



EXECUTIVE SUMMARY

Overview

1. Although this study focuses on the labor market in Turkey, forces outside the labor market affect job creation. Thus an effective job creation strategy will require a multi-pronged approach.

- Sustained economic growth is necessary for job creation. A sustainable macroeconomic framework, improvements to the investment climate, and investment in physical and human capital are all building blocks for growth. Rising labor productivity will provide a basis for increases in both wages and living standards.
- The analysis in this study suggests that well-intentioned labor regulations are currently hindering job creation—and ultimately, economic growth. Critical measures include action on severance pay, easing restrictions on temporary employment, and lowering unemployment insurance premiums.
- Labor market reforms to encourage job creation should be complemented by measures to improve worker protection. Effective worker protection that does not impinge on job creation suggests a shift in the focus from protecting jobs to protecting workers. The measures proposed in this study seek to provide a balance between the goals of creating jobs and protecting workers.

2. This study represents one element of World Bank support in creating more and better jobs in Turkey. In addition to the analysis of labor market regulations presented in this report, the World Bank is conducting, or will shortly conduct, research in other areas relevant to employment, including the investment climate, the performance of the financial sector, linkages between education and employment, and tertiary education.

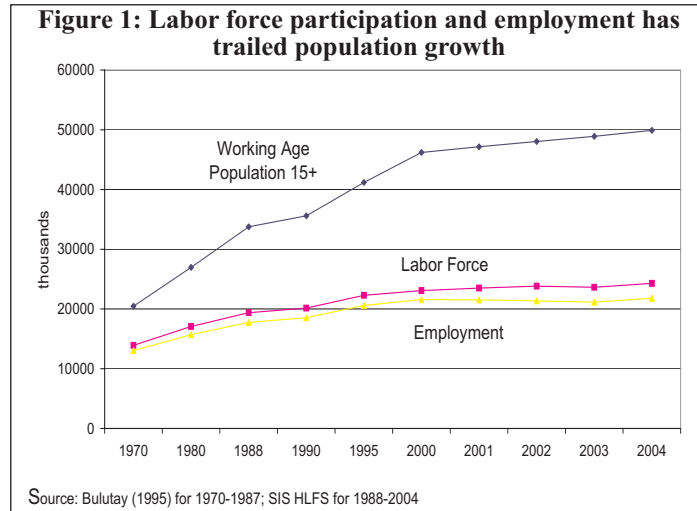
3. The findings of this report and of the related applied research are expected to contribute to the design of a comprehensive development program aimed at sustaining high growth in the economy by attracting more investment and financing while generating more and better jobs.

4. The main findings and conclusions of this study are described in the rest of the executive summary. The labor market recommendations are presented at the end of the summary in a simple matrix format.



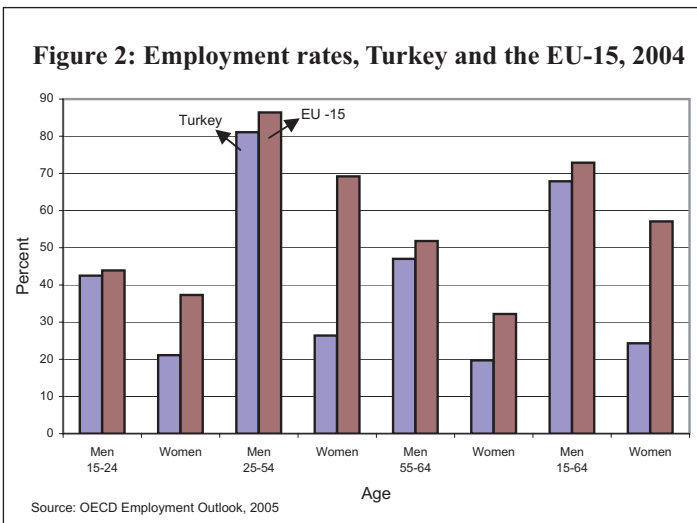
The Labor Market: Some Key Facts

5. **Population growth has outpaced employment growth for many years in Turkey.** The working age population grew by 23 million from 1980 to 2004; however, only 6 million jobs were created (Figure 1). As a result, the employment rate (the percentage of adult population that is employed) is one of the lowest in the world. In 2004, it was only 43.7 percent. Most countries have employment rates above 50 percent; the EU-15 average was 65 percent.



