

ASYMMETRIC EFFECTS OF THE COVID PANDEMIC ON THE EMPLOYMENT (1): COLLAPSE IN INFORMAL EMPLOYMENT

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Executive Summary

As the Covid-19 pandemic made a disastrous impact all over the world, the social distancing measures taken to decelerate the transmission of the virus, affected all the economic activities directly or indirectly. The effects of these measures varied in magnitude across multiple dimensions. We aim to investigate these asymmetric effects in a series of research briefs. In this first brief, we will focus on how the distancing measures affected employment across the formal-informal divide, an existing structural problem of the Turkish labor market.

Both the distancing measures to fight the pandemic and the economic stimulus packages that protected only the formally employed individuals, affected informally employed individuals disproportionately. As a result, employment losses among this group have yet to be recovered. Among the formally employed, the employment losses among the salaried workers were largely offset by the employment gains realized in the second half of 2020, while the employment gains of the non-salaried workers (own account workers, employers and unpaid family workers) surpassed the employment losses that occurred after the period of January 2020. As for the informally employed, the substantial employment losses could still not be recovered. In general, while a portion of the employment losses from February 2020 through May 2020 could be recuperated in the summer of 2020, the employment losses started again in autumn. Though due to different underlying reasons, similar patterns were also observed among the salaried and the non-salaried informal workers.

Introduction

Undoubtedly, 2020 will be remembered as the “year of the coronavirus”. In order to contain the transmission of the virus, economic activities came to a halt, albeit in differing degrees across countries and across time. These measures caused serious output and income losses, and the national economies shrank in differing degrees. As a result, output losses translated into inevitable losses in employment.

The COVID-19 shock resembles the Great Depression (1930-33) and the Great Recession (2007-09) in terms of the employment and output losses. However, in terms of the sources of the economic contraction, the COVID shock differs substantially. So, the degree of the harm caused by the COVID-19 shock varies significantly not just across countries but also across economic activities, the employment status of individuals and genders within the same country. We attempt to touch upon these asymmetric consequences in a series of research briefs. In the first one of these briefs, we are going to focus on how the level of employment among the non-agricultural salaried workers is affected across the formal-informal divide. In the second and third briefs, we are going to investigate the effects of COVID19 on the employment levels across the sectorial and gender divide, respectively.

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Effects on total and non-agricultural employment

The pandemic affected the Turkish labor market through both labor demand and labor supply. In other words, while firms started to reduce the number of workers and their hours, people who either lost their jobs or were willing to enter the labor market, decided to stop searching for a job, thinking that they would not be able to find any. As a result, both the labor demand and the labor supply decreased simultaneously. This research note takes a partial stance and tries to analyze the effects on employment levels.

We focus on the evolution of employment levels and employment rates by taking the employment level and rate of January 2020 as our benchmark. The first pandemic cases in Turkey were observed in March 2020. Given that the Turkstat used to publish their Household Labor Force Statistics (HLFS) results as moving-averages of three months at the time, the last period that was not affected by the pandemic is January 2020 (average of December 2019, January and February 2020).

Table 1 features both total and non-agricultural employment as well as employment rates. Betam Labor Market Outlook series and other series published by similar institutions keep track of the labor market fluctuations. We believe that it would be beneficial to remind our readers of the overall outlook prior to discussing the asymmetric effects.

In the period of January 2020, the number of persons in employment and non-agricultural employment have been estimated as 28 million 42 thousand and 23 million 141 thousand, respectively. The employment losses began to occur in February 2020. Between the periods of January and May, the total and non-agricultural employment losses summed up to 2 million 400 thousand and 2 million 240 thousand, respectively. In this period the employment rate decreased from 45.2 percent to 41.1 percent and the rate of the nonagricultural employment fell sharply down from 37.3 percent to 33.8 percent. In fact, the employment losses in the agricultural sector are very limited. The employment in the agricultural sector has a diminishing trend due to structural reasons. The lockdowns and economic contraction mostly affected the non-agricultural employment. So, we think that it would preferable to focus on the non-agricultural employment for the investigation of the COVID-19 effects.

