

ECONOMIC CONJUNCTURE and TREND IN INFORMAL EMPLOYMENT

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Executive Summary

In the last and third research brief studying informal employment, we examine the evolution of informal employment over time. In previous two research briefs, we elaborated its structural determinants and its regional distribution, respectively. We already know that relatively larger shares of manufacturing and services in the employment, higher average education level of labor and higher average firm size are associated with lower level of informal employment. Besides, there is a fluctuating trend in the decrease in informality in recent years due to economic growth and employment growth. While high growth rate and high level of employment accelerate the decline in informality, low growth rate and low level of employment might cease the improvement in informality. Although the economic growth is quite low during the last years of the period under study, decreasing informality during these years might be attributed to large growth in employment in the same period. Nevertheless, in last six months decelerated employment growth accompanied by low GDP growth obscures the direction of changes in informality.

Cyclical evolution of informality: 2005 (1) - 2014 (2)

In previous two Betam research brief studying informal employment (unregistered employment for social security institution, we examined various structural aspects of the decrease recorded in informal employment between 2005 and 2013.¹ To remind briefly, the percentage of workers without social security coverage in total employment decreased significantly. The potential factors behind this improvement are large expansion in wage earner employment and large amount of formal jobs created in recent years. On one hand, structural factors such as enlarged average firm size and increased average level of education and on the other hand, incentives for social security contributions and increased frequency of inspection lead the decrease in informal employment.

In this study, we want to examine whether the economic conjecture has an effect on the evolution of informal employment over time. When we analyze trends in seasonally adjusted series of total employment and regular or causal worker employment (wage earner hereafter) by using TurkStat Household Labor monthly statistics over the time span of 2005 (1) - 2014 (2), a non-monotonous

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¹ Gürsel S. and Durmaz M. (2014) "Informal employment decreased in last eight years", Research Brief No. 14/171, Bahçeşehir University Center for Social and Economic Research (BETAM).

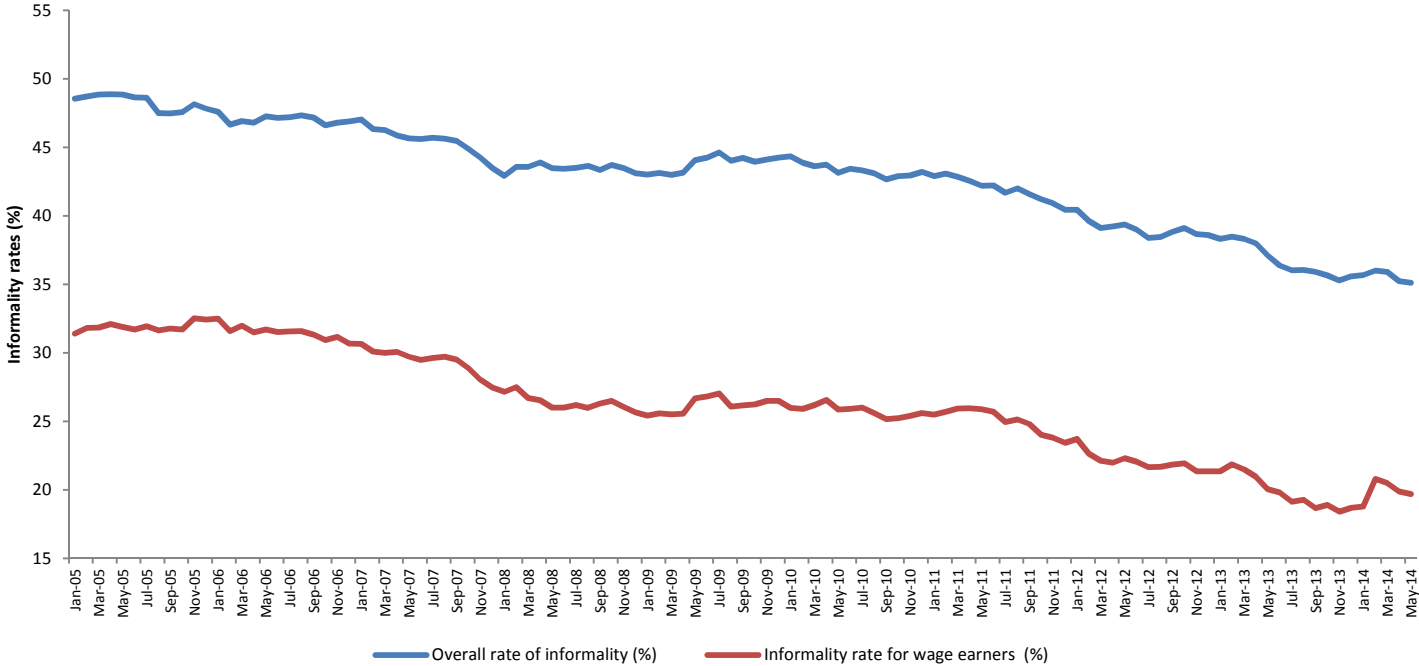
<http://betam.bahcesehir.edu.tr/en/wp-content/uploads/2014/09/ResearchBrief171.pdf>