6. **The labor force has been increasing at a slower pace than the adult population.** The labor force is defined as the percentage of the adult population that is either working or looking for work. One of the striking features of the labor market in Turkey is the falling labor force participation rate (Figure 1). With a large share of the adult population not looking for work, the unemployment rate—the gap between the labor force and employment—does not provide a full indicator of the slack in the labor market.

7. **Low employment rates for women of prime working age explain much of the difference in employment rates between Turkey and the EU.** As Turkey has urbanized and families have moved out of agriculture, employment rates for women have fallen significantly. As a result, women of prime working age are employed at less than half the rate in the EU-15 (Figure 2). A significant number of women who are not working are not looking for employment, a principal reason for the low labor force participation rates. The differences for men are less significant.



8. **Older workers are dropping out of the labor force.** By age 55, participation in the labor market drops considerably in both Turkey and the EU (Figure 2). The OECD employment rate for the 55–64 age-group is 51 percent, significantly higher than EU



average of 42 percent and the Turkey average of 33 percent. Fostering employment for older workers is a policy challenge in the EU, as it is in Turkey. An important factor in falling labor force participation by older workers was the elimination of the minimum retirement age in 1993.

9. **Educated young people have difficulty finding jobs.** Unemployment rates are especially high for educated young people (Table 1). Both demand and supply factors are likely to matter. The economy may not be generating jobs that can absorb educated young, but also the educated young may not be well-suited to the job market. Older workers appear to find jobs more readily than younger workers, independent of education level.

Table 1: Unemployment Rates for the Young and Educated, 2003

Age group	Illiterate	No 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: Household Labor Force Survey

10. **The “jobs deficit” 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. Under current trends of GDP and employment growth, only 1.5 million jobs will be created by 2010. The targets for female employment rate and employment for workers over 55 are even more difficult. The magnitude of the jobs deficit suggests that immediate action is needed.

11. **Turkey has a large informal economy.** Approximately one in three workers in urban areas and three in four in rural areas are not registered with the social security institutions. Since much of Turkey’s formal social protection system (pensions, health insurance, and unemployment insurance) is based on membership in the social security institutions, this means that workers are not receiving these protections. While few receive pensions, health insurance, and unemployment insurance, even fewer receive the full severance pay and other protections stipulated in the employment protection legislation.

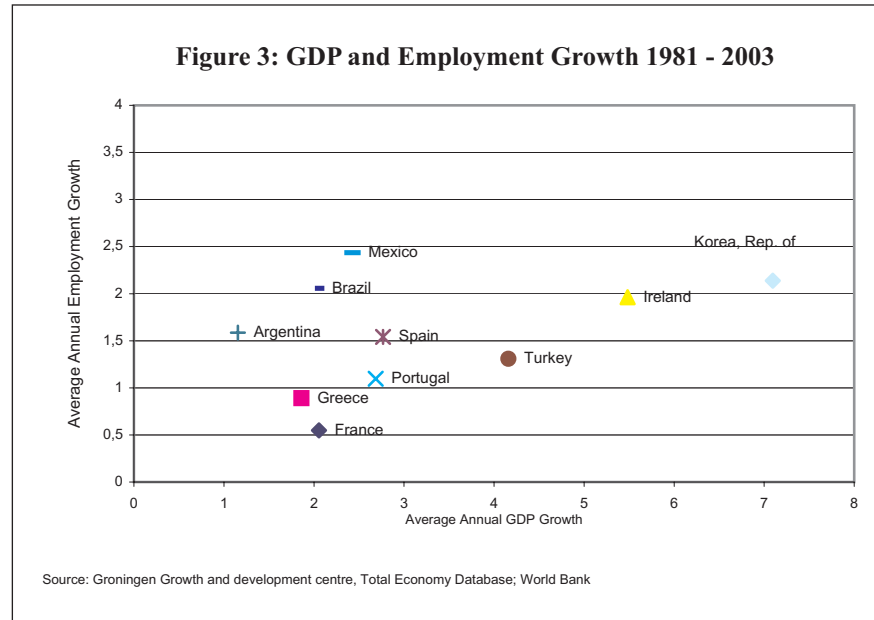
12. **The policy challenge is to foster job creation while improving worker protection.** The bulk of the new jobs will have to be generated outside agriculture and in urban areas as the structural transformation of Turkey’s economy continues. While the detailed recommendations of this study imply reforms in the labor market, the study notes the importance of a sustainable macroeconomic framework to enable growth, of

improvements in the investment climate to encourage firms, and of better education and training to better match workers and jobs. These measures should be complemented by measures to strengthen worker protection by improving access to Turkey's formal social protection system, to mitigate the risks from unemployment, old age, and ill health.