After the easing of restrictions on economic activities and mobility, the effects of the pandemic on the non-agricultural employment started to fade out in the summer of 2020. It is observed that, in the period of September 2020, the non-agricultural employment reached at 22.5 million the employment losses had regressed to 640 thousand. However, the lockdown measures were tightened again as the second wave of COVID took off in October, more severely this time. Since then, employment increases in the non-agricultural sector stalled and the level of employment hovers around 22.5 million.¹

¹ We already know that most of the recovery was in the manufacturing and the construction sectors. In this brief, it suffices to note that the employment changes differ drastically across sectors.

Table 1 : Persons in employment and non-agricultural employment, their ratio to non-institutional population

	Persons in Employment	Employment Rate	Persons in Non-Agricultural Employment	Non-Agricultural Employment Rate	Non-Institutional Population
Jan-20	28,042	45.2%	23,141	37.3%	62,015
Feb-20	27,516	44.3%	22,823	36.7%	62,119
Mar-20	26,538	42.7%	21,877	35.2%	62,216
Apr-20	25,578	41.0%	20,944	33.6%	62,320
May-20	25,645	41.1%	20,904	33.5%	62,421
Jun-20	26,116	41.8%	21,347	34.1%	62,525
Jul-20	26,690	42.6%	21,965	35.1%	62,626
Aug-20	26,992	43.0%	22,239	35.5%	62,730
Sep-20	27,215	43.3%	22,502	35.8%	62,834
Oct-20	27,210	43.2%	22,487	35.7%	62,935
Nov-20	27,156	43.1%	22,505	35.7%	63,040

Source: Turkstat, Betam calculations, Seasonally Adjusted

Informal employment collapsed because of the measures taken to fight the pandemic

During the first phase of the pandemic, the Turkish government took various measures to avoid a collapse in employment, ranging from extending the coverage of the Short-Term Employment Allowance to a firing ban on formal employment. These measures, which were aimed at remedying the detrimental economic effects of the fight against the pandemic, were targeting formal employment because of the application conditions. In this context, the formally employed could benefit from Short Term Employment Allowance (%60 of their monthly wage at maximum) or the cash wage support if they are on unpaid leave. In order to benefit, the workers must be registered at the Social Security Institution (SSI). Also, the firing ban is not binding on informal employment, by nature. Therefore, informal workers, whether they be wage earners or not (e.g., self-employed, unpaid family workers or a small share of the entrepreneurs) are economically unprotected in face of the pandemic.²

Table 2 : Persons in employment categorized by their registration status to the SSI

	Registered Persons in NA Employment	Unregistered Persons in NA Employment	Unregistered / Total in NA Employment	Registered Persons in NA Employment / Non-Institutional Population	Unregistered Persons in NA Employment / Non-Institutional Population
Jan-20	18,176	4,965	21.5%	29.3%	8.0%
Feb-20	18,098	4,726	20.7%	29.1%	7.6%
Mar-20	17,734	4,143	18.9%	28.5%	6.7%
Apr-20	17,324	3,620	17.3%	27.8%	5.8%
May-20	17,254	3,650	17.5%	27.6%	5.8%
Jun-20	17,359	3,987	18.7%	27.8%	6.4%
Jul-20	17,629	4,335	19.7%	28.2%	6.9%
Aug-20	17,775	4,464	20.1%	28.3%	7.1%
Sep-20	18,019	4,482	19.9%	28.7%	7.1%
Oct-20	18,094	4,393	19.5%	28.7%	7.0%

² The Ministry of the Family, Labour and Social Policies distributed a one time payment of 1000 TL to a targeted vulnerable group.

Nov-20	18,251	4,253	18.9%	29.0%	6.7%
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Source: Turkstat, Betam calculations, Seasonally Adjusted

These measures, which are still active, are expected to amplify the existing divide in the Turkish labor market, where formal-informal employment duality was already substantial due to two reasons: 1) The losses in employment would be concentrated among the informally employed. 2) During a firing ban, the firms may be inclined to create informal employment in order to avoid the ban should it be necessary.

