

Akdeniz University  
Institute of Social Sciences

University of Hamburg  
School of Business, Economics and Social Sciences

Ömür UÇAR

THE ROLE OF ACTIVE LABOR MARKET POLICIES APPLIED BY İŞKUR  
(TURKISH EMPLOYMENT AGENCY) IN STRUGGLING WITH UNEMPLOYMENT

Joint Master's Programme European Studies Master Thesis

Antalya / Hamburg, 2014

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Politikalarının Rolü

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(Turkish Employment Agency) in Struggling with Unemployment

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## LIST OF ABBREVIATIONS

ALMPs	Active Labor Market Policies
EU	European Union
GDP	Gross Domestic Product
ILO	International Labour Organisation
IMF	International Monetary Union
IPJE	Institution of Providing Jobs and Employees
İŞKUR	Türkiye İş Kurumu (Turkish Employment Agency)
OECD	Organization for Economic Cooperation and Development
KOBİ	Küçük ve Orta Boy İşletmeler (Small and Medium sized Enterprises)
KOSGEB	Küçük ve Orta Ölçekli İşletmeleri Geliştirme ve Destekleme İdaresi Başkanlığı (Small and Medium Industry Development Organization)
SPO	Turkish State Planning Organization
TÜİK	Türkiye İstatistik Kurumu (Turkish Statistics Institute)
WPPB	Work Programme for Public Benefit



**ÖZET**  
**İŞSİZLİKLE MÜCADELEDE İŞKUR'UN UYGULADIĞI AKTİF İŞGÜCÜ**  
**POLİTİKALARININ ROLÜ**

İstihdamın boyutu ve işsizliğin yapısı ekonomik gelişmişliğin ve sosyal kalkınmanın önemli göstergeleri olarak görülmektedir. Hiç şüphesiz ki, neoliberal ekonomi politikalarının benimsendiği 1980'lerden beri, işsizlik hem gelişmiş hem de Türkiye gibi gelişmekte olan ülkelerde en temel problemlerden birisidir. Son on yıl içinde, ekonomi de yaşanan ortalama yüzde 5'lik büyümeye rağmen, bu iş gücü piyasasına çokta olumlu yansımamıştır. İstihdamsız büyüme ve yüksek işsizlik oranları OECD ülkeleri ve Türkiye'de, neoliberal ideoloji çerçevesinde (arz-yönlü politikalar temelinde) aktif iş gücü piyasası politikalarının ön plana çıkmasına neden olmuştur. Ancak Türkiye'de işsizlikle mücadele de bu politikaların etkinliğinin ve önemini gösteren çok az bilimsel çalışma vardır. Dolayısıyla, bu çalışmanın Türkiye'de uygulanan aktif iş gücü piyasası politikalarının etkinliği konusundaki tartışmalara bir katkıda bulunması amaçlanmaktadır.

Bu yüksek lisans tezinin çerçevesi, Türk iş gücü piyasasını ve işsizlikle mücadele de İŞKUR tarafından uygulanan aktif iş gücü piyasası politikalarını incelemektir. Bu çerçeve de çalışmanın amacı *'Türkiye de son on yılda İŞKUR tarafından uygulanan aktif iş gücü piyasası politikaları başarılı olmuş mudur?'* sorusuna cevap aranacaktır.

**Anahtar Kelimeler:** İşsizlik, Neoliberalizm, Türkiye'de İşgücü Piyasası, Türkiye İş Kurumu (İŞKUR) ve Türkiye'de Aktif İşgücü Piyasası Politikaları.

**SUMMARY**  
**THE ROLE OF ACTIVE LABOR MARKET POLICIES APPLIED BY İŞKUR**  
**(TURKISH EMPLOYMENT AGENCY) IN STRUGGLING WITH**  
**UNEMPLOYMENT**

Employment size and unemployment structure have been admitted as signals of economic development and social progress. There is no doubt that the unemployment has been one of the main problems for both developed countries and for developing countries such as Turkey since 1980s in which neoliberal policies have been adopted. Although there is average about 5 per cent growth in economy in the last decade, this has not reflected to labor market so positively. Jobless growth and high unemployment rates in OECD countries and Turkey have led to come to forefront of Active Labor Market Policies in the framework of neoliberal ideology. However, there are very few researches showing how important and active these kinds of policies in Turkey. For this reason, the aim of this study is to contribute to discussions about effectiveness of Active Labor Market Policies in Turkey.

The framework of this postgraduate thesis is to analyze the policies which are applied by İŞKUR on Turkish Labor Market and fighting against unemployment. Within this scope, the aim of this study is to seek an answer whether Active Labor Market Policies applied by İŞKUR for last decade are successful or not.

**Keywords:** Unemployment, Neoliberalism, Turkish Labor Market, Turkish Employment Agency (İŞKUR) and Active Labor Market Policies in Turkey.

## INTRODUCTION

Unemployment problem is one of the main problems of societies, which have been concerning the societies since hunter and collector tribe. The most important development, which caused serious unemployment problem in the world, is industrial revolution in the 18<sup>th</sup> century. After this revolution, almost every country faced unemployment problem. While, until Great Depression in 1929, unemployment was thought as involuntary action, after this date, it was realized that it could occur as involuntary. Keynesian policies came into prominence on the struggle with unemployment in the period between 1945 and 1975, called as the golden age of welfare states, full employment was provided in welfare states. However, Keynesian economy could not find a remedy for economic crisis in 1970s and thus unemployment became a problem not only in developing countries or underdeveloped countries but also in developed countries.

Therefore, the tendency of neoliberal policies increased and consequently the fundamental changes were made in economic and social structure. In this period, by implementing contractionary macro-economic policies, inflation was aimed to get under control but the contractionary macro-economic precautions (such as; downward flexibility of labor wages, deregulation of labor market, extend of free market agreements, liberation of financial market, privatization and reduce of public expenditure) increased unemployment much more rather than solving this problem.

Due to these factors, unemployment rate increased in OECD countries rapidly. While in 1970s unemployment rate was average about 3 per cent in OECD countries, it occurred 8.0 per cent in 2012. Therefore, active labor market policies (ALMPs) which have been applying in many OECD countries since 1960s have become one of the most important issues of their agenda.

ALMPs generally aim disadvantaged people which are unqualified and uneducated, to gain qualifications demanded by labor market and so to reduce unemployment rate. In addition, another main goal of ALMPs is to reduce labor cost of employers in parallel with neoliberal policies. In this framework, there is a considerable amount of spending. This considerable spending for ALMPs make ALMPs a current issue whether ALMPs satisfy the expectations or not. In this context, although there are various studies, the effects of ALMPs on employment is ambiguous. The effects of ALMPs can be different with regard to species of

policies, applied economic and social structure, targeted group and etc. For this reason, it is impossible to generalize the ALMPs' effects.

On the other hand, unemployment rate in Turkey has increased in parallel with world market conditions day by day. Therefore ALMPs remains on the Turkish Governments agenda. However, unfortunately the academic studies about effects of ALMPs in Turkey have remained incapable therefore; their effects are not known exactly. Insufficient academic studies and knowledge about applications, purposes and effects of ALMPs have necessitated to study about this issue.

Generally, the purpose of this thesis is to analyze ALMPs, its scope, purpose, applications in Turkey, to show the roles of these policies on the issues of reducing unemployment and increasing employment and so, to determine actions to be taken in Turkey.

Within this context, in the first chapter of thesis, the unemployment, types of unemployment, cost of unemployment will be analyzed. The end of the first chapter, the theoretical background of unemployment will be discussed in the context of Keynesian, Neoclassical theory and neoliberal ideology. In the second chapter, the Turkish Labor Market its feature, advantage and disadvantage will be explained with the help of tables. In the third chapter, Active Labor Market Programs, their applications and effects will be examined and then in the last chapter, the ALMPs applied by İŞKUR (Turkish Employment Agency) and its effects to Turkish labor market will be evaluated and to be more effective of ALMPs, there will be submitted some advices.

As a result of this study, the Active labor market programs, applied by İŞKUR, remained incapable to reduce unemployment in Turkey and it failed to reduce structural unemployment. As a matter of fact that the trustworthiness of ALMPs in which the high unemployment rate and low labor cost has been putted in order to solve or decrease the unemployment is open to the debates and criticism.

## CHAPTER 1 UNEMPLOYMENT

### 1.1 Definitions of Unemployment

Unemployment is a very serious trouble for both developed and developing countries and its conclusions concern a lot of sciences as it can affect the large part of society. That is why unemployment has a lot of definitions. In the most general sense, unemployment is;

*“Unemployment is defined as a situation where someone of working age is not able to get a job but would like to be in full time employment”.*<sup>1</sup>

Unemployment occurs when labor force which is prerequisite for production cannot be used<sup>2</sup>.

According to Gök, unemployment means that labor force which is essential element of production cannot be used in full capacity.<sup>3</sup> In other words, unemployment causes waste of labor force. According to Özgüven who defines unemployment technically, unemployment is difference between labor force and number of employment.<sup>4</sup>

As it can be understood above, according to the common feature of these definitions, unemployment occurs if people cannot find any job although they are able to work, willing to work or seeking for a job.

### 1.2 Types of Unemployment

Due to the fact that there are a lot of various reasons of unemployment, there are a lot of different types of unemployment and they can be classified by age, level of education, gender, duration unemployment, geographical position and its reasons.

#### 1.2.1 Voluntary Unemployment

Bosworth, Dawkins and Stromback described individuals as voluntarily unemployed as;

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<sup>1</sup> Tejvan Pettinger , *Definition of Unemployment* (2010)

<<http://www.economicshelp.org/blog/2247/unemployment/definition-of-unemployment/>> [accessed 26 August 2013].

<sup>2</sup> Mustafa Kemal Biçerli., *İşsizlikle Mücadelede Aktif İstihdam Politikaları*, (Eskişehir: Anadolu Üniversitesi, 2004), p. 1.

<sup>3</sup> Mehmet Gök., *İşgücü Piyasası ve Kobiler*, (Ankara: Roma Yayınevi, 2004), p.34.

<sup>4</sup> Ali Özgüven, *İktisat Bilimine Giriş*, 7nt edn (İstanbul: Filiz Yayınevi, 1997), p. 401.

*“if they choose not to work rather than take available jobs for which they are qualified, because wages or other working conditions are less attractive than the option of not working”.*<sup>5</sup>

From this definition, the reasons of voluntary unemployment can be monetary and individuals. However, if they agree to work on the level of prevailing wage, it is possible to find a job. Especially, neoclassic economics assert the unemployment in market as voluntary.

### **1.2.2 Involuntary Unemployment**

By the same token, involuntary unemployment is defined by Bosworth, Dawkins and Stromback as it occurs when;

*“individuals cannot obtain work even if they prepared to accept lower real wages or poorer conditions than similarly qualified workers who are currently in employment”.*<sup>6</sup>

This kind of unemployment occurs in countries developed division of labor and work specialization.

On the other hand, classical economists and neoclassical economists do not accept this kind of unemployment and they claim that involuntary unemployment can be prevented if unemployed accept to work with lower real wages.<sup>7</sup>

### **1.2.3 Hidden Unemployment**

Hidden unemployment is a kind of unemployment of the potential workers not reflected to the unemployment statistics. Although they have jobs, these kinds of people have no contribution to production.<sup>8</sup> Due to this, hidden unemployment occurs. According to Özgüven, the reasons of hidden unemployment are on different grounds in developed countries and developing countries. In developing countries such as Turkey, the reasons are undercapitalization being continuous and structural. Besides, due to the fact that population increase is more than speed of capital increase, hidden unemployment gains continuity in these countries. On the other hand, in developed countries hidden unemployment arises from

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<sup>5</sup> Derek L. Bosworth, Peter J. Dawkins, Thorsten Stromback, *The Economics of the Labour Market* (London: Financial Times/Prentice Hall, 1996), p. 409.

<sup>6</sup> Ibid, p. 409

<sup>7</sup> Tevfik Pekin, *Makro Ekonomi* (İzmir: Zeus Kitapevi, 2007), p. 107.

<sup>8</sup> Kemal Yıldırım and Doğan Karaman, *Makro Ekonomi* (Eskişehir: Eğitim, Sağlık ve Bilimsel Araştırma Çalışmaları Vakfı Yayınları, 2001), p. 350.

lack of demand but this situation is temporal.<sup>9</sup> Briefly, in hidden unemployment there is non-productiveness both in developed and developing countries.

#### 1.2.4 Structural Unemployment

According to Borjas, who has valuable studies about labor economics, in structural unemployment, there is no balance between the total numbers being supplied and demanded in the labor market. While some sectors in the economy are growing, other sectors are declining. Therefore, labor force will move to the growing sectors. But this accordance of movement can take time or this accordance cannot occur completely. So, existing unemployment in these situations is named as structural unemployment, in labor economy.<sup>10</sup> It can be said that social-economic changes in structure of society and differentiation in applications can cause to structural unemployment.<sup>11</sup>

In the general sense, the reasons of structural unemployment are economic growth, lack of capital, development in technology and industry and also followed sectorial, industrial and regional policies of government.<sup>12</sup> In order to reduce structural unemployment which is generally seen in developing and underdeveloped countries, governments have to provide training programs supplying opportunities to displaced workers to gain skills demanded from them.<sup>13</sup>

#### 1.2.5 Frictional Unemployment

It is a kind of temporary unemployment arising from immobility of labor or unwillingness of labor to learn new skills<sup>14</sup>. In this kind of unemployment, employees give up their job to get new jobs having better conditions. Frictional unemployment can occur when the economy is on the balance of full employment.

According to Borjas, frictional unemployment is not a structural problem in labor market, it only causes short time unemployment. Besides, sometimes frictional unemployment is an advantage 'because the search activities of workers and firms improve the allocation of

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<sup>9</sup> Özgüven, *İşgücü Piyasası ve Kobiler*, p. 401.

<sup>10</sup> George J. Borjas, *Labor Economics*, 5th edn (New York: McGraw-Hill/Irwin, 2010), p. 504-505

<sup>11</sup> Sabahattin Zaim, *Çalışma Ekonomisi*, 10th edn (İstanbul: Filiz Kitapevi, 1997), p. 188-189.

<sup>12</sup> Mustafa İlker Parasız, *1923'ten Günümüze İktisat ve İstikrar Politikaları* (Bursa: Ezgi Kitabevi, 1998), p. 36.

<sup>13</sup> Borjas, p.505.

<sup>14</sup> Prince Eferé, *Fighting Unemployment* (2004), p.3,

<<http://www.bayelsa.org.uk/pdf/bsup-fighting-unemployment.pdf>> [accessed 12 February 2013].

resources'.<sup>15</sup> Frictional unemployment can be solved in developing countries with the help of some political precautions taken by governments.

### **1.2.6 Seasonal Unemployment**

This kind of unemployment occurs depending on changes in demand and supply of goods and services due to the seasonal variations.<sup>16</sup> Agriculture, construction, building and tourism sectors are affected by seasonal unemployment. In the season of increasing of working facilities, employment rate grows, but when working facilities decline, employment rate decreases.

The reasons of seasonal unemployment change from country to country. While it arises from changes in demand in the developed countries, on the other hand in underdeveloped countries whose economy depends on agriculture, it arises from changes in supply and seasonal productions. This situation emerges from the structure of agricultural production<sup>17</sup>.

### **1.2.7 Technological Unemployment**

Technological developments in production cause this kind of unemployment. With the developments of technology, machines or more productive methods take place of human labor. This situation can be seen in both developing and developed countries. However, its effects can be so serious in developing countries. On the other hand, developed countries which have technological and technical knowledge capacity can provide new employment opportunity for the unemployed.

With the organizing labor training programs, negative effects of technological unemployment can be reduced.

### **1.2.8 Cyclical Unemployment**

Cyclical unemployment occurs because of the peaks and troughs of the trade cycle. It happens generally during to the period of economic recession. According to Eyuboglu, the main reason of cyclical unemployment is lack of effective demand.<sup>18</sup>

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<sup>15</sup> Borjas, p.504.

<sup>16</sup> Eferé, *Fighting Unemployment*, p.1

<http://www.bayelsa.org.uk/pdf/bsup-fighting-unemployment.pdf> last accessed:(12.02.2013)

<sup>17</sup> Zaim, *Çalışma Ekonomisi*, p. 179

<sup>18</sup> Deniz Eyüboğlu, *2001 Krizi Sonrasında İşsizlik ve Çözüm Yolları* (Ankara: Milli Prodüktivite Merkezi Yayınları, No.634, 2003), p. 15.



It is not possible to say that there is no unemployment when there are increase of investment, employment rate, monetary value and capital efficiency. Because, overproduction increases incomes and when incomes increase more and more, savings increase parallely; consumption decrease and lack of demand occurs. In this case, investments declines and then cyclical unemployment can emerge.<sup>19</sup> Cyclical unemployment can affect many people and its effects can last a long time.

It is a conclusion of capitalist system and this kind of unemployment is generally seen in developed countries. Its effects can be reduced by the help of some economic precautions. According to Borjas, in order to decrease cyclical unemployment, the state has to stimulate aggregate demand and reestablish market balance at the sticky wage.<sup>20</sup>

### 1.3 Costs of Unemployment

Unemployment is a very big problem for both developing countries and developed countries in this century and its effects are multiple. It causes *economic, psychological, and social costs* on the individuals.

*Economic Cost of Unemployment;* the main economic cost of unemployment is decline of gross national product and losing of skills of unemployed. For instance, according to Turkish Statistical Institute (2012) the number of labor force in Turkey is approximately 27 million and unemployment rate is 9 %. That is to say that there are approximately 2.5 million unemployed in Turkey. In other words, it is loss of production and waste of 2.5 million labor force. In addition to this, due to the unemployment, there can be declines in aggregate income tax of government budget. Besides, many of social developed countries pay for unemployed unemployment compensation and this has been a great loss recently in developed countries.

