



CHAPTER 1. OVERVIEW OF THE LABOR MARKET IN TURKEY

A. INTRODUCTION

1.1 Turkey's labor market outcomes reflect the interaction of demographic and economic factors. Like many other developing countries, Turkey is progressing through a rapid demographic transition, which has generated a surge of youthful entrants to the labor market. While the increase in factor inputs represents a potential bounty, absorbing them quickly enough has been difficult. Meanwhile, the demographic trends have been accompanied by a transformation of a rural-agrarian society into an urban-industrial one. Cultural/institutional factors and an evolving occupational structure have led to changing roles, particularly for women, and have affected household preferences and labor force participation decisions.

1.2 In the economic sphere, Turkey abandoned a long-standing, inward-looking, statist policy framework in the early 1980s and began a transition toward a more outward-looking, market-driven development model. The change quickly turned the economy around from a prolonged crisis in the late 1970s and produced spectacular results in trade performance. However, long-standing policy failures were perpetuated in the new environment, contributing to inflation, macroeconomic instability, and weak investment. At the same time, exogenous external events, including two regional wars, economic disruptions in trading partners, and financial contagion, have dampened the economy and the labor market.

1.3 This chapter provides an overview of the demographic and structural factors that have underpinned Turkey's labor market performance. The main findings of this chapter are:

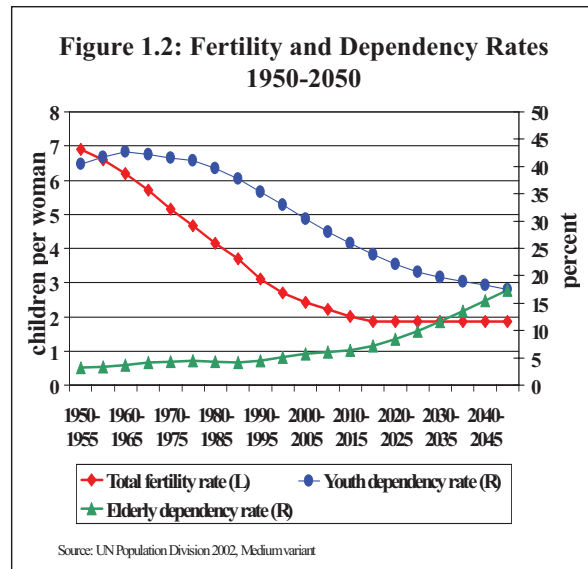
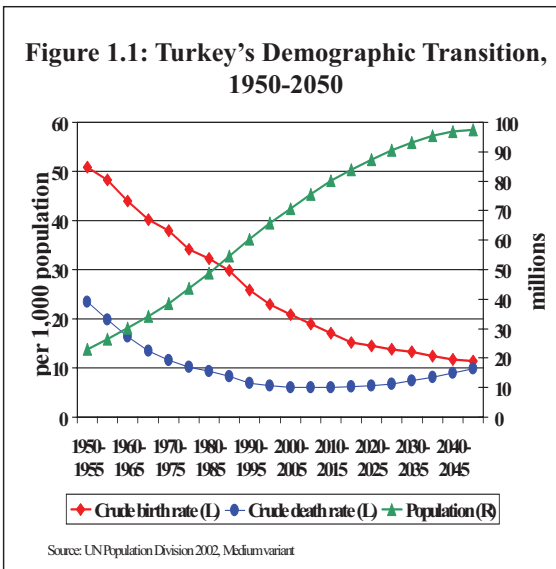
- A rapid demographic transition has temporarily raised population growth and skewed the age structure toward the young. The working age population is growing particularly rapidly, and large numbers of young workers have been difficult to absorb quickly into productive employment. Over the past two decades, there has been net migration into Turkey, further increasing the labor supply.
- Most of the population growth is occurring in urban areas. Combined with cultural perceptions and high fertility, it is associated with lower female labor force participation rates. Low educational attainment has also hampered women's labor force participation. Evidence suggests that increased demand would elicit a positive supply response.



- As the structure of the economy has evolved, the share of agriculture, which is low-productivity and labor-intensive has fallen, while industry and services have gained. However, the gains in industry and services came from a low base and thus were not sufficient to generate strong employment growth.

B. DEMOGRAPHIC TRENDS

1.4 Turkey has been undergoing a dramatic demographic transition.¹ The term refers to a well-defined sequence in which mortality declines mainly because of improvements in public health and nutrition, followed by a decline in fertility. The disparity between birth and death rates in figure 1.1 indicates rapid population growth. At the outset of the figure, the crude birth rate is 50.8 per thousand and the crude death rate is 23.5 per thousand, implying population growth of 2.7 percent. Figure 1.2 shows a century of past and projected population growth in Turkey, based on the United Nation’s medium projection. Over the period, birth and death rates converge and growth slows progressively from 2.7 percent in 1950–55 to around 1.6 percent currently, to near zero in 2050.



1.5 Falling mortality during the transition centers predominantly on the very young, who are the most vulnerable. As a result, the age structure becomes skewed toward younger age ranges. In Turkey, total fertility (the number of children a woman is expected to have over her reproductive life) has already fallen from 6.9 in 1950–55 to around 2.4 currently and will reach a replacement level of slightly over 2 within the next five to ten years (figure 1.2).² But the population will continue to grow beyond that point

