



THE UNION OF CHAMBERS AND  
COMMODITY EXCHANGES OF TURKEY



# The Problem of Informality in Turkey

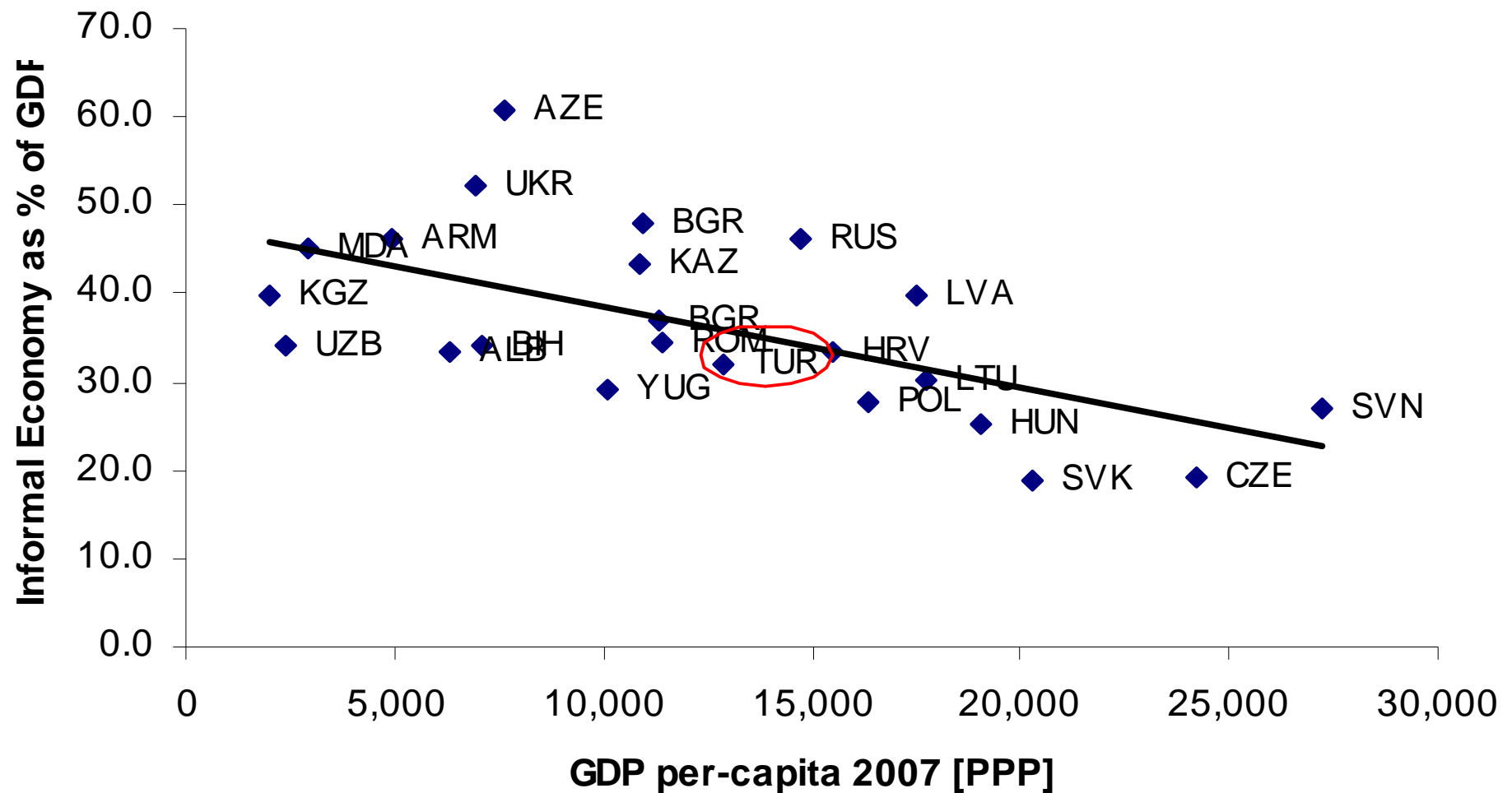
Turkey-EU Joint Consultative Committee Meeting