*The social cost of unemployment;* it is a result of psychological and economic effects. It causes financial difficulty and poverty. When increase of unemployment, in parallel with crime rates, divorce rates and social uneasiness increase.<sup>21</sup> According to studies of Hale and

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<sup>19</sup> Aydın Türkbâl, *İktisada Giriş*. (Diyarbakır: Dicle Üniversitesi, Hukuk Fakültesi Yayınları No: 9, 1993), p. 389-390.

<sup>20</sup> Borjas, *Labor Economic*, p.504.

<sup>21</sup> Ali Rıza Sandalcılar, 'İşsizlik Boşanmayı Etkiliyor mu? Bölgesel Panel Nedensellik"', *Ege Akademik Bakış*, 12.2, (2012), 225, in <[http://www.onlinedergi.com/makaledosyaları/51/pdf2012\\_2\\_9.pdf](http://www.onlinedergi.com/makaledosyaları/51/pdf2012_2_9.pdf)> [accessed 20 February 2013].

Sabbagh in England, there is positive relationship between unemployment and crime rates<sup>22</sup>. Similarly, the study of Cömertler and Kar supports this positive relationship<sup>23</sup>. In order to reduce social effects of unemployment, as it has been mentioned above, the social developed countries pay for unemployed unemployment compensation.

*Psychological* disorder because of unemployment is a serious problem not only unemployed people but also people at work who believe job security is not enough for them<sup>24</sup>. In addition of this unemployment can cause a lack of self-esteem, depression and even suicidal behavior<sup>25</sup>.

## 1.4 Theoretical Approaches to Unemployment

### 1.4.1 Keynesian Approach

Keynesian approach has emerged as a necessity to response to classical theory that was assumed to become a remedy to Great Depression. According to this model created by John Maynard Keynes, capitalism would alive with the state interventions.<sup>26</sup>

Keynes analyzed operation of an economy in “General Theory” on the concept of sectors-markets. He claimed that it is impossible to provide full employment automatically; therefore, in economic life government intervention is a need to reduce unemployment.

Classical economists claim that unemployment is a permanent problem that occurred because of the labor market rigidity and it could be vanished by flexibilisation of wages.<sup>27</sup> However, according to Keynes, nominal wages and prices are sticky and flexible labor market is not a solution to remove unemployment because wage flexibility lead to deflation rather

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<sup>22</sup> Chris Hale and Dima Sabbagh, 'Testing The Relationship Between Unemployment and Crime: A Methodological Comment and Empirical Analysis Using Time Series Data From England and Wales', *Journal of Research in Crime and Delinquency*, 28.4, (1991), 400-417 (p. 401-402).

<sup>23</sup> Necmiye Cömertler and Muhsin Kar, 'Türkiye'de Suç Oranının Sosyo-Ekonomik Belirleyicileri: Yatay Kesit Analizi', *Ankara Üniversitesi SBF Dergisi*, 62.2, (2007), 38-57 (p. 38), in<<http://dergiler.ankara.edu.tr/dergiler/42/930/11593.pdf>> [accessed 21 February 2013].

<sup>24</sup> Ahmet Çelikkol, *Çağdaş İş Yaşamında Ruh Sağlığı* (İstanbul: Alfa Basın Yayın Dağıtım, 2001), p. 143.

<sup>25</sup> Burcu Kümbül Güler, 'İşsizlik ve Yarattığı Psiko-Sosyal Sorunlarının Öğrenilmiş Çaresizlik Bağlamında İncelenmesi', *İstanbul Üniversitesi Dergisi*, 55.1, (2005), 373-394 (p. 377), in<[http://akademikpersonel.kocaeli.edu.tr/burcu.guler/diger/burcu.guler12.01.2010\\_17.02.30diger.pdf](http://akademikpersonel.kocaeli.edu.tr/burcu.guler/diger/burcu.guler12.01.2010_17.02.30diger.pdf)> [accessed 22 February 2013].

<sup>26</sup> Parguez, Alain; Thabet, Slim. *International Journal of Political Economy*. Spring2013, Vol. 42 Issue 1, p26-39 p.29

<sup>27</sup> Bruce C. Greenwald and Joseph E. Stiglitz, 'Keynesian, New Keynesian and New Classical Economics', *Oxford Journals*, 39.1, (1987), 119-133 (p.119-121), in<<http://www.cba.edu.kw/alshammari/521NOTES/New%20Keynesian%20and%20New%20Classical%20Economics.pdf>> [accessed 9 December 2013].

than solving unemployment problem but persistent deflation is not possible.<sup>28</sup> Thus, wage flexibility in Keynesian system turns into a factor which explains equilibrium of economy even in the case of under-employment.<sup>29</sup> Accordingly, unemployment is the result of deficiency effective demand rather than wages.

Classical economy accepts that *wage increase* is one of the main reasons of unemployment.<sup>30</sup> According to Keynes, wage concession is one of the important ways to provide full employment because reduction of wage affects *aggregate demand* negatively and this causes recession and unemployment. The important thing is to keep alive the investment capacity and to prevent the recession without damaging economic equilibrium. The producing goods which don't have consumers do not provide benefit economy or general welfare.<sup>31</sup>

Keynes asserts that the reason of unemployment in societies is to be profit sought by employers. However it is not possible to remove unemployment by reducing labor's wages. Therefore, although Keynes is known as bourgeois economist, labor classes benefit from the politic result of Keynesian theory.

Keynesian theory was disapproved by proponents of "laissez-faire". After the crisis in 1970s, the macro-economy theory and policies of monetarism and new right replaced Keynesian theory.

#### 1.4.2 Neoclassical Approach

Neoclassical macroeconomic theories were basically formed on the base of "*Wealth of Nations*" published by Adam Smith. Neoclassical economists extend "laissez faire" notion of Smith. Neoclassical economists claim that Keynesian approach failed to manage economy; therefore, macro economy should be constructed via micro economy basis.<sup>32</sup> Neoclassic theory propounds that labor market disequilibrium is usually associated with wages increase

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<sup>28</sup> John Maynard Keynes, *The General Theory of Employment, Interest and Money* (2009) <<http://ambidextrouscivicdiscourse.com/wp-content/uploads/2010/10/The-General-Theory-of-Employment-Interest-and-Money.pdf>> [accessed 3 December 2013].

<sup>29</sup> Gülten Kazgan, *İktisadi Düşünce veya Politik İktisadın Evrimi*, 11th edn (İstanbul: Remzi Kitapevi, 2004), p. 86.

<sup>30</sup> Peter Fredriksson and Martin Söderström, 'Do Unemployment Benefits Increase Unemployment? New Evidence on an Old Question', *IZA Discussion Paper*, .3570, (2008), 1-37 (p. 22), in <<http://ftp.iza.org/dp3570.pdf>> [accessed 9 December 2013].

<sup>31</sup> Keynes.

<sup>32</sup> Greenwald and Stiglitz, p. 121 and Şemsa Özar ve Fuat Ercan, 'Emek Piyasası Teorileri ve Türkiye'de Emek Piyasası Çalışmalarına Eleştirel Bir Bakış', *Toplum ve Bilim*, 86, (2000), (p. 37).

and then it can be provided equilibrium of labor market by accepting to work for lower wages of unemployed people.<sup>33</sup>

Neoclassical economists assert that equilibrium can be provided only if the level of labor supply and labor demand is equal.<sup>34</sup> In this way, unemployment will not exist. According to Neoclassical theory, since market mechanism does not lead unemployment, it doesn't assess the unemployment as a problem. Unemployment is temporary and voluntary.<sup>35</sup> For instance, if labor supply is greater than labor demand, the wages must be decreased to remove unemployment. That is to say; on the equilibrium wage all unemployed people seeking jobs will be able to find jobs. Hence, according to neoclassical theory, there is no involuntary unemployment in the labor market. In neoclassical approach, if there are no rigidities in labor market, wages will be expected to reach equilibrium in accordance with supply and demand.<sup>36</sup> Although state interventions and regulations are not mentioned in the neoclassic approach, economy policies are planned to implement the downward real wage flexibility.

According to neoclassical economists, trade unions and state interventions (minimum wage, long term unemployment compensations and etc.) affect labor market equilibrium negatively and as the existence of trade union and interventions increase negotiation power of labors and real wages, voluntary unemployment arises.<sup>37</sup>

It is quite obvious that neoclassical approach explains unemployment subject by referring workers as only cost element. Accordingly, neoclassical economists propose measures that decrease labor cost. In addition, the rigidities in labor market should be removed and flexible wage and flexible working conditions should be created.<sup>38</sup>

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<sup>33</sup> Meryem Koray, *Sosyal Politika* (Bursa: Ezgi Kitapevi, 2000), p. 137.

<sup>34</sup> José Ortega y Gasset, *Labor Market Equilibrium* (2008),

<[http://highered.mcgraw-hill.com/sites/dl/free/0073523208/931865/Borjas\\_6e\\_Chapter\\_4.pdf](http://highered.mcgraw-hill.com/sites/dl/free/0073523208/931865/Borjas_6e_Chapter_4.pdf)> [accessed 4 December 2013].

<sup>35</sup> The Ministry of Finance of the Czech Republic, 'The NAIRU and the Natural Rate of Unemployment– A Theoretical view', *Research Study*, .1, (2008), 1-14 (p. 6-7), in <[https://www.google.com.tr/url?sa=t&rct=j&q=&esrc=s&source=web&cd=2&cad=rja&ved=0CDYQFjAB&url=http%3A%2F%2Fwww.mfcr.cz%2Fassets%2Fen%2Fmedia%2FThe-NAIRU-and-the-Natural-Rate-of-Unemployment-A-Theoretical-Viev.pdf&ei=5UiuUp-HHlHN0QWp\\_4G4CA&usq=AFQjCNHmtaxa4GTsc65gUHMaClbQjc\\_2Nw](https://www.google.com.tr/url?sa=t&rct=j&q=&esrc=s&source=web&cd=2&cad=rja&ved=0CDYQFjAB&url=http%3A%2F%2Fwww.mfcr.cz%2Fassets%2Fen%2Fmedia%2FThe-NAIRU-and-the-Natural-Rate-of-Unemployment-A-Theoretical-Viev.pdf&ei=5UiuUp-HHlHN0QWp_4G4CA&usq=AFQjCNHmtaxa4GTsc65gUHMaClbQjc_2Nw)> [accessed 1 December 2013].

<sup>36</sup> Marco Guerrazzi and Nicola Meccheri, *From Wage Rigidities to Labour Market Rigidities: A Turning-Point in Explaining Equilibrium Unemployment?* (2010) <<http://dse.ec.unipi.it/~meccheri/Labour%20Market%20Rigidities.pdf>> [accessed 2 December 2013].

<sup>37</sup> Kazgan, p. 173.

<sup>38</sup> Guerrazzi and Meccheri.

### 1.4.3 Neoliberalism

The recession and stagflation<sup>39</sup> in the 1970s caused of reborn of neoliberalism as an ideological response to capitalism of Keynesian welfare state.<sup>40</sup> As a result, mass dismissals and profit rate reduction has occurred in firms. Besides, the surplus of mass production caused rise of competition and reconstruction of capital.<sup>41</sup>

The high profit rates were necessary to make new investments by capital owners. However, the profitability was limited with size of national market (because of not being widespread free trade agreement). There were two alternatives to overcome this problem; one of them was increasing effective demand to activate markets. However, this alternative would mean increase of the labor income share which was not acceptable in terms of capital viability.<sup>42</sup> Accordingly, the second alternative to overcome this crisis was shifting the capital flows to financial market rapidly and removing the barriers implemented against international financial flows.

These developments above prepared the emergence of neoliberal policies. The notion of neoliberalism is used in many of academic and politic debates diversely during the past thirty years. Therefore, it is important to define the meaning of neoliberalism in several types. According to Hamel, neoliberalism refers to a political-economic philosophy which supports “*laissez faire*” approach to development by reducing state intervention and relying on unregulated market forces, following capitalist paths of free trade and market expansion.<sup>43</sup>

On the other hand, Harvey, who dedicated many studies about “Neoliberalism”, describes it from a different perspective;

“a theory of political economic practices that propose human well-being can best be advanced by liberating individual entrepreneurial freedoms and skills within an

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<sup>39</sup> “Stagflation is defined as periods of low or negative output growth, and inflation that is high by historical standards.” Robert B. Barsky and Lutz Kilian, 'A Monetary Explanation of the Great Stagflation of the 1970s', *Working paper of Michigan University*, (2000), (p. 5), in <<http://www.fordschool.umich.edu/rsie/workingpapers/Papers451-475/r452.pdf>> [accessed 5 December 2013].

<sup>40</sup> Simon Clarke, *The Neoliberal Theory of Society* (2005) <<http://homepages.warwick.ac.uk/~syrbe/pubs/Neoliberalism.pdf>> [accessed 3 December 2013].

<sup>41</sup> Kurtar Tanyılmaz, *Türkiye Ekonomisi'nin 80 Sonrası Sanayileşme Deneyimine Bakarken Türkiye'de Kapitalizmin Gelişimi*, ed. by Demet Yılmaz and Others (Ankara: Dipnot Yayınları, 2006), p. 306.

<sup>42</sup> Burcu Çalışır, 'Neoliberal Politikaların İşsizlik Sorunsalı ve Çözüm Stratejileri', *Marmara University, Unpublished Master Thesis*, (2007), (p. 45).

<sup>43</sup> Ashley Davis-Hamel, 'Successful Neoliberalism?: State Policy, Poverty, and Income Inequality in Chile', *International Social Science Review*, 87.3/4, (2012), 79-101 (p. 80).

institutional framework characterized by strong private property rights, free markets and free trade”.<sup>44</sup>

According to Harvey’s definition above, the privatization of public owned enterprises and marketization institutions are required for neoliberalism. Moreover, privatization and marketization means abandonment of state interventionist approach. The role of state is just to secure private property rights. This definition is also emphasized that it is an individual entrepreneurial freedoms but not general freedoms. In other words, this economic approach is profitable for skilled and entrepreneurial people.

In Clarke’s words, “any restriction on the freedom of trade will reduce well-being by denying individuals the opportunity to improve their situation”.<sup>45</sup> The question we need to ask here is about others, who are not skilled genetically or who cannot benefit from educational opportunities coequally due to lack of money, will fail in this approach? The answer is that the unskilled people, who had less *human capital*, are more likely to be unemployed in neoliberal economies. In addition, this system has increased competition between workers and has increased inequalities between people. Thus, individualism and personal responsibility for one’s own circumstances has prioritized in the neoliberal system.<sup>46</sup>

Within the scope of these definitions, the main strategies of neoliberalism involve:<sup>47</sup>

- elimination of price controls,
- liberalization of import trade,
- deregulation of financial markets and capital flows,
- reduction of the public sector, particularly cuts in social program funding,
- privatization of public owned enterprises; and, reform of the labor sectors and tax system.

As it is seen, the scope of neoliberalism is comprehensive that’s why in the following title, ‘Neoliberal policies against unemployment’, which constitutes framework of this thesis, will be analyzed.

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<sup>44</sup> David Harvey, *A Brief History of Neoliberalism* (New York: Oxford University Press, 2007), p. 2.

<sup>45</sup> Clarke, <http://homepages.warwick.ac.uk/~syrbe/pubs/Neoliberalism.pdf>.

<sup>46</sup> Ger McCoy and Rois’ in Peddle, 'Socheolas: Limerick Student Journal of Sociology', *Neoliberal policy and its influence on welfare ideology: A source of social injustice?*, 3.2, (2012), 61-79 (p. 61), in<<http://www3.ul.ie/sociology/socheolas/vol3/2/McCoy%20and%20Peddle.pdf>> [accessed 3 December 2013].

<sup>47</sup> Leonardo Hernandez and Fernando Parro, 'Economic Reforms, Financial Development, and Growth: Lessons from the Chilean Experience', *Cunderenos de Economia*, 45, (2008), 59-103 (p. 64)

#### 1.4.4 Neoliberal Policies Against Unemployment

As it was mentioned before, since Keynesian theory could not be a remedy against increasing unemployment and inflation rate in 1970s, neoliberal policies gained widespread popularity. In addition, *neoliberalism* was supported under the name of ‘Washington Consensus’ by U.S President Ronald Reagan and British Prime Minister Margaret Thatcher and so neoliberal economic approach was accepted the predominant ideology by developed countries in the 1980s.<sup>48</sup>

The proponents of neoliberal theory claim that there is no unemployment (involuntary), if the labor market’s flexibility is adequate.<sup>49</sup> In addition, the increase in unemployment is temporary, because liberalization would bring higher economic growth eventually which leads to reduce unemployment. However, this neoliberal view is not supported by the experiences of some countries which adopted neoliberal policies, unemployment rates remained on the high level for long periods.<sup>50</sup> Another point, in the neoliberal economy, labor market rigidity is emphasized as one of the main determinants of competitiveness in the globalizing world that is the main purpose of state economic policy.<sup>51</sup> Especially after 1980, the flexibility debates intensified on the frame of employment capacities of economies. On the free market economy model adopted by neoliberal theory, the rigidities of Keynesian welfare state have been shown as barriers in front of providing economic success.

*Job Study* of OECD emphasized the importance of downward wage flexibility, the dangers of employment protection, and the need for limited unemployment-related benefits.<sup>52</sup> This was explained in the report published by IMF (2003) as well.

“A wide range of analysts and international organizations – including the European Commission, the Organization for Economic Cooperation and Development (OECD), the International Monetary Fund (IMF) – have argued that the causes of high unemployment can

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<sup>48</sup> Karl Homann, Peter Koslowski and Christoph Luetge, *Globalisation and Business Ethics* (England: Ashgate Publishing Limited, 2007), p. 16 in , <[http://upecen.edu.pe/ebooks/Derecho/AED/Globalisation%20and%20Business%20Ethics.%20Karl%20Homann,%20Peter%20Koslowski%20and%20Christoph%20Luetge%20\(Ed.\).pdf](http://upecen.edu.pe/ebooks/Derecho/AED/Globalisation%20and%20Business%20Ethics.%20Karl%20Homann,%20Peter%20Koslowski%20and%20Christoph%20Luetge%20(Ed.).pdf)> [accessed 2 December 2013].

