidly growing developing countries than in slower growing developed economies; however, there is variation within the countries. In the first decade of 2000s, best performers regarding growth rates were Argentina, Peru, Georgia, Russia, Kazakhstan, and China. Argentina managed to decrease its unemployment rate from 18% to 8 % accompanied by a 8.5 % average annual rate of growth during the 2003-2008 period. However, in Peru, the high growth period was shorter and unemployment reduction performance was not as impressive. Although Georgia and China have grown with average growth rates of 9.6 % (during 2003-2007) and 10.2 % (during 2000-2009) respectively, their unemployment rate did not respond to increases in GDP. On the other hand, Russia and Kazakhstan experienced both high growth and lower unemployment. Moreover, in Colombia, Cuba and Algeria unemployment has decreased at a faster pace than in fast growers, specifically in years of slow growth in these countries.

Table 4.1. Growth-Unemployment Relationship in Developed Countries, 2002-2009

Country	Indicator*	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Australia	growth	4	2	4	3	4	3	3	4	4	1
	unemp. (Δ)	-1	0	0	0	-1	0	0	0	0	1
Canada	growth	5	2	3	2	3	3	3	2	1	-2
	unemp. (Δ)	-1	0	0	0	0	0	0	0	0	2
US	growth	4	1	2	3	4	3	3	2	0	-3
	unemp. (Δ)	0	1	1	0	0	0	0	0	1	3
Korea, Rep.	growth	8	4	7	3	5	4	5	5	2	0
	unemp. (Δ)	-2	0	-1	0	0	0	0	0	0	0
Japan	growth	3	0	0	1	3	2	2	2	-1	-5
	unemp. (Δ)	0	0	0	0	-1	0	0	0	0	1
Denmark	growth	4	1	0	0	2	2	3	2	-1	-5
	unemp. (Δ)	-1	0	0	1	0	-1	-1	0	0	3
France	growth	4	2	1	1	2	2	2	2	0	-3
	unemp. (Δ)	-2	-2	0	0	1	0	0	-1	-1	2
Germany	growth	3	1	0	0	1	1	3	3	1	-5
	unemp. (Δ)	-1	0	1	1	1	1	-1	-2	-1	0
Italy	growth	4	2	0	0	2	1	2	1	-1	-5
	unemp. (Δ)	-1	-1	0	0	-1	0	-1	-1	1	1
Netherlands	growth	4	2	0	0	2	2	3	4	2	-4
	unemp. (Δ)	-1	-1	0	1	1	0	-1	-1	0	1
Norway	growth	3	2	2	1	4	3	2	3	2	-2
	unemp. (Δ)	0	0	0	1	0	0	-1	-1	0	1
Sweden	growth	4	1	2	2	4	3	4	3	0	-5
	unemp. (Δ)	-1	-1	0	1	1	1	-1	-1	0	2
UK	growth	4	2	2	3	3	2	3	3	1	-5
	unemp. (Δ)	0	-1	0	0	0	0	1	0	0	2

Source: World Bank,2012 and own calculations

*Growth refers to annual percentage growth rate of GDP at market prices based on constant local currency. Unemp. (Δ) is the percentage point change in unemployment with respect to previous year.

Table 4.2. Growth-Unemployment Relationship in Developing Countries, 2002-2009

Country	Indicator*	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Argentina	growth	-1	-4	-11	9	9	9	8	9	7	1
	unemp. (Δ)	1	3	0	-2	-3	-2	-1	-2	-1	1
Brazil	growth	4	1	3	1	6	3	4	6	5	-1
	unemp. (Δ)	N/A	N/A	0	1	-1	0	-1	0	-1	1
Chile	growth	4	3	2	4	6	6	5	5	4	-2
	unemp. (Δ)	-1	0	0	0	0	-1	0	-1	1	2
Colombia	growth	4	2	3	4	5	5	7	7	3	1
	unemp. (Δ)	-3	-3	1	-1	-2	-1	1	-2	1	1
Cuba	growth	6	3	1	4	6	11	12	7	4	N/A
	unemp. (Δ)	-1	-1	-1	-1	0	0	0	0	0	N/A
Peru	growth	3	0	5	4	5	7	8	9	10	1
	unemp. (Δ)	-1	1	0	1	1	0	-1	-1	0	N/A
Algeria	growth	2	3	5	7	5	5	2	3	2	2
	unemp. (Δ)	N/A	-2	-1	-2	-4	-5	-3	2	-3	N/A
Egypt	growth	5	4	2	3	4	4	7	7	7	5
	unemp. (Δ)	1	0	1	0	0	0	-1	-2	0	1
Morocco	growth	2	8	3	6	5	3	8	3	6	5
	unemp. (Δ)	0	-1	-1	0	-1	0	-1	0	0	0
Georgia	growth	2	5	5	11	6	10	9	12	2	-4
	unemp. (Δ)	-3	0	1	-1	1	1	0	-1	3	N/A
Romania	growth	2	6	5	5	8	4	8	6	9	-9
	unemp. (Δ)	1	0	2	-1	1	-1	0	-1	-1	1
Russia	growth	10	5	5	7	7	6	8	9	5	-8
	unemp. (Δ)	-2	-2	-1	0	0	-1	0	-1	0	2
Kazakhstan	growth	10	14	10	9	10	10	11	9	3	1
	unemp. (Δ)	-1	-2	-1	-1	0	0	0	-1	-1	0
China	growth	8	8	9	10	10	11	13	14	10	9
	unemp. (Δ)	0	0	0	0	0	0	0	0	N/A	N/A
Indonesia	growth	5	4	4	5	5	6	6	6	6	5
	unemp. (Δ)	0	2	1	0	0	1	-1	-1	-1	-1
Philippines	growth	6	2	4	5	6	5	5	7	4	1
	unemp. (Δ)	2	0	1	0	1	-4	0	-1	0	0
Thailand	growth	5	2	5	7	6	5	5	5	2	-2
	unemp. (Δ)	-1	0	-1	0	0	0	0	0	0	0

Source: World Bank, 2012 and own calculations

*Growth refers to annual percentage growth rate of GDP at market prices based on constant local currency. Unemp. (Δ) is the percentage point change in unemployment with respect to previous year.

This analysis showed that high growth rate did not necessarily guarantee significant reduction in unemployment. Differences in labour supply, pattern of growth (driven by private capital investments or government expenditure or cheap exports), flexibility of the labour market, productivity increases, macroeconomic policies, or financial crises may be responsible for the differing degrees of responsiveness of unemployment to growth in several countries. These effects will be analyzed further in the following sections.

4.1.2. Financial Crises and Jobless Growth

The concept of "jobless growth" refers to situations where remarkable growth, taking place specifically after crises, is not able to create adequate jobs to decrease unemployment rate in significant amounts. In the most recent literature, "jobless growth" after the 2001 recession in the US, has attracted the most attention. According to Groshen and Potter (2003), the reason for jobless growth after the 2001 crisis was the creation of new jobs in new industries, because creating new jobs is slower than rehiring previously laid off workers. They have stated that this might have occurred as "a reaction to a period of overexpansion" in some industries, or firms' recruiting strategies might have evolved towards "leaner staffing" in the post-crises period.

Aaronson et al. (2004) suggest that in the aftermath of crises, there is uncertainty in business and entrepreneurs are cautious regarding the expectations of increase in demand, therefore they prefer "just-in time" hiring. This is consistent with slow growth of jobs. Schreft and Singh (2003) have agreed that the extensive use of "just-in-time employment" practices were responsible for jobless recoveries. Firms tend to use temporary employment contracts to hire new workers and/or increase working hours of the existing employees. In 2002, average weekly overtime working hours of a factory worker have risen by 0.4 hour. Schreft and Singh estimated that if overtime had not increased, more than 71,000 workers (18 % of those who lost factory jobs) would have remained employed. The wage cost would have been $42 million per week, if workers had been retained, compared to more than $ 1 billion wage bill of overtime work per week. According to BLS, in the average week in 2002, almost 46 million overtime hours were worked

by production workers in manufacturing. Each hour cost at least 1.5 times the average hourly earnings of $ 14.56 for a total cost of at least $1.004 billion. Therefore, firms were willing to spend more for a "more flexible" workforce (Schreft & Singh, 2003).

Jobless growth is also observable in developing countries, more specifically; “financial boom-bust cycles” create instability in employment. The increase in financial flows causes “deviation of employment and wages from their long term sustainable levels”, as a result the rapid reversal of financial flows during crises are associated with employment losses, which could not be recovered during expansions (Akyüz, 2006).

Capital inflows lead to accelerating growth, appreciation of currency, deteriorating trade balances and loss of international competitiveness. Employment starts to shift to non-traded sectors from traded sectors. During the crisis currency depreciates, interest rate increases, economic activity shrinks and some of the investment, specifically in non-traded sectors, is no longer sustainable. Before the crisis, employment shifts to non-traded sectors such as services, and exports are the main stimulus to recovery after the crisis. Since the productivity in exporting sectors is greater than non-traded sectors, employment does not fully recover in the post crisis period. Moreover, crises cause “serious damage on the balance sheet of enterprises”, which firms try to repair by restoring profitability. In an attempt to increase their profits, firms try to employ less labour and make existing employees work more efficiently and for longer hours; therefore employment is slower to recover (Akyüz, 2006).

Hoeven and Lübker (2006) agree that uncontrolled financial flows play an important role in financial crises. For instance, in 1998 in Brazil, sudden capital outflows due to loss of investors’ confidence (effect of the Russian crisis) resulted in a currency crisis, followed by massive devaluation, remarkable decrease in income and increase in unemployment (from 7.8% to 9.6%). During the recovery phase (starting in late 1999) unemployment rate did not decrease until 2004.

Argentina has experienced two financial crises in the past 20 years (1995 and 2000-2001 crises). Cumulative effects of these recessions increased unemployment to 20% by 2002. Turkey experienced frequent crises (1994,

1998/99 and 2000-2001). Although unemployment fell from 8.6% (1994) to 6.8% (1997), it increased to 10.4 % in 2002 and never came back to its pre-crises levels, thanks to combined effects of 1998/99-2001 crises. Before the East Asian crisis, Korea, Malaysia, Thailand, and Philippines had unemployment rates of 2.5% (both Korea and Malaysia), 1%, and 7.5 %, respectively. Although their income levels had fully recovered in 2000 and continued to increase, unemployment levels of these countries did not fall down to their pre-crises levels (Hoeven & Lübker, 2006 and World Bank, 2012).

4.1.3. Growth of Capital Stock and Employment

One of the components of output is investment expenditure. Increases in investment expenditure have an indirect effect on employment through its effect on output growth. In theory, increases in capital stock should also have a direct effect on employment. Increase in capital stock is necessary to absorb new entrants to the labour force (the number of withdrawals due to retirement, illness or willingly is assumed to be smaller than the number of new entrants). To maintain the existing level of unemployment, growth in capital must offset the growth in labour supply and technological change, which leads to substitution of capital for labour.

By examining the movements in investment and employment in the US and the EU during the years 1970-2001 Akyüz et al. (2002) have shown that there was "a positive relationship between investment and employment" in industrialized countries. (p.21). They detect an "imbalance between investment in fixed capital, productivity growth, and growth of the labour supply" in developed countries and attribute most of the rise in structural unemployment to the slowdown in investment.

Gordon (1995) examined European countries with the highest unemployment rates in 1990s and discovered that they also had the biggest slowdown in capital accumulation per labour hour. He asserted that if European countries had enough capital to employ the labour force, unemployment rates would have remained the same as in the 1970s. Arestis et al. have conducted a time series analysis for Austria, Belgium, Finland, France, Germany, Italy, Ireland, Netherlands, and Spain for the

period of 1979-2002, and found that there was “a robust negative relationship between capital accumulation and unemployment” (2007).

Karanassou et al. (2008) have analyzed the unemployment and capital accumulation relationship in Denmark, Finland and Sweden. They reported that the persistent capital stock shocks of 1978-1985 and 1989-1997 in Denmark were responsible for approximately 30% and 15% of the rise in unemployment during these periods, respectively. In addition, the 1991-1997 slowdown in capital accumulation in Sweden has accounted for 50% of the unemployment increase during this period. In Finland, if capital accumulation had not slowed down, unemployment would have been 5 percentage points lower than its existing level.

Malley and Moutos (2001) suggest that unemployment is related to the evolution of a country’s capital stock relative to other countries’ capital stock. The increases in the domestic capital stock decrease marginal costs of domestic firms and increase domestic output; this will reduce foreign output and employment. Nevertheless, employment gains of higher domestic output can be offset by employment losses due to productivity increase. In contrast, increases in the foreign capital stock, would result in reductions of domestic output and employment by the same mechanism. The authors have calculated growth rates of capital for Germany, Japan, and the UK relative to the weighted average of the rest of the OECD’s capital stock, for the period 1961-1995. Regression results showed that “an increase in the domestic capital stock relative to the foreign capital stock allows domestic firms to compete more effectively and to capture market share at the expense of foreign firms” and were instrumental in decreasing unemployment in the three countries.

Qin et al. (2005) propose that “long term growth is independent of capital accumulation, unless there are increasing returns to capital. For the Chinese economy, they have found that 10% one-off increase in gross fixed investment generates about 0.05% long-term GDP growth. Moreover, they have asserted that output growth drives investment demand in the economy and that the recent investment boom in China could not be transmitted into output growth, because there is an autonomous rise in investment.

In China, there has been remarkable increasing trends in Gross Fixed Capital Formation (GFCF) and growth in the past ten years; however, growth has not always accelerated with the increases in GFCF. Unemployment rate has increased during the period (see World Bank, 2012), which is contrary to the view of negative relationship between GFCF growth and unemployment. The opponents of this view believe that the rigidities in labour market have effects on the level of unemployment, rather than variables like growth of capital stock. We shall return to this point later in this chapter when labour market flexibility explanations for unemployment will be discussed with in detail.

4.1.4. Foreign Direct Investment and Effects on Employment

The effects of foreign direct investment (FDI)5 inflows on investment, growth, and employment should also be mentioned with reference to financial crises-unemployment and investment-unemployment relationships. Since 1970, FDI inflows have increased rapidly and in the last decade, developing countries have caught up with developed economies in terms of FDI inflows (see UNCTAD, 2011). Factors such as technological improvements and liberalization of restrictions on capital flows could explain the increasing trend in FDI flows.

Some believe that FDI has positive effects on the economy of the host country by promoting growth and exports, raising employment and wages, increasing productivity ("technological spillover"), and improving the balance-of-payments (Milberg, 1999, p.100). Increase in gross capital formation, rate of growth and the state of technology have benefits for employment growth. However, effects of FDI in this context are controversial. "Technological spill-over" effects are difficult to measure and variable.

A study shows that FDI did not generate positive spillovers in Venezuelan manufacturing sector (Aitken & Harrison, 1991). Another study shows that

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[5] FDI is defined as "an investment involving a long-term relationship and reflecting a lasting interest in and control by a resident entity in one economy (foreign direct investor or parent enterprise)" of an enterprise resident in a different economy (FDI enterprise or affiliate enterprise or foreign affiliate) (UNCTAD, 2011).

in Indonesia domestic firms located close to transnational companies benefited from spillovers, whereas the ones located at a greater distance did not (WTO, 1998). Rodrik (1999, p. 37) acknowledges that systematic studies from countries such as Morocco and Venezuela have found no evidence of "positive spillovers" (as cited in Milberg, 1999).

The role of FDI in augmenting the capital stock of the host country is also controversial. Sometimes, FDI is in the form of privatization, merger and acquisitions (M&A), which does not have any significant effect on increasing host country's capital stock. For instance, in some Latin American countries, 25 % of FDI was due to privatization. Foreign M&A sales in developing countries increased more than fivefold between 1990 and 1997 (Milberg, 1999, p.107). For the foreign investor, FDI represents two types of risk: "the usual risk associated with any capital investment and a foreign exchange risk". They may hedge the foreign exchange risk by having domestic liabilities. This hedging behaviour could cause capital outflows and may have destabilizing effect on domestic economy (Kregel, 1996, p. 57 as cited in Milberg, 1999, p.108).

The results of the studies investigating effects of FDI on domestic investment and economic growth are also mixed. Bosworth and Collins (1999) estimated an FDI inflow coefficient of 0.8 on domestic investment for 58 developing countries for the period of 1978–1995. De Mello (1999) has found that FDI was positively related to income and productivity growth in OECD countries, and negatively related to both income and productivity growth in non-OECD countries. Fry (1996) has calculated that FDI was positively correlated with economic growth for a small group of countries (Indonesia, Malaysia, Philippines, Republic of Korea, Singapore and Thailand), but not for a much larger group of developing countries (as cited in Milberg, 1999, p.110). Campos and Kinoshita (2002) have found positive effects of FDI inflows on growth in 25 Central and Eastern European countries and Blomström et al. (1994) have related FDI to increased growth in developing countries with higher income. (as cited in Lipsey, 2004). While investigating effects of FDI from the United States on other countries, Lipsey has stated that positive effects on growth are not universal for all the host countries (Lipsey, 2004, p.34).

Ghose (2000) believes that countries receive capital inflows, even when they have excess domestic funds for investment, and that capital inflows are often used to accumulate foreign currency reserves rather than carrying out domestic investment. His empirical results for 37 developing countries, during 1983-1997 period, have suggested that FDI inflows have a "crowding-out" effect on investment by domestic entrepreneurs. He has also found that FDI inflows have positive effects on growth; however, he regards this effect as "much smaller than might be expected".

These studies show that positive effects of FDI inflows on employment creation, through their effects on growth, capital accumulation, and technological progress are overrated. Promotion of domestic savings and investment is a better strategy, because retained profits from activities of foreign firms are less likely to be reinvested in the host country. Moreover, there is greater risk of foreign firms to stop their activities in the host country and to relocate in response to changes in costs, taxes, and in response to economic or political crises etc.

4.1.5. Productivity Growth and Unemployment

Another reason for poor employment performance of growth may be changes in productivity. A rise in labour productivity means less labour is needed to produce the same amount of output. On the other hand, a rise in labour productivity or an increase in "total factor productivity", as a result of technological progress, increases efficiency and decreases costs of production. This may motivate firms to increase production and hire more labour.

Pissarides (2000) thinks that expectations of higher profits in the future, from a productivity increase, makes employers hire more workers in the future (capitalization effect). Phelps and Zoega (2001) agree that an expectation of productivity increase will raise the return on firms' assets in the future, which raises the value of their assets today without raising the cost of acquiring them. Therefore, firms will hire more workers. When the anticipated productivity increase realizes, cost of investment in workers and equipment will be higher, then investment and employment will stop (as cited in Trehan, 2003). According to "the search theory of unemployment", employers will increase their wage offer to benefit from increased

productivity of the worker, which increases the likelihood of workers to find employment. However, the decrease in unemployment is short-lived, as the new wage level is settled. Then, the search process and unemployment rate will go back to its original level (Trehan, 2003).

According to Aghion and Howitt (1998), technological progress destroys existing jobs and creates new jobs; therefore, it increases frictional unemployment. Manuelli (2000) believes that an anticipated technological progress will reduce the market value of firms. This will cause investment and job creation to decrease. The decrease will not be "permanent", as the new technology becomes available, firms will begin to increase investment and job creation (as cited in Trehan, 2003). These theories suggest contrasting effects of productivity growth on unemployment in the short run; nevertheless, they all agree that the effect will be neutralized in the long run.

Empirical studies have mixed results, as well. Trehan (2003) has conducted a study for the US, for the 1959-2001 period and found that technological progress lowers unemployment, "with effects that build up over several years before damping out". Hahn's (1999) empirical analysis, for the years 1973-1995, for Korea, have shown that there is a negative correlation between productivity (output per labour hour) and unemployment.

Hall et al. (2008) have found that "process innovation" did not significantly lower employment in Italian manufacturing firms, in the period of 1995–2003. Gordon has found that the sharp increase of unemployment in European G7 during 1960-1993 was not correlated with the slowdown in productivity growth (Gordon, 1995).

In his study of 33 countries, Pieper (2000) has detected a "significant negative trade-off between employment growth and productivity growth" for 30 countries, during 1975-1984, while he could not establish a statistically significant relationship between the two variables for the whole sample during 1985-1993. He believes that the differences in his results are attributable to the effects of severe economic crisis, changing policies of trade and capital movements or other social and economic factors.

In an extensive study of 66 countries, it was found that more than two-thirds of the countries experienced both productivity and employment growth during the 1980-2000 period. Transition economies experienced declines in both productivity and employment, which was exceptional due to the collapse of their economic and social system. Increasing employment and negative productivity growth were observed in some countries mainly located in Africa, Latin America (Brazil, Venezuela and Peru) and the Middle East. The authors believe that high growth of employment in these countries was attributable to high growth of population. For the world economy as a whole, productivity growth strongly decelerated in the 1973-1990 period, whereas employment growth slightly accelerated. However, in this period, China accelerated productivity growth without any fall in total hours worked and India realised moderate productivity growth with a remarkable increase in labour input growth. In the 1990-2000 period, a moderate worldwide acceleration in productivity was accompanied by a substantial slowdown in labour input growth. On the other hand, Japan, the transition economies, East Asia and Africa exhibited a slowdown in both productivity and employment growth (Van Ark et al., 2004).

Theories have contrasting statements about short run effects of productivity increase on employment. Some empirical studies suggest that employment growth is not influenced by a rise in productivity, whereas others assert there is either a positive or a negative relation. The authors explain the irregularities in their findings by differences in labour market flexibility, growth rate of capital, economic crises and changes in economic policies. Presence of such factors may determine whether the effect of productivity growth on unemployment will be positive or negative.

4.2 Effects of External Demand on Unemployment

During the past 20 years, barriers on trade and financial transactions have been gradually removed. As the concerns of developing countries about impoverishing external trade relations began to cease, internal market oriented economic policies were left aside. The successful East Asian experience encouraged other developing countries to integrate into the world

economy. The consensus for economic policies turned out to be increasing global competitiveness and attracting foreign investment rather than subsidizing cheap imports of capital goods and industrial investment to spur economic growth.

Integration of the world economy affected labour markets through two channels. First, decreasing trade barriers resulted in intense international competition in tradable goods and services, specifically, in industries with lower fixed investment requirements. Countries with plenty of natural resources or labour utilized their comparative advantages in primary sectors or in labour intensive sectors, whereas countries with accumulated capital stock, knowledge, technology and skilful human resources enjoyed competitive power in heavy or high-tech industries. Industries that were unable to compete were destroyed during the process. There were gainers and losers; the net effect was variable across countries depending on policies that were implemented.

Secondly, technological progress and liberalization of capital accounts facilitated foreign investments to move from one country to others. Challenged by persistent pressure of reduction in costs, firms relocated their production to other countries. Available funds started to flow to countries where labour was cheaper, taxes were lower and unexplored markets for new products were available. As production started to move from locations where production was originally organized, competition between home country labour and foreign labour began.

The global labour force growth has outpaced the growth of the world economy by far, building up a greater pressure on the existing capital stock. Integration of China, India and the ex-Soviet bloc increased the size of the global labour force from 1.46 billion to 2.93 billion and reduced the ratio of capital to labour in the world economy to 61% of its previous level. Since the new comers had not brought much capital, economies started to compete for acquiring a share from the world's limited capital stock (Freeman, 2004), in addition to the competition for new markets.

In this section, effects of the integration of the world economy on domestic labour markets will be discussed. Effects of international goods and services trade will be the focus of analysis. Dislocation of production

will be discussed only briefly, because this section is about adverse effects of changes in external demand on unemployment. However, dislocation of production is likely to have adverse consequences on labour in developed countries where production has been moved from. Since this chapter is intended to serve as background for the Turkish case, a developing country, developed country effects has only secondary importance for our discussion.

4.2.1 Trade Liberalization and Employment: Theoretical Grounds

From Ricardo to Hecsker-Ohlin models, free trade is expected to allocate resources more efficiently, by allowing each agent in the economy to specialize in the production of goods and services for which they have comparative advantage. In addition to one-time efficiency gains from reallocation of productive resources, there are dynamic effects from trade such as imports of technology, knowledge and skills, as well as gains from scale effects when specialization is achieved. Rodrik (1993) summarizes four typical arguments in favour of trade liberalization: static efficiency gains based on Ricardian comparative advantage, dynamic effects as previously defined, increased ability to adjust more easily to external shocks and reduction of waste stemming from rent seeking activities.

Rodrik (1993) states that static efficiency gains will represent only a very small fraction of the GNP; moreover, dynamic efficiency gains from trade have not been clear at all. He rejects the third argument because the most open countries to trade flows are affected the gravest in crises. For the final argument Rodrik believes that the issue of political rent seeking is a "governance issue" dependent on the "hardness of the state" and that elimination of relative-price distortions does not guarantee that "waste generated" by rent seeking will be reduced (1993, p.21-22). For instance, Öniş (1991) showed that Turkish manufacturers started to run after export subsidies instead of import licences after Turkey adopted an outward oriented strategy (as cited in Rodrik, 1993, p.22).

Djikstra agrees that trade liberalization will increase static efficiency by lowering prices for imported inputs and by enhancing efficiency in import competing domestic sectors. However, the expected gains from these two effects may be less than expected, because firms using imported inputs were already importing machinery and other inputs at lower prices under the

previous (import substituting) trade regime and also because all import competing domestic firms were not totally inefficient and fully exploiting the rents from protectionist policies (2000, p. 1568-69).

In sum, indirect effect of trade liberalization on employment by growth, increased efficiency, and technical capability is somewhat ambiguous. The direct effect of the change in trade regime on employment is the change in labour demand after reallocation of resources. In classical general equilibrium models, the resulting unemployment from trade liberalization is temporary. Once the economy settles, labour is relocated between industries; there will be no permanent unemployment. These models ignore the fact that production factors such as machinery, equipment and land are product or industry specific; in addition, labour employed in some sectors requires handsome amount of training and experience, thus they are not as mobile as expected within the sectors. Therefore, some part of the existing capital stock may be useless, de-industrialization may occur and some part of the labour force may be unemployed for longer periods[6].

4.2.2 Trade Liberalization in Developing America

Actual experiences of trade liberalizing countries will help elaborate the effects of external trade on unemployment. The most prominent examples of trade liberalization are the South American and South East Asian experiences. In current literature, they are usually compared as the two different approaches to trade liberalization: rapid liberalization of South American countries after a long period of import substituting industrialization (ISI) and a more gradual approach to liberalization in South East Asia.

During rapid trade liberalization in South America, Chile has decreased the average tariff rate from 94% to 10% from 1973 until 1993. Other average tariff reductions were: Mexico from 24 % to 12% (1985-1993), Bolivia from 12% to 7% (1985-1993), Argentina from 39% to 15% (1989-1993), Venezuela from 35% to 10% (1989-1993), Colombia from 44% to 12% (1989-1993) and

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[6] For revision of arguments in favour of trade liberalization see Dornbusch. (1992), For a list of studies and discussion about the issue of trade liberalization and technological growth see Rodrik (1993).

Peru from 66% to 18% (1989-1993). All countries also managed substantial decreases in the non-tariff barriers (Agosin & Ffrench-Davis, 1995, p.14-16).

Chile experienced two episodes of trade liberalization. During the first episode of 1974-1979, rapid liberalization took place, resulting in rapid deindustrialization with a fall of 5 % in the share of manufacturing in GDP. During the recession period in 1981-83, exchange rate controls were reintroduced and tariffs were raised. In the second episode of 1985-1991, liberal reforms continued along with interventionist policies. The second phase of reforms yielded better results, because economy started to recover after the recession (Agosin & Ffrench-Davis, 1995, p.22-29). Employment effects on tradables sectors were much more dependent on economic environment and exchange rate rather than intensity and pace of trade liberalization. In the 1979-1986 period employment growth in total, in exporting sectors, in importing sectors and in non-tradables were -0.08, -0.06, -0.09 and -0.08, respectively (Levinsohn, 1999, p.327-28).

Argentina started its liberalization programme in the mid-1970s, and by 1989, it had liberalized over 60 % of tariff lines formerly under quantitative restrictions. In general, trade liberalization caused higher increases in imports than in exports, therefore ended in negative external balances and an appreciated currency (Ernst, 2005, p.1-7). After the foundation and enlargement of Mercosur in 1990s, Argentina was exposed to further trade flows. In the 1995-2000 period, average annual growth of employment in the manufacturing export sectors was 3.9%, whereas average annual employment growth in the processed food, the largest export item, sector was 2.6%. Conversely, employment growth performance in manufacturing industries with highest exposure to imports was above the manufacturing industry average, except for television and radio receivers industry. The industries that were more exposed to foreign competition due to liberalization were labour intensive industries, not capital-intensive industries, contrary to the relative factor endowments. The greatest increase in employment (7.5%) was in the “other chemical products” (other than basic chemical products) sector, characterized by low labour intensity (Ernst, 2005, p.19).

Mexico's trade liberalization started in mid-1985. Some believe that the resulting export boom in 1980s and 90s were in fact the result of steep domestic currency depreciations and lack of internal demand, which forced producers to look for foreign markets. Furthermore, export boom was produced by industries founded in the ISI era and no large-scale allocation of resources to export-oriented labour-intensive sectors was observed (Agosin & Ffrench-Davis, 1995, p.29-34). The total increase in full time employment in tradables sector was 4.3% whereas the increase in non-tradables was 7.6% during 1986-90 (Feliciano, 2001, p.104).

The results of empirical research suggests that average weekly hours of work were unaffected, at conventional levels of statistical significance, by tariffs and licenses, producer prices, or import penetration (Feliciano, 2001, p.104-109). On the other hand, in the 1995-2000 period, average annual growth rate of employment in the whole manufacturing sector was 3.5%, whereas the rate for major manufacturing exporter sectors ranged between 4.4%-17.8% (Ernst, 2005, p.12).

In Brazil, liberalization programme took place during the 1991-1993 period. Average annual growth rate of employment in the 1995-2000 period, in total manufacturing was -0.9%; whereas, the rates in major exporters, food processing and basic mineral sectors were 2.1% and 4.2%, respectively. However, unlike food processing sector in Argentina those sectors are characterized by low and medium labour intensiveness respectively. On the other hand, employment growth decreased by 2.6% annually in paper products sectors, which is also one of the main exporting sectors of Brazil with high labour intensity (Ernst, 2005, p.13). In other main exporting sectors of fuel processing, electronic valves and tubes, and medical appliances industries, the corresponding rates were 9%,-2.5%, -2.5%, respectively (Ernst, 2005, p.19).

Agosin & Ffrench-Davis (1995) defines South American experience as "unilateral bids to open up an economy" with a high degree of protection, slow trade growth and a strong inclination towards formation of regional trade blocs. They assert that this will not yield the same results as opening up a dynamic and competitive economy unilaterally. Our discussion in this section has shown that growth performances of liberalizing South American

economies have been poor, there was no significant effect on capital accumulation, and some countries even experienced erosion of their industrial base. Trade liberalization expanded investment and employment in labour intensive industries in a limited extent. However, the resulting import competition did not have extensive effects on employment, either. It was detrimental to some sectors; however, some part of the adverse effects has been mitigated by expansion of employment on the export side. Differences in employment growth between tradable and non-tradable sectors in these countries showed that growth in employment were mostly affected by economic circumstances rather than trade openness.

4.2.3 Trade Liberalization in South East Asia

In the Republic of Korea, import restrictions were removed gradually from1961 to 1965. Special tariffs were raised and import pre-deposit requirements were strengthened. In 1964, there were major devaluations of the currency; ceiling for lending rates was raised, loanable funds in the economy increased. Exporters were given the privilege of importing raw materials duty free for limited quantities. Preferential interest rates on export credits were reduced, tax relief for exporters and a link between export performance and import rights were instituted. Although the government has announced that the trade liberalization efforts would be expanded in late 1967, tariffs and the number of restricted items were increased in 1968-1969, when import demand expanded. Export incentives grew and devaluations continued from 1967 to 1973 (Frank et al., 1975).

In Taiwan, beginning in the 1950s, textile, glass, plastics, cement, and consumer electronics industries, synthetic textiles and steel, motor vehicles industries were supported to become internationally competitive. Protection of the domestic market, subsidization of long-term credit, and tax exemptions were the policy instruments used. The main difference of the Taiwanese experience from that of Korea was the “aggressive use of state enterprises and promotion of foreign investment” (Agosin & Ffrench-Davis, 1995, p.41-42).

From 1963 to 1976, South Korea’s labour force increased by 50%, while the number of employed increased by nearly 64%. The number of employed in the manufacturing sector increased from 0.6 million to 2.7 million,

implying an annual growth rate of 12%. From 1953 to 1977 share of exports in GNP increased from 1% to 35% and in the 1960-75 period, the share of manufacturing in total exports has risen from 23.8% to 74.0%? (Hong, 1980). By using a sample survey of Korea's 45 most important export commodities in 1969, Watanabe (1972) estimated that every one million dollar increase in Korea's exports created jobs for some 500 workers in export industries, about 150 jobs in supporting industries and about 150 jobs, in consumer goods and service industries (from multiplier effects), He stated that if he had included the remaining 31% of the exporting industries, he would have estimated that exports provided 5.4% of all jobs in the economy and 29% of all manufacturing jobs in 1969.

Ghose (2000) asserts that international trade increases employment elasticity[7] in developing countries, because in developing countries, the share of export industries, which are more labour intensive rise, whereas the share of import competing industries, which are less labour intensive, decline. He has found that in Indonesia, the elasticities were 0.6 and 0.72 (for 1981-87 and 1988-96, periods respectively); in China 0.27 and 0.53 (1980-86 and 1987-96); in Thailand, where elasticity measure is only available in the second period (1986-94), it was 0.77; in Malaysia -0.28 and 0.85 (1981-86 and 1987-94). As a whole, employment elasticities suggested a higher percentage growth in employment than output during 1981-96 period. East Asian countries did not experience a rise in domestic unemployment due to competition from imports during trade liberalization era. In these countries, export promotion policies were carried out by state intervention and support. Imports were gradually liberalized and protectionist policies were reintroduced whenever necessary.

4.2.4 Trade Liberalization in Developed Countries

The major effect of trade liberalization and off-shoring of production in the developed countries was the shift in demand from unskilled labour to skilled labour. In countries where labour markets were characterized as

[7] employment growth rate/ real output growth rate (%) in the manufacturing sector

more flexible the impact has been felt in growing wage inequality between unskilled and skilled labour (Slaughter & Swagel, 1997, p.3).

Akyüz et al. (2002) state that the decline in manufacturing jobs in developed countries cannot be explained by manufacturing imports from developing countries. Imports of manufactures from developing countries to member countries of OECD accounted for only 1.8 % of their combined GDP. Moreover, OECD countries have always maintained a trade surplus (exports-imports) with developing countries (except for Japan). The fall in employment in these countries in 1970s, 1980s, and 1990s were explained by the recessions of 1973-74, 1980-82 and 1990-91 and by the remarkable decrease in exports of developed countries to developing ones. For instance the US, which recorded an increase in manufacturing employment, had the steepest increase in imports from developing countries. On the other hand, Japan and Germany, which were best performers in terms of exports and trade balances with developing countries, had the worst record in overall growth and employment.

Kletzer has found permanent job losses during 1979-95 in import competing industries in the US. However, she has also stated that some import-competing U.S. manufacturing industries had job loss rates below the average, whereas there was considerable job loss in industries, which were not exactly subject to import competition. Therefore, the author believes that there is no systematic relationship between “permanent job loss and increasing foreign competition”. On the other hand, in a more recent paper, she argues that import competition is a “sizeable share of the US manufacturing job loss”. The North America Free Trade Agreement (NAFTA) was responsible for the 24-27% of the job loss in manufacturing and 10.7% of total job loss in the 1993-99 period (2004, p.740). Landesmann et al. (2001) have found a significant negative effect of import penetration on employment growth for OECD countries during 1982-1989 period; however, the effect vanishes for the 1989-1996 period with the exception of high income northern EU countries, Switzerland, Norway and Japan.

4.2.5 Dislocation of production and global labour arbitrage

Dislocation of production has first started in basic labour intensive industries in the 1960s from developed countries to the developing ones. Outsourcing has grown fast, by 2001, about 90% of all consumer electronics, 80% of footwear, toys, accessories, 70% of bicycles, 60% of computers and 57% of apparels sold in the US were produced offshore (USITC, 2002 cited in Gereffi, 2005, p.1). Movement of industrial production has generally been directed to South and East Asian countries and played a leading role in their economic growth. Initially, some basic labour-intensive industries were dislocated from Western countries to a developing Asian country. Once that country had reached industrial maturation, it outsourced production to a less developed country, and concentrated in more sophisticated industries (Gereffi, 1999, p.49). Cost minimization was the main impetus behind the dislocations (Roach,2004).

