

## *Opening Remarks*

### *Informality: Causes, Consequences, Policies Swissôtel Ankara, April 20, 2010*

Deputy Prime Minister, Minister, Your Excellencies, Distinguished Guests:

*Informality is part of people's daily lives.* This is the first sentence of the report we are discussing today [*show report*]. Everywhere I have been in Turkey, from Van to Izmir, Antalya to Trabzon, whenever I have discussed this topic with people – mayors, business people, workers, young and old, men and women – it always strikes a chord. People know that informal employment is widespread, that for a number of reasons it is a problem, and that reducing informality and creating more good formal jobs is difficult. This report shows that it is possible to tackle informality, and that tackling informality can bring great benefits for Turkish workers, families, and firms.

So it is with great pleasure that I welcome you to this conference on informal employment in Turkey. We have investigated this subject together with our colleagues in the Revenue Administration and the Treasury. The results are summarized in this report, which is available in English and in Turkish. We have hard copies [*show report again*] and electronic copies [*show key drive*] here for you today, and the report is also on the internet.

The partnership on this task has been very strong. The Revenue Administration coordinates Turkey's efforts to formalize the economy. We have had an excellent collaboration. I would like to thank Minister Şimşek, Commissioner Mehmet Kilci, and Deputy Commissioner Mustafa Güneş for their close partnership, advice, and guidance throughout the work. I would also like to thank our partners in the Treasury under the leadership of Undersecretary Çanakçı, and our partners in the private sector, in particular TÜSIAD and Hüseyin Akın, with whom we have discussed findings and who have contributed substantively to the work. And of course Deputy Prime Minister Babacan for encouraging and supporting this joint work—from the very start.

Today we will discuss the potential gains to Turkey from formalizing its economy, especially its workforce. In these welcoming remarks, I would like briefly to put this work in the wider context of our partnership with the Government.

Formalization is first and foremost about jobs. Formal labor contracts bring joint benefits to firms *and* to workers.

First, workers become more productive, build firm specific skills, and earn more for themselves and for their employers.

Second, formalization can increase the participation of women in the workforce—which is crucially important in Turkey. The State Planning Organization and the World Bank recently prepared a new joint report on female labor force participation in Turkey. This report is also on your key drives [hold up key drive].

Third, formalization can protect vulnerable workers. Informal workers are vulnerable workers. Our work suggests that, when the global crisis affected Turkey last year, many of the economically most vulnerable households were those whose breadwinners were working informally. Incomes fall more easily for such workers. And social assistance often does not reach them. Only about one third of the informally employed receive health benefits under the Green Card system, for example. Increased access to social protection—at affordable levels—can therefore be one important benefit of formalization for workers.

For most employers, of course, informality means flexibility. Indeed, strict limits to flexible employment in Turkey today are one important reason contributing to informality.

How can both employers and workers gain from formalization? One way can be, *while* strengthening the protection of workers, for example with improved unemployment benefits, *at the same time* to increase employers' flexibility to create new jobs, including fixed-term and short-term jobs.

Informal employment is also closely related to taxation. Firms' decisions on whether to employ workers informally are closely linked with their decisions about how much revenue to declare to the authorities.

With informality, few people pay high taxes. This is both inefficient and unfair. Formalization means that more people will pay lower taxes. It will improve efficiency and fairness. When transactions in a society are formal, rather than informal, citizens share public benefits and burdens, they have a greater stake in government, and they receive better services and economic protection.

There is a deeper point here, one about the rule of law and respect for public institutions: as has been found in other countries, formalization is one way of increasing belief in and respect for a country's social institutions.

Turkey now faces the challenge of sustaining its earlier high growth rates in a new, more difficult, global environment. We are now collaborating with the State Planning Organization, the Central Bank and the Treasury to think about ways to increase national saving rates in Turkey, so economic growth can be financed to a greater degree domestically and can become less volatile and more stable.

Our preliminary work in this area suggests that female labor force participation and therefore also formalization may play an important role in increasing savings.

So you can see from these examples that formalization is in many ways at the center of many of Turkey's economic opportunities and challenges.

The picture on the front of the Informality Report evokes exclusion, separation, screening off, and the hidden nature of much of the work and many of the transactions that take place in Turkey today. To quote this report again in closing, Turkey has much to gain by bringing its vibrant economy out into the open.

Thank you!