Stockholm, 1 December 2009

M. Rifat Hisarcıklıoğlu



## Share of Informal Economy and Per Capita Income Europe and Middle East Countries, 2006





# Why informality should be reduced

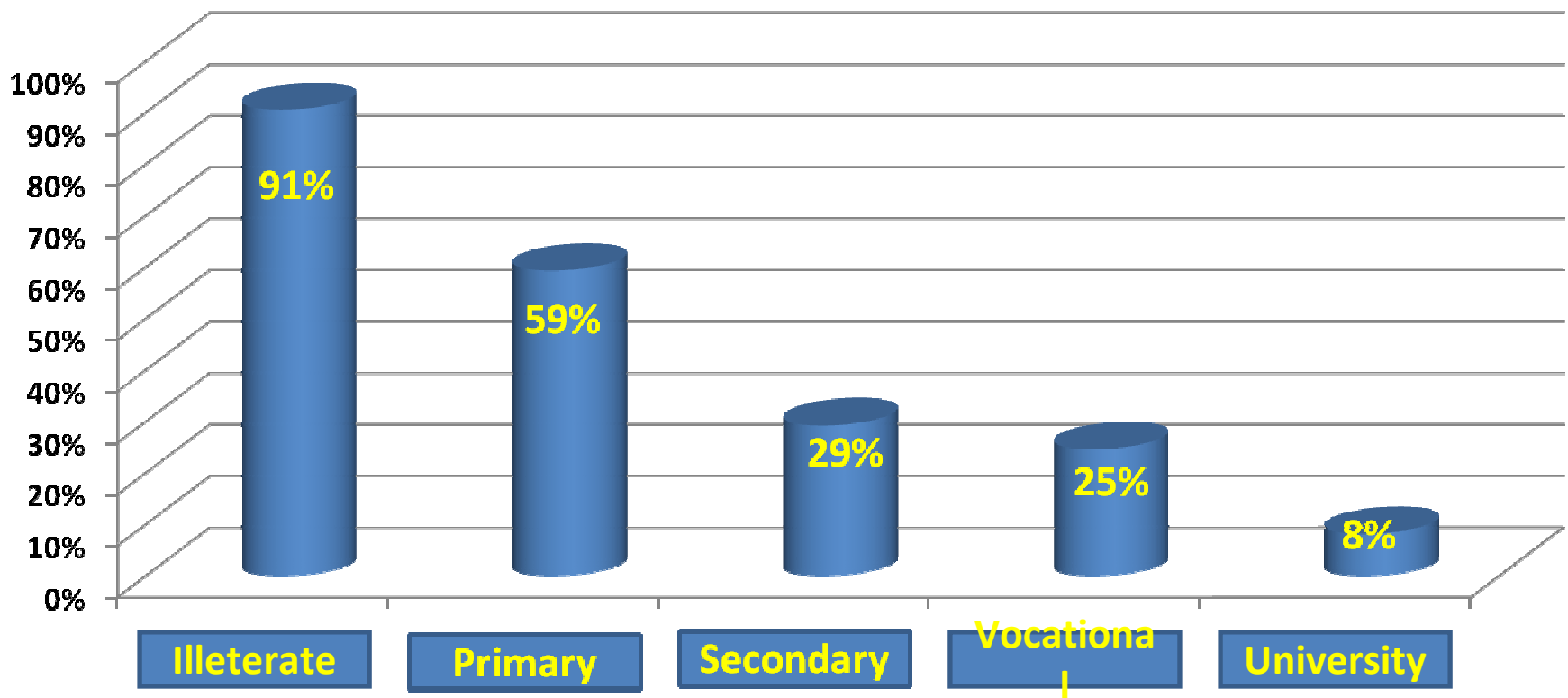
- For Companies
  - to abolish the dichotomy in the economy
  - to prevent unfair competition
  - to increase productivity, institutionalisation, better access to finance
- For Employees
  - Social Security - access to the health services and the retirement benefits
  - Unionization – Union rights
  - More productivity – More income
- For Public Administration
  - Broader tax base
  - Less tax distortion