Some empirical studies suggest that overseas expansion will decrease the demand for home country labour. For instance, Stevens (1969), Ladenson (1972), Severn (1972), and Stevens and Lipsey (1992) have suggested that there was some substitution between domestic and foreign investment in US multinationals. Frank and Freeman (1978) have found that FDI substituted for U.S. exports and that the net employment effect of FDI is an annual loss of between 120,000 and 160,000 jobs (as cited in Blomstörm & Koko, 1994). However, Blomstörm & Koko (1994) think that the result may not be generalized because the period covered by Frank and Freeman's study was "the peak of US firms internationalization process" Geischeker (2002) has stated that international outsourcing was an important explanatory factor for the decline in relative demand for low-skilled labour in German manufacturing. Şenses (2006) showed that labour demand elasticities in US firms, which heavily outsourced from foreign countries have increased during 1980-1992, creating higher employment volatility in the US labour market.

In contrast, some believe that exploring foreign markets and expanding sales in a foreign country surrounded by trading barriers may create employment for home country labour through backward linkages (Blomström et al., 1994, p.7). Slaughter (2003), stated that in the years

1991-2001, for every one job that U.S. multinationals created abroad in their affiliates, they created nearly two U.S. jobs in their parents. Furthermore, he thought that differences in the activities of parents and affiliates, (63% of 23,494 affiliate firms in 1999 were in the services sector and 14,738 of them had parents in manufacturing) results in strong complementarities between them rather than substitution of jobs.

In a study for the period 1991-2002, it is found that overseas operations did not decrease home employment in Japan and had small positive effects on EU countries employment (Yamashita & Fukao, 2008). Blomstörm et al. (1997) have found that in US, for a given level of home output, foreign sales were negatively related to home employment whereas production in foreign affiliates by Swedish firms had a positive effect on Swedish employment. According to Brainard and Riker (1997) substitution between US and foreign labour is low, whereas labour at affiliates in different developing countries compete with each other and labour at affiliates in industrialized countries similarly competes with labour at affiliates in other industrialized countries.

The process of outsourcing has started in the late 1950s and speeded up in the 1970s, then slowed down but continues; therefore, it is not a once-and-for-all global relocation of labour. Once, the process was a threat to low skilled labour. As more and more services began to be produced abroad, such as basic software design, legal and medical advice services, it became a threat to high skilled labour, too. It is a threat viewed from the developed country's side; on the other hand, it might be seen as the global convergence of cost of labour from the developing country's side. The process incurs diffusion of capital from where it is abundant to where it is scarce balancing ratios of capital to labour in each part of the world. Nevertheless, for developing countries, the process cannot be taken for granted for purposes of growth and employment. Globally accumulated stock of capital is inadequate to employ all the labour supply in the world. As job competition continues, job relocation will continue and downward pressure on wages and other costs may worsen the conditions of working population even more.

4.3 Labour Market Institutions and Unemployment

The relationship between labour market institutions and unemployment has been a source of intense debate. According to some researchers "rigid" labour market institutions is the primary reason for high unemployment. Most of them support their thesis by comparing unemployment rates of the US, which has a more flexible labour market, with rates of European countries, where labour market institutions are more rigid. Opponents of the view question the validity and measurability of the flexibility concept, in addition to its effects on unemployment in different countries.

4.3.1 The Political Economy of Labour Market Institutions

Supporters of the idea that labour markets should function under minimal regulations believe that regulations are a hindrance to proper functioning of markets and allocative efficiency. Saint-Paul (2000) explains that in an ideal world of no disturbance, where employees can instantaneously be replaced by another worker, or an unemployed person, "the incumbent employee" cannot ask for a wage which makes him/her better-off than any other participant in the labour market. In this case, there should not be involuntary unemployment, because anyone of the unemployed could underbid the employed and replace him, unemployment will only be a temporary situation. Starting from a level of full-employment, both the employed and the unemployed will be opposed to any sort of regulation, because any regulation reducing competitiveness of the unemployed in replacing the existing employed will increase unemployment and will affect the welfare of the employed indirectly through its depressing effect on wage level.

This sort of a "frictionless" labour market has strong resemblance to a Walrasian system of markets, in which all buyers and sellers have perfect knowledge of their alternatives and the exchange takes place at "market clearing" prices (Grossman, 1973). The assumptions of classical economics tell that the pricing mechanism of an "undisturbed" market ensures market clearing wages and anyone who offers his/her labour services at this wage would be employed. Otherwise, their unemployment is voluntary.

However, this ideal case is also defined by constant returns to scale. Under the assumption of decreasing returns to scale, there will be a "redistributive conflict" between the employed and the unemployed (the insiders and the outsiders). With decreasing returns to scale, more labour will mean fewer shares for each worker; this will also imply an internal redistributive conflict within the employed. Saint-Paul (2000) believes that labour market institutions are imposed by politically powerful groups ("decisive voter" who is employed), to solve the conflict in favour of these groups and to create rents for them. Moreover, labour market reforms for increased flexibility are successfully imposed when insiders are more exposed to unemployment or when unemployment rises up to a serious level threatening the political power of the insiders (Saint-Paul, 1996). These arguments by Saint-Paul reflect two presumptions of those who favour increased flexibility in the labour market. First, it is believed that all markets work most efficiently without intervention. Secondly, labour market institutions are mechanisms that are "outcomes of political choices by selfish agents".

Freeman (2005) explains the firm belief in inefficiency of regulated labour markets by the "prior" assumption that labour markets work perfectly without any interventions even though the evidence is weak. This view of economic efficiency is simply narrowed down to one time allocation of productive resources. However, it ignores the fact that more security and reconciliation at the work place and in the society, improves work effort and increases self-commitment of the employed. The ILO suggests that "successful social dialogue structures and processes" can solve economic and social issues and also improve economic efficiency (as cited in Freeman, 2005).

Agell (1999) claims that labour market institutions are society's perception of labour relations and social norms. For instance, Akerlof and Yellen (1990) argue that firms have little incentive to cut wages below workers' perception of "fair wage" even during severe recessions, because they are threatened by reduction of work effort (as cited in Agell, 1999). Another example is minimum wage. Many firms prefer to pay more than the minimum wage to increase work effort, even in the presence of high

unemployment. The “mutual exchange of trust between firm and worker” is important in motivating workers (Agell, 1999).

Moreover, labour market institutions are announced as the “scapegoat” for each effort of economic development that has failed. For example, while assisting the countries to deal with their balance of payments and fiscal deficit problems, the IMF and the World Bank emphasize “rigid” labour market institutions, which according to them “undermine” stabilization programs. Rigid labour market institutions hinder reallocation of resources for their best possible uses to restore economic efficiency. For instance, former IMF chief economist Mussa blamed Argentina for having a rather rigid economic system, specifically in its labour markets, while commenting on the 2001 collapse of the Argentine economy after a decade of commitment to IMF stabilization program (Freeman, 2005).

4.3.2 The Concept of Labour Market Flexibility

A review of the literature gives the basic idea that flexibility of labour markets is essentially determined with reference to an “undisturbed” labour market in which supply and demand interacts freely to determine the quantity and price of labour. Therefore, whenever the costs of lay-offs are closer to zero and hiring costs are closer to the wage level determined by a labour market without intervention, we can talk about a rather “flexible” labour market. A labour market that is further from the this reference point will be regarded as “rigid”.

The mechanisms, which cause an increase in the hiring costs, are the “disturbances” affecting the wage level. For instance, unemployment insurance system may weaken job search effort and “willingness to accept job offers” (Elmeskov, 1993). In a hypothetical system where all the unemployed workers receive unemployment benefits as long as they are unemployed, wage level will definitely be above the unemployment benefits received. However, in reality, the coverage, duration, and amount of benefits determine the effects on unemployment. Moreover, unemployment insurance system is a “subsidy to job search”, by enabling workers’ to have more time to search between alternative job opportunities and by reducing the number of repeated spells of unemployment (Elmeskov, 1993). Benefits

may also encourage workers to continue searching for jobs and taking the jobs in order to be eligible for benefits when the job is lost.

Another mechanism increasing hiring costs is the minimum wage. Minimum wage imposes a benchmark below which labour cannot be hired. Elmeskov (1993) argues that employing workers with a productivity level below the minimum wage is not profitable; therefore, unemployment, specifically of the low skilled, increases. However, he also agrees that minimum wage may help reducing or eliminating "the detrimental employment effects" due to "monopsonistic behaviour of employers". Thus, minimum wage regulation should alternatively be perceived as a mechanism of correction, when the labour market does not function "perfectly".

Wage determination system also has effects on hiring costs. Wages may be determined either by individual bargaining between the worker and the employer or by some system of collective bargaining. In individual bargaining, employers are generally equipped with more information about the ongoing wage rate in the sector, working conditions, responsibilities and work load of the position offered etc. This asymmetry of information may lead to wage determination in favour of the employer; however, it has decreasing effects on hiring costs, therefore on unemployment. On the other hand, collective bargaining has different levels of centralization, which have implications for wage determination. According to Layard et al. (1996), when wages are determined in a rather decentralized manner, some of the employers may settle for wages above "the supply price of labour" to "motivate and retain" their workers, or unions may try to raise their members' wage in excess of members of other unions. They believe that the problem of "leapfrogging" will decrease if wages are determined by a centralized bargaining system.

Some labour market regulations have effects on costs of lay-offs. Those are generally referred to as "employment protection legislation" (EPL). For instance, severance and notice payments have decreasing effects on unemployment, specifically for cyclical lay-offs during economic recessions. When firms desire to reduce production or cut back on costs, severance and notice payments make it more costly to lay-off workers. As the economy starts to recover, workers may be reemployed, or new workers may be hired

and trained, therefore employers may have to incur higher costs for lay-offs than cost of employing these workers during the crisis. On the other hand, Taymaz and Özler (2004) explain that severance and notice payments are blamed for the indirect negative effects on employment. Some argue that firms will take into consideration the potential costs of lay-offs before making hiring decisions. If the diminishing effects of firing costs on lay-offs dominate the indirect effects of these costs on hiring, the net effect on unemployment rate will be negative.

Legally imposed procedures for dismissals, standards of and penalties for "unfair dismissals" are other costs related to the laying-off decisions. There may be procedures causing delay between decision to lay-off and the start of notice period, such as obligations of previous warnings, notification, or approval of a public agency (OECD, 1999).

Restrictions on "temporary" and "fixed-term" contracts also increases costs of lay-offs, because employers are exempt from severance and notice payments in these types of contracts. Moreover, allowance for these types of contracts will decrease claims of "unfair dismissal" (OECD, 1999). Lower procedural requirements for hiring, and no cost for lay-offs may encourage employers to increase their work force easily when faced with an increase in demand by means of fixed term contracts, this will increase the flows into employment. However, allowance for fixed term contracts could easily be violated by employers to be exempt from EPL applied to regular contracts. This may increase flows out of employment. Net effect on employment and unemployment will depend on the magnitude of inflows and outflows.

Strict labour market regulations are blamed for high unemployment. Some believe that EPL provides protection for "insiders" (workers in regular jobs in formal employment). Therefore, "strict" EPL encourage "informality" (Taymaz & Özler, 2004). On the other hand, some suggest that high degree of labour market flexibility may reduce training and innovative activities. This will "diminish the accumulation of human capital and knowledge", and will effect growth and employment negatively in the long run. (Michie & Sheehan, 2003 as cited in Taymaz & Özler, 2004). EPL's positive effects in the establishment of long-lasting employment relationships provide incentives to improve skills and enhance productivity. Moreover, EPL

provides additional security and a more positive work environment for the employed.

4.3.2 Measurement of Labour Market Flexibility

The most inclusive and the most commonly used indicators of labour market flexibility are the measures of strictness of EPL constructed by the OECD Jobs Study in 1994 and elaborated in OECD Employment Outlook 1999. "The EPL summary indicator" is the broadest indicator of strictness containing information about many aspects of EPL in a country (OECD, 1999)[8]. Under the EPL summary indicator, indicators of "RC-regular contracts", "TC-temporary contracts", and "CD-collective dismissals" are evaluated.

RC indicator contains three sublevel indicators of "RC1-procedural inconveniencies", "RC2-notice and severance pay for no-fault dismissals" and "RC3-difficulty of dismissal". "Procedural inconveniences" refer to the requirements prior to the decision of dismissal such as a sequence of previous warnings, a notification, or an approval of an authority dictated by law, before the notice period could start. "Difficulty of dismissal" indicates the conditions for "unjustified" dismissals, the length of the trial period, the requirement of efforts by the employer to avoid the dismissal (such as in-house transfers or re-training) and the requirement of compliance with "social considerations" such as age or job tenure.

TC indicator has two second level indicators. "TC1-fixed-term contracts" indicator includes three criteria for evaluation: "valid cases other than the usual" for establishing these types of contracts, "maximum number of successive contracts", "maximum cumulated duration" of the contracts. "TC2-temporary work agency employment" indicator is scored by "types of work which is legal", "restrictions on number of renewals" and "maximum cumulated duration". CD indicator is evaluated by "definition of collective dismissal", "additional notification requirements", "additional delays involved", and "other special costs to employers".

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[8] All definitions, methods and country comparisons discussed in this section are summarized from OECD Employment Outlook 1999, unless it is indicated otherwise.

One of the main shortcomings of this system of indicators is that the scheme does not incorporate some important aspects of labour market regulations, specifically unemployment insurance system, and wage setting mechanisms. Secondly, although there are some indicators on the "duration" or "period", the scheme mostly ignores coverage, eligibility, duration and money cost issues related to EPL, specifically in the presence of high share of informality. Finally, monitoring of implementation of EPL and cautions against violation of the regulations are important for evaluating the real extent of flexibility in a labour market. Since detection and measurement of such potential defects are hard, the scheme leaves out this aspect of the issue, as well.

4.3.3. Studies on Labour Market Flexibility and Unemployment

Nickell and Nunziata (2002) have examined the changes in unemployment in 20 OECD countries for the 1960-1995 period. They have found that in Australia, Austria, Belgium, Denmark, France, Italy, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, UK, and US changes in the institutions had a remarkable contribution to the overall change of employment, whereas in Finland, Germany, and New Zealand, they did not have significant effects. They calculated that 55 % of the increase in unemployment during the 1960-1995 period in Europe is explained by the changes in institutions.

The simple regression results for OECD 1999 study, for 27 OECD countries, for the 1990- 1997 period, have suggested that there was no statistically significant relationship between unemployment and the EPL indicator. According to the multivariate regression results, no significant relationship was found either. In addition, the results have suggested that there was no significant relationship between employment and EPL strictness, either (OECD, 1999). Blanchard and Portugal (2001) have constructed a model, and using quarterly data for US and Portugal from 1991:1 to 1995:4, and found that lay-offs and unemployment flows decreased in line with the increase in firing costs. In contrast, duration of unemployment and firing costs had a positive relationship.

Howell et al. (2006) used OECD's concept of "net benefit"[9] to explain the interaction between unemployment benefits and unemployment. Their results have shown that in 2002, unemployment was lower in developed OECD countries with more generous net benefits. Spain and Italy had lower duration of benefits, but high unemployment; on the other hand, Ireland, Denmark, the UK, and Austria had similar or lower unemployment than the U.S., but more generous and long-term unemployment benefits. Moreover, Germany and Belgium had high net benefit duration and high long term unemployment; in contrast, Ireland, the UK, New Zealand, Denmark and Austria had longer benefit durations with lower shares of long-term unemployment. Italy had no long-term benefits, but had the highest level of long-term unemployment.

Nickell has run regressions for a sample of 20 developed OECD countries for the 1983-88 and 1989-1994 periods. He has found that active labour market policy (ALMP), bargaining coordination and inflation had decreasing effects on unemployment; whereas EPL rank (in the OECD index) had no effect, and unemployment benefit duration, union density, union coverage and tax rate had increasing effects. Nickell has concluded that although some of the institutions did have effects on unemployment performance, some of them have no significant effects. Therefore, it is better not to say that the sole reason for high European unemployment is "rigidity" of labour market institutions (1997, pp.73-74). Elmeskov et al. (1998), have used similar data as Nickell regarding the covered period and countries, however, unlike Nickell, they have assigned values for different aspects of EPL, rather than using country rankings. They have found a significant and large positive relationship between unemployment and EPL (as cited in Glyn et al., 2003).

In their empirical study for the 1960-1996 period for OECD-Europe countries, Blanchard and Wolfers (2000) have utilized variables of slowdown in total factor productivity growth, trends in long-term real interest rates,

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[9] The after-tax value of unemployment assistance and other social assistance, such as housing and child support

and shifts in labour demand along with institutional variables. Their results have confirmed that "certain labour market institutions inhibit the ability of economies to respond to adverse shocks, thereby leading to higher unemployment". However, they admit that their findings were sensitive to changes in specification.

The results of empirical studies on the effects of labour market institutions on unemployment are generally controversial and sensitive to specification issues. Therefore, it is not clear whether labour market institutions cause an increase in unemployment.

4.3.4. Active Labour Market Policies as an Alternative

Supporters of labour market flexibility arguments generally put much emphasis on active labour market policies (ALMP) as alternatives to employment protection legislation. ALMPs usually target unemployment benefit recipients, therefore promote job search and enable a more efficient redistribution of benefits by enforcing unemployed workers to receive training and to search for jobs (OECD, 2005). Moreover, ALMPs could facilitate the "matching process", may reduce "discouraged worker" effects, and improve labour force participation (Calmfors, 1994).

Matching process in the labour market could be reduced by promotion of active search and qualifications of job searchers can be improved to comply with the standards of employers offering new jobs. However, being in training and job creation programs may also decrease search effort; for instance Edin & Holmlund (1991) have found that participants of Swedish relief work schemes searched less intensively than the regularly employed (as cited in Calmfors, 1994).

The effects of ALMPs in reducing unemployment are also controversial. In their models, Layard et al. (1991) and Zetterberg (1993) have found that an increase in the participation in ALMPs by 1 percentage point of the labour force reduced open unemployment by 1.5 percentage points (as cited in Calmfors, 1994). On the other hand, after reviewing the empirical literature about the effects of ALMPs, Martin (2000) has concluded that "the results of the various econometric analyses are inconclusive", because some studies indicate robust relationships between participation in ALMPs and the

equilibrium rate of unemployment or real wage pressures, whereas others show zero or insignificant correlations.

Most common types of these policies include direct job creation (public works schemes, public service employment), public employment services and job search assistance agencies, training for unemployed adults, support to unemployed persons in starting up small businesses (micro-enterprise development), and wage or employment subsidies to firms to hire unemployed individuals. Dar and Tzannatos (1999) have reviewed over 100 of the studies related to the performance of these programs and summarized the main beneficiaries from them and criticisms surrounding their design and implementation. Public work programs, which offer temporary employment, fail to provide long-term employment prospects to the beneficiaries and are criticized for not being cost effective. Training programs have little or no impact on creation of employment and involve high costs. Microenterprise development programs can provide help to a very limited number of people, their costs are high, and businesses started with these programs generally fail. Employment subsidies benefit long term employed with only temporary effects and with "extremely high deadweight loss and substitution effects"[10]. Therefore, the authors have stated that "large scale application of these programs should be avoided without knowledge of their effects". They also argue that the determination of the "cause of distress in the labour market" (cyclical downturn or a systemic transition) is key to the implementation of the right policy.

In a study conducted for Norway's labour market training program, Raum et al. (1995) have found that participants tended to have a higher probability of getting work. Nevertheless, in his study of effects of labour market training in Sweden, Regnér (1993) has estimated that the impact of receiving training on participants' earnings was negative and significant a year after the training. The author has expressed suspicion that the

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[10] **Deadweight Loss:** Program outcomes are not different from what would have happened in the absence of the program. For example, wage subsidies place a worker in a firm, which would have hired the worker in the absence of the subsidy. **Substitution Effect:** A worker hired in a subsidized job is substituted for an unsubsidized worker who would otherwise have been hired. The net employment effect is thus zero.

unemployed might use the program to qualify for unemployment benefits and to obtain the compensation offered, rather than improving their employment prospects (as cited in Fay, 1996). Having studied many other examples of implemented training programs, Fay has concluded that training programs are useful, if they are combined with work placements, and if the participants can gain recognized qualifications (Fay, 1996).

Kapar (2004) has argued that the "macroeconomic structures and cycles" determine the effect of ALMPs on unemployment and that these programs are incapable of creating "regular" and "long-term" employment. He has concluded that the success of these policies is dependent on regular and permanent employment creation through economic growth (2004, pp. 5-6 as cited in Kapar, 2005).

ALMPs help to reduce the mismatch problem, and decreases time and effort spent during job search. They can provide resources for potential entrepreneurs to start a business and create additional employment. They may also work as social safety nets in times of crises and disasters by providing the victims with temporary employment. However, ALMPs can only reach a limited number people due to financing limitations. Moreover, these programs have limited capacity of creating long term employment. Since AMLPs could only reach a limited number of people and their costs are high, they cannot be advocated as better substitutes for EPLs and other labour market mechanisms designed to protect existing jobs and provide a safety net for the labour force.

4.4. Conclusion

In this chapter, we have made a brief review of the economic literature about unemployment problem as a background to the discussion about sources of unemployment in Turkey. As previously explained in detail, labour supply is considered as given and the discussion has concentrated on labour demand and labour market institutions. First, the weakening relationship between output and labour demand has been investigated. Instability and crises in the financial system were identified as one of the reasons for increases in unemployment and slow growth of labour demand.

Successive financial crises have had cumulative effects in terms of raising unemployment rates in recent years in many developing countries.

Growth of capital stock slower than a level offsetting the growth in labour force and the change in ratio of capital to labour were explained as another reason for the slowdown in labour demand. Many studies summarized in this chapter have shown that a negative relation exists between unemployment and capital stock growth. However, there were odd-cases like China, where high growth of GFCF did not translate into a decrease in unemployment. Therefore, we should be cautious while interpreting the results of empirical studies about the relationship between unemployment and GFCF. More research is needed regarding the contribution of capital growth on unemployment reduction and the factors affecting it.

Growth in productivity and technological progress were examined as other reasons for the increase in unemployment. Theories and results of empirical studies that were discussed in this chapter point to contrasting results regarding the effects of productivity increase on unemployment. Some studies have suggested a negative relationship between unemployment and productivity growth; whereas others have indicated that productivity growth leads to an increase in employment (see Trehan, 2003; Hall et al., 2008; Hahn, 1999), while some have acknowledged that they had obtained mixed results over their sample (see Gordon, 1995; Pieper, 2000; Van Ark et al., 2004). Therefore, it is not clear whether productivity growth has a positive or negative effect on unemployment.

In addition to changes in domestic demand, changes in foreign demand have also been reviewed. Developed countries' experience with global outsourcing of their production and external trade has shown that these processes could not be held responsible for most part of the unemployment problem, because these activities consisted of a smaller part of GNPs of these countries and their trade surpluses with developing countries were in fact increasing (see Akyüz et al., 2002). In developing countries of South America, rapid trade liberalization was not as influential in spurring growth and reducing unemployment as expected. There have been some positive effects on employment in some exporting sectors. However, as a whole the net effect on employment was small (see Agosin & Ffrench-Davis, 1995;

Ernst, 2005; Feliciano, 2001). Only in South Asian countries, trade liberalization had important positive effects on employment; nevertheless, it was not in fact trade liberalization in a conventional sense. The governments of these countries preferred gradual decreases in import restrictions and promoted exporting sectors by direct and indirect subsidies, and resorted to exchange rate and interest rate controls (see Frank et al, 1975; Agosin & Ffrench-Davis, 1995; Hong, 1980; Watanabe, 1972).

Labour market regulations were identified as another aspect of the unemployment debate. Unemployment insurance system, minimum wage and other wage setting mechanisms are said to increase market clearing wages and unemployment. On the other, we have argued that an unemployment insurance scheme with reasonable time limitations and job search criteria will minimize, if not eliminate, the probable adverse effects on unemployment. A minimum wage level, which is not higher than the worker's productivity may encourage labour force participation and increase employment. A centralized bargaining system may also increase employment by eliminating information asymmetries in determination of wages. Severance and notice payments, and other costs related to lay-off decisions may prevent increases in unemployment, because these costs discourage employers to lay-off workers.

Furthermore, empirical studies about unemployment effects of labour market flexibility also present contrasting results. Some studies show that labour market flexibility decreases unemployment while others show that flexibility does not matter. The studies arguing in favour of labour market flexibility are mostly criticized for the choice of variables used as indicators of flexibility, for collection of data and for the sensitivity of their results to model specification. (see Howell et al, 2006; Blanchard & Portugal, 2001; Nickell, 1997; Nickell & Nunziata,2002). Since the theoretical and empirical evidence on adverse effects of labour market regulation is weak, labour market flexibility also fails to present a plausible explanation for increasing rates of unemployment.

Our discussion in this chapter has proven that unemployment is the outcome of interaction of many factors in the macroeconomic setting. Its presence in the economy can be explained by structural deficiencies in the

domestic economy, as well as by the external influences (although it is shown that external effects are small in the case of large countries). However, it is crucial to understand that the problem of unemployment is a combination of many time and country specific factors. Thereby, policies to combat unemployment should be designed with an extensive approach to include all these factors.

CHAPTER 5

UNEMPLOYMENT IN TURKEY: REASONS AND STRATEGIES

In this chapter, we will briefly review the current literature on Turkish unemployment problem, examine the trends in main economic variables such as growth and investment, discuss the validity of the flexibility argument in explaining unemployment, and finally review the strategy of public authorities in dealing with Turkish unemployment problem.

5.1 Current Literature on Unemployment Problem in Turkey

There are a number of empirical studies explaining the relationship between unemployment and other factors in Turkish economics literature. Küçükkale (2001) has analysed the relationship between the natural rate of unemployment and the actual rate of unemployment and has found a positive relationship for the 1950-95 period. However, the coefficient of correlation was small indicating that the changes in the natural rate of unemployment could not be solely explained by changes in actual rate of unemployment. Pazarlıoğlu and Çevik (2007) have investigated the presence of hysteresis by using the "Ratchet Model" for the period of 1988:1-2004:1. In their model the level of unemployment was dependent upon "peaks" (the values for which the level of short term unemployment is highest) and the level of unemployment in the previous period. Regression analysis has confirmed that unemployment was dependent upon both variables, with higher correlation coefficient for the peak variable. Yılancı (2009) has studied the presence of hysteresis in unemployment, and found that hysteresis effects existed for the period of 1923-2007.

Yılmaz (2005) has analyzed the direction of causality between unemployment and output growth for the period of 1978-2004 and her results confirmed that causality was one-sided from unemployment to

growth, and there was no causality from growth to unemployment. Thereby, she has suggested that this causality explained why high growth rates did not create much employment in Turkey. Demir and Bakırcı (2005) have used three different methods to test the validity of Okun's law in Turkey, for the period of 1988-2004. Their results have pointed out an inverse relationship between growth and unemployment. Nevertheless, the relationship was so weak that for each 1% point decrease in unemployment, 16% increase in output was required.

Arslan (2007) has explained the weak relationship between output growth and employment in the aftermath of the 2001 crisis, by a combination of increased productivity, overtime work, and increasing capacity utilization. In 2001, output contracted by 10.3% whereas non-agricultural employment fell by 2.7 %. In 2000, manufacturing production index decreased to 92.4 from 102.1 in the previous year, while manufacturing employment index decreased to 81.7 from 89.1. Real earnings index in manufacturing was 110.2 in 2000, and fell down to 85.7 in 2006. On the other hand, real profit index in manufacturing increased from 53.3 in 2000 to 165.5 in 2006. In addition, productivity per labour also increased during the period as indicated by "the index of productivity per labour". He has tested the relationship between manufacturing output and employment, using quarterly production index for manufacturing and employment index for 2000-2006 and 1993-1999 periods[11]. He has found that the increase in employment explains 50.7% and 53.7% of increase in manufacturing production during the 1993-1999 and 2000-2006 periods.

Onaran and Stockhammer (2001) have examined the effects of distribution of income between profits and wages on growth, accumulation, and employment. They have observed that the "current orthodoxy" claimed a higher level of economic growth and employment with lower wages, since wages were only seen as costs of production. However, wages are not only costs, but also elements of aggregate demand. The share of profits in GDP

[11] The author used Turkish Statistical Institute HLFS database for statistics on employment and the statistical database of Central Bank of Turkey for the indices on manufacturing industry.

have increased from an average of 68.5% (during the 1965-79 period) to an average of 71.8% (during the 1980-97 period), while the ratio of private investments to GDP in the non-agricultural sector declined from 18.5% to 17.7%. The average annual growth rate of non-agricultural GDP was 5.3% in the 1980-97 period and 6.1% in the 1965-79 period. The average annual growth rate of non-agricultural employment was 4.8% in the 1965-79 period compared to 2.8% in the period of 1980-97. They have concluded that "the stylized facts" supported the idea that growth and investments were driven by a wage-led regime in Turkey. Their empirical results have suggested that accumulation and employment were definitely not profit-led; nevertheless, there was no indication of a "strong" wage-led regime of accumulation. They have found that the impact of exports on labour demand was negative and persisting. This has pointed out that exports were increasingly capital-intensive and did not contribute much to employment creation.

Tansel et al (2008) have examined the effects of changes in output, exchange rate, money, prices and interbank interest rate on unemployment rates by sectors of economic activity during the 1988-2004 period. They have found that "an income shock" (an increase in real GDP) caused a decrease in unemployment in all sectors except the Electricity and the Community Services sectors[12]. Increases in money supply have had significantly declining effects on unemployment in the Mining, Manufacturing, Construction, Wholesale-Retail Trade, Transportation, Finance-Insurance sectors. However, in the Agricultural sector a significant positive effect has been observed. The effects of an increase in the exchange rate or interbank interest rate for the Manufacturing sector, and the effects of an increase in the exchange rate for Finance-Insurance sector have been positive and statistically significant just for the initial levels.

Günçavdı and Küçükçiftçi (2008) have found the effect of trade liberalization on output growth was positive in the early years of trade

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[12] They asserted that most of the services in electricity and community services are provided by the governmental organizations and labour demand in these sectors are inelastic.

reform, which has started in 1985; however, it has disappeared in later years. Labour saving technology and capital-labour substitution have caused a drastic decline in the "employment generation ability of the economy" during 1973-1996. Although the export promotion policy launched in the early 1980s was expected to promote labour-intensive exports, labour component of tradable goods declined during 1985-1990.

Taymaz (1999) has found that there was a strong correlation between employment growth and the growth rate of the number of productive establishments during the periods of 1980-83, 1983-88 and 1988-98. In addition, the share of exports in total output had a positive relationship with employment growth in all three periods. Import penetration variable (ratio of imports to domestic consumption) was not significantly correlated with employment growth; however, the change in import penetration variable was negatively correlated with employment growth in the first and second periods. Capital intensity and employment growth were not correlated in the first two periods, and negatively correlated in the third period. Capital-intensive industries have played a more important role in the export boom of early 1980s. Labour productivity (value added per employee), and gross profit margin (value added minus labour costs/sales) were not correlated with employment growth. One percentage point decline in the actual tariff rate have caused loss of about 8,000 jobs; in addition, one percentage point appreciation of the real exchange rate leads to loss of about 1,200 jobs in the large manufacturing industry. One percentage point increase in the real interest rate destroys 1,300 jobs in the short run, and 2,200 jobs in the long run.

For the period of 2000-2007, Aktar and Öztürk (2009) have found that exports and FDI had a negative but insignificant impact on unemployment. Examining data of 10 different three-digit ISIC industries for the period 1983–1986, Krishna et al. (2001) have found that the link between labour demand elasticity and openness to trade is relatively weak, and for many industries the correlation coefficients were insignificant.

5.2 Recent Trends in Macroeconomic and Labour Market Indicators in Turkey

In this section, the recent trends in some macroeconomic indicators of Turkey, mentioned in the previous chapter will be briefly reviewed in conjunction with employment and unemployment statistics.

Figure 5.1. Turkey: Output Growth and Labour Market Indicators, 2000-2011

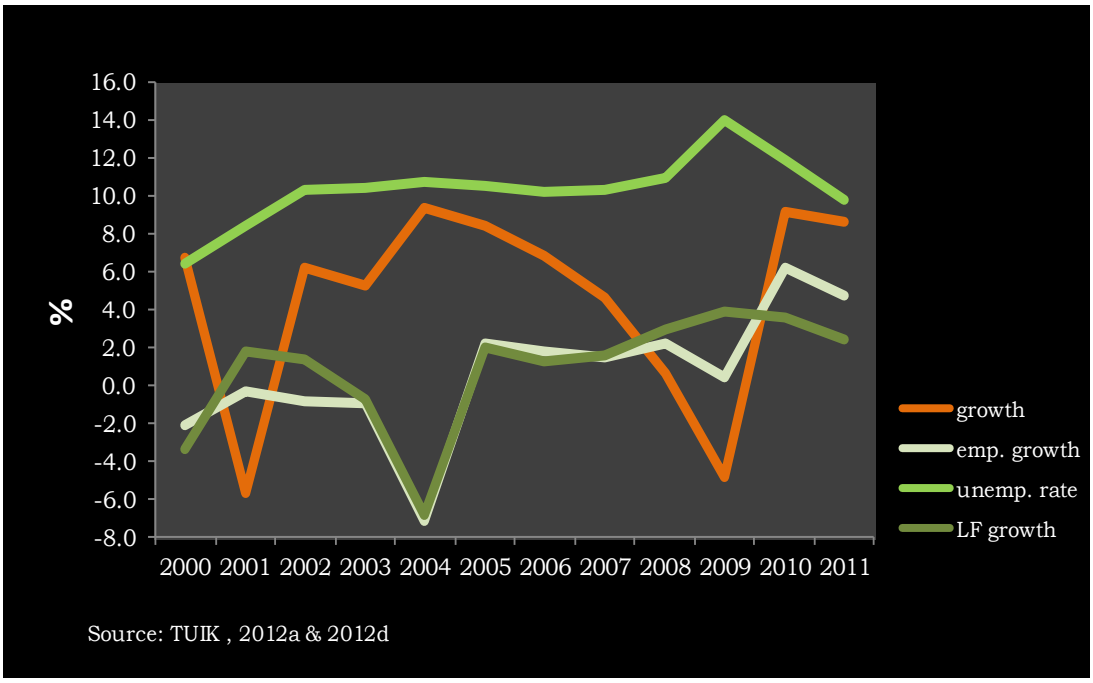
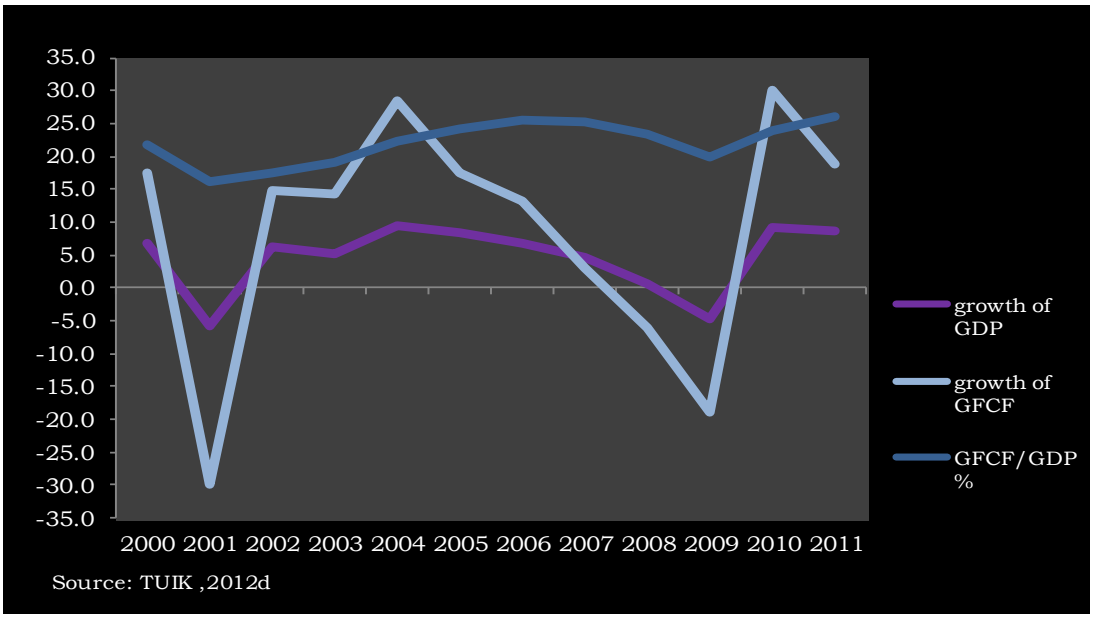


Figure 5.1 shows trends for output growth, employment growth, unemployment rate and labour force growth for the 2000-2011 period. Output growth has an unstable pattern characterized by troughs in 2001 and 2009 and high rates of growth during the 2004-2007 period. Employment growth is responsive to output growth, except for the year 2004. As discussed in Chapter 2, in 2004 to comply with the Eurostat standards some changes were made, in the design and implementation of the HLFS. The number of questions and the sample size was increased.

