

AN ALTERNATIVE APPROACH TO OVERCOME JOBLESS GROWTH IN TURKEY: A NEW STRATEGY OF INDUSTRIALIZATION

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“Human development is the end - economic growth a means. So the purpose of growth should be to enrich people’s lives. But far too often it does not.”(Human Development Report, 1996)

Introduction

Within development economics literature as well as mainstream economics, the rate of economic growth is considered to be the most palpable measure of economic development for many years over the post-World War II. According to the tacit consensus, it is assumed that the increasing rate of growth improved the conditions of health, education, employment, poverty, distribution of wealth, etc*.

Despite vigorous theoretical efforts spent by Rostow, Hozelitz, Rodan, Nurkse, Lewis, Hirschman, growth centered development models went in to bankrupt in 1980s. After that, Hirschman criticized himself as much as others for supplying too much theoretical models which tended to ignore the complex structures of the least developed countries.

Nevertheless, during the era of Washington and Post-Washington Consensus, the certain rate of economic growth was taken as a major goal by the governments of center and periphery countries. Although it has caused devastating social outcomes around the world such as worsening conditions of health and education, increasing rate of unemployment and poverty, polarized distribution of wealth between rich and poor (people), governments have been successfully reached this goal. According to the world development indicators 2006 supplied by the World Bank: the average annual growth rate of national gross domestic product rose to 5 from -0.8 in Europe & Central Asia, 5.8 from

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* For an alternative reading: see Khan, R. A., (2005), “Growth, Employment and Poverty”, An Analysis of the Vital Nexus. Based On Some Recent UNDP and ILO/SIDA Studies. According to the article, instead of vulgar determinism, there are strong linkages among growth, employment and poverty;
<http://www.undp.org/poverty/docs/Khan-GROWTH-EMP-POV-NEXUS.doc>

5.6 in South Africa, 3.9 from 2.5 in Sub-Saharan Africa during the periods of 2000-05 and 1990-2000 respectively (World bank, 2006).

On the other hand, unemployment rate (as a rate of total labor force) has increased tremendously during these respective periods. It rose to 9.9 from 3.9 in Indonesia, 10.3 from 8.5 in Turkey, 16.8 from 7.7 in Venezuela, 16.8 from 9 in Uruguay, 5.4 from 2.7 in Singapore, 8.6 from 5.2 in Russian Federation, 31.1 from 19 in Namibia, 3.5 from 2.5 in Republic of Korea, 4 from 2.3 in China, 15.6 from 6.7 in Argentina (World Bank, 2006).

In accordance with the data above, one can say that there is no positive correlation between economic growth and the better living conditions for human such as employment possibilities. Therefore, economic growth means only a sustained increase in the volume of goods and services produced annually by a nation, generally expressed in terms of GDP (Gross Domestic Product). The total volume of goods and services may increase by employing greater amounts of labor without any change in its productivity or by raising its productivity without any change or with even a decline in the quantum of labor or by increasing both the quantum of labor and its productivity. In our case, obviously, there is a clear-cut possibility of "*jobless growth*", i.e., GDP may increase without generating new employment opportunities or throwing workers out of jobs.

In this paper, first I explore the socio-economic roots and macroeconomic outcomes of certain correlation between economic growth and unemployment in Turkey. This research is accompanied by statistical data of the last decade. Second, I briefly structure a new approach by inserting a certain strategy of industrialization into the economy in order to establish a positive correlation between economic growth and the employment rate.

I. Turkey's Recent Socio-Economic Development Path towards Jobless Growth

Turkey has suffered from "jobless growth" for three reasons (Figure 1): The first reason can not be considered as a new phenomenon on (at) this issue. 'Agricultural employment' has been diminishing for almost fifty years in Turkey. Until 1950s, nearly %80 of total labor force was employed in agriculture (Kepenek, 1994; 115). This immensely populated sector has started to melt down by the very efforts of industrial entrepreneurs (capitalists) and the state in 1950s. During the era of import substitution policies, which was between 1960s and 1970s many people quitted their job in agricultural establishments and moved away from rural areas to newly industrialized regions. All these

people were profoundly employed in private and state owned factories and enterprises.

