
Employment and Social Protection

Special Plenary 2: The Microeconomics of Social Protection
ERF 28th Annual Conference

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Acknowledgements: I am grateful to Esra Öztürk and Defne Sandıkçioğlu for research assistance, to ERF for providing the stipend for Defne, and to my colleagues Ragui Assaad, Caroline Kraft and Mona Said for directing me to MENA+ data sources.

My assignment

Special Plenary 2: The Microeconomics of Social Protection

“... this special plenary analyses the following...

1. How can MENA economies handle social protection to reach workers in the informal economy?
2. How the delivery of social protection can be improved for all beneficiaries?
3. How States can adopt a more holistic approach in social protection in terms of removing financial barriers to quality health care, enhancing income security, and protecting incomes and jobs?”

Social protection

- Wikipedia:
 - “Policies and programs concerned with preventing, managing, and overcoming **situations** which adversely affect people’s wellbeing.”
(Wikipedia credits UN Research Institute for Social Development)
- United Nations:
 - “Policies and programs designed to **reduce poverty and vulnerability** by promoting **efficient labour markets**, diminishing people's **exposure to risks**, and enhancing their **capacity to manage** economic and social risks, such as **unemployment, exclusion, sickness, disability, and old age.**”
(United Nations Sustainable Development Goal #10)

Includes such policies as social assistance and social insurance, health care access, and labor market interventions, among others.

The literature on social protection is vast!

My take-aways:

- Emphasis on targeting
- “Social protection” can create incentive problems
- Formulation of “social protection directed to informal workers” is challenging because informality involves “hiding”

Informality = lack of access to social security benefits

I define “informal workers” as wage and salary (W&S) workers who are not formally covered by some form of social security

Q. What fraction of W&S earners in MENA+ region are informal?

Surprisingly this information is unavailable for many countries.

A collage based on earlier work

(1) “Employment and Social Protection Policies”

- Collaborative work (2009-10) with Ayça Akarçay and Mustafa Ulus (both at Galatasaray University) as part of efforts to draft a National Employment Strategy (compatible with Turkey’s bid to join the EU)
- Homework: “design of social protection programs that do not prevent return to employment, at a time when employment growth is limited, unemployment is high”

(2) “Effects of Minimum Wages on the Labor Market in Turkey, 2005-2018”

(with Ozan Bakış, Murat Kırdar, Sezgin Polat, and Bengi Yanık-İlhan).

Project sponsored by TUBITAK (The Scientific and Technological Research Council of Turkey)

(3) "Incentives and Exit Behavior: An Examination of the Unemployment Insurance System in Turkey" (with Mustafa Ulus)

(1) Employment-social protection connection

Encounters with informality

- Benefits are often cancelled upon formal employment. → Disincentive!
- Example from Turkey: Green Card program that ensured free access to medication prescribed by physicians was cancelled
- In the USA: Informal employment is tolerated in case of some forms of welfare support (William Wiseman, Social Inclusion Program Leader, WB 2015)

2010: The Employment Agency in Turkey (İŞKUR) was charged with the responsibility for “Designing and Effective Implementation of the Action Plan to Coordinate Social Protection with the Employment Objectives” of İŞKUR.

Task: Distinguish between the “employable” and “not employable”

If employable → Activation

2015: 3 mil. HHs receive social assistance. İŞKUR registered 400,000 “employables”; directed 190,000 of them to vacancies; 53,000 were employed.

WB 2008: Safety Nets

TABLE 2.3 Examples of Social Protection Programs by Life Cycle

Group served	Complementary policy or service	Social protection policy		
		Regulation	Social insurance	Safety net
Nonworking young	<ul style="list-style-type: none"> • Health care • Education • Family law 	<ul style="list-style-type: none"> • Child labor laws 	<ul style="list-style-type: none"> • Universal child allowances • Maternity benefits 	<ul style="list-style-type: none"> • Means-tested child allowances • Transfers linked to maternal and child health programs • School feeding • CCTs
Working poor or unemployed	<ul style="list-style-type: none"> • Labor-intensive growth • Economic stability 	<ul style="list-style-type: none"> • Minimum wage laws • Job security regulations • Severance pay 	<ul style="list-style-type: none"> • Unemployment insurance 	<ul style="list-style-type: none"> • Transfers • Workfare • General subsidies for food, utilities, or housing
Nonworking elderly	<ul style="list-style-type: none"> • Financial system to facilitate savings 	<ul style="list-style-type: none"> • Retirement age 	<ul style="list-style-type: none"> • Contributory pensions 	<ul style="list-style-type: none"> • Transfers • Social pensions
Special groups	<ul style="list-style-type: none"> • Health care and traffic safety to prevent disability • Education inclusive of minorities, the disabled, and so on 	<ul style="list-style-type: none"> • Affirmative action or compensatory investments for minorities, worker safety laws to prevent disability, family law to protect assets of widows and orphans 	<ul style="list-style-type: none"> • Disability insurance for people with disabilities 	<ul style="list-style-type: none"> • Transfers

Observations:

- Need varies with life cycle (also endowments, chance)
- Tools vary with need
- **Informal workers** are not explicitly shown under “group served.”
~ = Working poor?
- However, there are references to them in the report (as recipients of “social assistance”)

Source: Margaret Grosh, Carlo del Ninno, Emil Tesliuc, Azedine Ouerghi (2008) *For protection and promotion: the design and implementation of effective safety nets*. World Bank.

Outline of my argument

I use data from Turkey to:

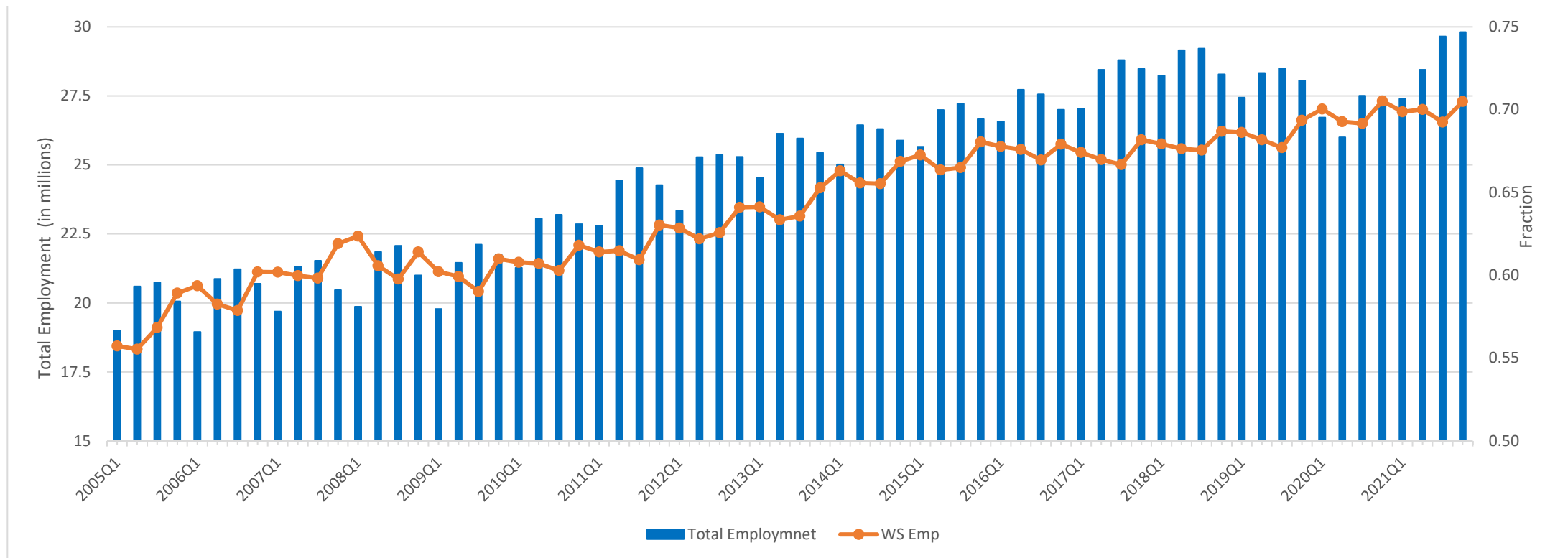
- (i) examine trends in (and drivers of) formalization (brief)
- (ii) locate informal workers among labor market (LM) strata ... and examine how they fare relative to formal workers (brief)
- (iii) focus on selected LM institutions that serve vulnerable formal workers and evaluate how well they function
- (iv) comment on interactions between formality and informality (brief)

... and conclude that formalization is a worthy objective that enhances social protection and has spillovers for those who are not covered.