## Informality;

- is strongly determined by the level of education
- decreases as the level of schooling increases

Level of Informality and Educational Level, 2000-2006 (%)





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## Informality as a common behavior pattern



GEBZE'DEKİ Fabrikamız için cilacı ustaları, kalfaları ve çırakları aramaktadır. SSK + Servis + Yatak + Yemek  
0.216.326 43 29

MOBİLYA imalatında vasıfsız eleman 0.312.350 20 14

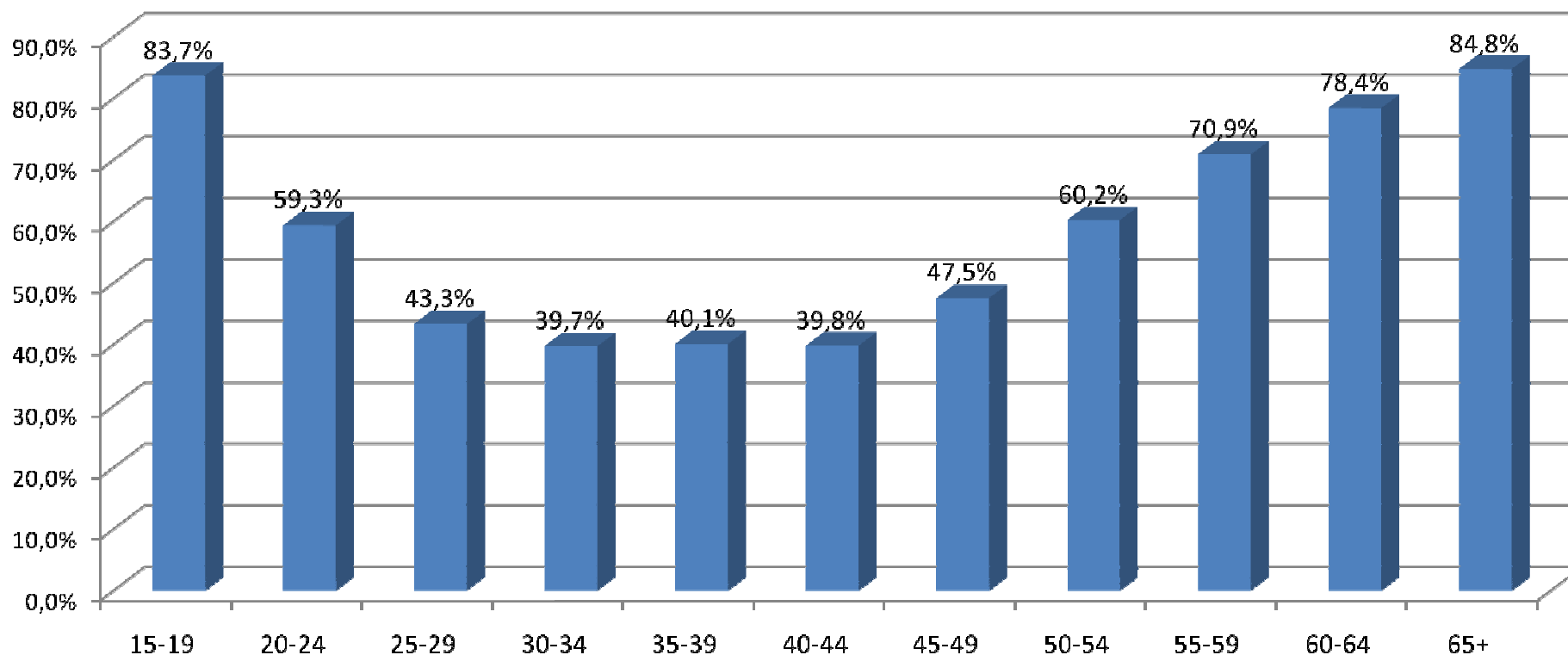
MOBİLYACI elemanlar alınacaktır 0.312.319 66 59





