

The Concept of Jobless Growth And The Case of Turkey

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Abstract: Especially during last two decades although the high level of growth the low or unsatisfying level of employment make “jobless growth” a common concept. First of all it was thought that the case of jobless growth is particular only for less developed countries. But after the experience of developed countries which have high growth rates but low employment rates, it became a more known and argued concept. There are many reasons which researchers underline about this situation. The major ones are developments in production process about increasing productivity and changes in management process of firms. In the strict sense technologic change substitutes capital intensive investments for labour intensive investment. So it enforces firms to change management and use less labour for same amount of product for reducing production costs. That is why growth is jobless. Because of some political and economical changes the case of jobless growth started to appear in Turkey. The demographic properties of Turkey- increasing young population and regional immigration- and changes in production-usage of more technology, increase in production of more capital- intensive goods- causes jobless growth. Econometric studies about Turkey reinforce our argument. The causality relationship between growth and employment has been weakened. Also employment responses changes in growth slowly and lagged. The main reasons for this case can be counted as liberalization of capital and changing shape of direct investments, dependency on foreign capital, increase in labour productivity, demographic properties, length of working hours, the quality and shape of human capital investments, substitution of capital for labour and increasing labour costs. The aim of this study is to analyze the reasons of jobless growth for Turkey and develop a policy agenda for all sides from government to trade unions. A macroeconomic view which includes social policies and take special properties of Turkey into consideration will help clarify the ground which must be covered.

1. Introduction

Especially in last twenty years, despite high global growth rates the increase in employment has ranged a little so the process of jobless growth has been experienced. Even it was a case special to less developed countries before, after its revelation in developed countries it has become a popular subject in literature. Since 1980 it has been experienced in Turkey. Because of this, in this study the

reasons of jobless growth, the case of Turkey and possible policy proposals will take place.

As it is known the growth has been defined by many schools at many different ways, from “increase in countries in precious metals” to “increase of real GDP” or increase in countries productive capacity”. In our study we will define it simply as the increase in amount of goods and services in a country, which provides high level of welfare and well-being for all people of a country.

2. The Concept of Growth

As we noted above there are many different definitions of “growth”. At first for Adam Smith it means the increase of production which is a result of division of labour. For him, division of labour causes emergence of abilities of mastership discernment, accomplishment. It increases labor’s skills, decreases waste of time and causes invention of new machinery. So it causes economic growth. [1]

David Ricardo defines growth as increase production of commodities by labour saving results of machine utilization, construction of roads and water channels, even they don’t cause profit growth [2]. It is clear that he associates growth to efficient usage of labour force, increase in productivity of labor, (in other words optimization of resource allocation) and infrastructural investments.

Karl Marx who wrote after a while later David Ricardo defined growth distinctly. The main reason for growth is exploitation which based on surplus-value. Labour creates a value which is bigger than his wage. This value can be increased by extension of working hours or productivity of labour. Growth process will continue as long as surplus value can be increased.

One of the milestones for economic thought is Keynes’s underemployment analysis. The lack of demand is the main reason for underemployment. So governmental expenditures must be increased to extinguish the lack of demand so to tackle underemployment. From this point of view one of the main determinants of growth is public policies especially fiscal policies. Governmental expenditure is a policy instrument to interfere economic growth and to eliminate short run economic fluctuations. [3]

For many historians and economists the first systematic theory of growth is Harrod’s (and Domar’s) one which is the dynamic version of Keynes’ static analysis. For them the effort to survive from underemployment causes the growth. The engine of growth is investment which creates both income and capacity. The continuation of growth requires state intervention according to Harrod. The idea of state intervention was criticised by liberal economists such as Solow. Solow associates growth to investment so to savings, when an economic reaches steady-state (the situation in which the per-labour investment is equal per-labour depreciation). The main determinants of growth become technological change and increase of population, even they are assumed as exogenous.

The both models of Harrod and Solow were criticized. Harrod’s one for knife-edge equilibrium and so need of public intervention, Solow’s one for absolutely convergence of poor countries to rich ones. And both for assumption of exogeneity of technological progress, human capital, division of labour and specialization, economy of scale, externalities [4]. The endogenous growth models are result of these critics which assume technology endogenous and productivity in constant.

3. The Concept of Employment

As the growth the employment too is defined by different schools in different ways. Generally, the simplest definition for employment is to give someone a job, to take someone into one's service. According to literature of economics employment has two definitions in a broad sense employment means usage of all available production factors of an economy. In the strict sense it means only usage of all available labour force.

According to classical economists Say's law which can be summarized as "the supply creates its own demand" is valid so there is no need for governmental intervention. All production will be absorbed by demand automatically (that is why the governmental intervention is unnecessary and costly) Reason of unemployment are government intervention and monopolization at labour market. If there is no government intervention "the invisible hand" of Smith and free competition mechanism will provide full employment.

