

# TURKEY'S RESPONSE TO THE GLOBAL CRISIS: An Initial Assessment of the Effects of Fiscal Stimulus Measures on Employment and Labor Markets

## *Introduction: Rapid growth, faltering employment performance*

During the 2000s, despite rapid growth and a significant surge in exports, Turkish economy could not generate jobs at the desired rate. Open unemployment rate which stood at 6.5% in 2000 has jumped to 10.3% in 2002 in the aftermath of the February 2001 financial crisis. Since then the Turkish gross domestic product has increased by a cumulative 30% in real terms. Yet, employment generation capacity of this rapid growth had been dismal, and the open unemployment rate could not be brought down below 9% by the end-of 2007, just before the eruption of the current global economic crisis. Despite rapid expansion of production in many sectors, civilian employment increased sluggishly at best, and labor participation remained below its levels as observed during the 1990s. Currently (as of September 2009) open unemployment rate stands at 13.4%, one of the highest among the OECD countries.

Table 1 tabulates pertinent data on the Turkish labor market.

**Developments in the Turkish Labor Market (1,000 persons)**

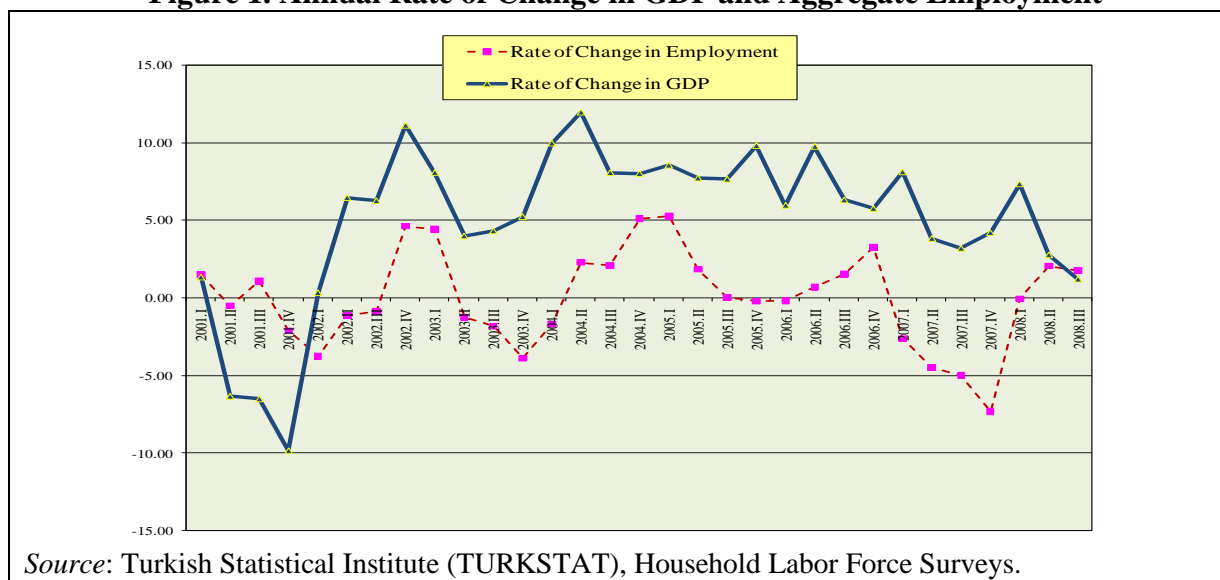
	New Series						
	2000	2004	2006	2006	2007	2008	2009 September
15+ Age Population	46,209	49,906	51,668	48,485	49,994	50,772	51,862
Civilian Labor Force	23,078	24,289	24,776	23,250	23,114	23,805	25,416
Civilian Employment	21,581	21,791	22,330	20,954	20,738	21,194	22,020
Unemployed (Open)	1,497	2,498	2,446	2,295	2,376	2,611	3,396
Open Unemployment Ratio (%)	6.5	10.3	9.9	9.9	10.3	11.0	13.4
Disguised Unemployment <sup>a</sup>	1,139	1,223	2,087	1,959	1,805	1,850	1,850
Total Unemployment Ratio <sup>b</sup> (%)	10.9	14.6	16.9	16.9	16.8	17.4	19.2
<i>Civilian Employment by Sectors</i>							
Agriculture	7,769	7,400	6,088	5,713	4,867	5,016	5,754
Industry	3,810	3,987	4,407	4,048	4,314	4,441	4,221
Construction	1,364	1,030	1,267	1,189	1,231	1,241	1,353
Services	8,637	9,374	10,569	9,918	10,327	10,495	10,691
Source: Turkish Statistical Institute (TURKSTAT), Household Labor Force Surveys.							
a. Persons not looking for a job yet ready to work if offered a job: (i) Seeking employment and ready to work within 15 days, and yet did not use any of the job search channels in the last 3 months; plus (ii) discouraged workers.							
b. Total (open + disguised) unemployment accounting for the persons "not in labor force".							

