

EXECUTIVE SUMMARY

Female labor force participation rate in Turkey is 24 percent in 2008. This rate puts Turkey in the same group as other Middle Eastern countries and far below Southern European and Latin American countries. When we focus on non-agricultural sectors, the female LFPR in Turkey is about one third of that in countries like Spain, Portugal and South Korea, but it is higher than that in Egypt, Morocco and Syria.

The female labor force participation rates have decreased from 36.2 percent to 24 percent in the period from 1989 to 2008 in Turkey. Urbanization during this period is the underlying cause. As the structural transformation from agriculture to non-agricultural sectors takes place, the share of employment in agriculture decreases.¹ Given that women are commonly employed in agriculture as unpaid family workers, the female labor force participation decreases along with this structural transformation.

On the other hand, education has a strong effect on labor force participation. Following an increase in compulsory years of education from 5 to 8 years in 1997, younger cohorts of women have been achieving higher education levels and this, in its turn, has increased female labor force participation rates.

The negative effects of the decrease in agricultural employment has been counterbalanced by the positive effects of the increase in education, and the two opposing forces cancelled each other out due to a composition effect. As the structural transformation slows down and the education levels increase, the fall in the female labor force participation also slowed down and even was reversed in the past couple of years. Female labor force participation rates increased from 23.3 to 24.5 percent in the period of 2004 to 2008. These dynamics indicate that this trend will continue into the future.

Not only increasing education levels but also wider employment opportunities (pull into labor force) play a role in increasing female employment. During a period of low growth from 1996 to 2003, female labor force participation rates increased by only 2.5 percent in 7 years, an annual increase of 0.36 percentage points. From 2004 to 2008, a period of high growth rates and high employment creation in non-agricultural sectors, it increased by 3.1 percent in 4 years, indicating an annual increase of 0.78 percentage points.

Compared to men, women face higher non-agricultural unemployment rates. Main reasons for higher female unemployment rates are low levels of education, high reservation wages, insufficient labor market experience, discrimination and relatively high labor costs of female workers for employers.

International comparisons show that female unemployment rate is much higher in Turkey than in other countries. Secondary education graduates have an unemployment rate of 21.1 percent, which is the highest rate among the countries considered. The same rate for college graduates is also high, 13.8 percent. High unemployment rates for better-educated women are the main component of high overall female unemployment rates in Turkey.

¹ Due to lack of non-agricultural opportunities in rural areas, migration flux into urban areas have been large.

In 2008, the labor force participation rate of 15 to 24 year-olds in Turkey is 37 percent. The male rate of 53.2 percent is very similar to other countries whereas the female rate for this age group is very low at 24.4 percent. Again, this rate is similar to rates in other Middle Eastern countries and very much below others.

From 2004 to 2008, the labor force participation rates of young men stagnated around 50 percent, but that of women increased steadily from 24 to 27 percent. Needless to say, this rise is again due to increasing schooling levels.

The share of young in total unemployed in Turkey is 33.7 percent and it is close to the average of other countries. This indicates that the policies aimed at reducing youth unemployment will affect about one third of the total unemployed. Upon entry into the labor market, young people face difficulties finding their first jobs and this may explain their large share in total unemployment.

Let us concentrate on the 20 to 29 year-old to abstract from schooling effects. The non-agricultural unemployment rate of this age group is above 35 percent. High youth unemployment rates are caused by skill mismatch, a labor market that protects jobs rather than workers and low levels of labor market experience, including experience in job search.

Moreover, the gender differences in overall unemployment rates are also observed in youth unemployment. The unemployment rate of young women is at 22 percent whereas the same rate is 16 percent for young men.

The share of long-term unemployment to total unemployment is 26.9 percent in Turkey. It is significantly smaller than those in countries like Italy, Portugal, Greece and the Czech Republic, and close to the OECD average. We can conclude that higher unemployment rates may not always cause longer unemployment spells in countries like Turkey.

When we look at the discouraged workers during the period of 2004 to 2008, we find unexpected results. Economic theory indicates that the share of discouraged workers should decline in periods of economic growth and high employment creation, and should increase in periods of economic contraction and increasing unemployment rates. In Turkey, we observe the opposite during this period. Given that the share of discouraged workers is very high at 4 percent, this anomaly needs to be explored further.

Orthopedically, visually, hearing, speech and mentally impaired population constitutes 2.9 percent of the total population in Turkey. According to the results of the Disability Survey conducted by TUIK in 2002, the labor force participation rate of the disabled is 22 percent. For males, it is above 30 percent, but for females it is down to 7 percent. This indicates that the disadvantaged status of the females in the labor market is much worse for disabled women. Similarly, the unemployment rate for disabled men is 15 percent and that for disabled women is 22 percent.