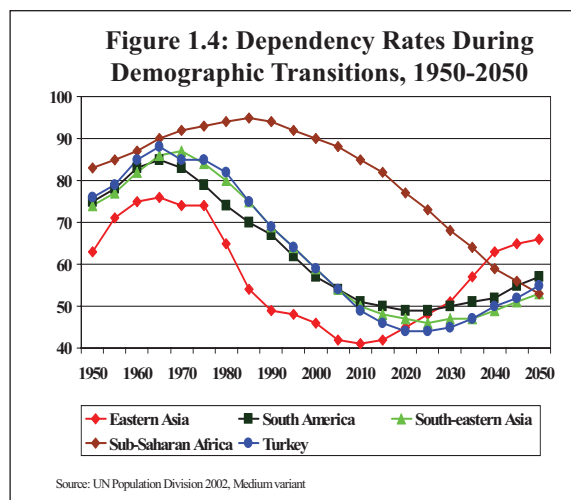
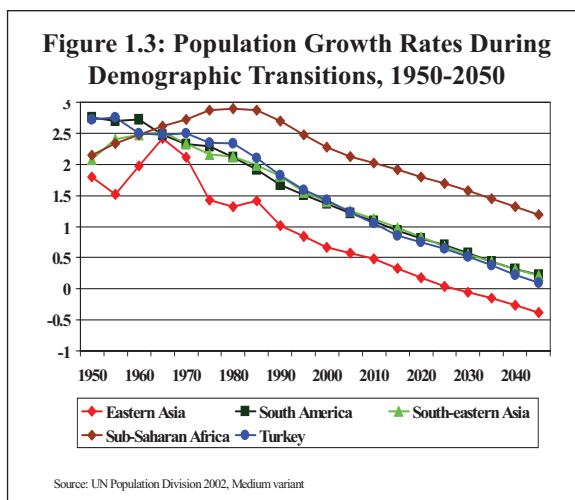
¹ The demographic transition was well underway at the beginning of the period covered in figures 1.1- 1.3, since over the past 1,000 years or so Turkey’s average population growth rate must have been close to zero. UNFPA data are available only from 1950, but the spread between birth and death rates shown in figure 1.1 almost certainly opened up early in the 20th century.

² In a stationary state, each woman must replace herself with a female offspring in the next generation. The total fertility rate needed for this exceeds 2 because of mortality and the slightly higher probability of male offspring.

because of a disproportionate number of women of child-bearing age and eventually will stabilize at around 100 million in the second half of the 21st century.

1.6 From an economic standpoint, the most important aspect of the transitional age distribution is a bulge in youth dependency, defined as the number of persons aged 0–14 in proportion to the population aged 15–64. In Turkey, this peaked at around 0.7 in the early 1960s and will fall progressively to below 0.3 over the next 50 years. Toward the end of this period, the elderly dependency rate will increase sharply, partly due to increasing longevity and partly due to larger numbers of people graduating from the 15–64 age range. Notably, however, elderly dependency is less costly economically than youth dependency, Bloom and Williamson (1998) find, probably because a proportion of the population over 65 continues to work.

1.7 Demographic transitions similar to Turkey’s have occurred throughout the developing world with the widespread dissemination of public health knowledge and medical technologies such as vaccines. Figures 1.3 and 1.4 graph population growth and dependency rates for Turkey, together with regional aggregates for Africa, Asia, and Latin America.³ East Asia led the way and achieved particularly rapid declines in fertility and population growth, while Sub-Saharan Africa is lagging by several decades. In Turkey’s case, both the magnitudes and timing of the transition are very similar to the other “intermediate” regional aggregates.



Migration

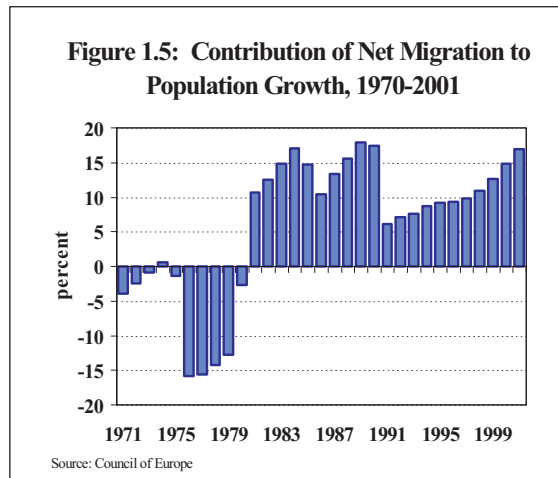
1.8 While Turkey’s demographic trends are typical of many developing countries, an important difference from many of them is migration. Turkey has been a center of migration since medieval times and that has continued to the present. Following an agreement between Turkey and West Germany in 1961, large numbers of unskilled, temporary migrants entered Europe as "guest workers." The relationship benefited both

³ Classified according to UN regional definitions. All data are from the UNFPA’s medium-term projections.



Turkey, which sought an outlet for surplus population, and Germany which faced labor shortages as its economy boomed. Subsequent agreements were signed with other European countries, including Austria, Belgium, France, the Netherlands, and Sweden. Currently 3.2 million Turkish nationals live in Europe, according to one estimate (Kirisci 2003). Later, coinciding with the economic boom after the 1973 oil crisis, smaller numbers of economic migrants left for countries in the Middle East and North Africa (MENA), such as Iraq, Libya, and Saudi Arabia. At the same time, in the other direction, Turkey has had a long-standing policy of promoting immigration compatible with the Turkish national identity. Under this policy, large numbers of Balkan and other Eastern European refugees have taken up residency in Turkey, including tens of thousands of Bosnians and Kosovars in the 1990s (Kirisci 2003).

1.9 Notably, a reversal of net migration flows occurred after 1980 of sufficient magnitude to have measurably affected labor market performance. From 1970–80, around 660,000 emigrants reduced population growth on average by 0.6 percent, while from 1981–2001, 3.0 million immigrants raised growth by 0.7 percent (Council of Europe 2002). Migrants are more likely to be working age (Bloom and Freeman 1986), and hence to have a more immediate impact on labor supply—also presumably disproportionately in urban markets.



