

ERF Policy Brief

The Effects of COVID-19 on Labor Market Outcomes in Turkey*

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About the authors

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In a nutshell

- We designed and conducted a comprehensive survey representative at national level, HCOVIDA, to collect information about the changes in the labor market and the household incomes in Turkey during the COVID-19 pandemic.
- We report that women who have children and do not have a high school degree constitute the most vulnerable group both against employment and income losses.
- The self-employed and informally employed also shouldered the economic hardship of the pandemic.
- Among the university degree holders, the detrimental labor market effects of having children or being a woman are considerably small.
- We recommend that social assistance policies designed in response to large economic shocks such as the COVID-19 should have broader coverage, particularly including more vulnerable groups such as the informally employed or self-employed.
- The pandemic further exacerbated the gender divide in paid work. Future policy should work to alleviate the long-term effects of employment losses among women.
- Childcare remains an essential policy area in Turkey. When parents, especially mothers, do not have access to childcare, their labor market outcomes deteriorate. Therefore, any labor market policy aimed to improving labor market outcomes should have a built-in childcare component.

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The COVID-19 pandemic had devastating effects on the economy in Turkey as in many other countries. During the first wave of the pandemic, between mid-March and early June 2020, a series of strict containment measures were implemented including partial curfews and school closures. Smart working, especially in service sector, was recommended and highly encouraged. These measures indisputably affected the labor market and household income. Since wage income is the primary financial resource of most households, monitoring the evolution of labor markets during the pandemic is particularly critical in understanding how the households struggled with economic hardship. Moreover, careful tracking of labor market is crucial in identifying the groups who are at risk of dropping from the labor market albeit being employed and financially resilient in the pre-pandemic times. Last but not least, understanding the coverage and the efficiency of the social assistance programs (e.g. the short-term work allowance, direct cash transfers to the furloughed workers, direct cash transfers to households) enacted during the pandemic is essential to inform policymakers for their future actions.

Unemployment and Labor Underutilization Rates: Descriptive Evidence by the Macro-Level Labor Force Data

Figures below show unemployment and underutilization of labor of men and women using TurkStat's macro-level data in 2019 and 2020. The black vertical line represents

the beginning of the pandemic, and the two pink vertical lines indicate the months in which we conducted our field survey. As shown below, surprisingly, men's unemployment did not substantially rise during the first wave of pandemic. Precisely, men's unemployment rate only increased from 12.4 percent to 13.8 percent between March and July 2020. Several mechanisms might lie behind this situation. i) The employment protection policies were effective in keeping unemployment rate under control for men, ii) Some men exited the labor force. On the other hand, the composite measure of labor underutilization shows an unprecedented rate of underutilization of the male labor force during the period of our study, implying that the second effect dominated.¹

The macro data demonstrates a different trend for women. First, women's unemployment rate decreased in the first couple of months of the pandemic albeit returning to its pre-pandemic rate in July. Both macro data and our analysis show that women's labor force participation

¹ The definitions are as follows:

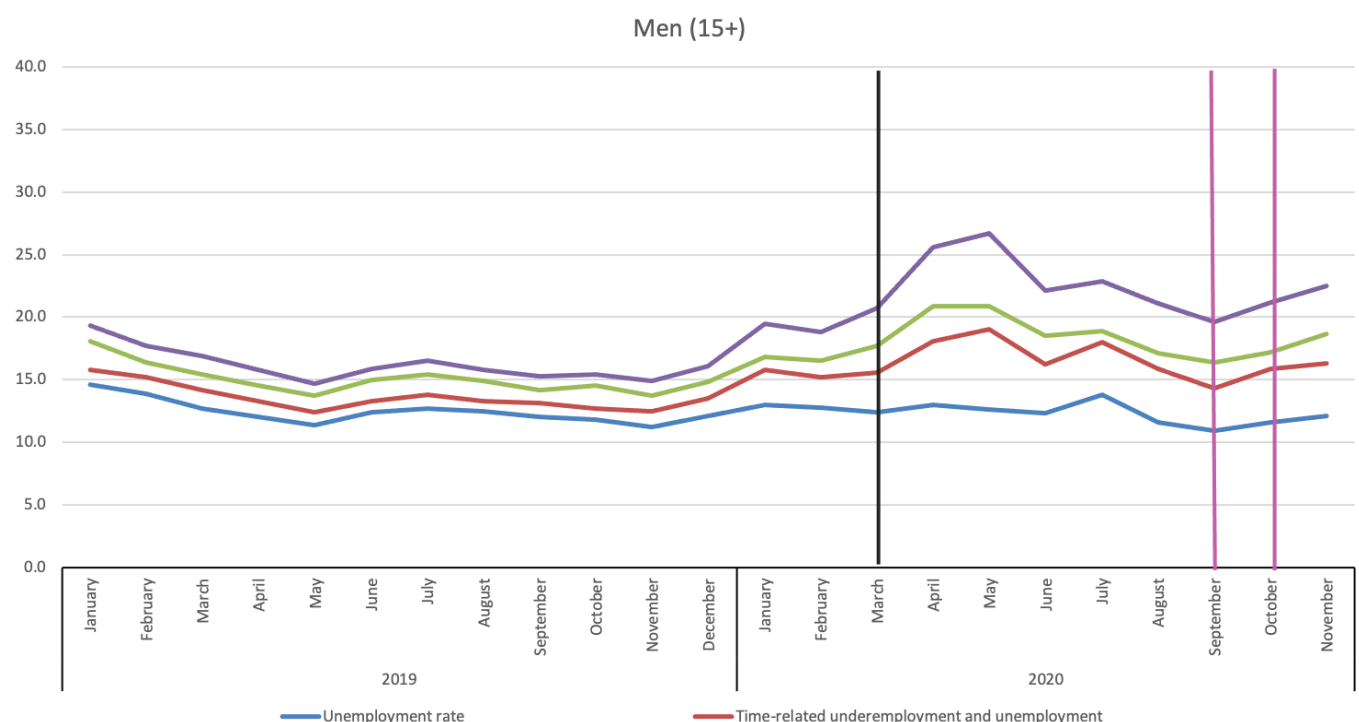
Unemployment rate= [persons in unemployment/labor force] * 100