More importantly, in 2005 labour market statistics were revised according to new population estimates. Therefore, the fall in 2004 and the jump in 2005 are most likely to be meaningless. Employment growth is negative until 2005 and insignificant during 2005-2007 despite high rates of growth. It slows down in 2009, and responds to output growth in 2010-2011 by significant increases.

Labour force has a slightly increasing trend during the period with further increases in 2001 and 2008-2009, which may be explained by the "additional worker effect" during the crises. Unemployment rate also has an increasing trend especially during the 2000-2002 and 2008-2009 periods, the higher level of unemployment in the aftermath of the 2001 crisis was preserved during the economic recovery. On the other hand, the remarkable growth in employment after the recession in 2008-2009 was accompanied by a fall in unemployment rate in 2010. This brief analysis indicates that the slowdown in output growth is accompanied by rising unemployment. One apparent reason for the rise in unemployment during the crisis is the rise in labour force participation rate together with falling growth in employment.

Figure 5.2. Turkey: Growth GFCF and Output, 2000-2011



In the previous chapter, it was argued that slow growth of investments might be responsible for the poor employment creation performance of economic growth. Figure 5.2 shows that during the 2000-2011 period, growth of GFCF reflected a similar trend to the growth of output. However, the share of investment in GDP was stagnant at around 23 % with only slight changes during the expansion years of 2003-2007. Although GFCF has accompanied the growth in GDP, its pace of growth has been inadequate to have strong effects on employment growth.

Figure 5.3. Turkey: Labour Productivity Growth, 2000-2011

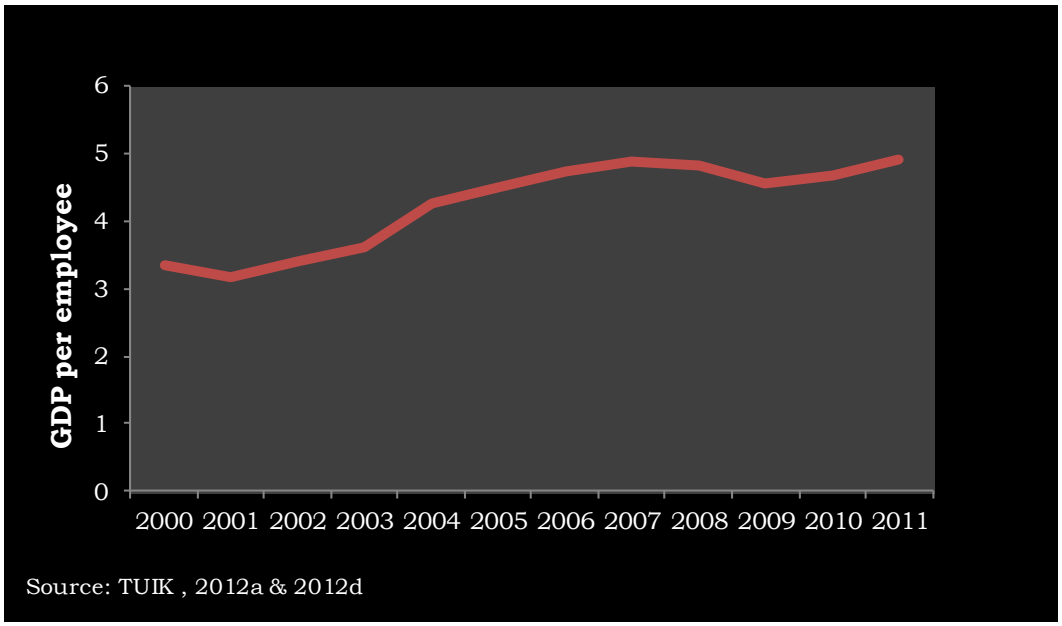
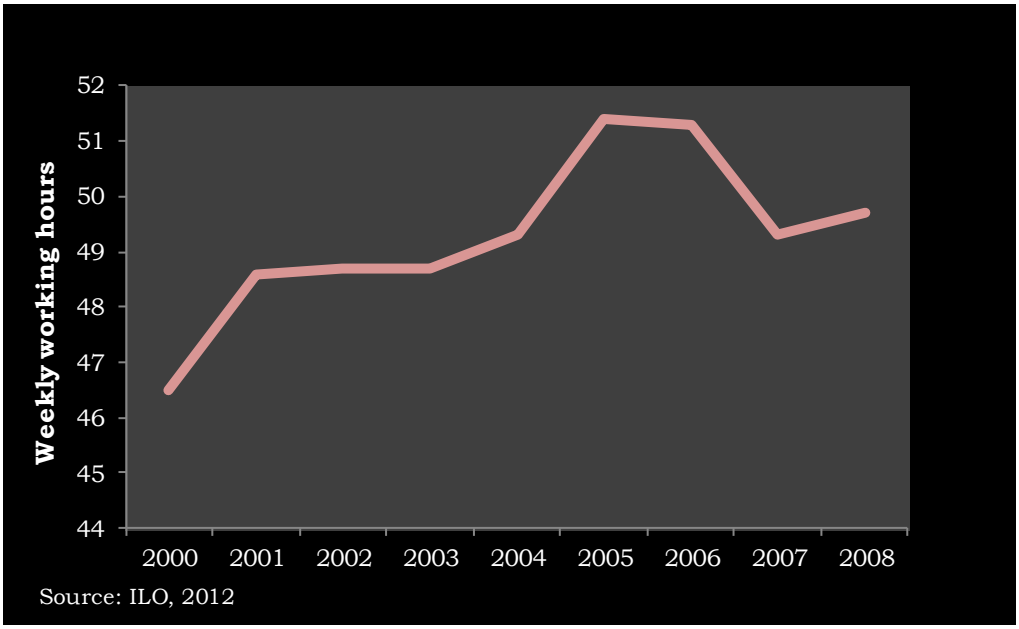


Figure 5.3 indicates that in the period 2000-2011, labour productivity had a growing trend with annual average growth rate of 3.5 %. Nevertheless, in our discussion in the previous chapter, we have stated that the effect of productivity on unemployment is controversial. Some believe that increase in productivity causes higher employment, whereas others claim that the relation between productivity and employment is negative. Yet some researchers acknowledge that the relation could be either positive

or negative (Trehan, 2003; Hall et al., 2008; Hahn, 1999; Gordon, 1995; Pieper, 2000; Van Ark et al., 2004). For Turkey, detailed studies are needed to determine the direction of causality between productivity and unemployment.

Figure 5.4. Turkey: Growth of Weekly Working Hours, 2000-2008



In Figure 5.4, weekly working hours had a significant rising trend during the period of 2000-2005, until the slowdown in output growth in 2006. Growth of working hours may have partly been responsible for the slowdown in employment growth in the 2000-2008 period; however, in 2005 and in 2008 weekly working hours increased along with an increase in employment. On the other hand, in 2007, employment growth slowed down, in spite of a decrease in weekly working hours. ILO explains that "weekly working hour statistics" were obtained from either "establishment surveys, censuses, household sample surveys" or from "official national estimates or administrative records of social insurance schemes" (ILO, 2012). Turkish Statistical Institute does not provide any estimates regarding working hours in its HLFS database, because HLFSs do not include questions on weekly

working hours. Data for working hours should have better been obtained from "official national estimates or administrative records of social insurance schemes". ILO data probably fail to reflect the increase in "informal" hours of work. Therefore, the data may not be reliable for indicating the nature of relationship between unemployment and weekly working hours in Turkey.

Figure 5.5. Turkey: Exports and Imports Volume Indices, 2000-2011

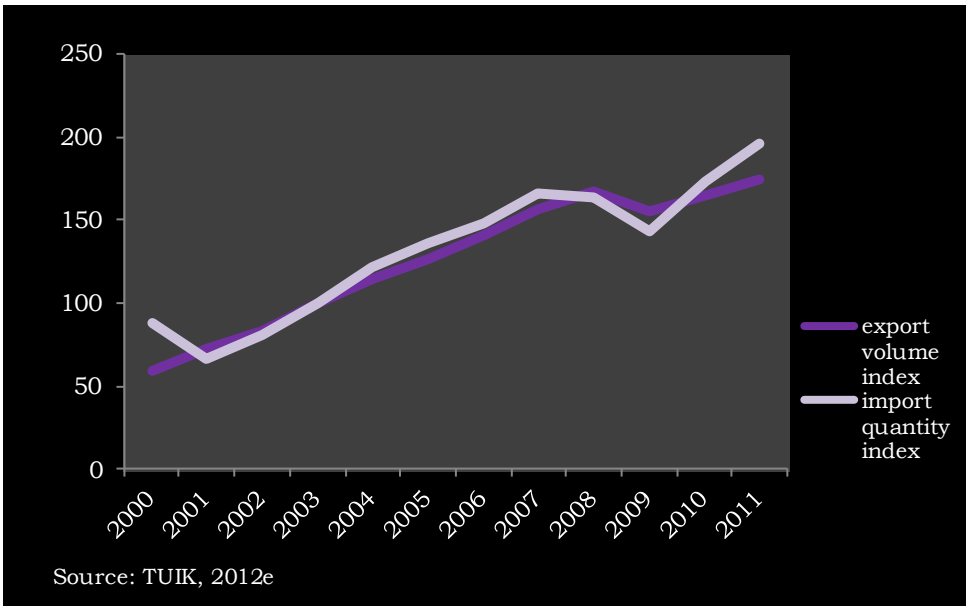
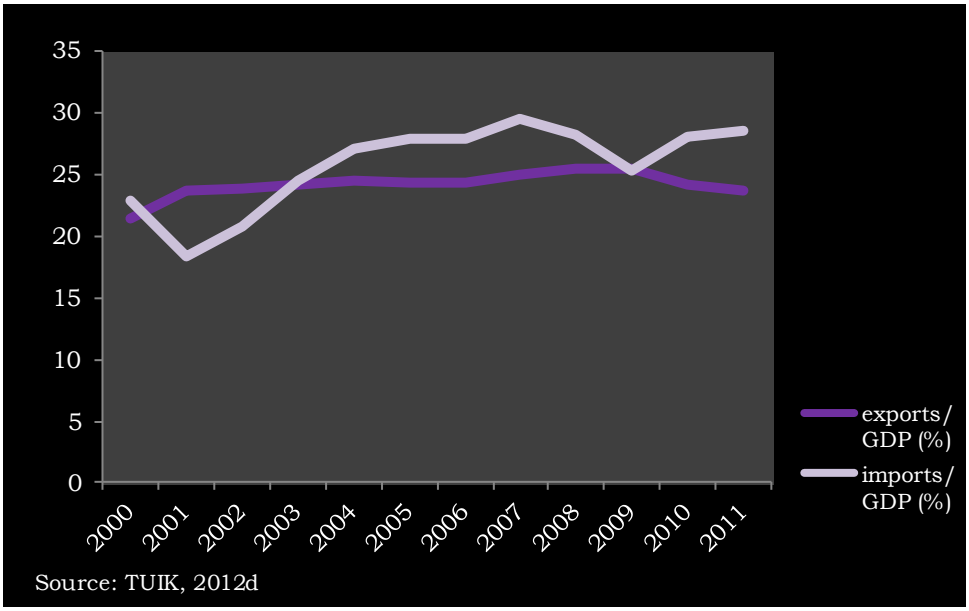


Figure 5.6. Turkey: Exports and Imports as a Share of GDP, 2000-2011



In figure 5.5, there is a clear increasing trend for both imports and exports throughout the period. In addition, figure 5.6 indicates a stable trend for the share of exports in GDP and a slightly increasing trend for the share of imports in GDP except for the declines in the years of economic crises. Although external trade might have had some positive effects on jobs in trading sectors or import competing sectors, its share in total GDP has not significantly increased during the period; therefore, the effect of external trade in the creation or destruction of jobs is probably limited.

Review of existing literature about unemployment in Turkey and macroeconomic data suggest that there are hysteresis effects in Turkish unemployment. Likewise, while employment growth is strongly affected by crises, it does not easily accelerate with output growth. Moreover, effects of external trade on unemployment are probably rather weak. The studies and statistics about the relationship between unemployment and other variables, such as capital accumulation, productivity growth and working hours are inadequate; hence further research is necessary in these areas.

5.3. Labour Market Regulation and Flexibility in Turkey

Turkey is ranked high in "labour market inflexibility" in international comparisons, due to relatively higher scores in "severance pay" and "allowance for temporary contracts" categories (see OECD, 1999 and World Bank, 2006). According to the latest data available the general EPL (Employment Protection Legislation) index value for Turkey is 3.72 for the 1999- 2008 period, according to "version 1"[13] of the EPL indicator, while the index score of "version 2" has been increased from 3.37 to 3.49 (2003) and remained at that level. Finally, according to "version 3" of the indicator, which is only available for 2008, Turkey has a score of 3.46. In all three versions, Turkey has the highest rank among other OECD countries in 2008 (OECD, 2011).

In Turkey, the legal framework for unemployment insurance system was established in 1999, the collection of premiums started in 2000 and the first payments were made in 2002 (Tunalı et al., 2003). There are four eligibility requirements: Insurance payments should have been paid for at least 600 days within three years prior to termination of the contract. Those premiums should have been paid for a continuum of 120 days before the date of termination of the contract. The contract should have been terminated due to reasons defined in Unemployment Insurance Law, article 51, and application to İŞKUR,-the official employment agency of Turkey- within 30 days following the termination of the contract is required. Duration of payments is in the range of 180-300 days depending on the duration of pre-paid insurance premiums. Payments cannot exceed 40% of the previous wage of the person unemployed and 80 % of the minimum wage (Yeldan et al., 2010).

[13] Version 1 EPL indicator includes 14 data items in the calculation of EPL statistic, version 3 EPL indicator includes 18 data items, and version 3 EPL indicator includes 21 data items.

Table 5.1. Turkey: Unemployment Insurance Beneficiaries, 2002-2009
(thousands)

Years	Beneficiaries	Number of unemployed for less than 1 year	Beneficiaries/ Short Term Unemployed (%)	Total Unemployed	Beneficiaries/Total Unemployed (%)
2002	83.1	1,668	5.0	2,464	3.4
2003	129.3	1,812	7.1	2,493	5.2
2004	145.3	1,423	10.2	2,385	6.1
2005	186.2	1,412	13.2	2,388	7.8
2006	199.5	1,449	13.8	2,328	8.6
2007	221.3	1,609	13.8	2,376	9.3
2008	331.1	1,871	17.7	2,611	12.7
2009	471.3	2,563	18.4	3,471	13.6
Source: TUIK,2012a and Ministry of Labour and Social Security, 2010					

Table 5.1 shows that in 2009, unemployment insurance scheme offered payments to 18.4 % of those unemployed for less than one year[14] and to 13.6% of the total unemployed. Coverage may be low due to any of the eligibility requirements but mostly this should be due to requirement of 600 days of premium payments prior to unemployment. Although progress has been made since the establishment of the system; still coverage is narrow, duration of payments is short, and compensation is low compared to previous wage income.

The common argument against unemployment insurance is the possibility that receiving benefits during unemployment will weaken job search effort and "willingness to accept job offers" (Elmeskov, 1993). Since the coverage is narrow, payments are low, and duration is short, unemployment benefits are not likely to have profound effects on job search effort. Nevertheless, further research is needed on the issue.

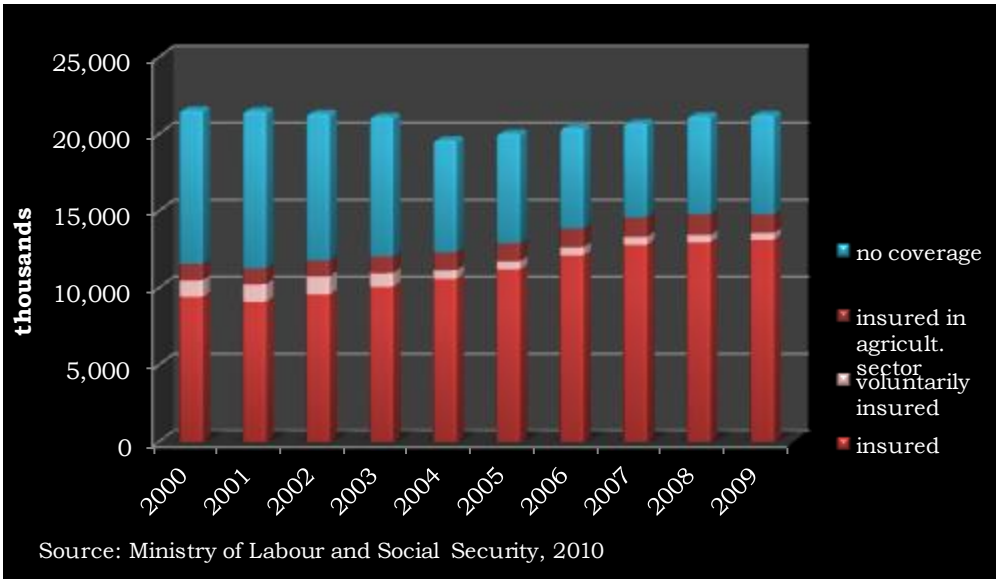
Severance and notice payments are seen to pose a bigger problem than the unemployment insurance system as an obstacle to the flexibility in the

[14] the maximum duration of benefits are 300 days and application is required within 30 days when the job is lost, therefore beneficiaries should be short term unemployed

labour market. Some argue that these payments worsen unemployment by indirectly affecting employers' decision to hire (see OECD, 1999; Salvanaes, 1997; Blanchard, 2000; Heckman and Pages, 2002; Scarpetta and Tressel, 2002 as cited in Taymaz &Özler, 2004). Such arguments totally neglect the direct effects of these payments: severance and notice payments are disincentives for firing decisions. In regards to negative effects of payments on hiring decisions, there is lack of convincing theoretical and empirical evidence that EPL has significant effects on unemployment. (see OECD,1999; Nickell, 1997; Elmeskov et al,1998). Moreover, there are problems in compliance with the regulations. For instance, firms violate the regulation by firing and rehiring their employees after five years to protect themselves against the higher cost of severance payments (because the payments rise steeply after five years) in case of a real lay-off (Onaran, 2002, p.771). According to *Turkey Labour Market Study of World Bank*, firms in Turkey use some methods to avoid severance and social security payments. They underreport wages, increase working hours without reporting, fire workers after 11 months of employment, make employees to sign undated resignation letters, make agreements with employees to pay lower amount of severance payments (2006, p.xi).

Compliance and registration to social security system are the most important aspects of the flexibility-unemployment debate in Turkey. According to recent statistics, about 70% of the employed are covered by social security (see Figure 5.7). Although this represents a big improvement over the 53.6% coverage rate in 2000, we should note that registration to social security does not mean full coverage. Underreporting of earnings to refrain from high income taxes and social security payments is a common practice. For instance, firms avoid full reporting of wages paid to their employees by making partial payments. They pay the amount of the wage equivalent to minimum wage by means of transfers between firms' accounts and individual account of the worker. The rest is paid by directly depositing cash to the worker's account, which cannot be traced back to firm's account.

Figure 5.7. Turkey: Social Security Coverage, 2000-2009



Legal authorities do not effectively monitor implementation of regulations and the number of inspections is low. According to "labour statistics" of Ministry of Labour and Social Security (MLSS), 9,278 workplaces and 146,974 insured workers were inspected - by the Board of Inspection of MLSS in 2009. 6,020 informal workers were found during the inspections (2010). The coverage of inspections is too low compared to 22.6 million workers in employment.

In 2003, non-compliance with labour market regulations was discussed in World Bank focus groups containing employers and workers. It was observed that non-compliance with the law involved such practices as employers avoiding paying full social security contributions, firing and rehiring workers before they are eligible for severance payments, outsourcing to employees, and making them operate as independent contractors. There is also the perception that "courts have limited capacity to solve employment disputes" (World Bank, 2006, p.70).

Inadequate number of supervisions also enables employers to extend working hours without any payment. For example, weekly working hours are officially limited to 45 hours; however, unpaid overtime is common practice in both formal and informal private enterprises. Employers are able

to make their employees work for longer hours above the officially allowed limits. Since unemployment is a grave problem in Turkey, workers comply with these practices when they are threatened by being a victim of mobbing at work or losing their jobs. Poor performance of legal authorities to implement regulations against these practices aggravates the problem. Since these practices are illegal, they are not reported and not easily proven; therefore, they allow an extensive amount of flexibility on the employers' side. HLFSs should at least contain a question about legal and illegal (or paid and unpaid) overtime working hours to determine the extent of this problem.

Collective (wage) bargaining and unionization is also at relatively low levels in Turkey. According to 2009 data, collective agreements are offered in 11,544 work places and only cover 504,796 workers representing only about 2% of the employed (MLSS, 2010). It is difficult to find an official record of recent unionization rate in Turkey. In an interview, MLSS (Ministry of Labour and Social Security) Minister Çelik stated that the actual unionization rate in Turkey is 8.9% (TRT, 2011).

Lack of recognition of temporary and fixed term contracts in the labour law was the second reason for the high rank of Turkey in OECD's EPL index. The labour law enacted in 2003 included several arrangements for temporary and fixed term contracts. The law enabled employers to set up a temporary employment relationship with their workers to make them work in other affiliate companies in any position or in other firms in a similar position. Although the duration of the contract is limited to six months and the contracts can be renewed at most three times, this regulation allowed a significant degree of flexibility within the firm. Furthermore, the new law allows establishment of fixed term contract under "objective reasons", the law prohibits renewal of contracts unless there are "objective reasons"; nevertheless, those "objective reasons" are not defined clearly in the law (Labour Law no. 4857, 2003). In spite of those efforts for enhanced flexibility in the labour market, significant gains in employment growth have not been observed since then.

We believe that high taxes on wage and salaried incomes and high social security contributions are the most important elements of "inflexibility" in

the Turkish labour market. Social security contributions and unemployment insurance premiums add up to 36 % (21% paid by the employer and 15% by the employee) of the total labour costs and incomes are taxed within a range of 15%-35% (MLSS, 2011 and Gelir İdaresi Başkanlığı, 2011). It seems that large fiscal deficits and threat of insolvency in the Social Security System have imposed the burden of deficient past policies on employers and workers.

Telli et al. (2006) have studied the relation between growth, taxes and employment creation in Turkey. Their model has estimated probable effects of changes in taxes on employment creation in a time span of 2003-2010. In scenario 1, they have lowered the payroll tax paid by the employers by 5% starting in 2006, from its base rate of 19% without any compensation tax for lower fiscal revenues. Unemployment rate falls by 2 percentage points by this measure in 2006 and continues to fall to 6.1% by 2010. In the second scenario, they have reduced the value added tax rate by 1%, in addition to the reduction in payroll taxes in scenario 1, starting in 2006. Unemployment rate falls to 4.5% under this scenario. In scenario 3, they have maintained the fall in taxes in scenario 1 and 2, and increased public-investment ratio to 7% by increasing direct income taxes and reduced primary surplus to GDP ratio to % 3.5. The unemployment rate is likely to fall to 3.8% by 2010 in this scenario. They have reported that the ratio of domestic debt to GDP remained constant; therefore, the scenario was manageable. Their modelling exercise has proved that payroll taxes had significant effects on the level of employment and that unemployment could be relieved without hurting fiscal balances.

Turkish Labour Law is said to be creating an “inflexible labour market” and inefficiency in the economy, therefore it is blamed for the slow growth of employment (World Bank, 2006; Ulusal İstihdam Stratejisi, 2011). However, the existence of regulation does not guarantee that labour will benefit from it as a whole. Coverage and compliance with the regulations are important aspects of the labour market flexibility discussion, which are neglected. For Turkish labour market, which is characterized by high informality and low pressure exerted by public authorities for compliance with regulations, it is

misleading to put all the blame of high unemployment on existing regulation.

In this section, we have argued that the coverage of unemployment benefit scheme is low and payments are offered for short periods. Moreover, laid-off workers could not always receive severance and notice payments, or they receive less payment than that stipulated by law due to efforts of employers to avoid these payments. Public authorities do not effectively monitor the implementation of existing law; and allowance for temporary and fixed term contracts in 2003 did not cause significant increases in employment growth. Therefore, it is important to estimate effects of flexibilization of labour market regulation more precisely, before lowering the level of protection in the labour market. Some policies such as decreasing severance payments may even have adverse effects on unemployment by decreasing the cost of lay-offs. An effort of flexibilization in the absence of significant employment growth will decrease the level of social protection, and will aggravate problems of unemployment and poverty.

5.4. Active Labour Market Programs in Turkey

Like labour market flexibility, active labour market policies (ALMP) represent one of the most popular subjects in the discussion of unemployment problem. ALMPs have many aspects, which need detailed examination; however, in this thesis, we will not concentrate on these aspects and will only briefly review ALMPs in Turkey, in reference to our assessment the official of employment strategy in Turkey, in the next section.

ALMPs consist of institutions and programs designed and established to increase employment by playing an active role as an intermediary between the potential employee and the employer. Those programs have been implemented since 1960s in different parts of the world (Batur, 2005); however, there is growing emphasis on these programs in Turkey within the process of compliance with European Union norms and within the framework of “European Employment Strategy”.

In Turkey, İŞKUR designs, implements and evaluates these programs. İŞKUR offers job search assistance to the unemployed. İŞKUR also provides several training opportunities to the unemployed. Those are vocational training with employment guarantee (İstihdam Garantili İşgücü Yetiştirme Kursları), entrepreneurial training for those who would like to start a business (Kendi İşini Kurmak İsteyenlere Yönelik Meslek Edindirme Kursları), additional vocational training to the unemployed with certain vocational skills or experience (Meslek Geliştirme Kursları), specific training to targeted groups (the disabled, ex-convicts, etc.), and vocational training for the unemployed receiving unemployment benefits. During 2002-2008 period, 114,395 unemployed people have participated in the training activities. In 2009, these activities were increased by additional programs of internship and public works programs (İŞKUR, 2011).

The most effective ALMP for creating employment is "training with employment guarantee". Under the agreement, it is guaranteed that at least 50 % of the competent trainees will be employed by the cooperating institution or firm. 16,240 trainees have participated in 1090 training programs during 2003-2006; 5,634 of the trainees got employed after completion of the program (4,868 of the trainees who found jobs were trained in the programs with employment guarantee) The rate of success (in terms of being employed) was 35% (Karabulut, 2007). Işığıçok and Emirgil (2009) evaluated İŞKUR's vocational training programs with employment guarantee in Bursa, in 2007. 4,728 participants were involved in these programs, 4,092 of whom successfully completed the programs with 4,059 of them being employed after the program. Although the program was successful in providing employment to most of its participants, participation rate of the unemployed in Bursa, who are registered to İŞKUR, was only 9.1 %.

Public Works Programs (Toplum Yararına Çalışma Programları) are targeted for specific disadvantaged groups such as victims of natural disasters or workers losing their jobs due to privatization. These programs offer jobs related to provision of support to the people adversely affected by these events and these jobs are offered at most for six months. The first program was targeted to unemployed due to privatization and benefited 846

workers, second program was addressed to the victims of the Marmara earthquake in 1999 earthquake and was carried in Sakarya, Bolu, Düzce, Yalova and Kocaeli, providing temporary employment for 4,605 people.(Karabulut, 2007).

İŞKUR also offers support to the self-employed and microenterprises, in order to promote employment growth. For instance, entrepreneurs are provided with training and guidance to start their own businesses. Business Improvement Centres (İş Geliştirme Merkezleri) are organized to offer bureau, clerical and consultancy services. There are training programs such as the Training Program for Young Entrepreneurs (Genç Girişimci Yetiştirme Programı), which promotes the establishment of new businesses by new university graduates (Karabulut, 2007).

Active labour market policies and their use in combating unemployment is an extensive issue. In this thesis, we have only briefly mentioned ALMPs in Turkey. In Turkey, ALMPs do not have a long history, whereas they have been implemented specifically in developed countries since 1960s. Limited information and data about the implementation and effects of these programs are provided by İŞKUR. These data suggest that number of beneficiaries are insignificant, compared to the size of unemployment problem in Turkey. Therefore, there is a lot of room for improvement. These programs should be provided with higher financial resources from the general budget and should reach a higher number of unemployed. Furthermore, more data should be collected and should be publicized by İŞKUR about participation, success, and costs of these programs. Literature on ALMPs in Turkey is also very limited, more research is needed to evaluate and improve ALMPs in Turkey.

5.5 A Critical Assessment of Employment Strategy in Turkey

Main regulatory institution of the Turkish labour market is the Ministry of Labour and Social Security (MLSS). In 1983, the two ministries, Ministry of Labour and the Ministry of Social Security were merged to form MLSS. The Ministry's basic responsibilities are to regulate and supervise working life, employee-employer relations and provide social security to Turkish

citizens. It is the main organ to produce labour market and social security policies, to monitor international developments in the area and to promote any effort in the provision of peace in working life. It is also responsible for auditing the implementation of labour market regulation and supervises compliance with the existing regulations[15].

In the Strategic Plan for 2009-2013, the Ministry have set their main objectives as making changes in Labour Law for ensuring "safe" flexibility (güvenceli esneklik) in the labour market, promotion of formal employment and devising of measures against informality and reducing informal employment, workers' complaints, occupational accidents and illnesses by adopting "preventative inspection approach". Financial deficit in social security system, high level of informal employment, high rate of unemployment and youth unemployment, low educational level of labour force, labour slack in the agricultural sector, lack of education-employment relationship, pressures and threats from external competition, and financial crises are recognized as major obstacles against the attainment of these objectives (T.C. Çalışma ve Sosyal Güvenlik Bakanlığı, 2008).

İŞKUR (Turkish Employment Agency) is the organ of the Ministry, which has an active role in the implementation of employment strategy. İŞKUR's main responsibilities are assisting unemployment reduction efforts and establishment of a "national employment strategy", creating and implementing active labour market programs, offering consultancy services in job seeking and vocational training and administrating unemployment insurance payments (Türkiye İş Kurumu, 2007). In 2011-2015 Strategic Plan of İŞKUR, main objectives of the agency in the planning horizon were determined as increasing its effectiveness as an employment agency by increasing the amount and intensity of mediation activities in job seeking; increasing the amount, availability and efficiency of active labour market programs and increasing the effectiveness of labour market monitoring and analysis. In addition to challenges defined in MLSS strategy, lack of adequate and trained staff, lack of coordination within the institution, poor

[15] See www.calisma.gov.tr for further reference.

management of existing resources, poor publicity of existing activities, low level of cooperation with local administrations, universities and vocational training institutions, inadequacy of data related to the labour market, inadequacy of job seeking services offered to qualified workers are recognized as the main obstacles confronting the agency (Türkiye İş Kurumu, 2011).

The Strategic Plan of the Ministry focuses on issues of "flexibility" and "formality". Although the Plan addresses itself to fundamental problems in the Turkish labour market as the "threats" (referred as obstacles in the above paragraphs) of a SWOT analysis for the Strategic Plan, it does not include "objectives and strategies" on these issues. So, the strategy of the Ministry is confined to improvement of the existing regulatory and administrative tasks, except for the focus on "flexibility" and "active labour market policies", which could only be part of a complete unemployment combating strategy. İŞKUR's strategy focuses on the active labour market programs and assistance in employment seeking activities for the unemployed, which are also among the main administrative responsibilities of the agency. Therefore, it is not possible to talk about a complete official strategy of employment creation or unemployment reduction.

The government has also been criticized for lack of such a strategy, while unemployment is one of the most urgent problems confronting the economy. In 2009, government officials started to prepare "the National Employment Strategy". Although the draft document was discussed in the Board of Economic Coordination (Ekonomi Koordinasyon Kurulu) on the ninth of June, 2010 (Yıldırım , 2010), it has not yet been published as an official document. However, the draft can be regarded and evaluated as the official view of labour market problems and the agenda for future policies.

The Strategy has four basic objectives: enhancement of education-employment relationship; flexibilization of the labour market; increasing employment of disadvantaged groups such as women and the young; and reinforcement of employment-social protection relationship. 2023 target rate for unemployment rate and employment rate are set as 5 % and 50 %, respectively. Some principles adopted in the document such as "protecting people instead of jobs" or "avoiding additional burdens on employers" define

the outline for policies that will be implemented to reach the targets. Informality is regarded as one of the obstacles to these aims; therefore, strategies for combating informality are also included in the document. Inadequacy of active labour market programs and institutional weaknesses of İŞKUR are also recognized in the Strategy (Ulusal İstihdam Stratejisi, 2011).

Regarding the first objective of enhancement of education-employment relationship, improvements in general and vocational education systems are envisaged. As stated in the strategy document; "National Vocational Standards" will be prepared, vocational education programs will be revised according to these standards, active labour market programs will be designed to be more effective and universal(Ulusal İstihdam Stratejisi, 2011).

The second objective, flexibilization of the labour market is the most controversial issue of the Strategy. As the Strategy document states: Legal basis for establishing flexible type of employment relations will be provided with equal amount of social protection to flexible workers as offered to permanent workers; severance payment system will be reformed and "local minimum wage" determination will be introduced in an effort to increase flexibility of the labour market. Decreasing Turkey's EPL index value to the OECD average and increasing the share of employment under fixed contracts and temporary contracts in total employment to the EU average are included among the numerical targets of flexibilization. A comprehensive reform of the severance payment system is planned in an attempt to decrease financial burden on the employers. First, the amount of the severance payment in return for one year of employment will be lowered to the OECD average. A fund will be established to collect premiums from the employers and some amount of contribution to this Fund will be provided from the Unemployment Insurance Fund. The fund will work as the sum of individual accounts and workers who have been formally employed at least in the past ten years will be eligible to withdraw partial amounts from the account when they are unemployed with the remainder to be paid after retirement (Ulusal İstihdam Stratejisi, 2011).

In realization of the third objective, some incentives such as tax or social security premium exemptions, targeted labour market programs, income support will be offered to increase the employment of disadvantaged groups such as women, young people, the disabled and the long-term employed. As regards to the last objective, the improvement of the social security system and the coverage of unemployment insurance system is envisaged (Ulusal İstihdam Stratejisi, 2011).

The Strategy clearly addresses some of the fundamental problems in the Turkish labour market such as informality, low rates of female participation, high unemployment of the youth and the educated; nevertheless, it does not fulfil the need of a complete labour market strategy. First of all, the Strategy does not include an analysis of recent macroeconomic developments in Turkey and in the world and how they interact with the unemployment problem in Turkey. The causes of low employment creation in a period of high economic growth is attributed to "structural problems" in the labour market (such as labour shedding in agricultural sector) and high growth of total factor productivity. The causalities between economic growth, capital accumulation, productivity growth, financial crises, labour market flexibility, and unemployment in Turkey are not investigated in depth. The Strategy lacks a sound theoretical and scientific basis.

As a direct reflection of the exclusion of these factors of central importance, unemployment reduction policy is confined to improvement of educational system, enhancement of active labour market programs and attainment of more flexibility in the labour market. Demand side policies to deal with the unemployment problem and employment creation issues are by and large neglected. The total burden of the problem is placed on the unemployed with the role of employers to participate in employment creation relegated very much to the background.

As we have emphasized before, lack of labour market flexibility does not provide a sufficient basis for explaining the unemployment problem especially in countries like Turkey. Employment creating investments have a key role in successfully tackling this problem. In sharp contrast with our

approach, the Strategy focuses mainly on the flexibility issue as a solution to the unemployment problem.

