

## **UNREGISTERED EMPLOYMENT DYNAMICS IN TURKEY: UNREGISTERED EMPLOYMENT WHICH PHASE OF INFORMALIZATION PROCESS?**

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### **—Abstract —**

The main purpose of this article is to define and determine the causes of unregistered employment in Turkey. Also the reasons of unregistered employment (pushing employers to illegal methods) are discussed from various perspectives. As is known, after the 1980's, globalization has become the most powerful matter in the world. Globalization has forced a change in everything in different ways. The world has become a single market and the first rule of this market is competitiveness which is also being the main cause of unregistered employment.

After the Second World War, Keynesian policies established its own hegemony and these years named as a golden years of these policies. But after the 1970's, globalization changed product technique then service sector turned out the main sector. Also the dynamics of the economy have changed. The welfare system seems to slacken because of these dynamics, so neo – liberal policies have become dominant. Because of these developments (globalization – flexibilization) and also competitiveness, employers tried to find the cheapest way to manufacture and the best way for that is unregistered employment. Labor cost is the main decisive of competitiveness. At that point labor market situation became the most important thing for manufacture and also strictness of labor market initiated the regime shopping.

In this paper informalization process of employment in Turkey have been analyzed and we tried to find out the reasons about the framework. Consequently we will discuss the phase of unregistered employment in the informalization process.

**Keywords:** Unregistered Employment, Informalization, Flexibilization.

**JEL Classification:** J01

## **1. INTRODUCTION**

### **1.1. Informalization – Unregistered Employment Relation**

Informalization process in the labor market has different types and furthermore it is not possible for making a clear description of informal employment. Legislation makes a clear distinction between illegal and legal economy. However there is not a certain distinction between informal employment and formal employment. Certainly, fixed term contracts, project based employment, borrowed employed relationship, subcontracting, outsourcing are indicators of informal employment. But this doesn't give a certain criteria for evaluation of informal employment. Some types of employment can be illegal at first but the informalization process can make them legal. Some of these employment types were illegal in Turkey and at that time we can not analyze them in the concept of informalization because they were illegal. But now some of them are legal and they are part of informalization. So informalization doesn't care about legal and illegal too much because it can change, as it has most of the developing country's labor market. This changing dynamic named as informalization. Unregistered employment is the worst face of informalization because it is totally illegal and has both economic and social effects. There is no severance pay, there is no social security fees, perfect form for employers. Because of that reasons unregistered employment shows the point where informalization attain.

There should be criteria for evaluating the informal employment. The most comprehensive survey about labor market is the household survey, which is made by the Turkish Statistical Institute (TSI), and there is not any statistics for now in Turkey which evaluate the informal employment directly. Therefore in this paper we use the unregistered employment statistics and also we analyze the unregistered employment concept in the case of informalization. Unregistered employment statistics coming from the supply section. Supply side can declare the unregistered employment because they do not responsible for that and they won't come up against the penalties for that.

### **1.2. How unregistered employment identified and measured in Turkey?**

Labor force statistics are prepared by the Turkish Statistical Institute in Turkey. Household Labor Force Survey which have regularly been applied since 1988 is the main data source on the labor market situation of the country from the supply side and gives information about economic activity, occupation, status in

employment and hours worked for employed persons; and information on the duration of unemployment and occupation sought etc. by the unemployed.

Turkish Statistical Institute describes the unregistered employment as; “Persons who are not registered to any social security institution due to main job worked in reference week”. Elements in the definition are examined, the person employed in the informal assessment of the condition, not registered to any social security institution and the social security situation of not being registered during the reference week because of his main arise from work.

TSI identifies the employed person as “economically active during the reference period for at least one hour as a regular employee, casual employee, employer, self-employed or unpaid family worker”. After this question if the person is employed official asks “do they have social security rights due to their jobs”. In addition, for the person that works on his/her own behalf asked about tax payment. Through these questions, the size of informal employment and determined in accordance with the definition set by TSI, as well as informal employment, unpaid family workers, working on his/her own behalf, the employer and paid or casual employee also identified as a species. So now we can discuss the proficiency of evaluation of unregistered employed according to Turkish Statistical Institute data. Unregistered employment is just a form of informalization and this concept has been established in Turkey just to mention it. Criteria are registering to any social security institution because if someone is registered to the social security institution then he/she can get the social security right which means he/she can survive in the society. Also getting social security right contains for getting unemployment insurance and all rights which described in the labor law. Such as annual paid vacation, legal working hours, at least minimum wage and also syndicate rights.