The civilian labor force (ages 15+) is observed to reach 51.8 million people as of September, 2009. Total employment reached to 22.021 million. The number of *openly* unemployed people is reportedly 3.4 million, bringing the open unemployment ratio to 13.4%. An important group of people not covered in those numbers is the group of “discouraged” workers. As distinguished in the TURKSTAT surveys, this group is identified as: “Persons not looking for a job yet ready to work if offered a job: (i) Seeking employment and ready to work within 15 days, and yet did not use any of the job search channels in the last 3 months; plus (ii) discouraged workers”. This group of people is not counted as part of the civilian labor force and is regarded out of the openly unemployed. This number had been consistently rising over the course of 2000s and, according to the Survey results in September 2009, had reached to 1.85 million. If we add the TURKSTAT data on the *disguised unemployment* defined as such, the excess labor supply (unemployed + disguised) is observed to reach 19.2% of the labor force.

Open unemployment is acute among the youth. As of September 2009 youth unemployment (ages 15-24) stands at 24.5%; in the urban centers this number reaches to 27.3%. Labor participation ratio is also significantly low with a current average of 46.5%. This ratio is especially low among urban women with 22.8%.

Yet, the most striking observation on the Turkish labor markets over the post-2001 crisis era had been the sluggishly slow performance of employment generation capacity of the economy. Despite the very rapid growth performance across industry and services, employment growth was meager. To make this assessment clearer we plot the quarterly growth rates in real gross domestic product in Figure 1, and contrast the *y-o-y* annualized rates of change in labor employment. In order to make comparisons meaningful, the changes in labor employment is calculated relative to the same quarter of the previous year.

**Figure 1. Annual Rate of Change in GDP and Aggregate Employment**



The figure discloses that over 27 quarters of data points between 2002.Q1 and 2008.QIII, the average rate of growth in real GDP had been 6.5%. In contrast the rate of change of

employment averaged *only 0.8%* over the same period. Over the twenty seven quarters portrayed in the figure, GDP growth was *positive* in all periods. Yet, labor employment growth was *negative* in 14 of those 27 quarters. Another reflection of this phenomenon was the significantly low *elasticity of employment*; that is percentage gain in employment due to percentage changes in GDP growth had been relatively low (see table 2). Compared over broad period averages, employment generation capacity of the domestic economy seems to have been relatively poor in the post-2000s. There had been labor shedding in agriculture, while the non-agricultural sectors had significantly lower employment elasticities. All of these phenomena had been succinctly phrased as *jobless growth* for Turkey. (see, *e.g.* Telli, Voyvoda, Yeldan, 2006; Taymaz, 2007).

**Table 2**  
**Output Elasticities of Employment By Sectors (Annual averages)**

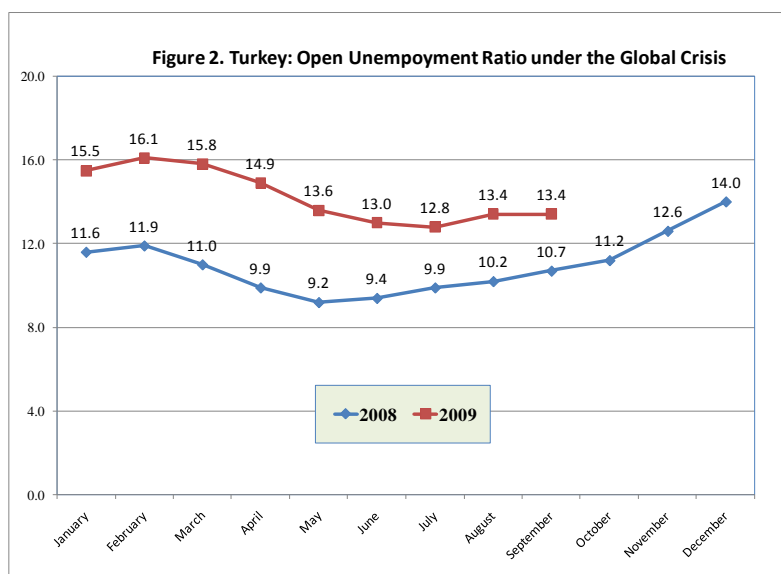
	1989-2008	1989-2000	2002-2008
Total	0.25	0.39	0.14
Agriculture	-1.19	-0.42	-1.66
Non-Agricultural Sectors	0.54	0.68	0.48
Industry	0.43	0.49	0.39
Services	0.55	0.76	0.47

Source: Author's calculations based on Turkstat and SPO data

The sectoral breakdown of the post-crisis employment patterns reveals, in fact, a massive de-population in the rural economy. Agricultural employment has been reduced by 3,073 thousand workers from 2001 to 2008. Against this fall, there had been a total increase of employment in the services sectors by 1.944 thousand, and by only 667 thousand in industry. Simultaneous to this was the overall expansion of the aggregate labor supply from 47.158 million in 2001 to 50.772 million in 2008, adding to the acuteness of the joblessness problem. Thus, it is clear that the structure of the work force has been changing with population moving out of rural areas into urban areas, and yet this shift out of agriculture has not been converted into an expansion of the industrial labor force, and got translated mostly as “*marginalized/informal labor*” into services. There is ample evidence that agricultural labor surplus has been moving into small scale, family-owned services with low-quality, low-pay, and insecure “jobs”, intensifying the informalization of the urban labor markets (see also, Ercan and Tansel, 2006; Taymaz and Ozler, 2005; Agénor *et.al*, 2007).