Working Age Population

1.10 Just as the demographic transition begins with an acceleration of growth in the younger age ranges, so the deceleration begins with the young, while older cohorts follow with a lag. Thus as the transition matures, large numbers of young adults elevate the growth rate of the working age population above that of population as a whole. For Turkey, the peak growth rate of the working age population occurred in the early 1980s, when an especially sharp surge coincided with the reversal in net migration (table 1.1). Working age population growth in the range of 2.5 to 3.0 percent is very rapid in historical perspective, though only marginally above LDCs as a whole. From 1980–2003 the total increase was 20.5 million persons, more than 80 percent of the initial level. Moreover, the age distribution within the category of the working age has also been skewed. The share of 15 to 24 year olds—that is, relatively new and inexperienced entrants to the labor force—has fallen from around 36 percent in 1980 to 30 percent currently, and is projected to decline to below 20 percent by 2050.



Table 1.1: Population Growth and Shares, 1950–2050
Percent

	1950-60	1960-70	1970-80	1980-90	1990-00	2000-10	2010-20	2020-30	2030-40	2040-50
<i>Growth rate</i>										
0-14	3.4	2.3	2.2	1.2	0.2	-0.3	-0.6	-0.6	-0.3	-0.6
15-64	2.3	2.5	2.6	3.0	2.3	2.0	1.3	0.7	0.1	-0.2
65 +	3.5	4.8	3.1	1.4	4.4	2.5	3.3	4.1	3.5	2.5
<i>Share</i>										
0-14	41.2	42.2	41.2	38.6	34.1	29.1	24.9	21.4	19.4	17.9
15-64	55.5	53.9	54.4	57.1	61.0	65.0	68.2	69.4	68.0	65.7
65 +	3.3	3.9	4.4	4.3	4.9	5.8	6.9	9.2	12.6	16.4
<i>Memo item: Population aged 15-64 in LDCs, excluding China</i>										
Growth rate	2.0	2.3	2.7	2.7	2.4	2.2	1.7	1.3	0.9	0.6
Share	56.0	54.3	54.5	56.3	58.3	61.1	63.5	64.9	65.7	65.9

Source: UNFPA 1999

Demographic Transition and Economic Potential

1.11 Economic logic does not indicate whether faster sustained population growth should have a net positive or negative effect on development. A lengthy literature on the subject has alternated between population pessimists and optimists. On the one hand, positive influences could stem from scale economies in transportation and production networks, faster adoption of new technology, or stimulation of household demand. Scale economies are likely particularly relevant in the agricultural sector, where a larger population and greater population density might justify investing in capital-intensive projects such as irrigation systems. On the other hand, higher levels of youth dependency represent additional claims on household expenditure, lowering savings and shifting them to later in the life cycle. Less savings and investment imply capital “shallowing” and a lower level or growth rate of output. Economies may also face constraints in raising the growth rates of higher productivity modern sectors to absorb new workers; thus average productivity may lag (Kelley 1988; Lee, Mason, and Miller 2001). The relationship between population and economic growth is likely to depend on culture and institutions, and the nature of technology and factor markets.

1.12 By contrast, a transitional *acceleration* of population growth is more likely to have negative economic consequences, taking into account the impact of age structure on savings and investment. For Bloom and Williamson, the burden and gift phases of the demographic transition arise from a cycle in the share of working age population and per capita labor supply. Of course, the demographic gift is merely a potential. As Bloom and Williamson note, “the demographic ‘gift’ in the middle phase of the transition may or may not be realized. It represents a growth potential whose realization depends on other features of the social, economic and political environment” (p. 422).

1.13 Empirically, cross-country regressions of output growth incorporating population growth as an explanatory variable have been inconclusive. For instance, during the 1960s and 1970s, there appeared to be little relationship between population and output growth, while in the 1980s the impact was negative and significant (Kelley and Schmidt 1995;



Bloom and Williamson 1998).⁴ Bloom and Williamson test a more nuanced view, that dependency is important, by incorporating growth rates of both total and working age populations in cross-country growth regressions. They get positive coefficients for working age population growth, but negative coefficients for the total population growth, implying that unproductive, dependent populations are a drag on growth. Applying the results to East Asia, they attribute more than a third of the growth miracle of the 1970s and 1980s to the demographic shift. Kelley and Schmidt (1995) find supporting evidence in pooled regressions of GDP growth on current and 15-year lagged birth rates. The coefficients are negative on the former and positive on the latter. Looking at the implications for savings and investment, Higgins and Williamson (1997) estimate the decline in youth dependency in East Asia from 1950–90 added as much as 14 percentage points to savings rates.

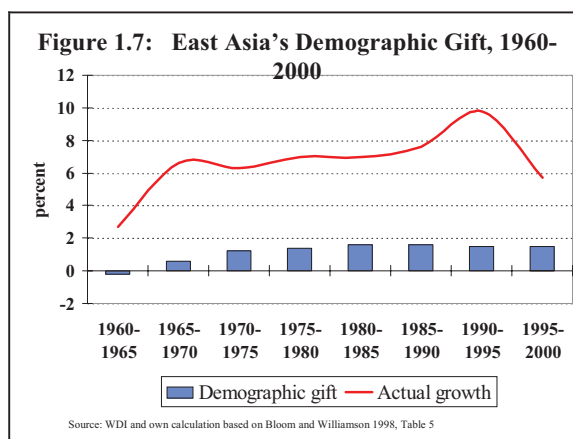
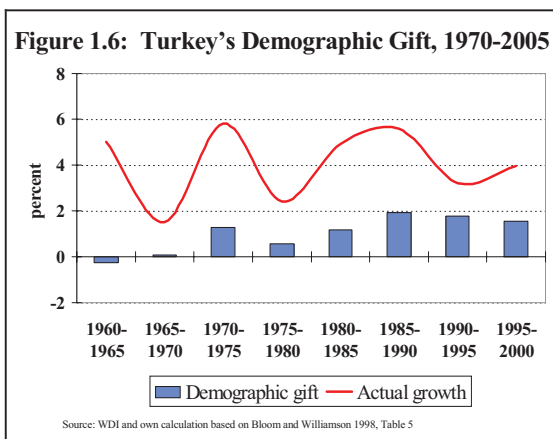
1.14 For Turkey, the dependency rate—defined as the ratio of those under 15 and those over 65 to working age population—peaked at around 0.88 in 1965. Since then, it has declined to around 0.55 and will eventually reach a minimum of around 0.45 in 2020 (see figure 1.2). The decline in youth dependency is steeper—from a peak of .81 in 1965 to .45 currently and .27 in 2050. Bloom and Williamson (1998) characterize the early part of the transition as a “demographic burden,” when youth dependency rates are high. It is followed by a “demographic gift,” when working age population growth is high and the dependency rate falls.