On the eve of 1980s, however, import substitution policies were abandoned in a favor of a new accumulation process, which is called “export promotion policies”. The IMF and the World Bank supported these policies by imposing Structural Adjustment Policies (SAPs) to Turkey. In accordance with the Washington and post-Washington Consensus periods of the 1980s and 1990s, SAPs demanded that state should have abandoned its direct promotion towards agricultural sector. This policy has persistently applied by the Turkish state in the post-2000s.

Moreover, throughout these two and a half decades, agricultural sector has employed approximately %60, %40 and %30 of total work force in Turkey respectively. Although the agricultural sector is the largest one, which employs much of total workforce at all times, it has taken the smallest share of GDP (see [Figure 2](#)). The predictable outcome of this policy implication was that forcing people to move out of agricultural activities so as to supply necessary workforce for industrial establishments.

The second reason is that the role of structural adjustment policies on employment practices between 1980 and 2000. The two main policy tools of the orthodox structural adjustment programs regarding employment growth have been labor market flexibility and openness to the world economy.

Turkey, having strictly followed the orthodox structural adjustment recipes of the IMF and World Bank for two decades since 1980, and often praised by these institutions as a successful example regarding its trade reform and labor market flexibility, is a typical case to test the effectiveness of mainstream employment policies. Nevertheless, any genuine reflection on the employment performance of the country after the trade and labor market reforms of the 1980s would call for a serious reconsideration of the old policy tools. Many studies on Turkey conclude that the employment increase in the export oriented growth era of the post-1980s can be regarded as quite weak or at most moderate.

[Figure 3](#) shows the growth in employment and unit labor costs in private manufacturing industry for the period of 1974-2001. Particularly the developments in the export oriented growth era after 1980 is striking: although unit labor costs are mostly declining, growth in employment is not very strong. One important exception to the decline in unit labor costs is the 1989-92 period, when the trade unions pushed for a recovery of the losses in wages at the earlier stage of the structural adjustment program, and these demands were accommodated by the employers thanks to declining imported input costs due to

the appreciation of the local currency as a result of capital account liberalization in 1989 and thereby massive capital inflows. (Onaran, Avsar; 2006).

In the light of this elucidation, it is likely to say that the outcome of the IMF policy implication on agriculture has been actually devastating. Many people who moved from rural areas to urban centers for the purpose of getting (a) job, have been failed to find one and joined unwillingly to the pool of (the) reserve (workforce).

On the other hand, the post-2000s have witnessed a certain modification within the technical composition of capitalist production. This modification is the third reason, which has brought about jobless growth in Turkey. Unlike pre-1980s, production activities have aimed at increasing productivity instead of employment. In order to increase productivity, capitalists have demanded much more technology (machines) but smaller amount of workers in the process of production. Figure 4 displays that although the rate of productivity increased by 52.9%, the rate of employment declined by 17% in manufacture between 1997 and 2005.

II. Macroeconomic Outcomes in Post-2000s

In a favor of technology, the certain modification within technical composition of production has required that although the productivity has moved up gradually, there has been no need for excess workers within the main production process in line with productivity increases. Therefore, the employment index for companies which manufacture finished goods has decreased to 72,97 in 2005 from 100,90 in 1997 (Figure 5).

Together with the productivity increases, domestic production has enhanced considerably. The growth rate of GDP has moved up to 7.8% in the 2nd quarter of 2006 from 3.1% in 1998 (Figure 7).

On the other hand, increasing domestic production of finished goods (such as motor vehicles, office, accounting and computing machinery, radio, television etc) has demanded supplementary intermediate goods. Importation has been the primary source of providing these goods. The share of intermediate goods in total importation was %60 in 2005. Increasing amount of importation has had negative effects on employment conditions of SMEs (Small and Medium Sized Enterprises) which are the providers of intermediate goods. The employment index for SMEs has decreased to 84,37 in 2005 from 100,37 in 1997 (Figure 5).

