



Labor Market Study

The World Bank

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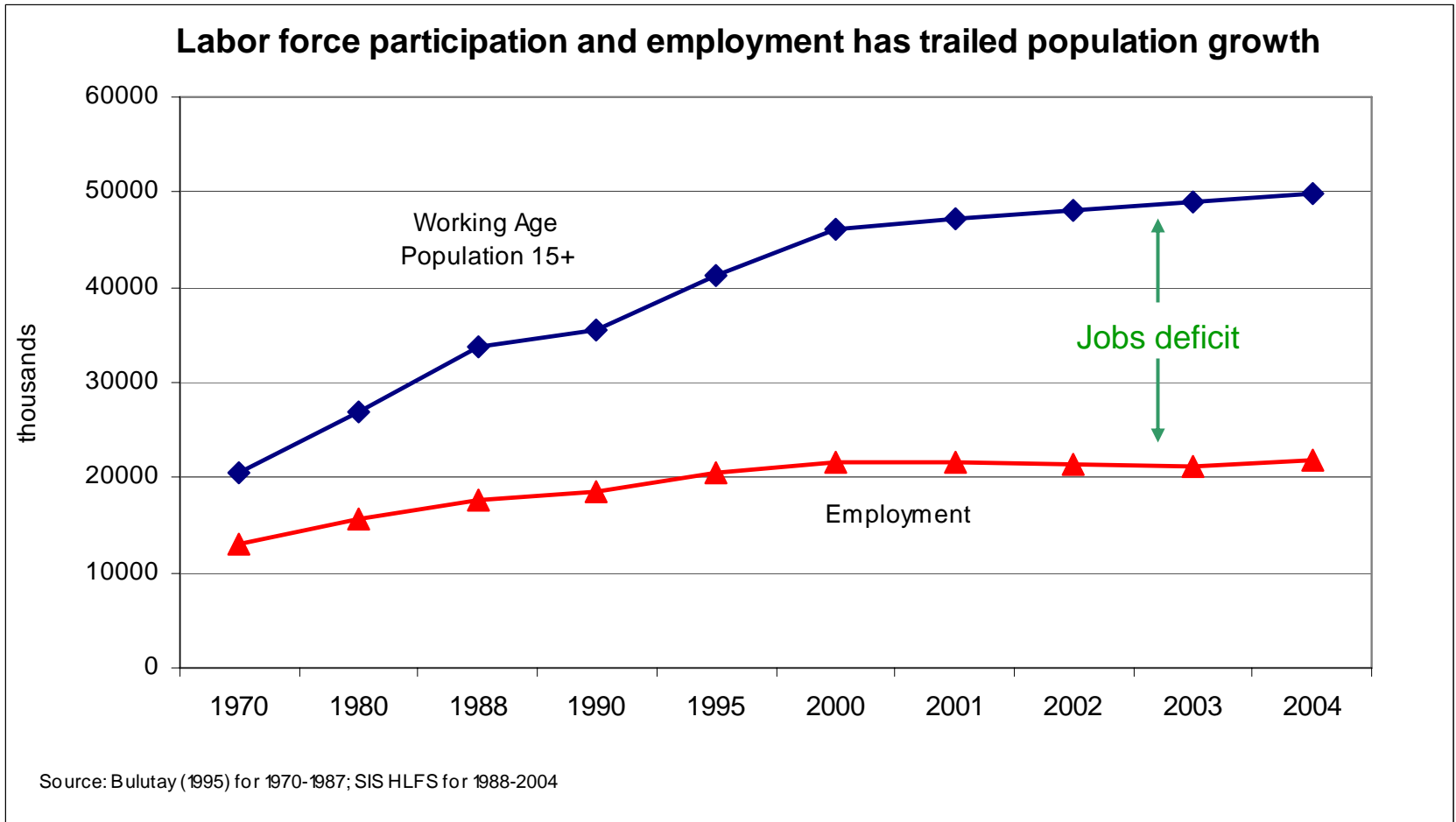


Outline

- A. How is the labor market performing?
 - Job creation
 - Worker protection
- B. Why has the labor market not performed better?
- C. A labor market strategy for job creation and worker protection