Combined rate of time-related underemployment and unemployment= [(Persons in time-related underemployment + persons in unemployment) / labor force] * 100

Combined rate of unemployment and potential labor force= [(Persons in unemployment+potential labor force)/(labor force+ potential labor force)] * 100

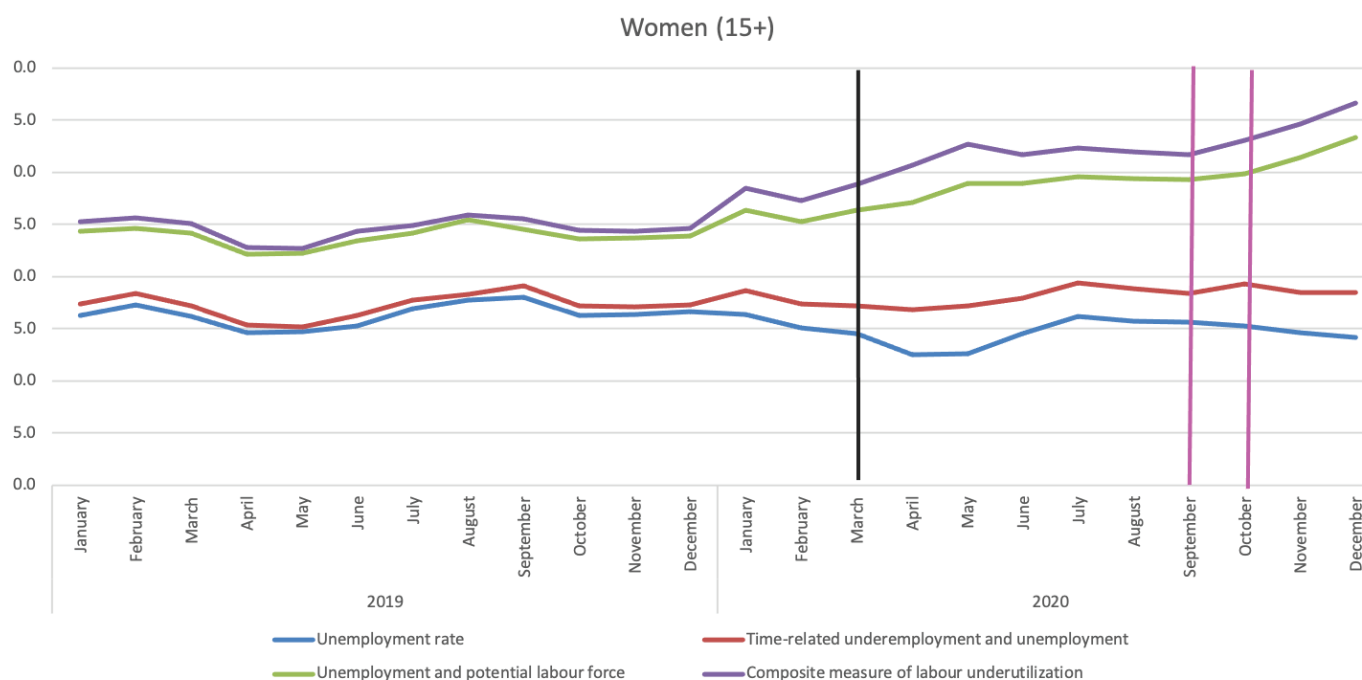
Composite measure of labour underutilization= [(Persons in time-related underemployment+persons in unemployment+potential labor force)/(labor force+ potential labor force)] * 100 <https://data.tuik.gov.tr/Bulten/Index?p=Labour-Force-Statistics-January-2021-37486&dil=2>