Apart from its failure to provide a sound theoretical basis, the strategy document overlooks the fact that the increased flexibility in the labour market following the changes in the Labour Law in 2003 has not generated any major improvement in unemployment problem. "Decreasing Turkey's EPL index value to the OECD average" and "increasing the share of employment under fixed contracts and temporary contracts in total employment to the EU average" are superficial targets, definitely without adequate consideration on the issues. As our detailed previous discussion on these issues have shown, the degree of labour market flexibility is conditional on coverage and compliance issues; EPL index is not a good measure since it only includes some regulations in the labour market and excludes other elements such as coverage and compliance issues. According to the Strategy document, Turkey's current score for OECD EPL index is 3.46 and one of the objectives of the Strategy is decreasing Turkey's score to 2.23, representing the OECD average for the index. Such a decrease in the index value may not offer significant gains in employment, since the index is not already a good indicator of labour market flexibility. "Increasing the share of employment under fixed contracts and temporary contracts in total employment to the EU average" is also pointless, because there is always the possibility to increase the share of these types of employment without changing the total level of employment. If "more flexibility" is seen as an ultimate contributor to employment creation, at least better defined targets are needed.

The reform in severance and notice payments regulation is another focal point in the Strategy. A guaranteed fund, which would work as a social security mechanism, will be desirable. 43% of the worker complaints were about notice and severance payments according to the information given by the MLSS for December 2009. A mechanism, which will automatically grant these payments in lay-offs, will save time and effort, and will ensure compliance with the regulation. However, the details such as who will pay for the fund and how will the employers' contribution be guaranteed in this environment of informality is important. It is also hard to establish a

connection between this much emphasis on the severance issue with the issue of unemployment reduction. The claim that severance payments affect hiring decisions of employers lacks both theoretical and empirical backing. Severance payments may work as a mechanism of employment protection in short term cyclical downturns. Thus, for maintaining the level of employment during crises, easing the burden on employers by lowering payroll taxes or offering subsidies may be a more effective option.

There is also too much reliance on "active labour market policies" for the solution of unemployment in the National Employment Strategy and Strategy Documents of MLSS and İŞKUR. AMLPs are important efforts for tackling the problem of unemployment. They provide assistance and training to the unemployed to enhance their probability to find employment. They can provide resources for potential entrepreneurs to start a business and create additional employment. They may also work as a social safety net in times of crises and disasters by providing the victims with temporary employment. However, AMLPs can only reach a limited number people and have limited capacity of creating long term employment. Since AMLPs are associated with such important weaknesses, AMLPs can only serve as a supplementary element of an extensive employment strategy based on employment-generating investments. They cannot be a substitute for such a complete strategy. For the sake of fiscal solvency and social efficiency, these programs should also be closely monitored and evaluated on the basis of performance indicators.

The strategy documents of MLSS and İŞKUR and the National Employment Strategy also recognize the institutional weaknesses and inadequacies in İŞKUR's implementation of ALMPs. The authorities seem determined to improve quantity and quality of the existing programs. However, detailed assessments of these programs are not available. Studies on the impact of previous programs and policies, their cost and benefit evaluations, and research on the target groups, current vacancies and on the needs of the labour market will no doubt contribute to the designing of more successful programs.

In sum, a better analysis of the problems surrounding the labour market with emphasis on unemployment is needed before a complete strategy to fight against unemployment can be designed. This strategy should involve;

- a better understanding of the interaction between fundamental labour market problems and the current social and economic developments
- a more careful targeting of labour market indicators with a critical approach on existing definitions and measurements of the variables such as "labour market flexibility"
- a strategy for promoting employment creating investments and growth rather than relying simply on labour market flexibility and the improvement of the qualifications of the workforce through formal education and ALMP training
- more research and analysis on a sectoral basis and on targeted policies with cost-benefit considerations
- a more comprehensive approach, activating the potential contributions of workers and their representative organizations, employers and public institutions in the solution of the unemployment problem
- a clearer definition of the responsibilities of public institutions and an increase in their cooperation within each other for a more effective design and implementation of policies

5.6 Conclusion

This chapter has provided a review of previous studies on unemployment problem, analysis of trends in labour market indicators in connection with trends in some key macroeconomic variables, discussion on labour market flexibility, and a critical assessment of the existing official employment strategies.

The review of the current literature suggested a positive causality between output growth and employment growth. There are, however, several explanations for the ineffectiveness of high growth on unemployment, such as excess capacity, sectoral differences in employment

creation, hysteresis effects, low level of wage/profit ratio etc. Based on the analysis of labour market trends and macroeconomic variables, it is stated that slow employment creation in the face of a much higher growth of labour force lies at the root of the unemployment problem. However, more research is needed to determine the causalities between unemployment and other macroeconomic variables such as capital accumulation, productivity growth, or external trade.

Since there is a growing interest in "flexibilization" policies to reduce unemployment, a section was devoted to the extent of labour market flexibility in Turkey. It was shown that coverage of labour market regulations is low due to high share of informality and low degree of compliance with regulations, reflecting shortcomings in effective implementation and monitoring. Employers engage in illegal practices to evade costs of employer contributions to social security. Coverage of collective bargaining and unionization is low. Employers have been enjoying a good amount of both wage and numerical flexibility[16], due to their increased bargaining power, thanks to high level of unemployment, segmented structure of the labour market and poor supervision of legal authorities.

The discussion on the probable reasons for unemployment was followed by a critical review of the strategies of public authorities. It was found that there is still a lack of extensive analysis and a comprehensive strategy for unemployment problem at the official level. The existing strategies solely rely on supply-side policies of improvement in educational system, flexibilization of labour market and ALMPs.

In sum, reduction of unemployment requires "an employment creation strategy" in which an active role is played by both the public and private sectors. The strategy should be based on promoting employment creating

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[16] Wage flexibility is defined as "the speed of adjustment in wages in the labor market". Wage flexibility generally refers to "the downward flexibility of real and/or nominal wages" which is affected by "wage setting institutions and tax and social spending policies. Numerical flexibility refers to "how fast and how costly a firm can adjust by hirings, layoffs, and firings the composition and the number of workers it employs". EPL is an important determinant of numerical flexibility (Taymaz & Özler, 2004).

investments with complementary policies for increasing participation in the labour market, improving educational status and skills of the labour force, increasing employment rate for the disadvantaged groups such as women and the young. There should be an “employment creation” emphasis in the strategies of economic growth and development and external trade and in the implementation of monetary and fiscal policies. Those strategies and policies should work in cooperation to realize the ultimate goal of reduction in unemployment.

CHAPTER 6

EXPERIENCE OF OTHER COUNTRIES IN REDUCING UNEMPLOYMENT AND LESSONS FOR TURKEY

Since the aim of this thesis is to provide policy suggestions for the unemployment problem in Turkey, other countries' experience will be examined to derive lessons from the actual experience of the countries chosen.

The Netherlands, Ireland and Argentina are the countries of interest in this chapter. These countries, specifically the Netherlands and Ireland, have a prominent place in the current economics literature for their successful labour market policy. Moreover, with their different characteristics and different set of policies to combat unemployment they present ideal cases to examine in this chapter. For instance, the Netherlands and Ireland are developed countries and Argentina is a developing country; The Netherlands and Ireland are small countries with high shares of exports in their GDPs; however, Argentina is a large country with a large domestic market. In the Netherlands, labour market reforms and supply-side policies were used to reduce unemployment; in Ireland export-led growth strategy was instrumental in bringing about a significant fall in unemployment; in Argentina the decrease in unemployment started after a break with neoliberal economic policies and a focus on the growth of domestic production.

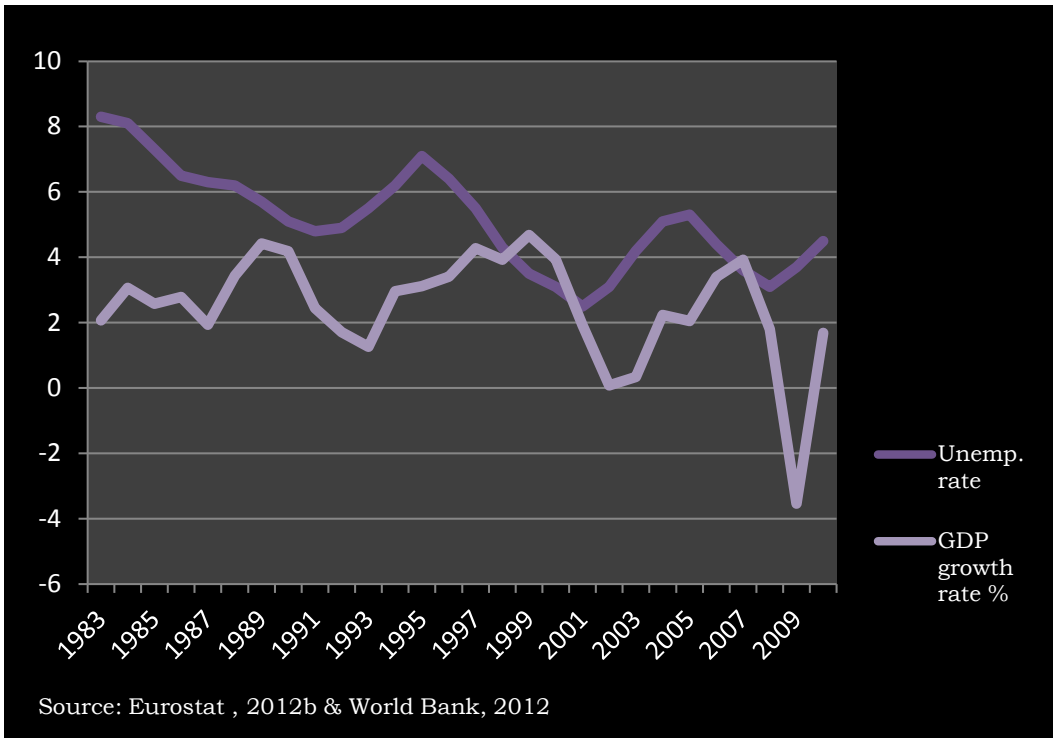
6.1. The Dutch Employment Miracle

6.1.1 Dutch economic growth and labour market performance, 1983-2010

Netherlands' performance in reducing unemployment from the mid 1980s until the early 2000s is called "the Dutch Miracle" in economics

literature. In 1970, unemployment rate in the Netherlands was 1 % after an era of high growth; however, unemployment rate has mounted up after the recessions of 1974-75 and 1980-81, increasing to 8.3 % in 1983 (Schmid, 1997). Then, unemployment rate has decreased again from 8.3 % (1983) to 2.5 % (2001). Figure 6.1 below shows growth and unemployment during the 1983-2010 period.

Figure 6.1. Netherlands: Unemployment Rate, 1983-2010



According to Schmid (1997), Netherland's performance was miraculous which was reflected in the high level of employment growth and high employment elasticity. Between 1971 and 1991, the number of employees rose from 4.8 to 6.5 million, in other words by about 36%. He states that during the same period the rise in employment in the US was 33% and the rise in West Germany was only 8%. (IAB 1994, as cited in Schmid, 1997). Between 1974 and 1995, 1 percentage point growth in the Netherlands

increased employment by 0.41%; in the US by 0.75% and in West Germany only by only 0.23%.

In the post war period, the Netherlands had reached high rates of growth, before growth has started to slow down in the early 1970s following the trends in the world economy. During the1947-1972 period, average annual growth rate was 5.07%, which slowed down to 2.68% between 1973-1979 and to 1.22% between 1980-1987 (Van Ark & Jong, 1996)

Table 6.1. Netherlands: Trends in Growth, Unemployment, Employment and Employment Elasticity of Growth, 1983-2008

Years	Annual ave. unemp. rate %	Annual ave. GDP growth rate %	Annual ave. employment growth %*	Employment elasticity of growth
1983-1991	6.5	3.0	2.6	2.2
1992-1997	5.9	2.8	1.9	2.1
1998-2001	3.4	3.6	2.9	0.9
2002-2008	4.1	2.0	0.8	2.1
Source: Eurostat, 2012a; UN, 2012b and own calculations				
*Employment data for 1984 and 1986 are not available				

Table 6.1 shows that during the 1983-2001 period, unemployment decreased significantly, thanks to high average annual growth rates of employment. Employment elasticity of growth during the period was high, in spite of a growth rate of around 3 %, which is not impressive. During the "employment miracle" period of 1983-1991 the unemployment rate decreased from 8.3 % (1983) to 4.8 % (1991). In the 1983-2001 period, average annual growth rates were 2.5 % in the EU countries and 3 % in the OECD countries. Unemployment rate for the EU countries fluctuated within a range of 7-11 % (1991-2001), while average unemployment rate for OECD countries was between 6-8 % (1983-2001) (World Bank, 2012). The Dutch economy managed to decrease its unemployment rate to lower levels with barely the same rates of growth as EU and OECD averages. It is obvious that the "Dutch employment miracle" has relied on a set of specific policies,

economic and social conditions rather than a miraculous performance of economic growth. During the 2002-2008 period unemployment is preserved at lower levels, although there are slight increases in the unemployment rate. The increase in unemployment during 2009-2010 period is due to sharp decreases in the growth rate, thanks to global crisis.

In the 1988-2001 period, average annual growth of labour force was 1.6% compared to 2.3 % annual average growth of employment which explains the significant fall in unemployment.

Table 6.2 indicates the rise in labour force participation rates, particularly the rise in female participation rates. The average annual female employment growth during 1988-2001 period was 3.7 %. Not only female labour force participation rate but also the share of female workers in total employment increased. The share of part-time employment in total employment also increased significantly during this period, which can in large part be explained by the increase in female part-time employment. Schmid (1997) states that over a period of 25 years, and specifically in the 1980s, the share of part-time work has risen from about 5% to 35% as a whole, and from 15% to 65% for female workers. Growth of employment was concentrated mostly in services sector. In 1983, the shares of agricultural, industrial and services sector employment in total employment were 5.4 %, 29.0 % and 65.5 %, respectively, which changed to 2.6%, 19.2 % and 78 % in 2008, reflecting a gradual decrease in the shares of agricultural and industrial employment (Eurostat, 2012b).

Table 6.2- Netherlands: Labour Market Indicators, 1983-2008

Years	LF Growth %	LFP Rate %	Female LFP Rate %	Emp. Growth %	Female Emp. Growth %	Part-Time Jobs / Total Emp.
1983	0.8	51.6	34.4	N/A	N/A	N/A
1984	1.3	N/A	N/A	N/A	N/A	N/A
1985	1.3	51.1	34.8	N/A	N/A	N/A
1986	1.3	51.3	35.9	N/A	N/A	N/A
1987	1.5	64.3	48.9	N/A	N/A	N/A
1988	0.7	65.3	50.6	0.9	3.2	N/A
1989	1.2	65.6	51.1	2.0	2.9	N/A
1990	2.8	66.7	53.1	4.0	6.0	N/A
1991	1.6	67.6	54.5	2.4	4.0	N/A
1992	1.4	67.5	55	3.2	6.1	34.8
1993	0.9	68	56.3	0.4	1.9	35.2
1994	1.8	68.6	57.3	1.0	2.7	36.7
1995	0.9	70.1	59.1	1.2	1.2	37.4
1996	1.3	70.8	60.2	2.2	3.2	38.0
1997	2.7	72.1	61.9	3.7	4.3	37.9
1998	1.7	N/A	N/A	3.1	3.9	38.9
1999	1.9	N/A	N/A	2.8	4.7	39.7
2000	2.3	63.3	53.9	3.4	4.1	41.5
2001	1.8	63.4	54.4	2.4	3.7	42.2
2002	1.6	N/A	N/A	1.2	1.7	43.9
2003	0.5	64.3	55.9	-0.5	0.6	45.0
2004	0.7	N/A	N/A	-0.6	0.1	45.5
2005	0.5	63.4	56.3	0.1	1.2	46.1
2006	0.8	N/A	N/A	1.7	2.2	46.2
2007	1.8	65.1	58.4	2.4	3.2	46.8
2008	1.5	65.6	59.2	1.5	2.2	47.3
LFP: Labour force participation, emp.: employment						
Source: ILO, 2012, World Bank, 2012, EuroStat,2012b and own calculations						

6.1.2 Reforms and Policies

A review of literature on "Dutch Employment Miracle" of 1980s and 1990s suggests that the Miracle was realized under a social consensus and by means of reforms in labour market regulations and social policies. Cooperation in economic and social issues and corporatism have been traditions in Dutch culture for long. "A statutory wage policy subject to bipartite negotiations" was imposed in the Netherlands in the post-war period until 1970. After this period, the government retained the right to intervene in cases of wage increases and did so on seven occasions between 1970 and 1982 (Ebbinghaus & Hassel, 1999). However, Wassenaar Agreement in 1982 has marked the beginning of policies, which continued throughout the Miracle period.

The employers, the unions, and the government reached an agreement in 1982, following the severe economic crisis of 1980-81. Gross government spending as a share of GDP and the tax burden have increased dramatically, and a high level of public sector debt was accumulated (Van der Hoek, 2000 as cited in Schreuder, 2001).

According to Visser and Hemerijck (1997), Wassenaar was an "agreement on exchanging wage restraint for jobs" (as cited in Salverda, 2005). The authors interpret the situation as cooperation for overcoming the economic crisis and high unemployment. On the other hand, according to Ebbinghaus and Hassel (1999), under Wassenaar the social partners agreed to forestall state intervention in wage determination. Whatever the motivation for the partners, Wassenaar was aimed at keeping wages below inflation and productivity growth and offered employees the chance of negotiation on working time, in return (Ebbinghaus and Hassel, 1999). Table 6.3 shows that during the 1982-1985 period, average annual growth in the CPI (consumer price index) outpaced the average annual growth in nominal wages and productivity (GDP/worker) combined. During the 1986-1989 period, annual average increase in the CPI was equivalent to the sum of growth rates of nominal wages and productivity. However, after 1990 wages have grown over the CPI, along with a higher growth in productivity. As whole, unexpected large increases in wages over inflation and productivity growth were not observed during the miracle period. The rise of

nominal wages after 1990 may be due to the tightening of labour market, as the fall in unemployment continued during this period.

In 1993, a new agreement (New Course) paved the way for “responsible wage development” (Visser and Hemerijck 1997, p.112 as cited in Ebbinghaus and Hassel, 1999).

Table 6.3. Netherlands: Average Annual Growth in Wages, Inflation and Productivity Growth, 1982-2005

Period	Average annual change in CPI (%)	Average annual growth in nominal wages* (%)	Average annual growth in GDP per worker (%)
1982-1985	3.6	1.7	0.5
1986-1989	2.1	0.6	1.5
1990-1993	1.2	1.0	1.2
1995-2000**	0.6	1.3	1.5
2002-2005	0.3	1.6	2.0
Source: ILO, 2012; World Bank, 2012 and own calculations			
*Earning per hour (Euro) in several sectors (ISIC Rev.2 untill 1994 and ISIC Rev.3 afterwards), data is available until 2006			
** In 1994, statistics for wages started to be derived by the new International Standard Industrial Classification and the statistics for the year 1994 is obtained in October, whereas the statistics for other years are obtained in December. Prior to 2001, 1EUR is estimated as 2.204 NLG. Therefore these dates are not included in calculations.			

Becker believes that changes in economic and political environment made unions agree on wage cuts at the time of Wassenaar Agreement. In the late 1970s, Keynesianism and "leftist ideas" started to lose influence on economic and social policy; power relations shifted in favour of capital and away from labour; unemployment has increased substantially and in 1982 a new "Christian-Liberal" government was elected. This government expressed its intention of avoiding high levels of fiscal deficits, more social rights, and wage increases. The unfavourable economic and political developments forced the unions agree on "wage moderation" in exchange for decreased working hours, which was seen as the cure for high unemployment by the unions then.

In 1983, 1985 and 1987 (the years for which the working hours data are available) average weekly working hours (part-time employed are included in the calculations) were 37.7, 37.8 and 33.9 hours, respectively (Eurostat, 2012b). The remarkable fall in 1987 could be explained by a fall in full-time working hours, by the fall in average working hours due to increase in the number of part-timers, by the effect of both or by a change in statistical methods. Unfortunately, information on statistical methods and data for the share of part-timers during 1980s are not available (see table 6.2). Average weekly working hours data suggest a significant and gradual decrease from 37.7 hours in 1983 to 30.8 hours in 2008 (EuroStat, 2012b), which could at least partly be explained by the rapid increase in the share of part-time employment.

As stated in the previous section, the share of part-time employment in total employment gradually increased (see table 6.2). Part-time employment was promoted by several regulations during the Miracle period. In 1993, all part-time workers were guaranteed a legal minimum wage and in 1994 they were included in the pension funds. (Van Oorschot 2004, p.20, as cited in Neukirch, 2010). In 1996, WOA (the Act on non-discrimination on grounds of working time) prohibited discrimination between full-time and part-time employees. The regulations protected part-timers against discrimination, in such issues like access to training and promotion opportunities. In 2000, the Part-Time Employment Act enabled workers to request an increase or a decrease in hours worked and employers were obliged to respond to these demands, unless there was "substantive business reason" to refuse the claim. Other regulations have given part-timers the opportunity of equal hourly earnings, equal social benefits, equal paid holidays and equal rights to be "on leave" during sickness as those enjoyed by full-time workers (Cuesta & Martin, 2009).

Social security and tax reforms were carried out during the 1980s, with a view to decrease the burden on government's budget or on employers in some cases, and with the aim of complementing or compensating for the changes in labour market policies in other cases. In the period of 1985-1987 "the basic replacement ratio" (ratio of benefits to wages) for unemployment, sickness and disability was decreased to 70% from 80%

and eligibility conditions were tightened. In 1994, the duration of sickness benefits was lowered to six weeks from one year before it was again increased to one year in 1996. In 1993, eligibility rules were tightened. On the other hand, provision of benefits was extended from 68 % of the employees in 1984 to 88 % of the employees in 1989 (Teuling et al,1997, as cited in Hartog, 1999). By 1998, the minimum unemployment benefit was equivalent to 60 % of the average wage, after a decline of 9 percentage points from the early 1980s (Tille & Yi, 2001).

Both Ebbinghaus and Hassel (1999) and Hartog (1999) suggest that collective agreements have offset the effects of these reforms. For instance, the fall in disability benefits were offset by the extensions of supplementary benefits in 1989 (Hartgog, 1999). In spite of the decreases in benefits, the number of benefit recipients (recipients of sickness and disability benefits and the unemployed receiving unemployment benefits for six months) increased from 1.2 million in 1983 to 1.9 million in 1995. Moreover, the lowest replacement ratio (the ratio of minimum benefit to minimum wage level) has remained stagnant during the period of 1983-1997 (Hartog, 1999). The evidence suggests that in spite of the efforts of reform, the Dutch workers and unemployed enjoyed an important amount of transfers and a high level of social security during the Miracle period of 1983-2001.

Taxes were lowered to compensate for the lower income related to wage moderation. The wedge (the difference between gross and net wages) as a share of gross incomes were diminished from 34% (1983) to 21% (1996) for minimum wage recipients and from 48 % to 41 % for the “modal employee” (an employee with a wage at the lowest boundary for compulsory social insurance) (Hartog, 1999).

Active labour market policies (ALMP) were also used as supplementary policies to other policies related with employment and the labour market. Training programs have been organized for the long term unemployed to improve their technical skills, since the early 1980’s. There were micro-enterprise development programs to assist entrepreneurs in starting up small businesses (during an unknown period)? (Meager and Evans as cited in Dar & Tzannatos, 1999); however, only 50 % of these businesses have survived after four years. In 1994, public expenditures on active labour

market programs accounted for 5.1 % of GDP, and the number of participants in these programs were equivalent to 8 % of the labour force (Nickell & Van Ours, 2000). Dar & Tzannatos (1999) had a smaller estimate for the years 1995-96, concerning the share of ALMPs in GDP. According to their estimate, 1.37 % of GDP has been spent on ALMPs, with training programs (54.7%) and employment services (26.3 %) having the biggest share in total expenditure on ALMPs.

During 1990s, "Socially purposeful jobs (WSW)" were offered by ordinary firms or by "social job centers" (which are the foundations specializing in these types of jobs) to disabled workers. The subsidized jobs (WlW-jobs) were intended for workers younger under the age of 23 and for long-term unemployed workers receiving benefits. Participants in the program were hired by the local government for a maximum of 2 years, which might have served as a job experience to qualify for a job at a commercial firm. There were also subsidies for long-term unemployed. For instance, employers hiring long-term unemployed, and providing training schemes were offered tax cuts (Nickell & Van Ours, 2000).

Since 2002, one-stop-shops (CWI) have been dealing with unemployed persons in informing and assessing job seekers. "Placement and more intensive consulting of job seekers" were contracted out to private service providers Their payment was dependent upon their success in job placement (Eichhorst & Konle-Seidl, 2005).

6.1.3 Assessment of the "Miracle"

The review of the Netherlands experience suggests that the employment miracle does not rest on impressive growth performance; rather it came along with collectively decided decreases in wages, changes in labour market institutions and social spending policies, and remarkable increase in part-time employment. Therefore, the Dutch Miracle of employment seems to be a result of supply-side policies concentrating on more labour market flexibility. This section attempts to develop further insights to the relationship between employment growth and these supply-side policies and to find out whether they are applicable to the Turkish case.

In the literature on Dutch employment growth, there is excessive reliance on successful implementation of "corporatist" policies to explain the

stunning performance in employment growth (see Tille & Yi, 2001; Nickell & Van Ours, 2000). Hartog (1999) defines corporatism as a form of organization in which the government and the "organized interests" (trade unions or employer associations) develop and implement socioeconomic policies. In this mechanism, the government does not "operate at a distance" and organized interests do not have to lobby. Although "corporatism" has deeper roots in Dutch socioeconomic culture (see Schreuder, 2001), there is high emphasis on the "Wassenaar Agreement" as the start of successful corporatist policies of the Miracle period (see Tille & Yi, 2001). On the other hand, some authors believe that Dutch corporatism and the Wassenaar Agreement are slightly exaggerated with respect to their effects on employment growth.

For instance, Becker believes that the policies of wage restraint, lower taxes, and social charges were not accompanied by "a priority commitment to employment growth" by the government or by "the institutionalization of incentives for the employers to extend their investments". In addition, he argues that the Dutch unions agreed on wage moderation as "the best formula" to increase employment in about 1990 and particularly after 1995, long after the wage moderation policies have started. He believes that the unions justified the wage moderation policy of the 1980s, later in the 1990s when employment has significantly increased, with a view to "legitimate their acquiescence to drastic wage restraint" throughout the 1980s. (Becker, 2001). Becker points out that the Dutch Corporatism may also reflect power relations and competition between organized interests. Moreover, its role as an ultimate contributor to the solution of unemployment problem is slightly overstated due to absence of policies with "a priority commitment to employment growth" (as quoted from Becker)

In addition, some authors believe that "wage restraint", the most important policy attributed to reduction of unemployment, was not the outcome of Wassenaar and Dutch Corporatism. Some state that the effects of Wassenaar Accord should not be overestimated because wage restraint had already started as early as 1979 (SCP 2000, Delsen, 2000 and Salverda, 2000, as cited in Salverda, 2005). Hartog claims that real wages were stable between 1975 and 1979, then decreased and stabilized in 1981

again (1999). Some believe that “wage moderation” was mostly due to labour market pressures rather than social consensus (Hartog, 1999; Delsen 2000, as cited in Salverda, 2005); others assert that power relations were as important as consensus for agreements like Wassenaar (Becker, 2001, as cited in Salverda, 2005).

The causality between wage restraints and the increase in employment is another issue criticized by the researchers. Some believe that there is strong causality between wage restraints and growth of employment, while others assert that the occurrence of both at the same period is a coincidence. Hartog argues that during the 1980s, the government pursued a policy of reducing public sector wage bill, social transfers and the minimum wage. Previously, public sector wages, social security benefits and the minimum wage were indexed to private sector wages. Government policies and wage restraint caused the share of labour income in private sector value added to fall by 10 percentage points. He estimated that unemployment would have been higher by 125,000 persons, if the indexation had continued; moreover, the number of unemployed would have increased by 275,000 persons, if the share of labour income had been preserved. Had both the indexation and constant share of labour income occurred, private sector employment would have been lower by 8 % than actually observed in 1990 (Hartog, 1999).

Becker, on the other hand, rejects the idea that "wage restraint" explains 50 % of Dutch employment growth, through its effect on increasing Netherlands' international competitiveness (Becker, 2001). He acknowledges that if employment growth had been the result of effective control on wage increases, it would have also been the result of higher profits, exports, investment, and economic growth. However, he states that domestic investment significantly increased only between 1983 and 1985, and it has not been high by international standards; in addition, he quotes that export growth did not exceed the EU average (Kool et al., 1998, p.319; Salverda, 1999, p.225, as cited in Becker, 2001). Becker (2005) and Salverda (2005) argue that the Dutch Miracle is not a “miracle” at all, because they believe the gradual growth in employment rests on “redistribution” of working hours between full-time and part-time employed. Becker asserts that the

Miracle stands on a spectacular increase of part-time jobs in the service sector, which were mostly taken up by women and the youth. In addition, “continuous increase in two-income households” which has grown by 50% during 1982-1994 period, (SCP, 1998 as cited in Becker, 2005) provided the necessary purchasing power (Becker, 2005), thereby supporting the growth of part-time employment which is characterized by lower income due to reduced hours of work.

According to Salverda (2005), the Miracle was realized by rapid growth of part-time employment in which female workers “traded places” with the youth. He states that female employment has risen by 150 %, while male employment has grown by less than a quarter. However, female employees have mostly taken part-time jobs. Youth employment (15-24) has grown by an annual average of 0.7 % during the 1987-2001 period; whereas total employment and female employment have grown by an annual average of 2.3 % and 5.7 %, respectively (Eurostat, 2012b). Therefore, Salverda has a point in claiming that female employment has grown in exchange for the growth in youth employment.

In 1995, full-time employees earned 20 % more than part-time employees in terms of average hourly earnings (Dunnewijk,2001, p.41, as cited in Becker, 2005) and in 1994, the hourly wage gap between part-timers and full-timers was about three times as large as in 1979 (Opstal et al.,1997, p. 39, as cited in Becker, 2005). The evidence suggests that the growth of part-time jobs with lower payments may have been more important in employment creation than the imposed wage restraint in 1980s. Moreover, a high rate of “non-employment” is hidden in the admirably low rate of unemployment. "Broad unemployment or non-employment"[17] was around 25 % between 1985 and 1996, in spite of the “success” indicated by the ordinary measure of unemployment. This was the result of an increase in

[17] Broad unemployment rate refers to a rate of unemployment calculated by accounting for "all forms of exclusion from the labour market" and includes participants of labour market programmes and the employees with "highly subsidized" forms of employment (Schmid, 1997).

early retirement and in the number of people receiving disability benefits or social assistance (SCP, 1998, p.382, as cited in Becker, 2001).

Part-time employment may be offered as a starting point for disadvantaged groups in the labour market, such as women or the youth. It may provide initial work experience for the youth before moving on to full-time jobs. It may offer an alternative to people in need of more leisure time than offered by full-time jobs, such as mothers raising families or students pursuing their education. It may also increase participation in the labour market by providing employment to the retired, older people and the disabled. Cuesta and Martin suggest that part-time employment has potential for the solution of high levels of female unemployment and for providing "the equality of opportunities". Nevertheless, the choice of part-time employment as an alternative for "parental leave" may cause female workers to be segregated in the labour market, because part time employment generally offers less career opportunities and decreases the ability to compete with other full-time workers (generally male workers) (Cuesta and Martin, 2009). Although part-time employment offers opportunities for marginal groups in the labour market, there is always the risk that these groups may be stuck in part-time jobs, which are essentially low-paid jobs and have lower career opportunities compared with full-time jobs. Therefore, while these groups may flow into employment from unemployment or non-employment they may be subject to a new form of segregation in the labour market.

Another problem related to high growth of part-time jobs is the risk that part-time employment may start to replace full-time jobs. Generally, full-time jobs are more demanding, present better career opportunities and more likely to be in the formal sector. Since part-time employment is lower paid than full-time employment, replacement of full-time jobs with part-time jobs may cause a fall in incomes and a surge in poverty. On the other hand, according to Schmid (1997), most part-time work is "voluntary" and "reflects the preferences of the employees concerned". Since two thirds of part-time workers have high levels of education, he suggests that most part-time jobs make "high demands" of those holding them. In 2005, 35.3 % of the part-time employed mothers were satisfied with their working hours and

did not demand any changes, whereas only 10.2 % of full-time working mothers were satisfied with their working hours (Lewis et al. 2008a, p.31, as cited in Neukirch, 2010).

Official statistical data on the reasons for part-time employment indicate that the share of part-timers who prefer part-time employment because they could not find full-time employment, which was 30.9 % in 1987, fell gradually down to 2.5 % in 2002 before increasing to 5.7 % in 2010. More recent data (2010) on reasons for taking up part-time jobs give these percentages as 4.1% (own illness or disability), 4.4 % (other family or personal responsibilities), 32.4 % (looking after children or incapacitated adults), 22.3 % (in education or training) and 31.1 % (other reasons) (EuroStat, 2012b). Part-time employment in the Netherlands is also formal. In 2004, only 6 % of Dutch part-time workers had no employment contract (Cousins & Tang, 2004, pp. 540-541 as cited in Neukirch, 2010).

Schmid believes that some of the part-timers derive a part of their income from other sources because lower hours are associated with lower pay. The empirical analysis by Cuesta and Martin for the period of 1995-2001 has confirmed that part-time workers were more likely to be in low-paid jobs. (Cuesta & Martin, 2009). It seems that the growth in part-time employment in the Netherlands has not been associated with the problems of informality and underemployment. Moreover, there is no empirical evidence that part-timers are stuck in part-time jobs. In contrast, part-time employment seems to reflect own preferences of these workers.

In sum, the significant increase in part-time employment and the fall in average weekly working hours suggest that the Dutch Miracle associated with an impressive growth in employment is an exceptional case with much reliance on redistribution of working hours. However, the timing of the miraculous fall in unemployment has coincided with “wage moderation” policies and attempts to create collective agreement on the solution strategies of economic problems. Since the timing was right and theoretically, wage decreases should lead to an increase in employment, it is difficult to say that wage moderation and collective agreement on wage increases have not played any role in the reduction of unemployment.

Nevertheless, the role of corporatism and wage moderation should not be overstated.

6.1.4 Lessons for Turkey

While Netherland's experience presents some lessons for the Turkish unemployment problem, we must emphasize right at the outset that it is by no means replicable. First, Netherlands is a much smaller country with a labour force of 8.9 million persons and with a lower level of unemployment at the beginning of its so-called Miracle period. According to Harasty (2004), the small size of countries like the Netherlands or Denmark is an advantage in establishing corporatism and solving economic problems. Harasty also argues that "democratic corporatism" is based on "social partnership" which is easier to attain in a smaller society. Moreover, a smaller country means a more homogeneous labour force and with fewer "constituents",participating in the decision-making processes facilitates an easier coordination of policies.

Search for collective decision making process is certainly needed in Turkey for the solution of high unemployment and other economic problems. Our analysis in this thesis has so far shown that unemployment may be affected by a multiplicity of factors such as low growth, low rate of investment, low international competitiveness, and dysfunctional labour market institutions. We have also; shown that it is associated with many other problems surrounding the labour market such as low participation rates and marginalization of certain groups of workers. Therefore, a successful strategy to combat unemployment should involve a set of policies and measures requiring the participation of all major economic actors. Active participation of workers, employers, the non-employed and the government in the design of such a strategy will be more effective and long-lasting.

Nevertheless, creating such a system of negotiation on socioeconomic matters is a highly challenging issue in the Turkish context. First, the size of Turkish labour force (26.7 million people) is very large compared to the size of Dutch Labour Force. Turkish Labour Force consists of people from many different geographies with different educational, cultural and social backgrounds, which implies difficulties for consensus building processes.

For instance, Turkish Labour Force is located in 12 different statistical regions (segmented by TUIK) with different characteristics and job markets. The most populated of these regions, Istanbul only contains 17 % of the total labour force. The profile of Turkish labour force by educational background indicates that the shares of illiterates, people with less than a high school diploma, high school graduates and graduates of university (both 2 and 4 years) are 4.5 %, 58.5 %, 20.1 % and 16.7 %, respectively. On the other hand, 73.3 % of the Dutch labour force has a higher degree than high school diploma in the year 2011 (Eurostat, 2012b and TUIK, 2012a).

Policies of wage moderation and promotion of part-time employment are not likely to create significant improvements in unemployment without any incentives to increase employment creating investments. Moreover, the effect of stagnant or falling real wages may differ in the Netherlands and in Turkey. Netherlands is an extremely open country with exports and imports in 2010 representing respectively 78 % and 70 % of GDP (World Bank, 2012). The corresponding figures for Turkey were only 24 % and 28 %. (TUIK, 2012d). In the Netherlands, a fall in real wages by increasing international competitiveness may result in higher employment. As discussed in Chapter 5, the effect of a fall in real wages in Turkey in contrast may be felt more on decreasing domestic demand and may thus have an adverse impact on employment growth (see Onaran & Stockhammer, 2001).