Gürsel S. and Durmaz M. (2014) "Large regional disparity in informality", Research Brief No. 14/172, Bahçeşehir University Center for Social and Economic Research (BETAM).

<http://betam.bahcesehir.edu.tr/en/wp-content/uploads/2014/09/ResearchBrief172.pdf>

decrease is observed (Figure 1). In previous research briefs, we state that there is no significant decrease in rates of informality for self-employed and unpaid family workers (in 2013 these rates are 62.5 percent and 91.9 percent respectively). In this regard, it is natural that the trends in rates of informality for total employment and wage earners may differ in sub-periods. During the period of 2005-2007, when the employment in agriculture decreased rapidly, the informality rate for wage earners remained constant while overall rate of informality was decreasing. On the other hand, in 2008 and after, when agricultural employment started to increase, the overall rate of informality remained constant while the informality among wage earners is decreasing. These facts are expected findings (Figure 1).

Figure 1 : 2005-2013 Informality rates (monthly, seasonally adjusted)



Source: TurkStat Household Labor Statistics; BETAM

Therefore, we think that it is better to analyze the impact of economic conjecture on informality with a focus on wage earners. The trend in rate of informality for wage earners during the period of 2005(1) - 2014(2) can be divided into five sub-periods. These are January 2005-August 2006 with constant rate of informality; September 2006-July 2008 when informality starts to decrease; August 2008- April 2011 with constant rate of informality due to the recession in Turkish economy affected by global crises; from May 2011 to November 2014 with sharp decrease in the rate of informality for wage earners. During the last (fifth) sub-period from January 2013 to May 2014, there is a new tendency in the rate of informality. From the lowest value 18.4 percent in November 2013 the rate of informality increased to 18.8 percent in January 2014, after which it jumped to 20.8 percent in February 2014. The rate of informality shows tendency to decrease moderately since March 2014. Indeed, it reduced to 19.7 percent in May 2014.

TurkStat introduced new definitions of employment and unemployment in February 2014. We observe that these changes shifted up the series of overall informality rate and the rate of informality

for wage earners (see BETAM Labor Market Outlook: May 2014).² It is possible that this change caused 2-percentage point jump in the rate of informality for wage earners from January to February 2014. We need to wait more to understand whether the decrease during last three years will continue or not.

The relationship between economic conjecture and informality

We study whether the growth rate of GDP has an effect on the trend in informality rates or not. Not only growth rate of GDP but also we should take into account for potential impact of wage earner employment growth rate on the informality ratios. As mentioned in previous research briefs, newly created formal jobs constitutes the major part of employment expansion in recent years and this fact affects the trend in rates of informality. The trend in rate of informality over the time span of January 2005- May 2014, average growth rate of employment and average growth rate of GDP in three sub-periods are depicted in Figure 2.

In the first sub-period, when the rate of informality started to decrease, GDP grew average of 5.8 percent per year. In this period, annual average growth rate is also quite high with 4.8 percent. It is worth to remind once again that "growth without employment" claim for this period is obviously fallacious. The second-sub period with unchanged informality rate for wage earners covers the crisis period and recovery period after the crises. First, GDP declined due to crises and after which it started to increase again. Indeed, average growth rate of GDP and average growth rate of wage earner employment in second sub-period deteriorated to 2.8 percent and 3.8 percent respectively. Furthermore, we know that there are two reasons for why average growth rate of wage earner employment is above the growth rate of GDP. First, even if firms reduced their production in this period, they preferred to keep their existing employees due to dismissal costs and the expectation that the crisis is not prolonged. During this period, government's policy aiming at protecting employment is also partially influential. The second reason is increased female employment because of "added worker effect" that usually emerges during the crisis (see Betam Research Brief 14/60)³.