Figure 1: Unemployment and Labor Under Utilization for Men (15+)



Source: TurkStat Labor Force Statistics



Figure 2: Unemployment and Labor Under Utilization for Women (15+)

Source: TurkStat Labor Force Statistics

decreased initially. Another interesting pattern is the increasing trend in the underutilization rates among women. As observed in Figure 1, underutilization did partially recover for men by the summer months of 2020 whereas for women, underutilization still has not fully recovered by fall 2021.

Data

In order to isolate the impact of COVID-19 on labor market outcomes, one would need information on the labor market outcomes of survey respondents both before and during the pandemic. Therefore, the optimal data collection strategy would be a panel data set. Unfortunately, panel data is not shared publicly by TurkStat. The second-best data would contain retrospective information of the survey participants pertaining to periods both before and during the pandemic. To this end, we designed and conducted a comprehensive and nationally representative survey, HCOVIDA, to collect information about the changes in the labor market and the household incomes during the COVID-19 pandemic.

We track the effect of the pandemic on the labor market and household incomes in Turkey using HCOVIDA, our unique dataset. The data was collected in September and October 2020 via face-to-face interviews. In the survey

instrument, we collected information regarding three periods: i) February 2020 for identifying the pre-pandemic circumstances, ii) between March 2020 and the survey month for capturing the changes that happened during the first wave of the pandemic, iii) the survey month in order to compare with the pre-pandemic period. In other words, our data set contains retrospective data on the respondent's labor market outcomes in February 2020 and in the survey month.

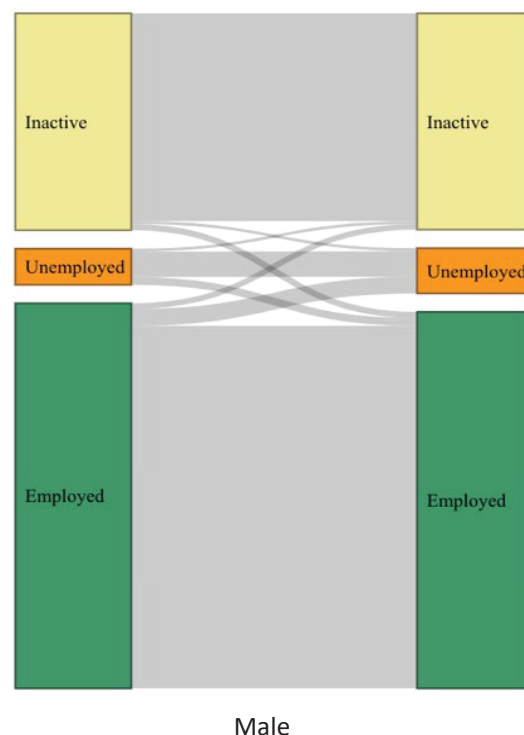
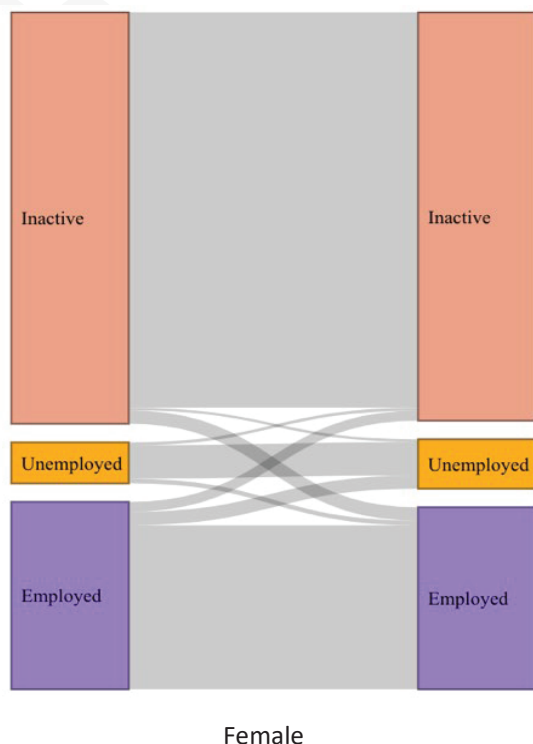
Transition Graphs: Descriptive Evidence by HCOVIDA Micro-Level Data

First, we plot the labor market transitions of individuals using HCOVIDA by considering three different labor market states: employment, unemployment, and inactivity. Figure 3 and 4 show the transitions from February 2020 to the survey month between the three labor market states for women and men, respectively. Note that the low labor force participation rates of women are highly visible in these figures.