I will end my presentation by commenting on an **apparent paradigm shift in the best approach to social protection.**

Employment growth and share of wage and salary employment

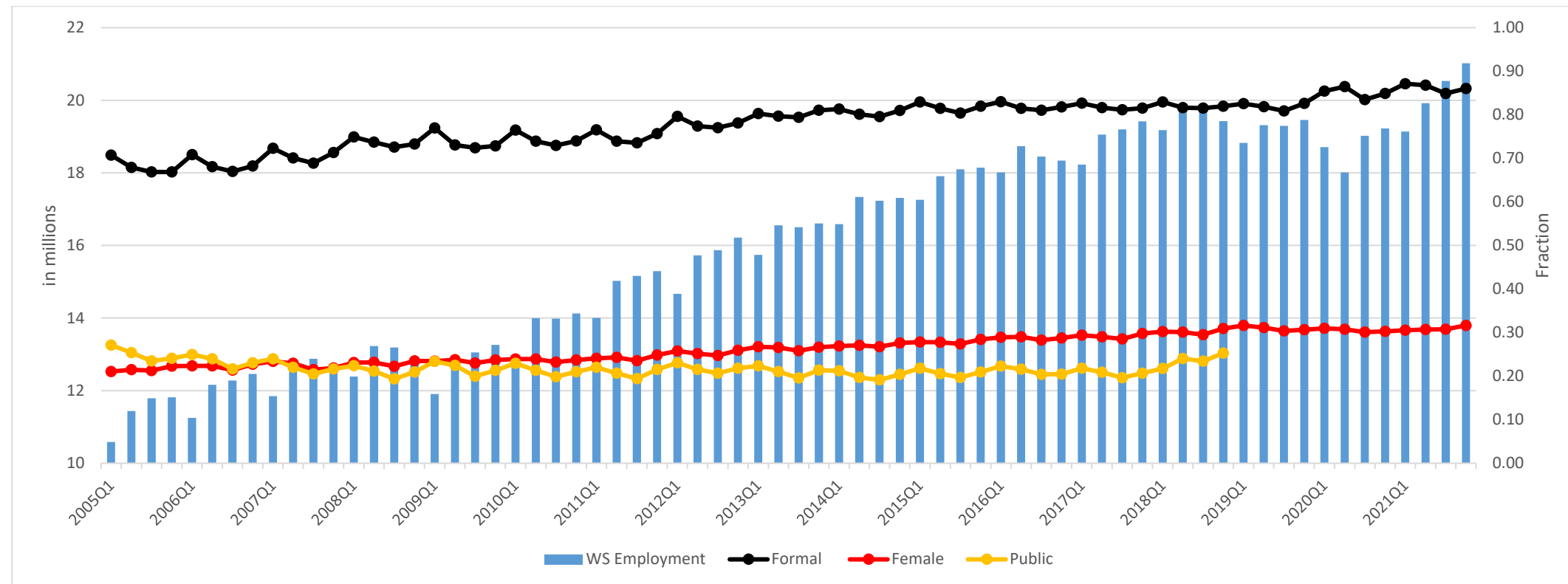
- Employment grew (by 43 pct) at an average annual rate of 2.5 pct
- Share of Wage and salary employment went up from 56 pct to 71 pct
- Fluctuations are mostly attributable to other forms of employment



Source: Own calculations based on Quarterly Household Labor Force Survey (QHLFS), Turkstat.

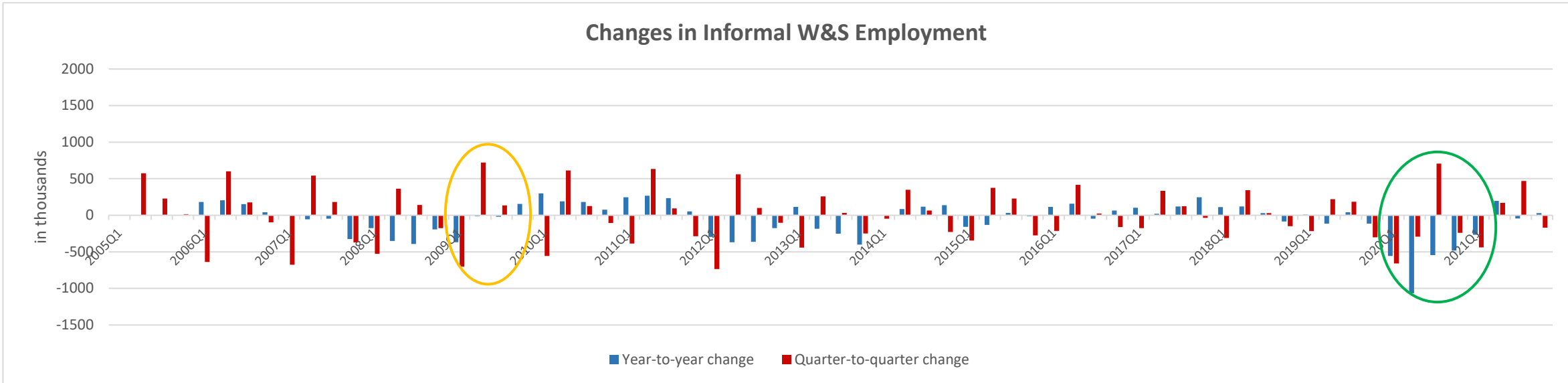
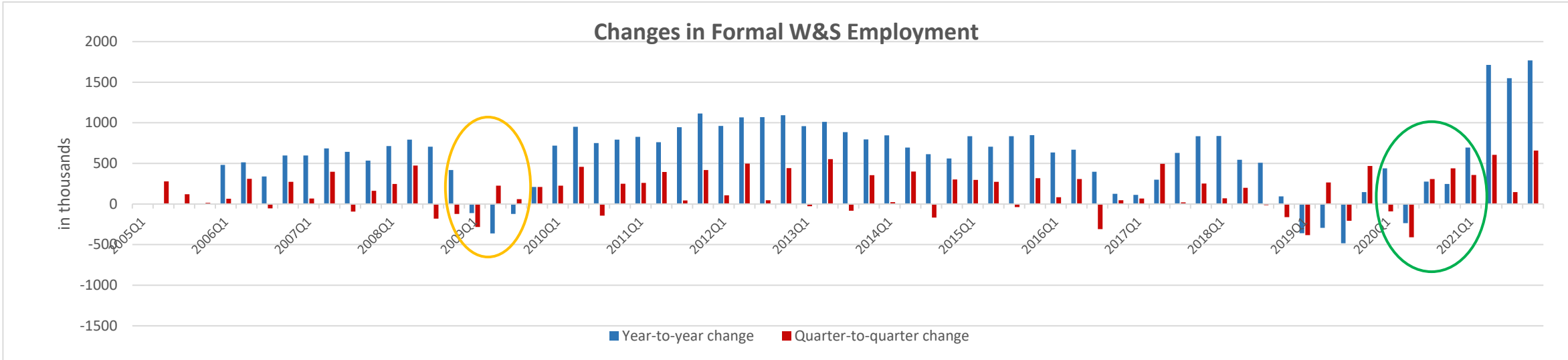
Composition of wage and salary employment

- Increased formalization share (up from 67 to 83 pct) <2005Q1-2019Q1>
- Increase in female share (from 21 to 32 pct) <2005Q1-2019Q1>
- Slow decline in public share (24 to 20 pct) followed by a slow rise after 2017



Source: Own calculations, QHLFS.