Economy-wide Factors Affecting Job Creation

13. **The demographic transition has meant a rapid increase in the working age population over the last 20 years.** While the growth rate of the working age population peaked over the 1980–2000 period, population dynamics are very slow and the share of the working age population is projected to grow till 2040, implying that the challenge of job creation will remain pertinent. The large working age population is an opportunity to generate growth, but if these people are not employed, the future bulge in the retired population will have to be supported from lower levels of per capita income.

14. **Job creation has been only moderate since 1980, despite relatively strong economic growth.** From 1981 to 2003, six of nine comparator countries had faster employment growth than Turkey (Figure 3). Employment growth was faster in Brazil, Mexico, Argentina, and Spain, although their GDP growth was slower (suggesting that their productivity growth was slow). Both output growth and employment generation were strong in the Republic of Korea and Ireland (implying productivity gains).



15. **A key factor for the comparatively slow employment growth in Turkey has been the high starting share of agriculture.** When the largest sector is shedding workers, even relatively fast employment growth in the smaller sectors is not sufficient to generate fast overall employment growth (Table 2). This is confirmed from a study of 10 European countries from 1974 to 1991, which sought to explain poor employment performance of Spain at that time. It found that 80 percent of the long-run employment growth was explained by sectoral effects, and that the initial distribution of labor across sectors plays a crucial role in explaining cross-country differences in employment. The comparatively weaker employment performance of Turkey from 1980 to 2004 is partially

explained by the shift out of agriculture, which happened much earlier in the comparator countries.

Table 2: Employment by Sector, 1980 and 2004
(millions)

	1980	2004
Employment, total (15 years and over)	15.7	21.7
<i>Employment in agriculture</i>	8.4	7.4
<i>Employment in industry</i>	2.3	4.0
<i>Employment in construction</i>	0.9	1.0
<i>Employment in services</i>	4.1	9.4

Source: Bulutay (1995) for 1970–87; SIS HLFS for 1988–2004; for 1988–99, HLFS April and October averages.

16. **Relative to output growth, employment growth in services from 1980 to 2003 was the slowest in Turkey of seven comparator countries.** It was slower than the countries that had slower output growth, and slower than Ireland and Korea, which had much faster output growth in services than Turkey. Employment generation in industry has been faster than the European countries. However the industrial sector had already started to shrink in these countries. Employment growth in Turkish industry has been slow relative to Brazil and Mexico, the middle-income countries in the sample. Employment growth relative to output growth was significantly higher in both these countries than in Turkey.

17. **The changing relationship between output growth and employment growth is driven by changes in productivity, but can also be affected by regulations that affect the incentives to hire workers.** Employment growth in Turkey since 1980 has trailed output growth relative to other countries. While this indicates that productivity has been increasing, the analysis in this study also indicates that the job creation performance reflects the impact of labor market regulations that reduce the incentives to hire new workers. Labor market and other regulations (the investment climate) will also affect growth.

18. **Productivity increases can slow down employment growth in the short run, but sustained job creation is not possible without productivity growth.** As the experience of Korea and Ireland indicates, rising productivity will sustain output and employment growth. The experience of Western Europe, North America, and Japan confirms that over time, increasing productivity is the basis for sustained job creation and rising standards of living. A growth accounting exercise results indicate that between 1980 and 2000, productivity growth in Turkey was somewhat better than the average for middle-income countries. Productivity increases since 2001 have been much faster. If sustained, they will put Turkey in position to grow at East Asian levels.