During the third and fifth (last) sub-periods, the growth rate of GDP decreased rapidly and wage earner employment increased largely, especially in services sector. Indeed, the growth started to decelerate since the last quarter of 2011 and in last three years, it recorded as 3.9 percent on average. However, the growth rate of wage earner employment increased to 5.5 percent, which reached its maximum point during the period under study.⁴ We think that potential factors behind rapid decreases in rates of informality are the improvements in structural determinants and large increases in formal employment.

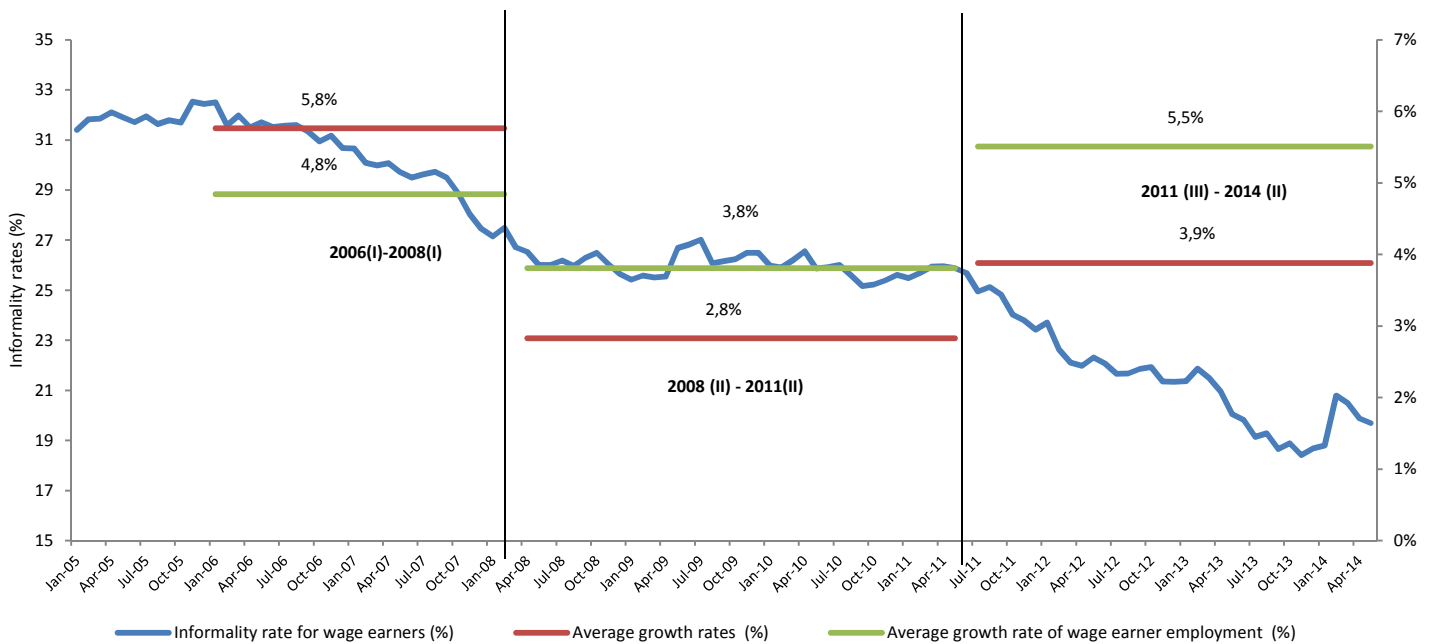
² Gürsel S., Uysal G. and Acar A. (2014). "Recalculation in Unemployment ", Labor Market Outlook: May 2014, Bahcesehir Center for Social and Economic Research (BETAM).

<http://betam.bahcesehir.edu.tr/wp-content/uploads/2014/05/IsgucuGorunum2014M05.pdf>

³ Gürsel S., Uysal G. and Acar A. (2014). "Striking improvements in female labor market", Research Brief No. 14/160, Center for Economic and Social Research (BETAM).

