

Labour Market Challenges: Turkey

Conference Presentation «Boosting the social dimension in the Western Balkans and Turkey» Hakan Ercan Middle East Technical University, Ankara



- 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

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

- 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.



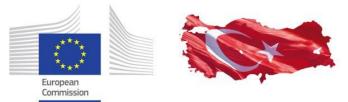
An effective policy tool for poverty reduction: Increase unemployment benefit duration and levels

- 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 52nd in science, 49th in mathematics, and 50th 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.