Keynes whose thought broke through after classical thought of free competition and free of any intervention faltered, accepts underemployment routine for an economy, to provide full employment is hard and the state of full employment ad hoc. The level of employment is determined by effective demand so the government intervention is necessary.

One of the other thinkers who saw underemployment as a routine of economy is Karl Marx. For him underemployment and unemployment are naturel for the capitalist economy. Unemployment is a threat for employees which provides low wages.

4. Relation Between Employment and Growth

The concept of jobless growth in theory that there is a trade-off between growt and unemployment. The main reason for this assumption is the presupposition which associates increase in production firstly to increase in number of labour, than to other factors. In practice sometimes for some countries –both developed and underdeveloped ones- this trade-off is invalid. An increase in reel GDP doesn't end in a decrease in unemployment. In other words the labour demand doesn't derived from demand for goods.This phenomenon is called "jobless growth". It become well known after it had been experienced by developed countries. (We must also bear in mind that jobless growth is not a new phenomenon. For example Ricardo accepts the invalidation of trade-off between growth and unemployment)

There are many thesis about reasons of jobless growth. We can summarise the well known ones;

- Rapid improvements in exports and foreign direct investment have not been able to reverse the stagration in aggregate employment,
- Technological progress,
- Shift in employment from industry towards services,
- Improvements in productivity,
- Role of labour market institutions (inflexible labour regulations),
- Job security legislation,

- Increase in number of unrecorded jobs,
- Special circumstances of economy [5,6].

The data which was obtained shows that not only for Turkey, for many countries, the trade-off between growth and unemployment has disappeared. The empirical studies about OECD and EU shows that the relation between growth and unemployment has been weakened and increase in productivity has affected this relation negatively [7]. For example Bluestone notes in his study that trade-off between growth and unemployment had occurred until the beginning of twenty first century of USA than the relation disappeared and unemployment rate increased. According to him this case can be explained by increase in productivity [8]. The other empirical study has been done by Cuaresma who found an asymmetric relation between growth and unemployment so the degree of relation is higher at economic expansion period than at recession period [9]. Also Holmes and Silverstone found an asymmetric relation between growth and unemployment rate [10]. One more important work is Sögner and Stiassny's one which shows that the relation between growth and unemployment differs from country to country among 15 OECD countries [11].

5. Jobless Growth and Turkey

There are many econometric studies for Turkey which analyzes the relation between growth and unemployment. One is that, after her study for period between 1950-2004 for which she used the industry sectors' data Yüceol notes that the causality between growth and unemployment is weak and unsteady. Growth affects unemployment negatively and growth responses unemployment lagged [12].

Göktaş-Yılmaz also analyzed the causality. Relation between growth and unemployment for Turkey, using data of period between 1980-2000, she notes that there is no symmetric causality between them at Turkey. The causality is from unemployment to growth, in other words unemployment affects growth while growth doesn't affect unemployment. According to her reasons for this situations are:

- Capital intensive production,
- High technology,
- Technically inadequate labour supply,
- Inadequate human capital investments and inadequate policies for increasing human capital [13].

According to Kara and Duruel, unsteady growth which depends on fluctuations could create a permanent employment, this was underlined by World Bank's Report : "Turkey is growing economy but it cannot create employment."

For Kara and Duruel the main reasons for jobless growth at Turkey are:

- Rural urban migration,
- Increase of productivity,
- Structural rigidity for labour market,
- Political instability [14].

One of the new studies is Kanca's one for which she used data for period between 1970-2012. She notes that there is no symmetric causality between growth and unemployment.

Table 1: The Rate of GDP's Growth and The Rate of Employment

Years	GDP Growth Rate	Civilian Employment				Rate of Employment	Employment Growth Rate %
		Thousand People	Agricultural %	Industry %	Services %		
1994	-4,7	20.026	42,03	16,39	41,58	49,7	7,2
1995	7,9	20.912	44,02	15,82	40,16	50,5	4,4
1996	7,4	21.548	44,21	16,13	39,67	50,7	3,0
1997	7,6	21.082	39,47	18,87	41,66	48,4	-2,2
1998	3,2	22.334	42,04	16,56	41,4	50,1	5,9
1999	-4,7	21.507	36,7	18,58	44,72	47,2	-3,7
2000	7,3	21.580	36,0	17,66	46,34	46,7	0,3
2001	-7,5	21.524	37,58	17,53	44,88	45,6	-0,3
2002	7,9	21.354	34,93	18,52	46,56	44,5	-0,8
2003	5,8	21.147	33,88	18,19	47,93	43,2	-1,0
2004	9,0	21.791	59,6	32,12	82,87	43,7	3,0
2005	7,4	22.046	29,45	19,42	51,13	43,4	1,2
2006	6,1	22.330	27,26	19,73	53,01	43,2	1,3
2007	4,7*	20738	23,5	20,8	49,8	41,5	1,5
2008	0,7	21194	23,7	20,9	49,5	41,7	2,1
2009	-4,8	21277	24,6	19,2	50,1	41,2	0,4
2010	9,2	22594	25,2	19,9	48,6	43	6,1
2011	8,8	24110	25,5	19,5	48,1	45	6,7
2012	9,2	24811	24,6	19,1	49,4	45,4	2,9

*After 2007, the data of GDP Growth Rate's accepted 1998=100, because of the changes of Turkish Statistical Institute.