***The global crisis hit mostly the labor markets***

The effects of the global crisis on the Turkish economy were increasingly felt starting the third quarter of 2008. As the growth rate in GDP decelerated to 0.9% as an average for the whole of 2008, it registered a decline of 6.8% over the first half of 2009. The burden of adjustment increasingly fell on the real economy, in particular the industrial sectors and the labor market. Industrial output fell by 24% by the January of 2009 and could not reach to the pre-crisis levels as of to-date. Open unemployment rate rose secularly towards the second half of 2008 and jumped to a new plateau in 2009. (Figure 2).



Source: TURKSTAT, Household Labor Surveys.

### ***Stimulus packages to foster aggregate demand and employment***

The government had enacted a series of stimulus packages to combat aggravating unemployment and output losses. Turkish response to the global crisis has mainly relied on tax reductions and subsidies to promote investment and employment. It is estimated that as a ratio to the GDP, the fiscal costs of the overall stimulus package were on the order of 0.91% in 2008, 3.15% in 2009, and 1.56% in 2010. (See summary table 3)

Pertaining to the labor markets, the first package was announced in October 2008 (came to be known as the *first employment package*, article code 5763). With the October package the government has taken the following measures:

- Five percent reduction in social security premiums,
- Further reductions were granted in the social security premiums for the young (18-29 age group) and women workers,
- Payments for the unemployed were increased by 11%
- Increased subsidies were granted out of the Treasury for the disabled and impaired,
- Administrative requirements of the private enterprises such as to provide sport facilities, infirmary, and to employ convicts were lifted.

These measures were complemented in February 2009 (article code 5838) by a further set where the short term employment programme (reduced working time fund) was extended from 3 to 6 months and the payments were increased by 50%.

In May 2009, a new package was enacted. With this package, the employers' share of the social security premiums of any extra employment following April 2009 were to be covered from the unemployment insurance fund. Furthermore, to support investment costs of the Southern Anatolia Project, a pre-determined sum would be allocated to the Treasury from the unemployment insurance funds.

**Table 3**

<b>Measures Related to Labor Markets and Their Estimated Fiscal Costs</b>				
	<b>Estimated Fiscal Cost (Million TL)</b>			
	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2008-2010</b>
In order to reduce the labor costs on employers 5 percentage point reduction on employers' social security contributions (over a total of 19.5%) was granted and taken over by the Treasury (part of October 2008 package)		3,358	3,959	7,317
Active Employment Programs (ISKUR's job training, apprenticeship, etc.)		345	495	840
Social security contributions for young and female workers are reduced ( May 2008)		208	176	384
Employers' share of insurance premium for disabled workres will be subsidized by the Treasury		66	84	150
Unemployment insurance payments will be calculated in terms of <i>gross</i> , instead of net income, thereby the amount will be increased by 11%	40	172	113	285
The amount of reduced working time fund is increased by 50% and its duration is increased from 3 to 6 months.		143	229	372
The temporary public employment programme through infrastructure investment		155		155
<b>Total costs of employment related measures</b>	<b>40</b>	<b>4,447</b>	<b>5,056</b>	<b>9,503</b>
<b>As a ratio to GDP (%)</b>	<b>0.00</b>	<b>0.47</b>	<b>0.49</b>	<b>..</b>
General Total including other measures	8,645	29,789	16,004	54,438
Total Stimulus Measures as a ratio to GDP (%)	0.91	3.15	1.56	..
<i>Memo:</i> GDP estimates of the SPO-MTEP	950,000.1	947,000.0	1,029,000.0	..
Sources: Author's calculations based on State Planning Organization, <i>Pre-accession Economic Program</i> Table 3.1 (for full text see <a href="http://www.spo.gov.tr">www.spo.gov.tr</a> ); ISKUR Bulletin, 2009, No 41; ISKUR (2009) <i>Report to the Vth General Assembly; Undersecretariat of Treasury.</i>				