Growth of formal W&S employment and churning in the LM

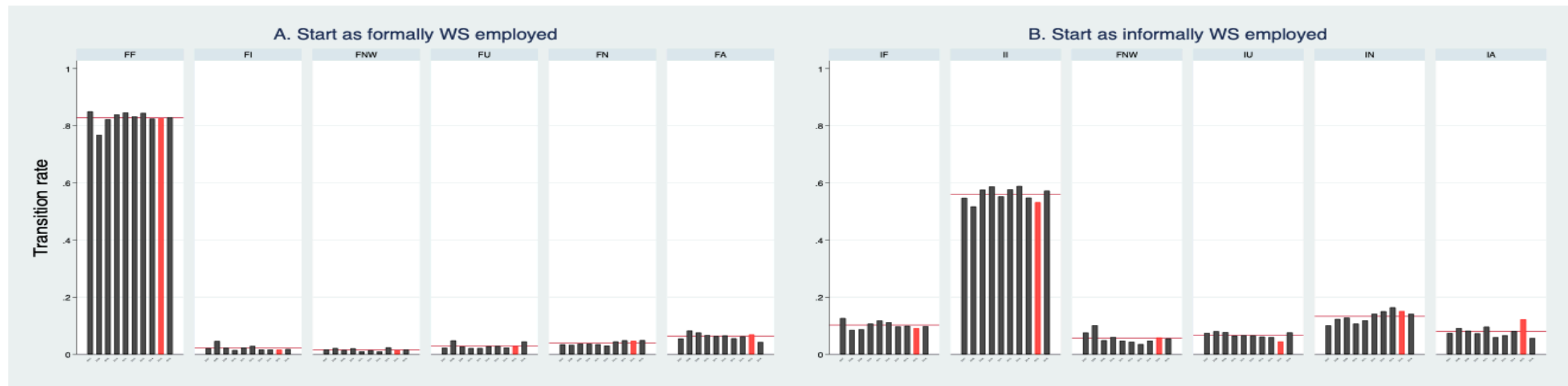


Source: Own calculations, QHLFS.

Churning in the LM

- Formal & informal sector workers are susceptible to economic crises
- Higher volatility in the informal segment
 - Larger during the global crisis (2008-9)
 - Largest during the height of Covid-19
- Transitions between I → F (rare) and F → I (very rare) are observed

(Courtesy of Esra Öztürk, PhD student)



Source: Author's calculations on Survey of Income and Life Conditions (2006-17), Turkstat.

Informal = enhanced vulnerability

Formalization reduces vulnerability!

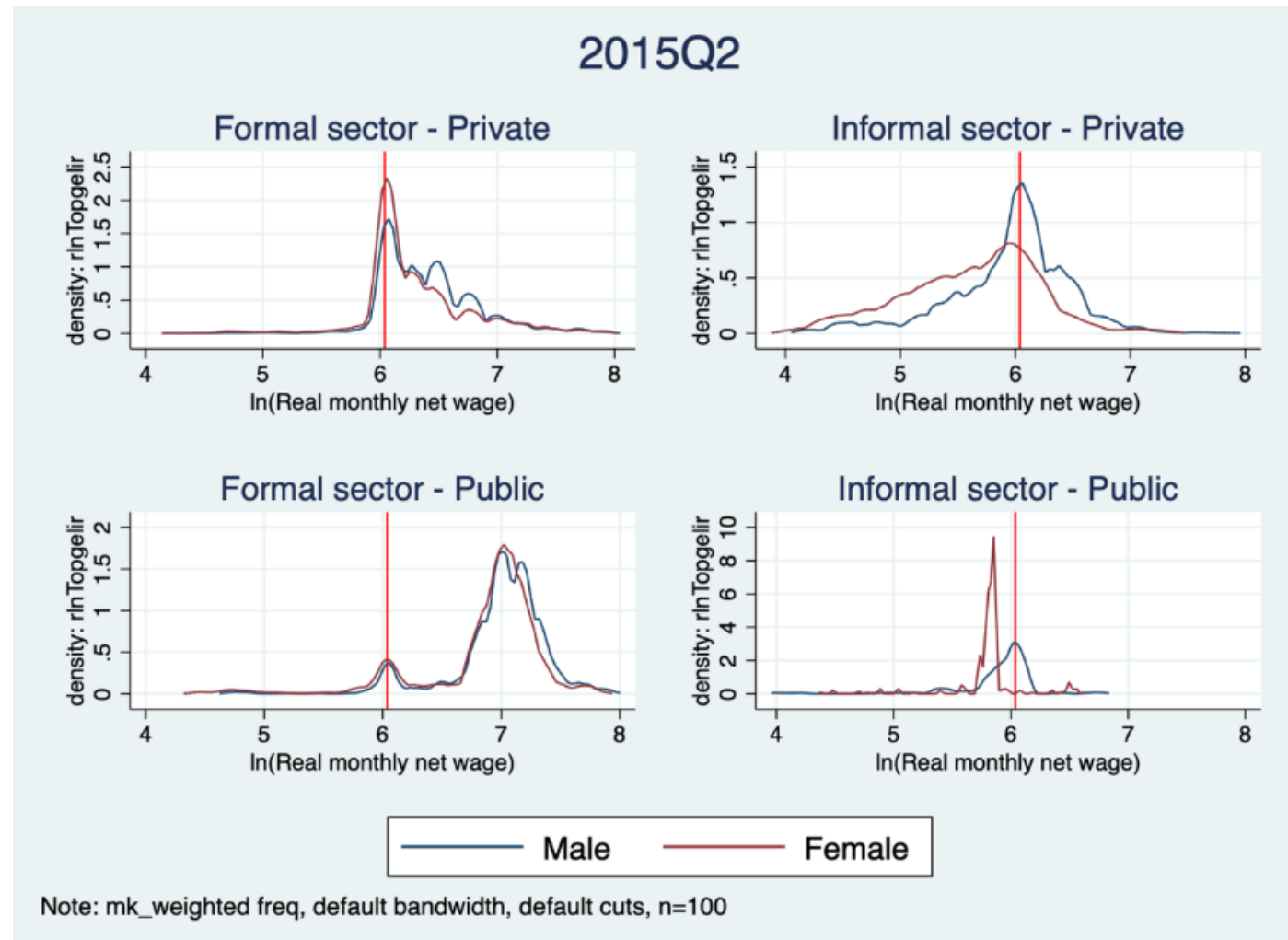
Programs directed to formal workers exposed to employment shocks:

- Short-Time Compensation (STC)
 - An alternative to layoffs for employers experiencing a reduction in available work (also known as work sharing or shared-work program)
 - STC preserves employees' jobs and employers' trained workforces during times of lowered economic activity
- Unemployment Insurance
- Severance pay (+ advanced notice)
- During Covid-19: Cash Wage Supplement

Provide incentives for preferring formal employment over informal employment.