Informal employment is pervasively widespread among the young and those over middle-age. **Data shows that the informality is more common among the young and retired.**

Incidence of Informality by age groups, 2000-2006 (%)





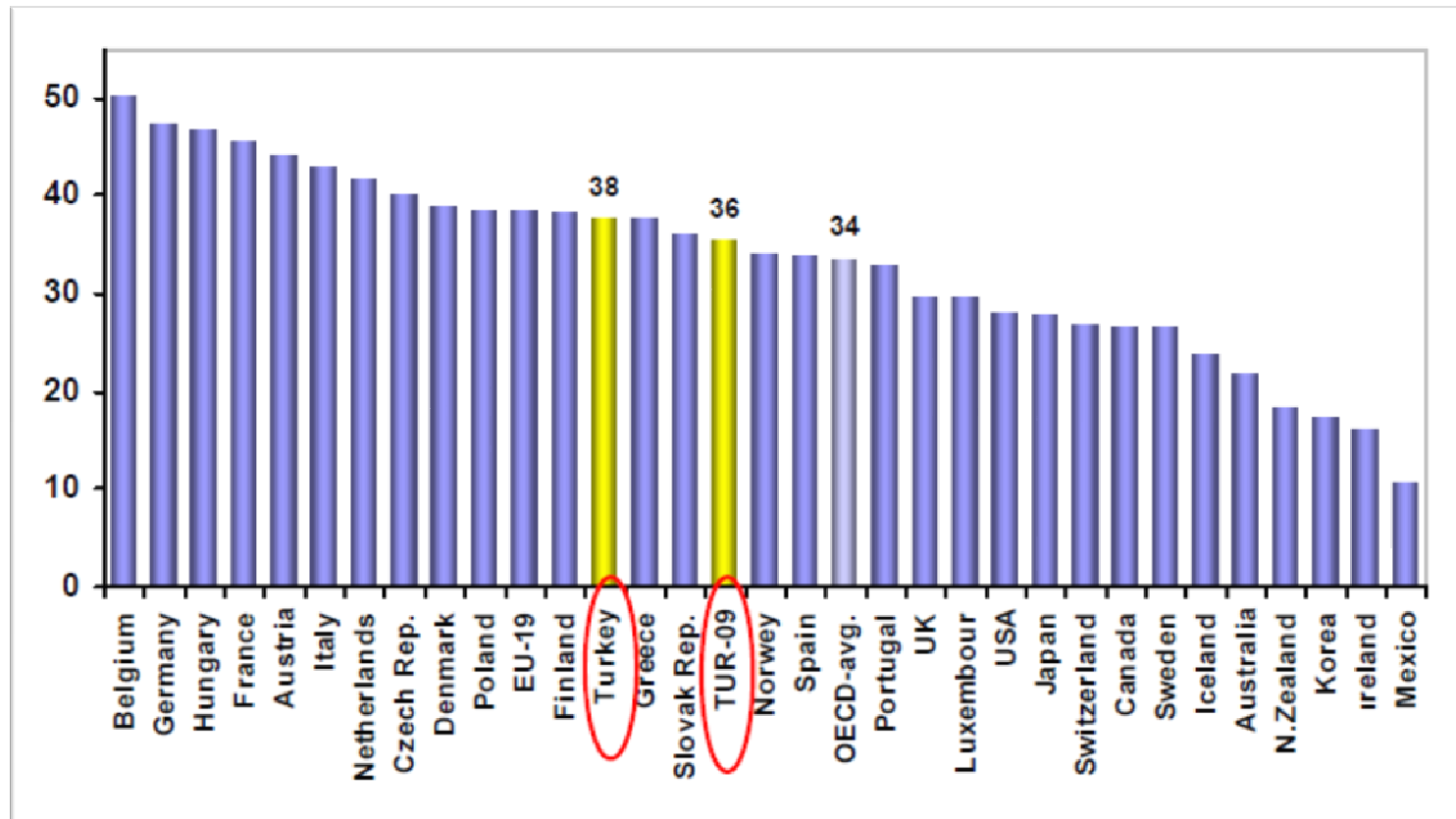
## Deepening informality among women, due to some educational and structurel problems