At the financial core of these macroeconomic changes, there is also a growing foreign exchange need of capitalist entrepreneurs. As I mentioned above, capitalists have started to import more finished and intermediate goods from abroad. Therefore, growing demand for foreign exchange has caused the increase in the rate of interest in money markets. High rate of interest has two sided effects on markets: First, SMEs have had financial difficulties for getting credit from banks and likely to reduce employment in production line. Figure 6 displays the real interest rate burden on credits (OECD, 2004). Second, High rate of domestic interest has attracted short term financial inflows significantly.

For instance; the boom of 2000 was followed by the financial crisis of 2001. Dynamics of this crisis were triggered by the outflow of short term foreign capital accounts. The immediate and disturbing result of this outflow was the shortcoming of foreign exchange and upsurge of foreign exchange rates considerably. Therefore, Turkish lira depreciated by %114.20 in 2001 (Figure 7). Moreover, the real interest rate charges hit the peak point of the last eight years in order to attract foreign investors to refill the exhausted foreign exchange reserves.

During the post-2001 period, successive Turkish governments have managed to curb the inflation rate by the coercive interventions of the IMF. Finally, inflation rate (CPI) decreased to %8.18 in 2005 from %86.40 in 1998. On the other hand, interest rates remained relatively higher than those existing in many developing countries. Combining with the deterioration of price inflation, this level of interest rate has resulted in a massive burden of credit cost.

Furthermore, the general appreciation of the Turkish lira (due to crisis conditions, Turkish lira depreciated by 18.90 in the 2nd quarter of 2006) manifests itself in an expanding deficit on the commodity trade and current account balances (Telli, Voyvoda, Yeldan, 2006).

Accordingly, it is fairly noticeable that the Turkish economy has encountered two distinct problems: First, the Turkish economy which excessively depends on foreign exchange inflows has become very sensitive towards global capital flows and immediate crisis conditions. Second, despite the persistent expansion of domestic productivity, the rate of unemployment has remained significantly high in this period.

At the present, I will concentrate on the second problem and introduce a concise model for overcoming the high level of unemployment in Turkey.

III. Response to Jobless Growth: A New Strategy of Industrialization

During the last two and a half decades, accumulation dynamics of capitalism has changed extremely in Turkey. As a developing country, Turkey has been spending enormous efforts to embrace the global propensity of accumulation throughout the world. Distinct fractions of capital have internationalized considerably. Financial flows have become the predominant factor in determining nations' socio-economic well-being. Moreover, the whole process of production has divided into different parts and also dispersed to distinct geographical regions. Above all, there is an immense competition among these distinct geographical regions (countries) in order to sell the same quality of product cheaper than other countries.

On the other hand, the nation state still has very important role in determining the national conditions of global capital accumulation. Also, when we consider the unequal rules of global economic competition between core and periphery originated capitals, it is clearly seen that Turkey as well as many developing countries have in unfavorable socio-economic situations. Therefore, it is essential that the state should organize a new industrialization strategy in accordance with the changing requirements of domestic capitals. This strategy should include in foreign capital controls, differentiated credit interests, creating a selective incentive system for expanding the domestic production and employment, modifying legal environment for these purposes, investing in infrastructure related to production chain of domestic capitals, etc (Chang, H.J, 2004).

In the case of overcoming jobless growth in Turkey, domestic producers should struggle to become certain parts of global chain of value (Sak, G., 2006). In other word, domestic producers should be strong and competitive enough to be certain parts of global production chains. At this point, the state is the key figure of this process. Together with the necessary incentives provided by the state, it is possible to produce wide variety of goods (finished and semi-finished goods) domestically. Instead of importation, the compulsory inputs for sectors, which export the finished goods considerably, can be produced domestically through backward industrial linkages. These backward linkages also generate an additional employment opportunities for jobless people.

The concepts of “backward and forward linkages” originated from the development studies generated by Hirschman. Contrary to certain development economists such as Nurkse, he deliberately advocated the unbalancing the economy for development. His fundamental strategy of economic development is continually built destabilizers or disequilibria into the economy and then to rely on their equilibrating force to move and keep moving the economy off dead

center. The disequilibria serve as an inducement mechanism and equilibrating forces occur as backward and forward linkages (Frank, 1960).