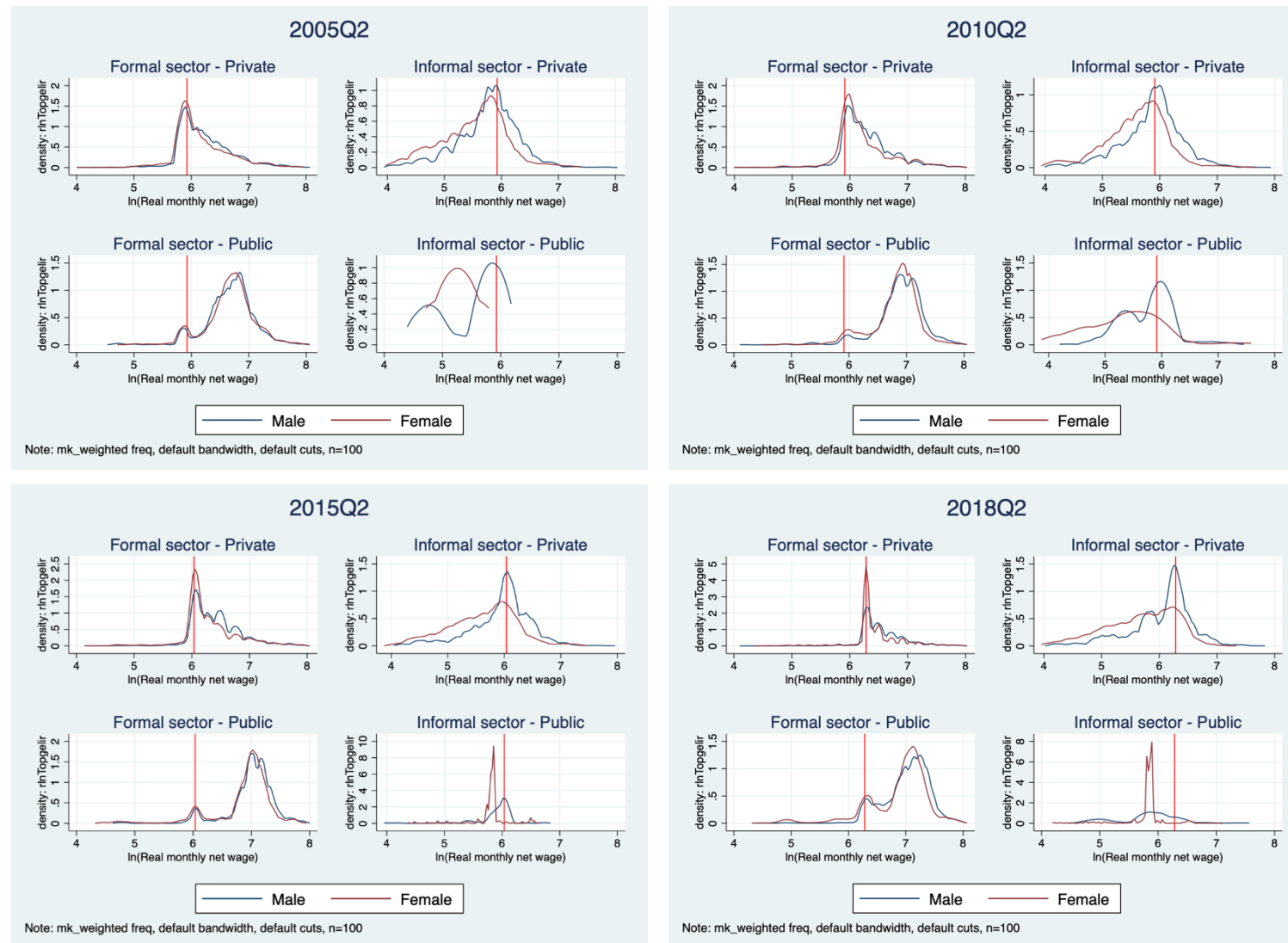
Earnings of **M&F** W&S emp. by segment (formal-informal x public-private)

Vertical line = current minimum wage (MW)



Source: Quarterly HLFS micro data, Turkstat. **Note: Y-axis scale varies.**

Earnings of M&F W&S emp. by segment (formal-informal x public-private)



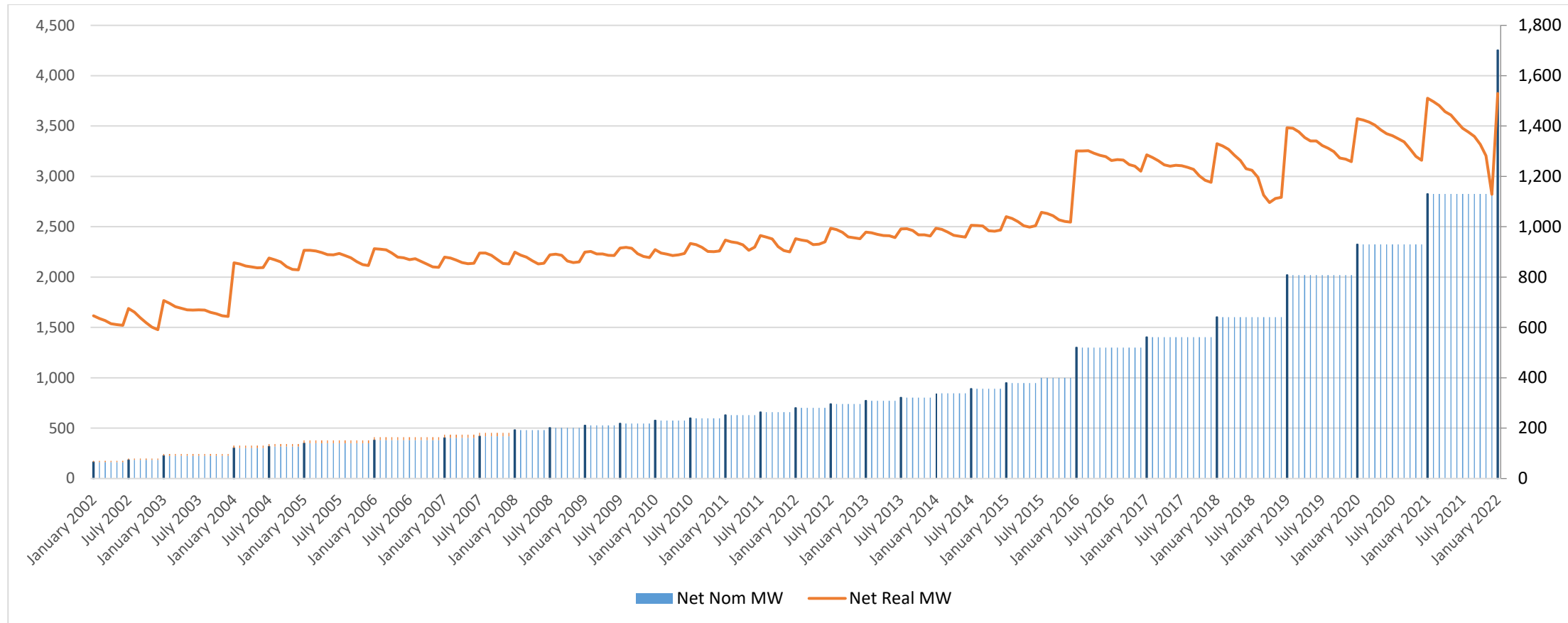
Source: Quarterly HLFs micro data, Turkstat. **Note: Y-axis scale varies.**

Main takes

- Gender gap: Males earn more than females in every segment (stochastic dominance)
- Public sector premium: Formal public employees earn more than formal private
- Sizeable fraction of informal employees above the minimum wage (MW)
- Spillover: Private informal earnings go up after MW increase
- MW increases result in compression of the earnings distribution
- Informal public workers???