Change of Informality by Sex, 2000-2009 (%)



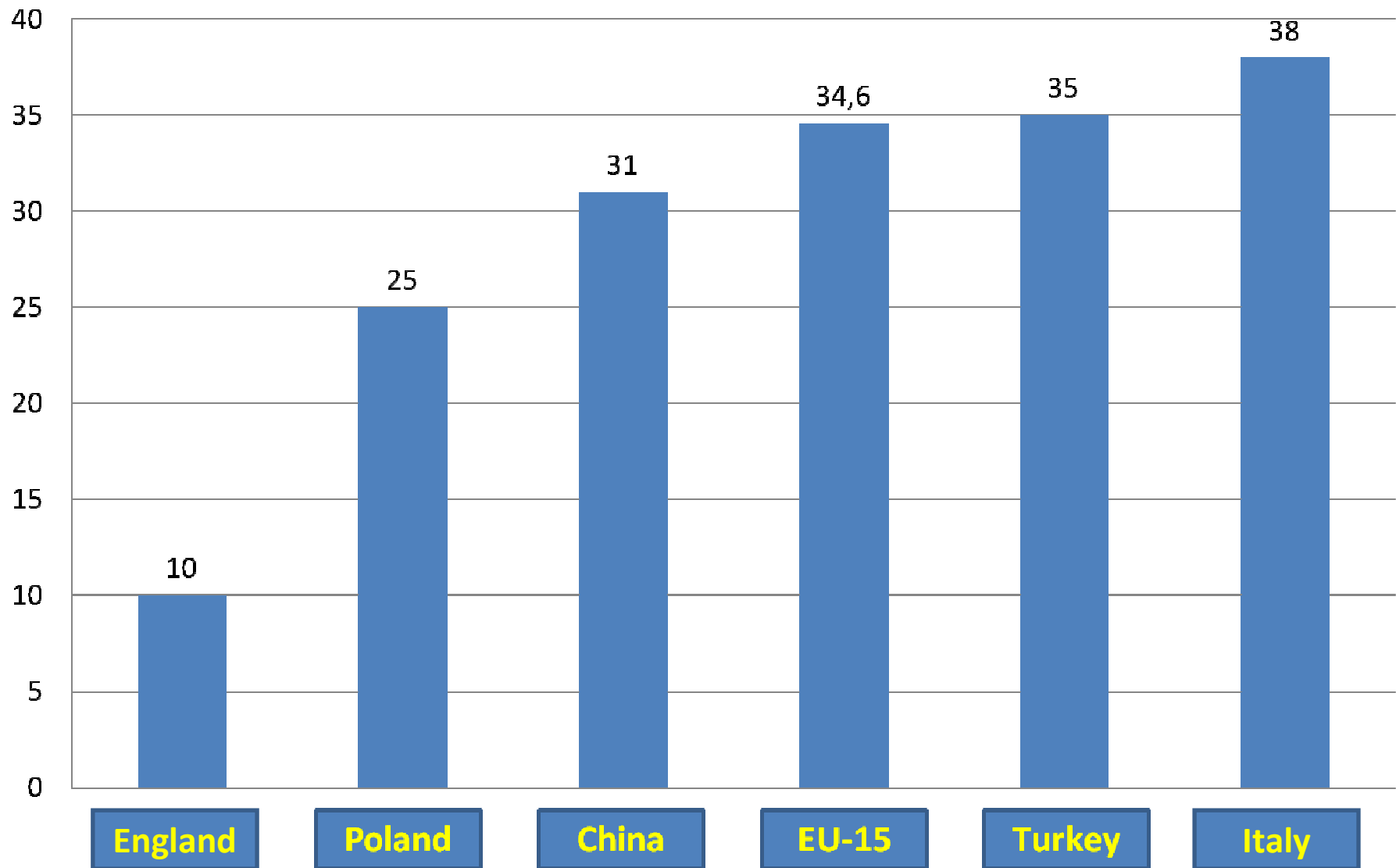


## Tax Wedges on Labour (married with two children) OECD Countries, 2009





## Rigidity of Employment (Index Scale of 0-100 from Least to Most Restrictive)