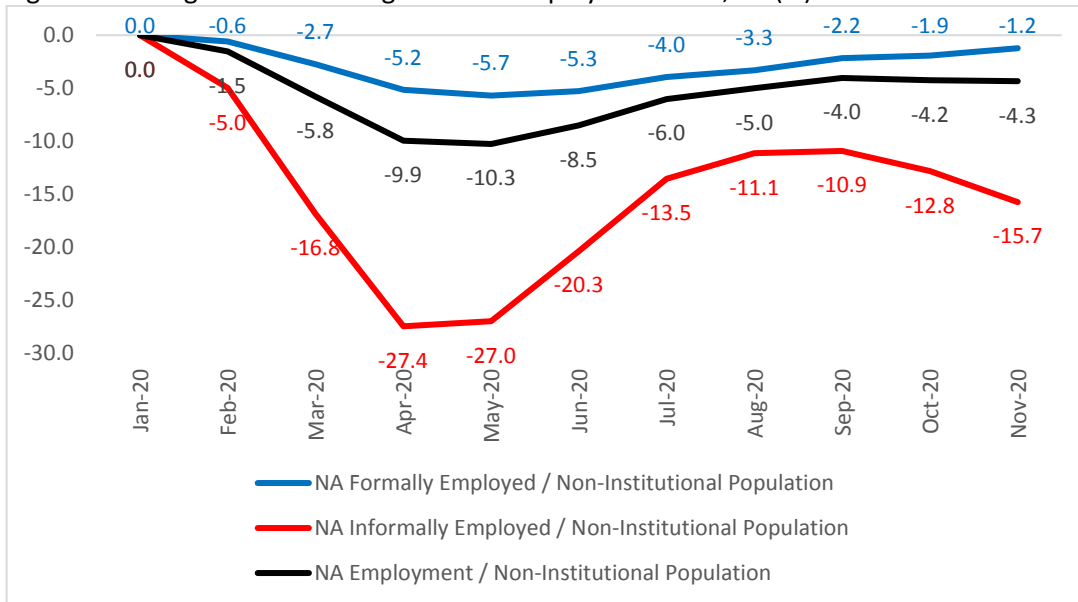
Table 2 features the seasonally adjusted employment levels both for registered and unregistered workers in the non-agricultural sector.³ The share of the unregistered workers was 21.5 percent in January 2019 in the non-agricultural sectors. By April, this figure fell down drastically to 17.3 percent. At first sight, this may sound like good news. However, it reflects a disastrous situation as the decline is mostly attributable to a much higher decrease in the informal employment (1 million 345 thousand) than the decrease in formal employment (852 thousand). It is quite obvious that the firms fired their unregistered employees without hesitation.

After the restrictions had been lifted, the persons in informal employment started to increase and the share of the informally employed in total employment went up to 20.1 percent by August 2020. Most of the increases in the level of employment stemmed from the increases in the informal employment. Between April and August, the level of the informally employed increased by 844 thousand (23.3 percent). Probably, the employers either rehired the employees whom they had previously laid off or hired new workers without registering these workers at the SSI. The level of the increase in formal employment has been limited to 451 thousand. In other words, it is highly probable that the jobs created between April and August mostly stemmed from the increases in informal employment. This is not surprising as the firms were expecting a resurgence in the number of COVID cases in the future. We would also expect the firms to take into account the added cost of creating formal employment due to the firing ban.

Along with the second wave of COVID-19, the restrictions were tightened again. In a parallel manner, the share of unregistered workers started to decline again. This decline is mostly attributable to a slow increase in the number of registered workers and also to the decrease in the number of unregistered workers.

³ Note that close to 90 percent of workers in agriculture are informal workers.

Figure 1 : Changes in the Non-Agricultural Employment Rate, SA (%)



Source: Turkstat, Betam calculations, Seasonally Adjusted

To focus on this new trend that prevailed in the labor market during the pandemic, **Figure 1** features the employment rate changes at the formal vs. informal divide. The rate in January 2020 is taken as the benchmark and the employment rates in the following periods are compared to the benchmark. For example, in the period of February 2020 formal non-agricultural employment rate decreased from 29.3 percent to 29.1 percent and the rate change is calculated as 0.6 percent ($0.2 / 29.3$). In the same period, the informal non-agricultural employment rate fell down by 5 percent ($0.4/8.0$).

Figure 1 clearly shows that the informal employment took a worse hit than the formal employment. While the decrease among the formal employment rate was limited to 5.7 percentage points, the decrease in the informal employment rate was more than 27 percent in spring. As of November 2020, neither the former nor the latter were able to return to their January 2020 levels. However, following a dip in May 2020, the formal employment rate has been rising. It is only lower by 0.3 percentage points than its January 2020 levels, 29.3 percent vs. 29 percent. Thus, the fall in the employment rate is limited to 1.2 percent. Contrary to the formal employment, the informal employment rate started to decline again during the period of August 2020. As of November 2020, the rate is lower by 1.3 percentage points, and the change in the informal employment rate is 16.3 percent.