(1) MW policy in Turkey

- Regular increases; occasionally substantial (2003/4, 2015/16)
- Real effects are there, but inflation erodes them



Source: Ministry of Employment and Social Security

Effects of MW policy increases (2005-18)

No (*) adverse employment effects!

(*) Small increase in informality between 2015/16

Outcomes: Employment, formal employment, informal employment, public employment, weekly hours of work and wages (in private formal and informal), LFPR, unemployment.

Ripple effects + light house effect → Increase in earnings of others as well

- MW increases contribute to inflation
(CB estimate: 0.2 pt rise in inflation per 1 pt rise in MW)
- Compression of the earnings distribution
→ Earnings inequality goes down

If we put this into the broader context of the LM in Turkey...

- Low employment population ratio
- High dependency rate
- Large MW footprint: High fraction of W&S earners at or below MW
- MW policy influences a very large segment of the population (6-7 mil. workers, 15-20 mil. individuals)
- Employment income is the main determinant of poverty

→ “Frequent & prudent increases of the MW” appears to be a good policy for protecting a large vulnerable segment of the population.

Also: MW policy that “works” can encourage formalization!

(2) Unemployment insurance system

The purpose of unemployment insurance (UI) is to provide protection against income losses associated with involuntary unemployment.

- In a well-functioning UI program, the benefits:
 - need to be high enough to sustain workers while unemployed,
 - and last long enough to allow them to find a job that matches their skills
- Generous unemployment benefits can create reemployment disincentives ("moral hazard")

Although Turkey introduced an UI program in 1999, little is known about usage patterns and its incentive properties

- Financed by contributions from the employer (2 pct of gross wage), the worker (1 pct) and the State (1 pct)

Overview of the UI system in Turkey

- Stipulations for eligibility are strict: min 600 days of premium payments
- Benefits are low
 - Replacement rate (RR) is low (max 40 percent of average gross pay)
 - UI benefit duration is capped at 10 months
- Yet more than half the individuals collecting UI benefits use them fully

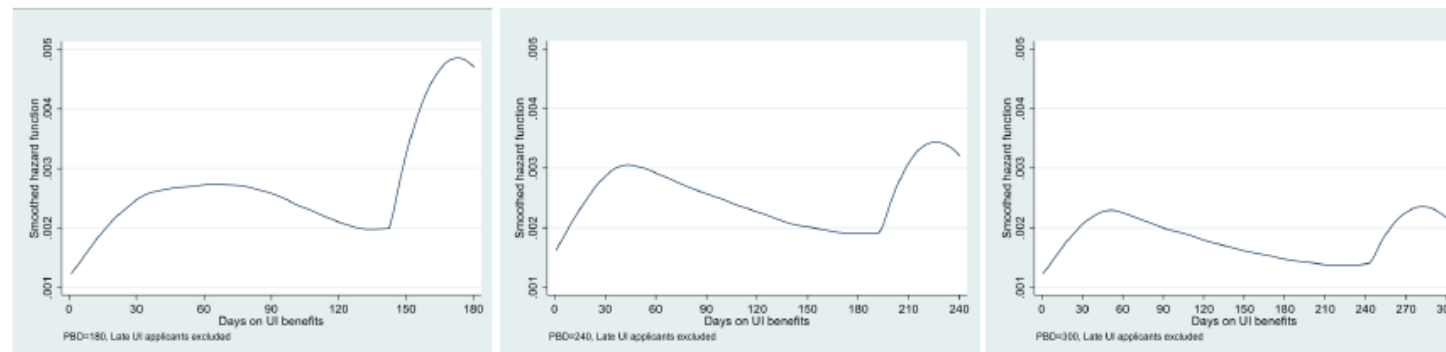


Figure 8: Hazards of exit to employment, by potential benefit duration

First hump: Rise in hazard followed by decline is attributable to heterogeneity (the best exit first).

Second hump: "Wake-up call." (→ moral hazard?)

Can we implicate the magnitude and/or duration of UI benefit payments?

We examine the causal effects of potential benefit duration (PBD) and benefit amount (UB) on time spent on collecting UI benefits

Duration

Tied to contributions to the UI fund.

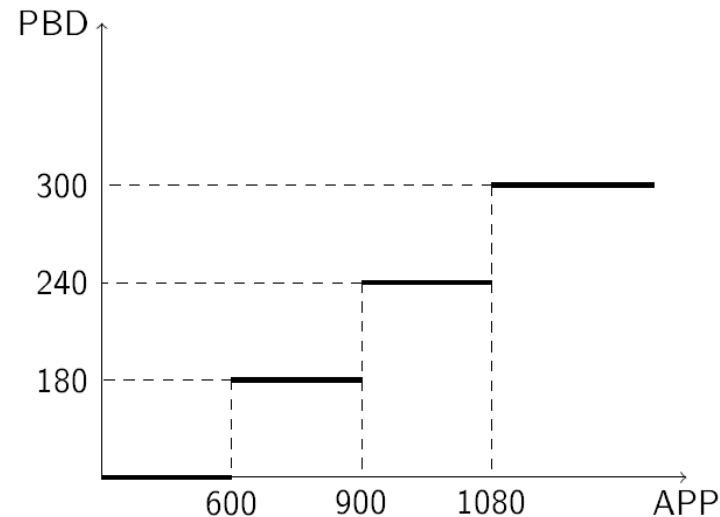


Figure 1: Accumulated Premium Payments (APP) and Potential Benefit Duration (PBD)

Amount

Tied to own wage and the minimum wage

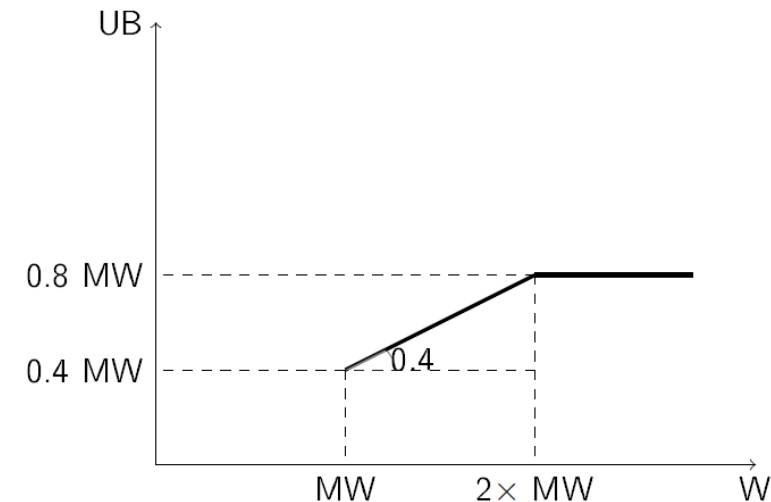


Figure 2: Gross Monthly Wage (W), Gross Minimum Wage (MW) and Unemployment Benefits (UB)

- RD around PBD = 900 in Figure 1
- DD at and beyond the kink in Figure 2

RD: Does the increase* in PBD (APP < 900 vs APP > 900) slow down exit rates to employment? * 2 months

We stratify by PBD, gender, and termination type, and compare exit hazards.

Covariates: wage, sector and economic activity, age, marital status, education, location and calendar time controls.

Termination type

A or C = Employer initiated (A = advanced notice given, C = ... not given).