<sup>49</sup> Harvey, p. 53.

<sup>50</sup> Martín Rama, 'Globalization and Workers in Developing Countries', *World Bank Policy Research Working Paper 2958*, (2003), 1-38 (p. 18), in <*World Bank Policy Research Working Paper 2958*> [accessed 5 December 2013].

<sup>51</sup> Henk Overbeek, 'Globalisation, Neo-liberalism and the Employment Question', *Working Papers Political Science of Vrije Universiteit Amsterdam*, 1, (2003), 1-20 (p. 1), in <<http://bdi.mfa.government.bg/info/Module%2009%20-%20Ikonicheska%20diplomacia/dopalnitelna%20literatura/wpps012003.pdf>> [accessed 6 December 2013].

<sup>52</sup> David R. Howell, *Fighting Unemployment: Why Labor Market ‘Reforms’ Are Not the Answer* (2005) <[http://www.nachdenkseiten.de/upload/pdf/hinw\\_051214.pdf](http://www.nachdenkseiten.de/upload/pdf/hinw_051214.pdf)> [accessed 8 December 2013].

be found in labor market institutions. Accordingly, countries with high unemployment have been repeatedly urged to undertake comprehensive structural reforms to reduce “labor market rigidities” such as generous unemployment insurance schemes; high employment protection, such as high firing costs; high minimum wages; noncompetitive wage-setting mechanisms; and severe tax distortions”.<sup>53</sup>

As it can be seen above IMF did not submit any alternative reform except deregulation.

Globalization, which is one of the main tools of neoliberal theory, has caused creating fierce competition of firms in the world during the transition process from 20th century to 21th century. After free trade agreements became widespread, firms have been shifted its production to low cost regions. While this was increasing the demand of information and knowledge worker in developed countries it caused an employment shrinking in manufacturing sector and it made unemployment a structural issue.<sup>54</sup> Increasing unemployment rate in developed countries has naturally caused pressure on wages and labor market rigidities.<sup>55</sup>

On the other hand, Haque claims that developing countries gain an unfair advantage because of lower wages and lower working conditions than developed countries. Therefore, there becomes a strong assertion that working standards in the developed countries have suffered on account of the rapid increase in imports from the developing countries that displaced domestic production and so it causes rise of unemployment in the industrial countries. Therefore, the developed countries are forced to limit imports and use international trade negotiations and ILO (International Labour Organisation) as a lever to increase labor cost in developing countries by persisting higher labor standards and a higher legal minimum wage.<sup>56</sup>

As it can be understood above that there is a conflict about flexibility of labor market between capital owners and governments. This debate seems that it will continue long time. However, it is a crystal-clear fact that after neoliberal policies was accepted dominant ideology in developed countries caused deregulation of the labor market flexibilization and

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<sup>53</sup> Ibid, p. 2.

<sup>54</sup> Yücel Uyanık, 'Neoliberal Küreselleşme Sürecinde İş Gücü Piyasaları', *Gazi Üniversitesi İktisadi ve İdari Bilimler Fakültesi Dergisi*, 10.2, (2008), 209-224 (p. 210), in<<http://iibfdergisi.gazi.edu.tr/index.php/iibfdergisi/article/download/112/103>> [accessed 1 December 2013].

<sup>55</sup> Florence Jaumotte and Irina Tytell, 'How Has The Globalization of Labor Affected the Labor Income Share in Advanced Countries?', *IMF Working Paper*, (2007), 1-54 (p. 7-8), in<<http://www.imf.org/external/pubs/ft/wp/2007/wp07298.pdf>> [accessed 2 December 2013].

<sup>56</sup> Irfan ul Haque, 'Globalization, Neoliberalism and Labour', *UNCTAD Discussion Papers*, .173, (2004), 1-22 (p. 11), in<[http://unctad.org/en/docs/osgdp20047\\_en.pdf](http://unctad.org/en/docs/osgdp20047_en.pdf)> [accessed 3 December 2013].



casualization of labor, increase informal employment (especially in developing countries.) and casualization of worker.

Consequently, unemployment is still a bleeding wound both in developed and developing countries since 1970s. However, the offered solutions are generally not effective adequately.

## CHAPTER 2

### STRUCTURE OF TURKISH LABOR FORCE AND ITS FEATURES

The Turkish labor market is shaped by strong labor supply depending on rapid population growth, low employment rates, declining participation rates, high unemployment rates, widespread employment in small scale establishments, and segmentation of wages along several lines.<sup>57</sup>

Nowadays, unemployment matter is one of the main agenda topics for almost every country. Reducing unemployment and increasing employment in labor market are accepted as one of the most important indicators of economic developments of governments. Every country needs employment policies which are compatible with its economic structure and labor market to make labor force more effective and productive. To determine the features of Turkish labor force is necessary to take precautions against unemployment and to develop employment policies.<sup>58</sup>

Therefore, in this chapter of thesis, structure and features of Turkish labor market will be examined.

#### 2.1 Unemployment in Turkey

Turkey has been struggling with unemployment since 1970 and it has become structural and chronic since 1960. Therefore, unemployment in Turkey did not emerge due to globalization and technological developments just as in developed countries; it is because of structural reasons that emerged as results of lack of capital and inadequate growth.<sup>59</sup>

Unemployment in Turkey is a chronic and structural problem. Main problems are rapid population growth and crowded young population of Turkish Labor Force. However, low education level of population, low participation rate of women in working life, huge informal

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<sup>57</sup> Aysıt Tansel and H. Mehmet Taşçı , 'Hazard Analysis of Unemployment Duration by Gender in a Developing Country: The Case of Turkey', *Economic Research Center (ERC) Working Papers in Economics 09/03* , , (October 2009), (p. 7), in<<http://www.erc.metu.edu.tr/menu/series09/0903.pdf>> [accessed 21 March 2013].

<sup>58</sup> E. Yasemin UYAR BOZDAĞLIOĞLU, 'Türkiye'de İşsizliğin Özellikleri ve İşsizlikle Mücadele Politikaları', *Sosyal Bilimler Dergisi*, No: 20, (2008), 45-65 (p. 46), in<<http://yordam.manas.kg/ekitap/pdf/Manasdergi/sbd/sbd20/sbd-20-04.pdf>> [accessed 22 March 2013]

<sup>59</sup> Burcu Gediz and M. Hakan Yalçınkaya, 'Türkiye'de İstihdam-İssizlik ve Çözüm Önerileri: Esneklik Yaklaşımı', *Celal Bayar Üniversitesi İİBF Yönetim ve Ekonomi Dergisi*, No: 6, (2000), 161-184 (p. 183).

employment rate, hidden unemployment and long education time can be shown as other important problems of employment.<sup>60</sup>

### 2.1.1 Development Process of Unemployment

Until end of the 1960, unemployment rate was about 3.5 per cent, since 1970s with the beginning of petrol crisis in the world, it had started to increase and then it became 10.1 percent in 1978. In these years, increasing inflation rates, growing foreign trade deficit, import-substitution industrialization strategy and drop capacity ratio in economy caused an increase in unemployment rate in Turkey.<sup>61</sup>

In 1980 the paradigm shift in the World affected economy approach of Turkey as well. This paradigm shift, called as “24 Ocak Kararları”, imposed to society with the military coup on 12 September 1980. The military coup made trade unions nonfunctional. The economic policies of Turkey have been shaped with the imposition of IMF and World Bank by the neoliberal policies. In this framework, the downsizing of the state and privatization were started to be implemented rapidly. According to Uçkaç, Neoliberal economy policies cause increase of foreign-source dependency, increase of inequality in society in developing countries such as Turkey. Besides, these policies lead to unemployment and pressure on labor wages.<sup>62</sup> The main expectation from neoliberal policies in Turkey is to attract attention of foreign investors. However, foreign capital preferred to invest in financial sector instead of real sector.<sup>63</sup>

After 1980s, Turkey started to apply economic growth strategy which is based on export by giving up import-substitution industrialization. However, increased export in 1980’s occurred with high level of production of installed capacity and way of repressing of domestic demand, that is to say; economic growth in these years could not create new employment and also it did not reflect to unemployment rate positively.<sup>64</sup>

In the beginning of 1990’s and with the gulf war, unemployment in Turkey reached to approximately 9 per cent and then between 1993 and 1999, it showed a falling tendency. In

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<sup>60</sup> Karabulut, p. 20-22.

<sup>61</sup> Biçerli, İşsizlikle Mücadelede Aktif..., p. 256.

<sup>62</sup> Aynur Uçkaç, 'Türkiye’de Neoliberal Ekonomi Politikaları ve Sosyo Ekonomik Yansımaları', *Maliye Dergisi*, .158, (2010), 422-430 (p. 427).

<sup>63</sup> Ibid.

<sup>64</sup> Cemil Bekiroğlu, 'Türkiye’de İşsizlik Sorunu Çözümlemesinde Uygulanan Politikaların Analizi', *Sosyal Bilimler Enstitüsü, Published Master Thesis*, (2010), (p. 148), in<[http://sites.khas.edu.tr/tez/CemilBekiroglu\\_izinli.pdf](http://sites.khas.edu.tr/tez/CemilBekiroglu_izinli.pdf)> [accessed 16 April 2013].

Turkey, after two big earthquakes in 1999 and banking crisis in 2001, unemployment passed over about 10 per cent. Due to global crisis in 2008 unemployment increased to 14 per cent. Since 2010, it has started to decrease and then it occurred as 9.8 percent in 2012.<sup>65</sup>

### 2.1.2 Unemployment with Regard to Settlement Unit, Gender and Age

It is so important to state that in rural areas, most people work as unpaid family workers (unregistered) in agriculture sector of Turkey. These workers are not seemed as unemployed in indicators. If they are also calculated as unemployed, unemployment rate will be much higher than announced. Because of this reason, in order to get more realist rates, it is necessary to be looked at non-agricultural unemployment rates. According to indicators of Turkish Statistical Institute, in 2012 non-agricultural unemployment rate (12.4 percent) occurred much higher than unemployment rate (9.8 per cent). So it shows us that unemployment is a more serious trouble in Turkey than it seems.

Another trouble of Turkish labor force is high women unemployment rate. Since 1970s, women unemployment has always been higher than men unemployment rate. As it can be seen in Table 2.1 below, in 2012, while women unemployment was 10.8%, it occurred 8.5 % for men. Many women in Turkey can find a job in agriculture sector. Especially with the beginning of immigration from rural to urban regions in 1960's, there could not be created enough employment in urban regions for migrating women.

**Table 2.1 Unemployment Rate with Regard to Settlement Units and Gender**

Years % (+15)	Urban		Rural		Female unemployment	Male unemployment	Non-agriculture unemployment	
	Male	Female	Male	Female			Male	Female
2003	12.6	18.3	7.9	4.2	10.1	10.7	12.6	18.9
2004	12.5	17.9	7.3	3.2	11.0	10.8	12.9	19.6
2005	11.6	17.0	8.1	4.1	11.2	10.5	12.2	18.7
2006	10.9	16.4	7.6	16.4	11.1	9.9	11.3	17.9
2007	10.8	16.1	8.3	3.8	11.0	10.0	11.4	17.3
2008	11.6	16.6	8.7	4.3	11.6	10.7	12.3	18.1
2009	15.3	20.4	10.7	5.3	14.3	13.9	16.0	21.9
2010	12.6	18.7	8.7	4.6	13.0	11.4	13.2	20.2
2011	10.2	16.5	7.0	3.6	11.3	9.2	10.7	17.7
2012	9.4	15.5	6.5	3.5	10.8	8.5	9.9	16.4

**Source:** The table is created with the data retrieved from Turkstat.<sup>66</sup>

<sup>65</sup> Turkstat (Turkish Statistical Institute), [www.turkstat.gov.tr/start.do](http://www.turkstat.gov.tr/start.do), accessed on 03.03.2013

Besides, “youth unemployment”<sup>67</sup> is the other problem of Turkish Labor Force. According to Turkish Statistical Institute, since 2000 the youth unemployment in Turkey has started to increase and in 2012 it reached (17, 5 per cent) almost two times more than national unemployment rate. According to publication of Foundation for Political Economic Social Research (SETA), becoming chronic matter of youth unemployment signs that there is a problem in transition from vocational training to labor market and especially it is clear that low educated youth are affected by this more than others. It originates incompatibility of quality expectation between labor supply and labor demand and in order to solve this trouble, it is necessary to reorganize vocational training in schools.<sup>68</sup>

### **2.1.3 Unemployment Rate with Regard to Education**

Another important issue is high unemployment rate of higher educated people. Due to the fact that educated people expect much more salary and better working conditions than others, the unemployment in Turkey is more common among educated people than uneducated people.

According to Table 2.2 when unemployment rate with regard to education level is considered, unemployment rates among the high school and university graduates (11 and 10.1 percent respectively) are higher than the average general unemployment rate. Besides, unemployment rate among university graduates has been the reduce tendency day by day since 2003 (from 11.1 to 10.1 per cent). In the light of these data, scholarliness causes people to find jobs more difficult than others in Turkey. In additional to that as it can be seen that in the periods of economic recession (2007 global crisis)<sup>69</sup>, qualified labor force is affected more than illiterates.

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<sup>66</sup> [http://www.turkstat.gov.tr/VeriBilgi.do?alt\\_id=25](http://www.turkstat.gov.tr/VeriBilgi.do?alt_id=25), 17.04.2013

<sup>67</sup> “youth unemployment” consists unemployed between 15-24 ages.

<sup>68</sup> Seta, <http://arsiv.setav.org/ups/dosya/35324.pdf> p. 13 accessed on 18.03.2013.

<sup>69</sup> See several years later of economic recession in figure 6.

**Table 2.2 Unemployed Ratio By Educational Status and Periods**

Years %	Illiterate	Less than High School	High and Vocational High School	College or University
2003	7	10.2	12.8	11.1
2004	3.7	9.7	15.2	12.4
2005	4.5	10.1	13.8	10.2
2006	4.8	9.8	13	9.5
2007	5.2	9.8	13	9.7
2008	6.3	10.7	12.9	10.3
2009	8	13.9	16.9	12.1
2010	6	11.6	14.6	11
2011	4.6	9.3	11.9	10.4
2012	3.9	8.7	11	10.1

**Source:** The table is created with the data retrieved from Turkstat.<sup>70</sup>

## 2.2 The Correlation Between Growth and Unemployment

There is a close relation between labor demand, goods and service demand in economies, accordingly, increasing of employment rate is one of the conclusions of increase in production of goods and services; and in other words, it depends on economic growth.<sup>71</sup> In recent years, Turkish economy has grown rapidly. However, this high level economic growth cannot be reflected to labor market. Especially, the high economic growth between 2003 and 2006 did not influence employment rate desirably. In this term, while growth of gross domestic product emerged as average 7 percent, employment rate decreased -2.5 per cent. So it means that economic growth cannot create enough employment in Turkey.<sup>72</sup>

According to Vorkink who is the director of World Bank in Turkey, the economic growth is at a high level without generating new jobs in Turkey, generating inadequate jobs prevents population sharing benefits of this growth and it is impossible to continue sustainable growth in the long term. However, only economic growth is not enough for reducing unemployment.<sup>73</sup>

Global financial crisis that started in 2007 affected Turkey as many of other developed and developing countries. In this term, while investments, current output, export and employment

<sup>70</sup> <http://www.turkstat.gov.tr/Start.do> accessed on 17.03.2013.

<sup>71</sup> Sapançalı F., "Türkiye İşgücü Piyasası, Sorunlar ve Politikalar", TÜHİS İş Hukuku ve İktisat Dergisi, Volume: 21 No:2-3, 2007 p.15.

<sup>72</sup> Ibid.

<sup>73</sup> Vorkink A., "Dünya Bankası'nın Ülkemiz İşgücü Piyasasına İlişkin Tespit ve Yorumları", TİSK İşveren Dergisi Özel Eki, Mart 2006, s. 4-5.

rate started to reduce besides, imbalances emerged between domestic consumption and external consumption expenditure.<sup>74</sup> Thus, economic recession (-4.8 percent) emerged in Turkey. After the deep global financial crisis, strong growth trend in Turkish economy continued again with the help of macroeconomic politics and structural reforms, thus Turkish economy has become one of the fastest growing economies in the world in 2010 and 2011 with 9.2 percent and 8.5 percent growth rates, respectively. In this period, inflation rate and public debt has been brought under control and exporting has yearly raised average 20 percent. However, this success in economy cannot be reflected to employment rate so positively.<sup>75</sup>

As it can be seen in Table 2.3, after deep economic crisis in 2001, employment rate reduced until 2009 in spite of high economic growth rate. After 2009, employment rate has inadequately increased and unemployment rate occurred as 9, 8 percent by declining.

**Table 2.3 The Correlation Between Growth and Unemployment**

	2003	2004	2005	2006	2007	2008	2009	2010	2011
Annual Percentage Change in Real GDP	5.3	9.4	8.4	6.9	4.7	0.7	-4.8	9.2	8.5
Labor Force									
Employment (thousand)	21.147	19.632	20.067	20.423	20.738	21.193	21.277	22.594	24.110
Employment Increase (%)	-1	-7.2	2.2	1.8	1.5	2.2	0.4	6.2	6.7
Labor Force (Thousand)	23.640	22.016	22.455	22.751	23.114	23.805	24.748	25.641	26.725
Labor Force (%)	-0.7	-6.9	2.0	1.3	1.6	3.0	4.0	3.6	4.2
Unemployment (Thousand)	2493	2385	2388	2328	2376	2611	3471	3046	2615
Unemployment (%)	10.5	10.8	10.6	10.2	10.3	11.0	14.0	11.9	9.8

**Source:** The table is created with the data retrieved from Turkstat<sup>76</sup>.

<sup>74</sup> Emine Olhan, 'Türkiye'de Kırsal İstihdamın Yapısı', *Birleşmiş Milletler Ortak Programı, FAO Türkiye Temsilciliği*, (2011), (p. 4), in <[http://www.undp.org.tr/povRedDocuments/YEM\\_Kirsal%20Istihdam.pdf](http://www.undp.org.tr/povRedDocuments/YEM_Kirsal%20Istihdam.pdf)> [accessed 25 April 2013].