19. **The high volatility of growth is likely to have decreased employment growth.** A recent IMF study for Turkey found that high fiscal volatility and inflation had a strong impact on GDP. If Turkey had been able to keep inflation and fiscal volatility from 1980 to 2000 at the levels experienced from 1960 to 1980, then Turkey's per capita GDP



growth rate would have been almost 1.2 percent faster, the findings suggest. By contrast, the analysis for this study found no statistical link between volatility and job creation. Employment levels did not change significantly during booms or crises. This finding is consistent with Turkey's high severance costs. If firms expect economic conditions to change frequently but it is expensive to adjust their labor force, they will try to avoid hiring labor or find other ways to avoid paying the costs of firing, such as using informal workers. This latter hypothesis is supported by the observed variation in working hours, as opposed to variation in number of workers.

20. Low wages have kept labor costs internationally competitive. Manufacturing labor cost per unit value added, a proxy measure of labor costs relative to productivity is less than the EU comparators. While unit labor cost in manufacturing has risen from 0.21 in 1995 to 0.27 in 2004, it is still lower than in Mexico and Korea (Table 3). Analysis of the service sector, presented in chapter 2, shows that the same broad conclusion holds there as well – unit labor cost is lowest in Turkey relative to the comparator countries. While more refined measures of productivity will sharpen the conclusion, these data suggest that the cost of labor in Turkey is not the critical factor in slowing job creation relative to other countries.

Table 3: Manufacturing Labor Cost Per Unit Value Added, 2004

Turkey	0.27
Portugal .	0.65
Spain	0.68
Greece	0.44
Poland	0.61
Hungary .	0.54
Mexico	0.31
Korea, Rep. of	0.49

Source: SIS, OECD STAN database for Turkey (2004); for Portugal, Spain, Greece, Mexico and Korea (2003); for Poland and Hungary (2002).

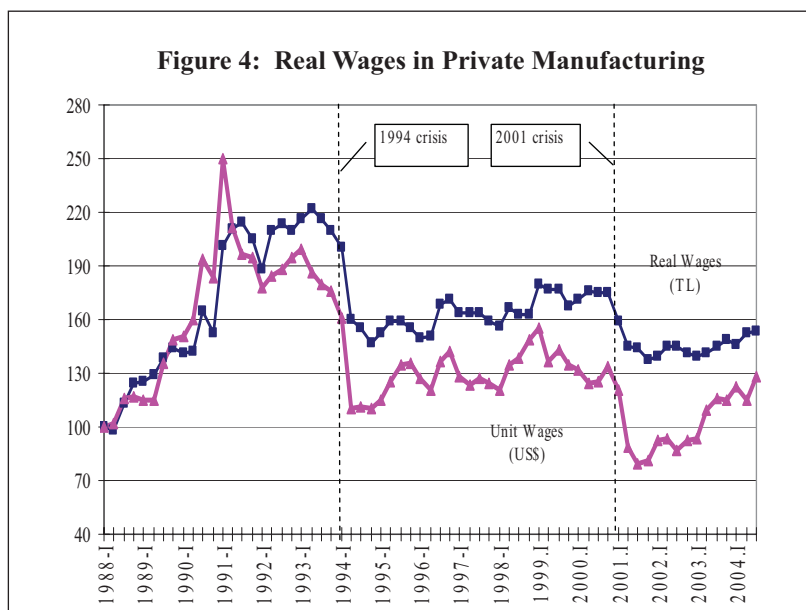
21. The minimum wage has been increasing rapidly. The ratio of minimum to average monthly wage in manufacturing increased from 33.9 percent in 1999 to 42.1 percent in 2004. A minimum wage that is high relative to the average wage can lower formal employment levels, especially for low wage workers. Minimum wage in manufacturing is currently about 43.9 percent of the average monthly gross wages. A ranking of EU candidate, accession, and member- countries for 2004 finds the minimum wage as a proportion of average wage varied between 34 and 50 percent. Poland was below 35 percent; the Czech Republic, the United Kingdom, Hungary, and Portugal were between 38 and 47 percent; and Ireland, the Netherlands, and Malta were in range of 47 to 50 percent.