Backward linkages are quite compulsive effects on domestic production. For instance, an expanding car industry puts pressure on the production of wheel industry so as to obtain adequate amount of wheel as input. On the other hand, forward linkage are primarily permissive in that they include the usually weaker pressures that one sector can exert on another to utilize the output of the first. (Instead of car industry, this time wheel industry puts some weaker pressure on car industry in order to sell its wheel products to car companies).

Hirschman profoundly emphasizes the importance of backward and forward linkages during the implementation of import substitution Industrialization policies. According to Hirschman, when backward linkage effects are taken into account, exhaustion of easy import substitution opportunities tends to evaporate gradually. Together with the expanding export opportunities, the setting up of an industry based on imported goods will be quite profitable for domestic producers. Moreover, abundance of labor will be utilized by backward the effects of domestic industrial expansion.

Conclusion

Certainly, since the 1950s and 60s, world of capitalism has changed extremely. In those days, the principle consideration was that establishing the favorable conditions of capitalist accumulation in Turkey as well as other developing countries. Unbalance development (selected branch of industry) and backward-forward linkages had provided necessary support for this goal. Today, however, there is an intense struggle for participating to the global circle of capital accumulation. This participation can only be possible by creating favorable conditions for domestic producers. At this point, Hirschman's theoretical thesis could provide us with operational tools.

As we display above, the Turkish economy has plagued by two structural problems: relying on excessively imported goods and struggling with persistence unemployment. Even though changing dynamics of capitalism have modified the functions of the nation state, it is still the chief guardian of national accumulation process. Therefore, the state should be required to provide essential infrastructure for promoting domestic production and global competitive strength of domestic industries. Consequently, if these provisions create favorable conditions for domestic capitals to participate the global chain of value by linkages, import-dependency and unemployment would bring down gradually.