The question is; whether the criteria of unregistered employment and also informal employment sufficient for evaluating the informalization. The answer is so simple and it’s absolutely “No”. But there should be a criteria and it is chosen and make out with social security rights. This is made just for evaluating because the household survey can not evaluate all the information process.

International Labor Organization describes the decent work as “work, which involves opportunities for work that is productive and delivers a fair income, security in the workplace and social protection for families, better prospects for personal development and social integration, freedom for people to express their

concerns, organize and participate in the decisions that affect their lives and equality of opportunity and treatment for all women and men”. If someone works without social security rights this means that can not get any rights which described in the social security system, no unions, no social protection and also this job cannot utilize as a decent work. Probably their working conditions are out of labor law protection. These are very bottom stage of informalization and the only step we can evaluate in Turkey by statistics. But informalization is not only those. Informalization is a process which has very huge effects and precarity, subcontracting, flexibilisation and also fixed term contracts are the legal appearance of informalization but also unregistered employment and employment without the legal framework of labor law is illegal appearance of it.

The informalization process has a power of changing the laws and also deregulation. In 2001 the labor law changed in Turkey and the flexible working forms identified in the new labor law. Those are part – time employment, on-call employment, borrowed employment relationship. Also it was planning to make the at home working legal but the government changed the proposal because of the pressure that's coming from trade unions.

**Figure 1. Informalization Process in Turkey**

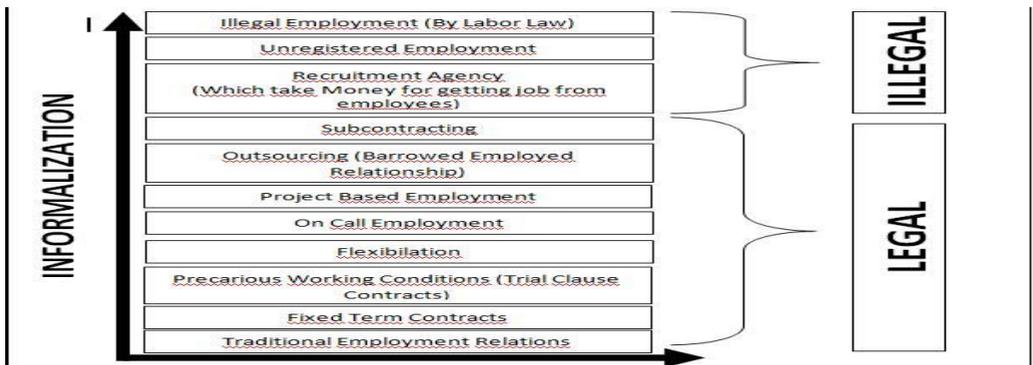


Diagram 1 shows informalization in Turkey from bottom to above, legal to illegal and informalization still continues forcing to change legal framework and labor market situations. Developing countries which have over labor force and also young population try to generate jobs rather than care about job quality. Turkey also did it that way and now we have more flexible labor law. Change of labor law brought us regulations of fixed term contracts and also for on-call employment. According to these changes, outsourcing and borrowed employed

relationship has become legal. These developments show how the informalization process effects the legislation. Also how the informalization become legal. Informalization process is very fast and unstoppable because it started with the collapse of welfare regimes and pick up with the re-commodification of labor, and now it is neo liberal policies' sovereignty and the accumulation regime wants more accumulation. (Slavnic, 2009:7) When will it stop or what will be the next step is more important question than arguing the process. Because the scope of social protection is narrowing in all Europe and labor market deregulations still continue due to new flexible working conditions but the economic crisis and contraction of the market still continues. Maybe this is the time for arguing the relation between less regulated labor market and job opportunities.

The unregistered employment rate in Turkey for 2011 is %42. Which we can say one of two jobs in Turkey is unregistered. That means half of employed people is not under the cover of social protection and also most of them is not under the protection of labor law. Therefore if there was a data for part – time jobs, subcontracting and other indicators about informalization we could easily say that probably %75 of jobs in the labor market can count as informal jobs.

This gives us a big hint that there are two labor markets in Turkey which convenient to the theory of divided labor markets. The prime labor market is mostly established in the capital intensive industries. There is unionism and regular demand for the products and also in prime labor market huts higher educated workers. Secondary labor market mostly established in the labor intensive industries and in these industries' demand is irregular and downward. The secondary labor market has low wages, high disposal rates and also low value jobs. (Uyanık 99:3) Unregistered employees situate in the secondary labor market and they can not reach most of labor right as well.

## **2. WHAT ARE THE REASONS FOR UNREGISTERED EMPLOYMENT?**

Causes of informal employment widely different for each country. Unregistered employment, the resulting combination of many factors that affect the entire society is a dynamic process with consequences. For this reason, understanding the causes of informal employment is not sufficient to make inferences based not only economic. In general, three groups need to examine the causes of informal employment.