22. Non-wage labor costs are high and may be contributing to informality. Payroll taxes are well above the averages for middle-income countries and the OECD. A program for reducing informality would include a combination of institutional reform to improve enforcement of labor regulations and eventually lower taxes. The impact of lowering the level on formal employment depends on the elasticity of labor demand (how many workers firms are willing to hire as labor costs fall), and the incidence of the tax (the extent to which employers are able to lower wages to compensate for the tax). The higher the elasticity of labor demand and the less that employers are able to shift the tax onto workers, the greater the expected impact of lower payroll taxes on formal sector employment. Evidence from emerging economies and OECD countries suggests a wide range of possible outcomes from lowering payroll taxes. More analytical work is needed, based on adequate survey data on employment and wages by occupational category, to assess the elasticities of labor demand and supply in Turkey and inform policy making in

this area. Estimating labor demand will require detailed firm level surveys in the industry and services sectors. Estimating the labor supply functions will require the use of the household labor surveys with wage data, which were not available at the time of this study.

23. **Using fiscal policy to increase employment is limited by budgetary concerns.** Fiscal imbalances could lead to rising interest rates and slower investment and job creation. Any payroll tax reductions should be cautious and accompanied by compensatory measures to preserve the credibility of the fiscal program. A simulation of change in the value-added tax rate finds more of an impact on wages than on employment or informality. While a value-added tax reduction is initially expansionary, lower revenues increase the concerns of financial market participants about the government's fiscal program and lead to rising interest rates, according to the simulation. One possible exception is lowering rates for the unemployment insurance fund, as the surplus is not part of general revenue.

24. **Flexible real wages have allowed labor market adjustment.** Real wages fell significantly after crises in 1994 and 2001 (Figure 4). In contrast, employment has been remarkably stable, during both booms and busts. As Turkey transitions changes to a low inflation environment and real wage adjustment becomes more difficult, flexibility in employment will become increasingly important for firms as they adjust to changing macroeconomic conditions.



Vulnerable Groups: Women and Youth

25. **The decline in female labor force participation that began in the 1960s has not begun to reverse itself.** A U-shaped pattern in female labor force participation is common as countries urbanize, but in Turkey the labor force participation rate for urban women has remained under 20 percent for the last 15 years. The study documents the importance of education in encouraging female labor force participation. University-educated young women have participation rates that are close to men.

26. **Availability of part-time work has led to significant increase in labor force participation in OECD countries, but not in Turkey.** The share of part-time workers remains low in Turkey. About 9 percent of female wage and salary earners worked less



than 35 hours per week. Employers and workers are not yet taking full advantage of the changes in the 2003 Labor Law that allow part-time work. (the impact of other aspects of labor regulations on female labor force participation is described in the next section).

27. **Slow job creation has affected female labor force participation.** Between 1988 and 2003, the unemployment rate for urban males fluctuated around 11 percent. Over the same period, the unemployment rate for urban females fell from 28 percent to 18 percent. This decline is consistent with a significant number of women dropping out of the labor force because of a “discouraged worker” effect.

28. **Slow job creation has particularly affected the young.** Employment in manufacturing for those aged 15–24 actually fell between 1997 and 2003, from about 1.1 million to about 900,000. Employment in services for this age group also has fallen, from 2000 onward. Clearly the impact of the crises was felt in entry-level jobs. This is consistent with an international literature that suggests that strong employment protection legislation such as in Turkey is particularly likely to affect the young.

Labor Market Regulations and Job Creation

29. **Current labor market regulations are implicitly designed for a labor force that consists of one full-time wage earner per family who stays in the same job for the entire working life.** High severance pay is designed to protect workers from the risk of being fired. Restrictions on temporary work are designed to prevent employers from using workers who are not covered by pensions or severance pay. The early retirement age means that high social security taxes are needed, which further induces informality. While these regulations are likely to have been effective in protecting the rights of existing public sector workers and workers in formal large private sector firms, they are increasingly ill-suited to the needs of many workers, especially women and young entrants into the labor market. These regulations are also increasingly ill-suited to firms and benefit especially firms that hire informal labor and gain an advantage over firms that prefer to follow the rules.

30. **Employment protection regulations can affect employment rates and informality even when compliance is weak, the most recent international evidence suggests.** An extensive cross-country literature based mostly on the European experience found only a modest impact of severance payments on employment rates. These regulations led to greater informality and longer periods of unemployment—but had little impact on employment. However, these cross-country regressions are subject to important methodological problems. Recent studies in Argentina, Columbia, and Peru using household level data found that severance pay regulations affect employment, even in countries where compliance is weak. Significantly for Turkey, the Peru study was able to isolate the impact of the magnitude of the dismissal costs and provides evidence suggesting that payoffs from severance reform will be higher where the current severance requirements are high, as in Turkey.