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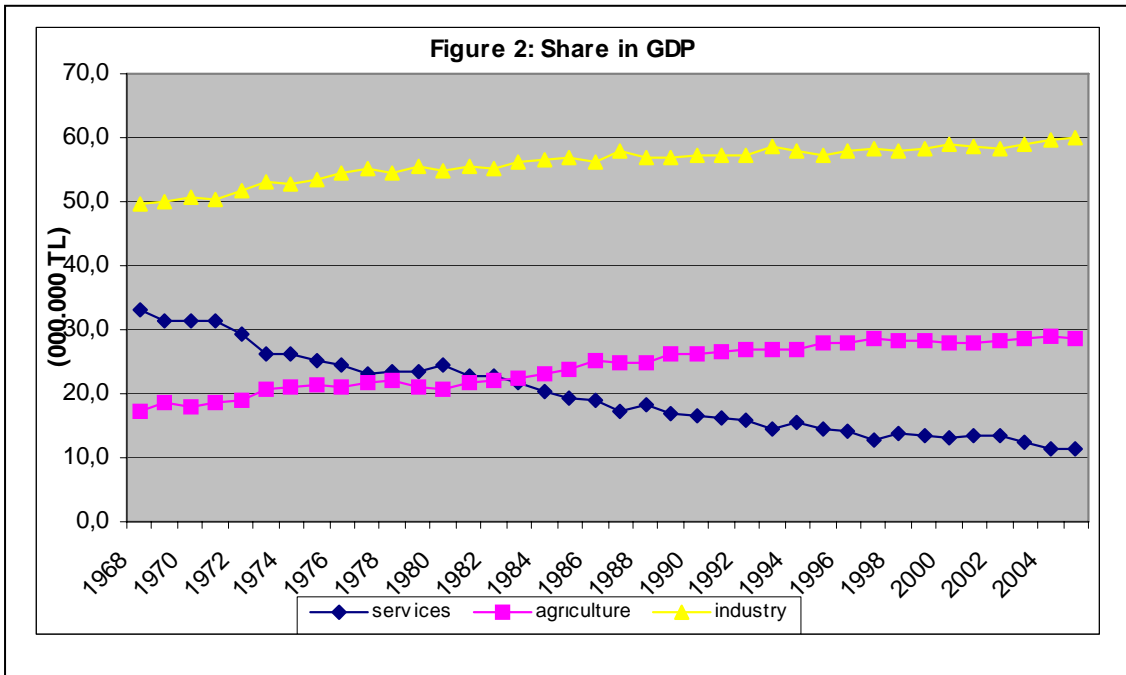
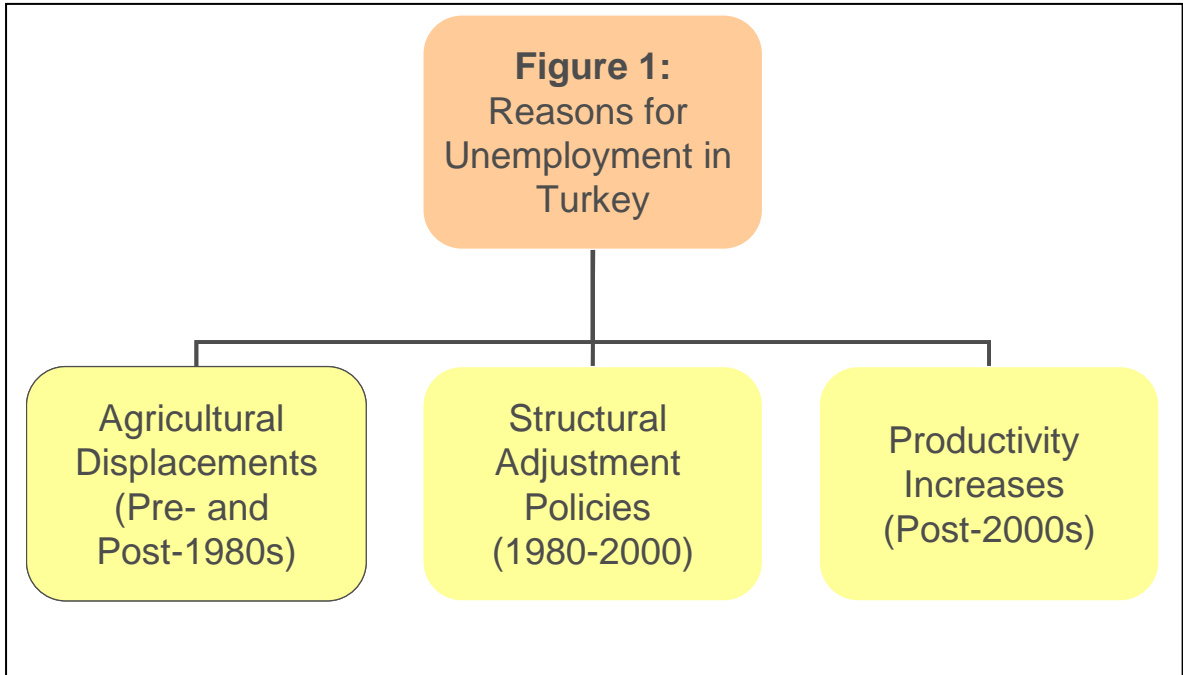
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