1.15 The burden phase of the demographic transition has significant negative implications for economic growth, empirical work by Bloom and Williamson, and others, finds. Figure 1.6 applies the results to Turkey by calculating the growth impacts of total and working age population growth, using estimated coefficients from the Bloom and Williamson’s cross country regressions.⁵ The bars indicate that Turkey passed into the gift phase of the transition in the 1970s, and became eligible for significant dividends of 1 to 2 percent per year economic growth in the 1980s and 1990s, though the potential declined after reaching a peak in the late 1980s. Without specifying a counterfactual, it is impossible to say how much of this “gift” was actually redeemed. But low and falling participation rates and at best moderate economic growth strongly suggest that much of it was not. Actual GDP growth during the period did not show a corresponding pick up after 1970 or at least did not sustain it through the 1990s (the correlation between the two series is -0.2). Taking advantage of the opportunities afforded requires appropriate policies to promote growth through investment in human and physical capital, and effective utilization of the human resources, particularly those of women (Bloom, Canning, and Sevilla 2003).

⁴ A lengthy literature, dating back at least to Malthus, has alternated between “population pessimism” and “population optimism.” See Kelley (1988).

⁵ Bloom and Williamson (1998) estimate several variants of their basic equation incorporating different conditioning variables. The cross-country regressions are based on period averages for 1960–95 and hence do not allow for dynamic effects or timing. Instead, figure 1.6 applies their results along a time dimension. The impression in figure 1.6 that Turkey became eligible for a demographic gift in the 1970s is consistent with their interpretation of the results.

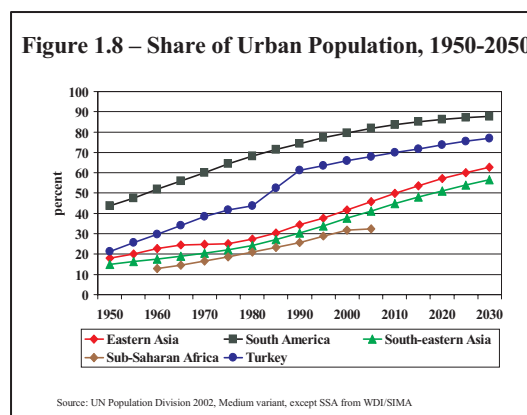
1.16 As noted, Bloom and Williamson attribute around a third of the East Asian miracle to the demographic gift. In contrast to Turkey’s experience, the correlation between the demographic gift and actual growth in East Asia was positive ($\rho = 0.6$), even allowing for the impact of the late 1990s crisis (figure 1.7). However, East Asia’s demographic transition was more sharply delineated than in other regions and the connection to economic performance more evident. In general, data limitations and differences in the timing and profiles of demographic transitions make it difficult to compare outcomes: for instance, because of the confounding influences of the oil and debt crises. But, while transitional difficulties in absorbing a sudden influx of young workers appear to have been relatively common, Turkey has yet to take advantage of the potential demographic gift.



C. URBANIZATION AND STRUCTURAL CHANGE

1.17 The share of Turkey’s urban population rose from around 20 percent in 1950 to 64 percent currently and is projected to reach around 80 percent by 2050. Because urban and rural labor markets have very different characteristics, this trend has had a significant impact on overall outcomes. Applying 1980’s rural-urban proportions to current rural and urban participation rates would raise overall labor force participation by 2.7 percentage points and female LFP by 4.6 percentage points, for instance.

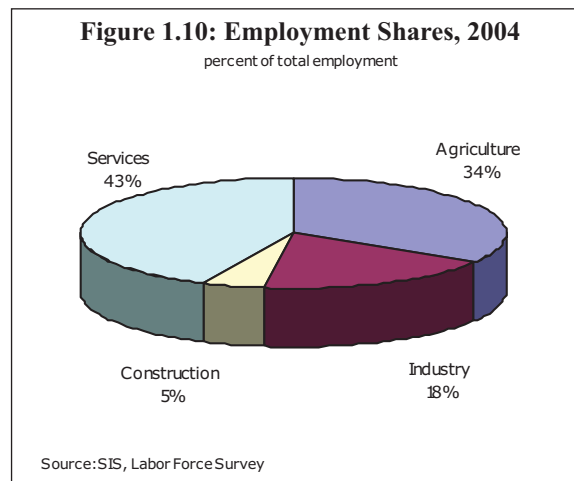
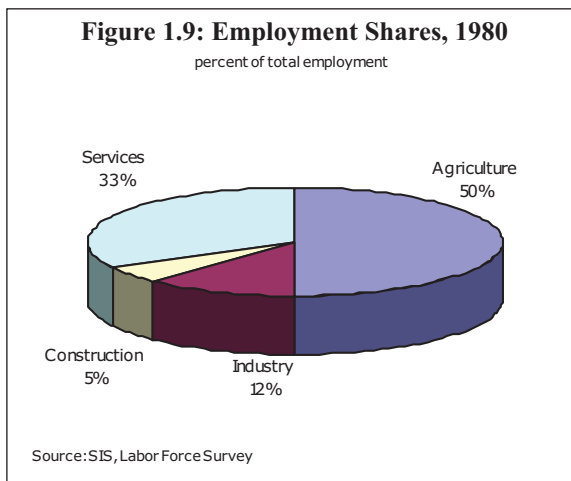
1.18 Almost everywhere, the demographic transition has been accompanied by increasing urbanization. Thus while urban population shares differ markedly across developing regions, from 25 percent in Sub-Saharan Africa to 80 percent in Latin America (figure 1.8), an increasing trend is apparent in all cases. This is expected to continue for the foreseeable future, with virtually all of the world’s population growth projected to occur in urban areas, particularly in the developing world (UNFPA 1999).