<sup>75</sup> Ibid.

<sup>76</sup> <http://www.turkstat.gov.tr/Start.do> accessed on 17.03.2013

### 2.3 Labor Force

It is clear to see that after global crisis between 2008 and 2009, whereas rates of labor force and employment rates tends to rise, non-agriculture unemployment and national unemployment rates are in trend of decline in Turkey.

According to Erdil who has valuable studies about poverty and labor markets, Turkish labor market can be summarized as follows;<sup>77</sup>

- “High population growth rate and in connection with this concern, increasing labor supply,
- The large part of the population in the rural areas and engaging with the agricultural activities at a low productivity rate,
- A migration flow from rural to urban areas against the limited employment creation by the private sector and urban areas and resulting unemployment problem in urban areas,
- A segmented labor market consisting of agriculture, urban informal, and formal segments,
- The heterogeneous structure of labor and consequential significant wage differentials,
- The limited employment creation capability of the economy.”

The average age of the population in Turkey is so young compared to both EU countries and OECD countries. Although this situation seems as an advantage, due to the fact that enough employment could not be created, it turns into a disadvantage. Besides, a significant part of employment works with low productivity and informal in agriculture sector. With the dense migrations from rural to urban regions starting in 1950's, due to the lack of capital, non-industrial private sector in Turkey could not be generated enough employment for those who migrated. Thus, unemployment rate in urban regions were in tendency to increase.

On the other hand, when Turkish labor force rate is compared with OECD countries, Turkish labor force is much lower than average of them. While average of labor force rate in OECD countries is about 70 per cent, between 2007 and 2011, it occurred in Turkey about 48 per cent. Even, due to the fact that discouraged workers who do not search jobs but are willing to work are not calculated as unemployed, announced unemployment rate and labor force rate in Turkey emerges much lower than reality.<sup>78</sup>

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<sup>77</sup> Erkan Erdil, 'Poverty and Turkish Labor Markets ', *ODTÜ Gelişme Dergisi* , 34.2, (2007), 137-172 (p. 153).

<sup>78</sup> Cahit Aydemir, 'Türkiye’de İşgücü Yapısı, İşsizlik ve Kırsal Alan', *Atatürk Üniversitesi İktisadi ve İdari Bilimler Dergisi*, 27.1, (2013), 115-138 (p. 119), in <<http://e-dergi.atauni.edu.tr/index.php/IIBD/article/viewFile/8423/7209>> [accessed 20 June 2013].



**Table 2.4 Labor Force Situation Of Non-Institutional Population**

Years %	Labor Force Rate (%)	Labor Force (Thousands )	Employment Rate	Employment (Thousands)	Unemployment Rate	Non-Agriculture Unemployment Rate
2003	48.3	23.640	43.2	21.147	10.5	13.8
2004	46.3	22.016	41.3	19.632	10.8	14.2
2005	46.4	22.455	41.5	20.067	10.6	13.5
2006	46.3	22.751	41.5	20.423	10.2	12.7
2007	46.2	23.114	41.5	20.738	10.3	12.6
2008	46.9	23.805	41.7	21.194	11	13.6
2009	47.9	24.748	41.2	21.277	14	17.3
2010	48.8	25.641	43.0	22.594	11.9	14.8
2011	49.9	26.254	45.0	24.110	9.8	12.4
2012	50.0	26.725	45.4	24.821	9.2	11.5

**Source:** The table is created with the data retrieved from Turkstat.<sup>79</sup>

As it can be seen in Table 2.4, the number of employment has increased 711.000 people in 2012. In parallel to it number of labor force has raised about 471.000 thus labor force rate has reached 50 per cent. With the 2008-2009 global crises, unemployment rate started to increase in Turkey. After the unemployment rate reached peak in 2009 in Turkey (14.0 per cent), it showed a failing tendency therefore, it emerged 9.2 per cent in 2012. However, although unemployment rate is on the declining trend, it is still a serious bleeding wound of Turkey.

## 2.4 Employment in Turkey

Features of Turkish employment are similar to developing countries' features. Under this title, features of employment of Turkish labor market will be analyzed.

### 2.4.1 Structure of Employment with Regard to Sectors

Distribution of employment to sectors is one of the primary indicators of countries' economic and social development. These three main sectors are agriculture, industry and service sectors. Sectorial distribution of employment differs from developed countries to developing countries. In the developing countries, due to the being weak industry capacity,

<sup>79</sup> <http://www.turkstat.gov.tr/Start.do> accessed on 21.03.2013

large part of the society is employed in agriculture sector, on the other hand, there is the exact opposite situation in the developed countries, that is to say, in these countries due to the having developed industry, intensity of employment occurs in industry sector and there is sub employed in agriculture sector.

In the last decade, while agriculture sector has still had big part of employment by comparison with other sectors, employment in industry sector has almost stayed at the same level in Turkey. As a result of generating inadequate employment in industry sector, service sector has grown unrestrainedly. Table 2.5 shows the distribution of employment to sectors in Turkey for each year.

**Table 2.5 Structure of Employment with Regard to Sectors**

Years	Agriculture	Industry	Service
2003	33.9	22.8	43.3
2004	29.1	24.9	46
2005	25.7	26.3	48
2006	24	26.8	49.2
2007	23.5	26.7	49.8
2008	23.7	26.8	49.5
2009	24.7	25.3	50
2010	25.5	25.1	49.4
2011	25.9	24.2	49.9
2012	24.6	26	49.4

**Source:** The table is created with the data retrieved from Turkstat and Turkish Development Ministry.<sup>80</sup>

As it can be seen in the Table 2.5 many of employed people work in the service sector. While employment rate of service sector was 43.3 per cent in 2003, it increased 49.4 per cent in 2012. After the year 2003, employment in agriculture sector started to decrease from 33.9 per cent to 24.6 per cent in 2012 'due to the change which occurred in favor of service sector'<sup>81</sup>. Although, employment in agriculture sector decreases since 1990 day by day, it still

<sup>80</sup> <http://www.turkstat.gov.tr/Start.do>, [http://www.mod.gov.tr/en/SitePages/mod\\_aboutus.aspx](http://www.mod.gov.tr/en/SitePages/mod_aboutus.aspx) accessed on 25.03.2013

<sup>81</sup> Gülden Ülgen, 'The Employment Issue and The Future Of Unemployment In Turkey', *Akademi Araştırmalar Dergisi*, .28, (2006), 1-24 (p. 7).

has too high employment rate among the other sectors. High employment rate in agriculture sector causes decrease of labor productivity, employment rate and growing informal employment rate.<sup>82</sup> However, employment rate in industry sector between 2003 and 2012 stayed almost at same level.

#### **2.4.2 Structure of Employment with Regard to Gender and Settlement Unit**

Women employment rates in the world have generally grown in the last decade, it is also valid for Turkey but this increase is inadequate. Women employment in Turkey (25.6 percent) is so lower than either OECD countries or average women employment rate of EU with which Turkey is currently having on accession to negotiations. According to Gürsel and Uysal, it is originated from low demand for women labor as well as socio-cultural factors which restrict women labor supply.<sup>83</sup>

Generally speaking, as it has been stated by Küçükkalay (1998) the reasons of low women employment rate are;<sup>84</sup>

- The belief of child care only women's responsibility,
- Low education level of women,
- Unsuitability of labor market,
- Undeveloped part time working facilities,
- The deficiency of legal regulations about working life of women
- Inadequately and expensive kindergarten service.

In additional to that, it is undeniable reality that in the middle and east areas of Turkey, women or young girls are not allowed to work outside due to the structure of common dominant patriarchal families.<sup>85</sup>

On the other hand, although immigration from rural to urban regions has presently continued since 1960's, a great majority of population is still employed in rural regions of Turkey. Furthermore, people in rural work generally in agriculture sector as unpaid family workers in underemployment. As Table 2.6 shows that women participate to workforce

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<sup>82</sup> Diriöz, p.114.

<sup>83</sup> Seyfettin Gürsel and Gökçe Uysal, 'Türkiye'de İşgücü Piyasası Dinamikleri ve Yapısal Sorunlar', *Tisk Akademi*, 7.14, (2012), 6-33 (p. 31).

<sup>84</sup> A. Mesud Küçükkalay, 'Türkiye'de Planlı Dönemde Kadın Nüfusu ve Kadın İşgücü İstihdamındaki Gelişmeler', *Süleyman Demirel Üniversitesi İktisadi ve İdari Bilimler Fakültesi Dergisi*, .3, (1998), 35-44 (p. 39), in<<http://edergi.sdu.edu.tr/index.php/iibfd/article/viewFile/2359/2131>> [accessed 11 June 2013].

<sup>85</sup> Gülay Toksöz, *Women's Employment Situation in Turkey* (Ankara: International Labor Office (ILO), 2007), p. 2.

(generally in agriculture sector) in rural areas much more than women in urban. With the immigration from rural to urban areas, large number of women has become unemployed because of having low education level.

**Table 2.6 Employment Rate with regard to Gender and Settlement Unit**

	2003	2004	2005	2006	2007	2008	2009	2010	2011
<b>Turkey</b>	43.2	41.3	41.5	41.5	41.5	41.7	41.2	43	45
Male	62.9	62.7	63.2	62.9	62.7	62.6	60.7	62.7	65.1
Female	23.9	20.8	20.7	21	21	21.6	22.3	24.4	25.6
<b>Urban</b>	37.7	37.1	38.5	38.9	39.0	39.2	38.2	40.1	41.9
Male	60.3	60.5	61.9	61.7	61.8	61.5	59.2	61.5	63.7
Female	15.1	14.6	15.6	16.3	16.6	17.3	17.6	19.3	20.7
<b>Rural</b>	51.9	51.4	48.8	48	47.4	47.7	48	49.6	51.8
Male	67.1	68.3	66.5	66	65.1	65.4	64.3	65.4	68.2
Female	37.4	35.6	32.6	31.8	31.2	31.4	32.8	34.7	36.2

**Source:** The table is created with the data retrieved from Turkstat.<sup>86</sup>

### 2.4.3 Unregistered Employment

One of the most important problems of Turkish labor market is unregistered employment. Although there is no international valid definition of unregistered employment, it can be defined as working without enrolling in any social security organization. Generally low educated and unskilled people are employed as unregistered by violating the regulations such as minimum age level (child labor), minimum wage, overtime, workplace standards, health and security of workers.<sup>87</sup> In addition to that unpaid family workers generally work in agriculture sector and in self-employment as unregistered.<sup>88</sup> With the intensive immigration from rural to urban in 1980's unregistered employment started to increase fast. However, over

<sup>86</sup> <http://www.turkstat.gov.tr/Start.do>, accessed on 01.04.2013.

<sup>87</sup> Hakkı Mümin Ay, 'Unregistered Employment in Turkey', *Lex et Scientia*, 2.15, (2008), 366-377 (p. 367).

<sup>88</sup> Gürsel and Uysal p. 25.

the last decade, unregistered employment has been in trend of decline. While more than half employment rate was unregistered in 2000, it decreased to 38 percent in 2012. It is also so important to decline unregistered employment for government to get more social security premium income as it can be understood from explanation of Minister of Labor and Social Security Mr. Faruk Çelik;

*“Almost 11 million people in Turkey worked underground jobs in 2006, according to TÜİK (Statistics Institute of Turkey) data. adding turkey"s nearly 11 million illegal workers to the registration rolls could mean an additional 17 billion yıl in insurance premiums for the state”*<sup>89</sup>

**Table 2.7 Unregistered Employment Rate**

Years	Unregistered Employment	Total Employment	Unregistered Employment Rate
2003	10.943	21.147	51.7
2004	11.591	21.791	53
2005	9.666	20.067	48.2
2006	9.593	20.423	46.9
2007	9.423	20.738	45.4
2008	9.220	21.194	43.5
2009	9.328	21.277	43.8
2010	9.772	22.594	43.3
2011	10.139	24.110	42.1
2012	9.686	24.821	39

**Source:** The table is created with the data retrieved from Turkstat<sup>90</sup>

#### 2.4.4 Structure of Employment with Regard to Education Level

According to Gürsel and Uysal, growth in productivity or economic growth can be provided by technological developments and the main source of the technological development is human capital.<sup>91</sup> That is why; it is so important to train labor force. When examining developed countries, it is clear that their labor force consist of high education level.

<sup>89</sup> Hürriyet Daily News, *Work and social security minister: 10.7m in illegal jobs* (12/09/2007) <<http://www.hurriyetdailynews.com/default.aspx?pageid=438&n=work-and-social-security-minister-10.7m-in-illegal-jobs-2007-12-09>> [accessed 29 May 2013].

<sup>90</sup> <http://www.turkstat.gov.tr/Start.do> accessed on 10.04.2013.

<sup>91</sup> Gürsel and Uysal, p. 27.

Having a great extent uneducated and unqualified employment is the main problem of Turkish labor market.<sup>92</sup> When we look at structure of employment according to education level figure, low educated people (illiterate and less than high school graduate) rate in employment has a decreasing trend year by year. Their total rates decreased from 70.2 per cent to 63 per cent between 2003 and 2012.

On the other hand, highly educated people rate has an upward trend (from 29.8 per cent to 38 per cent) in the mentioned years. Nevertheless, education level of employment is not on the intended level.

**Table 2.8 Education Level Of Employment**

Years %	Illiterate	Less than High School	High School and Equivalent Profession	College or University
2003	7.1	63.1	18.8	11.0
2004	6.4	62.5	19.6	11.2
2005	5.5	61.1	21.0	12.4
2006	5.2	60.2	21.4	13.2
2007	4.8	59.5	21.8	13.9
2008	5.5	59.1	21.6	14.8
2009	4.7	59.0	20.7	15.6
2010	4.8	59.5	19.7	16.0
2011	4.8	59.0	19.6	16.6
2012	4.5	57.5	19.9	18.1

**Source:** The table is created with the data retrieved from Turkstat.<sup>93</sup>

When examining the education level based on gender, it is clear to see that males are more educated than females, besides participation of females to the labor force increases in urban area as their education level increases.<sup>94</sup>

#### 2.4.5 Distribution of Employment by Status

Distribution of employment by status is another issue which gives us information about development level of countries. In developed countries, regular and casual employees are the

<sup>92</sup> Ülgen, p.4.

<sup>93</sup> <http://www.turkstat.gov.tr/Start.do> accessed on 12.04.2013

<sup>94</sup> Ülgen, p. 5

biggest part of employment. According to this, with the economic growth, there should be increase in regular, casual employee rate and decrease in the rates of unpaid family workers and self-employed workers.<sup>95</sup>

**Table 2.9 Distribution Of Employment Rate By Status**

Years	Regular and Casual Employee	Employer and Self Employed	Unpaid Family Worker
2003	50.6	29.8	19.6
2004	54.5	28.4	17.1
2005	57.0	28.8	14.2
2006	58.9	28.0	13.1
2007	60.4	26.9	12.7
2008	61.0	26.3	12.7
2009	60.0	26.5	13.5
2010	60.9	25.4	13.7
2011	61.7	24.6	13.7
2012	62.9	23.9	13.2

**Source:** The table is created with the data retrieved from Turkstat.<sup>96</sup> 11.04.2013

As Table 2.9 shows that the main part of employed workers belongs to regular and casual employee in Turkey. Between 2003 and 2012, although employer and self-employed workers rate has decreased, it showed little change. The most favorable thing in this table has emerged on the unpaid family worker rate. While it was 19.6 per cent in 2003, it occurred 13.2 per cent in 2012. However, it is quite higher than requested level because it refers to hidden unemployment in agriculture sector.<sup>97</sup> Besides, increase in the number of regular and casual employee number is a positive development in terms of increasing number of registered people in social security foundation.

## 2.5 Other Main Problems in Turkish Labor Market

Between 2001 and 2008, Turkish economy had rapid growth by using economic reforms but in this process, structure of labor market has been taken no notice. Thus, economic growth

<sup>95</sup> E. Yasemin Uyar, 'Türkiye'de Uygulanan İşsizlik Ve İstihdam Politikalarının Avrupa Birliği Uyum Sürecine Etkileri (1980 Sonrası)', *Yayınlanmamış Master Tezi*, (2005), (p. 62).

<sup>96</sup> <http://www.turkstat.gov.tr/Start.do> accessed on 11.04.2013

<sup>97</sup> Şansel Özpinar and Others, 'Türkiye'de İstihdamın Yapısının Değerlendirilmesi (2000-2010)', *Sosyal ve Beşeri Bilimler Dergisi*, 3.2, (2011), 133-142 (p. 139), in <[http://www.sobiad.org/ejournals/dergi\\_SBD/arsiv/2011\\_2/sansel\\_ozpinar.pdf](http://www.sobiad.org/ejournals/dergi_SBD/arsiv/2011_2/sansel_ozpinar.pdf)> [accessed 3 June 2013].

cannot be reflected to labor market. Here, other problems in Turkish labor market which affects employment negatively will be examined.

