



# Labour Market Challenges: Turkey

Conference Presentation

«Boosting the social dimension in the Western Balkans and Turkey»

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# Growth is high in Turkey

- 2017 third quarter GDP growth rate is 11.1 % over 2016 Q3.
- GDP contracted by 1.8 % in the third quarter of 2016 (base effect).
- Large fiscal stimulus package introduced in 2016:
- Consumption tax break in consumer durables and furniture;
- and a “Credit Guarantee Fund, KGF” for SMEs as loan guarantees. The injection to the economy totalled TL 200 billion (EUR 44.15 billion).
- Predicted 2017 GDP growth rate is 6.5 %.



But there are employment challenges (in bold face)

- Labour force (September 2017): 32.2 million
- Labour force participation rate (LFPR): 53.6 %
- Male LFPR: 73.1 %; **female LFPR: 34.5 %**
- Employment: 28.8 million; **Employment rate: 47.9 %**
- **Agriculture 20.3 %**, industry 18.8 %, construction 7.7 %, services 53.1 %
- **Unregistered work: 34.8 % (29.7 % for men and 46.3 % for women)**  
In the non-agricultural sector: 22 %



# Unemployment and NEET rates are not good

- Number of unemployed: 3.4 million; Unemployment rate: 10.6 %
- Male unemployment rate: 8.5 %; **female unemployment rate: 14.9 %**
- **Non-agricultural unemployment rate: 12.8 %**
- **Youth unemployment rate: 20%**; Young males: 16.4%; **young females 26.7%**
- **Long-term unemployed: 22.7 %**; Male: 19 %; **female 27.1 %**
- **NEETs: 16.4 %**; young men: 16.2 %; **young women: 36 %**



## And relative poverty is a problem

- **SILC (2016): Top 20 % of households received 47.2 % of total income**
- **The lowest quintile received 6.2 % of (equivalised) household income**
- P80/P20 ratio is 7.7; Gini coefficient is 0.404
- Average annual household disposable income: 19,139 TL (EUR 5713 at 3.35 TL/EUR)
- **Poverty at 50 % of median equivalised household income: 14.3 %**
- **Defining the poverty line at 60 %: 21.2 % of households**
- **Only 1.7 % of college graduates were poor**



# Outlook for poverty and social exclusion

Technical Assistance for Increasing the Institutional Capacity of  
the Ministry of Family and Social Policies in the Field of Social Inclusion Policies Project

**Simulations** about inequality and poverty indexes have been carried out using dynamic microsimulation, based on SILC 2015 microdata, **into 2040 (Fondazione Brodolini researchers):**

- The households headed by a female (often, single member households) are more at risk of relative poverty than the households where the main income earner is a male: **the gap in poverty risks by gender of the household head is never below 10 percentage points**
- and is rather stable over the simulation period.
- **Poverty risks are strictly related to the household head's education that is a main driver of his /her earnings.** Poverty risks are much higher for households headed by at most lower secondary individuals.



# Outlook for poverty and social exclusion

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- **Relative poverty risks** decline over time for working age households,
- while they **increase for households headed by individuals aged over 65.**
- Concerning individual earnings, **gaps by gender, education and age** - women, the low skilled, and the older workers – **are large and remain rather stable** over the simulation period!



## An effective policy tool for poverty reduction: Increase unemployment benefit duration and levels

- We considered scenarios to reduce income inequality and poverty:
- an **increase in Government spending**,  
a **more generous unemployment benefit scheme**,  
a **decrease in the share of undeclared workers**,  
and an **increase in total factor productivity (TFP) related to an Industry 4.0 strategy** pursued by the Government.
- In all “policy change” scenarios, relative poverty risks for the least advantaged groups fall.





## An effective policy tool for poverty reduction: Increase unemployment benefit duration and levels

- **The highest reduction is associated with the increased unemployment benefit scheme that devotes resources to the most vulnerable individuals and households.**
- It makes perfect sense: It is hard to qualify for unemployment benefits in Turkey; the level and duration are low compared to European welfare states.
- Especially in the poorer households, minors' education is usually a first casualty.
- This is either through a lack of resources for a good school or due to the necessity of the child to drop out and work informally as a child labourer.
- Providing higher unemployment compensation for longer would keep the minors in school. We know that this will definitely help reduce long-term poverty!



## We need quality education and skills upgrading: Industry 4.0

- PISA (2016): Turkey ranked 52<sup>nd</sup> in science, 49<sup>th</sup> in mathematics, and 50<sup>th</sup> in reading skills among 70 countries.
- One major theme in the latest strategic development plan preparation meetings (Ministry of Development), regarding employment, was Digitalization (Industry 4.0).
- Participants tended to reduce the issue to teaching of computer coding in schools and training courses by the Employment Agency.
- This is a simplistic approach that will not work. Coding for what?



# Questions on education, skills, and Industry 4.0:

Given the coming digital transformation of the workplace and occupations, some policy discussion questions are:

- **Which sectors will be growing? What will be their skill needs (Industry 2.0, 3.0, or 4.0)?**
- **How do we design the education system for future employability of the youth?**
- **Could we implement this design with the existing teachers?**



# Questions on employment:

Youth employment is a problem area. Aging is another problem area. We need to postpone retirement, lest we also stress the pension systems:

- **Can we design employment incentives for the young, while also keeping older workers employed?**

Not trivial questions, but they are generally ignored:

- **One invests in productivity enhancing technologies (Industry 4.0), one can produce with fewer workers (aging); what happens to youth unemployment? Who gets or keeps the job?**
- **Who will be better able to adapt to digitalization of the workplace, the young or the old? In which occupations? (Think 3D printing and manufacturing.)**



# In conclusion:

- Regardless of how you have answered the previous questions
- Social transfers and social welfare expenditures will have to rise in the future.
- If your answers favour the young, unemployment benefit and social transfer expenditures for the old will rise.
- If your answers favour those who are currently employed, you will have to design and implement benefit, incentive, training, and transfer programs for the youth.
- And I haven't even talked about the 3.5 million Syrians, 700 thousand of whom are unregistered workers in the Turkish informal labour market.