1.19 Because fertility and natural population growth tend to be lower in urban areas, urbanization primarily reflects internal migration. Both “push” and “pull” factors are at work in the process, to use the terminology of Williamson (1988, 1991).⁶ Indeed, at a conceptual level it is difficult to distinguish them, for instance in the case of a small-scale agricultural producer at the margin who is highly vulnerable to price or supply shocks and seeks new opportunities in the city. As Bulutay (1995, p. 125) notes, “Those who have no security, who face abject poverty in case of crop failures, are very much anxious to have secure and permanent income even if it is very low.” Within the agricultural labor markets, various offsetting trends have likely reduced labor demand, on balance. On the one hand, cereal production has been displaced by more labor-intensive crops grown under glass. At the same time, capital intensity has risen, exemplified by a 35-fold increase in the use of tractors from 16,585 in 1950 to 581,375 in 1985 (Bulutay 1995).

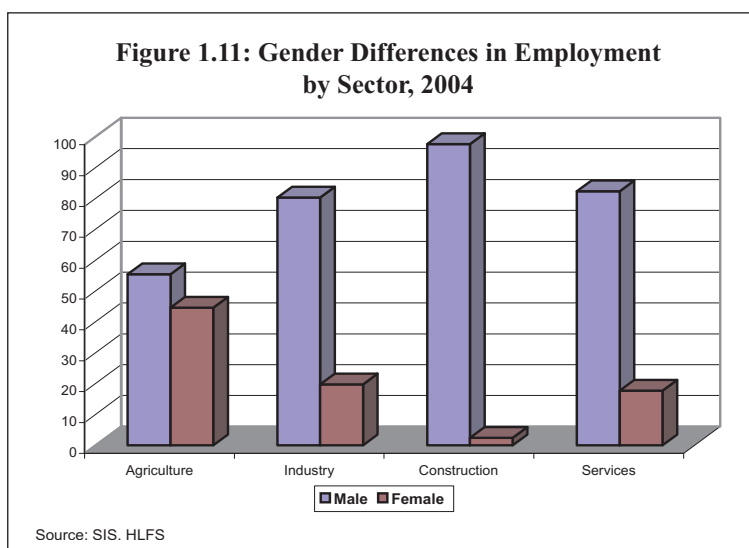
1.20 Accompanying the trends in population growth and urbanization, the economy experienced a marked change in structure, in which agriculture as the primary source of output and employment was displaced by more urban-based manufacturing and services (figures 1.9 and 1.10). Agriculture was the largest employer in 1980, accounting for 9.0 million jobs or half (50 percent) of the total. By 2004, agricultural employment had declined in absolute terms, shedding 1.6 million jobs to 7.4 million or a third (34 percent) of the total.



⁶Williamson suggests demographers tend to see Malthusian push factors throwing people off the land as population growth outstrips the food supply. By contrast, economists are more inclined to see pull factors attracting both labor and capital to urban centers to satisfy more highly income elastic demands for manufacturing and services outputs.

At the same time, real agricultural GNP grew by 26 percent. Despite a fall in output per capita, the sector continues to satisfy most domestic demand for crops and livestock, while continuing to supply traditional exports such as dried fruits and nuts. Industry accounted for 2.2 million jobs in 1980, 12 percent of the total, but exhibited the fastest growth over the period, adding 1.8 million jobs, to reach 4 million in 2004. The sector consists mostly of manufacturing of a wide variety of outputs for both domestic and export markets, including cement, petrochemicals, steel, textiles and clothing, automotive parts, household durables, and consumer electronics. Export-oriented automotive and electronic products have been the fastest growing categories. Services employment also showed positive growth, with employment rising from 5.9 million to 9.4 million and the share of employment rising from 33 percent to 43 percent. Tourism services are a major export earner, plus the sector also produces financial services, transportation, and trade (Riordan and others 2001; EIU 2003).

1.21 Because of gender differences in sectoral employment patterns, the structural trends have had different effects on male and female employment. They have been particularly disadvantageous for women, who are predominantly employed in agriculture (figure 1.11). Both men and women hold roughly equal shares of agricultural employment, but men dominate in all other sectors,



accounting for around 80 percent of employment in industry and services and over 95 percent in construction. Thus while both men and women have been affected approximately equally by the declining role of agriculture, primarily men have gained from the increasing prominence of other sectors.

Labor Force Participation

1.22 Labor force participation in Turkey is exceptionally low by international standards and has been in long-term decline. The overall participation rate of 48.7 percent in 2004 was the lowest in the OECD and 21.4 percentage points below the OECD average (table 1.2). Participation and employment rates differ significantly with respect to gender and location. Rural participation rates are higher than urban and men's are higher than women's. Women's labor force participation in urban areas is exceptionally low, at only 18.3 percent. For the economy overall, the male participation rate (72.3 percent) is nearly three times the female rate (25.4 percent). In urban areas, it is more than three times as high: 70.8 percent versus 18.3 percent. Of course, employment rates are also low, though open unemployment is not particularly high, averaging 8 to 10 percent during the 1990s.