### 2.5.1 Labor Costs

Labor cost is one of the basic elements of labor market effecting employment rate directly in Turkey. Labor costs basically consist of wages and pay-roll tax. According to OECD data in 2011, Turkey was a country which provides the seventh highest pay-roll tax rate among the OECD countries. While labor cost/ pay-roll tax (income tax of employees and social security primes) ratio in Turkey was 36, 3 %, it occurred roughly 25% in OECD countries averagely.<sup>98</sup> Having high labor cost makes especially export-oriented firms disadvantageous in international competition.<sup>99</sup>

In addition to that according to Boztepe, he estimated that in manufacturing industry, decreasing a unit pay-roll tax increases employment rate 0.2 percent. Besides, this decrease in pay-roll tax rate will cause increase in labor demand.<sup>100</sup>

On the other hand, according to data of Turkish Statistical Institute (TÜİK), 48 per cent of employees' wages at the minimum wage level in Turkey and as it is stated in the study of Güven and others, it is very difficult to mention contractionary pressure on the employment of minimum wage due to the fact that minimum wage is even too below the hunger threshold. That is to say, high labor cost in Turkish labor market originates generally from pay-roll tax rate rather than wages.<sup>101</sup>

### 2.5.2 Overworking

Another problem in Turkish labor market is weekly working hours. According to labor law numbered 4857, article 63;

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<sup>98</sup> TİSK publications, [http://tisk.org.tr/tr/e-yayinlar/2012/calisma\\_istatistikleri\\_2012/ek.pdf\\_p.11](http://tisk.org.tr/tr/e-yayinlar/2012/calisma_istatistikleri_2012/ek.pdf_p.11) accessed on 19.04.2013

<sup>99</sup> K. Önder Ergün and Tuğba Dinçer, 'Türkiye'de İşgücü Piyasası Sorunları ve Çözüm Önerileri', *Ekonomik ve Sektörel Analiz Dairesi Araştırma Raporu*, (2011), (p. 12-13), in <[https://dosya.sakarya.edu.tr/Dokumanlar/2013/CEK312/269881924\\_1.\\_quiz\\_1.\\_makale.pdf](https://dosya.sakarya.edu.tr/Dokumanlar/2013/CEK312/269881924_1._quiz_1._makale.pdf)> [accessed 21 May 2013].

<sup>100</sup> Yenal Boztepe, 'Türkiye'de İşsizlik Kavramı ve İşsizliğin Ortadan Kaldırılması ile İlgili Bir Model Oluşturulması', *Yıldız Teknik Üniversitesi Sosyal Bilimler Enstitüsü Yayınlanmamış Master Tezi*, (2007), (p. 90).

<sup>101</sup> Güven and Others, "Asgari Ücret İstihdamı Artırır mı? 1969-2008 Türkiye Örneği", *ODTÜ Gelişme Dergisi*, 2011 p. 161-162



*“In general terms, working time is forty-five hours maximum weekly. Unless the contrary has been decided, working time shall be divided equally by the days of the week worked at the establishment”.*<sup>102</sup>

Although working hours are stated as maximum forty-five hours in a week in Turkish labor law, it occurred average 48.9 hours in 2011.<sup>103</sup> This working time is the highest time among both OECD and European countries. Besides, this calculation about working time includes only registered employment, if unregistered employment is taken into consideration which occurred 39 percent in 2012, it is no doubt that the working time will appear much higher than announced.<sup>104</sup>

Due to having high level labor cost with respect to per capita income, in order to decrease the labor cost, firms prefer current employees to overwork, instead of creating new employment.<sup>105</sup> Therefore, this situation prevents reducing unemployment rate in Turkish labor market.

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<sup>102</sup> Labour Act of Turkey Article No: 63, <http://www.ilo.org/public/english/region/eurpro/ankara/download/labouracturkey.pdf> accessed on 22.04.2013

<sup>103</sup> OECD data, [http://stats.oecd.org/Index.aspx?DatasetCode=AVE\\_HRS](http://stats.oecd.org/Index.aspx?DatasetCode=AVE_HRS), accessed on 20.04.2013

<sup>104</sup> Kenan Yıldırım, 'Uluslararası Düzenlemelerde Fazla Çalışma ve Ülke Uygulamaları', *TÜHİS İş Hukuku ve İktisat Dergisi*, 23.4, (2011), 34-103 (p. 96), in<<http://www.tuhis.org.tr/upload/dergi/1347536887.pdf>> [accessed 4 September 2013].

<sup>105</sup> Ergün and Dinçer, p.13-16.

### CHAPTER 3

#### ACTIVE LABOR MARKET POLICIES

Increasing and becoming permanent of unemployment in OECD countries causes gaining more popularity of Active Employment Policies day by day<sup>106</sup>. The doctrine of Active Labor Market Policy (ALMP) was originally formed by Gösta Rehn and Rudolf Meidner between in the fifties and sixties in Sweden. Rehn and Meidner have defined Active Labor Market Policy as “*social democratic strategy to keep inflation under control while pursuing full employment*”.<sup>107</sup>

Active Labor Market Policies (ALMPs) are precautions to increase labor productivity and to develop equal opportunities in the labor market. ALMP which was added to OECD’s and European Countries’ agenda especially after the 1980s focuses on removing inconveniences, arising from neoliberal policies, in labor market.

On the other hand, Freshwater defines ALMPs very realistic below;

*“It also acts to improve the matching process between employers and workers, and to create an environment that might attract the entry of new employers who could absorb some of the existing labour force”*.<sup>108</sup>

Briefly, ALMPs are the neoliberal policies which provide wage and tax advantages to employers by providing labor training programs and job search assistance. In this context, OECD statisticians categorize ALMPs under the six titles. These are;

1. Subsidized Employment
2. Labor market training programs
3. Direct job creation in public sector
4. Job search assistance
5. Youth measures
6. Measures for the disabled

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<sup>106</sup> Mustafa Kemal Biçerli, 'Aktif İstihdam Politikaları İşsizliği Azaltır mı?', *Çimento İşveren Dergisi*, , (Kasım 2005), (p. 4), in<<http://www.ceis.org.tr/dergiDocs/makale13.pdf>> [accessed 19 March 2013].

<sup>107</sup> Sven Jochem, 'The Social Democratic Full-Employment Model in Transition - The Scandinavian Experiences in the 1980s and 1990s', *Centre for Social Policy Research University of Bremen, ZeS-Arbeitspapier Nr. 2/1998*, , (1998), (p. 22), in<<http://www.econstor.eu/bitstream/10419/41521/1/567147495.pdf>> [accessed 21 April 2013].

<sup>108</sup> David Freshwater, 'Active Labour Market Policy: Implications for Local Labour Markets and Regional Development', *University of Kentucky*, , (November 2008), (p. 12), in<<http://www.municipalitiesnl.com/userfiles/files/ALMP%20low%20res.pdf>> [accessed 21 April 2013].

Youth measure and measures for the disabled categorizes refer to specific groups of workers. That is why in this chapter I will focus first four categorizes respectively. However, first of all, it is very important to mention about why ALMPs have become so popular among OECD countries.

### 3.1 Reasons of Being Popular of Active Labor Market Policies

As it is known that after 2007 world economic crisis unemployment has become a trouble for almost every country. With this crisis 11 million people joined the ranks of the unemployed in OECD countries.<sup>109</sup> Therefore, in order to reduce negative effects of unemployment, governments started to tend to active and passive labor market policies more than before. However, passive labor market policies can cause serious budget deficit in economies. In the light of this information, ALMPs are shown as the most important and effective tool on the struggle with unemployment. Because, ALMPs consist of providing full employment in deference to balanced budget, supporting sustainable growth and non-inflationary full employment and reducing pressures on wages by increasing labor supply in other words, increasing labor competitions<sup>110</sup>. ALMPs are also solution key with the fighting against poverty which increases in parallel with unemployment.<sup>111</sup> In additional to that, in the globalization world, the long term and high unemployment cause domestic demand shrinking in economies thereby firms become disadvantageous in international competition. Therefore, especially with the world economic crises since 1970's, ALMPs have remained at the top of the agenda in many countries and its importance has increased day by day.

In the study of Active Labor Market Policies in International Context: What works best? Lessons for UK written by Dagverre and Etherington, have been evaluated in a broad perspective under seven reasons why ALMP has become so popular in the fighting unemployment among OECD countries. They also support what is written in the first paragraph.

- *“ALMPs enable the reconciliation of the objectives of balanced budgets with full employment goals.*

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<sup>109</sup> Emel Çopur, *OECD ve AB Ülkelerinde Krize Karşı Uygulanan İstihdam Politikaları ve Hükümet Girişimleri* (2009) <[http://tiskweb.com/isveren\\_sayfa.asp?yazi\\_id=2530&id=115](http://tiskweb.com/isveren_sayfa.asp?yazi_id=2530&id=115)> [accessed 16 May 2013].

<sup>110</sup> Ken Edge, *Labour Market Policies* (1999) <[http://hsc.csu.edu.au/economics/policies\\_mgt/2485/Topic4Tutorial4.html](http://hsc.csu.edu.au/economics/policies_mgt/2485/Topic4Tutorial4.html)> [accessed 16 May 2013].

<sup>111</sup> Ferhat Odabaşı, 'Yoksullukla Mücadelede İstihdamın Rolü', *Yayınlanmış (Sosyal Yardım Uzmanlık Tezi, Sosyal Yardımlaşma ve Dayanışma Genel Müdürlüğü, 2009)*, p. 17-19, in <[http://www.sosyalyardimlar.gov.tr/upload/sosyalyardimlar.gov.tr/mce/2012/genel/yoksullukla\\_mucadelede\\_i\\_stihdamin\\_ferhat\\_odabasi.pdf](http://www.sosyalyardimlar.gov.tr/upload/sosyalyardimlar.gov.tr/mce/2012/genel/yoksullukla_mucadelede_i_stihdamin_ferhat_odabasi.pdf)> [accessed 22 May 2013].

- *They hold the promise of reducing the number of income maintenance beneficiaries, in line with the aim of containing the growth of social expenditure and reducing public deficits as specified by the Maastricht Treaty in 1992.*
- *They foster non-inflationary employment growth, which is a key objective of the European Central Bank and the US Federal Reserve Bank. As active labour market programmes raise labour supply, they increase the competition for jobs, which puts downwards pressures on wages.*
- *They specifically aim to address the problem of a lack of skills or skills obsolescence, which had become a new social risk in the post-industrial society.*
- *They increase the flexibility and the adaptability of the workforce, thus enabling firms to quickly respond to the new opportunities but also the new challenges brought about by increased trade openness, i.e. globalisation. Increased adaptability is good news for business but also for labour as workers can make smooth transitions between unemployment and employment.*
- *Full employment is needed to sustain the European social model, notably generous expenditure on pensions and care for the elderly in the context of the 'greying of Europe'. The EU must make full use of its untapped reserve of labour in order to raise enough revenues and generate sufficient economic activity.*
- *The consensus is that paid employment is the best way out of poverty. The 'active welfare state' helps individuals achieve their full potential and makes sure that they do not remain trapped in low-paid jobs, but that they have a real opportunity to move up the career ladder".<sup>112</sup>*

### 3.2 Subsidised Employment

Subsidized Employment which is applied in many developed countries is a tool of labor market policy<sup>113</sup>. The main purpose of subsidized employment is to reduce the costs of employers of employing the targeted workers group therefore, stimulating demand for these workers and increase their numbers of employment and earnings<sup>114</sup>.

Employment subsidized can be applied in two general categories as to total employment and to marginal employment subsidy.

Subsidies based on *total employment* by tax cut provide employers windfall profit due to the fact that this application covers all employees. For subsidies based on total employment to

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<sup>112</sup> Anne Daguere and David Etherington, 'Active Labour Market Policies in International Context: What works best? Lessons for the UK', *Department for Work and Pensions Working Paper*, , (2009), (p. 6-7), in <<http://research.dwp.gov.uk/asd/asd5/WP59.pdf>> [accessed 17 April 2013].

<sup>113</sup> Alpaslan Karabulut, 'Türkiye'de İşsizliği Önlemede Aktif İstihdam Politikalarının Rolü ve Etkinliği', (Yayınlanmış Uzmanlık Tezi Türkiye İş Kurumu Genel Müdürlüğü, 2007), p. 45, in <[http://statik.iskur.gov.tr/tr/rapor\\_bulten/uzmanlik\\_tezleri/ALPASLAN%20KARABULUT%20\(T%C3%9CRK%20C4%B0YE%E2%80%99DEK%C4%B0%20C4%B0C5%9ES%C4%B0ZL%C4%B0C4%9E%C4%B0%20C3%96NLEMEDE%20AKT%C4%B0F%20C4%B0S.pdf](http://statik.iskur.gov.tr/tr/rapor_bulten/uzmanlik_tezleri/ALPASLAN%20KARABULUT%20(T%C3%9CRK%20C4%B0YE%E2%80%99DEK%C4%B0%20C4%B0C5%9ES%C4%B0ZL%C4%B0C4%9E%C4%B0%20C3%96NLEMEDE%20AKT%C4%B0F%20C4%B0S.pdf)> [accessed 13 March 2013].

<sup>114</sup> Lawrence F. Katz, 'Wage Subsidies for the Disadvantaged', *National Bureau of Economic Research(NBER) Working Paper*, , (July 1996), (p. 3-4), in <<http://scholar.harvard.edu/files/lkatz/files/w5679.pdf>> [accessed 25 April 2013].

be successful, net new jobs have to be created but if the employers apply the subsidies to hire workers who would have been hired anyway the program reaches no real value (deadweight effect<sup>115</sup>) thereby it may provide a subsidy to employers unfortunately not to employees.<sup>116</sup> Moreover, according to Layard and Nickell, subsidies which cover all employment will have negative effect on balance of payments and on the budget deficit and prices. On the other hand, *marginal employment* which is used by many OECD countries does not have these disadvantages as above. Because of focusing on marginal workers, both subsidies may have only limited effects on domestic demand and targeted workers group “(e. g., *economically disadvantaged youth, public assistance recipients, the disabled, dislocated workers, or the long-term unemployed*)”<sup>117</sup> can be employed.<sup>118</sup>

On the other hand, there is a common problem in employment subsidy programs. Subsidized people especially who have not had any job for a long time are thought as wastrel by employers. This negative effect is described as “*stigmatization effect*”. Therefore employers are reluctant to hire them. What I have mentioned is supported also in the paper of Stein. He reflected general perception so realistic. According to Stein, generally subsidized unemployed are perceived by employers as; “*The people who have been laid off and cannot find work are generally people with poor work habits and poor personalities*”.<sup>119</sup> It was stated also in the study of Bassett very originally. According to Bassett; “*Employers want somebody who is wanted*”<sup>120</sup> in the labor market.

These programs might differ from each other with regard to level and time of subsidies and countries. For instance, while targeted job tax credit program applied in the US pays 50 per

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<sup>115</sup> Deadweight effect is defined as the hiring from the targeted group which would have occurred anyway in the absence of program. See, Jan C. van Ours, 'The locking-in effect of subsidized jobs', *Department of Economics, Tilburg University, CentER, William Davidson Institute CEPR-WDI Conference - Riga, ,* (2002), (p. 4), in <<http://dev3.cepr.org/meets/wkcn/7/753/papers/vanours.pdf>> [accessed 25 April 2013].

<sup>116</sup> Freshwater, p.14.

<sup>117</sup> Katz, p. 5.

<sup>118</sup> Richard Layard and Stephen Nickell, 'The Case for Subsidising Extra Jobs', *The Economic Journal*, 90.357, (March 1980), 51-73 (p. 51-52).

<sup>119</sup> Ben Stein, *The End of Wishful Thinking* (2010) <<http://www.qub.ac.uk/cite2write/mhra3b.html>> [accessed 30 April 2013].

<sup>120</sup> Laura Bassett, *Employers Won't Hire The Jobless Because Of The 'Desperate Vibe'* (2011) <[http://www.huffingtonpost.com/2010/12/03/employers-wont-hire-the-u\\_n\\_791710.html](http://www.huffingtonpost.com/2010/12/03/employers-wont-hire-the-u_n_791710.html)> [accessed 8 May 2013].

cent of wage of program participations for a period up to two years, firms are paid up to 100 per cent wages of individual's wages for a period of for six months in the U.K.<sup>121</sup>

With the developing of technology in the globalization world, unqualified people have been started to be demanded a lot fewer than before. Thereby, these unqualified worker groups have become at a disadvantage. Employment subsidized is a supply side solution to remove their disadvantages, to make their situations better and to reduce wage differentials between unqualified and qualified workers.<sup>122</sup>

Subsidized employment provides employers to increase their workforce for a limited period of time and to benefit from cheap workforce. Besides, due to the fact that providing employment will be "temporary", to hire unqualified people will be easy for employers. Subsidies will prevent people remaining passive in labor market.<sup>123</sup> On the other hand, as it has been mentioned before in the first chapter, even if providing employment for a while by subsidies, unemployment rate will decrease therefore crime rate which shows parallel with unemployment rate will be occurred lower.<sup>124</sup>

On the other hand, according to Dar and Tzannatos, there is low possibility of employment subsidized programs' positive effects. These programs might have serious deadweight and substitution effects.<sup>125</sup> The conclusion of subsidized employment programs applied for Belgium supports the study of Dar and Tzannatos. According to this evaluation, there are 53 per cent net deadweight loss and 36 per cent substitution effects of wage and employment subsidized. In addition to that 20 per cent deadweight and 55 per cent displacement and substitution effect were observed in employment subsidy applied in Scotland<sup>126</sup>.

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<sup>121</sup> Gordon Betcherman and Others, 'Active Labor Market Policies: Policy Issues for East Asia', *The World Bank, Social Protection Unit* (December 1999), (p. 6), in <<http://unpan1.un.org/intradoc/groups/public/documents/apcity/unpan005231.pdf>> [accessed 27 April 2013].

<sup>122</sup> Karabulut, p. 47.

<sup>123</sup> Ibid, p. 48.

<sup>124</sup> Sandalcilar, p.225.

<sup>125</sup> Substitution arises when program-supported or subsidized employees replace unsubsidized employees with no net effect on employment in the company. See, <sup>125</sup> Günther Schmid, Jacqueline O'Reilly and Klaus Schömann, *International Handbook of Labour Market Policy and Evaluation*, ed. by Günther Schmid, Jacqueline O'Reilly and Klaus Schömann (United Kingdom: Edward Elgar Publishing Limited, 1996), p. 157 in , <<http://books.google.com.tr/books?id=3eBhkEXdPI8C&printsec=frontcover&hl=tr#v=onepage&q&f=false>> [accessed 15 May 2013].