When we focus on the transitions, these figures taken together, show descriptively that more women lost their jobs during this time compared to men. Furthermore, upon losing their jobs, the vast majority of the men became unemployed, whereas a major group of women transitioned into inactivity.



Figures 3 and 4: Labor market transitions for female and male respondents (February-September/October 2020)



Source: HCOVIDA data. The graphs show the transition in labor market status between February 2020 (left) and survey time (right).

Results

We use econometric methods to delve deeper into the correlates of labor market transitions, particularly among those who were employed prior to the pandemic. We observe that both self-employed and wage earners were affected drastically by the pandemic and the distancing measures that followed. Employment fell severely among the wage earners, particularly among the informally employed. Earned income and work hours declined as only a handful of people reported that they could work remotely.

The relative odds of becoming unemployed was higher among women, the informally employed, younger individuals (20-24 age group). We find that workers with children at home were more likely to become unemployed as well. Furthermore, labor force participation fell, both among men and women, but more pronounced among women, particularly among the married and the least educated. Again, the most vulnerable groups were the informally employed and women without a high school degree, especially if they lived with a child. It is important to note that in our analysis, we focus on those who were employed before the pandemic, in other words those who already have higher levels of labor market

attachment and who were able to find employment prior to the pandemic. One could easily imagine that workers who were either unemployed or inactive prior to the pandemic would find it even more difficult to transition into employment.

We further report that income loss was quite common. More than one third of those who were employed prior to the pandemic, reported that they experienced a decline in their income during the pandemic. When we look at the likelihood of income loss among different groups, we find that the probability of income loss was higher among singles, women, the informally employed, less educated, individuals who live with children or the self-employed. Especially women who do not have a high school or university degree and live with children report a higher likelihood of income loss in comparison to their male counterparts as well as women without a child or a higher educational attainment.

One major effect of the pandemic on the labor market in Turkey was experienced through the decline in work hours. In our sample, more than half of the individuals report that their working hours declined during the first wave of the pandemic. Reporting a reduction in work hours was common even among the university



degree holders, the group which was most likely report that they were able to work remotely. Once again, the informally employed, or people with children had a higher probability of reduction in work hours. The other groups for whom work hours were more likely to decline were singles and self-employed.

To sum up, we report that women who have children and do not have a high school degree is the most vulnerable group both against employment and income losses. The self-employed and informally employed also shouldered the economic hardship of the pandemic. We further observe that among the university degree holders, the detrimental effects of having children or being woman is considerably smaller.

Policy Recommendations

The social protection policies implemented as a response to the pandemic did not cover the informally employed who were more likely to experience employment and income losses due to the pandemic. Lacking social security, this group is more vulnerable by definition, and therefore, should have been protected more diligently.

Another disadvantaged group who had limited support were the self-employed who as well, faced the risk of income reduction during the pandemic. The only support program targeting this group consisted of postponing their credit repayments. The social assistance policies to respond the economic shocks such as the COVID-19 should have increased their coverage, not leaving any of the groups out of scope.

The public discourse emphasizes the relatively higher unemployment rates of university graduates in Turkey and the returns to a college degree are widely questioned, whereas we find that university graduates were better shielded against the detrimental effects of the pandemic. Furthermore, the gender divide is narrower among the university graduates, implying that education helps address the gender imbalances in the labor market.

During the pandemic, earned income fell. Our results indicate that the short-term work allowance helped, but it was insufficient in providing sufficient income protection. Furthermore, the relief package targeted the formally employed and therefore exacerbated the divide between formal and informal workers. It may have also discouraged formal job creation in the private sector. The short-term work allowance should target a wider group of workers and include more vulnerable groups such as the informally employed and the self-employed.

Another point is that the policy design was gender-blind, and therefore could not remedy the gendered effects of the pandemic, which further exacerbated the gender divide in paid work. This turns out to be especially crucial given the long period of school closures and is bound to have devastating effects on women's labor market outcomes. As the pandemic made it clearer, parents' and especially mothers' labor market outcomes suffer when childcare is halted. This finding reiterates the fact that childcare should be an integral part of all labor market policies in Turkey.

Finally, when the relief package expired, the structural problems of the labor market reemerged, having intensified meanwhile. The pandemic has exacerbated two important structural problems in the Turkish labor market: (1) informality (2) the gender divide. We recommend that future policy making should prioritize to alleviate the long-term effects of the loss of employment among women and informally employed.





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