Resource: The data is organised from Turkish Statistical Institute ([www:http//tuik.gov.tr](http://tuik.gov.tr)).

Jobless growth appeared after 1980, especially because of policies and dramatic changes both at social and economic domain. One of the important reason is demographic change. The population increase but labour force remained unchanged to meet these changes.

Globalisation and liberalisation policies, privatizations, depotentiation of trade unions of labour,

the demand for low cost labour force of multinational companies increased the unemployment rate for Turkey. We can see the weaken causality relation between growth and unemployment. From table 1 also unemployment responses growth lagged.

The period after 2001 is crisis period. When we look especially data for 2002, 2003 and 2004 we can see taht the growth rate is high but it affected the unemployment barely at 2004. (The growth affected unemployment rates lagged for two or three years). The growth during period after 2004 didnt affect employment as expected. We can note that high rates of economic growth didnt cause high rates of employment.

Table 2: The Rate of Growth, Employment and Unemployment by Years

Years	Rate of Growth	Rate of Employment	Rate of Unemployment	Employment (1.000)	Change on employment % (according to one year before)
2000	6,8	46,7	6,5	21.581	...
2001	-5,7	45,6	8,4	21.524	-0,3
2002	6,2	44,4	10,3	21.354	-0,8
2003	5,3	43,2	10,5	21.147	-1
2004	9,4	41,3	10,8	19.632	-7,2
2005	8,4	41,5	10,6	20.066	2,2
2006	6,9	41,5	10,2	20.423	1,8
2007	4,7	41,5	10,3	20.738	1,5
2008	0,7	41,7	11	21.194	2,2
2009	-4,8	41,2	14	21.277	0,4
2010	9,2	43	11,9	22.594	6,18
2011	8,8	45	9,8	24.110	6,28
2012	2,2	45,4	9,2	24.821	2,94

Resource: The data is organised from Turkish Statistical Institute ([www:http//tuik.gov.tr](http://tuik.gov.tr)).

When we analyze the table 2 which shows growth-employment-unemployment rates, we can see the Turkish economy had positive growth rates during period 2000-2012 except 2001 and 2009. But it couldn't reduce the employment. For example for 2003 line, even the growth rate is positive unemployment rate increased. Also for 2009 the growth rate was positive. It couldn't reduce employment at the rate which is expected.

The difference between growth rate and increase of employment rate remains big among similar countries, also growth creates less employment in comparison with past [15].

In literature there are many reasons to explain jobless growth. The main reasons are foreign direct investments and dependence on foreign investments which are results liberalisation of capital flows. The foreign direct investments can cause jobless growth if they are mergers or if they employ foreign workers [16].

Turkey is inadequate to bring foreign direct investments to country to create employment. The dependence of foreign capital also can cause jobless growth. Because growth which depends on foreign capital can stop suddenly after any problem about mobility of capital which can cause a crisis. For example the crisis of 1999 and 2001 are related to foreign capital flows. Foreign capital left country fast this caused crisis and growth after crisis couldn't create employment. To prevent this there must be measures to control mobility of foreign capital and to bring direct investments to country. Toksöz notes that, the taxation of financial capital can be used to control the foreign capital's effects on economy.

One another reason for jobless growth is investment for renewal of capital goods. New machinery equipments increase the productivity of labour so they prevent increase of employment.

Another main reasons for jobless growth are increase in labour productivity and choice of capital intensive production. Especially after economic crisis increase in labour productivity or capacity utilization can cause economic growth so employment doesn't change. Intense competition forces firms to use capital intensive production methods and increase work-hours of labour., so real GDP increases but employment remains same or decreases. Jobless growth occurs.

Policies of governments and central banks do not deal with employment widely, they are mostly about price stability. This is valid for Turkey too.

The length of work hours and informal employment can be counted as other important reasons for jobless growth. Also the quality and the quantity of human capital investments are low. There is a mismatch between labour demand and supply. Also job seeking activities are inefficient.

6. Conclusion

According to econometric studies jobless growth is an important problem for Turkish economy. The main reasons for this are composition of foreign direct investments, dependency on foreign capital, renewal of capital, increase in labour productivity, choice of capital intensive production, increase of utilization of capacity, policies of governments, the low quality and quantity of human capital investments and inefficient job seeking activities.

To challenge jobless growth, Turkey must use efficient policies about employment. And also Turkey must control and canalize foreign capital and foreign investments. New institutions for job seeking must be founded and labour intensive industries must be supported.

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