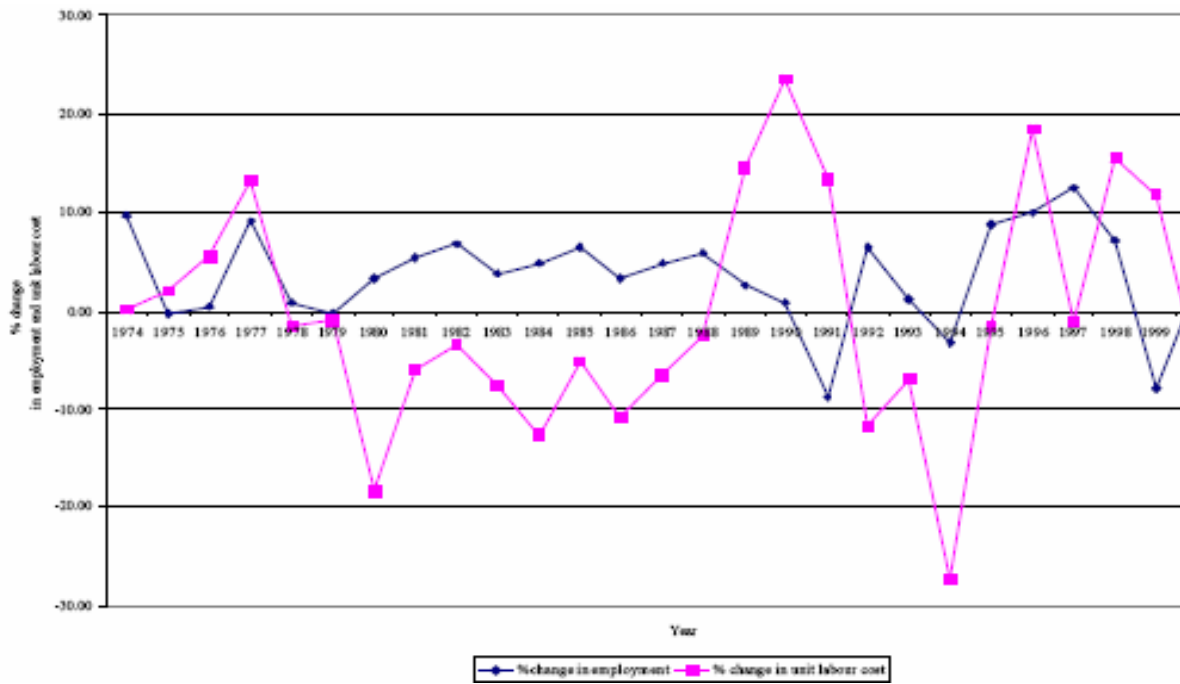
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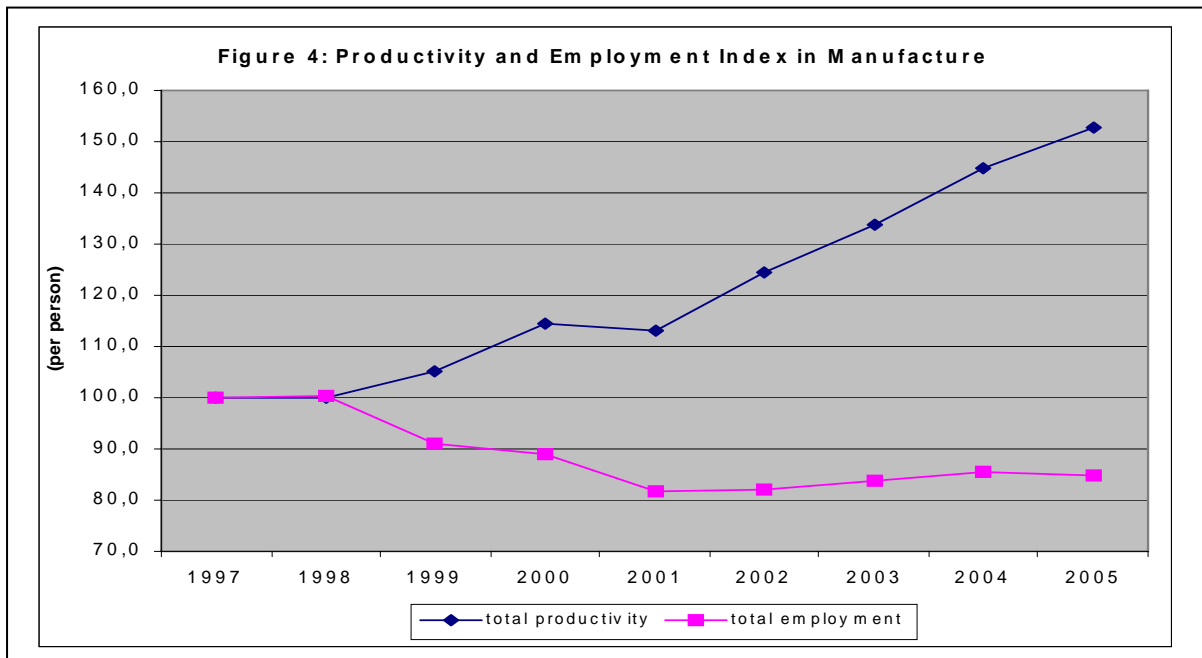


