

**Opening Remarks for Turkey Labor Market Study**  
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**The World Bank**  
**Ankara, April 14, 2006**

Distinguished Ministers, Undersecretaries, Participants and Guests. Good morning.

It is my pleasure to welcome you to this presentation of the World Bank's Labor Market Study. I am particularly pleased to see the large turnout this morning, reflecting the importance which the subject of job creation has for Turkey today.

In the past several years, Turkey has made remarkable progress on the economic front by lowering inflation and interest rates, attracting record amounts of investment, moving ahead with a long stalled privatization program and having a growth rate over four years of close to 8% a year, which is one of the highest in the world. This progress did not occur by accident but as a result of conscious decisions by senior policy makers to embark on a growth oriented economic program, which has produced major benefits for Turkey and its citizens as well as improving the prospects for Turkey's entry into the EU. However, notwithstanding this phenomenal progress, growth in the economy has not yet produced a net increase in jobs to offset the number of young workers entering into the labor force or existing workers coming out of sectors like agriculture. The result is that the unemployment rate at the end of 2005 remained essentially the same as at the end of 2002, even though the economy grew substantially for four consecutive years and new jobs have been created in important sectors like industry, construction and services.

Why Turkey continues to grow economically but not in terms of adding enough new jobs is the subject of the World Bank's Labor Market Study being released and discussed here today. We shall discuss the main findings shortly but I would like to focus my remarks on the essential element of job creation. Like economic growth, job creation is not something that happens by accident but as a result of conscious decision making, both of government policy makers and employers and employees. Also like economic growth, jobs can be grown by activist yet prudent policies. A key challenge for Turkey will be what mix of policies will produce not only more jobs but better jobs – better in the sense of higher pay, higher skills and higher productivity.

Generating jobs in the economy will be important for many reasons. Recent opinion polls in Turkey show that unemployment is listed as the single most important problem facing the country today, by a margin of two to one over any other issue including inflation, education reform and terrorism. It is no secret that in Turkey, as in all other countries, people want jobs, more jobs, and better jobs with improved conditions and salaries. It is also no secret that alleviating concerns about the possibility of large numbers of unskilled or unemployed Turkish workers seeking work in Europe will greatly support Turkey's bid for EU membership. The employment rate – which represents the share of the working age population who have a job -- in the European Union is about 65% while at present in Turkey it is currently around 44%. However, even though the EU employment average is well ahead of Turkey, there is real concern in Europe that employment levels

in Europe still need to go up. The target employment rate for Europe has been set at 70 percent by 2010. To meet this same target with a still growing population, Turkey would have to generate about 14 million jobs by 2010. Of course that is not realistic in the labor market conditions of today in Turkey as under current trends of employment growth, only about 1.5 million net jobs would be created over the next five years. But can Turkey create more jobs in the short-term as well as over the next five to ten years? The answer is yes – if the right policy changes are made.

Jobs are created when the economy produces more and more goods and services – through economic growth. Economic growth is translated into jobs through the labor market, and a labor market that is not working well can hinder job creation. The functioning of the labor market and recommendations to improve it is the main subject of the Labor Market Study.

The Study argues that current labor market regulations in Turkey are not performing well in either of the two critical measures of a well-functioning labor market – job creation and worker protection. Much of the existing labor regulation was originally designed at a time of high state activity in the Turkish economy to ensure that workers have access to full time jobs, and that workers are not dismissed except in rare situations. Those days have passed however and been replaced by competitive markets in a globalized world. In other words, much of Turkey's current labor regulations were designed to protect jobs and not necessarily workers. The Study suggests that one consequence has been that labor regulations have actually limited job creation in the market economy now existing in Turkey. It turns out, however, that the regulations also do not protect workers very well – most workers do not receive the protection required by the laws, such as retraining and unemployment insurance –as they are forced by the rigid formal labor market to work in the informal sector where such protections are simply unavailable. The Study suggests a shift in emphasis – from protecting jobs to protecting workers – to encourage job creation while seeking to ensure that workers actually receive social protection. This also relates to other major difference between the Turkish labor market and those of Europe. I have already mentioned that only about 44% of all working age citizens of Turkey are working. However, among those who are working, less than half of them are working in the formal sector, with more than half working in the informal sector. What does this mean? It means half of existing workers in Turkey receive no social benefits or job protection, half of workers are in the less productive informal sector and only about 22% of the entire working age population of Turkey is funding the portion of the budget coming from personal income taxes and social security contributions. Further, while the proportion of men in Turkey who are in the labor force is equivalent to those in the EU, only about 25% of women participate in the labor force, which is about half of the rate in Europe. A startling figure is that there are more women in Turkey who do not work outside their own homes, even in agriculture, than there are formal sector workers in the entire economy. The number of people in Turkey who are not working in the formal labor sector thus represents a huge potential asset for the country if more of them and their employers can be persuaded to move into the formal labor market.

The Study also notes that without growth and structural changes in key areas, jobs cannot be created - irrespective of how well the labor market is functioning. Two companion World Bank reports, the Country Economic Memorandum, and the Education Sector Study, which were presented at similar events to this in March, found that while much progress has been made, reforms were needed in four broad areas: the investment climate, financial markets, labor markets, and what we might call the knowledge economy, including education reform and skills enhancement. We will spend a good deal of time talking about the labor market today, but I would like to take this opportunity to highlight the importance of the other three areas which we consider to be essential for a comprehensive job creation strategy.

First, the investment climate refers to the regulatory environment in which firms operate, and it is an area in which useful progress has been made. However, there are still areas of improvement that can help including such as the costs of registering or closing a business, reducing compliance burdens for small firms, changes to the tax regime, clarifying responsibilities of the Competition Authority and improving judicial procedures.

Second, improvements in the functioning of financial markets will improve the availability of financing for firms which will allow them to expand and hire workers. Lending to the private sector in Turkey is still small by international standards. Areas where improvement is needed include both residential and commercial mortgage regimes, better credit bureaus to allow banks to manage credit risks, a movable collateral regime to facilitate lending, expansion of the insurance sector and a better micro-finance framework that will target the smallest borrowers.

And the third area of focus in a comprehensive job-creation strategy would be on better education from the preschool level through universities and retraining in the work force. International tests suggest that the vast majority of Turkish students have performed at the lowest proficiency levels in basic competencies. Problem-solving capacities in math, reading and science remain well-below EU levels. Improving educational outcomes, enrollments and more equitable access to schools and higher education, and thus the skills of the work force of tomorrow, will help position Turkish labor to compete strongly in the global market place.

Taken together, we believe that such a package of reforms can generate more and better jobs in the economy. This goal is an attainable one for Turkey but one which can become a reality only if there is a partnership among the government, the private sector, employers and employees to translate the growth of today into the jobs of tomorrow. Turkey can have growth and more jobs and improve its chances of EU membership if there is a willingness of all these partners to tackle the employment challenge. It can be done and I am hopeful it will be done.

Thank you.

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