<sup>126</sup> Amit Dar and Zafiris Tzannatos, 'Active Labor Market Programs: A review of The Evidence From Evaluations', *Social Protection Discussion Paper Series 9901, The World Bank*, , (January 1999), (p. 30),

### 3.3 Labor Market Training Programs

#### 3.3.1 Labor Training Programs And Its Importance

Vocational training programs have dual the aim of increasing employment rates and of increasing incomes by raising the qualifications of participations therefore their productivity will be increased.<sup>127</sup> These programs can be generally applied in two different shapes called in classroom and workplace training.

Many economists and experts accept the skills of labor force (human capital) as one of the major contributor for economic performance.<sup>128</sup> In this context, it is very important to provide possibilities for labor force to develop their skills and qualifications. Labor market training programs have the highest share among the other ALMP's in OECD countries and the expenditures for labor market training programs constitutes more than one fourth of total public ALMP spending in recent decades.<sup>129</sup> Provided insufficient training to labor force causes *low skill-bad job trap*.<sup>130</sup> Accordingly, being unqualified of many job seekers can direct firms to set up unqualified jobs therefore, demand level for education of workers or jobseekers can reduce. By this way, this process might become a vicious circle.

There are also positive effects of training on individual and society except of developing their skill levels. Education can increase labor mobility in the market by increasing their qualifications.<sup>131</sup> This situation reduces structural unemployment.<sup>132</sup> So it will reflect to unemployment and underemployment rate positively. Therefore, educated and qualified workers will be employed with the better working conditions.

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in<[http://rru.worldbank.org/documents/toolkits/labor/Toolkit/pdf/reference/Dar\\_Tzannatos\\_1999\\_854C0.pdf](http://rru.worldbank.org/documents/toolkits/labor/Toolkit/pdf/reference/Dar_Tzannatos_1999_854C0.pdf)> [accessed 30 May 2013].

<sup>127</sup> Freshwater, p.13.

<sup>128</sup> Daron Acemoglu and Jörn-Steffen Pischke, 'Beyond Becker: Training in Imperfect Labour Markets', *The Economic Journal*, 109.453, (February 1999), 112-142 (p. 112), in<<http://economics.mit.edu/files/3810>> [accessed 15 May 2013].

<sup>129</sup> Jean Fares and Olga Susana Puerto, 'Towards Comprehensive Training', *The World Bank Discussion Paper No: 0924*, (2009), (p. 11), in<<http://siteresources.worldbank.org/SOCIALPROTECTION/Resources/SP-Discussion-papers/Labor-Market-DP/0924.pdf>> [accessed 1 May 2013].

<sup>130</sup> Biçerli, İşsizlikle Mücadelede Aktif..., p. 141.

<sup>131</sup> Åsa Sohlman and David Turnham, 'What Can Developing Countries Learn From OECD Labour Market Programmes and Policies?', *OECD Development Center Working Paper No. 93*, , (January 1994), (p. 24), in <<http://www.oecd-ilibrary.org/docserver/download/5lgsjhvj7f22.pdf?expires=1377795763&id=id&accname=guest&checksum=D1D33727AA465D83D42C2373C6FF1196>> [accessed 13 May 2013].

<sup>132</sup> Biçerli, İşsizlikle Mücadelede Aktif..., p. 141

Especially training the youth labor force can provide to decrease wages. Due to the fact that the cost (wage) of young labor force is cheaper than others, this situation will encourage the employers to increase their number of employment.

On the other hand, labor training has individual benefit as well as social benefits both on individual and society. As it has been mentioned in the title of *cost of unemployment*, there is direct proportion between unemployment growth and crime growth.<sup>133</sup>

It can be said that labor training investment (as explained above) is one of the major tools on the struggle with unemployment. However, according to Biçerli there can emerge some negative effects of labor training programs. First of all, attending a training program can reduce job search activities of individual. There is no doubt that this situation can affect employment opportunities of individual negatively.

Another negative effect occurs if employers in the hiring process focus on characteristic features of people instead of their training programs. It means that employers can discriminate among job-seekers based on gender, religion, ethnic origin, age and etc.<sup>134</sup>

General speaking, labor training programs are very useful on the fighting against unemployment but it is not a magic wand to be able to solve unemployment problem only by itself. However, it can provide very important advantages to job-seekers in the hiring process.

### **3.3.2 Economic Reasons of Applying Labor Training Programs**

Above it is stated that labor training programs increase productivity of labor force and provide to employers (firms) various benefits. In this point, this question can be formed; if labor training programs provide to employers (firms) benefit or advantages, why do governments organize labor training programs or pay their expenditures? The answer of this question will help us to understand economic reasons of labor training programs.

The main reason of applying labor training programs by public is lack of applying training programs by private sector. Besides, labor market generally needs continuous learning and new technologies which cannot be provided by formal schooling.<sup>135</sup>

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<sup>133</sup> Hale and Sabbagh,. p.400-417..

<sup>134</sup> Biçerli, İşsizlikle Mücadelede Aktif..., p. 142-143.

<sup>135</sup> Acemoglu and Pischke. p. 112.



As it is known, two kinds of skills can be provided for employees. These are general and specific skills. While specific skills increase the productivity of workers only for his current firm, general skills can use not only in his current firm which has organized training program for employees but also if the worker quits to take another job, this skill can be used by other firms in labor market thus a part of capital expenditure would be wasted.<sup>136</sup> That is why, some firms without enduring labor training programs' costs, they can prefer to transfer qualified workers. Naturally, this situation makes firms unwilling in the concept of general labor training programs.<sup>137</sup> That is why, labor training programs that are provided by public aim to fulfill a training need of labor market.

In addition to that one of the main advantages of organizing vocational training programs by public is to employ disadvantaged groups who benefit from passive employment policies (i.e. social and financial aids). Therefore, both social aid expenditures of public would decrease and total national production would increase.

### **3.3.3 Features of Successful Labor Training Programs**

#### **3.3.3.1 Training Programs Should Conform with Developing Sectors**

First of all, before creating labor training programs, analyzing structure of market to increase efficiency of training program is very important. In the process of recession or structural transformation, while some sectors are affected negatively, there can be employment enlargement in other sectors. In such circumstances, employed transformation generally cannot occur successfully because of qualification incompatibility of workers.<sup>138</sup> In this point, labor training programs should provide to workers demanded qualifications of firms. Therefore, unemployment arising from skill or qualification incompatibility can be taken under control.

#### **3.3.3.2 Training Programs Should Be Arranged For Needs of Unemployed**

This is the other factor increasing success of labor training programs. There are three arrangements needed to be successful. These are;<sup>139</sup>

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<sup>136</sup> Gary S. Becker, *Human Capital*, 3rd edn (Chicago: The University of Chicago Press, 1993), p. 43.

<sup>137</sup> Gary S. Becker, *Human Capital*, 3rd edn (Chicago: The University of Chicago Press, 1993), p. 43. Peter J. Dolton, 'The Economics of Youth Training in Britain', *The Economic Journal*, 103.420, (September 1993), 1261-1278 (p. 1262).

<sup>138</sup> Biçerli, İşsizlikle Mücadelede Aktif..., p. 168.

<sup>139</sup> Ibid p. 169-170.

- Participation to training course should be flexible and should cover all workers and all job-seekers. Due to the fact that dismissal of workers may occur at any time, quick orientating of workers into programs should be provided. Besides, training programs should be included flexible education for workers who has been educated in various field of studies to be able to harmonize with their educational background.
- The positive relation between employment opportunities and training course should be explained to participations. Thus, it will motivate them to increase their success in training courses.
- Governments should supply the cost of training courses and also in the process of courses, governments should support the participations with financial aids to provide them to attend the courses.<sup>140</sup>

### 3.3.3.3 Training Programs Should Target Disadvantaged Groups

Training courses should cover all disadvantaged groups and all unemployed. Disadvantaged groups can be categorized as women, youth, the disabled, low income groups, low educated groups and discriminated people (i.e. because of religion ethnic origin and et cetera).<sup>141</sup> However, due to the aiming much more work placement of participations at the end of the courses, programs administrations might prefer individuals who are most likely to succeed in the program with the least amount of assistance, instead of preferring low educated or unqualified groups.<sup>142</sup> This situation is called as “*creaming*”. Creaming cannot solve unemployment problems as well as it causes to continue disadvantages of some groups.<sup>143</sup>

## 3.4 Direct Job Creation in the Public Sector

The target group of direct job creation in public sector programs is generally the most disadvantaged people in labor market and the aim of this application is to keep them in contact with the labor market and to prevent loss of labor force during a term of unemployment.<sup>144</sup> The participations in the programs generally are temporary employed in

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<sup>140</sup> Fares and Puerto p. 11.

<sup>141</sup> Ibid. p. 14.

<sup>142</sup> Günther Schmid and Klaus Schöman, *Labor Market Institutions in Europe: A Socioeconomic Evaluation of Performance*, ed. by Günther Schmid (New York: M.E Scharpe, Inc, 1994), p. 45.

<sup>143</sup> Biçerli İşsizlikle Mücadelede Aktif..., p. 170.

<sup>144</sup> Jochen Kluge, 'The Effectiveness of European Active Labor Market Policy', *The Institute for the Study of Labor (IZA) Discussion Paper No. 2018*, , (March 2006), (p. 5), in <<http://ftp.iza.org/dp2018.pdf>> [accessed 1 June 2013].

non-profit public organizations such as in public infrastructure services, maintenance and repair of public buildings and parks and gardens of public sphere.<sup>145</sup>

Direct job creation programs are generally applied at times of recession, when aggregate demand is depressed but they might have very serious costs and uncertain benefits in a short period.<sup>146</sup> That is why; these applications generally are justified as the last resort. On the other hand, economic reason of applying these programs can be to increase domestic demand or to provide work experience, thus with the gaining work experience, the chance of finding jobs of the disadvantaged groups in private sector will increase.

According to analysis including 13 OECD countries of Dar and Tzannatos, direct job creation programs in public sector show desirable effect in terms of increasing employment and reducing unemployment for a short time. However, these programs are not an effective tool if the purpose is to provide unemployed people with long term employment. Besides, after participation in the program, the participations have a smaller probability of being employed people in a job without assistance.<sup>147</sup> As a result of these programs can be effective on the fighting against poverty only for a while.

Fretwell and the others who evaluated public service employment programs' effects in Czech Republic, Poland and Hungary observed that these kinds of programs have high cost by comparison with other ALMPs. Generally, participations into these programs are much denser. However, conclusions of these programs show that there are negative effects on employment and wages besides unemployment pays increase.

On the other hand, according to evaluations for Poland, if these programs are applied by private sector there will be observed positive effects on employment in contrast to public service employment programs.<sup>148</sup> Besides, according to study of Betcherman and the others,

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<sup>145</sup> Şerife Türcan Özşuca, *Esneklik ve Güvenlik İkileminde Türkiye Emek Piyasası* (Ankara: İmaj Yayıncılık, 2003), p. 148.

<sup>146</sup> Arvo Kuddo, 'Employment Services and Active Labor Market Programs in Eastern European and Central Asian Countries', *The World Bank Social Protection Discussion Paper No:0918*, , (October 2009), (p. 55), in<<http://siteresources.worldbank.org/SOCIALPROTECTION/Resources/SP-Discussion-papers/Labor-Market-DP/0918.pdf>> [accessed 30 April 2013].

<sup>147</sup> Dar and Tzannatos, p. 19-20.

<sup>148</sup> David H. Fretwell, Jacob Benus and Christopher J. O'Leary, 'Evaluating the Impact of Active Labor Programs: Results of Cross Country Studies in Europe and Central Asia', *Social Protection Discussion Paper No. 9915*, (June 1999), (p. 17-18), in<<http://info.worldbank.org/etools/docs/library/75867/dc2003/proceedings/pdfpaper/module2dfjbc0.pdf>> [accessed 23 May 2013].

in order to be effective of these programs, the wage rates should be set in a low level, thus it will contribute to be used these programs by only the most disadvantaged groups.<sup>149</sup>

To sum up the direct job creation programs in public sector;

- These programs are generally not useful to reduce unemployment and they are less effective programs if it is compared to other ALMP's,
- High net loss, substitution and displacement effects are estimated for these programs,<sup>150</sup>
- They are generally used in terms of weak aggregate demand,
- It is thought that these programs are not effective to reduce unemployment but they are useful to keep disadvantaged groups or unemployed people as active to fight against social exclusion.

### 3.5 Job Search Assistance

Job search assistance programs aim to match jobseekers and employers by reducing the time spent by the unemployed searching for a job, by reducing the search costs for employers and by general reductions in transactions costs.<sup>151</sup> These programs consist of different services, which differ from country to country, such as job counseling services, informing about labor market, job placement services, job clubs and etcetera. Besides, these services are generally provided by public employment foundations. However, private employment agencies are increasing their effectiveness day by day. While the disadvantaged people such as the poor and long term unemployed workers are generally benefited from public employment services, the employed, skilled and the white color workers generally appeal private employment services (fee charging) to get jobs or to labor exchange.<sup>152</sup>

Due to the lacking of information, matching job-seekers and job offered might not be fast and useful. For example, the unemployed may not know that there are jobs offered in market or employers may not know that there are jobseekers which have desirable qualifications. Matching employers and job-seekers can be expensive and these can take a long time. In this

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<sup>149</sup> Gordon Betcherman and Others,, ' Active Labor Market Policies: Policy Issues for East Asia', *The World Bank Social Protection Unit Discussion Paper Series No:000* , (January 2000), (p. 7-8), in<<http://siteresources.worldbank.org/SOCIALPROTECTION/Resources/SP-Discussion-papers/Labor-Market-DP/0005.pdf>> [accessed 22 May 2013].

<sup>150</sup> Sinem Çapar Diriöz, 'İstihdamın Artırılmasında Aktif İşgücü Politikaların Rolü', *Sosyal Sektörler ve Koordinasyon Genel Müdürlüğü Uzmanlık Tezi*, , (2012), (p. 96).

<sup>151</sup> Freshwater p. 13.

<sup>152</sup> Betcherman and Others p. 4.

point, public and private employment service target to meet them spontaneous. Besides job search assistance programs are keys to reduce frictional unemployment.<sup>153</sup>

According to evaluations about employment services of Dar and Tzannatos, job search assistance programs are one of the most successful active labor market programs because applying these programs cost so little compared to other ALMP's and also it is not less effective than other ALMP's. Besides, job search assistance programs increase its effectiveness when there is improvement in economy that is to say; when new jobs are created. However, these kinds of programs do not have positive effects on employment raise and wages (as compared to a control group) during the recession in economy.<sup>154</sup> In addition to that these programs generally have deadweight losses in that people who find jobs via employment services are usually more qualified than most unemployed people or job-seekers and many of them very likely would have found even in the absence of employment services.<sup>155</sup>

On the other hand, according to the research about job search assistance in US of Walwei, public employment services substantially reduce the duration of jobless. These services also have some positive effects on subsequent earnings. Moreover, it may provide savings from unemployment benefits. Besides, in these programs, women might be hired much more than men.<sup>156</sup>

With the developing technology especially internet and computer system, it is clear that due to the fact that employers and jobseekers find each other via announcements in internet, effects of public employment services in developed and developing countries will decrease day by day.

To sum up the job search assistance programs (by public employment service);<sup>157</sup>

- Although there are not so many empirical studies about job search assistance programs, it seems that these programs are one of the least cost and one of the most successful ALMP's,

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<sup>153</sup> Diriöz, p.53.

<sup>154</sup> Dar and Tzannatos, p.20.

<sup>155</sup> Betcherman and Others, p. 4.

<sup>156</sup> Schmid, O'Reilly and Schöman, p. 425-426.

<sup>157</sup> Diriöz, p. 61-62.

- Public employment agencies, which target the most disadvantaged groups, have positive effects on job placement,
- On the period when there is a recession in economy, effects of job search assistance programs might not be so positive,
- Effects of these programs on employment of the youth and on wages might be low,
- If these programs are applied coordinately with other ALMP's, they might be much more beneficial.

## CHAPTER 4

### ACTIVE LABOR MARKET POLICIES IN TURKEY

#### 4.1 Generally Active Labor Market Policies in Turkey

In 2001 with the deep economic recession in Turkey, unemployment reached to peak. Both negative effects of 2001 economic recession and some sanctions arising from European Union negotiations have increased the significance of Active Labor Market Policies in Turkey. Thus, unemployment issue and ALMPs have remained at one of the top of the Turkish Government agenda since 2003. Under the name of ALMPs, supply side policies have been adopted to remove unemployment. One of the main purposes of these policies is to attract of new entrepreneurial to create new employment. That is to say; ALMPs aim to reduce labor cost and some taxes of employers.

ALMPs include in Turkey, Labor Training Programs, Job Search Assistance by İŞKUR, (Public Employment Service) Direct Job Creation Policies in Public sector and Subsidized Employment. In this chapter, first of all the employment policies applying between 2003 and 2012 and then ALMPs above mentioned will be examined respectively and lastly solution offers of this study will be discussed.

#### 4.2 Employment Policies in Development Plans

##### 4.2.1 Eighth Five Year Development Plan 2001-2005

According to this plan, it is aimed to increase the efficiency of employment service, to enable the functioning of private employment agencies, to raise qualifications of unemployed and unqualified workers, to change the structure of employment for the benefit of non-agricultural sectors and to increase capacity of the employment generation of small and medium sized enterprises (KOBİ). Besides, the importance of ALMP's was emphasized. Within this concept, it was remarked to take precautions for unqualified people in danger of unemployment who work at a low wage level (the youth, women and disabled persons) by applying active and passive employment policies.<sup>158</sup> At the end of this period, although unemployment rate had been planned 5.6 per cent, it occurred as 10.6 per cent.