Source: State Statistical Institute (www.tuik.gov.tr)

Figure 3: Annual % Change in Employment and Unit Labor Cost, Private Manufacturing Industry



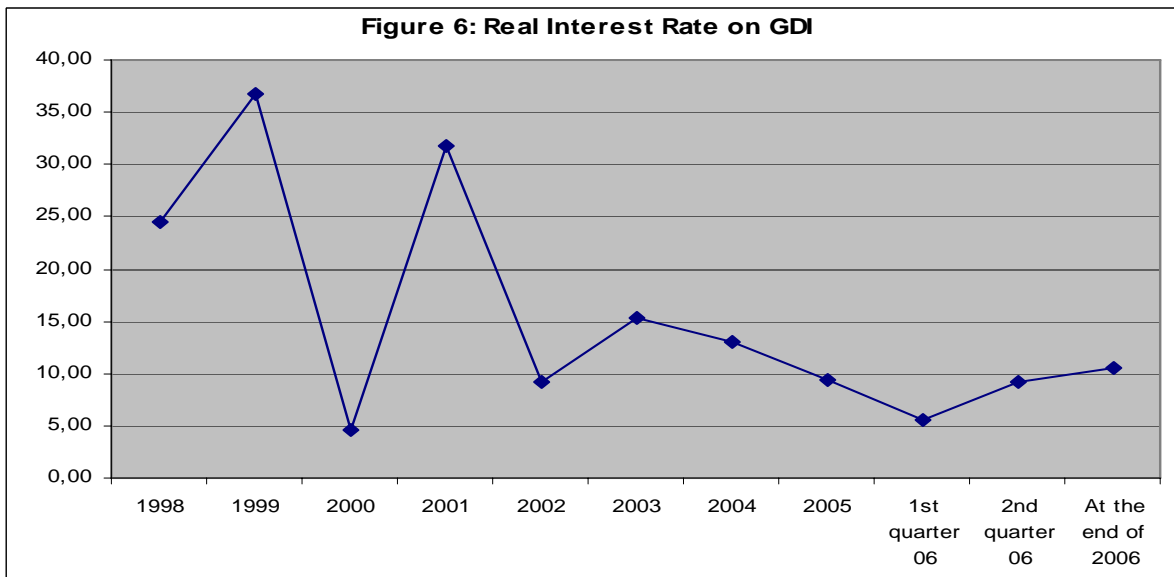
Source: Onaran, O., Avsar, A., Nursel (2006)



Source: State Statistical Institute (www.tuik.gov.tr)



Source: The State Statistical Institute and The Central Bank of Turkey



Source: The Central Bank of Turkey (www.tcmb.gov.tr)

Figure 7: Selected Macroeconomic Indicators from the Turkish Economy										
	1998	1999	2000	2001	2002	2003	2004	2005	1st quarter	2nd quarter 06
Real Rate of Growth										
GNP	2,30	-7,40	1,40	-11,10	6,40	4,20	8,20	7,20	6,40	8,50
GDP	3,10	-4,70	7,40	-7,50	8,10	5,70	9,10	7,40	6,50	7,80
Imports	-5,40	-11,40	34,00	-24,00	24,50	34,50	40,70	19,70	15,00	23,00
Exports	2,70	-1,40	4,50	12,80	15,10	31,00	33,70	16,30	7,86	17,00
Fix investment expenditures	-3,31	-13,70	14,60	-30,80	-4,00	10,70	29,40	14,6 ^a	8,68 (2006 total) ^b	
Unemployment	7,10	7,70	6,50	8,40	10,30	10,50	10,30	10,30	10,90	8,8 ^c
Financial Accounts (As % of GNP)										
Current Account Balance	1,00	-0,70	-4,80	2,40	-0,80	-3,40	-5,20	-6,40	-10,50	-11,60
Stock of Foreign Debt	55,40	69,50	64,40	93,90	76,20	58,50	53,70	47,80	19,00	8,16
Budget Balance	-7,00	-11,60	-10,90	-16,20	-14,30	-11,20	-7,10	-3,00	-1,60	2,18
Macroeconomic prices										
Rate of change of the nominal exchange rate (TL/\$)	71,10	60,60	28,60	114,20	23,00	-0,60	-4,90	-5,74	-0,90	18,90
Inflation (WPI)	71,80	62,90	32,70	88,10	30,80	13,90	11,90	5,89	5,88	13,07
Inflation (CPI)	86,40	68,80	54,90	54,40	45,00	25,30	10,60	8,18	10,11	11,13
Real interest rate on GDIs	24,50	36,80	4,50	31,80	9,10	15,40	13,10	9,40	5,58	9,21 ^d