The disadvantaged groups form a large part of the labor market. Even though they are equal by law, these groups work in "bad jobs", are more likely to be informally employed, earn lower wages and face higher unemployment risk. Not participating or not being able to participate in the labor market, or being employed under unfavorable circumstances, they are more likely to be at risk of poverty, and are more likely to live on the margins of society, both economically and socially. Therefore we need to devise labor market policies specifically for the disadvantaged. Being female is a crosscutting problem in these groups as women face worse

conditions within each disadvantaged group. In this respect, gender mainstreaming is more important than treating women as a disadvantaged group.

Any strategy design aimed at the disadvantaged groups should take into account the following principles.

- Short and long term precautions, in other words, direct subsidies and structural reforms are integral.
- The cost of subsidies should be defrayed by the State and not by firms.
- Impact evaluation of subsidies and other policies should be completed systematically and policies should be revised accordingly.
- Policies to increase female labor force participation should focus on formal employment creation rather than substitution.
- Policy-makers should seek a balance between achieving gender equality via positive discrimination strategies and subsidizing female employment by substitution.
- Subsidies to employment creation should respect the flexicurity principle.

Theoretical literature and empirical findings on active labor market policies point to some important results for disadvantaged groups. We will focus on the results for females and youth.

The results concerning the youth are as follows.

- Help in job search, public services of matching and career counseling are the most cost-effective policies for the youth.
- The private sector and the public sector should cooperate to design vocational training programs that take into account the needs of the local and national labor markets.
- The target group of the program is an important part of any policy and should be well defined.
- Integrated rather than stand-alone programs are more effective.
- Widespread support from social partners and appropriation of policies by various ranks within the State render programs more effective.
- Research indicates that training of individuals who lack basic skills or who have very low levels of education are not efficient. The effectiveness of training programs increase with education levels.

The results concerning the women are as follows.

- Wage subsidies for women have positive effects on female employment and labor force participation.
- The success of training programs increases with education levels of women. Especially in countries with low levels of female participation, training programs coupled with wage subsidies and job guarantees increase female participation.
- Training programs with job guarantees decrease gender discrimination in the labor market.

ISKUR, the Turkish Employment Agency is currently in charge of active labor market policies. Some programs are targeted at the disadvantaged groups. However, the only measure of effectiveness of these programs is the number of unemployed who participate in these programs. Continuous and rigorous evaluations of active labor market policies are crucial for measuring effectiveness and for the design of future

programs. Therefore, data on training programs, including those for disadvantaged groups, should be collected regularly and shared with researchers. This will allow us to design more effective programs and use public resources more efficiently.

In this report, we use data provided by TUIK to conduct a simple descriptive study of the effect of tax subsidies targeted at women and the youth. The results indicate that the tax subsidies have increased the formal employment of women who are at least 30 years old. More specifically, women who have at most a secondary education degree, who work in manufacturing and in firms that have at least 25 workers, have benefited from these subsidies. The results are similar for women who are younger than 30. However, the effects of the tax subsidies on men are ambiguous. There seems to be a small relative increase in the formal employment of young men who do not have a secondary education degree.

To summarize, tax subsidies for employer's share of social security taxes have increased female formal employment in Turkey. Given that the effects are stronger on lower levels of education, we think that these subsidies have helped employers register their workers rather than create new employment. Note that these positive effects are observed during a global economic crisis, which has strong detrimental employment effects on disadvantaged groups like women and the youth. Therefore we can conclude that the positive effects may even be larger in the absence of an economic crisis. A similar subsidy may help employment of youth in the absence of a crisis as well. We propose that these subsidies become permanent.

Our policy recommendations for increasing female labor force participation are as follows.

- Labor legislation needs to be revised to provide a legal base for gender equality.
- A more flexible labor market is necessary for reconciling work and family life.
- Childcare subsidies are an important component of policies aimed at reconciling work and family life.
- The law proposal on paternal leave should be passed by the Parliament.
- The female labor force participation effects of all policies and regulations should be analyzed and necessary revisions should be implemented. This is especially important for social policies concerning transfers.
- Female entrepreneurship should be encouraged.

Note that about half of the youth has at most a secondary education degree. Given that formal education is more efficient than training, policy should focus on keeping youth within the formal education system as long as possible. In this respect, necessary skills should be incorporated into the formal education system.

Infrastructure investments necessary for employment of women and the disabled by firms should be subsidized. The penalties against firms that fail to fulfill their disabled quotas should be increased.

More generally, awareness of the labor market as well as the general public on the economic and social importance of labor force participation and employment of disadvantaged groups should be raised.