It is obvious that the COVID-19 shock overwhelmingly affected the informal employment. The net employment loss from January to November is 712 thousand (net). It is easy to envisage that the unregistered workers who lost their jobs were holding low-paid jobs and were living in already-poor households. Even though the statistics on poverty are not available yet, the severity of economic hardships that these households are facing now is obvious.

Extensive losses in employment among unregistered wage earners

In sum, the shock of COVID-19 had asymmetric effects on the formally and informally employed. Up to this point, the wage earners (wage earners, salary earners and casual workers) and the self-employed (consisting of the

entrepreneurs, the self-employed, and the unpaid family workers more generally) have been bundled together.⁴ Nevertheless, there are stark differences in formality across the wage earners and the self-employed in the non-agricultural sectors.

Table 3 : The non-agricultural employment by formality and employment status, SA, Jan-Nov 20

	Formal		Informal	
	Wage earners ⁵	Self-employed ⁶	Wage earners	Self-employed
Jan-20	16,020	2,156	2,824	2,141
Feb-20	15,940	2,157	2,742	1,984
Mar-20	15,720	2,014	2,308	1,835
Apr-20	15,449	1,875	1,903	1,717
May-20	15,375	1,879	1,964	1,686
Jun-20	15,457	1,902	2,125	1,863
Jul-20	15,710	1,919	2,398	1,938
Aug-20	15,805	1,970	2,404	2,060
Sep-20	15,961	2,058	2,369	2,113
Oct-20	15,990	2,104	2,314	2,079
Nov-20	16,019	2,232	2,294	1,959

Source: Turkstat, Betam calculations, Seasonally Adjusted

Table 3 highlights this significant difference. Only about 50 percent of the self-employed are registered at the SSI. The self-employed are responsible for their own registration. Therefore, non-registration, i.e., informality does not imply an abuse of the labor contract, even though it still means tax losses for the SSI.

However, the wage earners who are not registered at the SSI by their employers cannot benefit from the protection formal employment provides, and thus are unprotected in face of potential abuse. The data shows the informality rate is relatively lower among the wage earners.

Moreover, the wage earners and the self-employed differ significantly in terms of the policies enacted to mitigate the economic effects of the pandemic. The self-employed could benefit from the postponement of their tax and credit liabilities and could benefit from lower interest rates as credit lines opened. Meanwhile, the wage earners benefitted from the firing ban, and received cash wage subsidies and Short Term Employment Allowance. Given these differences, analyzing these wage earners and the self-employed separately will provide important insights into the asymmetric effects of the pandemic on the labor market.

⁴ For expositional ease, we name the group of the entrepreneurs, the self-employed and the unpaid family workers as the “self-employed”. This group is relatively homogenous in terms of registration at the SSI and in terms of the COVID-19 policies. Furthermore, the self-employed group constitutes the majority in the non-agricultural sectors.

⁵ Wage-earners, salary-earners and casual workers

⁶ Self-employed, entrepreneurs, unpaid family workers

Table 4 : Non-agricultural salaried workers by their registration status

	Formal wage earners	Informal wage earners	Wage earners, in total	Informal Employment Rate among wage earners	Formal wage earners in NA Employment / Non-Institutional Population	Informal wage earners in NA Employment / Non-Institutional Population
Jan-20	16,020	2,824	18,844	15.0%	25.8%	4.6%
Feb-20	15,940	2,742	18,682	14.7%	25.7%	4.4%
Mar-20	15,720	2,308	18,028	12.8%	25.3%	3.7%
Apr-20	15,449	1,903	17,352	11.0%	24.8%	3.1%
May-20	15,375	1,964	17,339	11.3%	24.6%	3.1%
Jun-20	15,457	2,125	17,582	12.1%	24.7%	3.4%
Jul-20	15,710	2,398	18,108	13.2%	25.1%	3.8%
Aug-20	15,805	2,404	18,209	13.2%	25.2%	3.8%
Sep-20	15,961	2,369	18,330	12.9%	25.4%	3.8%
Oct-20	15,990	2,314	18,305	12.6%	25.4%	3.7%
Nov-20	16,019	2,294	18,314	12.5%	25.4%	3.6%