Furthermore, a fall in real wages and/or working hours in Turkey may have important adverse effects on welfare, income distribution, and poverty. In 2010, in the Netherlands, GNI per capita was 46,000 dollars compared to 10,000 dollars in Turkey (UN, 2012b). Annual net earnings in the Netherlands were 24,000 Euros as opposed to only 5,700 Euros in Turkey. In addition, monthly minimum wage in the Netherlands was 1,400 Euros compared to only 400 Euros in Turkey (Eurostat, 2012c)[18]. The Netherlands is a developed a country with a much higher per capita income and a social

[18] In 2010, GDP (purchasing power parity) per capita was 41,000 dollars in the Netherlands and 13,400 dollars in Turkey; therefore the large gap of earnings between Turkey and Netherlands cannot be explained by purchasing power parity.

security system with a much more extensive coverage (see Hartog, 1999) whereas 42 % of the Turkish labour force was not covered by social security (TUIK, 2012a). Therefore, the negative welfare effects of wage moderation and reduction in working hours in the Netherlands may be less severe than it would be in Turkey.

Part-time employment should be promoted and the legal framework for part-time employment should be improved only as a complementary measure for combating unemployment in Turkey. Part-time employment is a flexible work arrangement, which may help increasing labour market participation by integrating married women, students, the disabled, and the retirees into the labour market. For instance, there are 11.8 million homemakers and 3.4 million disabled people in Turkish non-institutional civilian population over 15 years of age, who are not participating in the labour force (TUIK, 2012a).

However, as the Turkish labour market, as discussed before, is characterized by high level of informality, low-quality, and low-paid jobs reliance on part-time employment as an employment growth strategy have certain risks. 15 % of the Turkish employed is already living in poverty (TUIK, 2009a). As the Turkish unemployment problem is primarily the result of poor employment creation capacity of the economy, promotion of part-time employment without any incentives for creation of new employment carries the risk of replacing full-time jobs with lower paid part-time jobs.

The Netherlands' experience in reducing working hours may provide a further insight into the unemployment problem in Turkey. In the Netherlands, weekly working hours decreased gradually from 37.7 (1983) to 30.8 (2008), whereas in Turkey, weekly working hours have increased from 46.2 hours (1988) to 49.7 (2008). More effective implementation of regulation on maximum weekly working hours will reduce the amount of overtime work and will require employers to hire more workers. This may represent a redistribution of working hours without detrimental effects on wage earnings and workers' welfare.

6.2. Growth and Employment in the “Celtic Tiger”

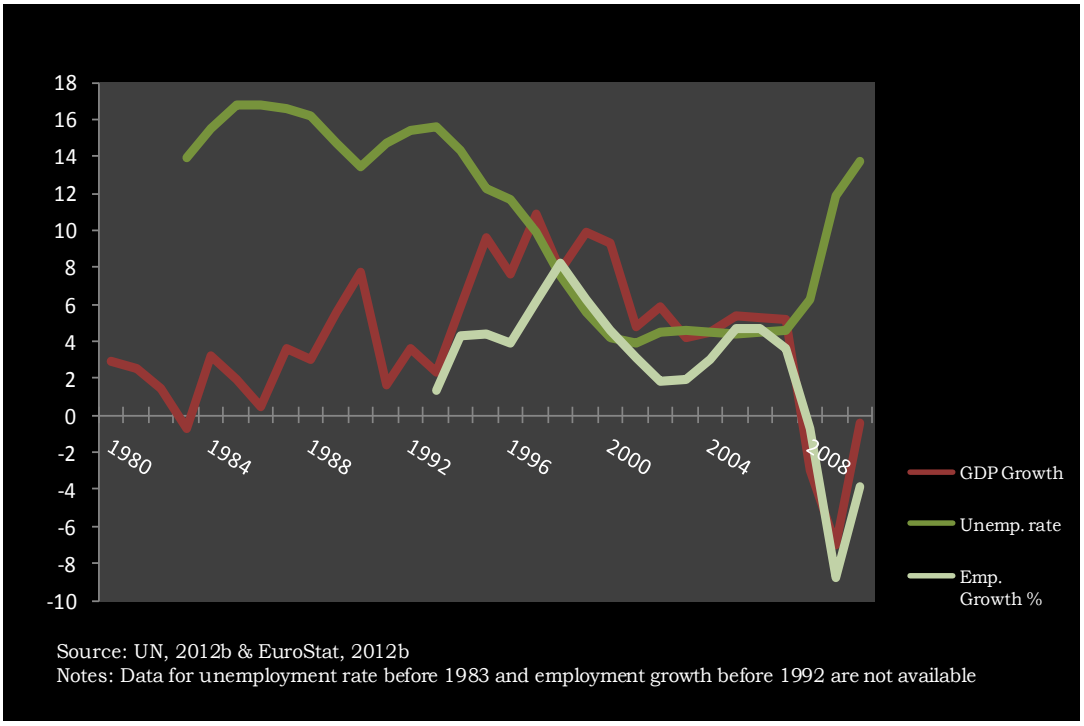
6.2.1 Economic Growth and Labour Market Developments, 1980-2010

Ireland was known to be the "Celtic Tiger" in reference to its astonishing growth performance from the mid 1990s, until the global crisis of 2008. Ireland's performance was also so famous because it has started from the bottom of all in Europe. “No other European country, east or west, north or south, for which remotely reliable evidence exists, had recorded so slow a rate of growth in national income in the twentieth century” (Lee, 1989 as cited in Smyth, 2011). During the 1980-1989 period, Ireland's annual average rate of growth was 2.4 % (UN, 2012b) and its unemployment rate was 14.7 % (EuroStat, 2012b).

As Walsh asserts, the most important reason for the increase in unemployment after 1979 was the "absence of economic growth" (Walsh, 1987). After the oil crises in 1973 and 1979, public finances significantly deteriorated (O'Connor, 1983), then in the 1980s there were two deep recessions which hampered economic growth. The recession of 1981-85 was followed by a brief recovery in 1985-86, and the economy went into another recession in 1987-88 (Boyle, 2003). Irish natural unemployment rate for the period 1969-79 had risen from 9% to 13.1 % in the period 1980-1988 (Layard, Nickell, and Jackman, p. 436 as cited in Walsh, 2003).

Ireland has experienced high growth rates during the 1990s and 2000s until the economy went into a recession in 2008 (Figure 6.2). In the 1995-2005 period economic growth in Ireland was so rapid that the annual average growth rate was 7.3 % as opposed to only 2 % and 3.4 % in the EU15 and US, respectively.

Figure 6.2. Ireland: Growth, Employment and Unemployment, 1980-2011



Source: UN, 2012b & EuroStat, 2012b
Notes: Data for unemployment rate before 1983 and employment growth before 1992 are not available

High growth rate of output was accompanied by rapid growth in employment. During the 1994-2000 period, annual average growth in employment of 5.4 % was accompanied by a decrease in the unemployment rate from 15.6 % in 1993 to 4.2 % in 2000. During the 2000-2007 period, in spite of the slowdown in aggregate growth as well as employment growth, unemployment remained at around 4.5 % until the devastating effects of the 2008 crisis.

During the 1980s, the combined effects of net emigration and changes in labour force participation relieved some of the pressure on the labour market. Labour force participation rate of male workers has fallen due to discouraged worker effects of an increase in unemployment in the 1980s, whereas women's participation rate increased slightly. As the UK economy recovered from the crisis of early 1980s, “renewed emigration” diminished the amount of the Irish labour force and partially relieved the pressures on the labour market. However, as the Irish economy started to grow rapidly,

emigration slowed down and was reversed. During the 1991-1996 period the fall in the number of people of ages 15-24 continued by a smaller amount, whereas immigration of age groups 25-29 and 30-34 increased by about 5% and 3%, respectively (Walsh, 2000, p.120).

Table 6.4 indicates a relatively high rate of population growth in Ireland during the 1994-2008 period. Average annual population growth rate during the period was 1.6 %, compared to annual averages of 0.3 % and 0.4 % in the UK and in the EU (UN, 2012a). The growth rate of labour force was even higher due to increased participation in the labour market reflected also by increasing LFP rates. Although the growth in labour force was remarkable due to increasing participation and immigration, by the end of the decade, 10% of the industrial employers have complained about labour shortages as a constraint on increased production (Walsh, 2003, p.6). Increasing female labour force participation was even more significant. Female participation in the labour force increased by 42 % from 1992 to 2010. Between 1993 and 1997, the number of women in employment increased by 26 % and during the 1983-1997 period, married women's employment rate rose from 20% to 37%. According to Daly (2005), this growth in female employment is "revolutionary" rather than "evolutionary" when compared to the levels of female employment in Western Europe in recent history.

Table 6.4. Ireland: Growth in Population, Labour Force, and Labour Force Participation, 1992-2008

Years	Population Growth %	Labour Force Growth %	LFP Rate	Female LFP Rate
1992	-	0.6	60.4	43.8
1993	-0.2	1.8	61.2	45.5
1994	1.1	2.9	61.8	46.7
1995	0.6	1.9	61.9	47.3
1996	0.8	3.3	62.5	48.6
1997	1.4	4.9	64.1	51.1
1998	2.4	5.2	65.6	52.9
1999	1.2	4.2	67.1	55.0
2000	1.2	3.4	68.2	56.3
2001	1.6	2.7	68.6	57.1
2002	1.7	2.3	68.6	57.8
2003	1.6	2.3	68.8	58.3
2004	1.7	2.8	69.5	59.0
2005	2.2	4.4	70.8	60.8
2006	2.5	4.8	71.9	61.9
2007	2.4	3.6	72.5	63.3
2008	1.9	0.7	72.0	63.1
2009	0.6	-2.8	70.2	62.4
2010	0.2	-1.9	69.5	62.0
Source: EuroStat, 2012b				

Another important trend during the 1990-2007 period was the remarkable fall in long-term unemployment. The share of long term unemployment in total unemployment was 64.1 % in 1994 which gradually decreased to 27.1 % in 2008; before rising back to 49 % in 2010.

Unlike the Dutch case, the increase in employment in Ireland was based on the increase in full-time jobs (Walsh, 2003). During the period of high employment, share of full-time jobs in total employment has decreased slightly; from 94 % in 1983 to 78 % in 2010 (EuroStat, 2012b). This fall is probably due to the increase in flexible types of jobs in accordance with the needs of the market and increased participation of women. However, this does not reflect a strong trend for part-time job creation and "work sharing" as in the case of the Netherlands.

6.2.2 Explanations for the Miraculous Performance in Ireland

There were several factors, which are believed to have stimulated economic growth and reduced unemployment in Ireland. “An elastic and plentiful labour supply”, “the single-mindedness and appropriateness of public policy”, "a liberal approach to external trade" (Daly, 2005), significant increase in FDI inflows (Garibaldi & Mauro, 2002), benefits of being a EU member (Boyle, 2003), and "the positive global macroeconomic environment in the late 1990s" (Harasty, 2004) are often cited as the main factors that contributed to this success.

Some assert that fast growth of FDI inflows, and external economic orientation were the most important factors that spurred economic growth in Ireland. According to Daly, for about the last 40 years, Ireland’s growth strategy has been based on “the attraction of export-oriented foreign, manufacturing companies”. To this aim, a set of policies offering tax-relief and grants were utilized. Ireland has offered “more than double the rate of return on investment to be found elsewhere” (2005). Not only the taxation regime but also labour costs have been favourable. Moreover, there was no restriction against repatriation of profits by foreign-owned firms. Profit transfers abroad increased from 11.6% of GNP in 1993 to 20% in 1998 (O’Sullivan, 2000, p.267 as cited in Daly, 2005). Wage determination in the transnational companies (TNCs) has also remained outside the national agreements.

The favourable FDI policies have also been supported by external developments. For instance, Walsh believes that strong US expansion coinciding with the Irish boom and the fall in interest rates following the collapse of the European Monetary System was a factor behind the increased flows of FDI (Walsh, 2003).

Table 6.5. Ireland: GFCF, FDI Inflows and Exports, 1980-2010

Years	GFCF (% of GDP)	Exports (% of GDP)	Total Exports (% of World's Total)	FDI, net inflows (% of GDP)
1980	27.2	46.0	0.56	1.4
1981	28.2	45.0	0.54	1.0
1982	25.2	44.7	0.52	1.2
1983	22.0	48.7	0.53	0.8
1984	20.4	55.3	0.53	0.6
1985	18.1	56.1	0.53	0.8
1986	17.1	51.0	0.54	-0.1
1987	16.2	54.4	0.54	0.3
1988	16.5	57.7	0.52	0.2
1989	17.2	61.2	0.55	0.2
1990	18.5	56.8	0.55	1.3
1991	16.9	57.7	0.54	2.8
1992	16.7	60.6	0.56	2.7
1993	15.3	65.8	0.58	2.2
1994	16.3	70.5	0.61	1.5
1995	17.4	76.3	0.65	2.2
1996	19.0	77.4	0.69	3.5
1997	20.2	79.5	0.73	3.4
1998	21.7	86.9	0.89	12.5
1999	23.3	89.2	0.95	19.0
2000	23.3	98.1	1.02	26.4
2001	22.5	100.0	1.09	9.1
2002	21.7	94.0	1.08	24.0
2003	22.6	83.7	1.01	14.2
2004	24.5	83.8	0.99	-5.9
2005	26.8	81.6	0.99	-15.0
2006	27.2	79.3	0.96	-2.5
2007	25.6	80.5	0.96	9.5
2008	21.9	83.4	0.90	-6.2
2009	15.8	91.4	0.92	12.0
2010	11.3	98.8	0.83	12.8
Source: World Bank, 2012 and own calculations				

Outward orientation of the Irish economy has increased gradually during the 1990-2002 period (Table 6.5). Exports as a share of GDP have reached 100 %, Ireland's share in total world exports has almost doubled, and FDI inflows have risen to 25 % of GDP. The share of Gross Fixed Capital Formation (GFCF) in GDP has also increased from about 17 % in the beginning of the period to about 25 %. High growth of exports and FDI indicated the increase in international competitiveness of Ireland, which contributed to high growth and low unemployment.

"Elastic" labour supply is also given credit as one of the contributors to high growth of output and employment. Factors that made Irish Labour supply elastic were defined as "high initial level of unemployment", "the rapid growth of the population of working age", "the rising rate of female labour force participation " and "the propensity of Irish emigrants living abroad to return home" (Walsh, 2000).

“A corporatist form of planning” has also emerged in Ireland in the 1980s and “national planning” was a factor behind the success in economic development. National agreements, achieved under corporatist decision-making processes, have generally been oriented towards promotion of growth while managing the demands of different interest groups so that they did not become obstacles to this aim. Wage bargaining was centralized in the 1970s and wage restraint was enforced as a part of the broader national planning strategy during the 1980s (Daly, 2005). Wages as a share of GNP fell from 60.7 % in 1985 to 51.7% in 1990 and to 42.8 % in 1997 (O’Grada & O’Rourke, 2000, p. 200, as cited in Daly, 2005).

The first National Wage Agreement in 1988 was followed by four other successive wage agreements until 2003, “each exceeding the previous in its ambition and scope” During the 1988-1995 period, wage agreements allowed for a cumulative rise of 25% in the pre-tax nominal wages, which meant a 0.5% rise in real wages. However, according to Walsh, bargaining system did not play a statistically significant role for the reduction in unemployment. These agreements also involved lowering of the tax burden on employees. The marginal income tax rate including social security charges (for an unmarried industrial worker) fell from 68.5 % in 1985 to 48 % in 2002. By 1998, actual private sector wages have tended to rise above

those agreed in national agreements and tax concessions have reached their limits following the increase in fiscal deficit (Walsh, 2000 & Walsh, 2003).

During the 1975-1985 period, as unemployment rose by a large amount, unit labour costs in Ireland were falling relative to its trading partners. Relative hourly earnings increased by 2% from 1975 to 1979 and by 5 % from 1979 to 1985; however, the relative unit costs (which shows changes in wage costs corrected for productivity growth) decreased by 5 % from 1975 to 1979 and by 21 % from 1979 to 1985 (Walsh, 1987).

Active labour market programs have also been used to promote employment growth. For instance, the number of people in apprenticeship training programs increased by 26,300, from 1980 to 1984. As unemployment continued to grow in the 1980s, participants in the active labour market programs have increased, too. In 1990, almost 20,000 people were benefiting from employment subsidy schemes or the Social Employment Scheme, which provided temporary part-time employment to the long-term unemployed (FAS, 1990, as cited in O'Connell, 1996). In the Community Employment Scheme, the program with the largest coverage, 2 % of the labour force was employed in 2001[19]; (Walsh, 2003).

Training programs were used to provide basic level training and addressed to the groups with poor educational qualifications having difficulty of integration in the labour market or to the groups seeking to return to labour market after a prolonged period, such as women or older long-term unemployed men. Specific Skills Training, which was a single program carried out in 1992, provided training in specific employable skills in areas linked to local labour market needs. Employment and enterprise subsidies were offered to subsidize for the recruitment of employees or for supporting the self-employed. These subsidies were offered in the first year of employment. Direct employment schemes provided subsidised temporary part-time employment in community services. Some examples of these programs were the "Social Employment Scheme" for the long-term unemployed or "Teamwork" for young unemployed people (O'Connell, 1996).

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[19] Nevertheless, half of the people in the scheme have moved back into unemployment

O'Connell (1996) conducted a study to determine the effects of these programs on employment. A sample of 3,267 participants out of 20,000 was surveyed. He recorded employment status of the participants leaving all major programs each month during 1992. The proportion of participants having found employment within 2 months, which he regarded as short-term unemployment effect was 40 % and the proportion of them who found employment within 18 months, which he regarded as long-term unemployment effect was 43 %. He compared the probabilities of finding a job for the participants with the probabilities of a comparison group of persons, who did not participate in such programs but were seeking employment at the same time as the participant group. The probabilities of the participants to find employment within 3 months and within 18 months were 0.47 and 0.49, whereas the probabilities for non-participants were 0.17 and 0.49, respectively. This result could be interpreted as programs increased the ability to find employment in the short run; however, as the duration of unemployment increased being a prior participant in a labour market program made no difference.

It is also argued that Ireland has benefited from being an EU member in generating a good growth and labour market performance. Since the late 1980s, the value of the Irish punt was first tied to the deutschemark and subsequently, Ireland became a member of the Euro Zone in 1999. The low value of the punt after 1986 and later the lower value of Euro against the dollar during 1999-2002 increased Ireland's international competitiveness (Boyle, 2003). EU structural funds were used to improve physical infrastructure and the skills of the workforce, which also contributed to the increase in international competitiveness (Mac Sharry and White, 2000, as cited in Boyle, 2003). However, Boyle (2003) has pointed out that support from the European Cohesion Funds remained modest relative to the size of the unemployment problem.

According to Harasty (2004), the positive global macroeconomic environment in the late 1990s was an important contributor to the labour market success of Ireland, due to Ireland's extensive openness to world markets. Harasty believes that the large part of the "more stable

macroeconomic environment" was due to the conditions set by the EU, such as the Maastricht Criteria.

6.2.3 Assessment of Ireland's Experience and Irish Crisis in 2008

In the previous section, it was argued that Irish success in decreasing unemployment was attributed to a large extent to its success in attracting a large volume of FDI. However, some authors believe that the role of FDI in employment creation is overrated. The growth in manufacturing sector has been dependent on the growth of a small group of multinational companies (MNCs) which have been employing only 18% of the manufacturing labour force (Murphy, 2000 as cited in Daly, 2005). The major MNCs in Ireland were concentrated on sectors such as pharmaceuticals, retail software and computer products, and soft-drinks, which have not been major employers compared to the size of their businesses (Honohan, 2001 and O'Hearn, 2000 as cited in Daly, 2005).

According to Walsh, there is too much emphasis in current literature on the view that the Irish success has come about by "a well-thought out strategy to attract FDI" (for example see Garibaldi & Mauro, 2002). He asserts that this interpretation ignores the fact that FDI promotion in Ireland has gone back to the 1990s and the contribution of new firms to this success is exaggerated. MNCs have increased their share of total employment from 7.3 % in 1985 to 9% in 2000, which was equivalent to 13% of the total employment growth; whereas employment in "marketed services" in the private sector has accounted for over 40% of the total increase in employment (Walsh, 2003).

Moreover, some authors suggest that positive short term effects of the increase in FDI flows should be evaluated cautiously. Technologies and manufacturing bases of MNCs can relocate quickly (Bradley, 2000, as cited in Daly, 2005). In addition, there has been dominance of US foreign enterprises in Ireland. The inflow of FDI from the US has accounted for more than 80% of the total inflows (O'Sullivan, 2000 as cited Daly, 2005). This situation makes Ireland highly "vulnerable to decisions and forces outside its own control". Moreover, the difficulty in sustaining a favourable taxation regime on profits may result in a decline in the attractiveness of Ireland for MNCs (Daly, 2005).

"Sustainability" issue is the most important criticism posed to Irish growth experience. Ireland was severely hit by the global economic crisis in 2008, and still struggles to come out of the recession. Ireland's miraculous growth performance has slowed down at the beginning of the 21st century; nevertheless, during the 2000-2007 period, Ireland still enjoyed an annual average growth of 5 % with the unemployment rate fluctuating at around 4.5 %. However, in 2008, Irish growth rate was -3 %, followed by a -7.1 % growth rate in 2009. Unemployment has also soared to 11.9 % in 2009 and to 13.7 % in 2010[20].

A brief review of recent crisis literature on Ireland suggests that unsustainable boom in the property sector, lack of financial regulation and the resulting banking crisis, and large fiscal deficits were the primary reasons for the crisis. McDonnell (2011) argues that the crisis was a mixture of "loose monetary and fiscal policy" and "regulatory failures in the banking sector" which have triggered an increase in private borrowing and an "unsustainable boom in asset prices". According to O'Sullivan and Kennedy (2010) after a phase of property investment based on "solid demand and supply fundamentals", such as rising population and income, and low unemployment, investment in the housing market became speculative in nature to benefit from sudden capital appreciation. Loan approvals rose from 4.4 billion Euros (1997) to 31.4 billion Euros (2006), and total housing stock rose by 430 thousand units during the 2001-2007 period.

Founded in 2003, Irish Financial Services Regulatory Authority (IFRSA) announced that "fostering of an international competitive banking industry in Ireland" was one of its main responsibilities and followed a "principles-based regulatory (PBR)" framework for this aim. In the PBR approach, basic principles such as solvency and consumer protection were determined, and the banks were allowed to set the compliance provisions with these principles. This flexibility offered by the banking regulatory system

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[20] Unemployment rate increased further to 14.4 % in 2011 (EuroStat, 2012b). In 2011 growth performance was not promising either, with a rate of growth of only 0.7 % (Central Statistics Office of Ireland, 2012)

combined with low interest rates and growing demand in the housing sector have resulted in a surge in “property-backed” credit outflows from banks. The ratio of personal-sector credit to GDP has risen to 95% by September, 2007 and the indebtedness of the non-financial corporate sector has reached 139 % of GDP in 2007 from 103 % in 2005, due to financing of commercial property deals (O’Sullivan and Kennedy, 2010). In 2008, Irish bank assets were nine times the size of Irish GDP with a ratio of 4.3 % of bank capital and reserves to total assets (Allen, 2009 as cited in Smyth, 2011).

Ireland had one of the lowest corporate tax rates (12.5%, 2007) in the whole EU, because low tax regime was seen as the major industrial policy and in a sense, low taxation was considered “sacred” for economic growth. The Irish government has been running “a structural deficit” which has been growing rapidly since 2000. The huge “property bubble” increased tax revenues from house sales and related commercial activities; however, this growth in state’s revenue was unbalanced and was swept out when the bubble burst (Smyth, 2011). Avellaneda and Hardiman (2010) claimed that the Irish government had used tax reliefs "very freely", in consistence with the proposition that "the Irish growth model depended on an indirect and even minimal role for the state". Total tax relief was more than the amount of total income tax collected in 2005 and the tax reliefs have run at 3 times the European average (Callan, et al, 2005; Regling & Watson, 2010, p.27 as cited in Avellaneda and Hardiman, 2010). The ability to implement counter cyclical fiscal policy during the crisis was ruled out given the high fiscal deficits.

Ireland's heavy dependence on FDI for economic growth has had undesirable consequences during the crisis period. For example, in 2009 GDP declined by 7.1 % compared to a decline in GNP by 11.3%[21]. According to Kirby, the difference in the decline of GDP and GNP points to the

[21] The author (Kirby, 2010) did not give any references for the "GNP" figure. In 2009, GNI in US dollars fell by 18 % and GNI in national currency declined by 14 % (UN, 2012b).

significant role of foreign-owned firms in the Irish economy and the remarkable amount of profit repatriation in 2010.

Some believe that one of the important reasons for the collapse of Irish market was the loss of international competitiveness, which was also related to higher wages (see Dellepiane & Hardiman, 2010 as cited in Avellaneda and Hardiman, 2010). According to McDonnell (2011), the increasing level of Irish exports during 2000s, does not support the view that Ireland has lost competitiveness in international trade. First, the share of Irish exports in total EU-27 exports has remained at around 3 % during the 2000-2011 period, without any remarkable fall (Gross, 2011 as cited in McDonnell, 2011). Secondly, during the 2000-2007 period, the trend volume growth of exports from Ireland was faster than that of exports from the OECD. Thirdly, Ireland's share in global exports has increased from 1.21 % in 2000 to 1.24 % in 2007 (Breathnach, 2010 as cited in McDonnell, 2011). Finally, the increase in exports was due to an increase in service exports whereas the global share of Ireland's manufacturing exports has fallen to 72.4 % of its 2000 value in 2007. Nevertheless, while labour costs accounted for 74 % of total service sector costs they accounted for only 23 % of the costs in the manufacturing sector (The Forfa, 2010 as cited in McDonnell, 2011).

The foregoing discussion suggests that factors outside the labour market were responsible for the recent fall in growth and employment. It also shows that a growth strategy based on foreign investment and international competitiveness is difficult to sustain, not only because domestic policies such as wage moderation or tax concessions have their limits, but also because competitiveness is affected by several external factors such as the emergence of new competitive players. For the Irish case, these difficulties are aggravated by the fact that Ireland is part of a greater economic and monetary union, which makes it hard to pursue its national objectives by policies such as currency devaluation.

6.2.4. Lessons for Turkey

During the period of 1994-2007 Ireland’s unemployment rate decreased by almost 70 %. Ireland realised an inspiring growth in employment based on high rates of economic growth. Ireland’s strategy o high growth was

based on outward-orientation by increased exports and FDI. To this aim, Ireland used several mechanisms such as tax reductions, wage moderation, and a loose regulatory approach to financial transactions to attract foreign capital and enhance international competitiveness.

This strategy worked effectively in the short and medium term; but made the Irish economy over-dependant on external financial and economic conditions. Moreover, tax and regulatory concessions to preserve international competitiveness made the Irish economy more vulnerable to deteriorating external economic conditions. Finally, the crash of the economy in the wake of the 2008 global crisis proved that the Irish success was unstable and short-lived. The economy experienced negative growth and unemployment rose back to 13.7 % in 2010. Ireland has almost returned to where it had started in terms of unemployment rate.

Ireland's experience suggests important lessons for Turkey. Mainstream economic institutions such as the OECD and the World Bank base their arguments on increasing international competitiveness to promote economic growth and decrease unemployment in developing countries (for instance see Turkey Labour Study, 2006 of World Bank or Ireland Employment Outlook, 2010 of OECD).

Increased demand for Turkish labour that will be generated by investment of foreign firms in Turkey and/or by increased demand for Turkish exports will definitely contribute to the reduction of unemployment. Therefore, it is believed that improving international competitiveness should be part of the employment strategy on certain conditions. First, the entire strategy of high aggregate and employment growth should not be confined to the attraction of FDI or promotion of exports. For the Irish case, studies have shown that the contribution of FDI in the rise of employment was limited. Moreover, the size of the Turkish labour market is too large to warrant heavy reliance on increased demand from external trade to solve the problem of unemployment. In fact, for policy makers, the size of the Turkish economy offers a big opportunity to promote domestic demand and investments, rather than heavy reliance on the volatile preferences of foreign countries.

Secondly, the experience of Ireland has indicated that the overreliance on external demand always has a price to be paid by the domestic economy. Therefore, it is important to be selective while offering incentives and setting the ground rules. Basic economic theory suggests that both individuals and firms act to maximize their own utilities and profits. Definitely, foreign firms do not outsource their production to foreign countries or buyers do not demand foreign goods for the purposes of increasing growth and employment in the foreign country. Their main motives are reduction of costs and seizing new markets. Measures such as tax concessions, wage moderation, low regulation, special treatments, and rights to international arbitration may be used to attract foreign demand through exports and foreign investment. The more generous the concessions are the higher is the likelihood of inflow of FDI or increased export demand. Eventually, the competition to attract foreign demand may turn out to be a "race to the bottom" as in the case of Ireland.

Therefore, policies for promoting external demand should be carefully designed and implemented. The concessions, if necessary, should be given in moderation without running fiscal balances or without destroying domestic industrial base and ruining domestic economy. The duration of support should be limited and should be based upon some performance indicators such as employment creation or contribution to GFCF.

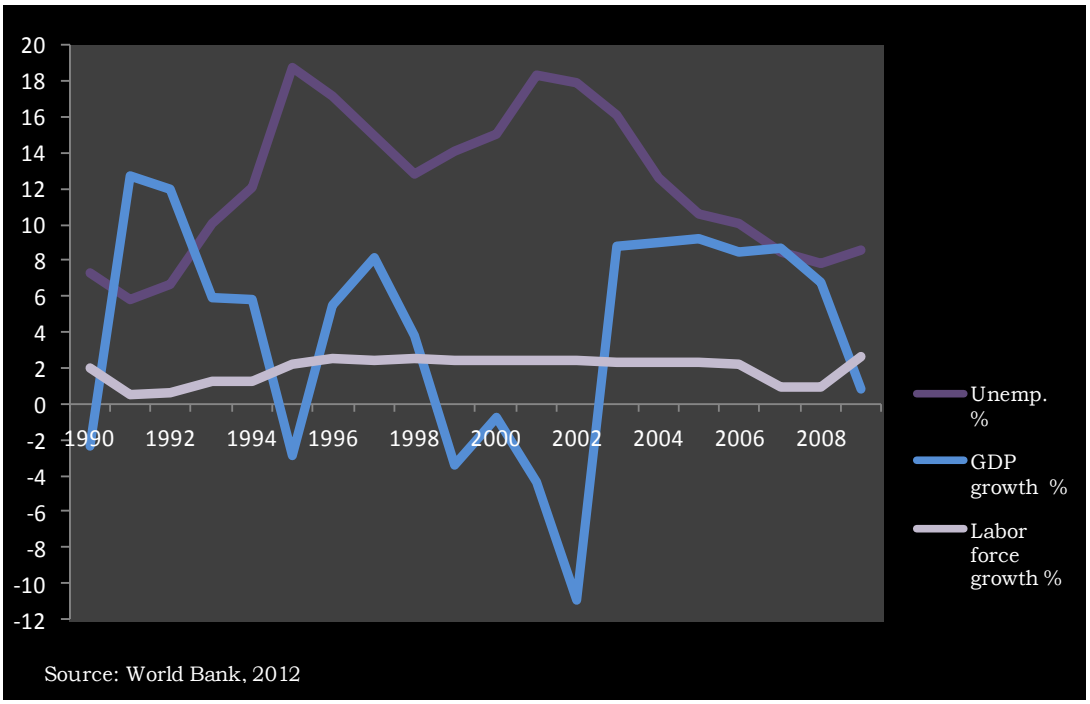
The most important lesson from the Irish case is that a growth and employment creation strategy that disturbed the domestic balances (such as the fiscal balances or solvency in the banking system) to attract foreign capital is not sustainable. An economic expansion with longer lasting benefits should be based on strengthening domestic weaknesses such as improving educational quality of labour force, productivity, low level of domestic savings, poor solvency of the fiscal and banking sector.

6.3 Recovery and Unemployment in Argentine Economy

6.3.1. Economic Developments and Unemployment, 1990-2010

Argentine economy moved into a deep recession in 2001, after a long period of exchange rate controls and liberalization of external economic relations. The fall in GDP was accompanied by a rapid increase in unemployment. After a brief period of severe economic crisis, social unrest, and political turmoil during the 2001-2002 period, liberal economic policies have been abandoned, foreign debt has been postponed and a significant improvement in unemployment has been achieved as soon as the recovery started (see figure 6.3).

Figure 6.3. Argentina: Unemployment, Labour Force and GDP Growth, 1990-2009



In 1991, a stabilization program was launched to control inflation. The Convertibility Law was enacted, fixing the peso-dollar parity and requiring the Central Bank to accumulate foreign reserves up to 100 % of the monetary base. Trade flows, as well as capital movements were liberalized and privatization of state-owned enterprises was carried out. Monetary base and the banking system credits (in effect) were entirely tied to accumulation of foreign reserves, which decreased Central Bank's autonomy in implementing monetary policy. According to Novick et al, currency had already been appreciated before its value was pegged; therefore, the long period of convertibility regime caused a growing trade deficit (2007).

The accumulation of reserves affected the money supply and banking credits in a positive way to spur economic growth until 1994. In 1994, capital inflows slowed down due to a rise in international interest rates. In 1995, negative effect of Tequila crises led to a massive and rapid outflow of foreign capital, a significant increase in domestic interest rates, and a contraction in liquidity. Financial support measures arranged by the IMF brought a quick recovery (Novick et al, 2007). However, indebtedness increased parallel to growing fiscal deficit (Ocampo 2003: 22-25; Pastor and Wise 2004; Damill *et al* 2005, as cited in Grugel & Riggirozzi, 2007) (see table 6.6).

Table 6.6 indicates that in the initial phases of the Convertibility Regime, portfolio investments were positive and FDI was growing rapidly (except for the fall in 1993). Parallel to the growth in external financial flows, financing through international capital markets was increasing its share in total GDP. This positive integration with the international capital markets during the Convertibility period lasted until major economic crises at the end of the 1990s.

Table 6.6. Argentina: Capital Inflows, 1990-2010

Years	% Growth of net FDI (current US$)	Portfolio Equity, net inflows (current million US$)*	Financing via International Capital Markets (gross inflows, % of GDP)**
1990	78.6	0	0.0
1991	32.8	0	0.6
1992	33.9	1,214	0.8
1993	-36.0	5,671	3.5
1994	25.6	4,220	2.1
1995	56.8	1,552	2.8
1996	30.0	867	5.4
1997	3.0	2,319	6.5
1998	-9.8	-210	7.1
1999	348.3	-10,773	4.5
2000	-57.2	-3,227	5.9
2001	-78.9	31	2.0
2002	38.4	-116	0.1
2003	-68.4	65	0.1
2004	292.7	-86	0.4
2005	14.7	-48	1.3
2006	-21.6	707	1.3
2007	60.4	1,785	2.2
2008	67.7	-531	0.4
2009	-60.3	-212	0.2
2010	62.5	-208	0.8

Source: World Bank, 2012

* Portfolio equity includes net inflows from equity securities other than those recorded as direct investment

** Financing via international capital markets is the sum of gross bond issuance, bank lending and new equity placement. Bonds issued by government, public and private sector borrowers in international capital markets. Bank lending is the funds raised by government, public and private sector borrowers via international syndicated lending. Equity placement is the notional amount of cross-border equity placement.

After the Tequila crisis, Argentine economy was further hit by the subsequent crises of Asia in 1997 and of Russia in 1998, currency devaluation in Brazil (Argentina's main trade partner in 1999), and a fall in demand and prices of export goods after 1997. The result was "a period of prolonged and intense recession". The mounting of external debt continued and in 2001, the IMF withdrew its support from the government. In a final attempt to prevent capital flight, the government resorted to restrictions on bank withdrawals and money transfers. Finally, this policy triggered social upheaval and the resulting political turmoil. The value of the peso fell by more than a third and continued its fall; poverty rose sharply from 25.8 % in 1995 to 57.5 % in 2002. "The new poor were composed of impoverished middle and upper class workers and the newly unemployed who had survived during 1990, but became unemployed in 2002 (Grugel & Riggirozzi, 2007).

The rising trend in unemployment which had already started in 1998, continued to grow more rapidly in 2001. However, as the previous exchange rate regime ended and economic policymaking started to focus on domestic markets, the recovery started in 2003. The rapid growth in output was accompanied by a rapid and gradual fall in unemployment, until the effects of the 2008 global crisis began to be felt on the Argentine economy in 2009 (see figure 6.3). Therefore, the focus of this section is the 2002-2009 period of the Argentine economy during which total unemployment was reduced by 57.3 % from its value in 2001.