Before 2003, employment services and job counseling services had been organized by only monopoly of İŞKUR. With the Turkish Employment Agency law no 4904, private

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<sup>158</sup> Ministry of Development, The Eighth Development Plan 2001-2005, p.113-114 [http://www.mod.gov.tr/en/SitePages/mod\\_recpub.aspx](http://www.mod.gov.tr/en/SitePages/mod_recpub.aspx) accessed on 02.05.2013

employment agencies started to service. Today, there are 333 operating private employment agencies throughout Turkey. Roughly 273.000 unemployed people were hired via private employment agencies since 2004.<sup>159</sup>

#### 4.2.2 Ninth Development Plan 2007-2013

Ninth Development plan covered seven year period which has been generated in accordance with the process of the full membership of the European Union. This plan has been established in the five development axes and one of them is increasing employment.

There are three titles under the employment axe;

- Improving the Labor Market,
- Increasing the sensitivity of education to labor demand,
- Developing Active Labor Market Policies.

The precautions under the title of developing active labor policies are as below:

*“The importance given to active labor policies as an effective instrument in increasing employment increased during the 8th Plan period. Active labor policies, which aim to increase employability by improving the skills and qualifications of the labor force, cover programs such as training the labor force, vocational education, and labor force harmonization programs, provision of vocational directing, vocational consultancy and counseling services, development of job searching strategies, providing disadvantaged groups such as the unemployed, the disabled, women and the young with opportunities to find jobs, entrepreneurship training and employment-guaranteed education programs”.*<sup>160</sup>

This is the first plan, the importance given to Active Labor Market Policies as an effective tool in increasing employment. At the end of this plan (2013), unemployment rate has been estimated as 7.7 per cent. The average of unemployment and labor force participation rates between 2007 and 2013 were estimated as 9.6 and 49.8 per cent respectively. In the light of this information, it can be understood that creating employment possibilities for one million

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<sup>159</sup> İşkur Faaliyet Raporu 2012, <http://www.iskur.gov.tr/kurumsalbilgi/raporlar.aspx#dltop> p.65, accessed on 30.05.2013

<sup>160</sup> Ministry of Development, The Ninth Development Plan 2007-2013, p. 49, <http://www.mod.gov.tr/en/publications/Ninth%20Development%20Plan%202007-2013.pdf> accessed on 04.05.2013



people who enter into labor market every year means that there is no purpose to decrease current unemployment.<sup>161</sup>

### 4.3 Turkish Employment Agency (İŞKUR) and Its Activities with Regard to Active Labor Market Policies

The Institution for Providing Jobs and Employees was established in Turkey by the Law with the number 4837 in 21st January of 1946 in order to deliver public employment services and then in 15.03.1946 the Institution of Providing Jobs and Employees (IPJE) came into operation and with the law number 4837, the task of IPJE determined as “for employees finding jobs suitable to their qualities and for employers finding employees having suitable qualities for the job”.<sup>162</sup>

In 1960s, primarily Germany and developed European countries demanded labor force abroad therefore, IPJE concentrated on sending workers abroad in this period but after petrol crisis, economic recession and increase of unemployment in developed countries ceased demand for labor.<sup>163</sup> Therefore, while the registered people of IPJE passed over 420 thousand in 1962, it reached about a million in 1970s. In order to get over the negative effects of this process, IPJE modified itself fundamentally. In this framework, the region quarters were established in 12 city centrums in 1978 and the branch offices came under region quarters' authority.<sup>164</sup> After petrol crisis, IPJE could not renew itself and thus efficiency of IPJE reduced day by day until 1980s.

With the 1980s, rapid technological developments and neoliberal policies becoming widespread increased the importance of public employment agencies in many of developed countries. In this framework, with the purpose of enhancing employability of qualified of labor force, the employment consulting centers were established in the universities. Besides, IPJE and German public employment agency organized a project in 1990. With this Project, the business and vocational counseling centers were founded and the people, who would work in these centers, were educated in Germany by German public agency.

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<sup>161</sup>See, Ahmet Yetim, 9. *Kalkınma Planı Hedefleri* (2006) <[http://www.izto.org.tr/portals/0/iztogenel/dokumanlar/9\\_kalkinma\\_plani\\_hedefleri\\_a\\_yetim\\_26.04.2012%2022-10-04.pdf](http://www.izto.org.tr/portals/0/iztogenel/dokumanlar/9_kalkinma_plani_hedefleri_a_yetim_26.04.2012%2022-10-04.pdf)> [accessed 25 May 2013].

<sup>162</sup>See, <http://www.iskur.gov.tr/en-us/corporateprofile/institution/history.aspx>, [accessed:07.12.2013].

<sup>163</sup>Ibid.

<sup>164</sup> See, Ali Yılmaz, 'Türkiye'de İşsiz Nüfus', *Fırat Üniversitesi Sosyal Bilimler Dergisi*, 15.1, (2005), 43-56 (p. 50), in <<http://web.firat.edu.tr/sosyalbil/dergi/arsiv/cilt15/sayi1/43-56.pdf>> [accessed 10 October 2013].

In order to harmonize with neoliberal policies, which became widespread in 1980s, IPJE needed to renew itself to be able to apply active labor market policies. Between the years of 1993-2000, the training and employment projects which are accepted as active labor market policies were applied. With the enlargement process of social state approach in 1980s, IPJE entered into the process of renewal in parallel with increase of functions in developed countries' public employment services. Therefore, IPJE was abolished and Turkish Employment Agency (İŞKUR) was founded dependent on Ministry of Labor and Social Security and came into force by being promulgated in the Official Gazette with the date 05.07.2003 and the number 25159.<sup>165</sup> After 2003, the effectiveness of İŞKUR has increased day by day. In this process, its tasks and targets have been renewed by extending.

While the IPJE was trying to serve in a narrow area such as job placement, İŞKUR Act has extended the task field of the organization. The institution has gained the ability of giving qualification, job training, vocational and career counseling to the labor force actively. In according to this, İŞKUR has undertaken the duties of monitoring of labor and employment market, creating of labor market information system in accordance with the European Employment Strategy, in addition to the classic employment services of the institution. Also, the monopoly power in the employment services of the institution was called off and establishment of Private Employment Agencies has been allowed. But, these agencies service under the control of İŞKUR.<sup>166</sup>

### ***Generally Renewed Tasks of İŞKUR<sup>167</sup>***

- To help creating of national employment policy, developing of employment, preventing unemployment and to carry out unemployment insurance,
- To collect data of labor market, to analyze them and to determine labor demand and supply oriented labor force need analyses,
- To provide job search assistance and labor vocational training programs for unemployed people and for disadvantaged groups both inland and abroad,

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<sup>165</sup> Yılmaz, p. 50,

<sup>166</sup> Aydın Alabaş, 'Uzun Süreli İşsizler Ve Uzun Süreli İşsizliği Azaltmada İşkur'un Önemi ', *Çalışma Ve Sosyal Güvenlik Bakanlığı Türkiye İş Kurumu Genel Müdürlüğü*, (2007), (p. 88), in<[http://statik.iskur.gov.tr/tr/rapor\\_bulten/uzmanlik\\_tezleri/AYDIN%20ALABA%C5%9E%20\(UZUN%20S%C3%9CREL%C4%B0%20%C4%B0%C5%9ES%C4%B0ZLER%20VE%20UZUN%20S%C3%9CREL%C4%B0%20%C4%B0%C5%9ES%C4%B0ZL%C4%B0%C4%9E%C4%B0%20.pdf](http://statik.iskur.gov.tr/tr/rapor_bulten/uzmanlik_tezleri/AYDIN%20ALABA%C5%9E%20(UZUN%20S%C3%9CREL%C4%B0%20%C4%B0%C5%9ES%C4%B0ZLER%20VE%20UZUN%20S%C3%9CREL%C4%B0%20%C4%B0%C5%9ES%C4%B0ZL%C4%B0%C4%9E%C4%B0%20.pdf)> [accessed 16 October 2013].

<sup>167</sup> <http://www.muhasabedersleri.com/kurumsal-basvurular/is-kur.html>, [accessed:07.12.2013].

- To follow decisions and applications about labor market and business life of EU and other related international foundations and to apply agreements and advisory jurisdictions which Turkey is a party to agreements.

The activities of İŞKUR with regard to Active labor market policies are:<sup>168</sup>

- Employment Services
- Labor Vocational Training Programs
- Job Counseling Services
- Employment Subsidies

#### 4.3.1 Employment Services

Employment services consist of intermediary services between jobseekers and employers who look for workers. In other words, it is; finding unemployed persons for proper jobs. As it is mentioned above, one of the main tasks of İŞKUR is managing the process of matching of the labor demand and labor supply. This means that İŞKUR provides to find jobseekers whose qualifications and preferences are suitable for demanded qualifications by employers.

**Table 4.1 Employment Services of İŞKUR**

	2011			2012		
	Male	Female	Total	Male	Female	Total
<b>Applications</b>	860.206	538.149	1.398.355	1.476.264	820.061	2.296.325
<b>Job Offered</b>	-	-	660.623	-	-	991.804
<b>Public Sect</b>	-	-	64.636	-	-	140.668
<b>Private Sect</b>	-	-	595.987	-	-	851.136
<b>Job Placement</b>	261.964	101.708	363.672	390.978	165.608	556.586
<b>Public Sect.</b>	46.421	13.064	59.485	105.519	32.129	137.648
<b>Private Sect.</b>	215.543	88.644	304.187	285.459	133.479	418.938
<b>Normal Placement</b>	229.032	95.996	325.028	360.512	160.273	520.785
<b>Disabled Placement</b>	32.642	5.707	38.349	30.203	5.328	35.351
<b>ExConvict Placement</b>	233	4	237	263	7	270
<b>Registered Labor Force</b>	1.394.166	797.979	2.192.145	2.188.403	1.293.322	3.481.725
<b>Registered Unemployed</b>	1.142.928	702.037	1.844.965	938.641	1.433.621	2.372.262

**Source:** The table is created with the data retrieved from İŞKUR.<sup>169</sup>

<sup>168</sup> <http://www.iskur.gov.tr/kurumsalbilgi/raporlar.aspx#dltop>, [accessed:07.12.2013].

<sup>169</sup> <http://www.iskur.gov.tr/kurumsalbilgi/raporlar.aspx#dltop>, [accessed:07.05.2013].

Besides, according to 2012 data of Turkish Statistical Institute, there are about 26.7 million people in labor force, 24.8 million people are employed and there are more than 2.5 million unemployed people. In this context, Table 4.1 shows that İŞKUR's services are very limited.

On the other hand, in 2012, even though the number of job offered by employers or public emerged about 992 thousand, almost half of them (557 Thousand) could be employed. It shows us that unemployed persons fail to satisfy demanded qualifications by employers. In this point, İŞKUR and some other foundations provide unemployed labor training programs to satisfy a need of labor market and to employ unemployed persons. Therefore, labor training programs will be examined in the following titles.

#### **4.3.2 Labor Training Programs**

The purpose of vocational training programs is to increase skills of disadvantaged groups and unemployed persons to incorporate them in labor market.<sup>170</sup> They are provided in Turkey by various institutions such as Ministry of National Education (MEB), Turkish Employment Agency (İŞKUR), municipal corporations, universities, private educational institutions, non-governmental organization (STK) and firms. However, due to the fact that, programs which are organized by municipal corporations, universities, private educational institutions, non-governmental organization (STK) and firms are not country-wide and there is no following system, which shows programs' success after completing programs, so they cannot be analyzed.

Within labor training programs scope, Vocational Training Courses, On-the-Job Training Programs, Work Programs for Public Benefit and Entrepreneurship Training Programs are organized by İŞKUR.<sup>171</sup>

##### **4.3.2.1 Vocational Training Programs**

Apprenticeship training programs, one of the most active and common vocational training programs, are applied by MEB. The target group of these programs is the youth who did not continue the formal training after completed 8-year compulsory primary education<sup>172</sup>. Apprenticeship training programs are applied in 113 fields of occupation covered by MEB. However, unfortunately there is no follow system for participations after completing their

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<sup>170</sup> Ibid.

<sup>171</sup> <http://www.iskur.gov.tr/kurumsalbilgi/raporlar.aspx#dltop>, [accessed:07.05.2013].

<sup>172</sup> [http://statik.iskur.gov.tr/tr/dis\\_iliskiler/teknik\\_egitim\\_raporu.htm](http://statik.iskur.gov.tr/tr/dis_iliskiler/teknik_egitim_raporu.htm) [accessed: 20.05.2013].

apprenticeship training programs because of this reason, it is impossible to mention or comment of its effectiveness or success.<sup>173</sup>

The other important foundation organizing vocational training courses is Turkish Employment Agencies (İŞKUR). Vocational training programs are organized for registered unemployed people who need to develop their employability in the labor market and improve their vocational qualification.<sup>174</sup> One of the most important features of these programs is that employment is guaranteed for at least a foreseen time period. Besides, in these courses, participations are given both theoretical and practical education.<sup>175</sup>

On the other hand, in order to encourage participations to training courses, a daily allowance (Twenty Lira) is paid for each training day by İŞKUR. In addition to that, the premium of health insurance, occupational accident and occupational disease insurance are paid by İŞKUR for the whole duration of programs.<sup>176</sup>

In 2012, about 150.000 unemployed people attended in vocational training courses, and roughly 30 per cent of participants<sup>177</sup> got into a job. Although number of courses and participants are inadequate, their efficiency was expeditiously increased in recent years. In point of fact, one of the main problems is that formal education organized by Ministry of National Education does not fulfill the needs of labor market.

#### **4.3.2.2 On The Job Training Programs**

These programs, which have been applied since 2009, are organized for unemployed to improve their vocational qualifications and to gain them experience. On the job training programs are applied in workplaces which have at least two registered employees (employers who employs between 2-10 registered employees can employ one participant within the scope of these programs).

Besides, the participations are paid a daily allowance (25 lira) for each training day by İŞKUR. Moreover, the premium of health insurance, occupational accident and occupational disease insurance are provided by İŞKUR for the whole duration of programs. However, these

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<sup>173</sup> Diriöz, p. 159

<sup>174</sup> <http://www.gencistihdami.net/Internship/Training.aspx#LiveAccordionContent54792-la>

<sup>175</sup> <http://www.iskur.gov.tr/kurumsalbilgi/raporlar.aspx#dltop>, [accessed:07.05.2013].

<sup>176</sup> Ibid.

<sup>177</sup> <http://haber.gazetevatan.com/2-kisi-calistirana-1-kisi-de-iskurdan/474715/2/ekonomi> accessed on 06.05.2013

programs cannot exceed to six months. To sum up, there is no cost on employers in these kinds of programs.

Within the scope of this project, while 1285 unemployed people benefited from on the job training programs in 2009<sup>178</sup>, approximately 32.000 people were employed in 2012. According to the explanation of Nusret Yazıcı who is the general manager of İŞKUR, end of the six-month programs time, 50 per cent (approximately 16.000) of participants got into a job in 2012, although, there was no obligation to employ participations end of the program for employers. It was the unexpected success of İŞKUR. In addition to that İŞKUR aimed 150.000 people to benefit from these programs in 2013. However, 13.000 people were employed under these programs in the first quarter of 2013.<sup>179</sup> On the other hand, although it seems very difficult to reach this objective in 2013, these programs paint a promising picture for the future.

#### **4.3.2.3 Work Programmes for Public Benefit (WPPB)**

These programs aim to provide short time employment, to trainee unemployed people and to provide jobs for them within public benefit directly by İŞKUR or through public enterprises such as municipal corporations and universities during the peak of unemployment. WPPB which is organized by İŞKUR to help registered unemployed people overcome financial difficulties and provide short time employment and training especially in the period of, economic recession, natural disasters, economic restraints, privatization and et cetera.<sup>180</sup>

The participations of WPPB generally are temporary (maximum for a period of 9 months) employed in non-profit public organizations such as in maintenance and repair of parks, renewal of public infrastructure, protection of cultural inheritance.<sup>181</sup> In addition, throughout the process of programs, WPPB pays participations minimum wage and provides general health insurance.

Within this scope, 5022 courses were organized by İŞKUR in 2012 and thus approximately 192.000 people were employed temporarily.<sup>182</sup> Although, applications of

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<sup>178</sup> Ibid.

<sup>179</sup> <http://www.hurriyet.com.tr/ekonomi/23019512.asp> accessed on 06.05.2013

<sup>180</sup> Diriöz, p. 142.

<sup>181</sup> Özsuca, p. 148

<sup>182</sup> İŞkur Faaliyet Raporu 2012, p.65.

WPPB have very high cost and there is low possibility to be employed of participants after completing these programs, these kinds of programs are often organized in Turkey.

#### 4.3.2.4 Entrepreneurship Training Programs

Entrepreneurship training programs are generally organized by İŞKUR and KOSGEB (Small and Medium Industry Development Organization) giving service in 49 provinces of Turkey. While these programs provide jobs for registered unemployed people, the other registered unemployed people might be employed in business which has been created under favour of grant and interest free credit of İŞKUR and KOSGEB.<sup>183</sup>

İŞKUR organized 921 programs in 2012 within entrepreneurship training programs and roughly 26.000 registered unemployed people attended.<sup>184</sup> Approximately 5000 of them were given between 4000 and 27.000 lira grant and up to 70.000 lira interest free credit by İŞKUR.<sup>185</sup> Another foundation KOSGEB organized courses for 115.000 unemployed people and roughly 6500 of them were supported as financial.

Generally speaking, the importance of labor training programs is increasing in Turkey day by day. Increasing budget share of labor training programs and number of training courses prove it. While budget share of labor training programs was 509 million lira in 2010, it has been increased to 1 billion 500 million lira for 2013.

**Table 4.2 Labor Training Course Activities of İŞKUR**

	2003	2004	2005	2006	2007	2008	2009	2010	2011
<b>Number of Courses</b>	398	300	500	704	1325	1888	2345	4332	9911
<b>Number of Participations</b>	12137	8024	11473	14321	32691	32206	40745	42809	131913

**Source:** The table is created with the data retrieved from İŞKUR.<sup>186</sup>

As Table 4.2 shows that number and effectiveness of courses and participations are unbelievably increased between 2003 and 2011

<sup>183</sup> İşkur Faaliyet Raporu, p. 38.