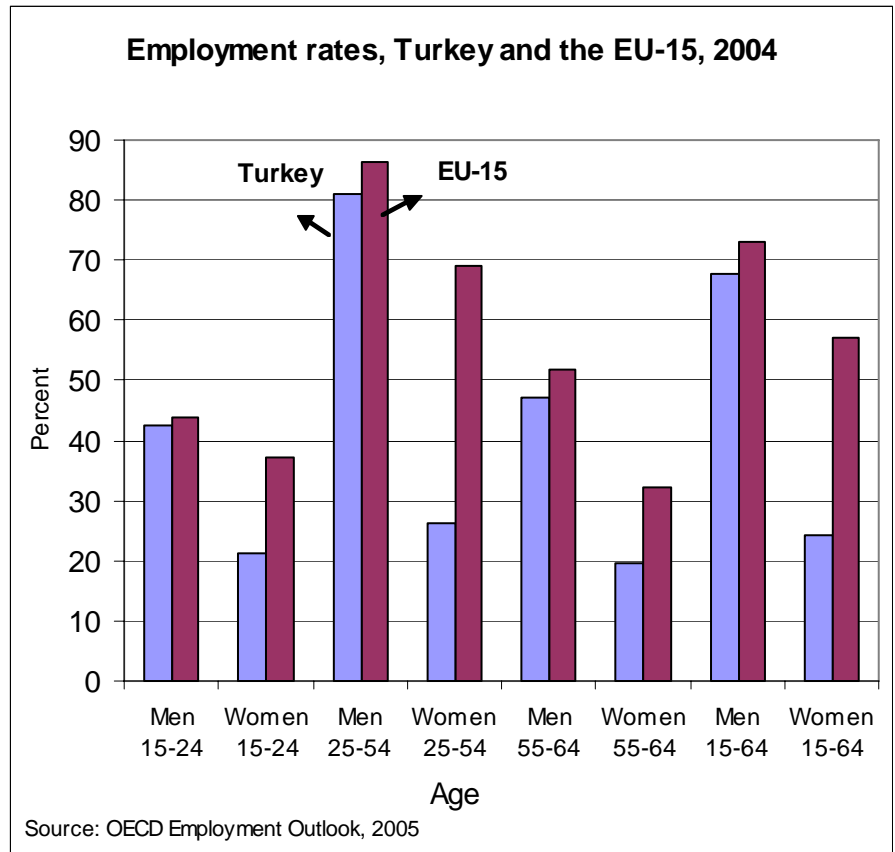
Job creation has been slow relative to population growth





Women, older workers and the young are particularly affected

- For 25-54 year olds: only 27% of women are employed compared to 80% of men; 70% for the women in the EU.
- Employment rate for 55-64 year olds is 33%; 44% in the EU.
- 38% of 20-24 year olds with college education are unemployed.





Large number of unregistered workers who receive no protection

	Distribution of Workers (percent)	Sector Unregistered Workers (percent)	Total Unregistered Workers (percent)
All Workers	100	53	53
Urban	54	36	19
Rural	46	73	34
Non-agriculture	66	34	22
Agriculture	34	90	31
Regular employee	43	21	9
Casual employee	8	91	7
Employer	5	24	1
Self-employed	25	65	16
Unpaid family worker	20	97	19



Why has the labor market performed poorly in terms of job creation and worker protection?

- High agricultural share in employment
- High non-wage labor costs
- Labor market regulations