1.23 Differences with respect to gender and location partly explain the declining overall trend. These differences, in turn, reflect a range of sociological, cultural, and institutional factors (Tunali 2003; Tansel 2001). In rural areas, where agriculture dominates and home and work environments overlap to a greater extent,⁷ all family members are more likely to participate in productive activities. By contrast, urban households tend to be more specialized; men earn an income while women are homemakers. Greater access to education in urban areas lowers participation in younger age ranges. Lower female participation rates in the urban setting reflect social custom whereby married women are expected to devote themselves to child rearing. Interestingly, young, unmarried women with greater financial need and less onerous family responsibilities are three times more likely than married women to be in the labor force (Tunali 2003). Lower male participation rates in the 15–24 age range, particularly in urban areas, are explained by both educational choices and compulsory military service. Labor force participation trends are analyzed in detail in Chapter 3.

Table 1.2: Labor Force Participation and Employment, 2004

	Population 15+ <i>Thousands</i>	Labor force <i>Thousands</i>	Employment <i>Thousands</i>	Participation rate <i>Percent</i>	Employment rate <i>Percent</i>
Total	49,906	24,290	21,791	48.7	43.7
Female	25,150	6,388	5,768	25.4	22.9
Male	24,756	17,902	16,023	72.3	64.7
Urban	30,813	13,714	11,844	44.5	38.4
Female	15,450	2,832	2,325	18.3	15.0
Male	15,363	10,882	9,519	70.8	62.0
Rural	19,093	10,576	9,948	55.4	52.1
Female	9,700	3,556	3,443	36.7	35.5
Male	9,393	7,020	6,505	74.7	69.3
Memo item:					
OECD total				70.1	65.3

Source: SIS, HLFS, and OECD *Employment Outlook 2005*.
December 2004 is not strictly comparable to HLFS data.

Human Capital

1.24 Over the past few years, educational opportunities have expanded significantly. The system of State-provided, free primary and secondary education was extensively revised in the late 1990s, and compulsory schooling was raised from five to eight years. Higher education opportunities also grew during the 1980s and 1990s through new universities, both public and private, and distance learning programs. Enrollment in higher education, though at comparatively low levels, registered strong gains, particularly for women (Tunali 2003). Results are apparent, with the shares of illiterates and those without basic education declining, those with primary education remaining roughly constant, and shares of higher education, though still small, growing rapidly (table 1.3).

⁷Turkish data count unpaid family workers as employed.

**Table 1.3: Educational Attainment, 1988 and 2003***Percent of population*

	Population		Men		Women	
	1988	2003	1988	2003	1988	2003
Illiterate	22.9	11.7	11.6	4.3	33.9	18.9
No diploma	9.1	4.4	9.6	4.0	8.6	4.8
Primary	47.2	49.6	51.8	48.7	42.8	50.6
Lower secondary	8.1	9.8	10.5	12.9	5.7	6.8
Lower secondary vocational	0.7	0.1	1.0	0.1	0.5	0.1
Upper secondary	6.0	11.1	7.1	13.1	5.0	9.1
Upper secondary vocational	2.7	6.4	3.8	8.3	1.7	4.4
Tertiary	3.2	6.9	4.7	8.6	1.8	5.2

Source: SIS Labor Force database.**Table 1.4: Unemployment Rates are High for the Young and Educated (2003)**

Age group	No				
	Illiterate	diploma	Primary	Secondary	Tertiary
15-19	18.0	27.7	13.7	29.5	0.0
20-24	17.0	37.5	16.1	23.4	38.5
25-29	16.3	14.8	12.2	12.2	14.8
30-34	13.3	16.7	10.3	7.1	5.3
35-39	11.4	16.7	8.1	5.4	4.1
40-49	7.5	9.5	7.8	4.6	2.5
50-59	5.0	4.9	5.9	5.7	2.2
60+	1.6	1.5	1.4	4.0	0.0

Source: Labor Force Survey

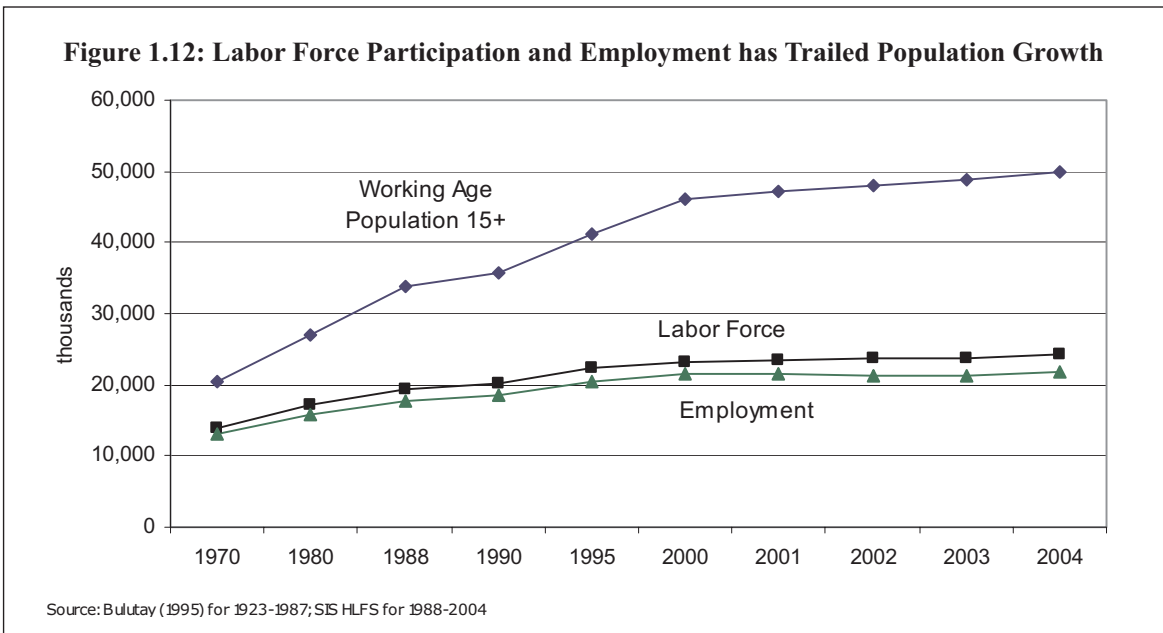
1.25 Education levels are still comparatively low by OECD or EU standards, and demand for higher education currently outstrips the capacity of the system. Overall, younger workers are more likely to report they are unemployed than older workers, independent of their level of education (unemployment rates would presumably not count those who are not looking for work because they are in school or engaged in their national service). Unemployment rates are especially high for university graduates, where 38 percent are unemployed right after graduation. High unemployment rates for educated workers may indicate bottlenecks in integrating educated workers into the work force, or they may indicate a mismatch between the skills provided by their schooling and labor market needs. Factoring in unemployment, rates of return to some educational programs, especially those at the university level, fell sharply over the 1990s (though the table indicates that the results over the working lives of the graduates will likely tell a very different story). The World Bank is carrying out additional research to obtain a better understanding of unemployment among educated young workers.