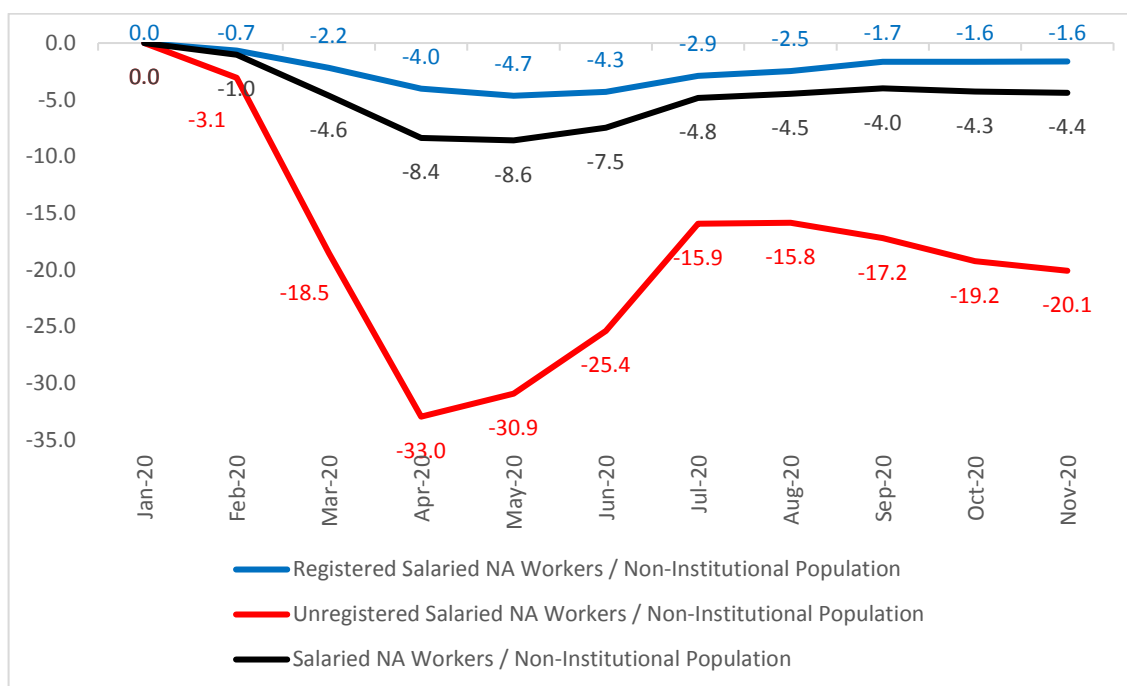
Source: Turkstat, Betam calculations, Seasonally Adjusted

The most striking result in Table 4 is the discrepancies in the employment losses across the registration status of workers among the wage earners. While the formal employment decreased among salaried workers by 645 thousand (4 percent), the level of informal employment decreased by 860 thousand (30 percent) from January to May. On the other hand, the non-agricultural employment rate of formal wage earners decreased by 4.7 percent, the same rate of the informal wage earners diminished by 30.9 percent during the same period. In April this decile amounted to 33 percent.

The decrease in the employment rate of informal wage earners (-33.0 percent, **Hata! Yer işareti başvurusu geçersiz.**) turned out to be higher than the decrease in the employment rate of all informal workers (-27.3 percent, Figure 1). Nevertheless, the number of formal wage earners has increased continuously since May and reached its January 2020 levels in November. During the same period, the informal employment suffered an initial loss of 860 thousand but recovered 440 thousand by August. However, it started to decline again. In sum, the number of informal wage earners are 530 thousand less in November, compared to January (18.8 percent).

It is clear that the firms are hiring and firing informal workers almost simultaneously with the restrictions as the latter are being tightened and eased. Yet, by November, more than half a million informally employed wage earners have lost their jobs.

Figure 2 : Changes in the Salaried Non-Agricultural Employment Rate, By Registration Status, %, Jan 20 = 0