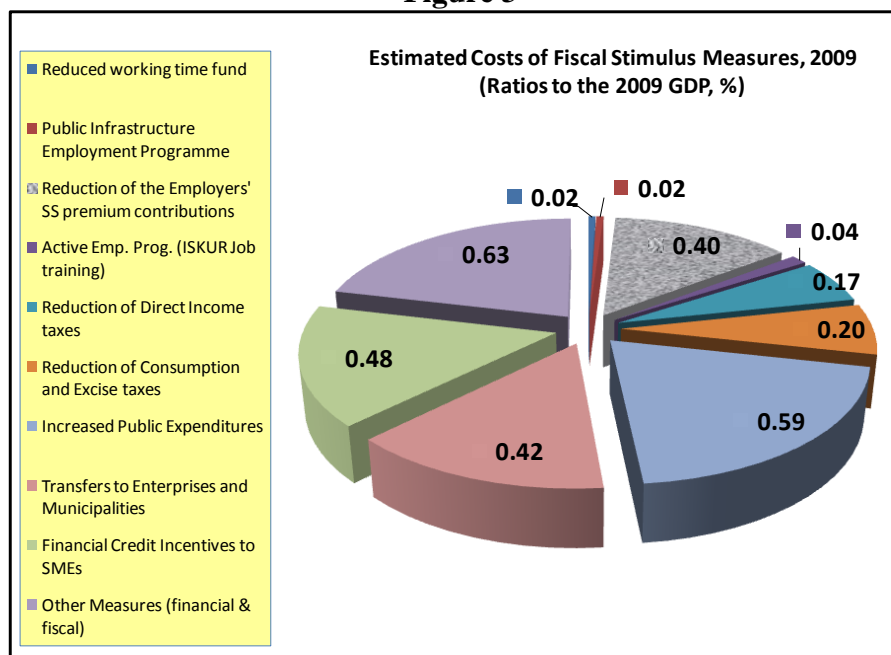
The temporary public employment programme through public infrastructure investment came into effect in July, 2009. The package was initially announced to command a total of 1 billion Turkish liras (646 million USD) and was launched in June with two major components: one was direct creation of temporary public employment (renovating schools and hospitals, refurbishing public parks, etc.) and the other was support for vocational schools,

apprenticeship schemes, and job training with a view to boost employment. The program was initially announced as a uniform package of these two components; however, its practical application has taken rather two independent programs loosely connected to each other, with the job-training activities gaining more attention.

A further element of the package addressed the exporter SMEs. The government offered credit with no interest to these enterprises and gave them the possibility to pay back their debt in 2 years instead of 1 year. Other packages included economic measures to stimulate demand and prevent lay-offs. One of these measures was a cut in consumer and other forms of excise taxes from 18% to 8% in the automotive sector, electronics, and household appliances until the end of September 2009.

Figure 3 brings all these components together. The figure displays the estimated costs of the fiscal stimulus measures as a ratio to the GDP (estimates for 2009). The *active* employment programs which consist mainly of job-training, vocational courses, and apprenticeship claimed 0.04% of the 2009 estimated GDP. Among the *passive* employment generating programs, the most visible one has been the reduction of the employers' social security premiums; while the reduced working time fund and the PIEP had an aggregate cost of 0.04% of the estimated 2009 GDP.

**Figure 3**



Source: Calculations based on Table 3

Given the comparative size of the stimulus package, and policy relevance, two measures are identified for more intensive scrutiny: reduced working time fund disbursements, and the public infrastructure employment and job-training programme.

#### ***Reduced Working Time Fund (RWTF)***

The reduced working time fund (RWTF) had been the major instrument to boost employment under the crisis conditions of 2009. The programme was initiated initially to compensate those workers employed in those enterprises where, due either to crisis or other adverse

conditions, production and employment hours were reduced, or even completely stopped. Given approval of the Ministry of Labor, those workers are granted payments from the RWT fund. In order for a worker to be granted compensation from the Fund, it is necessary that the employer's application is approved by the Ministry; and the employee ought to satisfy the general conditions for eligibility to obtain *unemployment insurance* (the employee should be employed at least for a total of 120 days uninterrupted, and should have paid insurance premiums for at least 600 days over the last three years).

RWT payments are granted in installments so as to compensate for the lost working hours over weekly periods. The daily payments for the eligible workers were set at the levels of unemployment insurance scheme. This amount is set at 40% of the daily average gross compensation of the worker over the last 4 months of his/her employment. There is a further cap on its aggregate value for those 16+ aged persons where the payment cannot exceed 80% of the gross legal minimum wages. Initially the RWT payments were granted for a maximum period of three months only. Starting February 2009, the payments were increased by 50% and the programme was extended up to six months.

**Table 4**

<b>Reduced Working Time Fund: Expenditures and Employment Gains</b>		
	<b>Number of Persons Engaged</b>	<b>Payments (Millions TL)</b>
2005	21	10.6
2006	217	64.4
2007	40	22.1
2008	0	0.0
2009 (*)	168,503	143.4

(\*) As of 31 October 2009.  
 Note: Applications in 2008 had been granted starting 2009.  
 Source: ISKUR Bulletins, ISKUR Vth General Assembly Report, November 2009, Ankara.

The program had a very weak start back in 2005 when it was first initiated. In 2005 only 21 employees were granted a total 10,567 TL (8,000\$). In 2007, 40 workers were eligible to the program and received a total of 22,051 TL (18,000\$). Applications have surmounted starting March of 2009 and accelerated to a peak of 82,439 persons in June. As of 2009 October, a total of 168,508 persons from 3,033 enterprises were being covered under the programme with a total disbursement of 143.4 millions TL (approx 100m \$).