## **2.1. Social Reasons**

### **a) Rapid Population Growth**

All of the reasons listed as social reasons, the informal economy and unregistered employment, increase in feeding might be described as chronic, not the level considered as reasons for removal of causes. (Selamoğlu – Lordoğlu 2006:64) Rapid population growth is the most disruptive factor because it is faster than the growth of employment.

### **b) Unemployment**

Unemployment is the most important feeder and determinant of unregistered employment. A person cannot be employed in the formal economy, is facing with the phenomenon of unemployment and to make a decision in this process remains the case. This decision is registered to take part in employment and job-search process to continue to struggle with a lack of income, or the working in the informal economy, low wages, poor working conditions and lack of social security as a condition of remaining work, but have an income, albeit low. In terms of the current unemployment rate, directly affects the demand for informal jobs. Even be said that the rate of unregistered employment has a positive relationship with the country's unemployment rate. The unemployment rate in a country increases; the rate of informal employment is also increasing. (Özsoylu 1996:73)

### **c) Urbanization and Migration**

Increase in the number and size of existing cities to industrialize, depending on the city that can be expressed as an increase in the phenomenon of urbanization, coupled with the mechanization of the agricultural sector that has people who migrate to big cities. (Keleş 1984:7) People employed in the agricultural sector relatively low-skilled labor migrated to the big cities, after that they have been added to the unemployed people in the labor market that already exists.

### **d) Child Labor**

Child labor and illegal foreign labor can be evaluated with the two phenomena. Due to migration and as well as due to low family income children looking for work and work under particularly difficult conditions remain in the case. However, employing children with this condition is not legal so employers often employed children under difficult conditions with low wages and unregistered.

### **e) Foreign Illegal Labor**

Foreign workers try to get capital in a short time and they have to accept these conditions because of this reason. Employers get the change for reducing labor cost and this situation constitutes a reason for unregistered employment.

### **f) Barriers Versus to Unionization**

Trade unions, are the organizations that entities to protect and promote the rights and interests of their members. They can operate in the legal frame because they try to establish labor rights on to legal frame. If there is an organized union in the firm then unregistered employment could be more difficult. Unionism rate has close relation to unregistered employment because of this reason.

## **2.2. Economic Reasons**

Economic reasons, perhaps more strongly than other factors affecting unregistered employment. Economic reasons, the existing conditions of international competition even more prominent, in particular manufactured product other than labor costs in the value of the manufactured product costs reducing believed and relieved all the reasons for the employers in the informal employment appears to be pushing.

### **a) The excess of the financial burden of fees**

Economic reasons are evaluating the most important conclusion emerging, especially in Turkey the most important cause of unregistered employment excessive financial burdens on wages. Charged on the financial and tax obligations, workers and employer social security contribution burdens, the most significant reasons that push employers to the unregistered employment.

### **b) Structure of Employment**

The industrial employment in a country shows the degree of industrialization that is realized. That must elapse after the employment is in services sector employment in the industrial sector. According to a theory which is Tri-Sector Law, a country in line with the economic development of employment from agriculture to industry, the industry is shifting to the services sector. (Kılıc – Mehmet 2009:50) However this process did not develop in this way in Turkey. Due to less industrialization and high urbanization workers break away from the agriculture found themselves in the informal jobs mostly in the service sector. Unregistered employment has a close relation to the structure of employment. Agricultural employment convenient for unregistered employment and unpaid family worker employment status brings unregistered employment as well. According to TSI data, the agricultural unregistered employment rate in Turkey for 2012 June is %84. This means every 9 workers in 10 are unregistered in agricultural employment. ([http://www.tuik.gov.tr/VeriBilgi.do?alt\\_id=25](http://www.tuik.gov.tr/VeriBilgi.do?alt_id=25)) Non – Agricultural employment unregistered rate is just %25. This shows that prohibiting as permitted to unregistered employment needed constitutional variation.

### c) Labor market rigidities

In general, the cost of worker in the employment of labor market rigidities that can be expressed as a combination of both the difficulty of entering the labor market and in terms of employers to the employment of new workers and the workers of a later time, such as narrowing of the production cost of a case refers to dismiss. The reaction speed of labor market into the change in the product continuum also described as labor market rigidities. The concept is also used for flexible forms of employment and labor market imbalances and reflects an overall view.