6.3.2. Macroeconomic Policies after the 2001 Crisis

In 1980s, 11.5 % of Argentine households in Greater Buenos Aires (where approximately a third of the total population of the country lived) were living below the poverty line. By 1995, the share of people below the poverty line in the city rose to 25.8 % (Auyero, 1999, p. 51, as cited in Grugel & Riggirozzi, 2007). Almost one third of the total population in Argentina was poor by World Bank standards in 2000 (World Bank 2000, as cited in Grugel & Riggirozzi, 2007). According to Grugel et al, "the rapid process of impoverishment" during the 1990s is key to understanding why the crisis of 2001 led to "a wholesale rejection" of policies of the 1990s, which could be defined by economic liberalism (Grugel & Riggirozzi, 2007).

The undesirable outcome of the economic and social liberal policies in 1990s and the pressure from the social upheaval against the old way of economic management necessitated a new approach to economic policy. This has brought back "re-nationalisation" and "state regulation" back and the Prime Minister promised to implement welfare policies and renegotiate external debt (Grugel & Riggirozzi, 2007).

As a start, convertibility system was abolished and the peso was devalued, which increased exports. Price controls were introduced to promote consumption as well as to avoid inflation. Tax rates on exportation of some commodities were raised to finance welfare policies (Grugel & Riggirozzi, 2007).

It was also believed that high international prices for Argentina's principal exports, including soy and oil and the high growth of world trade contributed to the recovery (Grugel & Riggirozzi, 2007). Contrary to the popular belief, Novick et al. do not accept the view that the fast recovery has come about by a favourable change in the international economy. Instead, they argue that the increasing prices of exports have later contributed to recovery (as they started to increase in 2003 and did not reach their pre-crisis level before 2004). Moreover, increasing inflows of foreign capital have not played an important role in the fast recovery, because the recovery had already started when there was net capital outflow from the country (2007).

According to these authors, the growth of import substituting industry (due to deterioration in terms of trade) spurred economic growth during 2002. Between the third quarter of 2002 and the second quarter of 2004, domestic absorption grew by 12.7 % annually, and private consumption rose by 9.4 % annually, which explains most of the high growth performance during this period. The authors assert that rising real wages and the Head of the Household Plan (which will be explained below in detail) were the main reasons for the increase in domestic absorption (Novick et al., 2007).

Table 6.7 shows that after the devaluation in 2001, the share of exports in GDP increased sharply which was instrumental in turning the current account deficit into a surplus. After the initial deep impact of devaluation, the share of exports declined slightly during the recovery period. Gross fixed

capital formation as a share of GDP also increased gradually in the recovery period, until the adverse effects of the global crisis. The share of government expenditures had a trend inversely related to the trend in the growth rate. The slight changes in share of government expenditures indicate that they expand (contract) as the share of investment and exports fall (rise) following the deceleration (acceleration) in growth domestically and in world markets. Argentine government expenditures seem to be expansionary in crisis years, as suggested by their increasing share in GDP. Household consumption expenditures have grown rapidly, with an annual average growth rate of 8.3 % during the 2003-2007 period, again until the slowdown in global economic crises. It can therefore be said that the rapid growth and recovery have been driven specifically by domestic investments and consumption. Expansionary macroeconomic policies and increase in exports have also contributed to growth.

Table 6.7. Argentina: GDP by Share of Expenditures, 1994-2010

Years	GFCF (%)	Exports (%)	Current Account Balance (% of GDP)	Government Expenditure (%)	Consumption (%)
1994	19.9	7.5	-4.3	13.2	70.0
1995	17.9	9.6	-2.0	13.3	69.1
1996	18.1	10.4	-2.5	12.5	70.1
1997	19.4	10.5	-4.1	12.1	70.8
1998	19.9	10.4	-4.8	12.5	70.1
1999	18.0	9.8	-4.2	13.7	70.0
2000	16.2	10.9	-3.2	13.8	70.7
2001	14.2	11.5	-1.4	14.2	70.3
2002	12.0	27.7	8.6	12.2	60.9
2003	15.1	25.0	6.3	11.4	62.7
2004	19.2	25.3	2.1	11.1	62.6
2005	21.5	25.1	2.9	11.9	60.8
2006	23.4	24.8	3.6	12.4	58.7
2007	24.2	24.6	2.8	12.9	58.6
2008	23.3	24.5	2.1	13.4	59.4
2009	20.9	21.4	2.7	15.2	58.5
2010	22.0	21.7	0.8	14.9	59.8
Source: World Bank, 2012					

A fiscal surplus was generated to service postponed debt payments in the future and to create resources for welfare policy measures (see Grugel & Riggirozzi, 2007 and Novick et al., 2007). The surplus was obtained taxing export sectors, which managed to increase their profits, as a result of the increase in international prices and depreciation of the currency (Novick et al., 2007). The government, without the support of the International Monetary Fund, negotiated a reduction of external debt from 8 % to 2% of GDP. This relieved the pressures on public sector's financial situation and created freedom to implement autonomous economic policies to an extent (Novick et al., 2007).

6.3.3. Labour Market Policies after the 2001 Crisis

The government also organised a consensus-building process by the participation of different economic and social actors, such as the representatives of the labour force, business representatives, and representatives of NGOs, of the unemployed and of social movements, political parties and religious groups with a view to discuss social welfare policies (Grugel & Riggirozzi,2007).

According to Dinerstein (2008) "job creation and the restoration of the culture of work" have been placed "in the centre of policy-making". A new Labour Law was enacted in 2004. This was the first law, which "explicitly set out the promotion of decent work as a priority objective of government policies". The law introduced "differential treatment" as regards to social security contributions of firms with less than 80 workers, to differentiate smaller firms from the large ones and to promote employment in these firms (Novick et al., 2007).

"Sectoral Skills Agreement" was enacted to determine the specific cases in which the economic actors could obtain financial and technical support from the Ministry of Labour and other State authorities, to improve productivity, competitiveness, and quality of employment. Local Employment Promotion Agreement was designed to generate Local Strategic Plans to create employment and work opportunities at a local level. (Novick et al., 2007).

Minimum wage, which has been eroded during the 1990s so much to lose its "value as an economic benchmark", has been improved. Minimum wage received by the workers has increased from $200 in 2003 to $800 in 2006. In real terms, it has risen 105 % from 2001 to 2006 without any fall in employment or a significant rise in prices (Novick et al., 2007). However, the most important of all the labour market during the recovery period was the Plan Jefes de Hogar Desempleados (The Unemployed Head of Household Plan) to be explained in detail in the next subsection.

6.3.4. The Unemployed Head of Household Plan

In 2002, unemployment rate reached 25% poverty soared and social unrest increased; therefore, the government officials felt the urgent need to design an extensive welfare plan to reduce unemployment and poverty.

Therefore, the Unemployed Head of Household Plan was introduced in 2002 (Kostzer, 2008). The Plan offered 150 pesos (US$50) to "the heads of households" in exchange for working in local projects (Grugel & Riggirozzi, 2007)[22].

The program was financed by the treasury and the cost of the Plan was equal to almost 1% of GDP and 4.9 % of the total national budget. Kostzer argues that since 2003 the World Bank has been financing the Plan (2008). Nevertheless, Wray (2007) claims that the World Bank funding for the Plan was in dollars and since the program could be funded with domestic money, World Bank money was used to service external debt instead. Although, Wray has a point, World Bank funding should have at least helped easing the pressure on fiscal balances, even if it was not used specifically for the program. 4.9 % of the budget was devoted to the Plan.

Although the program was fully implemented only in 2003, by the end of 2002 two million beneficiaries were already receiving support. The program covered 16% of the total number of households in the country (Roca et al. 2005, as cited in Kostzer, 2008)

Every beneficiary of the program was committed to work for 20 hours per week in order to be eligible for benefits. However, if the beneficiary had found a full time job in the formal sector, he/she would have lost the benefits from the program. During the recovery phase, some fractions of the local business community was against the program, because the program had set some sort of a minimum wage for the informal sector, especially in the rural and more backward areas. Many rural jobs offered lower earnings than the program benefits and lasted for a limited duration (generally seasonal), so the beneficiaries were reluctant to work not only because the payment was low, but also because after a short duration of employment, going back to participating in the program was not guaranteed. Therefore, later the program was redesigned to allow the beneficiaries to leave the

[22] The poverty line was about 300 pesos per month then, so the program paid half of the poverty line for half-time work and expected participants to seek for additional employment in formal or informal sectors (Wray, 2007).

program for short periods of time, but minimum work requirement was still being implemented (Kostzer, 2008).

More than 80% of the beneficiaries worked in the projects generally organized by local governments. Community projects involved production of some goods and services for local consumption such as child or elderly care, health program support, community and school kitchens, construction of local infrastructure (sewerage and irrigation schemes, construction and maintenance of schools and hospitals, forestry, parks maintenance, building of community centres and sports halls, etc.) and production of consumables (bakery, clothing, recycling, etc.). About 60% of the beneficiaries were participating in community projects (Kostzer, 2008). Microenterprise projects also produced goods and services for the local economy. 6% of the participants in the program chose to go "back to school" to finish their formal education which was another option offered to beneficiaries of the program. 4 % of the participants were given vocational training.

The program has offered 4 hours of paid work daily; however participating workers have organized coops to work extra hours, benefiting from the sale of output produced in extra hours (Wray, 2007). According to Kostzer (2008), work commitment condition of the program had several advantages. It reduced the flow into poorly-paid informal sector, provided on-the-job training whenever possible, and contributed to production of goods and services to serve to the needs of the local community.

52 % of the beneficiaries worked both in the program and outside. 35% of the beneficiaries who worked outside the program are involved in precarious employment in the informal sector, mainly seasonal work and 60 % of them are self-employed. 25 % of those working in the program are unemployed (Kostzer, 2008). 89% of the beneficiaries were from the poorest 50 % of the population (Berra, 2010). At least half of the beneficiaries would have been inactive or unemployed outside the Plan, and a significant part of the rest of beneficiaries would have been in precarious employment. It can be fairly argued that the Plan was successful on the basis of targeting the unemployed and the under-employed.

One of the criticisms related to the Plan was that only one person from each household was allowed to participate in the program. Women have generally participated in the Plan; then, their husbands were forced to find employment, often in the informal sector. The Plan encouraged "precarious working conditions and deteriorating labour relations", because some of the workers, who were already employed in the informal sector, registered to the Plan for benefits. These workers were generally better informed to enrol in the Plan than the unemployed (López Zadicoff and Paz, 2003; also CONAEyC 2004, as cited in Dinerstein, 2008).

Almost 750,000 beneficiaries have found formal employment since the program has started (Kostzer, 2008). Also the program has provided 2 million jobs (at its peak) to workers (about 5% of the population, and about 13% of the labour force) immediately after its creation (Wray, 2007). According to Berra (2010), the Plan lowered unemployment by about 2.5 percentage points and total extreme poverty by about 2 percentage points. On the other hand, Ituriza et al. conducted an analysis based on the data collected about the Plan by the Household Surveys between May, 2002 and May, 2003 to find out the probabilities of making the transition to employment. They also used a control group of applicants[23] for comparing the effects of the Plan. Their results suggested that workers enrolled in the Plan were less likely to make the transition to employment as compared to persons who had applied for the Plan. Moreover, they found that participants finding employment tended to delay their exit compared to non-participants. According to the authors, "the unlimited duration of Plan benefits" became strong incentives for not exiting the Plan (Ituriza et al., 2008).

Frenkel, Damill and Maurizio (2007) claim that the multiplier effects of the program stimulated "a more rapid and homogenous" growth process (as cited in Novick et al, 2007). Kostzer estimated that the marginal propensity

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[23]Control group consisted of individuals who have applied for the Plan but did not receive benefits. Participation in the Plan was limited even for those who had qualified and enrolled by May 17, 2002; thus, there was a set of individuals who were still awaiting the decision of the labour authorities, although they were eligible for participation, at the time of the survey.

to consume of program beneficiaries was close to one, whereas their marginal propensity to import was also low, implying an overall multiplier effect of 2.53 for the medium run (2008).

Participants of the program were obliged to register their children in school and take the necessary vaccinations. Many projects of the Plan provided free childcare for participants, literacy programs for adults, tutoring for children, counselling for families with drug abuse or domestic violence problems, and family planning. Women had accounted for over 60% of program participants initially and later constituted nearly 75% of program participants. In interviews, many of the women working in the program said that they had never been able to work because long commutes would take them too far away from their children (Wray, 2007). By providing part-time employment in the neighbourhood and offering child-care (by the Program workers) the Program helped increasing women's labour force participation.

According to Household Surveys conducted by the Ministry of Labour 90% of the Plan's beneficiaries were either satisfied or very satisfied with the Plan and over 70% of them reported that they felt "respected" as opposed to being "undervalued" or "politically used" as a participant (Wray, 2007). Tcherneva and Wray (2005) conducted interviews with the participants and found that almost all the participants of the Plan were "happy" about it and they would prefer to work in the program instead of receiving welfare benefits directly (as cited in Wray, 2007). The Plan was also valuable to the participants for benefits such as "social interaction" and "ability to contribute to society" (Wray, 2007).

A criticism from state officials was that the government did not have the "institutional capacity" to run the program. Some projects have operated inefficiently, sometimes the projects have duplicated work done by regular government employees, or replaced them. One of the most important criticisms from officials and participants were that the Plan has not provided sufficient training to help participants find work in the private sector (Wray, 2007).

The plan was stopped in 2009 (Berra, 2010). The replacement of it had been planned by two separate programs: the unemployment insurance

scheme, which would offer payments for two years to the unemployed, and the *Plan Familias* which was designed to provide payments for economically inactive population having children (Wary, 2007). *Familias* aimed at increasing schooling attendance in poor households (Novick et al, 2007). This plan provided cash transfers to poor families with children below the age of 19, if they ensured that their children continued their education (Dinerstein, 2008).

Other programs have also been launched. *Manos a la Obra*, supported the foundation of cooperatives and creation of workfare initiatives (Grugel & Riggirozzi, 2007). Training and Employment Insurance Scheme was founded by the Ministry of Labour to assists the unemployed with difficulties in finding formal employment. In 2003, "More and Better Jobs" program was launched for training unemployed workers and helping them to obtain quality jobs (Novick et al, 2007).

6.3.5. Assessment of the policies and effects on the labour market

Frenkel (2003), Frenkel and Taylor (2006) and Frenkel and Ros (2004) assert that the fall in exchange rate has positive impacts on employment by raising international competitiveness in the short term, by resulting in import substitution in the medium term, and by protecting labour intensity of the production (because domestic production is protected against foreign competition) in the long term (as cited in Novick et al, 2007).

When convertibility was abandoned, "a competitive exchange rate policy" was put in place. The lower value of the currency promoted the re-establishment of the industrial base and labour-intensive activities in import substituting industries. As lower value of the currency increased prices of imports in terms of domestic currency, import substituting industries have been revived with increased competitiveness. Construction sector has grown due to shortage of alternative financial assets to channel the savings surplus. These developments have increased labour intensity in the economy. Employment-product elasticity has increased to 0.62 in the period of 2003-2006, from an average of 0.45 during the 1991-2002 period (Novick et al, 2007). Abandonment of the fixed exchange rate regime had definitely positive effects on growth and employment.

Fiscal policy was also concentrated in increasing employment and welfare of the work force. Government spending did not have a crowding out effect because extra revenues obtained by higher taxes were also used to finance workfare programs, which had expansionary multiplier effects on the economy (see Kostzer, 2008).

It has been argued by way of criticism that "workfare programs" increase incentives for precarious employment in informal enterprises or in formally constituted firms, which employ workers informally (Lo Vuolo, 2005, as cited in Grugel & Riggirozzi, 2007). This claim is reasonable, since the beneficiaries of the programs who found formal employment, lost their rights to receive benefits. Moreover, some of the beneficiaries of the Plan were involved in precarious employment (see Dinerstein 2008). Informality would have been promoted unintentionally by the eligibility conditions. However, most of the participants belonged to the poorest half of the population with lower prospects to find formal employment. It has already been argued that the condition of "one participant from each household" ended in other workers in the household to obtain informal employment. Therefore, there is a great chance that the Plan posed a strong alternative to finding informal employment with low pay and poor quality of working conditions and increased the welfare of workers.

Starting in 2001, as the number of beneficiaries in "workfare programs" has grown rapidly, statistical information on unemployed was collected by asking people whether they were employed in a workfare program, and from 2003 onwards two versions of the rate (including or excluding people under workfare) was announced. According to Maletta (2007), from 2002, with the start of the Plan about a quarter of the unemployed were covered by the Plan which reduced the rate of unemployment by about 6 percentage points (pp) in 2002 and 2003, and about 4 pp in 2004 and 2005. Novick et al. (2007) has calculated that as a result of the "social plans", employment rate was increased by 2.9 pp in 2003, by 2.3 pp in 2004, and 2 pp in 2005.

Essentially the Head of the Household Plan provided significant amount of employment during the 2002-2009 period; however, as argued in the previous section, half of the beneficiaries of the Plan were employed and increasingly female participants were involved in the Plan who would

otherwise be inactive rather than unemployed (see Kostzer, 2008 and Wray, 2007). Definitely, the Plan contributed to the increase in employment initially; however, the successful outcome in employment was a combination of successful economic policies concentrating on increasing domestic absorption, and the favourable increase in external trade balance after the change in exchange rate regime, and fiscal expansion by increasing social spending. It cannot be argued that unemployment was reduced to unsustainably low levels only by employment plans. When the plan was abolished to be replaced with direct transfers rather than workfare programs in 2009, unemployment rose by only 0.8 percentage points. This result was most probably due to the fall in output growth rate from 6.8 % in 2008 to 0.9 % in 2009, rather than due to the abolishment of the Plan.

Another criticism that was levelled against these programs was that the important achievement in the reduction of unemployment has brought about creation of low quality and low paid jobs specifically in the service sector (Grugel & Riggirozzi, 2007). Table 4 indicates a downward trend in industrial employment in exchange for an upward trend in the service sector. However, the fall in industrial employment was rapid in 1992-2002 period while the share of industrial employment in total employment have actually increased in the recovery period, although it has not risen back to its value in the early 1990s. During the recovery period, as agricultural employment slightly increased its share, the share of service sector employment has fallen (though by smaller amounts) compared to the Convertibility period. From 2003 onwards, real earnings started to grow; during 2003-2006 period, for example, real wages increased by 31 %. Earnings for registered wage earners have grown by 24 %, whereas earnings for non-registered workers have grown by 28% and that of the self employed has increased by 36 % [24](Novick et al., 2007). Data for the manufacturing industries suggests that wages in manufacturing followed an increasing trend over the recovery period. Average hourly wages in the manufacturing

[24] Data excluding employment plans

industry increased from 4.33 pesos in 2001 to 9.72 pesos in 2006 (ILO, 2012).

Table 6.8. Argentina: Sectoral Employment, 1990-2009

Years	Employment in agriculture	Employment in industry	Employment in services
1990	0.4	31.6	67.6
1991	0.3	32.4	66.4
1992	0.5	30	69.3
1993	0.5	28.9	70.1
1994	0.5	28.4	70.5
1995	0.4	27.3	71.8
1996	0.8	24.9	73.9
1997	0.8	25.4	73.2
1998	0.8	24.8	74
1999	0.7	23.6	75.3
2000	0.7	22.7	76.2
2001	0.8	21.9	76.9
2002	1	20.2	78.5
2003	1.4	21.7	76.3
2004	1.2	23	75.5
2005	1.1	23.5	75.1
2006	1	23.6	75.1
2007	0.9	24.2	74.5
2008	1.2	23.9	74.3
2009	1.2	23.1	75.2
Source: World Bank, 2012			

The share of "vulnerable employment", which is defined as the share of unpaid-family workers and own-account workers as a percentage of total employment, has also decreased gradually from 24.6 % in 2002 to 19.1 % in 2009. Therefore, the claims about poor quality of jobs created during the recovery period are not totally plausible, especially when compared to the crisis and the Convertibility periods.

Parallel to the reduction in unemployment and improvement in wages, income inequality and poverty situation has also improved. Gini index (excluding employment plans) has fallen from .47 in 2003 to .44 by 2006.

The percentage of poor households has decreased from 57.5 % in October, 2002 to 31.4 % in early 2006 (Novick et al., 2007).

6.3.6. Lessons for Turkey

Compared to the Netherlands and Ireland, the Argentine economy has more similarities with the Turkish case. Unlike Netherlands and Ireland, both Argentine and Turkey are developing countries and unlike Ireland, they do not benefit from the funds and regulations of an elite country union, like the EU. Both Turkey and Argentine have high population and large domestic markets with relatively lower shares of external trade compared to the size of the domestic economy and have similar GDP per capita. After having implemented protectionist trade policies and exchange controls, both countries tried similar recipes of economic growth in making the transition from import substituting industrialization to export-led strategies. Both Argentina and Turkey attained high rates of growth after the crises of 2001; however, their experience in unemployment differed during 2001-2008 period. Argentine economy, with an already higher rate of unemployment managed to decrease its unemployment, whereas Turkish unemployment continued to increase.

Argentine experience has shown that uncontrolled financial inflows and liberal trade regime with an overvalued exchange rate, which was not allowed to float freely, became detrimental for domestic production and eroded country's industrial base as indicated by the falling share of industrial employment. In Argentine case, rapid financial outflows during the 1990s had contractionary effects on the economy and unemployment has risen gradually.

Theoretically, financial inflows compensate for shortage of domestic savings and help boost investment in developing countries. Nevertheless, the experience of developing countries such as Argentina has on the whole been negative. During the 1991-1998 period, before the financial flows (specifically portfolio investments) become negative, GFCF as a share of GDP remained around 19 % with slight decreases but without any significant increase. On the other hand, imports as a share of GDP increased gradually from 6.1 % of GDP to 12.9 % during the period. Recessions triggered by financial outflows disturbed the growth path and

caused a sharp increase in unemployment, without any significant positive effects for the domestic economy. As the Turkish economy is also familiar with this type of economic shocks, one of the fundamental lessons for Turkey is to be cautious with heavy dependence on international financial inflows and to promote domestic savings instead.

Table 6.9. Financial inflows Turkey compared to Argentina, 2000-2010

	FDI, net inflows (% of GDP)		Portfolio equity, net inflows (current US$)		Financing via Int. Capital Markets (gross inflows, % of GDP)		Exports (% of GDP)	
Years	Turkey	Argentina	Turkey	Argentina	Turkey	Argentina	Turkey	Argentina
2001	1.7	0.8	-79,000	31,127	3.0	2.0	23.6	11.5
2002	0.5	2.1	-16,000	-115,880	2.5	0.1	23.8	27.7
2003	0.6	1.3	905,000	65,350	3.1	0.1	24.1	25.0
2004	0.7	2.7	1,427,000	-86,150	3.5	0.4	24.5	25.3
2005	2.1	2.9	5,669,000	-48,100	4.2	1.3	24.4	25.1
2006	3.8	2.6	1,939,000	706,670	4.9	1.3	24.4	24.8
2007	3.4	2.5	5,138,000	1,784,940	3.4	2.2	25.0	24.6
2008	2.7	3.0	716,000	-530,620	2.2	0.4	25.5	24.5
2009	1.4	1.3	2,827,000	-211,918	1.7	0.2	25.4	21.4
2010	1.3	1.7	3,468,000	-207,501	2.1	0.8	24.1	21.7

Source: World Bank, 2012

Table 6.9 indicates that during the recovery periods of 2002-2008, FDI as a share of GDP was roughly equal on average in both countries (1.8 % for Turkey and 2.1 % for Argentina). However, Turkey received increasing amount of portfolio investments, whereas Argentine inflows were either negative or far smaller. Turkey also had higher shares of financing via international capital markets. Export shares in both countries during the period were similar. In spite of lower inflows of financial capital, both employment and output growth were higher in Argentina.

What was the difference between Turkish and Argentine cases? It can be argued that one of the differences was the fact that Argentine economy had more inward orientation during the period. Nevertheless, the difference

between the Turkish and Argentine economy in this regard was not so much different from each other. It is more likely that the main difference between the two countries was Argentina's much heavier focus on employment creation and social welfare in policy making.

The Argentine state declared that "job creation" would be "in the centre of policy-making" (Dinerstein, 2008). State revenues were expanded by increased taxes and increased revenues were used to finance social plans and welfare programs. Income redistribution generated by these programs restored the purchasing power of lower and middle classes who were severely impoverished by the previous policy regime. These created strong multiplier effects and facilitated pro-employment growth.

On the other hand, Turkish policy making during the period has concentrated on reduction of inflation and fiscal deficits, as well as attraction of foreign capital to finance the growing trade deficit. High inflation and high fiscal deficits necessitated economic policies addressing these issues; however, the problem of unemployment, and employment creation efforts were not on the agenda for most part of the 2000s. Argentine experience clearly shows that a successful policy for dealing with unemployment necessitates strong commitment and active use of policies on the part of state authorities.

6.4. Conclusion

The three examples of the successful labour market policy implementation from three countries had their differences depending on the country specific characteristics of the economies as well as the differences in national and international economic conjuncture during the time periods concerned. The Netherlands reformed its labour market by reducing employment protection, increasing opportunities for part-time employment, and negotiated wage moderation from mid-1980s to early 2000s. Ireland favoured a policy of export-led growth in which foreign direct investment were promoted by excessive concessions regarding tax rates and regulations and reduced its unemployment from the mid 1990s until the crisis of 2008. Argentina restored its output growth and lowered unemployment by

promoting domestic investments and increasing social spending on employment programs.

Of the three countries considered, the Dutch experience seems the least relevant example for Turkey to replicate, because unlike the Dutch economy, Turkey has a large domestic market, a large labour force, lower wages and lower GDP per capita. Work-sharing, export orientation and wage repression can only be temporary solutions for high unemployment and are likely to have adverse consequences on welfare of the population. Ireland's policies of export-led growth and concentration on attracting FDI will also be inadequate for a long term solution of the unemployment problem. A growth strategy depending on external demand and international competitiveness will have limited effect on job creation and will be highly vulnerable to imbalances in the world markets and to excessive competition for external demand from other countries. Ireland's severe recession, which started in 2008, provides some support for this view.

The strategies of both the Netherlands and Ireland will apart from their adverse impact on welfare are likely to increase imbalances in the economy. However, each strategy represents some lessons for Turkish policy makers with their flaws as well as their contribution to the reduction in unemployment. For instance, promoting an increase in productivity and effective controls on informal overtime work (which is believed to be significantly high in Turkey) can be part of an employment strategy. Work sharing instead of excessive hours of work will create additional employment and will increase the welfare of workers by lowering the amount of unpaid overtime work. As inspired by Ireland's example, enhancing international competitiveness and production for foreign markets will to some extent also contribute to employment creation. If this strategy is based on increasing productivity and educational level of the labour force, rather than wage repression, and tax and regulatory concessions for attracting FDI, it is more likely to be successful in the long term and more beneficial to the welfare of the society.

Argentina's economic and employment growth strategies are more easily applicable to the Turkish case not least because there are many similarities

between the two countries. Increased reliance on domestic markets, promoting domestic investments and with special emphasis on employment creation will be successful for sustainable employment growth.

Apart from their differences, experience of the three countries suggests some important commonalities. First, in all of the three countries, unemployment was recognized as an urgent economic problem on the agenda and governments were committed to the objective of employment creation in their policy making processes with a variety of policy approaches involving deregulation, liberalization, fiscal expansion or active involvement in employment creation. Secondly, governments in all three countries organized discussions to exchange views and reach agreements on issues of growth, employment and social welfare with different actors in the economy. Thirdly, governments in all three countries made use of active labour market programs to train the labour force and/or providing temporary employment to the unemployed. These programs have at least relieved the pressures on the labour market and supported private efforts of employers and the work force to create and obtain employment. Therefore, Turkish labour market policies should benefit from these three strategies in an extensive way.

CHAPTER 7

CONCLUSION

7.1. Summary and Results

In the second chapter, we have discussed and evaluated some important aspects of Turkish labour market statistics. Our discussion centred on the representative power of the indicators. We did not analyze statistical methods of data collection and processing since these were beyond the scope of our thesis. We have instead confined our discussion to the question of how appropriate the statistical definitions of certain categories such as employment, unemployment, or unpaid family workers to correctly state the situation in the labour market. We have questioned the extent to which the indicators obtained by these statistical definitions underestimate the problem of unemployment and whether these indicators are adequate to indicate the social well-being of the population. However, we believe that a more comprehensive analysis of the Turkish labour market statistics, including data collection and derivation methods and a discussion on how precisely labour market statistics indicate the situation in the labour market is urgently needed.

Although the definitions of labour market indicators follow international norms, we have levelled some criticisms against these definitions. Our first major criticism is about the definition of employment. “Employment” is defined to include all the persons who have performed “at least one hour of work in the reference week”. This definition of employment is mainly criticized for its extensiveness, which incorporates any activity of production regardless of the time spent, continuity, and income derived. In this thesis, we would like to emphasize role of “employment” as a social indicator, which represents income generation capacity and social participation

capabilities of the working age population, in addition to its role as an indicator of productive capabilities; therefore, we consider the definition of "employment" in HLFS is inadequate.

Our second major criticism is about the narrowness of the "unemployment" definition. At least some of the "discouraged workers" and other "marginally attached workers", who are not included in unemployment, are potential job seekers who have given up job search due to poor conditions in the labour market. Thus, "marginally-attached workers" should not be ignored in measuring unemployment and should be a part of the employment creation policy, supported by improved statistical information collection about their situation. Our main finding in this chapter is that the recent definitions of "employment", "unemployment", and "inactivity" conceal some important problems of the labour market.

In the third chapter, we analyzed recent trends and main characteristics of the Turkish labour market. The main trends were identified as gradually growing working age population, decreasing labour force participation, weak employment growth performance, and increasing rate of unemployment. In addition, the significant number of "marginally-attached" and underemployed workers was recognized as a fundamental problem not captured by the unemployment rate. Statistics of unemployment were also examined to develop further insights into the unemployment problem in Turkey. Our main observation regarding the problem of unemployment was the unexpected positive relationship between educational attainment and unemployment. The low labour force participation and high number of marginally attached workers were identified as important problems confronting the labour market, calling for urgent attention by policy makers in designing an effective employment creation policy.

In the fourth chapter, we have briefly reviewed current literature about unemployment and job creation. Main macroeconomic models and concepts on the subject were summarized. Our discussion in this chapter as indeed in the whole thesis has centered mainly on institutional aspects of the labour market and the weakness of labour demand as the root causes of high unemployment. Excessive labour supply is also identified as another aspect of the problem. High growth of labour force in excess of labour

demand is caused both by high growth of working age population and an increase in labour force participation. A discussion on population policies is not included in this thesis because as such a discussion is impractical for suggesting policies in the shorter term. Moreover, longer-term population growth is a complex issue, which should be consulted by a large number of disciplines ranging from sociology to even medical science.

Our review of empirical literature and country data has suggested that economic growth affects labour demand positively (with a lag or not) and decreases unemployment; however, there are exceptions such as “jobless growth”. We have examined the cases of "jobless growth" specifically after major economic recessions and concluded that these crises ended up in some fundamental structural changes in the economy. These changes had long lasting effects and generally increased the long-term average rate of unemployment unless extensive and effective expansionary policies were implemented.

Capital accumulation and productivity growth also affect the growth-unemployment relationship. Many studies state that the slowdown in capital accumulation has negative effects on. However, in some cases the slowdown in GFCF growth is accompanied by further reductions in unemployment (for instance in Ireland, during 1995-2000 or in Argentina, during 2003-2006) and in some other cases unemployment rate is not affected by a gradual increase in GFCF (such as China).

The effects of productivity growth and technological progress on unemployment are also controversial. Theories, as well as empirical studies, point to contrasting arguments for both the short-term and long-term effects of productivity growth on unemployment. Some researchers have found that productivity growth has increasing effects on unemployment (Trehan, 2003); whereas others have found an inverse relationship between them (Hall et al., 2008; Hahn, 1999). Some others have reported mixed results over their sample (Gordon, 1995; Pieper, 2000; Van Ark et al., 2004) depending on country specific differences in economic environment.

In addition to components of domestic demand discussed above, external demand fluctuations may also affect unemployment. There are regional differences regarding the effects of external demand on unemployment. In

developing South American countries, for example, increasing trade volume adversely affected employment in import competing sectors, whereas in exporting sectors employment was affected positively. However, the total net effect on employment was insignificant. On the contrary, in South Asian countries, the increase in trade volume had significant positive effects on employment. The main difference in employment performances between these two sets of countries was the attitude towards trade liberalization. In South Asian countries, import restrictions were gradually removed while exporting sectors were supported by several policy measures. In South America, in contrast, trade liberalization was rapid and unplanned.

Finally, institutional framework of labour market and its effect on unemployment were discussed in Chapter 4. Effects of several labour market regulations and institutions were examined in theoretical and empirical perspectives. In current literature, "labour market flexibility" is a popular concept, which generally asserts that labour market regulations have adverse effects on unemployment. To begin with, unemployment insurance system, which is believed to decrease work effort is blamed for high and long-term unemployment. An unemployment insurance scheme with time limitations and job search criteria (which is generally the case in most countries) will minimize, if not eliminate, adverse effects on work effort and will provide income relief for the unemployed.

Secondly, minimum wage is believed to increase the unemployment of the low skilled, which may only hold true if marginal product of a low skilled worker is below the minimum wage. Thirdly, severance payments, and other costs related to lay-off decisions are claimed to increase unemployment through their adverse effect on hiring decisions. Severance and other lay-off costs directly affect lay-off decisions and create some amount of stability in the labour market. Finally, restrictions on temporary contracts are criticized for limiting employment creation of different types of labour. A preference for temporary contracts will not increase employment creation; more likely, it will be abused by employers to avoid "unfavourable" regulations from regular contracts.

Empirical studies about unemployment effects of labour market flexibility have opposing results regarding the strength of the relationship between

unemployment and labour market institutions. Our discussion has shown that when labour supply growth is taken as given, slow growth in labour demand is mainly responsible for high unemployment. Lack of labour market flexibility, on the other hand, does not have much explanatory power especially in developing countries with high level of informality, decentralized labour markets, and low wages.

In chapter 5, we have analyzed various aspects of Turkish labour market and Turkish economy with special reference to the unemployment problem. Although Turkey experienced high rates of growth during the 2003-2007 period this was not translated into lower unemployment. A review of literature for the Turkish economy showed that excess capacity; sectoral differences in employment creation, hysteresis effects, and low level of wage/profit ratio were among factors accounting for the slow growth of employment.

Examination of recent trends in Turkish economy showed that during the 2000-2010 period, unemployment increased gradually after the economic crises of 2001 and 2008, and in spite of high rates of growth during the period between the crises, no significant reduction in unemployment was observed. Employment growth was inadequate to recreate lost jobs and to create new jobs for the new entrants. However, examination of other variables such as gross fixed capital formation, productivity growth, and external trade, with respect to changes in unemployment, did not suggest conclusive results regarding the relationship between these variables and unemployment in Turkey.

Turkey had the second highest rank in OECD's Employment Protection Index during 2000s, and was frequently advised to lower the level of "imperfections" in its labour market. We argue, however, that in an environment characterized by high levels of informality is high and low degree of compliance with regulations enforcement of existing regulations is a problematic issue. Moreover, coverage of collective bargaining, unionization, social security, and unemployment insurance system are low. In addition, as high levels of unemployment and, underemployment exert pressures on workers and job seekers, employers enjoy a degree of flexibility more than that indicated by the Employment Protection Legislation Index.

Although there are growing problems in the labour market, Turkish governments have failed to implement a comprehensive employment strategy addressing these problems. The existing approach concentrates on eliminating labour market regulations, improving the educational system, and promoting a number of active labour market policies. We have argued that the relationship between educational attainment and employment was problematic. We have also emphasized that active labour market policies should effectively be used to promote employment growth. A strategy without an emphasis on supporting employment-creating investments will not be adequate to generate significant reduction in unemployment.

In chapter 6, we have examined the time periods during which there was significant reduction in unemployment in three different countries: The Netherlands, Ireland, and Argentina. These examples, which had their differences in terms of country specific characteristics such as the size of their population and domestic markets, levels of development and degree of integration with external markets and in terms of the policies adopted, have provided us a diversity of economic contexts and policies. The Netherlands was an example of a developed country concentrating on labour market flexibilization, wage moderation, and work sharing. Ireland displayed the case of a small developing country promoting export-led growth and FDI. Argentina's experience, on the other hand, exemplified the case of domestic demand-led economic growth and an employment strategy extensively supported by active labour market programs.