**Figure 4**

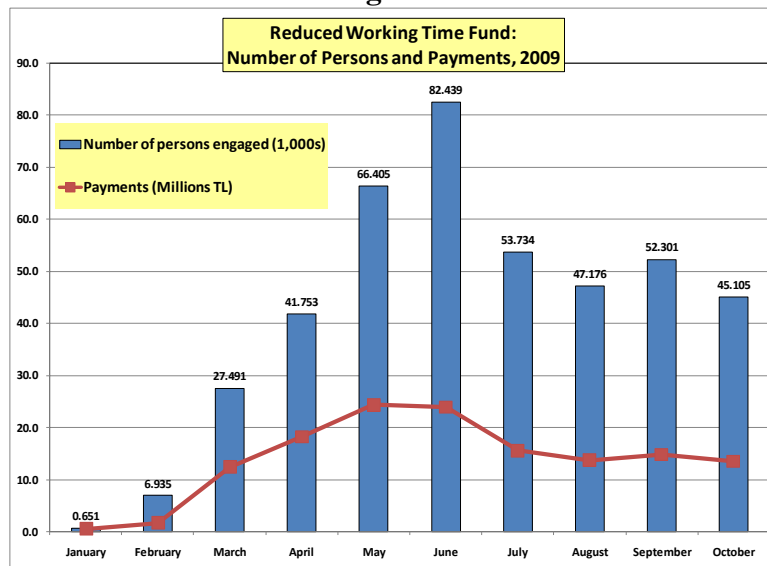


Table 5 further documents the position of the applicants and approvals over the post-October 2008 crisis-era.

**Table 5**

Reduced Working Time Fund: Selected Indicators				
	Number of Applications		Number of Approvals	
	Enterprises	Persons Engaged	Enterprises	Persons Engaged
November, 08	33	8,627	19	6,451
December, 08	271	31,633	162	19,939
January, 09	384	37,767	250	26,273
February, 09	678	49,388	385	33,347
March, 09	1,345	68,227	753	44,412
April, 09	666	23,177	351	13,273
May, 09	331	13,725	208	8,496
June, 09	244	10,809	147	7,289
July, 09	292	28,162	226	25,353
August, 09	277	21,575	229	19,900
September, 09	358	21,283	276	15,876
October, 09	176	14,252	96	6,487
November, 09 (*)	33	2,013	17	958
<b>Total</b>	<b>5,088</b>	<b>330,638</b>	<b>3,119</b>	<b>228,054</b>

(\*) As of November 15, 2009  
Sources: ISKUR Bulletins, ISKUR Vth General Assembly Report, November 2009, Ankara.

**Public Infrastructure Employment Programme (PIEP)**

The public infrastructure employment programme (PIEP) was initiated as an additional component of *active employment programs* in July of 2009. It was designed to target those employees that were threatened by economic crises, or displacement due to privatization,

economic re-structuring, or natural disasters. The program aims at providing short term employment along with training and apprenticeship services in exchange for a public-related work or service. In cases of excess demand participants are selected by lottery, and are paid the legal minimum wage. Their social security premiums are also covered within the programme. The programme had an initial funding from the *unemployment insurance fund* of an aggregate sum of 250 million TL (approx 165m \$) for 2009. This sum was further supplemented in July by a provision equaling to 50% of the aggregate public contribution to the unemployment insurance fund. This brought the total assets of the fund to 511 million TL (approx 370m \$).

In order to get approval for participating to the programme, the following criteria are requested:

- Be an unemployed person, registered formally to the Turkish Employment Agency (ISKUR)
- Be at least of 18 years of age
- The person should not have participated to previous PIEPs
- The person should not be receiving any retirement dependency, or orphanage payments
- The person should not be receiving any other public income under any comparable program

The benefit period is initially set at 6 months with no proviso for further extension. The programme meets the following expenditures from its funds:

- Total wage costs, based on 16+ persons' gross salary income engaged in industrial sectors
- Administrative costs, based on a maximum of 10% of total labor wage costs, pertaining to costs of equipment needed for administration of the program
- Profits, based on a maximum of 10% of total labor wage costs pertaining to accounting and similar services.

The program had been operational in 2009 in 81 provinces. According to ISKUR reports, the program has initiated a total of 1,595 contracts covering a total of 46,146 employees (of which 33,970 were males, and 13,015 were females). Total costs of these programs amounted 151.5 million TL (approx 100m \$). In addition, under the Southern Anatolian Project-II provisions a total 839 persons have benefited from 14 programs with a total disbursement of 3.7 million TL.

Further services rendered by the PIEP were training, apprenticeship and other types of labor education. ISKUR reports indicate that since July a total of approximately 44,900 persons were engaged in such training programs.

Comprehensive as it is, a major deficiency of the program is voiced over its short term structure, and the rather low employment gains thus far. A major shortcoming of the package was that these jobs were actually created for a maximum of 6 months only, and lacked formal channels for further follow-up towards formal employment.