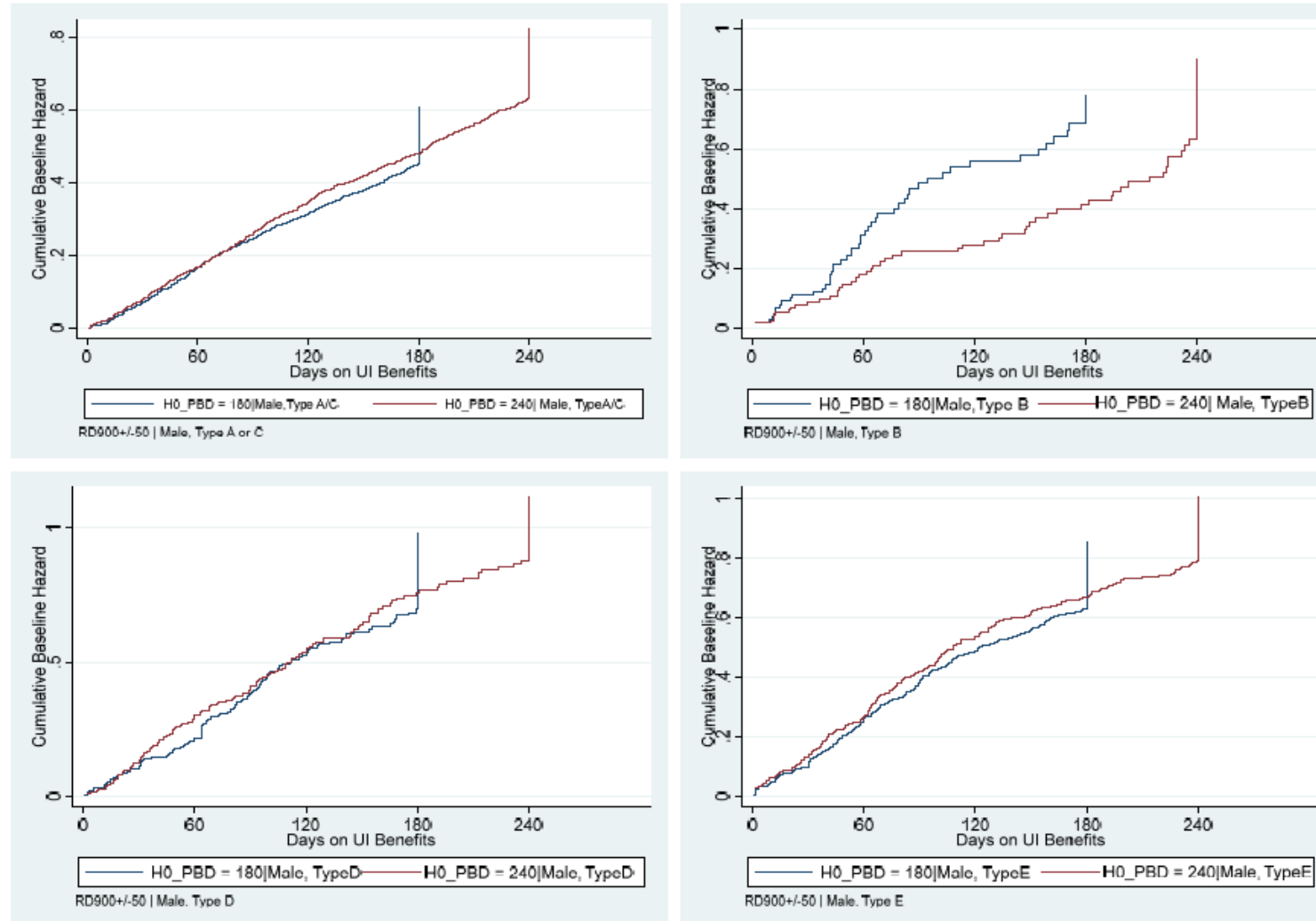
B = Employee initiated; D = Fixed-term contract ended.

E = Establishment closure, downsizing, change of ownership, or redundancy of position due to change in the needs of the establishment, including change in job qualifications; F = Privatization related

Weak evidence in favor of moral hazard (share in subsample):

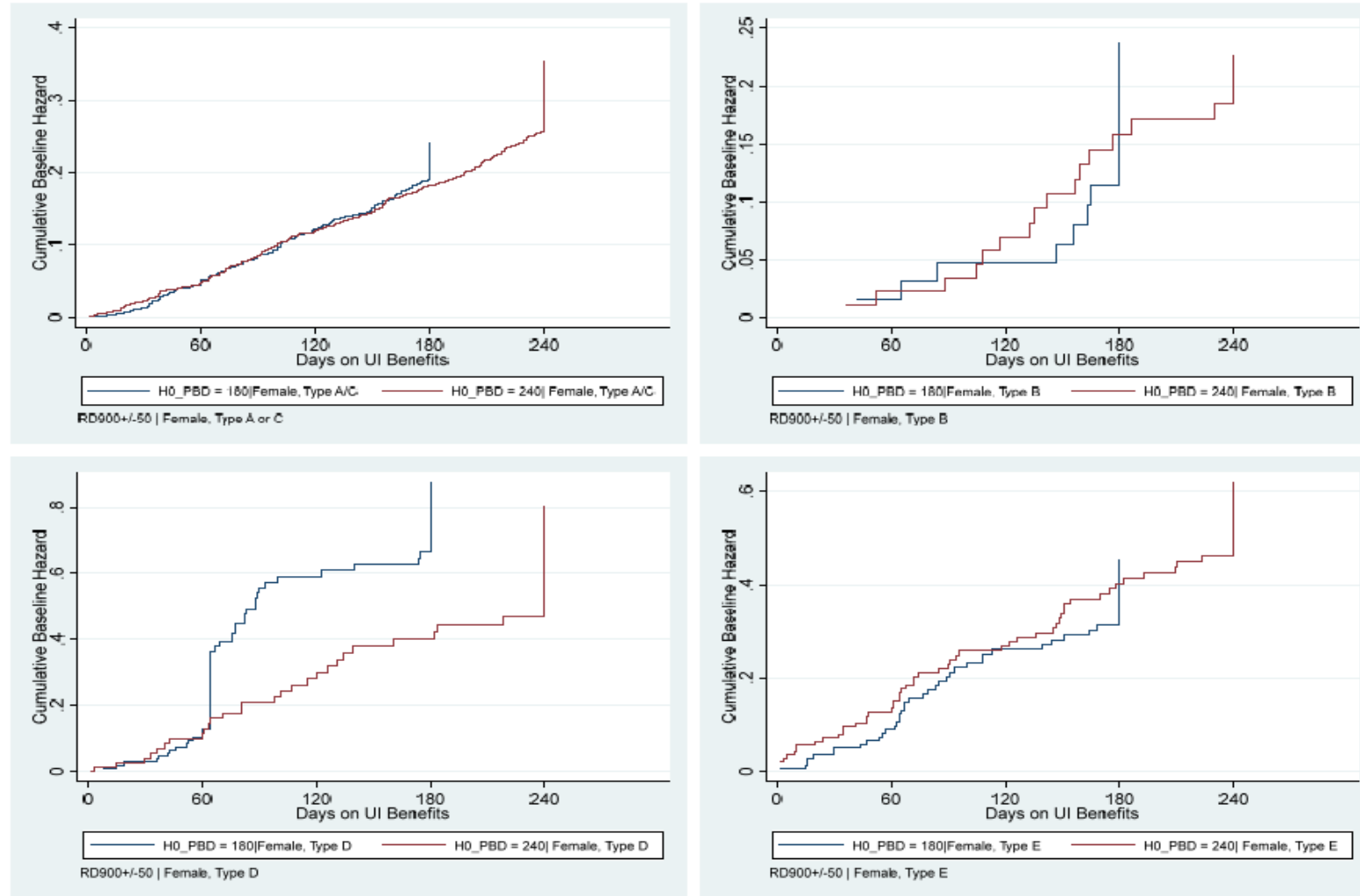
- Males: Type B (3 percent)
- Females: Type D (4.7 percent)

Peek at the evidence – cumulative baseline hazard estimates, Males



Source: Tunali and Ulus (2021).