Despite

- Good growth in the economy
- Wages consistent with productivity

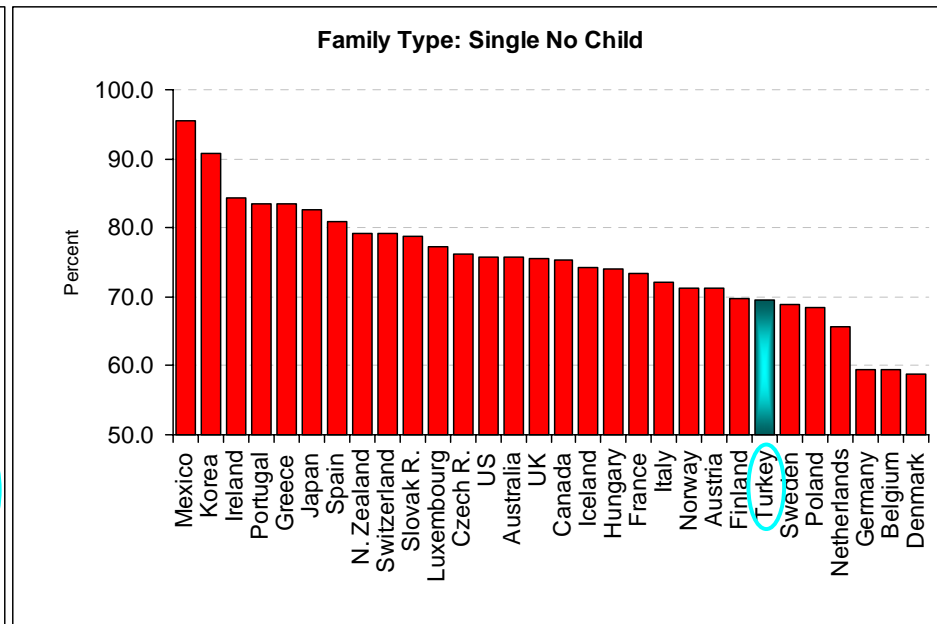
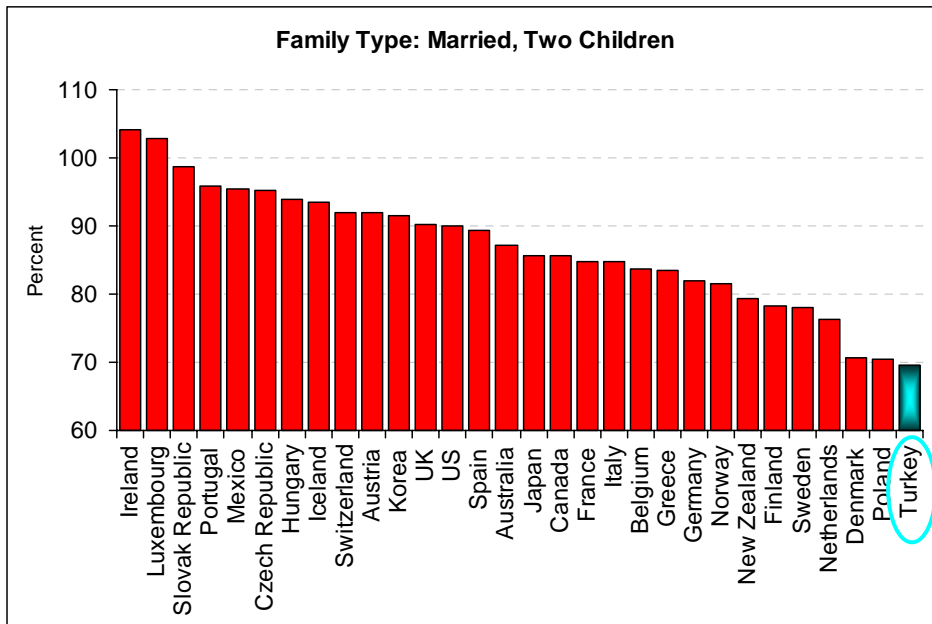


Shrinking agricultural employment slows employment growth – but not whole story

- Between 1980 and 2004:
 - Agricultural employment fell by 1.2 million;
 - Industry, construction and services created 7.4 million jobs; so,
 - 6.2 million net jobs created (but rapid population growth required 24.1 million jobs).

High labor taxes promote informality

Take home pay as percentage of average gross wage including income tax, employee and employer contributions
(Example for two types of family units)



Turkey has the highest wedge between take home pay and gross wage in the OECD which encourages informality.



Impact of labor market regulations

- International evidence suggests that rigid labor regulations limit employment.
- Firms prefer to pay overtime than hire new workers.
- Limited availability of part-time and temporary work.