⁴ Although the combination of high employment growth and low economic growth has a positive impact on unemployment and informality, labor productivity hasn't increased in this period. (For more detailed information : Gürsel S and Soybilgen B. (2013) "Turkey is on the brink of middle income trap", Research Brief No. 13/154, BETAM) <http://betam.bahcesehir.edu.tr/en/wp-content/uploads/2013/10/ResearchBrief1541.pdf>

Figure 2: 2005 and 2013 the rates for growth, employment expansion, and informality (Seasonally adjusted)⁵



Source: TurkStat Household Labor Statistics; BETAM

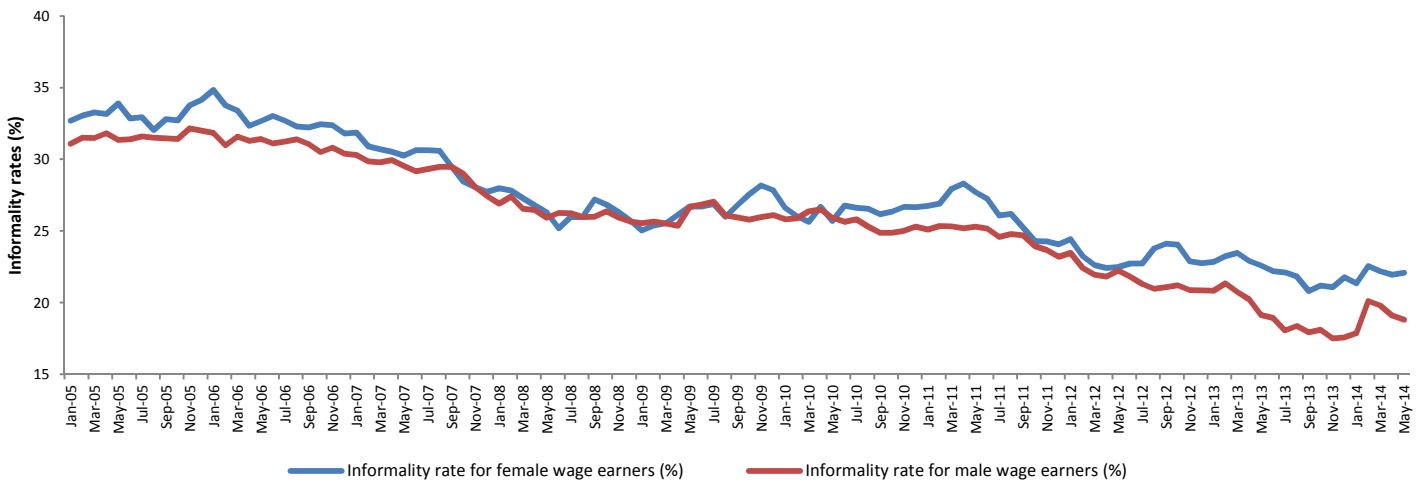
To sum up, taken into account the growth rate of GDP and the growth rate of employment together as the main indicators of economic conjuncture, beside structural determinants these indicators have also impact on the trend in the rate of informality. To determine the magnitude of this effect we need a more detailed analysis. Given that low GDP growth and slowed down employment growth in last six months, this effect might cease the decrease in informality. Indeed, the direction of the rate of informality for wage earners became unclear. When we compare informality rates of males and females, there is a significant increase in the rate of informality for females.

Informality among female wage earners is increasing

When we analyze the rate of informality by gender, rates of informality for both females and males decreased during the period under study but they followed different patterns (Figure 3). Initially, female rate of informality was higher than the rate of informality for males. However, the rate of informality for females was decreasing more rapidly compared to that for males and it reached the same level of male informality rate just before the crises. Increased average level of education is one of the drivers for this fact. On the other hand, the trend in the rate of informality for both females and males remained stagnant during the crises period, after which female rate of informality exceeded the rate for males. Although the gender gap has started to close in last two years, the female rate of informality has started to increase again in last six months.

⁵ The growth rates represented in the Figure 2 are arithmetic mean of percentage change in GDP and percentage change in wage earner employment on the same quarter of the preceding year.

Figure 3: 2005-2013 Informality rate for wage earners by gender (monthly, seasonally adjusted)



Source: TurkStat Household Labor Statistics; BETAM

The reasons behind this discrepancy deserve a more detailed analysis, for which we need to wait more. For now, remind that the large increase in female employment in recent years mainly arises from category of lowly educated (less than high school) female workers (see BETAM Research Paper 14/160)⁶. This unusual improvement clearly has an effect on the increase recorded in female rate of informality.

⁶ Gürsel S., Uysal G. and Acar A. (2014). "Striking improvements in female employment ", Research Brief No. 14/160, Bahcesehir University Center for Social and Economic Research (BETAM). <http://betam.bahcesehir.edu.tr/en/wp-content/uploads/2014/02/ResearchBrief160.pdf>