We have argued that the Dutch and Irish experiences cannot easily be replicated in the Turkish context, given the important differences between these countries and Turkey. Moreover, policies implemented in these countries are likely to have adverse effects on welfare and income distribution. However, the Argentine economy had more similarities with the Turkish economy and the policies that Argentina followed were instrumental in not only decreasing unemployment, but also in decreasing poverty and income inequality.

7.2. Policies for Turkey

In line with our observations in the second Chapter, we suggest that policy makers (to remain within the bounds of international standards) should be supplied with additional indicators about the labour market, rather than extending or narrowing the current definitions. Better categorization of the "others" category (which is a category of "inactive" working age population other than "discouraged workers") with additional questions about job-search duration and reasons to be inactive should be designed. Different measurements of employment and unemployment should be made depending on the "hours-worked" and "job search duration", respectively. Labour underutilization rate should also be calculated. Changes in employment and unemployment rates should be monitored and evaluated by taking into consideration the changes in labour force participation rate. Additional statistics on working conditions and underemployment should be collected for the most vulnerable groups of the labour force, for example casual workers, so that special policies targeting them could be designed. Information on these additional indicators will lead to a more comprehensive understanding of the problems confronting Turkish labour market and will help policy makers to design better strategies.

Equipped with better indicators, policy makers should be able to design a better "employment strategy" than the existing draft prepared by the Board of Economic Coordination in 2010 (Ulusal İstihdam Stratejisi, 2011). First of all, such a strategy needs clearly defined and attainable objectives regarding employment growth and the unemployment rate and policies should be designed and implemented in line with their ultimate contribution to these objectives. Secondly, this strategy should be based on promoting investments selectively in accordance with their potential to create employment because "inflexibility" of Turkish labour market on its own is not a valid argument for explaining the high rate of unemployment. For the objective of employment creation, we argue that subsidizing domestic investment is a superior strategy than promoting FDI, because

international competition for FDI necessitates several concessions such as lower taxes, lower wages, and profit transfers. Promotion of domestic savings rather than relying on financial capital inflows from the rest of the world is also crucial because as the volume of these inflows grows, domestic economy becomes more vulnerable to the vagaries of the highly volatile international capital markets.

Sustainable growth based on the promotion of domestic investment is the general framework for the suggested strategy. Investment subsidies need not necessarily concentrate solely on exporting sectors or on the import-competing sectors, as in the previous periods of export-led growth or import substituting industrialization. Industries with the potential of producing for the domestic economy and/or with the potential of exporting should be supported; however, these subsidies should be allocated with carefully designed and enforced performance criteria. One of these criteria should be employment creation. To prevent these subsidies from creating unproductive labour surpluses in the subsidized industries, both the exporting and import competing subsidies should also be supplemented with a competitiveness criterion.

A domestic demand-based strategy is more promising in terms of long-term sustainability. As the level of employment increases, internal demand will increase inducing further rises in investment and employment. If an economy becomes heavily dependent on external resources and foreign demand, a certain degree of autonomy in economic policymaking is lost. It will become too dependent on foreign decision makers and will have to bear the burden of mismanagement in other economies. A growth model, which favours the domestic industry, need not necessarily avoid foreign transactions. However, the path of integration with the rest of the world markets' is important. It is always easier to base the competitive power of an economy on cheap labour with a low degree of sovereignty over a country's own economic decisions. Educating and training a skilled work force, increasing the amount of capital stock, improving the industrial base and technological capabilities, and installing the ideal of productivity growth in society are harder ways of improving international competitiveness which take a long time to yield the desired results.

However, it is a much better way for attaining sustainable growth in output, employment and welfare of the population, than a competition strategy based on input prices, most notably wages.

This general framework for an employment strategy should be supported by an array of other policies, addressing also some of the more specific problems facing the labour market. One of these is extensive use of active labour market policies. As the experience of Argentina has shown, successful countries have resorted to such policies for reducing unemployment. These policies induce public authorities to take direct responsibility in the employment creation process and act as a safety net against poverty during economic recessions. However, these policies should only be regarded as complementary to a solid economy policy supporting employment-creating investments, because they are not capable of providing permanent employment without continued subsidies from the state. For example, if workfare programs are continued without an objective of training workers and assisting them to enter long-term employment, the burden on the state's budget will increase while the beneficiaries of these programs will be trapped in low quality and low-paid jobs. Therefore, these programs should be targeted with some objective of assisting the unemployed and the inactive to obtain more secure jobs.

Reform of the education system is another complementary policy. There is a mismatch in the labour market with high school graduates having the highest rate of unemployment, significantly higher than the general rate of unemployment (14.6% in 2010 as opposed to the overall rate of unemployment of 11.9 %). In addition, 20 % of high school graduates and 11 % of university graduates in employment suffer from either time or quality related underemployment. Unemployment rate for the 15-24 and 25-34 age groups are 21.7 % and 12.6 %, respectively. 30 % and 20 %of the unemployed in the 15-34 age group are high school and university graduates, respectively. Labour market participation increases as the level of educational attainment increases; therefore high unemployment rate of the educated is an outcome of the lack of job creation in the skilled categories. This problem is also related to the poor quality of the educational system. For instance, whereas vocational high school graduates

have a high rate of unemployment (13.2 %), they have the largest share in labour demand (about 31 % of the vacancies are for vocational high school graduates, (İŞKUR, 2011b). An educational reform is necessary to minimize the mismatch in the labour market and support a policy of international competitiveness as outlined above.

Our discussion of country experiences has shown that successful countries in reducing unemployment have emphasized social cooperation in designing employment policies. Turkey should definitely benefit from this approach. A negotiation process with the participation of different actors will enrich the policy making process and will induce all the actors to take responsibility in employment creation. Policies based on dialogue among main partners will work more effectively because as each party will have clearly defined responsibilities, concessions will be made more easily.

7.3. Challenges for Policy Makers

In pursuing the suggested growth strategy based on promoting domestic markets with emphasis on employment creation and reducing unemployment, policy makers will be faced with a number of challenges and difficulties. The first challenge that the policy makers have to take into consideration is the high rate of growth of the working age population. Although projections point to a slowdown in population growth, Turkish working age population (15-64) will have increased by 6 % by 2015 and by an additional 6 % by 2020 (TUIK,2012f).Although, the declining trend in labour force participation will to some extent alleviate these pressures, increase in the currently low labour force participation in future will be another challenge for policy makers. The low level of labour market participation entails high dependency ratios and a high burden on the social security system. Policy makers will have to deal with increasing labour force participation as well as decreasing the number of unemployed. Apart from the unemployed, disadvantaged groups such as women and the youth among the “inactive” working age population will need specific attention and a set of active policies to increase their participation in the labour market.

Accomplishing sustainable growth of output and employment through a domestic market-driven strategy is a challenge on its own in an economic context of high international integration. We have suggested a growth strategy based on the growth of internal demand without disregarding the demand and other opportunities emanating from the rest of the world. At present, as most countries are emphasizing a process of political and economic integration with the rest of the world, it is an appropriate policy stance for Turkey to try to reap the fruits of economic integration than to deny it. However, it is challenging for Turkey to integrate with the world economy as an exporter of quality products and as a stable developing country favoured by foreign investors in productive spheres. As emphasized before, this will require long-term efforts for the creation of a skilled work force, a strong industrial base and a different attitude towards productivity in society at large. In an open economy context, it will also be difficult, if not impossible, to protect the domestic economy from negative effects of financial crises at home and abroad and to ensure domestic stability. For this purpose, domestic savings should be promoted and investments should rely more on domestic savings.

Finally, while using active measures for employment creation, public policy makers have to attach special importance to fiscal solvency and effective allocation of fiscal resources. This requires policy makers determine clear objectives, pay attention to targeting, monitoring and evaluating the effectiveness of their policies while allocating public resources as employment creation subsidies.

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APPENDIX

Tables

Table 2.1. Turkey: Share of "casual" types of employment in total employment and working hours, 2008-2010

Hours	2008			2009		2010	
	self employed %	unpaid family workers %	casual employees* %	self employed %	unpaid family workers %	self employed %	unpaid family workers %
1-16	34.6	45.2	13.4	36.9	43.2	34.7	39.9
17-35	35.8	36.6	10.7	33.8	0.0	28.9	31.2
36-39	39.4	27.5	14.5	33.4	27.6	31.1	26.8
40-49	22.0	12.2	8.0	19.7	13.1	19.7	13.1
50-59	20.0	11.5	7.5	17.0	10.2	17.1	11.0
60+	50.2	14.3	13.4	41.7	14.1	20.1	14.1
Total	**23.5**	**12.7**	**6.7**	**20.8**	**13.5**	**20.1**	**13.6**

*Starting from 2009, regular and casual employee categories are combined in the questionnaire and from 2009 onwards casual employees are included in "employee" heading.

Source: TUIK, 2012a and own calculations

Table 2.2. Turkey: Poverty rates according to employment status of household members, 2002-2009

Year	2002	2003	2004	2005	2006	2007	2008	2009
Total	**27**	**28**	**26**	**21**	**18**	**18**	**17**	**18**
Employed	25	26	23	19	16	14	15	15
Regular employee	14	15	10	7	6	6	6	7
Casual employee	45	43	38	32	29	27	29	27
Employer	9	9	7	5	4	3	2	2
Self-employed	30	32	30	26	22	23	24	23
Unpaid family worker	35	39	39	35	32	29	32	30
Unemployed	**32**	**31**	**27**	**26**	**20**	**26**	**18**	**20**

Source: TUIK, 2009a

Table 3.1. Turkey: General characteristics of the labour force, 2011

(Thousands)

classification		Working age population (15+)	Labour force	% of total labour force	Labour force participation rate
by location	**Turkey***	**53,593**	**26,725**	**100.0**	**49.9**
	Urban	36,973	17,594	69.1	47.6
	Rural	16,620	9,131	35.9	54.9
by gender	Male	26,320	18,867	74.1	71.7
	Female	27,273	7,859	30.9	28.8
by age	15-24	11,534	4,529	16.9	39.3
	25-34	12,482	8,236	30.8	66.0
	35-44	10,448	6,960	26.0	66.6
	45-54	8,358	4,491	16.8	53.7
	55+	10,769	2,509	9.4	23.3
by educational level	Illiterate	5,863	1,203	4.5	20.5
	Less than high school	32,801	15,628	58.5	47.6
	High school	9,286	5,365	20.1	57.8
	Univesity or above	5,643	4,476	16.7	79.3

*Subtotals may not add up to total due to rounding up

Source: TUIK 2012a; TUIK, 2012c and own calculations

Table 3.2. Labour Force Participation for Selected Countries

(Thousands)

Countries	Labour force participation %	Male labour force participation %	Female labour force participation %
Argentina	65	78.4	52.4
Azerbaijan	63	66.8	59.5
Egypt	48.8	75.3	22.4
France	56.1	62.2	50.5
Germany	59.8	66.8	53.1
Greece	53.7	65	42.9
Ireland	63.6	73	54.4
Japan	59.5	71.8	47.9
Korea	60.9	72	50.1
Lithunia	55.7	62.1	50.2
Pakistan	54.3	84.9	21.7
Phillipines	63.8	78.5	49.2
Poland	53.7	61.9	46.2
Romania	52.4	60	45.4
Turkey	**47.9**	**70.5**	**26**
U.S.	62.2	69.5	55.3
U.K.	65	71.9	58.4
Group average	**58.0**	**70.0**	**46.2**
Source: World Bank, 2012			

Table 3.3. Turkey: The Profile of Marginally Attached Workers, 2011
(Thousands)

classification		Marginally attached workers		
		Discouraged	Other	Total
by location	**Turkey***	**678**	**1,267**	**1,945**
	Urban	384	894	1,278
	Rural	294	373	667
by gender	Male	406	446	852
	Female	271	821	1,092
by age	15-24	216	337	553
	25-34	175	319	494
	35-44	126	249	375
	45-54	99	207	306
	55+	60	155	215
by educational level	Illiterate	43	73	116
	Primary school or less	292	543	835
	Primary education or junior high school	160	237	397
	High school	125	292	417
	University or higher	58	122	180
*Subtotals may not add up to total due to rounding up				
Source: TUIK, 2012a				

Table 3.4. Turkey: Composition of employment, 2011

(Thousands)

(thousands)		Number of employed	% of total employment	employment rate**
by location	**Turkey***	**24,110**	100	**45.0**
	Urban	15,507	64	41.9
	Rural	8,603	36	51.8
by gender	Male	17,137	71	65.1
	Female	6,973	29	25.6
by age	15-24	3,697	15	32.1
	25-34	7,368	31	59.0
	35-44	6,453	27	61.8
	45-54	4,181	17	50.0
	55+	2,411	10	22.4
by sector	Agriculture	6,143	25	-
	Industry	4,704	20	-
	Construction	1,676	7	-
	Services	11,586	48	-
by educational level	Illiterate	1,147	5	19.6
	Less than high school	14,224	59	43.4
	High school	4,729	20	50.9
	University or above	4,008	17	71.0
by status in employment	Regular employee	14,876	62	-
	Employer	1,244	5	-
	Self employed	4,687	19	-
	Unpaid family worker	3,303	14	-
by size of work place	1-9 people	14,159	59	-
	9-49 people	4,853	20	-
	50+ people	5,097	21	-
by social security coverage	Registered	13,971	58	-
	Not registered	10,139	42	-

*Subtotals may not add up to total due to rounding up

** Calculated for the classifications where working age population data is available

Source: TUIK, 2012a; TUIK, 2012c and own calculations

Table 3.5. Turkey: Composition of underemployment, 2011

(Thousands)

classification		Time related under-employ-ment	In-adequate employ-ment	Number of under-employed	Number of employed	% of under-employed	under-employ-ment rate**
by location	**Turkey***	**617**	**391**	**1,008**	**24,110**	**100.0**	**3.8**
	Urban	328	272	600	15,507	59.5	3.4
	Rural	289	120	409	8,603	40.6	4.5
by gender	Male	425	324	749	17,137	74.3	4.0
	Female	192	67	259	6,973	25.7	3.3
by sector	Agricultural	254	71	325	6,143	32.2	-
	Non-agricultural	363	320	683	17,966	67.8	-
by educational level	Illiterate	28	4	32	1,147	3.2	2.7
	Less than high school	437	224	661	14,224	65.6	4.2
	High school	83	100	183	4,729	18.2	3.4
	University or above	69	63	132	4,008	13.1	2.9
by social security coverage	Registered	158	166	324	13,971	32.1	-
	Not registered	459	225	684	10,139	67.9	-

*Subtotals may not add up to total due to rounding up

**Underemployment rate=(unemployed/labour force)*100

Source: TUIK, 2012a; TUIK, 2012c and own calculations

Table 3.6. Turkey: Profile of Unemployment, 2011

(Thousands)

classification		Number of unemployed	% of total unemployed	unemployment rate
by location	**Turkey***	**2,615**	**100**	**9.8**
	Urban	2,087	80	11.9
	Rural	528	20	5.8
by gender	Male	1,730	66	9.2
	Female	885	34	11.3
by age	15-24	832	32	18.4
	25-34	868	33	10.5
	35-54	816	31	11.7
	55+	98	4	2.2
by sector of the last workplace*	Agriculture	213	8	-
	Industry	1,092	42	-
	Construction	682	26	-
	Services	641	25	-
by educational level	Illiterate	56	2	4.7
	Less than high school	1,456	56	9.3
	High school	636	24	11.9
	Higher education	467	18	10.4
by status in last employment*	Regular or casual employee	2,057	79	
	Employer	34	1	-
	Self-employed	82	3	-
	Unpaid family worker	52	2	-
by duration of employent seeking*	1-2 month	862	33	-
	3-5 month	611	23	-
	6 months-less than 1 year	423	16	-
	1 year or less than 2 years	428	16	-
	2 years and more	259	10	-

*Subtotals may not add up to total due to rounding up. Some categories also do not add up to the total number of the unemployed because some categories are not included in the table. For "status in last employment" and "sector of last workplace" categories those who quitted job before the last 8 years, for "duration of employment" category "the unemployed who have found a job and waiting to start" and "first time job seekers" are not included.

Source: TUIK, 2012a; TUIK,2012c and own calculations

Table 3.7. Turkey: Regional unemployment, 2011

(Thousands)

Region*	Labour force participation rate %	Unemployment rate %	Employment rate %
TURKEY	**49.9**	**9.8**	**45.0**
Istanbul	48.8	11.8	43.1
West Marmara	51.2	7.1	47.5
East Marmara	53.5	10.0	48.1
Aegean	51.5	9.8	46.5
Mediterranean	48.1	8.6	44.0
West Anatolia	52.9	10.6	47.3
Central Anatolia	48.6	9.7	43.9
West Black Sea	54.7	6.0	51.4
East Black Sea	57.4	6.4	53.7
Northeast Anatolia	52.4	8.3	48.1
Middle East Anatolia	47.7	11.2	42.4
Southeast Anatolia	36.3	11.7	32.1
*Regional classifications are according to SRE Level 1 classification. For a detailed list of geographical classifications see appendix table 3.8			
Source: TUIK, 2012a			

Table 3.8. Turkey: Regional classifications

(Thousands)

Level 1		Level 2	
TR1	Istanbul	TR10	Istanbul
TR2	West Marmara	TR21	(Tekirdağ, Edirne, Kırklareli)
		TR22	(Balıkesir, Çanakkale)
TR3	Aegean	TR31	(Izmir)
		TR32	(Aydın, Denizli, Mugla)
		TR33	(Manisa, Afyonkarahisar, Kutahya, Usak)
TR4	East Marmara	TR41	(Bursa, Eskişehir, Bilecik)
		TR42	(Kocaeli, Sakarya, Düzce, Bolu, Yalova)
TR5	West Anatolia	TR51	(Ankara)
		TR52	(Konya, Karaman)
TR6	Mediterranean	TR61	(Antalya, Isparta, Burdur)
		TR62	(Adana, Mersin)
		TR63	(Hatay, Kahramanmaraş, Osmaniye)
TR7	Central Anatolia	TR71	(Kırıkkale, Aksaray, Niğde, Nevşehir, Kırşehir)
		TR72	(Kayseri, Sivas, Yozgat)
TR8	West Black Sea	TR81	(Zonguldak, Karabük, Bartın)
		TR82	(Kastamonu, Çankırı, Sinop)
		TR83	(Samsun, Tokat, Çorum, Amasya)
TR9	East Black Sea	TR90	(Trabzon, Ordu, Giresun, Rize, Artvin, Gümüşhane)
TRA	Northeast Anatolia	TRA1	(Erzurum, Erzincan, Bayburt)
		TRA2	(Ağrı, Kars, Iğdır, Ardahan)
TRB	Centraleast Anatolia	TRB1	(Malatya, Elazığ, Bingöl, Tunceli)
		TRB2	(Van, Muş, Bitlis, Hakkari)
TRC	Southeast Anatolia	TRC1	(Gaziantep, Adıyaman, Kilis)
		TRC2	(Şanlıurfa, Diyarbakır)
		TRC3	(Mardin, Batman, Şırnak, Siirt)

Source: TUIK, 2009b

Table 4.1. Growth-Unemployment Relationship in Developed Countries, 2002-2009

Country	Indicator*	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Australia	growth	4	2	4	3	4	3	3	4	4	1
	unemp. (Δ)	-1	0	0	0	-1	0	0	0	0	1
Canada	growth	5	2	3	2	3	3	3	2	1	-2
	unemp. (Δ)	-1	0	0	0	0	0	0	0	0	2
US	growth	4	1	2	3	4	3	3	2	0	-3
	unemp. (Δ)	0	1	1	0	0	0	0	0	1	3
Korea, Rep.	growth	8	4	7	3	5	4	5	5	2	0
	unemp. (Δ)	-2	0	-1	0	0	0	0	0	0	0
Japan	growth	3	0	0	1	3	2	2	2	-1	-5
	unemp. (Δ)	0	0	0	0	-1	0	0	0	0	1
Denmark	growth	4	1	0	0	2	2	3	2	-1	-5
	unemp. (Δ)	-1	0	0	1	0	-1	-1	0	0	3
France	growth	4	2	1	1	2	2	2	2	0	-3
	unemp. (Δ)	-2	-2	0	0	1	0	0	-1	-1	2
Germany	growth	3	1	0	0	1	1	3	3	1	-5
	unemp. (Δ)	-1	0	1	1	1	1	-1	-2	-1	0
Italy	growth	4	2	0	0	2	1	2	1	-1	-5
	unemp. (Δ)	-1	-1	0	0	-1	0	-1	-1	1	1
Netherlands	growth	4	2	0	0	2	2	3	4	2	-4
	unemp. (Δ)	-1	-1	0	1	1	0	-1	-1	0	1
Norway	growth	3	2	2	1	4	3	2	3	2	-2
	unemp. (Δ)	0	0	0	1	0	0	-1	-1	0	1
Sweden	growth	4	1	2	2	4	3	4	3	0	-5
	unemp. (Δ)	-1	-1	0	1	1	1	-1	-1	0	2
UK	growth	4	2	2	3	3	2	3	3	1	-5
	unemp. (Δ)	0	-1	0	0	0	0	1	0	0	2

Source: World Bank,2012 and own calculations

*Growth refers to annual percentage growth rate of GDP at market prices based on constant local currency. Unemp. (Δ) is the percentage point change in unemployment with respect to previous year.

Table 4.2. Growth-Unemployment Relationship in Developing Countries, 2002-2009

Country	Indicator*	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Argentina	growth	-1	-4	-11	9	9	9	8	9	7	1
	unemp. (Δ)	1	3	0	-2	-3	-2	-1	-2	-1	1
Brazil	growth	4	1	3	1	6	3	4	6	5	-1
	unemp. (Δ)	N/A	N/A	0	1	-1	0	-1	0	-1	1
Chile	growth	4	3	2	4	6	6	5	5	4	-2
	unemp. (Δ)	-1	0	0	0	0	-1	0	-1	1	2
Colombia	growth	4	2	3	4	5	5	7	7	3	1
	unemp. (Δ)	-3	-3	1	-1	-2	-1	1	-2	1	1
Cuba	growth	6	3	1	4	6	11	12	7	4	N/A
	unemp. (Δ)	-1	-1	-1	-1	0	0	0	0	0	N/A
Peru	growth	3	0	5	4	5	7	8	9	10	1
	unemp. (Δ)	-1	1	0	1	1	0	-1	-1	0	N/A
Algeria	growth	2	3	5	7	5	5	2	3	2	2
	unemp. (Δ)	N/A	-2	-1	-2	-4	-5	-3	2	-3	N/A
Egypt	growth	5	4	2	3	4	4	7	7	7	5
	unemp. (Δ)	1	0	1	0	0	0	-1	-2	0	1
Morocco	growth	2	8	3	6	5	3	8	3	6	5
	unemp. (Δ)	0	-1	-1	0	-1	0	-1	0	0	0
Georgia	growth	2	5	5	11	6	10	9	12	2	-4
	unemp. (Δ)	-3	0	1	-1	1	1	0	-1	3	N/A
Romania	growth	2	6	5	5	8	4	8	6	9	-9
	unemp. (Δ)	1	0	2	-1	1	-1	0	-1	-1	1
Russia	growth	10	5	5	7	7	6	8	9	5	-8
	unemp. (Δ)	-2	-2	-1	0	0	-1	0	-1	0	2
Kazakhstan	growth	10	14	10	9	10	10	11	9	3	1
	unemp. (Δ)	-1	-2	-1	-1	0	0	0	-1	-1	0
China	growth	8	8	9	10	10	11	13	14	10	9
	unemp. (Δ)	0	0	0	0	0	0	0	0	N/A	N/A
Indonesia	growth	5	4	4	5	5	6	6	6	6	5
	unemp. (Δ)	0	2	1	0	0	1	-1	-1	-1	-1
Philippines	growth	6	2	4	5	6	5	5	7	4	1
	unemp. (Δ)	2	0	1	0	1	-4	0	-1	0	0
Thailand	growth	5	2	5	7	6	5	5	5	2	-2
	unemp. (Δ)	-1	0	-1	0	0	0	0	0	0	0

Source: World Bank, 2012 and own calculations

*Growth refers to annual percentage growth rate of GDP at market prices based on constant local currency. Unemp. (Δ) is the percentage point change in unemployment with respect to previous year.

Table 5.1 – Turkey: Unemployment Insurance Beneficiaries (thousands), 2002-2009

Years	Beneficiaries	Number of unemployed for less than 1 year	Beneficiaries/ Short Term Unemployed (%)	Total Unemployed	Beneficiaries/Total Unemployed (%)
2002	83.1	1,668	5.0	2,464	3.4
2003	129.3	1,812	7.1	2,493	5.2
2004	145.3	1,423	10.2	2,385	6.1
2005	186.2	1,412	13.2	2,388	7.8
2006	199.5	1,449	13.8	2,328	8.6
2007	221.3	1,609	13.8	2,376	9.3
2008	331.1	1,871	17.7	2,611	12.7
2009	471.3	2,563	18.4	3,471	13.6
Source: TUIK, 2012a and Ministry of Labour and Social Security, 2010					

Table 6.1. Netherlands: Trends in Growth, Unemployment, Employment and Employment Elasticity of Growth, 1983-2008

Years	Annual ave. unemp. rate %	Annual ave. GDP growth rate %	Annual ave. employment growth %*	Employment elasticity of growth
1983-1991	6.5	3.0	2.6	2.2
1992-1997	5.9	2.8	1.9	2.1
1998-2001	3.4	3.6	2.9	0.9
2002-2008	4.1	2.0	0.8	2.1
Source: EuroStat, 2012b, UN, 2012b and own calculations				
*Employment data for 1984 and 1986 are not available				

Table 6.2. Netherlands: Labour Market Indicators, 1983-2008

Years	LF Growth %	LFP Rate %	Female LFP Rate %	Emp. Growth %	Female Emp. Growth %	Part-Time Jobs / Total Emp.
1983	0.8	51.6	34.4	N/A	N/A	N/A
1984	1.3	N/A	N/A	N/A	N/A	N/A
1985	1.3	51.1	34.8	N/A	N/A	N/A
1986	1.3	51.3	35.9	N/A	N/A	N/A
1987	1.5	64.3	48.9	N/A	N/A	N/A
1988	0.7	65.3	50.6	0.9	3.2	N/A
1989	1.2	65.6	51.1	2.0	2.9	N/A
1990	2.8	66.7	53.1	4.0	6.0	N/A
1991	1.6	67.6	54.5	2.4	4.0	N/A
1992	1.4	67.5	55	3.2	6.1	34.8
1993	0.9	68	56.3	0.4	1.9	35.2
1994	1.8	68.6	57.3	1.0	2.7	36.7
1995	0.9	70.1	59.1	1.2	1.2	37.4
1996	1.3	70.8	60.2	2.2	3.2	38.0
1997	2.7	72.1	61.9	3.7	4.3	37.9
1998	1.7	N/A	N/A	3.1	3.9	38.9
1999	1.9	N/A	N/A	2.8	4.7	39.7
2000	2.3	63.3	53.9	3.4	4.1	41.5
2001	1.8	63.4	54.4	2.4	3.7	42.2
2002	1.6	N/A	N/A	1.2	1.7	43.9
2003	0.5	64.3	55.9	-0.5	0.6	45.0
2004	0.7	N/A	N/A	-0.6	0.1	45.5
2005	0.5	63.4	56.3	0.1	1.2	46.1
2006	0.8	N/A	N/A	1.7	2.2	46.2
2007	1.8	65.1	58.4	2.4	3.2	46.8
2008	1.5	65.6	59.2	1.5	2.2	47.3
LFP: Labour force participation, emp.: employment						
Source: ILO, 2012; World Bank 2012; EuroStat,2012b and own calculations						

Table 6.3. Netherlands: Average Annual Growth in Wages, Inflation and Productivity Growth, 1982-2005

Period	Average annual change in CPI (%)	Average annual growth in nominal wages* (%)	Average annual growth in GDP per worker (%)
1982-1985	3.6	1.7	0.5
1986-1989	2.1	0.6	1.5
1990-1993	1.2	1.0	1.2
1995-2000**	0.6	1.3	1.5
2002-2005	0.3	1.6	2.0
Source: ILO, 2012; World Bank, 2012 and own calculations			
*Earning per hour (Euro) in several sectors (ISIC Rev.2 untill 1994 and ISIC Rev.3 afterwards), data is available until 2006			
** In 1994, statistics for wages started to be derived by the new International Standard Industrial Classification and the statistics for the year 1994 is obtained in October, whereas the statistics for other years are obtained in December. Prior to 2001, 1EUR is estimated as 2.204 NLG. Therefore these dates are not included in calculations.			

Table 6.4. Ireland: Growth in Population, Labour Force, and Labour Force Participation, 1992-2008

Years	Population Growth %	Labour Force Growth %	LFP Rate	Female LFP Rate
1992	-	0.6	60.4	43.8
1993	-0.2	1.8	61.2	45.5
1994	1.1	2.9	61.8	46.7
1995	0.6	1.9	61.9	47.3
1996	0.8	3.3	62.5	48.6
1997	1.4	4.9	64.1	51.1
1998	2.4	5.2	65.6	52.9
1999	1.2	4.2	67.1	55.0
2000	1.2	3.4	68.2	56.3
2001	1.6	2.7	68.6	57.1
2002	1.7	2.3	68.6	57.8
2003	1.6	2.3	68.8	58.3
2004	1.7	2.8	69.5	59.0
2005	2.2	4.4	70.8	60.8
2006	2.5	4.8	71.9	61.9
2007	2.4	3.6	72.5	63.3
2008	1.9	0.7	72.0	63.1
2009	0.6	-2.8	70.2	62.4
2010	0.2	-1.9	69.5	62.0
Source: Eurostat, 2012b				

Table 6.5. Ireland: GFCF, FDI Inflows and Exports, 1980-2010

Years	GFCF (% of GDP)	Exports (% of GDP)	Total Exports (% of World's Total)	FDI, net inflows (% of GDP)
1980	27.2	46.0	0.56	1.4
1981	28.2	45.0	0.54	1.0
1982	25.2	44.7	0.52	1.2
1983	22.0	48.7	0.53	0.8
1984	20.4	55.3	0.53	0.6
1985	18.1	56.1	0.53	0.8
1986	17.1	51.0	0.54	-0.1
1987	16.2	54.4	0.54	0.3
1988	16.5	57.7	0.52	0.2
1989	17.2	61.2	0.55	0.2
1990	18.5	56.8	0.55	1.3
1991	16.9	57.7	0.54	2.8
1992	16.7	60.6	0.56	2.7
1993	15.3	65.8	0.58	2.2
1994	16.3	70.5	0.61	1.5
1995	17.4	76.3	0.65	2.2
1996	19.0	77.4	0.69	3.5
1997	20.2	79.5	0.73	3.4
1998	21.7	86.9	0.89	12.5
1999	23.3	89.2	0.95	19.0
2000	23.3	98.1	1.02	26.4
2001	22.5	100.0	1.09	9.1
2002	21.7	94.0	1.08	24.0
2003	22.6	83.7	1.01	14.2
2004	24.5	83.8	0.99	-5.9
2005	26.8	81.6	0.99	-15.0
2006	27.2	79.3	0.96	-2.5
2007	25.6	80.5	0.96	9.5
2008	21.9	83.4	0.90	-6.2
2009	15.8	91.4	0.92	12.0
2010	11.3	98.8	0.83	12.8
Source: World Bank, 2012 and own calculations				

Table 6.6. Argentina: Capital Inflows, 1990-2010

Years	% Growth of net FDI (current US$)	Portfolio Equity, net inflows (current million US$)*	Financing via International Capital Markets (gross inflows, % of GDP)**
1990	78.6	0	0.0
1991	32.8	0	0.6
1992	33.9	1,214	0.8
1993	-36.0	5,671	3.5
1994	25.6	4,220	2.1
1995	56.8	1,552	2.8
1996	30.0	867	5.4
1997	3.0	2,319	6.5
1998	-9.8	-210	7.1
1999	348.3	-10,773	4.5
2000	-57.2	-3,227	5.9
2001	-78.9	31	2.0
2002	38.4	-116	0.1
2003	-68.4	65	0.1
2004	292.7	-86	0.4
2005	14.7	-48	1.3
2006	-21.6	707	1.3
2007	60.4	1,785	2.2
2008	67.7	-531	0.4
2009	-60.3	-212	0.2
2010	62.5	-208	0.8

Source: World Bank, 2012

* Portfolio equity includes net inflows from equity securities other than those recorded as direct investment

** Financing via international capital markets is the sum of gross bond issuance, bank lending and new equity placement. Bonds issued by government, public and private sector borrowers in international capital markets. Bank lending is the funds raised by government, public and private sector borrowers via international syndicated lending. Equity placement is the notional amount of cross-border equity placement.