Employment and Unemployment

1.26 The combination of demographic and structural factors have meant that population growth has outpaced employment growth for many years in Turkey. From 1980 to 2004, the working age population grew by 23 million, but only 6 million net jobs were created (figure 1.12). As a result, the employment rate (the percentage of working age population that is employed) in 2004, at 43.7 percent, is one of the lowest in the world. Most countries have employment rates in excess of 50 percent; the exceptions are largely in the Middle East. The EU-15 average in 2004 was 65 percent.

1.27 The gap between the employment rates in the EU and Turkey presents a particular challenge on the road toward EU accession. The European Council meeting in Lisbon in 2000 adopted an employment rate target of 70 percent to be met by 2010. With a population that is still growing, Turkey will have to generate about 10 million jobs in six years to reach the current EU average employment rate in 2010, and will have to generate about 14 million jobs to reach the Lisbon target employment rate. The targets for female employment rate and employment for workers over 55 are even more difficult because women and older workers are particularly likely to not be employed in Turkey. The magnitude of the jobs deficit suggests that immediate action is needed

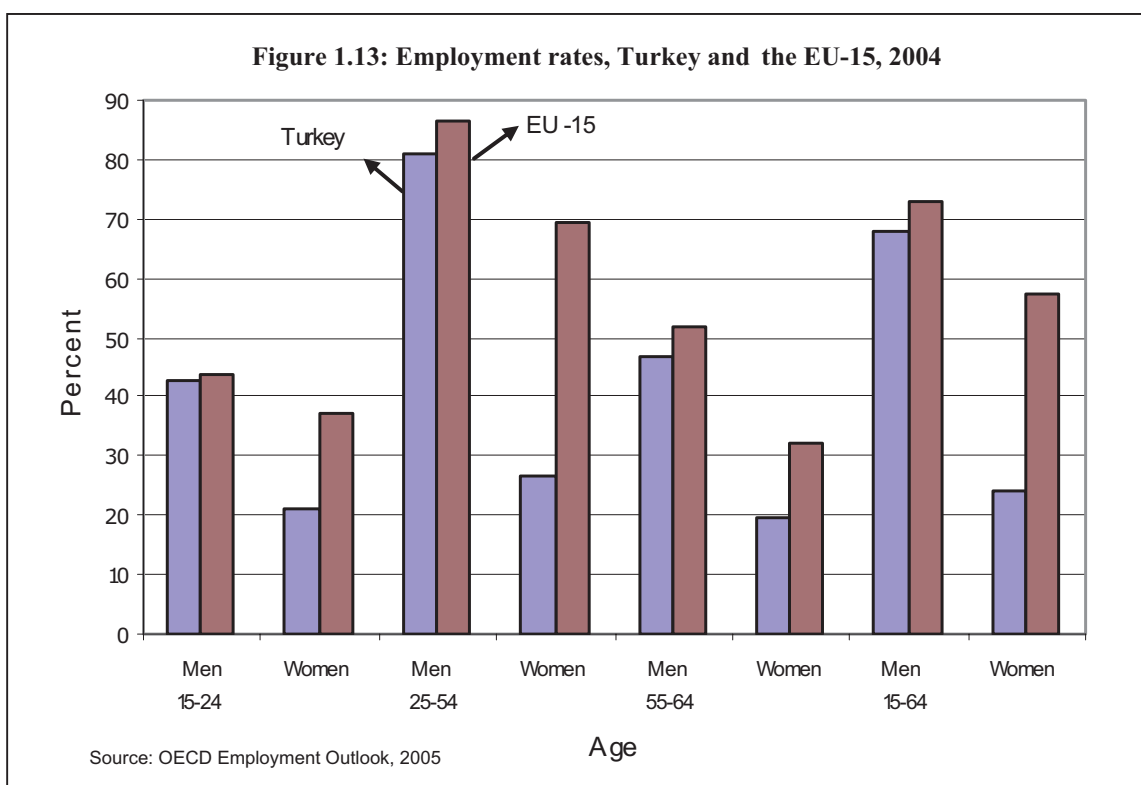


1.28 The labor force—the part of the working age population that is either working or looking for work—has been rising at a much slower pace than the adult population, reflecting the falling labor force participation rates for women. Not surprisingly, employment rates for women have been falling in parallel. By 2004, only one in four women aged 15–64 was employed in Turkey (figure 1.13⁸). The figure was even lower for women in the prime working age of 25–54. A significant part of the gap between the employment rate in Turkey and the EU-15 comes from the very low employment rate for