<sup>184</sup> Ibid p. 67

<sup>185</sup> Grant and interest free credit are given depending on regional development level, type of investment and supported groups such as women, the youth and disabled unemployed.

<sup>186</sup> See, [www.iskur.gov.tr](http://www.iskur.gov.tr), accessed on 06.05.2013

### 4.3.3 Job Counselling Services of İŞKUR

Job Counseling service is one of the main active labor market policy applied by İŞKUR. Job counseling is applied freely only by İŞKUR in Turkey.<sup>187</sup> The counseling services are based on voluntariness besides, jobseekers can benefit from these individual counseling services by making an appointment with İŞKUR freely. Moreover, İŞKUR might also canalize jobseekers to make an appointment. Without any limitations, all the jobseekers that are registered in İŞKUR can benefit from the counseling services of İŞKUR<sup>188</sup>. However, İŞKUR has published benefiting conditions from counseling services in its official page. According to İŞKUR;<sup>189</sup>

- The youths persons and people who has just entered into labor market or who do not have any professions,
- Long term unemployed persons
- The people who have lost their jobs due to the privatization, loss of employment or economic recession or who want to improve their qualifications,
- The people who want to get information about current vocational training programs,
- The people who are employed in outdated profession and need to current vocational courses to increase their employability
- The people who want to create their own job,
- The people who need to counseling in the process of job search,
- The people who need to improve their job search's skills can benefit from job counseling services of İŞKUR.

Counseling services consist of providing guidance about jobs and methods of job applications. In order to provide these services, İŞKUR was employed 4000 new vocational counselors in 2012. Moreover, while İŞKUR was servicing only in 41 cities of 81 cities in 2003, today they are available in the whole cities of Turkey.

Vocational counselors of İŞKUR help unemployed persons to enter into the labor market by providing information about labor market, by making career plans for the youth and by

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<sup>187</sup> It is also provided service by private sector under the name of career consultancy.

<sup>188</sup> Orhan Koçak and Ahmet Cahit Akman, 'İşsizlikle Mücadelede İş Danışmanlık Hizmetleri ve Yalova Örneği', *İş Güç Endüstri İlişkileri ve İnsan Kaynakları Dergisi*, 13.2, (2011), 133-154 (p. 141).

<sup>189</sup> İş ve Meslek Danışmanları Derneği, 'İş ve Meslek Danışmanlığı', (2011), (p. 8), in <<http://www.iskur.gov.tr/Portals/0/Duyurular/ISKUR-IMD-EgitimKitabi.pdf>> [accessed 4 June 2013].



taking active precautions.<sup>190</sup> Besides, vocational counselors get the information about labor market and job offered to canalize unemployed to fields of labor demand in local level by visiting employers or by communicating with them.<sup>191</sup> In addition to that, they help people who are looking for a job or who are in the process of choosing a profession to make employment and education action plan of them. The purpose of employment and education action plan for counselee is to be supported them to find a job in the soonest time.<sup>192</sup>

**Table 4.3 The Activities of Business and Advisory Counseling Services of İŞKUR**

Years	The Number of Visited Working Places	Vocational Counseling	Business Advisory Services	The Number of Benefiting from Vocational Info Center
2003	1.283	1.281	1.702	50.640
2004	774	1.817	2.249	46.362
2005	1.022	607	1.038	55.912
2006	1.425	796	1.328	52.033
2007	1.232	1.098	1.502	61.909
2008	1.664	919	3.235	62.562
2009	2.499	1.598	5.255	70.653
2010	2.728	3.576	16.058	54.499
2011	7.214	4.502	160.603	48.071

Source: The statistics report of İŞKUR.<sup>193</sup>

This Table 4.3 above shows us activities of job and vocational counseling service which was increased in recent years. While approximately 20.000 unemployed persons were benefiting from vocational counseling and business advisory services in 2010, it occurred in 2011 about 165.000. However, there are about 3 million registered unemployed persons in Turkey; it means that these activities of İŞKUR are not adequate.

<sup>190</sup> Mustafa Tiryaki, 'Avrupa Birliği Uyum Sürecinde Tarımdan Kopan İşgücünün İstihdam Edilmesinde Aktif İstihdam Politikalarının Rolü ve Etkinliği', *Türkiye İş Kurumu (İŞKUR) Uzmanlık Tezi*, (2007), (p. 36), in <[http://statik.iskur.gov.tr/tr/rapor\\_bulten/uzmanlik\\_tezleri/MUSTAFA%20T%20C4%B0RYAK%20AVRUPA%20B%20C4%B0RL%20C4%B0%20C4%9E%20C4%B0%20UYUM%20S%20C3%9CREC%20C4%BONDE%20TARI MDAN%20KOPA.pdf](http://statik.iskur.gov.tr/tr/rapor_bulten/uzmanlik_tezleri/MUSTAFA%20T%20C4%B0RYAK%20AVRUPA%20B%20C4%B0RL%20C4%B0%20C4%9E%20C4%B0%20UYUM%20S%20C3%9CREC%20C4%BONDE%20TARI MDAN%20KOPA.pdf)> [accessed 19 June 2013].

<sup>191</sup> Koçak O. And Akman A. C., p. 142 Accessed: [www.isgucdergi.org/download.php?id=460&tk...f=460.pdf](http://www.isgucdergi.org/download.php?id=460&tk...f=460.pdf) 09.05.2013

<sup>192</sup> İş ve Meslek Danışmanlığı, p. 20.

<sup>193</sup> İşkur 2011 Yılı Faaliyet Raporu, p. 68, [http://statik.iskur.gov.tr/tr/rapor\\_bulten/2011%20Y%20C4%B1%20C4%B1%20Faaliyet%20Raporu.pdf](http://statik.iskur.gov.tr/tr/rapor_bulten/2011%20Y%20C4%B1%20C4%B1%20Faaliyet%20Raporu.pdf) accessed on 13.06.2013

#### 4.3.4 Employment Subsidies

Subsidized employment in Turkey applied against unemployment is one of the little effective employment policies. For the first time, these kinds of programs applied with the law number 4325 entered into force in 1998 to encourage employers and entrepreneurs in order that they invest and hire new workers in the 22 underdeveloped provinces which are in Eastern Anatolia and Southeastern Anatolia region of Turkey. With this regulation, social security premium which fall to employer's share are paid by government thus, wage costs of employers in these provinces can reduce between 21.5 and 27 per cent besides, for 906.546 employees, employers applied this legislation in 2001.<sup>194</sup> According to Tunalı, from this aspect, this subsidy in Eastern Anatolia and Southeastern Anatolia region which has the lowest socio-economic level of Turkey was not useful.<sup>195</sup>

With the law 5084 which is valid for 5 years (2004), subsidies were expanded coverage to 15 additional provinces which has 1500 dollars per capita GDP or less (in 2001). Except of Tunceli city, all provinces which were covered under law 4325 qualified for this program and any firm receiving subsidies within the frame of Law 4325 could continue to take subsidies under Law 4325 even after the enactment of Law 5084.<sup>196</sup> Besides, 15 additional provinces benefited from only Law 5084.

According to this law, only new employment could be subsidized. While mercantile establishments which are located in industrial zones were fully subsidized for their income tax and calculated social security contributions, mercantile establishments located out of industrial zones received subsidy with 80 per cent of such amounts and in addition to that while newly created firms which employ at least 10 workers could subsidy 20 per cent energy of their energy cost (plus 0.5 per cent of that amount for each additional new worker), existing firms could get also this subsidy if their registered workers were increased at least 20 per cent since the reference date and their existing employment was at least 10 employees besides the subsidy of firms in industrial zones was about 40 and 50 per cent.<sup>197</sup>

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<sup>194</sup> Biçerli p. 294

<sup>195</sup> İnsan Tunalı, 'Background Study on Labour Market and Employment in TURKEY', *Final Report (prepared for the European Training Foundation)*, (2003), (p. 86), in <[http://statik.iskur.gov.tr/tr/dis\\_iliskiler/BST-final%20report%20\\_27\[1\].June.2003\\_.pdf](http://statik.iskur.gov.tr/tr/dis_iliskiler/BST-final%20report%20_27[1].June.2003_.pdf)> [accessed 19 June 2013].

<sup>196</sup> Gordon Betcherman, N. Meltem Daysal and Carmen Pages, 'Do employment subsidies work? Evidence from regionally targeted subsidies in Turkey', *Institute for the Study of Labor (IZA) Discussion Papers, No. 3508*, (2008), (p. 7), in <<http://www.econstor.eu/dspace/bitstream/10419/34891/1/569673895.pdf>> [accessed 1 June 2013].

<sup>197</sup> Betcherman, Daysal and Pages, p. 8.

Law 5350 became effective in May 2005 was modified of Law 5084. Law 5350 expanded coverage to an additional 13 provinces which have low socio-economic level according to Turkish State Planning Organization (SPO). Again, , all provinces which were covered under law 5084 qualified for this program and any firm receiving subsidies within the frame of previous law (5084) could continue to take subsidies under previous law even after the enactment of Law 5350 therefore, with the new law, newly created firms needed to have at least 30 registered workers while existing firms had to increase their number of worker by at least 20 per cent from the reference date and have at least 30 workers on the condition that tax or social security subsidies could not exceed the total number of initially registered employment at the new reference date.<sup>198</sup>

With the cooperation of İŞKUR and Ministry of Labor and Social Security, a study was published which evaluating effects of Law 5084 with EU financial support in December 2007. According to Turkish Social Security Institution, in subsidized provinces, employment rate increased 67 per cent between 2003 and 2007. In the same period, employment rate increasement in unsubsidized provinces occurred 47 per cent. Thus the net effect of subsidies on employment occurred 20 per cent. According to this evaluating study, while the amount of employment in subsidized firms increased 211 per cent, it was detected as 100 per cent in the firms which are located in subsidized provinces.

As a result, Law 5084 had positive effects not only in subsidized firms, but also it affected unsubsidized firms positively. Moreover, it increased employment in subsidized provinces. However, it did not reduce immigrations from underdeveloped subsidized provinces to west of Turkey.<sup>199</sup>

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<sup>198</sup> Ibid p. 9

<sup>199</sup> Türkiye İş Kurumu (İŞKUR), ‘5084 Sayılı Yatırımların ve İstihdamın Teşviki Kanunu’nun Etkilerinin Değerlendirilmesi Çalışması’ p. 125-131,  
[http://statik.iskur.gov.tr/tr/dis\\_iliskiler/5084%20sayili\\_kanunun\\_etkileri.pdf](http://statik.iskur.gov.tr/tr/dis_iliskiler/5084%20sayili_kanunun_etkileri.pdf) accessed on 12.06.2013

## CONCLUSION

Unemployment is the most important problem of the Turkish economy. After the economic crises in 2001 and in 2008, this problem unveiled much more than before. Attendance of one million people to labor market every year makes this problem more serious in Turkey. Therefore, it was clearly understood that implementing only macro-economic policies on fighting against unemployment are not sufficient. With the renewal of Turkish Employment Agency (İŞKUR) in 2003 and after the starting of EU full membership negotiations, the importance given to ALMPs has increased day by day.

On the other hand, ALMPs have not been a remedy to remove unemployment in Turkey. The flexibility of labor market is a necessary element of neoliberalism. For example, with the becoming widespread of job search assistance, employers can find the workers on the desired wage. Besides, with the applied education policies, the high educated labor force is employed cheap and thus this provides advantage in competition. Especially labor training programs for youth contribute to reduce wages. Increasing youth unemployment makes this situation worse. Unfortunately, education policies increase youth competition between each other instead of reducing unemployment rate. Besides, the general feature of other ALMPs is to reduce costs of employers by applying wage and tax discounts.

Consequently, unemployment, which is the necessary element for the prolongation of neoliberal system, is not expected to remove by neoliberal ALMPs.

Nevertheless, in this study, the applied ALMPs (Employment Services, Job Search Assistance, Labor Training Programs and Employment Subsidies) in Turkey have been evaluated and some recommendations have been submitted to be more effective of Turkish labor market policies at least to increase the positive results of ALMPs.

### *I. Evaluation of ALMPs and Recommendations*

- Job search assistance programs, these are the most effective for many disadvantaged groups and the cheapest among the ALMPs. The activities of these programs in Turkey, which are organized by İŞKUR, have not been on desirable level yet. These programs due to having low cost, they should be organized for the large masses without considering employability chance of disadvantaged groups.
- Labor training programs are one of the high costly and their effects on employment can take a long time. These kinds of programs are more effective if they are applied with

job search assistance programs. On the job training in Turkey, which provides both theoretical and practice education together, is the most successful program among the other labor training programs. 50 per cent of the participants into on the job training program could get a job at the end of the program in 2012. Therefore, the importance given to “on the job training programs” should be increased. In addition to that the qualifications, which are demanded by market, should be analyzed also determined and so training programs should be organized in harmony with market. Besides, as it is known that in order to increase employment, new jobs should be created. At this point entrepreneurship training programs should be organized and the entrepreneurs should be supported with other ALMPs.

- The main aim of İŞKUR should be rather than making the graduates employed who are graduated as layman from formal education; it should aim the needs of the changing labor market within the development of technology.
- Employment Subsidies although these kinds of programs are costly, they are successful in practice. Employment subsidy programs are generally preferred for women and the youth (18-29) in Turkey. However, these subsidies should be organized with labor training programs and job search assistance. These programs are wide open to abuse, for this reason, these programs should often be controlled by İŞKUR. In the opposite case, these are disposed deadweight and substitution effects. Nevertheless, application of employment subsidies should be continued in Turkey especially for long term, seasonal unemployed people and women. But it should not be forgotten that these programs provide the employment only temporarily.
- The precautions to increase the qualifications and skills of the labor force should immediately be taken.
- ALMPs should be organized compatible with the needs of market and labor force.
- Vocational counseling and guidance service should be widespread.
- The youth and women should be at the forefront while organizing ALMPs.
- Due to the inadequacy of the programs in the following system, effects and efficiency of active labor market programs cannot be generally known or evaluated. Therefore, academic studies about ALMPs are very limited.
- Academics should be supported to study the effects of Active labor market programs.
- İŞKUR should increase its capacity and its number of employees which are approximately 7000 at the moment (this number is about 93.000 in Germany and about 125.000 in UK).

- İŞKUR appertains to the Ministry of Labor and Social Security. That is to say; İŞKUR services based on the ideology current government party. However, İŞKUR should be an independent and supragovernmental institute.
- In the process of ALMP, the dialog mechanism should be strengthened.
- The awareness of the public should be raised in the area of İŞKUR's activities and services.
- The budget of İŞKUR should be increased. This budget in Turkey is the lowest share among the OECD countries.

There is no doubt that these precautions for ALMPs and İŞKUR above will create some positive effects on employment. Especially ALMPs may have positive effect on decreasing unemployment of the disadvantaged groups in Turkey such as; long term unemployed, the youth, women and low educated people.

- The main reason of unemployment in Turkey is not able to create enough jobs for labor force. At this point, the main problem herein is not a very suitable market for the entrepreneurs. However, as it is known that it is impossible to solve unemployment problem without production.
- Labor costs in Turkey are very high. This leads to increase informal employment accordingly it causes both distortion of competition and quality of employment conditions. For this reason, employer's contribution for social security should be reduced to lower labor cost.
- Informal employment is still on the highest level among the OECD countries. The sentences given for informal employment should be deterrent.
- The average of education level of labor force in Turkey is very low also lower than the average of OECD countries. Vocational high schools do not satisfy the needs of the market. Therefore, school curricula should be regulated in consultation with employers' organizations.
- When creating economic policies, employment should not be ignored. Between 2002 and 2012 Turkish economy grew as average 5.2 per cent but this growth did not reflect the employment.
- Women employment rate is very low (and even the lowest along the OECD countries) in Turkey. The main problems of it are negative thought which restrict women's working, low education level of women and expensive kindergarten services. At this

point, there should be made some legal regulations which encourage the women to attend the labor market.

- Average weekly working hours (about 49 hours) and also legal weekly working hours (maximum 45 hours) are too much. These should be regulated at least on the level of international standards. This will lead to positive effect on employment, even if just a drop.
- Turkey, consisted of seven geographical regions, differs from interzonal economic development level. Within this context, in determining minimum wage, economical regional development level should be considered. Therefore, the rural-urban immigration which is one of the main reasons of unemployment can be eliminated. Even the remigration may start.
- The competitiveness should be increased by including advanced technology in production process and by bringing quality into the forefront. This will lead to increase export accordingly in the medium term, production and employment will increase.
- Part-time working opportunities in Turkey are very limited. For this reason, especially women, who have children, choose not to work.

As a result, ALMPs are still so weak in Turkey. The government expenditure for ALMPs is on the lowest level among the OECD countries. The interest of private sector toward ALMPs is very little. Due to the fact that there is no following system, which follows employees who get into a job with the help of ALMPs or how long they are employed, the studies, evaluating effects of ALMPs to employment, have remained limited. Therefore the effects of ALMPs in Turkey are not clearly known.

On the other hand, İŞKUR, which is the main actor and organizer of ALMPs, has increased its effectiveness in the last decade. However, unfortunately it is difficult to say that active labor market programs are successful in practice. In 2012, approximately 55 per cent of job vacancies could be filled up. It means that the constituents of ALMPs failed. To say more clearly, it can be attributed that;

- Active labor market programs were unplanned.
- Adequate skills could not be gained with provided labor training programs.
- The gained skills were not demanded by labor market.
- Provided labor training programs were not organized in accordance with the needs of participants.

In brief, if we consider that every year, approximately one million people are included to labor force in Turkey, only active labor market programs cannot be a solution to struggle with unemployment. At this point, ALMPs should not be thought as alternative policies of other policies, which aim to reduce unemployment; they should be applied as subsidiaries of economic and social policies.



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I declare that this thesis and the work presented in it are my own and have been generated by me as the result of my original research.

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