Table 6.7. Argentina: GDP by Share of Expenditures, 1994-2010

Years	GFCF (%)	Exports (%)	Current Account Balance (% of GDP)	Government Expenditure (%)	Consumption (%)
1994	19.9	7.5	-4.3	13.2	70.0
1995	17.9	9.6	-2.0	13.3	69.1
1996	18.1	10.4	-2.5	12.5	70.1
1997	19.4	10.5	-4.1	12.1	70.8
1998	19.9	10.4	-4.8	12.5	70.1
1999	18.0	9.8	-4.2	13.7	70.0
2000	16.2	10.9	-3.2	13.8	70.7
2001	14.2	11.5	-1.4	14.2	70.3
2002	12.0	27.7	8.6	12.2	60.9
2003	15.1	25.0	6.3	11.4	62.7
2004	19.2	25.3	2.1	11.1	62.6
2005	21.5	25.1	2.9	11.9	60.8
2006	23.4	24.8	3.6	12.4	58.7
2007	24.2	24.6	2.8	12.9	58.6
2008	23.3	24.5	2.1	13.4	59.4
2009	20.9	21.4	2.7	15.2	58.5
2010	22.0	21.7	0.8	14.9	59.8

Source: World Bank, 2012

Table 6.8. Argentina: Sectoral Employment, 1990-2009

Years	Agricultural Employment	Industrial Employment	Employment in Services
1990	0.4	31.6	67.6
1991	0.3	32.4	66.4
1992	0.5	30	69.3
1993	0.5	28.9	70.1
1994	0.5	28.4	70.5
1995	0.4	27.3	71.8
1996	0.8	24.9	73.9
1997	0.8	25.4	73.2
1998	0.8	24.8	74
1999	0.7	23.6	75.3
2000	0.7	22.7	76.2
2001	0.8	21.9	76.9
2002	1	20.2	78.5
2003	1.4	21.7	76.3
2004	1.2	23	75.5
2005	1.1	23.5	75.1
2006	1	23.6	75.1
2007	0.9	24.2	74.5
2008	1.2	23.9	74.3
2009	1.2	23.1	75.2
Source: World Bank, 2012			

Table 6.9. Financial inflows of Turkey compared to Argentina, 2000-2010

	FDI, net inflows (% of GDP)		Portfolio equity, net inflows (current US$)		Financing via Int. Capital Markets (gross inflows, % of GDP)		Exports (% of GDP)	
Years	Turkey	Argentina	Turkey	Argentina	Turkey	Argentina	Turkey	Argentina
2001	1.7	0.8	-79,000	31,127	3.0	2.0	23.6	11.5
2002	0.5	2.1	-16,000	-115,880	2.5	0.1	23.8	27.7
2003	0.6	1.3	905,000	65,350	3.1	0.1	24.1	25.0
2004	0.7	2.7	1,427,000	-86,150	3.5	0.4	24.5	25.3
2005	2.1	2.9	5,669,000	-48,100	4.2	1.3	24.4	25.1
2006	3.8	2.6	1,939,000	706,670	4.9	1.3	24.4	24.8
2007	3.4	2.5	5,138,000	1,784,940	3.4	2.2	25.0	24.6
2008	2.7	3.0	716,000	-530,620	2.2	0.4	25.5	24.5
2009	1.4	1.3	2,827,000	-211,918	1.7	0.2	25.4	21.4
2010	1.3	1.7	3,468,000	-207,501	2.1	0.8	24.1	21.7
Source: World Bank, 2012								

Figures

Figure 3.1. Turkey: Trends in Labour Force Indicators, 1988-2011

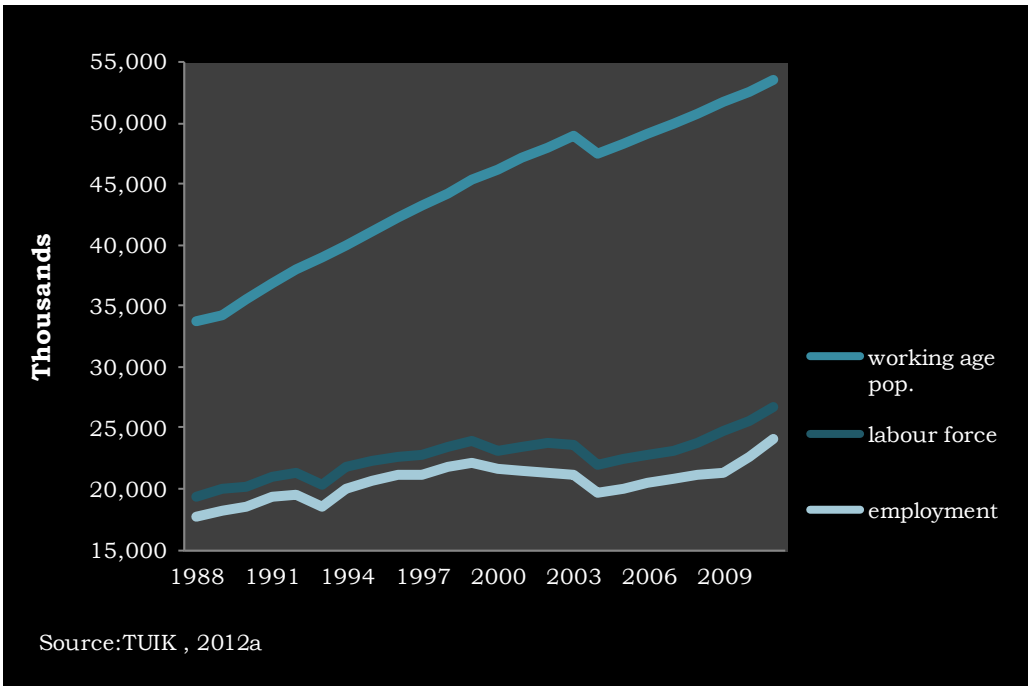


Figure 3.2. Turkey: Sectoral Composition of Employment, 1988, 1999, and 2011

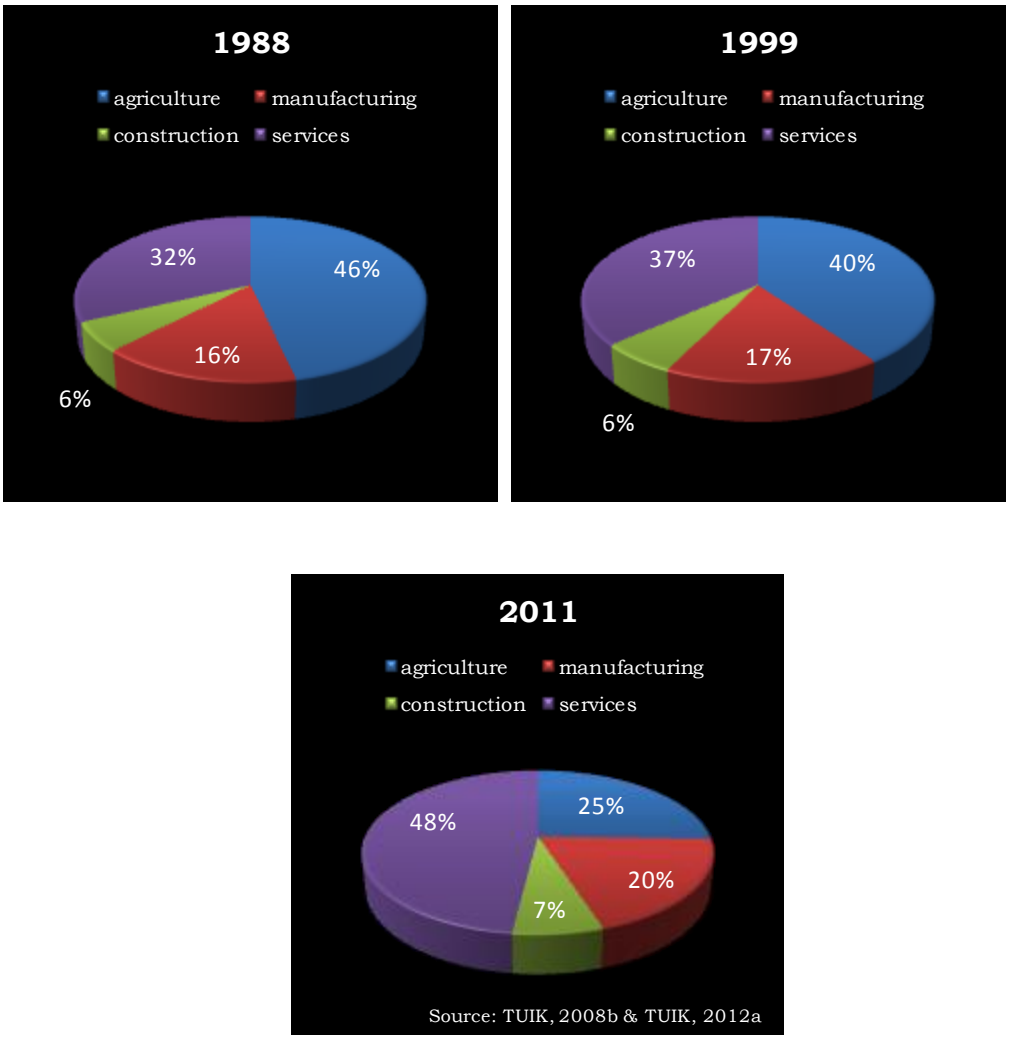


Figure 3.3. Turkey: Labour Force Participation Rates, 1988-2011

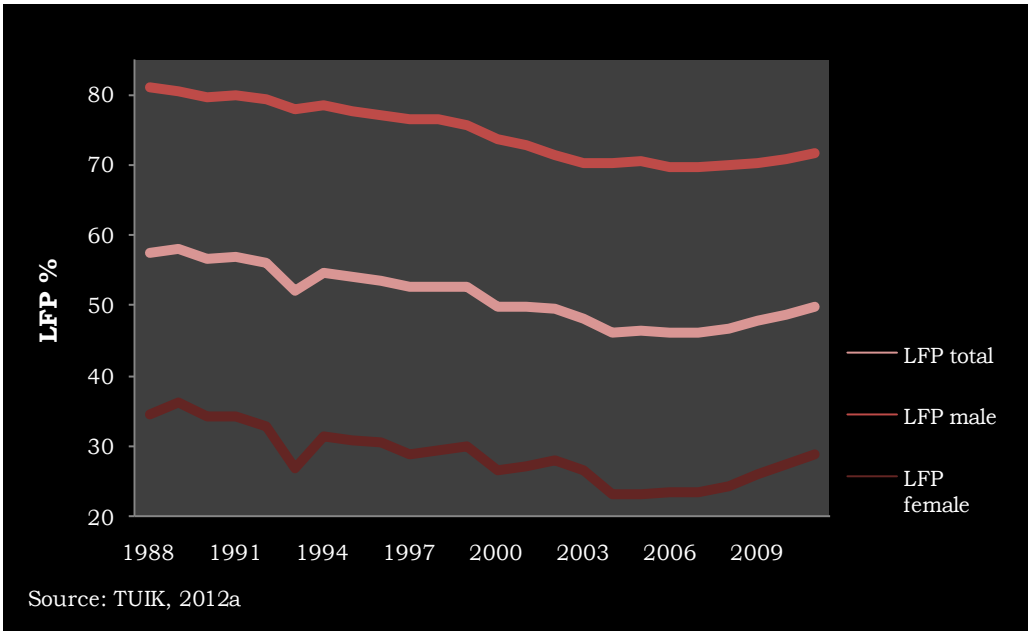


Figure 3.4. Turkey: Changes in Labour Force Participation Rates, 1989-2011

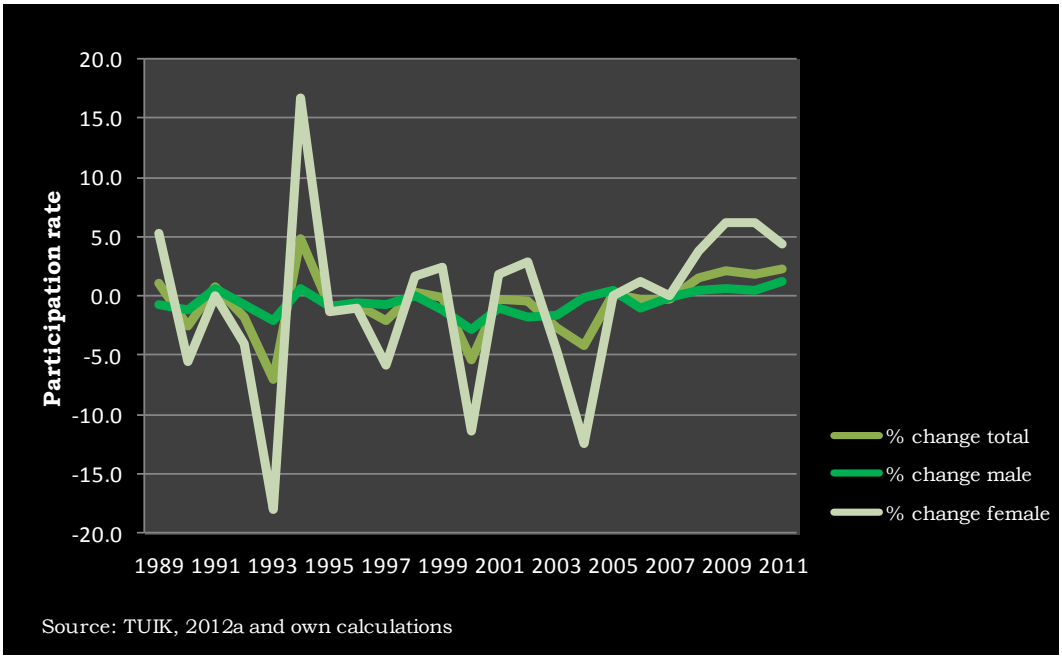


Figure 3.5. Turkey: Female Labour Force Participation Rates, 1988-2011

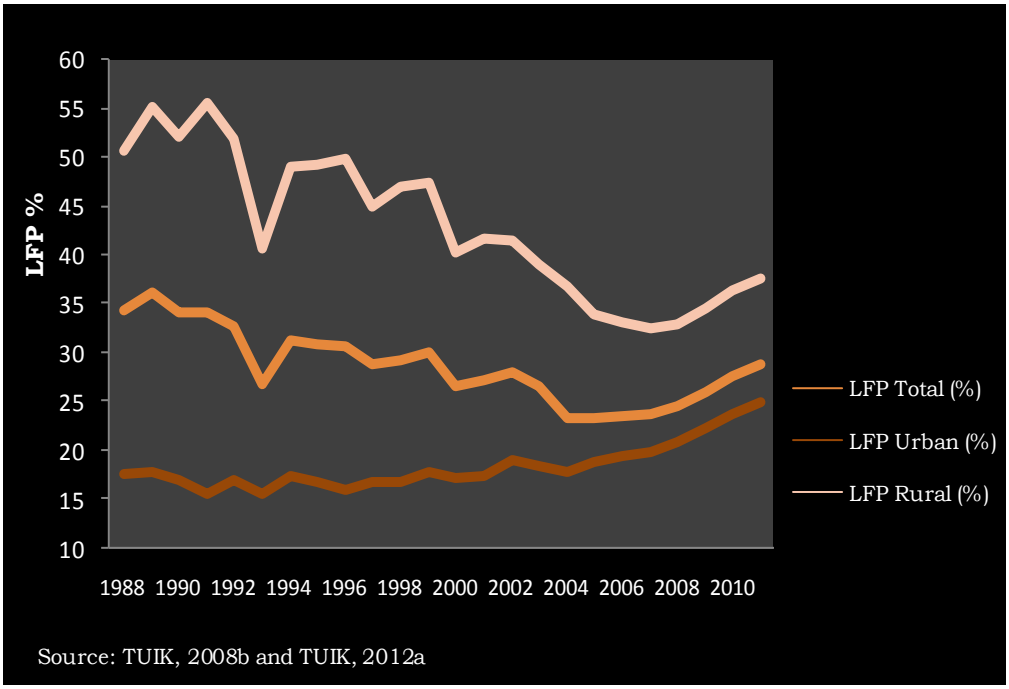


Figure 3.6. Turkey: Unemployment Rate, 1988-2011

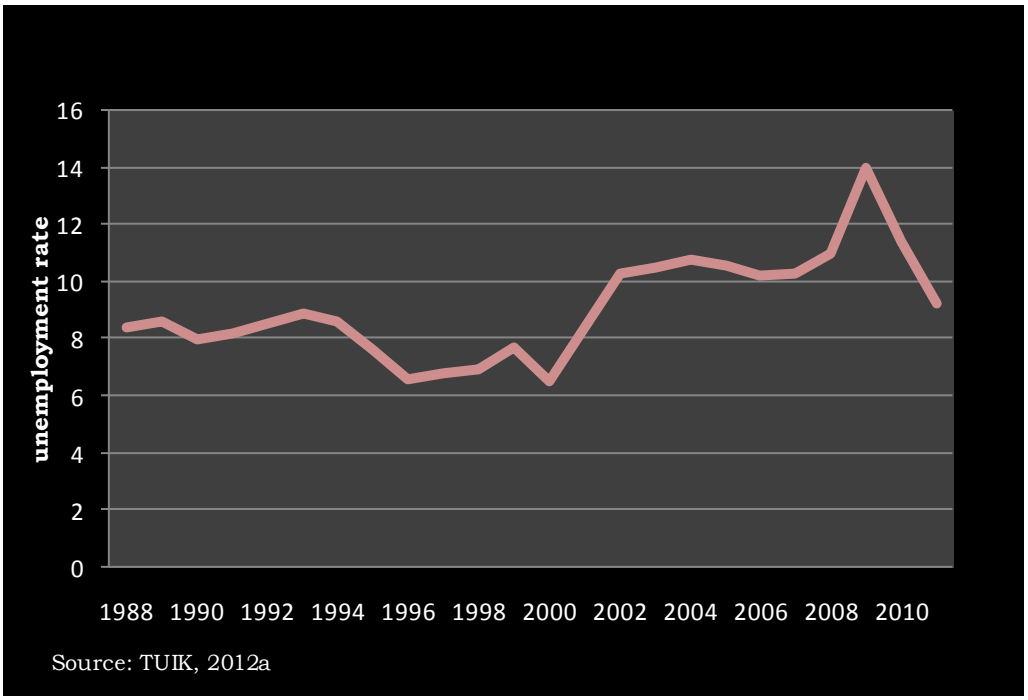


Figure 5.1. Turkey: Output Growth and Labour Market Variables, 2000-2010

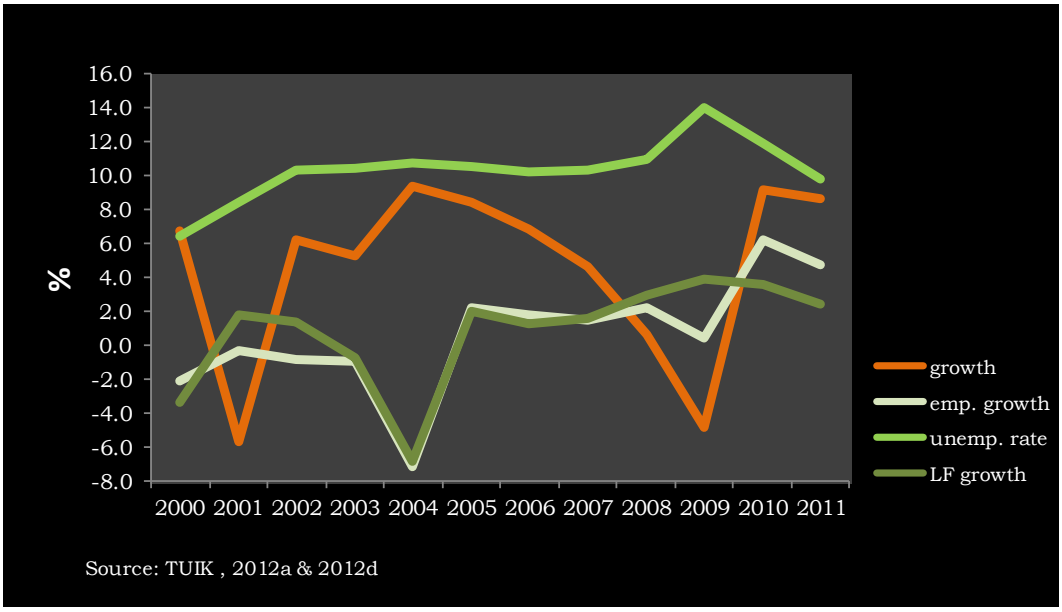


Figure 5.2. Turkey: Growth GFCF and Output, 2000-2011

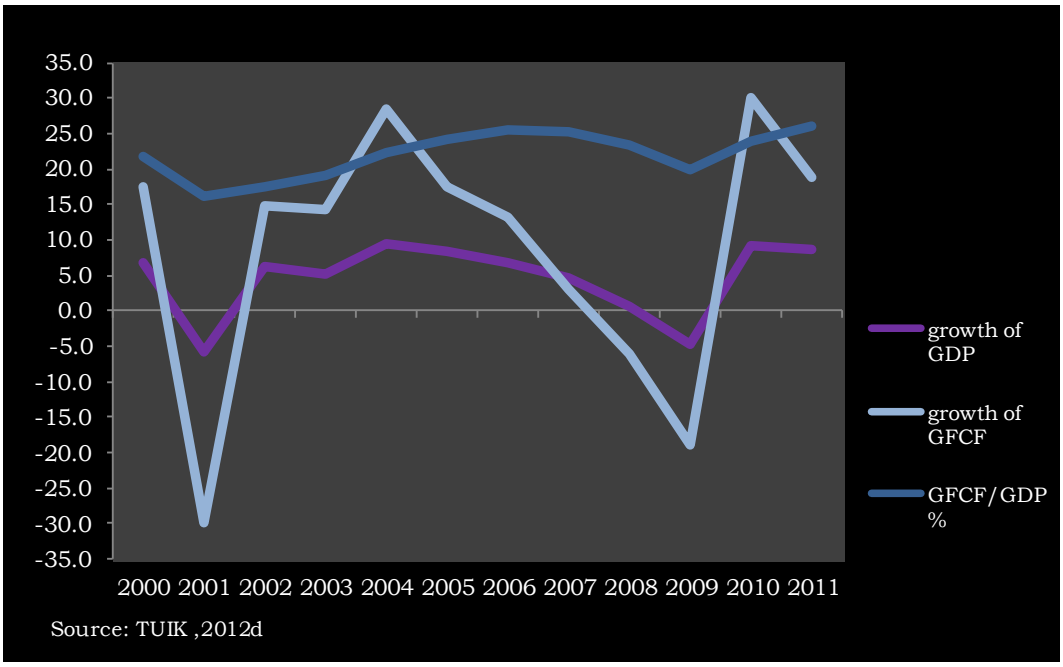


Figure 5.3. Turkey: Productivity Growth, 2000-2011

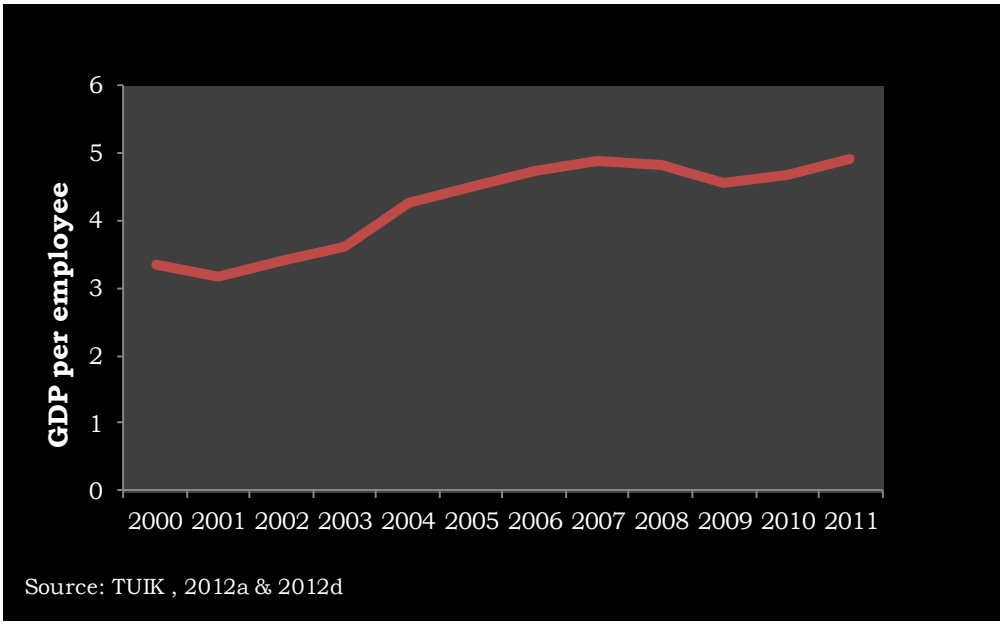


Figure 5.4. Turkey: Growth of Weekly Working Hours, 2000-2008

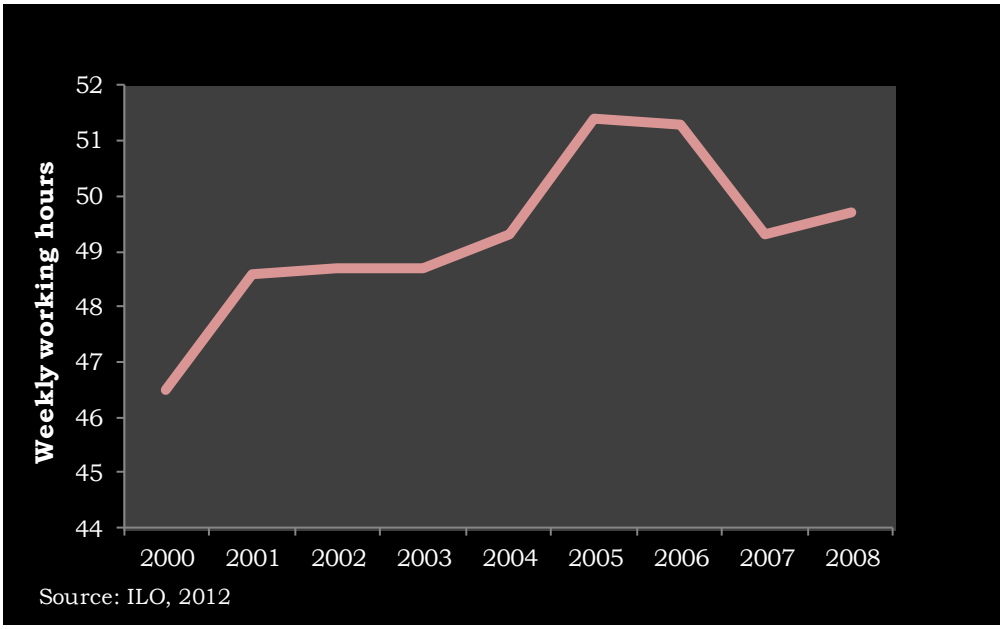


Figure 5.5. Turkey: Exports and Imports Volume Indices, 2000-2011

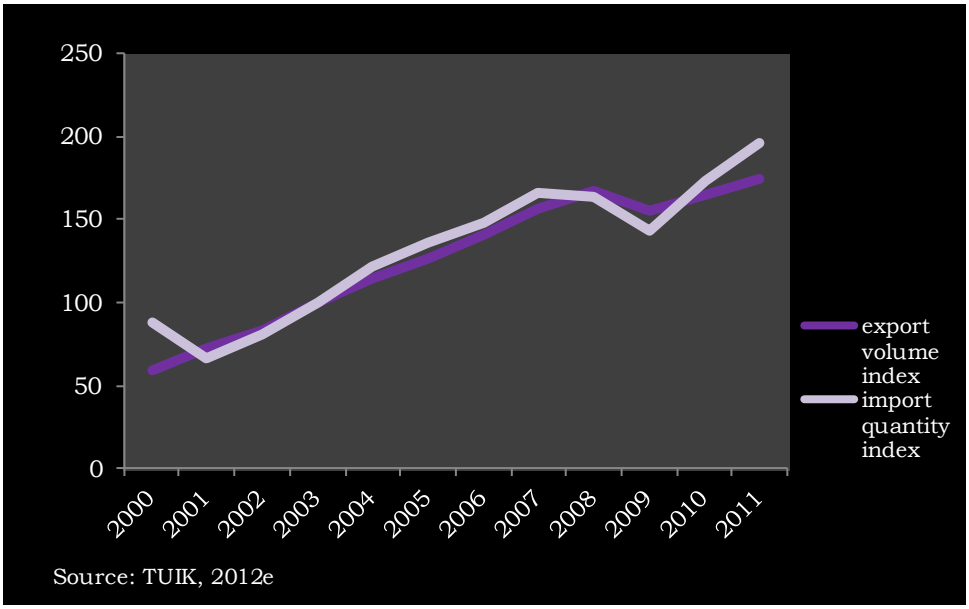


Figure 5.6. Turkey: Exports and Imports as a Share of GDP, 2000-2011

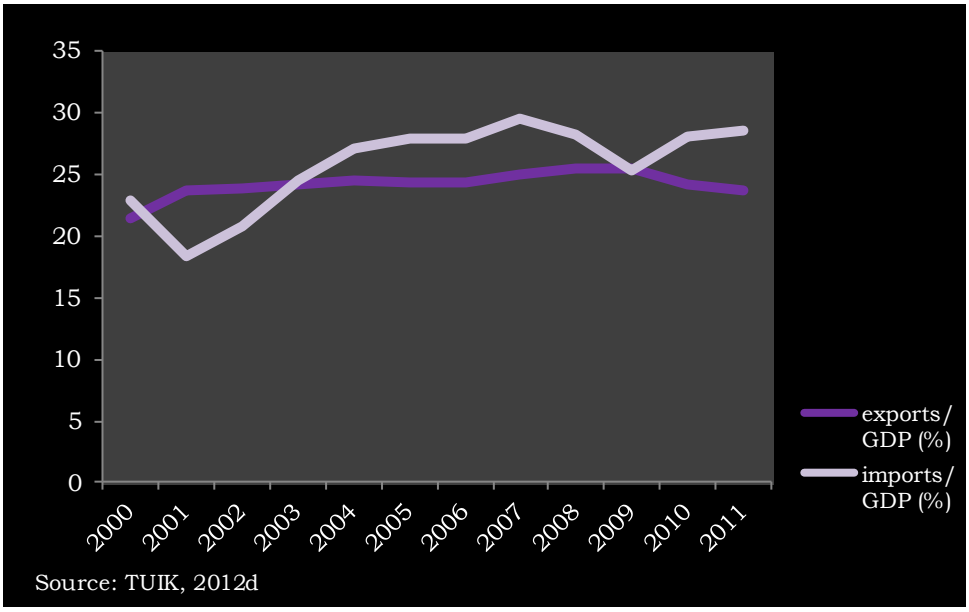


Figure 5.7. Turkey: Social Security Coverage, 2000-2009

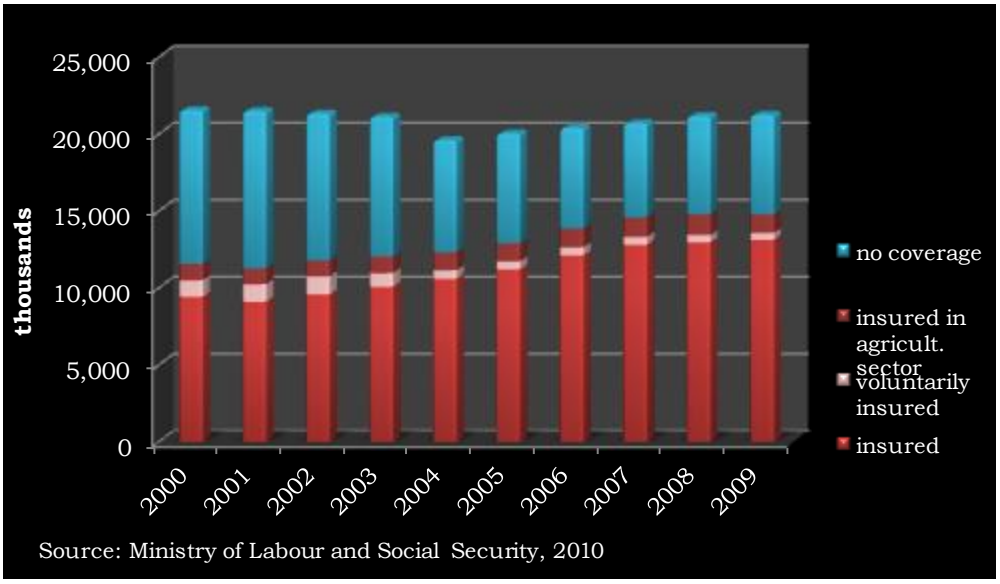


Figure 6.1. Unemployment Rate in the Netherlands, 1983-2002

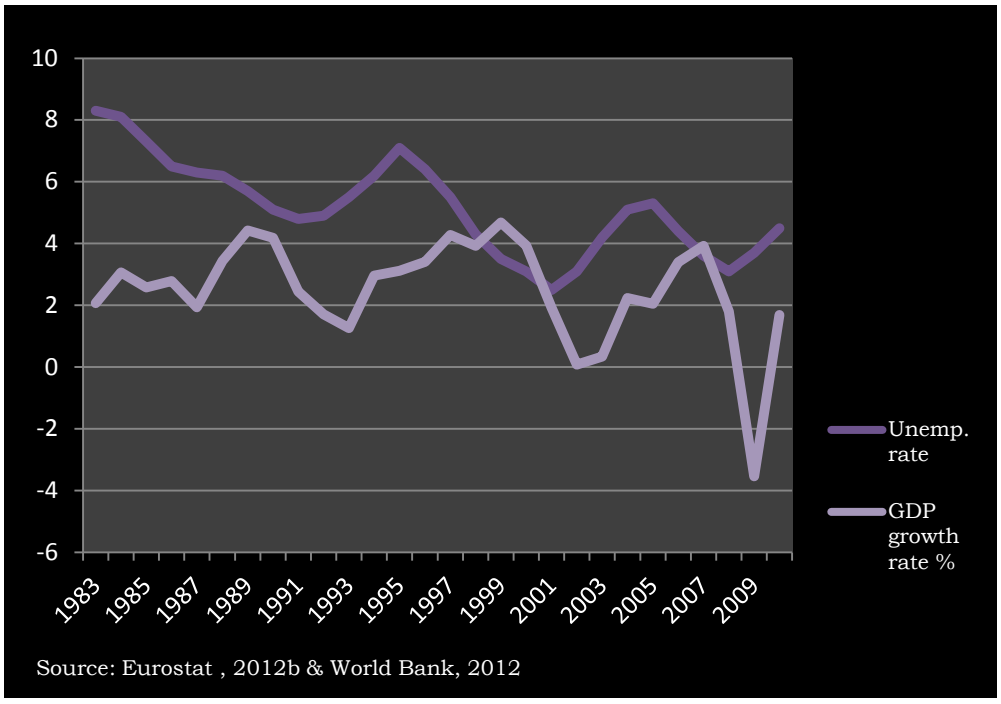
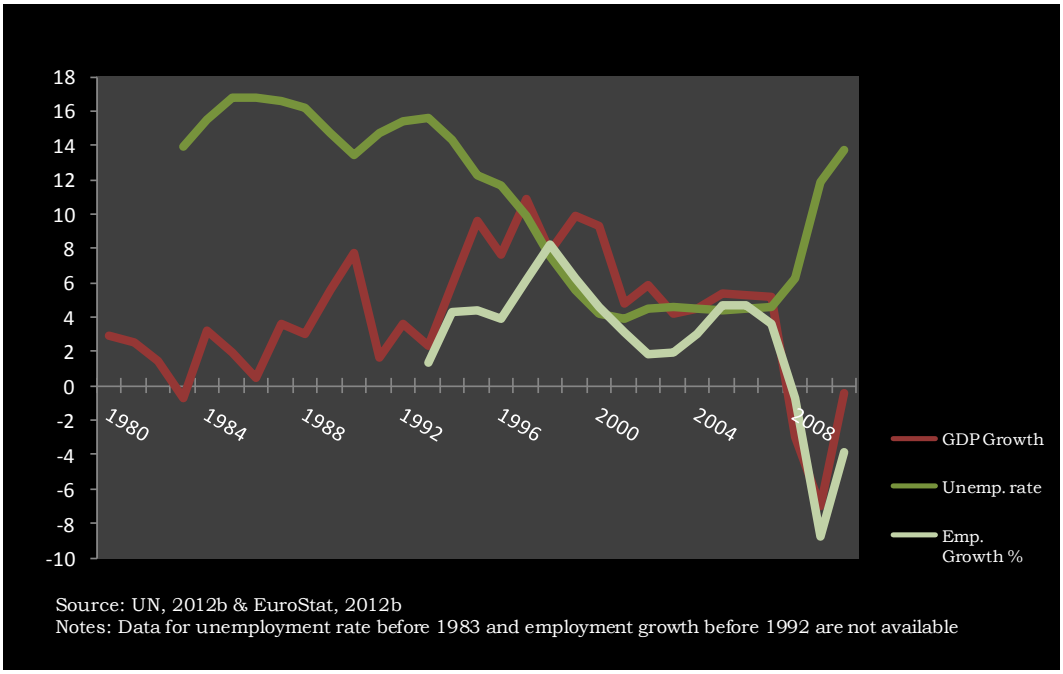
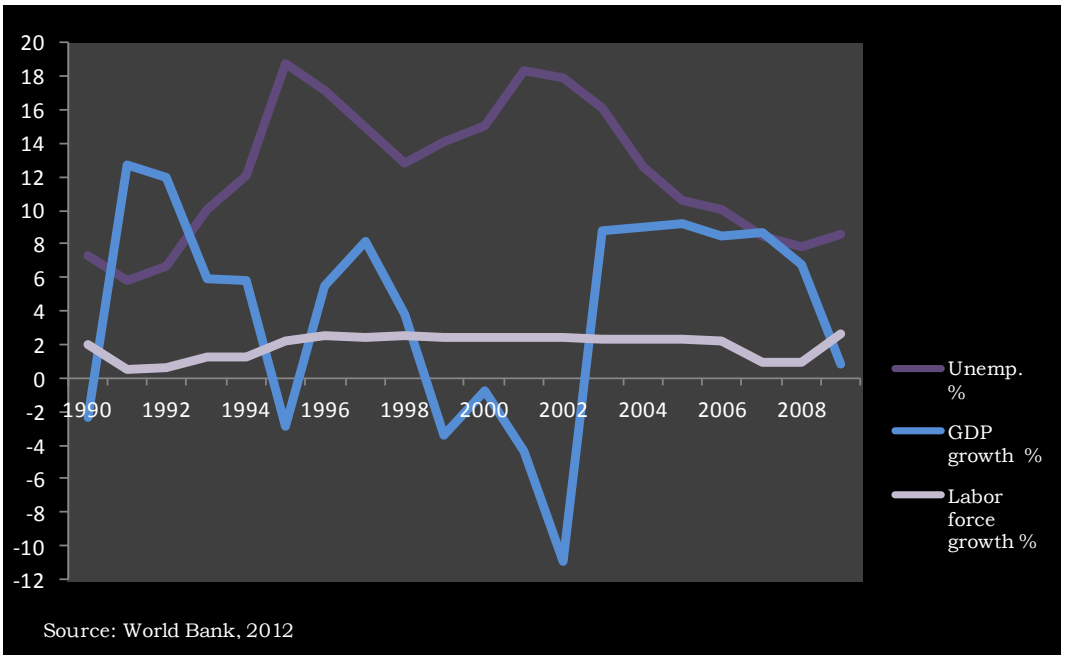


Figure 6.2. Netherlands: Growth, Employment, and Unemployment, 1980-2011



Source: UN, 2012b & EuroStat, 2012b
Notes: Data for unemployment rate before 1983 and employment growth before 1992 are not available

Figure 6.3. Argentina: Unemployment, Labour Force and GDP Growth, 1990-2009



Source: World Bank, 2012