31. **High working hours in Turkey suggest that severance requirements and favorable tax treatment of overtime work are discouraging creation of new jobs.** The cost of complying with labor regulations such as those on severance pay is high by international standards. One strategy that firms can follow to minimize such costs is to increase working hours for existing workers rather than hire new workers. In this way, production can be reduced, if necessary, without incurring severance costs. Since social security payments are calculated on the basis of number of days worked rather than number of hours, firms have an incentive to use existing workers in overtime rather than hire new workers. These incentives were strengthened in the 2003 Labor Code, which allowed employers and employees in some instances to mutually agree to longer work weeks. Firms can also rely on informal labor, which does not incur some of these costs. Turkey has highest hours of work in manufacturing per week, compared with selected EU and middle-income countries (Table 4). If workers in Turkish manufacturing had worked 45 hours on average instead of 52, for example, another 500,000 workers would have been required. Severance requirements may have been particularly costly as high volatility made flexibility in the labor market particularly important. It is also likely that severance requirements have hindered foreign direct investment, since foreign investors prefer to comply with regulations.

	2004
Turkey	52.1
EU-15	38.5
Greece	42.7
Portugal	39.6
Spain	38.9
Ireland	39.1
Czech Rep.	40.3
Estonia	40.1
Hungary	40.3
Lithuania	39.2
Poland	41.8
Slovenia	40.3
Mexico	44.7
Korea	48.0

Source: Author calculations based on Eurostat; for Turkey, ILO data based on LFSs; for Mexico (ILO data based on LFSs) and Korea (ILO data based on Labor related establishment survey for 2001);

32. **The 2003 Labor Code includes important measures to encourage female labor force participation.** The most important of these is to allow part-time work, although employers and workers have not yet taken advantage of this provision in large numbers. The ban on employment of women in night shifts of manufacturing establishments has also been lifted. However, provisions extending maternity leave and requiring child care facilities in larger establishments, while designed to encourage women to work, can backfire by discouraging employers from hiring women. These changes in the law are too recent to evaluate for this study. The impact of labor law on female labor force participation should be closely monitored.

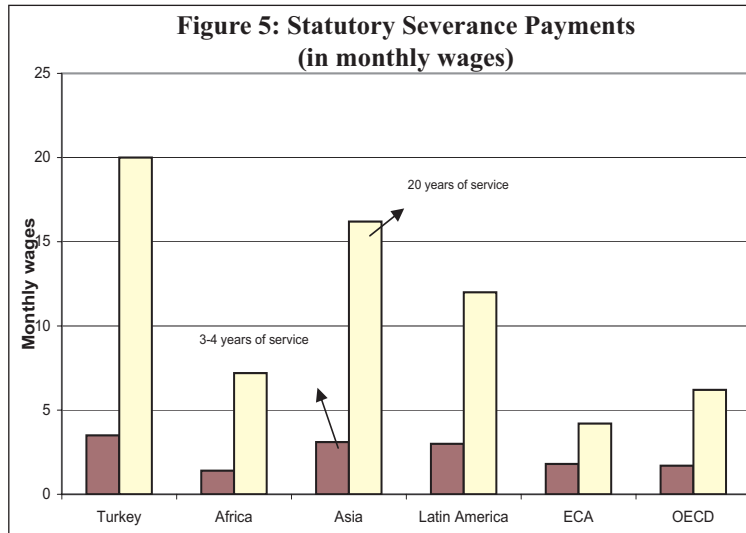
33. **The abolition of the minimum pension age in 1992 provided a significant incentive for early exit from the labor force.** Analysis of micro data from household surveys in 1994 and 2002 show a significant increase in young pensioners. While about half of all male 55-year-olds in urban areas were drawing a pension in 1994, this percentage was about 15 points higher in 2002, and 21 percent of 45-year-olds were drawing pensions. Participation rates are close to 80 percent for university-educated women in their mid-20s to mid-30s. By age 50, only one in three is still in the work force.