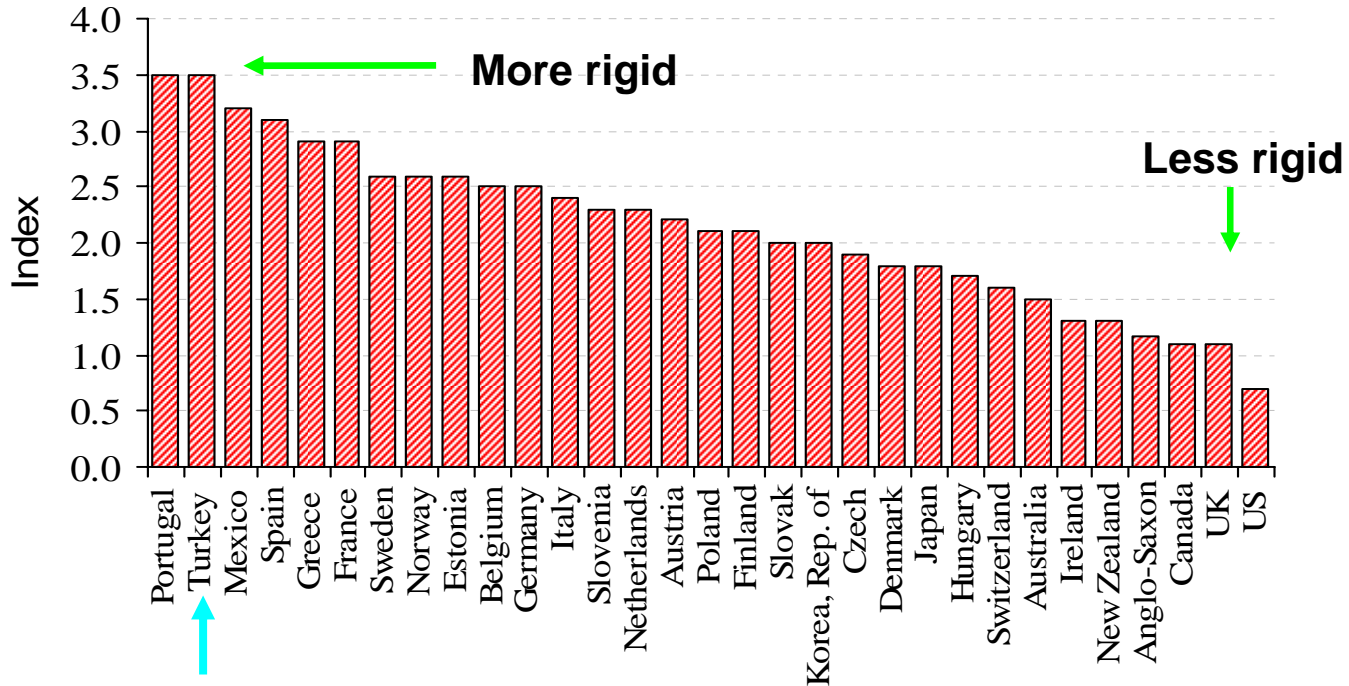
Hours Worked (2004)

Turkey	52.1
EU-15	38.5
Greece	42.7
Portugal	39.6
Spain	38.9
Ireland	39.1
Poland	41.8
Mexico	44.7
Korea	48.0