## Other Employment-Generating Programs

ISKUR's *active* employment programmes mainly consisted of vocational courses, job-training, apprenticeships, and guidance towards job applications such as proper resume writing, etc. ISKUR had been granted a total of 511 and 495 millions TL over 2009 and 2010, respectively, for designing such programmes. It is estimated that over 2009-2010, 200 thousand persons will be benefiting from vocational courses; 120 thousands from public infrastructure employment programmes; 100 thousands from traineeship programmes; and 10 thousands from the self-entrepreneurship programmes. This brings the program total to 430 thousand persons over the course of two years.

**Table 6**

Active Employment Programmes by ISKUR							
Program	2007		2008		2009 (*)		Total Funds Allocated (Million TL)
	No of programs	No of Participants	No of programs	No of Participants	No of programs	No of Participants	
Courses					6,522	13,926	198.6
PIEP					1,499	44,893	145.2
Apprenticeship					279	617	1.2
<b>TOTAL</b>	<b>1,325</b>	<b>32,691</b>	<b>1,888</b>	<b>32,206</b>	<b>8,300</b>	<b>184,586</b>	<b>345.0</b>

Source: ISKUR Vth General Assembly Report, November 2009, Ankara.  
 (\*) As of October 2009

As of October 2009 a total of 184,586 persons are reported to benefit from the active employment programmes designed by ISKUR, with a total expenditure of 345 million TL (see Table 6).

Among the "*passive*" employment programmes, one of the most visible designs was the *wage guarantee fund (WGF)*. It was initially established as part of the Labor Code No. 4857, article 33. In May 2008, the fund was annexed to the unemployment insurance code No 4447. Its main aim was to protect those employees who had been adversely affected from their employers' declaration of bankruptcy and/or revelation of inability to pay. Under those conditions the *fund* meets up to three months of unpaid wages of the affected workers. To be eligible for the *fund*, the employee has to be continuously employed by the firm a minimum of one year before the declaration of inability to pay.

Since August 2003, 1% of the employers' share of unemployment insurance fund contributions was allocated to the WGF. Total assets of the *fund* reached to 104.4 million TL as of September 2009. It has disbursed a total sum of 1.1 million TL for 827 workers in 2008; and a total of 19.8 million TL for 10,463 workers in the first nine months of 2009.

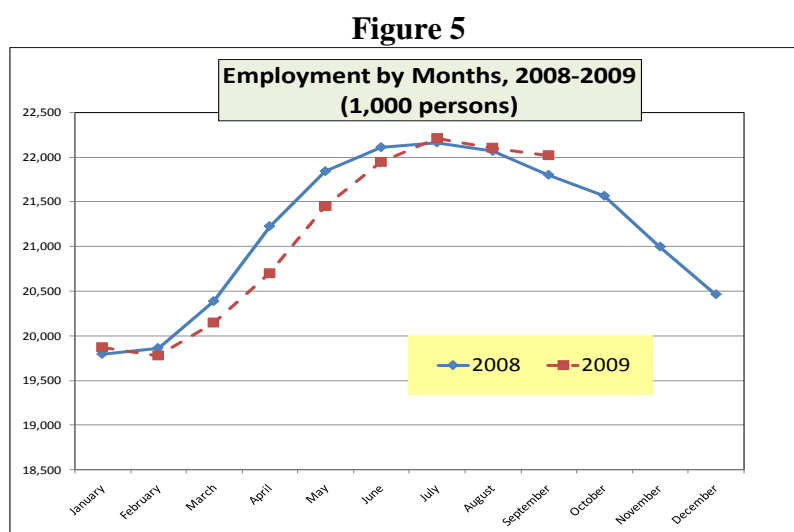
Another important *passive* measure was the reduction of employers' social security premium payments by five percentage points. The measure was initially drafted in May 2008 and was put into effect in October of the same year. It is estimated that the programme had cost savings of at least 32TL *per worker, per month* from October 2008 to January 2009 and 33.5

TL since then.<sup>1</sup> SPO estimates that total cost of this program will reach to 3,358 million TL (2,200 million \$) or to about 0.40% of the 2009 GDP estimate.

### ***Taking stock: an overall assessment***

Turkish labor employment performance under conditions of the global crisis had been disappointing. With a stagnant unemployment rate hovering around 13.5%, Turkish labor markets were forced to bear the major brunt of adjustments to the crisis conditions. Returns to the stimulus packages were delayed, and sluggish at best.

Data reveal that employment levels had recovered by July of 2009, and by September (the latest available data) employment level exceeds the comparable *y-o-y* figure by a total of 218 thousand persons (Figure 5). However, the composition of such employment suggests that it is mostly centered around informal/small scale services, rather than decent paying, high quality productive jobs. Given the sluggish nature of recovery across the global economy, Turkish employment gains thus far look fragile at best.



Source: TURKSTAT, Household Labor Surveys.