Peek at the evidence – cumulative baseline hazard estimates, Females



Source: Tunali and Ulus (2021).

DD: Does the boost in UI benefit induced by MW increase slow down exit rates to employment?

Individuals who are terminated during the month **after** (before) the MW hike constitute the **T = treatment** (**C = control**) group.

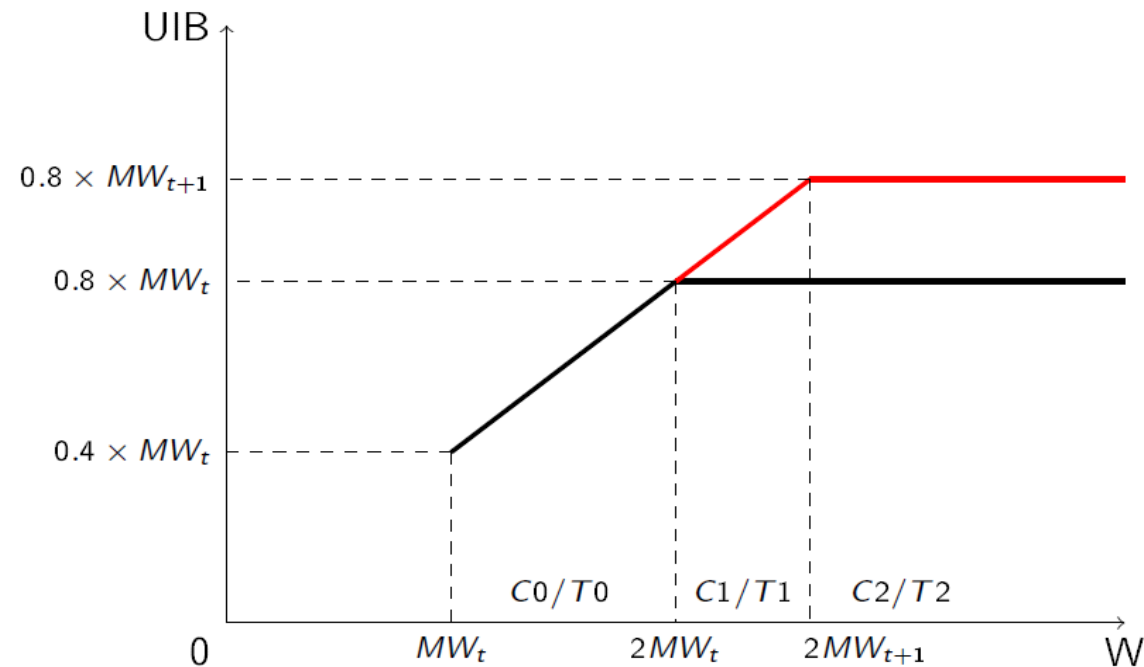


Figure 11: Minimum wage hikes and benefit changes

No evidence in favor of moral hazard.

Conclusion: Evidence in favor of moral hazard is extremely weak.

Policy implications:

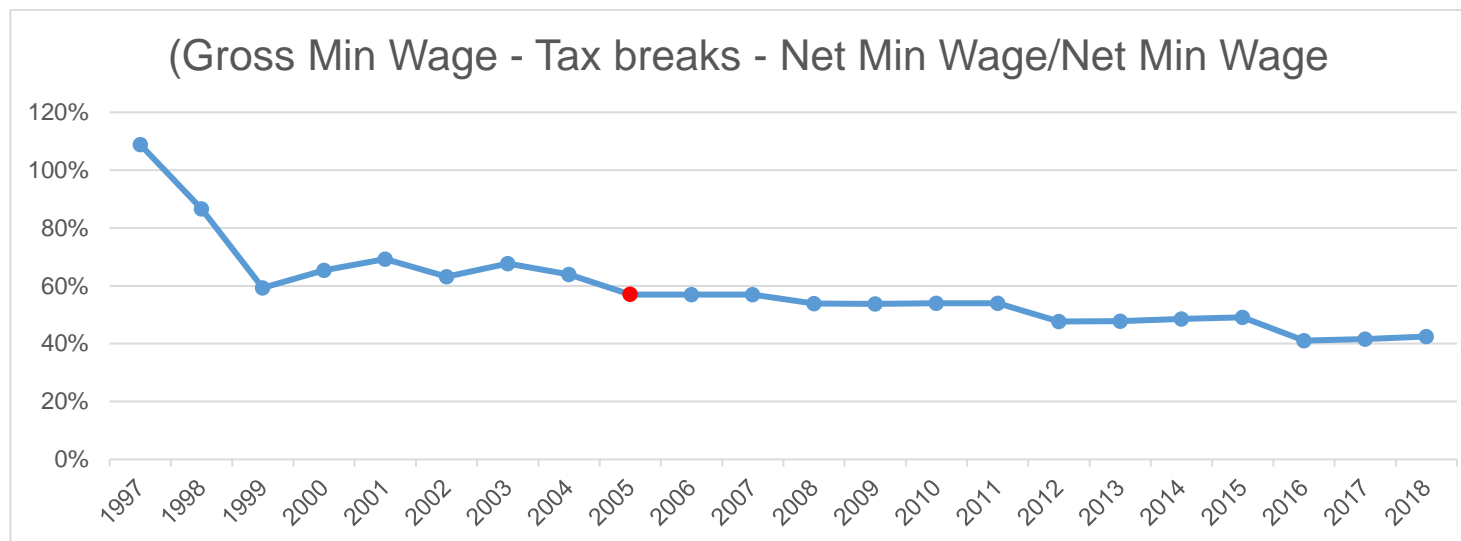
- Expansion of benefits to ineligible formal W&S workers (APP < 600 days)
 - Increase of both benefit duration, and amount feasible (especially during times of crisis)
- are warranted.

→ LM institutions (regular Min Wage adjustments, Unemployment Insurance) directed to formal W&S workers play an important social protection role

- Aim for formalization
 - Carrots and sticks approach
- Design protection for formal W&S workers who fall through the cracks
 - Unemployment support directed to the ineligible
 - Training (ALMPs)

Formalization drive in Turkey

- Originally “sticks only”
 - Harsh monetary penalties
 - Cut off access to subsidized credit and employment tax subsidies
- Later “carrots” as well
 - Reward firms that convert informal workers to formal workers
 - Reduction of employment taxes



Source: Ministry of Employment and Social Security

Data from MENA+ (1)

Country	Min Wage	UB or UI	NHI
Algeria	1	1	1
Bahrain	0	1	1
Djibouti	0	0	1
Egypt	0	1	1
Iran	1	1	1
Iraq	1	1	0
Jordan	1	1	1
Kuwait	1	1	1
Lebanon	1	0	1
Libya	1	0	0

Country	Min Wage	UB or UI	NHI
Morocco	1	1	1
Oman	1	1	1
Qatar	0	0	1
Saudi Arabia	0	1	1
Sudan	1	0	1
Syria	1	0	0
Tunisia	1	1	1
Turkey	1	1	1
UAE	0	1	1
Palestine	1	0	1
Yemen	0	0	0