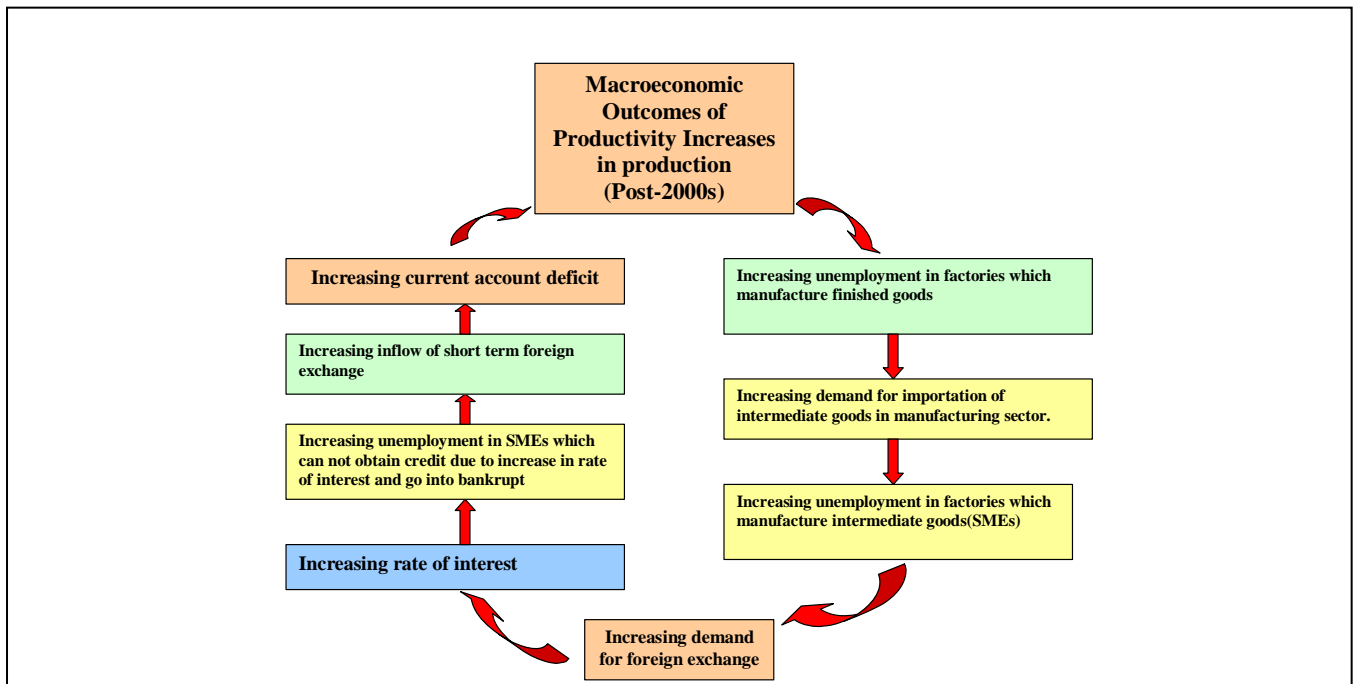
Sources: State Istatistic Institute Publications; Central Bank Annual Reports; SPO Publications, Telli, Voyvoda, Yeldan 2006.

a= estimation realize

b=program

c=9.1% for the 3rd quarter of 2006

d=10.54 at the end of 2006



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