Source: Eurostat; ILO, SIS



Severance requirements and flexible working arrangements are critical



2003 Labor Code introduced important changes

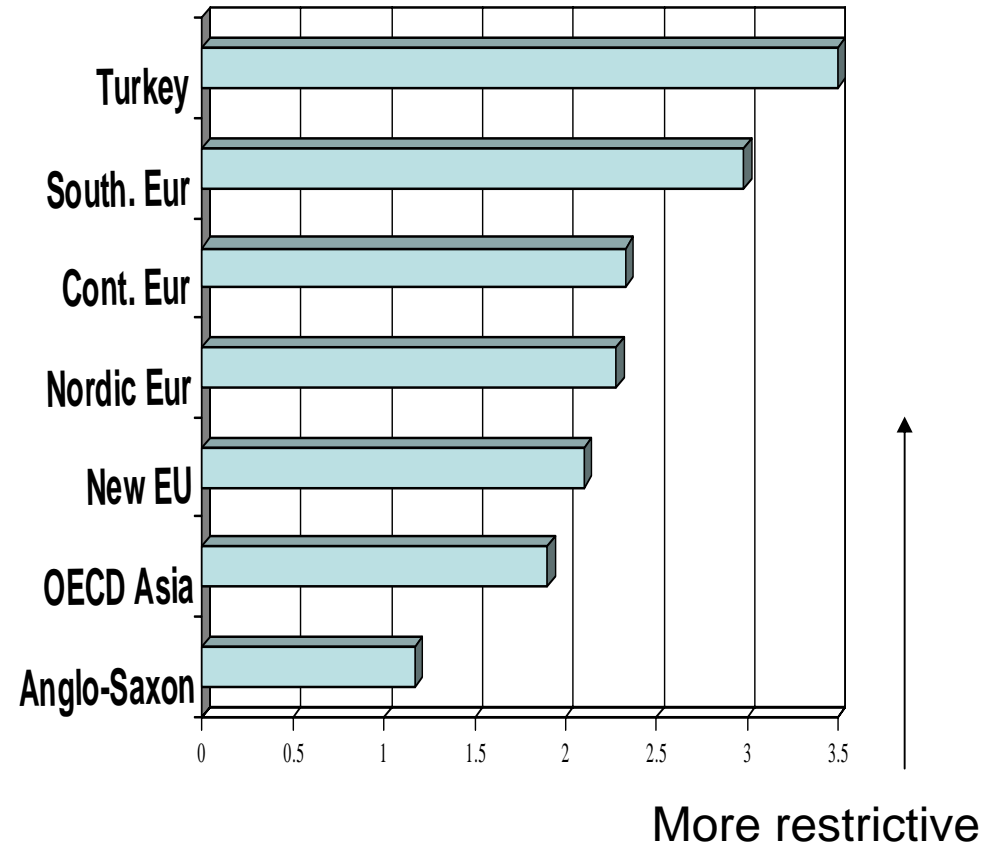
- Legal framework for part-time and fixed-term employment
- Flexibility in working time
- Dismissal principles in firms with 30+ employees

But still inflexible.....



Job security rules the toughest in the world

- High severance pay
- Fixed term contracting not allowed for “economic reasons”
- Employment agencies not allowed to provide temporary workers to firms





What explains poor labor market outcomes for women?

- Urbanization has decreased labor force participation for women.
- Not enough part time jobs.
- Slow job creation leading to women dropping out of work force: Male urban unemployment rate is about 11%; for women, it is 18% down from 28% in 1988 (consistent with the discouraged worker phenomenon).
- University educated women have participation rates almost equal to men.



With unemployment insurance and ALMPs, Turkey is now protecting both jobs and workers

UI protects workers

- But less than 3% of unemployed receiving benefits because of low registration, ineligibility, strict qualification rules.
- Huge UI Fund accumulation.