UB or UI = Unemployment Benefits or Unemployment Insurance

NHI = National Health Insurance

Data from MENA+ (2) – subset

Country	2020 pop (mil)	Period	Below 14 (%)	Above 65 (%)	Unemp rate	Emp rate	Ag share	W&S share	Informal (%) All/Non Ag*	Informal (%) W&S#
Algeria	43,851,043	1991-2000	39.0	3.8	26.9	32.5	23.8	61.3		
		2001-2010	29.4	5.0	16.7	35.3	17.6	65.8		21.7
		2011-2020	29.0	6.0	10.6	37.1	10.3	68.2		20.5
Egypt	102,334,403	1991-2000	39.0	4.8	9.4	42.8	33.4	57.9		
		2001-2010	34.0	4.9	9.7	41.8	30.2	59.9		23.3
		2011-2020	33.4	5.1	11.5	40.6	25.6	64.9	59.9/45.3	27.86
Iran	83,992,953	1991-2000	40.2	3.9	10.4	39.7	24.3	54.3		
		2001-2010	27.2	4.8	11.7	38.7	23.0	52.6		
		2011-2020	24.1	5.9	11.7	36.9	18.0	55.1		
Iraq	40,222,503	1991-2000	44.1	3.6	8.9	38.6	30.4	66.9		
		2001-2010	42.2	3.4	8.6	38.1	25.8	67.5		
		2011-2020	39.3	3.2	11.0	37.4	20.3	74.8	59.7/59.5	
Jordan	10,203,140	1991-2000	41.4	3.0	15.9	33.9	4.6	86.4		
		2001-2010	38.3	3.4	13.9	34.0	3.8	85.4		
		2011-2020	35.5	3.8	15.0	33.6	2.9	86.2	43.9/42.0	
Morocco	36,910,558	1991-2000	36.6	4.7	13.3	44.4	46.3	41.8		
		2001-2010	30.5	5.8	10.5	45.3	43.4	43.2		
		2011-2020	27.6	6.6	9.5	42.3	36.7	48.3	60.1/55.1	
Tunisia	11,818,618	1991-2000	33.3	5.8	15.6	40.7	21.4	70.3		
		2001-2010	25.5	7.3	13.4	40.0	18.9	69.4		
		2011-2020	23.8	7.9	16.0	39.5	15.1	73.3	53.4/47.7	22
Turkey	84,339,067	1991-2000	32.8	5.3	7.6	49.5	28.8	52.7		27.7
		2001-2010	28.5	6.7	10.1	42.5	24.8	57.7		29.2
		2011-2020	25.4	8.0	10.5	45.7	20.8	65.9	32.0/19.3	19.2

Source: WB Data Bank except *ILO (2018) “Women and men in the informal economy: a statistical picture (third edition)” and # Micro data.

Demographics

Country	2020 pop (mil)	period	Below 14 (%)	Above 65 (%)	Unemp rate	Emp rate	Ag share	W&S share	Informal (%) All/Non Ag*	Informal (%) W&S#
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Source: WB Data Bank except *ILO (2018) “Women and men in the informal economy: a statistical picture (third edition)” and # Micro data.

Labor market indicators

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Data from MENA+ (2)

Key take: Heterogeneity

- Size, demographic dynamics
- Labor market indicators
- Labor market institutions

(I argued that) LM institutions (such as regular Min Wage adjustments, Unemployment Insurance) directed to formal W&S workers play an important social protection role

- Aim for formalization
 - Carrots and sticks approach
- Design protection for formal W&S workers who fall through the cracks
 - Unemployment support directed to the ineligible
 - Training (ALMPs)

→ Caveat: Beware of “one size fits all” policy recipe!

WB in 2008: Ode to conditional transfers

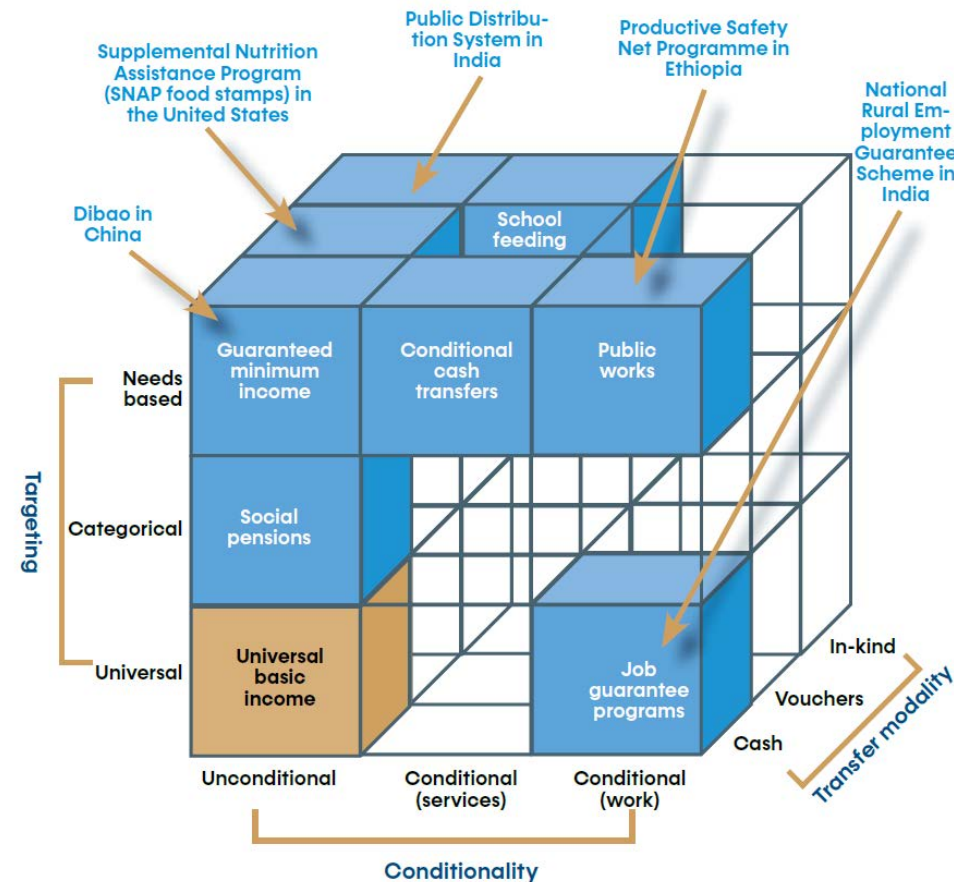
Margaret Grosh, Carlo del Ninno, Emil Tesliuc, Azedine Ouerghi (2008) *For protection and promotion: the design and implementation of effective safety nets*. World Bank.

- (p.423) “Because as many as half of all workers, and a much higher proportion of the poor, work in the informal sector and are not covered by social insurance, they derive little benefit from such schemes. **An increasing number of these countries have begun to develop the social assistance side of the welfare state by creating conditional cash transfer (CCT) programs**, several have adopted noncontributory pensions, and a few have extended health insurance or fee waivers to the poor.”
- (p.425) “In countries with a small informal labor force and good macroeconomic stability, a needs-based cash transfer could become an entitlement program and serve to protect not just against chronic poverty, but against shocks as well.”

WB in 2008: Emphasis on efficiency (microeconomic foundations)

WB in 2020: Emphasis on simplicity?

FIGURE O.1 UBI within a Social Assistance Cube



Source: WB *Exploring Basic Income – Overview*

In lieu of a final word

“In general, economic thinking has privileged efficiency over resilience, and it has been insufficiently concerned with the big downsides of efficiency.”

Larry Summers, April 2020 (Princeton, Markus' Academy Webinar)