These observations were resonated at a speech by the Labor Minister, Mr. Ömer Dinçer at a conference in October 2009<sup>2</sup>:

*“We have introduced two types of stimulus measures based on our observations and assessments of the structural dimensions of unemployment and the causes of the global crisis on employment. One of the most critical points was the argument that not sufficient employment could have been generated due to the high costs of state-imposed labor taxes and premiums. Given the generally high burden of social security taxes, it was argued that Turkish industry had been suffering from high costs and lost competitive power in the global markets. In response, we introduced a reduction of employers’ share of social security premiums by 5*

<sup>1</sup> Based on the legal *minimum wage* structure that pertained over the period. Employers’ premium burden had been effectively reduced from 19.5% to 14.5% starting October 2008.

<sup>2</sup> Opening speech by Mr Dinçer at the *Eleventh Labor Economics and Industrial Relations Conference* that was organized jointly by the Marmara University and TURK-IS, Istanbul.

percent. Total fiscal costs of this measure amounts to around 4 billion TL for the government, and yet, unfortunately, what we had been observing is the following: It did not create an effect to increase employment and we realized the errors of our initial judgments. Reductions in the social security premiums had not played a role in increasing employment”.

***An International comparison reveals that the size of the Turkish fiscal stimuli had been rather low***

An overall comparison of the aggregate level of fiscal stimuli across Turkey and other G20 emerging market economies reveal that the size of the Turkish packages had been relatively small. Part of this problem stems from the fact that the Turkish fiscal balances were relatively more fragile at the onset of the crisis. Thus the government seems to have been severely constrained and had relatively less room for maneuver towards intervention.

**Table 7**

**G-20 Countries: Fiscal Expansion as % of GDP**

	2009			2010		
	of which			of which		
	overall balance	crisis related discretionary measures	other factors	overall balance	crisis related discretionary measures	other factors
GDP weighted average	-5.5	-2.0	-3.5	-5.5	-1.6	-3.8
Advanced G-20	-5.9	-1.9	-4.0	-6.2	-1.6	-4.5
UK	-8.9	-1.6	-7.4	-10.6	0.0	-10.7
USA	-5.6	-2.0	-3.6	-5.6	-1.8	-3.9
Emerging Market G-20	-5.0	-2.2	-2.8	-4.4	-1.6	-2.8
Argentina	-1.1	-1.6	0.4	0.7	0.0	0.7
Brasil	-0.7	-0.6	0.0	1.2	-0.6	1.8
Korea	-6.7	-3.6	-3.0	-7.8	-4.7	-3.1
Mexico	-2.8	-1.5	-1.0	-2.6	-1.0	-1.6
<b>Turkey</b>	<b>-3.7</b>	<b>-0.8</b>	<b>-2.9</b>	<b>-3.3</b>	<b>-0.3</b>	<b>-3.0</b>
Weighted average incl financial support	-7.0	-2.0	-4.9	-5.8	-1.6	-4.2

Figures reflect the budgetary cost of crisis-related discretionary measures in each year compared to 2007, based on measures announced through mid-July. They do not include (i) acquisition of assets (including financial sector support) or (ii) measures that were planned before the crisis.

Source: IMF Staff Position Note 30 July 2009, SPN/09/21

A comparison of the Turkish fiscal stimuli as estimated by the IMF staff reveals that Turkish fiscal stimulus measures had fared significantly dismal as compared to the global average of the emerging market economies. Turkey had relatively high fiscal deficits, where the sources of employment-generating fiscal measures had been significantly at the low end.

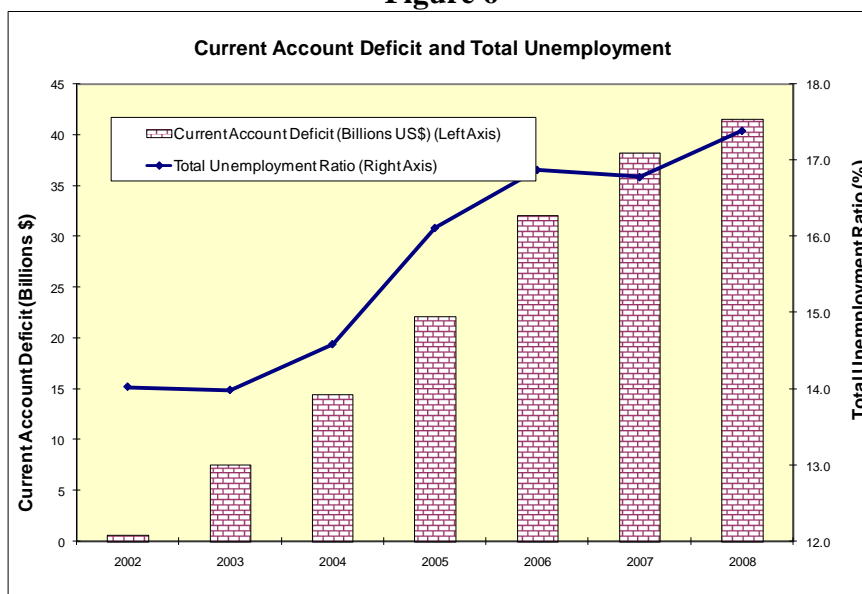
***Outlook and Challenges***

To be certain, the effectiveness of the labor promoting policy measures cannot be separated from the overall macroeconomic environment the domestic economy had been situated in, and none of these outcomes were of course independent from the overall macro performance of the Turkish economy. Unfortunately, the character of macroeconomic policies that were effective in Turkey following the 2001 crisis had generally been quite unfriendly for employment generation.