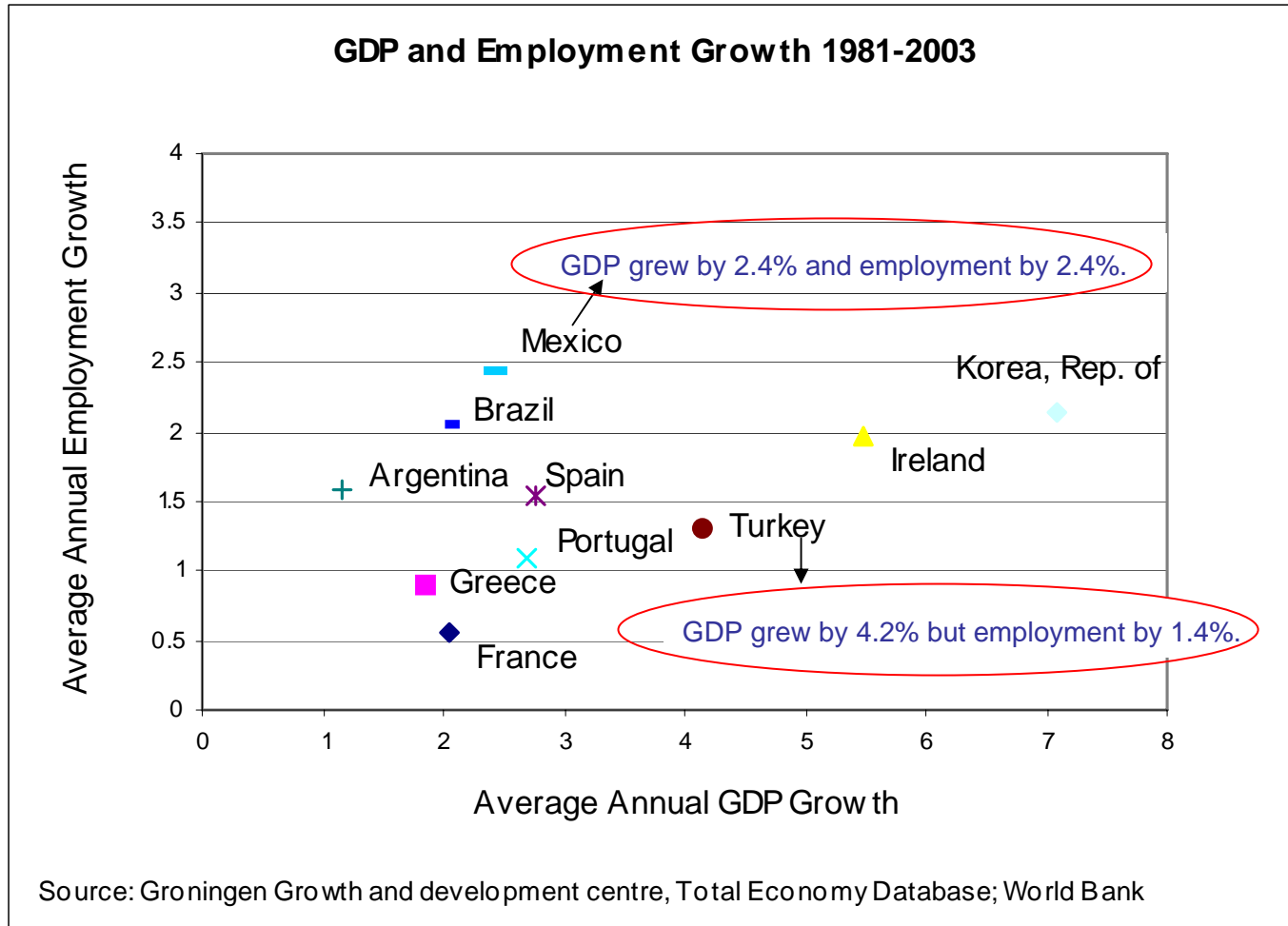
As ALMP develops, redundancy will increase

- Greater capacity needs to be built in ISKUR to support ALMPs that have a positive impact;
- Diverse providers of services (public, private, non-profit) can help.

Need to improve labor relations: dispute mechanisms are costly



Strong performer on GDP growth but not on employment growth





High labor costs do not seem to be causing slow job growth

Labor costs per unit of value added (a measure of labor costs relative to productivity) have kept labor in Turkey competitive.

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



Protect workers, not jobs

- Unemployment insurance should be made more widely available. Less than 4 percent of unemployed workers are benefiting (in Korea 14%, in OECD 25-75%).
- Strengthen ISKUR's capacity to provide training and job search assistance.
- Implementing authorization to allow private arbitration - reduce the burden on labor courts.
- Improve administrative capacity: Merging of the social security institutions databases; hiring labor inspectors.



Protect workers, not jobs

- Severance should be reduced
- Increase flexibility:
 - Allow fixed-term contracts for economic reasons.
 - Employment agencies should be permitted to provide temporary workers to firms.
- Analyze elasticity of supply and demand for labor to estimate the costs and benefits of reducing taxes on employment.



Turkey has a golden opportunity

- Demographic gift where young workers are available (can become a curse if workers not employed).
- Possibility of EU accession means that growth can be sustained.
- Economic reforms of the investment climate, financial sector and skills and technology would complement labor market reforms to create more and better jobs in Turkey.