Source: Turkstat, Betam calculations, Seasonally Adjusted

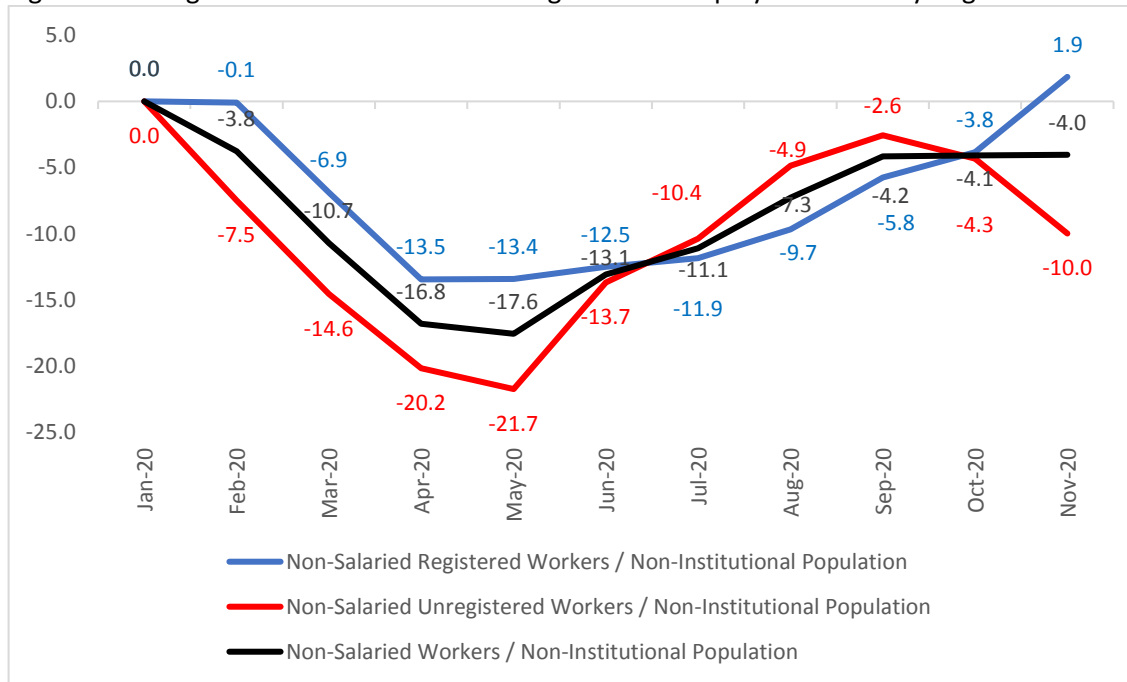
The unregistered and non-salaried workers are also struggling

The asymmetric effects at the formal vs. informal divide among the wage earners are also evident in other types of workers, most of them being self-employed.⁷ Indeed, the number of formal self-employed workers first decreased from 2 million 156 thousand to 1 million 875, then it increased to 2 million 232 thousand. Finally the loss was more than offset in this category. The success is mirrored in the changes in the employment rates presented in Figure 3. This impressive recovery deserves a deeper investigation.

On the contrary, the situation among informal self-employed workers is very worrisome. The employment in this category regressed from 2 million 141 thousand to 1 million 686 thousand from January to May. While it quickly recovered some of its losses until September, the number of informal self-employed workers stands at 1 million 959 thousand as of November 2020. The net employment loss is 182 thousand (-8.5 percent). As shown in Figure 3, the employment rate among informal self-employed workers dipped by roughly 20 percent from January to April. Even though the employment rate of this group had recovered at a relatively fast pace until September, it has been going down since then due to the second wave in the COVID-19 cases. The employment rate in November is still 10 percent lower than that in January. It is obvious that the group of informal self-employed workers who could not afford to register at the SSI, has been hit hard by the pandemic. This is particularly disquieting in terms of impoverishment.

⁷ In 2019, in the non-agricultural sectors, the broader category of the “self-employed” consists of the self-employed: 59.3 percent, the unpaid family workers: 12.8 percent, and the entrepreneurs: 27.9 percent.

Figure 3 : Changes In The Non-salaried Non-Agricultural Employment Rate by Registration Status, %, Jan 20 = 0



Source: Turkstat, Betam calculations, Seasonally Adjusted

Conclusion

To sum up, the effects of the restrictions on economic activities and their consequences on the GDP and on employment vary considerably by formality status and by employment status. The main findings might be summarized as follows:

- 1- The informal employment suffered greatly relative to the formal employment because of the restrictions related to the pandemic. The net employment loss among unregistered workers amounts to 712 thousand from January to November.
- 2- Both wage-earners and non-wage-earners (mainly the self-employed) suffered losses of comparable sizes.
- 3- Given that the measures to mitigate the economic effects of the pandemic are exclusively available for the formally employed workers, the informal workers who lost their jobs are facing increasing risks of poverty.