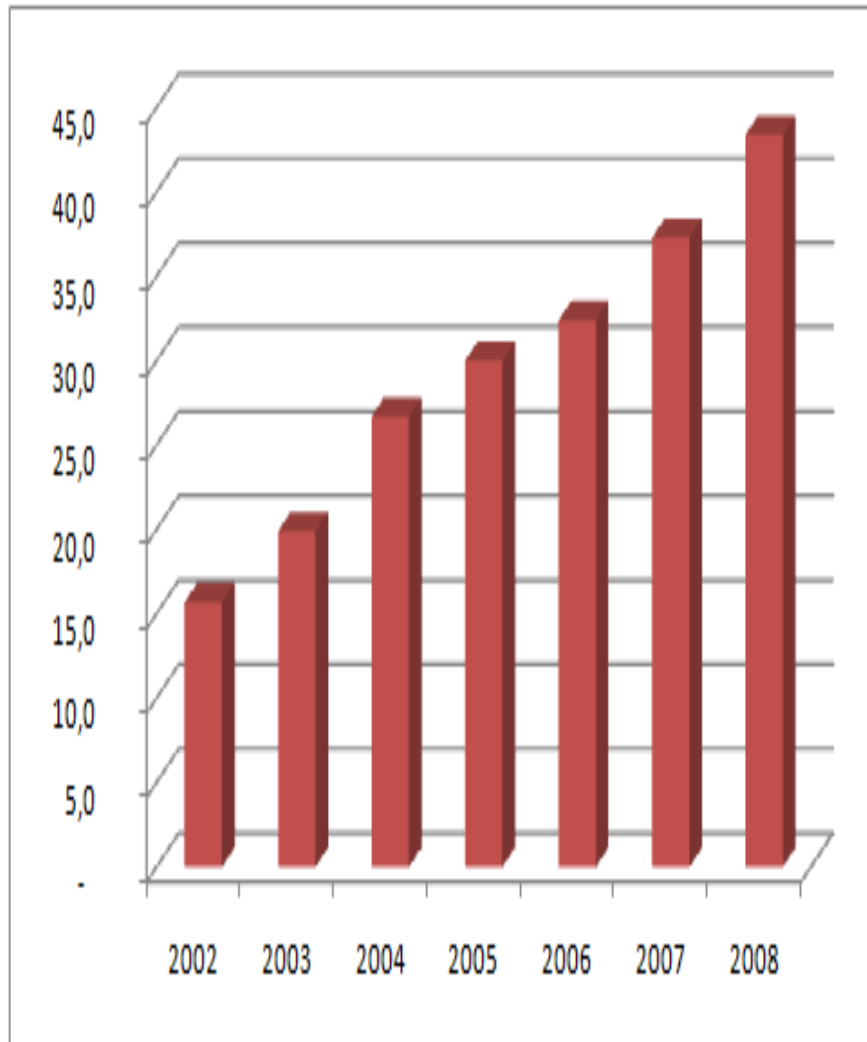


## Dichotomy (dual economy) is a major problem in Turkish economy

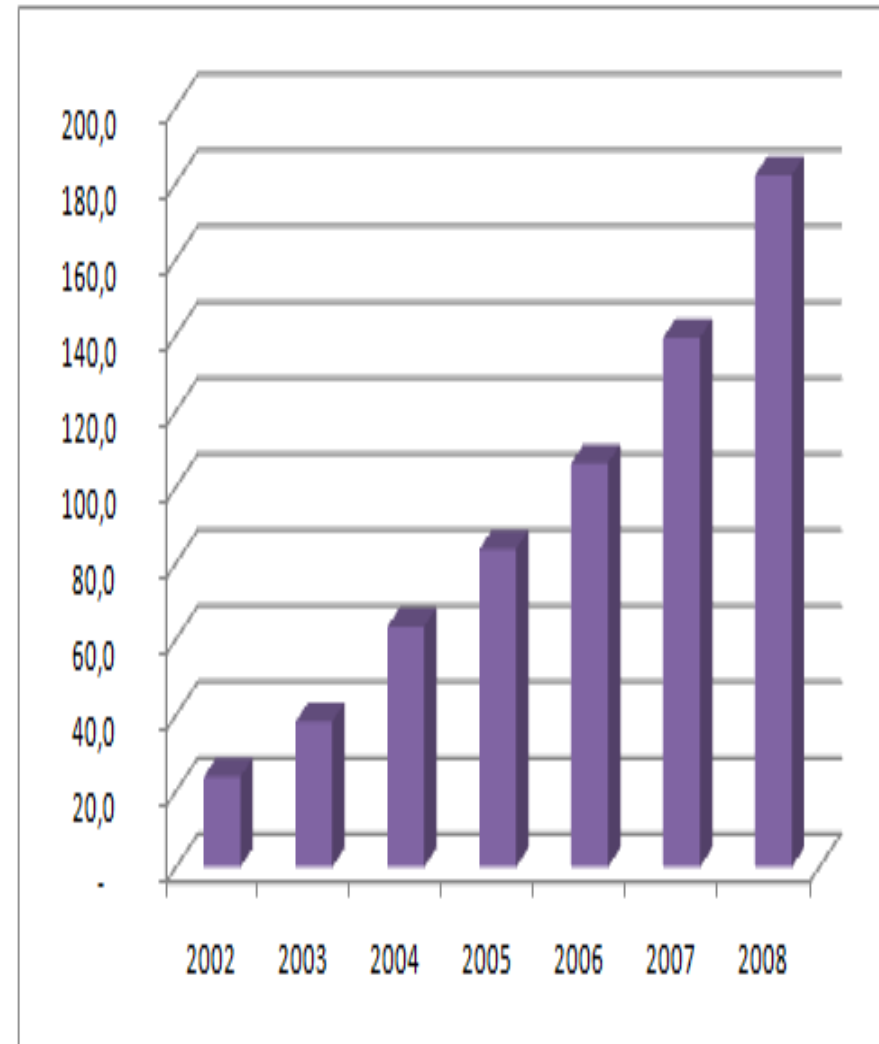
- **Formal Economy – Modern segment**
  - The average labour productivity is 62% of the US total
  - Economies of scale, better access to capital and export markets
- **Informal Economy – Traditional segment**
  - They achieve productivity levels of only 25% of the US.
  - Operates with low tech., little standardization, lower quality