Labor market rigidities in the labor legislation and compensation issues should be considered the height of the individual. Labor market rigidities are a decisive point in creating new jobs. However, the height of compensation in the labor legislation, the social dimension be evaluated separately, also will affect the future of society. For this reason, compensation by employers and labor legislation for the alleged high altitude is not just economic, and social dialogue on the functioning of the social background is an issue to be resolved with. Turkey displayed a rigid labor market, compared with OECD countries. This is the major cause of unregistered employment. Employers can not compete with these rigidities in the neo – liberal trends and also in global competition. Considering that the OECD average of 1,94 at 3.72 which is Turkey's coefficient is very high. Among OECD countries the closest route belongs to France which is 3.04 (<http://stats.oecd.org/Index.aspx?QueryId=10179#>). During the great recession Turkey made multi policy alteration about creating employment and preventing unregistered employment. These were mostly about the financial burden on employment which evaluated as labor market rigidities. These policies affected the unregistered employment rate and praised by the International Labor Organization. (ILO – World Bank 2012: 7) Through this policy alteration unregistered employment rate reduced %4,5 in last 2 years. This gives big evidence and a sign post for next policy design processes.

### d) Smallness of business

Lack of sufficient capital and the small businesses is another reason which supports the unregistered employment. Small and Medium-Sized Enterprises in Turkey account for 58% of total employment, 27% of investments in performing but uses only 4% of total loans. (<http://tuikapp.tuik.gov.tr/iscguapp/iscucu.zul>) This kind of source financing method is avoiding the heavy financial obligations remain in the case. On the other hand, small businesses, as well as the various tax laws, social security, municipal law, environmental law and regulations to fulfill

the obligations and time, but also have to spend money. This is already a shortage of financing small and medium-sized businesses in the squeeze are even more difficult, and encourage such companies to operate unregistered workers.

### **2.3. Political Reasons**

Political reasons of unregistered employment, unregistered employment in state bodies to the point of view and attitudes towards unregistered employment, unregistered employment and supervision of the judicial system works, how effective the causes. The attitude control system and the functioning of the political authority in this respect, is very important to determine the size of the causes of informality. But we have to say that sometimes authorities condone the unregistered employment because of generating jobs and also another way the state should care about jobless people so they give it pass. As well as deficiency of inspection means condone to unregistered employment.

### **3. CONCLUSION**

At the end we should talk what is the phase of unregistered employment in informalization process. Also we can argue what happened to welfare society and what is happening to workfare society. Most of us unanimous about the decadence of welfare states. Welfare states are a symbol of de-commodification because most of rights coming out from labor. But today's manufacture needed just at the time employment and also do not want to care about what will happen after dismissal. So we can not create a society above the right which comes from labor. But that is what neo – liberal trends want. First we were talking flexible labor markets for more jobs, then we decided to shorter the working hours then we decided to hedge and Denmark was a trailblazer and we learn flex security but the process still continues and marginal working types become legal. And people can not get right because of these working types. They have to work more for retiring; they have to work more for getting social security rights. That is the very short way to tell informalization but the question is what is going to happen if we can not create demand because of this accumulation regime. Capital create new accumulation but most of the developed societies have %80 percentage of salaried workers. So it can be the deadlocks of neo – liberal trends. But it is not that much easy to change. Probably we will talk “Withoutfare” society in the next decade. Because the labor market is narrowing, workfare society would not survive in this process. In the case of this progress we can say informalization want precarious working conditions and also want them to be legal. Because when the markets are

narrowing, they want to narrow employment without any severance or penalty. So informalization plot is unregistered employment. In unregistered employment there is no penalty because it is totally illegal. Of course this can be dangerous for firms because it is illegal and if they face with inspection they are going to be in trouble. But it is worth of unregistered employment because they have too many advantages in the competition.

The unregistered employment rate in Turkey has shown us there is two labor markets in Turkey. First one is most convenient to the laws and mostly public employment or union employment but the other one which is much bigger than the first one is unregistered employment. Also when we add informal employment rate, which is legal like fixed term employment and the other types of informal employment then labor markets social protection drop very bad stage.

At the end we should say that if state wants to be active he convinces that he will aspire unregistered employment and also castigate as much as it can. Because the main cause of unregistered employment is employers believe that they can handle it. By the way highness of taxes and labor costs state can not collect good amount and because of unregistered employment state can get nothing. So state attendance is also important. Because employers would not resume with this tax rate and probably state cannot collect good amount because of the highness of the tax level. Also for the labor market it is very disappointing that %42 of employed people is employed unregistered. This has social effects and also economic effects. Which makes difficult to get decent jobs. The next decade social policy cannot build on employment because of accumulation and global competition in these regime neo – liberal sovereignty social right regress and we turned into benevolent social protect perceptivity.

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