Turkey’s Labor Market Regulations in Comparative Perspective

34. **Severance pay in Turkey is much higher than the OECD or European average.** A worker with 20 years of service in Turkey is entitled to 20 months compensation, compared to 6 months for OECD countries, 4 months for Europe and Central Asia countries, and 10 months for middle-income countries (Figure 5). Public sector workers in Turkey are entitled to additional compensation paid out of the privatization fund. This makes public sector labor adjustment a particularly expensive proposition.

35. **High non-wage labor costs add to the cost of complying with regulations.** The combined employee-employer contribution rate on payroll taxes is 36.5 percent (pensions, health insurance, work injuries, workman’s compensation and unemployment insurance): well above the middle-income country average of 25 percent, and the OECD-20 (developed countries) average of 27.4 percent. The Central



and Eastern European countries have a higher average tax rate (46.5 percent). As noted earlier, a program for reducing informality would include a combination of institutional reform to improve enforcement of labor regulations, and eventually lower taxes.

36. **Unemployment insurance (UI) premiums can be lowered.** The UI fund has been building a massive surplus that had reached the equivalent of \$11 billion by mid-2005. A UI simulation model developed for this study suggests that under a variety of scenarios, including economic shocks that lead to a tripling of unemployment, the fund would still be in surplus and still allow for a reduction in contributions and easing of eligibility requirements. This suggests that there is scope for lowering this element of the high overall payroll tax.

37. **The surpluses of the UI fund are now counted in the primary fiscal surplus calculation. Lowering the UI tax will lower the primary surplus.** UI funds are set aside for risk pooling for eligible workers. They do not flow into general revenues. Since these funds are not available for government use, they are accumulating interest on t-bill holdings and continuing to grow in size. For workers, payment in excess of what is actuarially needed constitutes a tax with few benefits, since the funds are not used for debt reduction or other government expenditure and are not needed to provide benefits. This presents three options to accommodate a reduction in the UI tax rates. First, the UI fund could be removed from the calculation of the primary surplus, and compensating measures to maintain the primary surplus could be implemented. Second, the UI tax rates



could be lowered and compensating measures could be found to maintain the primary surplus with UI retained in the primary surplus calculation. Third, the primary surplus target could be lowered to accommodate the lower UI surplus. From a fiscal perspective, the second option is preferred as long as the compensating measures represent good public policy.

38. Turkey is almost alone in the OECD in having restrictions on fixed-term workers and temporary work agencies. Turkey and Greece allow hiring of fixed-term workers only when “objective” reasons exist, such as for seasonal work, for a specific project, or to replace a temporarily absent worker. Legally opening up the use of fixed-term contracting risks the possibility that employers will avoid the obligations of permanent contracts. However, it can also have the positive impact of shifting workers who are now informally employed into formal contracted positions. The 2003 Labor Code does allow private agencies to operate legally in labor market, but their presence is limited by restrictions on their activities. Since the use of temporary workers is reportedly common legalizing temporary work agencies will encourage a more formal labor market.

The Impact of Employment Protection Legislation

39. Compliance with labor law is weak in Turkey. Many workers are not receiving the protection that is the intent of the laws. First, many workers are not members of the social security institutions; thus they are very unlikely to get severance pay benefits. Moreover, social security membership is no guarantee of receiving severance, a survey of workers and employers suggests (more details are provided below). Workers who work at large firms or belong to a trade union are more likely to receive severance payments, but only 30 percent of workers work in firms with 10 or more employees, and at most 12 percent of workers belong to unions. Labor representation is constrained by restrictive bargaining-agent rules that make it impossible for small, independent unions to represent workers.

40. Firms use a wide variety of methods to avoid paying severance and social security requirements, a survey of workers and employers for this study confirms. These include underreporting of wages, firing workers after 11 months of work before they become eligible for severance, requiring the signing of undated resignation letters, mutual agreement that a fraction of the required severance will be paid, and high working hours. The new Labor Code has improved the protection of workers in larger firms against unjust terminations and has made provisions for better access to dispute resolution through private arbitration (these provisions still require implementing regulations).