## Credit Card Transaction Domestic Transaction Volume (billion TL.)



## Number of Credit Cards (million)





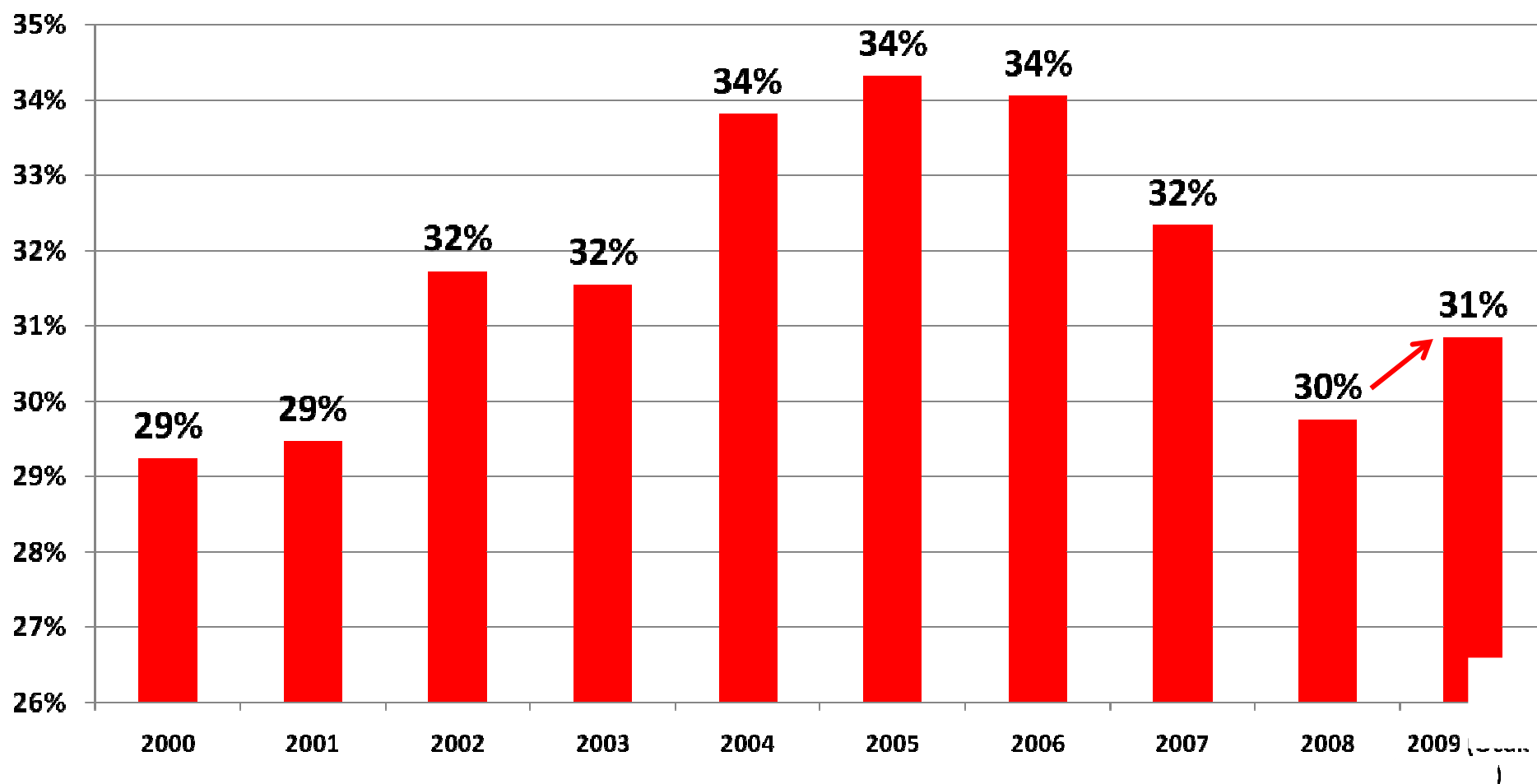
## Number Of Compulsory Insured Person

Period	Increase in Compulsory Insured Person	Increase in Total Employment
1993-1998	1.774.000	3.279.000
2002-2009	3.790.000	2.871.000



**The financial and economic crisis that started in 2008 has deep impacts on employment**

## Share of Informal Non-Agricultural Employment, 2001-2009





## What Makes this Financial Crisis different from others?

- the global nature of the current crisis has been unprecedented
- the economic policy responses and the magnitude of its impact are not comparable with those of previous crises
- Deeper & Long-Lasting
- Different kind of Creative Destruction (more destructive but less creative)





# Informal Employment and the Economic Crisis

## What are the lessons for the current episode?

- Preserve the Production capacity
- Introduce Fair-Competition policies
  - *Active Labour Market Policies to increase labour productivity*
  - *Industrial Policy*
  - *Expanding access to finance*
  - *Improving Business and Investment Climate*



## A New Framework (1)

- **Abolish Rigid Labor Markets - Towards a Flexible Labour Market**
  - protect the worker, not the work
- **Carrot-and-Stick approach in coordination**
  - Emphasis the carrot
    - Reduce the burden of taxation and regulation
  - Keep hold of the Stick
    - Better and Efficient Tax Supervision
    - Targeting firms that are using informality to gain a competitive edge



## A New Framework (2)

- **Increasing Productivity**
  - skills development to prevent skill atrophy
  - Institutionalisation of SME's



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Thank you very much for your attention.