A major distinct feature of the Turkish economic scene in the post-2001 crisis era was its relatively high interest rates and high costs of credit. Operating under an environment of global financial expansion, this fact has led to a rapid expansion of foreign capital inflows, especially in the form of short term speculative “hot” finance. The underlying speculative nature of such flows was a witness to the fact that they were not necessarily part of “green field investments” that could expand labor demand by creating new jobs and bringing new advanced technologies. The “hot” character of speculative finance resulted in mainly currency *appreciation* and loss of competitiveness for the traditional Turkish exportables. “Modern” manufacturing sectors, on the other hand, gained from this appreciation. These were mostly sectors such automobiles, auto parts, and consumer durables. They typically display high import content, and the fact that imports got cheaper meant significant cost savings for such sectors. Thus, Turkish exports of automotives and consumer durables expanded during this period. However, being import dependent, such sectors displayed relatively low domestic value added content and had relatively low elasticities of labor employment. In what follows, the appreciation of the exchange rate led to a loss of competitiveness and stagnation of the labor intensive traditional Turkish exportables, such as textiles, clothing, small scale glass and ceramics. As labor employment demand dwindle in these sectors, the rising “modern” manufactures had low elasticities of labor and could not maintain high employment gains. The end result had been a rise of unemployment.

Figure 6 summarizes these assessments. The figure depicts *total* (open plus disguised) unemployment ratio as a line graph with respect to the right axis. This ratio is borrowed from data in Table 1 above. It is contrasted against the *current account deficit* displayed with respect to the left axis. The portrayal of the rising unemployment along with an expanding current account deficit is no surprise to students of development economics. As Turkey consumed more and more of value added produced *abroad*, and found it profitable with an appreciated currency financed by speculative financial inflows, external deficit widened and foreign debt accumulated. The costs of this *speculative-led growth*, however, were realized as loss in jobs, and decline of real wage income.

**Figure 6**

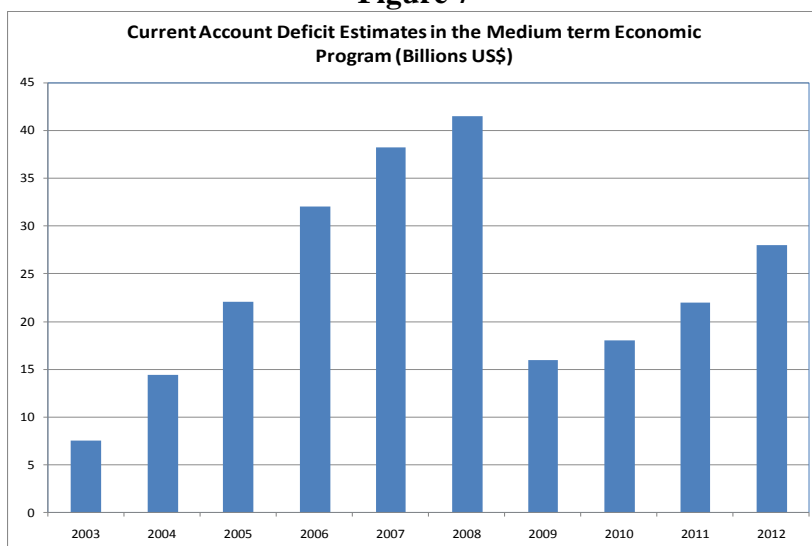


Source: CBRT.

On the other hand, the *medium term economic program* estimates reveal that the Turkish economy will likely to re-enter a new path of relatively large current account deficits over the years ahead (see Figure 7 below). The program forecasts that the GDP would expand at a rate of 3.5% in 2009 and at rates of 4.0% and 5.0% over 2011 and 2012, respectively. It is expected that the unemployment rate will be 14.6% in 2010 to recede to 13.3% by the end of 2012.

The MTE program's main assumptions seem to rely on the strategy of continued external deficit financing with an expected re-emergence of current account deficits as a ratio of GDP over 2011-2012. It is expected that as a ratio to the GDP, the external deficit will rise from 2.8% in 2010 to 3.9% in 2012 (Figure 7). Leaving the general question of whether such external deficits could at all be feasible in the period ahead, the desirability and appropriateness of this strategy for employment is desperately questionable given the historical experience of the early 2000s. Continued adherence to external deficit-led growth will, no doubt, result in undue strain in the labor markets.

**Figure 7**



Source: State Planning Organization (2009) *Medium Term Economic Program*, 2010-2012, July, Ankara

All of these observations underscore the argument that labor enhancing policies will not be successful unless complemented by an *employment-friendly* vision in the overall macroeconomic policy environment, to be designed and implemented not only at a domestic, but also at the *global* level.

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