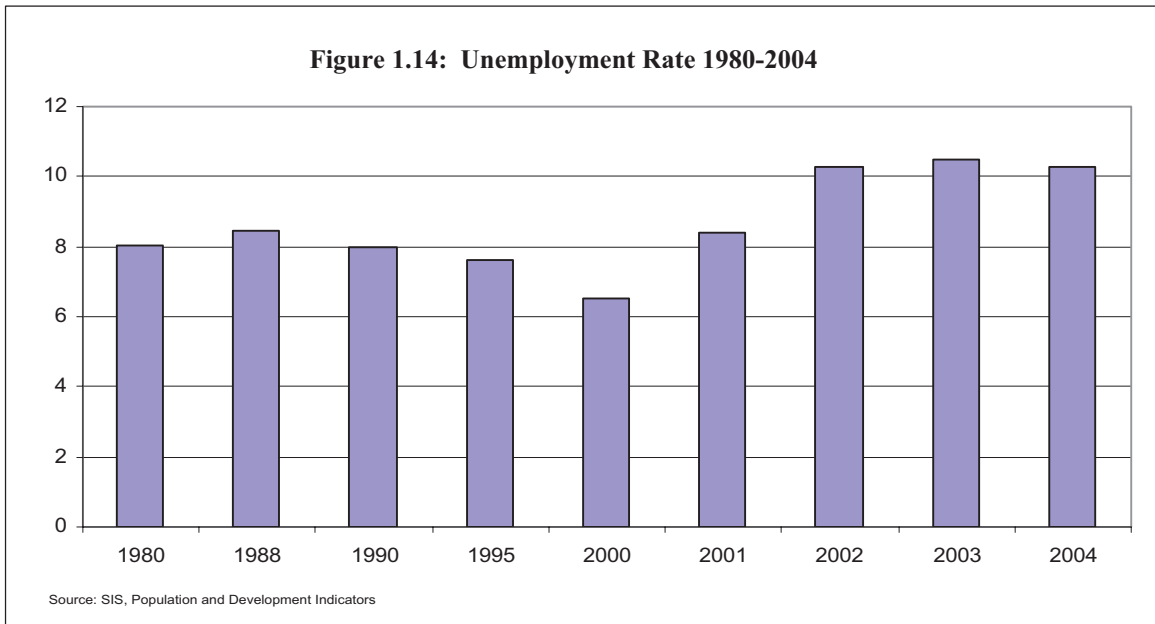
⁸ Note that those figures differ from the figures in Table 1.2 which covers the population of 15+.

women in Turkey. For men in Turkey, the employment rate in 2004 was 67.9 percent, while in the EU-15 it was 72.9 percent. By contrast, the EU-15 average for women, 57.1 percent, was more than double the Turkey average of 24.3 percent.

1.29 Figure 1.12 also illustrates how the unemployment rate—the gap between the labor force and employment—does not provide a full indicator of the slack in the labor market. With labor force participation rates falling, the labor force increases at a much slower pace than the adult population. As a result, the unemployment rate and employment rate are not mirror images of each other. The employment rate falls much faster than the unemployment rate rises.⁹ As figure 1.14 shows, the unemployment rate in Turkey did not increase between 1980 and 2000, a period when the employment rate was continuously falling.



⁹ There are complex reasons why people who are not working might respond to surveys to say they are not looking for work. Some people are genuinely not looking for work, such as women who have responsibilities at home, or those who are in school or who choose not to work for cultural reasons. A “discouraged worker” effect is also possible. If it seems difficult to find a job, people may stop looking for work. The reverse is also possible. People who are not actively looking for work respond that they are, to receive unemployment insurance benefits, for example. Since these effects are difficult to disentangle. In setting the labor market targets discussed above, the EU Council focused on the employment rate rather than the unemployment rate. This report focuses follow suit, using the unemployment rate only when it seems particularly appropriate.



D. CONCLUSION

1.30 Slow employment generation in Turkey reflects the interaction of demographic and economic factors. A rapid increase in the working age population coincided with a structural transformation away from labor-intensive agriculture toward industry and services. Increasing trend growth of output and employment in these two latter sectors will have to form the basis for employment generation. Meanwhile, as the labor force ages and its growth rate slows, some of the pressure for rapid employment creation will ease. The rest of this report will explore some of the key factors that determine employment creation, to serve as the basis for providing recommendations for reforms in the labor market.

1.31 The next chapter examines the economy-wide factors that have impacted the demand for labor. The analysis includes a review of output growth, productivity, and employment growth as employment shifts away from agriculture and toward industry and services. The impact of macroeconomic outcomes on the labor market is evaluated and an analysis of the international competitiveness of Turkish labor is presented. The chapter also reports the results of simulations of the labor market impacts of lowering payroll taxes and VAT, taking into account economy-wide impacts. Household-level data is used in chapter 3 to drill down into selected supply side factors discussed in this chapter—female labor force participation and participation by older workers—with a focus on the impact of education. The final chapter reviews the impact of labor market regulations and institutions on the goals of labor market regulation: to encourage job creation but also to minimize risk of job loss to workers. It evaluates the effect of informality on the goal of worker protection. The chapter places Turkey's labor market regulations and institutions in an international context, and evaluates the likely impact of these regulations and institutions on labor supply and demand, based on international experience and the analysis in the earlier chapters. This analysis provides the basis for detailed recommendations for labor market reform that will support job creation but will also provide worker protection.