41. Direct policy measures to reduce informality have had mixed success. The Ministry of Labour and Social Security (MOLSS) and the social security institutions have inspection functions and structures. However, limited resources and the sheer number of firms means that inspection can have only a limited impact. Combining the social security institutions and creation of a combined database, creation of unique social security numbers, and increased coordination between the General Directorate of



Revenue and the Social Security Institutions are all actions under preparation by the government that could have some impact in the medium term.

Labor Market Reform for Job Creation and Worker Protection

42. **The focus of employment protection should shift from protecting jobs to protecting workers.** Regulations that try to protect jobs, such as severance pay and restrictions on flexible work, benefit only those workers who already have jobs. In an increasingly competitive world, firms and workers need more flexible arrangements. Such flexibility increases the risks for workers, and it is important to have measures in place to protect workers—through unemployment insurance and measures to help them find new jobs (passive and active labor market measures). Workers would also benefit from measures to improve access to collective bargaining (in accordance with core ILO labor standards), job security and dispute resolution mechanisms.

43. **Turkey is currently implementing both approaches: protecting jobs and protecting workers.** The Unemployment Insurance Plan was introduced in 1999 and the first benefits were paid in 2002. An important institutional development for active labor market programs was the establishment of ISKUR, the national employment agency. These developments now allow a reduced focus on job protection measures such as severance, as the UI system and active labor market policies are strengthened. The 2003 Labor Code stipulated that a new severance fund would be established; however, the government and the social partners have not been able to agree on the details of such a fund. In the meantime, very high severance pay requirements remain in place.

44. **Severance requirements should be reduced.** This is arguably the most urgent labor market reform. This is a benefit that is fully enjoyed only by public sector workers and workers in the largest firms. Easing the requirements should particularly benefit young workers.

45. **Eligibility requirements should be eased to make unemployment insurance more widely available.** The system currently provides benefits to less than 4 percent of unemployed workers. Other newly established systems such as Korea have higher coverage rates (14 percent), while OECD countries range between 25 and 75 percent. An important part of the explanation is the extent of informality, which makes it difficult to support the unemployed through a formal sector system. Easing eligibility requirements would be a step in the right direction. There is a growing surplus in the UI fund. Simulation analysis suggests that the fund can afford easing eligibility requirements and reducing contribution rates.

46. **Fixed-term contracts should be allowed for economic reasons and employment agencies should be permitted to provide temporary workers to firms.** Under current regulations, fixed-term contracts are allowed only for “objective” reasons such as seasonal agricultural work. Limiting temporary work agencies restricts the use of temporary contracts. Both recommendations are likely to particularly benefit women.



47. **Alternative adjudication mechanisms should be made more widely available.** Adjudication in the courts is the only mechanism available to workers for resolving individual disputes with employers. Implementing authorization to allow private arbitration would provide more timely and efficient dispute resolution and reduce the burden on labor courts that has emerged because of the new job security rules in the Labor Code.

48. **The Turkish Employment Organization, (ISKUR) should be provided with resources to carry out active labor market policies.** A positive step in this direction is a EU technical assistance program for ISKUR to support Turkey's ability to implement policies and services that are aligned with the European Employment Strategy. The program includes institution building through policy development and improving ISKUR's operational performance, a grant scheme to finance Active Labor Market Programs (ALMPs), and construction of provincial offices. The remaining item on the policy agenda for ALMPs is to license private employment agencies to provide the full range of employment and training services.

49. **Administrative capacity should be strengthened by increasing the number of labor inspectors.** The social security reform that is being planned by the government includes a merging of the social security institutions, along with their databases. This should strengthen administrative capacity to monitor compliance with payroll tax requirements. These measures can be complemented by increasing the number of labor inspectors under the MOLSS.

50. **A detailed analysis of the elasticity of the supply and demand for labor should be conducted.** The study should cover different segments of the labor market and for different groups of the population to ascertain the expected costs and benefits of reducing taxes on employment for a given level of enforcement, including payroll taxes on each group and income taxes for second earners in a household.

51. **The package recommended here is balanced to meet competing needs.** Ideally, the suggested reforms should be introduced together. There is a risk that selecting one or two items and not others might not have the desired effect. However, this is an ambitious agenda and, if there is a need to prioritize, improving the flexibility of the labor market by liberalizing labor market regulations, most notably severance and other hiring and firing restrictions, is the top priority for job creation.